

Navigating Turbulence by Sourcing Innovation

9 April, 2020

Vantage's sourcing and supply chain management practice

Negotiation

Collaboration

Innovation

Transformation

We partner with clients to help them achieve world-class procurement and supply chain performance through strategic advice, organizational transformation, hands-on advisory support, and design and delivery of training and coaching programs.


Transforming procurement organizations and enhancing supply chain performance for competitive advantage.



Topics

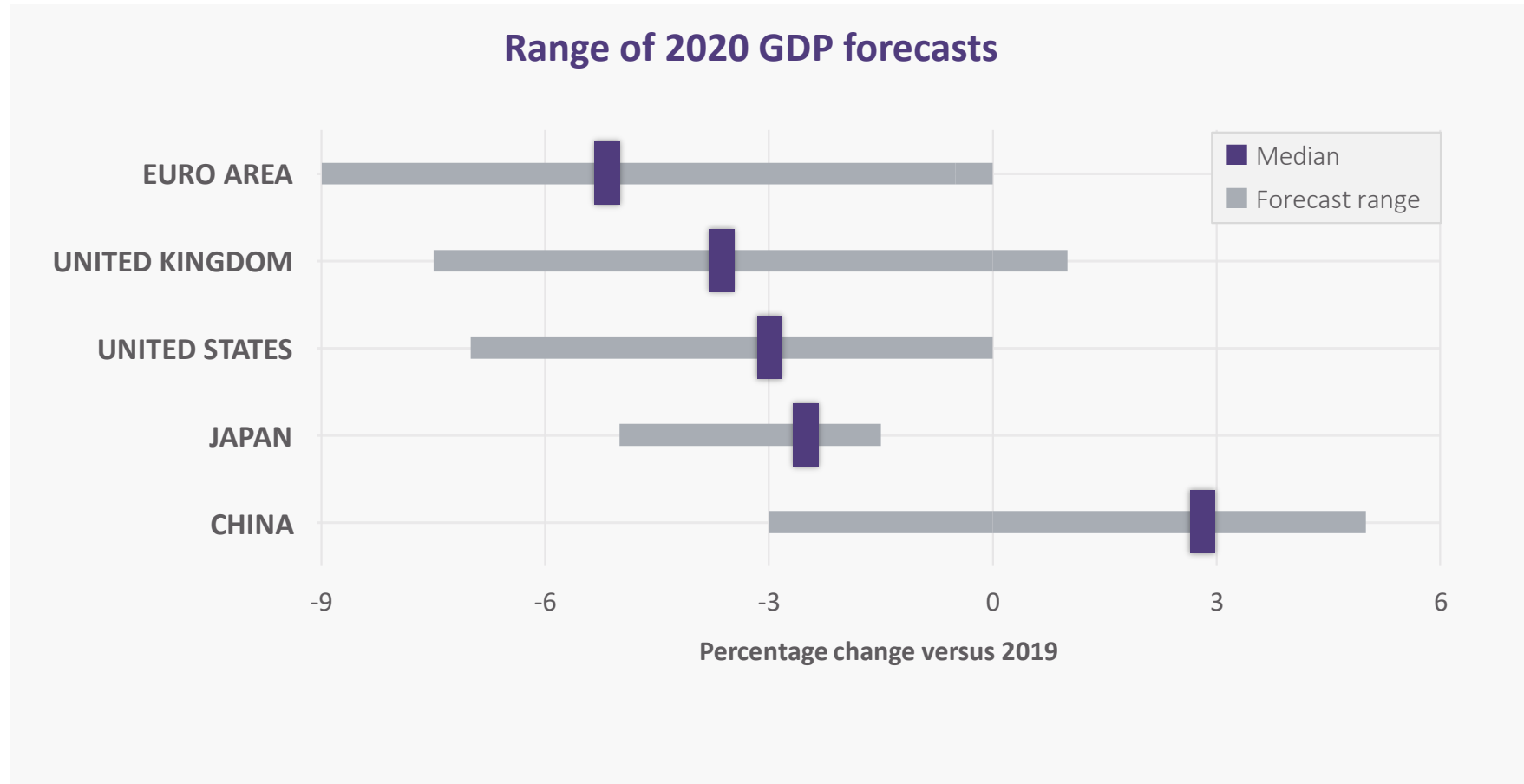
1. Context: A snapshot of today
2. As further context: where have we been?
3. Why and how to source innovation: Best practices and case studies
4. Negotiations in good times, and bad – longitudinal benchmarking data
5. Where do we go next?





As context for navigating COVID-19 – a review of
where we've been

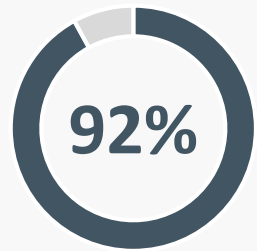
Where are we at now? What do we expect next?



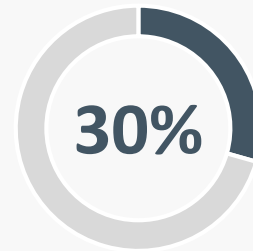
Source: The Economist, Mar 2020

- Significant reduction in economic activity has occurred
- Depth and duration of recession uncertain
- Timing and extent of impact will vary significantly by region and industry sector
- Second wave of COVID19 in the Fall highly likely; duration and severity uncertain

Impact on small and medium-sized businesses



Report having **less than three months of capital** to draw on.



Have **closed their doors temporarily** – by mandate or from lack of demand

26%

Doubt they'll survive
the COVID-19 pandemic.

37%

Not sure

37%

Remain confident they will survive,
keeping their doors open and their
businesses afloat.

*N= 200 Companies. 38% report between \$1MM
and \$5MM in annual sales, and 50% report between \$100,000 and \$1MM.*


Where are suppliers doing?

- Small, unstable suppliers going out of business
- Temporarily reducing production (physical goods)
- Furloughing workers, or undertaking RIFs (both goods and services)
- Permanently exiting low-margin, low-growth lines of business
- Re-segmenting customers – planning and executing allocations

What does that mean for us?

