

The Case for Supplier Collaboration

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Supplier Relationship Management - Current State

- **Facts**

- Supply Chain is the most important element in a firm's operations
- 50% of every dollar in revenue is spent in your firm's supply chain
- Focusing on cost reduction yields about 3~5 %; these benefits are often later lost via E/C, etc.
- Supplier negotiations & driving "bargains" result in an adversarial mindset

- **Objectives**

- Generate higher value and ROI from supply chain
- Achieve a competitive advantage that leads to increased, sustainable profits

- **Challenges**

- Inconsistent quality
- High material costs
- Supply chain disruptions
- Insufficient product innovation & slow time-to-market
- Reduced profitability

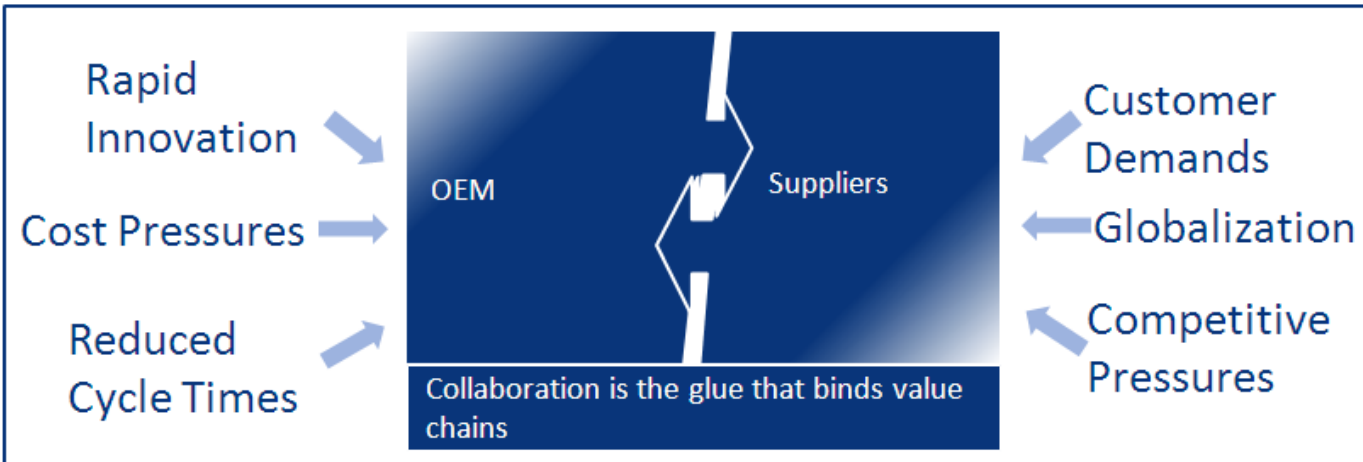
- **Implications** of addressing the Challenges

- **Alignment...**the entire supply chain pulling on the rope in unison
 - Lead time reduction of nearly 30%
 - On-time shipments improved by 25%
- **Innovation/Leverage...**a myriad of engineers, manufacturers and their capabilities and technologies at your disposal
 - Reduces your R&D and CAPEX investments 10-30%
- **Time-to-market...**reduced by over 12 weeks through technical collaboration
- **Profitability...**growing the pie vs. fighting over the biggest piece
 - Inventory reduction of 35-40%
 - Total operating costs reduced by 10-15%

