
REALIZING ANTICIPATED ROI OF A LOGISTICS SERVICES CONTRACT

WHIRLPOOL CORPORATION



REALIZING THE ANTICIPATED RETURN ON INVESTMENT OF A LOGISTICS SERVICES CONTRACT



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WHIRLPOOL CORPORATION



World's leading marketer and manufacturer of home appliances

More than \$18 billion in revenues in 2010

71,000 employees

67 manufacturing and technology centers

LEADING BRANDS:



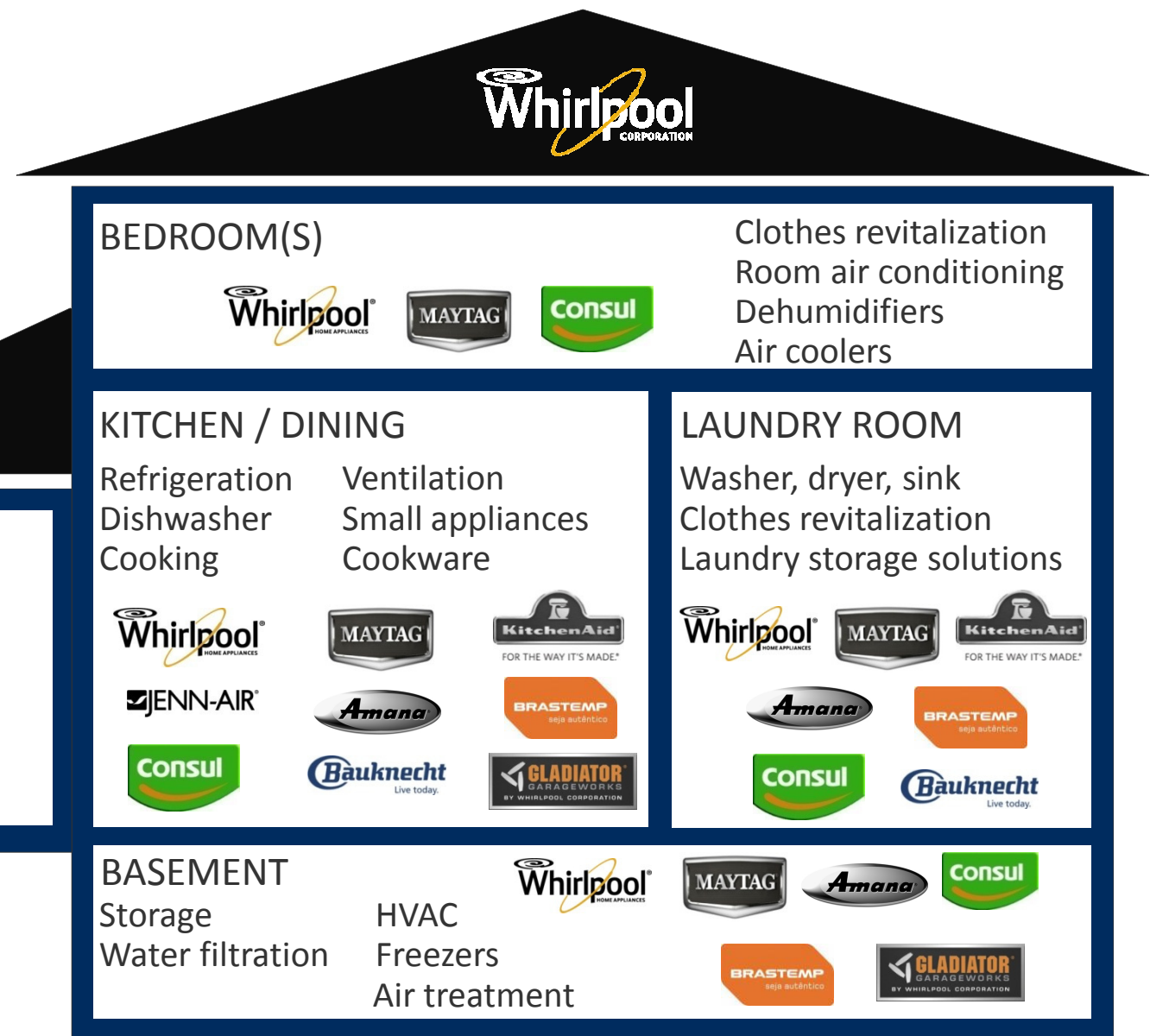
FOR THE WAY IT'S MADE.®





LEADING A \$120 BILLION INDUSTRY

EVERY ROOM ... EVERY HOME ... EVERYWHERE



OUTDOOR
 Grills
 Cooking centers

FOR THE WAY IT'S MADE*

GARAGE
 Storage
 Appliances
 Workstations
 Flooring

MY COMMUNICATION GOALS



- Share tools for protecting ROI of the deal
- Listen to ideas and inputs

SOME CONTEXT...

