



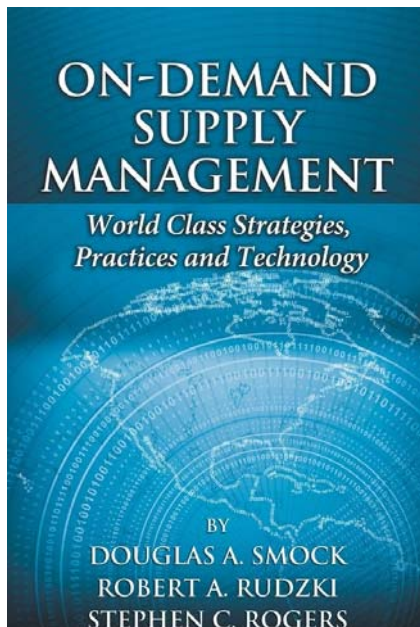
Session Code: GA
**Reduce Risk, Improve Performance Through Enhanced
Supplier Relationships**

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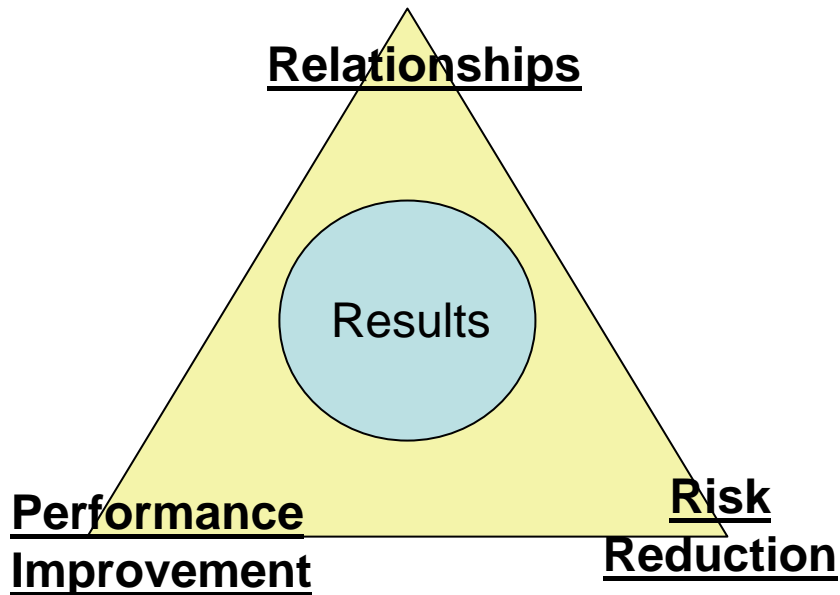
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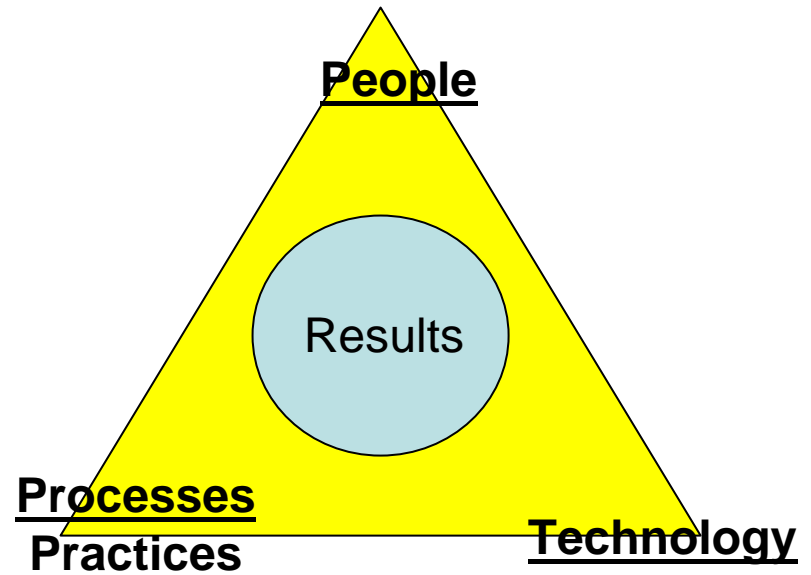
Relationships, Performance, Risk

