

Strategic Sourcing Plan: The 7 Key Steps



Your business needs raw materials, components, finished goods, and services to produce the products and services you offer to your customers, as well as conduct daily business operations.

Competing effectively in the modern global marketplace requires careful planning to create and optimize a sourcing strategy that provides not just a healthy return on investment (ROI), but value in the form of increased competitive performance, operational efficiency, and insight-driven decision-making.

The *strategic sourcing process* begins with a well-developed and properly implemented *strategic sourcing plan*.

It might seem like a daunting endeavor, but creating and implementing such a plan doesn't have to be an obstacle to your company's long-term success.

Form a team, invest in the right digital tools, and follow a few basic principles, and you'll be well-equipped to create a strategic sourcing plan you can use to fine-tune your supply chain for maximum cost reductions, streamlined business processes, and big-time value that exceeds, rather than simply meets, your business requirements.

Why Having an Effective Strategic Sourcing Plan Matters

Doing business in the modern world is both more rewarding and more risky than ever before. Digital transformation and emerging technologies like artificial intelligence, Big Data analytics, and process automation have radically altered the ways in which businesses seek to meet the needs of their customers.

In procurement, the challenge has become maintaining business continuity despite disruptions like the COVID-19 pandemic, natural disasters, and

international political upheaval.

Every dollar you spend as part of your procurement strategy needs to generate the best possible ROI, both financially through cost reductions and lowest possible total cost of ownership (TCO), and in less tangible ways like improved supplier relationship management, bigger market share, and stronger competitive performance.

For companies of all types and sizes, strategic sourcing is a core component of overcoming this challenge.

Proactive and driven by analysis of internal processes, supply markets, and supplier performance, strategic sourcing makes it possible to meet business needs with maximum efficiency and value.

Companies who choose to invest the resources, time, and talent required to develop a strategic sourcing strategy will improve their ability insulate themselves against unnecessary risk while freeing capital required for growth and innovation

Ideally, (your) strategic sourcing team will be made up of professionals who understand the importance of procurement and its partner accounts payable as drivers of value creation and cost savings for the business as a whole (particularly via the procure to pay, or P2P, process).

Implementing Your Own Strategic Sourcing Plan

Because it can be complex and, in some cases, require a fundamental shift in how a company does business, the first step in building an effective strategic sourcing plan isn't diving right into a checklist; it's assembling a specialized procurement team.

Ideally, this strategic sourcing team will be made up of professionals who understand the importance of procurement and its partner accounts payable as drivers of value creation and cost savings for the business as a whole (particularly via the procure to pay, or P2P, process).

Better still, they should have the eProcurement tools they need to analyze their organization's business needs, review its current supply chain management paradigm, and develop both a flexible and responsive strategic sourcing process that applies the principles of business process optimization continuous improvement to supplier relationship management, cost analysis, risk management, contract management, and finding ways to center procurement as a value driver.

One of the best ways to begin is by choosing a comprehensive, cloud-based procurement solution like PLANERGY. Modular, mobile-friendly, and equipped with artificial intelligence, advanced analytics, and process automation tools, such a solution makes it easier both to review your company's current sourcing activities and develop a plan for optimizing them.

Having a centralized data management solution, as well as the tools needed to analyze the data being managed, makes everything from benchmarking supplier performance to measuring the overall efficiency of internal workflows for refinement opportunities that will yield greater savings and value in addition to actionable insights for financial and procurement planning.

Let's take a closer look at a typical, seven-stage strategic sourcing plan:

1. Needs Analysis

In order to identify what's working, what isn't, and where you need to trim the fat, the first step in achieving strategic sourcing involves benchmarking your current procurement processes (efficiency, cost-effectiveness, roadblocks and pain points, etc.) and the vendors in your supply chain (e.g., compliance and performance data, redundancies for both direct and indirect spend, etc.), as well as identifying the goals you'd like to set for improvements to both.

Having the right software tools will make this process much easier, as you'll have access to both historical and current performance, compliance, and cost data, as well as analysis tools to mine it for insights.

2. Supply Market Analysis

At this stage, your strategic procurement team identifies the markets most likely to provide reliable, consistent, and high-quality raw materials, components,

finished goods, and services.

These markets are then analyzed for suitability and ranked accordingly based on cost analysis, spend categories (including identifying contingency suppliers for essential raw materials, goods, and services), and external factors, such as location, logistical considerations, potential political, social, and ecological concerns, etc.

