

Strategic Sourcing

The 2010 Guide to Driving Savings and Procurement Performance

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Executive Summary

The strategic sourcing group has faced myriad challenges over the last two decades, including a fluctuating economy and increased expectations to bolster the enterprise bottom-line. However, the last few years have brought about a new, complex challenge: continue to drive procurement performance while finding fresh cost savings within other areas of corporate spending. This benchmark study, measuring the performance, strategies and intentions of over 400 enterprises, is a modern guide for enterprises looking to augment their existing strategic sourcing programs with new techniques to effectively reinforce financial recovery with implemented cost savings.

Best-in-Class Performance

Aberdeen distinguished Best-in-Class enterprises by a combination of two key performance metrics: spend under management and realized / implemented cost savings. Best-in-Class enterprises in this study are notable for their superior performance and for their focus on streamlining strategic sourcing processes to effectively drive dollars to the bottom-line. Best-in-Class enterprises have leveraged a set of procurement and sourcing capabilities, solutions and strategies to drive a spend under management rate that is over 32% higher than that of all other enterprises (including Industry Average and Laggards combined), while experiencing 71% higher realized / implemented cost savings than all other enterprises.

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics. These top-performing organizations are:

- 51% more likely to engage in collaboration with other internal units than all other organizations
- 30% more likely to have standardized sourcing processes
- 29% more likely to automate their spend analysis systems

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Strategically-source complex categories of spend
- Look to spend analysis automation as a means of supporting the strategic sourcing program
- Plug gaps into the savings implementation process with effective contract lifecycle management

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"We hold an annual meeting with major business units that outline their major projects to be constructed or developed in the upcoming year. Based upon these plans, we identify those vendors that will be a part of the build plans and use the upcoming spend to reduce costs with the vendor for next year's activity. We also look at major corporate buckets of spend and develop savings opportunities and attack that area of spend. The final analysis in contract spend reduction is based upon the contracts that are expiring during the upcoming year. We use cost reduction / avoidance models for the savings we report to management."

~ Procurement Director, Large Telecommunications Services Enterprise

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Chapter One: Benchmarking the Best-in-Class

Over the past decade, enterprise procurement management has been thrust into the strategic limelight for companies looking to achieve operational merit and drive modern business goals in the midst of the economic crisis and its subsequent recovery. The continued reliance on the sourcing team and its cost-cutting processes has dried up the well of "easy" cost savings; enterprises must now look to advanced sourcing strategies to discover the next tier of cost savings and align this major goal with the overall corporate agenda.

Business Context and Enterprise Objectives

After two decades of tactical excellence and process prominence within the greater organization, the procurement group has elevated its significance beyond a mere sourcing program designed to optimize the purchasing continuum. Strategic sourcing (defined in the callout to the right) is now the strategic hub for all procurement activity. However, while strategic sourcing programs have progressed and evolved over the years, one major factor and objective is the catalyst for all intelligence purchasing decisions: identifying, implementing and maintaining cost savings (76%), as shown in Figure 1.

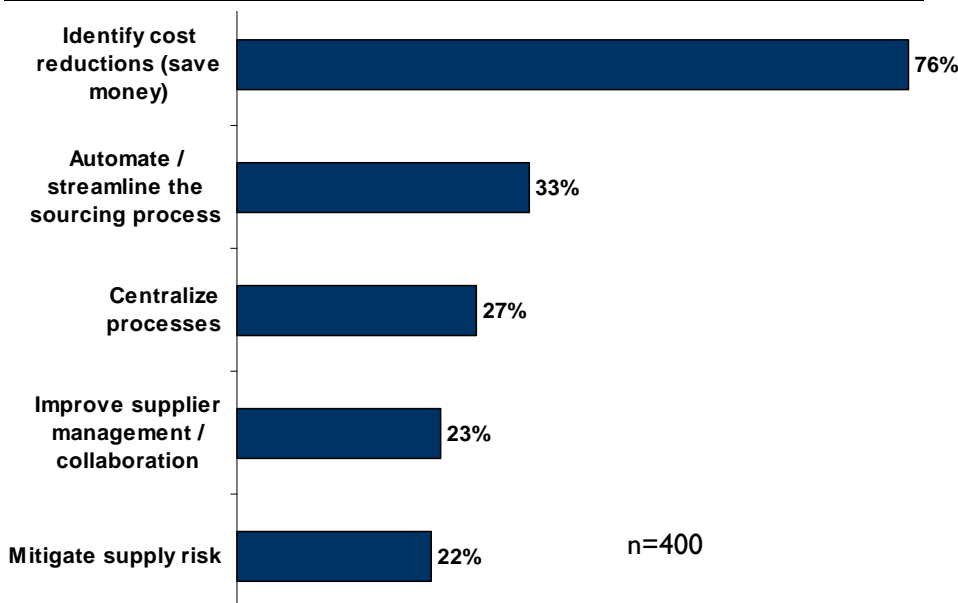
Fast Facts

- √ Best-in-Class organizations place nearly 32% more of their spend under management than all other organizations
- √ 2.2% of the average enterprise's savings are lost due to savings leakage

Aberdeen's Definition of "Strategic Sourcing"

Strategic sourcing is the process of identifying, evaluating, negotiating, and implementing the optimal mix of goods and services that best support the objectives of the enterprise.

