

# Five Strategies to Achieve Tangible Savings with Strategic Sourcing

*PART TWO*



ProcureAbility  
ADVISORY + TALENT YOUR WAY

## Introduction

This whitepaper is Part II in a series on how to **achieve tangible savings quickly** via strategic sourcing, and focuses on **using market intelligence**.

Today's economy presents a **buyer's market** across most spend categories, and **now** is the time to renegotiate contracts or re-source spend. The following chart, updated since our last paper, includes a variety of category price decreases year-over-year for September 2009.

### Buyer's Market: Act now or you may lose out

	Category	Aug. '09 Y-O-Y% Price Change*
Fuels	Crude Oil	-39.1%
Metals	Aluminum, High-Grade	-30.1%
	Steel Sheet, Hot-Rolled	-52.8%
Wood	Plywood Sheathing	-11.9%
Facility Services	Main. & Repair Construction	-8.5%
Manufactured Goods	Steel Pipe	-31.0%
	Wire & Cable	-10.6%
Transportation	Ocean Freight	-24.4%
Travel	Airfare	-11.6%
Hardware	Laptops	-23.5%

*These are just a few of the many categories that have dropped dramatically.  
\*Y-O-Y Change: Year-over-year average percentage change*

Companies must take an aggressive approach to contract renegotiation and re-sourcing to remain competitive in today's environment. Many companies have limited manpower and resources to execute this seemingly daunting initiative. However, every day that passes without contract renegotiation and re-sourcing is costing money.

## Contact ProcureAbility

Learn more about how ProcureAbility's RAPID Sourcing program can help you deliver savings in just 3 to 6 weeks.

Don't leave savings on the table because you think it too onerous, costly, or time-consuming to renegotiate or re-source now.

## Five Strategies for Tangible Savings

ProcureAbility uses five tangible strategies to accelerate savings in weeks rather than months. .

1. **Understand and use supply market intelligence**
2. Develop a robust attack plan
3. Use fit-for-purpose approaches
4. Aggressively manage in-flight sourcing activities
5. Plan for the future

This whitepaper, the second in a series, focuses on how ProcureAbility uses in-depth supply market intelligence to help achieve costs savings quickly.

## How to Understand and Use Supply Market Intelligence

Understanding supply market intelligence is critical to **identifying cost-driver** impacts on category costs and prioritizing opportunities. Following are four how-to's on this strategy.

## 1) Focus on Cost Reduction

- **First-cost price reductions:** In-depth and category-specific market intelligence provides better insight into cost drivers, pricing trends, and forecasts, thus helping you negotiate first-cost price reductions. Consider forecast information before locking in pricing, contracts, or determining when to source.
- **Total-cost price reductions:** An increased understanding of best practice sourcing strategies, cost drivers, and value levers helps drive total-cost price reductions.
- **Timing:** Detailed knowledge of market fluctuations and past patterns, as well as forecasts, will help you better time raw material price decreases (and increases) and their impact on material purchases.

## 2) Focus on Risk Mitigation

- **Trend alerts:** Market intelligence includes data on key trends that impact spend management and aid in purchase negotiations, budget variance explanations, and sourcing event timing.
- **Supply disruption alerts:** Knowledge of supply disruptions is paramount to mitigating risk.
- **New sourcing or contract extension alerts:** These alerts trigger a new sourcing event or contract extension.

## 3) Prioritize Sourcing Opportunities

**Step 1:** Map cost drivers to spend categories to identify opportunities. For example, the chart below maps the core commodity of crude oil to both Facilities Services and Air Travel spend categories.

# Mapping Cost Drivers to Spend Categories (Example)

### Core Commodities/Cost Drivers

### Spend Categories

#### Chemicals

Caustic Soda  
Chlorine  
Sulfuric Acid

#### Fuels

Crude Oil  
Fuel Oil #2 Diesel  
Unleaded Gasoline  
Natural Gas  
Propane

#### Industrial Gases

Acetylene  
Carbon Dioxide  
Nitrogen  
Oxygen

#### Metals

Aluminum  
Copper  
Stainless Steel  
Steel Sheet

#### Labor

Etc.

MRO  
Staff Augmentation  
Facilities Services  
IT Hardware  
Legal Services  
Turbines  
Packaging  
Air Travel  
Print  
Office Supplies  
Office Furniture  
Freight  
Injection Molded Parts  
Etc.

