The evolution of Supplier Management and the emergence of the need for better trained professionals

Michel Philippart
Directeur of Strategy
Institut for Recherche and Innovation in Management of Purchasing
Associate – Big Fish

't Kasteeltje te Boechout, October 26, 2009

Michel Philippart: 20 Years of passion for Procurement

Booz Allen Discovery | Frito-Lay Development | McKinsey Structuring | Scotts Application | GSK Bio | Today Sharing

90 92 94 96 98 00 02 04 06 08 10

Viewpoint

Strategic Sourcing

Conference SIPMM

Training Latin America Team

McK Functional training

Teaching Ms Achat

Conferences

Book Collaborative Sourcing

CPO Magazine

Tribune La Lettre des Achats

European Pharma Review

ceSCM IRIMA Big Fish

UFPR (Brazil)

HEC Vlerick Maghreb

* With Christian Verstraete et Serge Wynen, PUL 2005

Agenda

- Our Multiples Roles
- Value and Competitive Advantages
- Collaborative Models
- Essential Changes
- Conclusions

The Beginning

The First Projects

An doomed approach

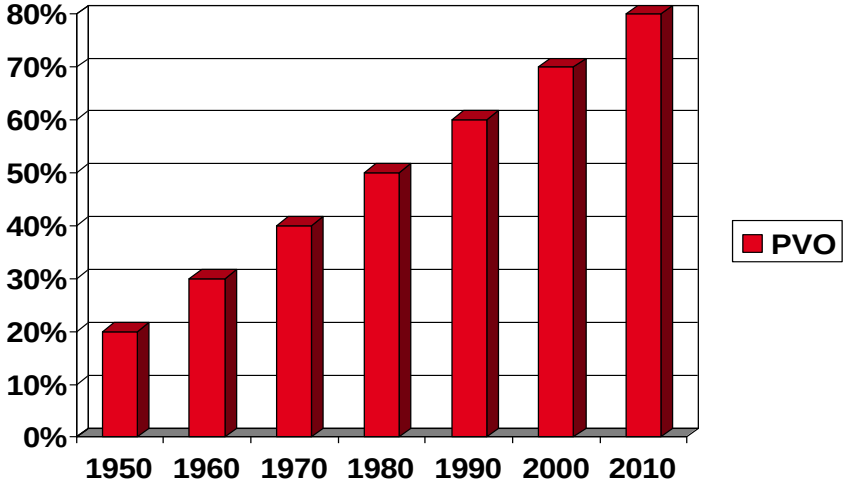
At the beginning	Today
Unchallenged suppliers could easily be replaced	20 years of aggressive cost management have explored the obvious
The supplier pool was mainly local, around 100 km near the home base	Suppliers are global, according to the market economics
Inflation was driven by economic factors in our markets	Inflation is driven by raw materials, energy, and labor shortages worldwide
Productivity was low and could easily be increased	Productivity growth has significantly slowed down

- Resources are not always plentiful
- Beating a supplier is not equal to beating the competition

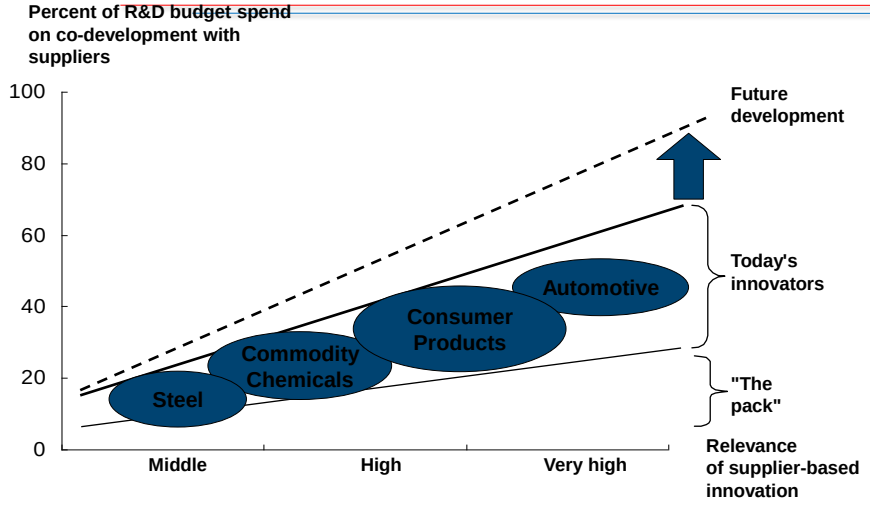
Are you happy in the pack?

- Strong competitors work on Procurement equally hard
- … and obtain similar price decreases
- … that their sales force must give away to stay competitive with their clients
- Those Procurement actions are necessary but do not improve either long term competitive position or profitability therefore do not enhance shareholder value

