

Assessing Your Global Sourcing Strategy and Results
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Abstract. The December 2007 / January 2008 edition of Supply and Demand Chain Executive reported that the percent of foreign suppliers as a percent of the total supply base increased from 18.2% three years ago to 28.7% today. It is also expected that 41.9% of the supplier base will be comprised of foreign suppliers three years from now. ¹ So, as we are quickly approaching a 50% level of foreign versus domestic supply base, it is essential that the global sourcing process is not only solid and consistent, but that it is providing spectacular results for our organizations. Otherwise, local or regional domestic supplier should be used.

Today's organizations have developed global sourcing programs to bring value to customers and shareholders. Too often there is a lack of feedback or assessment of the effectiveness of these programs.

Background. This paper will focus on a best practice global sourcing assessment methodology to include the following aspects:

1. Value Received
 - Cost
 - Quality
 - Lead Time
 - Service
 - Technical Expertise

2. Alignment with Organizational Strategy
 - Product or Service Level
 - Business Unit Goals
 - Market Orientation
 - Customer Service Orientation

3. Risk Management
 - Continuity of Supply
 - Currency Fluctuation
 - On-boarding Issues
 - Proprietary Information Protection



4. Quality of Communication
 - Modes Used
 - Transparency
 - Language Difficulty
 - Time Difference Impact

5. Overall Satisfaction
 - Total Costs
 - Customer Satisfaction
 - Market Penetration
 - Effective Supply Chain

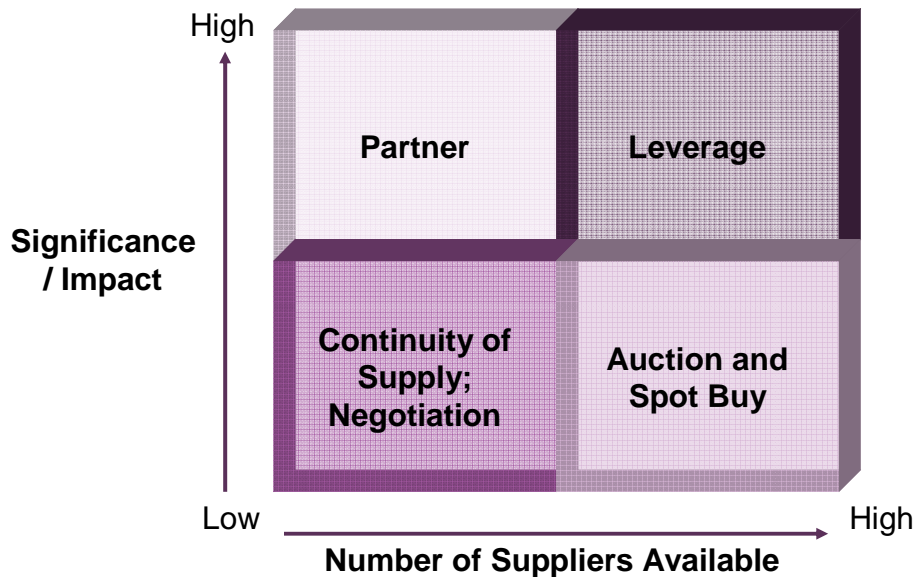
Global Sourcing Strategy Excellence. The roadmap to global sourcing excellence is a combination of five factors:

1. A consistent process across the enterprise
2. Standard methods for selection, management, and measurement of key suppliers
3. Prioritization and management of resources
4. Effective definition and use of global, regional, and local supply management and stakeholder roles and responsibilities
5. Optimization of results by providing local flexibility to meet business requirements

