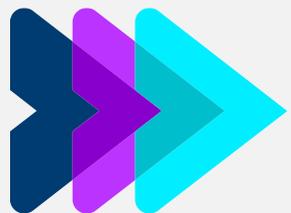


November 15th, 2023



Effective Supplier Management

Nick Fuhry - IT Supplier Manager, Boston Scientific



What is Supplier Management?



‘A discipline that enables organizations to control costs, drive service excellence and mitigate risks to gain increased value from their Suppliers throughout the deal life cycle.

This enables organizations to optimally develop, manage and control Supplier contracts, relationships and performance for the efficient delivery of contracted products and services. This can help organizations meet business objectives, minimize potential business disruption, avoid delivery failure, and ensure more-sustainable multisourcing, while driving the most value from their Suppliers.’

Source - Gartner

Examples of Tactical Supplier Management



CONFUSION

Calling a Supplier after hours to rectify delivery that did not show up

PANIC

Daily call with account manager to review a remedy for missing a key KPI

Last minute increase in the quantity ordered

Over purchasing to avoid uncertainties in forecasted numbers

Lack of Trust

Delay



Working through a line down situation because of an outstanding payment dispute

Working through a line down situation because of an outstanding payment dispute

Expensive

Changing out Supplier based on previous Supplier not understanding expectations

REACTIVE

Impossible



Poor Supplier Management Has Consequences

Target Severs Relationship with Textile Supplier Welspun India Ltd

The decision came in 2016 after Target claimed the supplier had used another source of cotton in manufacturing what were packaged as Egyptian cotton sheets. At issue were 750,000 sets of sheets and pillowcases sold at Target stores over the last two years. In addition to cutting ties with Welspun, Target contacted customers who purchased the sheets and offered refunds. Target's actions have led other department stores, including Walmart, J.C. Penney, Macy's and Bed Bath & Beyond, to launch investigations into their Welspun products. As its stock plummeted, Welspun pledged an internal investigation into its products.

The Honest Co. (baby cloths, formula) was called out in the media for false claims

The company faced criticism in The Wall Street Journal after two independent lab tests conducted on behalf of the newspaper found sodium lauryl sulfate — one of the chemicals the company promises that its products are free of — in The Honest Co.'s laundry detergent. The Honest Co. denied the claims, saying its tests found no evidence of the chemical. However, industry experts said the case shows how difficult it can be for companies to monitor manufacturing in a long supply chain. For a relatively young company in a niche market, a very public questioning of its products stands to do damage to its reputation and sales.

Volkswagen Cancels a €500-million Contract with a division of Prevent

Claims that the company had provided flawed leather seat covers. That prompted Prevent to halt all deliveries to Volkswagen and sue the German automaker for €50 million for work it had done to prepare its facilities for the large contract. Due to the halted deliveries, Volkswagen had to stop work at six of its plants, causing nearly 28,000 workers to have their hours slashed. In the end, Volkswagen reached a €13 million settlement with Prevent to resume deliveries.

Takata's Faulty Airbags, installed into tens of millions of cars worldwide

Manufacturers including Honda, Toyota, Ford and Mazda have recalled 100 million cars after problems were found with the Takata airbags. The airbags deploy with an excess of force that sends metal shrapnel flying into a car's cabin. The airbags have been blamed in 11 deaths and 150 injuries, with more under review. Carmakers have scrambled to replace Takata's airbags with other suppliers, but the massive recalls have led to an airbag shortage that has car owners waiting months to have the potentially dangerous airbags replaced.

Supplier Management Process Benefits



Best-In-Class Supplier Management Benefits Include:

Value Generation

Additional benefit (hard and soft) that can be realized from the relationship; including Innovation

Contract Compliance

Various negotiated terms being adhered to in the Agreement

Risk Reduction

Minimize the Security, Legal, Privacy, financial risk related to the Agreement an ongoing performance



Internal Alignment

Improvement as to how Suppliers are managed as well as how new opportunities are addressed

Capability Alignment

Rightsizing the number of new and existing suppliers

Improved Performance

Proactive understanding of suppliers' performance as it relates back to contractual requirements

