

THE **EVOLUTION** OF TODAY'S SUPPLY CHAIN FUNCTION

THE PROCUREMENT CENTRE

- **Founded in 1996**
- **Specialize in Supply Chain Activities**
- **Professional Services (Staffing), Consulting, and Training**
- **90 Employees**

CLIENT REFERENCEES



WHAT ARE YOUR
EXPECTATIONS
FOR THIS PRESENTATION

TONIGHTS MISSION

- **Evolution of Purchasing to Supply Chain**
- **Strategic Sourcing: What is it and how does this relate to Proposal Issues**
- **Performance Metrics**

SUPPLY CHAIN

vs.

PURCHASING AGENT

- **Purchasing Agent of the 1970's**
- **Purchasing Managers in the 1980's & 1990's**
- **Supply Chain Managers of Today**

“CHARACTER” ISTICS PURCHASING AGENT OF THE 1970’S

- “Three Bids and a Buy—Extent of Job!
- Purchasing Staffs stayed in their Silos
- Engineering was a *Bad Word*
- Lunch Time was Favorite Time of Day
- Supplier was NEVER right
- Accounting was Necessary Evil
- Today: **20%** Still Out There

PURCHASING MANAGERS IN THE 1980'S & 1990'S

- **Became Procurement Managers**
- **Warehousing**
- **Material Control Activities**
- **Logistics**
- **Expanded Responsibility and Scope to include “Strategic” Alliances & “Partnering”**
- **Endured “Re-Engineering, Down Sizing, etc.**
- **50% Still in Work Force**

MODERN DAY SUPPLY CHAIN MANAGERS

- Gets Involved in the Planning Stages
- Works Closely with Engineering & Operations
- Continues Responsibility of Procurement, Warehousing, Materials Management, and Logistics
- Involved in Payment Cycle-And Understands Importance!
- Believes: **Shaping Strategic RELATIONSHIPS with Key Suppliers is MANDATORY for Success**
- Recognized by CEO's as Vital Team Member
- **30%** of Today's Supply Chain Leadership

Supply Chain Management is the Total System Involvement of Planning, Procurement, Materials Management, Logistics, Supplier Relationships, and the Payment Cycle in Order to Achieve a COLLABORATIVE Result to Improve the TOTAL VALUE of Goods and Services Acquired by a Company.

STRATEGIC SOURCING

- A Key Building Block for Supply Chain Organizations
- What Is It????
- “The Model”
- Why Is It Important

THIS THING CALLED: STRATEGIC SOURCING

What is it?

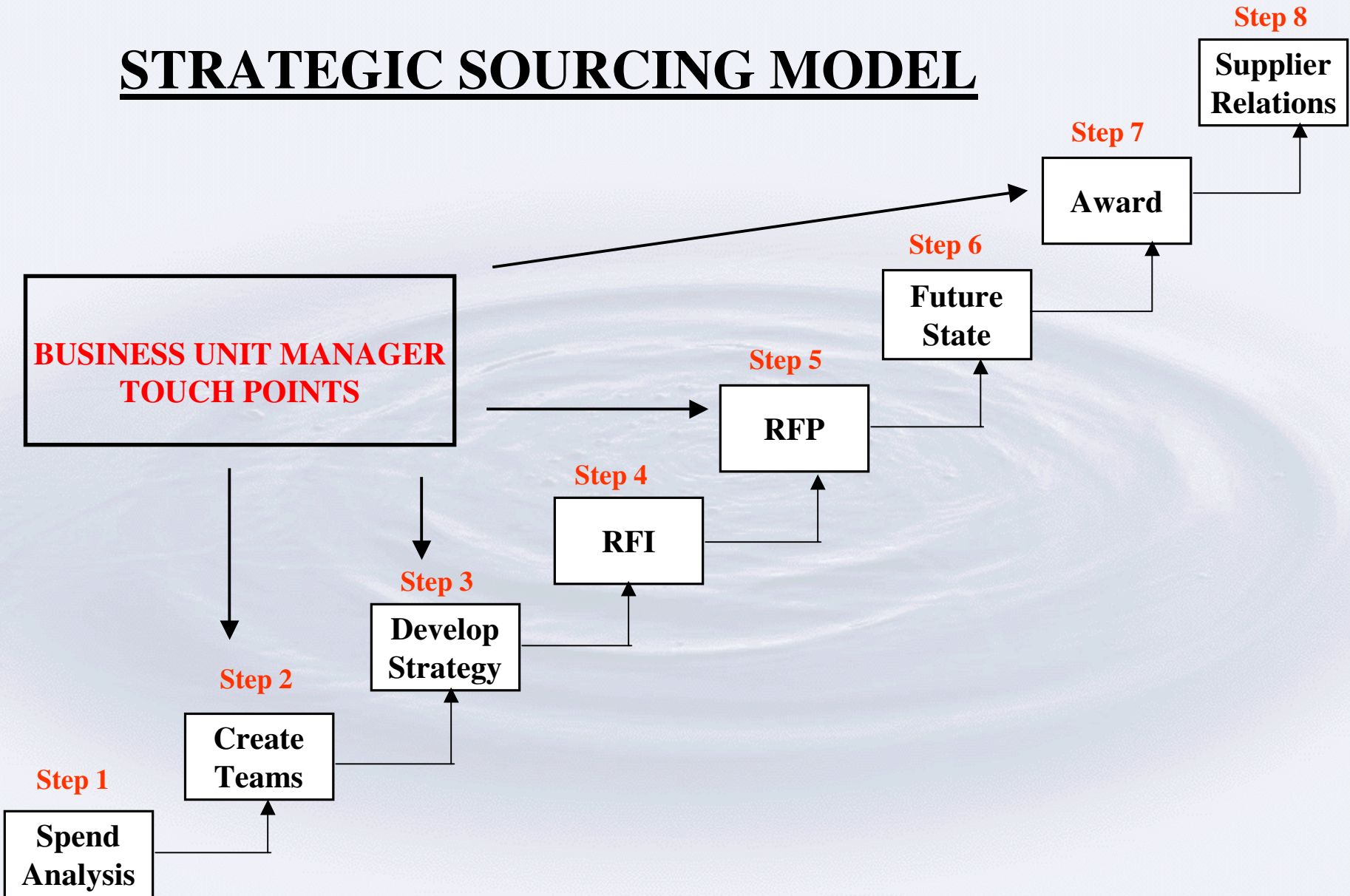
- ◆ Strategic Sourcing is an organized and collaborative approach to leveraging targeted spend across Company locations and Business Units with select suppliers that are best suited to create knowledge and value in the customer-supplier interface.

