

# Three questions

to help manufacturers reimagine  
their direct spend sourcing

How Procurement can  
manage complexity, reduce  
risk, and seize opportunities



# Transforming direct spend sourcing into a powerful competitive differentiator

Today, manufacturers face a complex set of challenges. They're under pressure to innovate and bring new products to market quickly to entice end-customers and consumers, whose tastes are changing significantly. For example, demand for sustainable products is particularly high, with these categories growing more than twice as fast as other consumer packaged goods.<sup>1</sup> In another example, demand for electric vehicles (EVs) is growing aggressively; experts expect EV sales to reach 40-50% of total passenger car sales by 2030.<sup>2</sup>

Similar examples exist across industrial manufacturing, consumer durables, chemicals, high tech, and many other industries of how sustainable and healthy products—as well as products with new technology, such as intelligence and connectivity—create new pressures for sourcing and procurement leaders.

See how source-to-contract processes for direct materials can be managed across the entire lifecycle of highly engineered products

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These trends have also spurred the emergence of new competitors. At the same time that they must innovate, manufacturers must also manage ongoing supply chain disruption while keeping costs down to protect their profit margins. This requires aggressive cost management and quick responses to fluctuations in market conditions and commodity prices.

**Juggling all these priorities is hard work. Effective, efficient direct spend sourcing is key to success.**

But right now, that vision is far from reality. Although manufacturers have made great strides in optimizing indirect spend sourcing, many of them still rely on spreadsheets, manual processes, or even indirect spend sourcing solutions to manage their direct spend sourcing. This creates significant risk, because it slows down new product development, delays product launches, makes it hard to react fast to supply chain disruptions, exposes the enterprise to volatile commodity prices, and increases costs by impeding productivity and efficiency.

# Reimagining the way forward

If you're a procurement executive at a manufacturer, reimagining your direct spend sourcing presents a challenge – but also a valuable opportunity. Process transformation and digital solutions give you a powerful new way to generate business value in multiple areas, such as accelerating time to market or providing access to important new innovations. Additionally, because only a handful of manufacturers have transformed their direct spend sourcing, it's a great way to become a leader among your peers and create competitive advantage.

Of course, you have the option of continuing with your current approach – but what's the cost of doing nothing? If you pause to consider this, you'll likely see that sticking with the status quo may be holding you back, creating risk, and stifling innovation.

Ready to start a  
new way forward?

Contact us

## This paper asks three key questions to help you:

1. Evaluate your current approach
2. Decide whether it's worth embracing a more strategic way to manage direct materials sourcing
3. Build a business case to drive change

## Question 1

# Are you using indirect spend sourcing solutions for your direct spend sourcing needs?

Procurement teams at many manufacturers use indirect spend sourcing tools to source direct materials. If you're among them, you'll face challenges, because you're using the wrong tool for the task. It's like eating soup with a fork. You'll probably manage it, but it'll take longer and the end result will suffer.



# Indirect spend sourcing solutions aren't suitable for sourcing direct materials because they don't allow you to:

## Accelerate time to market

Direct materials sourcing solutions connect directly to your product lifecycle and recipe management applications, enabling you to quickly create comprehensive procurement programs for new products directly from a bill of materials, recipe, or parts list. This direct access to new product development documents ensures that every part or ingredient is sourced properly.

With direct materials sourcing solutions, you can also build sophisticated procurement project plans that enable project leads to see interdependencies among parts and/or

ingredients being sourced, helping you source critical components and ingredients first and avoid production delays. They also provide visibility into the impact of schedule changes on the overall sourcing project plans, as well as automated backward scheduling of key milestones before product launch, including dependencies and their effect on the project schedule. This is especially important when your global teams are sourcing hundreds or thousands of components in support of a product launch. And finally, these solutions help you co-innovate with suppliers to further accelerate time to market and increase demand for your products.

## Connect strategic and operational Procurement

Direct materials sourcing solutions seamlessly connect your sourcing processes to your ERP, ensuring that contracts and purchase orders are fully compliant with the terms, conditions, prices, and discounts your sourcing team negotiated. This helps minimize contract leakage and drives up savings. These sourcing solutions also support complex pricing terms – including index-based commodity pricing – and simplify how you operationalize them in your ERP.

