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# Visionary or Skeptic

What Is Your Legacy?

**Best Practices as Presented at SIG's Global Sourcing Summit**

SYNERGY 2009



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# Agenda

- Who is Sourcing Interests Group
- This is not a normal recession
- What is Keeping CPO's up at night?
- What visionary looks like in execution
- Why Join SIG

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# Who is Sourcing Interest Group

## Membership Based Industry Association of Sourcing Professionals

### Two Types of Members

Buy-Side /Corporate Users

Sell- Side/Providers

### Differentiator

Non-commercialized

Senior membership

Value based pricing

Global 1000 members

Lowest cost:benefit

### Benefits

Two Global Summits

2000+ Research Documents

Peer2Peer Networking

15 Regional Meetings

48 Weekly Webinars

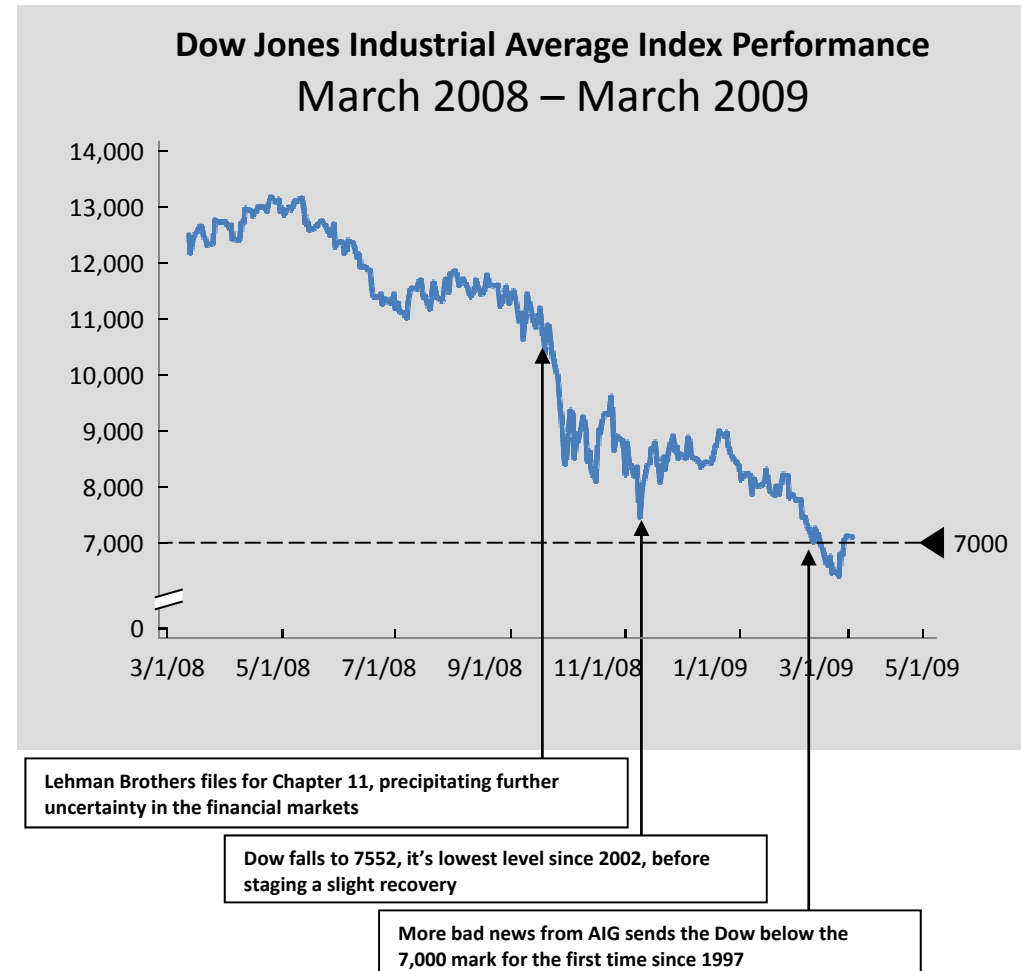
Webinar Replay for One Year

Online Sourcing Resource Library

Online Career Network

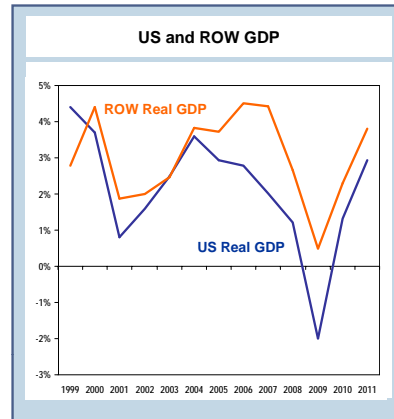
# This is not your run-of-the-mill recession

- Corporate leaders have been receiving a barrage of bad news after bad news on the economy—not knowing where the bottom ends or when the economy will pick up
- Companies that were once considered the crown jewels of the system have perished ... and the gap is yet to be filled by new entrants
- The global economy is undergoing a structural shift that is fundamentally and permanently altering the shape and fortunes of industries



Sources: Publicly available financial databases and Booz & Company analysis

# Economic Volatility... The best summary of today's global marketplace.



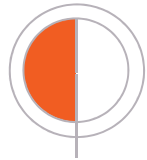
The global recession will result in -1% real GDP 2009 growth with -2% US growth and the "Rest of World" slightly positive

Source: Economic Assessments from Global Insight, IBM Finance and IPR, December 2008

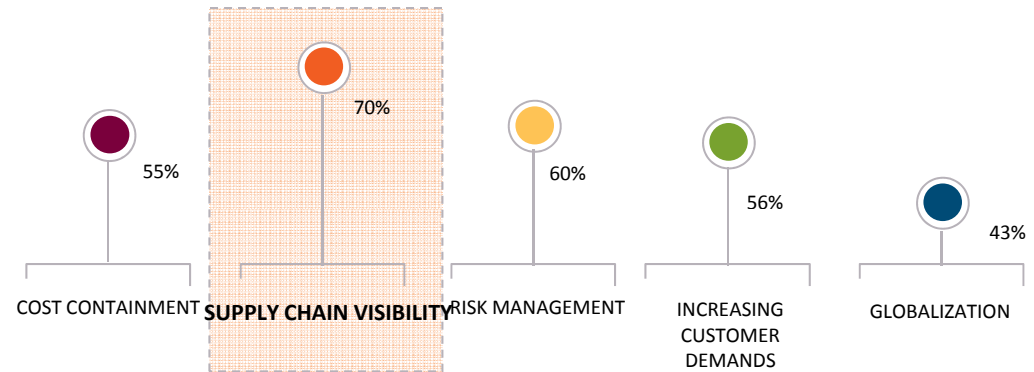
Supply chains continue to become more global and complex...

