
Preface

For many businesses, the quest to increase shareholder value is a never-ending journey. As companies strive to generate a superior financial performance, they are scrambling for new ways to increase a customer's willingness to pay while lowering costs. Profit is king. This makes it much harder to create customer value and lower costs simultaneously. What's worse, once a firm achieves an advantage, others find ways to take it away. It's getting increasingly difficult to differentiate products, including Intel's chip technology, Wal-Mart's new store formats or Starbucks' premium coffee in an inviting environment. Many imitators can quickly match any "unique" product or service. Should a company then focus on bear-hugging each customer? Sorry, everyone's doing that. What about finding new markets instead? Honestly, is there any market a company's competitors cannot and will not follow? All of these leading companies, which dominate their fields, face new challenges to stay ahead of the pack and boost profitability.

As new sources of value creation are getting scarce, many leading companies are looking beyond the four walls of their operations for new sources of value creation. By looking downstream, leading companies begin to realize that long and lasting relationships with existing customers presents a promising source of profit that is difficult to imitate. Many firms are rushing to learn more about their customers with the use of Customer Relationship Management (CRM) to sell more products to existing customers. Looking upstream, leading companies are looking to suppliers as new sources of value creation.

For years, suppliers represented cost centers, and managing them was all about hard-nosed bargaining. They were a group of sellers who were untrustworthy and deserved to be treated as adversaries. Now, many companies have found that a more robust relationship with certain suppliers is better for the bottom line than a more aggressive approach.

So, how can a company forge a productive relationship with its suppliers? This book takes a process approach of identifying, evaluating, selecting, managing and developing suppliers to create more value for customers, which should in turn create more value to shareholders. The book begins by outlining the mental shift necessary to build robust relationships with suppliers. This includes:

- The relationship that shifts from an emphasis on cost reduction to enhancing each other's competitiveness.

- A strategic procurement process that takes a team-based and cross-functional approach to developing a sourcing strategy for each purchasing category.
- The total-cost-of-ownership concept to facilitate both sides to pinpoint areas for achieving a win-win outcome that goes beyond price.
- The negotiation process that focuses on taking costs out of the supply chain, instead of from suppliers.

The second part of this book details strategic sourcing methodology: a step-by-step approach for creating productive relationships with key suppliers. The methodology consists of four distinct stages, from an expenditure category analysis (a purview of total spending), category strategy formulation (assessing the strategic implications of expenditure categories and procurement options), supplier strategy formulation (determining how suppliers should select and maintain solid relationships with suppliers) and fact-based negotiation (a systematic approach for business negotiations). Illustrations and examples from the author's experience are provided throughout.

The third part of this book provides details of a comprehensive process developed to arm the negotiation team with all facts necessary to reach desired outcomes. This detailed step-by-step process consists of negotiation strategy and case building; supplier response and positioning; negotiation planning, discussions and resolution; and supplier evaluation. In addition, the book highlights "best practices" in strategic sourcing representing tactics for buyers to leverage their buying power to ensure they attain full value. These best practices are drawn from several strategic sourcing projects carried out for leading companies in the USA over several years.

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