## Support complex pricing models like commodity index-based pricing

With direct spend sourcing solutions, you can build commodity index–based pricing into supplier contracts. You can obtain commodity content information directly from suppliers, and then easily simulate and calculate pricing using market data through integration and system-triggered lookups to commodity indexes, gaining quick visibility into the impact of commodity price changes. This makes it simple to accurately analyze the commodity supply chain and better understand your company’s exposure by showing you how commodity price increases affect costs to changing commodity prices revealing the potential savings that a pricing renegotiation would offer.

*“We are missing the simplest of chips, that may only cost cents or dollars. It’s holding us up from building a product that costs \$75,000.”*

**Chairman of a leading automotive original equipment manufacturer (OEM)<sup>3</sup>**

## Deliver better supplier experiences

Compared to indirect materials sourcing tools, direct spend sourcing solutions give suppliers a clearer view of technical specifications, support more seamless collaboration, and provide far deeper insights into demand and how it is forecasted to change over time and by region. This encourages suppliers to see you as a customer of choice, so they prioritize serving you ahead of other clients in the case of labor/materials shortages. It also fosters co-innovation on key new technologies that enable you to speed up time to market and develop superior products.



## Question 2

# Can you fully support new product development by sourcing the right parts, materials, and ingredients on time and on budget?

In this era of fast-paced innovation, new product development and introduction (NPD) is critical to commercial success.



Getting NPDI right depends on sourcing everything you need – parts, materials, and ingredients – on time and on budget. **Using spreadsheets, manual processes, or indirect spend sourcing solutions to manage this process inevitably causes difficulties, because:**

**It slows down the sourcing cycle and creates additional manual work.** Slower sourcing cycles can jeopardize product launches. This is a serious issue that impacts the top line and competitive advantage. In addition, the workload on your sourcing team is likely to increase due to high stock keeping unit (SKU) churn, growing demand for personalization,<sup>4</sup> and the accelerated pace of new product development.

**If you can't easily collaborate on technical drawings and specifications with your suppliers, and track revisions and changes,** you might end up sourcing supply that is out of spec or having to change the product design, which is a very expensive process.

**It's harder to collaborate with suppliers** on innovation, designing for manufacturability (DFM), and designing for costing (DFC). Good suppliers and external manufacturers can make valuable design suggestions that simplify the manufacturing of goods and reduce costs.

**It's more difficult to take into account sustainability concerns,** such as a component's carbon footprint.

**It's harder to consider the entire product lifecycle,** including maintenance, contract price renegotiation, and eventual disposal.



The right technology can help you avoid these issues.

Here are some expected outcomes:

Up to **4X faster** sourcing cycle times

Accelerate their requisition-to-order cycles by **210%**

Onboard suppliers **400% faster** and manage them effectively

Achieve **over 8%** annual sourcing savings

Source: SAP benchmarking program<sup>5</sup> \*results based on top 25% of customers

More than  
**30%**

of procurement teams say that inability to get products to market fast enough is a key problem.<sup>6</sup>

**22%**

of manufacturers are increasing collaboration to drive flexibility in product design and sourcing options.<sup>7</sup>

Learn how the SAP S/4HANA solution for product sourcing addresses the unique sourcing requirements of automotive and industrial manufacturing companies.

[Learn more](#)

### Question 3

# How do you keep up with commodity price volatility?

We're in an era characterized by volatility. Commodity prices are especially unstable and will remain in flux as consumer expectations, new technologies, new capacity, government regulations, and discoveries of new sources impact supply and demand of key commodities like nickel, lithium, semiconductors, oil, and so on. Some materials are affected by scarcity and supply issues, whereas supply of others is growing in continued expeditions and discovery processes.



