

OM 531 -- Strategic Sourcing & Procurement

Worldwide Sourcing

Navigating Global Supply Markets in an Interconnected World

Chapter 10

King Fahd University of Petroleum & Minerals | KBS | SCM Program

BEFORE WE BEGIN...

Your smartphone has components from 43 countries,
assembled across 3 continents,
delivered to your hand in 48 hours.

How did we get here -- and what does it mean for procurement?

Apple's iPhone supply chain spans 43+ countries and 200+ suppliers

Today's Learning Journey

1. The Big Picture -- Understand how globalization reshapes sourcing
2. Why Go Global? -- Identify drivers & benefits of worldwide sourcing
3. Navigate Barriers -- Recognize and overcome key challenges
4. The Evolution -- Trace the path from domestic to global sourcing
5. Real-World Lens -- Apply concepts through cases and discussions

By the end, you'll be able to evaluate when and how to source globally -- and when not to.

PART 1

The Globalization Landscape

The Forces of Globalization

Interdependence

Nations rely on each other for resources & markets

Connectivity

Digital tech links buyers & suppliers 24/7

GLOBALIZATION

Economic Integration

Trade agreements reduce borders & barriers

Technology

Platforms enable real-time global coordination

Political Shifts

Policies shape trade flows & market access

Why Source Globally? -- Key Benefits

Cost Savings

Labor, materials, and operational cost advantages

Technology Access

Tap into process & product innovations worldwide

Quality

Access world-class manufacturing capabilities

Innovation

Leverage diverse supplier R&D ecosystems

Market Entry

Establish presence in new geographic markets

Companies with mature global sourcing programs report 10-25% cost reduction on average (Deloitte Global CPO Survey)

Two Concepts, One Journey

International Purchasing

A commercial buy-sell transaction between a buyer and supplier located in different countries.

Reactive -- responding to needs

Transaction-focused

Limited coordination

Often ad hoc decisions



Global Sourcing

Proactively integrating and coordinating items, processes, designs, technologies, and suppliers across worldwide locations.

Strategic -- proactive planning

Cross-functional integration

Coordinated globally

Long-term value creation

The shift from international purchasing to global sourcing is an evolution in maturity, not just geography.

OPEN DISCUSSION

Think about a product you use daily.
How many countries were involved in making it?

Consider raw materials, components, assembly, packaging, and logistics.

- > Can you trace the full supply chain?
- > What would happen if one country's supply was disrupted?
- > Is this complexity a strength or a vulnerability?

PART 2

Why Source Worldwide?

Drivers of Worldwide Sourcing

Cost & Price Benefits

Lower labor costs, favorable exchange rates, economies of scale

Technology Access

Unique product/process technologies unavailable domestically

Quality Excellence

World-class manufacturing capabilities in specific regions

Sole Source Availability

Some materials/components only available from foreign sources

Competitive Pressure

Match competitors who already source globally

Market Presence

Establish footprint in foreign markets through local sourcing

Samsung's Display Supply Strategy

Samsung Electronics

Samsung sources display panels, semiconductor chips, and camera modules from multiple countries. When Japan restricted exports of key chemicals to South Korea in 2019, Samsung had to rapidly diversify its sourcing for fluorinated polyimide, photoresists, and hydrogen fluoride -- materials critical to chip manufacturing.

Samsung accelerated qualification of alternative suppliers in Belgium (Solvay), China, and domestically in South Korea. The crisis highlighted the risk of geographic concentration even for a global giant.

Think About:

1. What triggered Samsung's supply diversification?
2. How does geopolitics affect sourcing decisions?
3. What's the trade-off between cost efficiency and supply resilience?

PART 3

Barriers to Worldwide Sourcing

Five Major Barriers to Global Sourcing

Knowledge & Skills Gap

Identifying sources, handling documentation

Resistance to Change

Comfort with domestic routines & relationships

Longer Lead Times

Extended pipelines, customs delays

Cultural Differences

Language, customs, negotiation styles

Currency Fluctuations

Exchange rate risks, pricing complexity

"The biggest barrier isn't distance -- it's the unknown." Each barrier can be overcome with the right strategy.

