2017 CEO Priorities
Introducing APD

**People**
- Enhancing the capabilities of your purchasing team
  - Purchasing Placement (direct hire or contract)
  - Buyer skill development training:
    - Strategic negotiations
    - Commodity leadership
    - Understanding and managing costs

**Technology**
- Unlocking savings with big data analytics for purchasing
  - E-sourcing tool simplifies quoting and supplier management
  - Develops should-be cost models for side-by-side quote comparison
  - Identify opportunities for savings based on variance analysis of supplier quotes

**Execution**
- Implementing projects that improve the bottom line
  - Savings roadmaps with specific cost savings actions for each commodity
  - Should-be cost model development
  - Strategic sourcing implementations for sustainable savings

Customized solutions; There is no one size fits all approach.
We Help Clients Implement Knowledge-Based Cost Management in Three Ways . . .

1. Turn-key projects that provide the maximum leverage of our expertise and time

2. Execute-and-Mentor where we deliver the early stages and guide the client’s staff to complete the project while internalizing capabilities

3. Technology transfer approach that relies on the client organization to execute
Two things came together for us…

- A 2013 IBM study found that companies who have built high performing purchasing teams achieve 22% higher margins.

- A purchasing executive in a multi-billion manufacturing company questioned the competence of his suppliers’ purchasing practices.
...which made us question:

How is purchasing viewed by the CxO suite?
To identify CXO concerns, we asked 15 questions and interviewed respondents:

- CxO Concerns
- Purchasing Support
- Purchasing Priorities
- Current Year Company Challenges
We expanded focus this year:

- **Concerns**
- **Support for Purchasing**
- **Purchasing Priorities**
- **Company Challenges**

2016 | 2017
--- | ---
✓ | ✓
✓ | ✓
✓ | ✓
✓ | ✓
2016 Concerns Findings:

- Our supply base is too far from some of our manufacturing sites
- My executive intuition tells me we are at a competitive disadvantage due to our... Our supply base is a risk to our ability to have uninterrupted supply to our...
- Our supply base is a risk to our financial health
- My executive intuition tells me we could grow faster if we leverage the expertise...
- Our supply base is too large
- Our purchasing team has effective working relationships with our suppliers
- Our supply base is a risk to our quality reputation
- Our purchasing team works effectively with other functions within the company
- Our supply base does not provide us with technical innovation/support
- Our purchasing team is helping me implement my vision for the company
- My executive intuition tells me we will achieve our vision for the company if we...
- My executive intuition tells me I know there are significant costs savings to be...
- Our purchasing team is aligned with the demands our customers place on our...
- Our purchasing team effectively supports our efforts to win new business
- Our purchasing team creates value that drops to our bottom line

% of respondents rating with a 4 or 5 indicating a very significant issue

Level of CxO Concern

Lowest

Highest

2016 Focus
2017: Company Challenges

- Launching new products
- Improving our internal processes
- Reducing risks
- Improving the technology in our products
- Increasing sales volumes

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2017: Purchasing Priorities

- Adding value to the company's bottom line
- Working better with other functional areas
- Reducing risks inherent in our supply chain
- Improving relationships with key suppliers
- Helping us win new business
Addressing the Priorities

1. Alignment with the CEO and Others
2. Key Metrics/Bottom Line Value
3. Collaborating for Savings & Relationships
Discussions #1 & 2

100%
100% of CxO’s want purchasing to deliver bottom line value in 2017.
Bottom Line Value

Common themes when discussing the results with respondents:

- “Purchasing reports savings but the other functions complain about the costs.

- “With all the savings being reported I would expect bottom line improvement. But it just is not happening.”
Discussion #3 – Alignment

- 100% of CxO’s want purchasing to deliver bottom line value in 2017
- 90% want purchasing to work better with other functions in the company
Primary Cause: Alignment

“Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion”.

Jack Welch, former Chairman and CEO, General Electric
Develop a procurement strategy to support the vision of your C-suite

- Strong Purchasing Leaders partner with internal stakeholders and suppliers to develop and execute strategies that support the CEO’s Vision
Understanding and Aligning with the Corporate Strategy

- Easy if your CEO is Jack Welch

Company Strategic Plan

- Technology
- HR
- Manufacturing
- Purchasing
Is purchasing an equal partner in the development of the company/business unit strategy development?

- Yes
- We have input but are not an equal partner
- No, strategies are developed without input

- 44%
- 33%
- 23%
Alignment –
CEO Vision – Be the Low Cost Producer

Purchasing
Vision

Support low cost producer strategy by collaboratively leveraging the capabilities of the supply base to deliver the best bottom line value.
The Alignment Golden Rule

You have to sow before you can reap. You have to give before you can get.

