



# Management of Supplier Innovation for Competitive Advantages

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Purchasing as a Tool for Growth

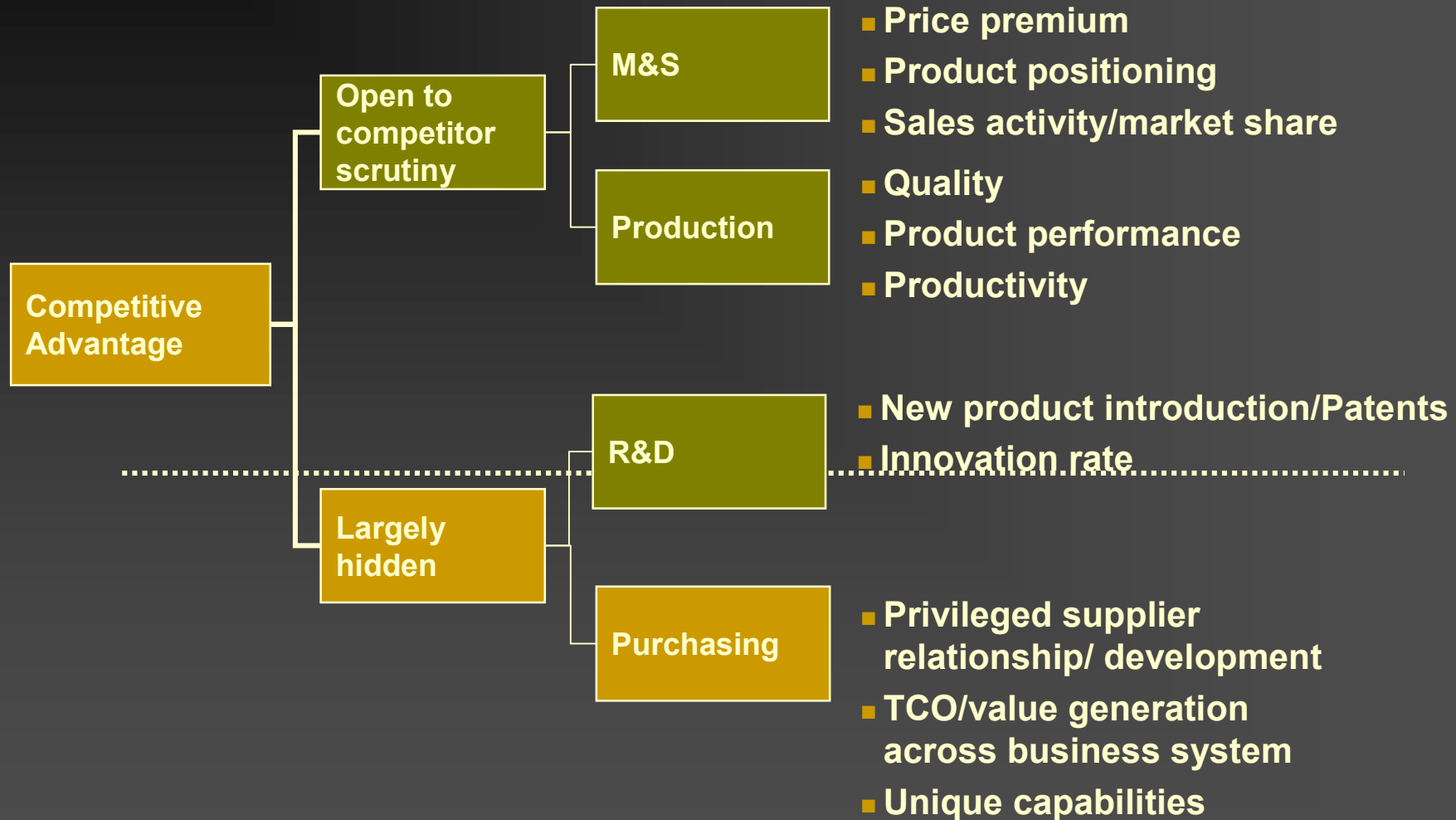
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- 7 years in consulting
  - Booz Allen Hamilton
  - McKinsey
- 7 years in international purchasing development
  - PepsiCo / Frito-Lay
  - Scotts
- Today working independently - “Sourcing Plus”
  - Consulting
  - Training / Teaching / Coaching
  - Interim
  - Site: [www.sourcing-plus.com](http://www.sourcing-plus.com)

# Is Purchasing a Basic Survival Skill?

- Your best competitors work on purchasing as hard as you do
- ... and obtain similar price decreases
- ... that the sales force must give away to stay competitive
- ... which does not improve either competitive position or profitability
- Those who cannot follow disappear. Is purchasing a basic survival skill?

# Or Can We Leverage Supplier Relation to a Hidden Competitive Advantage



# Exclusivity Can Generate Profits Much Faster Than Price Decrease

Decrease cost of key component by 10%: +68k€



Increase sales revenues by 10%: Contribution: +200k€



# Agenda



1. Revenue focus in Purchasing
2. Levers of supplier contribution
3. Discussion

# When Traditional Purchasing Falls Short

- **Everybody negotiates hard**
- **Differentiation is limited as many good companies leverage the same approaches**
- **Competition for market share quickly erases the negotiation benefits as they flow to the end users**



# Across Industries

## Retailers

- Can suppliers help me reduce working capital?
- Can suppliers help me improve store appearance?
- What supplier strategies will allow me to differentiate from other retailers?

## Luxury Goods

- How can I secure strategic raw materials in short supply?
- How do I control and improve the performance of essential subcontractor craftsmen
- How do I insure that my best subcontractors are not attracted by competitors?

