

Maxelerate and the Strategic Sourcing Process

“Strategic Sourcing” is a term that has become popular in the supply management discipline. It has been embraced by procurement professionals as being the state of the art “best practices” process. There is some debate as to where the term arose. Many believe that the term was originated by A.T. Kearney for their process. Whatever the origin, what is clear is that there are now several versions of the process. Some are generically known as Strategic Sourcing. Others are known by acronyms such as PLAN, MAP, STeP, etc. which are the trademarks of the organizations that promote them.

At Maxelerate, we have analyzed and used several different variants. Our experience has caused us to create an end to end process that encompasses a range of disciplines including sourcing, purchasing, negotiation and supplier performance management. However, we have come to realize that no matter how good a process may be, most of the time it will fail in large organizations. This is an extraordinarily negative statement to make and needs some context.

Even the most avid supporters of strategic sourcing have recognized that it has succeeded in only 30% of companies in North America, only 20% in Europe and 10% in Asia-Pacific. Goodness knows what the amount would be if you factor in the companies that have not tried strategic sourcing or its variants. Our own experience, in having worked with some of the companies who are regarded as “a success”, is that even these numbers may be optimistic.

This observation led us to seek the reasons for this lack of success and to find solutions. The first thing that we questioned was, “Is the process at fault?” We concluded that most of the processes being implemented were adequate for the task in some instances. At the same time we found that the *same* processes were totally inadequate in many more instances. What emerged from our experience was that the process must be matched to the organization in which it will be used. In fact, all of the processes need to be tuned to some degree to the nature of the organization that will use them. It can almost be said that the process used is unimportant so long as the organization embraces it. The fact is that, while having a good process is important, there are other factors which are far more important to the success of sourcing.

With this in mind we decided that the process that we would use would embrace all that we have learned from the processes and lessons we have experienced. However, we decided that the process would only be guideline. Most large organizations (e.g. Fortune 500, Federal and State Government departments, etc., which is where Maxelerate is focused) already have a sourcing/procurement process whether strategic sourcing or otherwise. We have made it our practice not to try and change the process for the sake of a seemingly better process. Our approach is to get a thorough understanding of what is working and what is not. We then tune the process or, rarely, if necessary, replace it. More importantly, we identify and address the underlying causes. We have developed this into a discipline that we call “Leadership Implementation”.

However, this white paper is about process and designed to help people understand the background to the Maxelerate 4 Phase process and how it ties into the strategic sourcing. As described above, there are many variants of the strategic sourcing process. Usually they are described in terms of a number of steps. Here are some examples:

Strategic Sourcing Process A

Step 1 – Development – Project Administration

Assemble Core and Extended Team

Develop Team Charter
Project Documentation

Step 2 – Development – Information Gathering

Requirements Specification
Supplier Diversity
Benchmarking/Market Survey

Step 3 – Acquisition – Development, Solicitation and Evaluation

RFQ
Bidder’s Conference
Evaluation Criteria
Proposal Evaluations
Optimal Supplier Determination

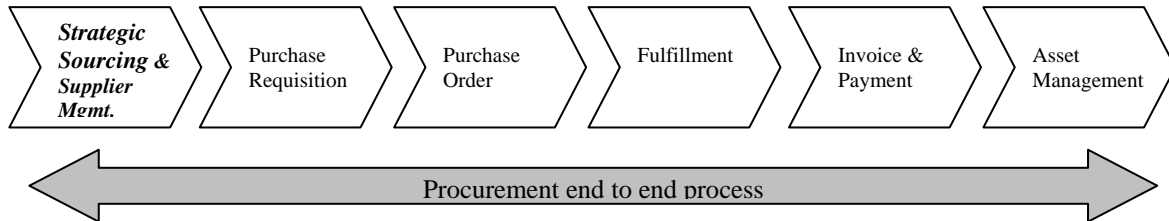
Step 4 – Acquisition – Negotiations

Negotiation Preparation
Contract Negotiation
Service Level Agreement
Contract Award

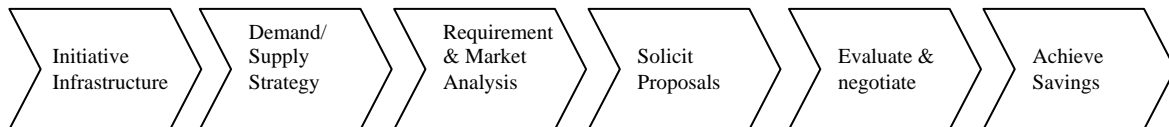
Step 5 – Implementation

Transaction

Strategic Sourcing Process B



Strategic Sourcing Process C



Strategic Sourcing Process D

1. Structure and organizations
2. Roles and responsibilities
3. Executive oversight councils
4. Ethics and conflict of interest
5. Supplier diversity
6. Proprietary information
7. Standard setting bodies

