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STRATEGIC SOURCING GOING FOR THE BRASS RING

THE WINNERS IN SOURCING WILL MAKE THE PROCUREMENT PROCESS A PRIORITY

There's no rest for the weary when it comes to sourcing. With several years of strategic sourcing practice under their belts, most companies have automated many procurement processes — generating impressive savings and efficiencies in the bargain. Yet even greater benefits are ripe for the picking for those who take the next step and make strategic sourcing an institutionalized, cross-organizational process. "To take advantage of this opportunity, however, executives must make sourcing and procurement innovation a priority," says Lora Cecere, research director at AMR Research Inc., in Boston.

Strategic sourcing is now high on the agenda for many CFOs for several reasons. For one, the cash freed up by creative procurement and sourcing projects can be plowed into innovation. One major pharmaceutical manufacturer recently reported that it had saved enough money on procurement initiatives to fund the development of a new drug. Another major entertainment conglomerate used sourcing to

generate enough savings to pay for a new theme park.

Further, current inflationary pressure demands that the smart company aggregate spending so that it can gain purchasing power. Finally, strategic sourcing can help with compliance efforts. A better understanding of expenses, procurement, and payments helps companies rein in maverick spending and reduce corporate risks and liabilities. "There is substantial savings that can flow to the bottom line when companies move from these one-off point projects to a more systematic approach to sourcing," Cecere says.

Strategic sourcing continues to increase in popularity and acceptance for several reasons, predominantly because of its impact on the bottom line, says Barry Wiegler, managing director and CEO of Sourcing Interests Group, a Bell Canyon (Calif.)-based organization where members learn from one another's sourcing experiences. "Increased interest is also driven by maturing of tools and processes, which are enabling companies to commit and

implement solutions with far less risk and more predictability than was possible several years ago."

SMART CARDS

One key tool is the use of commercial procurement cards that act as a linchpin in the full procure-to-payment process. "Effective strategic sourcing requires an informed vendor management strategy," says David Cramer, senior vice president of Visa U.S.A., in San Francisco. "By replacing checks with procurement cards that employees use to buy goods and services, companies can create a direct data stream that aggregates purchasing information, spotlights vendor usage, and helps decision makers understand spending habits. Having all of this information available online, in one place, and in close to real-time delivery gives enterprises the information they need to refine their sourcing strategies."

The use of commercial procurement cards can also free internal resources — hours spent generating purchase orders, paying invoices, and responding to vendor inquiries — for

sourcing activities with more value. Moreover, the information gained from an electronic procurement solution enhances the procure-to-pay cycle. "Having visibility into the procurement data gives companies better control over spending, as well as powerful information to help drive better deals with their suppliers," says Cramer. "Organizations that deploy these cards quickly find that they can do more than use them to replace petty cash. They can use them as a strategic tool to improve financial performance."

Visa's procurement cards can be used with Visa's Commercial Program Optimization tools, which give companies insights into supplier performance, payment trends, transaction frequency, and procurement costs. Some enterprises are even beginning to integrate their payment data into back-office business systems, which can reveal additional opportunities to refine their strategic sourcing approach. "Organizations are realizing that they have the data and the power to optimize their entire procure-to-pay process," says Cramer. "It's just a matter of making it a priority."

DO YOUR THING

An effective sourcing strategy can help enterprises with many business challenges, including responding to changing economic conditions, improving processes and efficiencies, improving return on capital, managing risks, increasing innovation and flexibility, developing management talent, and responding to customers' needs. Yet no enterprise has the time or resources to handle all these challenges alone.

To create an effective strategy,

companies first should identify and understand their core competencies — the special skills or knowledge sets that create their competitive advantage. Says Jay Bondeson, marketing strategist at Hewitt Associates LLC, a global human-resources-services firm, in Lincolnshire, Ill.: "Core competencies can never be outsourced, but everything else is a candidate. If there is a provider that can perform any non-core activity better than you can, neglecting to outsource it simply concedes competitive advantage to everyone who performs it better than you do."

The next step is to identify and evaluate world-class providers of these activities and determine which ones can generate the value required. "Value may encompass considerations not only of cost, but of innovation, cultural fit, flexibility, scalability, and more," says Bondeson. "Choose a sourcing advisor that understands and works toward your business objectives and key success criteria." Avneet Jolly, senior consultant for Hewitt, adds: "This typically means choosing someone with a well-established domain expertise. And for many companies, the ability to deliver services globally is another critical factor."

It's all about competitive advantage. For those core tasks the company retains, it must decide where in the world it can best perform the tasks in order to create the maximum advantage. "In the absence of a strategic sourcing strategy, individual business units and functions will make their own sourcing decisions, which will sub-optimize sourcing at a corporate level," says Jolly.

A BIG TENT

One way to enhance the benefits of sourcing is to add nontraditional spending to the program. Goods or services that, until recently, could not be sourced — such as logistics, professional services, and advertising — can now become part of the strategic sourcing effort.

"In most cases, these purchases are not inconsequential dollar amounts," says Kent Parker, senior vice president and general manager of the global services organization at Ariba Inc., in Sunnyvale, Calif. "They just couldn't be tracked before now. By using a closed-loop, systemic spend-management solution to tie everything together, companies can manage nearly all their purchases in a strategic sourcing approach."

ABOUT AMR RESEARCH

AMR Research is a strategic advisory firm that provides critical analysis and actionable advice to business and technology executives to help them manage resources, assess and mitigate risk, and increase business value. The company's research initiatives are based on the Performance-Driven Enterprise.

ABOUT THE SOURCING INTERESTS GROUP (SIG)

SIG, founded in 1991, is comprised of more than 190 leading corporations and supporting organizations that focus on improving bottom-line performance, quality and customer service through initiatives in strategic sourcing/procurement and outsourcing.

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