CHAPTER 1

An Overview of Global Strategic Sourcing

Although it has a grandiose-sounding title, strategic sourcing has its roots in very humble beginnings. Sourcing has always been a purchasing and supply management function. In its traditional form, it is the process of locating and employing suppliers. However, various organizations and academics often define this process in different ways when managing their supply chains. As supply chains extend into global markets today, we find under the heading of strategic sourcing a number of often confusing and disparate methods. We expect, in the pages that follow, to bring some measure of clarity to the subject. This chapter provides an overview of the topics we intend to cover in more detail in chapters that follow.

So let's begin our exploration with a basic definition, as we see it, to help keep us in alignment as we go through the more detailed processes in this book. Here is our definition:

> *Strategic sourcing is an organizational procurement and supply management process used to locate, develop, qualify, and employ suppliers that add maximum value to the buyer's products or services.*
>
> *The major objective of strategic sourcing is to engage suppliers that align with the strategic business and operational goals of the organization. We apply the term "strategic" to recognize that many sourcing projects require a long-term plan of supply chain action. It's meeting the needs of this relatively long time horizon that makes sourcing "strategic."*
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> *When the word "global" is added to the title, it means that suppliers may be selected beyond the organization's national borders.*

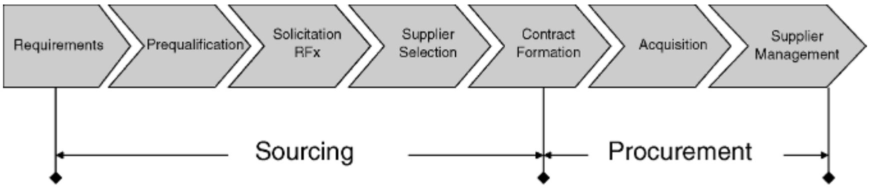

FIGURE 1.1 The Sourcing and Procurement Process

Using a thorough, comprehensive process to select suppliers is a path to organizational supply chain management excellence. But this is not an easy task at all. The suppliers we select must be able to lower overall cost, expedite time to market, reduce business risk, improve product or service quality, and support us through flexible scheduling and, possibly, production and engineering support.

Strategic sourcing does *not* include the day-to-day activities of the acquisition process. It does *not* include supplier's individual quotations, routine buying activities, logistics, quality assessment, performance analysis, and payment. Essentially, strategic sourcing and procurement part ways following the formation of a contract or the formal qualification of a selected supplier.

Figure 1.1 shows the typical supply management process starting with receipt of a request (requirements) through managing the supplier or contract.

The Strategic Sourcing Plan

When in place and understood by all stakeholders, a strategic sourcing plan provides guidance to those responsible for implementing acquisition policy. As with any plan, it should be well documented and systematically refer to the organizational mission and vision statements. The plan must also clearly take into account customer requirements that are identified in the organization's broader strategic business plan.

Plan Elements

Many organizations use a standard format in which to create departmental strategic plans. This uniformity helps when various plans are consolidated, since each of the plan elements are treated in a similar order. It also helps to ensure that critical path segments are not overlooked.

The common elements of a strategic plan can be outlined as described in the next subsections.

MISSION AND VISION Traditionally, any strategic plan begins with a statement of mission and vision. The mission statement must set the tone for the objectives within the plan. The strategic sourcing plan should also contain a mission statement, and it should clearly align with the organization's business mission statement. It also needs to identify what value will be added by the sourcing group.

It is equally important to communicate the statement to all cross-functional departmental personnel. Most internal organizations work dutifully to create the plan and then place the document on a shelf. Very few cross-functional personnel outside of those who have contributed to the plan even know it exists. On one recent occasion, one of our authors recalls asking the chief executive officer (CEO) of a company he worked for to describe the organization's objectives. "Sorry," the CEO said. "That information is confidential."

> Do *you* know your organization's mission statement? It's not surprising to find that very few employees know, much less understand, the mission of their organization. In class after class, the authors asked how many attending knew their organization's mission statement well enough to recite it. We considered it fortunate to find more than two in any class of thirty-plus.

ENVIRONMENTAL ANALYSIS An environmental analysis is another traditional element of the strategic sourcing plan. The environmental analysis describes current conditions within the organization as well as with its primary customers, its supply chain, and the overall market or industry. This analysis provides the background against which the plan is developed. Its importance lies in tying objectives to current business conditions; if conditions change significantly, the plan may require revision.

