

AUXISTM



Supply Chain Playbook – The Sourcing Dream Team:

A Cross-Functional Team Strategic Approach

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Introduction

This paper was developed as a guide for readers to understand the benefits attainable by using cross-functional teamwork in strategic sourcing initiatives. As most strategically sourced goods and services impact multiple corporate functional areas, a thorough sourcing initiative must include input from each of these areas. Furthermore, while each function may not be needed at every stage of the sourcing process, the cross-functional team's input should start at the concept level and continue through implementation. Beyond implementation, the whole team should assist in contract development and supplier evaluation to drive continuous improvement in the supplier's performance and maximize the value gained from the supplier relationship.

Topics Covered in a Typical Strategic Sourcing Contract

A typical strategic sourcing contract covers a variety of topics. Although the contract would normally be drafted and completed by a corporate attorney, the Subject Matter Experts ("SME's") would be responsible for:

- Identification of the negotiable issues
- Determination of the goals for the business
- Identification of the Key Performance Indicators (KPI's), Service Level Agreements (SLA's) and/or Statements of Work (SOW's)
- Negotiation of these areas

The topics often require cross-functional team collaboration. The topics covered may include:

- Requirements for Acceptable Products/Services (Specification, SLA, SOW)
- New Product Development
- Regulatory, Risk, and Disaster Planning
- Replenishment
- Pricing and Price Escalation/De-escalation
- Insurance Requirements
- Payment
- Invoicing
- Financing
- Logistics and Distribution
- Staffing
- Computer Hardware and Software Rights, Intellectual Property
- Brand and Image Considerations

The Internal Experts that Develop and Decide on the Topics

The above-mentioned topics are technical in nature. Through past contract negotiations, procurement and legal departments may have developed a cursory knowledge of the topic, however a representative from each of the following departments (in no particular order) typically possesses more robust knowledge for topic development:

- Human Resources
- R&D
- Q/A
- IT
- Marketing
- Risk

- Accounting
- Finance
- Operations
- Distribution and Logistics
- Other subject matter experts.

This doesn't eliminate procurement from overall project management responsibility and motivating team members toward completion. Both procurement and legal should facilitate, assisting each group in the completion of topic development.

Each of the above-mentioned departments plays a role in determining the ultimate product/service characteristics. These requirements help to establish the criteria that determines and distinguishes the capable suppliers, the good suppliers, and the preferred suppliers from rest of the supplier community.

Typically, while multiple suppliers produce the same product or service, the SME's develop supplier skill level opinions based on their past experience. As a result, a justified (or possibly unjustified) favorite supplier emerges. Over time, the favorites impact the specifications and may successfully include a requirement in the specifications, Statements of Work ("SOW's"), or Service Level Agreements ("SLA's") that eliminates some or all competition. When these

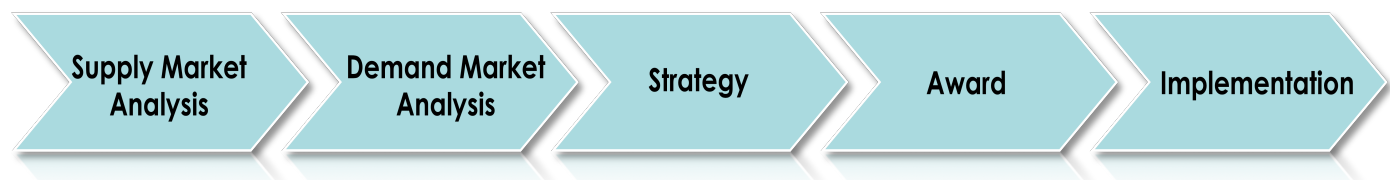
situations occur, they should be challenged to by sourcing professionals to determine if the restrictive specification, SOW, or SLA should remain or whether easing the restriction is warranted, allowing for more competition. Sometimes, preferred suppliers' requirements are appropriate and beneficial, but other times they are counter-productive and can result in an unfair competitive advantage that only benefit the supplier. Examine these situations carefully to make sure that you are doing what's best for your organization, and are keeping your suppliers "honest". When completing the specifications, they should be tested to make certain that they withstand the scrutiny of the cross-functional team.