3. Supplier Review

Once markets have been identified, reviewed, and categorized, potential suppliers are identified, evaluated, and ranked for suitability based on a number of factors, including:

- Financial performance and stability.
- Creditworthiness.
- Reputational issues.
- Current and historical compliance with industry and government standards.
- References supplied.

Ideally, this review will also help the team identify opportunities to eliminate wasteful redundancies and either eliminate or rehabilitate underperforming vendors from the existing supply chain while simultaneously adding contingency suppliers to help preserve business continuity and ensure supply chain resilience in the face of potential disruptions.

4. Sourcing Strategy Development

Knowing who you want to buy from is important, but you also need a strategic plan for *how* you intend to buy.

Based on your organization's overall business strategy, goals for supplier relationship management and development, and risk management strategy, you may revise existing protocols or establish new ones, including (but not limited to):

- Direct purchase via requests for proposal (RFP) or Requests for Quote (RFQ) sent to targeted vendors.
- Acquisitions: Identifying and contracting the most suitable suppliers for

direct purchase for a specific term, rather than by the project.

- Strategic partnerships established through advanced contract management to create long-term agreements that benefit both parties.
- Vendor Management Key Performance Indicators (KPIs) to monitor and evaluate vendor performance, pricing, and compliance data over time.
- KPIs for internal processes and workflows to establish standards for profitability, performance, efficiency, growth, etc. while working to reduce costs and TCO wherever possible.

5. Implementation

Having developed a strategic sourcing strategy, your team will need more than a quick email to bring your organization into line with its mission.

For example, if you've historically relied on manual processes and paper-based workflows, the transition to an eProcurement suite will require time, training, and support from the C-suite to succeed.

Introducing concepts like guided buying, paperless processes, and automation of high-volume, repetitive tasks will likely mean training staff to adopt new, more efficient processes and adhere to the overall sourcing strategy in order to prevent problems like rogue spend.

In addition, even seasoned veterans may require additional training to use digital tools in executing more complex sourcing initiatives like strategic partnerships, process optimization, and revised RFP or RFQ processes.

This is especially true if your team is implementing multiple sourcing strategies at the same time.

The best approach in this case is to execute implementation in stages:

1. **Information Period:** Preparatory education and training for staff, management, and vendors.
2. **Implementation Period:** New processes are implemented and monitored.
3. **Review Period:** Evaluation of adherence to the new processes and improvements realized.
4. **Revision Period:** Additional training and refreshers as needed to secure

full buy-in; formalized key performance indicators to measure performance and refine processes over time.

6. Engaging with Suppliers and Reassembling Your Supply Chain

The supply chain you activate when you implement your new strategy will likely look very different from the one that preceded it.

At this stage, your team has analyzed your available supply markets, identified and categorized suppliers based on the criteria you set, and is ready to execute the processes that will integrate these suppliers into your procurement process.

Communication and collaboration are especially important at this stage, as vendors need to know your expectations and the requirements you've set for both securing your business and doing business with you once the contract has been signed.

Ensuring everyone knows how to navigate your vendor portal, for example, will promote and preserve good relationships with current and potential suppliers while ensuring vendor information is captured in your centralized data management system from day one.

Both parties in every transaction should have an immediate and clear understanding of the expectations and obligations they bring to the negotiation table, and access to the tools they need to successfully strike a deal that meets everyone's needs.

New suppliers will appreciate the transparency and smooth transition; existing suppliers (especially key suppliers) will appreciate being treated like partners in your shared success.

7. Review, Refine, Revise

At this stage, the steady stream of data flowing through your eProcurement solution can be analyzed and compared to the KPIs you've set for vendor management and internal procurement processes.

Through data analysis, the team can carefully review these KPIs to determine

areas in need of further improvement, as well as opportunities to adjust the supply chain to improve resiliency, profitability, and competitive agility.

Source Strategically for Maximum Value

It's always good to know you're getting the best possible value for your dollar. So why not improve your risk management, enhance supplier performance, and turn your procurement team into a powerhouse of value creation while you're at it?

By investing in a comprehensive procurement solution, assembling a strategic sourcing team, and following the basic tenets of strategic sourcing, you can improve supplier relationships, optimize your procurement process, lower total cost of ownership, and ensure your sourcing activities generate cost savings, competitive advantage, and a healthier bottom line for your business.

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