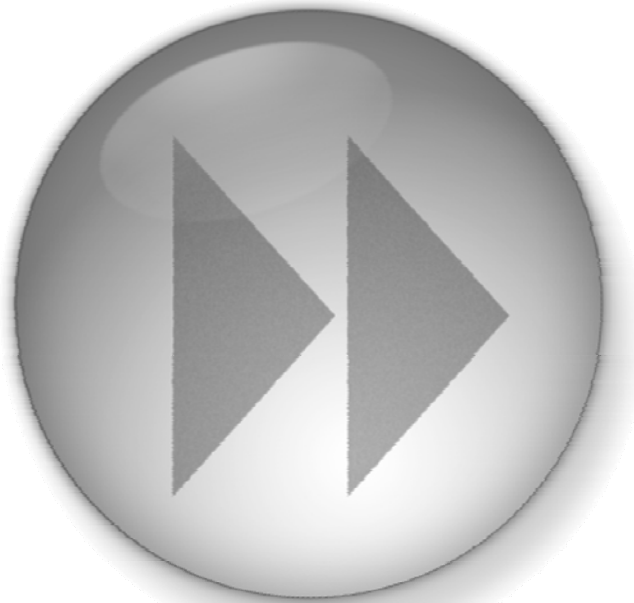


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Leading Edge Trends In Supply Management

Track 1 Session 6



Supply Chain  **Forward.**

Robert A. Rudzki

President

Greybeard Advisors LLC

Rudzki@GreybeardAdvisors.com

412.874.8410

Abstract

- ▶ **Good sailors keep their eyes on the horizon. This session reveals 16 leading edge trends in supply management from the perspective of a former Fortune 500 CPO. Current market leaders must stay on top of these trends to maintain course while aspiring leaders need to understand and embrace them if they wish to become world-class.**

Agenda

- 1. Speaking, and writing, in the language of the executive suite.**
- 2. Active participant in revenue growth initiatives.**
- 3. 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).**
- 4. Leadership role in risk management.**
- 5. Leadership role in creating a “Speaking with One Voice” discipline throughout the company.**

Agenda

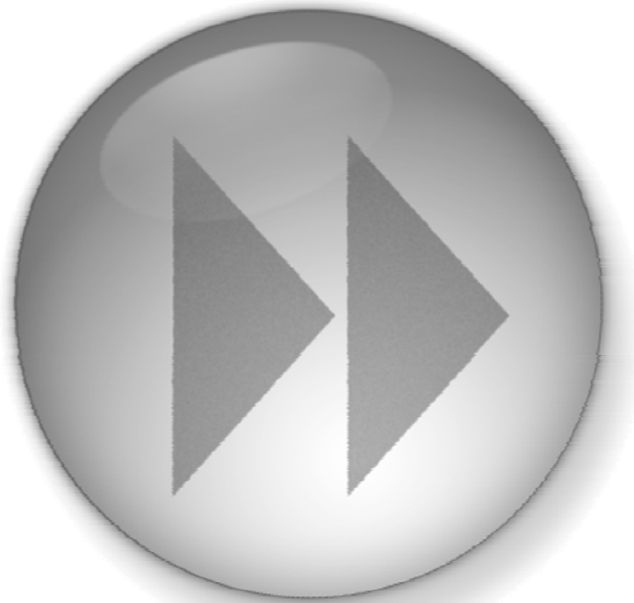
Continued

- 6. Leadership role in Negotiations Management best practices – not just for sourcing activities.**
- 7. Sponsoring, and demonstrating the value of, Supplier Partnerships and Supplier Recognition.**
- 8. All spend categories in scope, through developing internal credibility for the processes and personnel in supply management.**
- 9. 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).**

Agenda

Continued

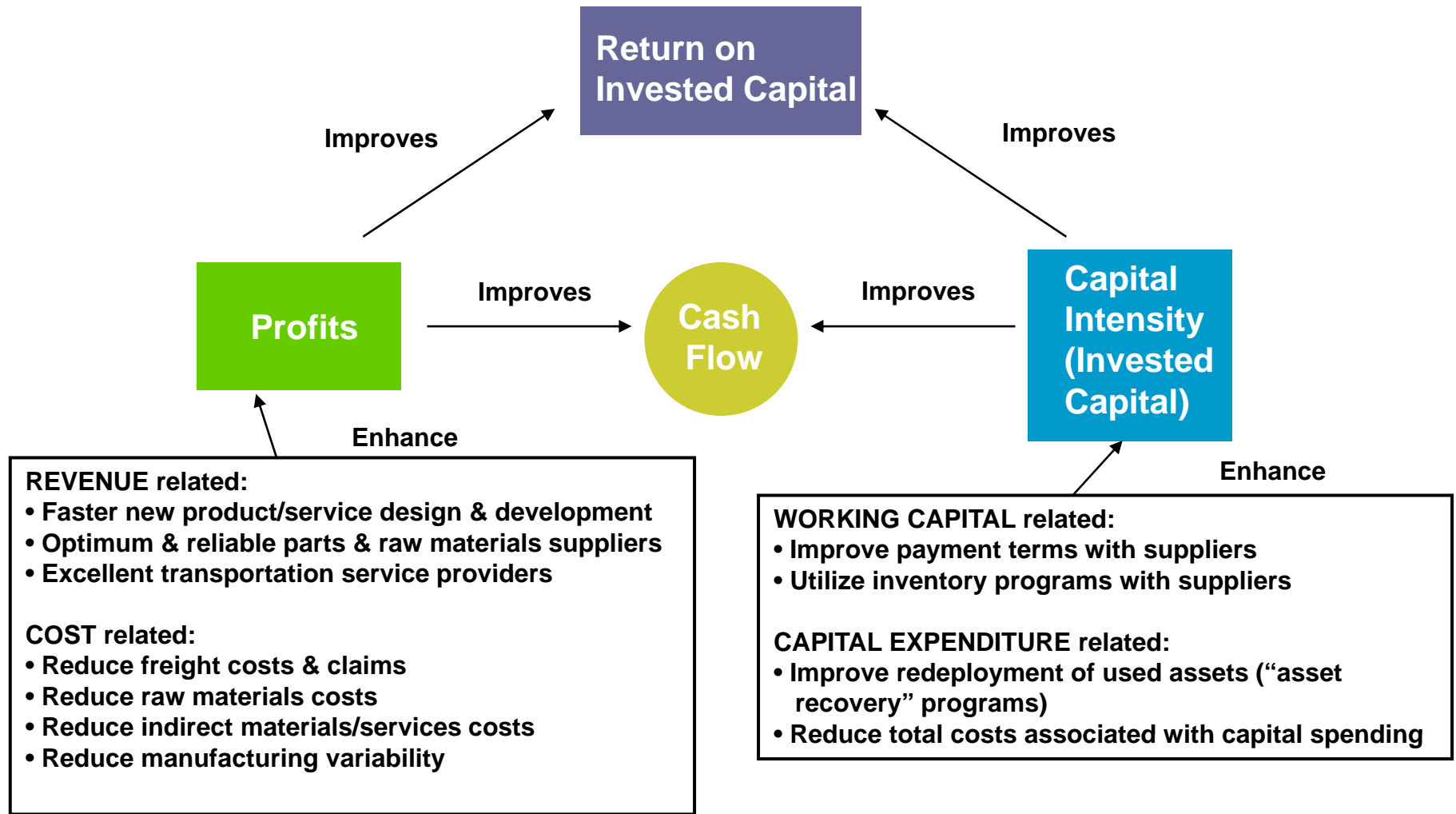
- 10. Providing high-potentials into a corporate-wide career rotation program. Providing suitable opportunities in Supply Management for high-potential employees from other areas.**
- 11. Being smart about Low Cost Country Sourcing.**
- 12. Playing a central role in Asset Recovery programs.**
- 13. Playing an early and strategic role in capital project procurement.**
- 14. Playing a central role in working capital management.**
- 15. Recognizing “transformation” is a never-ending process of renewal.**
- 16. Actively managing consultants.**

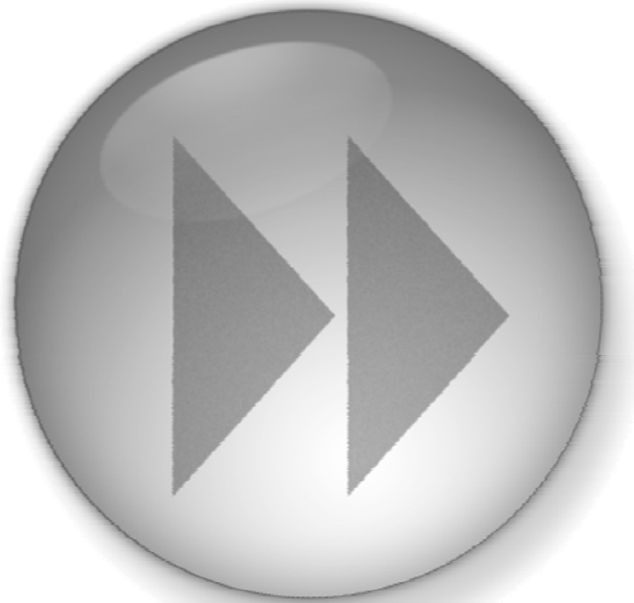


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1. Speaking, and Writing, in the Language of the Executive Suite.

Speak and Write in the Language of the Executive Suite





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2. Active Participant in Revenue Growth Initiatives.