## Packaged Goods

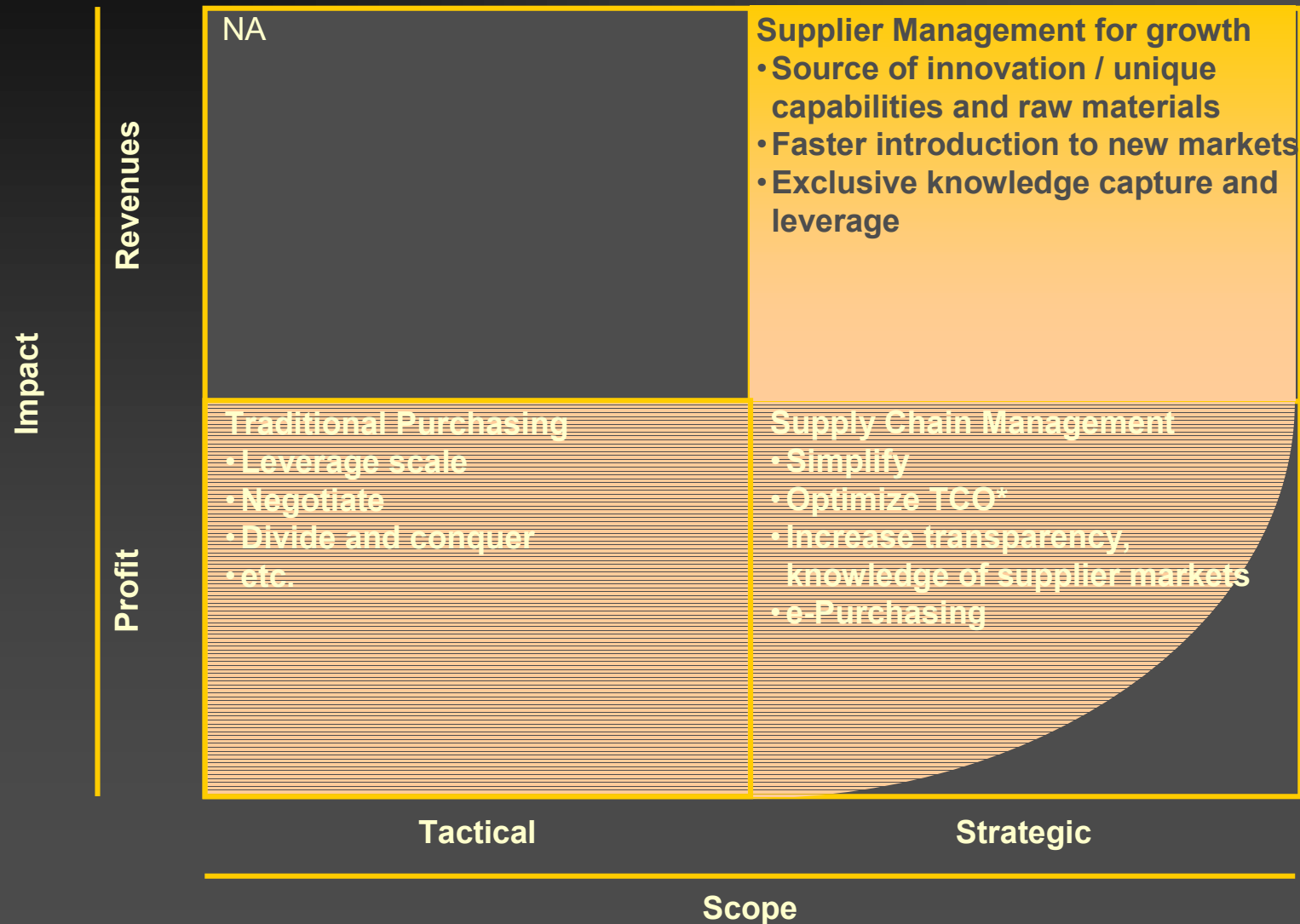
- How do I leverage supplier innovation to differentiate beyond advertising?
- How do I speed up development of countries where I have acquired local players

## P&C Insurer

- How to move claim related purchasing from an administrative task to a way of securing competitive advantages
  - Better, faster claim processing
  - More replacement options
  - Regional agreements with suppliers



