

Strategic Procurement: What It Is and How To Implement It



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In the intricate dance of business operations, strategic procurement stands as a foundational pillar, often hidden from the limelight, yet pivotal to the company's health and potential for growth.

This blog post navigates the fog around strategic procurement, sheds light on its virtues, and reveals how it can lead your organization to the promised land of cost efficiency and competitive advantage.

Understanding the Core of Strategic Procurement

Imagine strategic procurement as a finely tuned orchestra, with each department playing its part to score an opus of sustainable sourcing, tactical buying, and efficient processes.

At its heart, strategic procurement is not just the acquisition of goods and services; it's a calculated approach to maximizing value for your organization.

It involves understanding the implications of supply chain decisions on the company's financial performance and orchestrating all procurement resources to balance cost, quality, and delivery performance.

But why go to the trouble of crafting a strategic approach when standard practices seem to be achieving satisfactory results?

The answer lies in the name—strategic procurement is about thinking steps ahead of the competition, aligning procurement activities with core business objectives, and using foresight to minimize risks and leverage opportunities.

Procurement vs. Strategic Purchasing

Procurement and strategic purchasing are closely related concepts within the supply chain management domain, often used interchangeably.

However, they refer to different scopes of activities and strategic approaches within an organization's purchasing and supply chain operations.

Understanding the distinction between the two is crucial for effectively managing the acquisition of goods and services.

• Procurement

Procurement encompasses the broader process of acquiring the goods and services an organization needs to operate.

It includes various activities, from identifying needs, sourcing and

selecting suppliers, negotiating contracts, purchasing goods, managing inventory, receiving and storing supplies, and controlling costs and quality.

Procurement is concerned with both strategic considerations and day-to-day operational tasks.

Its primary focus is optimizing the efficiency and effectiveness of acquiring goods and services from external sources, ensuring that the company receives the best possible value in terms of cost, quality, and service.

Key aspects of procurement include:

- Supplier selection and supplier management
- Contract negotiation and contract management
- Purchase order management
- Cost control and reduction
- Quality assurance and compliance

▪ **Strategic Purchasing**

On the other hand, strategic purchasing is a subset of procurement that focuses more specifically on the strategic aspects of buying decisions.

It involves long-term planning and policy-making to secure the best possible outcomes from the organization's purchasing activities.

Strategic purchasing is about building and maintaining relationships with key suppliers, developing sourcing strategies that support the company's broader business goals, and leveraging purchasing decisions to achieve competitive advantages.

Key elements of the strategic procurement process include:

- Identifying critical supply needs that align with business needs and strategy
- Developing and implementing sourcing strategies
- Building and maintaining strategic partnerships with suppliers
- Managing risks associated with supply chain disruptions

- Leveraging procurement activities to achieve competitive advantages

▪ Key Differences

The main differences between procurement and strategic purchasing can be summarized as follows:

■ Procurement vs. Strategic Purchasing

Procurement	Strategic Purchasing
Broad scope, covering the entire process of acquiring goods and services	Narrower focus on strategic aspects of purchasing
Includes both strategic and operational tasks	Focuses on long-term planning and strategic alignment
Efficient and effective acquisition of goods and services at the best value	Leverage buying decisions and long-term relationships to support business strategies and gain competitive advantages
Selection and management of suppliers	Building and maintaining strategic partnerships with key suppliers
Negotiation and management of contracts	Developing sourcing strategies and policies
Management of purchase orders and inventory	Identifying critical supply needs that align with business strategy
Focus on cost control and reduction	Leveraging procurement for competitive advantage
Ensuring quality assurance and compliance	Managing risks associated with supply chain disruptions
Ensures operational needs are met	Involves long-term planning to support business goals
Day-to-day supplier management	Building long-term relationships and strategic partnerships

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- **Scope:** Procurement has a broader scope that includes the entire process of acquiring goods and services, from identifying needs to managing suppliers and controlling costs.

Strategic purchasing is more focused on the strategic planning and decision-making aspects of procurement.

- **Focus:** While procurement covers both strategic and operational tasks, strategic purchasing specifically targets long-term planning and strategic alignment with the company's goals.
- **Objective:** The primary objective of procurement is to ensure the efficient and effective acquisition of goods and services at the best value.