A Typical Timeline for a Strategic Sourcing Engagement

The timing will vary, however each activity listed below should be performed. While not all encompassing, this process will guide the resource planning.

Supply Market Analysis

- Identifies suppliers
- Locates points of manufacture and sales
- Quantifies suppliers and capacity
- Verifies seasonality / cyclical
- Indicates any price commodity drivers
- Detects supply risk



Demand Market Analysis

- Quantifies purchase amounts over time
- Calculates complete market demand
- Verifies seasonality / cyclical
- Plans future demand
- Uncovers existing contract constraints

Strategy

- Plans based on analysis and desired outcome
- Validates timeline
- Seeks internal approvals
- Establishes a uniform Spec/SLA
- Sets negotiable issues
- Determines commercial terms

Award

- Reviews RFP's
- Negotiations
- Establishes KPI's
- Communicates internally
- Approvals at senior level
- Final reviews and checks
- Reporting requirements finalized
- Awards business

Implementation

- Informs all internal and external of decision
- Two way communication with stakeholders
- Documents understanding in contract
- Captures savings
- Establishes timeline for follow up

How to Engage Suppliers

Knowledge is power. Suppliers will contact as many individuals within your company as possible to learn as much as possible. This type of research is just "good business" for suppliers. More knowledge means having a better understanding of your business and its needs. It also offers an edge over the competition and possibly an edge over your team in negotiations. As a customer, you should attempt the same with your suppliers' organizations. In a professional, ethical way, learn as much as you can about your suppliers and their organization. It is "good business" for you, as well. Here's some helpful advice for fielding supplier questions:

1. Keep your message to the suppliers consistent and clear. Multiple points of contact from your company with a supplier during the pre-RFP, RFP or negotiating process confuses suppliers, are counter-productive and offers unnecessary and possibly detrimental information.
2. Anticipate the suppliers' questions. As a suggestion with the cross-functional team, prepare a Q/A format with both posed and anticipated questions and formulate responses.
3. Keep the entire pre and post negotiating process fair by distributing all questions and answers fit for circulation to the supplier community regardless of which supplier asked the questions.

4. If a supplier catches someone on the team "off guard" with a question, remember and remind the team to respond with "I'll check and get back to you." The team should understand that not all questions must be answered. It is acceptable and professional to reply to suppliers by saying, "I cannot provide that information to you."
5. Some suppliers won't take "no" for an answer and will try to go around the lead point of contact. They may approach their usual functional contact on the cross-functional team. Remind each functional contact to refer the supplier back to the lead point of contact. This happens on occasion and communicating the procedure internally before it happens makes a difference.

Establishing Key Performance Indicators ("KPI's")

Utilize KPI's to measure a supplier's performance and drive continuous improvement. The established KPI's should be included as part of the supplier contract, along with a continuous supplier performance monitoring and communication process. Maximize the benefit of the KPI's by making them measurable and attainable. By including feedback from the entire cross-functional team, you'll create the most robust KPI's. With full team participation, each department's needs may be addressed in the KPI's; each will feel a sense of ownership, and each will feel as though their priorities and goals have been

considered. As another important benefit, using these measurements to evaluate supplier performance will help to eliminate some of the subjective supplier evaluations/judgments by departments or individuals wishing to drop an otherwise valued supplier for an emotional favorite.

Business Award and Signing an Agreement

When the team selects a supplier and is ready to make an award, it is important that a number of tasks be completed in advance of the award. First, negotiate as much of the terms and conditions as possible ahead of time. A customer loses negotiating leverage when the intended supplier realizes their preferred status. This proactive negotiating requires additional work and resources, but is well worth the results of achieving your negotiated goal.

It is also important that the key stakeholders and their departments agree on and approve of the selected supplier. Any opposition may result in overturned awards because of an omitted influential decision maker. It will also help internal relations and eliminate supplier "end arounds", as it prevents the stakeholders from feeling like the supplier was forced upon them causing the stakeholder to fight the recommendation, or subverting the process by going to another vendor. Furthermore, this procedure gives the stakeholders a sense of empowerment.