STRATEGIC SOURCING

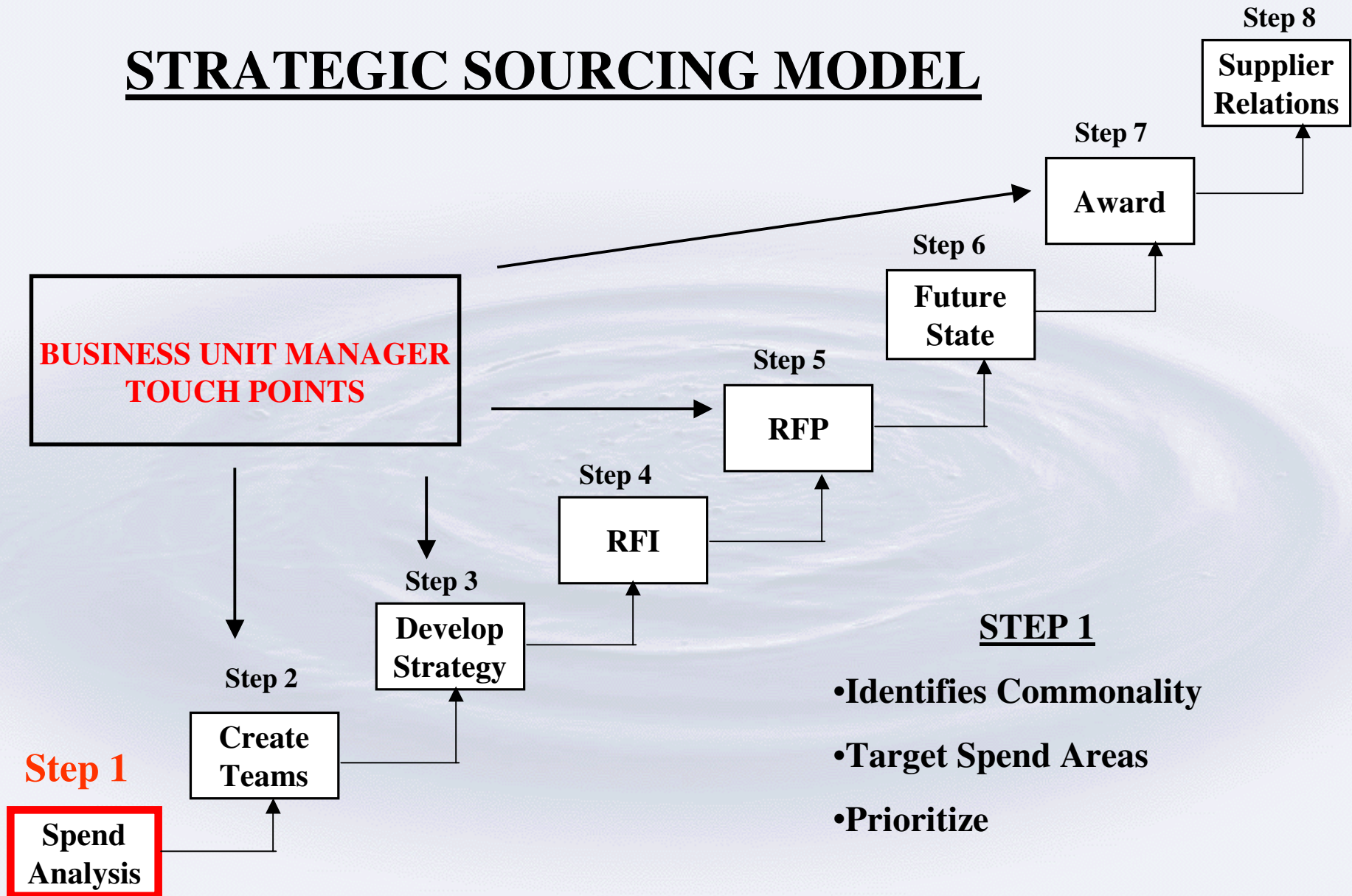
Key Elements

- # **STEP 1: Spend Analysis**
- # **STEP 2: Create Sourcing Teams**
- # **STEP 3: Evaluate Needs and Develop Strategy**
- # **STEP 4: Gather Market Information**
- # **STEP 5: Develop Supplier Portfolio**
- # **STEP 6: Develop Future State**
- # **STEP 7: Negotiate, Evaluate, Commit and Agree**
- # **STEP 8: Relationship Management and Maintenance**