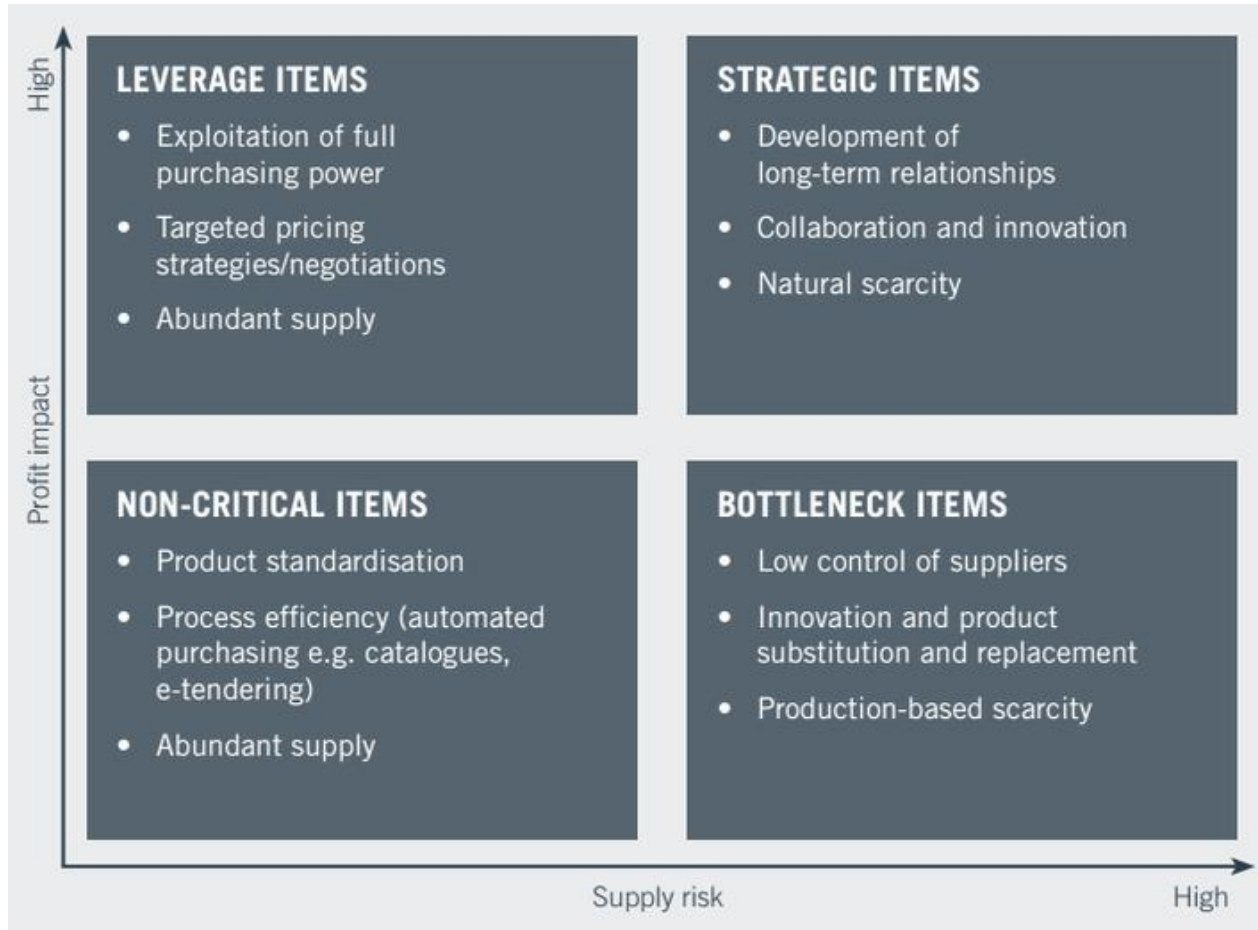
- Which suppliers do we help survive this crisis?
- What suppliers are beyond our ability to save?
- How to we maximize supplier support to enable our company to navigate the current crisis?
- How we position for success coming out of COVID 19 with key suppliers?
- How can we enhance partnerships and increase our influence with key suppliers?



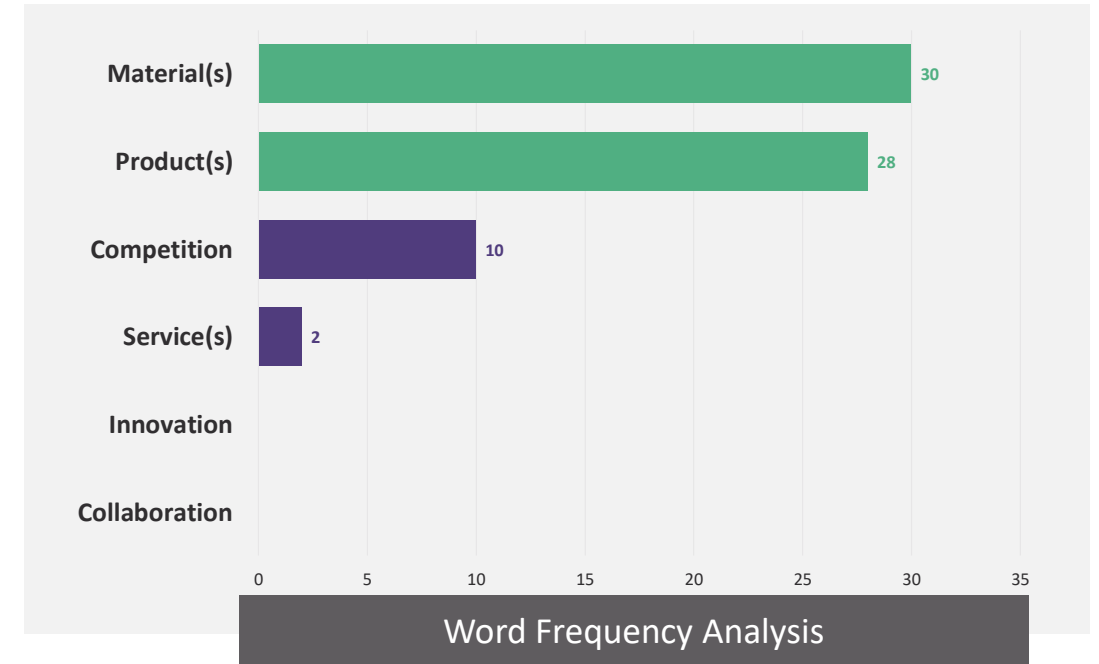


As context for navigating COVID-19 – a review of
where we've been

Krajlic's sourcing matrix



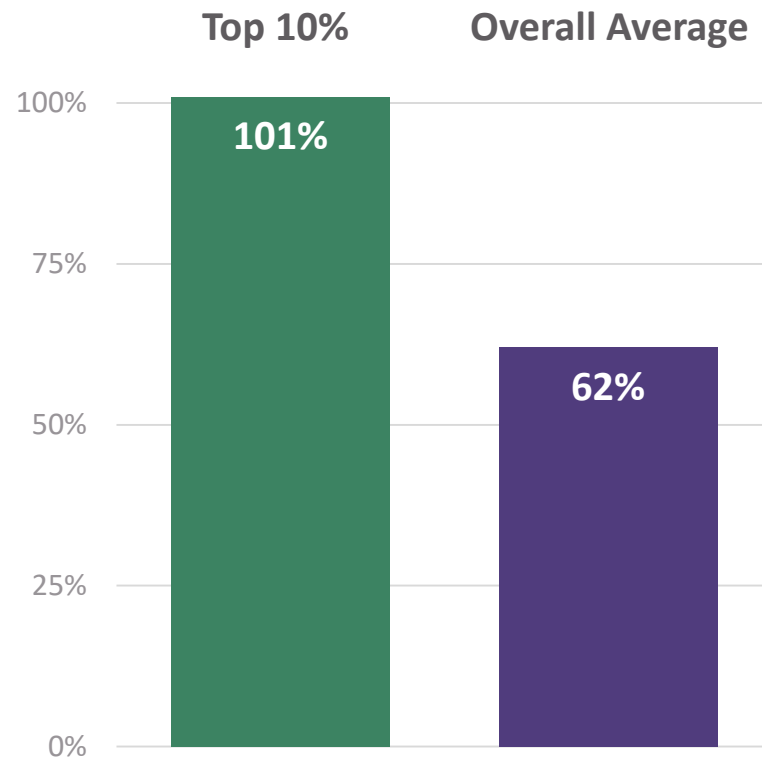
Source: Purchasing Must Become Supply Management by Peter Krajlic in the Harvard Business Review, 1983.



