THE SOURCING PROCESS: STEP BY STEP
Introduction

What is product sourcing? In business, the term refers to a number of procurement practices, aimed at finding, evaluating, and engaging suppliers of products. So, what exactly are these practices?

In this white paper, we’ll provide an in-depth look at the entire sourcing process – from sourcing agent to shipping – and walk you through, one step at a time. Read on to gain a clear picture of sourcing and better understand how all of the pieces fit together – and ensure the delivery of quality products to the end user.
Sourcing Starts With an Agent and an Agenda

What does a sourcing agent do? A sourcing agent assists companies with the process of locating sources for products and supplies at low prices so they can save money on production. Sourcing agents may represent a single company or could run a business that serves a number of companies.

Domestically, a company can use a sourcing agent to get the best prices. Sourcing agents have connections with domestic companies and know where to find various supplies. They can negotiate with a prospective supplier and may be able to work out discounts and other deals that the company does not have time to negotiate on its own. This can save the company money and may also create a longstanding and valuable contract for the supplier, so both sides have an incentive to work with a sourcing agent.

Key advantages of domestic sourcing include:

- Higher manufacturing quality and labor standards
- Easier communication with no language barrier
- Marketing appeal of being made in North America
- Easier to verify reputable manufacturers
- Faster shipping time
- High intellectual property right protection
- Greater payment security and recourse

But, there are also some disadvantages to sourcing domestically, such as:

- Higher manufacturing costs
- Less product choice (There are many items that aren't made in North America anymore)
Companies may also have an interest in an overseas sourcing agent. In this case, they rely on the agent to locate companies they can work with overseas. The sourcing agent's job includes assessing the needs of the company, locating suppliers, and meeting them to see if they will be able to take on the orders. They inspect factories to confirm that they will be able to meet standards. This can also include evaluations to address ethical concerns like worries about pollution or exploitative labor conditions.

The advantages to sourcing overseas include:

- Lower manufacturing costs
- High number of manufacturers to choose from
- One-stop services have made it easy to navigate suppliers

If there are issues with the quality of the product, it is much harder to address with a vendor through cultures, time zones, and geographies than if you are meeting with a local supplier. That's why there are also disadvantages to sourcing overseas, like:

- Lower perceived quality from customers
- (Usually) lower manufacturing and labor standards
- Little intellectual property protection
- Language and communication barrier can be difficult to navigate
- Difficult/costly to verify manufacturer and visit on-site
- Longer shipping time
- Cultural differences in business practices
- Product importation and customs clearance
- Less payment security and recourse

So, when starting the sourcing process, it's essential that you firstly define what it is that you are looking for. When working with a sourcing agent, you need to know what type of supplier you want to work with. Having a clear direction will help in your research so that you're able to find the right supplier. It's also important to know what you should ask your supplier once you've found them. Does the supplier have a widget? Are their prices in your wheelhouse? Specifications need to be initially set to ensure you'll get the product you want – made by the right manufacturer that will arrive to the end user appropriately.

When working with a supplier, you should establish a clear joint commitment that includes:

- Identifying the best solutions
- Upholding quality and efficiency
- A unified approach – essential for delivering premium end-to-end solutions
- Rapid adoption of evolving technologies
- Access to new distribution channels
- A supplier engagement process

After pinning down a solid plan, it's time to dive into the process.
Making it Happen: Sourcing Steps

Let’s now take a walk through each step of the sourcing process:

1. Make/Design/Buy Analysis

First, you must analyze the following:

- Establish business cases to support decisions for products and services
- Analyze potential solution options
- Manage the preliminary buy assignment and ensure it is understood and accepted
- Structure and analyze information and input data
- Prepare sourcing activities

2. RFX

RFX is a catch-all term in strategic sourcing that captures all references to Request for Information (RFI), Request for Proposal (RFP), Request for Quote (RFQ), and Request for Bid (RFB). In this step, you will:

- Manage requests for information, proposal, and quotation
- Negotiate
- Achieve signed agreements with suppliers that fulfill your business requirements
- Implement agreement
- Register, archive, and communicate agreement data to relevant systems, stakeholders, and users
3. Call Off

Next is the call off, when you:

- Create orders to buy products or services
- Monitor delivery
- Post a goods receipt
- Submit a claim to supplier

4. Invoice to Payment

In this step, you will:

- Receive invoices manually or via electronic messages
- Process invoices and credit notes, including matching invoices with purchase orders and securing authorizations
- Pay supplier invoices
- Handle statement of accounts, reminders, and supplier account reconciliation

5. Manage Production and Quality

Production management focuses on upholding quality. Quality needs to be defined so that both the supplier and buyer understand and are in agreement. Defective products lead to unhappy customers, and have to be sold at a discount or written off entirely, further eroding your brand identity in that part of the world. A key part of an efficient supply chain is having a quality product all the way through it.

After you’ve established what you want, devised a plan, figured out the logistics, and maintained quality management, you’ll have properly sourced with your customers’ best interests in mind!
Key Takeaways

Now that you better understand product sourcing and the necessary steps to ensuring quality along the way, you’ll know what to do, who to work with, how to find them, what to ask, and how to effectively plan and manage. When sourcing is done right, your customers receive the best – and that’s the core of what constitutes a successful business.
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