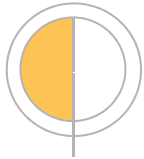


Going Global	Increased Network Complexities	Product Portfolio Turmoil
<p><b>Businesses and supply chains are becoming more global over the last decade</b></p> <p>3X Between 1995 and 2007, <u>foreign subsidiaries</u> nearly tripled, from 265,000 to 790,000</p> <p>2X <u>Transnational companies</u> more than doubled, from 38,000 to 79,000<sup>1</sup></p>	<p><b>Supply chains are involving more companies</b></p> <p>80% Nearly 80% of executives expect number of <u>collaborative relationships</u> with third parties to increase<sup>2</sup></p> <p>65% Between 2007 and 2010, R&amp;D <u>outsourcing</u> is forecast to increase by 65%</p> <p>80% Engineering <u>services</u> and product-design projects are forecast to increase by 80%<sup>3</sup></p>	<p><b>Supply chains must contend with rapidly expanding and contracting portfolios</b></p> <p>17% • In consumer products industry, <u>production introductions</u> increased by 17% in 2006, more than double the 2005 rate<sup>4</sup></p> <p>• Portfolio rationalization is <u>eliminating SKUs</u> almost as fast</p>

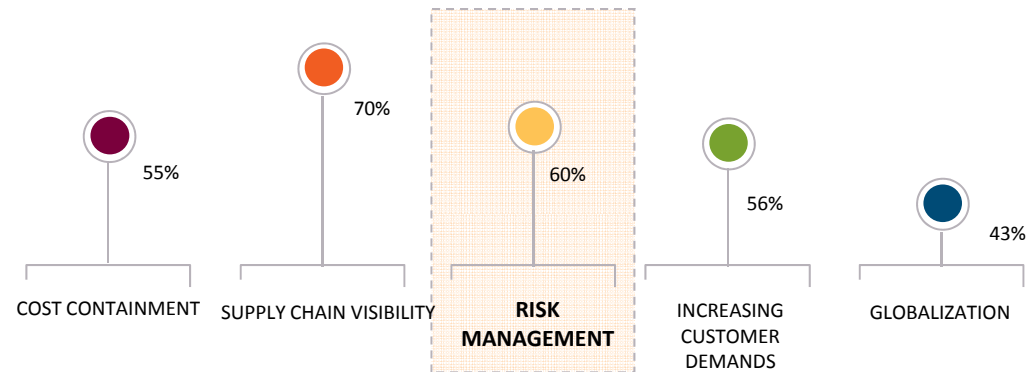


# **Visibility:** Supply chain visibility leads the CSCO's agenda



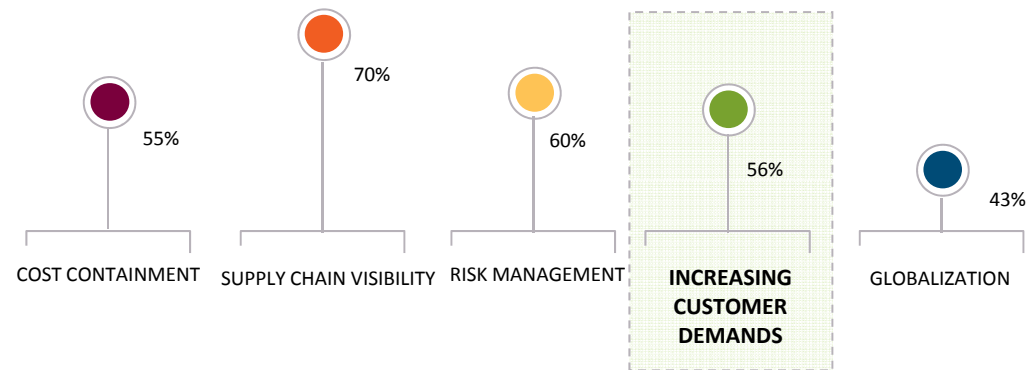


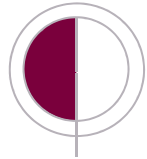
**Risk Management: Managing risks, both operational and financial, is the #2 concern of supply chain executives world-wide**



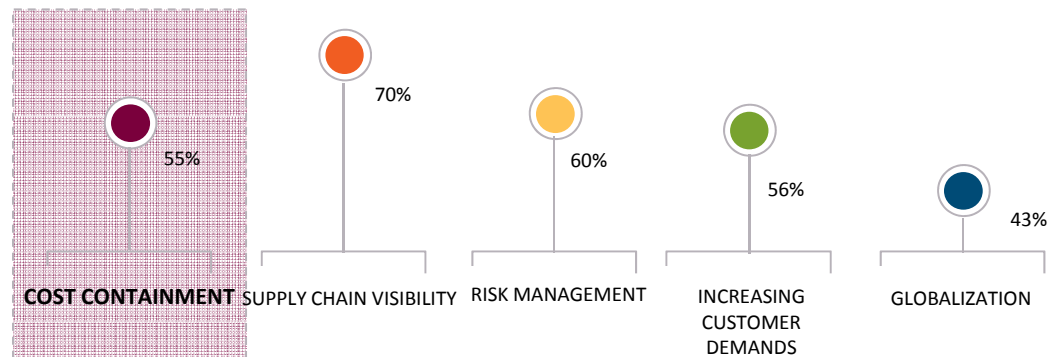


# Customer intimacy: Rising customer demands ranks as the third highest supply chain challenge



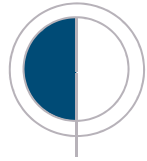


**Cost containment: Constant cost containment pressures and fluctuating costs require a comprehensive view of the tradeoffs.**