The Documentation Challenge

Letters of Credit

Bank guarantee for payment upon delivery proof

Bills of Lading

Contract between shipper and carrier

Import Licenses

Government authorization to import goods

Certificates of Origin

Proof of manufacturing country

Certificates of Insurance

Coverage proof for goods in transit

Packing Lists

Detailed contents of each shipment

Commercial Invoices

Bill from seller to buyer

Dock Receipts

Transfer acknowledgment at port

Lead Time & Cultural Challenges

Extended Lead Times

- Extended material pipelines across oceans
- Forecasting over longer time horizons
- Transit and customs delays are common
- Greater logistical, political & financial risks
- Safety stock increases = higher carrying costs

Cultural Differences

- Different business practices & etiquette
- Language barriers in specs & negotiations
- Varying attitudes toward time & deadlines
- Different negotiation and meeting styles
- Building trust takes longer across cultures

Currency Risk -- A Hidden Cost Driver

Example: The SAR/EUR Impact

You agree to buy EUR 1M in components from Germany.

At contract signing: EUR 1 = SAR 4.00 --> Cost: SAR 4,000,000

At payment (3 months later): EUR 1 = SAR 4.15 --> Cost: SAR 4,150,000

Unhedged loss: SAR 150,000 (3.75% cost increase!)

Mitigation Strategies

1. Purchase in home currency

Shifts risk to supplier

2. Share fluctuation risk

Split gains/losses 50-50

3. Currency adjustment clauses

Auto-adjust at thresholds

4. Hedging (forwards/options)

Lock in exchange rates

Overcoming the Barriers

Education & Training

Build internal capabilities and global sourcing expertise

Publicize Success Stories

Build organizational confidence through proven wins

Linked IT Systems

Real-time visibility across global supply networks

Local Support Personnel

Supplier reps or IPOs in buyer's country

Metrics & Rewards

Align incentives with global sourcing goals

Third-Party Intermediaries

Trading companies, brokers, import agents

OPEN DISCUSSION

If you were CPO of Saudi Aramco,
what would be your top 3 concerns about
sourcing critical equipment from China?

Consider: cost, quality, logistics, geopolitics, IP protection, and lead times.

--> How would you mitigate each risk?

--> Would the answer change for sourcing from Germany vs. China?

PART 4

The Journey: Domestic --> International --> Global

What Triggers International Purchasing?

No Domestic Option

Required materials, technology, or capabilities simply don't exist in the home country.

Example: Rare earth minerals for electronics -- 60% of global supply comes from China.

Competitive Pressure

Competitors are gaining advantages from overseas suppliers -- lower costs, better quality, or faster innovation.

You can't afford to stand still.

Supply Market Events

Disruptions, capacity constraints, or quality issues in domestic markets force buyers to look beyond borders.

Example: COVID-19 PPE shortages in 2020.

Global Supplier Selection -- Key Questions

Cost

- Significant total cost difference vs. domestic?
- Will price differentials hold over time?
- Impact of longer pipelines on inventory costs?

Quality & Tech

- Technical and quality capabilities?
- Ability to assist with new designs?
- Quality systems in place (ISO, etc.)?

Delivery & Relationship

- Consistent delivery schedules?
- Required lead time acceptable?
- Long-term relationship potential?

Risk & Legal

- IP and proprietary tech safety?
- Trustworthiness and legal system?
- Currency and payment terms?

