Best-practice sourcing: A GE view
Best-practice sourcing: A GE view

Business scenario
Since GE’s founding in 1890, we have expanded both organically and inorganically, in the process creating a diverse organization with autonomous businesses around the world. Our sourcing processes are spread across multiple sectors and regions—some centralized, but many decentralized.

With such widely distributed sourcing, it could be difficult to maintain product quality and control, avoid the risk of supply-chain disruption, and keep sourcing practices aligned with senior management’s objectives. The company as a whole could easily miss out on potential economies of scale and other advantages associated with purchasing at a higher volume. Additionally, if the right paperwork and legal protections were not put into place, the company could be exposed to even greater risk.

The GE approach
Our sourcing structure—the structure that allows us to find, evaluate and engage suppliers—manages and maintains successful relationships with dozens of major vendors, while holding down costs and maximizing the safety and soundness of the supply base. At GE, we have six key sourcing best practices that are effectively layered over the top of our many and diversified sourcing activities, to great effect. These are:

- Early involvement from sourcing professionals.
- Widespread, systematic information sharing.
- Internal partnering with the right people.
- Balanced supplier relationships.
- Systematic supplier risk management.
- Alignment with corporate goals.

Early involvement
The most important of our six best practices is the first: early involvement. At GE, every potential sourcing transaction of any significance must be reported to our professional sourcing leaders as soon as the deal develops. One of these dedicated sourcing professionals then steps into action, ensuring that the rest of our best practices are put into place.

The sourcing leader first checks that key players in the transaction have the data they need to make the best decisions, including existing global contracts, vendor information, and pricing. If the deal moves forward, the sourcing leader then arranges for the right people to be present at vendor negotiations, including functional business representatives, and legal, finance and IT staff; helps create a balanced relationship with strategic suppliers; and makes sure that new sourcing arrangements are not in conflict with high-level management objectives.

“There’s one tenet, no matter how you’re organized, that exists, and that is early sourcing involvement. If you don’t have that, no matter what you’re buying, you’ve lost the game,” says Joe Venturato, Sourcing Leader, GE Capital.

Information sharing
Sharing vendor, contract and pricing data throughout the organization is crucial, and is one of the biggest challenges for sourcing organizations. At GE we have a strong commitment to information sharing. Our sourcing, purchasing and contract databases at the heart of this process have been in place for 10 to 15 years, aggregating all significant GE sourcing information from any of our businesses, whether industrial or capital, anywhere in
the world. Through these databases, managers are able to see what the Aircraft Engine Division is paying for parts in country A and, if they wish, compare it to what the Lighting Division is paying for the same parts in that country, or in country B. They will soon be able to run long-term supplier risk-ratings analyses and analyze average terms, payables days, and other vendor data as well.

“One of the biggest challenges for sourcing organizations is information: knowing what it is you’re spending and who you’re spending it with,” says Sharon Krumm, Global Sourcing Leader, GE Capital Americas.

One of our sourcing leaders was recently on the phone with a GE company in the US that was looking to buy information from a global credit bureau. With the help of our comprehensive databases, the leader was able to gather all the existing GE contracts with that same credit bureau around the world—in Russia, France, the UK, the US—and provide them to the company, allowing it to see all the terms, conditions, pricing and other data before making its own purchasing decision.

We supplement these essential databases with old-fashioned monthly best-practice sharing sessions. At these sessions, our sourcing leaders gather both virtually and face-to-face to share the latest deals, pricing and contracts. If a division has a contract to buy widget A in country B and our sourcing leaders haven’t yet been contacted, chances are strong that we will find out through these meetings. Surprisingly enough in this digital age, these old-fashioned best-practice sharing sessions seem to work very well. And it makes sense: sharing best practices is integral to the GE culture. It’s what we do.

While information sharing is critical, we are careful about sharing pricing and contractual terms outside of the GE family, and in some cases even within GE, depending on the confidentiality clauses included in each agreement.

“There’s one tenet, no matter how you’re organized, that exists, and that is early sourcing involvement. If you don’t have that, no matter what you’re buying, you’ve lost the game.”

—Joe Venturato, Sourcing Leader, GE Capital

Internal partnering
Having the right people at the table during the vendor negotiation process is essential, whether virtually or in person. Our sourcing leaders ensure that experts from legal and the required business functions (IT, finance, etc.) are present, along with sourcing leaders and local managers who understand the product or service needed. It’s not just about having a lawyer at the table: GE has dedicated and knowledgeable legal, IT and services procurement experts around the world. Together, our experts ensure that the transaction is handled correctly from a contractual standpoint; that our team completely understands the solution or product the vendor is proposing; that the requisite security reviews, supplier due diligence and supplier risk management processes are complete; and that regulatory compliance requirements are met.

Balanced relationships
At GE, we believe in creating proactive and balanced relationships with strategic suppliers—relationships that allow us to provide cost-effective and reliable supply-chain solutions for our customers’ needs. We try to avoid the traditional procurement approach: adversarial negotiations that focus on price above all else. We know we can find a local supplier in almost any country in the world that will supply a product or service at a cheaper price than we can establish under a global contract; however, we can almost never get the same protections and security from a local supplier that a global contract offers.