Figure 1: Objectives for Strategic Sourcing



Source: Aberdeen Group, March 2010

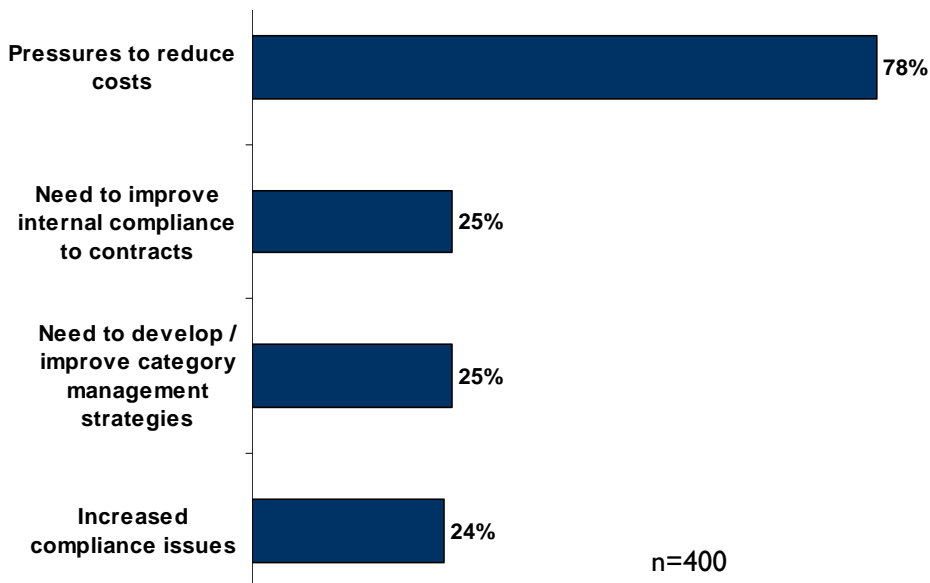
In a time of economic recovery, enterprises are adamantly focused on driving cost reductions through their strategic sourcing efforts, as indicated in Figure 1. This notion of zeroed-in cost savings focus now dictates the

modern strategic sourcing program's objectives and supporting directives, plans, and category management strategies.

Pressures: Cost, Cost, Cost

As stated previously, enterprises continue to feel the pressure to reduce costs, as detailed in Figure 2. Strategic sourcing, as it has evolved over the years, became a significant driver for identifying and finding cost savings on a wide range of purchasing activity. However, modern-day strategic sourcing programs have exhausted the "simple" (or "low-hanging") range of cost savings and now face an uphill battle to not only consistently deliver these gains to the overall organization, but also spur innovative means of digging deep into their purchasing spend to find new opportunities for cost savings.

Figure 2: Top Driving Factors



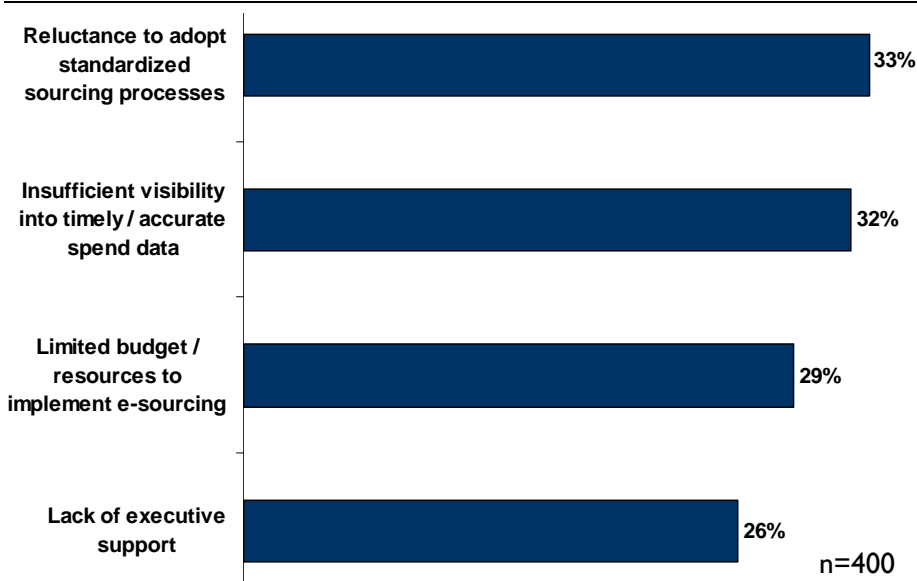
Source: Aberdeen Group, March 2010

While the drive for additional cost savings remain a clear procurement pressure, enterprises are failing to see the value in improving other internal factors for their respective strategic sourcing programs, such as contract compliance (25%) and category management (25%). Compliance, as we will see in other sections of this research report, is the cornerstone to effective sourcing follow-through; contract lifecycle management is what effectively transforms sourcing efforts into true cost savings. Category management is just as an important a factor as direct and indirect materials, as complex categories of spending (such as contingent labor / services, expenses, real estate, facilities, etc.) are often linked to the overall programmatic success of the greater organization.

