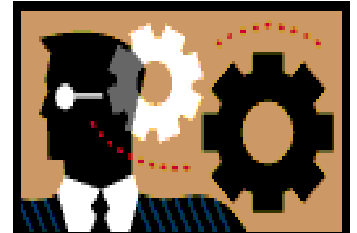




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Global Sourcing:

CXO's can discover how to maximise the opportunities from managing a global supply base

A guide for CEO's, CFO's and CPO's on how global sourcing can contribute to business objectives for sustainable competitive advantage

What's in it for you? Improved sourcing effectiveness and value from your supply base

Reading time: 15 minutes

Introduction:



Global sourcing has become an economic imperative for many organisations. Competitive pressures, globalisation, and the desire to enter developing markets overseas to drive growth, have driven a greatly increased level of international sourcing. However, simply buying internationally is not going to provide the best solution to achieving the goals that will lead to continuing corporate success. A comprehensive global sourcing strategy is required.

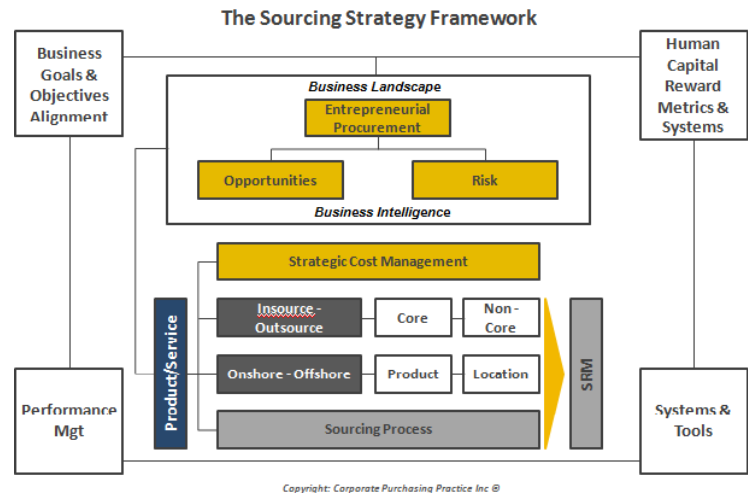
Today, it's no longer a question of whether a business should consider global sourcing, it's a matter of **'how'** to launch, execute, and manage a global supply base to maximise benefits and minimise risks. Whilst cost reduction remains one of the leading factors in driving organisations to turn toward global sourcing, lower cost alone are unlikely to provide competitive advantage if your competitors are also sourcing internationally.



LINKING TO BUSINESS OBJECTIVES

Global sourcing is one component of a company's overall sourcing management strategy (Fig 1), that should systematically determine whether a product or service should be made in house, outsourced, sourced locally, regionally or globally to support the organisations continued success.

In this context, clearly, a more strategic approach is required. One that effectively links global sourcing to the overall goals of the business.



Business goals that lead to sustainable competitive advantage (CA) include:

- Becoming the lowest cost producer
- Achieving world class quality
- Maintaining constant innovation
- Minimising time to market

By identifying the strategic goals of the business and linking sourcing goals that support them, global sourcing can make a significant contribution to the sustainable success of the business.

To do this procurement needs an evaluation framework(Fig 2) by to help them to understand their organisations business strategy, value chain and sources of CA in order to select appropriate products, locations and suppliers for global sourcing. Once this is understood, procurement can start to develop sourcing strategies which helps strengthen existing sources of CA and secure new ones.

PROCESS

Many companies find the process of global sourcing, particularly in low cost countries, extremely difficult due to the increased complexity. See Table 1. The truth is that failures in global sourcing activities expose the weakness of a company's standard sourcing processes. A robust process by which to conduct global sourcing is critical. Commencing with the overall sourcing strategy framework and having reached the decision to source globally, the strategic sourcing process provides the discipline by which to manage supplier selection and to maximise value contribution.



Unfortunately, whilst many purchasing professionals will be able to show the 'best practice' chevrons for a successful strategic sourcing exercise they will often admit to not practicing such a robust process on a day to day basis. This dangerous lapse of discipline can result in problems later, particularly when sourcing globally as the supply base is often working to different standards of practice and acceptability with regard to its local customer base.

The key to successful strategic sourcing is a robust and sustainable process supported by strong governance and conducted via suitably skilled people. Examples of general good working practice are highlighted in table 2.

If you don't reflect these disciplines in your strategic sourcing process, it will not be long before serious problems are uncounated. Once the sourcing process is complete ongoing supplier management is necessary to ensure quality, CSR and sourcing integrity are maintained and to protect against supply chain failures. This requires investment in time, resources and money.

Visit the **Buying Magician Blog**: [Global Sourcing Capability Framework Part 1](#).

KEY EVALUATION DIMENSIONS

The key success factors of global sourcing evaluation revolve around three dimensions:

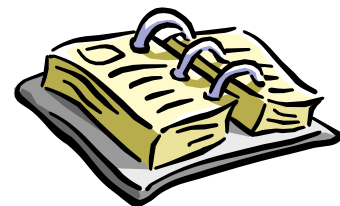
- product
- location
- supplier

These dimensions must be systematically evaluated as part of the strategic sourcing process:

Product

It is important to determine suitable products for global sourcing. The key is to target products that provide high benefit and low risk and that fit well with overall company objectives. Such products generally have high labour content and low shipping costs. A thorough product positioning review and

Fig 2. Global Sourcing Evaluation Framework





business risk assessment should be weighed against the advantages taking into account factors such as product life-cycle, lead time, labour content, IP and transportation etc:

- If a product requires 50% labour, it may make sense to source in countries that have low labour cost. If it only has 10% labour content, then it may make more sense to buy closer to home to save on transportation costs.
- Products that are large, bulky or perishable, are more difficult to transport.
- Products with large demand variation, require holding more inventory, increasing costs and risk of obsolescence.
- Products with long lead time may also increase inventory requirements.