- 8. Cost drivers
- 9. Demand drivers
- 10. Contract management
- 11. Supplier compliance
- 12. Customer compliance
- 13. Benchmarking
- 14. Value measurements
- 15. Service levels
- 16. Relationship agreements
- 17. Total cost of ownership
- 18. Purchase requisition
- 19. Purchase order
- 20. Fulfillment
- 21. Invoice and payment
- 22. Asset management
- 23. Supplier reviews

Comparison to Maxelerate

For many people the most recognizable process is the one promoted by A.T. Kearney. This is a seven step process and an abbreviated version of the process is as follows:



We will compare this to the Maxelerate 4 Phases, the specific Tasks within them and the disciplines that are required to ensure success. The 4 Phases are:

- 1. Preparation**
- 2. Negotiation**
- 3. Management**
- 4. Competitive Environment**

Within each phase there are various tasks as follows:

- 1. Preparation**
 - a) Develop Skill Level
 - b) Implement Process
 - c) Establish Need
 - d) Decide Requirements
 - e) Own The Contract
 - f) Acquire Vendor Knowledge
 - g) Assemble Negotiating Team
 - h) Determine Negotiation Strategy

2. Negotiation

- a) Selecting Vendors
- b) Obtaining Proposals
- c) Award Contract

3. Management

- a) Administer Contract
- b) Enforce Compliance
- c) Optimize Vendor Performance
- d) Control Unmanageable Vendor
- e) Direct Long-term Relationship

4. Competitive Environment

- a) Maintain Competition

In many instances there is equivalence between the strategic sourcing process and the 4 Phases' Tasks. However, The 4 Phases go further.

Strategic Sourcing	4 Phases - Tasks
Internal assessment	1.a) Develop Skill Level
Market Assessment	1.c) Establish Need
Supplier Information	1.d) Decide Requirements
Sourcing Strategy	1.e) Own The Contract
Solicit Bids	1.f) Acquire Vendor Knowledge
Select Suppliers	1.g) Assemble Negotiating Team
Implement Recommendations	1.h) Determine Negotiation Strategy
No direct Strategic Sourcing equivalent	2.a) Selecting Vendors
	2.b) Obtaining Proposals
	2.c) Award Contract
	1.b) Implement Process
	3.a) Administer Contract
	3.b) Enforce Compliance
	3.c) Optimize Vendor Performance
	3.d) Control Unmanageable Vendor
	3.e) Direct Long-term Relationship
	4.a) Maintain Competition

This is a very approximate comparison. In all cases the 4 Phases encompass the various processes, tools and techniques of strategic sourcing. In most cases they go beyond what has been implemented in the industry so far. Once again we emphasize that it is not as important what a process does or does not encompass. It is much more important that it is aligned to the strategies, culture, environment and circumstances of the organization. This is why we place so much emphasis on Leadership Implementation. Please contact us at the numbers/addresses below if you would like to know more about Leadership Implementation.

We mentioned above that there are considerations other than the process which should be taken into account when it comes to implementing your sourcing discipline. Here is a partial list:

Analysis

- Survey stakeholders (1 preferably 2 interviewers)
 - Procurement personnel
 - Their clients
 - Their clients' clients
 - Finance
 - Legal
- Decide model
 - Strategic Sourcing vs. Leveraged Negotiation vs. Balanced
 - Vendor and marketplace research
 - Contract drafting compared to legal review
 - Service vs. governance
- Document the analysis and communicate

Design

- Tailor process to characteristics
 - Large vs. small deal
 - Complex vs. simple
 - Strategic impact
 - Cycle time
 - Organizational culture
- Decide discrete steps, order and timing
- Integration with procurement and e-procurement systems
 - Requisition process
 - Approval and review process
 - Procurement process
- Integration with Asset Management Systems
- Contract Management
 - Procedures
 - Systems
- Clarifying roles in interfacing/negotiating with vendors
- Facilitation and arbitration plan
- Sourcing hot line
- Vendor Performance Management
 - Procedures
 - Systems
- Communication process

Implementation

- Obtaining Senior Management support



- Procedure documentation
- Requirements process
- RFI, RFP process
- Evaluation process
- Form contracts. e.g.:
 - Hardware Acquisition Agreement
 - Hardware Maintenance Agreement
 - Hardware Bailment Agreement
 - Software License Agreement
 - Software Maintenance Agreement
 - Software Development Agreement
 - Consulting Services Agreement
 - Confidentiality and Network Access Agreement
 - Outsourcing Services Agreement
 - Logistics Services Agreement
 - Real Estate Agreements
 - Capital Procurement Agreement
 - Engineering/Construction Services Agreements
 - Creative Services Agreements
 - Food Service Agreements
 - etc.

Communication

- Getting buy-in
 - Feasibility of plan
 - Who must buy in
- Training
 - Procurement
 - Client
 - Clients' client
 - Legal
 - Finance
 - Vendors
- Marketing of Procurement services

We hope that this white paper has given you a good overview of sourcing processes and their implementation. If you would like to learn more, please talk to your Maxelerate contact or reach us at the phones and addresses below.



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