

Sourcing process: systematically procuring from requirement to supply source

The sourcing process describes the structured path by which companies identify requirements, identify, evaluate and contractually bind suppliers. It comprises strategic and operational steps from demand analysis through tender management to contract award. A cleanly documented process lowers procurement costs, reduces supplier risks and improves on-time delivery across the supply chain.

Key facts

- The sourcing process links strategic supplier selection with operational order handling.
- Typical phases are demand analysis, supplier search, evaluation, negotiation, award and performance monitoring.
- A make-or-buy decision and the analysis of Total Cost of Ownership (TCO) often come first.
- Complete documentation such as order confirmation and packing list ensures traceability along the process.
- Metrics such as savings rate, supplier onboarding time and supplier evaluation make the process measurable.
- Digital tools such as a supplier portal or eAuctions significantly accelerate tendering and award in practice.

Definition: sourcing process

The sourcing process is the systematic sequence for procuring goods and services, ranging from identifying the requirement to the successful start-up of the supply source. It covers both levels of procurement: the strategic selection and development of suppliers as well as the operational handling of individual orders. It thus differs from the pure procurement transaction, which only concerns order placement and goods receipt.

Distinction from purchasing and procurement

In practice, the terms sourcing, purchasing and procurement are often used synonymously, although they describe different levels. Sourcing answers the question of from whom and how goods are procured, procurement steers the entire procurement function including strategy and governance, while purchasing refers to the operational order handling. The sourcing process thus forms the strategic heart of purchasing. Only those who deliberately choose the supply source can subsequently control costs, quality and availability on a lasting basis.

Direct, indirect and global sourcing

The process is shaped differently depending on the type of requirement. In direct material sourcing, availability, quality and just-in-time delivery take centre stage, often supported by consumption-based scheduling and framework supply agreements. In indirect material sourcing, standardisation, volume

consolidation and the reduction of process costs dominate. Global sourcing broadens the spectrum to international suppliers, whereby transport costs, customs handling and supply risks play a greater role and careful risk assessment becomes necessary.

Phases of the sourcing process: from requirement to award

The sequence follows a similar pattern of seven to nine phases in most industries. The depth of the stages is typically defined by approval rules and procurement volume: small requirements go through a simplified workflow, strategic goods through the complete process with formal tender management.

Demand analysis and make-or-buy

The starting point is the analysis of the requirement: which parts or services are needed, when and in what quantity, which specifications and standards apply? Procurement then examines, in the make-or-buy decision, whether in-house production or external sourcing is economically superior. In doing so, not only unit costs but also tooling investments, capacity commitment and technological dependence are taken into account. For parts already introduced, the Product Environmental Footprint (PEF) applies if ecological requirements are to be incorporated into the requirement specification.

Market analysis and supplier search

On the basis of the requirements specification, procurement researches potential suppliers via market databases, trade fairs, industry networks or digital marketplaces. Forming a sensible bidder field is important: too few bidders weaken the negotiating position, too many increase effort and quality risk. In practice, a selection of three to six qualified participants per award has established itself as the usual benchmark. Initial capacity, financial and quality checks prevent unsuitable bidders from entering the evaluation.

Tendering, evaluation and negotiation

Tender management structures the enquiry: unambiguous specifications, delivery terms, payment terms and evaluation criteria are defined. After receipt of the bids, a weighted evaluation takes place according to price, quality, logistics and sustainability. In the negotiation, prices, conditions, volume tiers and delivery agreements are fixed. Negotiable points include, alongside the unit price, transport costs, tooling costs, minimum order quantities and the term of the framework agreement.

Award, contract conclusion and onboarding

After the award follow contract design and supplier onboarding: master data creation, activation in the supplier portal, definition of workflow rules (P2P) and alignment of communication channels. For critical parts, qualification follows, such as sample acceptance, tool release and initial sampling through to production readiness. Only after successful onboarding does operational supply begin, which is then controlled via order confirmation obligations and defined reporting processes.