Strategic Sourcing Challenges

By its nature alone, strategic sourcing is a beneficial program in spurring purchasing performance (although nearly 30% of organizations do not have a strategic sourcing program in place); however, there are still a plethora of challenges faced in expressing the potential gains and aligning specific program aspects with the processes of other key internal units. Figure 3 highlights the priority order of the top sourcing challenges identified by the nearly 400 survey respondents.

Figure 3: Top Sourcing Challenges



"We are divided into expert teams and each team will develop a category strategy and pipeline with the line-of-business in that particular area. Each major area also has a governance structure with executive committees, boards and project steering committees. Our sourcing pipeline is mainly prioritized according to spend or business critical impact."

~ Procurement Manager, Large European Pharmaceutical Manufacturer

Source: Aberdeen Group, March 2010

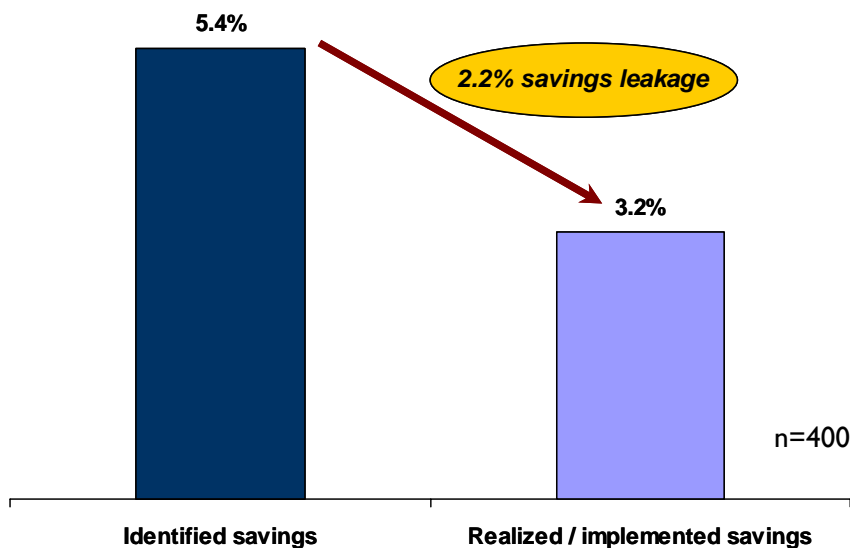
The reluctance to adopt standardized sourcing processes (33%) is a major factor in ensuring consistent efficiencies from all facets of the greater strategic sourcing program. There are myriad factors that play into the strategic sourcing program, such as spend analytics, contract lifecycle management, consistent pipeline renewal / review, and sourcing event management; standardization is required on all fronts to cultivate a repeatable environment in which not only are processes executed by a single set of guidelines, but also one where savings are regularly captured, identified and realized / implemented into future budgets.

Spend visibility (32%) has been a prime concern for the procurement department since the dawn of this internal corporate function. Strategic sourcing, in its very definition, is a process and program that requires actionable intelligence to drive day-to-day business decisions. In order for sourcing team members to accurately gauge spend patterns and trends and utilize that information within future sourcing projects, these projects must be enabled with the proper visibility into enterprise-wide spending.

Drip, Drip...The Savings Leakage Quandary

Although the sourcing group was designed to effectively hunt down cost savings on enterprise spending and utilize those savings to aid cost containment / reduction efforts, there is a quantifiable lack of follow-through within organizations' strategic sourcing programs. As evidenced in Figure 4, nearly 2.2% of the average savings identified by the typical strategic sourcing group is lost due to savings leakage.

Figure 4: Savings Leakage



Source: Aberdeen Group, March 2010

While enterprises are able to achieve, on average, 5.4% cost savings at the end of a sourcing project, only 3.2% of that figure is actually implemented / realized and booked. Savings leakage can occur due to a variety of causes, including cost creep, poor contract management, gaps in process / technology aspects, and changes in demand management. Aberdeen research has shown that collaborative sourcing management, such as a strong alignment between the finance and procurement / sourcing groups, can drive responsibility into the hands of commodity managers and specific business units to reduce leakage and, through the help of the Chief Financial Officer, apply those identified savings where it counts.

The Maturity Class Framework

Aberdeen used the key performance metrics shown in Table I to distinguish the Best-in-Class from Industry Average and Laggard organizations: spend under management and realized / implemented cost savings.

Savings, Defined

Identified: Beyond simple identification of a savings opportunity, this tier of savings is characterized by sourcing activity and negotiated pricing, where savings potential is attainable.

Implemented (or realized): After the contract has been executed, enterprises begin to realize the potential of previously identified savings opportunities. This tier is characterized by purchasing, receiving, invoicing, and settlement activity and ensured by contract compliance and strong end-user adoption.