“Operations Team is my customer”

Multiple third party logistics providers

Segmented supplier quality program

Fixed plus variable pricing arrangement with gainshare / painshare provision

3PL CORE STRATEGY GOALS

1. Core strategy for 3PLs
2. Collaborate for continuous improvement
3. Reduce cost and eliminate waste
4. Cross-pollination of ideas
5. 3PLs must compete to win, and collaborate to keep

SERVICE QUALITY IS AN OPERATIONAL IMPERATIVE,
NOT A RELATIONSHIP GOAL

ADDRESSING OUR GOALS: AGREEMENT



Strategy Goals	Initiatives	Supplier Quality	Facility Sourcing Process	Metrics and Scorecards	Gainsharing Program
	Agreement				
Identify and execute a core strategy for 3PLs, that will place all of our suppliers in the appropriate relationship category	●	●	●		
Collaborate with suppliers to achieve efficiencies through continuous improvement	●	●		●	●
Reduce cost and eliminate waste within the value chain	●	●		●	●
Ensure cross-pollination of ideas	●				●
Maintain an environment where 3PL's must compete to win our business, and successfully collaborate to keep it	●	●	●	●	●

core purpose ●
 enabler ○

THE “AGREEMENT”

Our primary work product is an executed agreement

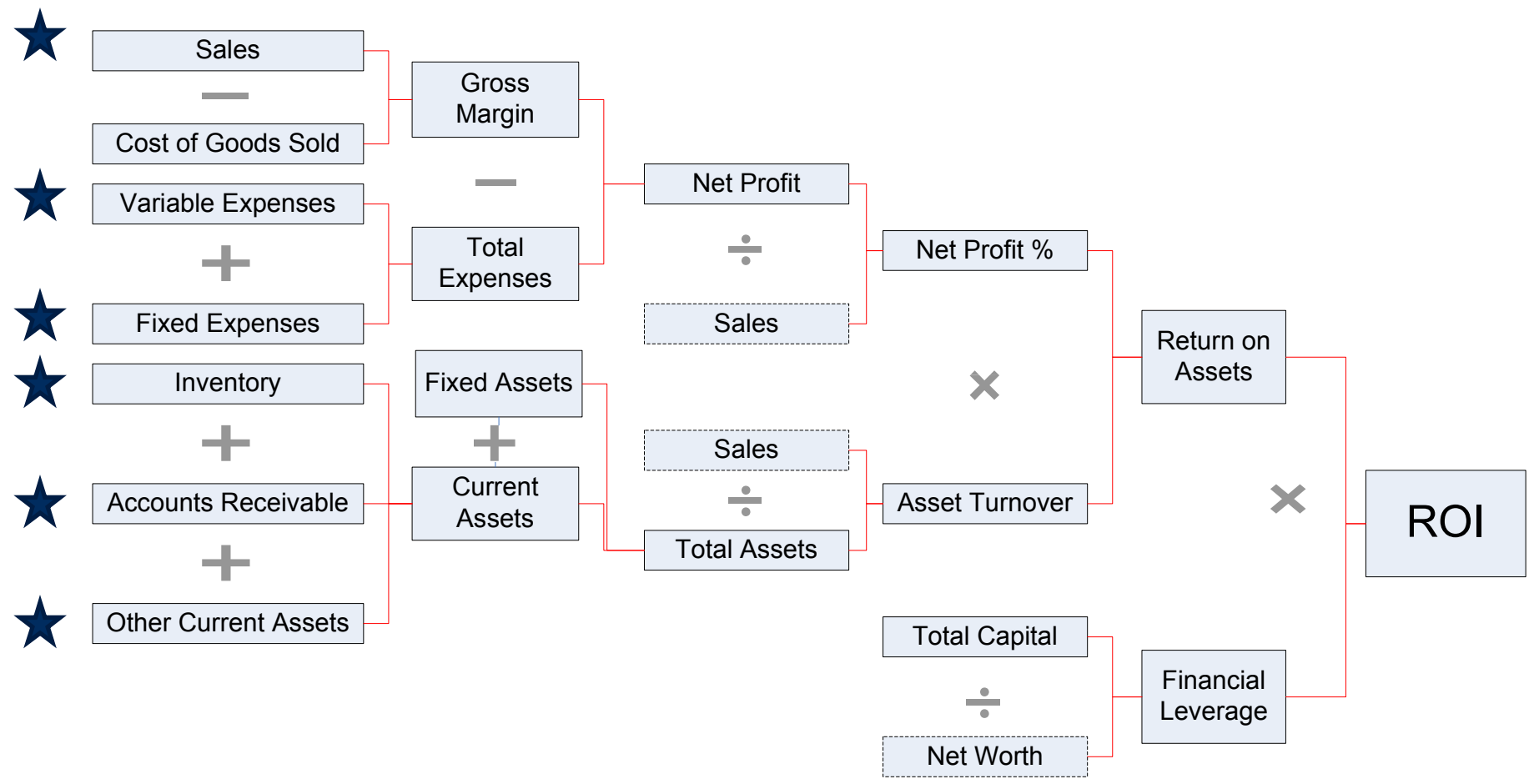
Customer satisfaction is driven by

- Quality of service
- Efficiency of the cost
- Health of the relationship
- Level of risk

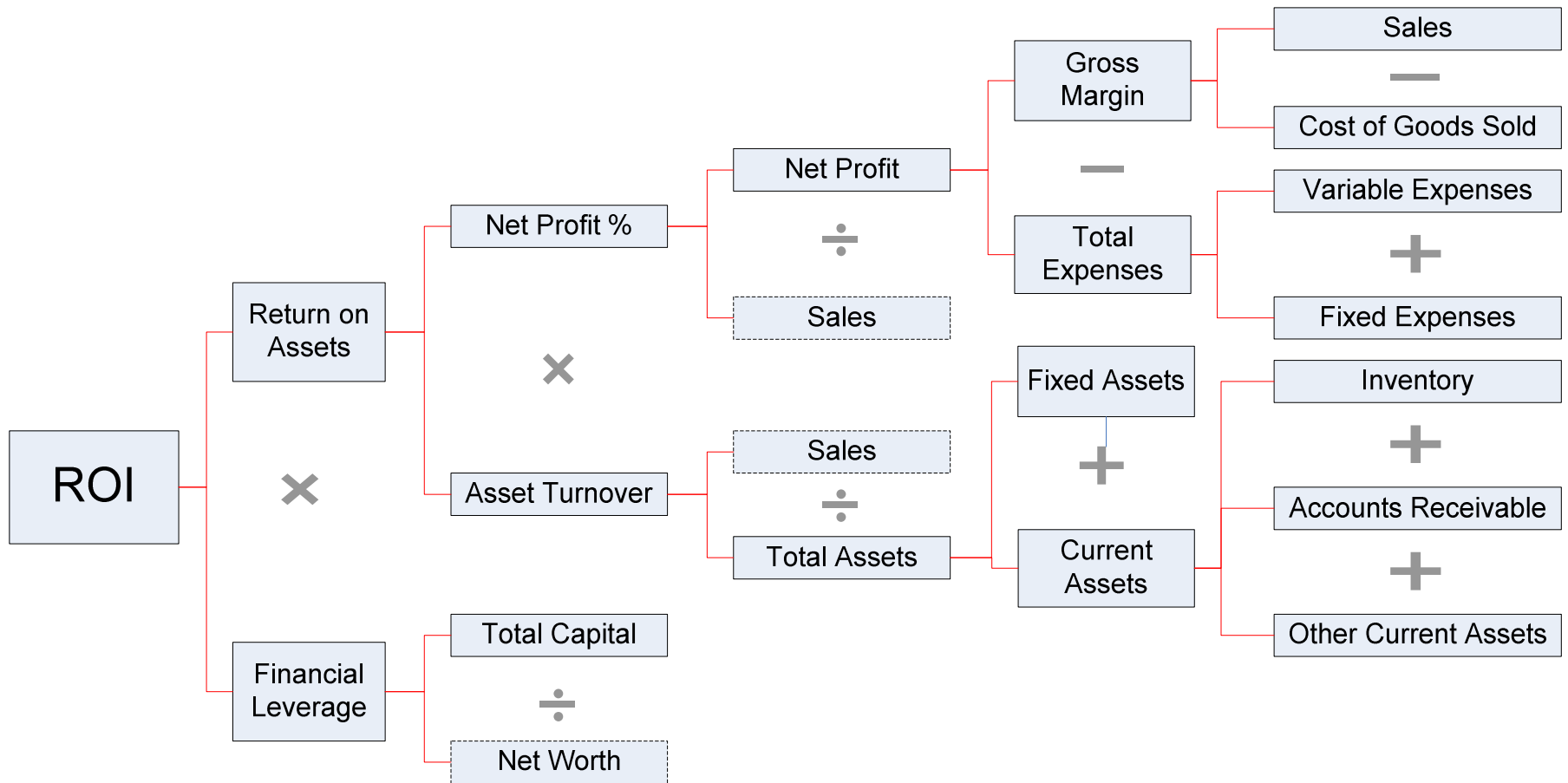
ULTIMATELY, MY CUSTOMER WANTS TO REALIZE
THE ANTICIPATED ROI FROM THE DEAL

REALIZE THE ANTICIPATED ROI FROM THE DEAL

From the shareholder's perspective...

