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Enhancing SVA Through Strategic Sourcing

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- **Position the Sourcing Category**
- **Determine Sourcing Focus Tactics & Strategies**
- **Phase the Building of a Scorecard**

EXECUTIVE SEARCH / MANAGEMENT CONSULTANTS

Enhancing SVA Through Strategic Sourcing

A Sourcing Strategy is “The specific approach to identifying, developing and managing new and beneficial supply relationships”.

STRATEGIC SOURCING APPROACH

Different people have different understandings of strategic sourcing, but at the end of the day, the ultimate objective of strategic sourcing is the positive impact to the enterprise bottom line. Strategic Procurement is a long term and Total Cost Management approach to the procurement of all goods and services, required for the ongoing operation of an enterprise.

Strategic Sourcing has its roots in identifying and obtaining new cost reductions. I utilize the following steps in achieving Strategic Sourcing benefits within an organization:

1. **Position the Sourcing Category.** On a degree of importance basis, break down goods and services into categories that fall under:
 - Strategic Purchase:** Ensure long term availability of supply, while focusing on relationship building and process integration with supply partners.
 - Volume Play:** The primary strategy is to leverage purchasing power and quality improvements through negotiations based on volume.
 - Non-critical:** Simplify and streamline purchasing processes to achieve efficiency. Reduce number of suppliers & transactions to simplify order/replenishment process.
2. **Determine Sourcing Focus Tactics & Strategies.** Sourcing focus, tactics and strategies do not have to be mutually exclusive and are often combined to produce maximum benefit. Some of the actions to consider are:
 - a) Consolidation of Enterprise Volumes
 - b) Reduction of Potential Supply Base
 - c) Un-bundling and Evaluation of Best Pricing
 - d) Determination of Mutual Process Improvements
 - e) Development of Strategic Alliances
 - f) Implementation of Reverse Marketing
 - g) Outsourcing of Non-core Competencies
 - h) *Determination of Mutual Process Improvements*
3. **Phase the Building of a Scorecard.** Following are 6 phases to building a scorecard:
 - a) Identify & Build The Strategic Linkages
 - b) Determine Measures of Success
 - c) Identify Processes, Projects and Measures
 - d) Build Scorecard Processes & Launch
 - e) Monitor Performance to Service Level Agreement (SLA) Metrics
 - f) Review & Modify the SLA based on Performance Results

To summarize the above in its simplest form, you gather information about your suppliers and their respective products and services, right down to costs, turnaround times, etc. You organize that data into logical groups/commodities and analyze it to determine appropriate strategies. Finally you implement those strategies and monitor and report on the effectiveness of the strategies and the reliability/compliance of the supply base through Service Level Agreements.

The toughest part of Strategic Sourcing/Procurement is not devising the strategies, but selling their value across the enterprise. Applying a specific yet customizable process includes change management, facilitation, category expertise, teaming and enabling technology.

Corporate Level example of Shareholder Value enhancement via Strategic Sourcing/Procurement:

STRATEGIC SOURCING = IMPROVED MARKET VALUE

	<u>(In Million's)</u>	
	<u>As Reported</u>	<u>If Indirect Buy @5% Less</u>
Revenue:	6,625	\$6,625
Cost of Goods Sold:	5,613	
Direct Purchases @50%	2,807	2,807
Indirect Purchases @25%	1,403	1,333 (- 5%)
Other Direct Expenses @25%	<u>1,403</u>	<u>1,403</u>
Gross Profit	1,012	1,082
SG &A Expenses	<u>813</u>	<u>813</u>
Operating Income	199	269
Taxes & Other Expenses @ 65%	<u>129</u>	<u>175</u>
Net Income	70.0	94.0
Shares Outstanding	56.3	56.3
Earnings Per Share	\$1.24	\$1.67
Stock Multiplier (P/E Ratio)	25	25
Market Value Per Share	\$30.93	\$41.83
	Improvement	35.24%

A 5% reduction in Indirect Purchases results in a 35% increase in Shareholder Value!

ABOUT THE AUTHOR: Austin P. Noronha, CPP, CRM, CPM is a professional procurement executive with extensive, progressive purchasing experience and demonstrated expertise in reducing operating costs via strategic procurement initiatives. He has a history of providing leadership in building purchasing infrastructures, developing and implementing best practices, writing and negotiating contracts / service-level agreements. Austin practices procurement related consulting for process assessments, strategic policy/procedure development, review of supplier contracts, compliance with regulatory requirements and conducts professional recruitment for Rutherford International ESG.