Booked: Once savings have been realized, they can be recognized or booked in operating budgets and other enterprise-level financial statements. This tier is characterized by close involvement with finance, procurement, and the budget holder.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 71% of spend under management ▪ 10% cost savings fully realized and implemented in 2009
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 54% of spend under management ▪ 4% cost savings fully realized and implemented in 2009
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 39% of spend under management ▪ 1% cost savings fully realized and implemented in 2009

Source: Aberdeen Group, March 2010

Best-in-Class enterprises have effectively sparked top-shelf performance in two of the most significant procurement and sourcing metrics: spend under management and realized / implemented cost savings. Spend under management, which is a classic measure of procurement's impact on the greater organization, is the percentage of non-payroll spend that is actively managed by the procurement group. For every dollar of spend under management, Aberdeen has historically quantified 5% to 20% cost savings. Top-performing enterprises place nearly 32% more of their spend under management than all other organizations.

Best-in-Class organizations have also effectively generated 10% realized and implemented cost savings, avoiding the savings leakage issue that has plagued the modern enterprise.

The Best-in-Class PACE Model

Utilizing strategic sourcing programs and processes to achieve corporate goals and drive cost savings requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized in the PACE Framework in Table 2.

Table 2: The Best-in-Class PACE Framework

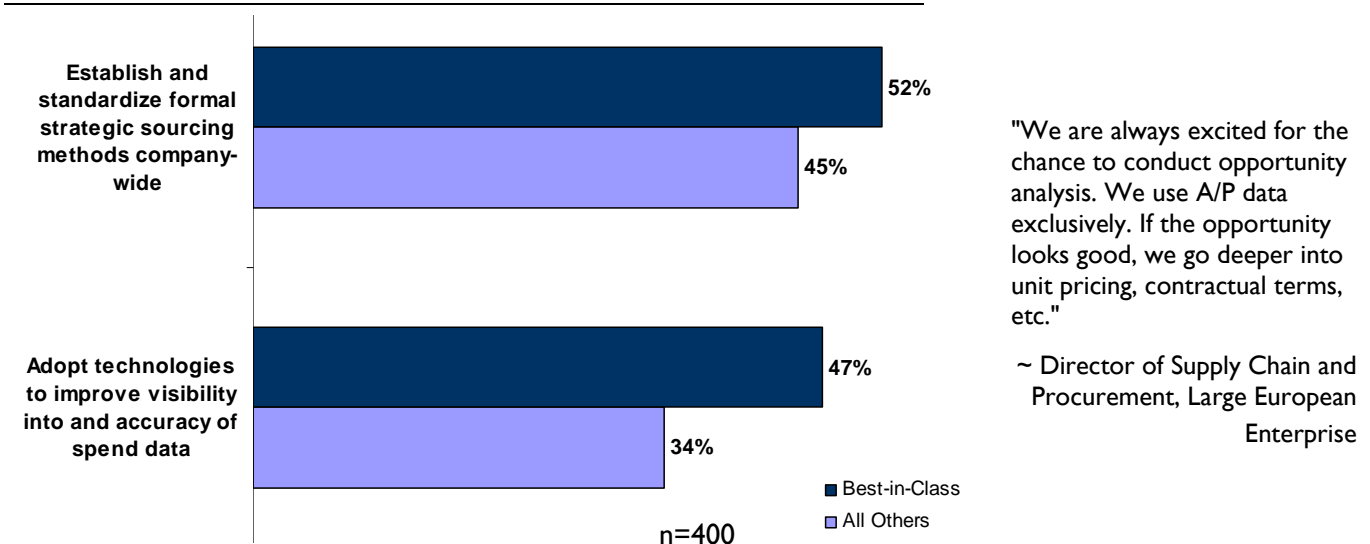
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> Need to drive down costs 	<ul style="list-style-type: none"> Establish and standardize formal strategic sourcing methods company-wide Adopt technologies to improve visibility into and accuracy of spend data 	<ul style="list-style-type: none"> Standardized sourcing process Formal sourcing organization Active spend analysis program Cross-functional coordination between internal groups (procurement, finance, treasury, product, sourcing and line-of-business) 	<ul style="list-style-type: none"> E-sourcing Automated spend analysis (collection, enrichment, analysis / reporting) Contract lifecycle management Strategic sourcing outsourcing services PLM Reverse auctions Electronic RFP system

Source: Aberdeen Group, March 2010

Best-in-Class Strategies

In order to alleviate the common pressures within the strategic sourcing program and attain the objectives of such efforts, top-performing enterprises have employed two main strategies for driving spend under management and cost savings: standardization and technology (Figure 5).

Figure 5: Best-in-Class Strategic Actions



Source: Aberdeen Group, March 2010

Best-in-Class enterprises are more likely than all other organizations to establish and standardize formal strategic sourcing methods across the enterprise (52%). This aspect can help curb savings leakage by utilizing a single set of guidelines for all sourcing activity, including spend analysis,

contract negotiations, contract management, and the financial implementation of cost savings.

Top-performing organizations (47%) are also relying on their technology solutions to drive key spend visibility. As stated in other Aberdeen procurement research studies, spend visibility often begets a superior understanding of what the enterprise is buying, where it is buying, and who it is buying from. The accuracy of spend data, as we will cover later in this report, is a clutch component that can allow even the most simple sourcing teams a proper view into enterprise spending trends and patterns, which is crucial to the success of future sourcing projects.