Three Goals Require Three Capabilities

- Utilizing Relationships
- Improving Performance
- Reducing Risk

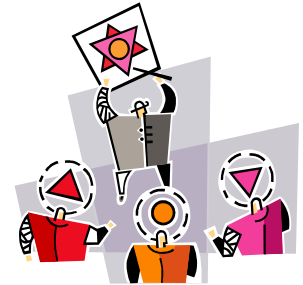


- People
- Processes/Practices
- Technology



Reality: Transformation Problem Requires Strategic and Tactical Actions

- Problem:
 - Too often organizations are dragged to the tactical – thinking the use of a technology is the strategy
- Strategic
 - People and Processes provide the vision, discipline and the direction behind the plan
- Tactical
 - Technology enables and enlightens people to execute the processes to deliver results

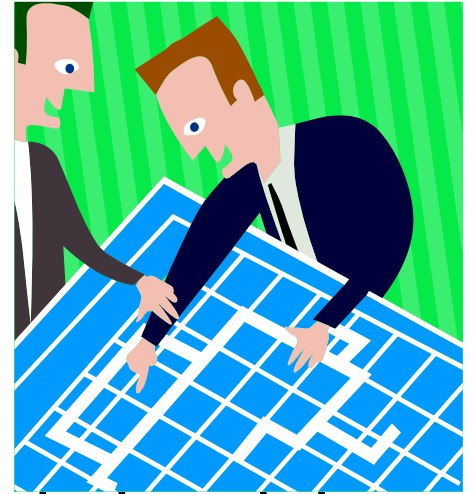


The Agenda Flows from this Reality

Agenda

- Supplier Selection
- Supplier Management
- Value Mining
- Risk Management
- Doing it vs. Talking about it

What is the Supply Blueprint?



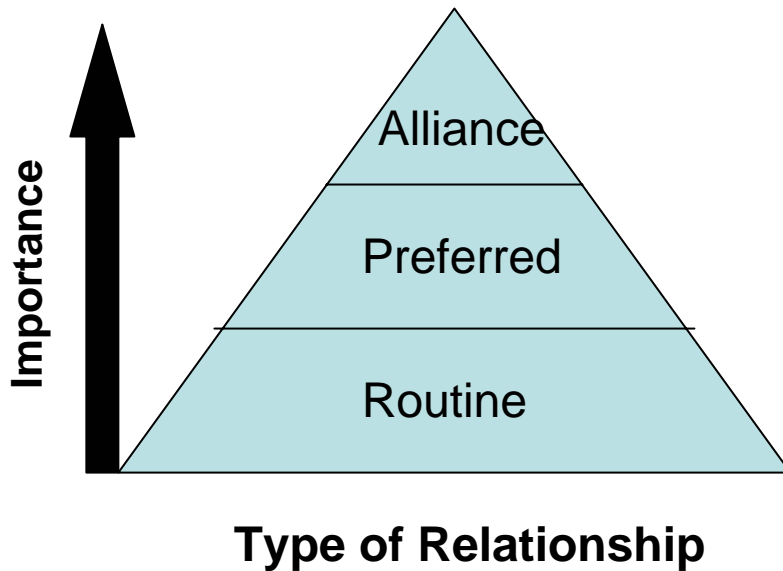
Comes from your philosophy
toward the supply base

- **Drivers:** Price, Cost or Value ?
- **Range of Approaches:** bidding, negotiating, joint collaboration, unilateral demands
- **Goals:** money vs. innovation vs. speed vs. supply assurance vs. quality vs. agility

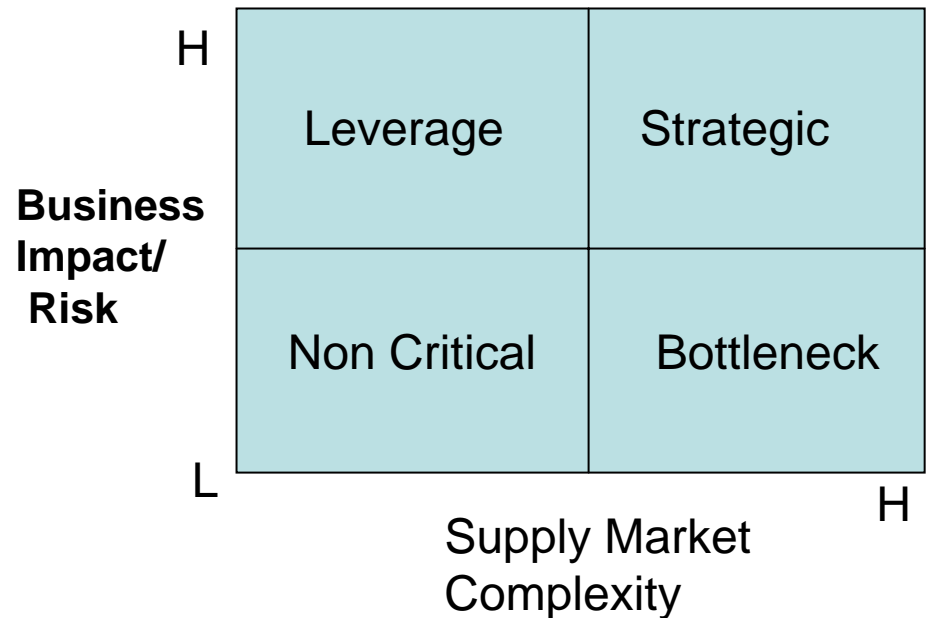
Are you looking to extract money from suppliers?
Are you looking to get ideas and help from suppliers?
Do you need a blend of both?