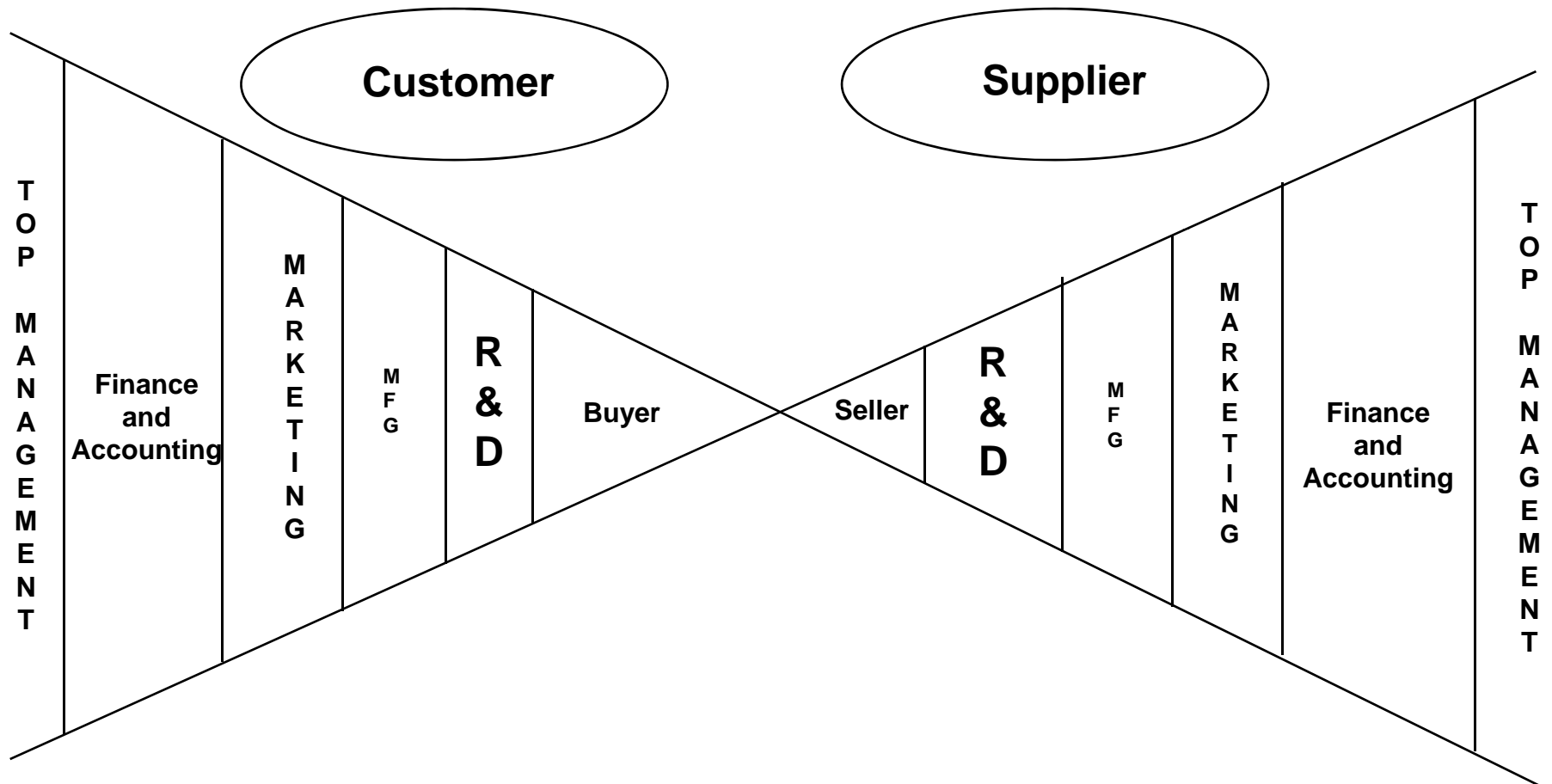
What is Possible in Revenue Support?

- ▶ **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.**

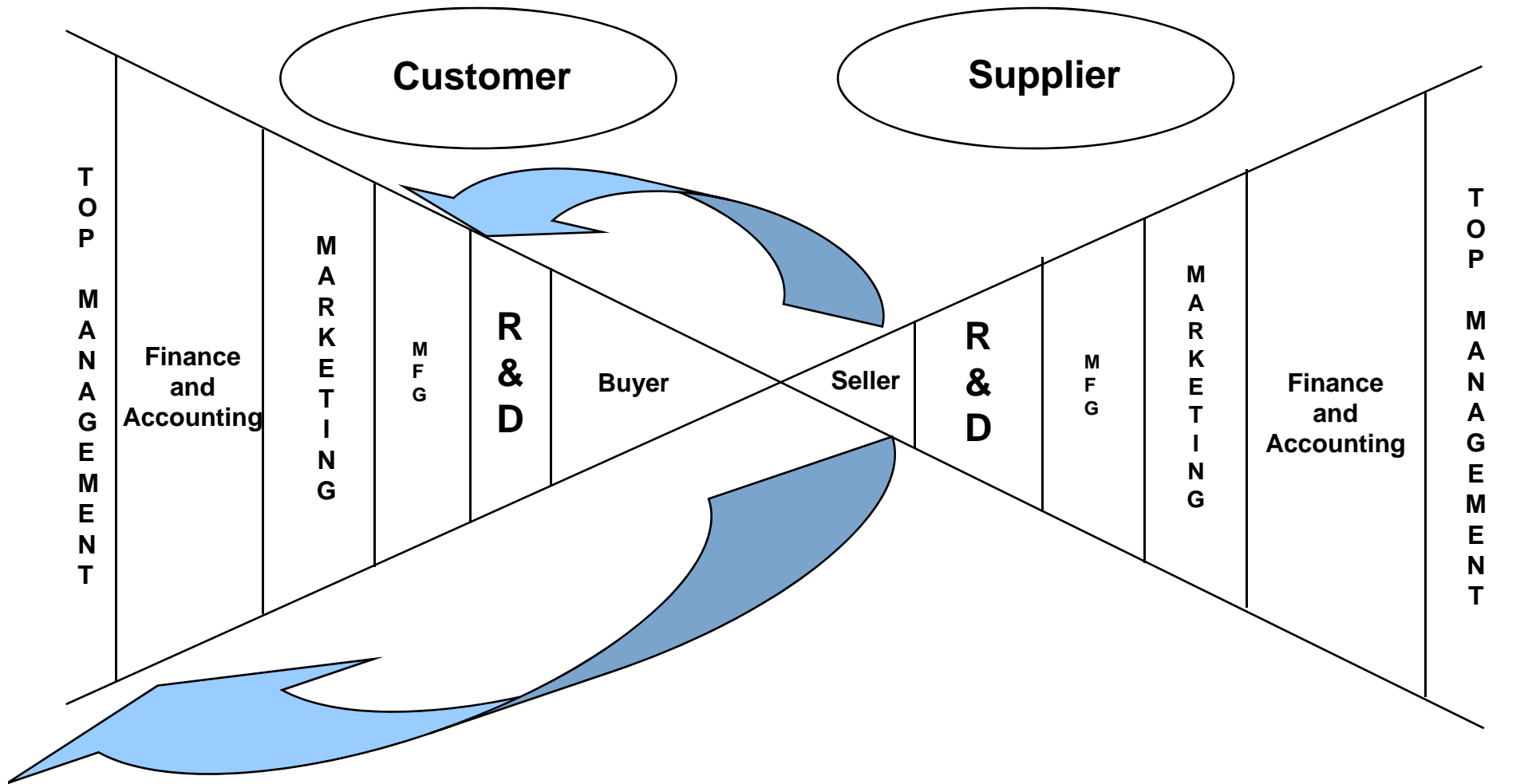
What is Possible in Revenue Support? *Continued*