Strategic manifestations of sourcing

The choice of sourcing strategy determines the number of suppliers, contract type and risk profile. It should be differentiated by commodity group and reviewed regularly, as market conditions change.

Single, dual and multi sourcing

With single sourcing, one supplier covers the entire requirement for an item, which enables economies

of scale and close partnerships, but creates dependency. Established single-source management mitigates these risks through capacity reserves, contingency plans and regular supplier evaluation. Dual or multi sourcing distribute the volume across two or more suppliers and increase supply security, but require greater coordination effort and, as a rule, duplicated qualification costs.

Framework agreements and international procurement

The framework agreement with agreed prices, conditions and terms forms the backbone of strategic procurement and relieves the operational order, which is triggered via release notifications. In international sourcing, topics such as Incoterms, customs handling, currency risks and extended transport times are added. To secure obligations of parent companies or newly founded entities, a parent company guarantee can be agreed; for advance payments or foreign payments, checking hedging instruments on a case-by-case basis is recommended.

Key KPIs and measurement figures

Without metrics, the impact of the sourcing process remains invisible. A mix of cost, process and supplier metrics, evaluated comparably across all commodity groups, has proven its worth.

Cost and process metrics

Key figures are the realised saving compared with the baseline, the tendering rate (share of volume awarded via tender) and the time-to-market for new parts, i.e. the time from enquiry to production readiness. Cycle times for purchase orders and the connection rate to electronic processes such as order confirmation and invoice processing are equally informative. These metrics show whether the process improves process efficiency as well as prices.

Supplier and quality metrics

The supplier evaluation aggregates on-time delivery, quantity accuracy, quality data and complaint rates into a score that forms the basis for new awards. In addition, order confirmation, delivery reliability per order and the number of open escalations provide impetus for action. Topics such as supply capability, financial stability and compliance violations also belong in the monitoring, as they affect the existence of the supply source.

Risks, controls and compliance

The sourcing process carries operational, financial and legal risks. Systematic controls and a clear segregation of duties between requisition, procurement and approval are essential.

Supplier failure and supply risks

Failure risks arise from insolvency, capacity bottlenecks, natural disasters or geopolitical events. Countermeasures include maintaining second sources, safety stocks, early capacity notifications and regular financial analyses of critical suppliers. For certified parts, the interchangeability of the source is often limited by tool release, inspection equipment and drawing rights; the legal clarification of tool ownership and documentation obligations should take place before the award.

Compliance and documentation

Complete documentation is one of the most important controls: quotations, evaluation protocols, contract drafts and changes such as an amendment are filed in a traceable manner. Invoice processing

and dunning follow defined rules, corrected invoices are mapped via a credit note or invoice correction. Since tax and legal assessments can vary from case to case, review by specialist departments or external advisers is recommended.

Current developments: digitalisation, sustainability, resilience

The sourcing process is changing as a result of digital tools, growing sustainability requirements and the trend towards more robust supply chains. Buyers must actively shape these developments in order not to fall behind in the competition for capacity and technologies.

Digital platforms and automation

Digital procurement platforms centralise enquiry, communication and documentation. Via a supplier portal, bidders exchange quotations, order confirmations and packing list data electronically; workflow rules (P2P) automate approvals and order confirmation obligations. AI-supported assistants now support the drafting of tender documents and the preliminary analysis of suppliers. Purchasing optimisation also benefits from central price and condition maintenance in a single database, which prevents outdated conditions.

Sustainability and supply chain transparency

Ecological and social criteria are moving into evaluation and award. Metrics such as the Product Environmental Footprint (PEF) or CO equivalents per unit are increasingly finding their way into tenders and supplier evaluations. Supply chain statutory review and documentation obligations expand the process to include risk analyses along the value chain, whereby the specific obligations depend on legal form, size and business activity and require case-by-case examination.

