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Goodyear: 'Go Global or Stay Home'

Global savings reach 10% at huge tire maker

Goodyear Tire & Rubber is saving $150-200 million through Asian sourcing of low-cost tires, raw materials, indirect materials and capital equipment. That message was delivered by senior officers of Goodyear in a recent presentation to the Credit Suisse Global Automotive Conference. Total savings from low-cost country, or nontraditional, sourcing is estimated by Goodyear at 10%.

Asian sourcing is a cornerstone of a Goodyear plan to achieve more than $1 billion in gross cost savings by 2008 in a business turnaround plan announced in September, 2005 by CEO Robert Keegan. The newest developments in the procurement-related aspects of the plan were reviewed by Gary A. Miller, vice president and chief procurement officer, at ProcureCon 2006 in Scottsdale, AZ..

Company in crisis. A deeper look at Goodyear shows a leading American manufacturing company struggling with the North American auto crisis, an aging manufacturing base and growing world competition. Its response, particularly on the supply side, has been innovative, and to some extent a possible blueprint for other traditional American manufacturers.

In one dramatic example of Goodyear's offshore strategy, the company is rapidly moving its buy of high-quality allow steel wire to China, India, Indonesia and Russia. The amount of steel wire bought from low-cost offshore source is now double what it was two years ago. And Miller says it will more than double again by 2008. "And we are making no compromise in quality," commented Miller. One key critical component is alignment of key decision makers in R&D, manufacturing and purchasing as well as senior leaders in business units.

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INSIDE:

Key Points in Goodyear's Supply Transformation

- Globalized procurement structure in 1996
- Launched aggressive cost-cutting plan in 2005
- Buys globally with partner Sumitomo Rubber Industries
- Achieves major savings through tire industry consortium
- Active in procurement outsourcing

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GOODYEAR'S LOW-COST SOURCING LESSONS

- Functions must support—and participate
- No silver bullets
- Not for everything!!!
- One size does not fit all
- Use to drive value with traditional suppliers
- Takes local resources—finding, managing, qualifying and mentoring suppliers.

Source: Gary A. Miller, Goodyear

Explanation

Business buy-in starts with agreement on savings metrics. Claimed savings from global sourcing, or any initiative for that matter, has no relevance if finance and other business leaders can't find them. This has been a bane of purchasing credibility for 40 years and remains today. Goodyear has vetted eight categories of savings with business and finance. "We say: 'This is how we are going to count our purchasing savings. Do you agree?'" comments Miller. "'And if you agree, you are the one who will measure.'" This approach is in full swing at Goodyear for the first time in 2006. Savings are measured by plant, region and initiative. More than 1,800 line items represent Goodyear's procurement "productivity" projects for this year. Results are audited by the businesses monthly.

Driving value with traditional suppliers is a strategy missing in many companies' global sourcing initiatives. Many of Goodyear's incumbent suppliers felt Goodyear wouldn't globally source or couldn't globally source. "When they lose the business, they suddenly understand," says Miller.

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There's good reason for the alignment.

Goodyear is still recovering from heavy losses that once threatened to plunge it into bankruptcy. Goodyear lost more than $1.2 billion in 2002 and $807 million in 2003 before moving into the positive column in 2004 ($115 million) and 2005 ($228 million). Its recovery is heavily tied to its ability to reduce its North American cost structure. Plans to close two unionized plants triggered a strike in early October by the United Steel Workers. Keegan joined the company in 2000 from Kodak with a mandate to change the company's revenue and cost structure.

Goodyear wants to be more consumer driven and less driven by automotive OEMs, who have been demanding year-on-year price reductions even though costs for materials such as rubber have soared. Goodyear has achieved eight price increases from 2004 through 2006 in the consumer replacement market, where it has more strength than other tire manufacturers. Keegan wants new product development to be more consumer-driven as well. And he wants the company to roll out new products faster. Goodyear's operating margin in North America was 1.8% in 2005. The goal is to take it to 5%. That's where sourcing and restructuring fit it.

Raw materials make up 25% of Goodyear's cost of goods sold (COGS). Natural rubber leads at 25%, and synthetic rubber (highly dependent on oil prices) are next at 24%, carbon black makes up 12%, fabrics make up another 12%, steel cord is at 9%, and other materials make up the difference. Disruptions to supplies of carbon black and other chemicals related to Hurricane Katrina in 2005 cost Goodyear $31 million. Goodyear's total spend for materials, equipment and services is $10 billion. Annual sales are $20 billion. About 60% of it spend is for direct materials (used in production) versus 40% for indirect, eg services and supplies. *(See GM sues Goodyear over costs, p. 11)*

Goodyear invested $8 million in its branded retail and global sourcing infrastructure in China in 2005.