# Expanding the Role of Purchasing



# Benefits of Each Level

## Focus of Supplier Management



Differentiation and lifecycle market value

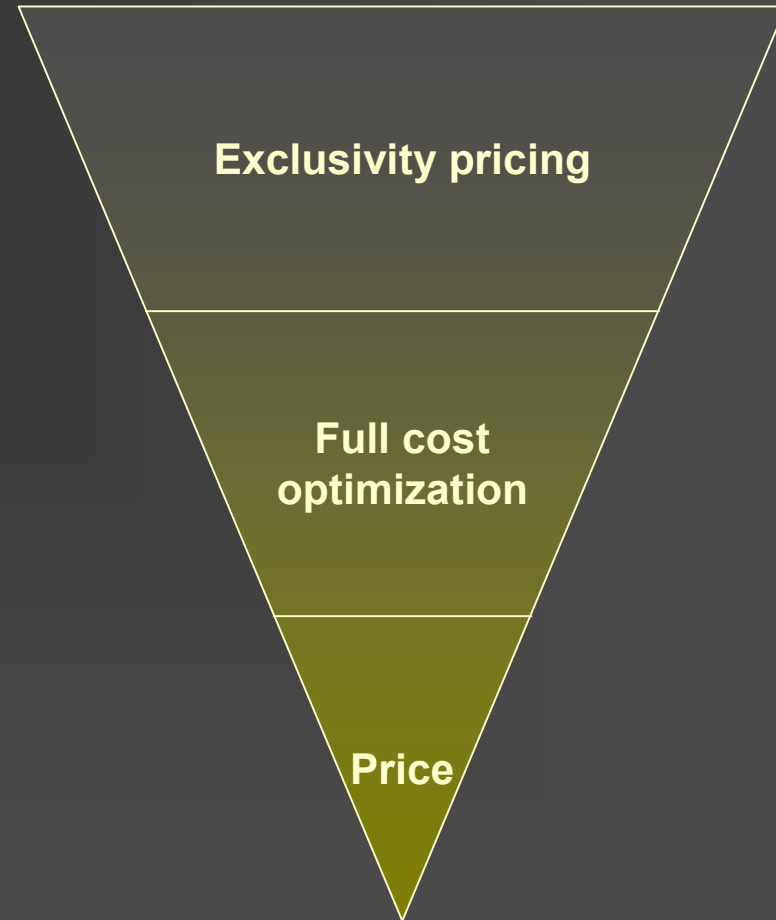


Total cost of ownership






Negotiation





















## Benefits of Supplier Management



Value

# Potential Impact of Supplier Development Across Industries

-  Not applicable
-  Some applications
-  Key opportunity

Industry	Development	Manufacturing / Back office	Distribution/ Delivery	Marketing and Sales
Automotive				
Consumer Products				
Financial Services				
Fine Chemicals/ Pharma				
Electronics				

# Examples Across the Value Chain



- Packaging and flavoring suppliers develop and produce winning differentiation from competitors (Frito-Lay)

- Equipment manufacturers co-develop exclusive production line technology that increases yield and quality (multiple)

- Distribution partner makes product ubiquitous, with lower working capital and more availability than competition (Dell)

- Effective promotion design and production provide market pull (McDonald)
- Global branding drives complexity reduction, more effective promotion, etc (Multiple)

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1. Revenue focus in Purchasing



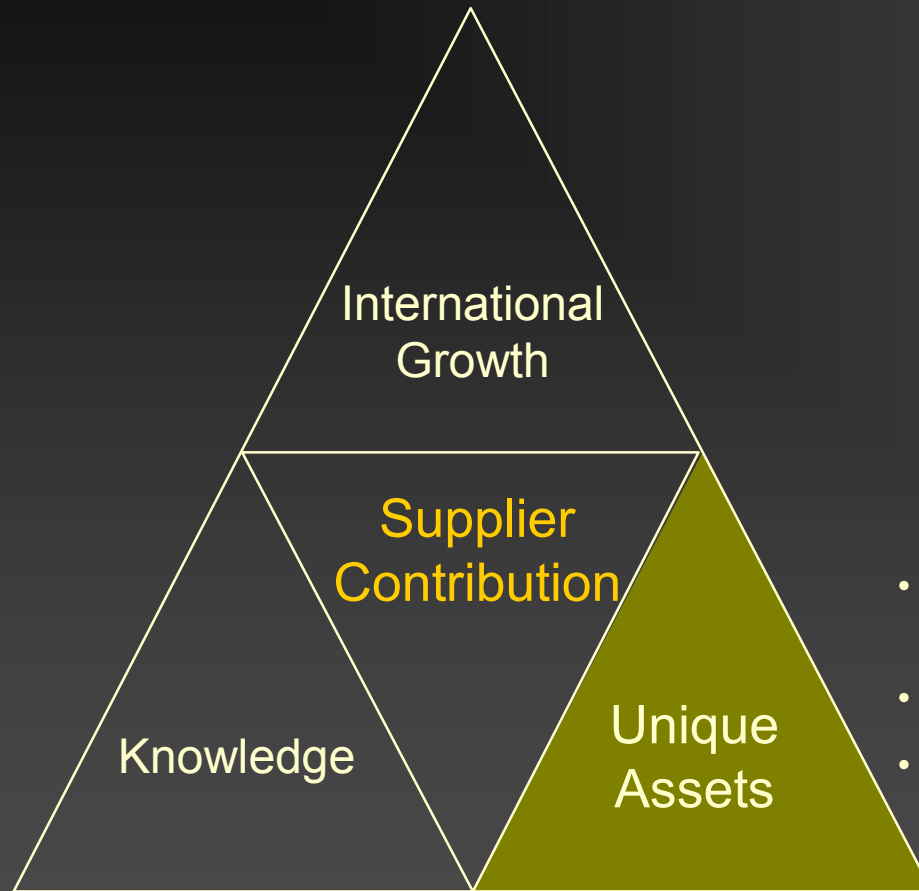
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# International Suppliers Contribution