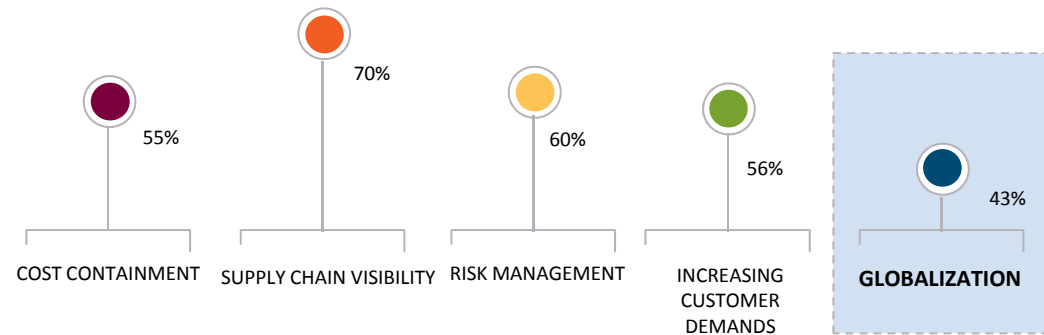


IBM Global Chief Supply Chain Officer Study

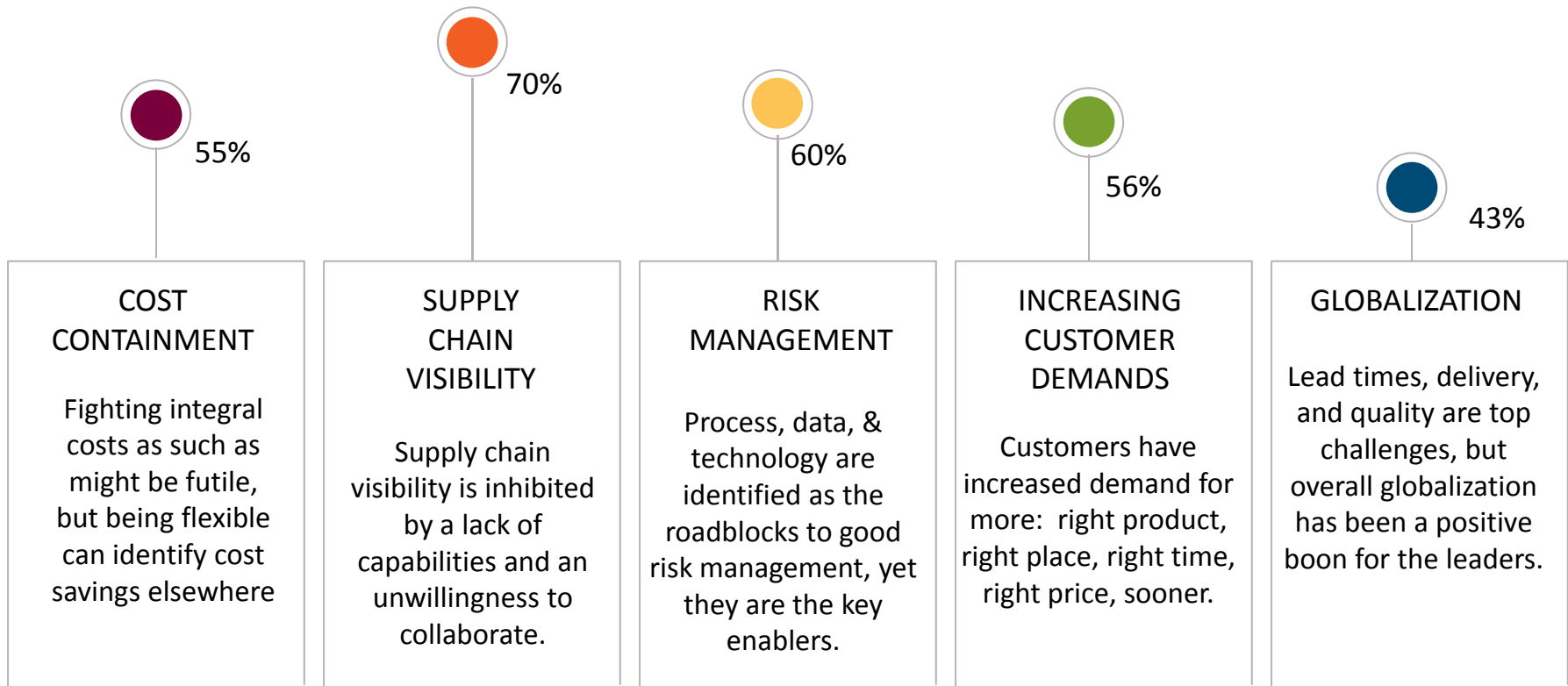




# Globalization: The complexities of interconnectivity.....



# What Programs – How Effective?

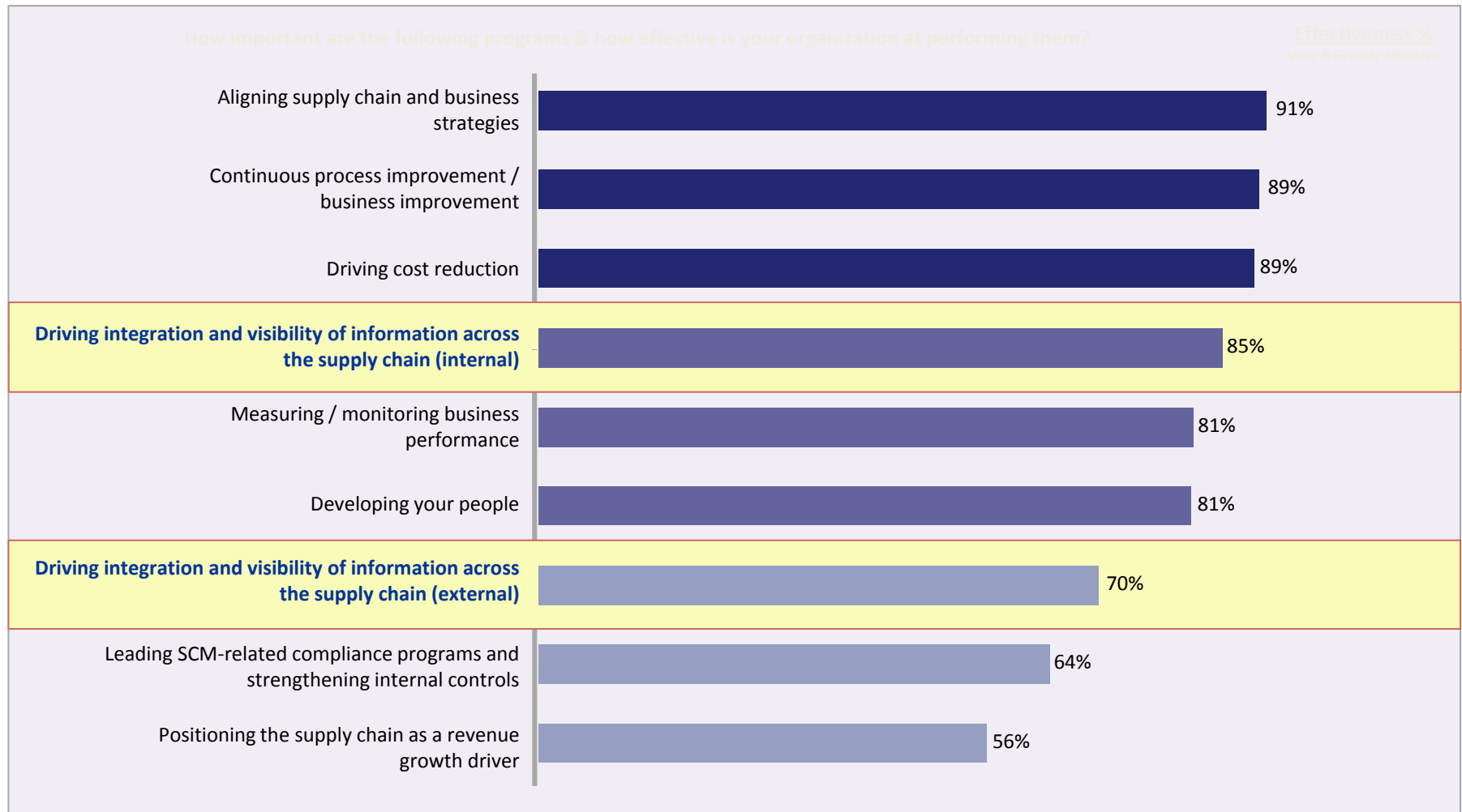


IBM Global Chief Supply Chain Officer Study

*Based on responses of "to a very great extent" and "to a significant extent"*



# The opportunities for improvement abound



Respondents who replied either "critical importance" or "very important"

# The Supply Chain of the Future must be SMARTER...It will be Instrumented, Interconnected



## Automated Transactions & Smart Devices

- Use of sensors, actuators, RFID, & smart devices to ***automate transactions***: inventory location, shelf-level replenishment detection, transportation locations & bottlenecks
- Supports ***real-time data collection & transparency*** from POS to manufacturing to raw material
