Strategic Sourcing

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Procurement is playing an increasingly important role in helping major corporations achieve their savings and profitability objectives. What companies buy has been increasing in importance, size, and complexity, and thus, how companies buy has changed. Leading procurement organizations are exploiting several opportunities to leverage the corporate buy, optimize the supply base, minimize linked costs in the supply chain, and maximize the value of goods and services for the users. These opportunities can be described in a systematic framework of strategic sourcing that is applicable to services as well as materials. With the emphasis on shareholder value growth, industry leaders are turning to new business designs to capture and sustain profitable growth. Strategic sourcing can be taken to new levels and applied to the business designs that will shape corporate revenue realization as well as competitive cost position. By building sourcing process excellence and aligning capabilities with the requirements of the corporate buy, procurement can have a key role in the corporate quest for value growth.

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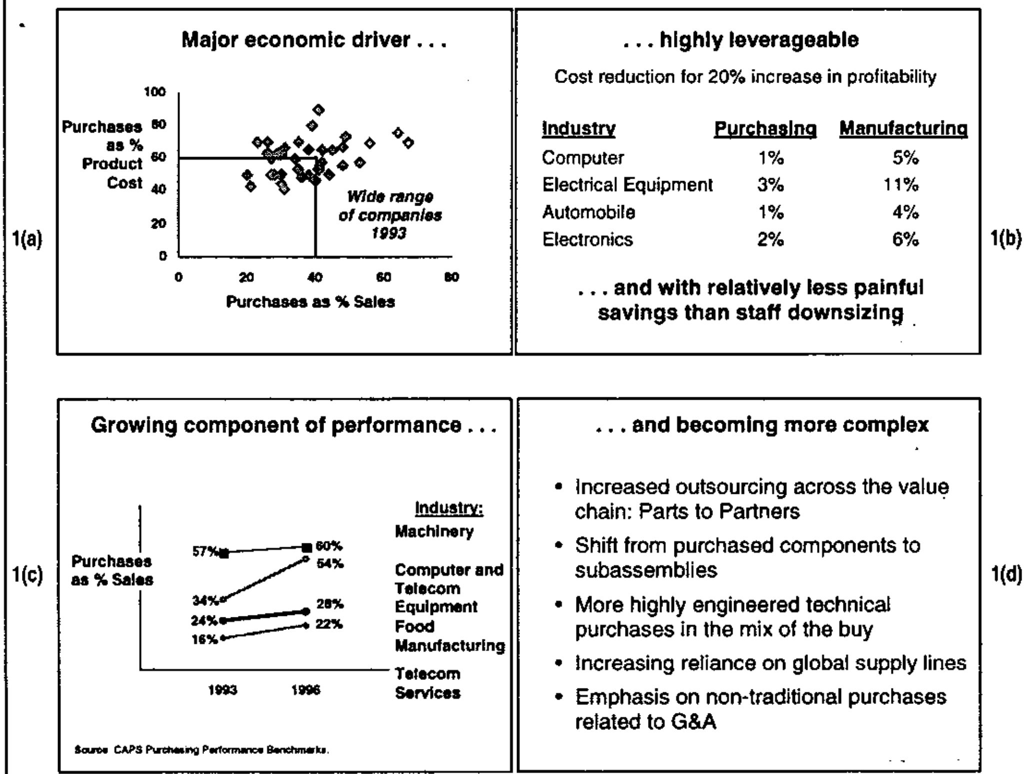
For many businesses, procurement is becoming an increasingly significant driver of corporate financial performance. Purchases of outside goods and services has always played an important role in the corporate cost structure (Figure 1a), reaching as high as 80 percent or more of the total cost of goods sold in some industries. Further, purchasing typically has three to five times the leverage for profit improvement compared to the downsizing of staff (Figure 1b). Such leverage potential has not gone unnoticed in historical corporate efforts to improve financial performance through cost cutting. Squeezing supplier margins for significant unit cost reductions has been a popular route to improve short-term profits, although some companies have found the savings to be unsustainable, leading to higher costs and damaged buyer-supplier relationships.

Curiously, purchases of outside goods and services measured as a percentage of sales are rising in many industries (Figure 1c). Over the last decade there has been a pronounced and increasing reliance on the upstream supply chain. Manufacturers are purchasing subassemblies rather than piece parts, outsourcing has become prominent in activities ranging from logistics to administrative services, and suppliers are increasingly involved in defining the technical and commercial aspects of the goods and services companies provide. These trends, in effect, have raised the amount a business spends externally. Most importantly, the complexity of purchasing has increased dramatically in terms of the nature of what is purchased, the breadth of categories considered within the realm of procurement influence, and the expanding geographic scope of supplier options to consider and manage (Figure 1d).

In short, what companies buy has changed significantly. This has implications for how companies buy and translates into highly leverageable opportunities for significant cost reduction and profit enhancement. Procurement is quickly becoming recognized as a priority function that offers high-impact opportunities for improving the bottom line.

