

Idea Briefing – STRATEGIC SOURCING

Knowledge is a process of piling up facts; wisdom lies in their simplification. - Martin H. Fischer

DIDA data ➡ information ➡ decision ➡ action

Why Strategic Sourcing?

Bottom line performance – higher profits, that's why.

With sourced or purchased products accounting for as much as **75% of your total cost**, strategic sourcing can be an invaluable tool to control those costs. Strategic Sourcing and strategic buyers approach this issue from the viewpoint of – **you are not alone**. Strategic Buyers can leverage your suppliers' capabilities, low-cost position and technology solutions to improve your bottom line.

The benefits are many; some are:

- Reduced purchasing cost
- Consistent purchase price reduction per year
- Quality improvement
- Better on-time deliveries
- Reduced product time to market
- Reduced inventory levels
- Access to new resources
- Increased business advantage over competitors
- Enhanced **compliance** through effective spend and supplier monitoring – for example, FAR, DFARS, and Sarbanes-Oxley

Ultimately – it's less about getting the best price & more about finding the best supplier at the best price, who will do what's necessary (outsourcing tasks, for instance) to make the relationship successful.

Strategic Sourcing is ...

An organized approach to spend categories with objective of selecting suppliers best suited to provide maximum value. A key principle is The Right Doctrine:

- getting the ***right*** product (quality)
- to the ***right*** location
- with the ***right*** quantity
- at the ***right*** time (on-time delivery)
- at the ***right*** price

The 4 Key Commandments of Strategic Sourcing

1. Business strategy drives sourcing
2. Companies must leverage enterprise-wide sourcing to achieve maximum benefits
3. Benefits are not sustainable without institutionalizing process & infrastructure changes
4. Joint work with suppliers is better than trying it alone

HOW do you get started

Two (2) of the best tools of strategic sourcing are spend analysis and sourcing strategies.

Spend analysis is a systematic review of historical purchase data, looking for

- A large amount of spend in categories where enterprise-wide contracts do not exist
- A significant Purchase Price Variance (PPV) for a high-spend item or category
- An unusually large number suppliers for the money spent in a category
- Rising prices over time

Where sourcing strategies determine how you buy, whether you want to

- Exercise power through
 - Volume Concentration
 - Best-Price Evaluation
 - Global Sourcing
- or
- Create advantage through
 - Product Specification Improvement
 - Joint Process Improvement
 - Relationship Restructuring

The roadmap for strategic sourcing is extensive, but a few of the action steps are:

1. Create a Strategic Sourcing organization
2. Implement metrics
3. Implement a Supplier Scorecard
4. Identify key suppliers
5. Perform Spend Analysis
6. Select a sourcing strategy (where to buy what, while minimizing risk and costs)
7. Rationalize the supply base - consolidating volume
8. Implement a formal supplier management
9. Implement Purchasing Programs

Contact us for assistance in implementing Strategic Sourcing.

Michael McCracken is a management consultant specializing in Supply Management, Strategic Sourcing, Operations, and Strategy. Representative projects include assessing business strategy, implementing strategic sourcing and establishing DOD procurement.

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