Supplier Segmentation – a means to both cost and value

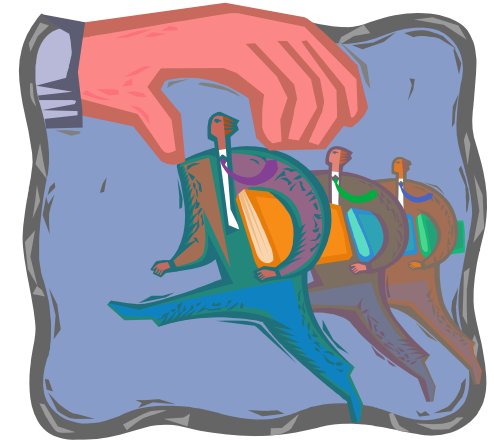
- **Typical Segmentation Triangle**



- **Typical Segmentation Grid**



Supplier Segmentation cont.



These models imply:

Multiple Selection Methods that balance Effectiveness, Efficiency, and Expectations

- Competitive bidding – Reverse Auctions and Request for Proposals/Information
- Supplier Analysis leading to face to face discussion
- Supplier involvement in requirement definition and delivery
- Supplier order placement – routine/automated
- Outsourcing supplier interaction to skilled outside procurement organizations

One size does not fill all situations!

Where does Technology Fit?

Software Enables People and Processes

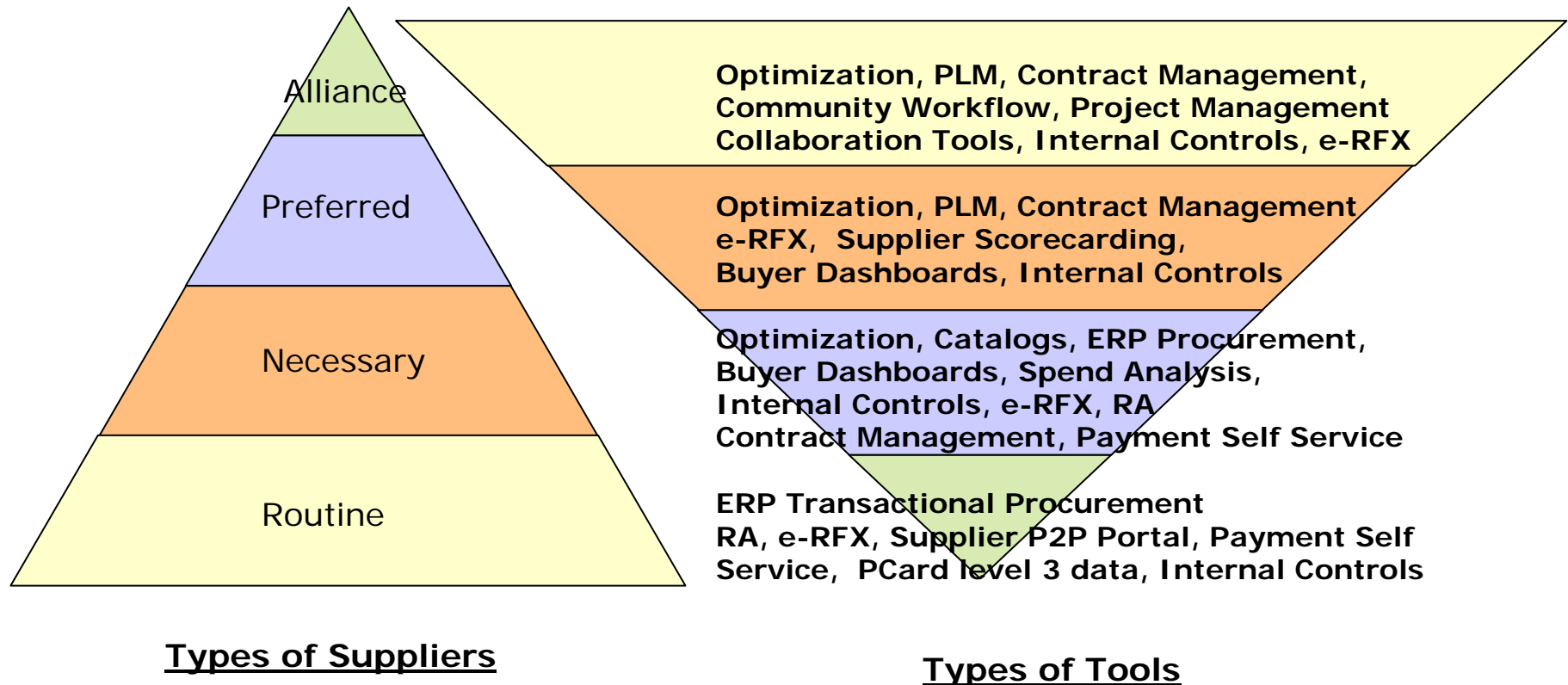
- Reasons to use technology
 - Improve efficiency
 - Increase knowledge by mining data
 - Improve effectiveness of your people and the supplier interface
 - Add new capabilities that deal with complexity and changes in the market
 - Improve productivity
 - Communicate, coordinate, collaborate, cooperate and co-create with suppliers and internal colleagues