This comes at a time when many businesses have begun to realize that cost cutting alone has generally been a disappointing means of improving operating profit and increasing shareholder value. Senior managers are increasingly realizing that profitable growth, rather than cost cutting, is the best way to create sustainable shareholder value. Success stories like Dell, Wal-Mart, General Electric, and Honda demonstrate the high value-add of procurement and other elements of a company's supply chain in helping to

Figure 1
The Growing Role and Importance of Procurement



recognize and exploit profit opportunities in their industries. These companies have leveraged their understanding of the customer to anticipate future profit zones [1] and to design unique business designs, each requiring innovative procurement capabilities: Dell links suppliers into its built-to-order manufacturing process creating a responsive, virtually working capital free supply chain unmatched in the industry and has achieved shareholder value growth unmatched in the industry. Wal-Mart has adopted a total system cost approach to procurement, emphasizing a supply process that minimizes the sum of the supplier's and its own costs, enabling low prices at the cash registers, happy customers and sustainable supplier relationships. General Electric has long relied heavily on its value-added suppliers to deliver industry leading products and services, and solutions in a variety of global markets and now seeks to create new value through procurement over the Internet. Honda has long been recognized for its purchasing excellence as well as its ability to sustain customer loyalty and yet was able to capitalize on its supplier relationships and unremitting attention to value management to extract over 20 percent cost reduction in external purchases in developing the 1998 Accord [2].

Executives in many industries are recognizing the value-added role that procurement can bring to their business designs. Corporate spending on outside purchases and the changing nature of those purchases are emerging as critical elements for successfully enabling profitable growth. The key to exploiting procurement in the quest for profitable growth is to understand the level of procurement development a company has reached in its sourcing activities and how those capabilities stack up against the requirements of the corporate buy.

To gain the full value-added potential of procurement, leading companies are redefining procurement as a key process within the scope of strategic sourcing. The set of interrelated business processes focused on what a company should buy and how to buy it to maximize the value of externally procured goods or services. A key underpinning of strategic sourcing is the total cost of ownership concept.

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Taking the Total Cost View

As companies change what they buy, they also must change how they buy in order to unlock savings and growth opportunities. Traditionally, companies have focused on purchase price alone instead of taking a total cost view. Overemphasis on purchase price fails to consider several factors that can be the source of innovative, higher dollar, and more sustainable opportunities for suppliers and buyers alike. These factors include:

- Supplier economics and other supply chain costs, such as transportation.
- Buyer's cost of acquiring and managing products and services.
- Quality, inventory, reliability, and other factors of a product or service over its lifecycle.
- The value of a product or service to internal and external customers.

A critical concept within the total system cost perspective is the notion of total cost of ownership. Total cost of ownership considers both supplier and buyer activities, and costs over a product or service's complete lifecycle in the context of the competitive forces at work in the relevant purchase category (Figure 2). This perspective means understanding a wide range of cost and value relationships associated with individual purchases shown in Figure 2. For instance, from a competitive economics perspective, it may be more effective for a buyer to rationalize its supply base to enable higher supplier capacity utilization and, in turn, lower acquisition prices while preserving acceptable margins for the surviving suppliers. From a lifecycle ownership standpoint, buying a higher quality item with a steeper price tag could be justified because the initial purchase cost would ultimately be offset by fewer manufacturing defects, lower inventory requirements, and lower administrative costs.

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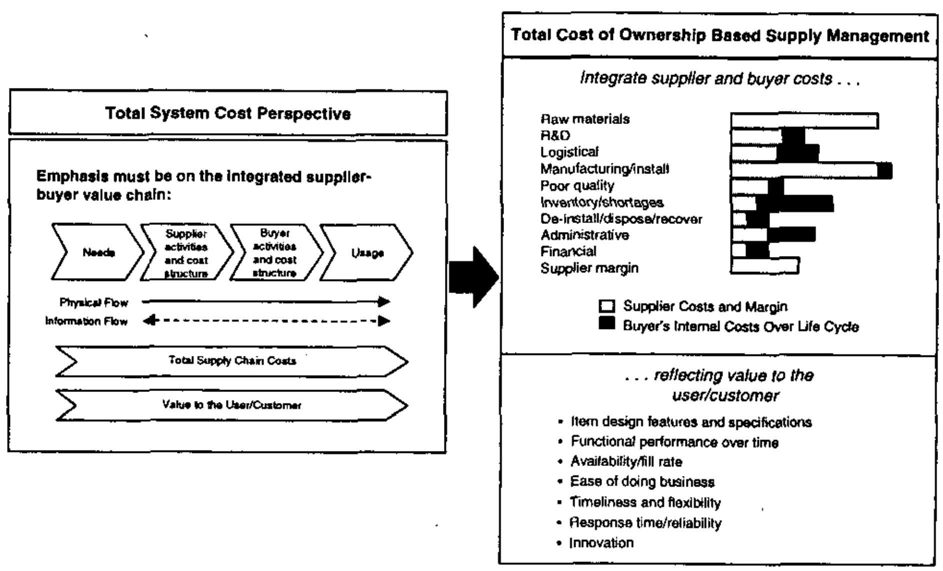
Procurement Pathways

Significant savings in total ownership costs can be achieved through a set of specific strategic pathways. Three of the four pathways – Buy for Less, Buy Better, and Consume Better – represent simple but powerful ways to achieve incremental and significant cost savings by improving procurement (Figure 3). In each case, the magnitude of achievable savings is a function of the company's position along the pathway, the complexity of its purchases, and its commitment to obtaining savings.

The fourth pathway to growth, Sell Better, embodies an emerging approach in which procurement plays an important role in forging supplier relationships that ultimately enhance corporate revenue streams.