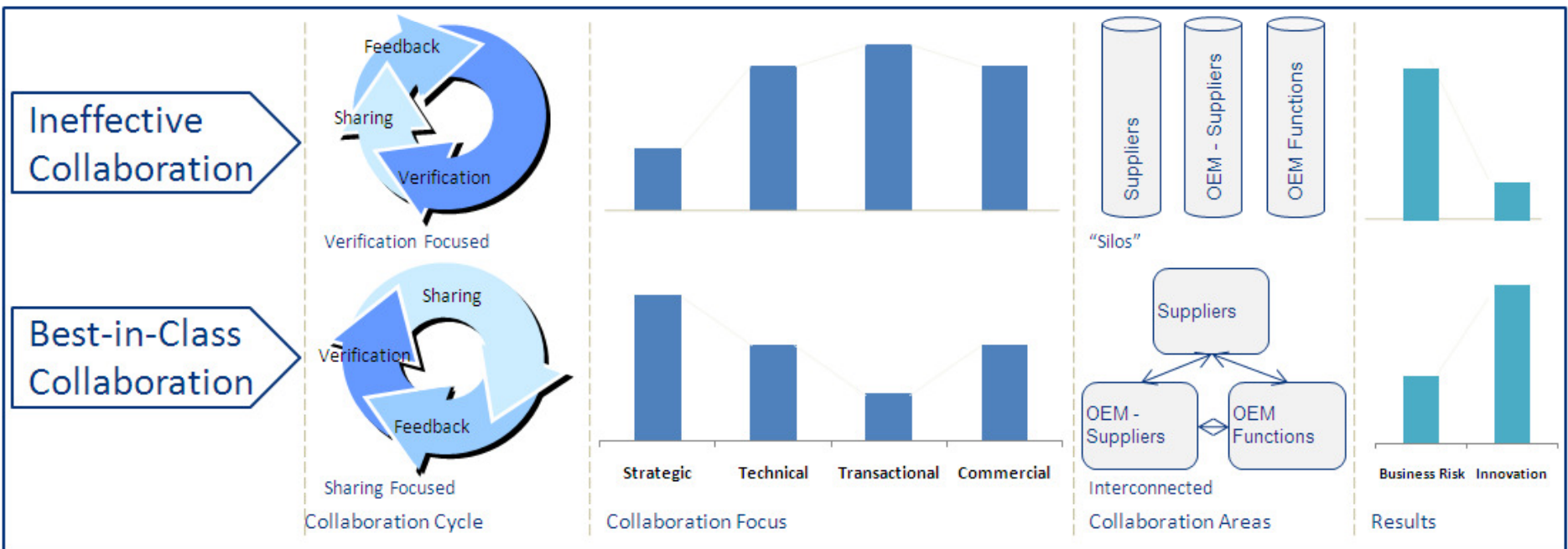
Current vs. Desired scenarios

- **Purchasing Group focused on costs**
 - Sourcing Changes
 - Production Delays
 - Quality/Delivery Issues
 - Internal team conflicts
 - Back-leveraging
- **Supply Chain team chasing material**
 - Multiple Sourcing Changes
 - Production Delays
 - Dysfunctional Teams
 - Expediting material
- **Engineering resources are limited**
 - Deadlines missed; Limited Validation
 - Lack of Technology outside Co. walls
 - Minimal Innovation
- **Suppliers take advantage of design changes**
 - Add Costs
 - Try to recover monies lost earlier
- **Executive Office frustrated**
 - Shrinking Margins
 - Poor Corporate Performance
- **Purchasing Group has Strategic Outlook**
 - Establishes & Communicates Goals
 - Segmented/Strategic Supply-base
 - On-time Production
 - Team Work
 - Enables Suppliers to optimize TCO approach
- **Supply Chain collaborates with Supplier**
 - Proactive communication
 - Effective Scheduling
 - Supplier Council for resolution
- **Engineering team interacts with Supplier**
 - Early Collaboration on new designs
 - Partnerships for New Technology
 - Improved Product; Reduced Cost; Innovates
- **Suppliers have partnership mindset**
 - Aligned with Strategic goals
 - Involved in Processes & Product Development
 - Long term Relationship & Trust
- **Executive Office Delighted**
 - Active sponsorship of supplier collaboration
 - Higher Profitability, Productivity & Team Morale