In our analysis, we must also take into account conditions across the entire supply chain that can impact our supply strategy. If we are a semiconductor manufacturer, we must consider our customers' demand for advanced technology and time our development process to coincide with their plans and technology roadmaps.

SWOT ANALYSIS The plan should include a comprehensive SWOT (strengths, weaknesses, opportunities, and threats) analysis, traditionally used to guide plan implementers toward defining objectives. A SWOT analysis helps identify potential roadblocks (weaknesses and threats) and prepares the way for dealing with them through organizational strengths. It can also identify potential opportunities that help to implement the plan strategy. In the strategic sourcing plan, it is important to identify roadblock conditions since they invariably affect meeting key objectives. In fact, it is probably a good idea to describe all objectives as they relate to the SWOT analysis.

ASSUMPTIONS Although it is ideal to have all of the detail needed to formulate the plan, this is rarely the case. Market dynamics will continue to change throughout the plan's period, and new conditions will arise that are unlikely to be foreseen. So what isn't clearly known or capable of forecast needs to be assumed so that the plan can go forward. These assumptions must be documented since, just as with environmental conditions, they are used as "just-in-case" placeholders. When we can replace assumptions with known facts, we can then make whatever adjustments to the plan that are required.

OBJECTIVES Within the strategic sourcing plan, we can outline specific business objectives that we expect to achieve. Objectives, as we use the term here, are the expression of specific targets that will advance our mission by adding value to the organization. They are tied to the overall mission statement and take into account environmental conditions, our SWOT analysis, and any assumptions we make.

The plan describes objectives in clear and directive language. For example, our customers may be demanding environmentally friendly products. Do we need to move more aggressively into a green sourcing program?

When developing objectives, it's important to include measurements that go along with them. If you can't measure it, how will you know when you have achieved it?

Obviously, not all goals are of equal importance, and we know that in many cases, our resources will be limited, so it's important to prioritize all goals. Those that are most important are given the highest priority for achievement. We can also consider any objectives that can be achieved without using significant resources, perhaps in the course of fulfilling our general responsibilities.

Objectives for a strategic sourcing plan might include (as examples):

- A specific amount of cost saving
- An improvement in customer support through reduced lead times from suppliers and better on-time delivery performance
- Development of new supplier alliances and partnerships
- Reduction of inventory levels through, for example, consignment
- Development of new demand management planning tools and models

STRATEGY Sourcing strategy must be developed within the scope of the overall mission statement and ensure, to the extent possible, achieving our objectives. For example: "We will actively support the organization's 'first to market' objectives." This simple statement can then be used to create a strategy. First to market may require Early Supplier Involvement (ESI). This in turn may generate the need for close alliances with key suppliers so that we can develop early involvement. (Early involvement is rather difficult if we are competing all of our purchases and can make an award only once the bids are analyzed.) For the sourcing team, strong business alliances as opposed to full bidding competition on all purchases, for example, represent a distinct strategy.

We must also ensure that our strategy addresses developments throughout the supply chain; it may be economic conditions, or it may be category or commodity shortages that escalate market pricing. We may have solid data, or we may need to make some critical assumptions. If we forecast an economic downturn, for example, we will likely want to reduce inventory in our suppliers' inventory pipelines.

Within the plan, we must initially identify cross-functional team members and describe their key roles and responsibilities. Particularly important are responsibilities for supplier negotiations and analysis for implementation; that is, developing and interpreting relevant data, and implementing actions such analysis generates. These efforts will likely be parsed out to existing commodity teams, so we will want to determine if we have the right people in the right places at the right time.

IMPLEMENTATION Keep in mind that the strategic sourcing plan establishes a high-level approach that does not delve into the details of tactical methods. So to implement our strategy, we require an operational strategy and a tactical approach to achieving our goals. This begins with an operational analysis that serves to bridge the strategic plan and the operational tactical plan.

Opportunity Analysis

The strategic sourcing plan needs to address procurement commodities or categories where potential opportunities for improvement have been identified. Improvements can take the form of lower prices, better quality, reduced inventory, and so on. We develop these through an opportunity analysis, typically an extension of the overall sourcing plan into areas managed by commodity or category groups. This analysis should be conducted by a cross-functional strategic sourcing team, preferably before finalizing the plan.