In our experience, as companies reach

Figure 2
Total Cost of Ownership Supply Management



higher levels of procurement development (Figure 4), the opportunities for cost savings and revenue enhancement along the procurement pathways improve dramatically.

A brief description of each of the levels of procurement development and the associated procurement pathway follows.

Level 0 – User Buy

In some companies, procurement value-added is minimal. User departments establish their requirements and either buy products and services themselves or simply utilize the procurement organization to handle the transaction. While users may be satisfied, prices paid are probably too high, contract terms and conditions may not be optimal, and little, if any, strategic value results from procurement.

Level 1 – Leveraged Buy

Many companies have achieved Level 1 procurement practices and as a result buy for less. Here, the procurement function leverages corporate clout by centralizing decision-making control, while still working closely with users to understand their needs. Procurement plays a more value-added role by

Figure 3
Levels of Procurement Development and Pathways to Savings/Revenue Enhancement

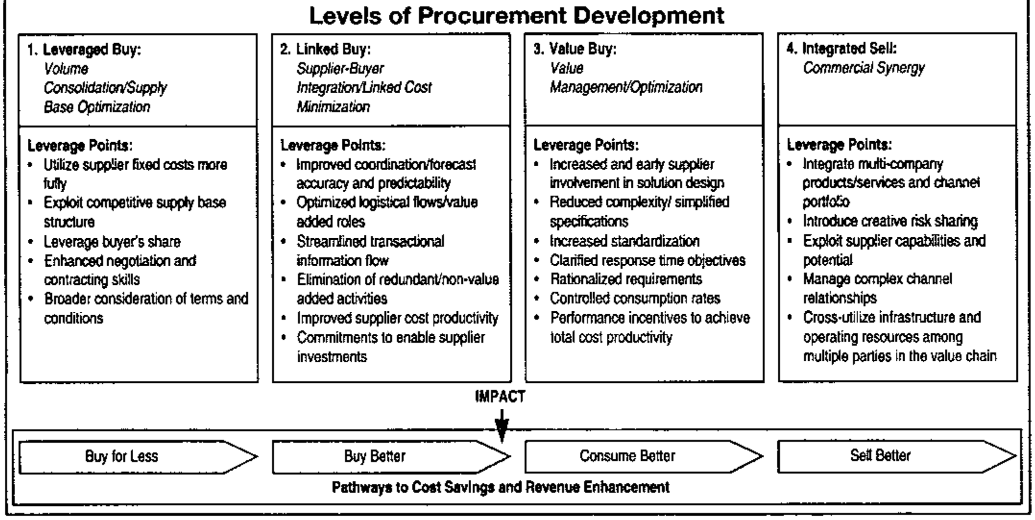
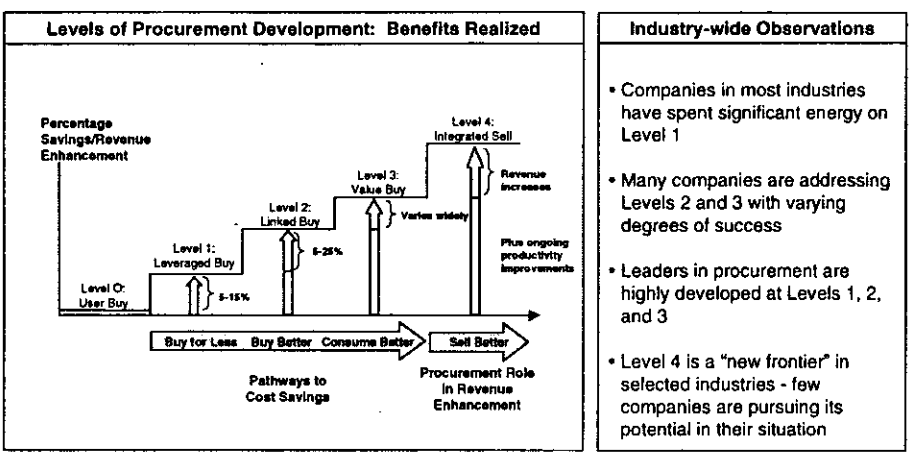


Figure 4
Levels of Procurement Benefit



consolidating volume and selecting suppliers that provide the best prices and terms. Savings that result from moving to Level 1 are not trivial – 5 to 15 percent is typical. In indirect materials areas, such as MRO (maintenance, repair and operating materials) and in services which have historically not been scrutinized, some companies are experiencing a 30 percent or greater cost reduction.

Level 2 – Linked Buy

The next level of procurement development occurs when the procurement organization takes an external view of the supply chain that includes developing "win/win" relationships with suppliers. These buy better arrangements can reduce overall supplier-buyer costs through initiatives such as streamlining bidding processes, optimizing logistics flows, and making early, stable commitments to enable efficient supplier production and investments. At this level, the objective is to minimize total ownership costs by directly affecting supplier economics – that is, by understanding current market conditions and supplier economics well enough to provide insight into what prices ought to be. Moving from Level 1 to Level 2 typically results in incremental savings of 5 to 25 percent.

How supplier deals get structured, how risk gets shared, how technology trends are exploited, who owns the intellectual property – all of these represent strategic issues that go beyond the capabilities of the typical buyer and the technical user community.

