

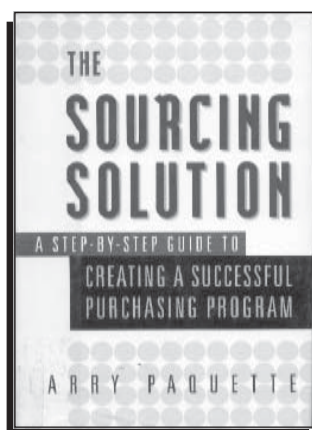
THE SOURCING SOLUTION

Business Process Outsourcing

The Sourcing Solution

A Step-by-Step Guide to Creating a Successful Purchasing Program

The book has elaborated the new concepts in sourcing and has discussed how the old purchases department doesn't work in isolation. The concepts discussed in the book are managing vendor, vendor performance, outsourcing, offshore outsourcing, cost of acquisition, contracting, negotiation, partnering, cultural aspects and ethical issues while dealing with suppliers.



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Sourcing: Today's Business Buzzword

Traditionally purchasing department is considered to be the main sourcing unit of an organization which includes determining supplier, vendor certification, conducting location, site visits and background checks of suppliers. Sourcing is important to provide the best deal from suppliers in terms of quality, price and negotiations. The negotiation is an art and process in today's competitive environment in the global scenario. There may be centralized or decentralized sourcing department based on organization's strategic formulation and line of control. In sum, sourcing is an important and vital tool; contributing a strategic and visionary decision-making objective to an organization.

Sourcing can be helpful by internal or external consultancy or a combination of both. Just having unused inventory creates several operational risks and merely pleasing one big supplier is surely not the crux of the game. Sourcing at cost reduction increases the chances of best growth of a company as it increases the marginal pricing and the competitive advantages.

Sourcing opportunity can be anywhere, if the organization is using E-commerce, EDP system, MRP system, manual tracing form, action sheets or status reports. The only thing that is to be taken care of is how accurate is predications of sourcing materials.

How to Manage Vendor and Testing Vendor Performance

Managing vendor is an important aspect of sourcing. A sourcing company must not over-rate one supplier as it increases more dependency on the supplier and if anything happens wrong to that supplier, the sourcing company may face losses. Therefore there must be 2- 3 suppliers for a single material, may be one bulk supplier and another small supplier. However, bulk supplier must be chosen based on parameters like –

- How efficient it is and whether this supplier understands clients’ requirement. Now-a-days, while there is a world of assemblies, the concepts like JIT , Kanban must be taken into consideration.
- While making a long-term relationship, there must be such involvement so that the sourcing company may know the cost of the product which can be encashed while renewing the contracts or deals. Such supplier can be a strategic partner in product positioning and new product development when the organization does not have sufficient funds for raw materials etc. This process reduces number of vendors which change the face of business not only by economies of scale but also by intrinsic and mutual support considering the concept of “Vendor performance”.

Vendor performance describes the suppliers’ background like online delivery, partnership in reducing inventory, data accuracy, correct documentation, certification, etc. While choosing the company based on certification , companies having ISO series certification and other quality certification must be given preferences, as such certifications reduce the chances of risks. However, a sourcing organization can have its internal vendor certification based on parameters like plat efficiency, quality system, employee relations, customer visits, customer needs, secondary customer needs, supplier needs and vendor quality improvement. This internal vendor certification can be helpful

About the Author

Larry Paquette has worked at Amprex Corporation, Silicon Graphics, Ridge Computers, Gould Electronics and others. He is having more than 30 years experience in material management, purchasing, production and logistics control, master scheduling, JIT, SMED and Kanban. He still enjoys the implementation of his experiences while dealing with countries like Japan, Taiwan, Hongkong and China.

in bargaining among suppliers and it would be the “best fit” to sourcing organization.

Outsourcing and Cost of Acquisition

Knowing about suppliers in detail can help in knowing about the products to be outsourced. Thus, it is recommended to visit the suppliers' place even if suppliers are very loyal and provides the best delivery. The first impression of the suppliers’ place is not only indicative to judge the supplier, the need is to grease one’s shoe over the shop-floor and knowing the processes suppliers use. It is also recommended not to produce every assemble products. Therefore, some products can be outsourced. This reduces the investment in infrastructure and time. For example, Microsoft works closely with Flectonics on the outsourcing of its Xbox product.

However, while outsourcing the important parameters like managing by objectives, ISO, quality control, z matrix management, zero defecting must be taken in consideration. E-commerce is also an important part of the business today, whereby the time and the paper work are reduced.

Another important concept in the book is “cost of acquisition”. Every purchasing personnel knows that there is a difference between the product price and cost of acquisition and one must handle this scenario tactfully and quantifiably. The product price may be lower in one case but

the cost of acquisition may be dearer to the buyer. Cost of acquisition includes the purchase price, transportation charge, late delivery charges, rejection charges, administrative charges, material handling cost and e-mail, fax, phone calls, etc. Thus, a remote supplier may be dearer to a buyer even if the purchase price is lower. Therefore, other charges and hidden costs must be taken in consideration.

