

Strategic Sourcing

A Private Sector and Defense Contractor Perspective



DLA Strategic Sourcing Workshop

November 14, 2008

LMI

GOVERNMENT CONSULTING

THE OPPORTUNITY TO MAKE A DIFFERENCE HAS NEVER BEEN GREATER

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Strategic Sourcing in Private Sector

What Firms Want

- Reduced supplier base
- Leveraged buying power
- Increased cost savings (and cost avoidance)
- Enhanced quality
- Increased realization of socioeconomic goals



Strategic Sourcing in Private Sector

Supplier Criticality Assessment

- Assessing supplier criticality is key to strategic sourcing
- Supplier criticality is based on factors such as
 - Relationship to customer's core mission
 - Access to technology
 - Switching cost
 - Uniqueness of product/service
- To assess criticality, suppliers are grouped into four relationship categories
 - Fundamental
 - Preferred
 - Technology
 - Mission



Strategic Sourcing in Private Sector

Supplier Criticality Assessment

- Fundamental Supplier Relationships
 - Suppliers that provide low-dollar-value, transactional items, where failure to deliver has little to no impact on the core mission of the firm
 - Examples include office supplies and general hardware items
 - Small percentage of overall spend



Strategic Sourcing in Private Sector

Supplier Criticality Assessment (Continued)

- Preferred Supplier Relationships
 - Suppliers that provide opportunity for leveraging corporate expenditures with top performers
 - Examples include desktop/laptop computers and cellular phones
 - Percentage of overall spend can range from 10 to 20 percent or more



Strategic Sourcing in Private Sector

Supplier Criticality Assessment (Continued)

- Technology Focused Supplier Relationships
 - Suppliers that provide high-dollar-value purchases of technically complex equipment
 - Examples include hi-tech production equipment and engineered materials
 - Suppliers typically assert proprietary ownership rights to hardware and software
 - Percentage of overall spend can range from 10 to 20 percent or more



Strategic Sourcing in Private Sector

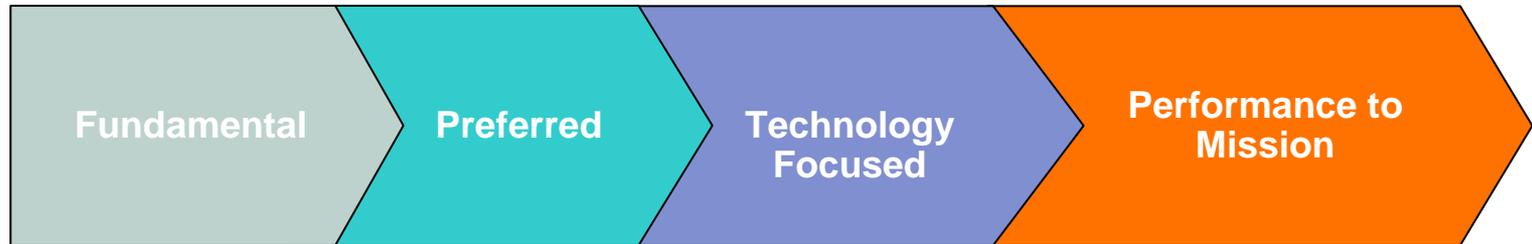
Supplier Criticality Assessment (Continued)

- Mission Supplier Relationships
 - Suppliers that are critical to core mission
 - Performance failure potentially catastrophic
 - Examples vary by industry (e.g. mission supplier for telecom industry is typically communication network provider)
 - Percentage of overall spend can range from 30 to 50 percent or more



Strategic Sourcing in Private Sector

Supplier Criticality Assessment (Continued)



Mission Critical	None	Low	Moderate	High
Selection Criteria	Price	Price and Performance	Technology Access and Performance	Performance Reliability
Communication	Minimum	Continuous	Interactive	Strategic
Supplier Behavior	Reactive	Proactive	Provides Solutions	Shared Risks and Rewards
Supplier Management	Purchase Card	Multi-year Agreements	Collaborative Long term Agreements	Strategic Long Term Agreements