Total Cost Savings

Steps Involved In Supplier Management



Good Supplier Management Starts with a Strong plan

1. Establish goals and Performance Criteria

2. Assess the Supplier (RFP, RFI)

3. Negotiate a contract(s)

4. Onboard the Supplier

Outside the Scope of this Presentation

5. Monitor your Supplier’s performance to established goals

6. Communicate regularly with your Suppliers

7. Revisit Expectations as relationship grows/ changes

8. Reward/ Challenge your Suppliers

9. Share Results with Leadership

Setting Strategic Supplier Management Objectives



Category or Area of Focus

- Service Supplier
- Goods Supplier
- Reseller

	Continuous Improvement:	Enable competitive advantage, such as innovation, increased capacity, knowledge sharing, and complementary offerings
	Minimize Risk:	Mitigate operational, compliance, financial, and other threats
	Set Appropriate Evaluation and Ongoing Review Criteria:	All aspects of Supplier expectations, such as risk mitigation, pricing, turnaround times and quality standards.
	Assist with Contract Management Strategies:	Partnership with Sourcing to develop a strategy through analysis that supports an overall company strategy focusing on total cost of ownership and collaboration
	Forge Productive Relationships:	Work cooperatively with Suppliers and internal stakeholders to create more long term, stable and effective relationships

Establish goals and Performance Criteria – Supplier Evaluation



Ray Carter (Director of DPSS Consultants) first outlined his Seven Cs of Supplier Evaluation in a 1995 article in 'Purchasing and Supply Management'. . These 'Cs' are valuable criteria for assessing the suitability of a potential supplier

www.raycarter.co.uk/about.php

1. Competency

Does your supplier have the skills to deliver the products you require?

2. Capacity

Your supplier needs to have sufficient capacity to enable it to operate flexibly. The more flexible the supplier is, the more it can meet fluctuations in demand.

3. Commitment

Your supplier needs to provide evidence that it's committed to high quality standards. Wherever appropriate, look for quality initiatives such as ISO 9001 and Six Sigma, within the supplier organization.

4. Control

How much control does the supplier has over its policies, processes, procedures, and supply chain? How will it ensure that it delivers consistently and reliably, particularly if it relies on scarce resources, and particularly if these are controlled by another organization?

5. Cash

This is the financial standing of the supplier. Your supplier should be in good financial health.

6. Cost

What is the cost of products from the supplier? How does this compare with the other firms that you're considering?

7. Consistency

How will this supplier ensure that it consistently provides high quality goods or services?

8. Culture

The best business relationships are based on closely matching workplace values.

9. Clean

This reflects increased environmental awareness and refers to your supplier's commitment to sustainability.

10. Communication

How does the supplier plan to communicate their progress and results back to your company