- ***Sense-and-respond*** demand/supply signals allow “predict and act”



## Optimized Flows

- ERP to ERP to ERP ***system integration*** across the network. Standardized data and processes.
- ***Collaborative decision making*** through decision support and business intelligence – starting with the customer
- ***C-Suite risk management programs*** for integrated financial controls with operational performance – monitored and measured

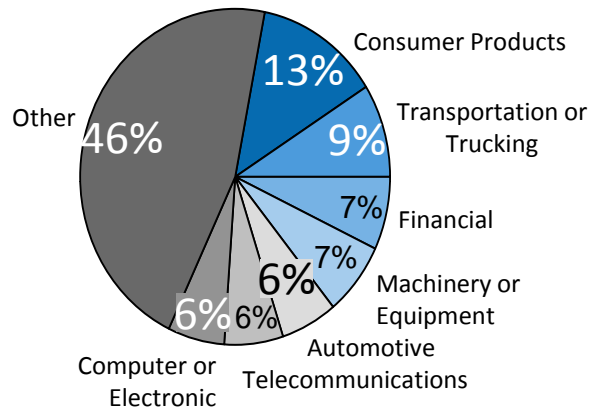


## Networked Planning, Execution & Decision Analysis

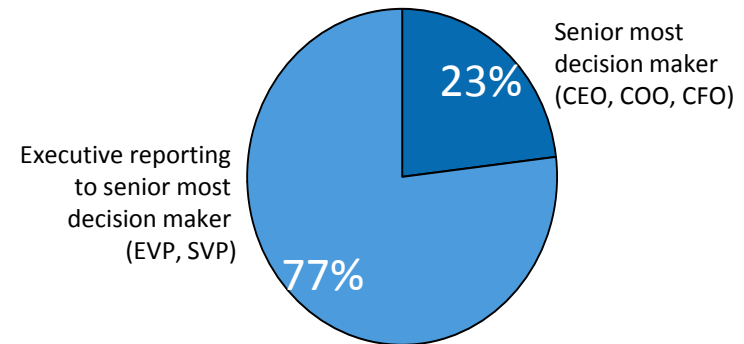
- ***Simulation models to evaluate trade-offs*** of cost, time, quality, service and carbon and other criteria
- Probability-based risk assessment & ***predictive analysis***
- Networked planning/execution with ***optimized*** forecasts & decision support

# Booz & Company conducted a detailed survey of senior executives to understand the response of large companies to the recession