Level 3 – Value Buy

The focus of Level 3 is on optimizing lifecycle costs and value to consume better. Value engineering, reduced complexity, earlier supplier involvement in product design, and corporate consumption management are examples of ways that buyers and suppliers can work together to take procurement value-added to the next level. Level 3 capabilities require a seamless relationship between the procurement organization and the internal users of products and services. In some leading-edge companies, the procurement organization serves in a consultative, facilitative capacity, working with internal clients to ensure that all aspects of total cost of ownership are appropriately considered. Level 3 savings opportunities vary widely because of the nature of the product, the savings already achieved, the capabilities of the suppliers, and the strength of the buyer-supplier relationship.

We have found that these first three levels of procurement development are applicable to virtually all goods and services comprising the corporate buy. Figure 5, 6, and 7 show how Levels 1, 2 and 3 have been applied for production goods (plastics components example), capital goods (process equipment example), and support services (tree clearing example). While the levers for improvement are specific to each category, these examples highlight the opportunities for reducing total cost of ownership through the procurement pathways to savings.

Level 4 – Integrated Sell

Level 4 allows for significant procurement innovation in enabling the corporation to sell better. A procurement organization can indeed help a company increase its revenues in those situations where specific product and service categories are characterized as having a high revenue impact and high business risk. In the telecommunications industry, for example, the bets companies place on high-technology products and services, such as broadband, will have a huge impact on future revenues. How supplier deals get structured, how risk gets shared, how technology trends are exploited, who owns the intellectual property – all of these represent strategic issues that go beyond the capabilities of the typical buyer and the technical user community. In such situations, highly skilled, industry-knowledgeable procurement professionals play a truly value-added role in a company's ability to maximize revenues and grow the business.

Segmenting the Buy

Each company has a unique buy, or portfolio of purchased goods and services. There are actually three bases for segmenting the purchase portfolio. The first two, shown in Figure 8, deal with the complexity of procurement of the relevant category and nature of the impact on corporate performance. Procurement complexity considers such factors as technical complexity, scope of supply chain integration issues, and the extent to which lifecycle management and costs are relevant. The revenue impact/business risk dimension addresses the degree to which a purchase category can influence customers' perception of value. A third dimension has to do with competitive economic potential – that is, to what extent are improvement opportunities available to the buyer given the cost drivers

Figure 5
Strategic Sourcing of Production Material

Plastics Components Example

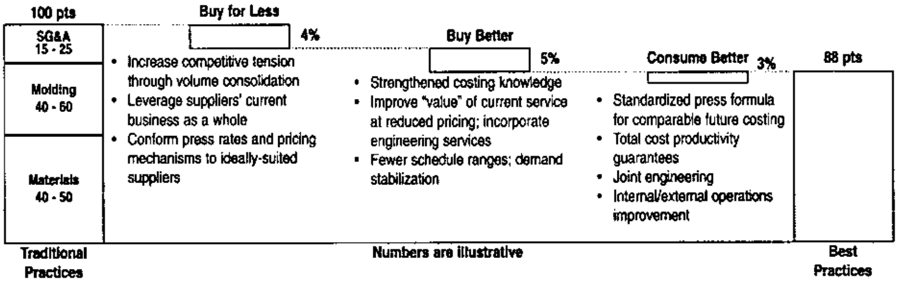


Figure 6
Strategic Sourcing of Capital Equipment: Process Equipment

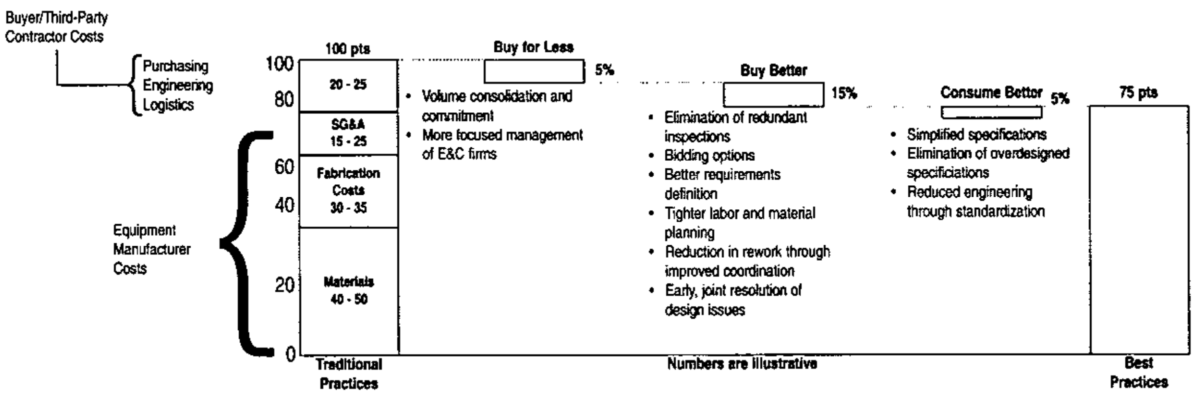
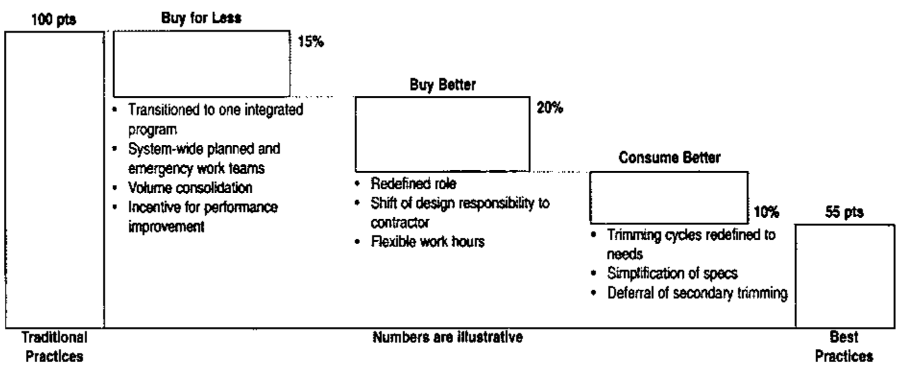


