

## Market Report

### Strategic Sourcing

#### Strategic Sourcing Group Gains Momentum at NuStar Energy

By Barton S. Richards, CIRM

In 2008, NuStar Energy — a publicly traded, limited partnership based in San Antonio, with more than 1,700 employees, 8,417 miles of crude oil and refined product pipelines, 82 terminal facilities and two asphalt refineries — completed a large, organic capital growth plan and the acquisition of an asphalt refining system. This growth created needs within the organization to implement new sourcing strategies to handle both the new assets and to improve services and processes associated with all its business lines.

At NuStar, a shared belief exists that if the company takes care of the employees, then the employees will take care of the business — and, as a result, the unit-holders. Safety and quality play roles in everyday business. This culture also results in decentralized decision-making, which promotes local stewardship and accountability. However, these characteristics make it challenging for a strategic sourcing group to successfully implement traditional centralized cost reductions.

In late 2008, Michael Burgett, CPSM was named NuStar's new vice president of strategic sourcing. Prior to this, he ran the terminal operations for NuStar as a vice president of regional operations. NuStar management was interested in having a user in the sourcing role to create credibility and a higher level of operational understanding, and who knew the culture and people of NuStar.

To assist in jumpstarting this new group, [The Claro Group](#) was engaged to focus on strategic sourcing and cost-reduction opportunities. The project began in summer 2008, with Claro and NuStar performing an assessment of cost-reduction opportunities via spend analytics. The assessment allowed the team to prioritize the sourcing opportunities and focus on categories with high probability of implementation success. As in most organizations today, the existing procurement team and budget holders were already doing a great job procuring goods and services. In this situation, the task was to create incremental benefit on top of those efforts.

In 2009, the team focused on both corporate and operational categories, including office supplies, telecommunications, PC hardware, purchasing cards, various tank maintenance areas, environmental remediation and lubricity additives. Burgett assigned NuStar and Claro

professionals to work with each user team. To be successful, the sourcing team members needed to advocate for the user and meet their scope needs. They also had the assignment of calculating the savings created from the initiative.

Tank maintenance was perhaps the most rewarding and impactful on NuStar's operations and people. Having previously led the terminal operations group, Burgett understood the strengths and opportunities inherent in the business. Tank maintenance managers were working on a regional basis to accomplish their needs. A companywide approach was needed to leverage the quality and resources around the tank maintenance work. NuStar invited Hector Gonzalez, manager of corrosion and welding, to lead a new companywide tank maintenance steering committee. The sourcing team members now had a working team through which they could vet strategic sourcing initiatives, including tank inspections, cleaning, maintenance and painting.

"The sourcing team has offered strategic platforms for vetting and partnering with service providers which have produced mutually beneficial and economically competitive relationships," Gonzalez says.

In two particular instances, services — such as API 653 atmospheric tank inspections and cathodic protection close interval surveys — were competitively bid using a supplier conference. Service contractors were brought in to meet with NuStar subject-matter experts. The meetings were open forums wherein NuStar simultaneously shared its current operating climate and upcoming workload with the service contractors. The service contractors were then brought in to discuss their companies' capabilities and service footprint with a panel of NuStar subject-matter experts. The result is a very competitive pricing structure based on long-term volume commitments.

The savings results in the Phase I categories was 17 percent overall. Phase I included the areas of:

- Office supplies
- PC hardware
- Telecommunications
- Environmental remediation
- P-card
- Lubricity additive
- Tank inspections
- Cleaning
- Maintenance
- Painting.

Phase II categories are underway and include:

- Terminal management system
- PLC integration
- Temporary labor
- Courier

- Guard service
- Close-interval surveys and inspections
- Pipeline corrosion chemicals.

The team cites several keys to its success. First, NuStar's management provided strong executive support.

Second, Burgett's previous responsibilities as vice president of terminal operations and other past operations roles lend the sourcing team a respected voice at the executive table. He understood the operations and knew the personnel well enough to quickly identify where savings opportunities exist and where change management and communications are a priority.

Finally, making the stakeholders an integral part of the process, advocating on behalf of the user, and allowing them to feel ownership in the supplier negotiation and selection process are critical to any sourcing initiative.

Several leading practices were used throughout the process, including using a spend analytics process or service. Having a spend analytics tool or service is important to help the sourcing group understand what has been spent and with whom.

Also, spending the time to document the cost of a supplier's service or good is important so that you know your starting point and can calculate savings later.

Third, use the appropriate sourcing strategy that meets the initiative objectives. To date, NuStar has used various sourcing methods (incumbent negotiations, supplier conferences, reverse auctions, requests for proposals and requests for quotes).

Fourth, perform a savings sign-off. Once savings are calculated from the team's efforts, having an involved stakeholder actually sign off on the savings calculation can be an unnerving process for the sourcing team member; but, it also validates the forecast savings in the minds of others, which can be very important down the road.

Finally, track the actual results. Setting up a process to validate that negotiated savings turn into real savings for the organization is critical, and is especially useful for senior management, who might ask questions regarding the level and timing of savings amounts.

There are various approaches to making a market exist. Incumbent negotiations can be used when end users are satisfied with the current supplier and savings opportunities exist. Supplier conferences should be considered when new or complicated requirements and standards need to be shared through direct communications with a supplier.

Additionally, a supplier conference will directly expose all team members to new supplier options at the same time (a great tactic when resistance to change exists). Gathering users in the same place at the same time can make the selection process more efficient.

Finally, reverse auctions are another tool that can be used in categories where requirements can be well-documented. Having a critical mass of supplier participants, knowing the market capacity at the time of the event and training suppliers on the use of the reverse auction tool are some of the many keys to success with this approach. Sometimes creating an even playing field is of critical importance, so requests for proposals and quotes might be the best ways to create savings for the organization.

NuStar Energy has started its journey along the strategic sourcing and procurement life cycle. Continuing to be advocates for the stakeholders, and focusing on making procurement easy for the end user, will continue to be the team's focus in 2010.

***Barton S. Richards, CIRM*** is the managing director at *The Claro Group*. To contact this author, send an e-mail to [author@ism.ws](mailto:author@ism.ws).

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