Technology enables many types of interactions and analytical capabilities. Choosing the tools and the sequence of implementation is strategic. This is an intervention that provides direction to the tactical use of software.

Supplier Selection

Technology choices must match your

- buying philosophy
- supplier relationships
- type of value needed



Two Dimensions of Results Delivery

- People Interfaces

Chemistry between companies and individuals

Institutional chemistry

Interpersonal chemistry

Connections across boundaries

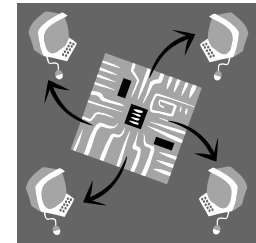
Cross functional connections

Cross company connections

- Operational Interfaces

Flow of products, money and information

Measurement of those flows



Performance Management requires the ability to influence people

Performance Management requires the ability to execute operational flows

The People Side Crosses **Three Relationship Types**

- **Individual Relationships**

Knowing each other: personal understanding, empathy and trust

- **Intra and Inter Functional Relationships**

Business needs first

Function needs second

- **Institutional relationships**

Culture, philosophy, duration

Good times and bad



Operational Interfaces – The ability to actually do what people promise they will do

- Transparency becomes critical
 - Demand and capacity planning
 - Payment on time (P2P process)
 - Specification management
 - Order placement
 - Shipment reliability (perfect orders in terms of de quantity, accurate billing)
 - Reaction time/Flexibility/Agility – the ability to deal with change



Results delivery means the organization must be able to actually do something. The sheer number of individual transactions means perfection is unlikely. That is where measurement and performance feedback to trigger changes become incredibly important to continuous improvement.

Scorecarding Supplier Performance

- Start with the right metrics
- Examples of poor metrics in a risk-filled world
 - Inward-looking (e.g, operating cost per employee or PO)
 - Self serving (e.g., performance vs PPI, or poorly defined cost avoidance)
 - Poor supplier-facing metrics
- Develop supplier-facing metrics that fit corporate/organizational goals

Supplier-Facing Metrics

- 1. Suppliers partner on could costing (cost sharing and modeling)**
- 2. Levels of innovation/partnering**
- 3. New product introduction (NPI) cycle time reductions**
- 4. Responsiveness to massive customer shifts**
- 5. Improving quality**

Value Mining: Get the Engineers On Board—Yours and Theirs

- 80% of cost is built in during the product development phase
- 90% of product development time is planning and development. Engineers spend 15-40% of their time retrieving information, mostly from suppliers.
- BOM and PDM (engineers' part repositories from CAD programs) are often in dramatic disagreement

PLM: Our Definition

PLM is the process for developing products that allows extensive internal and external collaboration and the subsequent management of that process and all related data for the life of the product.

PLM Results at IBM

Metric	Improvement
Development Expenses (as a percentage of revenue)	50%
Hardware Development Time	67%
Abandoned Project Expense	>90%
Warranty Expenses (as a percentage of revenue)	25%
Part Reuse	63%

Definition of a Supplier's Price -I

Market Price

The actual transaction price in the market.

Caveat Emptors: a) It's often artificially high based on market conditions b) Suppliers fail to understand their own cost structures.

Technology Factors: Development of electronic go-to-market tools, such as eRFx and reverse auctions create more transparency.