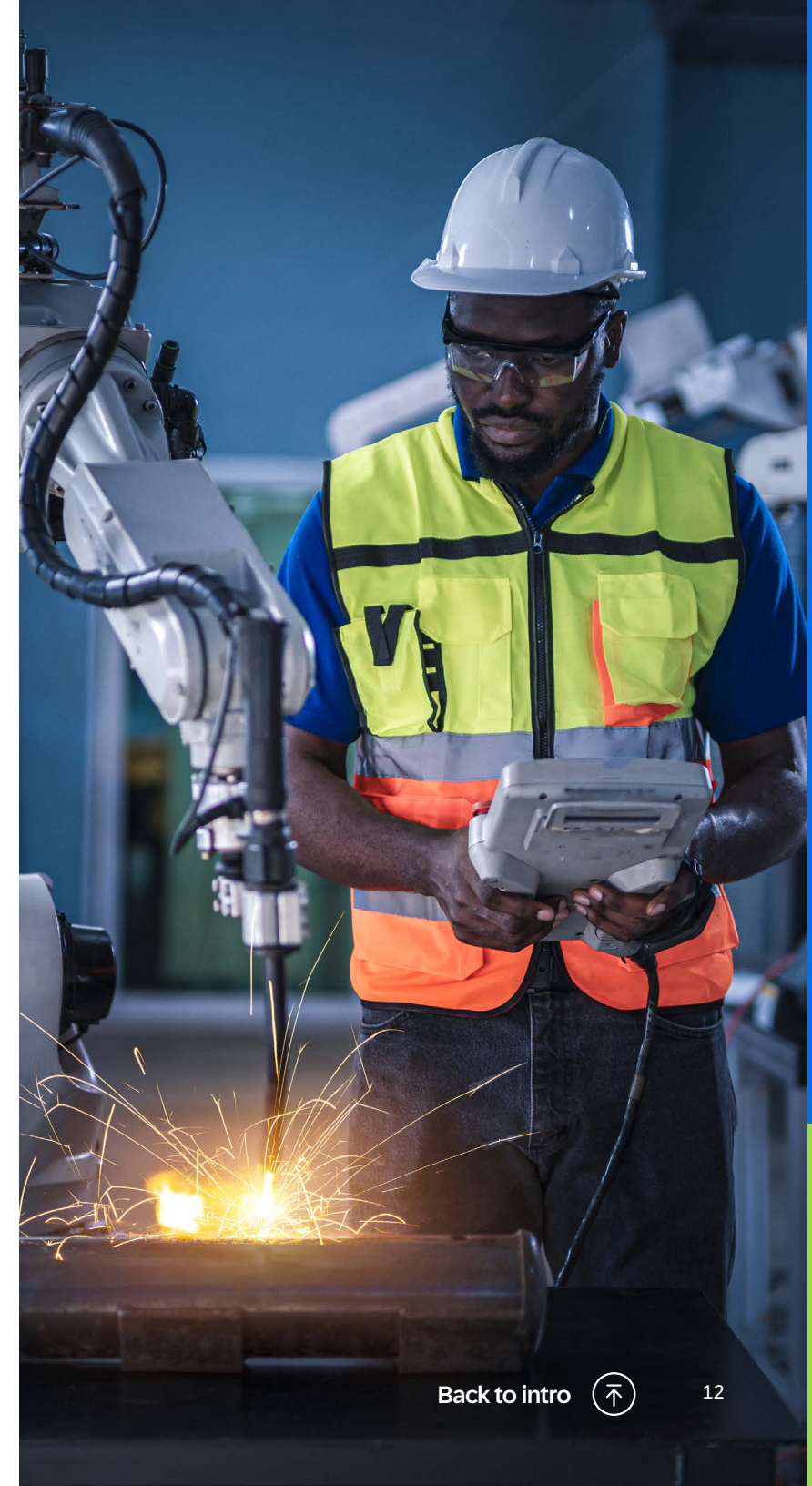
To ensure you can reliably source the commodities you need at competitive prices, you need to stay on top of all this complexity by:

- **Being able to model complex pricing structures** (such as commodity index–based pricing, fixed prices, volume-based pricing, and discounts)
- **Gaining end-to-end visibility** in the source-to-pay process
- **Building a single source of the truth** to identify and communicate key contract items globally and locally
- **Understanding your company's commodity supply chain** and having visibility into your company's exposure to fluctuating prices
- **Automating** price renegotiations
- **Updating contracts efficiently** to collect savings

*“Platforms such as SAP's that provide the framework for manufacturers to synchronize supplier systems down to tier n will provide manufacturers with the information from which timely intelligence can be cultivated and deployed to proactively address risk, increase collaboration, and improve organizational agility.”<sup>8</sup>*