- ▶ **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")**

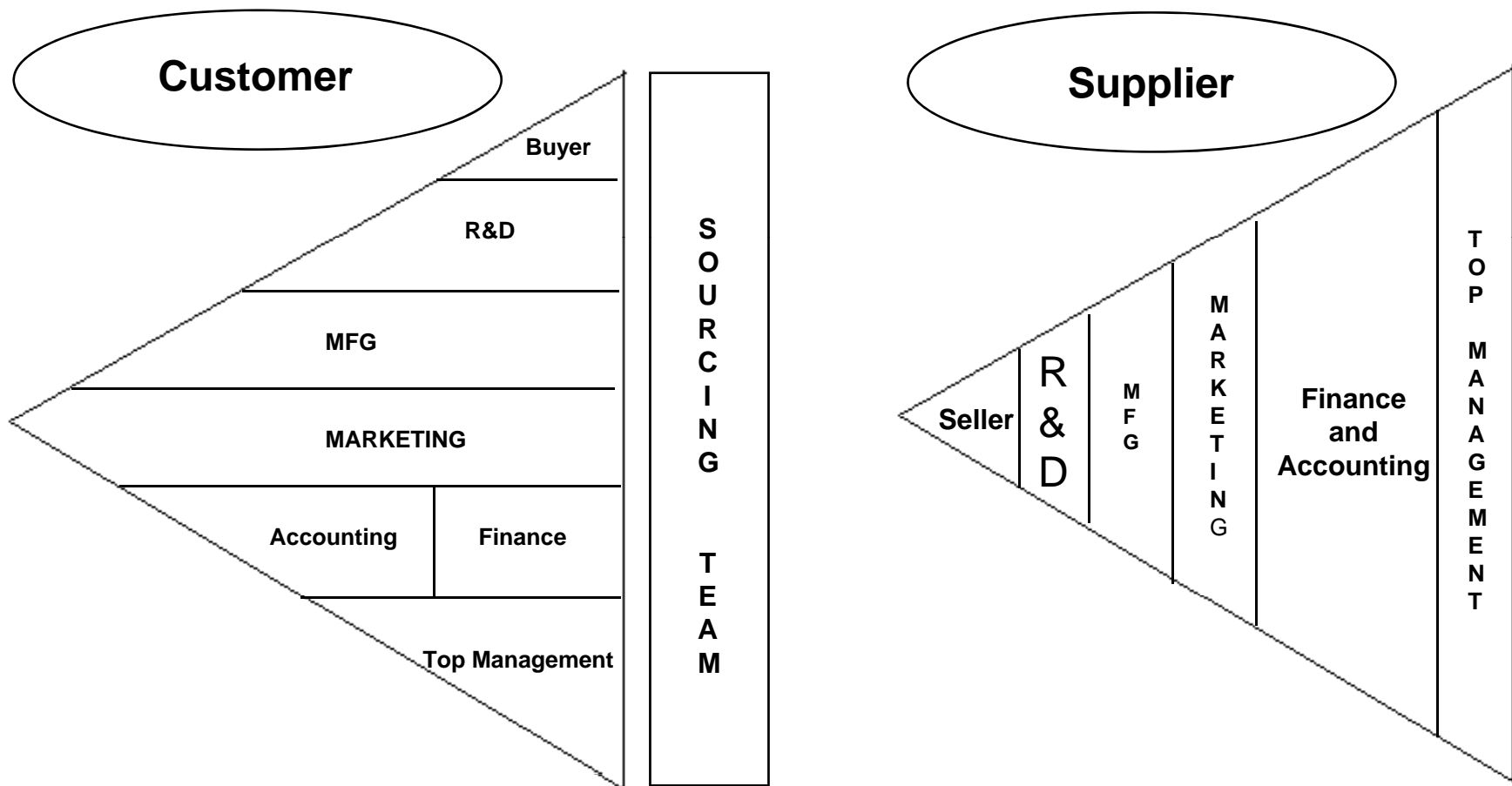
The Classic Salesman/Buyer Interface



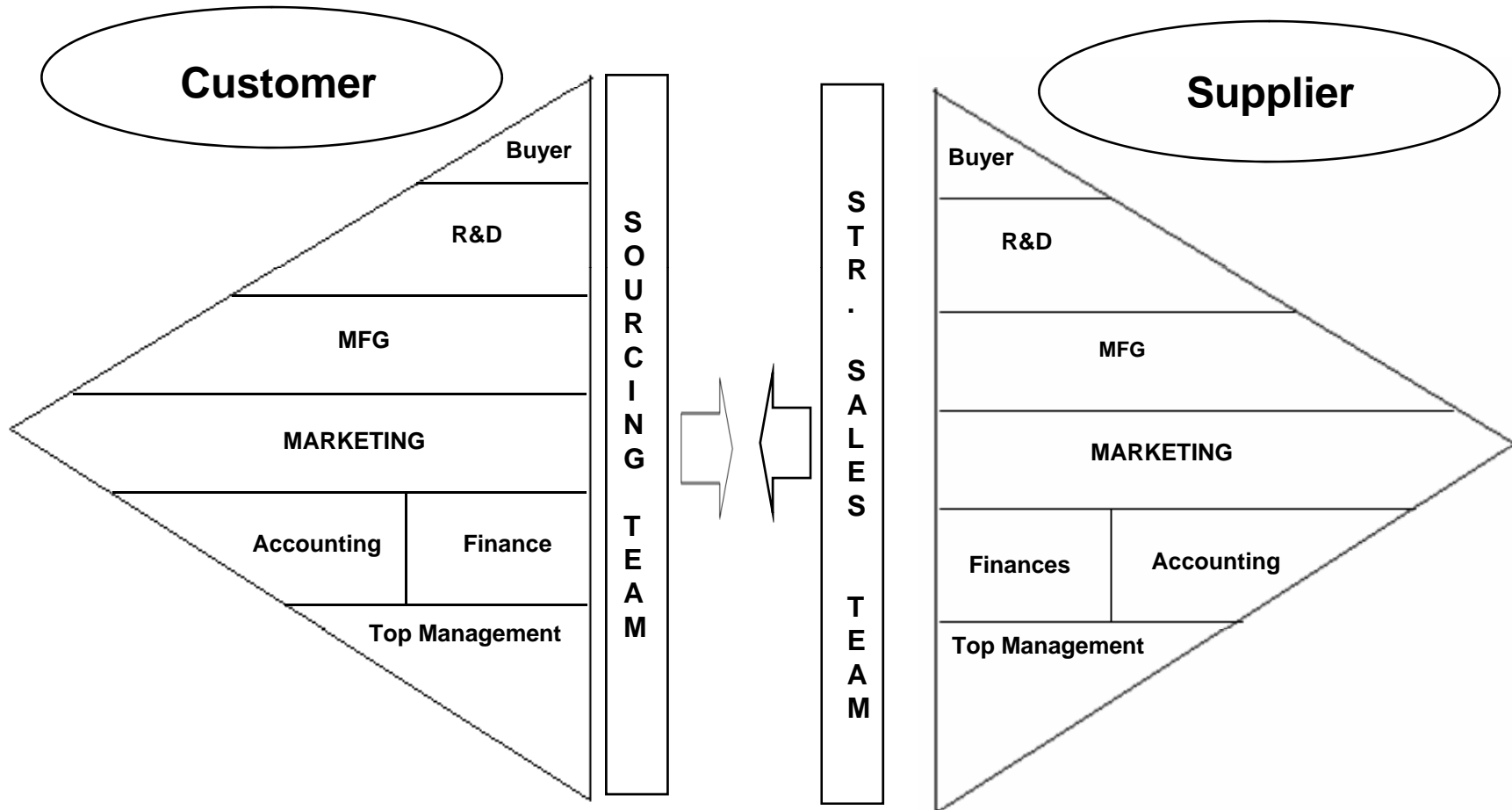
The Classic Salesman/Buyer Interface - *Continued*

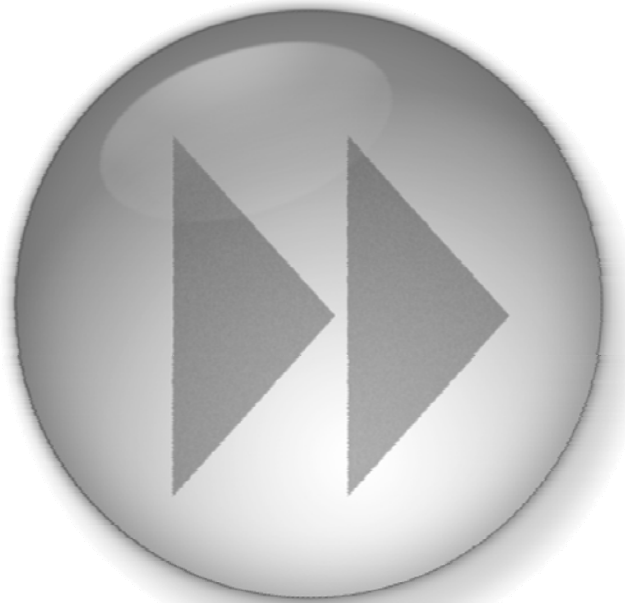


One Reason Why Strategic Sourcing is So Powerful – The Lone Salesman Is at a Disadvantage



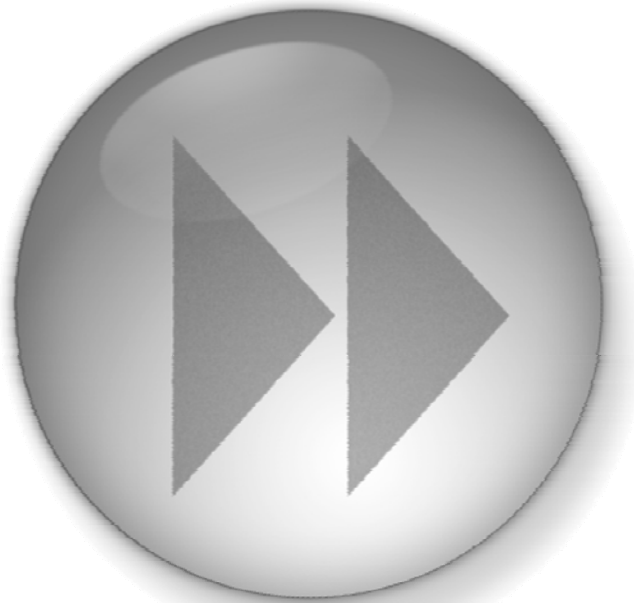
Best Chance of Mutual Success





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- 3. 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).**



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4. Leadership Role in Risk Management.