Figure 7
Strategic Sourcing of Support Services: Vegetation Management



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and competitive dynamics in the industry relevant to the purchase? Leaders in procurement have strengthened their focus on value growth by stressing the segments of their buy that have the most impact on potential revenue generation or present the greatest risk to corporate performance. For example, the procurement of advertising services could have tremendous risk implications relative to customer perceptions of value, while office supplies remains largely a cost issue. Or, in the high-tech arena, the procurement of a new generation of semi-conductor technology may essentially be a bet on the company's future. This prioritization and segmentation of the buy is increasingly important as corporate purchases have evolved toward greater technical and commercial complexity and with the greater reliance on the upstream supply chain.

Sourcing Process Excellence

The sourcing value chain is the set of processes through which strategic sourcing decisions are made and value is created for the organization (Figure 9). The processes apply to all purchases, although the specific approaches, strategies, and best practices vary and reflect the priorities and opportunities revealed in the segmentation matrix. Leaders in procurement exhibit the following common practices along the value chain: create annual plan; develop requirements; develop sourcing strategy; evaluate and select suppliers; procure materials/services; and, manage supplier relationships.

Create Annual Plan

In our experience, the annual planning process is essential to enabling the full value-add potential of procurement. This process defines the goals and focus for the coming year by purchase category and across the entire buy mix. Within the plan, key targets are established which, for example, might reflect total cost of ownership savings goals, commitments to acquire new technologies or sources of supply and the like. These goals link to the user groups supported and are critical to gaining internal and external resources (e.g., user groups, suppliers)

Figure 8
Segmenting the Buy

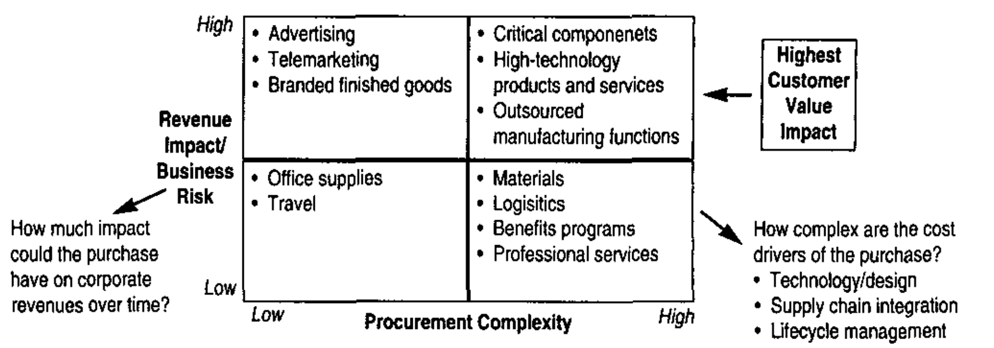
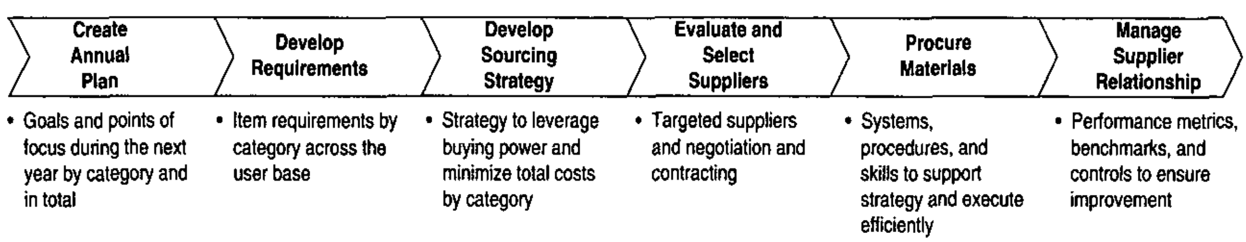


Figure 9
Sourcing Value Chain



necessary to achieve them. Observed best practices include tying these goals to personnel and supplier performance incentives and involving key suppliers in the goal setting process.

Moreover, as a part of the annual planning process, several categories of purchases may be targeted for in-depth review during the year with a separately established project budget and resources. Such projects are often warranted for significant new products, as a result of merger/acquisition activities or the review of a new category not before subjected to the procurement value chain.

Develop Requirements

Product or service specifications are critical elements of the sourcing value chain. Yet, it is not uncommon for specifications to be less than rigorously established in the first place and then neglected over time. While the technique has been in use for three decades, value analysis is emerging as an increasingly important approach to ensuring that specifications exactly meet the business needs. New specifications as well as established specs need to be subjected to the technique. Early involvement of suppliers in value analysis activities is proving to be a highly complementary approach to developing requirements and is gaining favor in a wide range of industries. Automotive and computer companies, for example, are greatly benefiting from integrating their suppliers into the value analysis and engineering process.