Navigating Cultural Differences

Language

Message speed, content level, interpretation

Religion

Business hours, holidays, decision frameworks

CULTURE

Values & Attitudes

Shared beliefs that shape negotiations

Customs & Behavior

Meeting etiquette, protocols, greetings

Social Institutions

Family, education, government influence

Communication Across Borders -- Expert Tips

DO

- Speak slowly and clearly
- Use visual communication (diagrams, specs)
- Bring interpreters to important meetings
- Allow extra day to brief interpreters
- Document all decisions in writing
- Confirm understanding with follow-up summaries

DON'T

- Use jargon, slang, or idioms
- Use sports or military metaphors
- Assume English is understood the same way
- Rush through complex technical discussions
- Rely solely on verbal agreements
- Assume silence means agreement

INCOTERMS -- Who Bears the Risk?

INCOTERMS define where responsibility transfers from seller to buyer

<-- BUYER bears more risk

SELLER bears more risk -->

EXW

Ex Works

Buyer bears ALL
risk from seller's
door

FCA

Free Carrier

Seller delivers to
carrier at named
place

FOB

Free On Board

Risk transfers
when goods
cross ship's rail

CIF

Cost, Ins., Freight

Seller pays
freight &
insurance to
destination

DAP

**Delivered At
Place**

Seller bears risk
to named
destination

DDP

**Delivered Duty
Paid**

Seller bears ALL
risk to buyer's
door

The \$2M INCOTERM Mistake

Al-Zamil Industrial (Hypothetical)

A Saudi manufacturer orders \$2M in steel components from a Turkish supplier using EXW (Ex Works) terms, thinking they got the cheapest price.

After delivery, the total landed cost includes:

- Trucking to Istanbul port: \$45,000
- Ocean freight to Dammam: \$120,000
- Marine insurance: \$15,000
- Customs & duties: \$180,000
- Port handling: \$25,000

Total additional: \$385,000 (19.25% above quote)

A CIF Dammam bid was only 8% higher.

Think About:

1. Which INCOTERM should they have used?
2. How do you compare bids on different INCOTERMS?
3. What's the true 'total landed cost'?

Legal Issues in International Sourcing

Legal Systems

Common Law (US, UK) vs. Civil Law (Europe, Middle East)

Different levels of buyer protection across jurisdictions

IP protection varies significantly by country

UN CISG -- international sales law framework

Foreign Corrupt Practices Act (FCPA)

Prohibits payments to foreign officials for business advantage

Applies to US citizens, agents, AND foreign nationals in US

No dollar threshold -- even small gifts can violate
Enforcement focuses on INTENT, not just the act

Real World: FCPA Enforcement

In 2020, Airbus paid \$3.9 billion in fines -- the largest FCPA settlement in history -- for a decade of bribery across multiple countries to win aircraft orders. Procurement professionals must understand anti-corruption laws in every jurisdiction they operate in.

OPEN DISCUSSION

In Saudi Arabia's Vision 2030 context,
how should local content requirements
balance with global sourcing benefits?

IKTVA (In-Kingdom Total Value Add) requires increasing local procurement.

- > Is this a barrier or an opportunity?
- > How can global sourcing and localization coexist?
- > What industries should prioritize local vs. global?

PART 5

Countertrade & International Costs

Countertrade -- When Cash Isn't King

Full or partial exchange of goods for goods -- used when countries lack hard currency or want to boost exports

Barter

Direct exchange of goods for goods. No currency. Single contract.

Example: Oil for food (Iraq in 1990s)

Counter-purchase

Seller must buy a % of goods from buying country. Unrelated products.

Example: Boeing buys Saudi dates after jet sale

Offset

Like counterpurchase but more flexible -- can offset with ANY local company.

Common in defense procurement

Buy-Back

Build a plant, accept plant's output as payment. Long-term arrangement.

Example: Factory in Vietnam, paid in product

Switch Trading

Accept goods, use a third party to sell them. Triangular deal.