Within this cost of acquisition, the lead time is an important facet whereby the sourcing company may reduce the chances of losing customers, decreasing revenues and any chance to have bad word of mouth. The lead time is defined as "the amount of time it takes from when a demand for a specific component is created until such time as it is delivered to its required stockroom."

- The lead –time reduction process is not a single process but it involves reviewing product specifications, consolidation of designs, proximity to source, etc.
- The less lead time reduces psychic and monetary cost. If possible, the buyer must order the bulk capacity so that there must be sufficient stock for futures and orders of products can also be given in advance to avoid any delays. This process comes after a lot of experience, to be in the system.

To avoid any late delivery, there must be a long-term relationship with suppliers. This can be done by contracting. Contracting is important when the terms and conditions are complex, payment vehicles are not under control, different time lines and there are far long distances between two parties. The written contract helps in tracking suppliers legally if anything goes untoward. The contract can be regarding payment, shipping schedule, quantity and quality specifications, packaging, etc.

Negotiation and Partnering: An Art of Dealing

Negotiation with suppliers is another important element in sourcing. While

negotiating, buyers should remember that the seller must not lose significantly, otherwise, he may not be able to keep the promise when buying company will need it. There must be a win-win situation. Such negotiation skill comes after a long practice and being in the deep business of sourcing. Important points to remember while negotiating are –


- Before making the deal or going for the deal with suppliers, research supplier's background, credibility, etc., otherwise, merely winning the deal will become worse at the end of the game.
- The shortsighted benefits must not be not be in the mind while sourcing as temporary association is really not the business and parameters like quality, standards, etc., must not be compromised with.
- Thus, understanding performance issues, keeping notes of deals, knowing terms and conditions, etc., are important tactics to have the good negotiation. While negotiating, we must remember that suppliers can be the partner in future if they are really catering to buyers' needs.

Thus, the concept partnership comes, whereby suppliers can know buyer's products, needs, understand buyers' support expectations, inventory investment risk, technology requirements and ethical issues. Thus, while partnering, following must be considered –

- Make a first pass at researching available companies and vendors.
- Weed out those vendors who are so large to find your potential business insignificant to their daily lives.
- Avoid small company where you will become much more than about 20 to 25% of its business.
- Schedule a face-to-face meeting.
- Visit the vendor's factories to ascertain capabilities, level of expertise and commitment to your product or process.
- What is the vendor's customer base like?

- Has the vendor asked you for your business?

While partnering, cultural issues must not be kept aside especially when the organization is dealing with foreign suppliers. In today's global environment where there is boundaryless trade between countries, concept like offshore procurement have got high priority. Such opportunity must be utilized as cost and quality are important factors while producing products and services. Buyers still choose China for its low-cost products, Singapore for being advanced semiconductor destination and Hong Kong for being manufacturing leader. Moreover, different businessmen are having different attitudes while dealing with suppliers, like a far east businessperson is not interested in short-term relationships and China believes in dealing business under a mutual benefits umbrella. Thus, while dealing with these foreign countries; these cultural aspects must be taken into consideration. Some are really very ethical and society oriented and anything wrong to society and religion are not accepted at any cost. Thus, project team involved in such sourcing must have the necessary inputs like technical data, process specifications which reduces risks of obsolescence, quality service and reduces inventory investments. Thus, to have a unique, new and long-term relationship with suppliers, there should be clear-cut process of scheduling and handling products and correspondences with suppliers.

Thus, this book is for both academicians and practitioners who want to get the true essence of sourcing as theoretic concepts and the feel of hands-on experience of person who is really involved in such activities. The author has tried to put forward his experiences to readers very briefly and in a meaningful way. 

— Deepak Kumar
Associate Consultant,
The ICFAI University Press.
Reference # 13M-2005-07-06-03

Book Excerpts

- A true sourcing specialist must look well beyond price to determine the final supplier. You also need to learn what is required of your vendor to supply the product you desire, so that you can clearly understand the cost of the process, its components and the lead times to accomplish product completion.
- A good supplier will be able to suggest product consolidation to achieve improved economies of scale. It will advise which new technological advances in its market and product base might make sense for your company.
- The best price possible, with less than optimal quality or delivery performance, is not the basis of an acceptable agreement. Unless all three legs on the milking stool are solid-price, performance, and quality, the stool is broken and you will eventually be unceremoniously dumped where you'd rather not be.
- When beginning a vendor certification, there are other notes to keep in mind. Do not expect to certify every supplier on your vendor list, and do not expect every surveyed company to attain an acceptable score.
- Automatic invoicing, keystroke money transfers, and online query capabilities are all techniques and processes that improve efficiency and reduce direct labor in the repetitive tasks of daily business.
- A supplier that is too dependent on your future is exhibiting poor management technique by exposing itself to a more concentrated risk than it should. When your business experiences a significant slowdown, which can happen to any company at any time, the vendor risks laying off its workforce, or closing facilities.
- Once a company does the analysis to determine its core competencies, the message is clear that the next logical step is to look for a skilled, qualified outsourcing partner. "Keep the best and outsource the rest" will become the new road map to success.