Beyond establishing and maintaining value-engineered specifications, developing requirements also involves communicating long- and near-term volume requirements to suppliers. The required accuracy and time horizon for these forecasts may vary by purchase category, typically reflecting the value of this advance visibility on supplier economics. In situations where usage levels are erratic, potentially adversely impacting supplier economics, some companies are placing emphasis on stabilizing demand patterns. Businesses such as electric utilities and railroads (who face unplanned maintenance requirements), appliance manufacturers (who typically deal with high demand variability characteristic of consumer durables), and consumer electronics and personal computer products companies (who are frequently introducing and phasing out products) are focusing on developing meaningful volume commitments.

Develop Sourcing Strategy

The sourcing strategy answers the fundamental question of how to buy. For some companies that have the capabilities to make or provide the service internally, the sourcing strategy question is intertwined with the make/buy decision. That is, the make/buy decision is essentially a strategic choice between buying internally or externally and, hence, requires the same rigorous approach to select the best procurement strategy.

The sourcing strategy answers the fundamental question of how to buy.

The range of strategic options is wide, reflecting the four levels of procurement pathways described earlier. New, innovative strategic variants are being implemented as fast as the supply and individual company situations change. Some variations include:

- Pursuing open competitive bid vs. selective bid invitations.
- Joining a buying consortium.
- Dealing directly with OEMs vs. buying through a distributor.
- Establishing primary and secondary supplier arrangements.
- Buying an equity stake in a supplier.
- Forming long-term, sole-source partnerships.
- Contracting for supplier capacity, rather than specific products.
- Bankrolling the establishment of a new supply option.

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Hence, the nature of the alignment with the supply base can take many forms. The alignment choice is driven by such factors as the nature of the buy, existing supply base options, supplier economics, and buyer goals (category goals, savings targets, time frames, etc).

Fundamentally, the question of determining how to buy starts with the question of what to buy. At the physical level, the buy may be a part of assembly or a unit value of service such as, contract programming services. But the buy, especially at Levels 3 and above, may more likely involve the acquisition of value-added solutions and gaining access to suppliers' technical skills and knowledge. The requirements, as determined in the previous step in the procurement value chain, is a key input into the strategy selection process.

At the same time, developing the appropriate sourcing strategy, especially for the most critical purchases, requires a comprehensive knowledge of the supply base and supplier economics. Supply markets with restricted capacity may merit very different approaches compared to those characterized by excess capacity, for example. For purchase categories characterized as high business impact and high degree of complexity, good decisions require the procurement professionals to have a thorough understanding of the supplier industry and technology trends. In some industries, such evaluations require engineering skills and/or close relationships between procurement and engineering resources.

With the globalization of the supply base, one high-tech company has established global commodity managers who provide technology and supply situation updates to business heads and operations groups on a quarterly basis for such critical buys as memory and processor chips. Keeping track of competitor sourcing strategies is also a part of understanding the industry and technology trends.

Understanding of the supplier industry and technology trends provides the basis for thoroughly examining supplier economics and for the development of "should costs", especially for the most critical categories. Folding in the supplier costs into a total cost of ownership perspective provides the basis for the assessment and consideration of trade-offs among alternative sourcing strategies.

A key aspect of selecting the most appropriate sourcing strategy is gaining cross-function support. In practice, we find that a team approach to defining the sourcing strategy works effectively for many companies. In this way, consensus and support is established as an on-going process, and is particularly valuable in companies with highly compressed new product development cycles.

Evaluate and Select Suppliers

Decisions regarding the buy requirements and sourcing strategy will typically define the set of suppliers for initial consideration. The evaluation then becomes a matter of highly rigorous assessment of supplier candidates. For product or service categories characterized in Levels 3 or 4, such considerations as a supplier's ability to deliver on the total owning cost perspective or to work jointly with the buyer to reduce costs or deliver rapid innovation weigh more heavily in the selection process.

Procure Materials/Services

This is the nuts and bolts step of executing the buy. On the one side, the emphasis here is to reduce transaction costs for low-dollar value/repetitive purchases. E-commerce and Internet applications are emerging best-practice techniques for these kinds of buys. Auto-replenishment and vendor managed inventory programs also address transactional efficiency as well as supply chain integration opportunities.

For more complex and value-add buys, the process typically goes well beyond transaction processing to include the sharing of personnel and the use of joint development teams. From the very beginning, strategic suppliers to Boeing's 777 project on four continents (Europe, Asia, North America, and Australia), for example, were included in the design process, certainly contributing to the rapid development of the wide-body aircraft. Moreover, Boeing's "Design Build Teams" included both representatives of suppliers (e.g., ASTA - the Australian rudder manufacturer) and its own customers (e.g., United Airlines). With a global supplier base (20 percent sourced in Japan), electronic networking proved essential to facilitate communications and the exchange of project plans, designs, test data, and the like.