Strategic purchasing aims to leverage buying decisions and long-term relationships to support broader business strategies and achieve competitive advantages.

Strategic purchasing is a critical component of procurement, emphasizing the strategic planning and policy-making aspects of acquiring goods and services.

Both are essential for ensuring that an organization can meet its operational needs while also supporting its long-term strategic objectives.

Unveiling the Elements of Strategic Procurement

If strategic procurement were a puzzle, you'd need to focus on four core pieces to complete the picture of a sustainable procurement strategy.

Unveiling the Elements of Strategic Procurement



Element 1:
Supplier Segmentation
and Management



Element 2:
Strategic Sourcing
and Collaboration



Element 3:
Performance Management
and Continuous Improvement



Element 4:
Risk Management

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1. **Element: Supplier Segmentation and Management**

In sourcing and procurement, each supplier is unique—offering a cocktail of strengths and weaknesses that directly affect your bottom line.

Strategic procurement involves categorizing suppliers based on criticality and aligning management practices accordingly.

Top-tier suppliers may require in-depth collaboration with joint business planning, while lower-tier suppliers may fit within highly efficient transactional models.

2. **Element: Strategic Sourcing and Collaboration**

Gone are the days of mere price-point comparisons.

Today, strategic sourcing involves fostering deep supplier relationships, optimizing cost factors beyond the sticker price, and aligning supplier capabilities with organizational needs.

Collaborative innovation is a hallmark of strategic sourcing, where suppliers become partners in product development and process improvement.

3. Element: Performance Management and Continuous Improvement

Measure what matters, and what matters gets managed. Strategic procurement involves setting meaningful Key Performance Indicators (KPIs) and holding suppliers accountable for their performance, which helps find inefficiencies in your sourcing process.

Furthermore, it is about culling insights from these KPIs to ensure a continuous cycle of learning and improvement.

4. Element: Risk Management

In an interconnected global economy, risks are as mobile as the goods and services we procure.

Strategic procurement is about proactively identifying risks early on and creating responsive strategies to avert or mitigate potential risks.

Mitigating risk might mean diversifying the supplier base to avoid over-reliance on one geography or developing robust contingency plans for critical components or services.

Integrating these four elements into your procurement strategy sets the stage for a well-oiled, cost-effective, and resilient procurement engine throughout the entire procure-to-pay lifecycle.

Bridging Strategic Procurement with Supply Chain Finance

The relationship between strategic procurement and supply chain finance is symbiosis, where working capital optimization acts as the bridge that connects procurement expertise with financial savvy.

Organizations focused on financial health recognize that the procurement function is where the battle for savings is won and must be linked to the organization's broader financial management strategy.

Supply chain finance involves managing and optimizing working capital through payable terms, inventory turnover, and receivable management.

When procurement and finance collaborate under a strategic lens, the result is a sustainable, cost-effective, and operationally agile supply chain.

The Strategic Trio of Procurement Strategies

The strategic trio of procurement strategies offers a robust framework for organizations to navigate the complex sourcing and supply chain management landscape.

Companies can tailor their procurement activities to best support their overall business strategy by focusing on Cost Leadership, Product Differentiation, and Focus Strategy.

The Strategic Trio of Procurement Strategies

COST LEADERSHIP

- **Leveraging Economies of Scale:**
Buying in bulk or committing to long-term contracts to negotiate lower prices.
- **Investing in Technology:**
Utilizing procurement software solutions and automation to streamline operations, reduce manual tasks, and cut costs.
- **Strategic Sourcing:**
Developing strategic relationships with key suppliers to secure favorable terms and lower prices, often through competitive bidding or collaborative partnerships.

PRODUCT DIFFERENTIATION

- **Innovative Sourcing:**
Identifying and partnering with suppliers that offer cutting-edge materials or components.
- **Quality over Price:**
Prioritizing the quality and uniqueness of inputs over the lowest cost to enhance product value.
- **Collaboration for Innovation:**
Developing strategic relationships with key suppliers to secure favorable terms and lower prices, often through competitive bidding or collaborative partnerships.

