

# Sourcing Strategy: Systematic Procurement by Commodity Group and Supplier

The sourcing strategy is the medium- to long-term plan with which a company defines which goods and services it procures from which suppliers, from which regions and on what terms. It links the objectives of purchasing – cost, security of supply, quality and sustainability – with the overarching corporate strategy. For technical buyers, it is the central steering instrument for making procurement plannable and measurable rather than reactive.

## Key facts

- A sourcing strategy defines what is procured, from whom, where and on what terms – derived from commodity group and supplier analysis.
- Typical strategic options are single, dual and multiple sourcing, global sourcing, nearshoring and make-or-buy decisions.
- The Kraljic matrix classifies material classes by profit impact and supply risk and is the most commonly used classification tool in practice.
- Key levers are consolidation of the supplier base, tenders via Request for Quote (RFQ) and contract models such as blanket orders.
- Supplier risks can be addressed via ESG risk ratings, right to audit and robust terms and conditions of purchase.
- Success is measured using KPIs such as savings rate, supplier consolidation, supplier PPM target and delivery performance.

## Definition: sourcing strategy

The sourcing strategy describes the systematic definition of how a company distributes its procurement requirements across suppliers, regions and contract models. It answers the core questions: Which services do we buy, from how many providers, from which markets and with which target terms? Unlike operational purchasing, it operates across several budget periods.

## Distinction from operational procurement

Operational purchasing implements the strategy: it conducts price enquiries, maintains planning parameters, monitors delivery dates and handles complaints. The sourcing strategy, by contrast, operates at the level of commodity groups and supplier portfolios and sets the framework within which operational disposition takes place. The two levels interlock: strategy decisions such as a supplier change generate operational tasks, such as qualification and first article inspection.

## Sourcing strategy within the procurement process

In practice, strategy development follows a recurring cycle: demand and spend analysis, market analysis, portfolio classification, definition of the strategy per commodity group, implementation via RFQ and contract award, and regular review. A commodity group board helps to make responsibilities per

category transparent and to prepare decisions in a structured manner.

## **Methods and approach for developing a sourcing strategy**

Strategy development begins with a transparent spend analysis: which material classes and commodity groups account for which volume, how many suppliers serve them and how fragmented is the demand? Building on this, market analysis and portfolio classification are carried out before strategic options are selected.

### **Portfolio classification according to Kraljic**

The Kraljic matrix classifies material classes along two axes: supply risk and profit leverage. In practice, four categories result – strategic items, leverage products, non-critical items and bottleneck items – each with a different strategy: strategic items call for partnerships, leverage items for competition, non-critical items for process simplification and bottleneck items for risk mitigation.

### **Sourcing options and make-or-buy**

For each commodity group, options are evaluated: consolidation onto few suppliers, dual sources for risk diversification, global sourcing or nearshoring. The make-or-buy question examines whether in-house production or external procurement is more economical; here, a function-based cost analysis supports the comparison across product functions rather than pure unit prices. For complex components, a proof-of-concept procurement before contract award can test the capability of a new supplier.

### **Cost transparency as the basis for decisions**

Negotiation and award decisions should be based on a cost breakdown that discloses material, manufacturing, logistics and overhead cost components. For long-running raw material positions, a price escalation clause safeguards the traceability of adjustments. For design-driven savings, design-to-cost complements the strategy by taking target costs into account as early as the development stage.

## **Supplier selection and contract models in the sourcing strategy**

The strategy is implemented through structured tenders and robust contracts. The key is to define qualification criteria before the award and to document them in a traceable manner.

### **Tender and bid comparison**

The standard route is a price enquiry to a qualified pool of suppliers, formalised as a Request for Quote (RFQ) where services are comparable. For spec-driven, homogeneous services, e-auctions may be considered. The award decision should take into account and be documented alongside price also capacity, quality, logistics concept and sustainability.

### **Contract models**

For A-parts with stable demand, a blanket order secures quantity over a framework period and price, while call-offs are handled operationally. Terms and conditions of purchase govern warranty, delivery time, payment and compliance. In addition, contracts should include a right to audit, so that the supplier's process and cost structure can be examined where there is legitimate cause.

### **Supplier evaluation and risks**

Systematic supplier evaluation continuously checks whether the strategic choice holds up: quality

measured against the supplier PPM target, on-time delivery, responsiveness and price development. An ESG risk rating adds sustainability and compliance risks to the picture, which are increasingly relevant for reporting obligations. Strategic suppliers are regularly given development targets, while less critical suppliers are assessed using standardised criteria.

## **Key KPIs for steering the sourcing strategy**

Without metrics, a sourcing strategy remains a statement of intent. Established measures in practice relate to cost, supplier structure, quality and security of supply.

### **Cost and process metrics**

Key metrics are the realised savings rate against baseline, the share of strategically managed volume and schedule adherence in the procurement process. Process automation via invoice automation lowers processing costs per purchase order and makes the volume measurably manageable. In addition, the number of active suppliers per commodity group shows whether the desired consolidation is succeeding.

### **Quality and risk metrics**

Quality is frequently measured via the supplier PPM target and first delivery quality. Security of supply is reflected in on-time delivery, inventory coverage of critical material classes and the number of processed shortage alerts. For critical commodity groups, a quarterly review in the commodity group board is recommended, in which KPIs are compared against the strategy objectives.

## **Risks and controls in sourcing practice**

Every sourcing strategy creates dependencies: single sourcing reduces cost but increases the risk of supply failure; global sourcing opens up price advantages but lengthens supply chains and increases transparency requirements. Risks must be actively managed rather than merely documented.