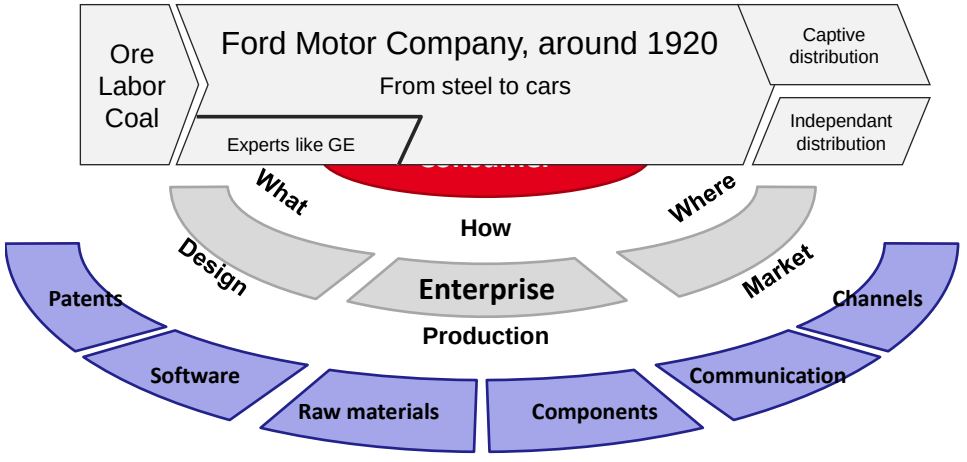
Externalization of Added Value



Co-development increases



In a "Customer Centric" World



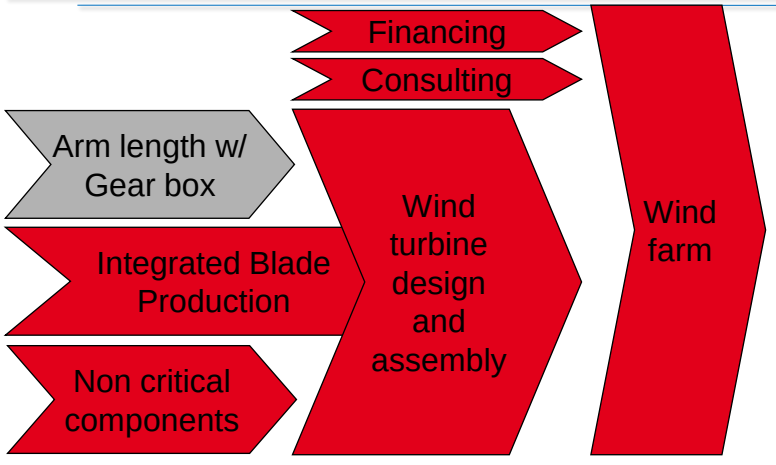
Secure resources

- “Nissan is to stop production at some of its domestic car plants for five days due to a steel shortage” (BBC News 25/11/04)
- Raw-material shortages and high prices are fueling a new wave of acquisitions (India Daily 14/08/06)
- Capacity Shortages Loom for Lower Tier Suppliers: The recipe for collaboration requires key ingredients that are not yet in place (Automotive Industries February 2005)
- Michelin has reached the conclusion that its strategy is no longer compatible with General Motors’ purchasing policy. Consequently, Michelin will not renew its original equipment tire shipment contract with General Motors Europe which expires on July 31, 2002 (Michelin press release First Half 2002 Earnings)
- “Today's turbine constrained market makes control of the supply chain especially critical. Ownership of or at least close ties with key suppliers in these areas is therefore important for ensuring a wind turbine vendor is able maximize production and thereby its sales potential and market share” (Wind Energy Report 2005 - REA)

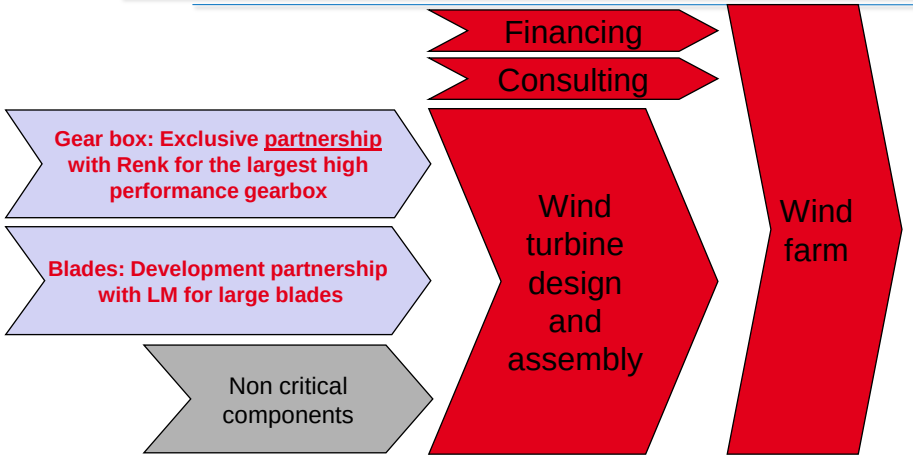
« Wind Power »

Rated Power: 5000 kW
Blade Diameter: 126 m, 120 tonnes
Blade Speed: 6 – 12 rpm
Generator Speed: 670 – 1170 rpm

