

Strategic Sourcing

In past, organization used to highly focus on tactical functions : seemingly endless processing of purchasing orders, checking on delivery status etc. These, in turn provided limited contribution to corporate profitability.

Such approaches often resulted in engineering-driven supplier selection processes. This results in huge numbers of suppliers commanding-and receiving-premium prices. The supply chains become so complicated that inventories became bloated and impossible to offload when business crumbled, as it did in 2001.

Additionally, to reduce the cost of sourcing, companies often ended up squeezing the suppliers who in turn reduced the quality of the material delivered, to achieve low cost.

Organizations have now recognized the importance of strategic sourcing practices as a key component of improved profitability. **The goal of strategic sourcing is to optimize (not necessarily minimize) the total landed cost of externally purchased material while simultaneously increase supplier responsiveness, material quality and service.**

Strategic Sourcing Model

The Strategic Sourcing process requires an organized approach or method that allows a supply chain function to systematically work on areas or processes that can result in cost saving benefits.

All sourcing models, regardless of origin, contain the following eight essential elements:

- Identifying the targeted spend area
- Creating the sourcing team (Touch Point Required)
- Developing a team strategy and communication plan (Touch Point Required)
- Gathering Market Information
- Developing a supplier portfolio (Touch Point Required)
- Develop a Future State
- Negotiate, evaluate, commitment, and agree (Touch Point Required)
- Supplier Relationship Management



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About DecisionCraft Analytics

We provide decision-making solutions to improve operational efficiency and business responsiveness. Our consulting services employ our strengths in industry knowledge, conceptual rigor, and information technologies. Developed using concepts from decision theory; our solutions use robust optimization, simulation, and statistical engines adapted to our client's focus areas.

DecisionCraft Services

Business Diagnostics

We analyze business processes and transactional data to identify underlying patterns, unravel hidden relationships

and recommend areas for improvement that can improve ROI and reduce costs.

Predictive Analytics

We use historical data intelligently to develop a view of future market trends and help our clients focus on the right audiences thereby developing their competitive edge.

Forecasting

We use advanced time-series and regression techniques for forecasting behavior of critical business variables that allows our clients to plan for their resources intelligently.

Strategic sourcing cycle*:

The mechanics of the cycle of activities that are the embodiment of a comprehensive sourcing strategy are illustrated below:

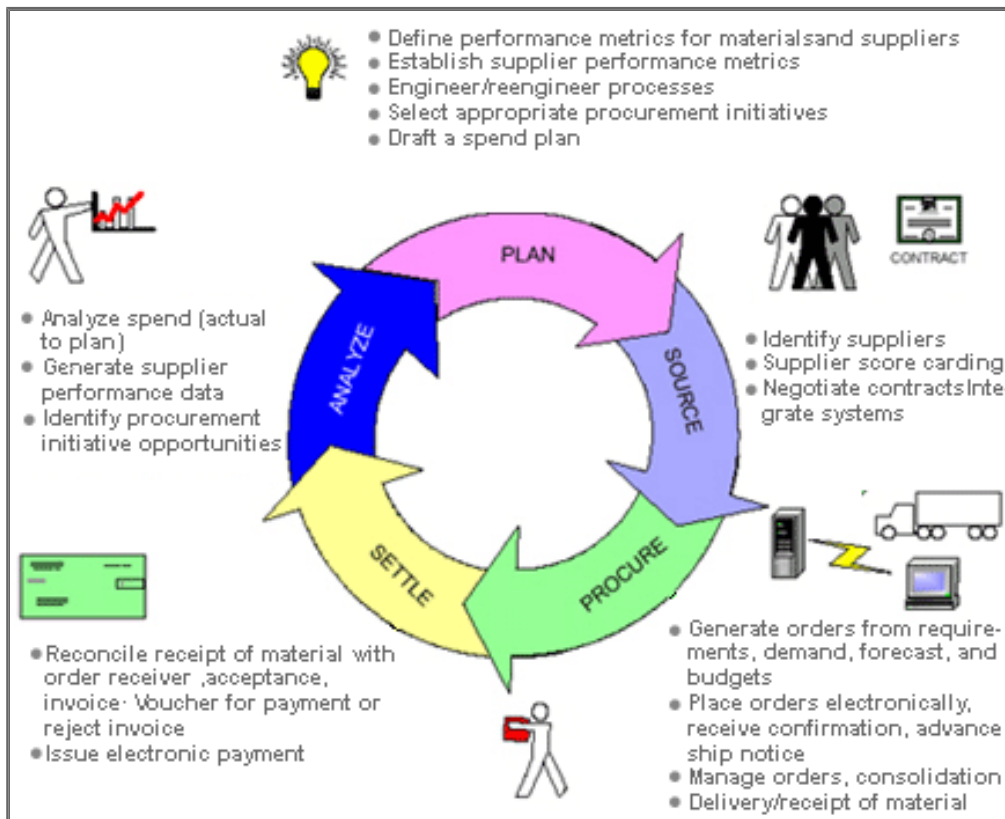


Figure 1 : Strategic Sourcing Cycle

Conclusion

In addition to optimising 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 waste or non-value-added costs. Strategic sourcing redesigns work and information flow to eliminate redundancies. Strategic sourcing can also help reduce the frequency of purchasing orders and inventory costs.

As per a survey, following are the chief obstacles to implementation of effective strategic sourcing process: -

Inability to get data	46%
Lack of money/time	19%
Lack of corporate interest	14%
Resistance from strong functional groups, such as engineering	8%
Strong, independent business groups	5%
Inability to create acceptable categories	5%
Lack of purchasing department interest	3%
Source: <i>Purchasing survey</i>	

* Adapted from - Eliot Madow "Strategic Sourcing: Problems, solutions, and Approaches to Generating Shareholder Value" 2003

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