

# ***Successfully Sourcing Categories!***

What do you really need to do?

Great results require legwork!



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The beginning of the sourcing process is the key to success. The amount of legwork for each project is crucial to its success. Are you willing to invest the Legwork?

**SAFE SOURCING**



Does your preparation matter that much? Will your discovery work lead you to the best decisions for your company?

Let's assume you are a procurement professional or knowledge worker for a company that is ready to find a better solution (any solution) for their growing needs. This is when the legwork begins. How much legwork is necessary to get the best results possible? There are many factors that require research, investigation, questions and thought in order to make a valuable decision or the right decision for your company. Listed below are just some considerations that will be important and factor into the necessary legwork.

In this white paper we are offering insight into the preparation of two different procurement professionals and the results they achieved.

### **Understanding The Market for your category:**

- 1. Market Trends** - Trends are what allow traders and investors to capture profits. Whether on a short- or long-term basis, in an overall trending market or a ranging environment, the flow from one price to another is what creates profits and losses. This is something that the two procurement professionals need to keep an eye on so when the time comes they are armed with as much information as possible in order to ensure the best possible decision for their company. This requires constant research.
- 2. Pricing Trends** - Understanding where the market is today as well as where it is headed will allow these procurement associates to make better decisions regarding long or short-term contracts with possible price review, escalation, or de-escalation periodically. The current offered price may be desirable, but understanding the futures forecasts will allow for better decisions. There are a number of websites, periodicals, and network coverage available today so that lack of awareness is not an issue when it comes time to source.
- 3. What makes a Product** - Understanding the raw materials (commodities) that are required to produce a product in order to meet your specifications. This will affect the price of the product or service you want to source. It may be the price of corn and its impact on the corrugate market. It may be the lack of skilled labor for a construction project or a driver shortage for the logistics portion of the complete product offering. Many times, the contract goes beyond just the commodities. Equally important to many companies today are Vendors Social Responsibility Standards in a number of areas such as fair employment standards, community involvement and ensuring they are measuring and reducing their carbon footprint. This means the vendor being selected can often times be as important as the product or service being selected. There is a belief by many that companies should be held accountable through the triple bottom line accounting method which is a business concept that states firms should commit to measuring their social and environmental impact as well as their financial performance.



## Understanding Your Category

1. **Desired Results / Defined Goals** - Understanding where you want to end and what you want to achieve with help guide you in the direction to do so. If you do not clearly define your goals and desired outcome then how will you know when you get there or if your work is done. Did you achieve your company's goal(s)?
2. **Specifications** – A detailed description or assessment of requirements, dimensions, materials, packaging, and freight among many others are minimal information in your specification. This is a very important step in the process as this alone can undermine the success of your project all the way to the consumer and other end users of the item being sourced. Being absolute on what specifically is needed is imperative to the success of the project.
3. **Substitutes and Alternatives** - These are comparable products/items that can be used in place of the original. This is sometimes acceptable on a short-term basis when there are supply chain issues such as oversold commodity markets. Regardless, once specifications have been determined it is imperative that the vendor adheres to the specification exactly for a multitude of reasons, and that any additional information a vendor may want to offer is captured in supplemental documents. The integrity of the specification leads to the best product costs and reliable service levels.

## Critical thinking in supplier selection is key to quality sourcing projects.

First, you need to find a reliable source of suppliers for the categories that you are sourcing. No one wants to spend days doing google searches or Thomas.net searches or Alibaba searches. See, I just gave you three potential sources, just not the best unless you want to do the vetting and days of endless phone calls when you could be doing something more important or strategic.

Suppliers will almost always not be of the same size. Some may be distributors, some may be small manufacturers, and some may be wholesalers. They may be local, nearshore, or offshore depending on your strategy. The question is who can bring you the most value. And what can they do to demonstrate that value or ways that they can distinguish themselves from their competition in areas other than price. A few of these might be:

- **Labeling and Packaging** – Labeling and packaging are one of the big expenses in For Resale items for many retailers especially when it comes to Private Label goods.
- **Training & Professional Services** – One of the easiest ways for suppliers to begin to separate themselves from the pack is in the area of professional services and training.
- **Guaranteed Service Level Agreement (SLA) Metrics** – The bottom line in any Supplier-Customer relationship is not just price or “bells and whistles” it is about how well the supplier delivered what they said they would.



There are certainly many more metrics than these, but again how are you going to find vendors quickly, vet them, and get them to submit prices and other information that you can easily evaluate.

