

Procurement Strategy: Planning and Steering of Purchasing from Demand Analysis to Supplier Selection

The procurement strategy is the long-term action concept with which a company defines which goods and services it procures, how, from whom and on what terms. It links the requirements of production, development and sales with market power, price developments and supplier risks. For technical buyers and manufacturing companies in the DACH region, it is the foundation for systematically securing security of supply, cost efficiency and quality.

Key facts

- The procurement strategy is derived from the corporate and production strategy and prioritises procurement objects by value and supply risk.
- Classic building blocks are make-or-buy, the supplier portfolio, sourcing models such as single, dual or multi-sourcing, and contract and pricing design.
- One-sided mechanisms such as price escalation clauses or raw material indexation dampen market volatility in long-term framework agreements.
- KPIs such as material savings, on-time delivery or the share of strategic suppliers make the quality of implementation measurable.
- Risk management includes second sources, contractual clauses limiting liability, and traceability of materials in critical supply chains.
- Trends such as reshoring, sustainability requirements and digital tendering via RFX processes are changing classic sourcing models.

Definition: Procurement Strategy

The procurement strategy is the medium- to long-term planning of all fundamental purchasing decisions: procurement objects, supplier structure, contract models, locations and price/term mechanisms. It provides the framework within which operational buyers conduct negotiations and place orders. It is distinguished from operational purchasing, which implements strategies rather than setting them.

Distinction from Operational Purchasing and Tactics

Strategic decisions are those with an impact over years: supplier structure, location selection, investment in collaboration or in-house production. Tactical measures include annual price negotiations, executing an enquiry via RFX in purchasing, or setting up match-and-merge rules in order systems. Operational work is the ongoing transaction processing: purchase orders, order confirmations, dunning. This distinction matters because strategic mistakes can only be corrected over the long term, for example one-sided dependence on a single supplier.

Derivation from the Corporate Strategy

A sound procurement strategy always follows the corporate and production strategy. If a company aims for short response times in customised manufacturing, flexible local suppliers and short planning horizons dominate. In standardised series production, cost advantages, economies of scale and stable framework agreements take priority. Factors such as lot sizing in production, the timing billboard or product variant diversity also directly influence sensible procurement models.

Methods and Approach for Strategy Development

In practice, the development of a procurement strategy often follows a recurring pattern: analyse the market and demand, prioritise procurement objects, evaluate options and document the strategy in writing. Tools such as portfolio analyses and scoring models structure the decision-making process and make it traceable.

ABC and Supplier Portfolio Analysis

First, procurement objects are assessed by material value (ABC analysis) and then by strategic importance and supply risk. The classic supplier portfolio distinguishes four quadrants: strategic items, bottleneck items, leverage items and non-critical items. The classification leads to different actions: intensive partnership for strategic items, additional second sources for bottleneck items, active tendering and negotiation for leverage items, and standardisation for non-critical articles.

Make-or-Buy and Sourcing Models

The make-or-buy decision examines whether in-house production or external procurement is more economical and lower-risk. For external procurement, the sourcing model is defined: single sourcing lowers costs and fosters supplier proximity, but carries failure risks; multi-sourcing increases security of supply but reduces lot size advantages. Dual sourcing is a widely used compromise for critical components, complemented by local alternatives or reshoring options where supply chain risks are high.

Enquiry, Evaluation and Award

Implementation runs in a structured way via RFX in purchasing: a Request for Information for market exploration, a Request for Quotation for concrete offers and a Request for Proposal for complex services. Suppliers are evaluated using a scoring model that weights hard criteria (price, capacity, quality) and soft criteria (communication, innovation capability). Price negotiation in the award process then follows on the basis of comparable offers and transparent cost breakdown, where appropriate with open-book costing for complex contract manufacturing services.

Contracts, Prices and Terms as Strategic Instruments

The procurement strategy decides not only the 'who' but also the 'on what terms'. Contract and price mechanisms secure long-term competitiveness and protect against volatility in raw material and logistics markets.

Pricing and Indexation

For raw materials and energy-intensive parts, price formulas with raw material indexation are common: the price transparently follows a defined index (e.g. for copper, steel or synthetic resins) with fixed reference dates and conversion rules. In addition, a price escalation clause and a clearly defined notice

period and price adjustment mechanism govern the conditions under which adjustments are permissible. The aim is symmetry: index clauses must operate downwards as well as upwards, otherwise they lose acceptance in negotiations.

