

Procurement Evolution: Purchasing, Strategic Sourcing, and SRM

Over time, most companies have faced changes in the procurement function. Each starts with just Purchasing, evolves to Strategic Sourcing, and eventually adds Supplier Relationship Management (SRM). Because professionals in the field may have slightly different understandings of these terms, let me clarify what is meant by each.

Purchasing

Still today we can find companies where procurement activities are simply known as Purchasing. In those companies, procurement is just another function to buy “stuff” needed for company operations. Normally, they know one, two, or three suppliers for each product or service, and if they experience a price increase, they change to the supplier with the lower price. Little is required to perform the activities: few processes or metrics, lower spend under management by procurement, and few skills—other than being a good negotiator.

Strategic Sourcing

Slowly, the Purchasing function evolves to Strategic Sourcing. This is mainly driven by manufacturing companies where the cost of their inputs ranged from 40% to 60% of their revenue. They start using Strategic Sourcing when they discover a huge opportunity—or need—for higher savings. Strategic Sourcing is the process that continuously improves and re-evaluates a company’s purchasing activities through the discipline of using five-, seven-, or nine-step sourcing projects. Besides a document work process, metrics are created to drive behavior, with electronic tools (like RFx, Auctions, Spend Analytics, and Contract Management) being offered in the market to automate the processes.

Most companies today have reached this level with varying degrees of sophistication, but no doubt a big portion of them wants to continue along this path because of the savings it brings to the company. The key question is how long this approach continues to bring savings year after year.

SRM

Most consultants today have embraced the concept of Supplier Relationship Management as the next evolution in Purchasing. The principle is very simple: both Supplier and Customer are represented by people, people have interpersonal relationships, and relationships are dynamic systems that change continuously over their existence. If those relationships are not managed properly, they can deteriorate or terminate altogether. However, if key supplier relationships are managed, companies will maximize the value realized through those interactions.

Please note at the beginning of this text, I wrote that companies “add SRM” to their Purchasing strategy. This means that they continue to perform Strategic Sourcing to bring quick savings but can “add” SRM in order to elevate the value not obtained by sourcing projects.

The attached white paper describes the SRM approach developed by Vantage Partners. It includes SRM Program Objectives, Supplier Segmentation, Supplier Engagement, Supplier Governance, Joint Business

Planning, Two-Way Performance Management, and an Illustrative Engagement Frequency. Click here for the [White Paper](#).

For those companies that believe they are doing SRM, I strongly recommend participating in the SRM Benchmark to be able to compare themselves with other companies. This powerful benchmark has been in practice for almost a decade. It is used globally, covers all industry sectors, has already 670+ respondents, and will be open to new participants by November.

To begin the survey, please [click here](#).

In December we will publish the results of this benchmark. I hope you will join us.

Taking Purchasing to the next level,

Paulo Moretti



Paulo Moretti is a senior consultant with Vantage Partners and brings over a decade of international purchasing experience from a Fortune 50 company. His practice, **Sourcing and Supplier Management**, revolves around transforming a global purchasing function from tactical to strategic and moving savings to higher levels than reported by first quartile Purchasing organizations.

Prior to joining Vantage Partners, Mr. Moretti worked 35 years at The Dow Chemical Company, where he developed experience in such diverse areas as Manufacturing, R&D, Sales, Marketing, Finance, Strategic Planning, e-Business, and Purchasing.

Moretti is Principal with PM2 Purchasing Management Consulting, a boutique consulting company focused on excellence in the purchasing function for manufacturing industries.

A native of Brazil now based in the U.S., he holds a Bachelor's degree in Chemistry and Chemical Engineering, with Master's degrees in Industrial Management and in Business, and executive course certifications from Kellogg, Wharton, and MIT Sloan.