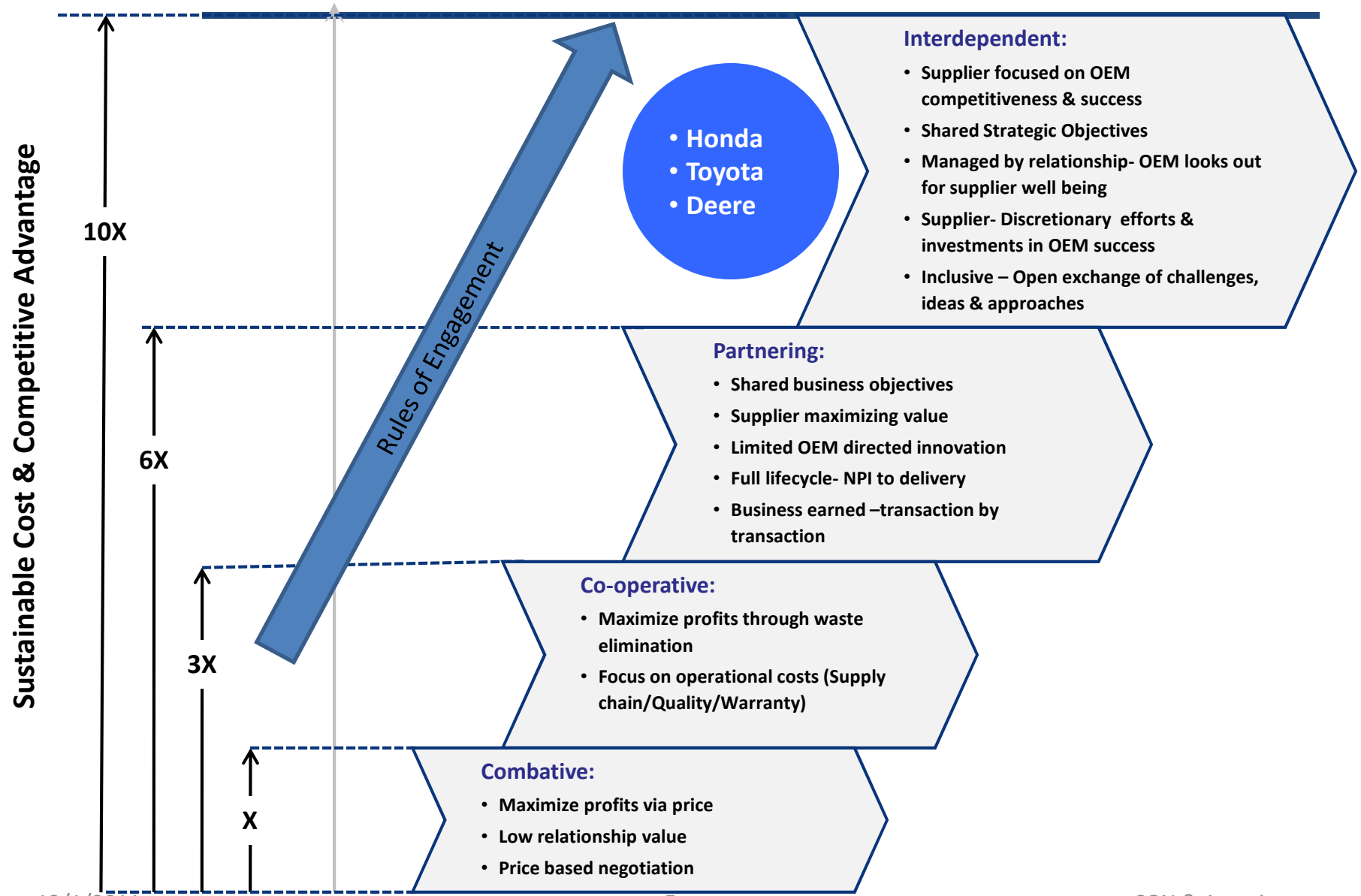
The Case for Collaboration



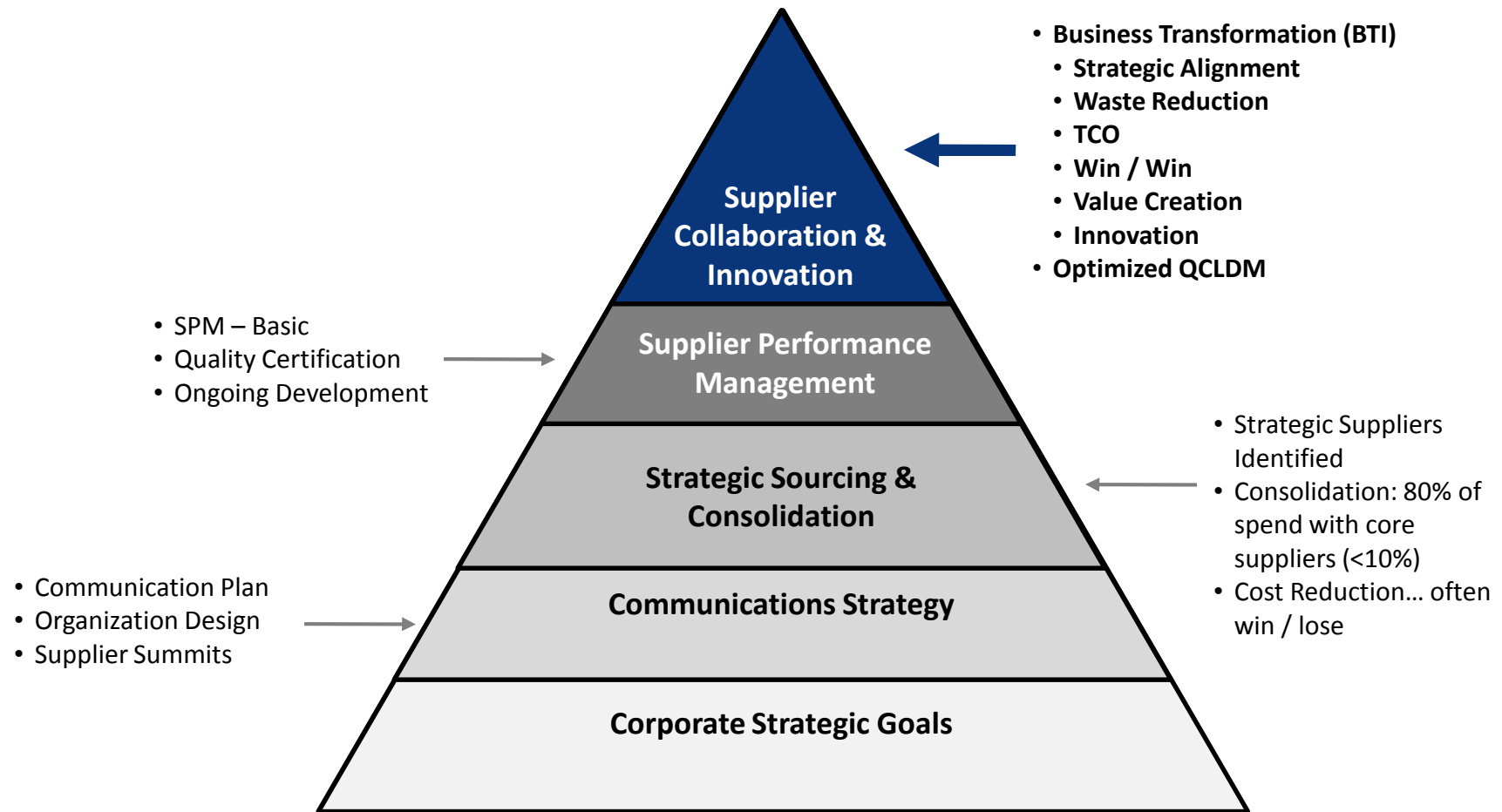
“Companies don’t compete, value chains do.”