Three Additional 'C's' later
Added to the model

Establish goals and Performance Criteria

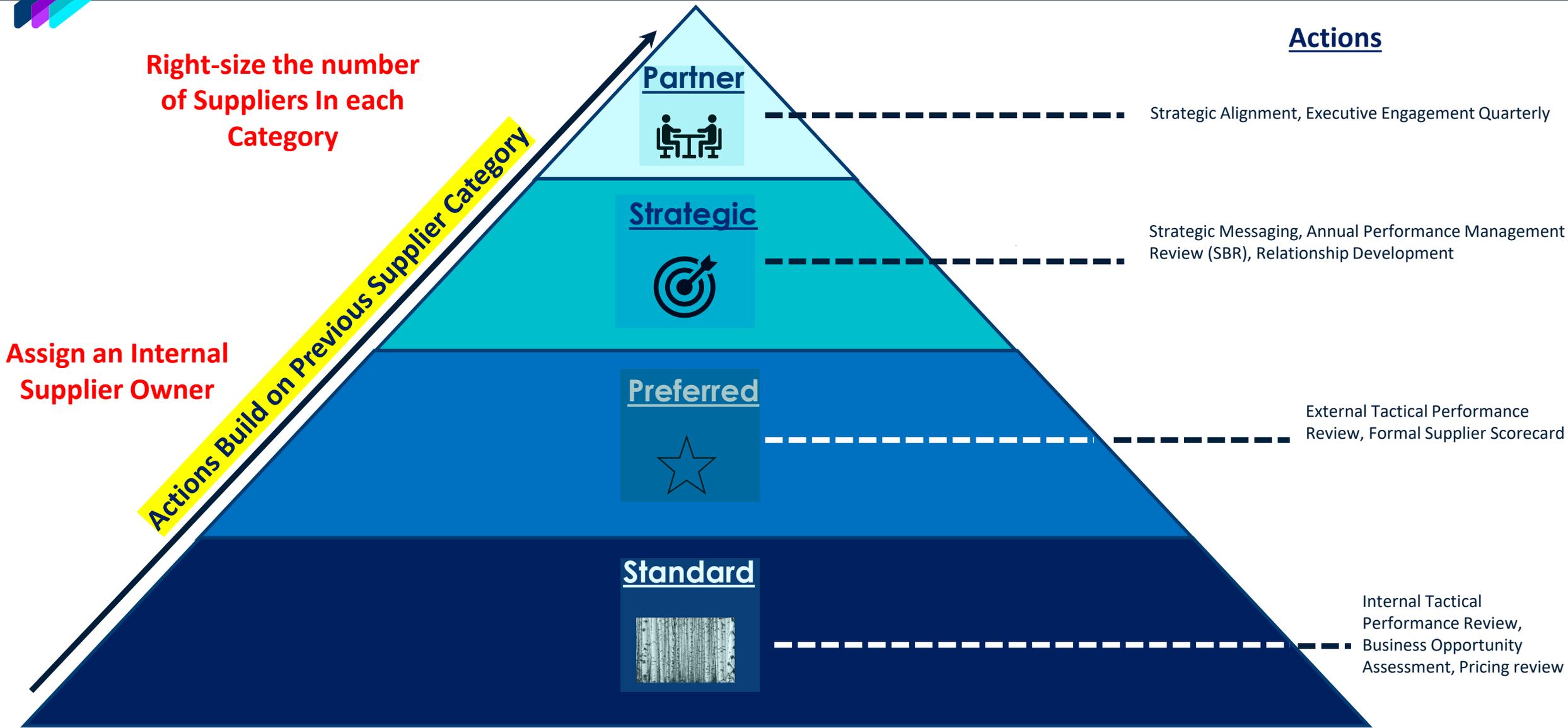


Feature	Impact
Centralized data repository	Develop a central repository for all Supplier-related information, compliance documents, templates, RFPs, contracts, etc.
Onboarding	The onboarding module in your Supplier-facing software should allow application, document collection, verification, and connect the verified Supplier with your organization’s workflows.
Activity log	Allows Organization to understand how well respective Suppliers interact with your platform or expectations.
Communication	Ensure that open communication regarding expected performance can be shared internally and externally
Payments	Provide payment functionalities or integrate with payment gateways.
Performance tracking	Utilizing Scorecards and Supplier Business Reviews in a formal manner will help reduce risk and adhere to expectations that have been set in the Agreement
Self-service portal	A Supplier portal to upload documents, access transactions, and more.



Monitor your Supplier's performance to established goals

- Engagement Categories





Model Supplier's Performance - Preferred Suppliers

Internal Performance Review

- Review Internal Performance Metrics with each Supplier: On-time Delivery, PPV Analysis, Price matching (Three-way matching), AP Payment terms (including discount terms), Resource Planning model)
- Show them results based on KPIs and in terms of their peers



Formal Supplier Scorecard

- Document used to rate the performance Suppliers on both a Quantitative and Qualitative basis
 - Ties Back to Contractually negotiated terms and commitments when appropriate
- Valuable Elements to include in a basic Supplier Scorecard:

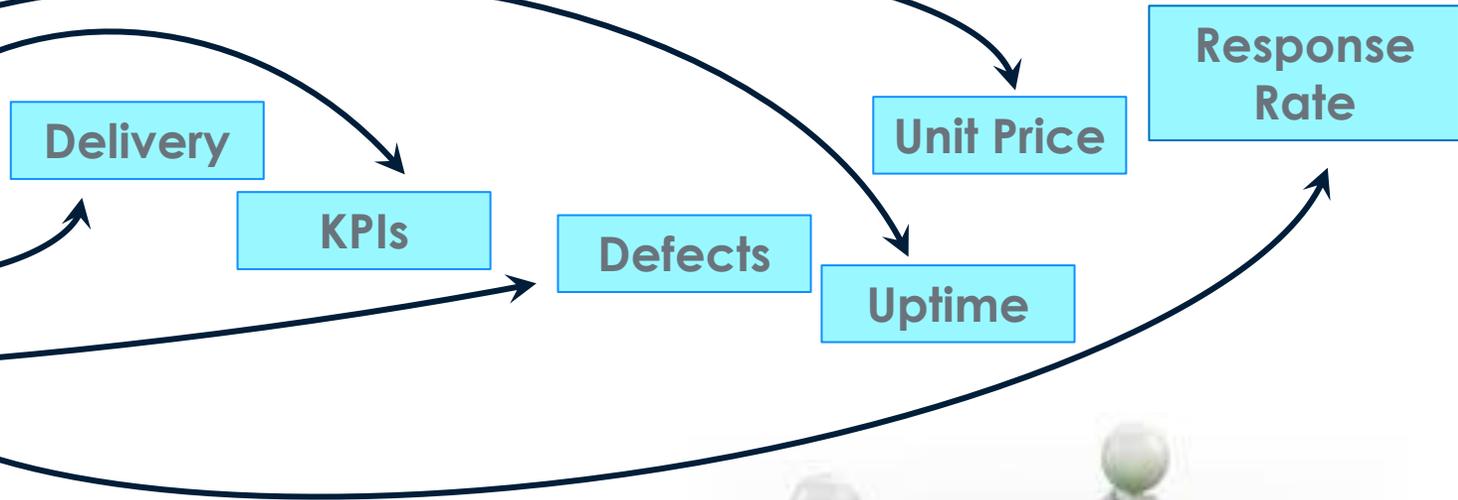
➤ Delivery times	➤ Customer service
➤ Quality of goods or services	➤ Pricing
➤ Order accuracy	➤ Innovation
	➤ Invoice payment history



Supplier Scorecard – Use Your Resources

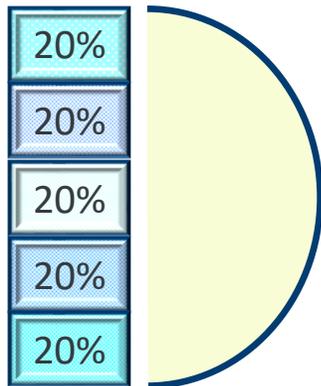


Measure to What is in The Agreement (Quantitative)



Understand Who Will have Input to the Score

- Accounting -----
- Sourcing/ Purchasing --
- Receiving -----
- Legal -----
- Quality -----

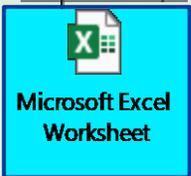


Develop Your Scorecard



Function	Metric	Assessment/Question	Supported by	Categorization	Criteria	Weight	
Commercial Excellence	Total Cost Performance	How does the supplier benchmark to competition in industry in reference to purchase price including all cost factors. (TCO/Documented and/or benchmarked pricing)	SRO/Stakeholder	Leading	Better than market (usually 5% or above): 90-100 points	20%	
				Achieving	Typically competitive (average 1-4 %): 80-89 points		
				Lagging	Sometimes competitive, (average 0-1%): 70-79 points		
				Poor	Typically uncompetitive (below average <0%): 1-69 points		
		Annual cost improvement performance (Could include discounts, contractual incentives, rebates, offering of alternative solutions, etc.)	SRO/Stakeholder	If rates of improvement are determined contractually: (100 points, annual goal driven)			15%
				Leading	Supplier Exceeds Goal: = 100 points		
				Achieving	Supplier meets annual cost improvement goal: = 80 points		
				Lagging	No increases or some Cost improvements achieved - Did not reach the level of expectation: = 60 points		
					Poor	Cost increases: 1 points	
	Strategic Business Requirements	Commitment to strategic requirements	SRO/Stakeholder	Alignment on commercial & Strategic requirements in line with BSC strategic initiatives & expectations (I.e. Care for cash program, Executed SCOC, transparency and business relationship)			15%
				Leading	Proactive, exceeds BSC strategic requirements. Typically above competition: 100 points		
				Achieving	Requires mutual collaboration and negotiations: 80 points		
Lagging				Some level of difficulty to gain business alignment: 60 points			
				Poor	Supplier not in alignment with BSC strategic requirements: 1 point		
Supplier's Risk management Process		SRO/Stakeholder	Supplier's approach to identify, assess and mitigate risk in the supply base			15%	
			Leading	Supplier has an effective risk management system/process in place: 100 points			
			Achieving	Supply chain risk process in place, not robust: 80 points			
	Lagging		Occasionally monitors supply chain risks (reactive mode): 60 points				
			Poor	No risk management processes in place: 1 point			