“The purchasing portfolio matrix plots company buying strength against the strengths of the supply market and can be used to develop counterstrategies vis-à-vis suppliers.”

Value realized from strategic sourcing

Average value *realized* from strategic sourcing
(of total targeted value)



Leading companies realize, on average,
63% more of the value
they target through strategic sourcing

Characteristics of leading organizations

76% of negotiations are collaborative (32% are highly collaborative)

75% have a formal negotiation process that is “usually” or “always” followed.



If you choose one word to describe Procurement, what would it be?



The benefits of being a “customer of choice”



Savings from most-favored customer status, and cost reductions through collaborative efforts with suppliers.



Quality and efficiency benefits from getting suppliers’ “A-Team” people.



Enhanced innovation from suppliers who offer innovative ideas, and align strategic plans, product roadmaps, and investments with preferred customers.



Reduction in risk as suppliers come forward at the earliest signs of difficulty.

Companies perceived as easier to do business with and more collaborative are **29X more likely** to get the best people, pricing, and ideas from suppliers.

Companies that have implemented at least 10 SRM best practices are **17X more likely** to have suppliers come to them at the earliest sign of difficulty.

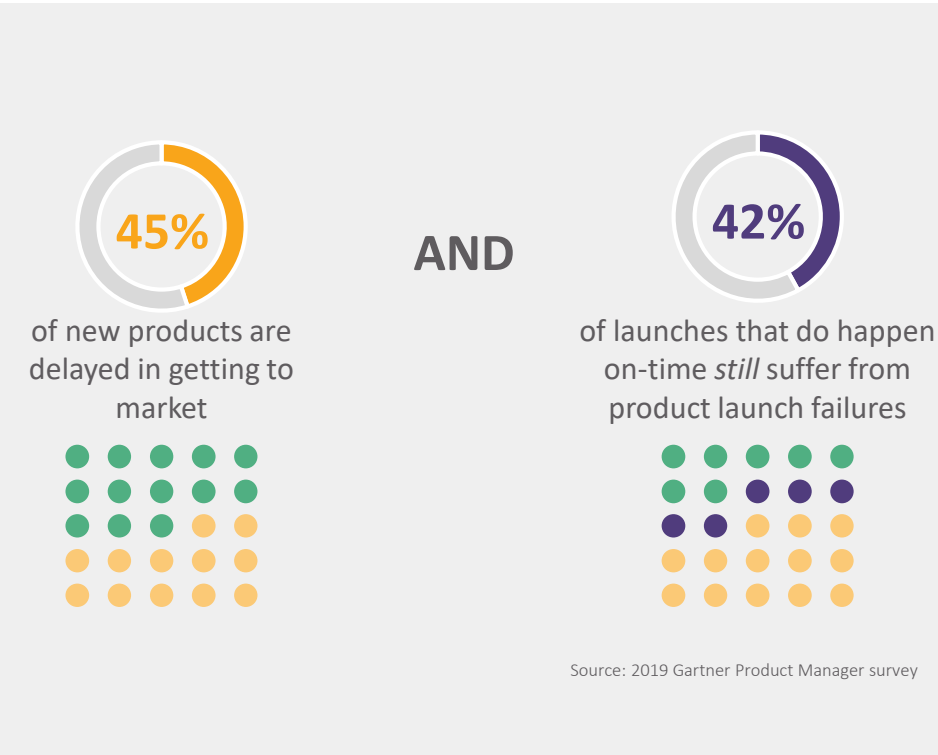
Reducing risks and costs of new product failure



Companies lose significant value from delayed and/or failed product launches

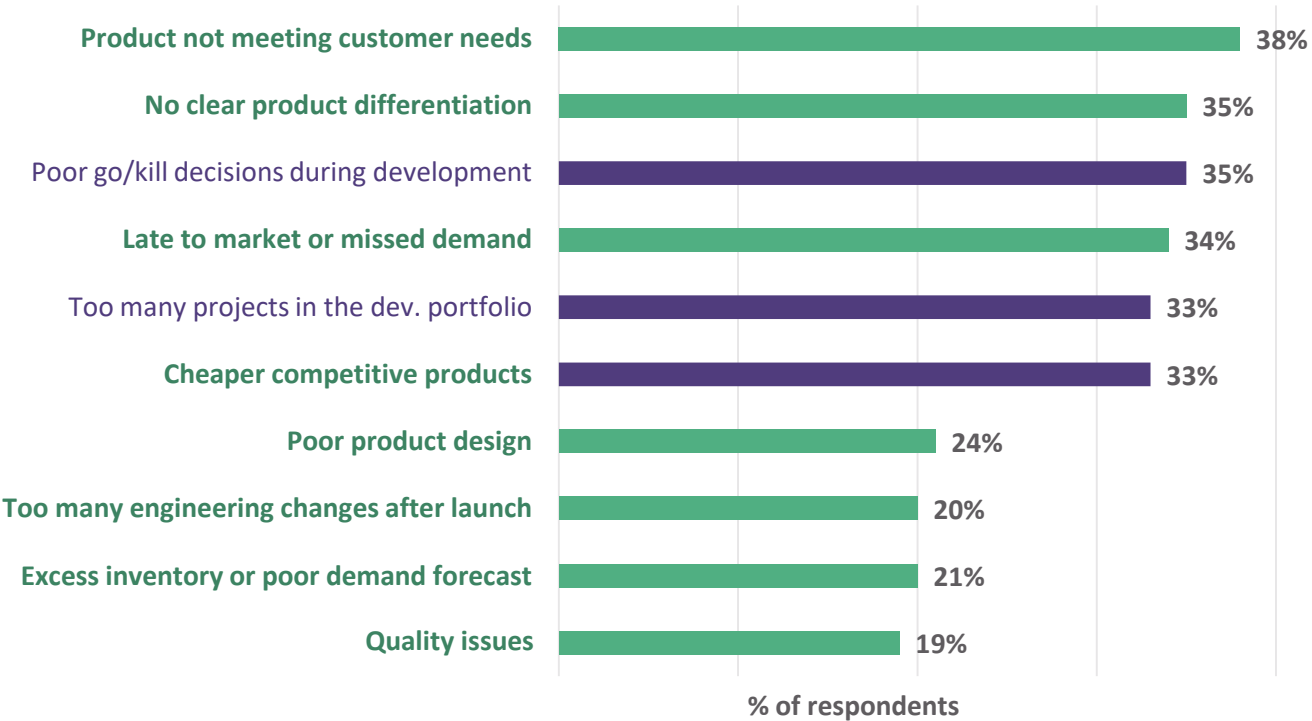


Many of the reasons why products fail could be addressed, at least partially, via early supplier engagement in R&D and design