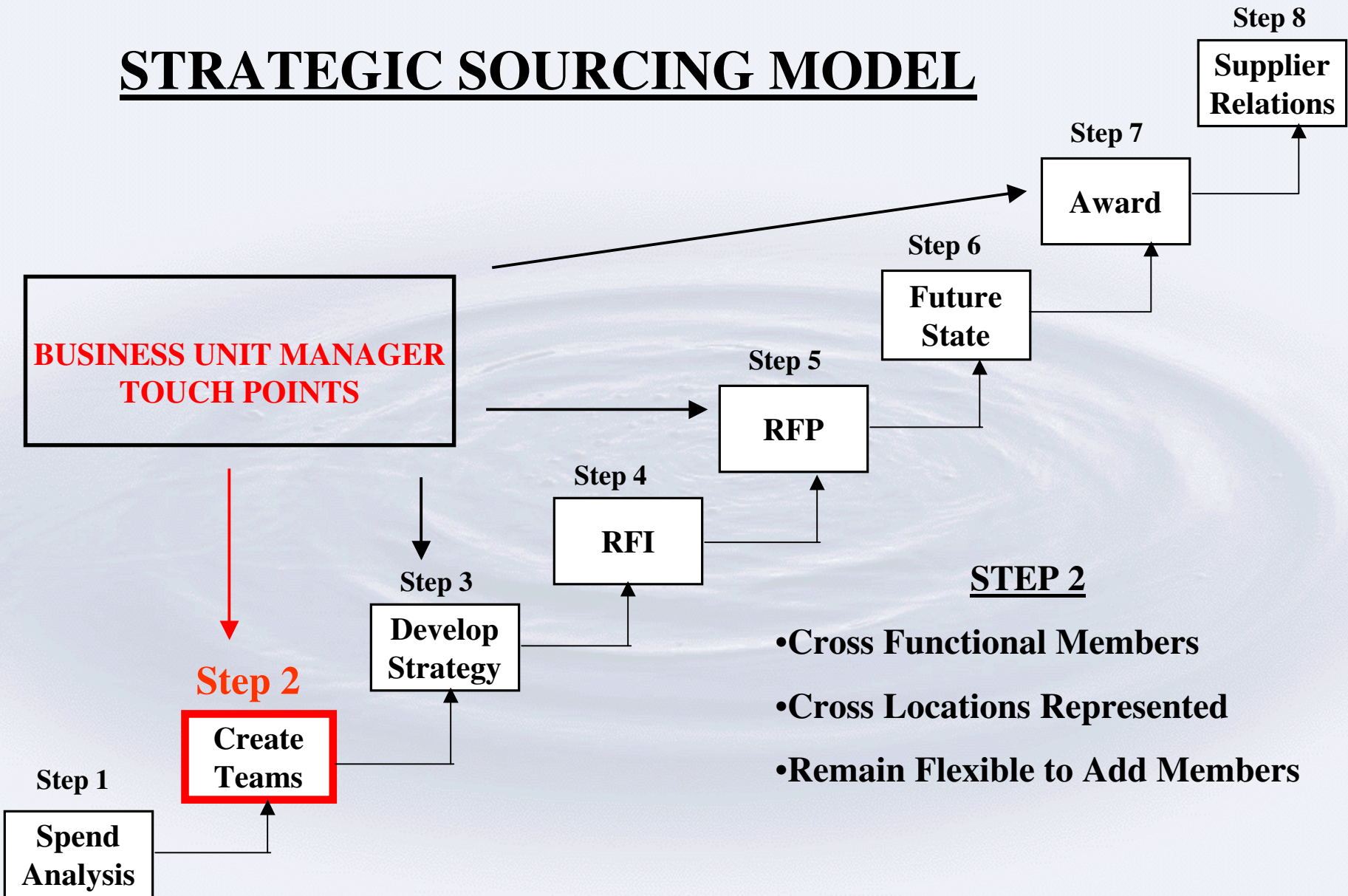
STRATEGIC SOURCING MODEL



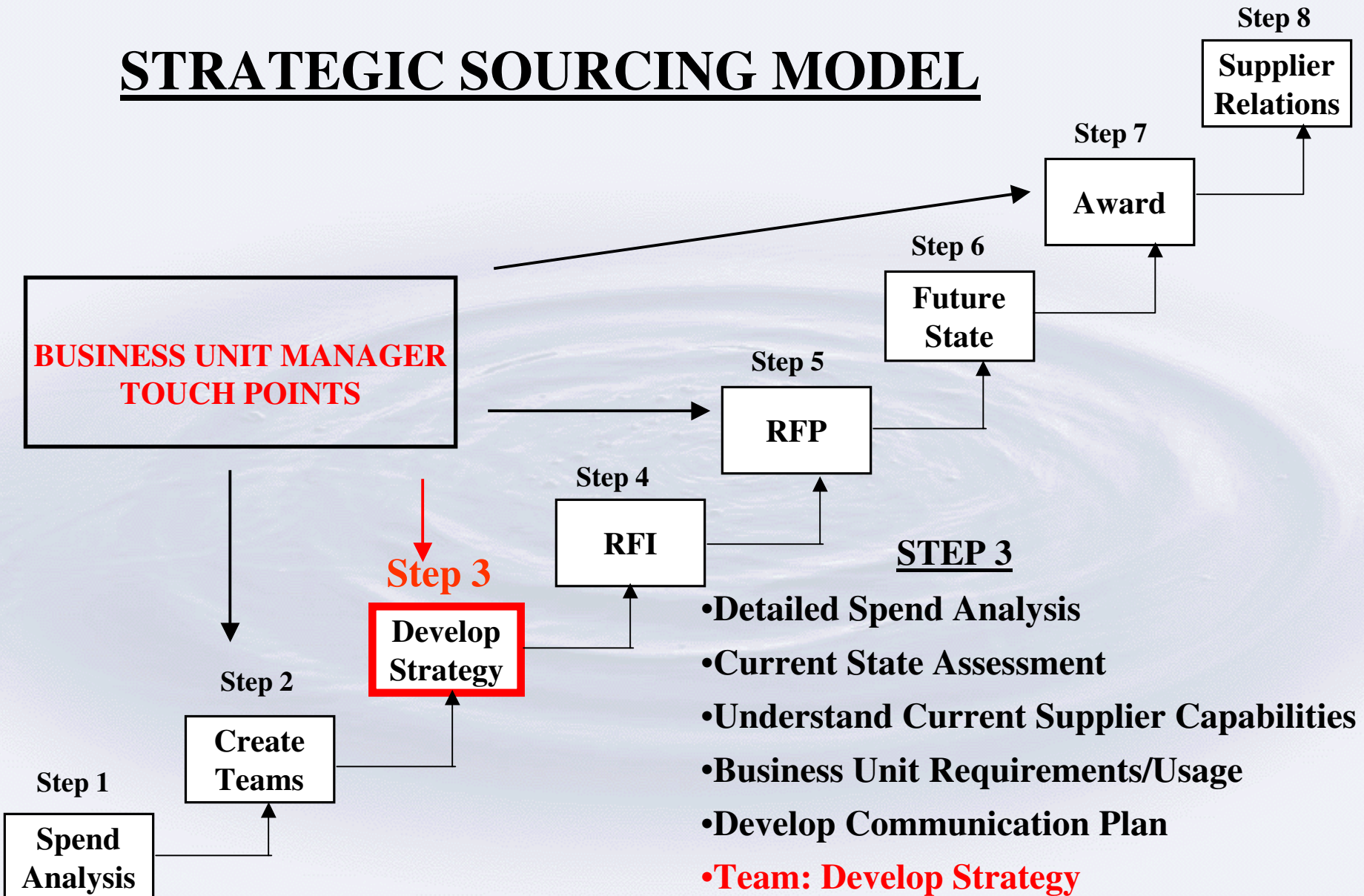
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