Scorecard Example



Function

- The High-Level Area of Focus (Similar to all Scorecards):
- Could include: *Commercial Excellence, Quality, Operational Excellence, Innovation*

Metric

- Specific Areas of Focus within the Function
- Could include: *Supplier's Financial wellness; ESG (Sustainability Efforts), Pursuance of value improvements, Contractual Negotiations*

Assessment/ Question

- Specific Aspect of how the Supplier is to be rated

Supported By

- Who will be responsible to provide a score

Categorization

- Category assigned to each respective score:
- Could Include: *Leading, Achieving, Lagging, Poor*

Criteria

- Supporting narrative for each of the respective Categorizations

Weight

Assigned Weight to Each Question (Must Equal 100% within each Function)

Scorecard Best Practices



- Ensure there is one point of Contact in delivering the Scorecard
- Ensure there is enough time for internal teams to provide scores
- Share results internally before sharing the results externally
- Ensure the Supplier is given a preview of the scores before delivering the message
- Ensure there is alignment between the various groups prior to sharing the results
- Provide actionable Improvements for areas in which the Supplier is Lagging or Poor in their Score
- Show areas of improvements and strengths over time
- Provide copies of the Scorecard to the supplier
- Define a standard set of time between scorecards





Strategic Business Review (SBR)

Supplier Business Reviews (SBR) help companies to periodically assess the quality of their Supplier performance, ensuring that they're only getting the most out of their investment, while also taking a proactive approach towards managing and improving supplier relationships.

SBR Best Practices

- Conducted for your Strategic Suppliers on an annual basis
- Incorporate a strategic view of the partnership in place
- Audience should include senior members of your Commodity/ Area of Spend/ Category
- Timeline for Delivery should be 90 -120 min
 - Allows for content Delivery and open dialogue
 - In-person is more favorable the virtual
- Representation from at least one member of Senior Leadership is preferred
- Content is representative of all areas in which both companies do business

High Level SBR Summary

1. Company (Internal) Summary
 - a. Summary of changes to Management team
 - b. Key Priorities Progress
 - c. Updates to Strategic direction
 - d. High Level Messaging to deliver to the Supplier
2. Supplier Summary
 - a. General Company updates
 - b. Strategic updates to the Account team
 - c. Current Global Spend you campy has with Supplier
 - d. Strategic Services and Capabilities review
 - e. Savings summary
 - f. Legal overview
 - g. Performance Summary (including summary of Scorecard)
3. Key 'X' Quarter Next Steps
 - a. Key Ongoing Projects
 - b. Potential Roadblocks
 - c. Support needed from both company's leadership to build the partnership



REVIEW

Partnership Has Meaning



Companies often misuse use the Word Partnership as a catch-all word. In Vendor Management 'Partnership' is reserved for the select few Suppliers whose engagement and input is crucial to the performance to your Category.

- In smaller companies, Strategic and Partner Suppliers may be considered synonyms
- Suppliers designated as Partners will be given increased visibility into your Categories direction and will have a seat a various Strategic meetings throughout the year. In addition to previous described meetings, they will be brought into"
 - Executive Briefings as to the direction of your company as a whole
 - Quarterly updated to SBRs
 - Product Design meetings
- In addition to the Supplier helping your company, your company will look to advance the offerings of the Partner Supplier

10 Specific Steps related to Partnership Suppliers

1. Craft a vision statement for your partnership that expresses its long-term objective
2. Define specific roles and responsibilities of each partner
3. Outline how your company will share in the financial rewards of your partnership
4. Determine the "point person" within your company
5. Address how conflicts or "split decisions" will be resolved
6. Establish short-, medium- and long-term goals for your partnership
7. Determine how you will work together to generate new business
8. Outline strategies and tactics for achieving the goals for your partnership
9. Tackle problems together, honestly and openly
10. Celebrate success





‘In a very real sense, there are only two roles in organizations: customers and suppliers. Everybody functions simultaneously in both roles, whether inside or outside the organization the essence of good business, therefore, is the quality of the relationship between customer and supplier.’ Stephen Covey