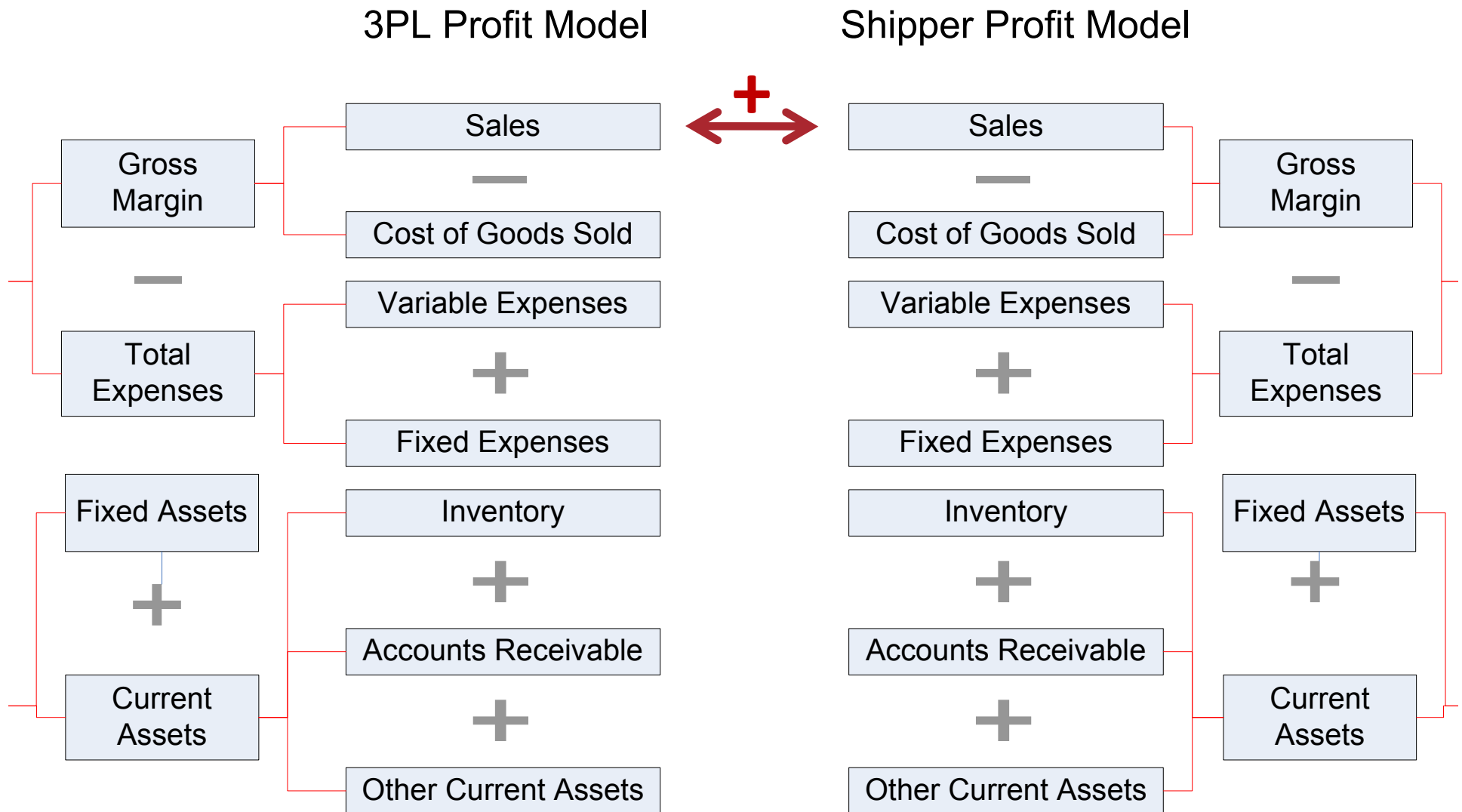


THE 3PL HAS AN SPM TOO...



