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Face the Future with Confidence

SUPPLIER LIFECYCLE AND THE POWER OF SUPPLIER RELATIONSHIP MANAGEMENT

ISM Meeting – July 2023





Finance Transformation



Supply Chain & Operations



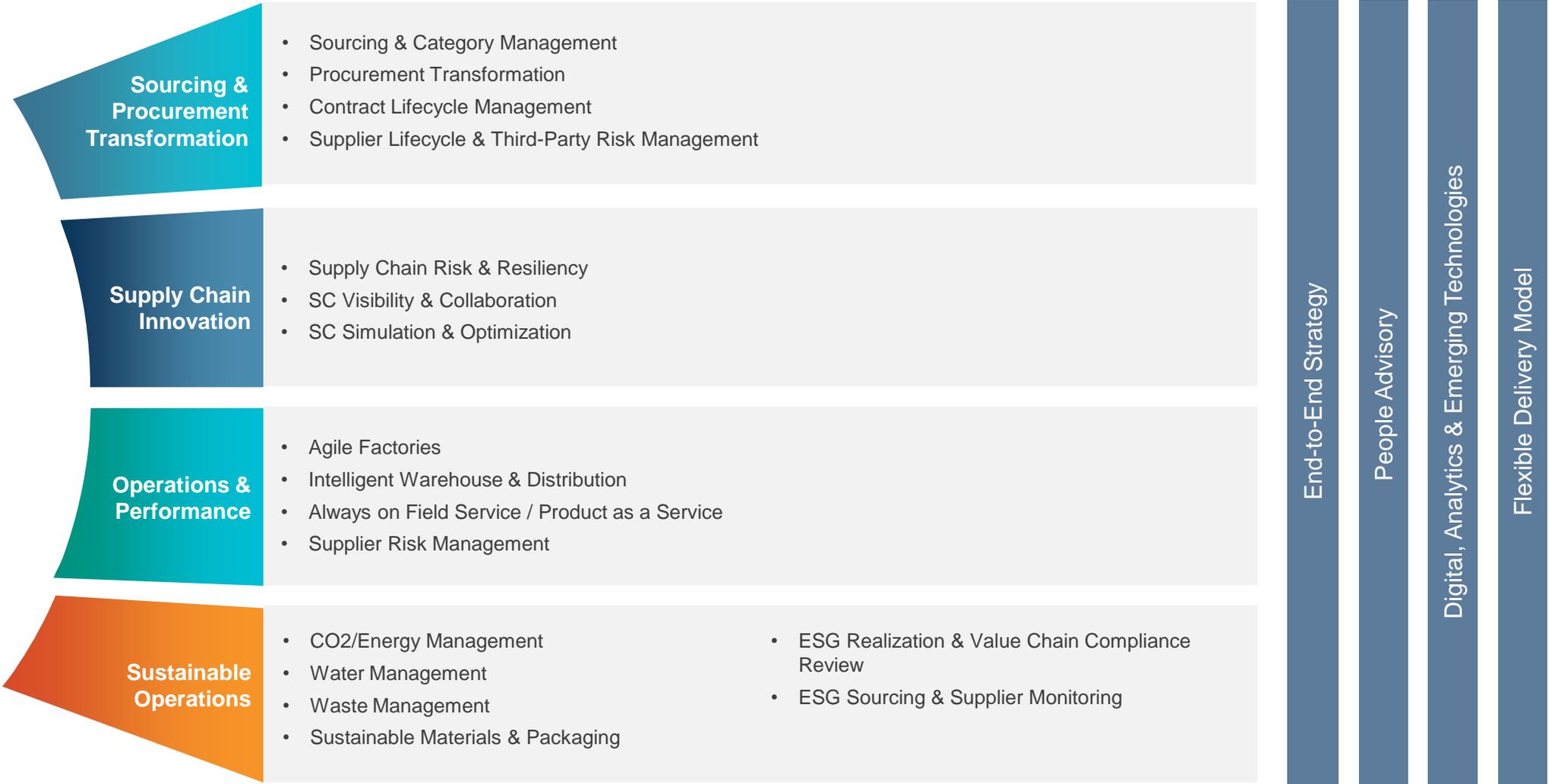
Employee Experience



Transaction Services

SUPPLY CHAIN & OPERATIONS

Identify and manage risks to enable a more resilient and flexible supply chain and operations, driving revenue assurance, cost reduction and customer satisfaction.