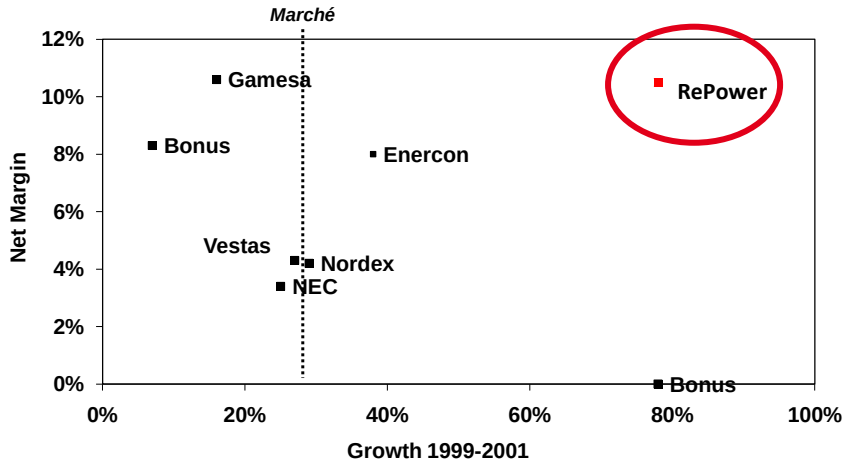
Market Leader: Vesta



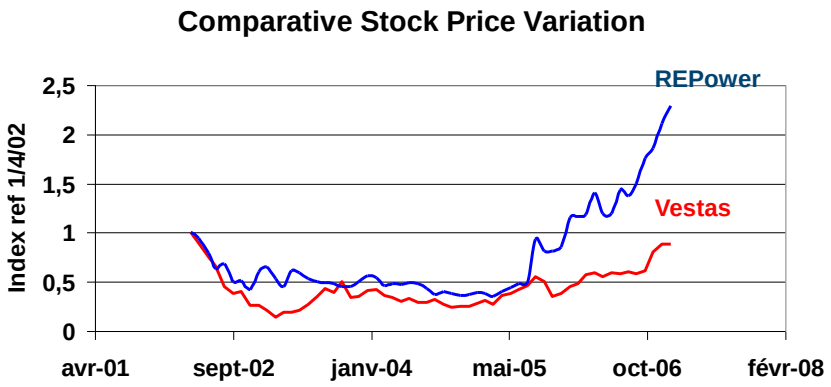
Challenger : REPower



Leader in Growth and Profits



Impact on Shareholders



Repower Learning

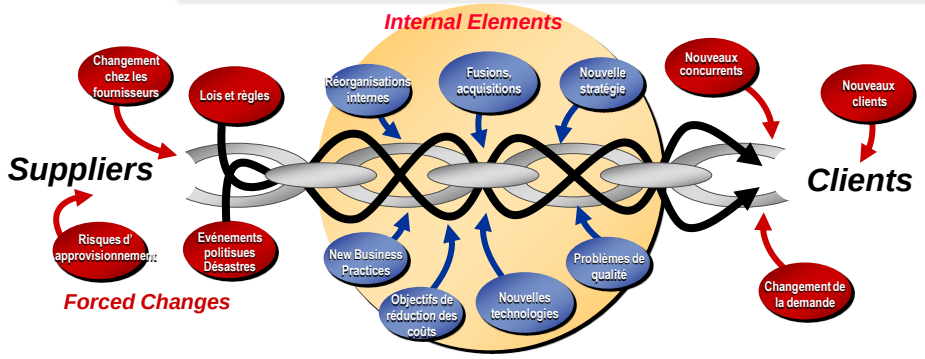
- A small company can leverage smarter supplier management to over perform larger competitors
- Supplier management was initially viewed as a way to stretch limited resources but soon turned into a common project to develop a better solution to emerging needs
- This culture increased the company value
  - made the company desirable to large firms outside the industry: at least two attempts to acquire it
  - Share over performed key players

This trend is unstoppable

- After mass production in the 1920s and lean production in the 1980s, the global automotive industry is in the midst of another structural evolution, toward collaborative engineering and production.
- A recent Mercer Management Consulting study based on industry interviews, data analysis, and economic modeling concludes that by 2015, automotive suppliers will represent close to 80% of total value creation in light vehicle engineering and production, as the dozen automakers restrict their own share to those components and activities that are crucial to the success of their brands.

The coming age of collaboration in the Automotive Industry: Jan Dannenberg and Christian Kleinhans
Mercer Management Journal

Managing an environment in constant flux



Source: Collaborative Sourcing, Philippart, Verstraete, Wynen, PUL 2005

Tight integration benefits

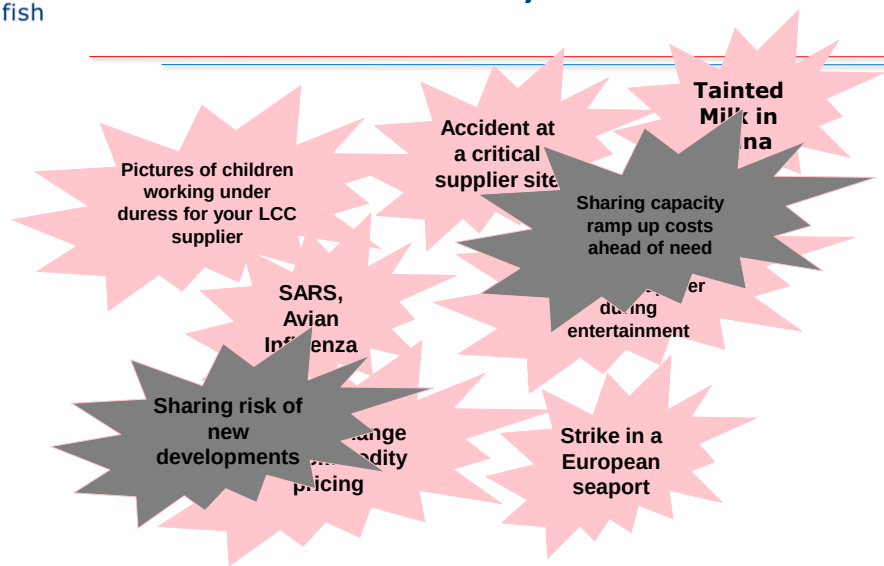
Source: Collaborative Sourcing, Philippart, Verstraete, Wynen, PUL 2005

70% more profitability for those who collaborate

- When compared with the companies with little collaboration activity, analysis clearly demonstrates that Value Chain Collaborators delivered 70 percent higher profitability. The business results from effective collaboration across the entire network—from suppliers to distributors/retailers, and final customers—stand out*

* Directions in Collaborative Commerce
Deloitte Research

Risk is everywhere



Our multiple roles in supplier management

- Reduce costs
- Insure continuous supply and securize the value chain
- Allow the enterprise to focus on its key competencies
- Access creative resources outside the enterprise
- Adapt quickly to a changing environment by leveraging all suppliers competencies
- Manage risks

Our only option: manage our network better

- More knowledge
- More collaboration
- Smarter people
- Leveraging scale the smart way
  - Sharing information
  - Optimizing networks
  - Eliminating waste
- Governance, sustainability, value culture

Agenda

- Multiples Roles
- Value and Competitive Advantages
- Collaborative Models
- Essential Changes
- Conclusions

Sustainable Competitive Advantages to create Shareholder Value

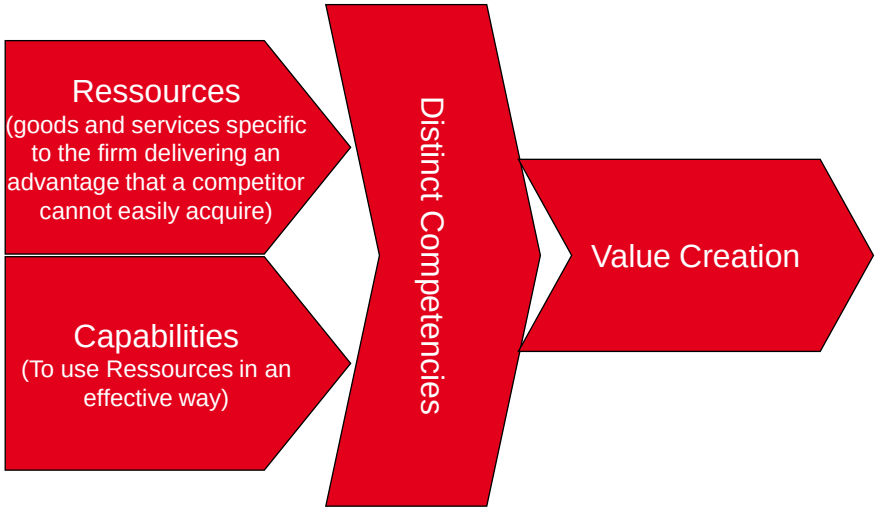
"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage"
Warren Buffet, Nov. 1999

