

PROCUREMENT TOOLBOX

STRATEGIC SOURCING

Strategic sourcing is a critical practice for improving the performance of state procurement organizations as a means to reduce costs, increase efficiency, and mitigate supply risks. While many procurements are reactive to short-term needs, strategic sourcing seeks to align procurement practices with an objective of creating and maintaining long-term value. In contrast to the traditional procurement process, strategic sourcing considers additional factors—like total cost of ownership (TCO) for a particular commodity or service—to determine the most beneficial contract type and length, the most suitable product or service, and the optimal suppliers to provide the best-value to the organization.

Total cost of ownership (TCO) is the process of analyzing the costs of a procurement that includes non-price factors such as:

- product quality
- risk performance
- durability
- local production
- sustainability
- environmental impacts throughout the product's useful life and retirement or disposal¹



There is no one definition for strategic sourcing; the U.S. General Services Administration (GSA) describes strategic sourcing as “the structured and collaborative process of critically analyzing an organization’s spending patterns to better leverage its purchasing power, reduce costs, and improve overall performance.”² As a concept, it represents data-enhanced decision-making for acquiring commodities and services more effectively and efficiently.

¹ NASPO, "Chapter 4: Procurement Planning" in *State & Local Government Procurement: A Practical Guide*, 4th ed. (Plantation: JRoss Publishing, 2024), 49.

² "Federal Strategic Sourcing Initiative (FSSI)," U.S. General Services Administration, last updated April 22, 2024, <https://www.gsa.gov/buy-through-us-purchasing-programs/federal-strategic-sourcing-initiative>.

KEY CHARACTERISTICS OF STRATEGIC SOURCING

- Comprehensive spend data collection for data-driven decisions
- Advanced market research and spend analysis
- Increased emphasis on aggregating demand
- Process leads to optimal number of suppliers
- Incorporates total cost of ownership
- Includes measurement of quality of goods and services
- Enhances relationships with the supplier community

Beyond cost savings and added value, strategic sourcing has other benefits. The process may enhance relationships with the supplier community through greater information sharing. Suppliers will have a better understanding of your organization's precise needs, and sourcing teams will have a more complete picture of the marketplace. Strategic sourcing is also often used in pursuit of procurement policy goals and initiatives such as meeting sustainability and environmentally-preferable purchasing targets or directing spend to small, minority-owned, disadvantaged, and veteran-owned businesses.

Use of strategic sourcing relies heavily on the availability of comprehensive spending information. The ability to gather and analyze spending data is the foundation for any strategic sourcing program or project. Many offices can retrieve extensive data from an eProcurement system, ERP (enterprise resource planning), or other digital procurement platforms. When paired with robust market research, this information can be used to reduce supply chain risks and forecast pricing to produce more efficient purchases. There are even strategic sourcing analysis tools available that can help purchasers model alternative sourcing solutions.





Examples of data commonly analyzed for strategic sourcing:

- shipping costs
- delivery efficiency
- purchase order processing
- volume incentives
- inventory levels
- commodity category spending
- agency spending



When developing and launching a strategic sourcing initiative, public procurement officers should collaborate with user agencies, end users, and the supplier community to determine where an alternative and long-term solution for purchasing particular types of commodities or services will be beneficial.³ It is not uncommon for central purchasing offices to acquire outside consulting services when looking to develop or implement a strategic sourcing solution.

Common categories of commodities and services that are strategically sourced include:

- Office supplies
- Print services
- IT hardware
- Fleet vehicles and maintenance
- Healthcare supplies



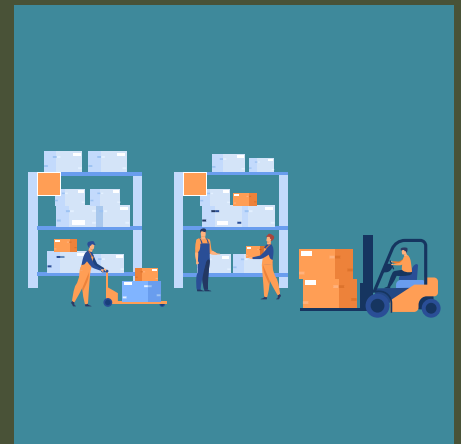
³ NASPO, "Chapter 4: Procurement Planning" in *State & Local Government Procurement: A Practical Guide*, 4th Ed. (Plantation: JRoss Publishing, 2024), 49. (edited).

Strategic Sourcing in Action: Strategies from the Field

PRICE BENCHMARKING AND SAVINGS INITIATIVES: Compare the price you are currently getting to similar market segments, with volume of purchases factored in. Bulk discounts and aggregated buying power are key factors to leveraging better pricing.

DISTRIBUTION MANAGEMENT: Evaluate the distributor model where the contracted supplier is an intermediary between the manufacturer and customer. The distributor manages packaging, warehousing, inventory, allotment, logistics, etc.

CONSOLIDATION AND CENTRALIZATION: Create a central catalog of authorized commodities for statewide contracts that agencies and local entities can use—a controlled platform or integration with an eProcurement system, where established pricing is transparent and firm, and ordering is efficient.



THE FEDERAL STRATEGIC SOURCING INITIATIVE

The GSA operates the **Federal Strategic Sourcing Initiative (FSSI)**. The FSSI website provides an excellent example of how the strategic sourcing approach is used within a public procurement system. It identifies the current commodities and services that the federal government has strategically sourced and describes the features of the contracts.

The primary goals of FSSI are to:⁴

- Strategically source across federal agencies
- Establish mechanisms to increase total cost savings, value, and socioeconomic participation
- Collaborate with industry to develop optimal solutions
- Share best practices
- Create a strategic sourcing community of practice

⁴Federal Strategic Sourcing Initiative (FSSI), U.S. General Services Administration, last updated April 22, 2024, <https://www.gsa.gov/buy-through-us-purchasing-programs/federal-strategic-sourcing-initiative>.

DEVELOPING A STRATEGIC SOURCING PROCESS: NASPO'S FIVE GENERAL STEPS

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 conditions, 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 events:** draft and issue RFPs, establish evaluation committee, evaluate responses, conduct vendor negotiations, and award contracts.
5. **Performance management:** track actual savings, monitor customer satisfaction, market contract, survey customers, conduct price audits, identify lessons learned and best practices.

Interested in learning more about the essentials of strategic sourcing? Watch these NASPO webinars:

- For an example of how to use spend analysis and market research to inform procurement decisions: **Florida's Market Analysis and Procurement Strategies (MAPS)**
- For a guide to using market research tools in the process of strategic sourcing: **Utilizing Analysis Tools to Acquire Best Value**