But: The Caveat Emptors may still apply, and can accelerate problems when suppliers don't understand costs.

Definition of a Supplier's Price -II

Should Cost Price

Construction of a product's cost based on modeling of discrete manufacturing steps or a chemical process.

Caveat Emptors: a) Only a very few companies do a good job. Most prefer to plumb price floors in weak markets with frequent reverse auctions. c) Even in a handful of companies with best-in-class costing departments, there is little process integration with functional groups (design engineering, procurement) that can truly affect cost

Technology Factor: These tools are historically engineering-driven, and are only recently morphing into supplier relationship management tools.

Definition of a Supplier's Price -III

Could Cost Price

An investigation of what prices could be if companies investigate best-possible design, manufacturing and supplier scenarios.

Caveat Emptors: a) You really need to have your act together b) Capabilities of systems are just emerging and subject to significant interpretation

Technology Factor: Integration of automated systems into PDM, PLM, MRP, ERP, BDW and the other alphabet soup of enterprise software is just a dream.

Could Cost Example

Injection Molding

Standard Purchasing Paradigm: Buyers constantly re-bid business looking for vendor with lowest machine hourly rate. Vendor looks for “gotchas” on set-up time, mold efficiency, dryer staging, machine manning, and secondary operations

Could-Cost SRM Paradigm: Software models best-possible molding scenario from supplier that also offers innovation on design and delivery. Negotiations start from that point.

Simple Mistakes Kill Us

“One customer was paying \$65 for a machined part that should have cost only \$3.50 at the most. The first time a buyer ordered the part, he only ordered six and that price went in the books. The next buyer was a recent college graduate who looked up the price and ordered 10,000 for \$65 a piece. The supplier laughed all the way to the bank.”

Advanced Practitioner: Lenovo

In 2003 and 2004 IBM saved more than \$10 million through use of cost modeling, primarily at its PC Division, now part of Lenovo.

The On Demand Supply Chain

There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.

-- Sam Walton

Definition: From a Supply Chain Perspective

Consistently have the product at the right place at the right time

Risk Management – An Opportunity to Add Value

- Two major categories of Risk
 - Regulatory and Financial Reporting (SOX)
 - Operational (Supply / Business Continuity)
- Supply management can add value by:
 - Understanding the landscape (minimize surprises)
 - Being pro-active (taking a leadership role)

Regulatory and Financial - SOX

- SOX (Sarbanes-Oxley) on the Supply Side
 - Section 302: CEO/CFO certification of financial statements
 - Section 401(a): reporting aggregate contractual arrangements
 - Section 404: assessment of internal controls
 - Section 409: timely disclosure
- Just A Few of the Implications (with tools that can aid):
 - Accurate cost of goods sold, and SGA expense tracking (Spend analysis and tracking)
 - Documented competitive bidding (eRFX, eSourcing, Optimization)
 - Accurate tracking and reporting of contractual commitments (Contract Management & Compliance)

Physical Supply Chain Risk Factors

1. Supplier operational risks (quality, late shipments, capacity shortage)
2. Physical disruption risk (terrorist attack, labor actions, weather, etc.)
3. Trade management compliance risk (tariff, duty classification, import/export procedures, etc.)
4. Supply chain logistics risks (transportation delays, delivery capacity, long pipelines and product handling damage)
5. Supplier financial risk (bankruptcy, liens, legal judgments, supplier performance strains caused by inadequate funds)
6. Supply base social responsibility and reputation risks (human rights, environmental, animal rights, etc.)

Risk Management – Key Concepts

- The starting point in risk management is identifying “what can go wrong”
- Four quadrants of risk:
 - Hazard risk: random disruptions (weather, earthquake, fire, accidents) and malicious (terrorism and product tampering)
 - Operational risk: arising out of daily operations, including supply chain risks
 - Financial risk: internal and external financial troubles (currency fluctuations, credit ratings, etc.)
 - Strategic risk: relating to strategy, e.g. new competitors, major facility decisions, etc.
- Vulnerability to a disruptive event: the combination of the likelihood of a disruption and its potential severity
- Risks can be interdependent (e.g. strategic decision to locate a new plant in a particular location can affect operational supply chain risks)
- Value or Earnings at Risk (often referred to as VAR)
- The company’s risk appetite or risk aversion – important to explicitly understand top management’s perspective on this