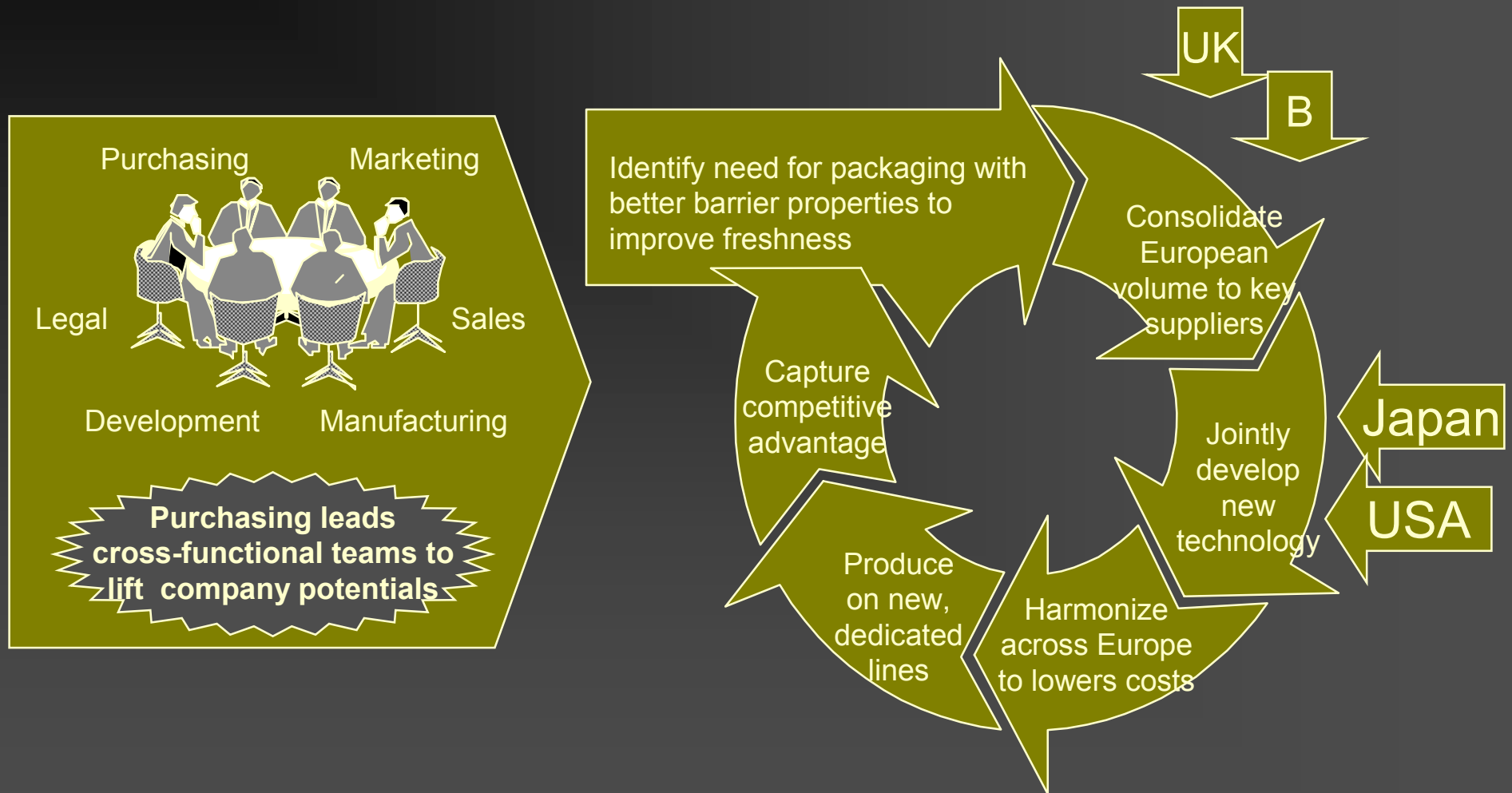
# Skills Lever



**Capture of supplier's unique assets (physical or intellectual) to grow current markets**

- Involve Purchasing with marketing when identifying consumer demand currently not satisfied properly
- Develop supplier capability to provide it
- Manage relation with supplier to isolate new capability from competitors

