Understanding the Sourcing Organization Maturity Model
Introduction

The goal of every Sourcing Organization is to optimize the way the company purchases goods and services. This paper describes a Sourcing Organization Maturity Model useful for determining where your organization stands today and when to plan for moving to the higher stages towards best-in-class.

For a small company with limited spend, it may make sense to stay in the lower stages. However, a company with a large amount of spend can gain significant value over the time and money invested by moving the Sourcing Organization toward best-in-class.

Success in development of the Sourcing Organization is achieved by refining three key elements: the people, the processes they use, and the technology that supports them. Moving to the higher stages of the maturity model lets the Sourcing Organization manage more spend and optimize the way that the company purchases goods and services, delivering results straight to the bottom line.

The People Element

The role that the Sourcing team plays and the make-up of the team vary across the phases of the Sourcing Organization Maturity Model:

<table>
<thead>
<tr>
<th>Sourcing Organization Maturity Model: People Element</th>
<th>1 – Basic</th>
<th>2 – Reactive</th>
<th>3 – Proactive</th>
<th>4 – Strategic</th>
<th>5 – Best-in-Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Role</td>
<td>Team must &quot;sell&quot; Sourcing expertise to other departments</td>
<td>Team seen as Sourcing experts by the rest of the company</td>
<td>Team pulled into projects by other departments at project start-up</td>
<td>Continuous feedback loop among category managers, suppliers, and stakeholders</td>
<td></td>
</tr>
<tr>
<td>Team Development</td>
<td>No formal Sourcing team</td>
<td>Sourcing team made up of generalists</td>
<td>Sourcing team composed of broad categories (e.g., services and goods)</td>
<td>Continuous feedback loop among category managers, suppliers, and stakeholders</td>
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The Role of the Sourcing Team

The first aspect of the people dimension describes the role that the Sourcing Organization plays in the company. Usually, a team at the basic end of the model must sell its services to the other departments within the company. As the team develops, they serve as Sourcing experts for the
rest of the company, until the point where they start to be proactively pulled into projects by other departments at the beginning of the project. Best-in-class Sourcing Organizations are involved in project planning across the company. These Sourcing Organizations are regarded as an integral part of all other organizations within the company so that they’re involved in both the strategic planning and the execution of all major projects.

**Team Development**

The second aspect of the people dimension in the maturity model is the makeup of the Sourcing team. This can range from no team members at all in small companies where individuals carry out sourcing, to a team of skilled category managers who rely on established processes and technology providing continuous feedback from suppliers and stakeholders.

**The Exemplary Category Manager**

What makes a great category manager? It’s not necessarily category expertise. Few category managers are experts: They do not have the luxury of managing a single category that they can know in great detail. Most manage multiple categories, perhaps related to each other but usually not. The best category managers are those who have the ability to get up to speed quickly on just about anything they’re asked to source. True expertise as a category manager is the ability to become expert enough in a category. To do that, managers have to be curious, creative, and collaborative. They have to be willing to learn, to talk to a lot of people, to build relationships, to ask a lot of questions, and to dig deep. And they have to apply those skills to both supply and demand. This is what distinguishes the best from the rest.

Most category managers have got the supply side covered. They know the ins and outs of the market and who’s who among the vendors. But sometimes they focus so much on market and pricing that they forget to look inside the company to understand how what they’re buying will be used. Looking inside helps to ensure that what they’re buying meets the needs of end users. It also means that the sourcing team is playing a strategic role within the broader company. This can also lead to innovation and savings. Andy Chiang, Product Manager for Coupa Sourcing, offers an example of first-class sourcing:

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**SOURCING SECURITY**

I once had the opportunity to watch a colleague as he sourced security guard services for a large retail chain. He didn’t know anything about the category, so naturally he read up on the market to understand the different guard services companies. How did they segment themselves? There are some very large ones and some smaller regional companies. So how is all that structured? How does that structure affect pricing?