Logistics, Incoterms and Processing

Logistics costs are influenced strategically through delivery terms, consignment stock, delivery time windows and transport pooling. Agreeing suitable Incoterms — for example FAS for sea freight or EXW/FCA for ex-works collection — allocates costs, risks and responsibilities between the parties. In invoicing, self-billing as a strategic objective increases efficiency in long-term supplier relationships, because the customer creates the invoices itself and invoice verification processes are eliminated.

Legal Framework

Contracts with strategic suppliers should contain limitation of liability, quality assurance agreements, intellectual property clauses and defined requalification processes. Where a supplier's standard terms and conditions are accepted, their content should be reviewed and reconciled with the buyer's own purchasing conditions. Since formulations and their legal effect must be assessed on a case-by-case basis, legal review is advisable in disputed matters.

Key KPIs and Success Measurement of the Procurement Strategy

Without measurable targets, any strategy remains a statement of intent. KPIs make progress visible, support target agreements and show where corrective action is needed. In practice, metrics that capture cost, supply and quality simultaneously have proven their worth.

Cost and Process KPIs

Key figures are material savings versus baseline, material cost ratio, negotiation result (savings versus target price), share of off-contract purchasing and process costs per purchase order. Compliance is also measurable: purchasing policy compliance measures the share of procured volume handled via approved processes and framework agreements. High maverick buying rates indicate that strategic contracts are being bypassed.

Supplier and Supply KPIs

On-time delivery (OTD), procurement lead time, quality metrics such as PPM or complaint rates, and the share of dual-sourced critical articles measure supply quality. The coverage rate of framework agreements and the number of qualified second sources per critical component show how robust the supplier structure is against failures. Where the company runs Sales and Operations Planning, procurement KPIs should be aligned with the same planning horizons as sales and production planning.

Risks and Controls in the Procurement Strategy

Every strategy creates dependencies — through supplier selection, contract models or location decisions. Risk management is therefore an integral part of strategy work and must be updated regularly, for example in response to market changes, geopolitical shifts or new regulatory requirements.

Supply and Delivery Risks

Core risks are supply failures, raw material and energy price fluctuations, capacity bottlenecks and transport disruptions. Countermeasures include second sources, safety stocks, longer contract terms

with take-or-pay commitments, monitoring of critical upstream products, and traceability of materials along the supply chain. For new parts, zero-series procurement via sample deliveries secures functional and manufacturing suitability before the start of production (SOP) — requalification after process changes should be contractually stipulated.

Dependency and Compliance Risks

One-sided dependencies develop gradually, for example when key components have only one remaining source or tooling is stored at the supplier's premises. Controls for this include consignment tool ownership, contractual rights of retrieval, contingency plans and annual portfolio reviews. Compliance risks such as corruption, cartel infringements or violations of supply chain legislation are addressed through purchasing policy compliance, four-eyes principles and supplier audits.

Supplier Development as Risk Prevention

Strategic suppliers are not only monitored but actively developed. A supplier development concept defines how buyers and the supplier jointly improve quality, capacity and costs — for example through joint value analysis, process optimisation or qualification measures. Rather than risking switching costs, purchasing invests in the partnership; in return, this creates priority in capacity bottlenecks and faster innovation.

Current Developments: Reshoring, Sustainability and Digitalisation

The framework conditions for procurement strategies are changing. Supply chain legislation, raw material scarcity, geopolitical tensions and the shortage of skilled workers among suppliers are altering classic cost-benefit calculations. Companies are therefore reconsidering how they procure — not only where and at what price.

Reshoring and Nearshoring

Reshoring — relocating production back to the home country or nearby regions — gains importance when transport risks, long lead times or intellectual property concerns weigh against Asian sourcing models. Nearshoring to Eastern or Southern European locations combines moderate costs with shorter supply chains. In practice, the decision is usually made on a holistic assessment of landed cost, risk exposure and flexibility, not on unit price alone.