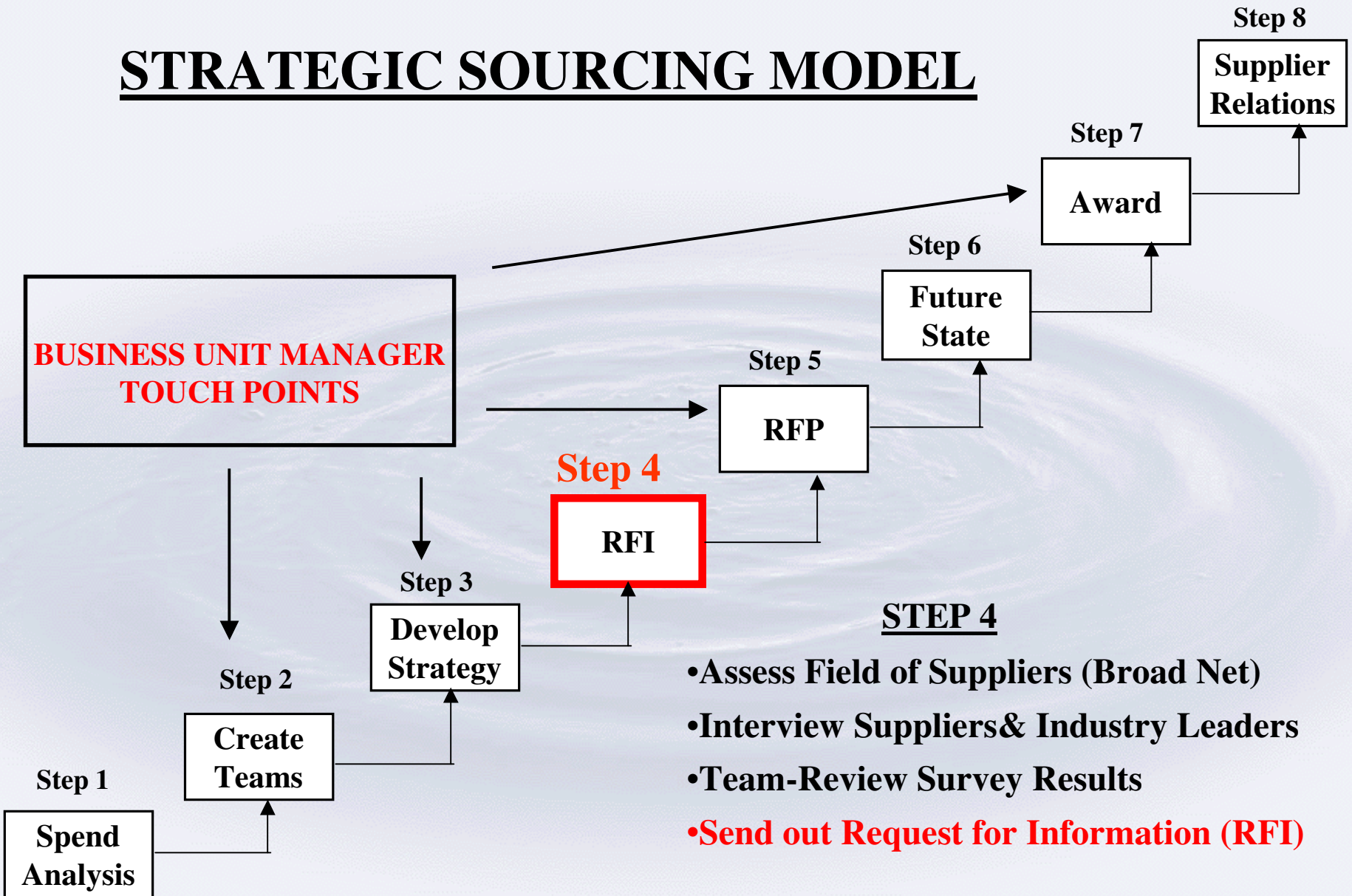
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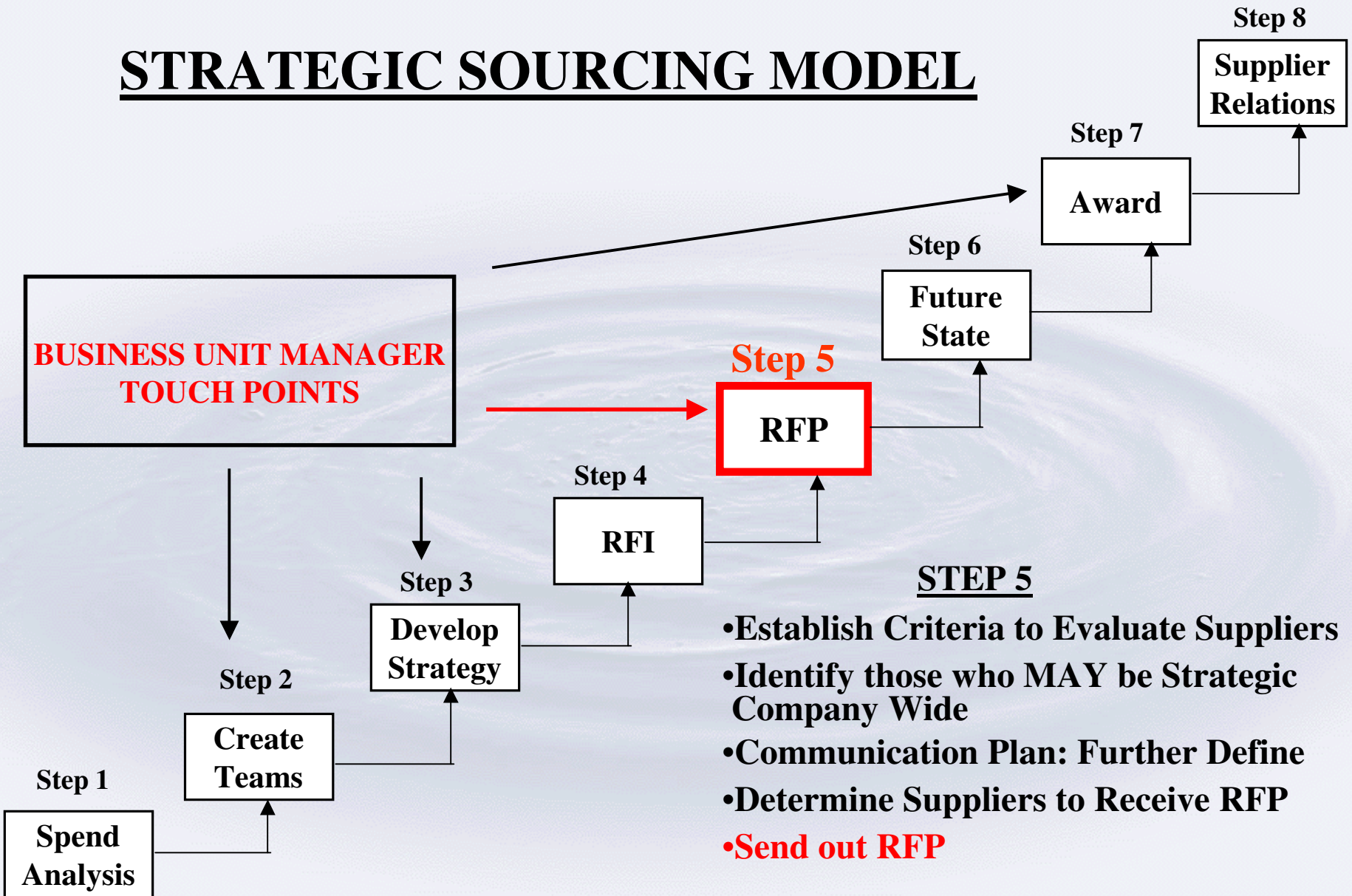