The opportunity analysis often uses industry benchmarks to determine where gaps exist between best practices and current practices in our organization. (We outline the gap analysis methodology in the next section.)

These benchmarks, developed by spend commodity, category, or industry, take into account our total annual volume (past and projected) so that we can be sure they are relevant in scope. We also need to know our historical experience with price increases within the commodity or with a specific supplier and what earlier cost and price improvements have been made.

The opportunity analysis and the benchmarking process are often by-products of the market analysis (which we address in Chapter 5) that takes place prior to the development of the strategic plan. Keep in mind that a significant number of opportunities may have been identified subsequent to the previous strategic sourcing plan, but we are, for now, interested only in those opportunities that align with the organization's objectives. Based on the data gathered through our opportunity analysis, we should be able to project the degree to which our plan will support the overall organizational plan.

Typically, the opportunity analysis will cover several elements:

- **Determine how and with whom we are spending our funds.** Known as spend analysis, this process reviews the organization's detailed spending history as a means to finding common items that can be consolidated by using fewer suppliers. The added volume for the suppliers we do use should provide additional price reduction negotiation opportunities.
- **Review spending history to find multiple items that are very similar and can be respecified to a single item.** We refer to this as part standardization or value engineering and, as with spending analysis, we can leverage the larger consolidated spend as a way to generate price reductions. This is an especially productive area when the organization operates from multiple locations or when a merger or acquisition occurs.
- **Identify poor supplier performance.** Especially in areas that directly support the organization's mission, we should review suppliers' history to pinpoint those that are well below our expectations. Later we can determine if improvement is possible or if any supplier(s) need to be replaced.

  In relation to performance, we want to review (and perhaps benchmark) the measurements we use to assess supplier performance via a "scorecard." Is the supplier still relevant? Do our supplier metrics provide an accurate picture of how well the supplier is meeting our needs? And, perhaps more important, are we monitoring the supplier for contract compliance and performance to agreed-on service levels?
- **Improve competition.** Do important elements of our procurement strategies lack robust competition? Do suppliers of these items routinely raise prices regardless of market conditions? Do we have suppliers who believe they are sure to continue to receive our business regardless of

business conditions? Do we have products or services that have not been supply competed for several years? A "yes" to any of these questions may mean that we need to reformulate our supply strategy for achieving the best value from these suppliers as a reward for earning our business.

- **Investigate outsourcing opportunities.** Outsourcing, in general, and Business Process Outsourcing (BPO) specifically, is a well-established, significant component of strategic sourcing. As its title implies, the focus of BPO is on services. Some of the more commonly outsourced services include information technology (although often assigned to its own category), accounts payable, customer support, legal services, design and engineering, research and data analysis, logistics, security, facilities management, financial services, and procurement itself. The primary objectives of outsourcing are relatively clear: reduced cost through lower wages for labor, an extension of the organization's capabilities, a more specialized workforce, greater spend visibility, up-to-date technology, temporary personnel (and recruiting) and, importantly, the ability to meet variable demand without having to add employees.

  In addition to business processes, organizations are also engaged in outsourcing elements of manufacturing. In fact, electronic manufacturing services under subcontracts are likely the earliest example of outsourcing, tracing their roots to the traditional "make-or-buy" practice that would determine if a manufactured part or a manufacturing process could be converted to a purchase. Oddly enough, in the early days of assembly line manufacturing, vertical integration—that is, incorporating all elements of the end product's production within the company—was the rule rather than the exception.

  The outsourcing opportunity analysis should take into account geographical considerations, including the pros and cons of offshoring (outsourcing to companies based in other countries) or nearshoring (outsourcing to companies within the organization's national borders). Some aspects to consider in globalizing sourcing activities are the complexity and costs of currency exchange rates, taxes, transportation, and logistics (including Customs), overcoming cultural and language differences, and the risk factors inherent in the local economy and geopolitical climate. (Outsourcing is covered in more detail in Chapter 12.)
- **Capture additional spending.** It is not uncommon for organizations to tolerate spending by any number of departments without procurement involvement, sometimes called "maverick spending." Capturing this spending by the sourcing and procurement teams can lead to a number of benefits for the organization, such as improved pricing through negotiation, better value through competitive bidding, and tighter control of supplier performance. Capturing this spending also can