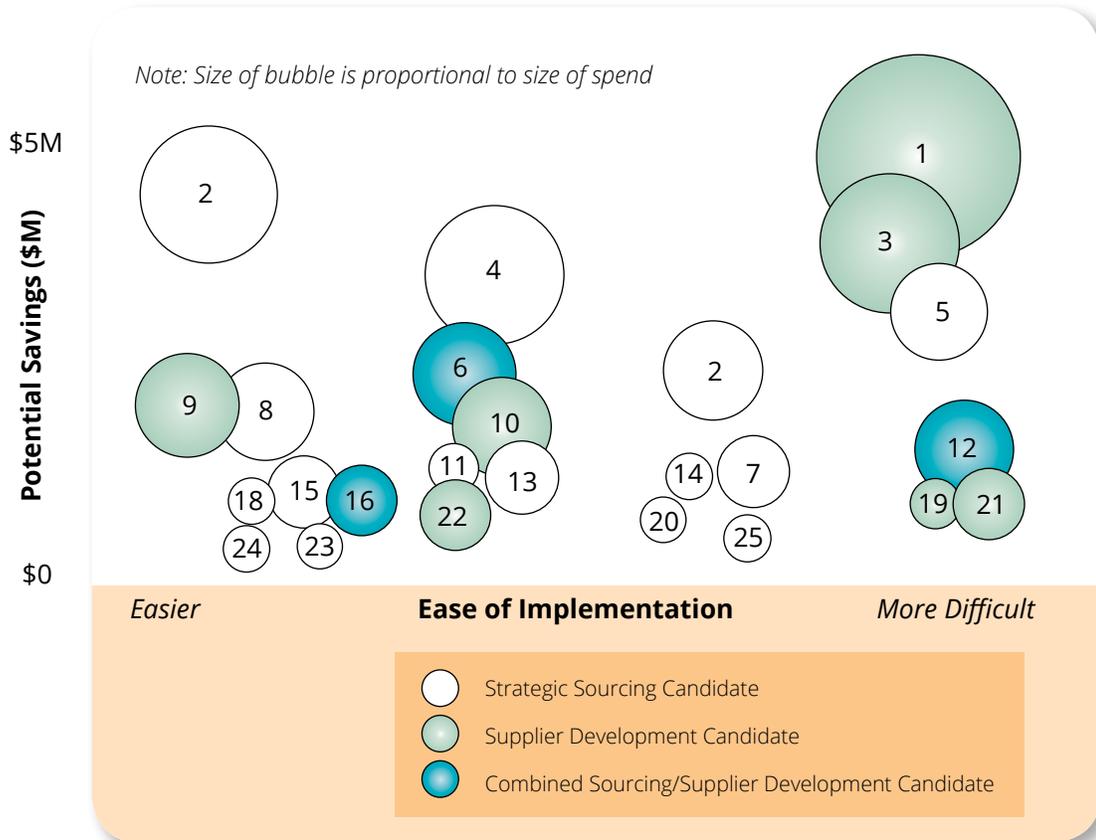
**Step 2:** Use cost-driver analysis to develop cost models and to quantify the potential impact of core commodity price changes/forecasts.

**Step 3:** Use market intelligence, and other opportunity

assessment criteria, to quantify opportunities at the spend category level.

**Step 4:** Prioritize and select opportunities, as illustrated below.

## Opportunity Prioritization Chart - Top 25 Spend Categories (Example)



#### 4) Incorporate Market Intelligence into Renegotiation & Re-Sourcing Strategies

- Establish target pricing based on price benchmarks, finished goods/services pricing trends, and cost driver analysis.
- Understand supply demand/capacity imbalances, to your advantage.

- Anticipate supplier hot buttons and “must-have” negotiation points.
- Identify new suppliers to include/leverage in negotiations & sourcing efforts.

Following is a sample template that can be used to prepare for supplier negotiations.

## Negotiation Strategy Template

### Negotiation Preparation Worksheet

Sourcing Category: \_\_\_\_\_ Today's Date: \_\_\_\_\_

Objectives and Potential Negotiating Issues			
Category	Objectives	Sourcing Techniques	Potential Negotiation Issues
Price/Cost			
Specs			
Process			
Value Added Services			
Other			

Most Desirable Outcome (MDO)	Least Acceptable Agreement (LAA)	Best Alternative to Negotiated Agreement (BATNA)

Communication Plan		
Action	Responsible Party	Date

## Conclusion

Now is the time to re-source and renegotiate contracts that contain outdated pricing structures. This savings process can take weeks rather than months by using in-depth supply market intelligence with a simplified, focused, and targeted approach.

The smartest cost reductions come from a fact-based approach based on market realities and opportunities for both supplier and buyer.

### ProcureAbility's RAPID Sourcing Methodology Uses Market Intelligence

ProcureAbility's RAPID Sourcing methodology, based on a formal, fact-based approach, optimizes value creation quickly and delivers significant return on investment.

Our market intelligence expertise means we are able to target and quickly review current contracts, and renegotiate those that are most likely to yield savings.

## Coming Next

Keep an eye out for the next installment of this series, which will cover developing a robust attack plan to achieve tangible savings with strategic sourcing.

For more information on market intelligence, see these ProcureAbility whitepapers:

How Market Intelligence Can Enhance Your Category Management Capabilities

Critical Components of Sourcing Market Intelligence

## Contact ProcureAbility

Learn more about how ProcureAbility's RAPID Sourcing program uses Market Intelligence to help deliver savings in weeks instead of months.

## About ProcureAbility

ProcureAbility™ transforms traditional, outdated consulting and staffing models by offering our clients advisory and resource support on their terms.

**Our delivery model is unique.** We give clients access to unbundled resources, plus the ability to selectively add value through leading-edge methodologies, the latest best practices, and specialized insight and advice—an approach unheard of in traditional consulting and staffing firms.

ProcureAbility's customer-focused delivery model allows for a wide range of flexibility:

- **Working with strategic or tactical experts** who can deliver a wide range of solutions, from consulting to staffing
- **Scaling a team your way**, from individual resources to complete project teams
- **Adding value as needed** from a deep and broad library of procurement insights
- **Choosing remote or on-site support options** — or both

Since 1996 we've focused only on procurement's success. **It's all we do.**

For more information on ProcureAbility services, visit [ProcureAbility.com](http://ProcureAbility.com) or call **(888) 824-8866**.