# Example : Consumer Goods

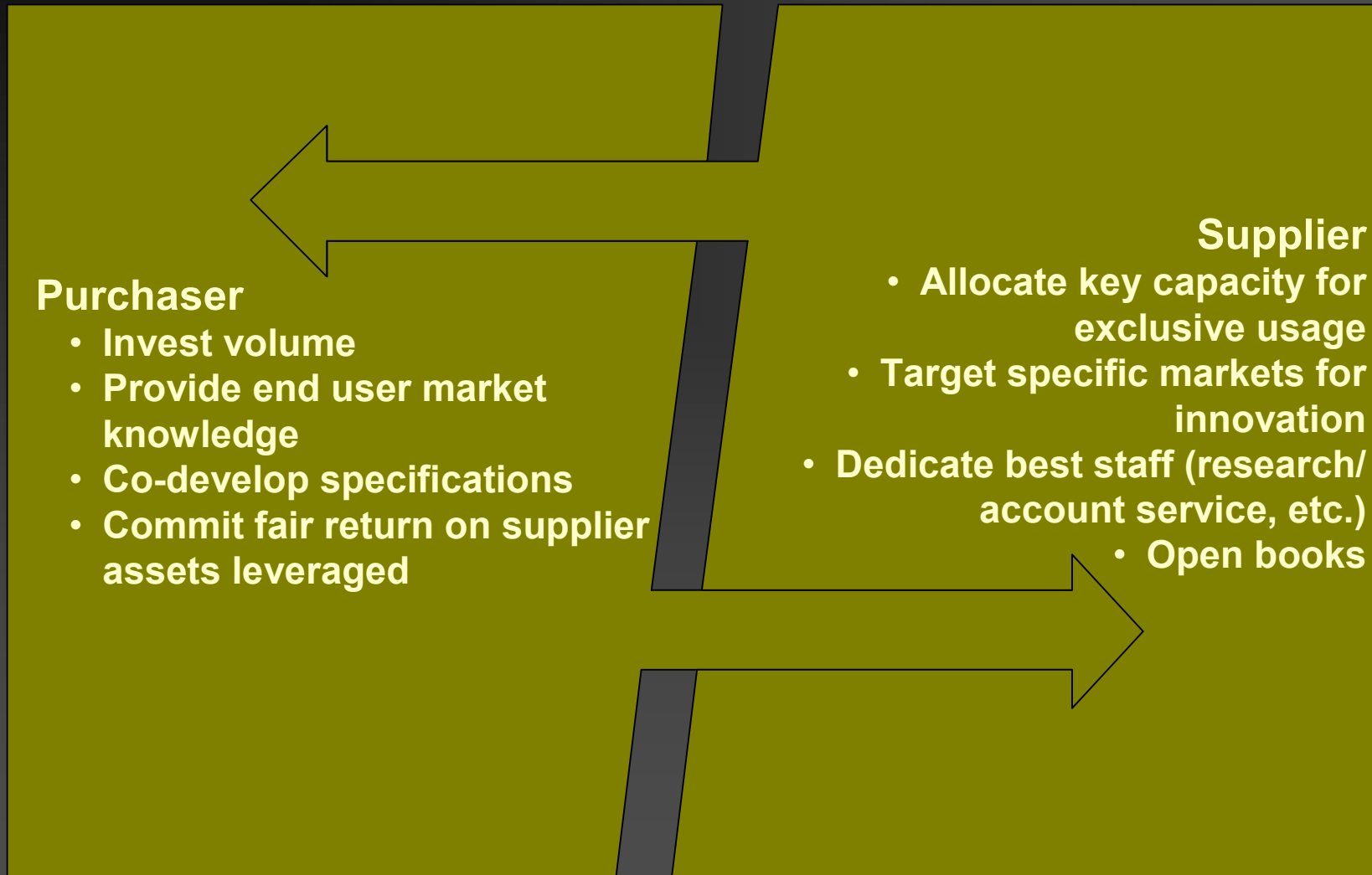




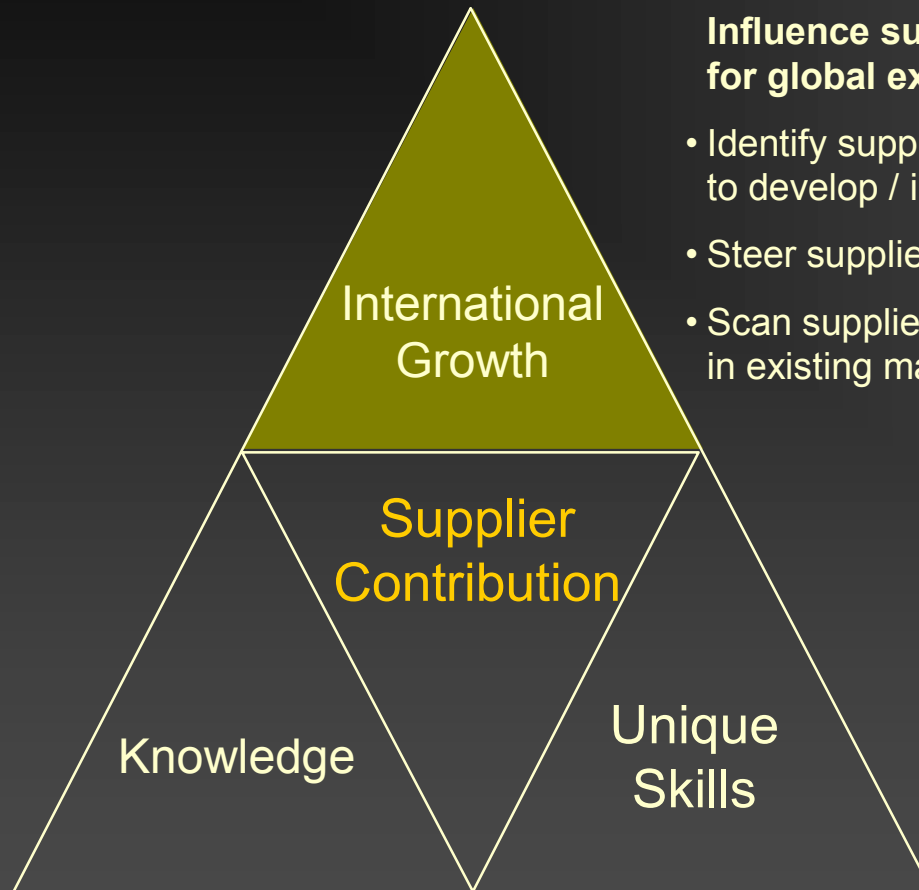
# Impact of Supplier Innovation Capture

- 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

# Win-Win Supplier Relationships



# Internationalization Lever

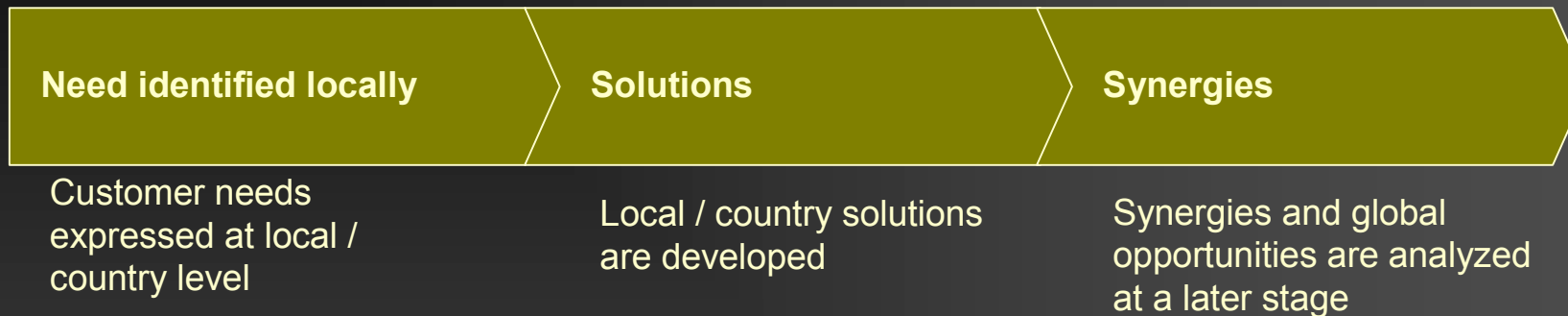


**Influence supplier development and leverage supplier structure for global expansion**

- Identify supplier's capabilities in existing markets that are necessary to develop / improve competitiveness in new markets
- Steer supplier's development to match
- Scan suppliers in new markets for capabilities that can be leveraged in existing markets and insure transfer