Resilience and regionalisation

Resilience has become a second driving factor for procurement decisions alongside cost. In practice, increased regionalisation, dual sourcing and the stockpiling of critical parts can be observed. The quality and logistics topic has also gained in importance: shortened delivery times and seamless warehousing up to the dock-to-stock principle reduce downtime costs and increase delivery reliability to one's own production.

Typical metrics

On-time delivery: > 95 %

usual benchmark for satisfactory supplier performance

Savings rate: 3–8 % p. a.

typically achievable with new awards and volume consolidation

Tendering rate: > 60 % of volume

share of procurement volume awarded through competitive tenders

Time-to-market (new part): 6–18 months

from enquiry to production readiness, depending on complexity and qualification

Supplier evaluation score: > 85 out of 100 points

internal threshold recommending continued supply

Practical example

A mid-sized mechanical engineering company with around 350 employees re-sourced a family of purchased precision machined parts after on-time delivery had repeatedly fallen below 80 %. Procurement divided the volume into three lots, consolidated the drawings into a requirements specification and launched structured tender management with five qualified bidders. TCO, quality capacity, on-time delivery history and degree of digitalisation were evaluated. In the end, two suppliers were contracted under a two-year framework agreement, with a binding order confirmation obligation and monthly supplier evaluation scores.

- Consolidation of the volume to two suppliers instead of the previous five, with price reductions in the double-digit percentage range
- Definition of binding workflow rules (P2P) including order confirmation obligation and electronic packing list
- Establishment of a supplier development concept with semi-annual audits and capacity reserves for periods of shortage
- Introduction of quarterly reporting to management on on-time delivery, quality and savings

Conclusion

The sourcing process is the strategic backbone of every procurement operation and determines a company's cost structure, quality and supply security. A well-structured process links demand analysis, supplier selection, negotiation and performance monitoring into a closed control loop. Metrics and clear responsibilities make the impact measurable, digital tools lower process costs and cycle times. Risks can be controlled through diversification, contractual safeguards and documented compliance. Those who continuously develop the sourcing process gain a lasting competitive advantage in the supply chain.

Frequently asked questions

What is meant by a sourcing process?

The sourcing process is the structured sequence by which companies identify requirements, identify, evaluate and contractually bind suppliers. It ranges from demand analysis through tendering and negotiation to award and ongoing supplier evaluation. It therefore forms the strategic foundation of all procurement decisions.

Which phases does the sourcing process comprise?

Typically seven to nine phases: demand analysis, make-or-buy decision, market research, tendering, bid evaluation, negotiation, award, contract and onboarding. The depth of processing depends on the procurement volume and the criticality of the material. Strategic goods go through the complete process, standard items often a simplified workflow.

What is the difference between sourcing and purchasing?

Sourcing answers the strategic question of which supplier to procure from and under what conditions. Purchasing covers the operational handling: order placement, confirmation, goods receipt and invoice clarification. Procurement, in turn, refers to the overall organisation of the procurement function including strategy, governance and team management.

Which metrics are measured in the sourcing process?

Key KPIs are savings rate, tendering rate, time-to-market for new parts, supplier evaluation score and on-time delivery performance. In addition, cycle times for purchase orders and the share of electronically processed transactions are measured. In practice, a mix of cost, process and supplier metrics has proven effective.

What is single sourcing and when is it sensible?

With single sourcing, a company sources an item entirely from a single supplier. This strategy offers economies of scale, close partnerships and lower qualification costs, but creates dependency. It is suitable for parts with high in-house development depth or exclusive specifications, provided a functioning single-source management with contingency plans exists.

How can the sourcing process be digitalised?

Typical building blocks are a supplier portal for quotations and document exchange, electronic order confirmation, automated approvals via workflow rules (P2P) and central price and condition maintenance. Digital marketplaces and AI assistants additionally support supplier search and tender creation. Integration with the existing ERP system landscape is important in order to avoid duplicate data entry.