A 20 year old concept

- First reference in 1985 by Michael Porter in its book “Competitive Strategy”, even though he does not provide a formal and structured definition of Sustainable Competitive Advantages
- First definition in 1991 (Barney) “A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy”

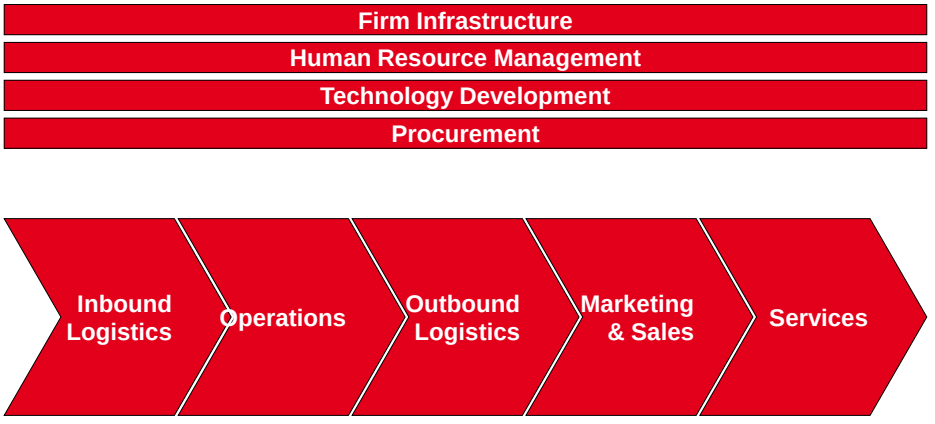
* Jay Barney (1991), Firm Resources and Sustained Competitive Advantage, Journal of Management, 17, 99-120

Porter’s Model became a reference



Porter's Original Value Chain did not integrate Procurement

Support Activities

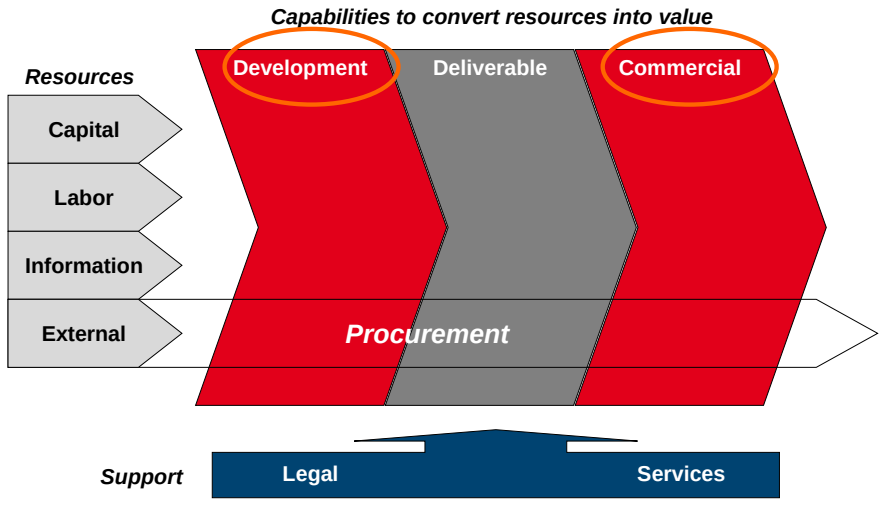


Today Procurement Can Deliver Value

- Characteristics of Value Creating Resources*
  - Valuable
  - Rare
  - Imperfectly imitable
  - Not substitutable
- Suppliers can provide competitive advantages if they meet those four criteria
  - In raw materials, in tools, in services

* Jay Barney (1991), Firm Resources and Sustained Competitive Advantage, Journal of Management, 17, 99-120

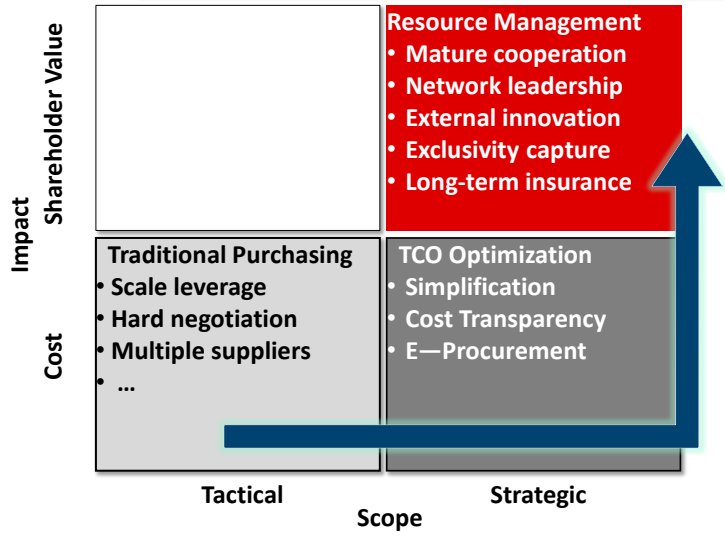
Adapting the Model to the 21st Century



Strategic Resource Management Defined

- Use of Procurement skills and best practices to define, search, capture, isolate, manage and improve resources external to the firm capable of delivering sustainable competitive advantages
- Create value for vendor and client
- Cross functional
- On the CEO agenda

With a Value Creation Objective



Good at the Game or Changing the Rules?

- Supplier Management Objectives
  - Supplier management can be efficient in the realization of our traditional objectives
  - Supplier management can, as we have seen, contribute to the strategic positionning of the Firm, not only do better, but do differently
- It is important to understand the difference as very few firms were able to maintain leadership solely based on operational effectiveness*

* Source: Michael Porter

Frito-Lay Example

- Demise of a former local market leader in France, Flodor
- Frito-Lay , a global giant expanding in Europe
- Analysis from a journalist in an economic weekly: "it won with it[illegible]ings and packaging" [1]

Why couldn't this company source from the same supplier?