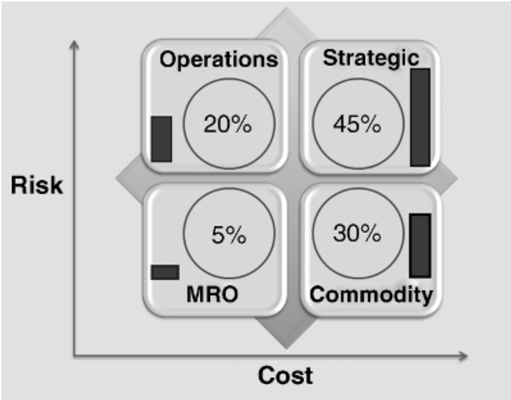

FIGURE 1.2 Supply Positioning

assist the sourcing and procurement group in achieving strategic supply savings goals.

- **Improve internal processes.** In many cases, opportunity means "work." Organizations sometimes find themselves in the peculiar position of having more cost-saving opportunities than there are staff members to implement them. However, if we can find ways to improve our internal procurement process, it's possible that we can free up resources to engage in cost savings or standardization projects. As an example, Figure 1.2 shows that our model allocates 5 percent of its spending (in dollars) to the MRO (Maintenance, Repair, and Operations), or Indirect, category. But in actual procurement volume, this category would likely account for nearly 50 percent of the ordering volume. Do we really want to allocate 50 percent of our staff to 5 percent of the spending?

During one recent assignment, our consulting team discovered a similar situation to the one outlined earlier. In developing a spending analysis, it was found that the MRO category accounted for about 8 percent of the procurement spend, with just over 45 percent of the transactions. Half the procurement staff (eight buyers) was allocated to this category of spend. Automating this very-low-risk category produced significant savings. The "liberated" team members went on to assist commodity groups in harvesting the identified savings possibilities.

By now, many organizations recognize the value gained by using purchasing cards. P-cards virtually eliminate the need to generate a purchase order since the card issuer can provide detailed spending reports that can be approved by management. Similarly, most automated purchase requisitioning systems provide the internal user with a catalog of suppliers with items that they may purchase in various spend categories. Their supply request is routed for approval, and once the proper approvals are obtained, it goes directly to the selected catalog supplier. Each supplier has obligatory responsibilities under a Master Supply Agreement or a similar contractual arrangement, which lowers business risk substantially.

- **Review of current market conditions.** For the sourcing team to identify opportunities that exist in the market, outside of the relatively limited picture taken from the organization's experience, a thorough analysis of external market conditions must be taken. This is perhaps the most important step in the planning process since, ideally, it will provide critical benchmarks used to identify areas of supply opportunity when compared with our own organization's overall performance. We can examine many significant fundamentals. Here are some that are perhaps the most common:
  - **Competitive positioning.** To what extent does supplier competition exist? Are there many suppliers or very few? Many suppliers would result in robust competition and the opportunity to leverage and improve our overall cost position. Fewer suppliers might lead to a strategy of placing more of our other types of purchases with these suppliers to gain overall financial leverage, depending on the scope of their business. Similarly, we should know who the major buyers are that create market demand and what likely impact they will have on our sourcing strategy.
  - **Cost profiles.** We need to understand the drivers of market pricing and the likely trends in those areas. This will define our supplier negotiation timing strategy: Rising prices might signal longer-term contracts to lock in current pricing; falling prices may lead to a strategy of spot or one-time buying.
  - **Risk.** Identify significant market and/or political risks affecting our key purchases and develop a strategy to deal with them. We also want to determine how this type of risk will impact our inventory goal positions. Do we need more or less safety stock or alter our lead times?
  - **Supply chain.** For critical items and categories, we want to understand the extent that factors in our extended supply chain will impact our key critical path suppliers. Depending on the length of the

supply chain, transportation and logistics costs can be an area for further negotiation as well as continued monitoring and analysis.

- **Technological trends.** We need to understand how rapidly the technology changes in major sourcing categories so we can determine areas that are due for an engineering turnover or retooling.
- **Financial profiles.** As part of our market review, we should not overlook an analysis of the financial position of our suppliers. This means looking at market trends in profitability, accounts receivable aging, accounts payable aging, cash flow and short-term obligations, and comparing our suppliers to the trends in their market segment.