Used when goods are hard to market directly

Total Landed Cost -- The Full Picture

The quoted price is just the tip of the iceberg. Here's what actually drives total cost:

VISIBLE COSTS

Base Price | Tooling | Packaging

HIDDEN COSTS

- Transportation & freight
- Customs duties & tariffs
- Insurance premiums
- Port terminal & handling fees
- Customs broker fees & taxes
- Currency fees & hedging costs
- Inventory carrying costs

Example: True Cost Comparison

	Domestic	International
Base Price	\$100,000	\$75,000
Transportation	\$2,000	\$12,000
Duties & Tariffs	\$0	\$7,500
Insurance	\$500	\$3,000
Broker & Port Fees	\$0	\$4,500
Currency Risk	\$0	\$2,000
Inventory Carry	\$1,000	\$5,000
TOTAL:	\$103,500	\$109,000

The 25% cheaper quote became 5.3% MORE expensive!

Letters of Credit -- How International Payments Work

1. Agreement

Buyer & seller agree on terms and LC

2. LC Issued

Buyer's bank issues letter of credit

3. LC Confirmed

Seller's bank confirms and notifies seller

4. Goods Shipped

Seller ships goods and presents documents

5. Docs Verified

Banks verify all documentation matches

6. Payment Released

Seller receives payment from buyer's bank

Irrevocable LCs provide the strongest protection -- they cannot be modified without all parties' agreement. They assure the seller of payment and protect the buyer by requiring proper documentation.

International Purchasing Offices (IPOs)

Dedicated offices in key sourcing regions to manage international procurement on the ground

Identify Suppliers

Scout and qualify potential suppliers in the region

Negotiate Contracts

Solicit quotes, negotiate contracts locally

Manage Logistics

Expedite shipments, trace deliveries

Quality Assurance

Perform site visits, technical audits

Represent the Buyer

Be the buyer's face to local suppliers

Manage Countertrade

Handle offset & countertrade obligations

Toyota's Global Sourcing After the 2011 Tsunami

Toyota Motor Corporation

The 2011 Tohoku earthquake and tsunami devastated Toyota's supply chain. A single Renesas Electronics chip plant shutdown halted production worldwide -- Toyota lost 800,000 vehicles.

Toyota's response:

- Mapped its entire multi-tier supply chain
- Required 2-6 months safety stock of critical parts
- Developed dual/triple sourcing for 500+ components
- Created RESCUE system for real-time monitoring
- Regionalized production to reduce failures

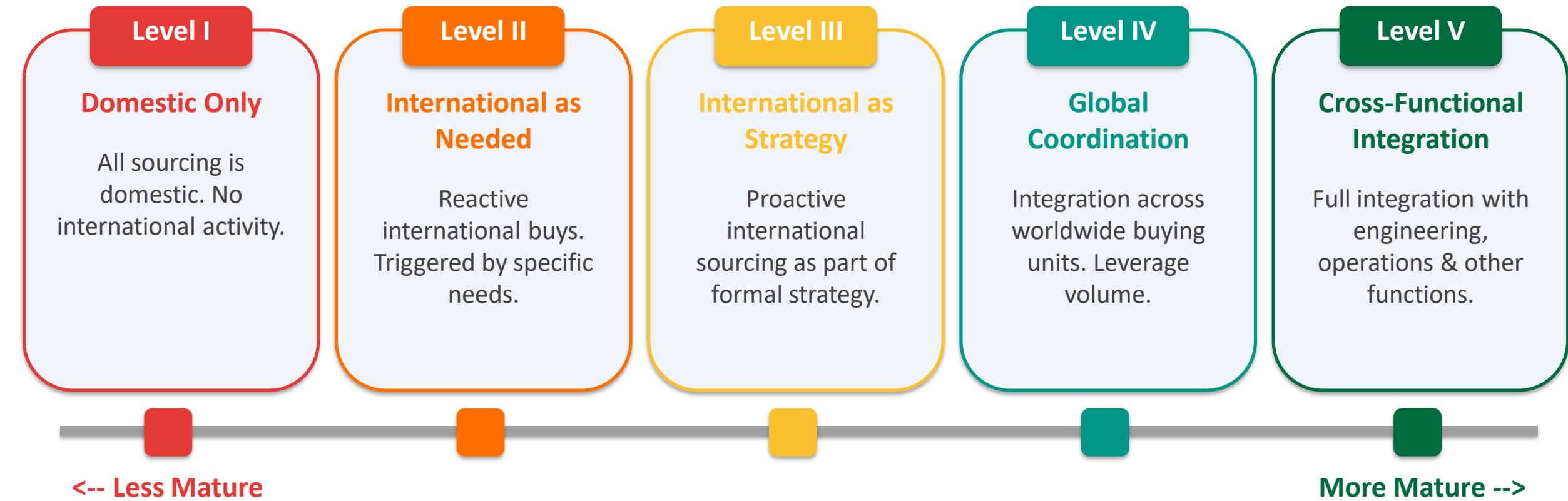
Think About:

1. Why didn't Toyota know its full supply chain before?
2. Is dual sourcing always worth the extra cost?
3. How do you decide which parts need backup sources?

PART 6

From International Purchasing to Global Sourcing

The Global Sourcing Maturity Model -- 5 Levels



Most companies are at Level II or III. Few achieve Level V -- the competitive advantage increases with each level.

Benefits of Mature Global Sourcing

Lower Purchase Cost

Leverage global competition and volume across locations

Technology Access

Tap into product and process technologies worldwide

Better Relationships

Deeper, strategic partnerships with world-class suppliers

Supply Chain Optimization

Better inventory management across the global network

Process Standardization

Consistent sourcing processes and global contracts

Quality Improvement

Higher material and component quality from best sources

Information Sharing

Improved data flow and transparency across borders

Strategic Alignment

Purchasing recognized as strategic value driver

OPEN DISCUSSION

Where would you place Saudi Arabia's major companies on the 5-level maturity model?

Think about: Saudi Aramco, SABIC, STC, stc pay, Almarai

- > What level are they at today?
- > What would it take to move them to the next level?
- > Does Vision 2030 accelerate or slow global sourcing maturity?

Future Trends in Global Sourcing

Higher-Level Skills

Procurement professionals need cross-cultural competence, data analytics, and strategic thinking -- not just transactional skills.

Global Performance Metrics

Organizations must agree on standardized KPIs that work across all geographies and business units.

Integrated Digital Systems

AI, blockchain, and cloud platforms enable real-time visibility across multi-tier global supply chains.

Systems Sourcing

Shift from buying components to sourcing complete subsystems and integrated solutions from capable suppliers.

Emerging Market Growth

Continued shift toward suppliers in low-cost, high-capability emerging markets across Asia, Africa, and South America.

Resilience + Efficiency

Post-COVID, companies balance cost optimization with supply chain resilience -- nearshoring, reshoring, and diversification.

COVID-19: The Ultimate Stress Test for Global Sourcing

Global Supply Chains (2020-2022)

When COVID-19 hit, global supply chains experienced unprecedented disruption:

- China's factory shutdowns cut off ~30% of global manufacturing
- Container shipping costs rose from \$2,000 to \$20,000
- Lead times for semiconductors: 12 to 52+ weeks
- Automotive plants shut down due to chip shortages

Responses:

- Apple: Pre-paid \$5B+ to secure capacity
- Tesla: Rewrote chip firmware for alternatives
- Many others: Simply waited and lost billions

Think About:

1. What separated winners from losers?
2. Should companies now prioritize resilience over cost?
3. How would you redesign a supply chain post-COVID?

KEY TAKEAWAYS

- 1** Global sourcing is a strategic capability, not just buying from overseas
- 2** The total landed cost -- not the quoted price -- determines true value
- 3** Cultural competence is as important as commercial competence
- 4** INCOTERMS, currency risk, and legal frameworks are non-negotiable knowledge
- 5** The maturity journey from Level I to V creates compounding competitive advantage
- 6** Post-COVID, resilience and diversification are the new sourcing imperatives

Thank You

"The world is a book, and those who do not travel read only one page."

-- Saint Augustine

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