# Global Solution Development

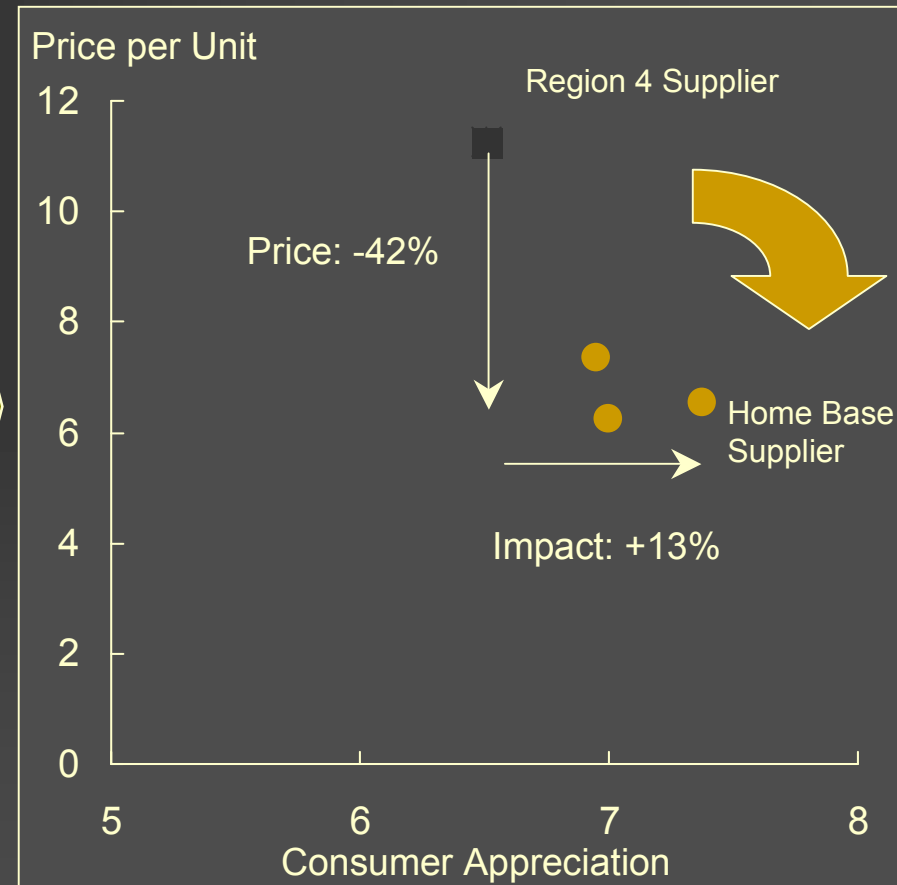
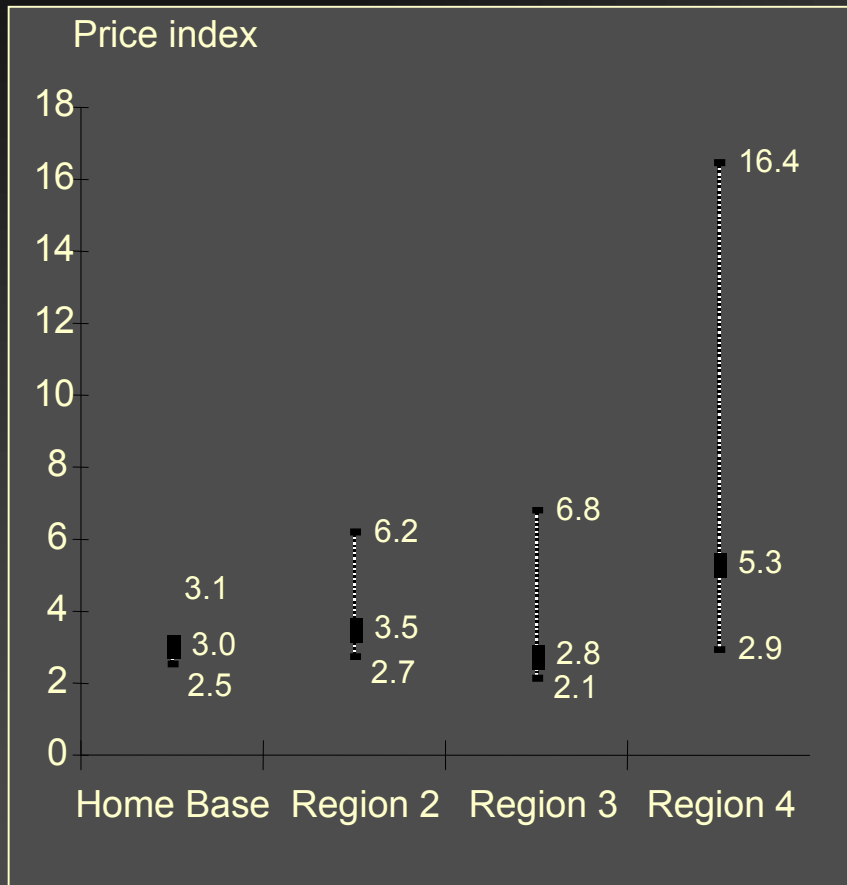
From



To



# Example : Consumer Good Industry



Complex flavor

# Global Purchasing Leverage

- Global expansion via M&A or green field

- Increasing global trade

- Regional integration to capture competitive advantages

## Purchasing Leverage

- Development of new regional supply base
- Extension of current supplier base into new regions
- Leverage of suppliers with global assets
- Regionalization/ Globalization of Purchasing