[1] Henri Haget, "Touche pas à mon usine", L'Express, September 4, 2003

Impact of new packaging

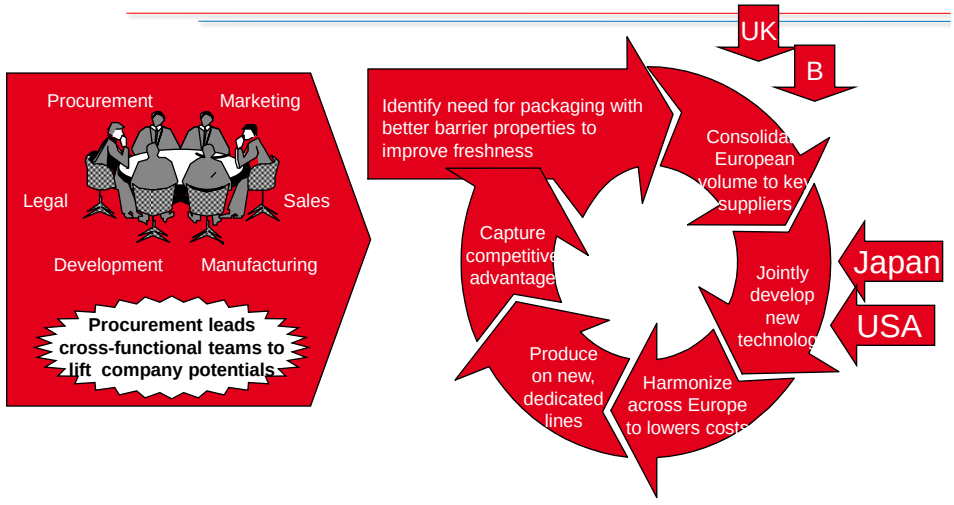
- **70 days without flavor variation vs. 15-30 for the competition**
- **70/30 consumer preference in blind test**
- **Capture of category leadership in key markets**
- **30% cost reduction over 3 years**

Client
- **Invest volume**
- **Share projections and market understanding**
- **Co-develops specifications**
- **Insure that [illegible]lier enjoys [illegible]ive ROIC**

Supplier
- **Allocates tools**
- **Target innovation efforts**
- **Dedicates best staff**
- **Open books**

Strenghtened negotiation position when facing large retailers

Frito-Lay Integrated Approach



Frito-Lay changed the competitive field

- Identified critical skills available outside its own operations that could contribute to its objective of superiority versus the competition
- Built such a relation with suppliers that competitors could not access the same resources
- Nurtured the relationship to create an “extended enterprise” that provided competitive advantages

Corporate Sustainable Advantages Mission Logo

MISSION

"Our Objective is to leverage Purchasing as a significant source of Sustainable Cost Advantage and Proprietary Barrier to Entry, whilst delivering 100 % Consumer preferred specifications to every plant, every day"*

STACKED WINS

- **Innovation**
- **Quality**
- **Service**
- **Cost**

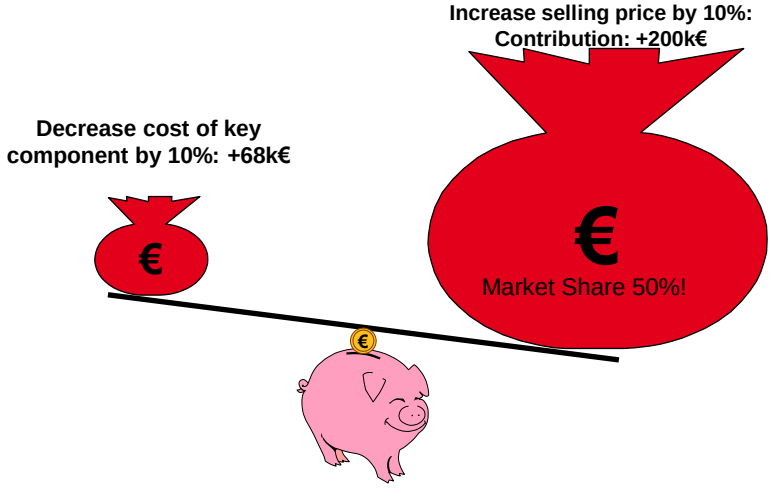
Source: PepsiCo

Frito-Lay Learning

- Already in 1994, procurement staffed with high potential managers
- Culture of measuring performance versus the supplier applied to all functions in the company
- Demanding but fair attitude to be recognized as the preferred client of our suppliers
- In Frito-Lay's case worked better with medium size suppliers rather than the dominant players in the market

PepsiCo : A good reference

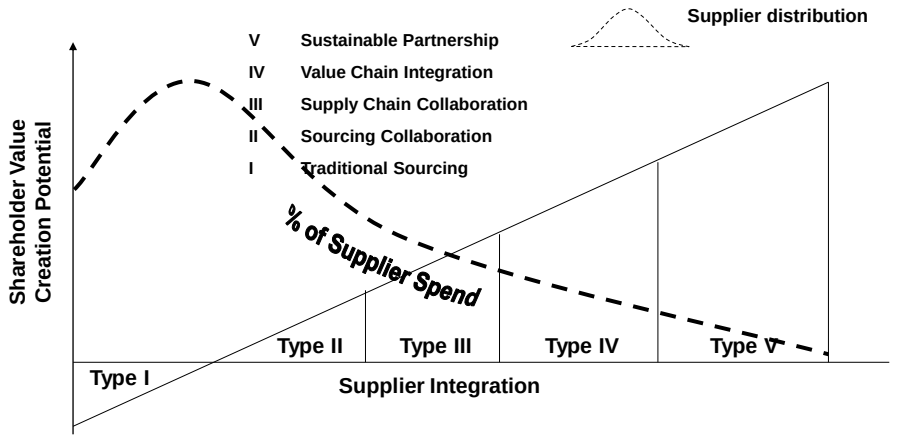
Exclusivity can create a lot more value than cost cutting



