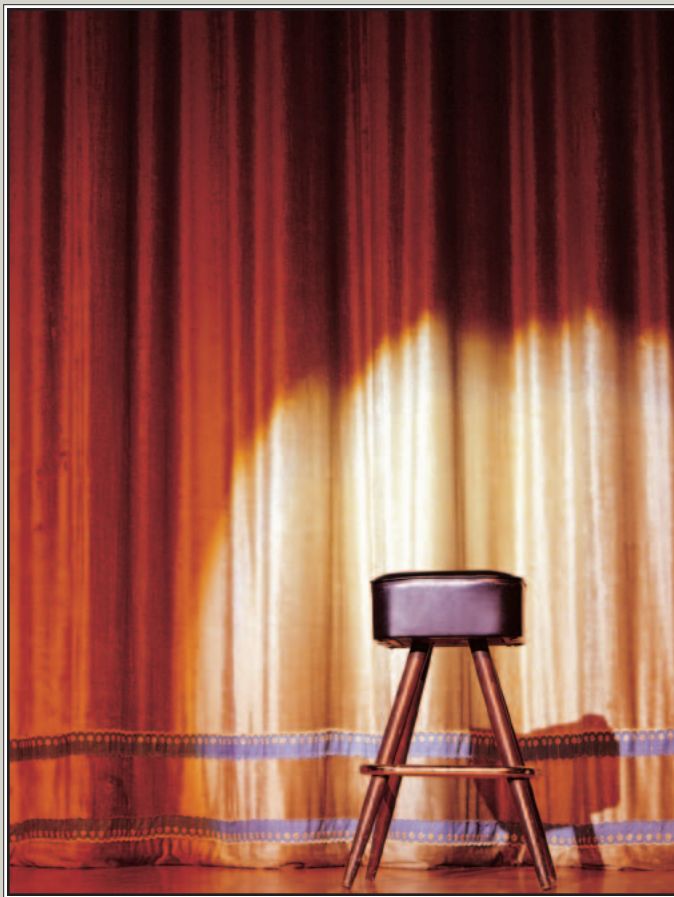


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EXECUTIVE
AGENDA

IDEAS *and* INSIGHTS *for* BUSINESS LEADERS



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Ready for Center Stage

ATKEARNEY

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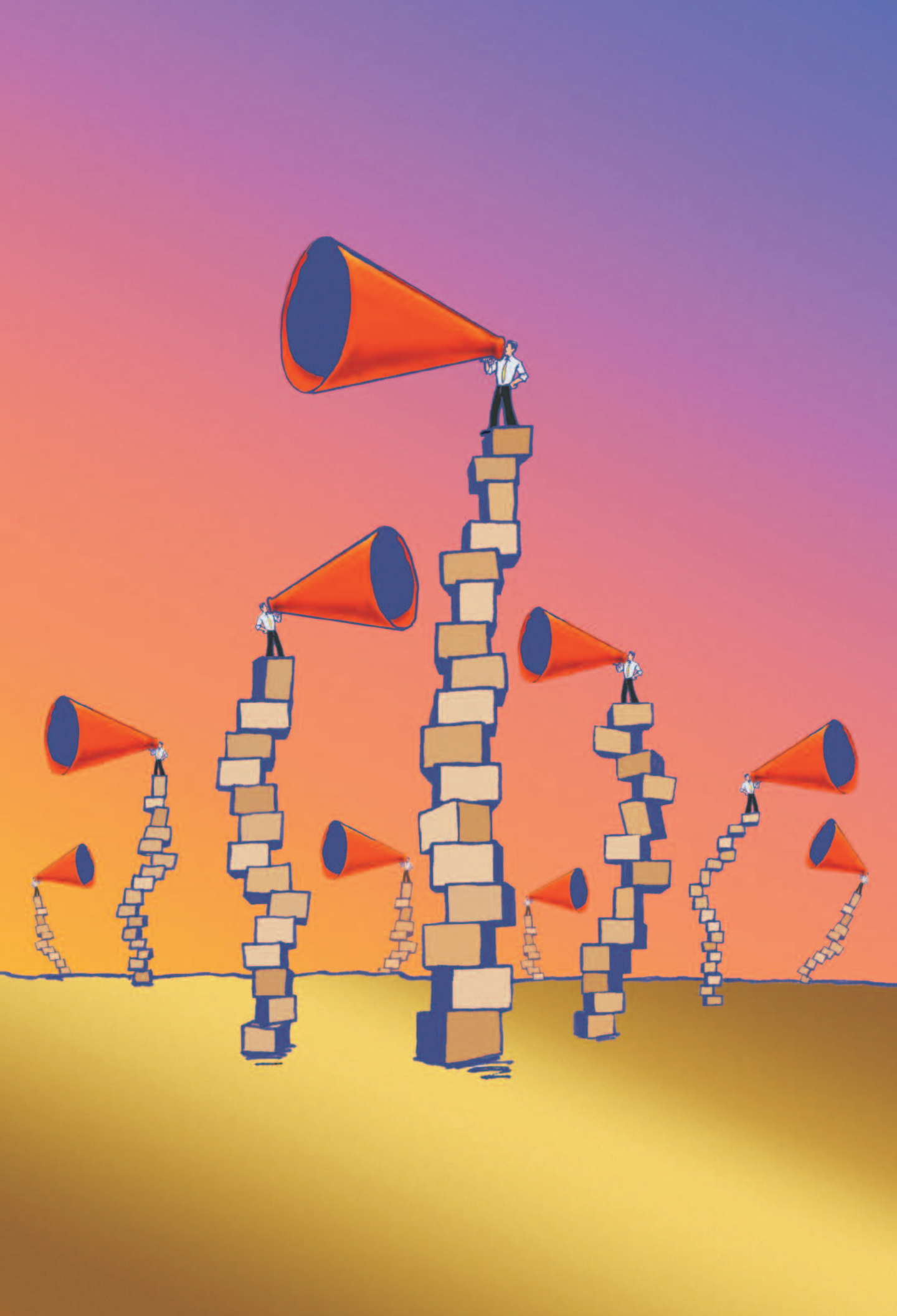
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When Your Suppliers Talk... Listen

You have the muscle—e-tools and astute negotiators who can squeeze the lowest prices out of suppliers worldwide. But there is a knack to sourcing strategically beyond what takes place in the sourcing process. It is the ability to listen to and engage your suppliers.

When companies talk, their suppliers listen. But what about the reverse? Do companies listen when their suppliers talk? Should they? And if they do, are they really hearing what their suppliers have to say?

In dealing with suppliers, companies tend to focus on their current products and services, addressing issues in the here and now, such as logistics requirements, meeting year-over-year savings targets and, of course, price. But if you keep your head down and focus solely on what is on the table today, you might be missing what could be on the table tomorrow.

When it comes to buying goods and services, getting closer to your suppliers is the key to long-term advantage and is becoming even more relevant as companies address a host of new issues—from growing inflation to commodity pricing. This practice begins with listening to your key suppliers to gain a competitive perspective and, if all goes according to plan, will develop into a mutually beneficial relationship involving joint improvement projects, managed by customers and suppliers together.

Companies that take the time to listen to their suppliers can eventually realize rewards beyond cost savings. Often, they

can generate new ideas and concepts, determine how their performance stacks up against their best-practice competitors, and identify areas and processes on which to focus resources and attention. In short, they are well positioned to embark on major supply chain management initiatives (*see sidebar: Working Together Pays Off*).

But long before companies can perfect the science of supply chain management, they must first master the art of listening.

LISTEN AND LEARN

While every business is unique, some challenges are common to all. Who has not

and manufacturing. These perspectives can help identify areas where you excel and where you need to improve. This knowledge is most valuable when it is based on “know-how” from best-practice companies.

However, true success depends on finding the right balance between the use of competitive levers—such as best-price evaluation, volume purchasing and global sourcing—and joint-process improvement programs. Getting close to suppliers is anathema to companies that for years have kept their suppliers at arm’s length, beating down the price of goods purchased or services rendered. Yet achieving the next level of cost

When it comes to buying goods and services, getting closer to your suppliers is the key to long-term advantage.

tried to reduce complexity in the supply chain or get joint-process improvements up and running, only to be thwarted by external market forces, internal challenges and extenuating circumstances?