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Porter Model

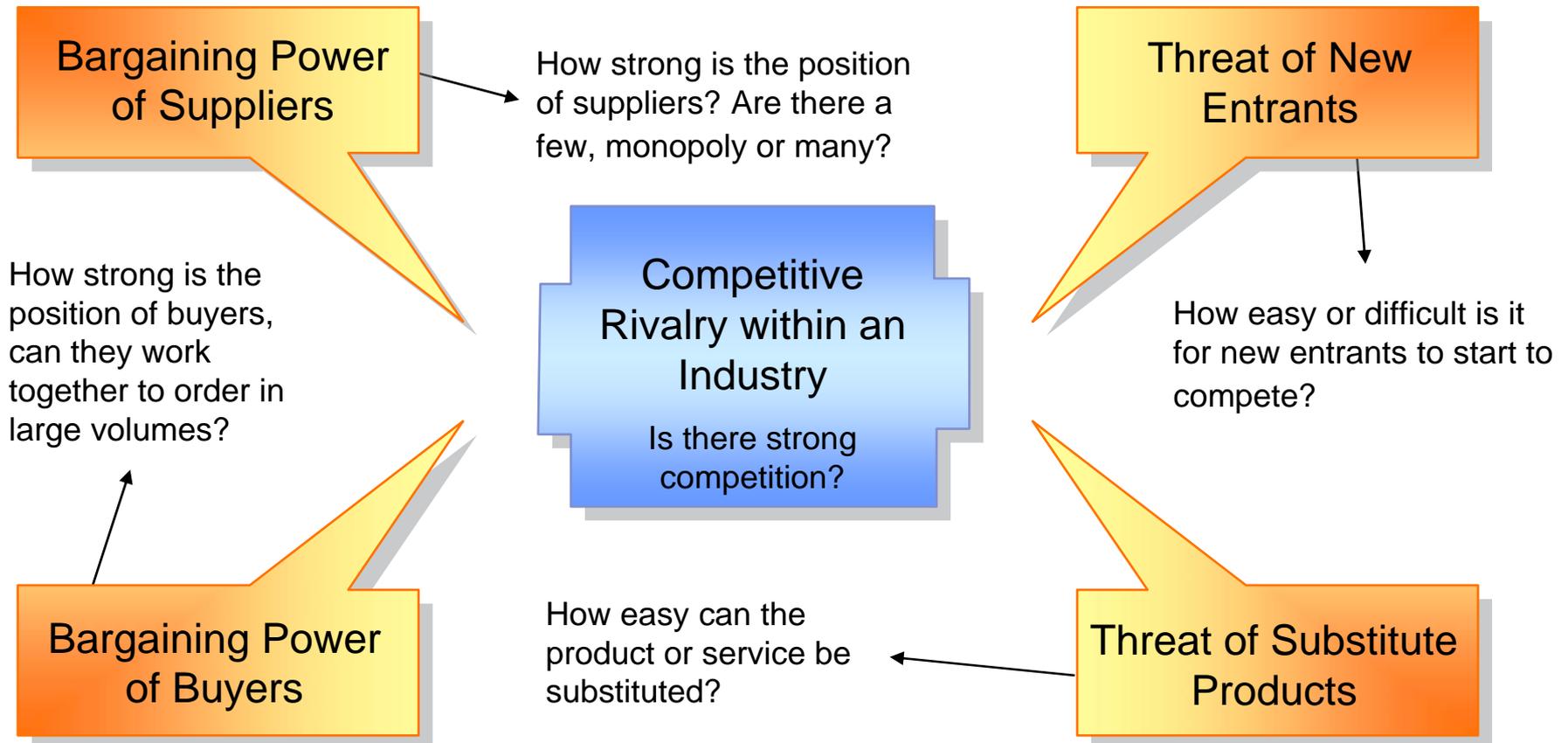
Market Research Tool for Strategic Sourcing

- Analyzing the Five Competitive Forces
 1. Rivalry among competitors
 2. Substitute
 3. Threat of new entrants
 4. Bargaining power of suppliers
 5. Bargaining power of buyers



Porter Model

Market Research Tool for Strategic Sourcing (Continued)



Porter Model

Market Research Tool for Strategic Sourcing (Continued)

