

Sourcing levers: levers for strategic procurement success

Sourcing levers are the systematically deployable levers with which procurement organisations measurably improve the cost, quality, supply capability and risks of their procurement. They range from price and terms negotiation to supplier consolidation and specification and process optimisation. Those who know the levers and combine them in a targeted manner transform procurement from an operational processor into a strategic value driver. The term originates from Anglo-American procurement management and is also established in German-speaking mechanical engineering, electronics manufacturing and plant construction.

Key facts

- Sourcing levers are structured action levers of procurement for cost, quality and risk optimisation.
- In practice, five lever categories are commonly distinguished: price, specification, process, supplier structure and demand/requirement.
- Lever selection should be based on a procurement portfolio analysis, not on gut feeling.
- Typical levers such as supplier consolidation or volume bundling frequently achieve savings in the low to mid single-digit percentage range per lever.
- Only levers with clear accountability, measurable KPIs and anchoring in contracts and processes have a lasting effect.
- Sourcing levers are closely interlinked with supplier strategies, the preferred supplier programme and price negotiation in the award procedure.

Definition: sourcing levers

Sourcing levers denote the entirety of the adjustment screws with which a company deliberately influences the results of its procurement. The term is defined with varying breadth in the literature, but what is always meant is a structured catalogue of measures rather than isolated individual points.

Distinction from the sourcing concept

The sourcing concept describes the where to – i.e. the strategic orientation of procurement, for example single sourcing, dual sourcing or global sourcing. Sourcing levers, by contrast, describe the how: the specific levers with which the strategy is implemented. A company may decide on dual sourcing and implement this via the levers of supplier qualification, contract design and price negotiation in the award procedure. The two levels interact: without a strategy the lever lacks direction, without levers the strategy remains a statement of intent.

Why the lever approach?

Buyers work with levers every day, often intuitively and without a common language. The lever approach catalogues these options, makes them comparable and enables well-founded prioritisation. This is particularly important because levers have different cost drivers: a price negotiation hardly consumes

any resources, a specification change requires engineering effort, and supplier development ties up capacity for years. The structured catalogue creates transparency about impact and effort and is therefore also a tool for agreeing targets with management.

The most important categories of sourcing levers

In practice, five lever categories have become established which translate well to industrial procurement situations. They serve as a checklist for systematically reviewing, for every commodity group, which levers remain unused.

Price and contracting levers

This category includes negotiation, tendering, terms optimisation and contract design. Classic instruments are price negotiation in the award procedure, request for proposal (RFP) processes for complex services, and terms levers such as the dynamic early payment discount, in which discount periods are linked to market or reference interest rates. Indexation models such as a raw material surcharge also help to map price volatility transparently instead of hiding it in list prices. Price levers act quickly but are limited as long as the specification and supplier structure remain unchanged.

Specification and demand levers

These levers act on the product itself: standard parts instead of bespoke designs, tolerance-optimised drawings, standard materials instead of exotic alloys, or the removal of oversized safety factors. On the demand side, this includes demand bundling across sites and plants, reviewing make-or-buy decisions and substituting critical materials. Specification levers typically offer the greatest savings potential but require early involvement of development and design – ideally already in the quotation phase via a functioning master data process, so that item master data is cleansed and duplicate-part strategies are avoided.

Process and supplier structure levers

Process levers reduce transaction costs: streamlining the low-value order process, catalogue solutions for C parts, shortened requisition cycle time, or substitute processes such as the evaluated receipt settlement (ERS) procedure, in which the supplier is settled on a credit-note basis without a classical invoice. Supplier structure levers change the supplier landscape: consolidation of suppliers, establishment of a preferred supplier programme, supplier capacity audits before award, or pre-qualification of new providers to broaden competition. Both categories have a medium-term but lasting effect on total cost.

Methods and approach for lever selection

The systematic selection of suitable levers follows a multi-stage approach: analysis, prioritisation, implementation and anchoring. Crucially, the levers must be aligned with the respective commodity group strategy and the maturity of the supplier market.