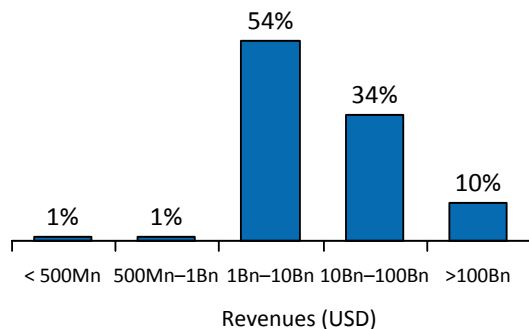
Industry Breakdown



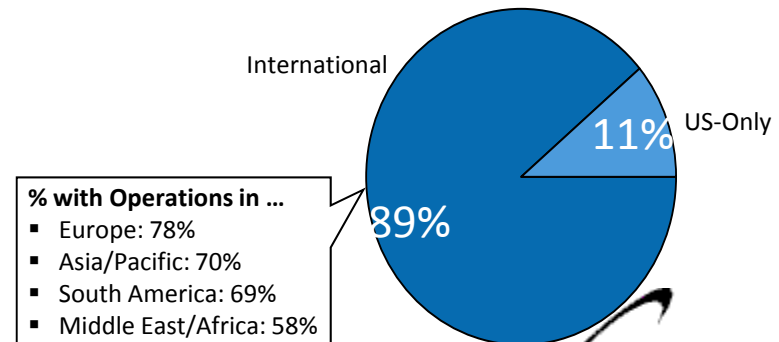
Respondents' Position in Organization



Breakdown by Annual Revenue



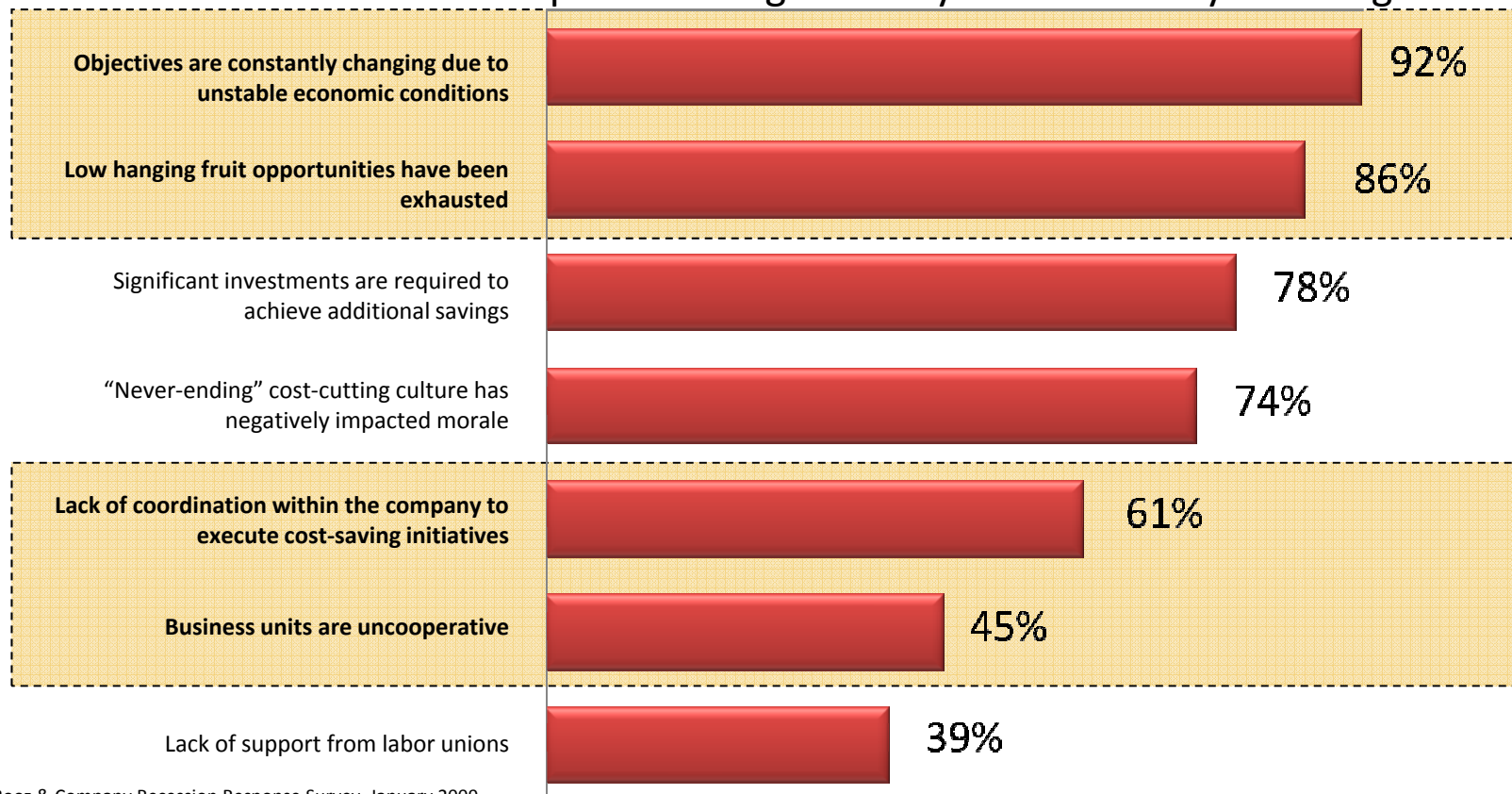
Companies with Operations Outside US



# Companies across all industries are struggling to respond to the recession

Traditional responses will not be sufficient

Major Obstacles Facing Cost-Cutting Initiatives During this Recession  
Percent of Respondents Significantly or Reasonably Challenged



Source: Booz & Company Recession Response Survey, January 2009

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# For the Sourcing function, the recession creates challenges - as well as opportunities

## Challenges

- Requirement to *save more, faster* from the overall expense base
- Increasingly dynamic marketplace - capacity rationalization, strategic exits and outright closures
- Increased business risks driven by questionable supplier viability
- Increased volatility in commodity pricing
- Enhanced goal of step-change cost improvement vs. year-over-year savings
- Pressure for immediate savings - at the expense of executing comprehensive sourcing strategies

## Opportunities

- Ability to deliver cost reductions without impacting headcount
- Opening to revisit established supplier relationships
- Ability to assess long-term supplier viability and ensure supply chain resiliency
- Chance to implement strategic risk management and build transparency to underlying cost drivers
- Ability to expand influence and insert itself into company's strategic agenda
- Chance to "up the game" to build capabilities while delivering sustainable savings

# How important are each of the following to your organization's supply chain?

	Extremely/Very Important		Mean Score	
	October 2008	April 2009	October 2008	April 2009
Pricing of materials and services	93%	94%	4.48	4.41
Quality of supply of materials and services	90%	93%	4.36	4.49
Availability of materials and services	85%	89%	4.25	4.35
Stability of suppliers/Supplier network	NA	89%	NA	4.22
Supply availability/volatility of materials and services	81%	81%	4.16	4.05
Economic instability	72%	77%	3.92	4.06
Long lead times for materials and services	74%	75%	4.01	3.99
Securing and retaining qualified employees availability of key labor skills	74%	75%	3.96	3.99
Security of the supply chain	65%	75%	3.78	3.99
Regulation and compliance issues	58%	74%	3.74	3.99
Marketplace volatility	67%	71%	3.84	3.87
Transportation (instability in costs)	76%	71%	4.10	3.86
Complexity and extended nature of supply chain	66%	67%	3.77	3.69
Geo-political activities/volatility	37%	40%	3.20	3.29
Requirements for spend diversity	33%	39%	3.09	3.17
Green sourcing demands	20%	31%	2.88	3.01

Mean rating based on 5 point scale where  
 5 = Extremely important →  
 1 = Not at all important

October 2008 Base: 298  
 April 2009 Base: 348

# And which of the following would you say are a concern as they relate to your company's supply chain initiative?

Concerns	% of respondents	
	October 2008	April 2009
Pricing of materials and services	77%	74%
Quality of supply of materials and services	53%	55%
Stability of suppliers/Supplier network	NA	54%
Economic instability	43%	53%
Availability of materials and services	54%	52%
Long lead time for materials and services	58%	50%
Supply availability/volatility of materials or services	57%	48%
Marketplace volatility	47%	44%
Transportation (instability in costs)	59%	42%
Regulation and compliance issues	36%	40%
Security of the supply chain	33%	40%
Complexity and extended nature of supply chain	41%	33%
Securing and retaining qualified employees availability of key labor skills	39%	32%
Geo-political activities/volatility	20%	21%
Green sourcing demands	14%	15%
Requirements for spend diversity	16%	13%