FOCUS STRATEGY

- **Selective Supplier Partnerships:**
Establishing close relationships with a select few suppliers who understand the niche market and can offer tailored products or services.
- **Agile Procurement Processes:**
Maintaining flexibility in procurement processes to quickly adapt to the changing needs of the niche market.
- **Customized Sourcing:**
Tailoring sourcing efforts to find suppliers that can meet the specific requirements of the niche market, often involving custom-made or exclusive items.

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1. Cost Leadership

Adopting a cost leadership strategy in procurement means striving to achieve the lowest operational costs within your industry.

This approach requires a keen focus on optimizing every aspect of the procurement process to drive down costs without compromising quality.

Achieving cost leadership often involves:

- **Leveraging Economies of Scale:** Buying in bulk or committing to long-term contracts to negotiate lower prices.
- **Investing in Technology:** Utilizing procurement software solutions and automation to streamline operations, reduce manual tasks, and cut costs.
- **Strategic Sourcing:** Developing strategic relationships with key suppliers to secure favorable terms and lower prices, often through competitive bidding or collaborative partnerships.

2. Product Differentiation

The product differentiation strategy focuses on distinguishing your offerings through uniqueness and superior quality.

In procurement, this means sourcing materials, components, or services that contribute to creating products that stand out in the marketplace.

Key aspects include:

- **Innovative Sourcing:** Identifying and partnering with suppliers that offer cutting-edge materials or components.
- **Quality over Price:** Prioritizing the quality and uniqueness of inputs over the lowest cost to enhance product value.
- **Collaboration for Innovation:** Working closely with suppliers to drive innovation, improve product features, and ensure a steady supply of unique materials.

3. Focus Strategy

A focus strategy in procurement hones in on serving niche markets with highly specialized needs.

This approach involves:

- **Selective Supplier Partnerships:** Establishing close relationships with a select few suppliers who understand the niche market and can offer tailored products or services.
- **Agile Procurement Processes:** Maintaining flexibility in procurement processes to quickly adapt to the changing needs of the niche market.
- **Customized Sourcing:** Tailoring sourcing efforts to find suppliers that can meet the specific requirements of the niche market, often involving custom-made or exclusive items.

Key Performance Indicators: The Barometers of Procurement Success

Monitoring Key Performance Indicators (KPIs) is crucial to navigate and succeed in strategic procurement.

These metrics offer insights into the efficiency, effectiveness, and overall success of your procurement strategy:

Key Performance Indicators: The Barometers of Procurement Success



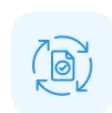
Spend Under Management (SUM)



Cost Avoidance and Cost Reduction



Supplier Performance



Procurement Cycle Time

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- **Spend Under Management (SUM):** This KPI tracks the percentage of your organization's total spend that is actively managed by the procurement team, highlighting opportunities for further optimization.

- **Cost Avoidance and Cost Reduction:** Essential for maintaining financial health, these KPIs measure the effectiveness of efforts to reduce initial cost estimates (cost avoidance) and actual reductions in spending (cost reduction).
- **Supplier Performance:** Evaluating how well suppliers meet their contractual obligations, including quality, delivery times, and service levels, to ensure they contribute positively to your procurement goals.
- **Procurement Cycle Time:** The speed at which the procurement process operates from need identification to product or service delivery, indicating the efficiency of procurement operations.

By aligning procurement strategies with broader business objectives and closely monitoring relevant KPIs, organizations can ensure their procurement department contributes significantly to their overall success, driving synergy across all facets of the business.

The Dance of Technology with Strategic Procurement

The twenty-first-century orchestra of strategic procurement is not bereft of technology.

From cloud-based platforms to sophisticated data analytics tools, procurement technology is the sheet music that enhances the performance of your procurement initiatives.

E-sourcing tools enable you to broaden your supplier search globally, while e-procurement systems streamline the actual buying process, reducing cycle times and increasing compliance.

Data analytics and business intelligence empower your decision-making with insights, giving you a bird's eye view of your procurement landscape, alongside the granular details that facilitate strategic maneuvers and tactical wins.

Adopting these technologies is akin to tuning your procurement strategy for digital harmony, where efficiency and intelligence dance to the rhythm of your

strategic beat.