Robert Collier
The Aligned Leader

- Understands what each function is trying to deliver
- Is committed to help them succeed
- Has processes and metrics designed to support
Three Steps to Building Alignment with your C-Suite, Stakeholders and Suppliers

Develop a Plan

Obtain Buy in

Execute
For More Information

“The Key to Relevancy: Building Alignment with your C-Suite, Stakeholders and Suppliers”

Webinar and White Paper
apurchasingd.com
100% of CxO’s want purchasing to deliver bottom line value in 2017.

45% question the metrics in place for purchasing.
“Metrics that Matter: Measurements that Demonstrate Purchasing Value”

Webinar and White Paper
apurchasingd.com
Metrics that are not understood

There is no greatness where there is no simplicity, goodness and truth.

**Leo Tolstoy**
Characteristics of Metrics that Matter

- Strategic
- Aligned
- Types--Include results, process and forecast
- Owned
- Managed
CEO Vision – Be the Low Cost Producer

**Purchasing**
Support low cost producer strategy by collaboratively leveraging the capabilities of the supply base to deliver the best bottom line value.

**Goals**
Move material cost from 56% of revenue to 48% while improving collaboration with the supply base.

**Objectives**
- Launch Value Analysis on 3 commodities during Q1. Expand in Q2-4.
- Monitor steel pricing and assess impact on pricing.

**Metrics**
- Results
- Process
- Predictors

CEO Vision – Be the Low Cost Producer
Common Metric Mistakes

- Measuring everything
- Measuring nothing
- Confusing process with results
- Focusing on metrics that mean little
- Metrics that are not understood
Example: Metric Not Understood

- Company focused supplier improvement efforts to improve suppliers overall quality ratings.
- Ratings were comprised of 8 inputs.
- Buyers could not explain how they were calculated.

Better approach:
- Results: Focus on Supplier PPM
- Process: Issue response, on-time samples
Develop a Bottom Line Value Metric

Paint the complete picture:
Purchasing savings: $25,000,000
Department costs: $(2,500,000)
Savings share with customers: $(7,000,000)
Engineering and Operations costs: $(2,000,000)

-- Total Impact $13,500,000

Do this at the project and business unit level
Paint the Complete Picture:

For every project:

- Calculate Total Acquisition and Total Relationship Costs
- Identify customer share
- Include investment cost – engineering, operations
- ROI
90% of CxO’s want improved relationships with key suppliers
52% want improved relationships with all suppliers
Align the Supply Base with Company Strategy

- Strategic Supply Base Management develops and manages a supply chain that fits the vision for the business.

- Technology
- Investment
- Knowledge
- Global Reach
- Cost
- Growth
Collaboration and Costing

"Purchasing Can Have it All"

Webinar/Whitepaper: apurchasingd.com
Focus on Pricing Hinders Collaboration

Pricing

Collaboration
When we act in a competitive way……

- Price reduction pressures imposed by more powerful buyers on suppliers significantly reduces suppliers willingness to share and invest in new technology*

- When suppliers decide which automakers get their best new features and technology, they tend to favor the automakers that treat them well.**

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**Automotive News, Editorial, May 12, 2014
Why do we focus on pricing?

- Easy
- Fast
- Requires low skill set
- It is how we are measured
Collaborative Cost Focus Adds Value

- Cost to manufacture
- Total acquisition cost
- Total relationship cost
Collaborative Cost Focus Adds Value

Cost + Collaboration = Value
Automakers could have earned $1.4 billion more last year if they improved their relationships with suppliers.

*Planning Perspectives, as reported in Automotive News, August 4, 2014*
Remedy: High Performing Purchasing Teams:

- Own material costs that are included in customer quotes:

  “When I got here the cost estimator in sales developed material costs that were included in the customer quotes. We have been systematically developing cost knowledge on key commodities and taking ownership.”

  – CPO Comment
Are your cost processes driving alignment or division?

- **Value**
  - **Price Focused** 5-11%
  - **Knowledge Based** 5-11%
  - **Collaborative** 8-18%

- **Alignment**
Addressing the Priorities

- Adding value to the company's bottom line
- Working better with other functional areas
- Reducing risks inherent in our supply chain
- Improving relationships with key suppliers
- Helping us win new business

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Addressing the Priorities

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CPO’s Can Deliver CEO Priorities

- Help win new business & work better with other functional areas through alignment, understanding costs and implementing metrics.

- Improve relationships with key suppliers and reduce supply chain risks through collaborative total cost focus, aligned strategies and simplified metrics.

- Add value to the company's bottom line.
We help get companies up the curve.

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Wrap-up

- Questions.
- Answers.
- Emotional outbursts.
- Do you want the white paper?
  Leave your card – Y/N/TIO