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.**

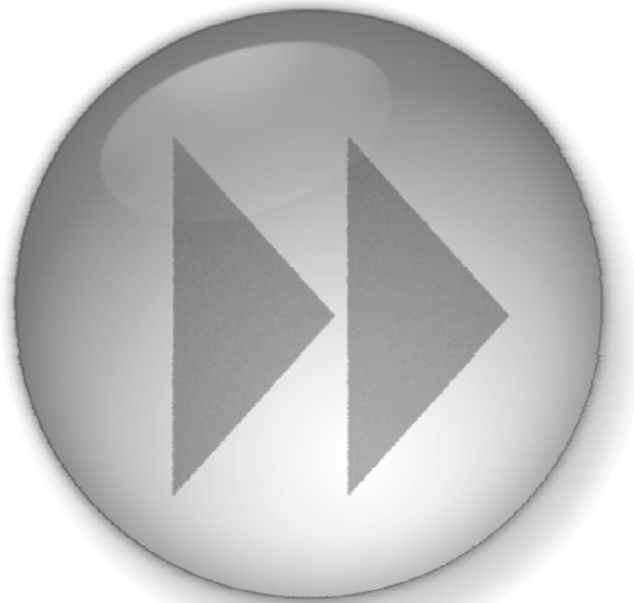
Value Stream Mapping (VSM)

- ▶ **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.**

Value Stream Mapping (VSM) *Continued*

▶ **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**

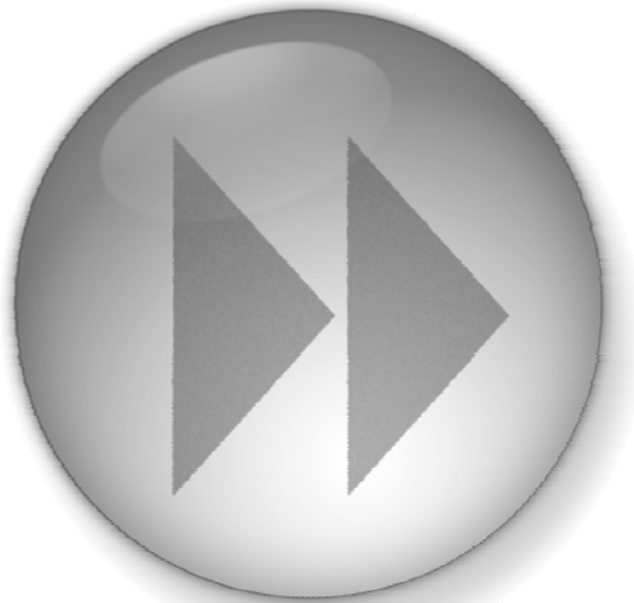


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5. Leadership Role in Creating a “Speaking With One Voice” Discipline Throughout the Company.

Speaking with One Voice: A Powerful Discipline

- ▶ **Create Awareness: Every conversation with a supplier, no matter how innocent or “technical” it might appear, is part of the negotiation process**
- ▶ **Take Action:**
 - ◆ **All meetings/conversations are planned, with objectives and a script**
 - ◆ **All likely 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” to suppliers**
- ▶ **Making this happen requires constant communication and reinforcement. Illustration:**
 - ◆ www.greybeardadvisors.com/SwOVexcerpt/



Supply Chain  **Forward.**

6. Leadership Role in Negotiations Management Best Practices – not Just for Sourcing Activities.

Negotiations Management Should Not Be Left to Chance – It, too, Deserves Best Practices

“Old” Style

Lone ranger, hard bargainer ⇒

Get a good deal ⇒

Supplier knows the market ⇒

One round ⇒

Off the cuff ⇒

Meetings happen ⇒

Don't offend the other party ⇒

One step process ⇒

“New” Paradigm

Multi disciplinary team

Speaking With One Voice

Targets based on research to determine:

- **Most Desired Outcome (MDO)**
- **Least Acceptable Alternative (LAA)**
- **Best Alternative (BATNA)**

Using market intelligence to build a facts base

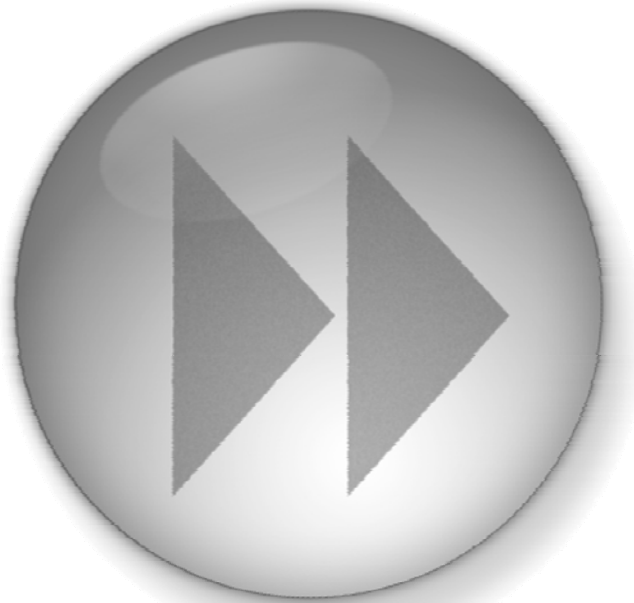
Multiple negotiating rounds until predetermined objectives are reached

Extensive scripting and role playing

Preplanned agenda, preplanned communication

Willingness to drive to impasse

A multi level approach with face to face negotiation as only part of the process



Supply Chain  **Forward.**

7. Sponsoring, and Demonstrating the Value of, Supplier Partnerships and Supplier Recognition.

Partnerships with Suppliers - Example

- ▶ **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 – Are You Ready?

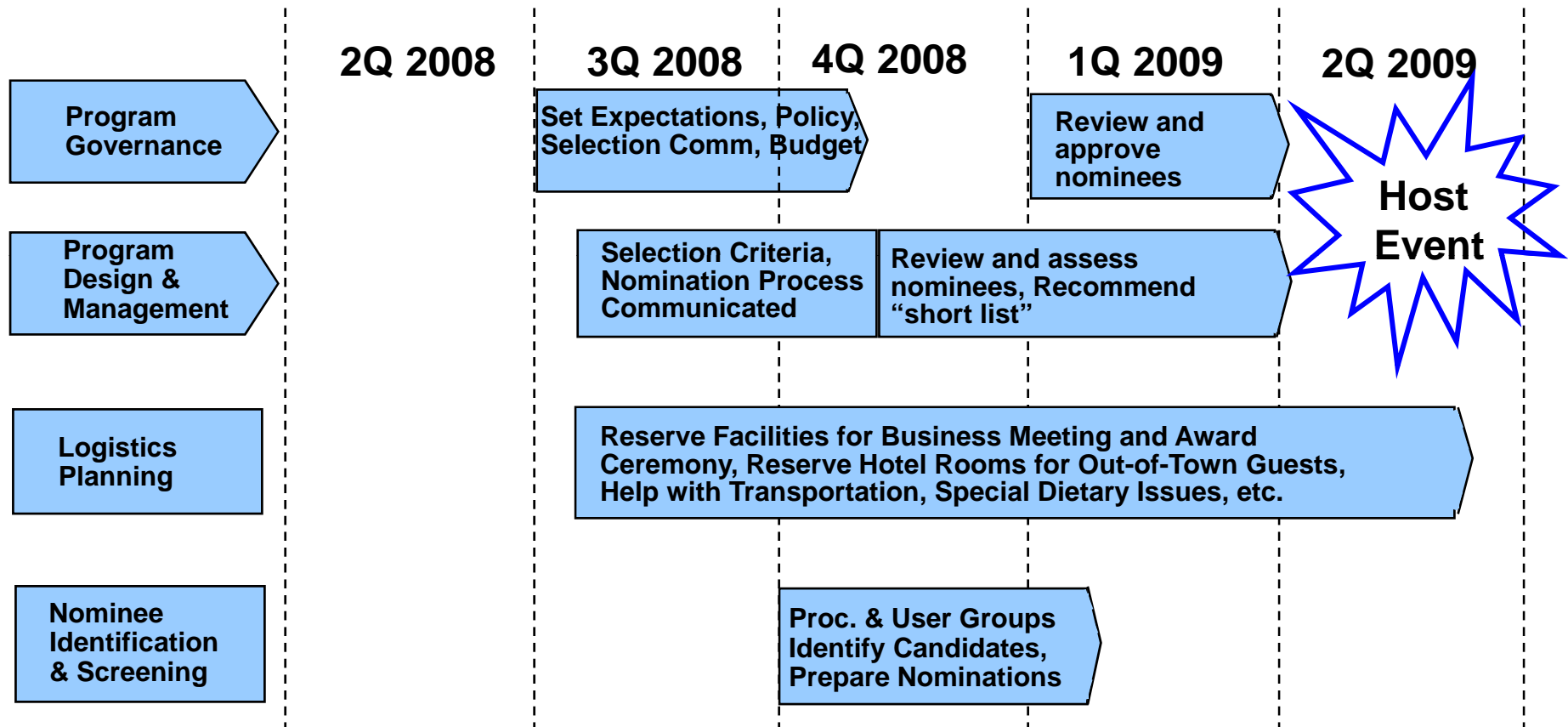
▶ You Are Probably Ready If ...

