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Collaborative Sourcing

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In today's challenging environment, aggressive cost control has become a common theme across all industries. But is this new culture of Procurement sufficient? The automotive or electronic industries have gone a long way towards cost reduction, but relentless cost cutting did not save GM from the brink of bankruptcy, did not prevent Compaq from being acquired by HP, and was not sufficient to satisfy HP's shareholders after the merger. It did not contribute to what matters, delivering competitive advantages that grow profit and marketshare. It reduced costs but all key players in the industry were doing the same and that cost reduction flew to the pockets of the end users under the pressure of competition. Can Procurement deliver more? How should CEOs view their Procurement, and what should be their objectives?

"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage." Increasing shareholder value must become an objective for all the functions of the organization, including Procurement, which in turn must reassess its role and its culture. But how many Procurement have asked themselves "What am I doing better than my competitors?"

The complexity of relationships in all industries has increased significantly. For instance; 80% of HP manufacturing is subcontracted. The pharmaceutical industry leverages a network of biotech companies, and academic research institutes for an increasing part of its innovation. Financial companies outsource back-office or help desks, but also the design of new e-services to Morocco or India. So in our innovation driven environment, external resources have become increasingly important to value creation. But an innovation that is accessible equally to all players in an industry builds only value to the final users as competitive pressures force the prices down to erase the benefits of cost reduction. Therefore, it is important to manage the sources of innovation to build an extended enterprise rather than a loose relationship that will change direction or be broken with the winds of commercial relationships.

Today, the Procurement leadership must develop its key suppliers to exploit quickly their skills to their advantage rather than for the benefit of the industry. To do so, it must facilitate seamless and exclusive transfer of value from the suppliers' ideas to the final consumers and back. That is the reason why Procurement must understand the lifecycle value creation potential of an item, not only as a driver of the Total Cost of Ownership but, more importantly, as a driver of product pricing through the premiums provided by exclusivity, and/or market growth for the company. This strategic sourcing approach, called "Collaborative Sourcing", is differentiated from transactional effectiveness. It can deliver superior returns because it aims specifically at creating a gap between the organization and its direct competitors to create sustainable competitive advantages. Few companies have competed successfully on the basis of their better effectiveness over an extended period. Collaborative Sourcing is the strategic repositioning of the supplier relationship management. Collaborative Sourcing experts define, search, capture, isolate, manage and improve resources internal and external to the organization to deliver strategic advantages by optimizing internal and external working relations. Collaborative Sourcing requires a radical change in the culture and the vision of the relation between the buyer and the supplier.

The need for increased collaboration and capture of competitive advantage is clear but it does not mean that all suppliers must be treated that way. In a world class Procurement organization, the potential for creation of shareholder value, not merely the preservation of it, is an intrinsic part of the role of Procurement. Obviously, there will always be a sizeable part of the portfolio that is spent on suppliers that bring no opportunity to differentiate. Those will be managed traditionally to reduce total cost of ownership. Industry-wide solutions, processes to improve transactional

efficiency, will be used to stay at the front of the race. And for select relations, collaborative relationships will be developed to build value and support growth.

Collaborative Sourcing is not only a change in the relation between the Enterprise and its suppliers. It is also a change in the relation of the Sourcing Managers and the other functions. Procurement must be a natural partner to all the functions in the Enterprise. Nobody but the finance team identifies and secures funding for a new research or a marketing initiative. Human resource professionals manage compensation, and recruitment. The IT department develops and maintain the architecture of systems supporting all other functions. Likewise, if it is an external resource, it must be managed by the specialists in the Procurement Department.

To be effective contributors to the strategic issues of the Enterprise, the Procurement leadership must work closely with the other senior executives in charge of key functions. Therefore, increasingly, the executive in charge of Procurement reports directly to the CEO and sits on the executive leadership council.

The role of the CPO is to optimize all the relations with external suppliers, a much broader role than the traditional cost cutting approach. It complements the transactional activities in the supplier relationship with Sourcing defined as "The process of identifying opportunities, evaluating potential sources, negotiating contracts and continuously managing supplier relationships to achieve corporate goals" .

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