Many companies don’t realize their suppliers can help bring these and other concepts to life. Firmly ensconced in some of the best-run companies in the world, suppliers are wellsprings of information, often dealing with and overcoming many of the same challenges that you are. Spend time with your suppliers and you may hear an informed perspective on performance in key areas along the entire supply chain, such as product development (supplier engineering to company engineering), procurement

reduction requires bringing your suppliers closer, a process that begins with listening (*see sidebar: The Voice of the Supplier*).

An example will help illustrate the point. A large U.S. pharmaceutical supplier wanted to license the marketing rights for a metabolic product from a small European pharmaceutical company in the United States. The proposed licensing agreement had several economic barriers that would prevent the pharma supplier and the European company from gaining maximum commercial value from the product. Two major barriers—fixed royalty costs and limited sample quantities—were identified during a voice of the supplier process. The supplier compared the value of the

product under the current licensing agreement with the value if the product were optimally supported, meaning improved royalties and unlimited samples. A new contract was negotiated in which peak-year sales were forecast to exceed US\$1.7 billion, nearly triple the US\$600 million in

the original agreement. And, to preserve the value of the franchise, the new contract included plans for two new product formulations to be launched prior to losing patent exclusivity. Eliminating these barriers led to a win-win situation for both the company and the supplier.

Working Together Pays Off

Listening to and working with your suppliers can drive rewards well beyond price reductions and overall discounts. Indeed, four key benefits can be achieved over the long term:

Build a foundation for future collaboration. By engaging your top suppliers, you can learn how your peers approach the supply market. For example, do your competitors involve their suppliers in product design or marketing? Are they conducting supplier days? Do they have a formal supplier recognition program? Answers to these questions can provide ideas for building or improving your own supplier relationship program.

Reduce time to market for new products. Bringing suppliers in earlier in the production process can slash

product development cycle times by up to 50 percent. A case in point is a leading Japanese automaker that involves suppliers up to 30 months before production of a new vehicle design. The result is a 20 to 50 percent reduction in the product development cycle time—depending on product complexity—and increased revenues and market share.

Improve economics through better business processes. When suppliers take over lower-value activities, such as order processing and forecast distribution, companies gain the advantage of an improved business process and have more time to focus on strategic issues. The money saved can go toward research, product development and marketing.

Increase efficiency in non-

core products and services.

No one disputes that competitive advantage requires focusing on core competencies and outsourcing a larger percentage of product or service content for non-core activities. For example, firms in capital-intensive industries recognize that improved management of their maintenance, repair and operations (MRO) spending is a significant source of untapped value. Yet few companies are able to improve their MRO performance, particularly when it's managed at a local level where there are significant barriers to change.

One solution is to outsource the management of MRO to an external supplier, which then becomes a valuable partner in the extended enterprise and can help the company achieve its overall performance goals. ●

WHAT TO LISTEN FOR

Capturing the voice of the supplier requires defining exactly what you need to know. You and your suppliers must agree on the product or service requirements that define your relationship, and know that your suppliers have the capabilities to fulfill those requirements. When a supplier's requirements and the company's perception of those requirements do not match, managers

waste their time monitoring and measuring performance in all the wrong areas.

Never underestimate the effect that changing requirements will have on a supplier's ability to drive price and non-price efficiencies, not to mention the impact it might have on your product quality. It should be no surprise, for example, that changing a package size or the physical flow of goods will affect the supplier's cost struc-

The Voice of the Supplier

We captured the voice of the supplier in our work for a large retailer in its bed-and-bath textiles category. With US\$150 million spent on sourcing annually, the company wanted to reduce supply chain costs in this category, working throughout the supply chain, from factory to consumer. The engagement was twofold: develop an assortment and merchandising strategy to reduce stock-keeping unit (SKU) complexity—11 lines with 7,000 SKUs—and use strategic sourcing to select 45 suppliers out of a prospective supply base of 130.