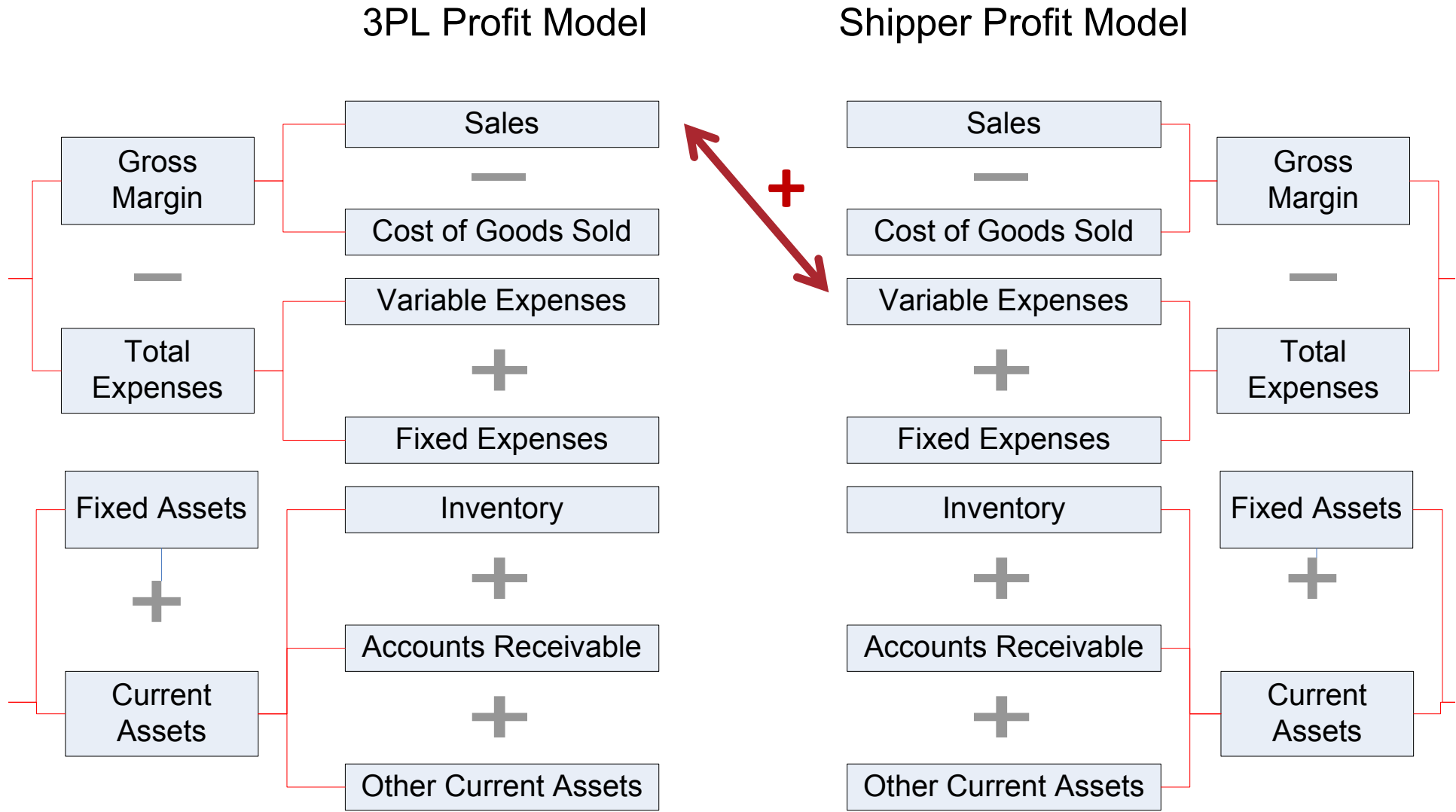
How well do they line up?

TOOL 1: ALIGNMENT CHECK WITH “BUTTERFLY SPM”