Manage Supplier Relationships

The total cost of ownership concept in strategic sourcing leads companies to view their supplier relationships as assets, not simply sources of low-cost materials ready to be pitted against each other in a relentless drive for unit-price reductions. Instead, these companies are viewing their portfolios of suppliers as a key asset bringing capabilities that complement and enhance their own core competencies. Indeed, companies are increasingly viewing suppliers as extensions of themselves, rather than simply as vendors to be kept at arm's length. To these companies, the supplier-customer relationship is not just about buying specific products or services, but rather about acquiring the technical, managerial, or executional (e.g., logistics, cost economies) capabilities of the supplier over a sustained period.

To gain lasting competitive advantage through a sourcing arrangement, the relationship between buyer and seller must go beyond the traditional boundaries. A relationship that is not a customized arrangement (e.g., partnership, alliance, joint venture) is less likely to drive a unique competitive advantage, since a competitor can also establish and benefit from the same kind of arrangement. Competitive advantage can be forged only when a supplier is integrated into a company's core processes and supply chain and managed as a valuable company asset. Of course, not all suppliers have the potential for providing this level of value, so it is advisable for a company to maintain a range of relationships within its portfolio of suppliers [3]. In this way, competitive advantage has less to do with a firm's own internal strengths than with the combined capabilities of the firm and its integrated base of suppliers.

To serve as assets, supplier relationships must be acquired, maintained, enhanced, or, in some cases, divested. Unlike with traditional procurement situations, managing suppliers as assets and integrating them into the supply chain takes considerable effort and investment of time and money. Indeed, companies are becoming more and more concerned with how suppliers run their own companies, and customers and suppliers are jointly seeking ways to improve their individual and combined supply chains.

Spurred on by progressive management philosophies or, in some cases, by concerns of legal liabilities, companies have become increasingly interested in overall business practices of their suppliers. Starbucks Coffee, Levi-Strauss, and Reebok International, for example, have all established codes of conduct targeted at preventing substandard working conditions and unethical practices with their overseas suppliers. Leading automotive, appliance, and defense systems companies are working closely to develop smaller suppliers who would otherwise not have the manufacturing expertise to develop best practices and support the buyer's cost improvement goals.

Organizational Excellence

In many organizations, sourcing personnel are not viewed as being "strategic". Often because procurement is just another functional silo, people may not be positioned to think about total owning costs, profitable growth, and the procurement pathways. In addition, procurement may be positioned too low in the organization to have strategic clout and influence. Leaders in strategic sourcing carefully examine where to organizationally position their sourcing resources within the company. While a range of organizational models exist, the assessment begins with some key questions (Figure 10). In practice, we see leading edge companies either integrate procurement into broader process-oriented organizations (e.g., Product Supply, Sourcing) or place procurement on par with their powerful functional

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Figure 10
Organizational Alignment Questions for Procurement

Visibility	• What level of visibility is required for the procurement organization to meet its strategic goals?
Leverage	• Where should the procurement organization be positioned to take full advantage of leverage opportunities within and across business groups and with the supply base?
Internal Client Service	• Where should the organization be positioned so that it can meet internal customer needs for all business groups?
Corporate Efficiency	• How should the procurement organization be positioned to take advantage of scale efficiencies and avoid unnecessary duplication?
Effective Change Management	• Where should the organization be positioned to facilitate a smooth transition?

counterparts such as Manufacturing, Marketing, and Operations. These organizational alignments also reconcile the core question of centralization and control versus decentralization and autonomy in a strategic context to deliver maximum value to the corporation.

Additionally, many companies initially find they may not have the skill base or training to properly align with the requirements of the corporate purchasing portfolio. The skills required within the organization increase as the complexity and risk of the purchase category rise within the context of the segmented buy (Figure 11). These skills do not necessarily have to come from the purchasing function alone. The cross-functional teams approach described earlier, coupled with selective upgrading of skills, has enabled a number of major corporations to largely exploit their strategic sourcing opportunities within a two to three year time frame.

The first step toward enhancing procurement economics is to develop a comprehensive and detailed understanding of how and where money is actually spent.

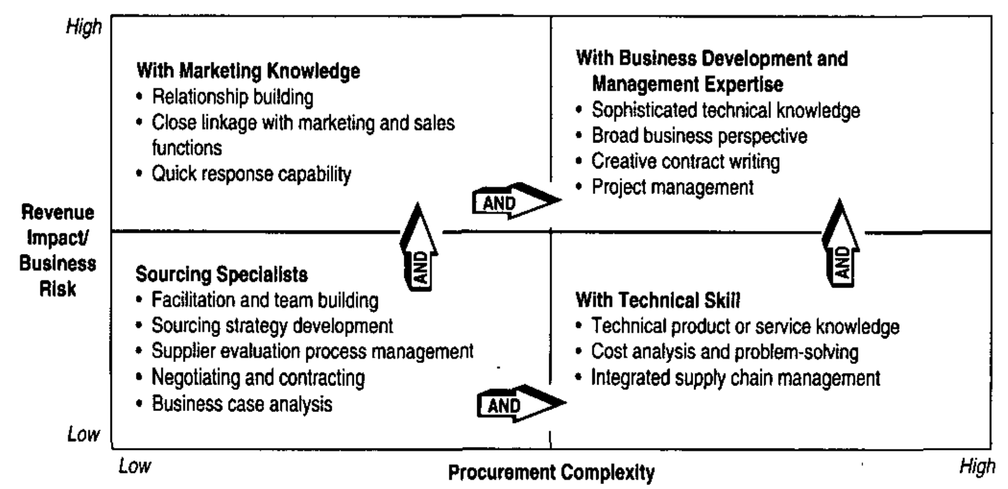
Information systems also can be a major roadblock to taking a total system cost approach. Legacy systems often are not integrated internally, let alone externally with suppliers. Poor analytical decision support systems are common. Suppliers often know more about a company's total procurement needs than does the procurement organization. Developing linkages to communicate effectively with suppliers (e.g., forecast and inventory sharing, production schedules) and support systems that enable sourcing decisions are prerequisites to fully exploiting value-added procurement.

