



# Optimize Sourcing for Dynamic Markets

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# Executive Summary:

## Sourcing's Critical Role in Volatile Times

For supply chain and sourcing professionals, what it means to create value has changed over time. Before, the focus was on securing the lowest cost, often through negotiations and “win-lose” approaches. This often resulted in lower landed costs, but could also result in other challenges that would ultimately impact business performance. Now, supply chain and sourcing leaders are shifting their focus towards a more holistic approach, where cost is one factor among several critical decision criteria.

With recent economic uncertainty, value is in the eye of the beholder as many organizations look to balance cost reduction initiatives with business continuity and resilience. This has become significantly more challenging as inflation, supply risk, demand fluctuations, and capacity constraints pile on.

While working through these challenges is no easy feat, sourcing leaders have been asked to lead in this rapidly changing world to create additional sources of value, taking advantage of market shifts and opportunities to work more effectively with their supply base.

This is where a collaborative and efficient approach to sourcing is needed that encompasses more dynamic technologies and practices to create new sources of value and build resilience amidst ongoing volatility. By driving collaboration and efficiency, organizations can benefit in the following ways:

- **Seize opportunities and get to market faster.** When shipping rates start dropping, or the cost of raw materials decreases, you'll be poised to take advantage of those opportunities before it's too late.
- **Uncover ideal scenarios with suppliers.** As you work more closely and collaboratively with your suppliers, you become true partners and can enable suppliers to come to the table with creative solutions that create win-win situations for everyone.
- **Align sourcing processes to drive decision-making and execution.** You can ensure a steady supply, identify risky suppliers, reduce the time it takes to find the most appropriate suppliers, award contracts, and more, all of which help you make decisions faster while protecting your business and bottom line. Businesses will create the most value when these processes are streamlined together.

To create value that wins in this new normal, it will be up to sourcing to not only swiftly mitigate immediate concerns but also to focus on building sustained, advanced capabilities that can be embedded in the operating model going forward.

Keep reading to learn more about strategic, collaborative, and efficient sourcing, and how they can help your organization navigate through volatility and come out stronger on the other side.

# Market Challenges and Opportunities

When facing uncertainty and cost instability, sourcing leaders must become more agile in their initiatives in order to restrain input costs, ensure supply continuity, and create resiliency in the face of volatility.

The challenges facing sourcing teams are abundant, but some of the most pressing include:



## Cost structures

Companies are dealing with wild cost fluctuations, from transportation to raw materials to warehouse staffing. Sourcing professionals may have had to choose between sourcing goods and services at higher prices, or risk not getting them at all. In this context, supply chain networks are being reevaluated, which places additional pressure on sourcing and procurement.



## Capacity

### Logistics

Every mode of transportation is affected. Ports and other key transportation nodes have experienced backups or expect to experience them in the near future. Meanwhile, carriers prefer to lock in more consistent business which will likely have an effect on contracting strategies and the overall carrier mix.

### Production

Although much of the world is adjusting to life post-COVID-19, pandemic-related disruptions are still causing ripple effects, including supply shortages, factory shutdowns, and more.



## Geopolitical risk

The Russian invasion of Ukraine is just one example of increased geopolitical risks. The changing political landscape around the globe creates geopolitical uncertainties and risks the world has not seen in decades. These risks could have enormous economic consequences and potentially restrict access to vital goods and raw materials.



## Inventory fluctuations

The last few years have seen massive inventory imbalances. Sourcing, procurement, and supply chain are under increased pressure to work together to right-size their inventory, but it's not an easy or quick fix.



## Technological limitations

Whether you love or hate spreadsheets, running and tracking sourcing events using static tools and technology, creates slow, inefficient processes, especially as sourcing becomes more complex.

**In environments where uncertainty reigns, sourcing teams must be more efficient and build stronger partnerships with suppliers and carriers to turn sourcing uncertainties into sourcing opportunities.**

# Dynamic Markets Require Collaborative and Efficient Sourcing

## How can sourcing professionals meet today's challenges while also preparing for tomorrow's potential roadblocks?

Sourcing leaders can choose to respond to challenges like the ones described above in several different ways. Organizations that get to market faster and more efficiently will unlock significant value and come out ahead. We believe one way to achieve this and become more efficient is through collaborative sourcing.

### What is collaborative sourcing?

Collaborative sourcing encompasses dynamic processes and technologies that allow organizations to get to market significantly faster and with optimal outcomes. It enables a clearer view of supply markets so you can understand the right time to go to market and get the best price and capacity from your suppliers. It establishes deeper and more collaborative ties with suppliers to create win-win outcomes. And, importantly, it is repeatable and helps break down silos between supply chain, procurement, and finance to provide a more robust end-to-end view of sourcing.