Agenda

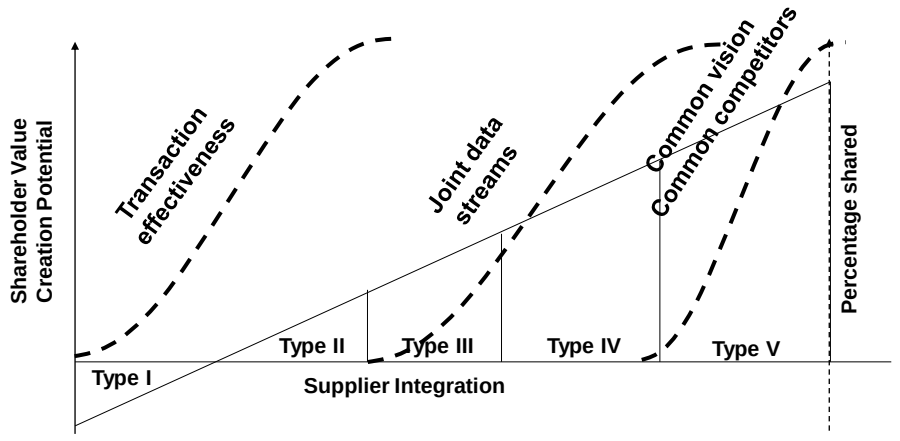
- Multiples Roles
- Value and Competitive Advantages
- Collaborative Models
- Essential Changes
- Conclusions

Shareholder Value Potential of Supplier Relationships

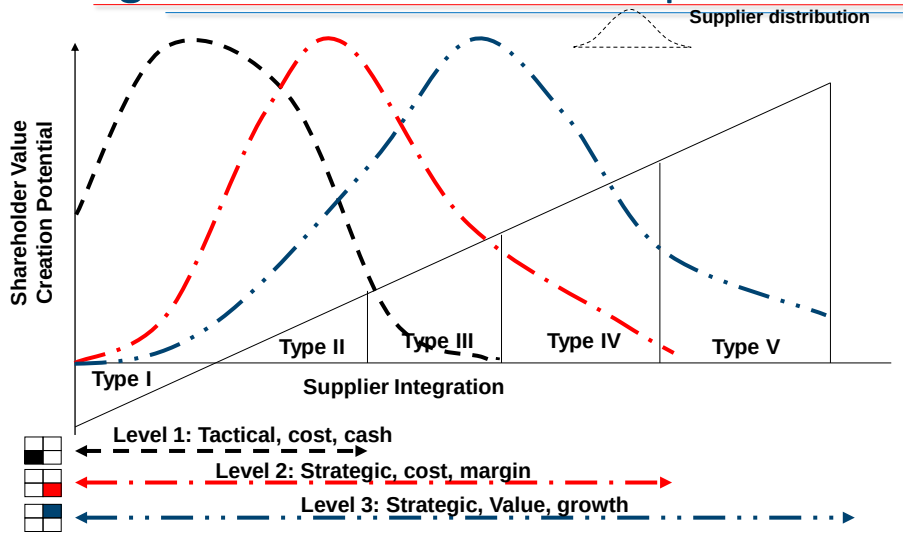


* Source Collaborative Sourcing; Philippart, Verstraete, Wynen, PUL 2005

Shared objectives change as relations mature



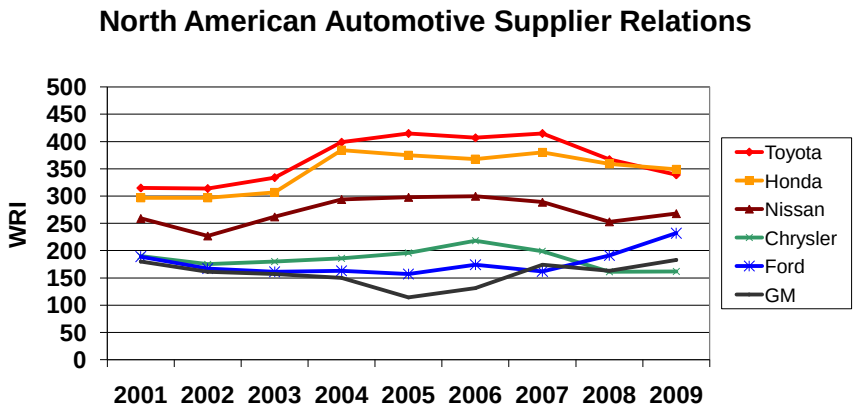
High performance Sourcing organizations have a richer portfolio



Industrial models rarely deliver sustainable competitive advantages

- Industrial models like CPFR are rarely sufficient to provide sustainable competitive advantages
- Few companies have been able to maintain long term leadership only on the basis of operational excellence
- Toyota appears to compete on excellence in the transactional approach
- Its approach is well known but its culture is difficult to translate in other environments
- Toyota has captured the ultimate supplier skill: their mind, their adhesion to Toyota's objectives

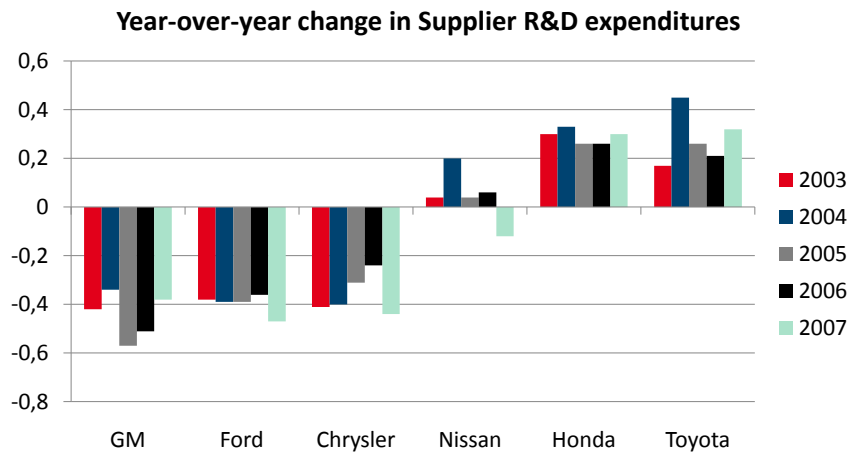
"Working Relation Index" in the US automotive Industry