Leading companies have realized significant financial benefits by migrating to interdependent relationships with their suppliers



Purchasing Groups are Missing the Greatest Benefits by not Pursuing Supplier Collaboration



Few companies attain the benefits at the top

Actual “Customer of Choice” Benefits...

- Placed at the Top of materials & services Allocation list..... 75%
- Provided New Product/Service Ideas & Technology First82%
- Offered unique Cost Reduction opportunities.....87%

But

Only 1/3 of “Key Accounts” (5% of customers) achieve
“Customer of Choice” status

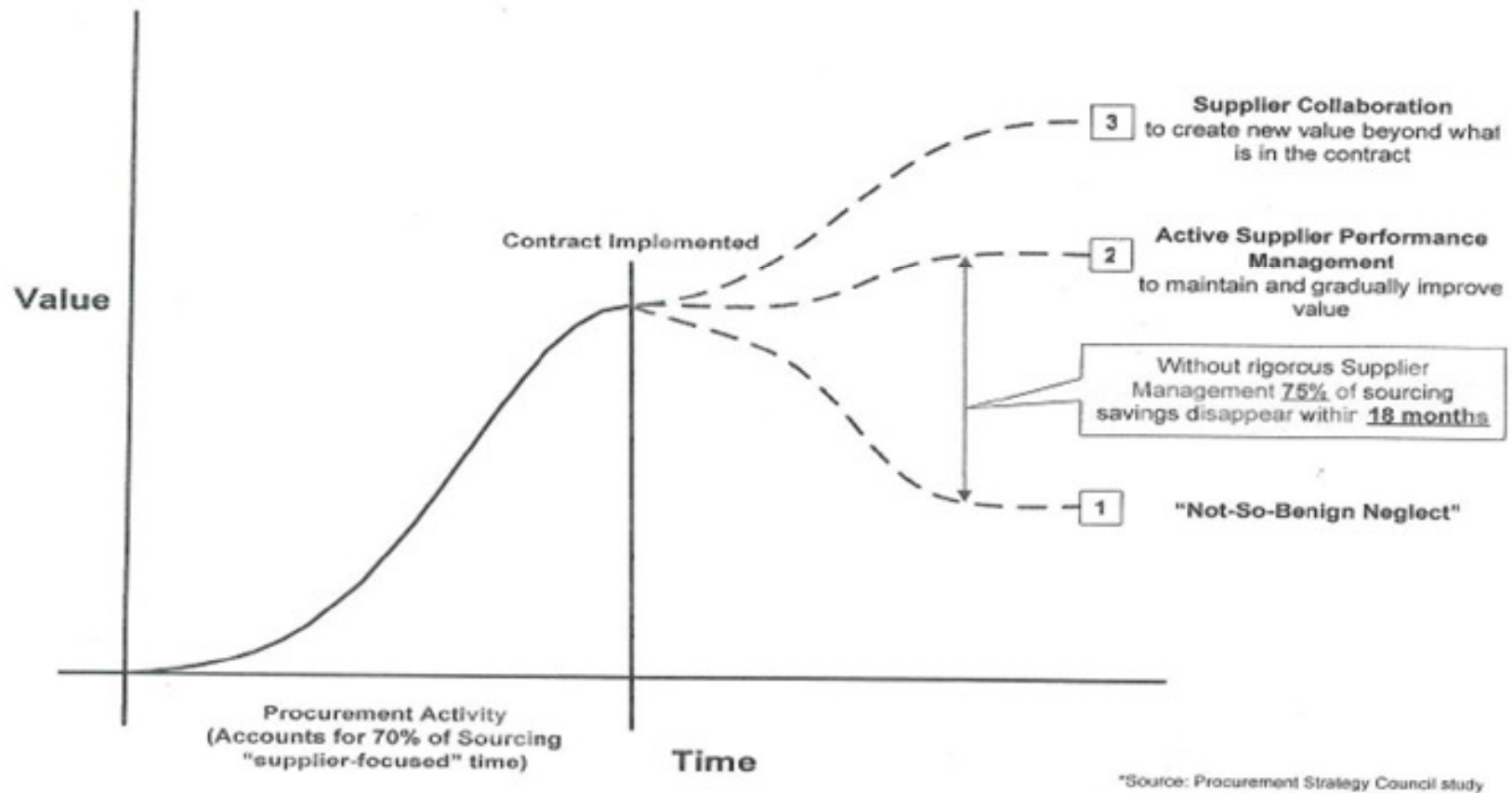
And

Worth \$100 –200M Annually!!!