SIG Joint Study with SCMR  
April 2009

2008 Base: 295

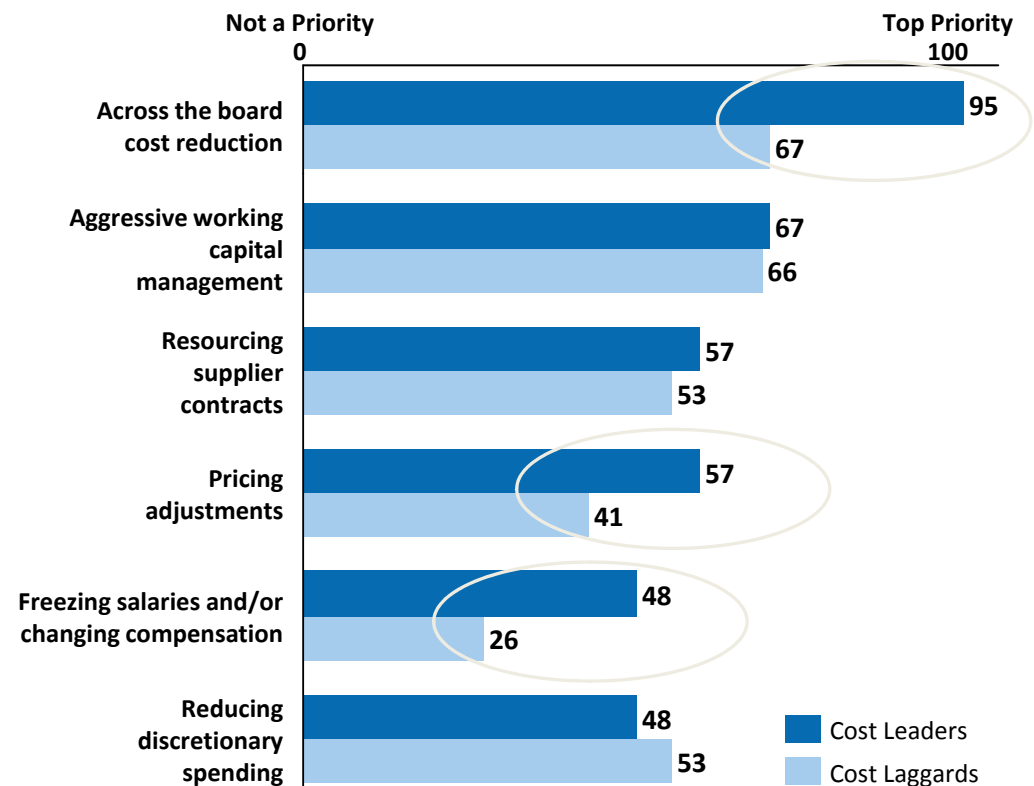
2009 Base: 341



# Both Cost Leaders and Cost Laggards employ the same short-term cost cutting levers – but Cost Leaders are more aggressive

- Cost leaders are willing to take on potentially unpopular initiatives such as across the board reductions and they are nearly twice as willing to freeze salaries and reduce compensation
- Laggards, who already believe themselves less competitive on cost, must become much more aggressive where their priorities currently fall behind, to avoid finding themselves further outmaneuvered on cost
- Both leaders and laggards show themselves reluctant to take on longer term, structural opportunities

Relative Priority of Cost Reduction Levers  
Cost Leaders vs. Cost Laggards



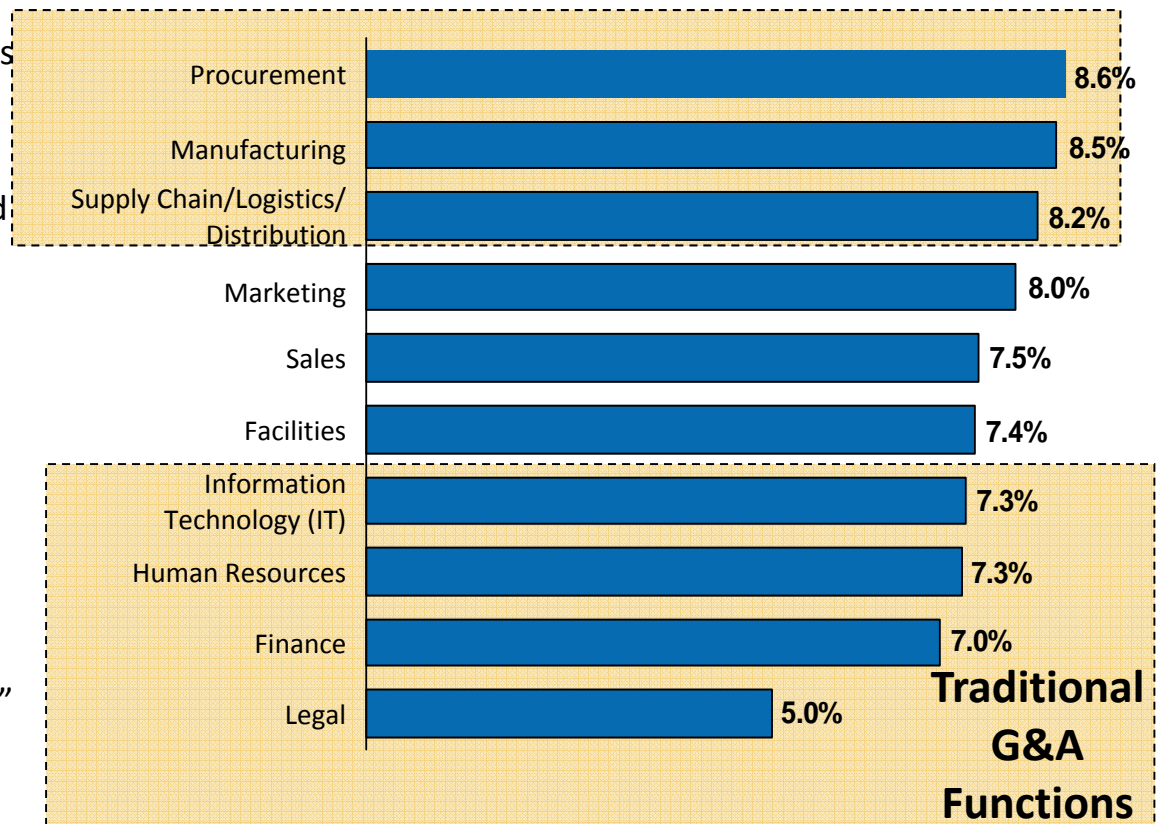
Note: Cost Leaders are defined as companies who ranked their cost structure as highly competitive (top 5%) against competitors. Cost Laggards are defined as companies who ranked their cost structure as not competitive (below average) or somewhat competitive (average) against competitors