The SafeSourceIt™ Supplier Database contains over 557,000 vetted global suppliers. It is easy to use and includes much of the information we have discussed in terms of additional value in the areas of safety, social responsibility, and eco controls. In one query you can find dozens of potential sources of supply for your upcoming category project.

**SafeSourceIt™ Query Tool**

The SafeSourceIt™ Supplier Database is the largest retail specific supplier database in North America with over 427,000 suppliers. In order to achieve maximum savings when using an e-procurement event, you need numerous suppliers aggressively vying for your business. SafeSourcing website visitors can use this tool to request summary data which appears as a count. If you are interested in the detailed data for the same query, please contact [marketing@safesourcing.com](mailto:marketing@safesourcing.com).

Product Category:  Product Sub-Category:  SIC Code:

Company Name:

Country:  State/Province:  (CTRL - Click to select multiple states.)

Postal Code:

Result Set Type:  Results To Return:

Company Name:	City:	State/Province:	Phone:	Postal Code:	Sub-Category:	SIC Code:
ARC USA	Boston	Massachusetts	617-547-2200	02116-0	Commercial Offices Contractor	
BKA Architects	Boston	Massachusetts	617-530-1320	02116-0	Commercial Offices Contractor	
Cannon Design	Boston	Massachusetts	617-742-5440	02110-0	Commercial Offices Contractor	
CBT Architects	Boston	Massachusetts	617-262-4354	02114-0	Commercial Offices Contractor	
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**Understanding your results**

- Desired Savings Achieved** - Although cost savings is always the primary goal for renegotiating contracts with suppliers, it is also as important to have a Service Level Agreement (SLA) in place that will be obtained by the awarded supplier. While savings is key to the financial leadership of a company the more important concern is that the operators are satisfied with the incumbent or newly awarded vendor. And that they deliver what they promised.
- Success** - Success with any initiative is not determined solely by you, but it is your project. It does not always come in the form of cost savings. Success can also be determined by the time invested to accomplish the desired outcome. Too much time or delays in deciding and awarding the business can cost companies significantly by not capitalizing on savings generated or increasing potential changeover costs. Additionally, success can be determined when considering the many impacts a decision brings, i.e., green initiatives/environmental impacts, company diversity goals, contract duration, renewal options and flexibility.



## Services Sourcing Case Study: Containerboard Contracts

Ray and John are both competent procurement professionals who work for multi-billion-dollar food manufacturers.

**The Goal:** To lock in the current prices by renegotiating current contracts that are about to expire.

**The Issue:** According to their industry contacts, there is a predicted rise in the pulp market due to considerable damage caused by forest fires across North America.

However, Ray and John will take different approaches and achieve different results. Below is the process taken and results each individual received.

### Ray- The Process:

Ray began the process with no research on the market or changes that could affect his company. Ray didn't explore the current suppliers for all the divisions; therefore, he did not explore potential mergers, partnerships, and new companies that have emerged. Ray is not connected well with other teams in the corporation, so he was not aware of any new initiatives. Ray did not have the time to dedicate to this project and solely focused on price.

### John-The Process:

John began extensive research on the market, suppliers, and modern technology through webinars, experts, and indices. John sent an internal survey to gain knowledge of current suppliers. John met with each department monthly to understand any new initiatives and updates. John then developed a strategy with goals he wanted to achieve in negotiating a contract. John had a clear understanding of the market and goals of the company to use as leverage when talking with suppliers.

### Ray - The Results:

Ray focused on three main supplier companies and was able to receive a locked savings for six months and avoid the 8-12% increase projected. However, since Ray did not communicate with his finance department, he was unaware of the Net 45 terms from all suppliers taking place versus his company's Net 60 requirements.

### John - The Results:

John had a goal to achieve "value" for his company and in doing so he got a nine percent savings plus the 8-12% predicted future increase. With John's efforts to explore suppliers, he was able to find a new supplier along with two other suppliers with discounts for terms, larger orders to store in warehouse, and competitive pricing. John targeted sustainable and women-owned companies, due to the bad press the company has received on this matter.





### **Ray's Summary:**

Where did Ray go wrong? Ray did not have the time, persistence, and knowledge of his company when approaching this project. Due to Ray not discussing the renegotiation of contracts with the finance department and dismissing the stores who manage the suppliers locally, Ray will have spent time trying to save the company money and that savings will be lost with the increase in outlying divisions.