Sustainability and Regulatory Requirements

Sustainability and supply chain requirements are increasingly becoming mandatory, for example through obligations to provide evidence of origin, working conditions and emissions in the supply chain. The procurement strategy must therefore embed sustainability criteria in the scoring model, provide for supplier audits and evidence processes, and plan traceability of materials back to the raw material source. Legal obligations and their implementation standards continue to evolve and should be legally reviewed.

Digitalisation of Sourcing

Digital marketplaces, eSourcing platforms and AI-supported enquiry processes shorten the time from demand identification to contract award. RFX processes can be partly automated, match-and-merge rules optimise data consolidation between demand notification and purchase order, and analytics tools detect price patterns and supply risks earlier. For medium-sized manufacturing companies, professionally managed sourcing is thus becoming attainable even without large internal purchasing

departments.

Typical metrics

Material savings: typically 2–5% p.a. per commodity group

Benchmark figure for strategic tenders and negotiations

On-time delivery (OTD): > 95%

The threshold for critical articles is often higher

Purchasing policy compliance: > 98%

Share of volume handled via approved processes and framework agreements

Share of secondary sources for critical articles: > 80%

Measure of the supply robustness of the supplier structure

Practical Example

A medium-sized mechanical engineering company with around 350 employees sourced sheet steel components predominantly from a single supplier and, as a result of raw material price fluctuations, repeatedly faced costly price increase demands without any contractual basis. Purchasing consequently developed a structured procurement strategy for the sheet metalworking commodity group.

- Introduction of a scoring model for systematic supplier evaluation and selection, combined with an RFI/RFX enquiry to four potential suppliers.
- Conclusion of framework agreements with raw material indexation for steel and a mutual price escalation clause instead of non-binding individual orders.
- Establishment of a second source and shifting of part of the volume to a more closely located supplier to reduce logistics costs and delivery times.
- Implementation of a supplier development concept with joint value analysis in order to optimise not only price but also vertical integration and lot sizing.

Conclusion

The procurement strategy is the backbone of effective purchasing: it aligns demand, market conditions and supplier structure into a consistent framework for action and protects the company against dependencies and cost fluctuations. Its quality determines whether operational negotiations take place on a strong or weak foundation. Regular reviews, measurable KPIs and clear contractual mechanisms keep the strategy viable. For manufacturing companies in the DACH region, the procurement strategy is becoming an increasingly important competitive factor in the face of reshoring, regulatory requirements and volatile raw material markets. Those who build it systematically secure supply, costs and quality sustainably.

Frequently asked questions

What is a procurement strategy in simple terms?

A procurement strategy is the long-term plan governing how a company purchases its materials, components and services. It defines which suppliers are used, how prices and contracts are structured and how supply risks are minimised. It differs from operational purchasing, which implements the strategy in purchase orders and negotiations.

What types of procurement strategies are there?

It is common to differentiate by supplier structure (single, dual or multi-sourcing), by procurement object (production material, capital goods, indirect materials), by location (local, nearshoring, global sourcing) and by pricing arrangement (fixed price, raw material indexation, price escalation clauses). In practice, companies combine several approaches depending on the commodity group.

How do you develop a procurement strategy step by step?

A typical process has five stages: first, demand and market analysis; then classification of the procurement objects, for example using ABC and portfolio analyses; next, evaluation of the options (make-or-buy, sourcing model, location); then formal written documentation of the strategy including target KPIs; and finally implementation via RFX processes, negotiation and contract award. Regular reviews ensure the strategy remains up to date.

What are the objectives of a procurement strategy?

The core objectives are security of supply, optimised material costs, high quality, risk minimisation and a sustainable supply chain. Beyond that, it serves to standardise processes, ensure compliance and secure long-term competitiveness. The priority of these objectives depends on the corporate strategy — a series manufacturer weighs costs differently from a plant engineering company.

What is the difference between a procurement strategy and a procurement policy?

The procurement policy formulates fundamental guidelines and values for purchasing, such as ethics, sustainability or supplier treatment. The procurement strategy translates these guidelines into measurable decisions on suppliers, contracts and locations. In practice, both are often merged into a single strategic purchasing document.

Which KPIs are measured in strategic purchasing?

Frequently cited KPIs are material savings, material cost ratio, on-time delivery (OTD), complaint and PPM rates, procurement lead time and the share of volume covered by framework agreements. In addition, purchasing policy compliance and the share of dual-sourced critical articles measure the robustness and conformity of the strategy.