Source: Booz & Company Recession Response Survey, January 2009

# Similarly, companies are targeting minimal savings across functional areas when more ambitious levels are possible

Average Expected Cost Reduction by Functional Area

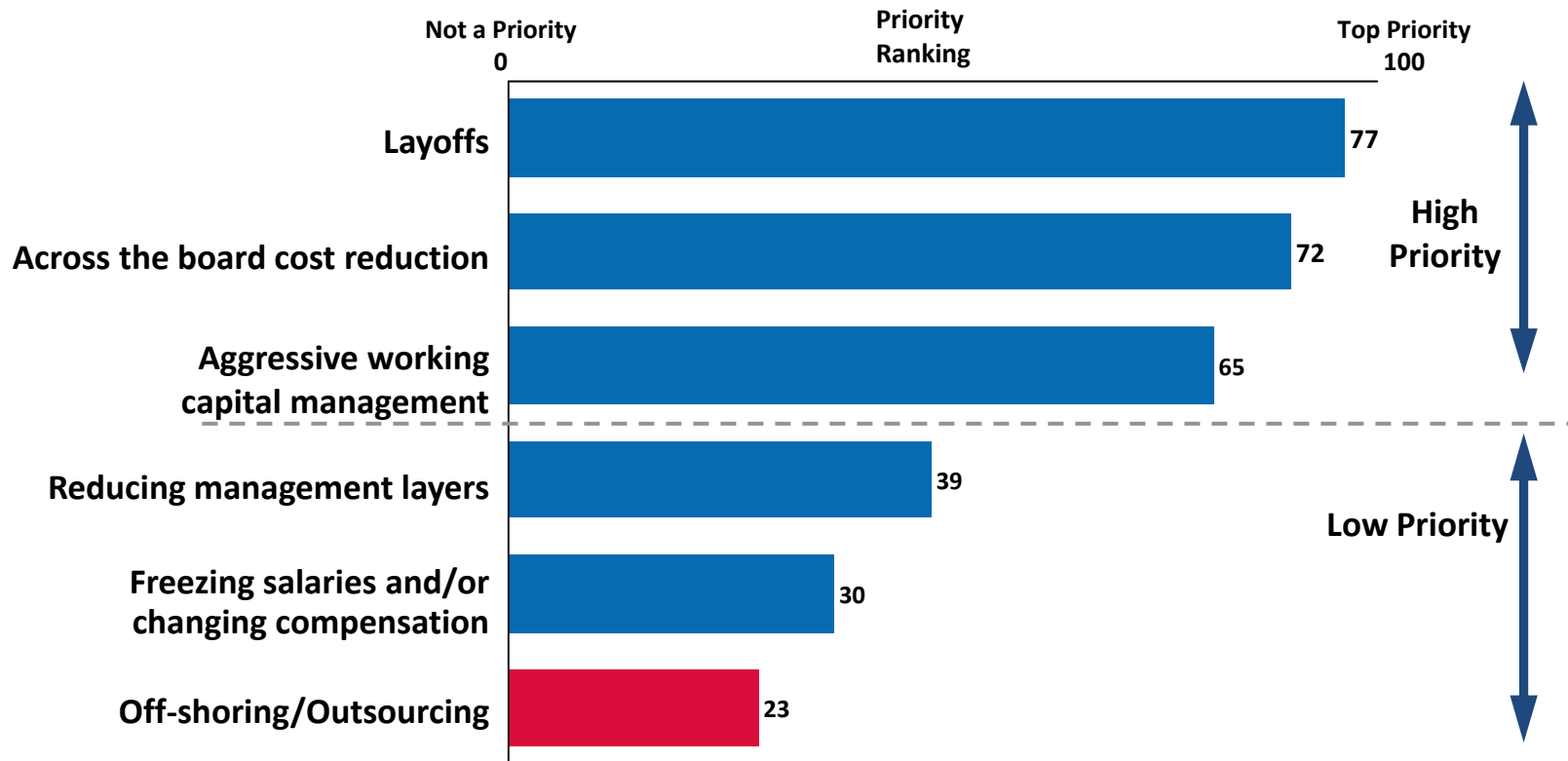
- Companies are targeting minimal savings (5% to 10%) across functional areas
- The highest level of savings is expected from functions such as Procurement and Manufacturing – this is most likely from sourcing and supplier driven savings
- Savings expectations from G&A functions that are traditionally a focus for cost reduction (IT, HR, Finance) are amongst the lowest across all functions
- This suggests that companies are not looking to internal, structural cost reduction levers – they seem to be largely focused on quick hit, and “easier” cost reduction measures