### **Supply chain and obsolescence risks**

Bottleneck materials and long-life capital goods require obsolescence management that initiates replacement sourcing and redesign early, before parts become unavailable. For quantities procured by sea, ocean freight cost components should be contractually transparent in the price, so that price spikes are not blanket-allocated across all positions. Second sources for critical parts are in practice the most important mitigation lever.

### **Compliance and documentation**

Regulatory requirements – from product to packaging to supply chain matters – must be anchored in the strategy, for example evidence such as a PPWR declaration of conformity for packaged products. A supplier portal can collect certificates, supporting documents and master data in a structured way. Decision-making authority is governed via a delegation of authority, so that award thresholds and approvals are unambiguous.

### **Data quality as a fundamental prerequisite**

Strategy decisions are only as good as the underlying data. Alongside clean spend reporting, plannability and inventory management require well-maintained planning parameters and consistent specification management, so that comparisons between suppliers rest on identical requirements.

Regular cycle counting in the warehouse secures the inventory data on which demand forecasts are based.

## Current developments: digitalisation, sustainability and regionalisation

Sourcing strategies face three simultaneous influences: digitalisation of procurement processes, rising sustainability requirements and a trend towards regionalisation of critical supply chains. In practice, companies are reappraising pure cost optimisation in favour of resilience.

### Digital procurement process

Digital RFQ processes, supplier portals and automated invoice processing shorten lead times and improve data quality for strategy decisions. AI-assisted request creation and market analyses accelerate the award process. Clean material master data management remains a prerequisite, otherwise digital processes merely reproduce poor data faster.

### ESG and supply chain due diligence

Sustainability requirements are moving from an additional criterion to the core strategy: suppliers are assessed by ESG risk rating, and audits and right to audit are contractually anchored. The legal framework is complex and differs depending on legal form, size and market participation; the specific obligations should always be reviewed legally on a case-by-case basis.

### Nearshoring and resilience

Many companies in the DACH region are relocating critical commodity groups partly back to Europe or nearby regions in order to reduce transport times, customs and geopolitical risks. In practice, this happens selectively: only where supply failure costs or regulation dominate does the often higher unit price pay off. The sourcing strategy must explicitly resolve these trade-offs per material class.

## Typical metrics

### **Savings rate: typically 2–8% per commodity group**

measured against a defined baseline over several periods

### **Supplier consolidation: typically 20–40% fewer active suppliers**

per commodity group after strategy implementation

### **Supplier PPM target: typically < 500 PPM**

varies considerably by industry and part class

### **Supplier OTD (on-time delivery): > 95%**

on-time and in-full deliveries as a strategic objective

### **Share of strategically managed volume: typically > 60%**

volume share covered by framework agreements or a fixed supplier base

## Practical example

A mid-sized mechanical engineering company with an annual procurement volume of around EUR 120 million and more than 400 active suppliers created a sourcing strategy for the first time. First, spend was structured by material class and classified into four categories using a Kraljic matrix. For the lever

commodity groups of purchased steel parts and standard electrical components, RFQ rounds with a structured cost breakdown were conducted; for strategic components, partnerships were agreed with fixed price escalation clauses. Critical electronics were safeguarded through a second source and obsolescence management; the core results were tracked quarterly in the commodity group board.

- Consolidation from around 400 to approximately 280 active suppliers within two years
- Volume-based RFQ tenders for lever commodity groups with documented qualification criteria
- Blanket orders for ramp-up parts with stable call-off profiles
- Quarterly strategy review with a KPI dashboard: savings rate, on-time delivery, supplier PPM target

## Conclusion

A sourcing strategy transforms procurement from reactive demand management into a steerable instrument for cost, resilience and compliance. Its core is the consistent differentiation by material class and supplier risk instead of uniform treatment of all items. It only succeeds with a sound data basis, clear accountability and regular review against measurable KPIs. Risks such as single-source dependency or regulatory requirements should be incorporated from the outset. Those who align strategy and operational implementation cleanly create sustainable competitive advantages across the entire supply chain.

## Frequently asked questions

### What is a sourcing strategy in simple terms?

A sourcing strategy is the plan for how a company procures goods and services: from which suppliers, from which countries and on what terms. It defines when a single supplier, multiple sources or in-house production make sense. In doing so, it governs cost, security of supply and risk over several years.

### Which sourcing strategies are there?

Common options are single sourcing (one supplier), dual and multiple sourcing, global sourcing and nearshoring, as well as make-or-buy. The choice depends on the commodity group, risk and leverage, typically assessed using the Kraljic matrix. In practice, several options are combined per material class.

### How do you develop a sourcing strategy step by step?

First, demand is analysed and spend is made transparent by commodity group and supplier. This is followed by a market and portfolio analysis, from which strategic options are derived for each material class. Implementation takes place via tenders and contracts; KPIs such as savings rate and on-time delivery regularly verify success.

### What is the difference between sourcing and procurement?

Sourcing refers to the strategic selection and structuring of procurement sources, whereas procurement covers the entire procurement process including ordering, goods receipt and invoice processing. Sourcing is therefore a sub-function and steering authority within procurement. In German companies, this largely corresponds to the distinction between strategic and operational purchasing.

### What are the benefits of a sourcing strategy for SMEs?

SMEs benefit primarily through supplier consolidation, better terms from pooled volumes and lower supply failure risk for critical parts. A documented strategy also facilitates audits, sustainability evidence and succession planning in procurement. Typically, savings in the low single-digit percentage range of

the relevant volume can be realised without new purchases.

### **When is single sourcing sensible and when is multiple sourcing?**

Single sourcing is suitable for strategic partners, high switching costs or strong specialisation advantages, provided the supplier relationship is intensively managed. Multiple sourcing is recommended for standard parts, high volumes and available competitor supply, in order to secure price pressure and supply reliability. The key is weighing the risk of supply failure against the cost of second-source qualification.