Analysis: spend and portfolio analysis

The basis is a clean spend analysis: who buys what, from whom, on what terms and with what demand pattern? This is followed by the procurement portfolio analysis, which assesses commodity groups by procurement volume and supply risk. For standard parts with high volume, price and process levers dominate; for strategic components with a high risk profile, the focus is on supplier development,

material traceability and contract design. In addition, benchmarks, should-cost analyses and reference prices provide indications of where a price lever has any room for manoeuvre at all.

Prioritisation and implementation

Not every lever fits every situation. A scoring matrix of savings potential, implementation effort, implementation risk and time to impact has proven its worth. Levers with high impact and low effort – for example volume bundling or a tight tender – are tackled first. Complex levers such as specification changes or supplier development follow in a roadmap with clear accountabilities. Safeguarding against internal criticism is important: engineering must be involved in specification levers, controlling in terms levers, and those responsible for delivery quality in structure levers.

Anchoring in contracts and processes

Achieved improvements must be secured, otherwise they erode in day-to-day business. Price results are fixed in framework agreements with volume commitments, quality agreements are anchored in supplier contracts, and terms such as Incoterms DAP or Incoterms CFR are clearly defined in order to allocate logistics costs and transfer of risk unambiguously. Process levers are secured through binding rules, such as an order confirmation obligation requiring suppliers to confirm order changes in writing without delay. Only this anchoring turns a negotiation success into a lasting cost level.

Key KPIs for steering sourcing levers

Without measurement metrics, it cannot be demonstrated whether a lever works. The KPI selection should follow the respective lever – price metrics alone fall short.

Cost-side metrics

Key metrics are the achieved saving versus the baseline (with cost avoidance versus hard savings cleanly separated), price level indices per commodity group, and the inventory plan-actual comparison for evaluating inventory levers such as the introduction of a Kanban system or order quantity optimisation. For raw-material-intensive parts, the development of the raw material surcharge shows how far market prices and negotiated surcharges diverge. A uniform calculation methodology is important, otherwise procurement and controlling will argue over the same figure.

Process and quality metrics

Process levers are measured via requisition cycle time, the proportion of orders processed automatically and the number of purchase orders per buyer. Structure and quality levers are reflected in supplier evaluation, the ratio of qualified alternative suppliers and the material traceability metric, for example the proportion of batches with seamless traceability. For levers affecting order processing, the rate of on-time confirmations under the order confirmation obligation shows whether the rule is actually being observed.

Risks and controls in the use of sourcing levers

Every lever can have side effects. Those who optimise on price alone risk quality, delivery reliability and supply capability. Control mechanisms and a balanced lever mix minimise these dangers.

Typical side effects

Aggressive price negotiations can push suppliers into loss-making territory – the consequences are

deteriorating quality, stretched delivery times or, in the extreme case, line-down exposure for single-source parts. Consolidation increases dependence on a few providers. Specification changes can create quality risks and rework costs if they are made without a validated sample delivery. Terms levers such as the dynamic early payment discount tie up the supplier's liquidity and impair delivery priority for bottleneck materials. These risks are not inevitable – but they must be knowingly accepted and monitored.

Controls and safeguards

Proven control instruments are contractual contract compliance checks, which ensure that agreed prices and terms are actually adhered to, and regular supplier capacity audits for critical parts. For specification changes, a documented first article inspection and sample delivery are mandatory before series production. A procurement competence matrix helps to staff negotiation topics with the right expertise and prevents levers being applied by persons without adequate technical knowledge. Finally, a minimum coverage level of alternatives should be defined for every critical supplier before consolidation levers are applied.

Current developments: digitalisation, sustainability and resilience

The lever catalogue is expanding. Digitalisation, supply chain legislation and geopolitical risks are shifting the weighting of classic levers and creating new ones.

Digital levers

Digital platforms and marketplaces significantly broaden supplier competition: tenders reach many qualified providers within a short time, pre-qualification data is available in structured form, and offers can be compared more effectively. AI-supported spend analyses identify bundling potential and price deviations in large data volumes. Electronic processes also reduce transaction costs – from the PO order workflow to evaluated receipt settlement (ERS) – and improve data quality for downstream analyses.