Source: Sales Executive Council:
Procurement Strategy Council research

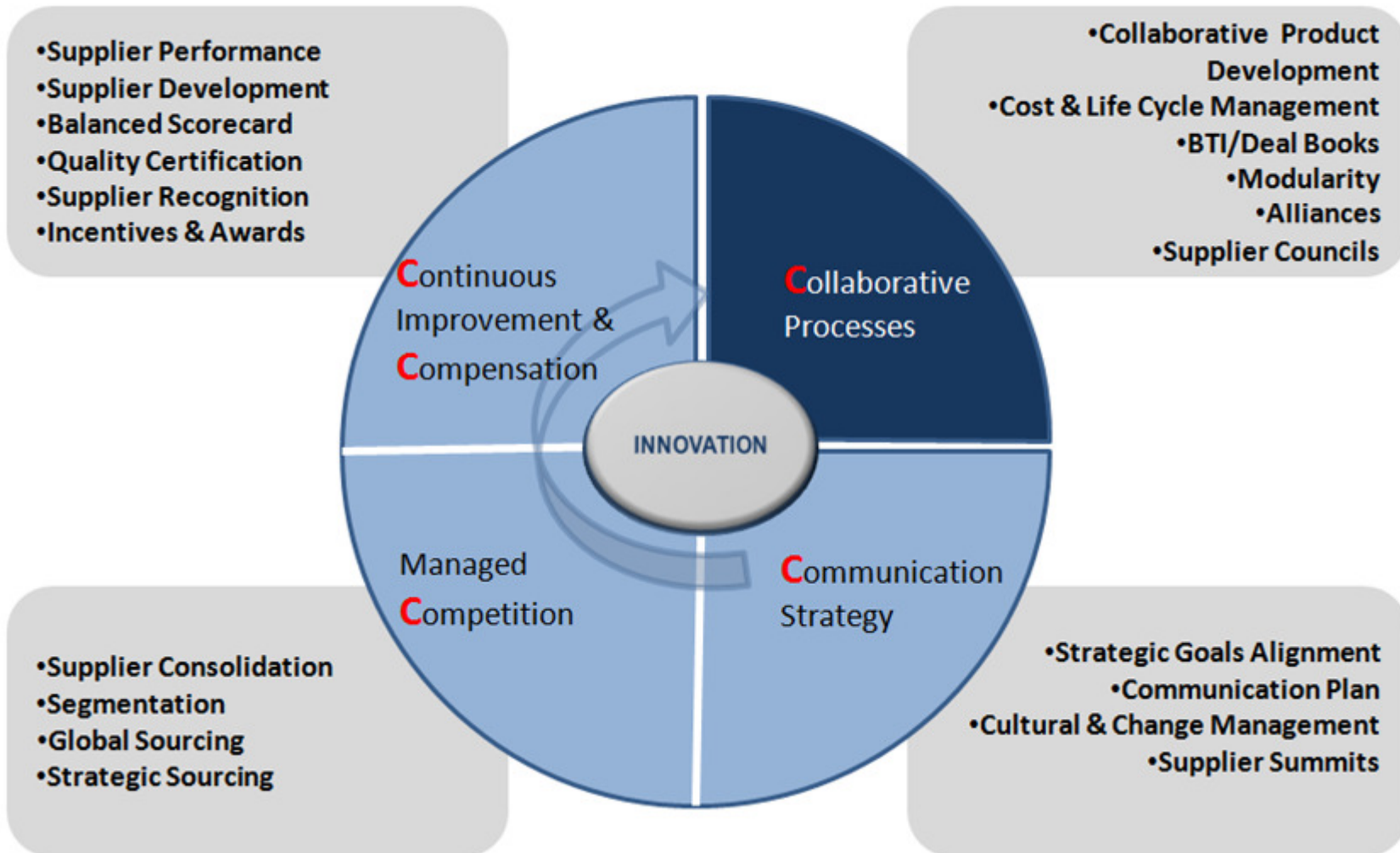
Why SRM? Get What You Paid For

Supplier Value Management



Supplier Collaboration Innovation Model

- 5 C's -



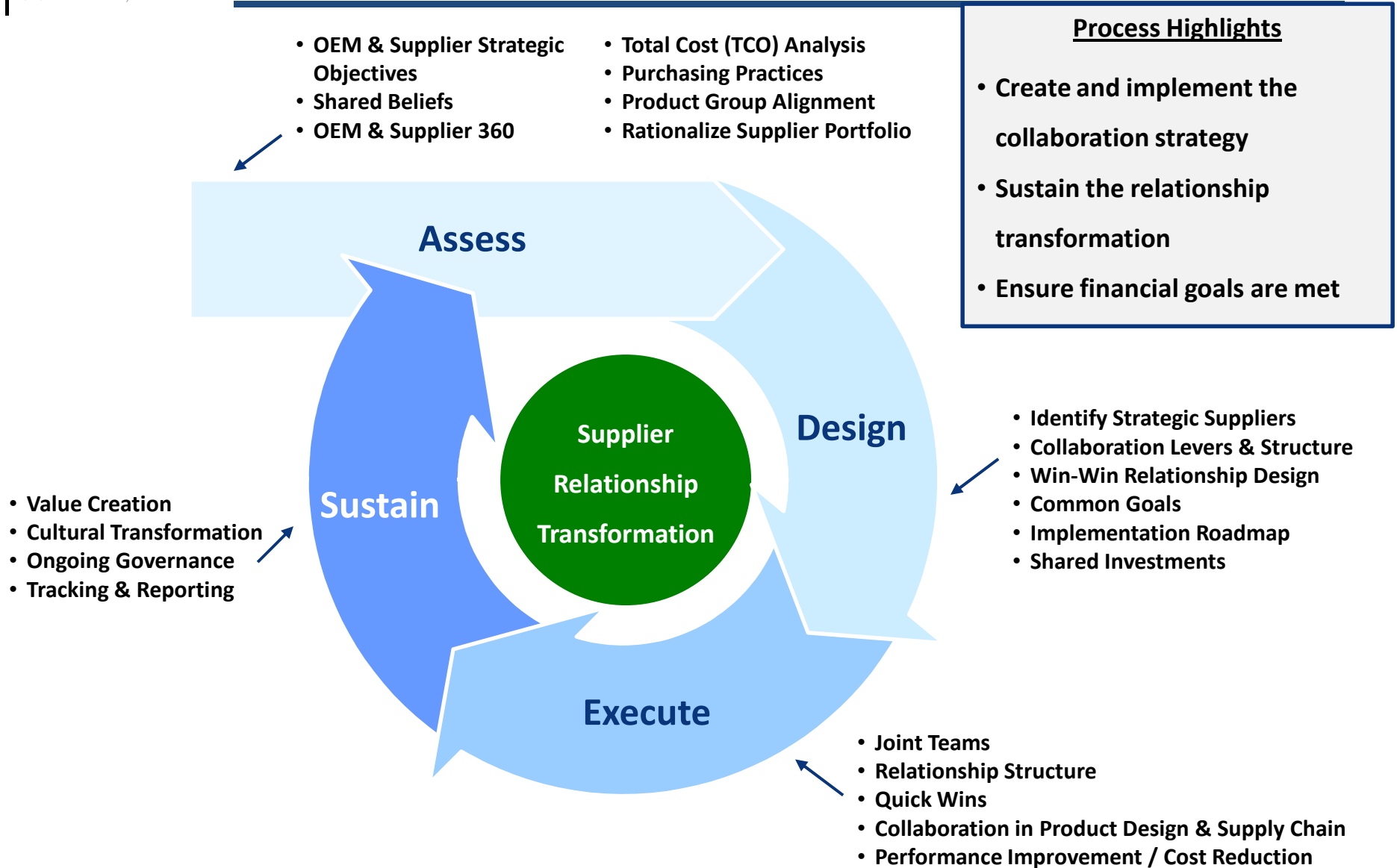
Successful Collaborative Processes Require.....

- Senior Management Support
- Multifunctional Stakeholder involvement
- Alignment of goals
- Total Cost of Ownership approach
- Complete Product Life-cycle view of opportunities and waste....listen!
- Properly Segmented Supply base
- Win-win approach...shared benefits
- Focus on Value creation & Waste elimination
- Rigorous Governance, tracking & reporting

Why Don't More Companies Embrace Supplier Collaboration???

- They moved from Combative approach and think they've arrived!
- They think they have to collaborate with ALL suppliers
- Lack of Senior Leadership support [coddling]
- Lack of courage to take leap of faith
- They tried it once without a disciplined process and failed/got burned

The BTA approach has four key phases focused on building a win-win relationship to create sustainable competitive advantage