To really understand how the industry worked, he talked to a lot of guard companies and a lot of people within our company, including the receptionist who sits at the front desk and interacts with the guards. But he didn’t stop there. He went out and talked to store managers, the loss prevention team, and to every team that would touch guard services. When a lot of Sourcing people I’ve known probably would have stopped, he dug deeper.

What he learned was that what stores needed depended on crime in the area, so that also became part of his research. He didn’t go too deep; the company had too many stores for that. What he did was segment the stores by location—big city, suburban, mall, and so forth. Analysis showed that he didn’t need to source guard services for every store. Not all stores...
The best sourcing professionals also treat suppliers as partners, rather than adversaries. Here’s another example from Andy Chiang, at Coupa:

**SOURCING IN THE BAG**

Sourcing packaging for a retail chain, my team and I first researched the market. Then we invited a bunch of packaging vendors to come in for a trunk show to demonstrate what was new in the industry. It was a fun day, and we also learned some new ways we could save money: We could use new, stronger, thinner material for our plastic bags and we could reduce the size of the print area on our paper bags.

But there was more to it. My team and I went out and sat in stores and watched the associates use bags. We noticed that when they ran out of small bags, they would put things like socks and underwear in big bags instead of going back to the stockroom and getting a new box of small bags. The big bags cost $.11 more, and over thousands of bags the cost adds up.

To address that problem, we put small plaques near the bag storage—not where the customers could see—that said, “big bag, $.15; small bag, $.04” and showed pictures of each bag. We also did some training to raise associates’ awareness of the cost of using the big bags unnecessarily. That combined effort helped cut waste. We never would have been able to do that unless we’d taken the time to study actual usage.

**Real Category Expertise**

Not every category lends itself to cutting demand, but understanding demand should always be part of that process of becoming expert enough. Invariably, it leads to a deeper understanding of the business, and often it leads to new ideas and savings. And that’s the raison d’être of any Sourcing program—spending money as efficiently as possible. Even though Sourcing implies buying and a supply side orientation, the best sourcing professionals apply equal rigor to the demand side. One day they might be sourcing guard services; the next day it could be packaging. It really doesn’t matter what the category is, or whether they’re studying the supply or the demand side. The key is not to be the expert but to know where to find the experts. That means talking to them in an informed and collaborative manner, asking enough questions, and digging deep until the sourcing professional becomes expert enough.

**The Sourcing Process**

In order for Sourcing professionals to reach the best-in-class performance level, they need a sound process structure for their work. Below is the process element of the Sourcing Organization Maturity Model.
**Sourcing Organization Maturity Model: Process Element**

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<td><strong>Project Planning</strong></td>
<td>Ad hoc Sourcing ad-hoc, not centralized</td>
<td>Sourcing managed centrally, but projects unplanned</td>
<td>Sourcing projects managed centrally and planned 2-3 years out</td>
<td>Sourcing project results reported to CEO</td>
<td>Continuous updating of category knowledge and spend information</td>
</tr>
<tr>
<td><strong>Project Execution</strong></td>
<td>No consistent Sourcing process</td>
<td>Standard Sourcing process implemented across all Sourcing projects</td>
<td>TCO and Risk factored into Sourcing process</td>
<td>KPIs measured, reported, and benchmarked against peers</td>
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**Project Planning**

Immature Sourcing Organizations may not have much of a process for project planning at all—sourcing projects are handled on an ad hoc basis. As Sourcing Organizations move up the maturity ladder, projects are managed centrally but still may not be planned upfront. Further up the ladder, sourcing projects are strategically planned out and results are reported to the CEO. The best-in-class companies are continuously updating their category knowledge and spend information, and feeding that back into the sourcing process.

**Project Execution**

Another aspect of sourcing maturity is the process for executing sourcing projects and when it’s used. Often companies in the early stages of development don’t even have a standard sourcing process defined. As companies mature they establish a standard strategic sourcing process. It’s important to define a process that works with company culture. Andy Chiang from Coupa recalled, “In a small company I worked for, we followed a 5 step strategic sourcing process, but it was just a set of guidelines that were not very prescriptive. Later, when I worked at a much larger company, we also had a 5 step strategic sourcing process, but it was much more detailed--to the point of having numerous templates for every step of the process.” Companies at the strategic stage of development are incorporating total cost of ownership (TCO) and other risk factors into the sourcing process in order to effectively evaluate their supply base.

