

Supply Chain Management

Viewpoint

High performance through sourcing

Leveraging a supply management platform
for low-cost country sourcing



High performance. Delivered.

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Although sourcing from low-cost economies is an established fact, how best to fully leverage the opportunities it offers remains obscure. The use of a supply management platform can bring compelling value to a purchasing organization by helping it overcome some of the added complexity that is inherent in the definition and execution of a low-cost country sourcing initiative. By improving coordination among different buyers and suppliers, industrializing the sourcing process, and acting as a central knowledge base to store and share all supply-related data, supply management platforms add a dimension of stability and certainty to low-cost country sourcing that is often lacking.

Sourcing from low-cost economies is an established fact. However, how best to fully leverage the opportunities it offers remains obscure: While many companies have shown that they can successfully source from low-cost economies on a category-by-category basis, far fewer have institutionalized their overseas sourcing to the point where it becomes routine and "business as usual."

In one sense this is not surprising. Successful sourcing from low-cost economies involves addressing a number of distinct challenges—and not just one at a time, but together. In unfamiliar markets, companies must identify suitable vendors and be assured not only of vendors' potential reliability of supply and the quality of the products that they provide, but also of the rigor and capability of their internal processes.

Worse, the decisions companies must make are rarely clear-cut. Improved quality may go hand-in-hand with better reliability of supply, or it may not—a tradeoff may be involved. And while increasing the pool of potential vendors may uncover intriguing new alternatives to consider, it also equally increases the complexity of the comparisons and "what if" analyses entailed in the decision process.

While challenging, the problem is not insurmountable. Category by category, and product by product, managements can and do rise to the challenge: Decisions are made and contracts issued. But was it the best decision? Is the solution truly optimal? The larger the category and the greater the variability in the supplier base, the more difficult it is to know with certainty that the best possible deal has been made. Making a deal that's considered acceptable is straightforward. Making a deal worthy of a high-performance business is an altogether more complex challenge.

Yet it does not have to be. The use of supply management platforms is becoming commonplace across businesses. This trend is not startling given that such platforms play a fundamental part in enabling businesses to dramatically improve

the effectiveness of their procurement functions and, ultimately, achieve higher levels of performance through supply chain mastery. While sharply reducing the cost of acquisition for a wide range of goods and services, supply management platforms simultaneously free up management time for more strategic activities.

When it comes to sourcing from low-cost economies, however, these platforms are not being utilized to their best advantage. The resulting irony is that even as companies struggle to engage with low-cost country suppliers, the tools that they need are already in place. It is the corporate equivalent of buying a state-of-the-art hi-fi system—and then only using it to listen to the radio.

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Under the hood: How a supply management platform works

Let's first review what a supply management platform actually does. In essence, its purpose is simple: manage the front-end source-to-contract process to help enterprises achieve better compliance and performance across their supply base.

Typically, enterprises begin the process with spend analysis, determining what they buy and whom they buy it from. This analysis helps them understand and prioritize potential savings opportunities. With the size of the prize understood, they then develop a sourcing strategy that will bring these opportunities to fruition and venture into the marketplace to identify potential suppliers. From there, a process of supplier qualification and negotiation takes place, leading to decisions around which spend is awarded to which supplier. Ideally, the awarding process takes into account not only reducing the landed cost, but also the total cost of ownership—balancing cost, performance and risk.

Once suppliers are selected and business is awarded, the enterprise establishes contracts and deploys processes to ensure operational and regulatory compliance. Spend, contracts and procurement controls are continually monitored across the selected supply base to drive down risk and identify additional opportunities for greater savings and efficiency going forward.

Going global: How a supply management platform helps

A robust supply management platform can bring a number of benefits to a purchasing organization in pursuit of low-cost country sourcing. First, it can

help to structure the sourcing process around well-defined projects and templates where roles, responsibilities, tasks and deadlines are all clearly outlined and structured.

Second, during the actual sourcing phase, the platform can ensure that all steps are clearly documented and recorded, which helps make the process repeatable and can lead to shorter sourcing cycle times. Finally, once the business has been awarded, the platform enables an enterprise to monitor compliance with negotiated contracts by measuring supplier performance over the life cycle of the relationship. With divergent geographies, time zones, languages and cultures, the role played by a supply management platform is invaluable.

Yet some of these advantages become even more critical in the context of low-cost country sourcing. In particular, the platform actively helps businesses with three of the thorniest problems incurred when venturing into low-cost country sourcing: finding suitable vendors, evaluating multiple offers and handling the challenges involved in day-to-day management—again within an environment of widely divergent geographies, time zones, languages and cultures. Let's look at each of these in more detail.

