



**NATIONAL INSTITUTE
FOR WORLD TRADE**
TRAINING THE WORLD



Sourcing Globally: Senior Management's Guide **"Twelve Key Best Practices"**

By Thomas A. Cook, NIWT, National Institute for World Trade, niwt.org
White Paper

Sourcing globally will continue to grow and expand into new markets as we enter the third decade of the new millennium.

Multinational companies down to smaller family owned organizations are learning the critical importance of developing multiple and varied sources of raw materials, components and finished products.

Traditional foreign sourcing such as China are being challenged for the first time in its 40-year tenure as the fastest and expansively growing foreign source of manufactured goods.

Senior management is best guided by setting up policies, protocols and SOP's in how their management teams and staff operate in their global sourcing opportunities and initiatives.

In public companies these guidelines would help meet Sarbanes- Oxley regulations and in private companies ... "Best Practices". The SOP's create a standard with the following benefits:

- Documented and written commitment to follow government regulations
- Consistent approach to regulatory adherence
- Foundation and resource for all global supply chain personnel to follow
- Creates training module to make sure everyone knows how to operate in their companies following all necessary regulations.

Having said all of that, the following Best Practices outlined in Twelve Steps offer the international executive a blueprint for either new or matured global sourcing initiatives:

1. Learn how to navigate the opportunities offered through the numerous Free Trade Agreements (FTA's) which can be leveraged for economic advantage in the global sourcing arena. Utilizing FTA's lower lands costs by reducing or eliminating duties and taxes.
2. Diversify sourcing into multiple countries so dependence on single sourcing is not relevant. This becomes a risk management concept in spreading the sourcing exposure over variable options.



**NATIONAL INSTITUTE
FOR WORLD TRADE**
TRAINING THE WORLD

3. Learn the culture of the countries you source from. This will maximize your opportunity to negotiate better deals and build stronger relationships. Keep in mind in overseas markets ... “relationship” drives the success of the business deal and the long-term partnership with the vendor/supplier.
4. Utilize specialized professional attorneys who can guide you through the maze of foreign regulations, laws and policies that will influence sourcing options, agreements and contracts. Legal expertise can be expensive, but it is a necessary expenditure that can help avoid pitfalls, mistakes and serious financial consequences.

Laws vary greatly in foreign countries and companies who learn how to proactively avoid litigation and other legal issues will always minimize risk and maximize opportunity.

5. Develop sourcing reach into Mexico where maquiladora programs and near sourcing initiatives can prove to be a valuable option as a sourcing alternative. Using near sourcing can prove to significantly lower landed costs, reduce risk and enhance demand planning and lead time reductions.
6. Utilize the service of specialized freight forwarders who can provide local support in the sourcing countries in arranging local freight needs, outbound logistics requirements, handle export specifics and the inbound process into the United States. The freight forwarder or customs broker can be a valuable partner in impacting risk and cost along with huge benefits in managing inbound supply chain needs.
7. Tread cautiously through all Intellectual Property Exposures (IPR) that can happen once you start to trade in foreign markets, share business models. Trade secrets and confidential manufacturing data. Managing IPR issues needs to always be addressed proactively when forming relationships in global sourcing models. The headaches and costs in chasing and dealing with IPR breaches can be costly, aggravating and a waste of time and effort. And litigation in markets such as China typically create less than robust results ... leaving both parties dissatisfied and filled with angst.
8. Pay close attention to the choice of INCOTERMS (International Commercial Terms of Purchase or Sale). The choice impacts risk and cost between the supplier and the buyer. There are 11 INCOTERMS options: Ex Works, FAS, FCA, FOB, CIF, CIP, CPT, CFR, DAT, DAP and DDP. Importers need to choose a term where they typically control the international freight inbound, the customer's clearance process and delivery to the ultimate consignee. This helps reduce both cost and risk and typically will offer better options and performance on the inbound logistics.



**NATIONAL INSTITUTE
FOR WORLD TRADE**
TRAINING THE WORLD

9. Make sure you:
 - Understand all the regulatory issues with Customs and other regulatory agencies
 - Make sure you have a “point person” who takes ownership of regulatory concerns ... typically referred to as the “trade compliance manager”.
 - Develop SOP’s to integrate into the sourcing business model
 - Train all stakeholders in the global supply chain on all the aspects of regulatory controls and just how it related to their specific responsibilities.
10. Always make sure you have supported your sourcing decision by working up “landed cost modeling” to affirm the purchasing decision utilizing specific metrics.

Landed cost modeling creates a metric to do comparison shopping and to evaluate options or choices by adding up all the direct, indirect and ancillary costs added to the origin purchase or acquisition cost.

Landed cost modeling creates a comprehensive formula to measure the method and process in making a sourcing decision on foreign shores.
11. Document these protocols in written SOP’s to evidence adherence to government regulations and best practices. This provides clear and concise senior management influence on managing with good intent, behavior, due diligence and reasonable care.
12. Create internal training programs for your management teams and your operating staff in all these guidelines and best practices. Solid training initiatives are an excellent and proven method to make sure everyone has comprehensive information flow, know what is expected and how best to execute.

The role of Senior Management is to lead. Following these thoughts and turning them into effective actions within your business models is the best way to assure the opportunities to minimize risks and maximize profits within your global sourcing business models.

Senior management is best off by leading their teams into best practices and always exercising due diligence in their business behavior patterns. Any short-term costs and inconvenience will be outweighed by long-term benefits to any organization.



**NATIONAL INSTITUTE
FOR WORLD TRADE**
TRAINING THE WORLD

Benefits will include: reduction in risk and cost, business process improvement, more efficient operations, sustainability and significant growth potentials.