Finally, some procurement organizations are not particularly innovative and may be locked into status quo relationships with suppliers and internal customers. They may not know what others have done or how to accomplish new goals. Breaking out of the status quo often requires a bold stroke, such as bringing in a new leader for the procurement organization who has a new, best practices-driven vision of the organization's direction.

Getting Started: Sourcing Assessment

Having understood the procurement pathways and the sourcing value chain, how should a company use them? The first step toward enhancing procurement economics is to develop a comprehensive and detailed understanding of how and where money is actually spent. The organization should gather data across the company on all purchases made from outside sources. These purchases will likely include raw materials, maintenance materials and services, and general and administrative goods and services. Many of these purchases may originate from a central purchasing group. Normally, however, many purchases are made by individual user departments and field locations. Since these purchases are not always within the scope of the purchasing organization, they are often not considered "procurement". Examples of such purchases include corporate benefits and strategic and operating alliances with other companies.

Figure 11
Strategic Sourcing Skills



The authors have found it beneficial to include all such purchases in the initial procurement profile, because they can represent some of the largest purchase categories and often lack the strategic sourcing rigor needed.

Once all spending has been accounted for, the next step is to analyze both the overall process and individual category strategies to identify the best opportunities for improvement. For the processes in the sourcing value chain, there are a series of key questions an organization should ask when evaluating practices for each step (Figure 12). When following this approach, it is important for an organization to remember that multiple sourcing processes often exist. For example, the process used by the central purchasing organization may be very different from those utilized by key user departments or field locations.

In parallel with its process evaluation, the organization should assess the sourcing strategies for the largest individual purchase categories. Sourcing strategies should be evaluated against the procurement pathways and levels of development discussed earlier (Figure 8). For each category, the organization must first determine which practices across the procurement pathway offer the greatest economic opportunities, and then examine the degree to which these practices are employed within the current sourcing strategy. It should be noted that not all categories of procurement warrant Level 3 or 4 sophistication. In some categories, Level 1 or 2 practices may be sufficient to manage the magnitude of the procurement and the complexities of the individual supply market.

This two-pronged diagnosis – examining procurement processes as well as individual category sourcing strategies – should be sufficient to pinpoint the most substantial opportunities for improvement. This approach also yields an overall assessment of the strengths and weaknesses of the corporation relative to the requirements of its purchasing portfolio. The organization can then put in place required initiatives to address any process and capability gaps, and category opportunities. Because most organizations cannot run improvement teams across many categories simultaneously, these initiatives will likely be divided into separate project phases, starting with the highest potential commodities first. In a strategic sourcing environment, the initiatives would become part of a continuous program aimed at increasing the value-added of procurement over time.

Conclusions

Creating value growth requires anticipating future profit zones and choosing the best business design to capture the profits [4]. Strategic procurement increasingly plays a key role in enabling the new innovative business designs of the likes of Dell, Wal-Mart and General Electric. The procurement pathways and sourcing process excellence are helping companies exploit the potential for procurement to play a role in driving profitable growth. By carefully examining procurement processes and category strategies, and keeping in mind the key levers of enhanced economics identified in the procurement pathways framework, an organization can determine high-priority opportunities to improve and better manage procurement. A strategic sourcing program aimed at attaining these opportunities and

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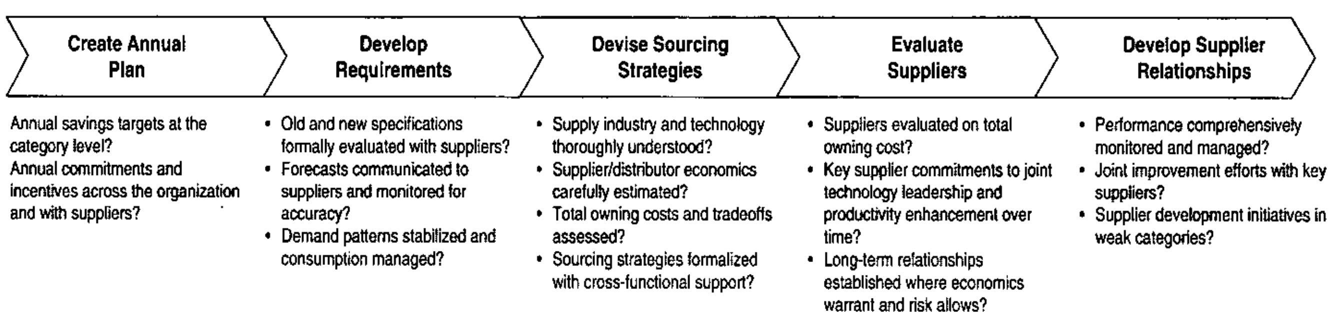
Figure 12
Process Assessment (Representative Questions)



continually identifying new ones can have a substantial impact on the top and bottom line and enable sustained shareholder value.

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