How To Make The Right Value-Based Sourcing Decisions

Cost is much more than just purchase price. The meaning of cost is changing fast, so it is easy to fall into the trap of making the wrong sourcing decision. Learn how to make the right sourcing decisions and avoid unpleasant surprises with Value-Based Sourcing! Use this checklist to ensure that you are always in-the-know for each one of your sourcing decisions.

JAGGAER

Are you comparing prices on a common basis?

01 | Check the components of the selling price

- ◯ Cost of goods sold
  - ◯ Direct material costs
  - ◯ Direct labor costs
  - ◯ Manufacturing overhead costs
- ◯ R&D costs
- ◯ Selling, general and administrative costs
- ◯ Profit

02 | Check the tooling and equipment costs

- ◯ Ownership
- ◯ Cost and efficiency
- ◯ Lifespan and maintenance

03 | Check the commercial terms

- ◯ Payment terms
- ◯ Productivity agreements
- ◯ Delivery terms/Incoterms

What is the true cost?

04 | Calculate the Total Cost of Ownership (TCO)

- ◯ Purchasing (costs for buying the goods), including:
  - ◯ Switching costs
  - ◯ Installation, one-off costs of setting up and starting business
  - ◯ Insurances and warranties
- ◯ Operating (costs for using the goods), including:
  - ◯ Regular maintenance or servicing
  - ◯ Consumables and spare parts
  - ◯ Insurance and extended warranties
- ◯ Disposal (end-of-life costs), including:
  - ◯ Decommissioning and disposal of parts
  - ◯ Costs of interim arrangement between providers
  - ◯ Site clean-up
  - ◯ Remember to add back any money received upon the resale of equipment

05 | Calculate the Total Value of Ownership (TVO)

TCO is not enough! For real Value-Based Sourcing, calculate the Total Value of Ownership (TVO). TVO calculates in value added from sourcing from a particular supplier or supply chain.

- Risk: How much could supply chain disruption cost you?
- Corporate Social Responsibility: How much it could unethical supply chain cost you?
- Innovation: An innovative supplier makes your supply relationship with them more valuable
- Expertise: Technical and project management expertise improves quality and reduces costs

Are you leaving money on the table?

06 | Check the price against the bigger picture

Is this the best offer you can get on the market? Take a look at the offers against a larger context.

- Benchmark cost drivers against a reference, e.g. market prices (or other publically available data) or your own index or data and define a revision mechanism
- Cost-modelling to calculate target prices or should-cost

How does this fit in your strategy?

07 | Check which elements are important for your strategy

Not all criteria are equal, especially in implementing category strategy. In your strategy, some criteria are more important than others. To finish your value-based sourcing decision, include:

- ◯ Weighting of criteria in your scoring
- ◯ Bonus/penalty assignment for important criteria
- ◯ Previous performance if you have worked with the supplier before
- ◯ Supplier capabilities, including ISO certifications and machines

Notes

JAGGAER.COM