# Leverage of New Suppliers

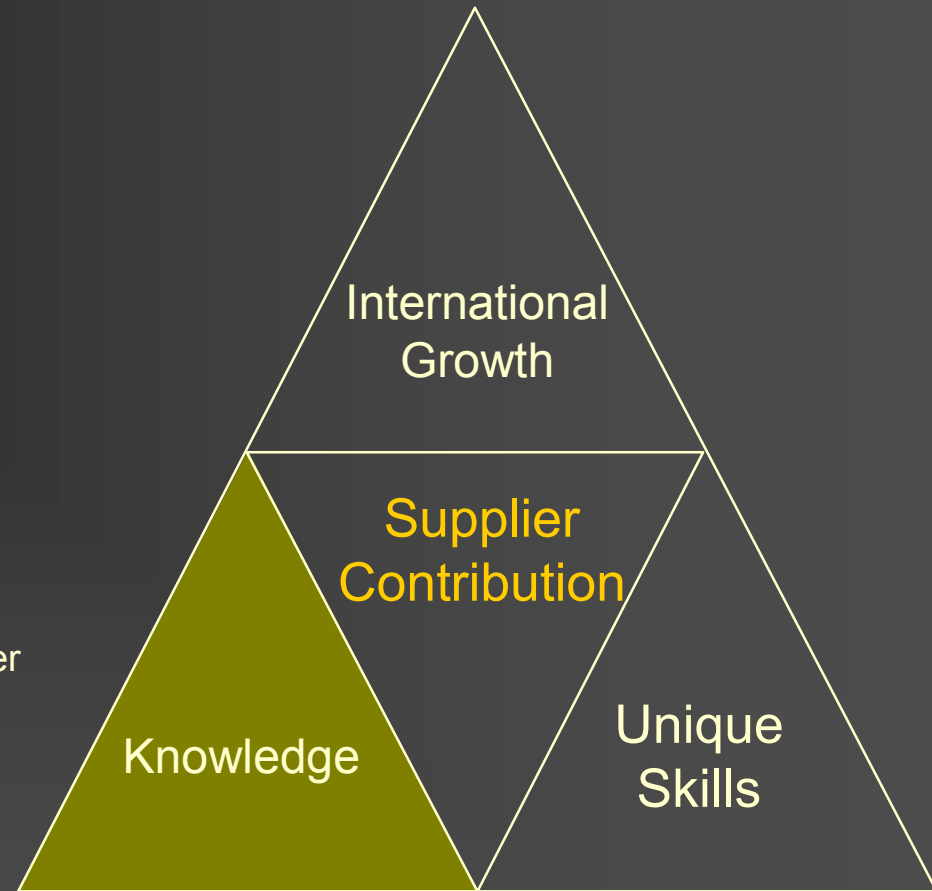
- Integration of suppliers from new regions into supplier network and potential use in home market
- Improve knowledge base about cost of materials, capabilities, etc.
- Targeted identification and development of new suppliers for global use
- Relation with suppliers that are growing via M&A

- **Traditional market base leverage**
  - Improved supply options
  - Access to new production methods
  - Better information

# Knowledge Lever

**Jointly manage information from development to consumer**

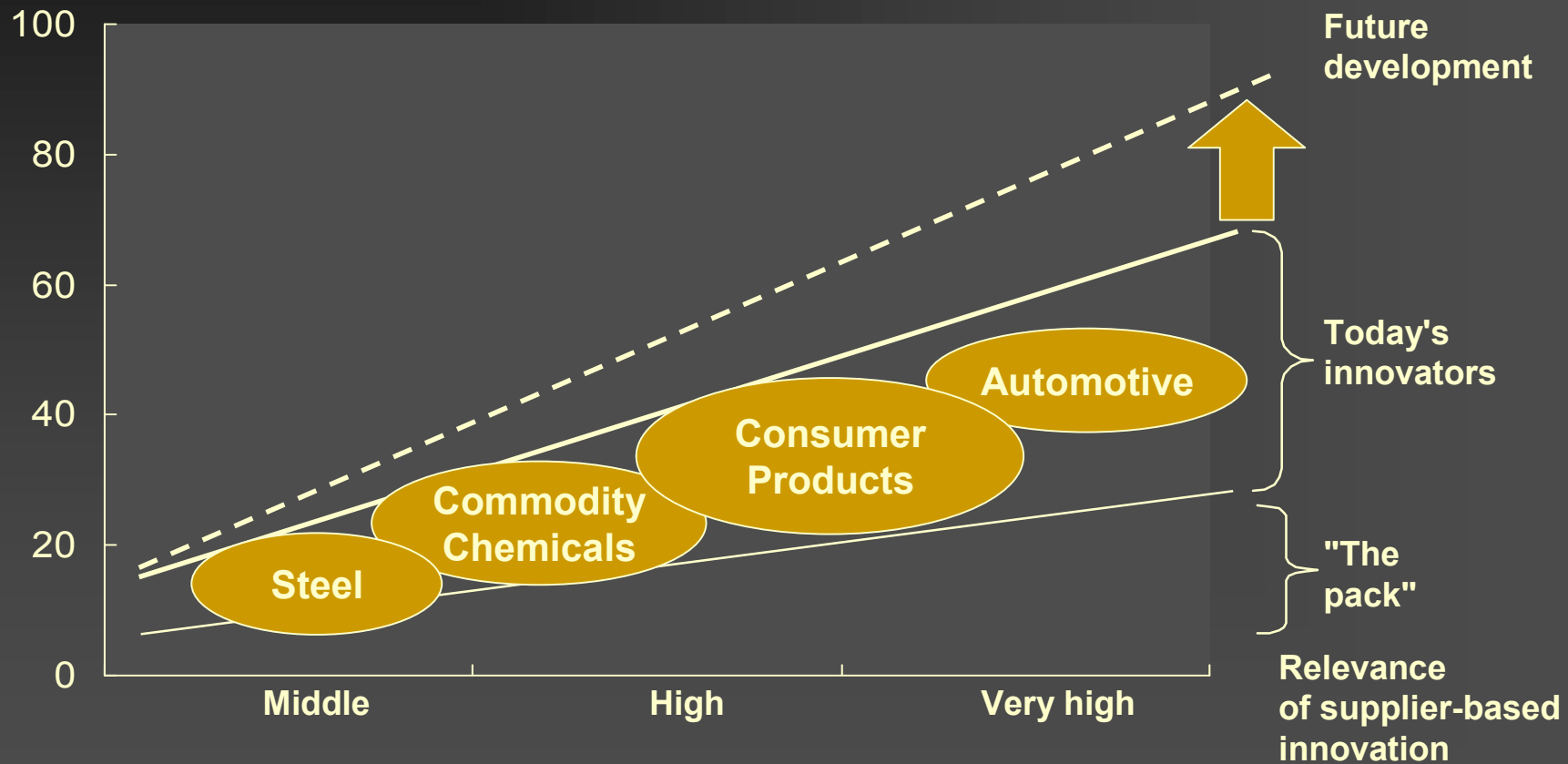
- Targeted development
- Seamless transfer of information from POS to supplier to integrate supply management



