

Strategic Sourcing to Prioritize Resources in SCRM Programs

Protect the supply chain and develop smart options for other sourcing issues by adopting strategic sourcing in supply chain risk management (SCRM).

When unforeseen events negatively impact the supply chain, alternative options are often already limited. Strategic sourcing in supply chain management mitigates unexpected risks by enhancing your understanding of your existing supply chain, expanding your range of potential suppliers, reducing costs, and providing greater options, such as on packaging, delivery, and distribution.

Applying Insights from Supplier Illumination

Strategic sourcing is the next logical step for an organization engaged in supply chain illumination. Once the supply chain is mapped several tiers deep, it's time to turn insight into action.

With supplier illumination, the SCRM team can identify risks and inefficiencies in the supply chain at lower levels. Supplier illumination is the first step. Organizations can no longer afford to be caught unaware by challenges to subcontractors or subcomponent manufacturers down the chain. Imagine the cost of being unable to replace a supplier that can't meet its obligations because its own raw materials suddenly became unavailable due to war, a local public health problem, a labor shortage or strike, a foreign power's industrial espionage, or a global shipping or trade slowdown.

Knowledge of potential alternative suppliers decreases over-reliance on an incumbent supplier or supplier group because it presents new options that organizations can turn to, especially if problems in their existing supply chain begin to emerge. Left as is, some incumbents may exploit buyer dependency in the form of elevated markups, slackening focus on quality and value, or offering static options and little innovation. Organizations frequently find that alternative supply chain options developed through strategic sourcing deliver return on investment beyond initial cost-savings goals.

How Strategic Sourcing Supports Supply Chain Flexibility

Among other things, having more sourcing options improves the understanding of the complete value chain and may enable buyers to negotiate a wider range of delivery options and methods from suppliers. This in turn helps organizations grow and innovate by doing things like experimenting with new workflows, driven by greater assurance of on-time delivery precisely when and where inputs are needed most.



Don't Wait for a Crisis

Too frequently, organizations only become aware of the importance of strategic sourcing when a crisis strikes. The time to take action is not after a plant has had to partially shut down due to a worker injury, a Category 5 storm threatens transportation routes and warehouses, a tariff has been imposed, or a critical global trade route has become hopelessly snarled. At that point, an organization would be in crisis-management mode to implement emergency measures to work around the problem. A comprehensive approach to strategic sourcing requires time and expertise, and those potential actions should be planned for, and worked out in advance whenever possible, so that the crisis can be less of one.

Applying the results of supply chain illumination to strategic sourcing additionally can help protect against an emergency or unforeseen disaster. For example, if an organization's primary manufacturing facility is halted or slowed due to weather, a fire or other safety circumstance, political disruption, or other issues, plans put in place through strategic sourcing can provide greater continuity of production. Such solutions might include bringing an alternative third-party manufacturing plant into the fold or redirecting supplier deliveries to a secondary supplier facility for these contingencies.

Additional Value Creation from Strategic Sourcing

As a continuously practiced discipline, strategic sourcing can deliver ongoing benefits beyond enhancing the stability and security of a supply chain, including:



Identification of environmental, social, & governance (ESG) risks

Organizations today need to understand emerging ESG issues and their potential impact on business continuity. Strategic sourcing can help identify the prospective long-term implications of a supplier that, for example, operates key facilities on contaminated land, is seeking to transition to more sustainable production paths or products, or may suffer a public black eye due to questionable practices in and outside the workplace.



Evolving beyond outdated RFP sourcing

Many organizations are stifled in their search for new efficiencies by the decades-old request-for-proposal (RFP) process. The inflexible world of fixed-bid sourcing with a waterfall (all-at-once) delivery model for all bidders can cause inefficiencies. That's because, for example, the associated processes tend to reward incumbents who have mastered the RFP documentation discipline and can stifle creativity from potential new entrants. Strategic sourcing can help organizations move to a more flexible sourcing practice, accepting that not all bids and deliveries need to be equivalent to be fairly and appropriately weighed.



Tying supplier contracts to business outcomes

Rewarding suppliers for lower-cost, on-time delivery is just one component of value. Strategic sourcing can help buyers evolve to a model where suppliers are incentivized based on overall value created and positive outcomes for the buying organization beyond the initial delivery.



Mitigating exchange rate risk

Strategic sourcing can strengthen buyers' insulation against exchange rate shocks via a range of effective analyses, including evaluating the impact of purchases made with traditional foreign or emerging currencies.



Improved management of surge conditions

Whether caused by a temporary increase in demand, a temporary decrease in first-tier supply, or both, a strong strategic sourcing strategy can quickly communicate needs to alternative suppliers. And because surge conditions can lead to waste if left unchecked, strategic sourcing can also manage the return to normal circumstances after the underlying causes are resolved, avoiding costly overstock.



Fostering co-innovation

Strategic sourcing can redefine several steps in the traditional sourcing process, including contract monitoring and even price negotiation. This frees business representatives on both sides of the table to focus their knowledge and effort on collaborative creation. It also elevates the importance of understanding the potential and competency of each vendor, not simply its current price list.



Lower barriers to entry for emerging vendors

By creating new opportunities for emerging vendors, strategic sourcing promotes healthy competition and innovation in the value chain.

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How Guidehouse Can Help

Given our professionals' deep experience in industries and supply chains, we can bolster your SCRM program with strategic sourcing capabilities that chip away at compound risks across the spectrum, from new decarbonization regulations and geopolitical instability to supplier complacency, and from cyber-attacks on your third parties and increased counterfeit parts to banning the inclusion of components potentially made with forced labor. Guidehouse can benchmark your current sourcing capabilities against prevailing practices within your industry and those deployed by your closest competitors, and immediately add greater insight into your risk exposure and potential alternatives to ameliorate that risk and to give you more sourcing options.

Speak with us to find new ways to use strategic sourcing to uncover new sourcing opportunities, develop a more dynamic partner-management strategy, and leverage negotiations that emphasize innovation, not just price.

Read up on new methods to advance your [SCRM program](#), and tips for [supply chain illumination](#). Or contact a Guidehouse expert to discuss expanding your strategic sourcing efforts.

About Guidehouse

Guidehouse is a leading global provider of consulting services to the public sector and commercial markets, with broad capabilities in management, technology, and risk consulting. By combining our public and private sector expertise, we help clients address their most complex challenges and navigate significant regulatory pressures, focusing on transformational change, business resiliency, and technology-driven innovation. Across a range of advisory, consulting, outsourcing, and digital services, we create scalable, innovative solutions that help our clients outwit complexity and position them for future growth and success. The company has more than 16,500 professionals in over 55 locations globally. Guidehouse is a Veritas Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets, and agenda-setting issues driving national and global economies. For more information, please visit: www.guidehouse.com.