TOP 10 REASONS WHY NEW PRODUCTS FAIL

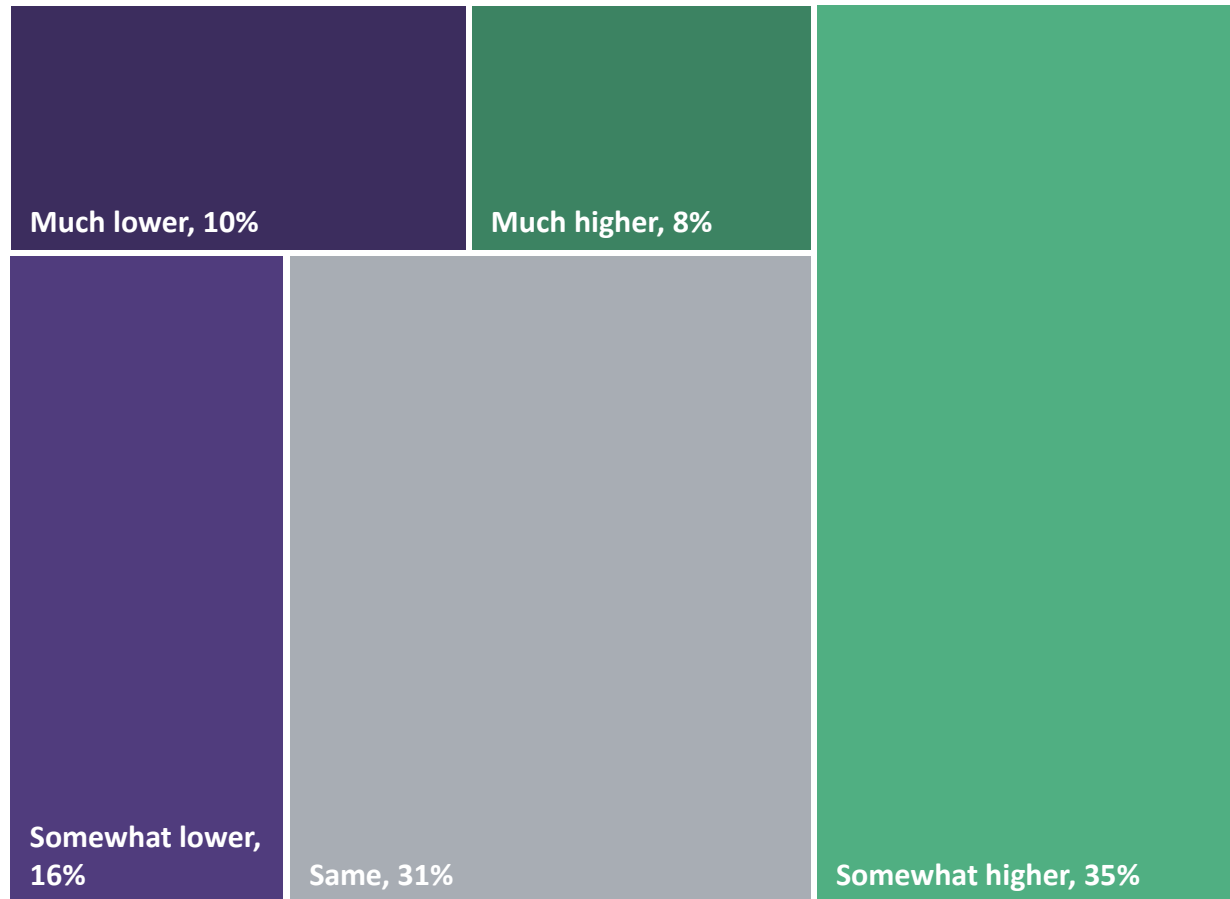
Addressable via early supplier engagement



Source: SCM World, Design for Profitability 2015 survey. n=467.



Approximate ROI from innovation from/with suppliers versus *internal* innovation efforts



43% of buy-side respondents report generating a **higher ROI on innovation from/with suppliers** compared to internal efforts, versus 26% who report lower ROI

Nearly half of buy-side respondents report new or significantly improved product design as a significant focus for their innovation activities with suppliers.

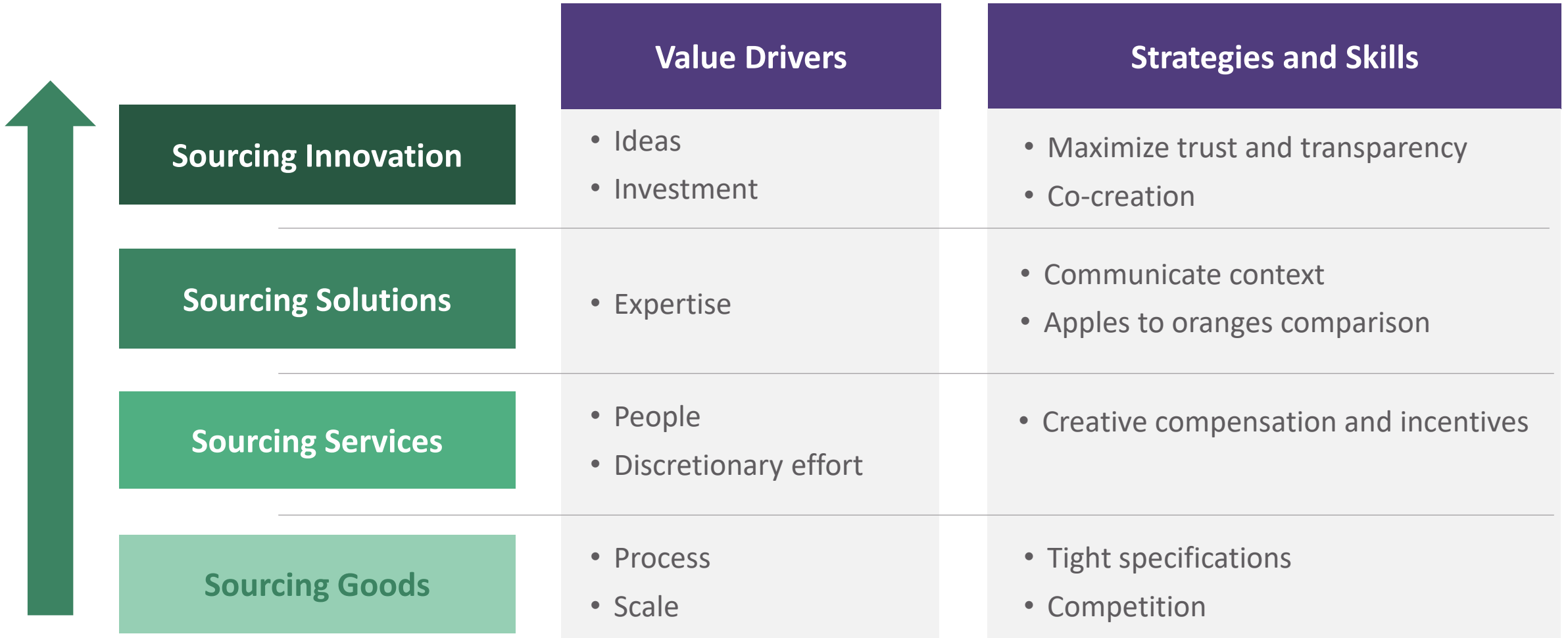
Source: Vantage Partners 2011 Innovation Study





Sourcing innovation: a new paradigm

A new sourcing continuum



How much of your company's sourcing is focused on *solutions* or *innovation*?