AGENDA



• **Supplier Lifecycle Management (SLM) Mission and Value Proposition**

• **SLM Key Components**

• **Connection to Strategic Sourcing**

• **Capability Maturity Model**

• **Third Party Risk and SLM**

• **SLM Journey and Examples**

SUPPLIER LIFECYCLE MANAGEMENT MISSION & VALUE PROPOSITION

Develop and strengthen relationships with strategic and critical suppliers in order to deliver greater levels of sustainable value to both organizations.

Supplier Lifecycle Management enables and accelerates.....



Revenue generation and cost reduction opportunities



Clearly defined roles and responsibilities



Continuous improvement and value-creation activities



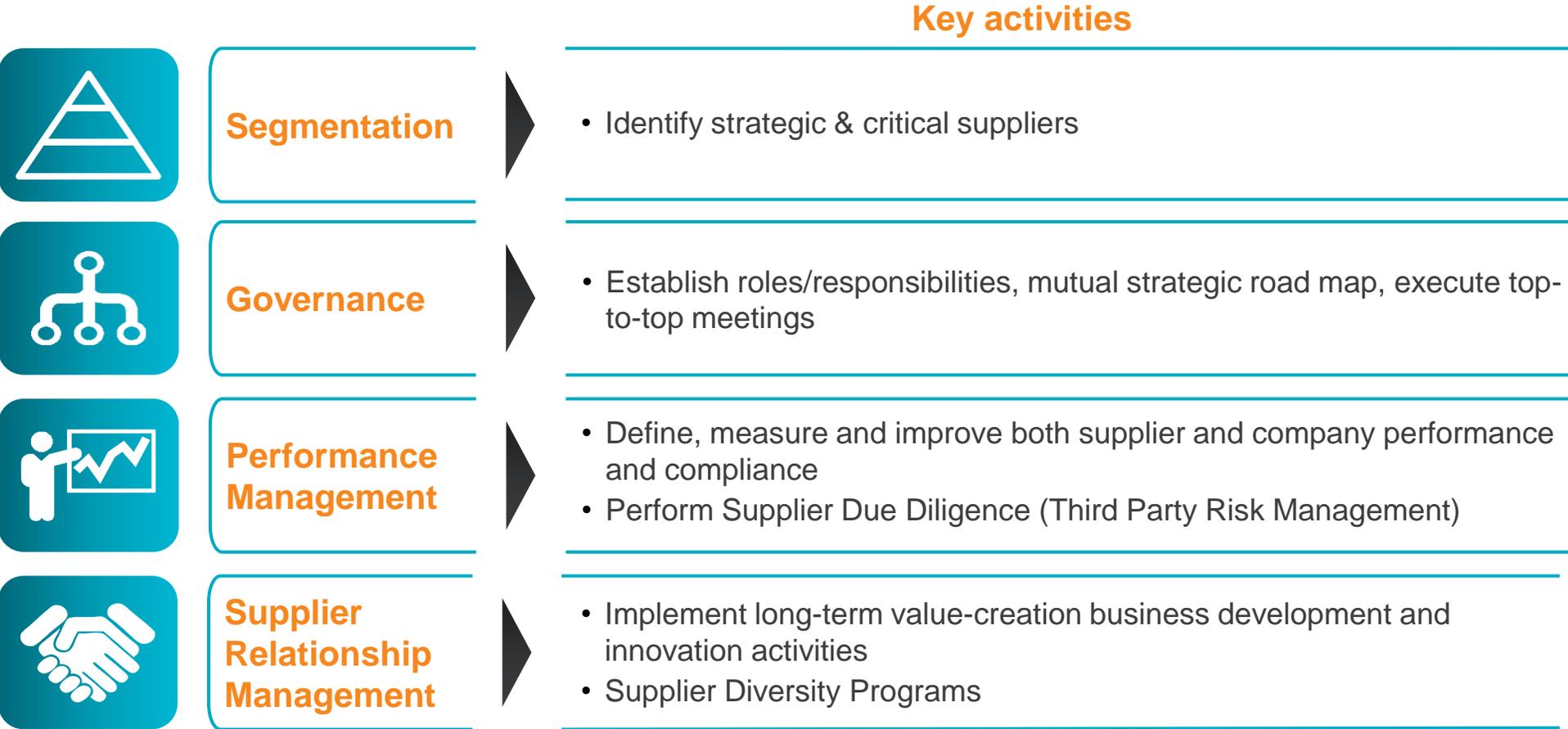
Increased transparency and information sharing



