

**Strategic Sourcing Plans
Made Easier with a Take-Away Outline**

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The development and implementation of formal detailed strategic sourcing plans for major spend categories has been and will continue to be an essential element of top-class supply management operations. Yet most supply management organizations do not have them. This paper focuses not on the “why” or “what” since the ISM Article Data Base covers this very well but on the actual “how to” by providing an example of a step-by-step procedure for conducting the development of formal sourcing plans and a detailed outline of what typically would be in such a plan.

Since it is generally much easier to implement plans and procedures when you have a draft of something that already exists, the following should provide a starting place to allow immediate implementation of the planning process.

Strategic Sourcing Plan Process Example

Purpose: To provide a formal process for developing and communicating procurement strategies for supply management activities of major goods and services through Strategic Sourcing Plans.

Discussion: Basically over -----% of the total sales revenue of Company is expended for the purchase of goods and services from outside suppliers. Strategic total cost management of these purchases is therefore a major issue for Company. To achieve the magnitude of cost improvements and innovations required to maintain a competitive position requires that Company and its suppliers develop joint strategies to improve customer satisfaction and lower total cost for our customers, our suppliers, and Company. A well-proven method of strategic total cost management of purchased goods and services is through the development of Strategic Sourcing Plans. These plans will be created by cross-functional Strategic Sourcing Teams that will be viewed to be collectively responsible for the development and implementation of the supply management strategies. Each Strategic Sourcing Plan requires the identification of objectives for quality improvement, total cost improvements, process improvements, supplier relations, lead-time reduction, innovations, inventory reduction, and other objectives that benefit Company.

Scope: This procedure covers the development and communication of Strategic Sourcing Plans (SSP) for major goods and services purchased by Company. Key commodities are defined as those items or groups of items or services making up the top 80% of the annual spend for goods and services purchased by Company.

Responsibilities:

A. The (*Title of Top Procurement Position*) has the responsibility of defining the spend categories that will be covered by SSPs and determining the Strategic Sourcing Plan Team Leader.

B. The Team Leader has the responsibility of selecting the Strategic Sourcing Team, the development of the SSP, insuring that SSPs are communicated, and the actions described therein are completed in a timely fashion.

C. Strategic Sourcing Team members, upon their selection to the team, will contribute to the development of the SSP, and perform the duties assigned by the team in accordance with SSP schedule.

Applicable Documents:

A. Strategic Sourcing Plan (See Outline After the Procedure Section)

Procedure:

A. At the beginning of each year the (*Title of Top Procurement Position*) will define the key spend categories that are to be covered by a SSP. These will generally be selected from the goods and services purchased by Company that make up the top 80 % of the total annual expenditures. The (*Title of Top Procurement Position*) will also determine, based on resources and skill sets available, the lead responsibility for developing the SSP.

B. The Team Leader will select a Strategic Sourcing Team composed of those individuals at Company involved with the spend category or any others needed to support the development or implementation of the plan. The Team Leader will schedule Strategic Sourcing Team Meetings and prepare the agenda.

C. The Team, led by the Team Leader, should meet and discuss all aspects of the procurement activity related to the key commodity. This should include, but is not limited to, the Company business strategies related to the commodity, supplier performance and relations, supplier selection, quality and delivery issues, cycle time reduction, inventory, global supply market conditions, sourcing methods of competitors, potential for total cost improvements, contractual arrangements, ordering and payment process, substitutions and commodity innovations, and the forecasted requirements for the spend category. The team should develop the necessary data to complete the SSP including the action plan. The SSP shall then be submitted to the (*Title of Top Procurement Position*) for concurrence.

D. The (*Title of Top Procurement Position*) will review the SSP and if acceptable indicate concurrence on the SSP. If not acceptable, the (*Title of Top Procurement Position*) will meet with the Strategic Sourcing Team to guide them in the development of an acceptable SSP. The (*Title of Top Procurement Position*) will advise teams on priorities and assist them in obtaining needed resources to complete and implement the plan.

E. Once the SSP is approved by The (*Title of Top Procurement Position*) it should be presented by the Strategic Sourcing Plan Team to Executive Management for concurrence.

F. The Team Leader shall administer the SSP with team members providing input per the SSP action plan. The Team Leader shall report status to the team members and the (*Title of Top Procurement Position*). End of Process

After completing the organizations version of the above process the next step is to develop the plan which will be made much easier by having the following outline showing the headings found in typical strategic sourcing plans so that the Strategic Sourcing Plan Team can basically fill in the blanks of the plan segments.

Strategic Sourcing Plan Outline

1. Item/Service Description:

2. Company Business Strategies: Describe the Company Business Strategies for the product/service utilizing the item/service.