Aberdeen Insights — Strategy: Collaboration

The modern strategic sourcing program requires more than just procurement's efforts in driving dollars to the bottom-line. However, as detailed in Chapter One, savings leakage is a viable risk that threatens the very objective of strategic sourcing's main design: effectively boost cost reductions. Collaboration, also known as cross-functional coordination, involves shared management (and free-flow of valuable information) between key internal units.

The beginning stages of the strategic sourcing process (supply market assessment and identification of key suppliers) can greatly benefit from shared information between procurement and other line-of-business groups. The latter end of the strategic sourcing cycle (contract negotiations and savings progression) is supported by a strong relationship between finance and procurement; the CPO / CFO relationship is a main catalyst in implementing savings into future budgets.

Aberdeen research has found that enterprises currently engaged in collaborative environments (between procurement / sourcing, finance, treasury, IT, line-of-business, etc.) report the following performance benefits:

- Nearly 46% higher rate of realized / implemented savings
- Nearly 20% higher compliance
- Nearly 15% higher rate of spend under management

Chapter Two: Benchmarking Requirements for Success

Corporate pressure to drive new and consistent cost savings has forced strategic sourcing groups to align the major areas of the procurement process: spend analysis, category management, and contract lifecycle management. These areas are crucial to the development, growth and excellence of the modern day strategic sourcing program, and must be supplanted with strategic sourcing automation to effectively seek out the best opportunities for sourcing success.

Case Study — Leveraging Collaboration and Technology to Drive Spend Under Management

A mid-market energy and utilities enterprise, based in North America, has had a strategic sourcing program in place for over five years. Their typical sourcing team has been cultivated in a collaborative and cross-functional environment. “Our sourcing team typically includes more than just the regular [procurement] folks,” said the Director of Procurement. “Depending on the initiative, it could involve members from the line-of-business, risk and legal groups.” Over the past few years, the organization has successfully placed over 85% of their spending under the management of the procurement and sourcing group. The procurement director credits this superior level of performance to their reliance on core strategic sourcing systems, such as spend analysis, e-sourcing and contract lifecycle management.

“All of our supplier discovery, market analysis and supplier qualification responsibilities rest with the sourcing/ procurement owner,” he said. “[Our spend analysis solution] is utilized, as well as subscriptions to a number of market research sites.” This level of supplier and market intelligence has propelled their organization in regards to strategic sourcing performance. The organization has also leveraged an e-sourcing solution, which the procurement director says is readily utilized by the company’s strategic sourcing team.

The company also has a rigorous strategic sourcing process and plan that they’ve utilized since the dawn of their program. “All of our strategic spend is managed on a three-year cycle, with all repeatable spend addressed at least once every three years. Our emergent work is addressed in conjunction with our business unit process teams,” concluded the Director of Procurement.

Fast Facts

- √ Best-in-Class enterprises are 30% more likely than all other organizations to have standardized their strategic sourcing processes
- √ Best-in-Class organizations are 40% more likely than all other enterprises to leverage an e-sourcing solution

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the

approaches they take to execute strategic sourcing operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing spend data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate sourcing tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its sourcing results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Standardized sourcing processes		
	71%	56%	40%
	Active spend analysis process and program		
	58%	34%	25%
Organization	Formal internal sourcing organization		
	67%	55%	40%
Knowledge	Visibility into enterprise-wide spend across all categories		
	40%	32%	22%
Technology	Sourcing / procurement solutions in place:		
	<ul style="list-style-type: none"> ▪ 63% e-sourcing ▪ 62% contract lifecycle management ▪ 61% automated spend analysis ▪ 43% reverse auctions ▪ 32% supplier performance management ▪ 30% e-sourcing event management services ▪ 22% strategic sourcing outsourcing services 	<ul style="list-style-type: none"> ▪ 43% e-sourcing ▪ 53% contract lifecycle management ▪ 49% automated spend analysis ▪ 24% reverse auctions ▪ 29% supplier performance management ▪ 18% e-sourcing event management services ▪ 9% strategic sourcing outsourcing services 	<ul style="list-style-type: none"> ▪ 28% e-sourcing ▪ 37% contract lifecycle management ▪ 33% automated spend analysis ▪ 15% reverse auctions ▪ 16% supplier performance management ▪ 11% e-sourcing event management services ▪ 4% strategic sourcing outsourcing services
	Strategic sourcing performance-tracking:		
	<ul style="list-style-type: none"> ▪ 50% strategic sourcing pipeline actively tracked and updated 	<ul style="list-style-type: none"> ▪ 23% strategic sourcing pipeline actively tracked and updated 	<ul style="list-style-type: none"> ▪ 13% strategic sourcing pipeline actively tracked and updated

Source: Aberdeen Group, March 2010

Capabilities and Enablers

Best-in-Class enterprises have blended a mix of process, organizational, knowledge management, performance management, and technological capabilities to effectively drive savings, alleviate savings leakage, and produce a high rate of spend under management.

Process: Standardization and Spend Analysis

As discussed in Chapter One, standardized sourcing processes (71%) can drive awareness and understanding of corporate spending and its associated programmatic aspects; standardization is a key component in formalizing the many aspects of the strategic sourcing program (including contract negotiation and management) to ensure the best savings opportunities. Best-in-Class enterprises are 30% more likely than all other enterprises to have standardized sourcing processes in place.