When those suppliers not selected find out they have lost, they may try to escalate matters to an executive with whom they

have a relationship. By notifying those executives in advance and securing their support, the non-prevailing suppliers' efforts will have no material effect. Furthermore, having supporting documentation ready in advance facilitates a professional recommendation that is difficult to challenge. This information can also be made available to any Senior Executive in anticipation of a challenging call by an unsuccessful supplier such as the one mentioned above.

Once internal agreement has been achieved, you are ready to complete and sign the contract. The author of the agreement should maintain control of the document to prevent unwanted or accidental changes during the review process. When it is time to sign the agreement, make sure the appropriate company authority levels for signing a contract are followed.

Follow Up Evaluations for the Awarded Supplier

An evaluation should be performed following a period of completed work by the supplier. The frequency of the evaluations should be pre-determined and the subject matter already outlined. The contents of follow up evaluations should not be a surprise to the supplier nor to the cross-functional team members participating in the evaluation. The supplier should be aware of the KPI's as they should be part of the contract. Any negative feedback given during an evaluation should have been previously presented to the supplier with

documented proof at the time of the shortcoming. Include supporting facts and avoid non-substantiated opinions.

At a minimum, the departments effected by the performance of the KPI's should be participants in the evaluation. Feedback should be solicited only from those departments with direct involvement. The KPI target should be compared to the actual performance and the gap (if any) should be measured and understood. Just as a supplier should be counseled for missing targets, the supplier should be praised for exceeding targets. Both good and bad news, as well as follow up actions required to correct performance, should be communicated to the supplier and internally. Depending on the severity of the missed target, an interim meeting may be needed to monitor performance. If there are consequences for missing the targets, make sure they are not "empty" threats. If a supplier realizes there is no penalty for missing targets, it may lessen the supplier's motivation to meet future targets or improve upon past performance.

Conclusion

The supplier selection, screening and evaluation process is complex and involves many functional departments with specific and relevant subject matter expertise. Some of the departments for inclusion have been mentioned in the above. Of course there will be others, company specific. When trying to decide which departments need to be included, ask yourself the following questions:

- “How would this department be effected?”
- “Could the product, service, or the relationship improve by including the department?”
- “Are there other strategic advantages by including the department?”

For the most successful and thorough sourcing process, you'll find that a cross-functional team with a collaborative effort works best. All the key stakeholders will be well represented and actively engaged, and many of the issues that cause sourcing efforts to become undone will be avoided or resolved.

About the Author:

Greg Stoller

Mr. Stoller provides consulting services on behalf of Auxis Inc., and his experience includes over 16 years of procurement and sourcing in both the professional services and commercial sectors. In each role, Greg transformed underperforming supply chains into highly efficient strategic procurement operations. His industry experience includes food service, distribution and logistics, construction, building, textiles, manufacturing and retail.

Prior to joining Auxis, Greg led negotiations for all commercial terms and conditions internationally for one of the largest global logistics and distribution companies. His efforts saved between 10-20% of the total expenditures managed.

Greg's experience also includes food and packaging negotiations for one of the world's largest restaurant chains. Even in an environment of rising commodity costs, Greg successfully reduced product and service pricing, saving millions of dollars annually.

Greg's approach of achieving immediate savings implementation and disciplined operations for clients and stakeholders while imparting his knowledge and experience these groups is just one reason why he is considered an expert in his field and is a highly sought after resource for his clients.



About Auxis:

Auxis is a management consulting firm dedicated to enabling growth for our clients. We offer a multi-disciplined approach to develop and implement practical, robust and scalable solutions that generate superior business performance, providing significant competitive advantages to our clients. Our core belief is that our success should be measured by tangible and sustainable financial results. Simply put, Auxis helps clients prosper.

Auxis can help you to adapt your supply chain for the benefit of your customers, business partners, and shareholders through service offerings such as strategic evaluation, sourcing and procurement, supply chain planning, supply chain network design, outsourcing, transportation, warehousing and distribution, and IT supporting infrastructure selection and deployment.

Auxis' Supply Chain team understands that a good plan is only half the story. What really matters is your company's bottom line impact from our work. Just ask our clients how our practical and results-focused initiatives have helped them. Our holistic, practical approach to supply chain excellence results in solutions that transcend business functional boundaries and achieve corporate objectives.

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