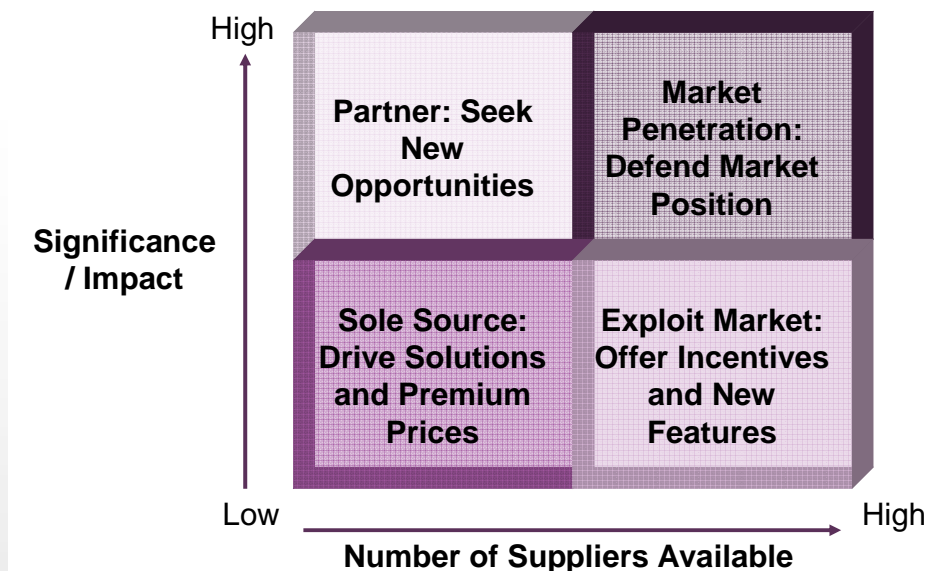
A global sourcing strategy is a collection of choices made to better deliver the products and services required by the organization, considering the number of suppliers, supplier collaboration, make vs. buy analysis, and the need for local supply or inter-regional supply.

The strategy is a combination of how an organization views the marketplace and how the marketplace views the organization. The supply management objectives for sourcing can then be compared to the desires of the supplier market. In the four quadrant matrix below, the sourcing group can assess the opportunities based on significance and numbers of suppliers in the market.





In another type of matrix, the supplier perspective can be evaluated. Note that the supplier's objectives are, in some cases, seemingly in conflict and, in others, relatively consistent.



Together, the two matrices can point the organization in the right strategic direction. Some organizations have used SWOT analysis to further assist in developing strategic options by evaluating internal strengths (S) and weaknesses (W) against external opportunities (O) and threats (T). A framework for SWOT analysis is provided below:



Perform a SWOT Analysis

| Strengths | Weaknesses | Opportunities | Threats |
|------------------|------------------|------------------|------------------|
| • • • • | • • • • | • • • • | • • • • |

- The SWOT analysis identifies the company's important strengths and weaknesses, opportunities and threats with respect to its suppliers and the market
- Examples of Issues to consider include the following
 - Market performance
 - Recent research and development initiatives
 - Profitability/financial analysis
 - Market dynamics
 - Management team
 - Business structure
 - Brand awareness and image
 - Consumer trends
 - Project strategies
 - Core competencies

Best Practice Assessment Methodology. In order to assess global sourcing performance, supply management staff should adopt specific and meaningful assessment criteria based on their organization's expectations, alignment with strategy, and how competitors are faring.

The assessment methodology should be fully described, and the assessment should be performed by as independent a group as possible to eliminate bias. The type of approach will depend on the data to be collected. For example, for qualitative data such as technical expertise, interviews will provide the best information. For quantitative data, such as cost or quality, data collection from the organization's systems should be performed.

Assessments should be performed on a yearly basis, and communicated to a broad set of organization stakeholders. Corrective action plans can be established for those areas not meeting expectations, and the status of the completion of these plans should be well communicated.

The methodology is split into five areas, as noted above. Operational definitions and types of measures are noted below in chart form.

| Area | Operational Definition | Potential Measure |
|--------------------------|--|------------------------------|
| I. Value received | | |
| ➢ Cost | ➢ Purchase cost | ➢ Cost savings |
| ➢ Quality | ➢ Delivered quality from suppliers | ➢ Parts-per-million defect % |
| ➢ Lead time | ➢ Stated product/service lead times ➢ Timeliness of delivery of product/service | ➢ On-time delivery |