From a supply chain perspective, you have to make sure that hidden costs don't eat up the savings.

Location

Companies engaged in global sourcing should develop a geographic strategy to determine which countries they will buy from and how volumes will be allocated. By determining the comparative advantage of countries procurement can determine whether it pays to source a product locally or internationally.

In addition to low labour cost, sources of comparative advantage come from factors such as:

- Available talent pool
- Cost of raw materials, capital equipment, and taxation levels etc
- Logistics infrastructure such as roads and ports
- Political stability

Table 1:

Typical problems in Global Sourcing:

- Poor processes and preparation for sourcing globally that is more complex and contains greater risk than local sourcing.
 - Often carried out in response to local price pressure.
 - Little R & A carried out on potential issues and sources
 - A 'try it and see' approach.
- **Communication hurdles**
 - Time difference.
 - Language difficulties. Face to face and via teleconference.
 - Difficulty in understanding documentation provided in English.
 - Lack of face to face meetings.
- **Total landed cost**
 - Difficulty assessing the full impact of transport, duties and custom clearance etc.
 - Additional stockholding required to support longer lead times and additional risk of supply failure.
 - Additional audit costs.
 - Start up cost
- **Performance failures**
 - Failure to adequately define and manage quality
 - Lack of ongoing communication leads to service decline.
- **Ethical considerations**
 - Human rights issues.
 - Environmental issues.



Low wages doesn't always mean low cost. If a country has a comparative disadvantage in any of these or other areas it will reduce the benefit of low labour cost. Therefore, those countries with the right mix of macro-economic factors, infrastructure, and labor requirements represent the high potential countries for global sourcing. Labour cost must also be balanced against the required level of value added, the level of complexity involved in production and the available skill levels.

Other considerations include the availability of banks, universities, insurance groups, public accountants, customs brokers, etc to establish a robust local business network.

Supplier

A supplier profile should be developed, using an expanded version of your supplier questionnaire including extras, such as control of export documentation, etc. It is important to develop a thorough knowledge of the suppliers culture, to aid good communication and due to the additional complexities of global sourcing it is advisable to allow for longer screening and trial periods with new suppliers to

Examples of Good Practice in Global Sourcing:

Table 2

Governance: Ensure governance is in place to support the process and manage conflict.

Process: A robust sourcing process with the involvement of internal customers and stakeholders is essential to ensure buy in to outcomes.

Specification – Clear, well written specifications supported by samples etc are an essential requirement. No sourcing initiative should even be contemplated unless this requirement has been fulfilled.

Service expectation - The creation of a clear service level agreement (SLA) is critical. It is only through the use of an SLA that a company can be completely sure that a supplier fully understands their expectations and how performance will be assessed. It also provides a clear process for regular service reviews, whether face to face or remotely.

Research – Research of supply markets and individual suppliers is critical to understand what supply scenarios exist.

External factors – Keep aware of the external factors that may influence your source country (political, economic, environmental, social, technological etc.). Even public holidays can have a serious effect on supply.

References – The safest method of sourcing is to only use suppliers that have an existing customer base in the West. This often means that the supplier has been developed by a western company to the point where they are more conditioned to meeting western service expectations.

Contracts – Cultures vary with regard to the significance of contracts.

Supplier relationship management –After the use of a robust selection process this is the secret to any supply contract success. Diligence in contract start up and ongoing communication and performance management against the SLA will avoid many problems.



evaluate capabilities. Capabilities can be sub categorised, including:

- Current cliental and references in your market
- Quality assurance
- Employee hiring & training
- Facilities & Security
- Disaster recovery
- Process Capabilities

“Part of finding the right supplier, is ensuring that the organisation has more than just the right equipment and quality”

Part of finding the right supplier, is ensuring that the organisation has more than just the right equipment and quality. It also makes sense to know whether the supplier has the ability to be a long-term partner with your business. To make that determination it is important to get a complete understanding of the underlying financial resources, management team, extended trading relationships and general management practices.

Conclusion

Global Sourcing has become an economic necessity for many organisations with far reaching impact. The resulting extended supply chains, introduces increased lead times, additional touch points , ever changing global regulations and increased risk. Sourcing globally may reduce cost, but increases business complexity. To manage this increase in complexity businesses need to develop the new capabilities and metrics needed to administer and manage longer, more complex, riskier supply chains.

One of the key benefits of working with a proven robust methodology is that it helps reduce the risks that can be associated with global sourcing, by rigorously tailoring the sourcing strategy to an individual product, country and supplier. Such a process speeds up the identification of opportunities and realisation of savings whilst addressing inherent risk.

Global sourcing can give companies leverage, and access to new intellectual capital and technologies far beyond what a domestic only supply network offers. Furthermore, input costs such as labour, land, overhead, raw materials, energy, employee benefits etc can vary significantly across regions, presenting a huge opportunity for those with the capabilities to execute.

For More Information

Purchasing Practice Inc can work with your organisation to develop a strategic procurement capability that will add value and positively affect your top and bottom line. www.purchasingpractice.com





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Purchasing Practice –Corporate Procurement made Simple



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

We can help your organization “make change happen” in procurement. Our services include:

Transformation Management: We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

Spend Analysis: We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

Opportunity Assessment: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Mergers & Acquisitions: We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

Private Equity: Working across your portfolio of companies we will drive value from procurement across business units

Interim Procurement Solutions: We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at info@purchasingpractice.com to schedule a consultation.

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