- a. Little to None; almost all our sourcing activities are focused on *sourcing goods and services*.
- b. ~10%
- c. 11-25%
- d. 26-50%
- e. 51-75%
- f. 76% or more



Ideally, how much of your company's sourcing *should* be focused on *solutions* or *innovation*?

- a. Little to None
- b. ~10%
- c. 11-25%
- d. 26-50%
- e. 51-75%
- f. 76% or more



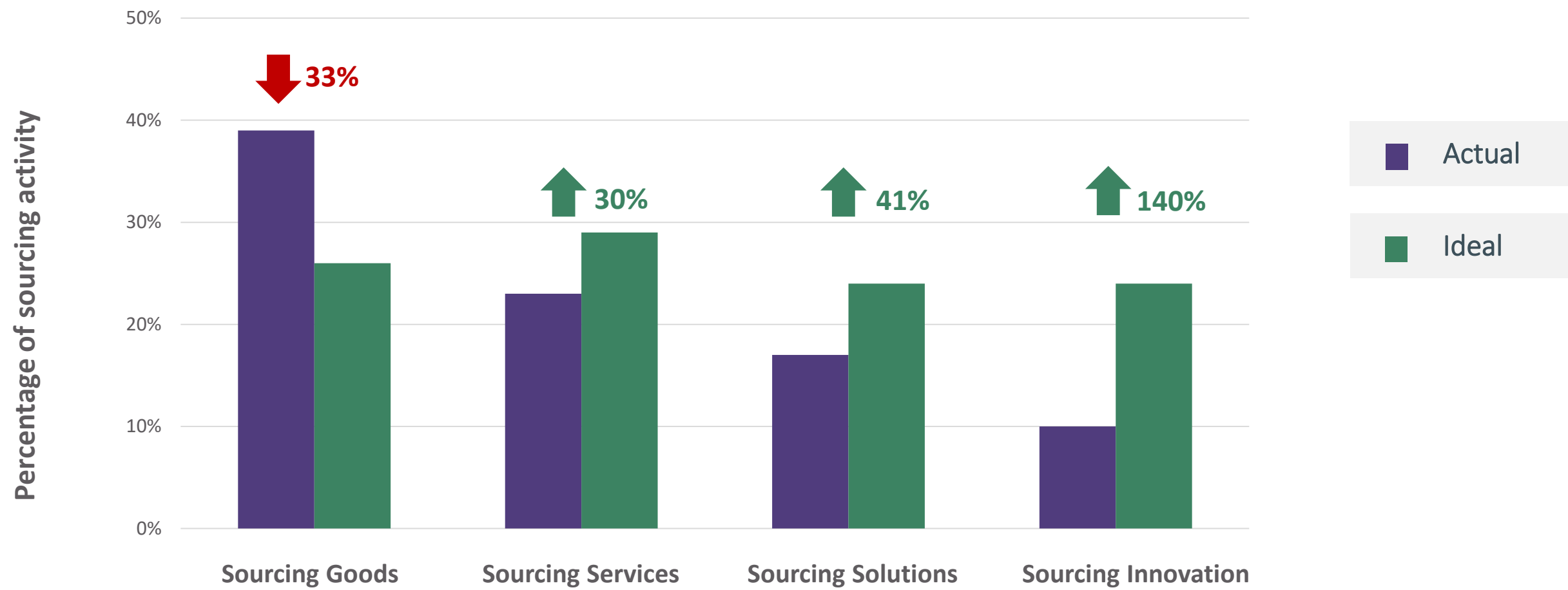
Sourcing products and services versus business solutions and innovation

Roughly half of respondents report that **currently, sourcing solutions or innovation comprises *at most 10%*** of sourcing activity.

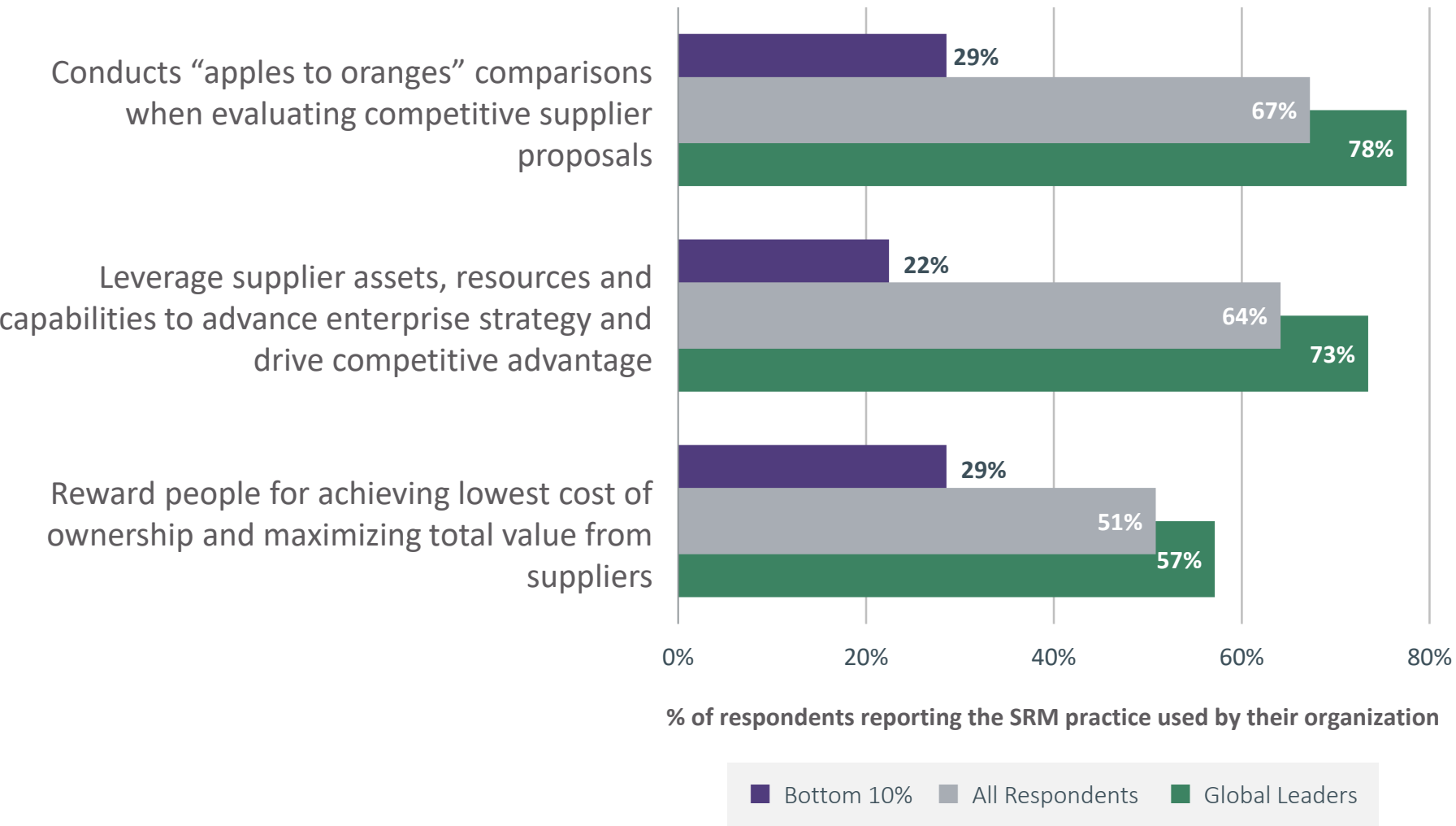
Whereas nearly 40% state that **ideally sourcing solutions or innovation *should comprise more than 50%*** of sourcing activity.