Identifying suitable vendors

While the use of intermediaries such as local agents or the establishment of international procurement offices is far from unknown, the vast majority of companies buying from low-cost countries choose to purchase directly from the supplier. By automatically keeping track of all the suppliers that ever responded to a request for information, a supply management platform facilitates the supplier discovery process by creating a central database of suppliers—both qualified and yet-to-be qualified—that can be

tapped into on an ongoing basis as the organization's supply needs change and evolve.

A supply management platform is also useful during the supplier qualification and audit phase, where satisfactory assurances of quality and supply reliability must be obtained. Establishing standard electronic questionnaires and evaluation forms that can be shared and completed collaboratively with suppliers, cross-functional assessment teams or third-party accreditation services enables enterprises to quickly and cost-effectively gather feedback, irrespective of where the reporting party is located. Again, the result is to help build a database of approved suppliers that can be quickly and economically leveraged at any time in the future.

Evaluating offers

Even within a purely domestic context, disentangling the complexities of correctly evaluating multi-item offers from multiple potential vendors can prove a challenge. This is particularly true when suppliers make so-called "expressive" or "combinatorial" bids and detail alternative pricing they could offer if, for example, quantity, specification or delivery requirements were varied or if bundles of items could be bid for as a single lot. When dozens of vendors offer competing bundles of items at varying prices and price breakpoints, picking out precisely the best combinations of offerings that yield the lowest total landed cost becomes a complex business.

Although an enterprise can certainly make a reasonable evaluation despite these complexities, it is equally likely that any human judgment will fall short of being truly optimized. It is precisely this optimization that a spend management platform can undertake, collecting competing optimization scenarios through auctions or requests

for quotations (RFQs), and then analyzing the implied costs and trade-offs contained in multiline item bids from hundreds of vendors in a matter of minutes.

In addition to analyzing expressive supplier pricing schedules such as bundled pricing, unit volume discounts and business volume discounts, the evaluation can include item substitutions and component lotting strategies, as well as variations in item specifications—such as color, quality and tolerance—while simultaneously factoring in supplier capabilities and constraints like capacity limitations, financing terms and historical supplier performance metrics.

Better still, supply management platforms provide an excellent vehicle for evaluating the additional cost drivers associated with sourcing from low-cost economies, such as transportation, tariffs, longer lead times and additional inventory holding—all of which can lead to a more complex total landed cost model.

In short, by enabling the buying team to conduct scenario-based "what if" sensitivity analyses to quantify the impact of various purchasing alternatives and trade-offs associated with the complexities of sourcing from low-cost economies, companies can be assured that their sourcing decisions are not just broadly correct but truly optimal.

Day-to-day management

If evaluating multiple offerings is complex, so too is the challenge of managing the coordination and communication that must occur among participants in the process. To further complicate matters, participants in low-cost country sourcing are not only likely to be geographically dispersed, but also characterized by very different backgrounds, languages and cultures.

A supply management platform can help ease day-to-day management issues by coordinating the end-to-end sourcing process; facilitating the effective sharing of information between buyers and suppliers; and providing a centralized, globally accessible, single source of the truth for all activities contained within the sourcing and evaluation process.

One way the supply management platform can help, for example, is at the very beginning of the process by clearly identifying the required tasks, responsibilities and deadlines, and making these visible to every participant in the process—both outside and inside the organization. This includes not just those departments that are inside the firewall, such as engineering, quality, production and logistics, but also suppliers, international procurement offices and third-party accreditation services.

The enhanced sharing of information such as specifications and technical drawings is another useful advantage, providing timely and up-to-date data at every stage in the process—again, both internally and externally, and from the initial design phase right through to the contract award phase.

Finally, supply management platforms can also help measure the progress of sourcing projects by offering a variety of tools and monitoring techniques, from management dashboards to exception-based alerts. Such benefits are even more relevant to companies that decide to establish dedicated overseas sourcing organizations, such as an international purchasing office, where the establishment of a well-understood process and clearly defined roles and responsibilities are especially critical.

Case studies

Food products company

So how does a supply management platform work in practice? Take the example of a major US food products company, which for many years sourced strawberries from Californian and Chilean producers and brokers. Although the company was aware of Chinese growers that were developing both new product varieties and shipping techniques, it also recognized that traditional approaches to sourcing presented numerous barriers that prevented it from exploiting the opportunity. The resource requirement involved in engaging with new

suppliers to the point of meaningful negotiations was seen as too time-consuming—a prospect exacerbated by language barriers.

The Emptoris supply management platform, equipped with a broad range of languages including Mandarin, was able to help the company overcome these obstacles. Better still, as online negotiations were already about to take place with its existing supplier base for a one-year contract intended to source more than 5 million pounds of four different types of strawberries, the platform enabled the company to invite five prospective suppliers from China into the process.