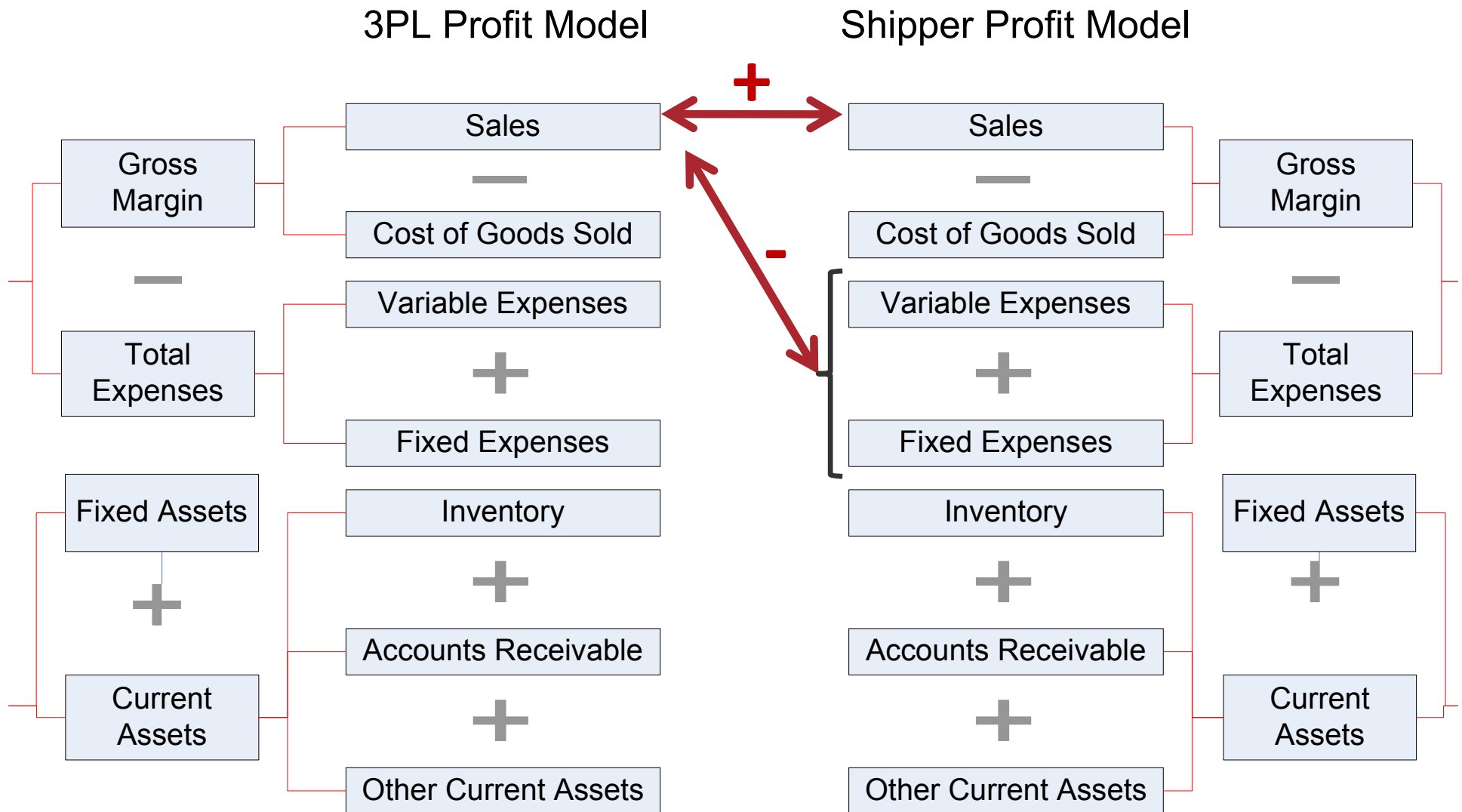
✓ Example of Good Alignment: 3PL revenue triggered by shipment

TOOL 1: ALIGNMENT CHECK WITH "BUTTERFLY SPM"



X Example of Poor Alignment: Cost Plus

TOOL 1: ALIGNMENT CHECK WITH “BUTTERFLY SPM”



✓ Example of Great Alignment: tied with revenue, and cost reduction

THE “AGREEMENT” IS MY PRODUCT

Operations is my customer, the agreement is my product
and customer satisfaction is my goal

Treat the agreement like a product

- Development
- Launch
- Useful life
- End of life

ULTIMATELY, MY CUSTOMER WANTS TO REALIZE THE
ANTICIPATED ROI FROM THE DEAL

TOOL 2: DEAL FMEA

Failure Mode Effects Analysis (FMEA) is a process improvement and product quality tool

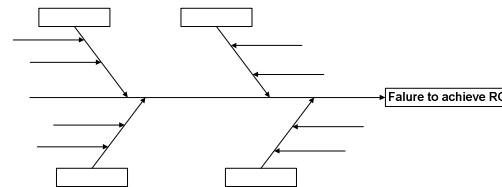
Assemble a cross functional team of stakeholders

- Operations
- Indirect procurement
- Finance
- 3PL ?

Draw a block diagram of the sourcing lifecycle



Cause and Effect diagram w/ Effect: "not achieving the ROI of the deal"



Complete the FMEA worksheet

- Potential failure mode
- Effects of failure
- Prioritize Risk: Severity, likelihood and detectability
- Assign action items to prevent or mitigate

Revisit throughout lifecycle

- Annual review of templates
- At inception of new agreements

FMEA KEYS TO SUCCESS

Living document

Revisit often

Multi-disciplined approach

Action

ADDRESSING OUR GOALS: SUPPLIER QUALITY PROGRAM



Strategy Goals / Initiatives	Agreement	Supplier Quality	Facility Sourcing Process	Metrics and Scorecards	Gainsharing Program
	Identify and execute a core strategy for 3PLs, that will place all of our suppliers in the appropriate relationship category	●	●	●	
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GOALS OF THE QUALITY PROGRAM