Business development and innovation driving competitive advantage

SUPPLIER LIFECYCLE MANAGEMENT KEY COMPONENTS (SLM)

Key components in designing a strong supplier lifecycle management program

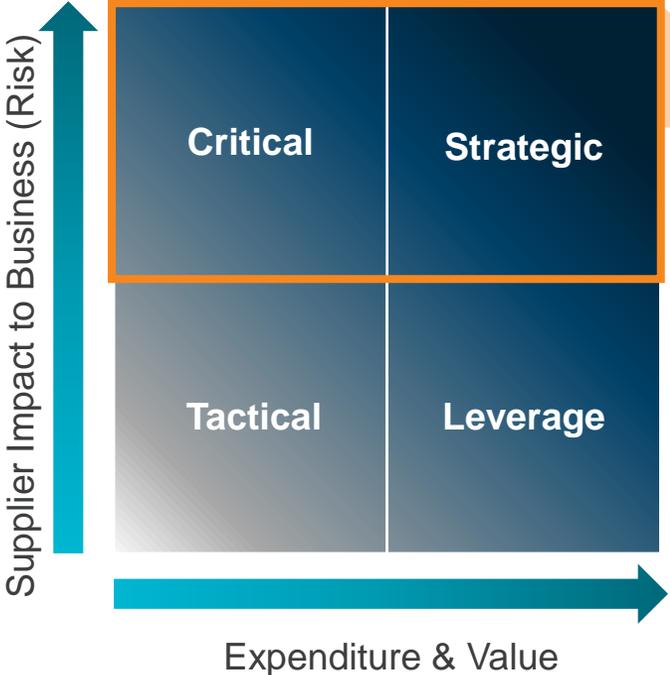


STRATEGIC SOURCING: TRANSFORMING TO ALLIANCE MANAGEMENT

The Supplier Lifecycle Management Journey should lead to Alliance Management with critical and strategic suppliers.

Influencers of Supplier Relationships (Porters 5 Forces)

- Supplier Power
- Buyer Power
- Barriers of New Entrants
- Intensity of Rivalry
- Threat of Substitutes

