Leading Edge Trends in Supply Management

EXCERPT FROM

Presentation to ISM Dallas - June, 2008

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Former SVP and CPO, Bayer Corp., Bethlehem Steel Corp.
Leading Edge Trends in Supply Management

- Speaking, and writing, in the language of the executive suite.
- Active participant in revenue growth initiatives.
- Market knowledge expertise valued not just for sourcing projects and supplier management, but also for corporate planning insights (“eyes and ears” for opportunity analysis and threat analysis).
- Leadership role in risk management.
- Leadership role in creating a “Speaking with One Voice” discipline throughout the company.
- Leadership role in Negotiations Management best practices – not just for sourcing activities.
- Sponsoring, and demonstrating the value of, Supplier Partnerships and Supplier Recognition.
- All spend categories in scope, through developing internal credibility for the processes and personnel in supply management.
Speak and Write in the Language of the Executive Suite

**Profits**

**Profitability**

**Capital**

**Capital Intensity (Invested Capital)**

**Return on Invested Capital**

**Cash Flow**

Enhance

**Improves**

**Improves**

**Enhance**

**REVENUE related:**
- Faster new product/service design & development
- Optimum & reliable parts & raw materials suppliers
- Excellent transportation service providers

**COST related:**
- Reduce freight costs & claims
- Reduce raw materials costs
- Reduce indirect materials/services costs
- Reduce manufacturing variability

**WORKING CAPITAL related:**
- Improve payment terms with suppliers
- Utilize inventory programs with suppliers

**CAPITAL EXPENDITURE related:**
- Improve redeployment of used assets ("asset recovery" programs)
- Reduce total costs associated with capital spending

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What is Possible in Revenue Support?

Example: new product/service development cycle time

• Impact of reducing the cycle time and manufacturing costs
• Beat your competitors to market
• Improve your competitive standing and win new sales

Some companies involve procurement and other internal functions – plus prospective suppliers – in an aligned effort to create competitive advantage.
What is Possible in Revenue Support? (cont)

• Creating a more responsive, lower TCO, supply chain

• Assisting your sales and marketing organization to be more effective in their dealings with customers’ procurement departments (two options: “countersourcing,” and “strategic selling”)
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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)
Risk Assessment Workshop

- Objectives:
  - Provide basic framework for understanding, identifying, and managing business risks
  - Provide specific processes and tools (e.g. Value Stream Mapping) for identifying and managing supply chain risks
  - Provide guidance for evaluating and managing the risk in your supply chain

- Participants:
  - Strategic procurement and transportation personnel
  - Key internal stakeholders/clients
  - Key direct materials suppliers (as part of a “working session” to Value Stream Map their portion of the supply chain)

- Workshop length: 6 to 8 hours total, including working session with suppliers.
Value Stream Mapping (VSM)

- VSM is a technique used to identify and flowchart the supply chain elements/steps from your supplier, through your own facilities, to your end use customer.
- It can help identify activities which add value (or do not), as well as help identify risks in the supply chain.
- Steps include:
  - 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
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Speaking with One Voice

• Mindset: Every conversation with a supplier, no matter how innocent or “technical” it might appear, is part of the negotiation process.

• All meetings/conversations are planned, with objectives and a script.

• All contact points within your company are identified, and are brought into the process.

• Everyone within your organization practices the discipline of “speaking with one voice”.

• Making this happen requires constant communication and reinforcement. Example: www.greybeardadvisors.com/SwOVexcerpt/
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Negotiations Management Should Not Be Left to Chance – It, too, Deserves Best Practices