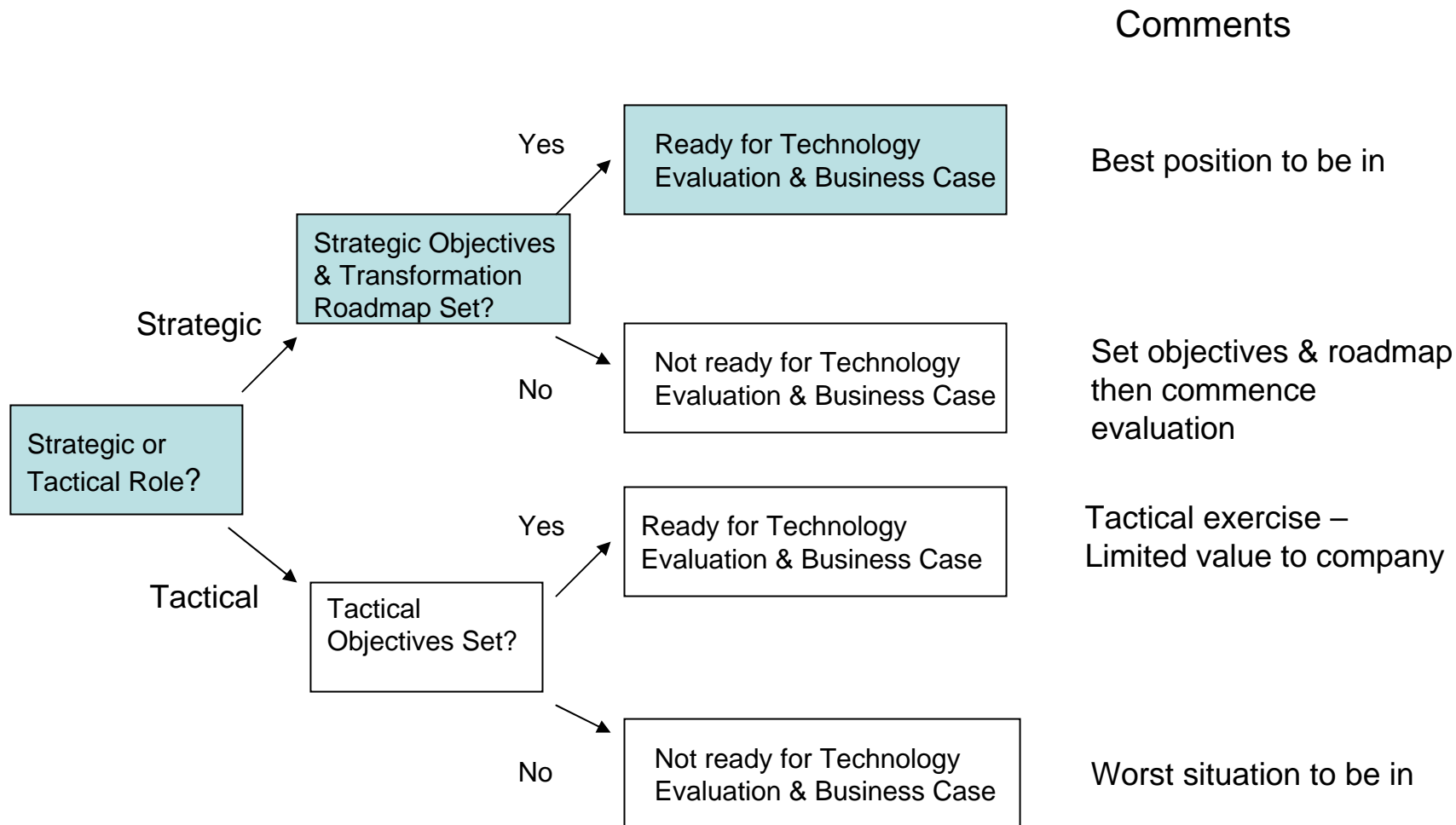
What Can Go Wrong

- Describe / draw the current supply chain for the selected commodity (from supplier's supply through to your customers)
- Show flow of materials, information, and funds
- Indicate timing of the flows
- Brainstorm what can go wrong at each step of the supply chain, as well as between steps (i.e. warehousing and transportation)
 - For current business levels
 - For forecast business levels 3-5 years in the future
- Consider the four quadrants; natural vs. man-made; random events vs. accidental vs. intentional
- Identify missing information that, if we had it, could be useful to assessing the probability and severity of risks, or serve as an “early warning” system (e.g. amount of finished inventory held by customers, inventory held by suppliers, SPC charts of suppliers, RFID info, etc.)
- Describe the decision/communication process within your company if it is believed that something is going wrong in the supply chain (how do we respond?)

