

## Rescuing Dwindling Offshore Savings with Supplier Relationship Management 2.0

### Lack of Clarity in Roles and Organizational Structure Whittles Away Initial Savings Over Time; Defining the Offshore Team

SCDigest Editorial Staff

**I**s this pattern typical of your company? Results from new low cost country sourcing initiatives initially deliver 20% savings in costs, but over time those savings dwindle, to as little as just 5% from the current state in 3-4 years, as initial unit cost reductions are driven out by the added overhead needed to manage offshore suppliers.

That scenario is increasingly common says **Randy Fike** of AlixPartners in a recent article in MIT's *Supply Chain Strategy* newsletter.

The cause? Too often, the low cost sourcing strategy "is being dragged down by SRM [supplier relationship management] failings, and more specifically, by a lack of proper infrastructure for SRM. The operation is fragmented and ineptly managed," Fike says.

Fike's recipe for success? Replace the fragmented supplier relationship structure with a more formally designed set of processes and organizational structure, including a single point of contact (the SRM organization) that is specifically charged with aligning cost reduction activities with strategic goals. As part of that SRM strategy, companies also need to do a better job of splitting responsibilities between Asian managers (tactical cost reductions) and those in the US (strategic initiatives).

SCDigest says it sounds like SRM 2.0.

#### Team Responsibilities

Fike gets very specific about the roles, responsibilities and focus of the Asian/offshore and US teams recommended in his SRM structure.

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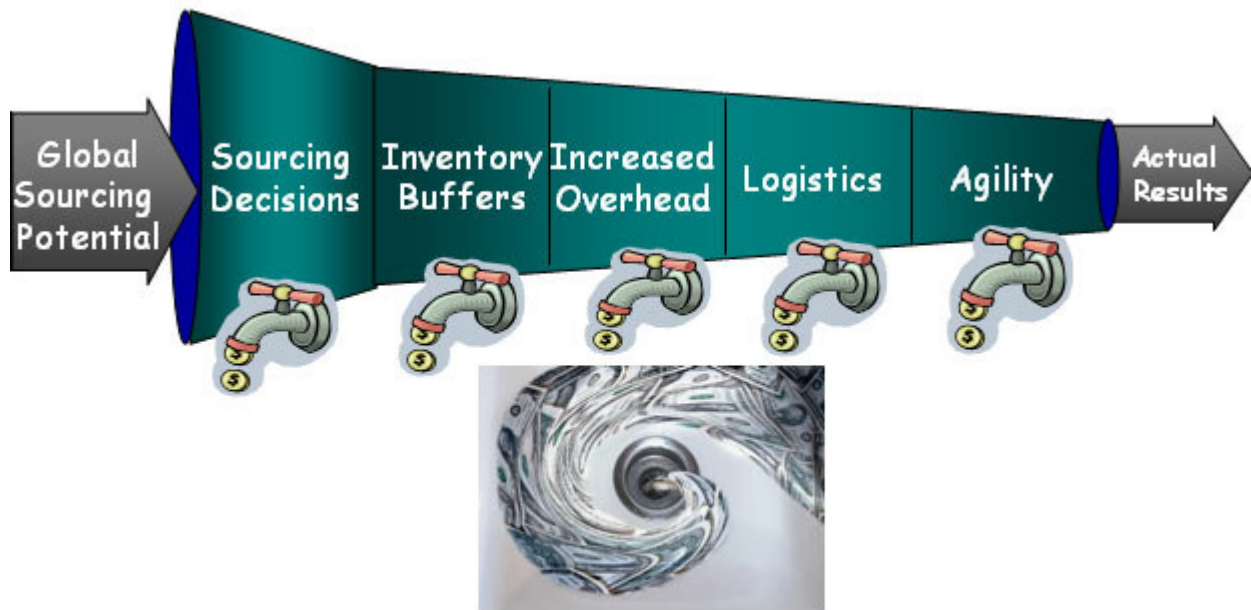
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Asian sourcing teams should have several different members. **Quality managers** should spend about 80% of their time working with suppliers to reduce total supply chain costs for sourced goods or material; another 10% is spent on supplier reviews and scorecards, and 10% more certifying new suppliers or existing suppliers for new products.

**Buyers/procurement managers**, on the other hand, spend 80% of their time on various administrative tasks, such as scorecards, purchase order management, handling price changes and negotiations, and related work.

Fike also recommends having a **cost analyst** on the Asian team who crunches the numbers, and maintains things like the sourcing bill of materials. He likes having this position in Asia in part because the analyst when needed can do analysis overnight in US time and have information needed there the next morning.

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### How Much Leakage Do You Have?

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While Fike believes the Asian team is primarily engaged in the production phase, he argues they also need to play a strong support role during the supplier selection and pre-production phases, including supplier identification, analyzing cost trends in various countries/regions, compiling information in support of an RFP or RFQ process, performing supplier site visits, etc.

#### Formalizing Processes

Fike believes global sourcing efforts often fail to meet expectations because of a lack of clear organizational structure and resulting lack of process discipline. He offers an example organizational structure that includes a series of SRM directors in the US with a more strategically oriented staff here, supported by the Asian (or other regional teams) as described above.

He believes that it is critical that all supplier

communications be funneled through the SRM team, rather than having multiple points of contact (engineering, marketing, etc) with their own separate communication channels.

Fike believes that with this more formal structure and very clearly defined processes, roles and responsibilities, companies will find that "Free of the unwieldy and costly administrative structure that supported offshore operations previously, proper attention can be given to key areas such as design costs, streamlining the purchasing of components, and eliminating redundancies that add unnecessary overhead."

How big is the potential gain? Fike says that with such an approach companies can not only avoid the steady reduction in total savings over time from offshoring many experience now, but can actually achieve an additional 10-20% savings beyond those initially realized from the sourcing change.