Further, our suppliers form a critical part of our overall product and service delivery chain, often integrated directly into our operating platforms. Establishing such strategic relationships allows us to benefit from a long-term commitment based on shared information and insights. Instead of working at odds, we work together to keep costs down and quality high, understanding that this joint effort will benefit both companies in the long term.

Supplier risk management
Even with such balanced supplier relationships, it is still essential to manage, control and monitor potential supplier risk—particularly in today’s difficult economic environment. Could the loss of a supplier to bankruptcy damage the business? If a supplier is caught in a damaging legal position, will your business be implicated?

At GE, we have established a sourcing and supplier framework to assess, measure, monitor and control the risks associated with third-party relationships. We begin by determining whether a supplier’s inability to perform could have an adverse material impact on any of our businesses. In addition, we analyze with whom the supplier interacts; whether the supplier has direct access to the GE network and systems, including restricted GE data; and whether the supplier meets all other business-specific, function-specific or regulatory thresholds.

If the supplier appears to represent a potential risk based on any of these criteria, we measure all potential risk elements, whether the risk be financial, operational, reputational or technological. We have instituted a number
of measurement tools to do so, from the use of long-term risk scores and financial-statement analyses to legal and IT security reviews. Once the risk has been assessed and measured, we are able to develop action plans that mitigate, monitor and control the risk going forward.

Alignment
At GE, our sourcing professionals work closely with senior management to ensure that high-level management objectives are reflected in day-to-day sourcing and strategy. Such alignment is critical if the business is to remain efficient and flexible. If senior management decided to reduce the company’s carbon footprint, for example, it would be imperative to reduce offshoring around the world, and to increase local sourcing. The entire organization would need to be aware, and to shift its activities accordingly. This is true from the bottom up as well as from the top down. Similarly, if local managers decide to purchase new software, for example, they will need to involve sourcing and IT professionals early on in the purchasing process to avoid redundancy and ensure that organizational best practices are invoked, such as sending out an RFP or ensuring that the new software is compatible with existing firm systems.

At GE, alignment begins with our January planning session, in which we create a growth playbook—a high-level guide to the organization’s strategy and goals for the coming year, and for the next three to five years where appropriate. Where does the organization want to be? What does it want to do?

In the subsequent planning session, we lay out in a more granular and tactical way what needs to be done to accomplish our goals and to realize the aspirations of our growth playbook. Simultaneously, our sourcing and other dedicated legal and finance professionals meet with the businesses to uncover their plans for the year. If one of the businesses wants to launch a major initiative, for example, or a customer has a new priority, we need to be aware of those plans, understand their requirements and begin negotiating contracts as much as a year in advance. Early involvement is essential here, as is internal partnering, as the business unit explains its purchasing plans and strategy for the coming year, 15 months, or even three years, depending on the required planning cycle.

Business and functional leaders also meet outside of the planning cycle throughout the year, sharing and disseminating information about the company’s sourcing activities. If senior management has made a new strategic decision, everyone needs to know. And if a manager wants to make a significant purchasing move, it must be cleared right up through the organization to ensure that senior management is on board.

Results achieved
Sourcing in a large, diversified organization comes with both difficulties and risk. Yet GE’s sourcing structure manages and maintains strong vendor relationships while holding down risk and keeping costs low. Six best practices guide us:

- Early involvement of professional sourcing leaders.
- Shared vendor, contract and pricing data throughout the organization.
- Partnering with internal experts at every stage.
- Balanced relationships with strategic suppliers.
- Regular and systematic supplier risk management.
- Alignment of sourcing goals with those of the broader organization.

GE Capital (NYSE: GE) works on things that matter. GE Capital offers businesses and consumers around the globe an array of financial products and services. Providing more than money, GE Capital brings insight, knowledge and expertise to every loan and lease. Not just banking. Building.

For more information, visit www.gecapital.com or follow company news via Twitter (@GECapital).

Copyright © 2012 General Electric Capital Corporation. All rights reserved.

This publication provides general information and should not be used or taken as business, financial, tax, accounting, legal or other advice. It has been prepared without regard to the circumstances and objectives of anyone who may review it, therefore, you should not rely on this publication in place of expert advice or the exercise of your independent judgment. The views expressed in this publication reflect those of the authors and contributors and not necessarily the views of General Electric Capital Corporation or any of its affiliates (together, “GE”). GE does not guarantee that the information contained in this publication is reliable, accurate, complete or current, and GE assumes no responsibility to update or amend the publication. GE makes no representation or warranties of any kind whatsoever regarding the contents of this publication, and accepts no liability of any kind for any loss or harm arising from the use of the information contained in this publication.

“GE,” “General Electric Company,” “General Electric,” “General Electric Capital Corporation,” the GE Logo, and various other marks and logos used in this publication are registered trademarks, trade names and service marks of General Electric Company. You may not use, reproduce, or redistribute this publication, any part of this publication, or any trademark or trade name without the written permission of GE.