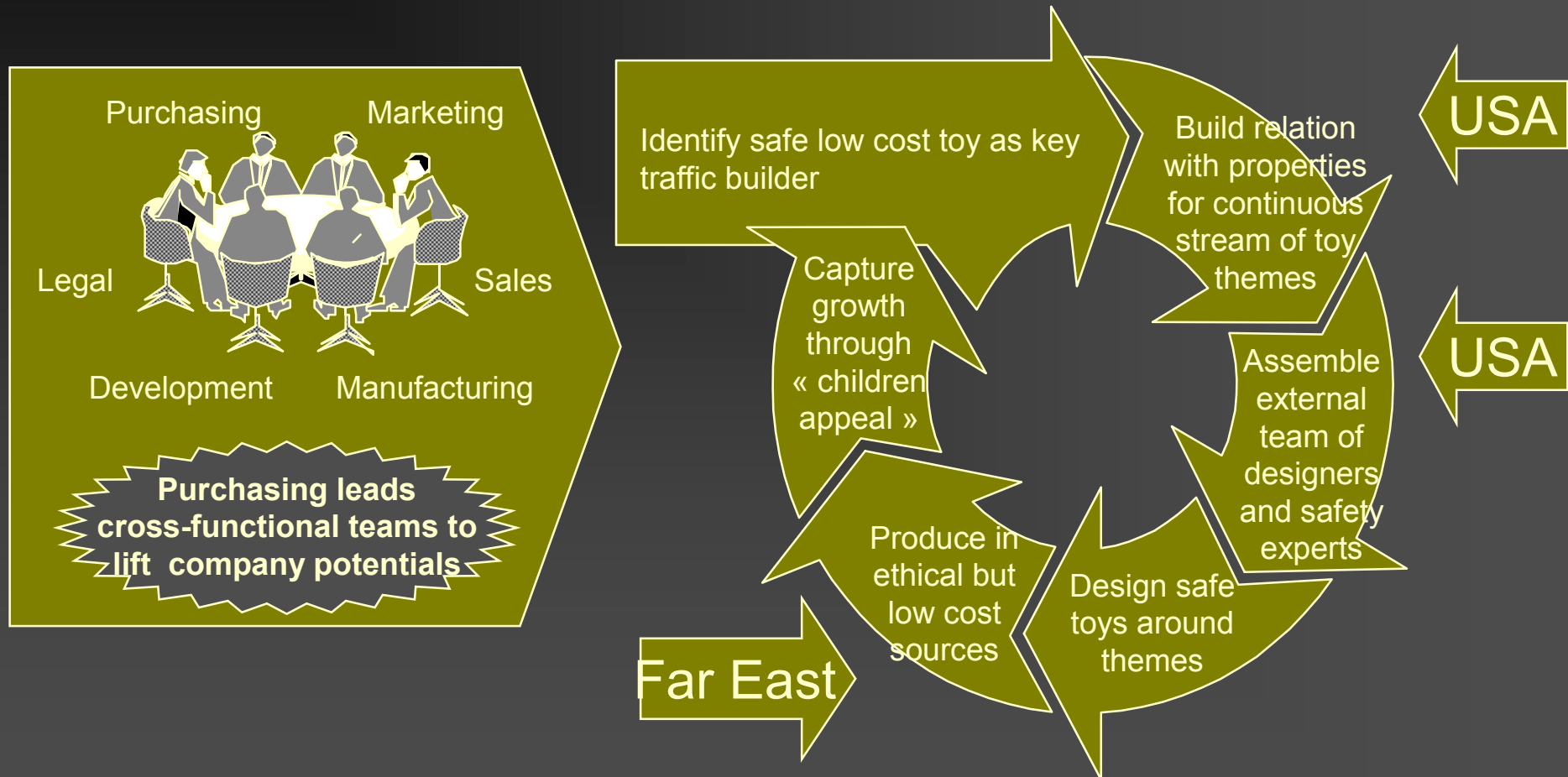


# Innovation Through Co-Development

Percent of R&D budget spend on co-development with suppliers



# Example : Restaurant Chain



# Impact of Supplier Innovation Capture

- Market dominance worldwide
  - Key competitor being sold
  - Other competitors marginal / local players
- Higher return than competitors
- Only chain to grow

# The Role of the Supplier Management Team



- What are the relevant innovations that can serve my value chain
- How to access them?
- Innovation scan
  - Current suppliers
  - Venture capital
- Product / service match
- Culture match
- Support that innovator needs to deliver
- Business case development
- Win-win proposition
- Implementation
- Constrained assets
- Contractual exclusivity
- Co-ownership

# Requirements

- Purchasing integrated at n-1 level, part of CEO leadership team
- Purchasing not driven only by price variance but by overall contribution
- Purchasing is a high value added function staffed with trained professional. They have limited or no tactical tasks such as supply coordination

# Agenda

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