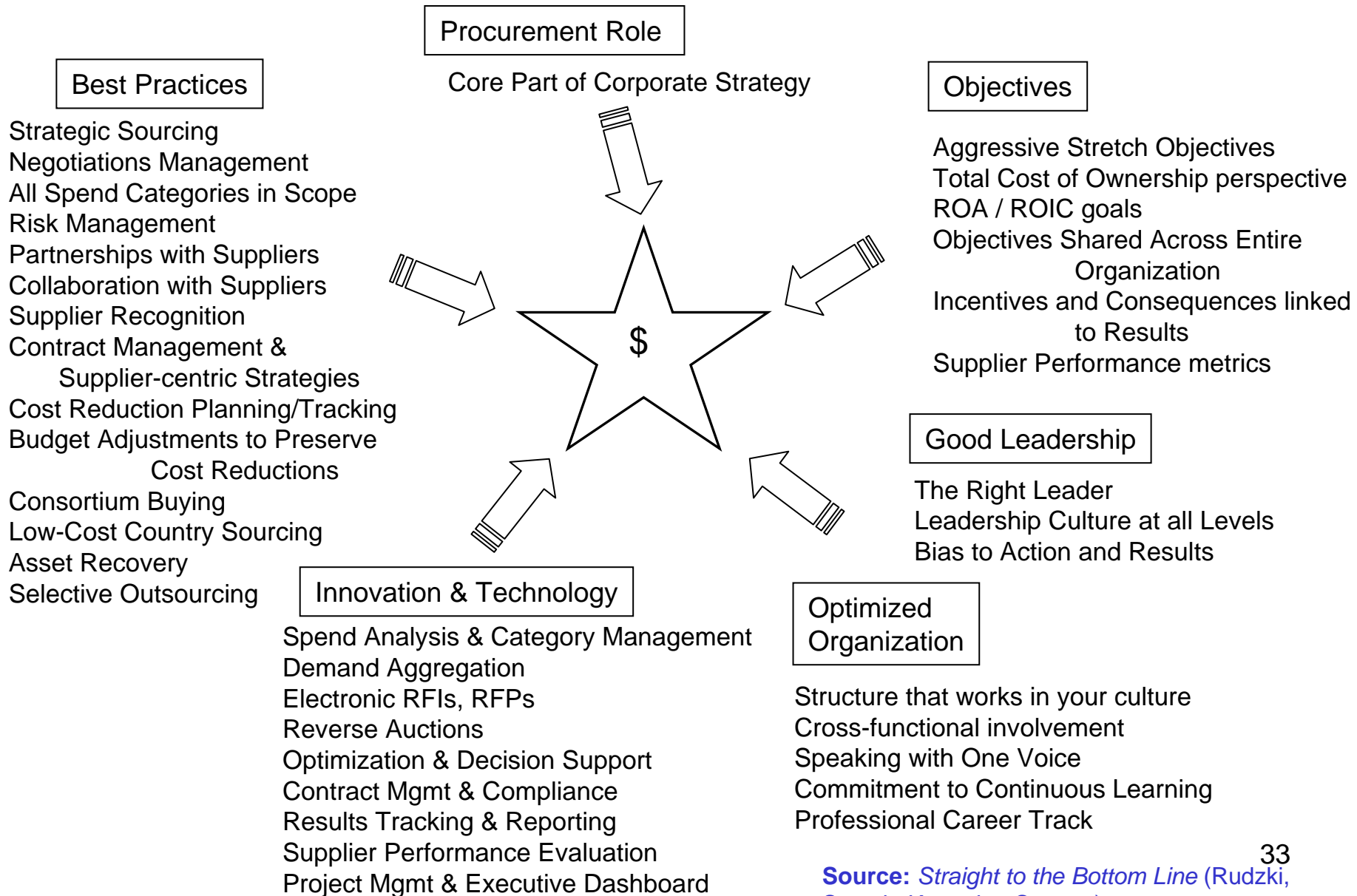
Building in Flexibility in the Supply Chain

- Core concept is to have viable alternatives in any scenario. Standardization of parts, processes, production systems, suppliers, even personnel skills, is important for achieving “interchangeability.”
- Interchangeability creates options for responding to disruptions.
- Basic options include:
 - Reduce number/variety of parts
 - Reduce number/variety of products (NPD aspect)
 - Simplify processes
 - Flexible manufacturing facilities
 - Contract manufacturing
 - Risk pooling with other companies
 - Inventory buy-back arrangements with downstream partners
 - Mass customization / last minute customization
 - Build to order
 - Portfolio of capable suppliers having adequate spare / planned capacity and quality processes to support next 3 – 5 years of product plans (and a range of forecasts)

Making it Happen: Which Path Are You Traveling?