Actual versus ideal allocation of sourcing activities today



Sourcing best practices



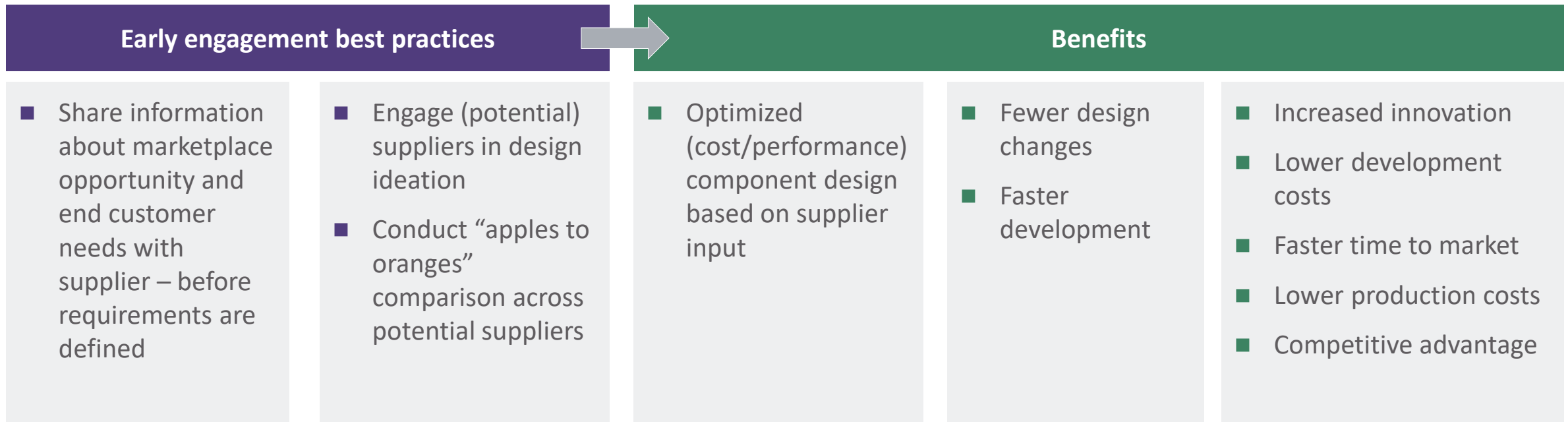
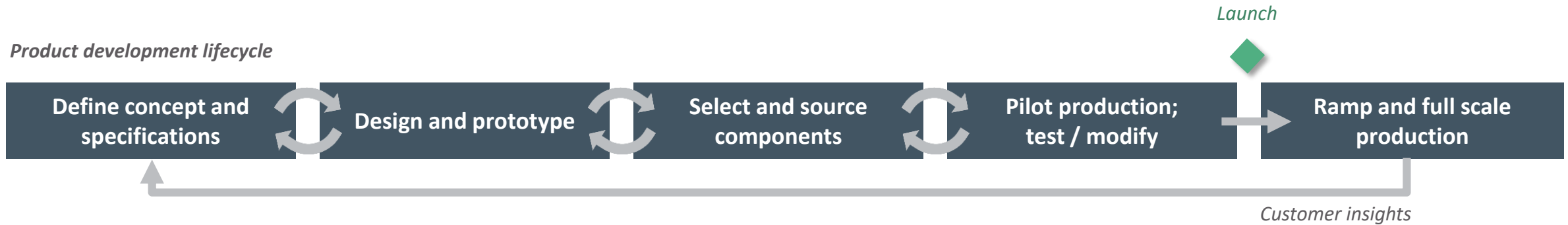
Companies with all three best practices in place

realize 17% more of the total potential value from their suppliers than the average, and

42% more value than companies that do not have any of the three.



Early supplier engagement: Best practices and benefits



P&G: Sourcing innovation for savings, and topline growth

Actions

- Supply network transformation began in 2012.
- Supplier Scorecard measures supply chain collaboration, P&G-supplier exchange of ideas and capabilities, and environmental indicators.
- New sourcing awards are directly tied to performance; P&G commits to give greater share of wallet to top-performing suppliers.

Results

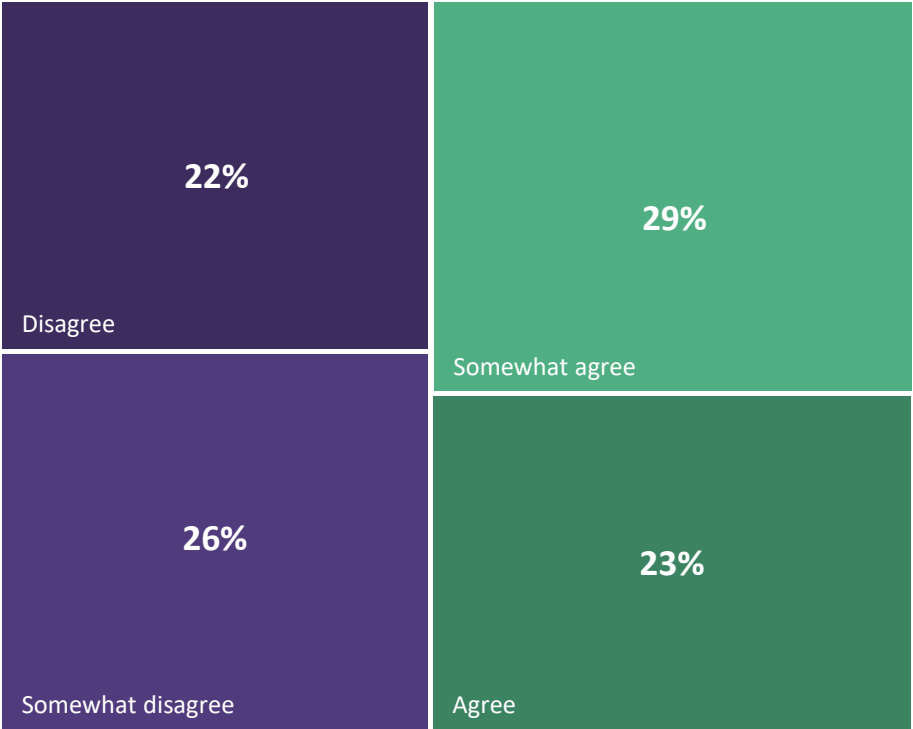
- Since 2012, P&G Product Supply has delivered a **cumulative COGS savings of \$10B.**
- Over **half of all product innovation** today includes at least one component from **external partners.**

*“We want strong, lasting relationships with our supplier partners,” he said.
“The stronger our relationships are, the greater the opportunity we have to serve consumers better than anyone else.”*

– David Taylor, P&G CEO

Buy-side alignment across supply management disciplines

Strategic sourcing, category management, negotiation strategies, and SRM at our company are fully integrated and aligned



Companies that coordinate and align their category management strategies, SRM program, and supplier negotiation strategies...