An active spend analysis program (and its rightful automation, discussed at the end of this chapter) can be considered the most powerful weapon in the procurement and sourcing toolbox. Spend analysis, as detailed in last year's [Spend Analysis](#) benchmark study (September 2009), can effectively provide the sourcing group with a detailed eye into an enterprise's corporate spend data. Through the analysis and reporting of this data through a spend analysis system, the sourcing team can easily pinpoint spend patterns / trends and areas for consolidation and utilize that actionable intelligence in ongoing and new negotiations with major suppliers.

"Sourcing automation is used as a tool to support strategic sourcing efforts and collaboration with both our internal clients and suppliers."

~ Chief Procurement Officer,
Large European Enterprise

Organization: Formal Sourcing Group

There are a wide variety of inherent dangers associated with the procurement and sourcing world, such as supply risk, off-contract / non-compliant spending, savings leakage and lack of spend visibility. A formal internal sourcing group, in place in 40% more Best-in-Class organizations than all others, can help mitigate these risks by funneling all sourcing activity through a single, formalized group, who can efficiently make appropriate decisions on the wide range of sourcing projects and events to maximize savings opportunities.

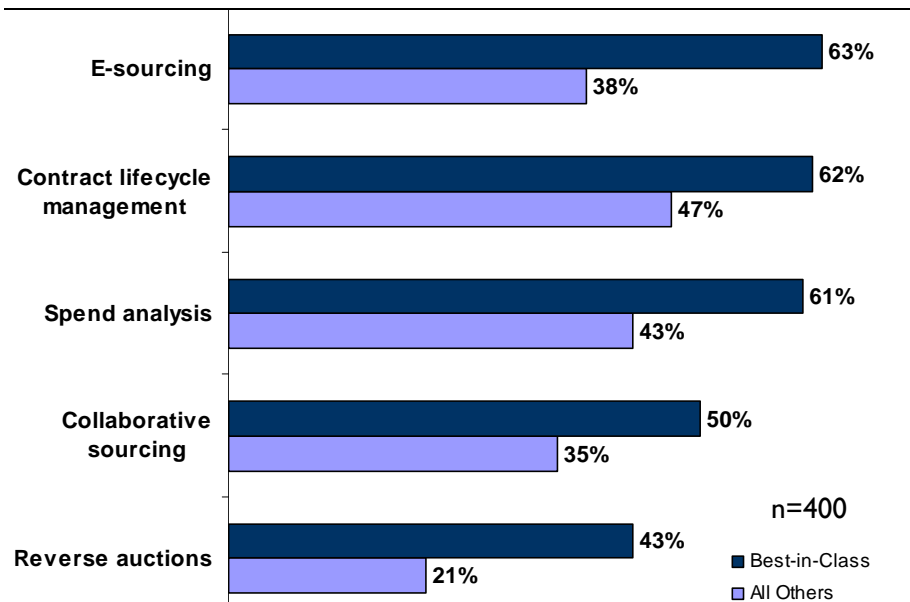
Knowledge Management: Category Spend Visibility

The modern sourcing group is faced with the management of an assortment of enterprise spend categories beyond the typical scope of direct and indirect materials. Complex category management has risen as a prominent bucket of corporate spending that encompasses the likes of contingent / temporary labor (and independent contractors), real estate and facilities management, travel and entertainment expenses, and strategic meetings management. Visibility into these areas of spending (heralded by 40% of Best-in-Class enterprises as being part of overall spend management) can help align strategic sourcing goals across a wider scope of enterprise spending. Best-in-Class companies are 28% more likely to include all categories of spend within their strategic sourcing initiatives.

Technology: Automation of the Strategic Sourcing Sub-Processes

The modern strategic sourcing program must support the sub-processes that, when collaboratively linked and executed, can drive savings, spend visibility and sourcing excellence. These sub-processes, including e-sourcing, contract lifecycle management, and spend analysis, have been automated and streamlined by Best-in-Class enterprises (Figure 6) and are a vast contributor to their strategic sourcing success.

Figure 6: Best-in-Class Technology Solutions Currently Adopted



Source: Aberdeen Group, March 2010

Best-in-Class enterprises are utilizing a set of technology solutions to support and streamline the major sub-processes within their strategic sourcing programs:

- E-sourcing is the backbone of modern strategic sourcing; e-sourcing solutions automated strategic sourcing processes, such as RFPs and online requests, reverse auctions, and supplier negotiations. Best-in-Class companies are 40% more likely to have adopted and deployed this within their organizations than all other respondents. E-sourcing technology can be supplemented with category, supplier base and process knowledge to support online negotiations and sustain advanced sourcing results. Aberdeen research has found that enterprises utilizing e-sourcing technology have driven nearly 200% higher realized / implemented cost savings than organizations without this solution in place.
- Contract lifecycle management solutions, utilized by Best-in-Class organizations nearly 30% more often than Industry Average and Laggard performers, is a viable technology tool for combating

"We are using the spend trends and past history to obtain better pricing and reducing the prices to provide goods and services. We have a spend analysis system that is used now more than ever."