<table>
<thead>
<tr>
<th>“Old” Style</th>
<th>“New” Paradigm</th>
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<tbody>
<tr>
<td>Lone ranger, hard bargainer ⇒</td>
<td>Multi disciplinary team</td>
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<tr>
<td></td>
<td>Speaking With One Voice</td>
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<tr>
<td>Get a good deal ⇒</td>
<td>Targets based on research to determine:</td>
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<tr>
<td></td>
<td>• Most Desired Outcome (MDO)</td>
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<td></td>
<td>• Least Acceptable Alternative (LAA)</td>
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<tr>
<td></td>
<td>• Best Alternative (BATNA)</td>
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<tr>
<td>Supplier knows the market ⇒</td>
<td>Using market intelligence to build a facts base</td>
</tr>
<tr>
<td>One round ⇒</td>
<td>Multiple negotiating rounds until predetermined objectives are reached</td>
</tr>
<tr>
<td>Off the cuff ⇒</td>
<td>Extensive scripting and role playing</td>
</tr>
<tr>
<td>Meetings happen ⇒</td>
<td>Preplanned agenda, preplanned communication</td>
</tr>
<tr>
<td>Don’t offend the other party ⇒</td>
<td>Willingness to drive to impasse</td>
</tr>
<tr>
<td>One step process ⇒</td>
<td>A multi level approach with face to face negotiation as only part of the process</td>
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While we seek a mutually-beneficial relationship with all of our suppliers, we reserve the term “partnership” for those special relationships continually characterized by:

- Joint commitment to information exchange, planning, continuous improvement, and cost reduction
- Agreed-upon measures of key performance factors
- Sharing of risk to achieve mutual benefits
- The supplier maintaining a leadership position in technology, service and cost, and our company, as customer, maintaining a receptive attitude to the supplier’s ideas
- Appropriate consideration for the amount of business that we direct to that supplier
Supplier Recognition – Pro

- It demonstrates to your supply base that you are serious about rewarding excellent performance.
- It can raise the bar for your entire supply base, once they understand how they benefit from your public recognition.
- It demonstrates to your own organization that it’s not just the negotiated deal that counts, it’s how well the supplier (and you) perform after the deal is signed.
- It involves your internal clients/users in assessing and actively managing the supply base.
- Done well, it can energize your supply base and generate a significant return on investment.
Supplier Recognition – Con

• It requires leadership, effective project management, commitment from procurement leadership and corporate leadership.

• It requires a budget.

• It has a long lead time the first year.

• It can potentially subject you to behind-the-scenes criticism if an annual supplier recognition event is inconsistent with how you manage and treat your suppliers during the year.
Supplier Recognition – Simplified Timeline for the 1st Year

**Program Governance**
- Set Expectations, Policy, Selection Comm, Budget
- Review and approve nominees

**Program Design & Management**
- Selection Criteria, Nomination Process Communicated
- Review and assess nominees, Recommend "short list"
- Reserve Facilities for Business Meeting and Award Ceremony, Reserve Hotel Rooms for Out-of-Town Guests, Help with Transportation, Special Dietary Issues, etc.

**Logistics Planning**
- Proc. & User Groups Identify Candidates, Prepare Nominations

**Nominee Identification & Screening**
- Identify Candidates, Prepare Nominations

Planning for your first event should begin at least 9 – 12 months in advance.
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ALL Spend Categories In Scope – No Sacred Cows

Examples of Non Traditional Spend Categories Where Modern Procurement Demonstrates Great Success:

- Auto fleet
- Outside legal services
- Tax services
- Travel services
- IT help desk
- Marketing and promotional items
- Real estate management
- Employee relocation services
- Employee benefits administration
Leading Edge Trends in Supply Management (cont.)

- Viewing “compliance” as an indicator of how well you use strategic sourcing, cross-functional teams, and stakeholder involvement (rather than an after-the-fact enforcement metric).
- Providing high-potentials into a corporate-wide career rotation program. Providing suitable opportunities in Supply Management for high-potential employees from other areas.
- Being smart about Low Cost Country Sourcing.
- Playing a central role in Asset Recovery programs.
- Playing an early and strategic role in capital project procurement.
- Playing a central role in working capital management.
- Recognizing “transformation” is a never-ending process of renewal.
- Actively managing consultants.
“Compliance” typically refers to the % of a new contract that is being utilized by internal users.

Compliance is *not just an enforcement metric*, it indirectly reflects the effectiveness of the process used to select and negotiate with suppliers.

