



Case Study - Global Sourcing To Reduce Price Without Increasing Cost

The following case study highlights the process an organisation went through to determine whether global sourcing was the right sourcing strategy for their organisation.



This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard



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Parkers make wiring looms for industrial vehicles such as forklifts, telehandlers and refuse collection lorries.

During 2019 Emma, the procurement manager, was tasked with reducing the price of the cable the organisation purchased by 25%.

Historically, Parkers had always prided themselves in using suppliers within their own country but having spent a long time evaluating all the cable manufacturers and distributors within the country, Emma had to accept that there was no option to but to speak to the owner and suggest that they looked into sourcing from overseas, if she stood any chance of meeting the 25% reduction target.

Emma received approval to explore all options to meet the target reduction so started to formulate a plan.

To have a chance of achieving the cost reduction, Emma realised that she would need to look at changing the style in which the cable was ordered. Presently, coming from a supplier within the same country as Parkers, Emma operated a JIT system. That would not work if she was sourcing from another country.

Emma worked on collating annual volumes of cables that had been used previously and created a forward forecast based on that historical data and the estimate forecast for the coming 12 months.

The overall volume surprised Emma and she began to feel confident that some significant savings could be achieved.

Thankfully, Parkers had a large container outside the main warehouse which was secure so Emma sought approval to use that to store 3 months' worth of cable to enable her to bulk buy.

Using the internet and also by speaking to other procurement professionals, Emma created a list of 12 potential suppliers. The 12 potential suppliers were researched to establish if they had the capacity, commitment, competency and cash to work alongside Parkers. Four of the initial options were disregarded quickly as they did not have the required accreditations to work in Parker's supply chain.

The remaining eight suppliers were sent pre-qualification questionnaires which asked questions regarding ethics, CSR policies, health and safety, cash flow and insurances.

Two of these eight suppliers were unable complete the ppq due to language problems so with regret Emma removed them from the process.

This left six suppliers that had returned the ppq and appeared, on paper, to be a match with Parker's requirements.

Emma prepared a tender document which contained a performance specification for the cable. She did not want to reduce the level of innovation and competition by giving a conformance specification. The tender was emailed to the suppliers and a strict deadline stated.

Four of the six suppliers provided Emma with a bid before the deadline. One supplier submitted their bid two days late so was discounted from the process and one did not respond.

During the bid evaluation, Emma used a weighted scoring method to give emphasis on criteria that were important to Parkers. Quality, sustainability and price held the highest weighting. Other areas such as lead time and cycle time were not deemed to be as significant.

The evaluation provided an obvious answer as to which supplier was the most suitable. The supplier that scored the highest was one based in Italy that not only met all the important criteria but also offered a cable that was made from 60% recycled material.

Yet another positive factor in this supplier's bid was that they were offering to supply DDP which reduced the risk for Emma as well as took more cost out of the product.

Their price was not the lowest, in fact it was the second highest, but taking into consideration all the other key elements that Parkers wanted, this supplier came out a clear winner to be awarded the contract.

Through economies of scale and moving to a global supplier, Emma's calculations showed that she had reduced the buying price of the cable by 32% as well as gaining the added cost benefits of having a more environmentally friendly product.

Emma was quietly relieved that a supplier based within the same continent as her had won the process as she knew that sourcing from Asia or Africa could be more complex with further increased lead times, more complicated customs requirements and often very different cultures to understand.

The contract was offered to the Italian supplier and they accepted.

Emma placed the first order for three months' worth of cable in September 2019 and it was received at Parkers in November 2019. The consignment cleared customs with no problems and arrived at the warehouse door on time and in full.

Whilst being proud of achieving her objective Emma now has a new challenge ahead: her latest task from the owner is to ensure that no price increases are accepted in relation to BREXIT and its challenges.

(Source: Jarvis-Grove, 2020)

Further Resources

You can also access further global supply chains [guidance here](#).

CIPS members can download the CIPS Global Supply Chains Tools covered [here](#).

