



EXECUTIVE SUMMARY

*The SRM Series: Next Generation
Best Practices in Managing Suppliers*

Part 3: The Inside Job

**Changing the Way Your Enterprise Organizes,
Learns, and Relates to Suppliers and Partners**

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About ChainLink Research

ChainLink Research, Inc. is a Supply Chain research organization dedicated to helping executives improve business performance and competitiveness through an understanding of real-world implications, obstacles and results for supply-chain practices, processes, and technologies. The ChainLink Inter-Enterprise Model is the basis for our research; a unique, real-world framework that describes the multi-dimensional aspect of links between supply chain partners.

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The SRM Series:

1. *The Outcome Economy*—Tapping the Innovation Engine of Your Supply Base
2. *Lean Machine*—Streamlining SRM Processes, from Initial Negotiation through Managing Ongoing Performance
3. *Inside Job*—Changing the Way Your Enterprise Thinks, Grows, and Relates to Suppliers and Partners
4. *Ascending the Peak*—Advanced Practices for Supply Chain Leaders

This is Part Three of a four-part series of reports on the findings from ChainLink's research into the next generation of best practices for managing supplier relationships. The research examined hundreds of companies. Among those, ChainLink interviewed the 30 companies achieving the best sourcing results. This series synthesizes the collective next generation of best practices from those top 30 firms.



Who Should Read This Paper

The audience for this paper includes:

- CEO and C-level executives at firms where supplier relationships are critical to success
- Sourcing and Procurement Senior Executives and Practitioners (e.g. Commodity Manager, Buyers)
- IT Executives responsible for supporting supplier-facing organizations
- Solution Providers of SRM and related solutions and services
- Executives at the Suppliers, in particular Customer Relationship and Customer Supply Chain Services managers at suppliers

Executive Summary

Most sourcing and procurement executives instinctively focus on improving their processes, often using technology to help. Both are critical elements, but if the organization has not nurtured the right relationships (internal and external) and grown the base of internal knowledge, it will never reach peak performance. This research focuses on these often overlooked “softer” areas, exploring how companies organize, learn, and deeply integrate with strategic suppliers. Without attention to these, a company is bound to suffer shortfalls in reaching their potential.



ORGANIZATION, EDUCATION, INTEGRATION

Many companies, especially large diversified enterprises, face the challenge of balancing the need to consolidate spend globally across multiple divisions with the need to meet diverse local and divisional requirements. This is not a simple issue and there is no one right answer, as each organization is different. In this report we explore approaches taken by several different firms to achieve this global/local balance and the pros and cons of each scheme.

We also look at why internal educational programs and knowledge sharing are so essential to sustaining high-performing supplier relationships. Employee turnover and “strategy turnover” (e.g. new leaders, new directions) happen on both sides of the buyer-supplier relationship all the time. This makes it especially difficult to sustain the relationship and maintain hard-won performance gains. Educational programs, designed by your best sourcing and procurement people in the field (not by ivory-tower experts) can help provide the organizational resilience needed to weather these changes.

We explore a world class internal educational program that creates a foundation of common language and techniques across the enterprise, while providing the flexibility needed to deal with different geographies, different types of products and commodities, and different types of suppliers. This type of program becomes a “knowledgebase made alive” by real people in the trenches. It provides the underpinning for global success.

Finally, we examine an in-depth case study on deep strategic integration with key suppliers. This company took a cross-functional approach throughout and focused on end-to-end improvements. Some of the key learnings from this case study are on the following page.

- Critical role of supplier mindset and corporate culture
- Treating suppliers like an extension of the company
- The importance of involving on-the-ground operational people from both sides of the relationship from the very beginning
- The need for solid metrics and mechanisms to help ensure mutual success
- Close integration of information systems as the key to automating processes with your supplier
- Management by exception and what it means for the design of business rules
- Inter-enterprise scorecard to create a focus on improving the end-to-end processes, rather than just pushing burdens to the supplier

Some of this may sound a bit idealistic to those who are used to the more traditional (and perhaps adversarial) supplier relationship, but it can be made to work and the benefits are substantial. The company described in this case study realized a cost savings an order of magnitude greater than focusing solely on price with annual contract bidding between many suppliers.