Critical Elements of a Transformation Roadmap



Getting Ready for the Business Case

An important early step, after the strategic groundwork is established, is to analyze the current situation.

A “situation analysis” describes the “as is” of your organization, and is the baseline against which the “to be” is compared.

The “as-is” should be described across all relevant dimensions, and include as much quantification as possible.

It is also useful at this stage to review **the gap** between “as-is” and “to-be.” Why? That gap is the basis for the economics of the business case. You can quantify the value of addressing the gap with your own estimates, with benchmarks available from numerous studies, or with estimates from experiences shared by benchmarking partners.

Getting Ready for the Business Case (cont'd)

At its most fundamental level, what you are building is a picture of:

- **quantifiable benefits**, expressed in dollars per year or, if applicable, as one-time benefits (these are sometimes referred to as “hard” savings)
- **non-quantifiable benefits**, expressed in words or a range of dollar values (these are sometimes referred to as “soft” savings)
- **costs**, principally involving license costs, implementation costs, and annual maintenance costs

Getting Ready for the Business Case (cont'd)

For example, a contract management capability can offer numerous quantifiable benefits:

- Reducing maverick spend on existing contracts
- Speed up new contract authoring cycle time
- Increased rebate and discounts
- Reduction in penalties

It can also offer important non-quantifiable benefits:

- Decreased contractual risk
- Improved suppliers relationships
- Administrative savings by virtue of having a central repository of contracts

Some Cautions

DO:

- Always link back to your strategic role and stretch objectives
- Quantify how your recommendation will help achieve the stretch objectives
- Involve Finance and IT as participants in the process
- Keep internal clients informed and involved, since they are the beneficiaries
- Talk to other companies who have used the software tools
- Try the tools yourself (“sandbox” approach described in the box)

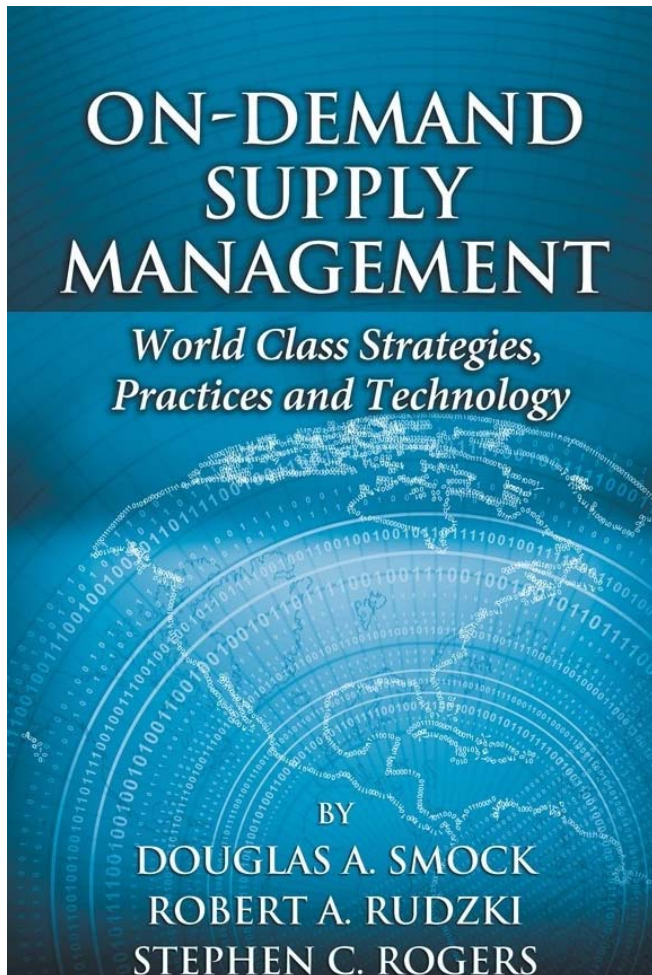
DO NOT:

- Get strategically sidetracked by IT integration concerns
- Let vendor pricing options cause you to make the wrong technology decision

Final Point: Get Senior Management's Attention and Support

- Speak their language
- Develop a vision with bold objectives that directly relate to senior management's interests (earnings, risk management, strong business model, etc.)
- Lay out your transformation plan and roadmap
- View technology as an *enabler* of your transformation plan and stretch objectives
- Build your business case (what you expect to deliver, in exchange for resources and budget)
- Be willing to make a commitment in order to gain top management's commitment
- Lead and Make It Happen!

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