- ◆ You have fairly good data on supplier performance
- ◆ You have agreement on the selection criteria
- ◆ You have a view that suppliers are part of the solution
- ◆ Your corporate culture is one where you recognize employees
- ◆ Senior management is willing to participate

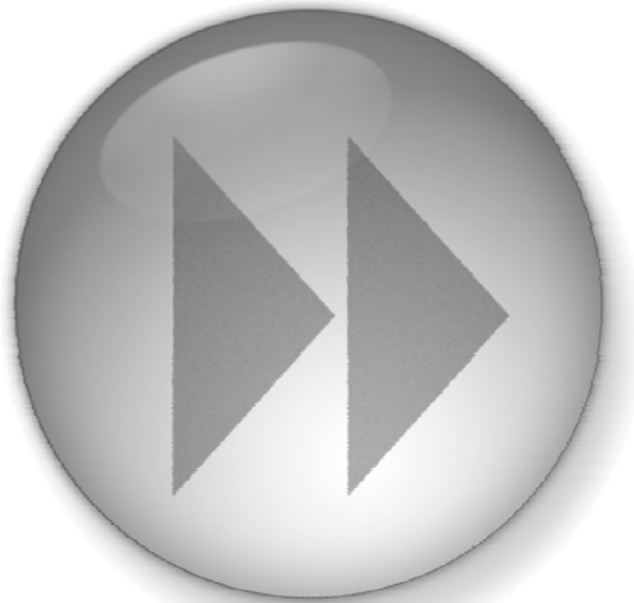
▶ You Are Probably Not Ready If ...

- ◆ You have fairly poor data on supplier performance
- ◆ You don't have agreement on the selection criteria
- ◆ You have a view that suppliers are part of the problem
- ◆ Your corporate culture is one where employee recognition is a strange idea
- ◆ Senior management can't be bothered with purchasing activities

Supplier Recognition – Simplified Timeline for the 1st Year



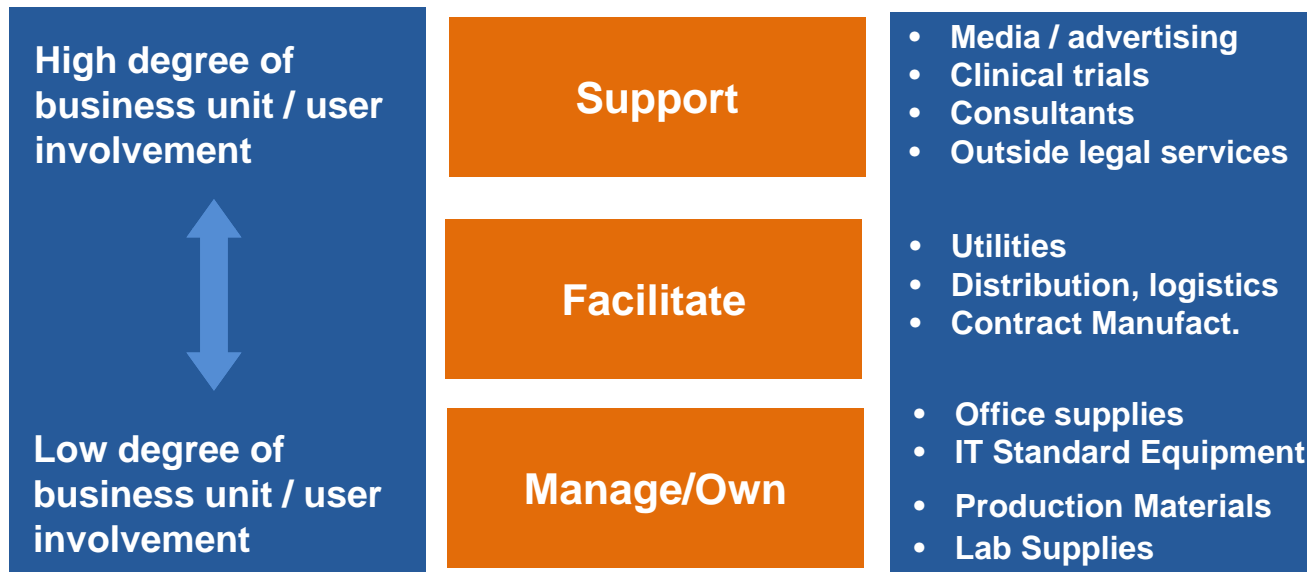
Planning for your first event should begin at least 9 – 12 months in advance.



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8. All Spend Categories in Scope, Through Developing Internal Credibility for the Processes and Personnel in Supply Management.

Role of Procurement Can Vary – But Procurement Should be Involved in All Areas of Spend



Support:

play a support role, provide sourcing process expertise to user groups who provide subject matter expertise and mainly own the decision-making authority

Facilitate:

sourcing organization facilitates input across multiple user groups; leads sourcing process, shares the decision-making responsibility regarding sourcing strategy/supplier selection

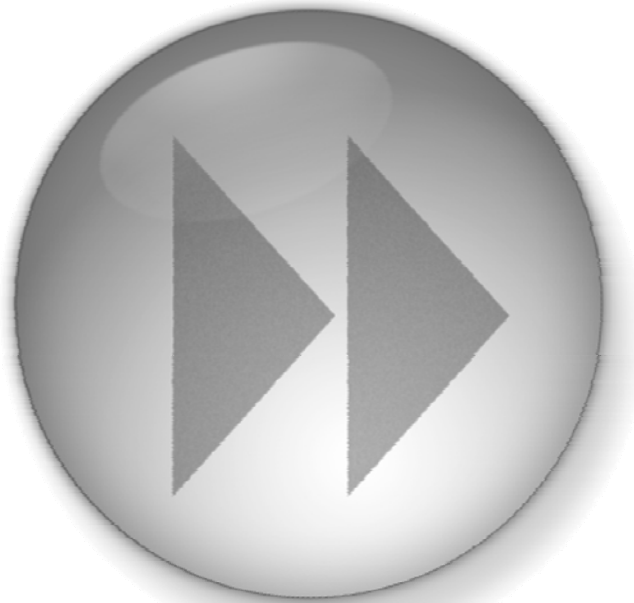
Manage/Own:

direct the entire sourcing process on behalf of users (some user input may be required relative to setting specification and gathering basic business requirements). Decision making delegated to category sourcing team

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



Supply Chain  **Forward.**

- 9. 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).**

Key Reasons that Negotiated Savings Don't Hit the Bottom Line

- ▶ **Weak initial contract implementation**
- ▶ **Lack of active contract management (ongoing basis)**
- ▶ **Maverick spend (poor compliance with new contracts)**
- ▶ **No link to budgets – savings in one spend area are spent on other things**
- ▶ **Supplier performance falls short**

Compliance – The Basics

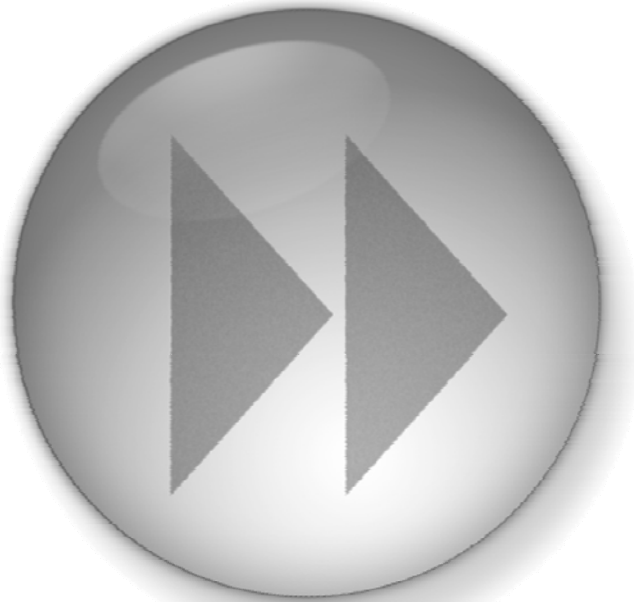
- ▶ **“Compliance” typically refers to the % of a new contract that is being utilized by internal users.**
- ▶ **Compliance is not just an enforcement metric, it indirectly reflects the effectiveness of the process used to select and negotiate with suppliers.**
- ▶ **Compliance is maximized when:**
 - ◆ **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**

Strategic Sourcing/Compliance Multiplier

(\$ to the bottom line for each \$10 million of spend)

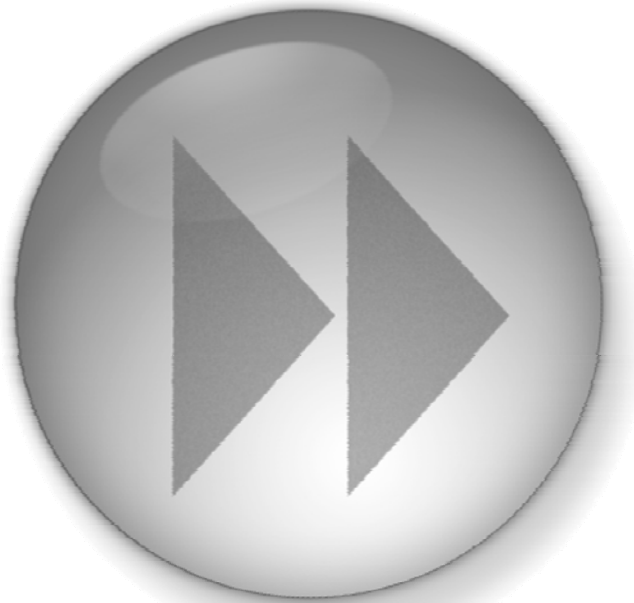
% Cost Reduction	25%	50%	75%	85%	95%
05	\$ 125,000	\$ 250,000	\$ 375,000	\$ 425,000	\$ 475,000
10	\$ 250,000	\$ 500,000	\$ 750,000	\$ 850,000	\$ 950,000
15	\$ 375,000	\$ 750,000	\$1,125,000	\$1,275,000	\$1,425,000
20	\$ 500,000	\$1,000,000	\$1,500,000	\$1,700,000	\$1,900,000
25	\$ 625,000	\$1,250,000	\$1,875,000	\$2,125,000	\$2,375,000
30	\$ 750,000	\$1,500,000	\$2,250,000	\$2,550,000	\$2,850,000

