

11.6: Sourcing Decisions

Learning OUTCOME

- Describe some of the issues involved with sourcing decisions.

Sourcing is simply the process of finding goods or services, but it is not a simple matter. Retailers share the same issues and considerations as most other businesses with the procurement function. What are some of the key issues involved when making sourcing decisions?

Company. First, retailers review the potential companies with which to source their goods or services. Does the company have a strong track record of manufacturing the products in question or performing the services being considered? Who are other customers of the company who have purchased similar products or received similar services being sought? Does the company being considered have the manufacturing capacity to handle your orders (if you are a large retailer like Target, Safeway, etc.)? Is the quality level of the company's products consistent with the quality expectations of your company? Does your company have an existing relationship with the company being considered and has met expectations in prior dealings. If you are that activewear buyer at Dick's looking for a source for men's private label outerwear, you would probably prefer to work with the company making outerwear for The North Face and L.L. Bean that you have worked with for many prior seasons.

Cost. One of the first criteria that comes to mind when making a sourcing decision is cost. A retailer will shop for the best possible price in relation to quality and availability. Common sense would dictate that lower costs lead to higher margins for the retailer.

Logistics. This term could be used to cover a variety of considerations regarding which company to select for your sourcing decision. In order to procure goods at the lowest price, retailers will sometimes source in less-developed countries. Does the company in question have the means of production physically in place to meet your anticipated needs? Are the components or raw materials of the product readily available to the potential sourcing company. Is the infrastructure in place for this company to be able to execute on the orders you would place? Is the company manufacturing in a country that has the appropriate infrastructure and logistics to be able to transport goods to the transportation hub for export?

Government Regulations. Other considerations would include if there are government regulations in place that would affect the sourcing decision: tariffs, quotas, etc.

Sourcing is both an art and a science. Larger organizations have staff who focus exclusively on providing sourcing services for their company. Software applications have been developed to support the sourcing process, as well as, managing purchase contracts throughout the manufacturing lifecycle (SCM, ERP, etc.). But as much as business is a transaction between companies, it is conducted between the people representing those companies. Strong business relationships between the people involved can make the difference when inevitable problems occur. We will discuss this concept further in a later section.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9265>

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