



NASPO Fact Sheet: Strategic Sourcing

Issue Overview

Over the past decade Strategic Sourcing has grown and evolved within state procurement. There is no one definition for strategic sourcing; according to the Office of Management and Budget, “Strategic sourcing is the collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently.”¹ Nonetheless, there are many benefits and certain challenges of strategic sourcing, as well as general principles to develop a strategic sourcing process. A survey and interviews with state central procurement officials have also revealed several major trends in strategic sourcing.

Key Characteristics of Strategic Sourcing ²

- Advanced research and analysis play a critical role.
- Data-driven decisions.
- Increased emphasis on aggregating demand.
- Process leads to optimal number of suppliers.
- Includes total cost of ownership.
- Includes measurement of quality of goods and services.
- May enhance relationships with supplier community.

Benefits of Strategic Sourcing³	Challenges of Strategic Sourcing⁴
Opportunities for cost reductions and efficiency gains	Outdated systems not designed for procurement often makes data collection and analysis very difficult
Provides data to assess operational performance of state procurement	Lack of support/buy-in at executive level
May enhance relationships with supplier community.	Difficulty in calculating savings
Allows for development of focused specifications while recognizing supplier performance	Lack of trained resources/staff
Process leads to optimal number of suppliers.	Restrictive laws/rules/policies
Opportunities to create firm contracts across state organizations that leverage buying power	Legislative resistance/pushback
Provides information that can be used to improve supplier relationships	Potential adverse impacts on small minority- and female-owned businesses



Developing a Strategic Sourcing Process: Five General Steps⁵

1. Opportunity assessment: collect and analyze data, analyze statutes, assess political climate, and prioritize waves, i.e., ranked levels of spending categories.
2. Conducting research and analysis: conduct market research, expand benchmarking, assess current state, contact other states, and determine preliminary strategy.
3. Engaging with stakeholders: identify stakeholders and potential roadblocks, validate research and analysis, identify potential process improvements, and finalize strategy.
4. Setting up procurement event: draft and issue RFP, establish evaluation committee, evaluate response, conduct vendor negotiations, and award contracts.
5. Performance management: track actual savings, monitor customer satisfaction, market contract, survey customer, conduct price audits, lessons learned and best practices.

Statistical Information⁶

2015 NASPO State Practices Survey

- 26 states have implemented some type of strategic sourcing initiative within their central procurement office.
- 11 states contract for strategic sourcing or spend analysis services.
- 20 states currently track and record cost savings and cost avoidance metrics.

Interviews with State Central Procurement Officials (15 States)

- The average ranking for state emphasis on formal strategic sourcing was 6.1 on a scale of 1-10 (with 10 being the highest).
- 53% of states interviewed have incorporated a formal strategic sourcing section or unit.
- 80% of states interviewed reported use of a consultant.
- The most successful categories sourced were office supplies, followed by print, IT hardware, and fleet. The most challenging category noted by participants with just a couple of exceptions was Maintenance, Repair, and Operating (MRO).

Conclusion:

As a means to reduce costs, increase efficiency, and improve performance, strategic sourcing will continue to be a critical part of state procurement organizations. Although challenges still exist, the number of states that are developing formal strategic sourcing programs is expected to continue to grow.

References:

¹ Office of Management and Budget, Implementing Strategic Sourcing, https://www.whitehouse.gov/sites/default/files/omb/procurement/comp_src/implementing_strategic_sourcing.pdf May 20, 2005, visited on June 24, 2015.

² NASPO research paper: Tales from the Trenchers: Evolution of Strategic Sourcing, March 2015

³ NASPO, March 2015



⁴ NASPO, March 2015

⁵ NASPO, March 2015

⁶ NASPO, March 2015

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