Collaboration

- Investment
- Growth as a carrot

Continuous Improvement

- Engineering
- Technology
- Innovation

Consistency and Fairness

- Legislate the preferences
- Articulate the reasons we have preferences

TOOL 3: 3PL SUPPLIER QUALITY PROGRAM

Designation	Qualifications	Engagement
1. Preferred Supplier	<ul style="list-style-type: none"> ▪ Have existing business with Whirlpool ▪ Demonstrated record of continuous improvement and value generation ▪ Collaborative level of partnership ▪ Resources dedicated to improvement ▪ Meet criteria for “Qualified Supplier” 	<ul style="list-style-type: none"> ▪ Invited to participate in all sourcing events ▪ Given preference in the case of equivalent bid award options ▪ Consulted on fundamental network and warehouse change proposals ▪ Status awarded annually, with quarterly reviews ▪ Given first right of refusal to retain business
2. Qualified Supplier	<ul style="list-style-type: none"> ▪ Pre-agreed to all terms and conditions ▪ Cooperative level of partnership ▪ Identified through RFI/RFP process as a partner with strong potential to add value ▪ Leadership engagement 	<ul style="list-style-type: none"> ▪ Invited to participate in all sourcing events ▪ Status awarded annually, with quarterly reviews ▪ Progress toward “Preferred” is expected, but specialty players can be successful here
3. Watch List	<ul style="list-style-type: none"> ▪ Screened through RFI process ▪ Strong reputation and qualifications ▪ Potential player 	<ul style="list-style-type: none"> ▪ Considered in some niche scenarios

QUALITY PROGRAM KEYS TO SUCCESS

Preferences already exist... articulate the reasons for them, and level the playing field

Full alignment between stakeholders

Agreement to a standard contract before being qualified leads to easy comparisons in bidding

Our house has many rooms, but there's only one door

ADDRESSING OUR GOALS: SOURCING PROCESS



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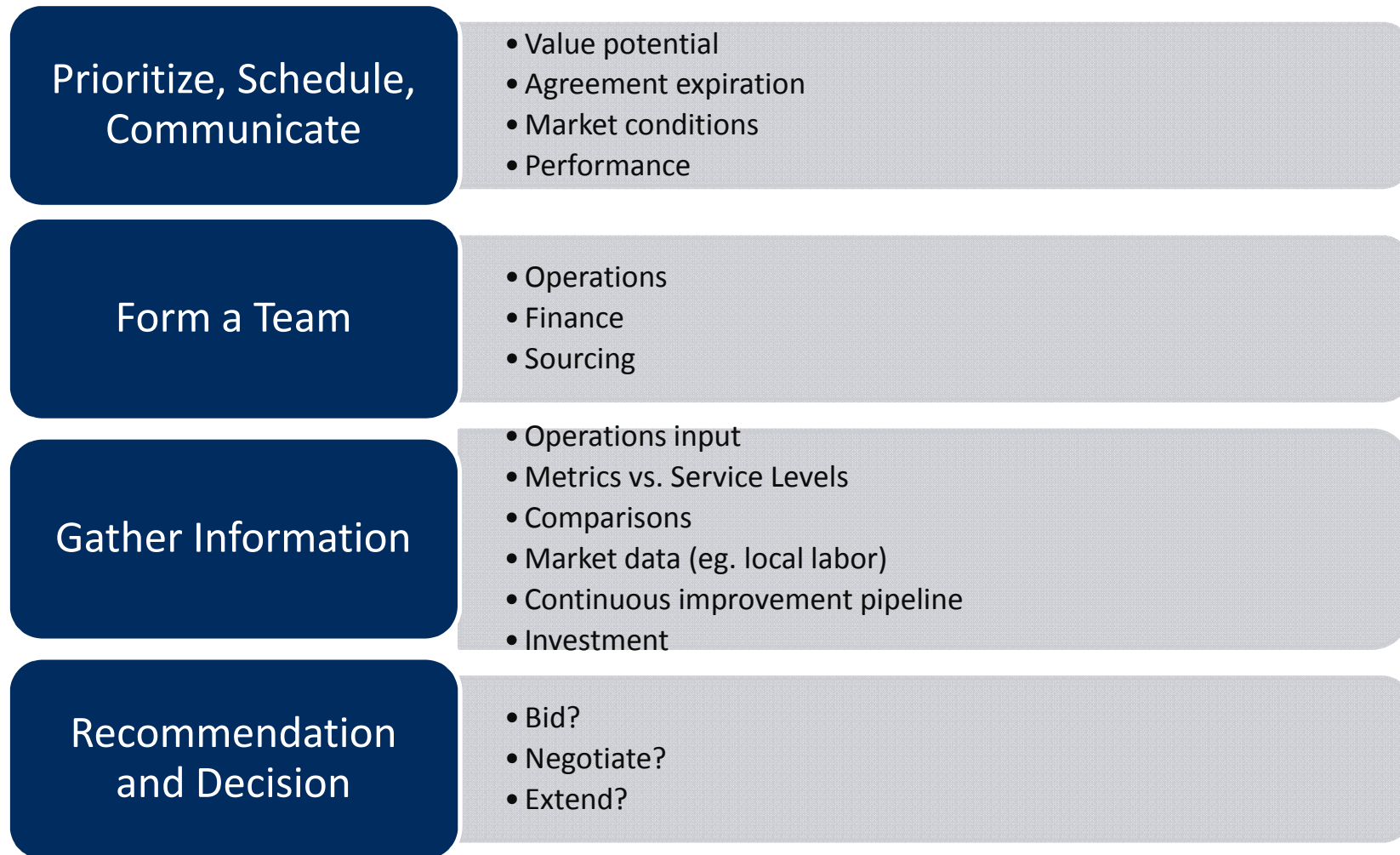
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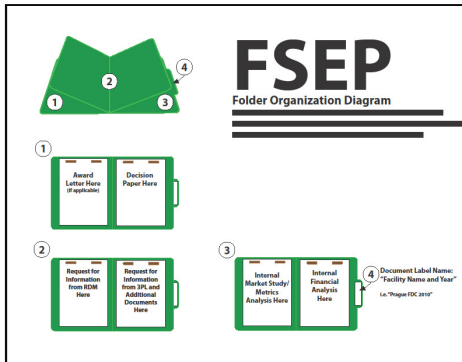