The difference appears in respective behavior

OEM BEHAVIOR	US Domestic Manufacturers	Japanese Subsidiaries
Protection of confidential info	Little regard for suppliers' proprietary information or intellectual property	High regard
Openness, honesty of communication information	Indifference; incomplete and late	High level, timely
Importance of cost vs. quality & technology	By far, primary focus is on cost	Also seek low cost, but balance it with quality improvements and technology
Supplier survival	Little regard	Concern for long-term success and stability
Relationship orientation	Adversarial; focus is on cost and OEMs' short-term gain	Strategically integrate suppliers into partnership-like relations
SUPPLIER BEHAVIOR		
Quality	Maintain quality if compatible with cost objectives	Work together to increase quality of system
Capital, R&D expenditures, service and support resource allocation	Decrease	Increase: allocate freed resources from US suppliers
Supplier Innovation	Preserve innovation by restricting access	Seek to provide innovation

The impact on available innovation is significant



* Source Planning Perspectives Inc, Michigan, USA

… and shows in performance

	3 US Automakers	3 Japanese Operations
COGS change 2000-2004	+10%	-5%
Inventory Ratio change 2000-2004	+47%	-7%
Market share 2002-2006	-8%	+9%
Share Value CAGR 1/97 – 1/07	0%	11%

Sources : The economic value of supplier working relations with automotive original equipment manufacturers.
Matthew J. Milas, Eastern Michigan University, Department of Economics
Stock price adjusted for dividends and splits F, GM, TM, HMC

Examples of the two types

- In my opinion [Ford] seems to send its people to 'hate school' so that they learn how to hate suppliers. The company is extremely confrontational. After dealing with Ford, I decided not to buy its cars.
  - Senior Executive, supplier to Ford, October 2002
- Toyota to helped us dramatically improve our production system. We started by making one component, and as we improved, Toyota rewarded us with orders for more components. Toyota is our best customers.
  - Senior executive, supplier to Ford, GM, Chrysler, and Toyota, July 2001.

Source: Liker & Choi, "Building a deep supplier relationships," *Harvard Business Review*, 2004

US Automotive Industry Learning

- In the 90's US automakers thought that their Japanese competitors had developed a better model of production and focused on improving their factory
- In 2000 US automakers knew that their approach to suppliers were radically different than their Japanese competitors
- The culture and resentment from years of adversarial relations did not allow them to change. Bankruptcy or acquisition appear the only options considered by their top management today
- Today, the Toyota model is the reference in North American mass produced automotive industry, but appears a lot more difficult to emulate than their industrial organization

Agenda

- Multiples Roles
- Value and Competitive Advantages
- Collaborative Models
- Essential Changes
- Conclusions

The culture must change

- Keep the competition in mind at all time
- Set an ambitious Team Culture
  - Operational Excellence
  - Sense of Mission
  - Focus on Innovation
  - Can build relations based on trust
- Drive by overall contribution rather than price variance
- Do not waste talented resources time on administration
- Deliver for the CEO's Agenda
- Serve all functions: operations/ strategy, supply chain/ research/ commercial

An ambitious team management

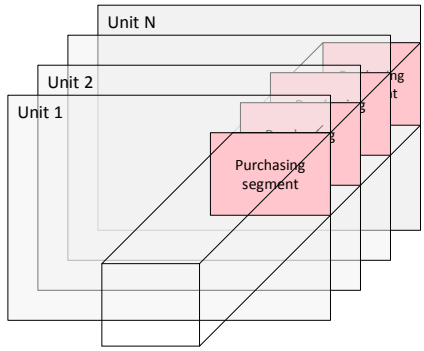
- Choose the best for supplier management
- Give them important responsibilities and force them to reach for the stars
- Support them and develop their organizational saviness
- Continuously evaluate their performance on productivity, innovation, value

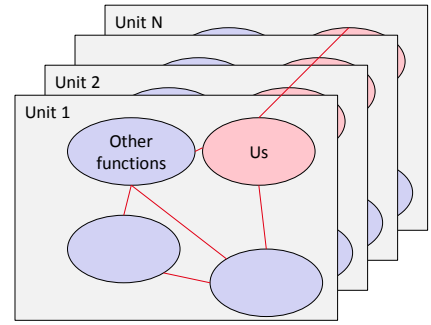
A sophisticated performance evaluation

Area	Comments
Cost	Traditional: no more than 30% of grade
Quality and service	Standard expectations of internal clients
Sourcing	Enrich supplier portfolio with long term potential suppliers in new geographies, to support new sites and to challenge traditional suppliers on main site
Risk reduction	Stress check supply chain and take appropriate measures
Innovation	New solutions that enhance company's competitive position
Client management	Quality of internal relations, communication approaches, respect for differences, etc.

A virtuous circle to build a high performance department

Build functional and organizational capabilities



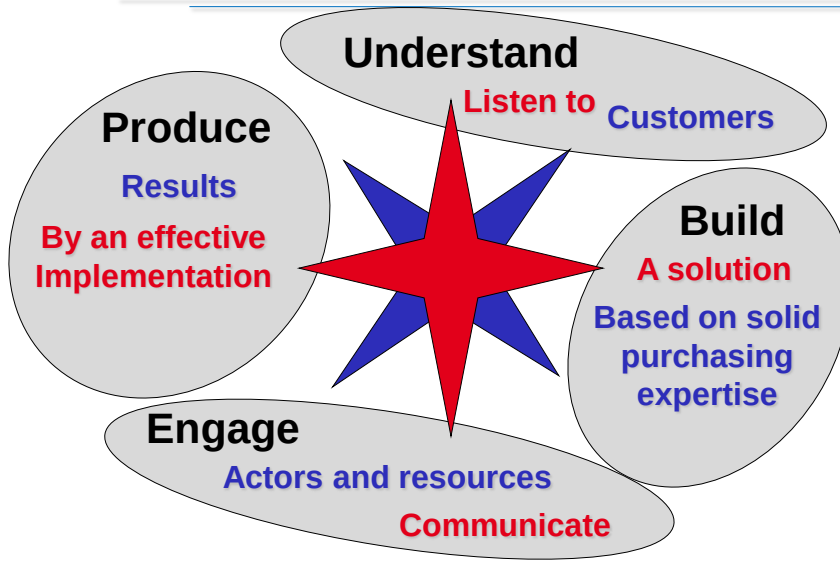


Technical capabilities
- Spend analysis
- Cost lever analysis
- Total cost
- Negotiation
- Sourcing
- Etc.