Wireless Services

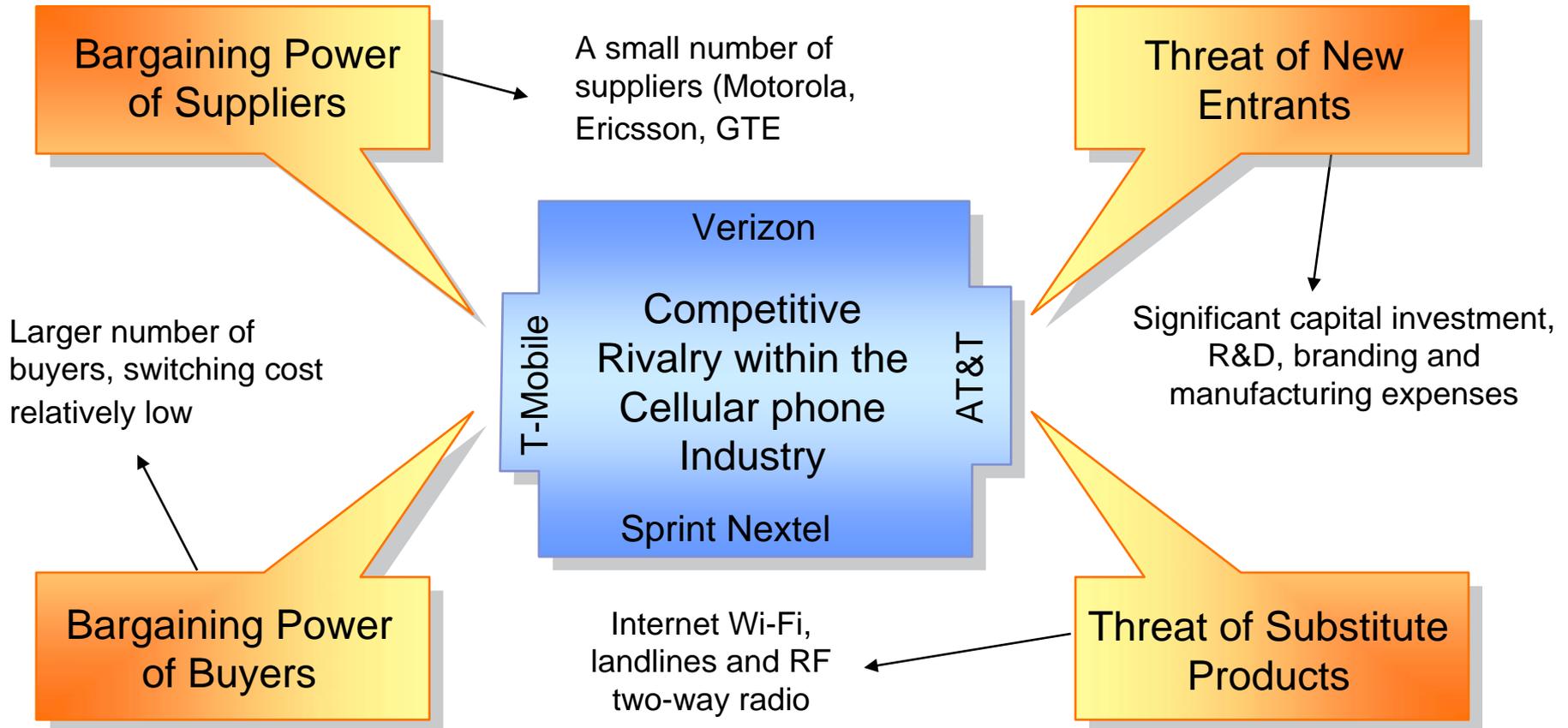


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Defense Contractor Perspective

Strategic Sourcing Pitfalls

- Overall: Unclear government vision
 - Multiple customers with differing requirements
 - Many flavors of initiatives without clear differentiation
 - Uncertain timetables
- Pre-Award: Up-front cost and risk of responding to competitive government solicitations for groups of items
 - Requirements to price hundreds of items
 - Requirements to provide excessive supporting details, e.g., lists of machine tools



Defense Contractor Perspective

Strategic Sourcing Pitfalls (continued)

- Pre-Award: Continued
 - Uncertainty of winning
 - Uncertainty of production volume even if do win
- Post-award: Arms-length relationships
 - Lack of access to customer data – that which drives demand
 - Exposure to commodity fluctuations
 - Difficulty in problem resolution



Defense Contractor Perspective

Strategic Sourcing Best Practices

- Issue well-planned and communicated acquisition strategy, run on schedule
- Be sensitive to solicitation costs
- Provide visibility to demand plans
- Negotiate pricing models
- Establish bi-lateral problem resolution teams and procedures



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Grouping Items for Strategic Sources

Overview

- Data about items, suppliers, customers
 - Data sources
 - Data filters
- Methods to group parts
 - Sequential method
 - Index method
- Beyond the analytics



Grouping Items for Strategic Sources

Data Sources

Category	Examples	Sources	Comments
Item characteristics	NSN, standard price, weight, management codes	Combined Material Master, Pricing (STD_Price_Fact), Asset Fact from DORRA DW and DSS	Updated monthly
Procurements	CAGE, NSN, quantity, award date, delivery date, purchase price	Pre-2007 data: Commercial (e.g., Haystack, LogiQuest from DLA's EFOIA website)	Quantity and date data unreliable; on-line and batch access; updated monthly
		2007+ data: DSS Purchase Order History BPUR_O02	Updated monthly
Sales	DODAAC, NSN, quantity, IPG	DSS BOF_O30	Updated monthly
Item attributes	Product material, measurements, engineering specs	WICAP	Easy to use but not updated frequently
		PinPoint	Detailed data maintained by XSB, Inc.; updated as needed