Developing and Implementing a Strategic Procurement Plan

Developing and Implementing a Strategic Procurement Plan



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A strategic procurement plan is not a static document; it's a living and breathing roadmap that evolves with your business and the procurement landscape.

It's essential for optimizing the efficiency and effectiveness of an organization's purchasing activities.

This plan serves as a comprehensive guide for procuring goods and services that align with the organization's goals and objectives.

Developing it involves:

1. Analyzing Your Spend

Conduct a thorough spend analysis for your organization.

This means examining every purchase made over a specific period to

understand where the money goes.

It's crucial to categorize these spends into different classes, such as raw materials, IT services, or office supplies.

Doing so lets you identify which categories you spend the most on and which suppliers are critical to your business continuity.

This analysis highlights areas of high expenditure, pinpoints maverick spending, and uncovers cost savings opportunities and better supplier negotiations.

2. **Setting Procurement Objectives**

After understanding your spending patterns, establish clear procurement objectives.

These should be specific, measurable, achievable, relevant, and time-bound (SMART) goals that support your organization's broader mission and financial ambitions.

For instance, objectives could range from reducing procurement costs by a certain percentage to improving the quality of procured goods to achieving more sustainability.

The key is to ensure these objectives provide direction and purpose to your procurement strategy.

3. **Crafting Your Sourcing Strategy**

With a solid grasp of your spending and clear objectives in place, you can now develop a sourcing strategy that optimizes value for your organization.

This strategy should detail how you intend to select and engage with suppliers, manage risks, and achieve cost efficiencies.

It could involve diversifying your supplier base to mitigate risks, negotiating more favorable terms with existing suppliers, or adopting e-

procurement tools for better spend management, improved workflows, and data-driven decision-making.

The sourcing strategy acts as a blueprint for how procurement activities should be conducted to meet your set objectives.

4. **Implementing the Plan**

Implementation is the phase where planning transitions into action. It requires careful coordination and communication across various departments within your organization.

Key activities include securing buy-in from senior management and other stakeholders, onboarding chosen suppliers according to the sourcing strategy, and aligning internal procurement processes with the new plan.

Training and change management may also be necessary to ensure all your procurement professionals understand their role in executing the strategy.

5. **Monitoring and Adjusting**

The final step involves ongoing monitoring of procurement activities against the set KPIs and objectives.

This includes regular reviews of supplier performance, cost savings achieved, and the overall effectiveness of the procurement strategy.

It's important to remain flexible and responsive to any changes in market conditions or within your organization that might impact procurement.

The strategic procurement plan should be viewed as a dynamic document that can be adjusted and refined over time to continuously improve procurement outcomes.

Developing and implementing a strategic procurement plan is a cyclical and continuous process that helps organizations optimize their procurement activities.

By following these steps, organizations can ensure they are getting the best value from their suppliers while supporting their overarching business goals.

The Competitive Edge of Strategic Procurement

At the heart of strategic procurement lies the quest for competitive advantage.

The strategic procurement function acts as an enabler for innovation, efficiency, and new revenue streams, all of which contribute to your organization's ability to differentiate itself in the market.

But competitive advantage is not a gift bestowed; it's earned through foresight, planning, and execution.

Strategic procurement sets the stage for your organization to be responsive to market changes, to be operationally nimble, and to create value where others may see only cost.

Strategic procurement forms the underpinning of your competitive strategy, whether it's through sustainable sourcing practices, harnessing supplier relationships for co-innovation, or optimizing procurement processes to outpace your competitors.

Strategic procurement is both an art and a science—a symphony of savings, supplier synergy, and supply chain acumen that, when performed with precision, can lead your business to the crescendo of efficiency and growth.

Like any worthwhile endeavor, the road to successful strategic procurement is paved with learning, iteration, and a relentless pursuit of value.

It's a commitment to continuous improvement, a willingness to leverage available technology solutions, and a dedicated focus on aligning all procurement activities with the broader organization's objectives.

If your organization seeks to harness the full potential of its procurement function, to unlock savings and drive competitive advantage, then indeed,

strategic procurement is the melody you need to master.

What's your goal today?

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