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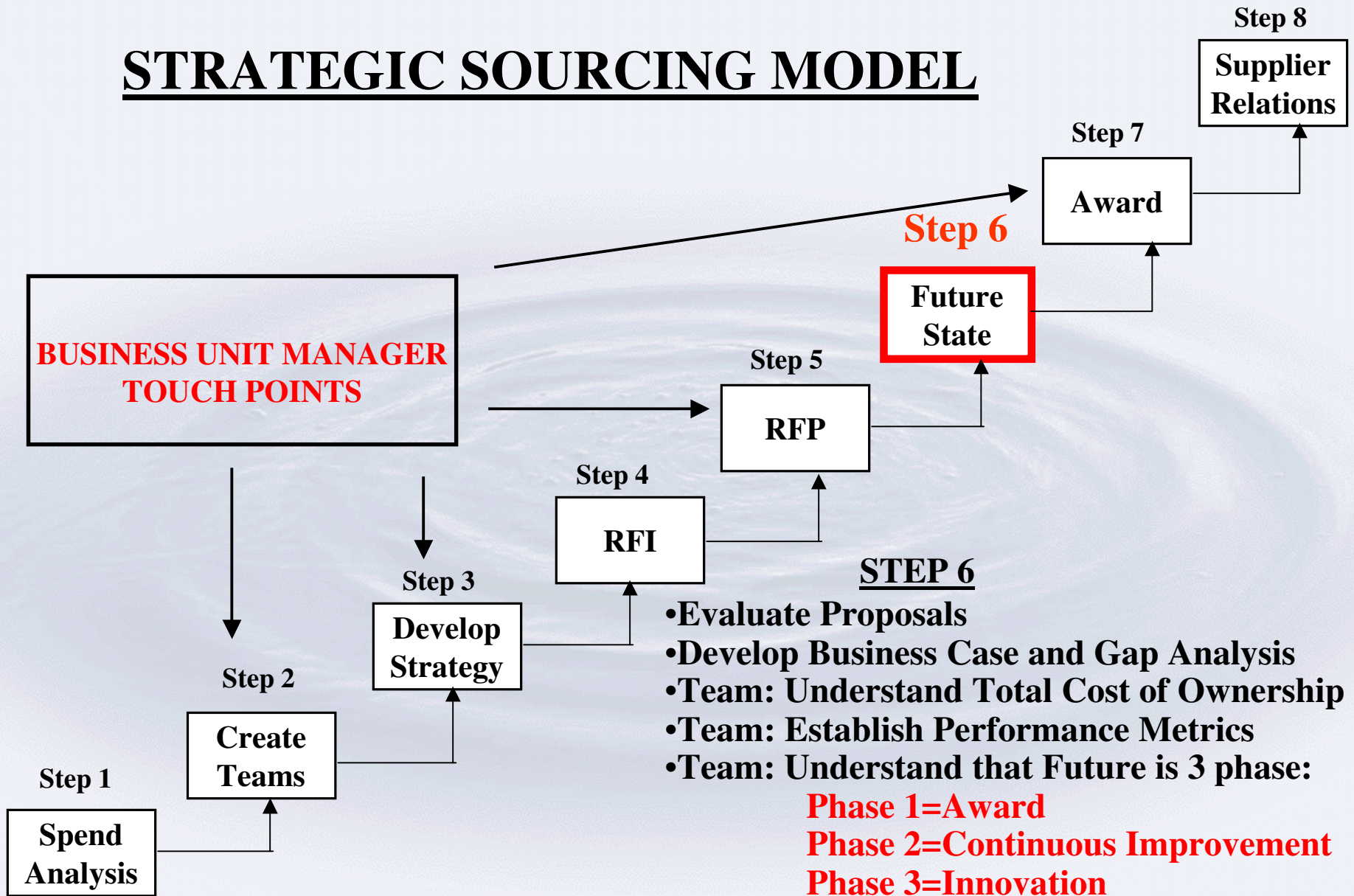
STRATEGIC SOURCING MODEL