~ Procurement Director, Mid-Market Health Services Enterprise

savings leakage. Poor contract management and failure to monitor key agreement milestones can result in a lower rate of realized / implemented savings from the rates that were identified at the outset of the supplier agreement. CLM solutions automate key components of this process, including contract creation, approval, agreement maintenance and data analysis, allowing sourcing executives to properly monitor and execute contracts.

- Automated spend analysis systems promote a repeatable data analysis process that can be leveraged to aid sourcing efforts. Automated data collection / extraction (from multiple internal systems, such as ERP, G/L, A/P, etc.), data enrichment, and reporting / analysis allow sourcing execs to "slice-and-dice" spend data at will by supplier, category, pricing, etc.; this information can be leveraged in sourcing projects to influence negotiations and boost cost savings. Best-in-Class companies are 30% more likely to have adopted and deployed this within their organizations than all other respondents.

Performance Management: Tracking the Sourcing Pipeline

Best-in-Class organizations are 62% more likely to actively monitor, track and update their strategic sourcing pipelines; this aspect of their programs accurately forecasts when / how / from who direct and indirect materials and other categories should be sourced. This plays a vital role in gauging future cost savings and how these savings should be implemented and booked into future business units' budgets and plans.

Aberdeen Insights — Technology: The Spend Analysis Advantage

Spend analysis has emerged in recent years as a purveyor of procurement and sourcing performance; visibility is often the cornerstone of effective strategic sourcing due to the actionable intelligence and knowledge gleaned from an inside (and educated) look at the enterprise's corporate spending.

While any spend analysis program is beneficial in regards to lacking core spend visibility, it is through automated spend analysis systems that enterprises can see a true benefit in their procurement and sourcing performance. Spend analysis follows a series of steps: data extraction / collection, data enrichment, data classification / cleansing, and reporting / analysis. By automating these processes, enterprises can easily manipulate and re-address their spend data reports as often and easily as needed to fuel their sourcing efforts with real-time and actionable information / intelligence that can help them renegotiate supplier contracts as a means of producing superior cost savings.

Aberdeen research has discovered that enterprises utilizing automated spend analysis systems have effectively increased their spend under management by nearly 25%, and have successfully realized and implemented 37% more of their identified cost savings than those with manual spend analysis systems.

Chapter Three: Required Actions

The modern strategic sourcing program requires a vast mix of enterprise capabilities, technology solutions, and a willingness to progress into the next generation of procurement processes. In order to achieve cost savings, drive a higher percentage of spend under management, and reduce the risk of savings leakage, enterprises must turn to the following recommended actions to effectively spark a new age of strategic sourcing.

Laggard Steps to Success

- **Updated, monitor and track the strategic sourcing pipeline on a regular basis.** Only 13% of Laggard organizations currently update, monitor and track their strategic sourcing pipelines; frequent attention to this funnel of activity and opportunities will spur an educated sourcing team that can actively push contract negotiations into high-gear and drive higher cost savings to these poor-performing enterprises.
- **Standardize all strategic sourcing processes (and sub-processes).** Best-in-Class organizations are 44% more likely to have standardized sourcing processes within their sourcing programs; this aspect is crucial in ensuring that all strategic sourcing activities (contract management, spend analysis, bidding, etc.) are aligned with a singular set of enterprise-wide guidelines. This can help curb savings leakage and drive internal compliance with procurement contracts.
- **Utilize contract lifecycle management to plug the savings drain.** Often times, poor contract management (failure to monitor key milestones, lack of data analysis, improper T&Cs, etc.) holds the blame for an underwhelming rate of implemented savings. Only 37% of Laggard organizations are currently utilizing a contract lifecycle management solution, which can streamline the contract creation, submission and approval processes, as well as effectively monitor key triggers and milestones and pour data into the spend analysis system for future analysis.

Industry Average Steps to Success

- **Look to e-sourcing as a cost savings catalyst.** Less than half (43%) of Industry Average enterprises are currently leveraging an e-sourcing solution; by automating the processes with sourcing (RFPs, negotiations, reverse auctions, etc.), these organizations can experience the benefits of greater sourcing throughput, thus boosting savings opportunities into the booked status needed for the modern enterprise.

Fast Facts

- √ Best-in-Class enterprises are 20% more likely than Industry Average organizations to automate their spend analysis systems
- √ Best-in-Class organizations are 44% more likely than Laggards to have standardized sourcing processes within their strategic sourcing programs

"Sourcing leads the projects with the support from all the functions as appropriate (R&D, manufacturing, business units, etc.); we always include the finance group to validate the saving numbers."

~ Director of Procurement /
Purchasing, Mid-Market North
American Enterprise

- **Develop visibility into all enterprise-wide spending on direct materials / indirect purchases and complex categories.** Visibility is the cornerstone of an effective strategic sourcing program, however, only 32% of Industry Average enterprises have a proper view into their spending. Complex category spending is just as crucial as direct and indirect spending; these enterprises must be able to monitor, track and glean actionable intelligence for spending on contingent labor, strategic meetings, real estate, facilities and expenses.
- **Leverage spend analysis automation to transform the strategic sourcing program.** Intelligence is a major factor in every critical sourcing decision; sourcing execs must be aware of key spending patterns and trends when moving into negotiations with suppliers. Automated spend analysis systems (in place at 20% more Best-in-Class enterprises than Industry Average) can extract and analyze spend data to arm strategic sourcing programs with the necessary information to negotiate superior supplier agreements.