3. Strategic Sourcing Team: List the Company Associates responsible for developing and implementing the SSP.:

4. History:

A. Total Annual Volume Per Year: Show the year and amount In a table or attached spread sheet.

B. Price Changes by supplier: In a table provide Dates, New Unit Price, % Change, Total Impact to Company in \$, and Date effective. Also include the reason for each price change and what actions were taken to resist the original price change request and the results of those actions. Also show the comparison of the change from the supplier to the change in the index representing the category for the same period.

C. Lead Time History:

D. Cost Improvement History:

5. Current Suppliers: In table form list Current Suppliers, Locations, % of Company Spent to that supplier, Total Annual Sales of supplier, % of Total Sales from Company, % of Total Market Share help by Supplier, and when did company start with that supplier

A. Supplier Financial Data: Results of review of supplier financial data:

B. Quality: Describe supplier's quality performance history and corrective action measures and results:

C. Delivery: Describe supplier's delivery performance history:

D. Innovation: Describe supplier's performance in providing innovations or total cost improvement recommendations:

E. Supplier Relationship: Provide frank appraisal of the existing Supplier/Company relationship:

6. Current Processes:

A. Supplier Segmentation: Describe where the Item/service is positioned in the Company's Sourcing Segmentation Process.

B. Supply Chain Map: Provide a map of the current supply chain involving this item/service.

C. Supplier Selection: Describe the current supplier selection process or how this supplier was selected.

D. Contracting Method: Describe the current method of contracting and give details of the current contractual relationship (Formal contract, start and end date, pricing methods established, minimum quantity requirements etc.).

E. Ordering Process: Define the current requirements planning and ordering process.

F. Performance Measurement: Describe how the current supplier's performance is measured and reported.

G. Inventory: Describe the current inventory strategy.

7. Supply Market Overview:

A. Suppliers in Market: An overview of the Supply situation. Describe the suppliers in the market both domestic and global, their market shares, major customers, individual strengths and weaknesses, strategic alliances, relationships with Company competitors, R& D capabilities, capacity for commodity, expansion plans, interest in doing business with Company, our interest in doing business with them, etc.

B. Buyers in the Market: An overview of the demand situation. Major buyers, future demand from these buyers. Prices paid by best buyers.

C. Competitor's Sources: Who do our competitor's buy from? Why? Do they get any disadvantage or advantage from their supply chain? Do we have any information on what they pay?

D. Market Trends: Identify general market trends and particularly those that might affect Company's short or long-term supply strategies:

E. Major Raw Materials: Identify raw materials and their sources of supply and any issues that can impact Company's commodity strategies, both short and long term.

F. Cost Drivers: Identify the supplier's cost drivers and the short and long range issues related to the cost drivers and how they may impact Company's commodity strategies.

G. Company Bargaining Power: Describe Company Bargaining Power in the Supply Market (Do we have significant purchases, are there other suppliers to switch to, what is the switching cost, can we substitute materials, how profitable is the commodity to the supplier, will Company's customer accept Company using a different source or substitute materials, etc.)

H. Appropriate Indexes: Identify the appropriate PPI or other index for the commodities and major raw materials and show their histories and projected forecasts:

8. Cost/Price Analysis: Provide details of cost or price analysis showing how Company determined that the current price and/or the total cost were fair and reasonable and that it was the best obtainable. Show the latest "should Cost" calculations.

9. Strategic Sourcing Plan Objectives:

A. Short Terms Objectives (18 Months or less): Describe the Company short-term objective for the following:

- Supplier Selection
- Total Cost Improvement
- Quality
- Delivery
- Inventory
- Innovations
- Supplier Relations
- SRM

Contractual Form
Process Improvement
E-Procurement Strategies
Green Initiatives
Etc.

B. Long Term Objectives (Greater than 18 Months): Describe the Company long-term objective for the following:

Supplier Selection
Total Cost Improvement
Quality
Delivery
Inventory
Innovations
Supplier Relations
SRM
Contractual Form
Process Improvement
E-Procurement Strategies
Green Initiatives
Etc

C. Relationship to Company Business Plan: Describe how the Strategic Sourcing Plan Objectives relate to and support the Company Business Plan for the product in which the commodity is used. What is the impact in not meeting an objective?

10. Implementation Strategies: Describe the implementation strategies and issues for meeting the Strategic Sourcing Plan Objectives. How are the objectives to be measured.

11. Action Plan: Attach the specific action plan for meeting the Strategic Sourcing Plan Objectives (Use Microsoft Projects or other Project Management Tool- Include event, start date, end date, person responsible, resources required, etc.):

An often cited best practice in supply management is the development of formal short and long range Strategic Sourcing Plans for major spending segments. The preceding should help Supply Management Organizations in implementing this valuable best practice.