The best-in-class Sourcing Organizations have a standard set of key performance indicators or KPIs that include things like savings goals and spend under management, which are continuously updated and reported, and which drive action from both the buyer and the supplier. The goal for best-in-class organizations is to achieve 95% spend classified, with 95% accuracy. The only way to achieve this is to employ technology.
The Technology Element

Technology is the underpinning that supports the process and people, so that the organization can become best-in-class. Without solid technology, Sourcing Organizations can only hope to reach the reactive stage of development. Regarding e-Sourcing software, Andrew Bartolini, Chief Research Officer of Ardent Partners, stated, “If you’re doing strategic sourcing, I think you have to strip out the word “strategic” if you're doing offline sourcing today.” Below is the technology component of the maturity model:

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<td><strong>1 – Basic</strong></td>
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<td>Sourcing Systems</td>
</tr>
<tr>
<td>Spend Analysis</td>
</tr>
<tr>
<td>Technology Reach</td>
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Sourcing Systems

The model shows that at the beginning stages of development, Sourcing Organizations typically use generic technology systems such as Excel and email. Moving to the next steps in the model, they start to store sourcing information in shared folders. This helps, but it doesn’t provide an easy way of finding information, and much of the communication between stakeholders and with suppliers still resides offline in personal emails. At the proactive stage, companies implement e-Sourcing systems. Now they’re able to keep all sourcing information, including communications, in one place. E-Sourcing systems are designed to support the sourcing process so they can be implemented more easily. At the strategic stage, companies have fully implemented their

e-Sourcing systems: They manage 100% of their sourcing projects using these technologies. Beyond that, best-in-class organizations have an e-Sourcing system that’s tightly connected to their e-procurement system. That means that once a sourcing project is completed, the newly negotiated pricing can flow seamlessly from the sourcing system to the procurement system, which ensures that end users have the most up-to-date pricing when they buy.

**Spend Analysis**

Another key aspect of Sourcing is spend analysis, which is often step one of a strategic sourcing process. Companies in the proactive stage of development perform the spend analysis, but they often do this manually—getting data dumps from AP or from their e-procurement system if they’re a little more advanced. As this process becomes more engrained in organizations, they may have some automation built around pulling the data. Best-in-class Sourcing Organizations have e-Sourcing systems in place that can automatically alert them to sourcing opportunities and give them a way to drill directly into supporting documents (e.g., POs, invoices, expense reports) to determine whether it’s the right time to source that category.

**Technology Reach**

After an e-Sourcing system is put in place, there are likely to be different levels of usage according to the degree of organizational maturity. Companies in the proactive stage use e-Sourcing systems in a rather ad hoc fashion—for the occasional auction or for only the largest of projects. In order to get the full value out of an e-Sourcing system, all projects—large and small—should be run on the system. Best-in-class companies roll out their e-Sourcing system not only to the Sourcing team but also to the rest of the company, so that even end-users can use it to do very quick spot buys. This way they’re able to capture and manage more of their spend and reach into the long tail of spend to bring their company even more savings.

**Improving Sourcing in a Three-Pronged Effort**

Companies can effect change in Sourcing by way of a three-pronged growth model. The three elements of Sourcing—people, process, and technology—are all essential to pursuing advanced Sourcing maturity. And they are inter-dependent. Moving the organization past the reactive stage of development requires a solid technology base to support the organization’s people and processes. It’s not an easy road to travel. Managing change both within the sourcing team and across the organization can be challenging. But the investment is well worth it. With a solid technology base, people can spend more time on higher value aspects of strategic sourcing, manage more spend, and optimize the way the company purchases goods and services—ultimately working more productively and saving more money.