Operational Sourcing Strategy

Strategic sourcing, as a plan, must be implemented—that is, set in motion—through operational executed activities. A practical way to guide this process is to develop an implementation initiative. This initiative outlines those specific operational activities that will support the strategic sourcing plan. By operational activities, we mean those day-to-day functions common to most procurement organizations: issuing purchase orders, ordering or releasing direct materials to plan, forecasting volumes, monitoring supplier performance, tracking spending patterns, assessing supply risk, resolving contractual issues, arranging the return of unused product, and reconciling supplier invoices.

Having an operational plan in place will help to significantly reduce (or even eliminate) the common tactical fire-drill approach to acquisition.

Steps to Implementing the Plan

The strategic sourcing plan is useful in guiding operational tactics without actually defining them. But there are some important details that should be identified when developing an operational sourcing strategy:

- **Current conditions.** For each of the stated strategic objectives, the authoring team needs to examine existing conditions and describe them in enough detail so that they are easily understood. If the “as-is” situation is not described in the SWOT analysis, this may indicate a need to conduct research. For example: The organization needs a 20 percent reduction in procurement governed spending. This is one of the strategic plan’s objectives. However, it is quickly discovered that three primary suppliers are operating at a loss (and unable to provide further discounts) and other potential low-cost suppliers lack capacity to handle additional volume. Think about how you might handle this situation.

- **Gap analysis.** Current conditions and our stated objectives are obviously *not* in alignment in the example provided. There is a gap between our needs and the situation in the market. We need to identify this gap in specific terms. For example: What percentage of our total spending do these suppliers account for? If it's 10 percent of our total spending of $70 million, we have lost an opportunity to meet the organization's objectives by $1.4 million:

$$\begin{aligned} 10\% \text{ of } \$70\,\text{million} &= \$7\,\text{million in spending} \times 20\%\,\text{required savings} \\ &= \$1.4\,\text{million} \end{aligned}$$

- **Plan to bridge the gap.** Are any price concessions available? Can we find another way, outside of additional discounts, to narrow the gap? Since our primary suppliers are suffering, could we offer an expedited payment arrangement in exchange for some measure of price discount? That is one approach popularized during economic recessions.

  We can also look at areas where cost avoidance is possible. A typical method might be to make up the gap in other areas of spending, perhaps reducing travel expenses by conducting online meetings. And there may be other potential solutions. The point is that we must include the intended areas of savings or cost avoidance in our plan.

  If our spending profile looks like that in Figure 1.2, where else would you suggest looking for savings? (Hint: Where is the most likely spending that is not currently managed by our procurement group? Could we effect further cost reductions by capturing this spending?)

Figure 1.2 shows a hypothetical breakdown of organizational spending, divided into four categories.

Operational Objectives

Generally, we implement operational objectives through the use of tactics. What we mean by "tactics" is employing the *appropriate means available* to meet the goals defined in our sourcing strategy. For example, if an organization's long-term strategy is to gain market share through aggressive price competition, its sourcing strategy would likely include robust competition throughout the supply base. In terms of tactics, we would require that each purchase be competed primarily on price (although other factors must be present as well) and that some relinquishment of longer-term supplier relations would be acceptable as a natural outcome.

From a tactical perspective, we can achieve our supply objectives through a number of key operational activities. These activities should align with our strategic objectives as we have defined them in the strategic sourcing plan. The section that follows briefly examines some of the most common operational objectives to be considered.

ENSURE SUPPLY One of the first considerations in operational supply management activities is to ensure that the necessary goods and services are available when needed. Any number of events can jeopardize the smooth flow of goods and services. To this extent, procurement personnel must continually monitor the working status of requirements within the supply base. Naturally, it would be impossible to monitor the status of each and every order placed, at least with current technology, so close monitoring would apply only to critical items.

What makes an acquisition critical? We can point to a number of factors:

- **Items that directly support the organization's primary business.** These include raw materials, production supplies, energy, and outsourced services. Without these, the organization would not be able to function in its market.
- **Items that are tailored to the organization's specific requirements.** Such items include special tooling and parts, customized software, components of customers' special orders, and specialized employee benefit plans.
- **Items that cannot be substituted.** These are generally materials and services that cannot be produced by another party due to specialized labor, equipment, or patents. Essentially, these are sole-sourced items; that is, only one supplier can provide the product or service.
- **Items whose demand is difficult to forecast.** To meet highly variable demand, we need to be able to forecast usage within the supplier's lead time for production. If we cannot provide accurate forecasts, we must supplement our requirements through safety stock or with other hedging methods.