| Area | Operational Definition | Potential Measure |
|--|---|--|
| 1. Value received (Continued) | | |
| ➤ Service | ➤ Response time or service satisfaction | ➤ % survey respondents rating very good to excellent |
| ➤ Technical expertise | ➤ Value-add of supplier's technical capability | ➤ Number of service issues resolved on initial call |
| 2. Alignment with Organizational Strategy | | |
| ➤ Product or service level | ➤ Pertains to organizational goals | ➤ % new products/services offered by suppliers |
| ➤ Business unit goals | ➤ Pertains to specific business goals | ➤ Sales increase |
| ➤ Market orientation | ➤ Pertains to supplier's assistance in serving market | ➤ Market penetration |
| ➤ Customer service orientation | ➤ Improving customer service | ➤ End customer service satisfaction levels |
| 3. Risk Management | | |
| ➤ Continuity of supply | ➤ Lack of supply chain disruption | ➤ # of new suppliers |
| ➤ Currency fluctuation | ➤ Increase or decrease in local or payment currency | ➤ More "perfect" orders |
| ➤ On-boarding issues | ➤ The process of transitioning new suppliers to buyer's organization | ➤ % increase or decrease |
| ➤ Proprietary information protection | ➤ The assurance that all organization proprietary information is safe from unauthorized release | ➤ Length of time |
| ➤ Proprietary information protection | ➤ The assurance that all organization proprietary information is safe from unauthorized release | ➤ Zero releases |
| 4. Quality of Communication | | |
| ➤ Methods used | ➤ The options used in communications, such as email, letters, meetings | ➤ Satisfaction with using less intensive methods |
| ➤ Transparency | ➤ The lack of impact between using foreign or domestic suppliers | ➤ User comfort and satisfaction |
| ➤ Language difficulty | ➤ Amount of miscommunication or translation required | ➤ Meeting postponement and customer satisfaction |
| ➤ Time difference impact | ➤ The impact of time differences on operations and staff | ➤ Employee satisfaction |



| Area | Operational Definition | Potential Measure |
|------------------------------------|--|---|
| 5. Quality of Communication | | |
| ➤ Total costs | ➤ Purchase costs plus other financial impacts, such as transportation, tooling, finance, quality, and delivery / inventory | ➤ Reduction for similar products/services |
| ➤ Customer satisfaction | ➤ The satisfaction of end-use customers of organization's products/ services | ➤ End user customer satisfaction directly tied to supplier's work |
| ➤ Market penetration | ➤ The increase in sales of particular products/ services in a given market | ➤ % penetration by specific product or service |
| ➤ Effective supply chain | ➤ The cost, lead time, or quality of the supply chain | ➤ % of "perfect" orders |

Specific assessment areas and measures should be tailored to the industry and organization. These factors can be weighted to provide a more direct comparison with organizational expectations.

Global Sourcing Initiatives and Plans. The performance of global sourcing will affect present and future global sourcing strategies. Oftentimes, strategies are poorly or fully implemented. This is due to lack of organizational buy-in, ineffective or inconclusive study and an underestimate of resources required to implement.

Poor results can be due to incapable suppliers, lack of consistent use of suppliers, and poor market research. Global sourcing goals should lead to a global strategy to perform, following by an effective project plan.



Organizations should employ a consistent strategic sourcing process, gaining the confidence of all stakeholders. Suppliers should not only be identified but also developed and improved, especially those with limited international experience and influence. Foreign suppliers must be effectively managed by the use of supplier management, evaluation systems, and close, timely, and accurate communications.



Organizations such as Electrolux, Kimball International, Boston Scientific, Dell, BOC Group, and Wal-Mart have been recognized as having effective global sourcing operations and results.

Effective global sourcing strategies provide the best opportunities to leverage resources, set global supply chains for each category, contain contingency plans and optimal consideration of resilience, embrace and reflect individual needs of different lines of business and exceed business expectations for supply chain excellence. Finally, global sourcing is supported by global category plans for direct and indirect categories.

Overall Best Practices in Global Sourcing. Based on published data, our own work with Fortune 500 companies, and other company experiences, the following best practices can be used for improving global sourcing:

- Focus on supply chain resilience
- Ensure an excellent telecommunications infrastructure
- Locate supply management staff in countries with large spend
- Ensure data privacy and information security
- Simplify the international supply chain by removing logistical complexities
- Spend money and resources on supplier development
- Use standard quality tools to understand where variation occurs and attack root causes
- Select the best suppliers with common business goals
- Communicate results organization-wide
- Validate total cost difference, and compare benefits with potential complexity, and management of communication costs.

The use of an organizational global sourcing assessment methodology is important to evaluate ongoing global initiatives and results. Once assessment occurs, needed corrective actions can be developed based on global best practices and guidelines.

REFERENCES

- ¹ Murray, Sarah, "Sourcing / Procurement Report: Global Supply Management," *Supply & Demand Chain Executive*, December 2007/January 2008, p. 12.