Best-in-Class Steps to Success

- **Strategically-source complex categories of spend.** Complex categories of spending (including contingent labor, strategic meetings, real estate, facilities, etc.) represent a major bucket of spending for modern organizations. Best-in-Class enterprises strategically-source only 26% of their strategic meetings and 40% of their contingent labor. These two areas could represent up to 20% of an enterprise's overall spend. While top-performing enterprises are making waves with their direct and indirect spending, they should look to leverage their strategic sourcing efforts with those of category managers for maximum savings potential.
- **Enrich spend data within the spend analysis system.** Although over 60% of Best-in-Class organizations currently have an automated spend analysis system, only 27% of these top-performers are actively enriching their spend data with financial, supply risk, supplier diversity, compliance and financial status information. These factors can enhance spend data for real-time accuracy of spend analysis reports, allowing Best-in-Class strategic sourcing execs to properly forecast their savings opportunities.

Aberdeen Insights — Summary: The Strategic Sourcing Foundation

The modern strategic sourcing program does not merely involve a steady pipeline and effective supplier negotiations; rather, it is an intricate foundation that depends on the success of its spend analysis, contract management and savings implementation initiatives. It is through superior management of these three critical factors that enterprises are able to place more dollars under the watchful eye of procurement, but also ensure that any savings opportunities are properly realized, implemented and booked into future budgets and projects.

For enterprises that are struggling with the basic principles of strategic sourcing, they must first arm their sourcing execs with the proper ammunition: spend intelligence. Spend analysis systems can identify spending patterns / trends; this information can then be used to enhance ongoing supplier negotiations.

Contract lifecycle management is a key stop-gap to savings leakage. Automated contract management systems can effectively notify and alert responsible parties of milestone dates. A major component of savings leakage is the failure to fulfill, execute and monitor the lifecycle of a contract.

Another important aspect of the strategic sourcing "foundation" is savings implementation. With the average enterprise losing 2.2% of their savings due to leakage (which can account for millions of dollars for the typical mid-market or large organization), it is critical that procurement groups work in conjunction with the CFO and finance team to properly follow-through with identified savings by officially communicating negotiated agreement terms and booking those savings into enterprise budgets and projects.

These three areas are more closely linked than it appears; even if one area lags or fails, the entire strategic sourcing "foundation" can crumble. Enterprises must align their strategic sourcing goals with these three sub-processes to capitalize on their savings opportunities.

Appendix A: Research Methodology

Between February and March 2010, Aberdeen examined the use, the experiences, and the intentions of more than 400 enterprises using strategic sourcing in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on their strategies, experiences, and results.

Responding enterprises included the following:

- **Job title:** The research sample included respondents with the following job titles: Manager (25%); Director (20%); Chief Procurement Officer (11%); Executive / C-Level (9%); and others.
- **Department / function:** The research sample included respondents from the following departments or functions: procurement, supply chain, or logistics (70%); business development (3%); corporate management (3%); IT (3%); operations (3%); finance (2%); and others.
- **Industry:** The research sample included respondents from the following industries: government / public sector (33%); manufacturing (12%); education (9%); energy / utilities (6%); financial services (5%); and 25 others.
- **Geography:** The majority of respondents (77%) were from North America. Remaining respondents were from the EMEA (14%), Asia / Pacific (5%), and South American (4%) regions.
- **Company size:** Forty-one percent (41%) of respondents were from large enterprises (annual revenues above US \$1 billion); 39% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 20% of respondents were from small businesses (annual revenues of \$50 million or less).
- **Headcount:** Sixty-four percent (64%) of respondents were from large enterprises (headcount greater than 1,000 employees); 26% were from midsize enterprises (headcount between 100 and 999 employees); and 10% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which strategic sourcing is deployed in their retail operations and the financial implications of the technology
- √ The structure and effectiveness of existing strategic sourcing implementations
- √ Current and planned use of strategic sourcing to aid operational and promotional activities
- √ The benefits, if any, that have been derived from strategic sourcing initiatives

The study aimed to identify emerging best practices for strategic sourcing and to provide a framework by which readers could assess their own management capabilities.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, March 2010

Table 5: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, March 2010

Table 6: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, March 2010

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*The CFO's View of Procurement: Work in Progress*](#); November 2009
- [*Spend Analysis: Transforming Data Into Value*](#); September 2009
- [*The CPO's Agenda 2009: Smart Strategies for Tough Times*](#); April 2009
- [*Procurement Contracts: Real Value, Real Returns*](#); March 2009
- [*Spend Analysis: Pulling Back the Cover on Savings*](#); October 2008
- [*Strategic Sourcing in EMEA*](#); May 2008
- [*CPO Rising: The CPO's Agenda for 2008*](#); February 2008
- [*The CFO's View of Procurement: Same Page, Different Language*](#); November 2007
- [*The Advanced Sourcing and Negotiation Benchmark Report: The Art and Science of the Deal*](#); January 2007

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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