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Trends in Sourcing and Procurement

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With many of the world economic indicators “bearish” in the short term, and inflation on the rise, companies face increasing prices for goods and services. While some companies will reduce discretionary spending, others will look for ways to stretch their budgets through savvy sourcing techniques, turning economic “lemons” into “lemon-aid”.

Optimizing Performance During a Recession

Peak sourcing and procurement performance is always important to corporate objectives. During a recession, achieving this goal can mean the difference between emerging from the recession successfully and not emerging at all. When revenues are down, cost containment will help ease the strain, and strong sourcing and procurement practices will make cost containment possible.

Sourcing and procurement departments “live and die” by the strength of their supplier relationships. These relationships have a direct impact on a business’ profitability, providing favorable or unfavorable pricing, as well as continuity of supply. A strong relationship with a supplier will bring “win/win” solutions during adverse economic times, due in part to a long-term relationship mindset. Strong relationships ensure continuous product flow at the best cost. By comparison, a more transactional relationship typically results in a “win/lose” situation.

It’s a “win” for the supplier and a “lose” for the buyer when the supplier works to maximize its profits and fulfill orders only

when and where those orders are relatively profitable for the supplier.

Efficient Energy Utilization

As the cost of energy in all forms rises, those companies consuming energy most efficiently will perform better, all things being equal. For heavy energy consumers, the savings and cost avoidance benefits can exceed seven digits annually.

Even though more efficient energy consuming equipment has a high purchase and set up cost, the total cost of ownership can pay off in only a few years. And it’s not only the additional cost over the less efficient energy appliances that is equalized, but the entire CAPEX cost can be recouped in many cases.

These demand benefit CAPEX costs should not overshadow the benefits of supply side opportunities such as negotiating lower energy rates or even physical and/or financial hedging. Moreover, the supply side opportunities require little or no CAPEX compared to demand side appliance retrofits.

Mitigating Price Risk and Volatility

The commodity and currency markets are causing a lot of “sleepless nights.” Not only does a weak dollar mean added cost for imports, but price pressures on commodity based products also lead to higher domestic product costs.

Some companies are implementing currency and commodity hedging strategies. These strategies will bring predictability to product costing and avoid cost volatility risk. As an example, consider a US company importing goods from China where the US dollar is getting weaker. As time passes under these circumstances, it takes more and more US dollars to pay for the imports. With a currency hedge, the amount of money required to satisfy the exchange becomes fixed, adding budget and product cost predictability.

Low Cost Country Sourcing in the Short and Long Term

Pressure to offer to customers products at the lowest retail prices has forced companies to look for a lower cost supply of goods outside of the domestic market. Developing countries such as China, India, and Africa offer low cost solutions. These “producing” economies, in some cases, are growing even in the face of recession in many parts of the world. Purchasing in these low cost countries is not without Economic, Social, Geopolitical, Technological, and/or Environmental Risk.

As these low cost country economies flourish and create wealth, the amount of discretionary income will increase. Over time, the trade pendulum swings and a country that was a “producing” country becomes a “consuming” country. Companies that recognize this will plan for the future and establish sales operations in these countries now in advance of the development of this sales market. They do so when it is easier and less costly to build a sales presence and capitalize on “first mover” advantages.

Near Shoring

Low cost country sourcing is not without risks. Some of those risks include slower customer service response time, loss of general and/or quality control, poor handling of data, language barriers, and excessive logistics/warehousing/tariff costs. As a result, some companies are implementing “Near Shoring” strategies. Near Shoring exploits

opportunities outside of, but closer to the domestic border compared to say a US company sourcing from Asia.

Near Shoring offers advantages in addition to those mentioned above including skilled labor at a lower cost than the US, government support, geographic proximity, more English speakers, more similarities to the US culture, and similar time zone daily operating hours, just to name a few. These advantages aid in control by facilitating visits to the point of operation.

While the potential cost reduction may not be as large as Asia or other low cost country sourcing alternatives, some of the common low cost country sourcing risks can be mitigated or even eliminated, thereby strengthening the chances for success.

Direct Buying and Selling

For various reasons, businesses purchase and sell goods or services indirectly through intermediary companies. These intermediaries add value, but over time their customers may be able to work through a direct relationship. In addition to offering cost savings, these direct relationships shorten supply chain lead times, and troubleshooting response times.

When buying directly from the manufacturer, it is possible to gain control, lower the mark up paid, and eliminate the overhead formerly paid to the intermediary.

When able to sell directly to the end customer, a similar cost reduction takes place. It becomes possible to lower the sales price and make the product more affordable to a larger market.

Sometimes there are greater logistics and warehousing costs, so the entire cost of delivery must be measured before making any decisions.

Outsourcing Procurement for Non-Core Activities

When a company evaluates its expenditures and procurement activities, there are diminishing returns to managing every direct and indirect spend category.

When the indirect spend products and services do not warrant a dedicated internal procurement resource, some companies choose to outsource the procurement of these categories. This is one reason why procurement consortiums have come about.

The outsourcing solution is also a scalable approach. When a temporary need for added resources arises, the outsourced company fills the need without necessarily having to grow its procurement department.

Mixing Purchasing and Technology for Superior Results

When a company operates a great purchasing department, they are capable of great results. When Technology is added to a great purchasing department, results

can grow exponentially. Technologies include e-procurement, reverse auctions, spend analytics and business warehousing, performance management, and others.

Whereas acquiring and implementing some of these technology tools was once cost prohibitive for small businesses, the cost has greatly decreased, making many of these options now affordable to the smaller enterprise.

These tools help in analysis, goal setting and performance measuring; all of which are critical to reducing costs.

Overall Trends

In a challenged economy where corporate sales revenues fall, more pressure is placed on sourcing and procurement to keep costs in check. This forces sourcing and procurement to go beyond the conventional cost saving methods in order to respond to competitive cost pressures.

Eventually, sourcing and procurement departments will reach a point when "bullying" suppliers to hold or lower prices no longer works. Anticipating this, companies need to explore technology tools, more closely manage demand, check their indirect expenditures for efficiency and value, utilize financial tools, re-examine and be critical of their chosen supply markets and suppliers, and chase the right sourcing and procurement opportunities in a prioritized manner. By implementing these strategies, companies will maximize their sourcing and procurement performance in any economic environment.



Auxis is a leading Management Consulting firm located in the Coral Gables, Florida area. Auxis' Supply Chain Excellence Practice believes in a practical, "back to basics" approach to help our clients buy, ship, and store right. Our methodology is designed to provide our clients with real-world business solutions anchored by solid financial analysis.

Auxis can help you to adapt your supply chain for the benefit of your customers, business partners, and shareholders through service offerings such as sourcing and procurement, strategic evaluation, network design, provider selection and deployment, and IT supporting infrastructure, selection, and deployment.

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