While performing the supplier selection process, we assessed areas where the company and its suppliers

could collaborate. Engaging key suppliers during the sourcing process sent the message that the company was committed, was interested in its suppliers' perspectives, and wanted to identify mutually beneficial areas for collaboration.

Answers to an online survey, completed by both company and supplier executives, and followed up with personal interviews, revealed key processes that could be improved (*see figure on opposite page*). Logistics was the first improvement opportunity to rise to the surface. The company and its largest suppliers then worked together to identify three areas for further analysis:

- **Increase pack size.** Select

products were packed two per box, increasing costs for packaging and handling. The team explored the idea of increasing pack sizes to logical breaks such as a half or full dozen.

- **Cross dock more product.** Rather than traditional warehousing, the team decided to expand the amount of product shipped through the company's cross-docking facilities. Although doing so might increase internal handling charges, it could also reduce supplier costs by enabling full-truckload shipments.

- **Create master packs for stores.** Hoping to reduce the overall number of boxes sent to its stores, the team explored working with the company's largest suppliers to create

ture and thereby lead to a price increase. In an automaker’s product development cycle, for instance, untested engineering changes can drive up product and warranty costs.

Also, your more strategic suppliers can provide certain intangibles, such as product knowledge and a proven design. Supply selection needs to focus on issues beyond price.

Finally, because suppliers devote their best resources to their best customers, you

should know exactly how “attractive” you are to your suppliers. Do they value your business relationship more than they value others? Could the relationship be improved? Are the lines of communication between you and the supplier open and accessible? Answers to these and other questions can gauge whether your suppliers view you as a major or minor customer. If suppliers do not consider you a key customer or strategic

“master packs.” Rather than each supplier sending a separate box for each SKU, the supplier would send one master pack with all SKUs to some of its larger stores.

Through this collaborative

approach, the company built commitment to its joint efforts early on—and increased its savings. The retailer achieved more than US\$1million in incremental savings in its bed-and-bath category, the

bulk of which came from changing pack sizes and from a relatively straightforward policy change and equipment adjustment that reduced manual handling. ●

Figure: *Survey Findings Reveal Areas for Improvement**

TOPIC	COMPANY PERFORMANCE	SUPPLIER PERFORMANCE	IMPORTANCE TO SUPPLIERS	IMPORTANCE TO COMPANY
General capabilities	3.4	3.5	3.9	3.9
Continuous improvement	3.2	3.5	4.0	4.1
Logistics	2.8	2.9	4.4	4.5
Payment and order processing	3.5	3.3	4.0	3.6
Product development and intellectual capital	3.2	3.5	3.9	3.9
Joint sales and marketing	3.1	3.0	3.6	3.3
OVERALL AVERAGE	3.2	3.3	4.0	3.9

**On a scale of 1 to 5; 1 being low and 5 being high. Illustrative example of retailer’s bed-and-bath textiles category
Source: A.T. Kearney*

Figure: *Sample Feedback from Voice of the Supplier Survey*

QUESTIONS TO SUPPLIER	SUPPLIER FEEDBACK
<ul style="list-style-type: none"> • What are the overall strengths of the company compared to your other main customers? (For example, efficient use of technology or effective performance management program.) 	<ul style="list-style-type: none"> • Excellent use of forecasts, solid projections • Open style of communication, which allowed us to introduce <i>Kanban</i> and other new methods • Strong technology and market leadership • Willingness to work with a supplier • Supplier benchmarking: engineering product design to allow competitive fabrication of parts • Stable business, long-term partnership potential and growth • Great people to work with: They are open to new ideas and willing to help resolve issues
<ul style="list-style-type: none"> • What best practices do you see in other customers that this company should strive to achieve? 	<ul style="list-style-type: none"> • Improve timely feedback on quality and delivery • Move to electronic forecasts, orders and invoicing • Strive for more vertical integration with supplier capabilities; use email and online billing; do not unilaterally change payment terms • Improve consistency in business agreements; all divisions seem to develop their own versions of agreements • Improve communication and reaction time • Empower employees and improve relationships at lower levels

Source: A.T. Kearney

partner, it is time to reevaluate the benefits of the relationship. Should you continue the relationship? How crucial is the product you are buying? Are there other suppliers that can make the product and provide the opportunity for a closer relationship? If the answer is yes, it may be time to make a change.