Ensuring supply also works hand in hand with supply risk assessment (which we go into in the next section). We must enable enough flexibility in our operations to recover from geopolitical events, natural disasters (force majeure), catastrophic events, acts of terrorism, and other unanticipated failures within our supply base. As you will discover, compensating for these circumstances often becomes impossible, so what is really needed is an early assessment and an operational strategy that can accept only a specific level of risk.

IMPROVE VALUE Organizations today are beginning to turn away from simply finding the lowest price and are looking more carefully at how the entire spectrum of value plays out. Best value includes the traditional concept of Total Cost of Ownership (TCOO), in which the entire product life cycle cost is considered, but expands the concept to supply intangibles as well. Using best value means we also measure on-time delivery, quality levels, risk factors, supplier innovation, technology, and service (and flexibility) along with TCOO.

Employing a best value concept does not negate other cost-saving approaches. One of the most common tactics is to consolidate spending and leverage it to effect price reduction. This is a recognized and legitimate way to gain additional value. To do this, we must assemble data on our total volumes (and how they compare with other buying organizations), historical price changes (understanding supplier costs and margins), along with operational improvements initiated by the supplier. We must then decide if our contract terms are adequate, if we are properly positioned to leverage our volume, and where we stand in relation to our competitors. Measuring supply value is not an easy task.

REDUCE SUPPLY RISK Managing supply risk is a complex operational business activity that until recently has been largely ignored in sourcing and procurement. In reality, it is a major factor in supplier selection and thus an integral part of sourcing activities.

Risk reduction has a number of specific features, beginning with identification of potential risks and methods to mitigate them or to develop contingency plans in proportion to the potential severity of the consequences of the risk event. For the most part, sourcing strategy must set limits on the level of risk within the organization's acceptable operational range. Operational strategy calls for constant monitoring and reassessment of risk levels as well as continuous scanning in critical areas for new threats.

From a strategic sourcing perspective, assessing and managing risk is an activity that derives from market and geopolitical research along with other supplier selection methods. We examine this topic in later chapters and expand the concepts into actionable elements.

COORDINATE SUPPLIER ACTIVITIES Although coordinating supplier activities is not a complex process, it is often overlooked in sourcing and procurement activities. Coordinating the activities of suppliers requires an effective planning group and relatively accurate forecasts that are updated in a timely manner. It also requires specific metrics to define the supplier's commitment. We use the term "metrics" in a number of different ways, but in this context we are referring to most common service levels, such as on-time delivery, quality levels, and price reductions. We should also monitor supplier communications with our cross-functional internal users so we understand any issues that arise and can take relatively quick action to resolve them.

ADMINISTER CONTRACT COMPLIANCE Once a supplier contract is signed, it often gets filed and never looked at again. What a mistake! Contracts must be properly administered to ensure that the supply organization achieves its part of the bargain. Typically, this task goes to the internal user who, more often than not, is far too busy to monitor contract compliance in all but the most strategic areas. The sourcing group, teaming with the end-user and other stakeholders, must establish a contractual Service Level Agreement (SLA) that sets forth the key metrics that the supplier is required to meet over time. Procurement or contract administration groups must then administer the contract by monitoring the supplier's performance to the metrics established. If we are paying for two-week delivery from the time the order is placed, for example, why would we accept delivery in three weeks on a regular basis? If three weeks is fine with the internal users, that's what we should have contracted for and possibly paid less.

Cosourcing

Cosourcing is another aspect of strategic sourcing that plays an increasingly important role in sourcing and procurement activities. The term refers to a service that is performed jointly by internal staff and suppliers. For example, in software development, the using organization might provide the subject matter expertise and develop the requirements, while third parties would develop the architecture and supply the software coding. The benefits of using this approach include the availability of external staff for project work, use of technical expertise that is unavailable in-house, and gaining access to critical knowledge of the market in which we are sourcing.

Although cosourcing has not been used to any great extent in the past, it appears to be gaining favor as an alternative to full outsourcing models. With cosourcing, the using organization can maintain a greater degree of control and has less risk in the supply fulfillment process. (Chapter 10 covers this topic in more detail.)

