

# FINDING NEW VALUES VIA STRATEGIC SOURCING

Charles C. Poirier and Ronald R. Johnson, CSC



## Navigating Through Troubled Waters

You don't need us to tell you these are tough times. Everywhere you turn there are signs of turbulence in world markets, and reactions being taken by business leaders. Mark D. Ketchum, CEO of Newell Rubbermaid, pictures the tough road in front of his company succinctly. "Two words come to mind when I think of 2009," says Ketchum, "difficult and volatile." And during these times, where do companies turn for relief? Typically, they respond with a call to the purchasing, procurement and sourcing department to find cost savings. What has been delivered in the past somehow gets forgotten as new pressures are applied to find even more savings.

The impulse, of course, is to use some old-fashioned negotiating and leveraging across a reduced number of suppliers, or to solicit new quotations and bring in new sources often from low-cost countries equally struggling with the downturn and wanting to survive. Recent history has shown that approximately 80 percent of re-bid business is awarded to the incumbent.

A better approach is to address your suppliers as potential collaborators in your cost reduction strategy. Use the downturn as an opportunity to make your business more effective and thus able to sustain the adverse situation. When better conditions return, you and your supply chain collaborators will be in an even better position going forward.

Getting through troubled waters requires an opportunistic attitude; to take advantage of low demand and downtime to build a new and better system. Emily Thornton, writing for Business Week, puts this attitude front and center when she says, "In times of turmoil, opportunities abound. But taking advantage of them will require fast reflexes, an aggressive attitude, and serious changes to the status quo." The secret from a sourcing perspective is to work closely with suppliers that have been or should be defined as "strategic." This is a small cadre of trusted suppliers who recognize the value of collaboration. They willingly contribute ideas and support actions that create mutual value for the supply chain collaborators. That's the lesson from the leaders.

## What Works and What Challenges Need Overcoming

What is working as firms navigate through troubled waters? A well-developed and documented sourcing strategy is the key. The strategy causes the buyer's team to address the supply opportunity holistically. As the strategy is formed, the buyer's team becomes aligned and develops a deep understanding of the actions required to achieve success. The sourcing team engages in a game of applying collaboration and technology to achieve their strategic objectives. The strategic actions will most usually include:

- Best use of technology to cut transaction costs, automate low-end buying, and eliminate the mistakes — fail-safe transactions lead to no reconciliations
- Finding innovative values through cross-functional and cross-business diagnostics and focused "projects" — joint projects can lead to mutual savings

- Keeping a focus on cost savings through environmentally correct initiatives or green sourcing — green is not just politically correct, it contains savings
- Supplier collaboration to jointly eliminate the need for inventory through demand (online) visibility and better matching of supply with demand — you can reduce inventories across the network of supply
- Engaging the strategic suppliers to understand what are they doing to get through the storm — sharing improvement ideas leads to a better distribution network

Even when the company's ship is in troubled waters, we still see challenges to an innovative approach to sourcing. Among those heard most often:

- "Our business units operate efficiently and autonomously." There is a reluctance to leverage spend across the enterprise due to autonomy and authority at the business unit level. Corporate management fails to understand or accept the savings potential and thus there is no clear mandate to the business unit.
- Roles and responsibilities are unclear relative to supplier selection and extending purchase liability on behalf of the company. There are limited skilled purchasing resources compared to a small army of non-designated buyers. These same resources face time constraints to focus on direct categories.
- Buyers are unprepared for negotiation and contract discussions. Information necessary to properly equip them is unreliable, incomplete or missing.
- Performance metrics that measure business units or remote sites (e.g., manufacturing plants) are not aligned for optimization across the enterprise. These metrics drive optimization at the site/BU level but fail to incent behavior that yields the most value to the enterprise.
- Fear of Change.

When these obstacles are overcome, we find a group of leaders pursuing these initiatives:

- Leverage opportunities enterprisewide.
- Dedicated category managers leading cross-functional, enterprise-represented teams.
- Efficient utilization of resources that are flexibly allocated.
- Improved spend analysis (e.g., cleansing, standard data collection).
- Understanding and commitment from enterprise management to holistically manage the sourcing and procurement processes.
- Global Sales and Operations Planning with participation from suppliers and customers to better match supply and demand.
- Risk mitigation strategies.

Strategic Sourcing taps into the resources of the key suppliers. Working in collaboration with the buyer's new product development personnel can benefit by leveraging the supplier's R&D investment, for example: Strategic Sourcing can reduce time to market by 10 - 15 percent; and restructured supplier relationships can improve quality, service and ease of doing business. Leading companies are reducing their R&D budget by transferring development to strategic suppliers. Companies that have not initiated a Strategic Sourcing program are laggards and are at risk because their competitors may be using sourcing as a competitive weapon. Strategic Sourcing also allows procurement organizations to build upon previous successful initiatives while entering into strategic activities (e.g., Mergers and Acquisitions) and non-traditional areas of spend (e.g., Marketing and Advertising).