THE EVOLUTION OF LISTENING

A voice of the supplier initiative evolves over time, with the “listening” phase occurring early in the evolution. You will identify issues as you explore what is working well and what can be improved. Examples of this fact-finding exercise include understanding your overall strengths as compared with

your competitors, and obtaining detailed information about best-in-class practices in processes such as forecasting, order placement and invoicing (*see figure*).

Some of the best information is derived from online surveys. A survey is an excellent tool for capturing detailed insights across multiple suppliers and key internal stakeholders. These are followed up with personal interviews to obtain more detailed information or to clarify information drawn from the survey. For example, an online survey can tell you that suppliers are not involved early enough in the product development process, while a personal interview digs a level deeper. Both provide in-depth knowledge

“By engaging OUR TOP SUPPLIERS during the sourcing process, WE SENT THE MESSAGE THAT THEIR PERSPECTIVE on ways to improve the process mattered to us. This was the first step to BUILDING A MUTUALLY BENEFICIAL RELATIONSHIP.”

—Senior executive, pharmaceutical company

on what your suppliers think are the key barriers within your organization and, more important, how best-in-class companies have learned to overcome the same barriers.

You should listen for both the internal stakeholder view and the external supplier view. The bilateral capture of information helps prioritize the right issues to focus on; often what you think might work, your suppliers already know will not.

Once you have prioritized the issues, you can identify those that will have the biggest impact on the company and the supplier by interviewing additional stakeholders such as end-users of your product or

buyers and suppliers is often too difficult to overcome, and the combative nature of the supplier selection process has never been an ideal platform from which to establish mutual trust.

Nonetheless, once you have evolved to the point where you and your suppliers are performing joint-process improvement projects, trust is not just important, it's essential. Both sides have to commit significant resources to projects and must be willing to share in the risks and benefits. The wrinkle usually occurs when suppliers are wary of sharing information, fearing their customers will pilfer their best ideas.

Are there other suppliers that can make the product and provide the opportunity for a closer relationship? If the answer is yes, it may be time to make a change.

service. Eventually, you can conduct workshops with suppliers, peers and internal cross-functional teams. These workshops lead to pilot programs that you and your suppliers can execute and manage together.

While the objectives of a pilot program will vary depending on the issues, most will involve joint-process improvements and complexity reduction projects and, in many cases, will lead to larger-scale initiatives such as strategic supplier-management initiatives.

MAKING A COMMITMENT

Despite its commonsense appeal, capturing the voice of the supplier remains an underexploited opportunity. After years of beating down prices, the tension between

What is the cure for suspicious suppliers? Commitment. All top executives and key internal stakeholders must signal their commitment and buy-in to the process. Suppliers will allocate the necessary resources and demonstrate the same level of commitment when it becomes apparent that there is executive level buy-in and resource allocation on your part. Also, signing a confidentiality agreement or even crafting some type of contractual terms will convince suppliers that you will not use their ideas against them. Of course, once you signal your intentions, you have to follow through. When you begin to listen to your suppliers, they will expect you to act on the information—using it to bolster not only your bottom line, but

theirs too. Executing ideas not only helps generate early wins, it also builds the credibility and trust that eventually allow listening to become an ongoing process.

Finally, since suppliers expect to share in the benefits of the initiative, you should define and agree on how the benefits and rewards are to be shared from the beginning. Rewards might include giving your suppliers visibility by letting them make their “case for collaboration” at venues such as company-sponsored supplier conferences and industry trade shows, or in journal articles and marketing materials. You might also encourage suppliers to use your company as a reference in pursuing new business opportunities and give them due credit

through a performance measurement and feedback process.

TAKE NOTES

Listen to your suppliers and you are likely to hear candid, honest feedback and insight. In a typical voice of the supplier approach, you will walk away with a better understanding of both your strengths and your competitors’ and which business practices are considered best-in-class in your industry. Companies that engage their suppliers may find that a simple policy change or equipment adjustment could save millions of dollars—changes that would not have been considered had the company not reached out to, listened to and shared ideas with these key partners. ■

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