Supplier Alliances, Partnerships, and Joint Ventures

Collaboration between the buying organization and its suppliers has numerous strategic and operational benefits for both parties. The buyer gains greater leverage in continuity of supply and the supplier gains a loyal customer. In this section, we examine some of the more formal collaborations between the buying organization and the supplying organization, and how they enable other significant aspects of strategic sourcing.

STRATEGIC ALLIANCES Strategic alliances are one of the more common forms of formal collaboration. They generally involve some manner of commitment to a long-term relationship between the parties. Participating in this method of collaboration, there is shared risk as well as shared benefits, with both parties working toward improving their common operations. A cornerstone of this approach is the exchange of information. Relying on the supplier's resources and knowledge, Early Supplier Involvement enables the two groups to work together as a team, developing improved processes while reducing risk and cost.

Often this relationship is memorialized through a supplier contract. A Master Supply Agreement, for example, sets forth the conditions under which the two organizations will operate and their mutual roles and responsibilities. There are also processes in which suppliers become "certified" by the buying organization, typically to a given set of standards such as those developed by the International Organization for Standardization (ISO). Suppliers are also certified through the quality assurance organization (or supplier quality engineering) that seeks to determine the compatibility of the quality assessment systems with one another. Certification thus provides the buying organization with some assurance that its acceptance standards can be met by the supplier.

Strong alliances are created by relationships through the interaction of personnel in each of the organizations. It could be that executives meet periodically or engineers work together to solve a current problem, or procurement personnel find ways to share sources or other business methods. Increasingly, organizations are developing ways to integrate elements of their information technology infrastructure from a need for immediate and secure communications.

STRATEGIC PARTNERSHIPS In many cases, strategic partnerships are not much different from strategic alliances. There is some manner of formal agreement to collaborate, a sharing of risk and benefits, and close professional relationships between personnel from both organizations. However, strategic partnerships often involve some form of cosourcing by the buying organization. This might include engineering or design services, manufacturing, distribution, or the development of a new product to be marketed by one of the partners, to mention just a few. In some cases, an equity investment by one or both parties of the strategic partnership is part of the formal arrangement.

Here is an example from a recent press release that outlines the nature of the strategic partnership formed by two companies: One company handles the marketing while its partner runs the fulfillment service.

> *San Diego, California–based Solar Energy and Efficiency Solutions (SEES, Inc.), a leader in providing optimal solutions and highest return on investment to energy efficiency solutions, is announcing its interest in new and revolutionary inventions, discoveries, and consumer information related to renewable energy products covering Wind, Water, and Solar solutions. SEES, Inc., in partnership with fulfillment giant SCI—Suarez Corporation Industries—are assessing and evaluating new products for distribution through the SEES marketing and SCI fulfillment services.*
>
> *Source:* World-Wire, "SEES, Inc. Open Doors For Strategic Partnerships with Providers of Leading Edge Innovative Renewable Energy Solutions in B-to-B, B-to-C, and Government Sectors," press release, December 30, 2009, www.world-wire.com/news/0912300001.html.

JOINT VENTURES A joint venture (JV) is characterized by the legal formation of an entirely new business enterprise. Typically, the JV has a limited and specific objective that, once achieved, results in the closing of the entity. A JV is commonly formed to finance an operation, with all parties participating in providing the capital, defraying start-up costs, and sharing in the risks and benefits. The parties also share in the management of the JV.

JVs range the spectrum of partnerships: creation of a manufacturing operation for a product or products that can be used by both parties, a distribution center for products from both organizations, a shared facility, or a research project. On occasion, a corporation will form a JV with a governmental agency that has the ability to finance the operation through the issuance of a bond. This was the case when Advanced Micro Devices, a Sunnyvale, California semiconductor manufacturer, partnered with the government of Saxony (a German state) to build a manufacturing facility in Dresden, Germany. The cost for the manufacturer to undertake this project alone was prohibitive (estimated at over $10 billion), but the government found benefits in reducing unemployment and thus expanding its tax base.

The Sourcing Process

To conclude our overview of strategic sourcing, let's turn briefly to a generalized view of the sourcing process, both strategic and operational. As noted in the preceding sections of this chapter, strategic sourcing has both planning and operational elements. Now we can put it all together into one relatively linear process map.