Grouping Items for Strategic Sources

Data Filters

- Categories of interest (e.g., FSC)
- Terminal, obsolete, and inactive items
- Items in long supply
- Items already on LTC
- Inactive, debarred, or invalid CAGEs
- Competitive status



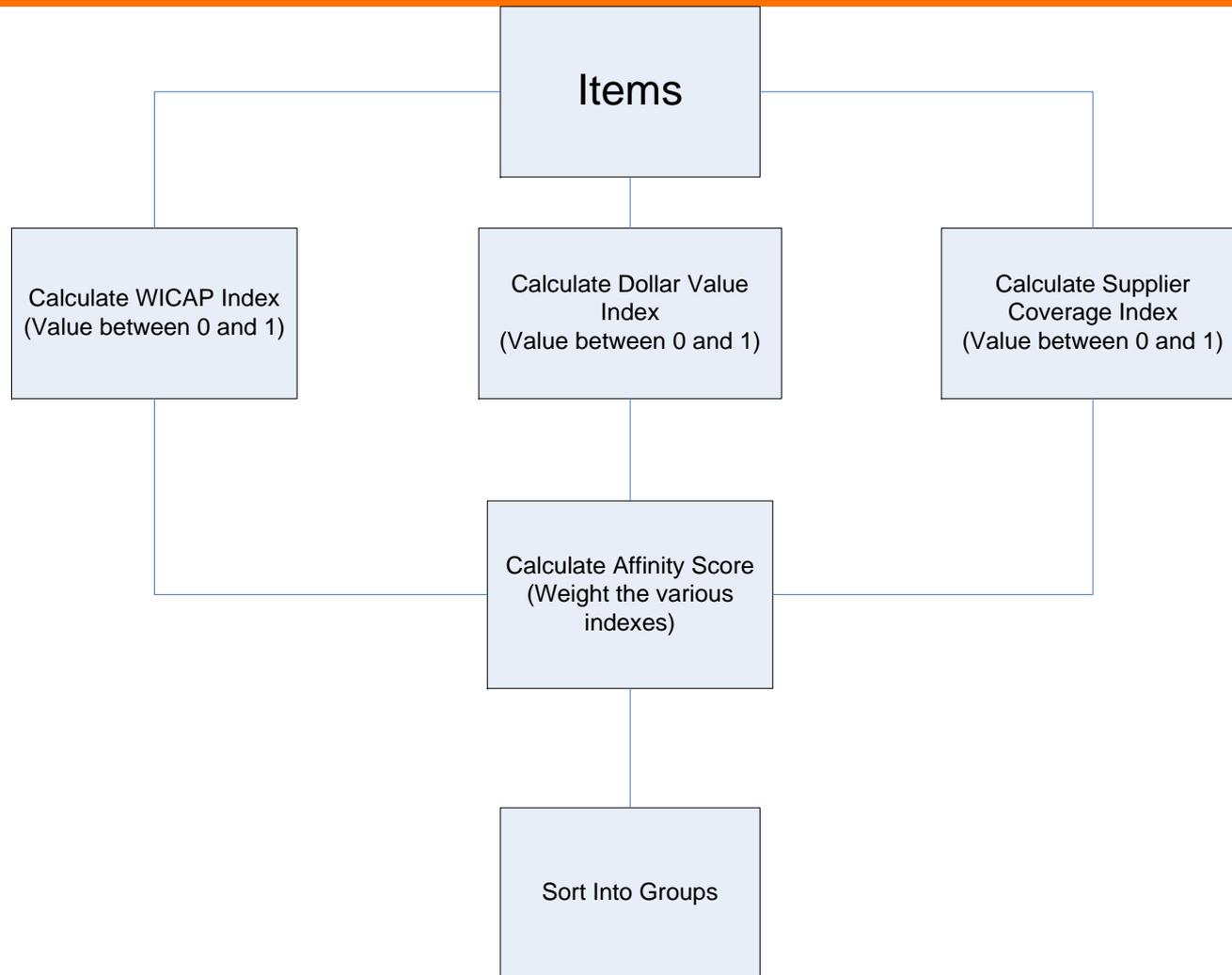
Grouping Items for Strategic Sources

Grouping: Sequential Method



Grouping Items for Strategic Sources

Grouping: Index Method



Grouping Items for Strategic Sources

Beyond the Analytics

- Grouping items is necessary but not sufficient for success
- Consider acquisition strategy early
- Talk to supply planners and procurement specialists to get their working knowledge of the items and the suppliers
- Talk to industry and get ideas before the solicitation and respond to their suggestions post-award
- Keep sight of the business case



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Summary

- Strategic sourcing in federal government may have different drivers but shares same goals as private sector
- Assessment of supplier criticality is essential to strategic sourcing
- Understanding supplier markets through market research is critical
- Robust analytics must be complemented by practical considerations and a business case