Source: Booz & Company Recession Response Survey, January 2009

# While outsourcing and offshoring are not a major priority as a lever to reduce costs...

Comparison of Strategic Priorities  
Selected Cost Cutting Measures

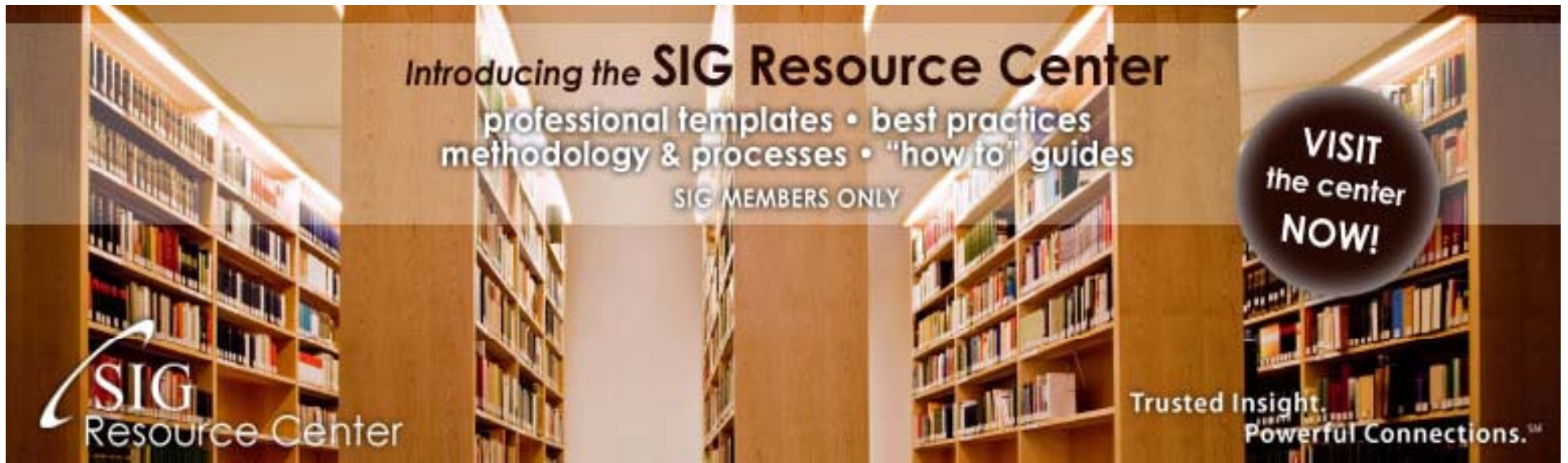


Source: Booz & Company Recession Response Survey, January 2009

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# In Summary - Changing Nature of Sourcing Support Assignments

- Sourcing executives are experienced and knowledgeable
  - Need *sourcing support* rather than “having sourcing done to them”
- Sourcing processes are relatively well understood
  - But still need refresh on what can be realistically achieved and with whom
- Vendors are known at a generic level
  - But need detailed vendor knowledge specific to current requirement to ensure more accurate vendor selection
- Time and money are in short supply
  - Need appropriate information quickly and at low-cost

A banner for the SIG Resource Center featuring a background of a library with tall bookshelves. The text is centered and includes a call to action in a circular bubble.

Introducing the **SIG Resource Center**  
professional templates • best practices  
methodology & processes • “how to” guides  
SIG MEMBERS ONLY

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the center  
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**SIG**  
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Trusted Insight.  
Powerful Connections.™

## Sourcing Interests Group

*Announcing the*  
**“Members-Only”**  
**SIG Resource Center**

April 2009



# SIG Home Page

The screenshot shows the SIG Sourcing Interests Group website. At the top left is the SIG logo with the text "SOURCING INTERESTS GROUP". To the right is a search bar with the word "Search" next to it. Below the logo is a navigation menu with links: HOME | ABOUT | CONTACT | JOIN | MEMBER SERVICES | MEMBER LOGIN. The main banner features a background image of a library and contains the text: "Introducing the SIG Resource Center", "professional templates • best practices methodology & processes • 'how to' guides", "SIG MEMBERS ONLY", and the tagline "Trusted Insight. Powerful Connections.™". Below the banner is a secondary navigation menu: MEMBERSHIP INFO | CALENDAR | EVENT REGISTRATION | PROVIDER PROFILES | CAREER NETWORK. The page is divided into three columns. The left column contains a quote: "The intellectual capital SIG members share allows us to develop a healthy respect for one another and sells itself." attributed to Carrie Ericson, Vice President, A.T. Kearney. Below the quote is a circular award logo for "2009 PROS TO KNOW" and text identifying Dawn Evans as President & CEO of Sourcing Interests Group, and a mention of "2009 Pros to Know". The middle column features a "SIG Resource Center VISIT THE CENTER NOW!" banner, followed by a "Reference Library" section listing "Recent White Papers", "Recorded Webinar Presentations", and "Members Only". The right column has a "Conference Information" section for the "SIG Global Sourcing Summit" with a photo of a building at night and a "REGISTER TODAY!" button, and event details for the Waterfront Marriott in Baltimore, MD, from March 31 to April 3, 2009.



**Supply & Demand Chain Executive Names Dawn Evans, President & CEO of Sourcing Interests Group, 2009 Pros to Know**



### Reference Library

Now with Search Engine Capabilities

**Recent White Papers**

Members Only

**Recorded Webinar Presentations**

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### Conference Information

#### SIG Global Sourcing Summit



Waterfront Marriott, Baltimore, MD  
March 31 to April 3, 2009





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## Welcome to the SIG Resource Center

Sourcing Interests Group provides its members access to a robust set of professional templates, process matrices and guides from member companies. These documents should act as a guide for supply chain professionals and business unit partners.

### Browse by Topic

#### **Strategic Sourcing**

A repository of Strategic Sourcing templates, articles, "how to guides" and presentations categorized by Strategic Sourcing phase

#### **Outsourcing**

A repository of Outsourcing documents, articles, presentations and lessons learned, categorized by outsourcing class (e.g. BPO, ITO, Offshore, etc.)

#### **Supplier & Supply Risk Management**

A repository of Supplier & Supply Risk Management documents (articles, presentations, templates, lessons learned)

#### **Governance & Compliance**

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#### **Provider Resource Guide**

A listing of SIG's provider members, with company overviews and information about their areas of expertise

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# Strategic Sourcing - Team Formation

## Strategic Sourcing

Sourcing Interests Group provides its members access to a robust set of professional templates with consistent methodology and processes. These documents should act as a guide for supply chain professionals and business line partners.

[Return to SIG Resource Center Home >](#)

Click on a Strategic Sourcing phase below for more information.



## Team Formation

[Glossary of Sourcing Terms](#)

[Strategic Sourcing Methodology](#)

[Category Fact Sheet](#)

[Opportunity Flowchart](#)

[Opportunity Analysis](#) (Example: Office Products)

[Forming the Sourcing Team](#)

[Strategy & Organizational Design Strategic Objectives](#)

[Stakeholder Communication](#)

# Strategic Sourcing – Team Formation

<Insert your company here>...*Strategic Objectives*

Selecting and developing top talent will regulate the speed at which the team evolves into a “world-class” organization

## Value Proposition

Financial

- Savings targets
- Cost avoidance
- Competitive advantage

ROI

- High ROI and/or strategic projects
- Minimize risk and maximize value
- Corporate and Business Line level

Skills

- Technical Sourcing skills
- Change leadership skills
- Relationship management
- Business acumen

Role

- Lead/support Sourcing projects
- Best practices and competitive intelligence
- Center of excellence

Positioning

- Committed professionals
- Development role for high potential staff
- Business partner

## Guiding Principles

- Sourcing is the way we do business
- Cross-functional collaborative teams
- Transparent costs
- Open and frequent communication
- Senior Executive approves “major” deals
- Leverage Customer / Supplier relationships
- Delegated authority to project team
- Higher “code of conduct” than for others

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# Strategic Sourcing – Project Charter

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# Joining SIG

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