Steel wire is one of the big success stories to date. Another, says Miller, is in capital equipment. Goodyear's level of offshore sourcing for capital equipment will double from 2006 to 2010. "We will use our five-year capital plan as a basis to target where we go for capital equipment," says Miller. These five-year plans are built by business units, the Goodyear global supply group, and engineering.

Goodyear has dedicated engineers in various regions of the globe to accelerate assessments and approvals. "We need to make sure that intellectual property of that equipment lies with the supplier," notes Miller. One novel approach by Goodyear, says Miller, is to put pressure on first tier equipment suppliers. "We are encouraging them; in fact we are more than encouraging them, to use the low-cost country source."

Miller disclosed no actual numbers in his presentation, but said Goodyear's percentage of capital equipment spend from low-cost sources will double from 2006 to 2010.

He also said the term "low-cost country" is no longer really appropriate. He prefers global or even nontraditional sources. The expanded capital equipment spend, for example, will come from suppliers in China, greater Asia, Eastern Europe, Latin America and even nontraditional European and American suppliers.

Miller is also president of a joint venture purchasing company formed between Goodyear and Sumitomo Rubber Industries in 1999. Goodyear made a $1.2 billion cash payment to SRI and is now its seventh largest shareholder, with a 1.3% stake, according to the SRI annual report. The companies operate several JVs, including the one headed by Miller that buys goods, materials and services for Goodyear and Sumitomo on a global basis. Goodyear has an 80% stake in the purchasing JV. "The JV gave us a great deal of insight into Japan and certainly a lot of insight into how negotiations are conducted in Japan," comments Miller.

The role of outsourcing. Goodyear was a pioneer in procurement outsourcing through its efforts to create in 2000 the Rubbernetwork, a global purchasing consortium of ten tire makers: Continental, Cooper Tires, SRI, Goodyear, Hankook, Michelon, Pirelli, Toyo, Kumho Tire and Yokohama. Noticeably absent is Bridgestone, which pulled out citing poor returns.

The Rubbernetwork is an interesting survivor of the crash of the B2B e-marketplaces in 2001. Unlike other exchanges, it was a pure business play—not a financial play—and was heavily funded by its investors, who are also the users. It supplies e-sourcing services, such as auctions through Ariba, and supplies strategic sourcing as well as supply chain services through six offices: Amsterdam, Atlanta, Singapore, Shanghai, Seoul, and Tokyo. A partner serves members in Latin America. Another partner, Elemica, provides a direct hub-to-hub connection with the chemical industry.

Rubbernetwork provides predefined process flows and XML messages that allow automation of intercompany data on vendor managed inventories, planning/forecasting systems, and procure-to-pay systems. IT costs are amortized over several parties. Yet another partner, IQ Navigator, is a leading player in services procurement.

In 2004, Goodyear Dunlop Tires Europe, one of the SRI joint venture companies, signed a deal with IBM on an outsourced procure-to-pay system for indirect supplies. The activities of more than 50 Goodyear purchasing employees were transferred to IBM. Products covered by the system across 15 countries included telecommunications, information technology, business travel, office supplies, marketing, MRO, and professional services, among others.

GOODYEAR'S OUTSOURCING LESSONS LEARNED

- Do not outsource a broken process
- Make sure that the outsourcer's people can do the job
- Ensure the outsourcer and YOU understand the addressable spend
- Convince yourself the outsourcer can meet the savings target
- What is your disaster recovery plan? What do you do if the outsourcer fails to deliver?

Source: Gary Miller, Goodyear

Explanation

One of the key mistakes made is basing a business case on too large an estimate of addressable spend. As any purchasing pro knows, a certain percentage of spend cannot be reached through sourcing systems for one of a variety of reasons. A given plant or business may be off limits due to policy or noncompatibility of systems. You also have to realize that there probably will remain a certain degree of maverick spend despite the best of efforts and the strongest of mandates. In a regional indirect sourcing case outlined by Miller, the actual spend available for outsourcing was less than half the spend presented in the business case. The economics of the opportunity disappear given supplier's costs for sourcing, transition, payables, and travel.

Goodyear's returns on the Rubbernetwork are strong. Savings exceed membership fees by a factor of four.