TOOL 4: FACILITY SOURCING EVALUATION PROCESS



AUTOMATIC BIDDING KILLS COLLABORATIVE INVESTMENT...
AUTOMATIC EVALUATION ENCOURAGES IT

PRINCIPLES



FSEP is about managing vendors and stakeholders

Bid decisions tend to be emotional ones if you let them

Goals:

- Facts on the table
- Consistency
- Transparency
- Fairness

Parlor Tricks

- Same format
- Same process
- Collect signatures

Case Studies (names have been changed for confidentiality):

1. Sunnyville Regional Distribution Center

Supplier X:

- Preferred Supplier
- Local execution issues
- High level of collaborative investment
- Six months until contract expiration

FSEP Outcome: Aggressive cost per unit targets given for year.

- Recognized high investment by Supplier X
- Focused on reasonable goal
- Recognized Supplier X's "Preferred Status" and history of collaboration

Results: Successful attainment of cost goals while improving service

Case Studies (names have been changed for confidentiality):

2. Hotville Regional Distribution Center

Supplier Y:

- Preferred Supplier
- Role model execution
- High level of collaborative investment, exporter of innovation
- History of beating plan

FSEP Outcome: Three year extension

- Renegotiating the 15% of costs not associated with pass through labor would have resulted in a reduction in continuous improvement investment

Results: Successful attainment of cost goals while maintaining high service

Case Studies (names have been changed for confidentiality):

3. Roethlisbergerville Factory Distribution Center

Supplier Z:

- Qualified Supplier
- Good execution
- Poor continuous improvement track record and pipeline
- History of cost overruns

FSEP Outcome: Bid

- Significant cost savings with award to a preferred supplier

Results: Successful attainment of cost goals while maintaining high service

ADDRESSING OUR GOALS: SCORECARDS



<div style="text-align: right;">Initiatives</div> <div style="text-align: left;">Strategy Goals</div>	Agreement	Supplier Quality	Facility Sourcing Process	Metrics and Scorecards	Gainsharing Program
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core purpose



enabler



METRICS AND SCORECARDS

Consistent operational definitions between providers and facilities

Outside-in goals

SMART goals (Specific Measureable Attainable Realistic Timely)

An absolute prerequisite for

- Gainshare
- Preferred status

Feed directly into Facility Sourcing Evaluation Process

Contractually grounded

ADDRESSING OUR GOALS: GAINSHARING



Strategy Goals	Initiatives				Gainsharing Program
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GAINSHARE / PAINSHARE

Direct labor cost reduction beyond the productivity commitment is rewarded by 50% share of benefit for the first twelve months, if and only if service and quality targets are achieved

Subsequent year's plan is based on new, more efficient, level

Failure to hit volume and mix adjusted plan results in "pain share" of 50% of the delta

3PL success is tied to Whirlpool success

PLAN THE SYSTEM

The parts work together and are a product of evolution

Proper alignment is the first step

Automatic bidding can be a killer, but don't ignore the value of competitive tension

Thank you