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STRATEGIC SOURCING MODEL



STRATEGIC SOURCING

Total Cost of Ownership = A + (O+T+M+W+E) Less S

A = Acquisition Cost (25-40%)

O = Operating Costs

T = Training Costs

M = Maintenance Costs

W = Warehousing Costs

E = Environmental Costs

S = Salvage Value

60-75%

PERFORMANCE METRICS OR

“WHAT HAPPENED?”

- **Unscheduled Downtime**
- **Service Measures**
- **Material Availability**
- **Maintenance Costs (Reduced)**
- **Downtime Due to Product Performance**
- **Response Time**
- **Expenditure Reductions**
- **Internal Processes Improved**
- **Training Cost (reduced)**
- **REVENUE ENHANCEMENTS**
- **Manufacturing Defects**
- **Warranty Issues/Resolutions**
- **Meets Design Specifications**
- **Efficiency Measures**
- **On Time Delivery**
- **Inventory Turnover Rate**
- **Customer Satisfaction**
- **Transactional to Strategic**
- **Cycle Time**

ANY MENTION OF PRICE?

PERFORMANCE METRICS “DEFINITION”

Definition can be generically defined as:

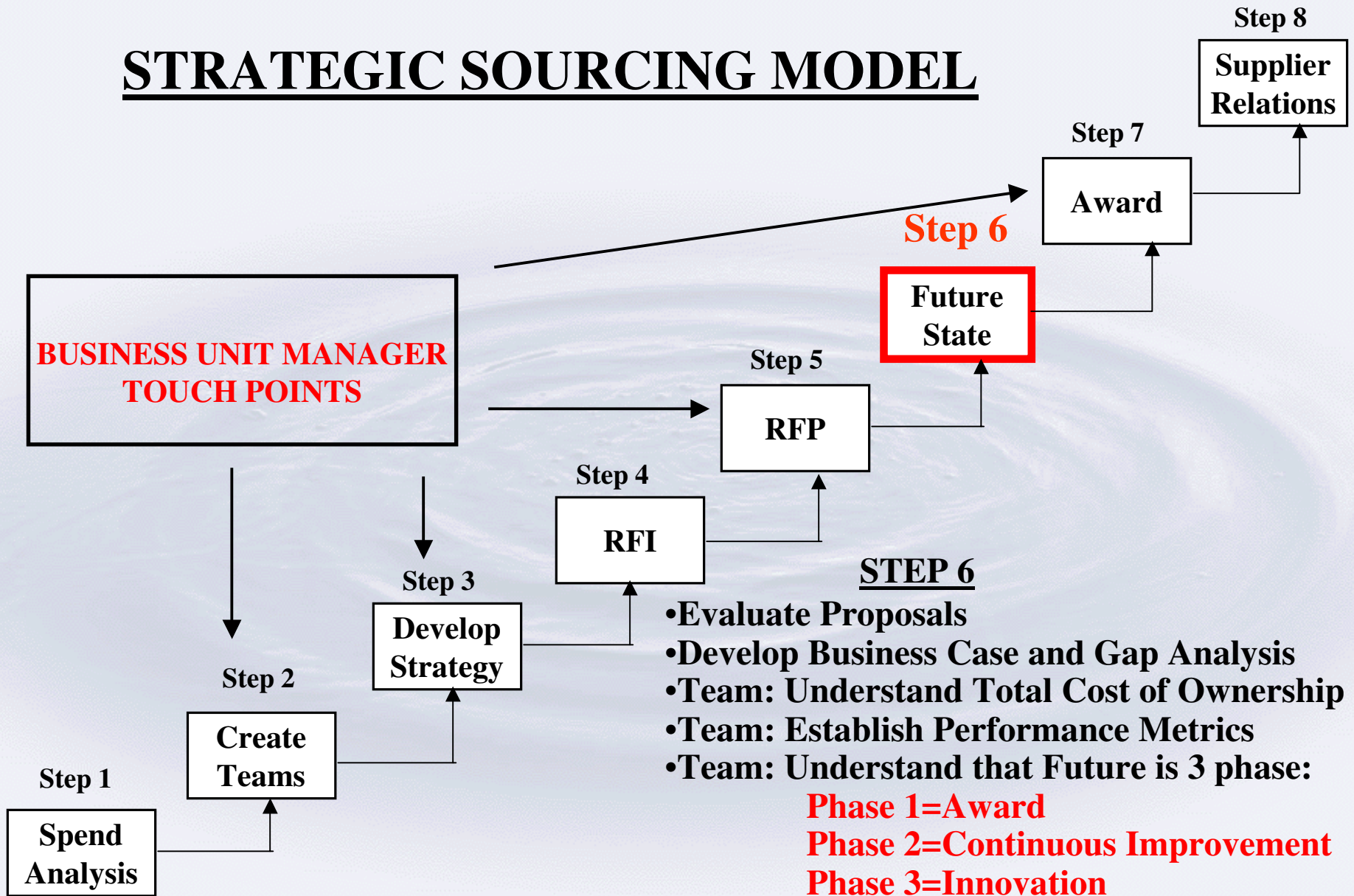
*critical business metrics used to measure
IMPROVEMENT areas that will lead to
business EFFECTIVENESS*