### What makes it collaborative?

Collaborative sourcing is largely about relationship building and typically involves the following characteristics and features:

- **Open lines of communication.** It is important to see your suppliers as true partners. And like in any good relationship, good communication is critical.
- **Event bidding flexibility.** To relieve pressure on pricing and capacity, suppliers must be able to provide creative solutions by defining alternative inputs to design and specification levers, payment, and delivery terms, discounts or bundles, etc. to reach win-win agreements.
- **Extensive bidding feedback based on decision criteria.** Providing suppliers with feedback helps them understand why they weren't selected this time and helps them identify where they can improve. Over time, they become better suppliers, and you create a deeper network of suppliers you can work with going forward.



A common practice is to collaborate on pricing across the board. For example, companies will run scenarios where they adjust specific carriers' prices by 5%, 10%, and 15% to illustrate just how much more business these carriers would win if they reduced their prices. The carriers also often come back with bundles that group together inbound and outbound lanes based on location or region to reduce deadhead or empty truck miles. Both parties can express their desires through scenarios, feedback, and bundled bids.

## What makes it efficient?

Collaborative sourcing might not sound efficient, but when combined with the right processes and technology, it can yield impressive results. Technology can help reduce the time it takes to run sourcing events from days or weeks to minutes. Repeatable processes also create greater efficiencies.

For example, an automotive company has sourced 15 billion Euros in spend across 100 events in three years. They have done this by building easy-to-use guides and templates for their buyers, making it easier to repeat sourcing events in the future. The buyers enter simple information like budget, timeframe, etc., and add the specific transportation lanes to the tender. They can now run tenders and get to market in one-tenth of the time it used to take them.

When your organization knows which buyer stakeholders are involved, what the key business drivers for a sourcing event are, and how buyers will make decisions, you'll be in a good place to level up your sourcing. From there, organizations can create templates for sourcing events that will be familiar both to buyers and suppliers, and get to market faster to capture needed capacity or pricing.



## Efficiency and Collaboration with Strategic Sourcing

When navigating volatile markets, you might feel like you're missing opportunities and getting bogged down in inefficient processes. Collaboration and efficiencies might sound great, but you might feel unclear about how to get there.

This is where strategic sourcing comes in. Strategic sourcing can enable the efficient and collaborative approach discussed in previous sections. It helps you maximize sourcing value for every category and event type and improve your end-to-end sourcing process. It embraces technology as a solution to streamlining complexity.

With this lens on what sourcing can become, we recommend taking the following approaches to overcome the challenges dynamic markets pose:

### Optimize every sourcing event to avoid missing opportunities

Creating tailored sourcing events that align with distinct business needs is an important step on the path toward achieving sourcing optimization, where the goal is to create the greatest value, efficiency, and cost savings in supplier bidding and identify "optimal" sourcing decisions. These events should be flexible and enable organizations to identify and pre-vet optimal backup suppliers, made possible with the right technology. Establishing these processes will help your organization pivot to alternate sources of supply if and when a disruption occurs, or if the primary supplier is unable to meet their obligations for any reason.

## Improve processes for collaboration and decision-making

Sourcing organizations should streamline how they identify opportunities and design sourcing events. For example, many organizations are still working with manual tools and processes or with technologies that have become outdated. They rely on limited supplier collaboration and the buyer workload feels complex and hard to scale. This ends up costing time and creates other problems, like tracking spend, down the road. But by making sourcing events and processes fast, repeatable, and automated, companies can quickly launch sourcing events for complex categories. Further, breaking down silos between finance, sourcing, and supply chain cuts decision-making time and increases the value that sourcing brings to the table.

*“by making sourcing events and processes fast, repeatable, and automated, companies can quickly launch sourcing events for complex categories.”*

Collaborative sourcing allows for expressive bidding and competitive feedback. Instead of lengthy decision-making processes, you can drive creative solutions with your suppliers.

Technology is what helps make all of this possible. Manual sourcing methods make it difficult to optimize bids. Manually created models and analyses also tend to be error-prone. But the right technology can help you uncover ideal solutions through advanced optimization and scenario analysis. Running scenarios can also help you assess risk and business constraints, so you can evaluate trade-offs based on company priorities.

To get the most value out of sourcing, it is important to select strategic sourcing technology that's offered as part of a comprehensive Business Spend Management (BSM) technology platform. BSM platforms support the entire Source-to-Contract process as well as Procure-to-Pay, Expenses, Payments, and Treasury Management to obtain the most value out of every dollar your business spends.

## Scale and align sourcing processes with supply chain design, risk, and sustainability.

Without aligning sourcing across other business functions, such as supply chain and finance, organizations can end up losing time, opportunities, value, and money.

