

Sourcing: Collaborative Success

By C. Richard Panico

The sourcing process is a critical business strategy that extends beyond procurement. Using proven project management with input from a cross-functional team improves the quality of decisions and accelerates implementation.

There are few business decisions faced by manufacturers that are as complex as the sourcing of finished products. These decisions typically affect all areas of the business, and can have a direct impact on the customer. Sensitivity to customer perceptions and developing a true understanding of the impact of the sourcing decision throughout the organization are critical considerations. Careful assembly and utilization of a multifunctional team is the only way to ensure appropriate incorporation of these considerations into the sourcing decisions, planning, implementation, and ultimate measurement of success.

Making the Sourcing Decision

Organizations typically miss the boat by limiting the sourcing decisions to one or two of the key stakeholders, such as relegating the decision to the procurement

department. While this approach may satisfactorily achieve a local objective or two, often the big picture is missed. Functions such as sales, marketing, procurement, finance, and manufacturing must be included.

Manufacturing representation is especially important—most sourcing decisions aim to resolve issues inherent to the production process. Through inclusion of manufacturing in the decision-making process, the true benefits, costs, and feasibility of sourcing can be completely rationalized and ultimately understood by all.

Developing a complete cost, benefit, and feasibility review of sourcing alternatives in this manner facilitates a sound sourcing decision. At this point, buy-in and mutual agreement are at hand, the team has achieved step one, and things look great...on paper, that is.

Common Pitfalls in Planning Sourcing Projects

- *Underestimating the transfer of production skill and knowledge.* In manufacturing environments, even those that are highly regulated, production anomalies exist (referred to as heuristics). Heuristics are often not documented in the myriad of procedures found in production facilities. These nuances can often make an operation very difficult to be consistently replicated by multiple operators.
- *False trust that the supplying source will act with the same vigor and care as the incumbent organization.* Measures of success must be defined and agreed to in the planning step. Similarly, planning for alternative, mitigating production scenarios simply makes good sense.
- *Issues dealing with foreign trade.* If the sourcing decision involves an overseas supplier, careful consideration must be given to developing a good understanding of the new business partner. One or two trips may not provide enough exposure to understand the organization's culture, philosophy, character, and values. These aspects can have a significant influence on successfully implementing the sourcing decision over the long term.
- *Hidden costs.* Many of the costs to source products successfully are linked to transaction inefficiencies or show up as unknown or underestimated occurrences. Prudent risk analysis is the key to avoiding these hidden costs.
- *Failure to adequately qualify new sources.* Product qualification is all about process consistency and reliability. Inclusion of an effective product qualification protocol must be identified early in the project and incorporated as a key component of the overall project plan.

Planning and Execution

Effective planning allows translation of what has been previously analyzed and documented into a tangible, action-oriented guide to success. Good plans are developed through collaborative, upfront analysis and detailed programming of each aspect by using a technique called Work Breakdown Structure (WBS). WBS is an exhaustive, logically arranged depiction of all activities required to complete an initiative. For a sourcing project, these activities must include all aspects of the project—from sourcing selection through inventory planning, technology transfer, and qualification to full-scale production. Here again, cross-functional representation in developing the WBS is critical from two perspectives: first, to ensure that the WBS is complete, and second, to ensure understanding and ownership of each task by those who will be accountable for implementation. Once the activities have been identified, they can be put into a comprehensive integrated project plan forming the baseline for implementation.

Many pitfalls are often encountered when planning sourcing projects. However, these pitfalls can be managed or mitigated through application of foresight and cross-functional problem solving.

Seamless implementation of a complex sourcing project requires application of proven project management techniques. Without strong leadership, cross-functional participation often leads to inefficiency and missed objectives.

- *Ensure focus.* A project manager must make sure that resources are used efficiently and proactive project focus is balanced against a “fire-fighting” environment.
- *Communicate.* Projects dealing with significant change require even greater focus on communication than routine projects. Effective communication is proactively and carefully planned.
- *Manage change.* A good project manager identifies change early, quantifies its justification and impacts, ensures approval and clear communication, and mitigates the effect on the original objectives.
- *Accelerate team cohesion.* The project manager must establish a culture of teamwork at the project level and with the external manufacturer during implementation, as this relationship must survive technology transfer and will be a critical component of sustainable success.

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Measuring Success

Often, a decision that looks good on paper is not validated once implemented; that can be a costly oversight. Without predefined methods of measuring success, all ability to course-correct, continuously improve, or implement contingencies is lost. The most common metrics used to justify a sourcing change are associated with the cost of goods sold. These metrics are critical and must be measured, but broader metrics should also be developed to represent the cross-functional reality of a sourcing initiative.

Product sourcing is a reality in today’s economy. Viewing the sourcing process as a critical business strategy that extends beyond a procurement exercise will help to ensure its ultimate success. All aspects of a business are impacted in the sourcing process. Using proven project management methods to effectively tap into the experiences, talents, and knowledge of a cross-functional team improves the quality of decisions made, accelerates implementation, and demonstrates benefit through measurement.

Acknowledgement

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