See how processmanufacturer CAPSA FOODS speeds its sourcing processes with direct spend solutions

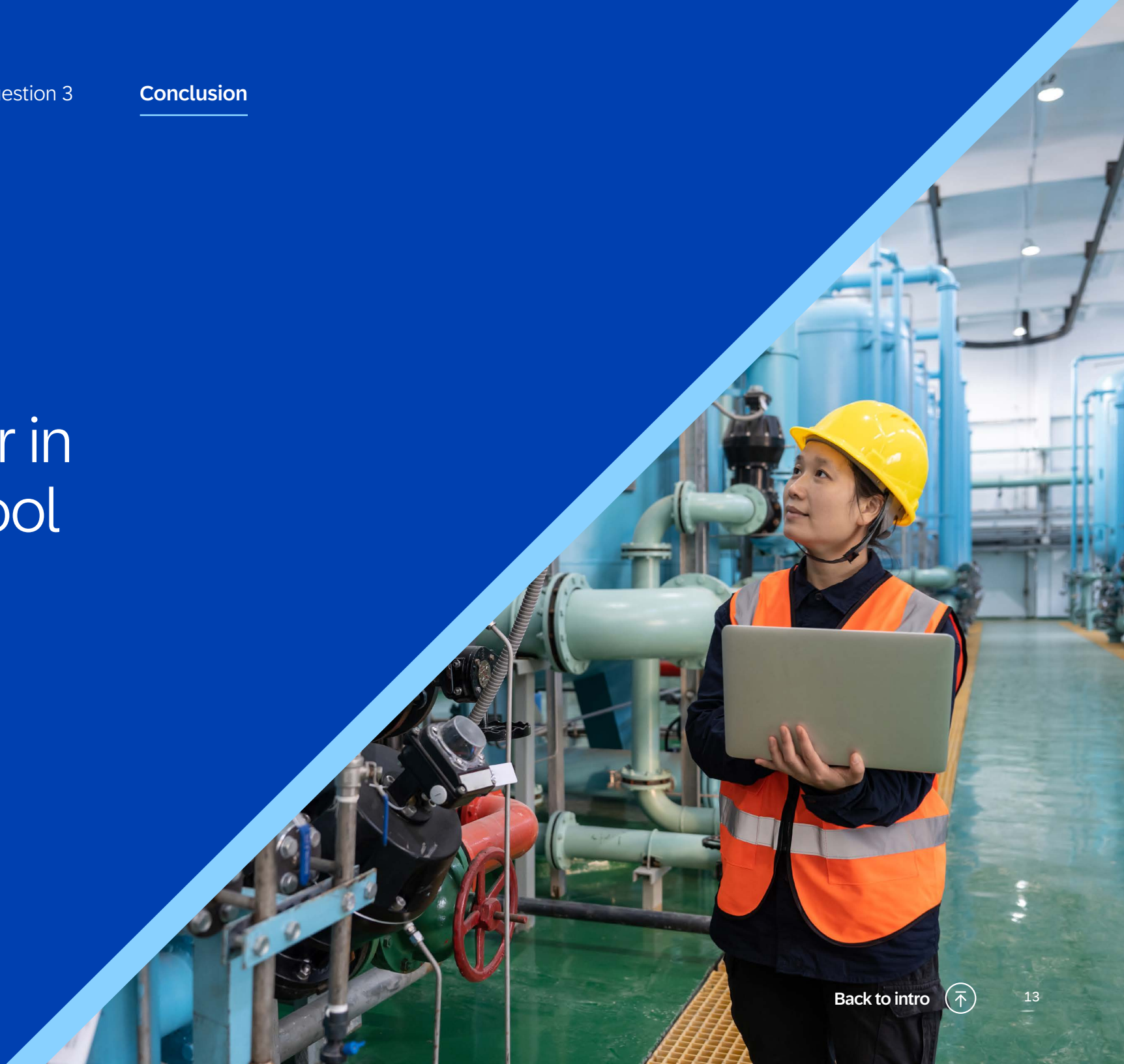
[Learn how](#)



## Conclusion

# Nine things to look for in a strategic sourcing tool

Fortunately, excellent tools already exist to help you manage complexity, reduce risk, and seize opportunities from your direct spend sourcing.



