Abstract. This session introduced, defined and explained through example an innovative new approach to total cost of ownership reduction. Traditional strategic sourcing programs have focused on supply-side cost drivers and supplier-facing procurement processes. Demand Management aims at optimizing internal practices, processes and policies that reduce the usage of goods and services to improve total cost of ownership.

The Opportunity. Traditionally most strategic sourcing programs have focused on supply-side cost drivers and supplier-facing procurement processes and systems. For example a company might try to consolidate more of its spend in a given category on fewer suppliers to gain more leverage and capture lower unit costs. From a supplier-facing process perspective a company might implement reverse auction technology and processes to increase competition and, again, extract a lower unit cost. Such programs might deliver incremental unit cost reductions of 5 – 20 percent depending on the category and the Company’s past history of sourcing programs. Nothing wrong with that.

But the opportunity such traditional programs miss is that while they reduce unit costs, they do nothing to reduce absolute units. In fact historically volume has been the purchasing

Demand Management
professional's friend and reducing volumes has not been on their agenda. Demand Management aims at optimizing internal practices, processes and policies that reduce the usage of goods and services.

Each unit not purchased is a 100 percent unit cost reduction for that unit. How can you do better than that!

While Demand Management may be a very different technique than tradition strategic sourcing programs normally emphasize it is actually very complementary. The ideal cost reduction program of all is one that reduces both units and unit costs. Adding Demand Management to your strategic sourcing arsenal does just that.

**Elements of Demand Management**

A comprehensive set of Demand Management solutions will span the spectrum from pragmatic to innovative. There are a number of categories of change that are behavioral in nature. Others are more systemic or even technical in nature.

Two major behavioral change categories are awareness and discipline. Simply modifying the way we report and manage performance related to usage can drive demand in the desired direction. Creating job responsibilities that include a focus on demand monitoring and management can have the same effect. There are many other common budgetary management techniques that can be effective if applied with a particular emphasis on demand management.

From a process perspective companies often find realignment of organizational structures can impact demand. Another technique is the use of business focused spend reduction KPI’s, a.k.a. belt tightening.

Other approaches are more technical or technology driven. For instance the substitution of like products or services can reduce demand related to the replaced product. Or a concentrated Engineering lead effort can identify component commonality and eliminate many items from the purchase catalog altogether.

**Implementation of Demand Management**

As implied above the effective implementation of Demand Management requires a comprehensive assessment of the demand drivers aimed at reducing category specific usage profiles. The graphic below illustrates the typical demand reduction levers.
Demand Reduction Levers

Not every lever may apply in every circumstance or to every spend category, but testing each lever insures a comprehensive approach that will not miss a major opportunity. As with traditional strategic sourcing initiatives, the demand reduction lever assessment must be based upon a fact-based spend profile using common spend category classifications. Also, any successful program needs to be accompanied by effective, yet pragmatic, infrastructure changes, as we discussed under the elements of Demand Management, to sustain usage and spend target levels.