Organizational capabilities
- Project Management
- Demand management
- Communication
- Conflict management
- Leadership
- Etc.

59

Increase Functional Leadership



60

Supplier Management: Technical Skills

Purchasing Leverage elements

- Partnership Building
- Global Sourcing & In/Outsourcing
- Target Costing / Value Analysis
- Value Cycle Analysis & Standardization
- Supplier Development
- Sourcing
- Category Management & Supplier Rationalization
- Cost Breakdown & TCO
- Negotiation
- Bundling

Purchasing Fundamentals

- Process improvement and automation
- Distributed Knowledge Organization
- Information collection and management
- Values and Risk Management

Supplier Management Essential Organizational Skills

Soft skills Leverage elements

- Act as a network entrepreneur
- Develop your leadership
- Drive Change
- Perform well towards press & media
- Manage a multi-cultural team
- Manage a cross-functional project
- Manage a team
- Handle conflicts
- Run effective meetings
- Make a successful presentation

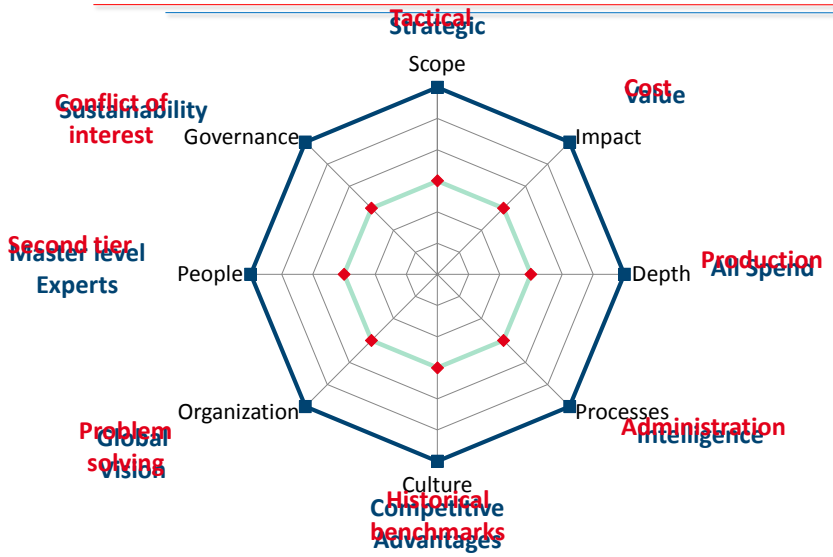
Soft skills fundamentals

- Manage your time and priorities
- Make decisions
- Better understand yourself
- Argue and negotiate

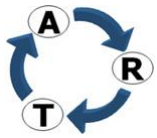
Agenda

- Multiples Roles
- Value and Competitive Advantages
- Collaborative Models
- Essential Changes
- Conclusions

A 360° Evolution



big fish : a unique approach to delivering people excellence in purchasing



Our Purpose

To build the supplier management team that will ensure achievement of expected business results at any time and in any context.

- We build, transform and develop state of the ART Operation teams and capabilities in line with short and mid term business objectives of our clients
- We help achieve defined business results via focusing on the ability of Purchasing & Supply Chain organizations by using an integrated People Development approach that addresses the needs of all layers in the organization
- We are recognized for our expertise in both Purchasing & Supply Chain and People Development, our constant search for innovative and customized solutions for our clients, the practical impact of our contributions, and the truly global approach of our firm

Unique for “People in Operations” Team Development

- Expert
- A network of 500 contributors
- A database of 30000 people
- A proven impact across our three core activities: Assessment, Recruitment, and Training
- A global footprint because our function is global and your needs are global

A Truly International Approach

- Offices on four continents
- Successful projects in 20 countries from Switzerland to Kazakhstan

Structured to leverage a large network expertise

- Private organization, wholly owned by its associates
- All associates were executives in purchasing, supply chain and people development within large corporations
- International core team of over 30 people and expert network of more than 500 senior professionals
- Client list: Over 50 large multinational companies across all sectors
- 80% of our projects are follow-on contracts or referrals

A powerful network to capture best practices

Issue	Expert Network Leverage
Develop a training for junior purchasers in Poland that includes a section on handling of suppliers in Pakistan and Bangladesh	A Big Fish Senior Associate identified in our network a buyer for a large retail chain, with responsibility over textile purchase, called him and developed a case and recommendation best practices to incorporate in the training material
A client wanted to develop in a new country but had drafted a specification for recruitment that was underestimating the complexity of the situation	Big Fish used references from our network to highlight the issues at stake and enhance the job description to insure that the person hired has the skills to deliver expected results

Successful Projects

Client	Project	Big Fish Added Value
Thales (Multiple divisions)	Organization training	• Trained more than 1000 people to manage cooperative relations with suppliers towards long term corporate objectives • Managed joint supplier – client meetings
	Assessment	• 1400 people assessed prior to a re-engineering initiative
Kraft Biscuit	Embedded recruitment	• Recruit purchasing and supply chain management professionals • Reduce vacancy rate by 50% • Improve retention rate
Danone	People Productivity Development in Supply Chain	• Train organization in Europe, Africa, Asia, and Americas • Create a quantum leap in Excellency in Global Supply Chain Operations
Swarovski	Corporate wide assessment of supplier management	• Established medium term organizational targets in supplier management • Assessed global organization • Developed action plans at individual, task and department levels
Areva	Organization build-up in remote countries	• Recruited for new locations in central Asia and North America
Siemens	Training	• Support Siemens in the systematic development of teams in charge of strategic supplier management
Volvo Trucks	Collaborative Sourcing	• Raised awareness of the need to develop more strategic approaches to supplier management • Provided methodologies to increase focus on shareholder value in supplier management

Thank you

- Do not hesitate to contact me in the future with your questions and comments
- **Presentation on www.sourcing-plus.com**
- michelphilippart@e-bigfish.com
- +33 6 86 76 45 93