# Look for a solution that supports:



01.

**Support for bills of materials (BoMs), recipes, and parts lists,** enabling you to quickly and easily understand all the items your team must procure to support product launches as well as ongoing production. Material cost visibility further enables you to track pricing history, sourcing activities, and sources of supply at both part/ingredient and product levels. Visibility across projects can also drive savings to standardize on common components and aggregate demand across purchase requisitions from multiple ERPs, locations, projects, product launches, and product lines.

02.

## **Procurement planning**

so you can build a comprehensive procurement plan for even the most complex projects requiring hundreds or thousands of parts, and align across multiple functions and stakeholders to support on-time product launches.

03.

## **Sustainability**

so you can understand the carbon footprint implications of your sourcing decisions and monitor resource consumption, energy use, carbon emissions, and more.

04.

### Demand awareness

to make sure your procurement function is involved in both the initial product design and the continuous optimization of existing products.

05.

**Supply market intelligence and risk management** so you can gather data at the material and category level to manage risk, stay on top of fluctuating commodity prices, negotiate with suppliers, boost customer satisfaction, drive cost savings, and gain competitive advantage.

06.

### Sourcing and contracting

across different items (including parts, ingredients, semi-finished products, raw materials, and packaging) and services (like subcontracting, installation services, aftersales services, and contract manufacturing and packaging), making it easy to:

- Break down costs at a granular level so you can track cost drivers over time to support renegotiation and potential re-sourcing.
- Integrate with your product lifecycle management (PLM) system.
- Involve suppliers in the new production introduction (NPI) process.
- Automate contract renegotiations.
- Consistently enforce company-wide procurement policies at the global and local level.



07.

**Extended collaboration**

to prioritize activities based on the various constraints and interdependencies of your manufacturing process, and work with suppliers on product design, specifications, and innovation.

08.

**Orchestration**

so you can share detailed information about your requirements with your suppliers.

09.

**Analytics**

such as simulations or scenario planning at the category, supplier, product (BoM), program, project, and material level.

These capabilities help you  
accelerate time to market,  
streamline innovation, reduce costs,  
better manage price volatility,  
improve product sustainability, and  
strengthen compliance with your  
internal procurement policies.

Further suggested reading:

“Direct Material Sourcing: The Importance of Having the Right Tool for the Right Job,” Spend Matters.

Read more

# Taking the next step

Here at SAP®, we have many years of experience helping manufacturers optimize their direct materials sourcing using our SAP Ariba® Strategic Sourcing Suite, which offers integrated source-to-contract capabilities.

**If you're a discrete manufacturer**, our solutions can help you collaborate with suppliers and contract manufacturers on BoMs and engineering changes, gain detailed cost breakdowns, and automatically collect detailed supply information to ensure products comply with regulatory and corporate social responsibility requirements.

**If you're a discrete manufacturer with highly engineered products**, our solutions can help you support product launches with complex BoMs spanning hundreds or thousands of components. This enables you to import information from your PLM system, bundle multiple items into sourcing projects, backwards-schedule key sourcing activities

to hit key milestones, and support complex pricing agreements.

**If you're a process manufacturer**, our solutions can help you share documents like recipes and product specifications with suppliers, ensure suppliers comply with regulatory and corporate social responsibility requirements, and gain visibility into material costs and total landed costs.



To learn more about how we can help you drive cost savings, reduce risk, and seize opportunities from your direct spend sourcing, please

[Visit our website](#)[Request a demo](#)[Contact us](#)

1. Randi Kronthal-Sacco and Tensie Whelan, "[Sustainable Market Share Index™](#)," NYU Stern Center for Sustainable Business, April, 2023.
2. Javier Colato and Lindsey Ice, "[Charging Into The Future: The Transition To Electric Vehicles](#)," U.S. Bureau Of Labor Statistics, February 2023.
3. Bertrand Maltaverne, "[Direct Material Sourcing: The Importance Of Having The Right Tool For The Right Job](#)," Spend Matters.
4. Maltaverne, "[Direct Material Sourcing](#)."
5. SAP, "[2022 Benchmark Survey Insights](#)," September 2022.
- 6., 7., 8. Maltaverne, "[Direct Material Sourcing](#)."