But when sourcing and procurement organizations [align with these other business functions](#) to create more holistic supply chain models and execute sourcing events against those plans, they can increase their agility and respond faster to changes. A supply chain model that evaluates risk in the sourcing process will also vet bidders according to your company's third-party risk management policies, ultimately reducing risk and maximizing the impact of resilience and sustainability initiatives.



# Many Organizations Rely on Strategic Sourcing to Drive Collaboration and Efficiency

A very large chemical manufacturer optimized their sourcing for all ocean, bulk, truckload, and LTL (Less Than Truckload) transport while managing risk from volatility in the transportation supply due to fuel costs, driver shortages, and weather-based emergencies. In doing so, they were able to automate the process of analyzing thousands of data points and hundreds of suppliers based on capacity, lead time, performance, and cost, while minimizing risk in transportation due to uncontrollable factors. **This led the company to realize 13% savings from this one initiative.**

A large building materials manufacturer addressed bottlenecks in running complex tenders that initially resulted in missed savings opportunities and put the company at risk for missed customer deliveries. The company elevated its sourcing processes to improve risk and savings controls while facilitating supplier management and rebates. **This resulted in 22% savings on both direct and indirect tenders worth millions of Euros.** Part of these savings also resulted in sustainability wins: the company replaced old lighting in production plants with LEDs, and started buying power from power purchasing agreements with renewable sources.

A large home improvement retail chain replaced its spreadsheet-driven sourcing process used to acquire goods and services for both transportation and warehouse/facility maintenance. **By digitizing and automating its sourcing initiatives, the company drove tens of millions in savings** on both direct and indirect tenders.

Across the board, companies that embrace strategic sourcing and principles of collaborative and efficient sourcing save time, and money, and create more value than their competitors. Strategic sourcing can also help companies **reach ESG goals** by identifying and pre-vetting suppliers based on criteria such as supplier diversity, lower carbon emissions, and more.

# Capture More Value from Strategic Sourcing

## How much can you save with strategic sourcing?

Based on our analysis, we estimate an average enterprise can potentially achieve between \$15.3M and \$24.9M in savings annually.\*

These savings have been estimated based on a combination of value drivers commonly associated with spend management. With sourcing, in particular, companies also save time on sourcing prep and category management, and have increased visibility into their spend, making it easier to do more with less, and focus their efforts on more complex sourcing events. By using a combination of aggregated data taken from Coupa's customer base of more than 1,000 firms, and from industry analyst benchmark data, we arrived at the following:

Value Drivers	Conservative	Best-In-Class
Conduct More Sourcing Activities	\$ 8.9M	\$ 14.9M
Implement Better Sourcing Capabilities	\$ 1.8M	\$ 3.0M
Mitigate Inflationary Risk with Enhanced Sourcing Capabilities	\$ 0.6M	\$ 1.0M
Reduce Budget Overspend	\$ 4.0M	\$ 6.0M
<b>Total Annual Business Impact</b>	<b>\$ 15.3M</b>	<b>\$ 24.9M</b>

*By launching large sourcing events with advanced strategic sourcing technology, companies can achieve positive returns on their investment in Coupa sourcing within the first seven weeks.*

\*Based on a company with US \$1 Billion in annual spend. Larger companies may see greater savings.

## Conclusion

In times of economic growth or in times of uncertainty, strategic sourcing offers companies massive opportunities to support bottom-line impact, innovation, sustainability, and business continuity, moving from just-in-time to just-in-case supply chains. From driving better outcomes through advanced scenario analysis and collaboration, to enhancing sourcing productivity and risk mitigation—strategic sourcing can drive rapid ROI and continue to add value in the years to come.

With additional focus on board-level ESG initiatives and supply chain risk, strategic sourcing also offers procurement new opportunities to capture and keep their seat at the executive table. Sourcing becomes more strategic as teams utilize tools that enable them to better align with business stakeholders without sacrificing savings or value.

Procurement's value will always be rooted in savings, and this should be the primary focus of proposals for any strategic sourcing technology. With the right approach, a typical enterprise can save millions per year. Many achieve even greater savings. Some capture hundreds of millions of savings in a single sourcing event.

Procurement can also go beyond savings to help organizations reduce risk, adapt quickly to market fluctuations, and become more resilient in the face of market uncertainty. Sourcing and procurement leaders can embrace business spend management (BSM) strategies, tools, and processes to identify where to make precise cuts, rather than blunt ones. In this way, you make sure not to injure your business while you eliminate rogue sourcing and purchasing throughout the company.



# About Coupa

Coupa makes sourcing and procurement more resilient and adaptable by unifying business processes across procurement, supply chain, and finance. The BSM platform offers everything needed to optimize spend in one place in a scalable, easy-to-use, cloud-native platform that can integrate with any enterprise resource planning (ERP) and financial system to raise the bar on value creation and optimize your sourcing.

For more information, visit [coupa.com](https://coupa.com).



Business Spend Management