

Strategic Sourcing Capabilities At Large Direct Marketing Company: Developing Dedicated Global Sourcing Function And Processes

The Challenge: A large direct marketing company had been purchased recently by a PE firm in a hotly contested auction. In the last 6 years, the company had more than doubled its sales and grown in complexity with the bulk of its product coming from China. During Gotham's previous operational due diligence effort, we found significant sourcing inefficiencies, including vendor consolidation. Post-acquisition, Gotham teamed with the company management to tackle vendor consolidation revealing that despite the company's new scale, a small-company mindset was still being applied to sourcing. The company management engaged Gotham to lead the effort to upgrade their sourcing capabilities via a new organization, process, and tools.

The Partnership:

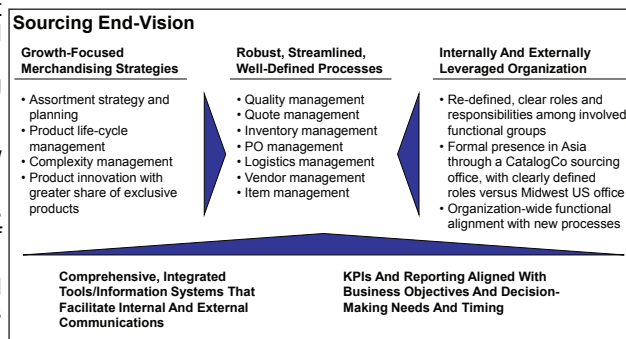
Analysis: Gotham got a quick handle on the facts by: (1) developing a detailed fact base on sourcing, including purchasing and vendor history; and (2) mapping current processes and responsibilities. We found that the company had well outgrown its "one order at a time" sourcing approach, and we uncovered several critical deficiencies:

- No formal expert sourcing function – the Merchandising Group was ostensibly responsible for sourcing, with many other groups (e.g., Inventory, Packaging, Quality, Wholesale) responsible for components of sourcing, with disconnects between these groups' efforts creating a piecemeal process/effort
- Lack of sourcing knowledge/expertise – those within merchandising who were primarily focused on sourcing tended to be inexperienced, junior members with little sourcing knowledge/expertise
- Highly fragmented vendor base (1,800 manufacturers and >100 agents) – the company was not leveraging the scale of its spend, nor building preferred relationships with suppliers
- Problematic quality management approach – limited definition of quality standards, ad-hoc process for storing samples, no functional testing procedures, etc. with no attention to trade-off between lowest-piece cost and quality
- No direct China presence or language competency – despite 90% of product coming from China.

Implications of these included: excess cost caused by fragmentation and reliance on agents in Asia; quality issues; and unnecessary and time-consuming sourcing activities in the Merchandising Group, precluding focus on the actual product, innovation, and growth (interviews indicated that a significant proportion of merchandising time was spent on sourcing-related functions). Further, sourcing-related information systems (e.g., vendor and quality databases) and tools were redundant, non-existent, manual or ad-hoc, and often unnecessarily complex, severely limiting robust decision-making.

Strategy: A joint Client-Gotham team developed a strategic sourcing vision, including: (1) process vision with associated tools and IT components; (2) Asia sourcing office; and (3) realignment of organizational structure and responsibilities. The process vision and tools were designed to formalize sourcing at the company by addressing each fundamental component necessary to ensure a disciplined and complete sourcing approach:

- **Quality Management:** Front-to-back quality management process, supported by a quality manual with well-defined quality requirements, a sample library, and standardized testing procedures
- **Quote Management:** Systematic quote management process, with standardized procedures for creating and evaluating bid packages
- **Inventory Management:** Item-group-centric planning and forecasting and defined processes to manage new, everyday, seasonal, and end-of-life items
- **PO Management:** Institutionalized update process/frequency that vendors must adhere to
- **Logistics Management:** Optimized inbound logistics network and management, control, and analysis of movement of goods from factory to distribution center
- **Vendor Management:** Formalized vendor database and explicit processes for management of vendor relationships and performance, with institutionalized update processes
- **Item Management:** Accurate item classifications and defined item life-cycle attributes and process for managing items throughout their life-cycle.



Gotham also developed a board-level business case and staged-transition approach for an Asia sourcing office to better coordinate PO transactional activities, enhance quality control, build relationships with manufacturers, and, over time, perform value-added activities, e.g., product design.

Execution: Some sourcing process elements required only minor redesign with the bulk of our implementation effort revolving around the 3 critical process elements that were missing at the company - quote management, vendor management, and quality management. The joint team created detailed processes and specified associated tool and IT requirements for each, with actual tools either created or interim solutions put in place ahead of IT solution. We also assisted in transitioning and training initial members of the new Sourcing Group.

The Outcome: The new Sourcing Group was set up and sourcing responsibility was transferred over from the Merchandising Group. The board approved the business plan for the Asia Sourcing Office and the company is currently in the process of establishing a physical presence in Asia. The company has also launched the effort to institutionalize the new sourcing process vision.