



Information about Strategic Sourcing and Cost Savings for the University

The University of California continually strives to maximize its resources, operate as efficiently as possible, and reduce its costs of doing business, especially during economically challenging times. To this end, UC has developed a new initiative focusing on purchasing efficiencies. A systemwide Strategic Sourcing Initiative began in 2004 and is just one of the ways that UC has sought to do more with less, maximizing every effort to meet its responsibilities in teaching, research, and public service during a time of declining state support. Strategic Sourcing is a disciplined process that reduces the total cost of purchased products and services by fully leveraging the University's combined purchasing power.

The Mission of UC's Strategic Sourcing Initiative:

UC launched the Strategic Sourcing initiative to harness its enormous buying power in the marketplace in order to gain lower costs, improve product quality, and obtain better service levels from its suppliers. The University of California works to develop strong alliances with suppliers which promote the best products, pricing, and service levels for our campus, medical centers, and national laboratory customers.

The Strategic Sourcing Initiative currently underway at the University of California has been designed as a comprehensive program to achieve significant cost savings and to build an internal infrastructure that can sustain the program and drive continuous improvement.

The Goals of Strategic Sourcing:

- Maintain or increase product and service quality
- Leverage UC buying power through strategic alliances
- Create more efficient procurement processes
- Demonstrate significant on-going cost savings
- Educate the UC communities about the benefits of the improved processes
- Determine the appropriate product distribution system for each commodity

The Strategic Sourcing Strategy:

To achieve maximum results, the initial focus of strategic sourcing has been to transform purchasing practices to be more strategic and to engage in value-adding activity. This involves significant organizational change in three key areas:

- Development of a best-in-class procurement environment to enable end users to buy from strategic suppliers,
- Transformation of campus purchasing departments from basic transactional processing units to more analytical, value-added organizations. To accomplish this goal, a number of experienced strategic sourcing professionals have been hired in the purchasing organizations on campuses to upgrade internal capabilities,
- Creation of a Strategic Sourcing organization at UCOP to lead a systemwide Strategic Sourcing initiative.

The Strategic Sourcing 5-Year Plan

For the past year the UC Purchasing Group, with the help of an outside consulting firm, has worked on completing a UC systemwide spend analysis. This initiative resulted in the development of the UC Strategic Sourcing Plan which details the group's activities for the next 5 years. This plan will address a significant amount of UC spend (\$1.3 - \$2 billion) with a goal of achieving 10% annual cost savings. The UC Strategic Sourcing Plan was presented and approved by the UC Regents on March 15, 2006.

Strategic Sourcing: Commodity Team Model

Strategic Sourcing is an effort that promotes all University of California locations to come together to negotiate systemwide contracts that benefit all UC purchasers. The commodity team model encourages participation from each site and requires suppliers to respond to the needs of the total University community. The team process includes both purchasing professionals and product/service experts from all UC locations.

While the main objective is minimizing costs, strategic sourcing takes an enlightened view of the supplier-customer relationship. Strategic sourcing recognizes that people, including innovative suppliers, are a valuable part of an

organization and focuses on reducing non-value-added costs. In many businesses, the secret to lower costs, improved profits, and a more competitive operation lies in management of the supply chain. Today, organizations are taking a fresh look at how they purchase products and services, and many are adopting strategic sourcing as a means to gain better value and quality in products and services.

Six ways strategic sourcing is different from traditional measures:

1. **Total Cost, Not Just Purchase Price:** From storage to repairs to disposal costs, there is more to a product or service than its sticker price. For example, a low-cost computer may be priced \$300 less than its competition, but cost more before the end of its life because its cheap parts require more repairs, it is not energy efficient, and it takes additional funds to dispose of the equipment at the end of its useful life.
2. **Data Driven Analysis:** Strategic sourcing promotes the analysis of data aimed at determining the University's needs and past purchasing history. Through this data, as opposed to anecdotal information, UC more clearly understands the nature of its businesses and the products and services that it purchases. This information is used in identifying major UC location customers, forming commodity teams, and negotiating the best combination of product and service pricing and quality.
3. **Consolidating Purchasing Power:** By leveraging the buying power of all UC locations, strategic sourcing creates strength in negotiating contracts that combine purchases from all locations. These contracts allow UC to get the best combination of pricing, quality of product and service levels that would be challenging to obtain on smaller location by location contracts.
4. **Tighter Supplier Relationships:** By narrowing the number of suppliers used in the business, "partnering" in alliances, and entering into mutually beneficial contracts, UC and its suppliers can work together to achieve standardization and improvements in cost, quality, and higher levels of customer-based service.
5. **Realigned Business Processes:** Strategic sourcing redesigns the work and information flow to eliminate redundancies and extraneous tasks. For instance, one company used over 140 classifications of temporary help positions. After a strategic sourcing review, it reduced the number to just 19. Strategic sourcing can also help reduce the frequency of lower volume purchase orders, multiple deliveries and higher inventory costs.
6. **Improved Teamwork and Purchasing Skills:** Detailed information about products, markets and the buyers' and sellers' needs is essential to strategic sourcing. By creating cross-functional teams, a supplier can overcome organizational barriers and inspire collaboration between departments and UC locations.

Strategic Sourcing and the University's Values

Strategic sourcing efforts support the University of California's values of sustainability and supporting small business.

- **Sustainability Policy:** UC has instituted a new sustainability policy that has established UC as a national leader in higher education in the development of green building design and sustainable practices. The policy not only sets out a rigorous agenda for integrating environmentally-sensitive building design and sustainable practices into campus operations and culture, but it also offers an extraordinary opportunity for UC to reduce long-term operations and maintenance costs. In the fall of 2004, UC was recognized for its energy and environment initiatives with an award from the Environmental Protection Agency (*). Strategic Sourcing supports efforts around sustainable purchasing by ensuring that all bids and contracts require suppliers to demonstrate their dedication to sustainable practices, both in their product offerings and business operations. In addition to a commitment to sustainability and the environment, potential suppliers must exhibit to the respective commodity teams, recycled content product offerings, energy-efficient product offerings, reduced packaging, and product recycling and disposal programs. A supplier's failure to respond to these bid requirements ensures that they will not succeed in obtaining a University of California contract.
- **Small Business Support:** The University of California supports California's small businesses through a variety of ways at the individual location levels. Small business outreach programs exist at most UC locations and small business supplier fairs are held annually on our campuses and at our National Labs. Strategic sourcing supports small businesses by giving small businesses credit towards their bid point score and by encouraging small businesses to participate in the bidding process. Contract compliance for strategically sourced contracts is targeted at eighty percent in an effort to dedicate significant percentage of UC's business to our small and local business providers.

(*) <http://www.ucop.edu/news/archives/2004/sep09.htm>