Next Presenters

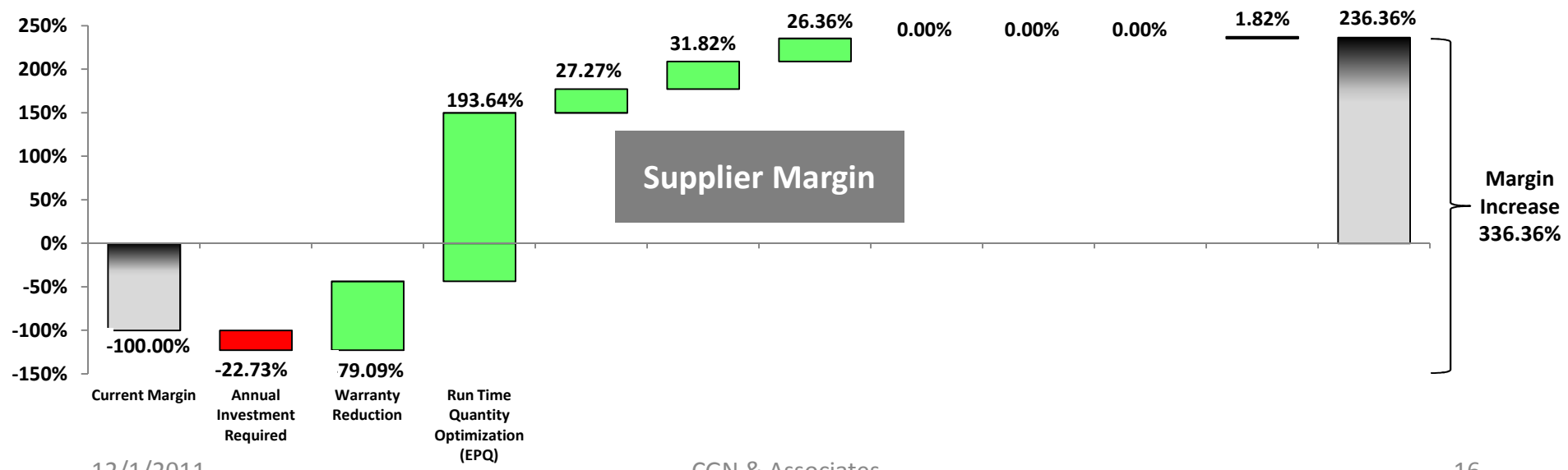
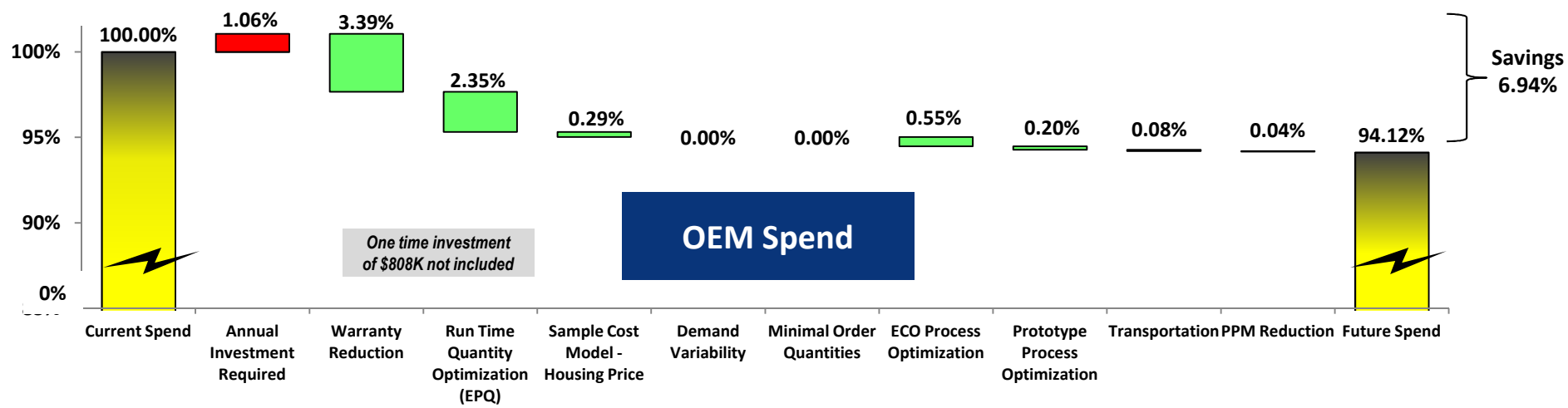
- Mike Render, Product Manager, Caterpillar Aftertreatment & Cooling Products
- Michael Hesketh, President, Superb IPC

BACK-UP SLIDES

The approach resulted in significant financial benefits in multiple areas for our clients

CSFs	Typical Areas of Opportunity	Benefits
<ol style="list-style-type: none"> 1. Championed at executive level 2. Initiative led by strong team leader 3. Joint team. Driven with sense of urgency, willingness to take risk 4. Leverage existing work to maximum benefit and velocity 5. Willingness to change 	<p>The chart illustrates the cumulative financial benefits from four key areas. It starts with 'Price Adjustments' (2-3%), followed by 'Supply Chain Quality Efficiencies Impact (Short Term)' (1-2%), 'Long Term VAVE' (2-3%), and 'Supply Chain Impact (Long term)' (2-3%). A large green bar at the end represents the 'Total' benefit, which is 8-12%. Two double-headed arrows indicate the 'Long Term' and 'Short Term' horizons for the VAVE and Supply Chain Impact components.</p>	<ol style="list-style-type: none"> 1. Short to mid term cost reduction..supply chain, quality, warranty 2. A win-win attitude to improve supplier collaboration 3. A commitment plan & collaboration structure 4. Enterprise alignment 5. Integration into OEM sourcing process