Compliance is maximized when:

- A true Strategic Sourcing process is utilized
- Stakeholders are identified and asked for input
- Stakeholders are involved throughout the process
- Local needs are explicitly considered
- A TCO perspective is used
- All options are on the table (no preconceived notions)
- Internal clients can “see” the benefits of proceeding with the recommended sourcing strategy, and ultimately using the contract
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Asset Recovery – Another Opportunity to Add Value in Working Capital

Successful Asset Recovery programs are built around these principles:

• An accurate, up-to-date database showing all idle or surplus plant and equipment (with reasonably detailed descriptions, history, and, ideally, digital photos of the asset from various views)

• Access to that database for all internal users

• A responsible person at each major location / department, who is designated the asset recovery “point person” for that location, and who also functions as part of the internal network for asset recovery management

• A professional who is responsible for overseeing the program, the database, and the network of internal contacts

• Connection between the asset recovery process, and the process for ordering “new” plant and equipment
Successful Asset Recovery programs are built around these principles (cont’d):

- Internal policies (management and accounting) which facilitate the fair value transfer of idle equipment among internal locations

- Access to market expertise for used equipment or idle real estate (often accomplished via a master agreement that was the result of a strategic sourcing effort to select an appropriate third party service provider)

- Use of the master agreement service provider to determine fair value for internal transfers, and to monetize the asset in a best-in-class manner where no internal transfers are appropriate

Asset recovery may not be one of the sexier topics in modern procurement.

Done well, however, it can be a recurring generator of value for your organization.
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Ultimate project costs are influenced by the stage at which procurement and suppliers become involved in a project.
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Conventional “Sourcing Programs” Often Fail to Sustain their Initial Results Over Time

“Quick Win” Sourcing Programs - initial results often fade over time

Supply Management Transformation - significant, sustainable, growing results

Years

$ Benefits
Achieving World-Class, **Sustainable** Results Requires Attention to Transformation Initiatives Across Six Key Dimensions

**Best Practices**
- Strategic Sourcing
- Negotiations Management
- All Spend Categories in Scope
- Risk Management
- Partnerships with Suppliers
- Supplier Recognition
- Contract Management & Supplier Centric Strategies
- Cost Reduction Planning/Tracking
- Budget Adjustments to Preserve Cost Reductions
- Low-Cost Country Sourcing
- Consortium Buying
- Asset Recovery
- Selective Outsourcing

**Objectives**
- Aggressive Stretch Objectives
- Total Cost of Ownership perspective
- ROIC / ROE goals
- Objectives Shared Across Entire Organization
- Incentives/Consequences
- Supplier Performance Metrics

**Procurement Role**
Core Part of Corporate Strategy

**Good Leadership**
- The Right Leader
- Leadership Culture at all Levels
- Bias to Action and Results

**Innovation & Technology**
- Spend Analysis & Category Management
- Demand Aggregation
- Electronic RFIs, RFPs
- Reverse Auctions
- Optimization & Decision Support
- Contract Mgmt & Compliance
- Results Tracking & Reporting
- Supplier Performance Evaluation
- Project Mgmt & Executive Dashboard

**Optimized Organization**
- Structure that works in your culture
- Cross-functional involvement
- Speaking with One Voice
- Commitment to Continuous Learning
- Professional Career Track
- Governance

Excerpted from the book “**Straight to the Bottom Line®**”
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Q & A
Wake Up Your Senior Executives About the Opportunities

Understand the Enabling Role of Technology

Why Corporations Die, and How Yours Can Avoid This Fate
Greybeard Advisors – Brief Overview

• Founded late 2004 by Robert A. Rudzki
  – Former SVP & CPO Bayer Corp, and CPO of Bethlehem Steel Corp.
  – Lead author of *Straight to the Bottom Line®: An Executive’s Roadmap to World-Class Supply Management*
  – Co-author of *On Demand Supply Management: World Class Strategies Practices & Technologies*
  – Author of *Beat the Odds: Avoid Corporate Death & Build a Resilient Enterprise*
  – Frequent speaker at conferences and internal management meetings

• Primary procurement and supply chain services:
  – **Best practices**, combined with transformation strategy/planning/execution
  – **Opportunity assessments** (e.g. how much cost reduction is possible, and how to achieve it)
  – **Strategic Sourcing & Negotiations Management (SSNM) Training**
    • 1 ½ day core program (11 C.E. credits from ISM)
    • Executive Briefing for senior management (1 hour, 4 hour versions)
  – Providing **deeply-experienced Sourcing Advisors** (category experts) to guide and accelerate clients’ efforts in strategic sourcing
Contact Information

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  – www.StraightToTheBottomLine.com
  – wwwBeatTheOddsBook.com