PERFORMANCE METRICS

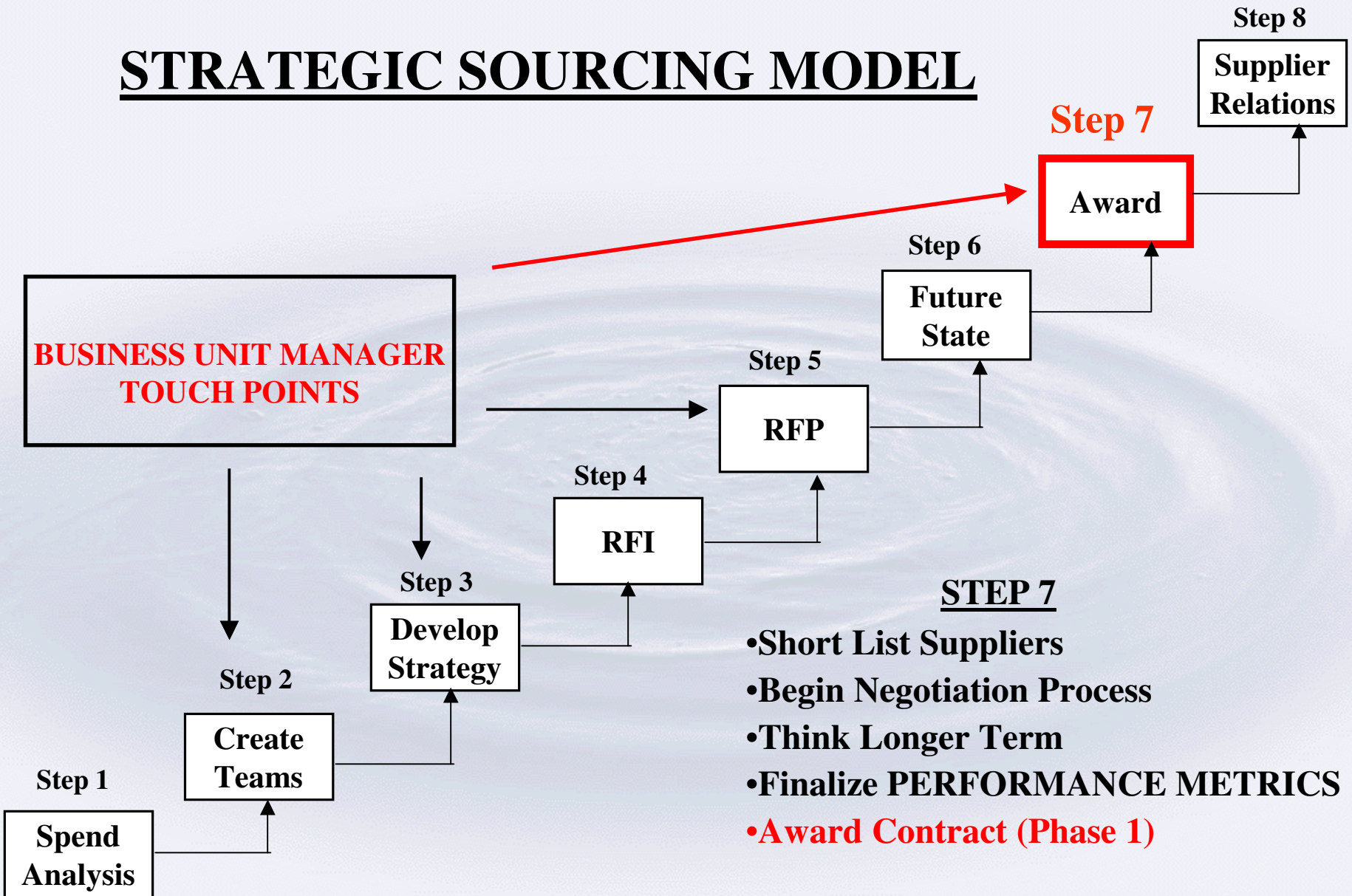
“One of the Most Important Success Factors in Implementing Any Project or Process is Finding the Way to Measure *Effectiveness*”