True Strategic Sourcing + Good Compliance = Real \$ to the Bottom Line



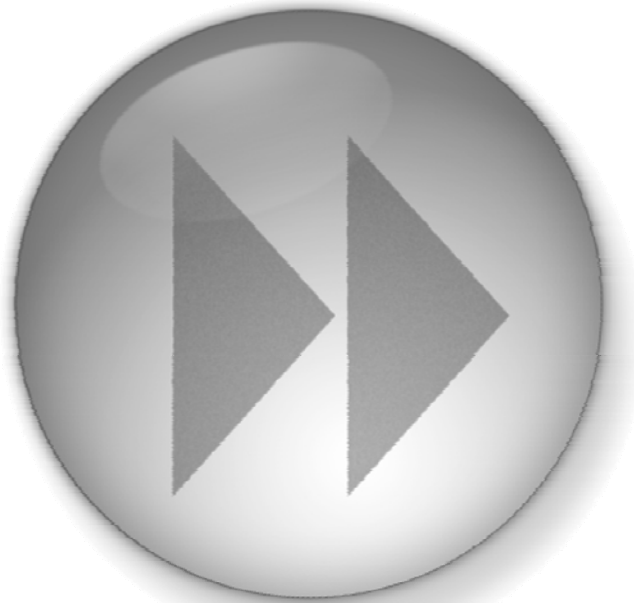
Supply Chain  **Forward.**

10. Providing High-Potentials Into a Corporate-Wide Career Rotation Program. Providing Suitable Opportunities in Supply Management for High-Potential Employees From Other Areas.



Supply Chain  **Forward.**

11. Being Smart About Low Cost Country Sourcing.



Supply Chain  **Forward.**

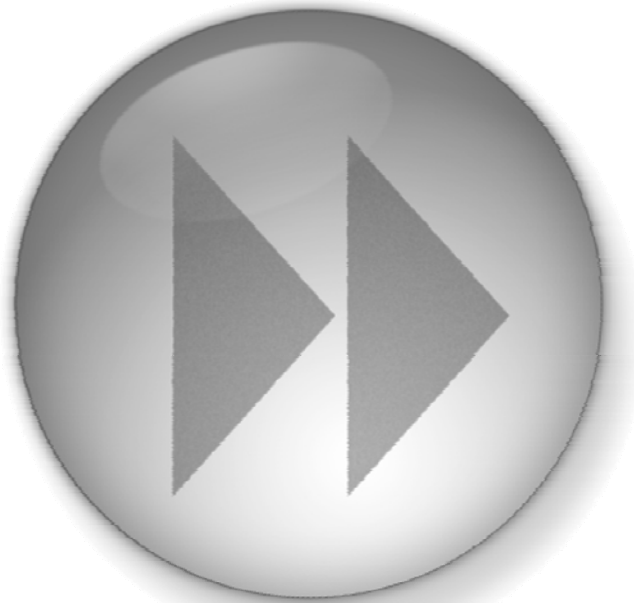
12. Playing a Central Role in Asset Recovery Programs.

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**

Asset Recovery – Another Opportunity to Add Value in Working Capital - *Continued*

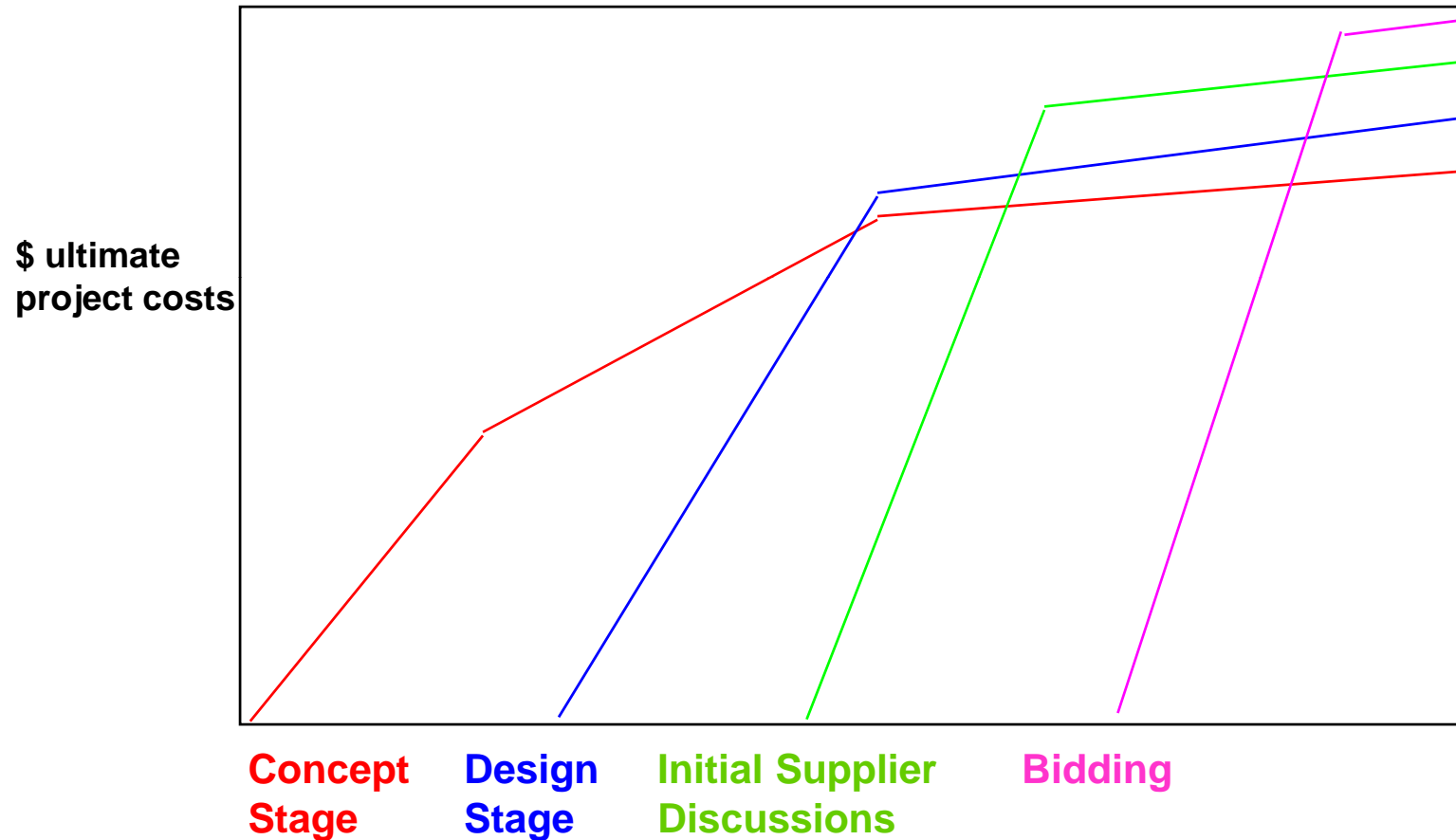
- ▶ **Successful Asset Recovery programs are built around these principles (continued):**
 - ◆ **Internal policies (management and accounting) which facilitate the fair value transfer of idle equipment among internal locations**
 - ◆ **Access to market expertise for used equipment or idle real estate (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.**



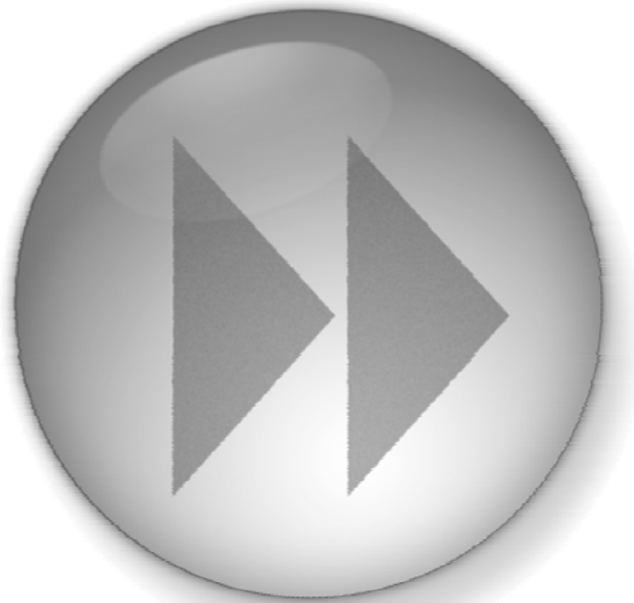
Supply Chain  **Forward.**

13. Playing an Early and Strategic Role in Capital Project Procurement.

What's Possible in Capital Project Procurement?



Ultimate project costs are influenced by the stage at which procurement and suppliers become involved in a project.



Supply Chain  **Forward.**

14. Playing a Central Role in Working Capital Management.

What's Possible in Working Capital?

Payment Terms

From	To
Net 30 days	Net 45 – 1% - 15 or better
30 – ½ % - 10	Net 45 – 1 % - 15
Net 45 days	Net 60 – 2 % - 20

Modern procurement departments Lead and Implement payment terms proactively, while avoiding classic errors.