Realize **12%** more potential value from supply contracts in implementation

Realize **21%** more of the total value targeted by their strategic sourcing initiatives

...than those who do not align these disciplines.



Chrysler: Sourcing innovation for savings and quality improvements

Situation

- Throughout the 1980s, Chrysler (and other US carmakers) faced a stiff challenge from Japanese competitors, in terms of quality, COGS, and new model cycle times

Actions

- Implemented SCORE program starting in 1989
- Involved strategic suppliers at the concept stage of development, versus taking 12-18 months post-concept to source via RFP.
 - Increased supplier responsibility for design and manufacturing.

Results

- Between 1989 and 1996, Chrysler **shrunk its supply base by over 50%, reduced new vehicle development time by 30%, and cost by 20 – 40%.**
- All of which helped **increase profit per vehicle by 10X.**

To get more value, we need to ask different questions

Perfectly Fine Questions

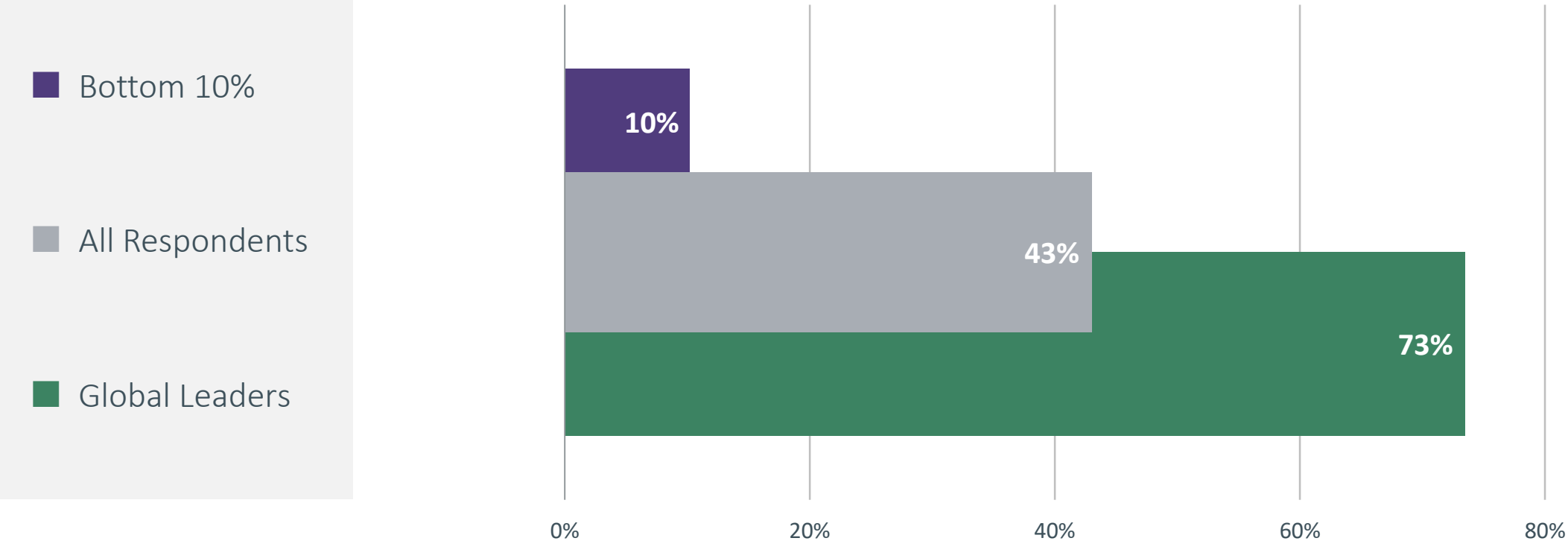
- How do we extract more savings from our suppliers?
- How can we shift more risk to our suppliers?
- How do we define clear requirements for what we want from suppliers?
- How do we get more innovation *from* suppliers to contribute to our company's topline?

Different Questions

- How do our suppliers make money?
- How can we better allocate risk between our company and suppliers and jointly manage risk?
- How can help suppliers better understand our strategy, business needs, and constraints so that they can offer creative solutions?
- How do we create more innovation *with* suppliers – to contribute to our company's topline and bottom line?




Aligning SRM and with customer SAM programs



% of respondents that align their SRM programs with supplier KAM / SAM programs





Negotiations in good times, and bad – longitudinal
benchmarking data

Negotiations – then, and now

Percent of negotiations that are reported to be...