As you can see in Figure 1.3, there are four main functions:

1. **Strategic planning.** This is the development and alignment of the strategic sourcing strategy with the overall organizational business strategy.
2. **Research.** This segment covers an analysis of internal requirements, market analysis, and prequalification of potential suppliers. Prequalification means that the supplier meets the sound financial conditions required and is in the business of supplying the products or services with competitive pricing. Prequalification is used primarily to develop a competitive group of supply bidders.
3. **Solicitation.** We refer here to the process of preparing our Request for ____ (RFx), evaluating responses, selecting the supplier, conducting negotiations, and forming a contract.
4. **Contract administration.** This is the ongoing process of monitoring the supplier's performance to the contractual agreement, ensuring compliance, conducting business reviews, and generating metrics for continuous performance improvement.

The process map in Figure 1.3 outlines the steps in a strategic sourcing process.

Summary

In this chapter, we provided a step-by-step overview of the strategic sourcing process. In doing so, we touched upon a number of topics: the mission and vision statement, environmental analysis, SWOT analysis, assumptions, objectives, strategy, and implementation.

We examined the process of operational analysis, and the formation of operational plans and objectives. This section included spending analysis, supplier performance issues, competition, and outsourcing opportunities. We also touched on capturing additional spending and improving internal processes, then outlined the analysis of market conditions.

In the section on operational sourcing strategy, we covered the steps needed to implement the strategic plan and perform a gap analysis. Operational objectives were also noted, including processes such as ensuring supply, improving value, reducing supply risk, coordinating supplier activities, and administering contract compliance.

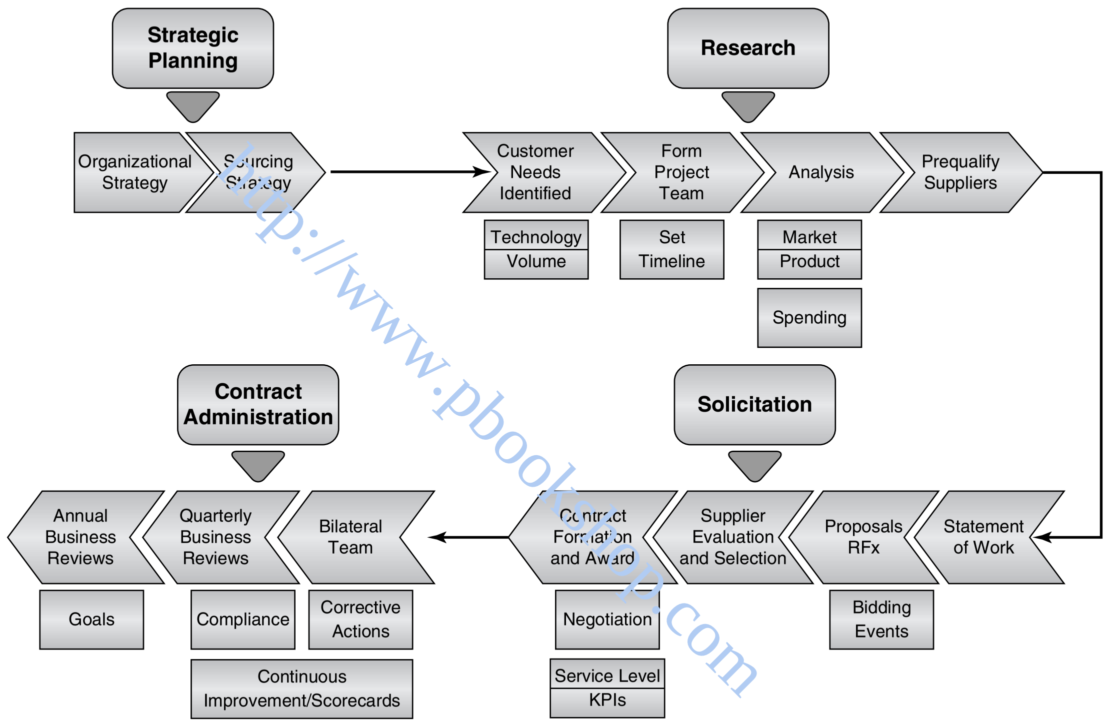

FIGURE 1.3 The Strategic Sourcing Model

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Chapter = c01 Date: Nov 12, 2010 Time: 12:48 pm

We then examined commonly used forms of collaboration between buying organizations and suppliers: cosourcing, strategic alliances, strategic partnerships, and joint ventures. The chapter concluded with an overview of the sourcing process.

Many of these elements are explored in more detail in the coming chapters.