### **John's Summary:**

John spent more time in the beginning doing research and understanding his company. Without the knowledge John obtained from other departments, he would still be able to negotiate a contract that would suffice, but it would not be in the best interest of the company and there would be options and better choices never even explored. John had great savings in the containerboard contract and company brand.

There are significant differences in Ray and John's leg work. Ray had the necessary resources to have successful results but did not see the importance in the beginning phases of this project. With more research, understanding of the market and product, and knowledge of his company's goals and initiatives Ray would have received significant cost-savings results. Many companies operate like Ray and want to operate like John, but don't have the time to do so. That is where SafeSourcing's expertise becomes of value to you and your company with our white glove seven step (7) Managed Service process.



## Services Sourcing Case Study: Containerboard Contracts Summary

Task	ABC Company/Ray	XYZ Company/John
Project Start Date	January 7, 2022	January 9, 2022
Suppliers Involved	3	12
% of spend being review	60%	100%
Amount of time spent doing research to understand project	<ul style="list-style-type: none"> <li>7.5 hours per week reading industry publications and blogs.</li> <li>15 hours reviewing current contracts and invoices.</li> <li>0 hours spent researching other suppliers.</li> <li>2.5 hours hearing about new company “green” initiatives.</li> <li>24 hours negotiating final versions of updated contracts</li> </ul>	<ul style="list-style-type: none"> <li>5 hours per week reading industry publications and blogs for the entire year.</li> <li>10 hours reviewing current contracts and invoices.</li> <li>15 hours spent researching other suppliers.</li> <li>4.5 hours preparing survey and analyzing results.</li> <li>2 hours per week meeting with other departments to understand what they are doing.</li> <li>18 hours negotiating final versions of updated contracts</li> </ul>
Additional Information Collected	<ul style="list-style-type: none"> <li>Green Initiatives from Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Green Initiatives from Suppliers; Production levels for containerboard; internal survey detailed division satisfaction levels, usage, and the fact that two of his regional players had been acquired by National companies</li> </ul>
Amount of time spent communicating with suppliers	<ul style="list-style-type: none"> <li>18 hours</li> </ul>	<ul style="list-style-type: none"> <li>2 hours personally, however his third-party strategic sourcing company invested thirty-three total hours on his company’s behalf to help arrange a price gathering process.</li> </ul>
Number of Bids and Changes	<ul style="list-style-type: none"> <li>Average of three bids each – 10 total bids and changes</li> </ul>	<ul style="list-style-type: none"> <li>Average of forty-seven bids each – 564 total bids/changes collected in 37 minutes.</li> </ul>
Savings Achieved	<ul style="list-style-type: none"> <li>Three percent plus average of 8-12% predicted future increases</li> </ul>	<ul style="list-style-type: none"> <li>Nine percent savings plus the average of 8-12% predicted future increases</li> </ul>
Terms	<ul style="list-style-type: none"> <li>Net thirty</li> </ul>	<ul style="list-style-type: none"> <li>Net 30 Plus 3% Discount on Net 20 collected from one vendor</li> </ul>
Contract Length	<ul style="list-style-type: none"> <li>Two-year contract with reviews against Indexes every 6 months</li> </ul>	<ul style="list-style-type: none"> <li>One year contract with reviews against Indexes every 6 months. Discount of 5% on a two-year deal but with the consolidation of vendors.</li> </ul>



*Table Continued*

Task	ABC Company/Ray	XYZ Company/John
Number of additional suppliers supplying outlying divisions	<ul style="list-style-type: none"> <li>9 Suppliers representing eleven divisions – These agreements were not included in the project scope</li> </ul>	<ul style="list-style-type: none"> <li>Plan is to consolidate the eighteen regional and National vendor group down to a Better/Best National program with one Regional included to help oversee on region that represents 45% of his overall spend</li> </ul>
Project Complete Date	<ul style="list-style-type: none"> <li>June 21st, 2022, last contract was finalized</li> </ul>	<ul style="list-style-type: none"> <li>March 27, 2022, last contract was finalized</li> </ul>

**About SafeSourcing**

SafeSourcing provides innovative cloud-based eProcurement tools that we utilize through our Managed Services seven (7) step approach to sourcing that can increase efficiency and improve profitability for our customers and provide superior value for all stakeholders. In addition to providing information, tools, and service, SafeSourcing proactively supports a broad social responsibility program, including consumer safety and environmental standards throughout the global supply chain management process. For more information about our best practices on procuring products and services for your company, please contact a SafeSourcing Customer Service Representative at 888-261-9070 or [marketing@safesourcing.com](mailto:marketing@safesourcing.com).