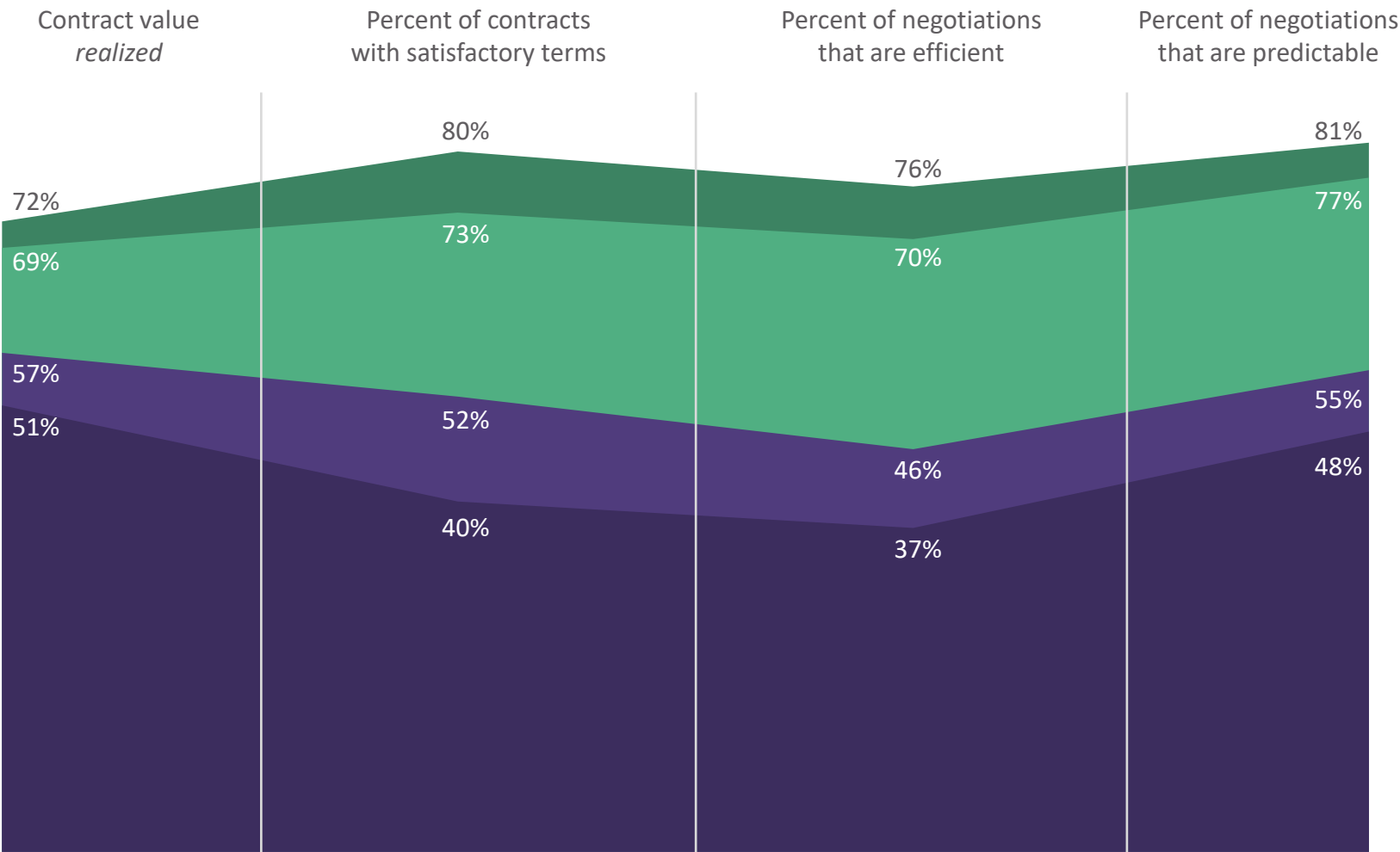


Collaborative versus adversarial negotiations

BUY-SIDE

- More than **75%** of negotiations are **collaborative**
- More than **50%** of negotiations are **collaborative**
- More than **50%** of negotiations are **adversarial**
- More than **75%** of negotiations are **adversarial**

Companies that report more **collaborative negotiations with suppliers report better outcomes** than those that report engaging in adversarial negotiations.



Impact of buy-side prioritizing a foundation of mutual trust on sourcing

Buy-side respondents that put a high priority on creating foundation of mutual trust, understanding, and respect aimed at ensuring effective contract implementation report...

24% more

Value realized from supplier contracts in implementation

201% more

Negotiations are highly efficient

151% more

Negotiations are highly collaborative

92% more

Contracts are very satisfactory

69% more

Negotiations are highly predictable

...than those who put it as a low priority.





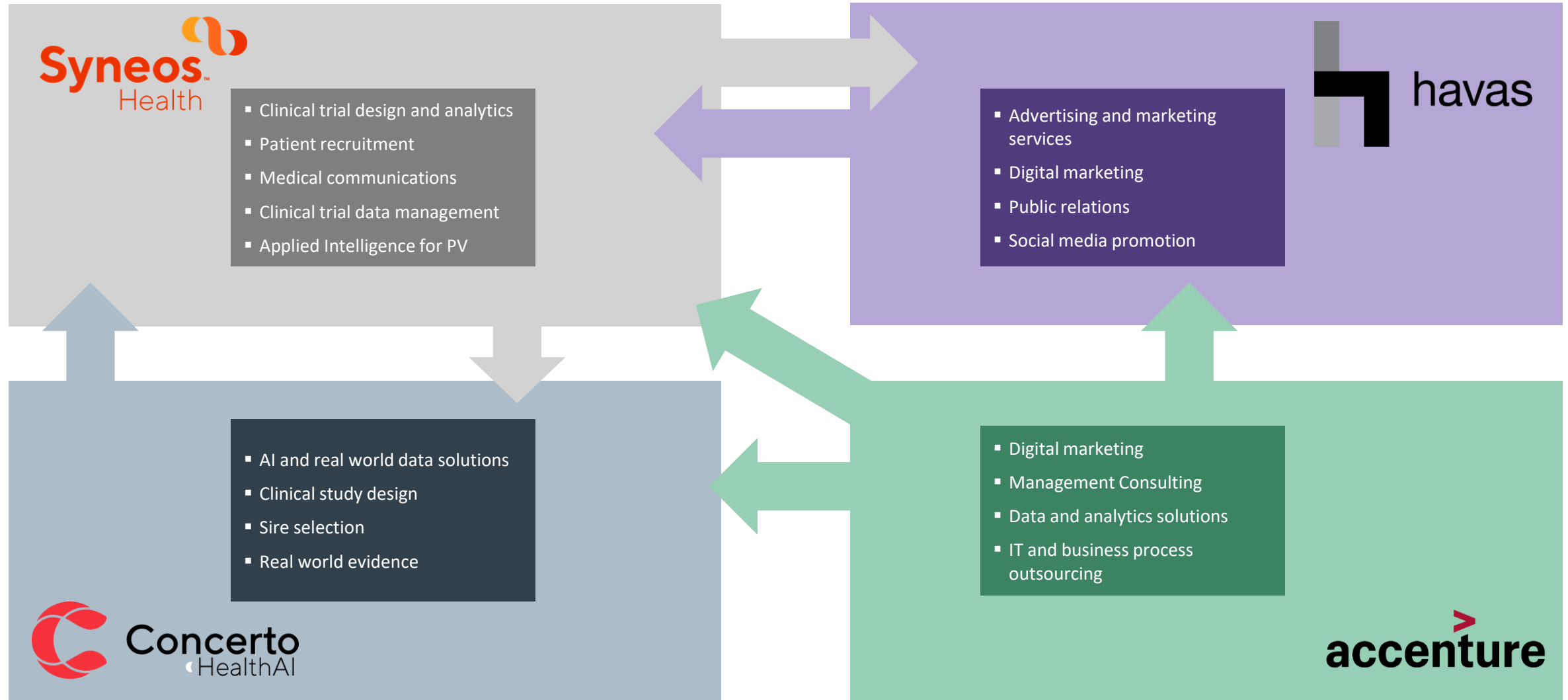
Closing thoughts: Where next?

How much of your company's supply management efforts are focused on...

- a. ...navigating the current crisis? [Enter 0-100%]
- b. ...planning and acting to position for success as the economy begins to recover? [Enter 0-100%]



Beyond category silos – innovation for risk mitigation and new opportunity identification and realization



Honeywell: Navigating the 2008-09 recession

Situation

- During the 2008-09 recession, orders for Honeywell spares dropped by 25% as airlines relied on inventory to save cash. Cascading down the supply chain, critical suppliers were losing 50% of their business.
- Honeywell knew orders would rapidly increase during the recovery – they needed to safeguard their suppliers' viability.

Actions

- Key executives (including c-suite) and Procurement reached out to their supplier counterparts.
- They rapidly worked out new deals where:
 - ▶ Honeywell paid a premium for priority access to future production, paid in advance for future deliveries, or purchased more than they needed in the moment.
 - ▶ In exchange, suppliers provided better terms on long-term contracts.

Results

- After the recession, CEO David Cote reports “we **did much better than competitors in shipping spares and grew sales a lot faster** than they did.”
- From 2009-12, Honeywell's **stock price increased 100% faster than the S&P 500.**

Two views of suppliers

Traditional View of Suppliers

- Suppliers are companies from which we purchase goods and services
- Cost is the primary driver and measure of value from suppliers
- Our interactions with suppliers are fundamentally zero sum
- Leverage over suppliers is the key to value

Alternate View of Suppliers

- Suppliers are a source of knowledge, expertise, assets, and innovation
- Supplier can help us gain/maintain competitive advantage in myriad ways
- In a world of competing supply chains, our success is tied to that of our suppliers
- Collaboration with suppliers is an essential means to create value



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