


# Sourcing



Reactive and strategic sourcing approaches are not mutually exclusive, however, strategic approaches are preferable because of their inherent ability to maximise value (Bullen et al., 2010)



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## Introduction

Sourcing is a critical activity that commands increasing attention as managing supply chains becomes more complex (Trautmann et al., 2009). It is used at both tactical and strategic levels and is concerned with what needs to be purchased (product/service), in what quantities, for what purpose and where (domestically/from a foreign supplier)(CIPS: Developing and implementing a strategic sourcing strategy; Owens et al., 1998; Hinkelman, 2008).

Major approaches to sourcing include reactive, tactical and strategic sourcing (Owens et al., 1998; van Weele, 2010).

Reactive sourcing is a procurement approach not underpinned by any proactive sourcing strategy, eg. responding to requisitions or other unexpected requirements from the business. This approach is not generally advisable, as it is driven by unexpected demand responding to individual needs as and when they arise (CIPS: Developing and implementing a strategic sourcing strategy).

Tactical sourcing is reactive as it covers those business requirements that cannot be planned in advance, but is proactively managed and resources and processes are set aside to manage it within the P&SM; strategy. Tactical sourcing concerns "lower-level decisions relating to high-profit, low-risk, non-critical items ... [and] short-term adaptive decisions as to how and from where specific supplier requirements are to be met". For example, an organisation that made a make-or-buy decision about a particular component under certain conditions may have to tactically reverse this it (e.g. failure of suppliers) (CIPS: Developing and implementing a strategic sourcing strategy; Lysons and Farrington, 2006).

Strategic sourcing is action aimed at "satisfying business needs... via the proactive and planned analysis of supply markets and the selection of suppliers with the objective of delivering solutions to meet pre-determined and agreed business needs" (CIPS: Developing and implementing a strategic sourcing strategy). It is concerned with longer-term decisions related to high-profit, high supply risk strategic items and with low-profit, high supply risk bottleneck products and services and covers long-term purchasing policies, reciprocal and intra-company trading, partnership sourcing, capital equipment purchasing and ethical and sustainability issues (Lysons and Farrington, 2006).

## Definition

Sourcing is the "location, acquisition and management of all the vital inputs required for an organisation to operate. This includes raw materials, component parts, products, labour in all its forms, location and services" (Hinkelman, 2008:578).

## Successful Application

A number of sourcing process models have been developed over the past two decades. An earlier example is a Novack and Simco's (1991) 11-step approach. More recent sourcing models place greater emphasis on a strategic approach. One of the models, suggested by Massin (2006), focuses on strategic groups (SG) and suggests that four groups of action should be conducted in collaboration with the key-stakeholders to identify the most probable best

sourcing strategy: determining SG's business impact, determining SG's supply market complexity, positioning all SGs in one of the quadrant of the "Business-impact/Market complexity matrix" and identifying the best and most sensible strategy to apply to each sourcing group.

## Steps to Successful Application

- Develop an overall sourcing strategy and make strategic sourcing a core element.
- Form a Sourcing board or panel for discussing strategies and assisting with decision making.
- Perform an 'as is' analysis (customer and business requirements, spend analysis, future spend analysis, and market analysis).
- Present the outcomes to senior management for their consideration.
- Implement the chosen strategic sourcing option.

CIPS: Developing and implementing a strategic sourcing strategy

## Hints and Tips

- When developing and comparing strategic sourcing options, use weighted evaluation criteria rather than cost/price as the sole basis for decision making (CIPS: Developing and implementing a strategic sourcing strategy).
- Strategic sourcing should only be carried out by competent and knowledgeable professionals (Owens et al., 1998).
- When purchasing professionals present sourcing options to the organisation's directors or to the Sourcing board, they may be required to support their suggestions with return on investment (ROI) models and business cases (CIPS: Developing and implementing a strategic sourcing strategy).
- A robust procurement process is a key element to any successful sourcing strategy (Rozier, 2011).
- It is important to evaluate strategic sourcing options based on the benefits that they 'actually' deliver rather than those which they may have been 'expected' to deliver (CIPS: Developing and implementing a strategic sourcing strategy).

## Potential Advantages

- Prioritising strategic sourcing and placing it at the core of business is essential for achieving and maintaining a competitive advantage (Owens et al., 1998).
- Strategic sourcing helps develop a deeper understanding of a company's requirements and value chain (Lysons and Farrington, 2006).
- Sustainable and responsible procurement is often dependent on strategic sourcing (Murray, 2000; Senge, 2010).

## Potential Disadvantages

- Only some organisations are capable of implementing strategic sourcing in an effective way, as it requires extensive resources and excellent management information (Bullen et al., 2010).

- In tactical sourcing environments there is usually an open bid process with little room for suppliers to present alternative designs and specifications (Lysons and Farrington, 2006).
- 'As-is' analysis and 'supply chain mapping' can take between three and six months, which is a lengthy timeframe for many organisations and presents impracticalities (CIPS: Developing and implementing a strategic sourcing strategy).

## Case Studies

- Implementing material substitution and local purchasing strategies allowed Volkswagen cut its costs by £1.1m in 2011 and achieve an increase in operating profit of more than 50% to £9.5bn. The savings were primarily delivered through procurement (Volkswagen, 2012).
- In 2008 Liz Claiborne, the clothing retailer and one of the first US brand companies to turn to global manufacturers in the 1990s, announced its new sourcing 'revolutionary' to global clothing supply chain' strategy. In order to cut costs the company decided to move away from direct control of their sourcing and signed a deal with Li and Fung to handle its global sourcing (Financial Times, 2010).
- When to keep vital data confidential and when to share it with a partner is a critical issue in strategic sourcing. For example, 7-Eleven's snack foods supplier, Frito-Lay, is responsible for distributing its products directly to stores but it has not been allowed to make critical decisions on order quantities or shelf placement. This strategy allows 7-Eleven to take advantage of Frito-Lay's vast warehousing and transport system, but allows it to mine its extensive data on local customer purchasing patterns and make order decisions on a store-by-store basis (Gottfredson et al., 2005).

## Further Reading/References

### Web Sources

- [Developing an effective global sourcing strategy](#)
- [The FT discusses responsible sourcing](#)
- [Risk and strategic sourcing](#)
- [Creating a strategic sourcing team](#)
- [Embedding a strategic sourcing programme](#)

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## Video

Global Sourcing - Professor Richard Wilding & Dr Carlos Mena .

<https://www.youtube.com/watch?v=npJGgQunCLg>

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