Payment Terms Analysis - Example

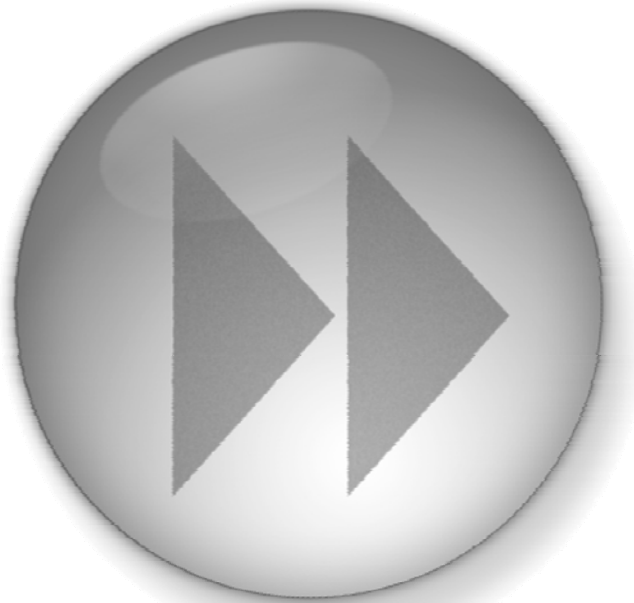
A sampling of payment terms, for the top 100 suppliers at one company, revealed the following:

\$ Invoices Past 12 Months	Payment Terms	
\$8,200,000	Due Upon Receipt	Target Area (B)
\$200,000	Net 5 days	
\$7,500,000	Net 10 days	
\$11,000,000	Net 15 days	
\$15,000,000	Net 17 days	
\$1,000,000	Net 20 days	Target Area (A)
\$18,000,000	Net 25 days	
\$355,000,000	Net 30 days	
\$4,500,000	Net 35 days	
\$1,200,000	Net 45 days	
\$55,000,000	1% 10 Net 30	
\$4,500,000	1 1/2% 10 Net 30	
\$3,250,000	2% 10 Net 30	
\$1,000,000	1% 30 Net 45	

The Value of Changing Payment Terms

▶ Example:

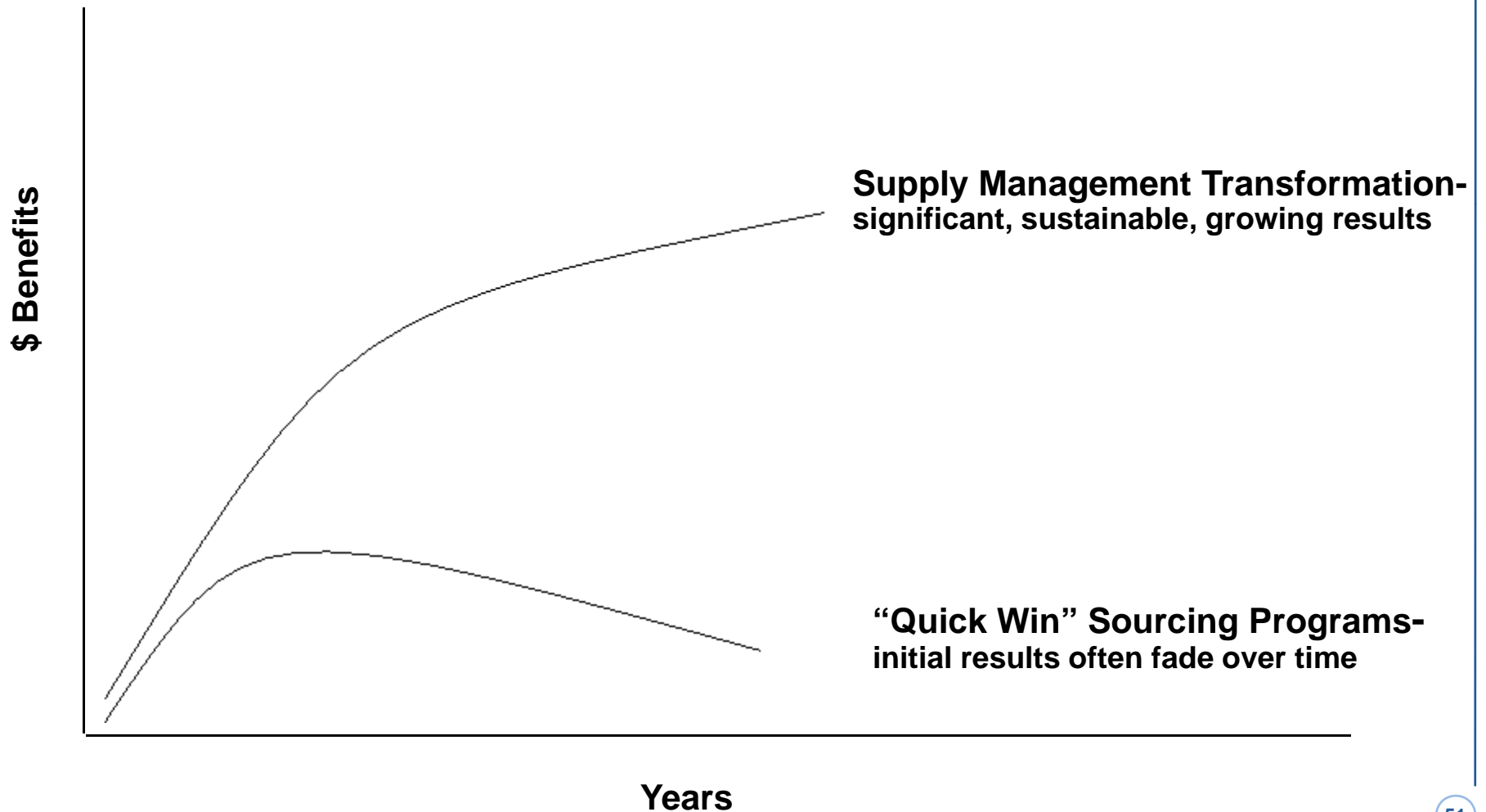
- ◆ **For each \$ 100 million of annual purchases, moving from Net 30 days to 45 - 1% - 15 offers your company the option of:**
 - (a) **improving earnings by about \$ 1.0 million/year (minus the interest earnings on the cash used to pay early), or**
 - (b) **the ability to grow Accounts Payable and Cash balances by about \$ 4.0 million by paying in 45 days instead of 30 days.**
- ▶ **Approached properly, a 60 to 75% conversion rate to better terms can often be achieved during a first campaign.**



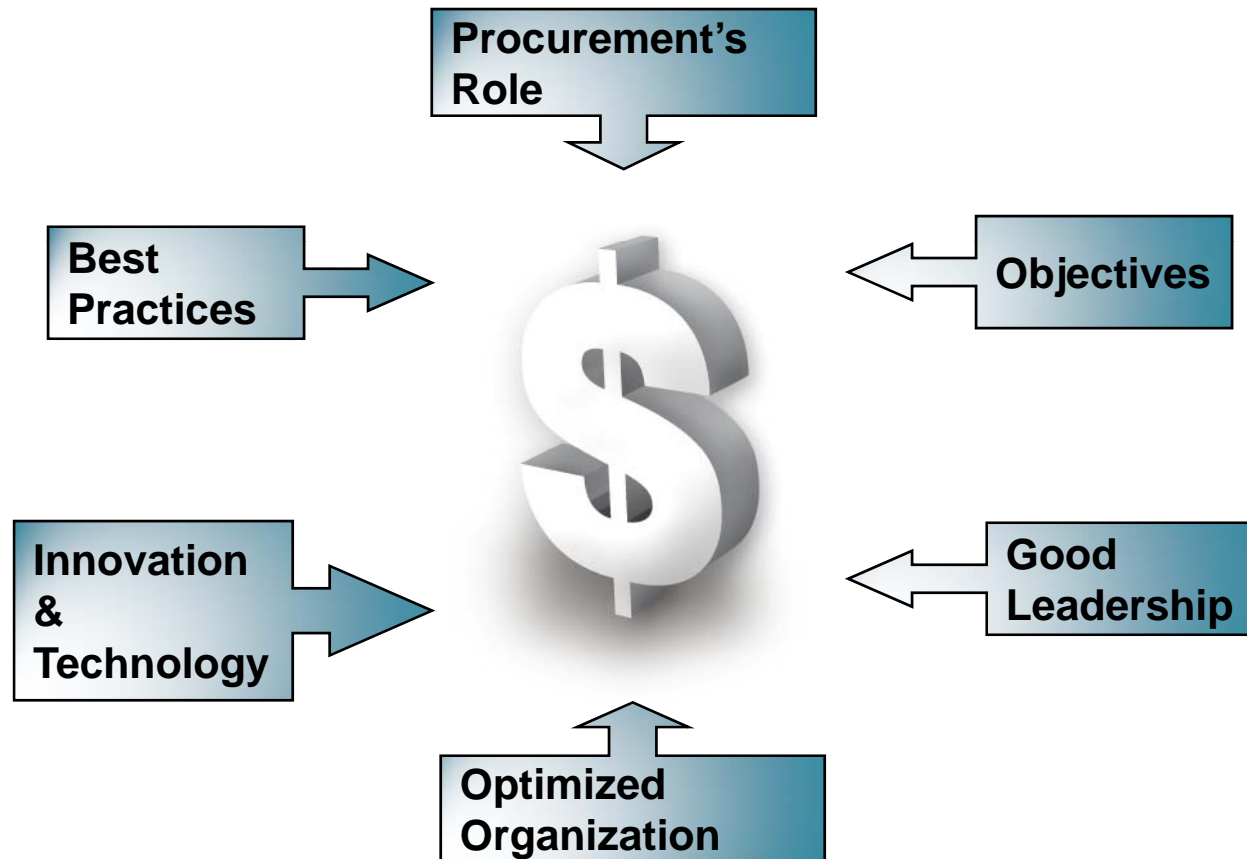
Supply Chain  **Forward.**

15. Recognizing “Transformation” is a Never-Ending Process of Renewal.

Conventional "Sourcing Programs" Often Fail to Sustain their Initial Results Over Time