- **Supply Chain Organizations Must Measure Their Internal Performance**
- **Supply Chain Organizations Require that Their Suppliers Ensure Maximization of Value**
- **YOU BECOME WHAT YOU MEASURE**

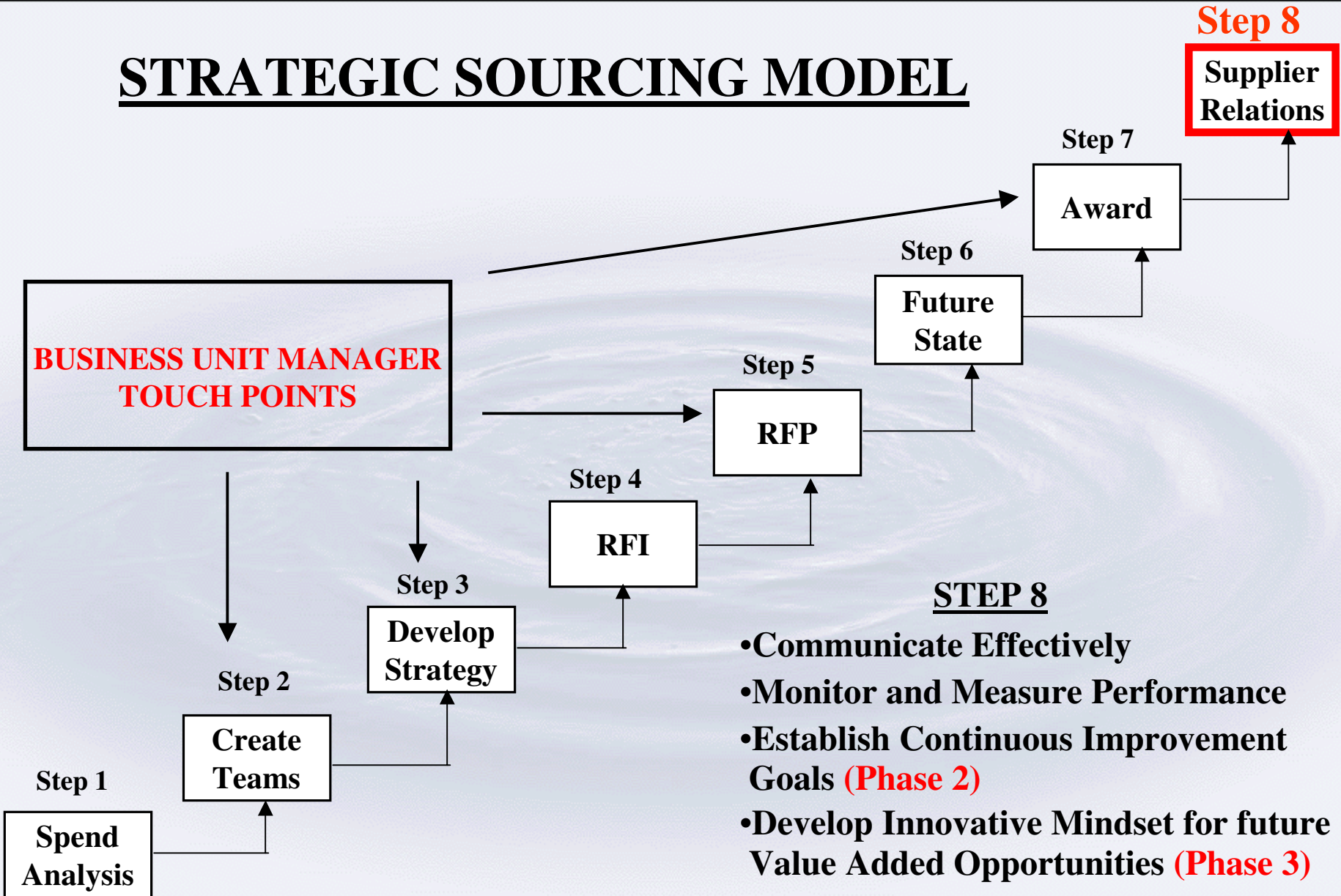
STRATEGIC SOURCING MODEL



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STRATEGIC SOURCING MODEL



STEP 8

- **Communicate Effectively**
- **Monitor and Measure Performance**
- **Establish Continuous Improvement Goals (Phase 2)**
- **Develop Innovative Mindset for future Value Added Opportunities (Phase 3)**

Building an Effective Supply Chain

- **How Are Your Supplier Relationships?**



**Supplier
Knowledge
Not used**

**Customer
Needs Not
Understood**

STRATEGIC SOURCING

- **Why is it important?? Because it:**
 - # Organizes our thinking about an approach to leverage spending
 - # Makes us operate collaboratively across business units
 - # Encourages us to think creatively about supplier relationships
 - # Focuses on opportunities to generate savings in targeted spending areas
 - # Requires us to develop new thinking about performance metrics
 - # May lead to other forms of value as well:
 - ✦ *Quality improvement*
 - ✦ *Improved internal teamwork and communication*
 - ✦ *New sources not previously considered may be developed*
 - ✦ *Streamlined business processes (internal and external)*
 - ✦ *Innovation in the relationships with key suppliers*

HOW CAN YOU COUNTER PRICING ISSUES??

- Offer Effective and Meaningful Reporting Mechanism
- Continue to Emphasize R & D Successes
- Understand and **Sell** Continuous Improvement Opportunities
- Oversell Technical Support and Expertise
- Find Out Clients/Non-Clients “Sore Spots” and Provide Remedy
- Document and **SELL** Total Cost of Ownership of Your Products
- Emphasize **REVENUE ENHANCEMENT** vs. **PRICE OF PRODUCT**

SUMMARY AND WRAP UP