Change management is vital to success, as it is with many other transformative initiatives requiring this level of fundamental change in thinking. Having strong executive sponsorship and involvement, as well as credible advocacy with employees was essential to effectively making the transition described in this case study.

One thing this report illustrates, as a company improves its own people, organization, and relationships with suppliers, it's amazing how much better performance (and lower cost) it can get out of its suppliers.

HOW THIS REPORT IS ORGANIZED

This report is organized in three sections:

1. Governance – explores the issues of centralized vs. local control of sourcing and purchasing functions
2. Education – examples of world class internal education programs for procurement professionals and why they make such a big difference
3. Strategic Supplier Integration – case study of deep integration with a small set of suppliers, including key factors for making it work

A number of real-world mini-case studies or examples are used throughout to illustrate the best practices and different approaches and demonstrate why these often overlooked areas can make such a difference.

Sourcing/Procurement Governance Models

This section looks at the “tug-of-war” between centralized vs. local control of sourcing and purchasing decisions.

CENTRALIZED VS. LOCAL PROCUREMENT

It is not uncommon for companies to grow by acquisition, creating many semi-autonomous divisions. Other factors drive fragmentation of spend as well, such as geographic expansion and product line proliferation. Eventually the company wakes up one day to realize they have very splintered and fragmented spend, and worse yet have no idea what is happening with their spending across the enterprise. The response may be a pendulum swing to a more centralized approach, where a strong authority is formed in an attempt to control the spend. Fortunately, it is also not uncommon for companies to find a middle ground where the new organizational structure allows for a

...each
...procurement team and
...never realize economies of
...across the enterprise. Conversely, without
...ent personnel, the unique needs of various locales

...are fre-
...Companies with
...sourcing disciplines have
...been able to reconcile these seem-
...ingly conflicting requirements.
...Companies accomplish this each
...in their own unique way to fit the
...needs and strategy of their busi-
...ness. Examples are illustrated in
...the four mini-case studies below,
...followed by a more detailed de-
...scription of Dell's approach.



FOUR EXAMPLES

The following four examples illustrate the diversity of approaches to achieving the right balance between centralization/consolidation and local requirements. These provide some ideas and approaches that can be useful for various situations.

CONCEPTS NOT RULES

They are careful not to teach narrow or rigid methodologies. The concepts are not a rule book. Instead, they teach a way to think about each discipline, with lots of situation-dependent options. They often use decision trees, showing different paths depending on things like market conditions, type of commodity, local culture and laws, and other factors. This would be critical, for example, in training on contract agreements where you want to teach a standard framework but provide the ability to deal with differences in local law.

The training

Key Education Lessons:

- *Employee turnover and "strategy turnover" (e.g. needs leaders, new directions) happens frequently on both sides of a relationship. This makes it especially difficult to sustain the relationship and maintain performance.*

SAMPLE PAGE FROM FULL REPORT

*...have global
...or "on-the-ground" experts
design the courses.*

...formula, but
...on-dependent concepts and
...strategy and help in how to execute it.

DIFFERENCES IN SUPPLIER RELATIONSHIPS



The flexibility in the curriculum also takes into account other differences in circumstance besides just location, such as the differences in the relationships with different suppliers, defining several types of relationships and, in addition, segmenting the supply base by the importance of each supplier. A relationship may be very contentious, but if it is critical, they still need to make it work. These different dimensions provide a framework that can deal with many different supplier situations. For example, if the level of trust is low, they still need to find ways to work through the issues with the supplier and make things work. These are the types of tough situations where training that captures the collective experiences of seasoned sourcing personnel can help a lot.



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