Participating first in an initial RFO prior to the final competitive reverse auction event, the purchasing organization determined that sourcing strawberries from China presented a 24 percent savings opportunity. In a competitive market experiencing ongoing margin pressure, that was simply too big an opportunity to miss. Yet without a supply management platform to take advantage of the opportunity, those savings would have been left on the table.

Consumer durables company

Another example involves one of the world's largest consumer durables companies, which leveraged the Emptoris supply management platform to source 352 rubber items amounting to \$32 million in spend. Running two sourcing events in parallel—one with its regular domestic suppliers, and a second with 14 new prospective suppliers from India and China—the organization managed the process centrally, while also making use of company personnel on the ground in India and China to facilitate activities such as qualification.

In the bidding process, nine diverse attributes were collated and processed through a total cost formula for each item for which a bid was solicited. These attributes included price-based factors such as the raw material price

per unit, the percentage of scrap, the labor cost, overhead cost and packaging cost per part, as well as other factors like manufacturing tonnage, tooling costs and shipping lead time. Suppliers were also allowed to offer expressive combinatorial bids, such as bundling items together and offering volume-based discount schedules.

The supply management platform was then used to model a number of "what if" scenarios, which enabled the company to determine the consequences of different sourcing strategies. Throughout the analysis, two practical considerations were kept at the forefront. First, the company wanted to avoid bringing on too many new suppliers at once, recognizing that ramp-up costs were inevitable and needed to be minimized. Second, in order to mitigate the risk of change, conditions were created to continue to

use certain incumbent suppliers while simultaneously constraining the total number of suppliers among whom the contract would be split.

The analysis proved invaluable. For the first time, the business could precisely establish the costs associated with various sourcing strategies—for example, it was possible to determine that splitting the contract among just the five overall lowest-cost suppliers would cost 6 percent more than contracting with the 25 suppliers who offered the best price on a product-by-product basis. In all, some 27 different strategies were evaluated, involving varying the maximum number of suppliers, the percentage of business remaining with incumbent suppliers, and the inclusion of supplier bundles and volume-based discounts.

Leveraging supply management platforms to achieve high performance

As impressive as the outcomes in the adjacent case studies are, any business seeking to emulate them must be cognizant of a number of prior practical considerations. For example, a supply management solution is an even more powerful proposition when it is allied with the provision of third-party services that can empower the purchasing organization to seize opportunities presented by low-cost country sourcing. Typically, for example, a business may want to consider third-party help in such areas as supplier databases, local supply market knowledge and on-site support in local languages for sourcing events taking place in economies like India and China.

Historically, technology—while enabling supply management platforms—has presented challenges in certain regions that have been slower to adopt such innovative solutions. From a technology standpoint, for example, not all suppliers in emerging markets have proven ready to participate in online events. These challenges can be overcome through approaches such as surrogate bidding processes (where the buyer or third-party service provider places bids on behalf of the supplier), as well spreadsheet-based, easy-to-use bidding interfaces.

More subtle barriers to adoption also exist. Language support, for example, is critical to ensure the success of such an initiative, hence the added value of a solution that offers a multilingual user-interface. Local cultures, too, are often assumed to represent an obstacle to the use of technology-supported processes—although our view is that this presumption is generally mistaken. Our experience shows that technology can actually help reduce language and cultural challenges by codifying the

process in a clear manner, thereby better managing the interaction between supplier and buyer. Using such tools, both parties have time to process information—which may be in a foreign language—and are not caught up in the pressures of a live person-to-person negotiation, either face-to-face or by telephone.

In summary, we believe that the use of a supply management platform can bring compelling value to a purchasing organization by helping it overcome some of the added complexity that is inherent in the definition and execution of a low-cost country sourcing initiative. By improving coordination among different buyers and suppliers, industrializing the sourcing process, and acting as a central knowledge base to store and share all supply-related data, supply management platforms add a dimension of stability and certainty to low-cost country sourcing that is often lacking. It is critical to select a leading solution like Emptoris that presents the required functionality to tackle the challenges of low-cost country sourcing and the potential increase in risks, including the provision of sophisticated total cost of ownership optimization-based bid analysis.

To fully leverage the opportunities presented by the use of a supply management platform, it is equally important to select a service partner with experience both in the deployment of supply management platform technology, as well as in the markets and industries from which the materials and services in question will be purchased. Well-qualified on both counts, Accenture is committed to collaborating with clients to help them adapt innovatively to changing conditions, seize opportunities such as those associated with low-cost country sourcing and achieve high performance through supply chain mastery.

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We collaborate with clients to implement innovative consulting and outsourcing solutions that align operating models to support business strategies, optimize global operations, enable profitable product launches, and enhance the skills and capabilities of the supply chain workforce. For more information, visit www.accenture.com/supplychain.

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