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Best Value Country Sourcing: A Paradigm Shift for Global Sourcing Approaches

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Global sourcing has always been an issue of uncertainty, primarily due to the fact that cross-border sourcing decisions require in-depth analysis. Labour costs, logistics infrastructure, local cultural, legal and political characteristics, compliance and risk management issues are just some of the things which must be taken into account. This could be the reason why so many outsourcing and global sourcing decisions do not meet expectations.

Paradigm shift — from cost to value

Fortunately this has not led to a total withdrawal from global markets, rather to more sophisticated sourcing strategies. Starting from a low-cost country sourcing approach based mainly on labour and material cost comparisons, and which has now proven insufficient, global companies are now shifting to a best cost country sourcing approach. This new perspective, which has been gaining ground for about three years, is based on the realisation that labour cost and product quality are just two — admittedly very important — aspects. Management costs, supply guarantees, IP protection, cost of logistics and supplier reliability are all gaining importance. It means that a low-cost country is not automatically a best-cost country.

But this isn't the end of the evolution. Tough global competition, a scarcity of natural resources and the need to reduce costs and raise efficiency will force companies to rethink their view of procurement. This shift will lead to the perception of procurement being more than a cost manager but as a value creator. That's why we are convinced that the future of sourcing is most appropriately described as the best value country sourcing approach.

A recent international global sourcing study by BrainNet EAC and the Procurement Leaders Network documented the first signs of this trend. Although the survey proves that the future won't be totally different, it shows that additional factors and trends will also have a deep impact on sourcing strategies.

The next generation of procurement — are you ready?

One of the key findings of the study is the alarming finding that most companies' procurement structures are not ready for the next stage of procurement evolution — a lack of transparency is a serious issue and current organisational structures and staff development programs are not prepared for coping with the demands of a global supply network. That's why the future will see the involvement

of key departments (finance, R&D and logistics) into global procurement decisions as well as a "war for talent." Therefore, global supply networks require massive and immediate optimisation of personnel.

"Local for local" is another important trend, which indicates a return of traditional sourcing approaches. Increasing logistics, management and monitoring costs have pushed companies to focus on local sources for local divisions. The need for good local knowledge and presence, greater involvement of other departments and a "local for local" approach are all necessary to avoid, or at least soften, specific local sourcing bottlenecks that proved critical in the past.

Imperatives for a successful procurement strategy

Respondents to the survey— CPOs of global companies — identified six key challenges which must be tackled immediately:

1. The optimisation of procurement management to a high level of transparency and supervision;
2. The development of functional integrated procurement structures with broadened responsibilities and a strategic approach;
3. A global structure of purchasing organisations to achieve the best value and performance, requiring a shift of staff focus to relevant regions;
4. The optimisation and systematic development of personnel training and qualification in preparation for the future challenges of global sourcing networks;
5. A sustainable sourcing model which integrates both global and local sourcing solutions;
6. The development and implementation of a best-value country sourcing approach.

Global sourcing is here to stay — but it will change its face

The overall conclusion of the survey was not that global sourcing is just another chapter in the economic history of the world and the study proves wrong those who talk of "de-globalisation" as being a trend in the face of the global financial crisis. But corporate strategies will inevitably have to adapt to markets that are becoming more complex.

The fact that the world is evolving in such a way, with many new challenges to be managed, is an unmistakable call for procurement to "co-evolve" both in general and in global sourcing in particular.

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