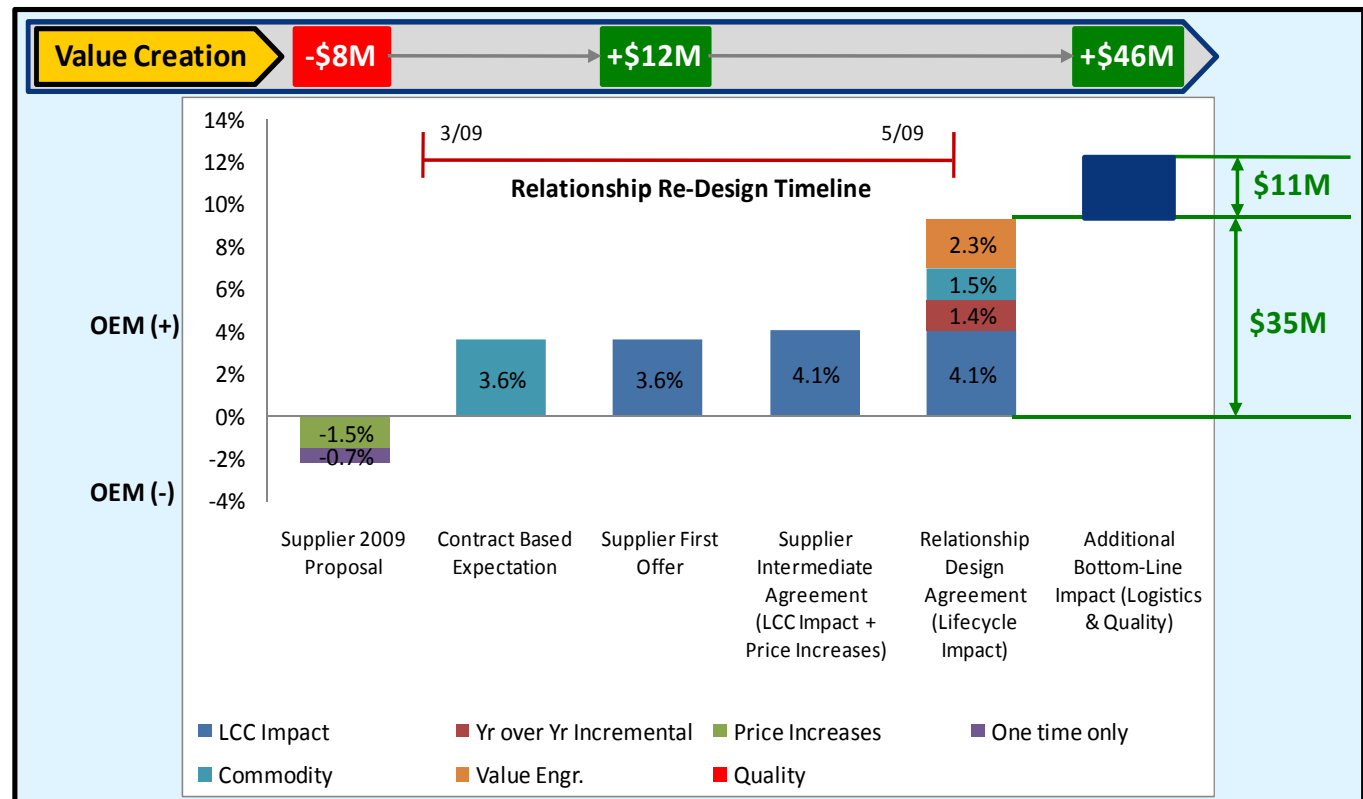
A typical outcome is a reduction in OEM cost with a simultaneous increase in supplier margins, creating a foundation for true collaboration



Case Study: Summary of results for a single supplier

- Evaluated the supplier's current relationship with the different groups at the OEM
- Identified waste in the relationship (10-20% of the total spend with the supplier)
- Designed a structure to transition the relationship to an interdependent partnership based on trust and mutual benefit

- Prior to BTI, the supplier was requesting an **\$8M price increase** (2.2%)
- The initial best offer from the supplier was a contract based commodity reversal of 3.6%, resulting in \$12M impact to the OEM
- By the end of Relationship Re-Design, by accounting for LCC impact and collaborating on value engineering and quality improvement levers, a win-win agreement had been reached that yielded **9.3% price reduction** (\$35M) and **logistics and quality improvements adding \$11M to bottom line impact for a total of \$46M for the OEM**



\$46M - Estimated cumulative savings over 4 years (2010-2013)

9 Keys to Best-in-Class Collaboration

- Align Strategic Objectives
 - Clear understanding and alignment of mutual benefit
- Increase Visibility
 - Provide key suppliers with customer requirements and schedule so the supplier can innovate with context
- Break Vertical Silos (within the organization)
 - Create an environment of synergy and negotiation for different functional areas
- Create a Balanced Environment
 - Counteract everyone wanting everything
- Build Trust and Commitment
 - Recognize short, mid, and long-term sustainable value for both parties through sharing of important information
- Foster Collaboration Between Suppliers
 - As complexity increases, OEM becomes more of an integrator
- Mind-Share for Collaboration
 - Right People + Right Time + Right Issues => Right Outcomes
- Know the 80/20
 - Identify the critical areas that need to be managed and then measure collaboration progress
- Scheduling Collaboration
 - From the beginning, schedule collaboration events so that it does not fall in precedence as other demands fight for time and resources