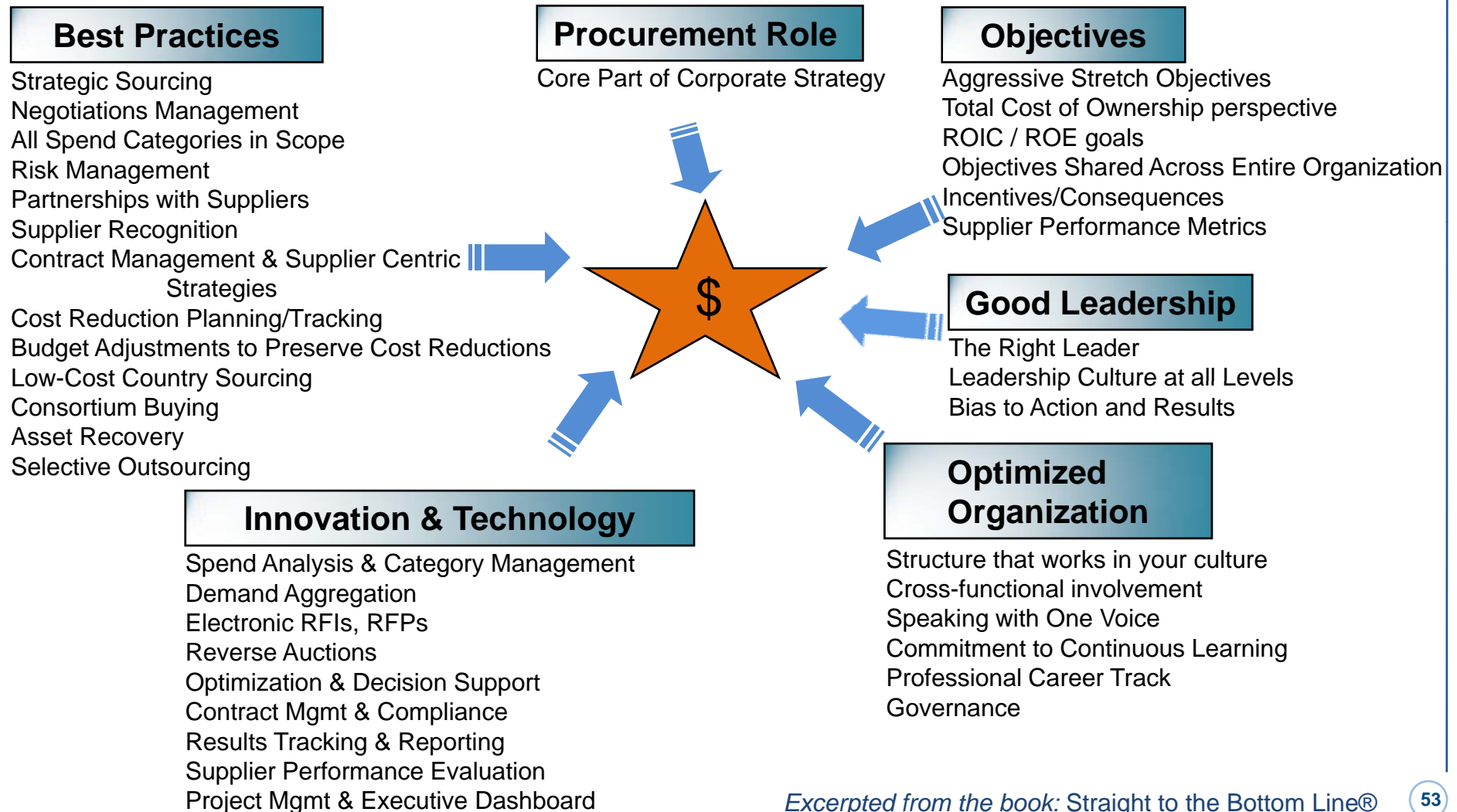


Achieving World-Class, *Sustainable* Results Requires Attention to Transformation Initiatives Across Six Key Dimensions

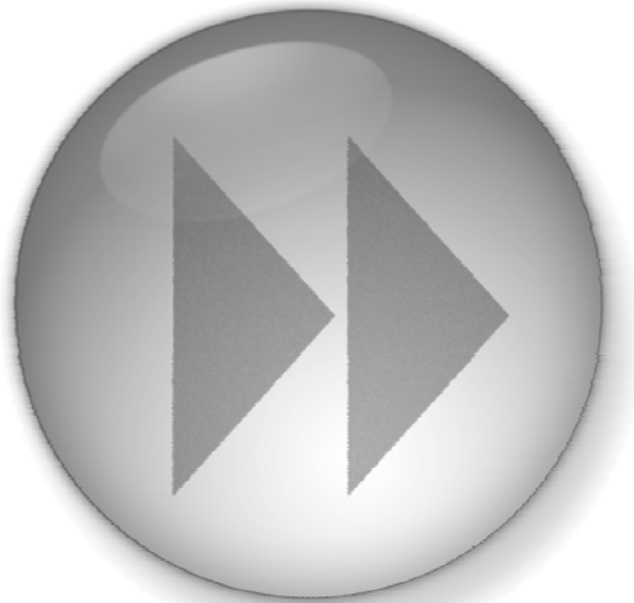


Excerpted from the book: *Straight to the Bottom Line*®

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



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Supply Chain  **Forward.**

16. Actively Managing Consultants.

Actively Manage Consultants

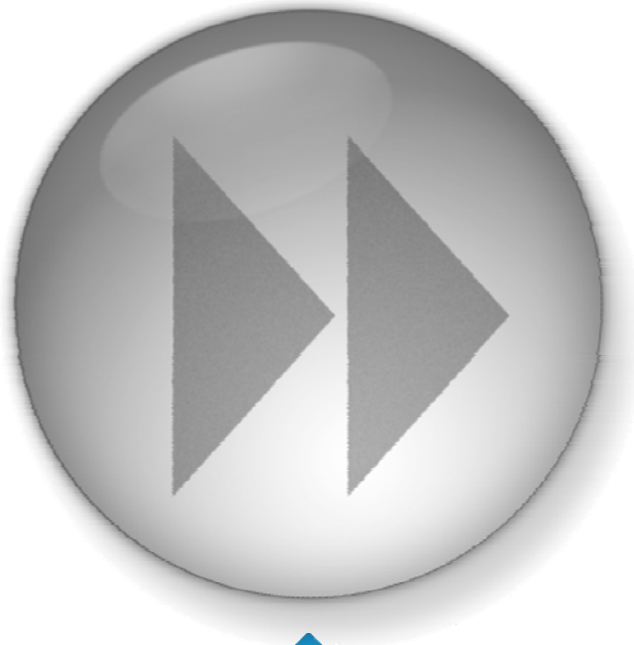
What Typically Happens	Leading Edge Practice
Top-down directive that procurement department will work with a specific consulting firm	Procurement leader takes the initiative and sends an RFI to a broad range of potential service providers (large and small firms; consulting vs. advisory firms); short list invited to respond to an RFP.
Selection criteria unknown, beyond assumed personal relationships at the executive level	Selection criteria established as part of the RFP process, and are consistent with the needs/desires of the procurement organization and the company.
Consulting firm uses “A” team to manage the executive relationship, but sends “B” team of inexperienced junior consultants to learn on the job and “do the project”	Firm is selected only after ironclad assurances that “A” team of experienced advisors will be assigned; resumes of advisors are provided; client encouraged to interview each advisor.
Consulting agreement is rigid and aggressive, requiring hard commitment to large number of full-time consultants for defined timeframe (often 6 to 12 months, or more).	Agreement is flexible, reflecting the client’s workplace realities, needs and timing.

Actively Manage Consultants *Continued*

What Typically Happens	Leading Edge Practice
Consulting firm disrupts everyone's "regular job" in bid to ensure that its project is everyone's priority and is a success	Firm works with the reality of client's workplace and schedule, and is careful not to be a disruptive force.
Consulting firm's objectives at times seem inconsistent with the objectives and needs of client.	Firm is specifically tasked with collaboratively working with the client on transformation initiatives, including capabilities- and skills-building.
Once on-site, consulting firm immediately begins to search for the next project.	Firm stays focused on the project assigned.
Senior partner manages most of the project communication to your senior management.	Firm collaborates with procurement leadership on any internal reporting and communications.
After consulting firm leaves, reported "savings" start to evaporate.	Firm has embedded processes and capabilities into client organization, which now can create more successes on its own.
Consulting firm declares success, but the client is not so sure – or in fact disagrees.	When the client succeeds, then the advisory firm views itself as having succeeded.

Key Takeaways

- ▶ **“World class” in supply management is much more than mastering one business process (e.g. strategic sourcing), or implementing the latest technology.**
- ▶ **Companies that have created sustainable transformation results have focused on many initiatives – spanning 6 key dimensions.**
- ▶ **Transformation is a journey – and the length of the journey can be shortened by developing a roadmap for change that is based on the learnings of other companies that have succeeded (or failed) on this journey.**



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Questions?