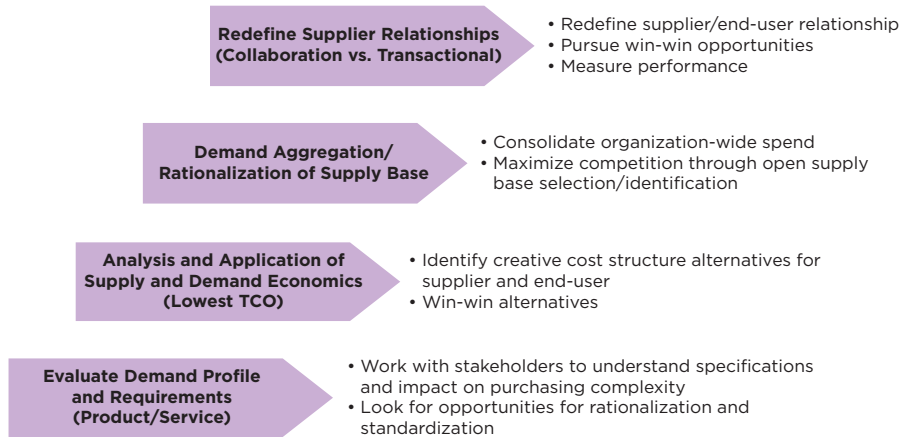
## About CSC's National Supply Chain Practice

Our Supply Chain Practice is among the first dedicated supply chain practices, with a rich heritage built on specialist consulting firms in logistics and manufacturing. Our comprehensive portfolio of offerings spans product design through aftermarket service and related business metrics. As a thought leader in complex supply chain transformation, we introduced critical thinking around intra- and inter-enterprise supply chain optimization. To identify emerging trends and opportunities for the supply chain industry, we collaborate with CSCMP, Michigan State University, Supply Chain Europe magazine and SCMR magazine to conduct and publish the Annual Global Survey of Supply Chain Progress, now in its seventh year.

## Sourcing and Purchasing Optimization Is a Step-by-Step Process

As shown in the diagram below, optimizing sourcing and purchasing is attained through a step-by-step framework. It begins with taking a step back to evaluate the demand profile and demand requirements. Every organization has a unique set of variables that are resolved in a well-developed sourcing strategy. Geography, lead time and quality are but a few common variables considered in the formation of the sourcing strategy. The second step is a deep analysis and application of supply and demand economics. The feature that separates the leading supply chains from followers and laggards is the ability to optimize sources of supply to the demand. This means "right sizing" the supply to achieve the best (lowest) total cost.

Step three is the aggregation and consolidation of similar categories to a reduced or rationalized supply base. Aggregation facilitates lower buyer/supplier overhead and permits improved transactional efficiency. Most importantly, a rationalized supply base creates the opportunity for continuous improvement that results in value for both buyer and supplier, and leads the organization directly to the next step. Mature procurement exhibits a redefinition of supplier relationships that move from a transactional basis to one where collaboration exists. All facets of the relationship are characterized by working to improve the efficiency and effectiveness of the supply network.



In these troubled times, let us bring in one of our sourcing specialists to explain how you can help navigate your business through difficult conditions and find a new and better way to pursue a traditional part of the business. We'll use our knowledge of, and first-hand experiences with, best practices to help you calibrate your current effort against what some of the leaders are doing and to seek some innovative means to getting through what appears to be a pretty difficult six to eighteen months.

To learn how to use Strategic Sourcing to find new values in your company, please contact:

- Ronald R. Johnson, Partner  
937-885-0154 | rjohns59@csc.com
- Charles C. Poirier, Partner  
713.479.3811 | cpoirier@csc.com



## **CSC**

266 Second Avenue  
Waltham, Massachusetts 02451  
United States  
+1.800.272.0018

## **Worldwide CSC Headquarters**

### **The Americas**

3170 Fairview Park Drive  
Falls Church, Virginia 22042  
United States  
+1.703.876.1000

### **Europe, Middle East, Africa**

Royal Pavilion  
Wellesley Road  
Aldershot, Hampshire GU11 1PZ  
United Kingdom  
+44(0)1252.534000

### **Australia**

26 Talavera Road  
Macquarie Park, NSW 2113  
Australia  
+61(0)29034.3000

### **Asia**

139 Cecil Street  
#08-00 Cecil House  
Singapore 069539  
Republic of Singapore  
+65.6221.9095

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*CSC makes a special point of understanding its clients and provides experts with real-world experience to work with them. CSC is vendor-independent, delivering solutions that best meet each client's unique requirements.*

*For 50 years, clients in industries and governments worldwide have trusted CSC with their business process and information systems outsourcing, systems integration and consulting needs.*

*The company trades on the New York Stock Exchange under the symbol "CSC."*