Sustainability and resilience levers

Sustainability is moving from a secondary aspect to a lever in its own right: screening against a restricted substances list (RSL), CO2 transparency in the supply chain, regional sourcing to shorten transport routes and delivery times. Resilience levers include dual sourcing of critical parts, safety stock strategies with inventory plan-actual comparison and greater flexibility in the choice of Incoterms – for example the switch from Incoterms CFR to Incoterms DAP in order to take control of transport and supply capability. Companies that systematically catalogue sustainability and resilience levers are better prepared for future regulatory requirements; however, the specific legal obligations must be examined on a case-by-case basis.

Typical metrics

Realised savings per lever: typically 2–8 % per lever and commodity group

Distinction between hard savings and cost avoidance required

Requisition cycle time: often a reduction of 20–50 % after process lever implementat

Core KPI for process and transaction levers

Rate of on-time order confirmations: > 95 %

Demonstrates implementation of the order confirmation obligation

Degree of supplier consolidation: in practice 30–60 % fewer suppliers per commodity group

Only pursue after risk analysis and with alternative coverage in place

Proportion of traceable material batches: > 95 % for critical parts

KPI for quality and sustainability levers

Practical example

A mid-sized mechanical engineering company with a procurement volume of around €180 million analysed its top 20 commodity groups using procurement portfolio analysis. For turned and milled parts it became clear: 62 per cent of the volume was spread across 40 suppliers, mostly without framework agreements. Within twelve months, several levers were applied in combination.

- Consolidation from 40 to 17 suppliers with the establishment of a preferred supplier programme including supplier capacity audits
- Volume bundling across three plants and a tight RFP tender followed by price negotiation in the award procedure
- Standard parts initiative with cleansing of the item master data via a structured master data process and validated sample delivery before series production
- Process optimisation of the low-value order process and introduction of a Kanban system for C parts, secured by an order confirmation obligation and contract compliance checks

Conclusion

Sourcing levers are the tools that turn procurement strategy into measurable results. Their strength lies in their systematic nature: they force us to look beyond the price negotiation focus and treat specification, process, demand and supplier structure as levers of equal standing. Crucial to success are a clean analytical basis, a prioritised roadmap and the anchoring of results in contracts and processes. Those who safeguard side effects through controls and sample validation achieve sustainable improvements rather than short-term effects. In combination with digital marketplaces and growing sustainability requirements, the lever catalogue will continue to gain in importance.

Frequently asked questions

What are sourcing levers in simple terms?

Sourcing levers are the levers with which procurement deliberately improves cost, quality and supply capability. They include price negotiations, specification changes, process optimisation, demand bundling and restructuring of the supplier base. The term originates from Anglo-American procurement management and denotes a structured catalogue of measures rather than isolated individual actions.

What sourcing levers are there?

In practice, five categories have become established: price and terms levers, specification levers, process levers, supplier structure levers as well as demand and requirement levers. Each category contains specific instruments such as tendering, dynamic early payment discount, standardisation or supplier consolidation. The appropriate selection is made by commodity group, ideally on the basis of a procurement portfolio analysis.

How do you select the right sourcing levers?

The starting point is spend analysis and procurement portfolio analysis, which show where volume and risk lie. The levers are then prioritised according to savings potential, effort, risk and time to impact. Fast-acting levers such as volume bundling come first, complex ones such as specification changes or supplier development follow in a roadmap with clear accountabilities.

What risks do sourcing levers have?

Price-oriented levers can impair quality and delivery reliability, consolidation increases supply dependencies, and specification changes carry quality risks if they are made without a sample delivery. Countermeasures include contract compliance checks, supplier capacity audits and documented first article inspection. A balanced lever mix reduces the risk of one-sided optimisation.

What is the difference between sourcing levers and sourcing strategy?

The sourcing strategy defines how procurement is carried out – for example via single sourcing, dual sourcing or global sourcing. Sourcing levers are the specific levers used to implement that strategy. Both levels belong together: the strategy sets the direction, the levers provide the implementation instruments.

How do you measure the success of sourcing levers?

Depending on the lever, different KPIs apply: price metrics and savings ratios for negotiation levers, requisition cycle time and degree of automation for process levers, supplier evaluation and material traceability for structure and quality levers. What matters is a uniform calculation methodology and the separation of hard savings and cost avoidance.