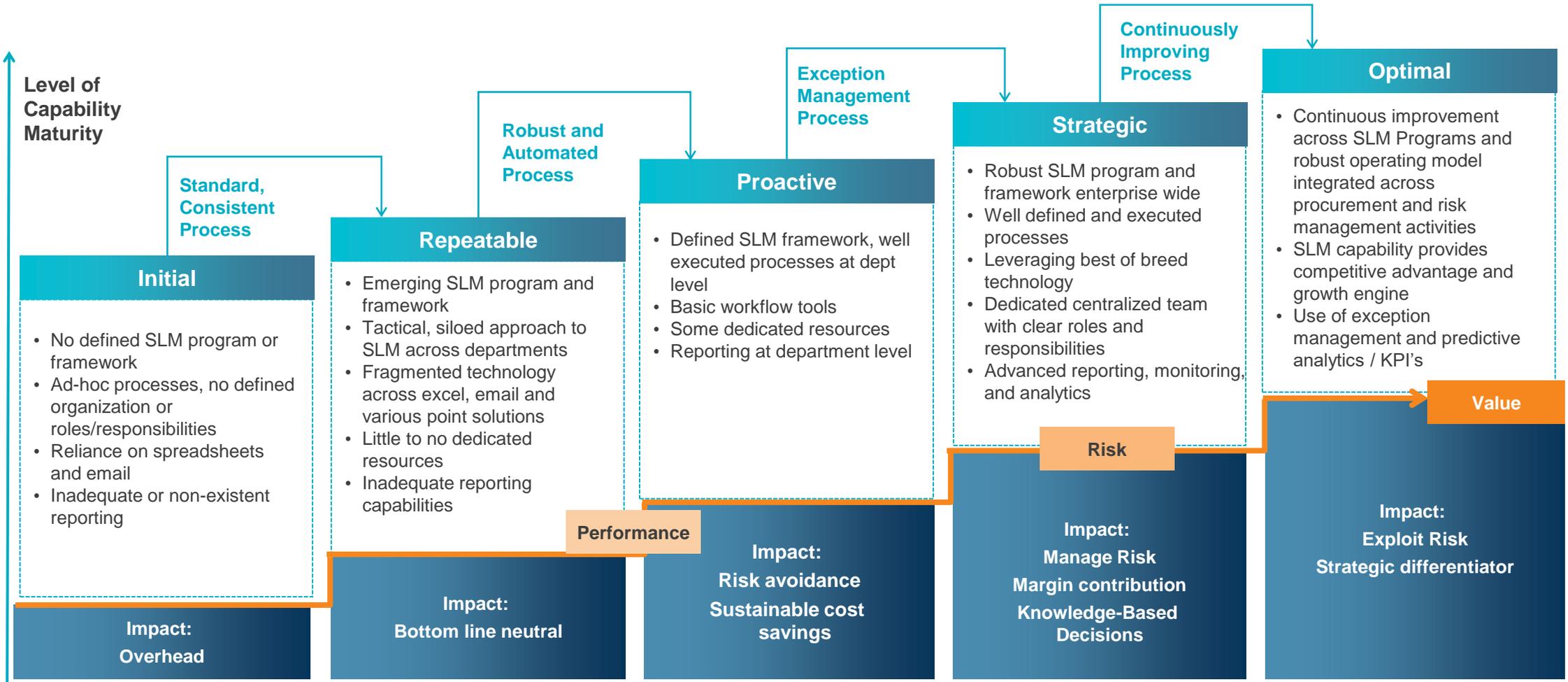


Alliance Partners

- Limited to select partners – aligned to BU based on present & future value
- Require executive sponsorship
- Framework built not only to sustain value but drive value beyond annual cycles

CAPABILITY MATURITY MODEL

Leading companies actively manage their suppliers based on the risk, exposure, impact, and overall value potential to the organization



SLM AND THIRD PARTY RISK MANAGEMENT (TPRM)

The reliance on third parties is more important than ever. Managing risks and third-party performance are of the utmost importance to ensure impacts to the company are minimized.

Third-Party Relationship Impacts

- Suppliers / Third Parties have an increasingly significant influence on company performance
- Greater connectedness increases the potential threat of system hacks or data breaches
- Globalization can potentially expose companies to off-shore suppliers with poor labor and environmental practices
- Competitive pressures are leading businesses to outsource more and more functions
- The true value and financial impact of the suppliers on an organization is rarely viewed in a holistic fashion; understanding both the breadth and depth of the exposure and value delivered

Rising impact of disruptions and performance issues

- Globalization / interdependence
- Extreme tiering (virtualization)
- Leaner supply chains
- Progressively demanding consumers
- Outsourcing / Off shoring
- Intense cost and margin pressures



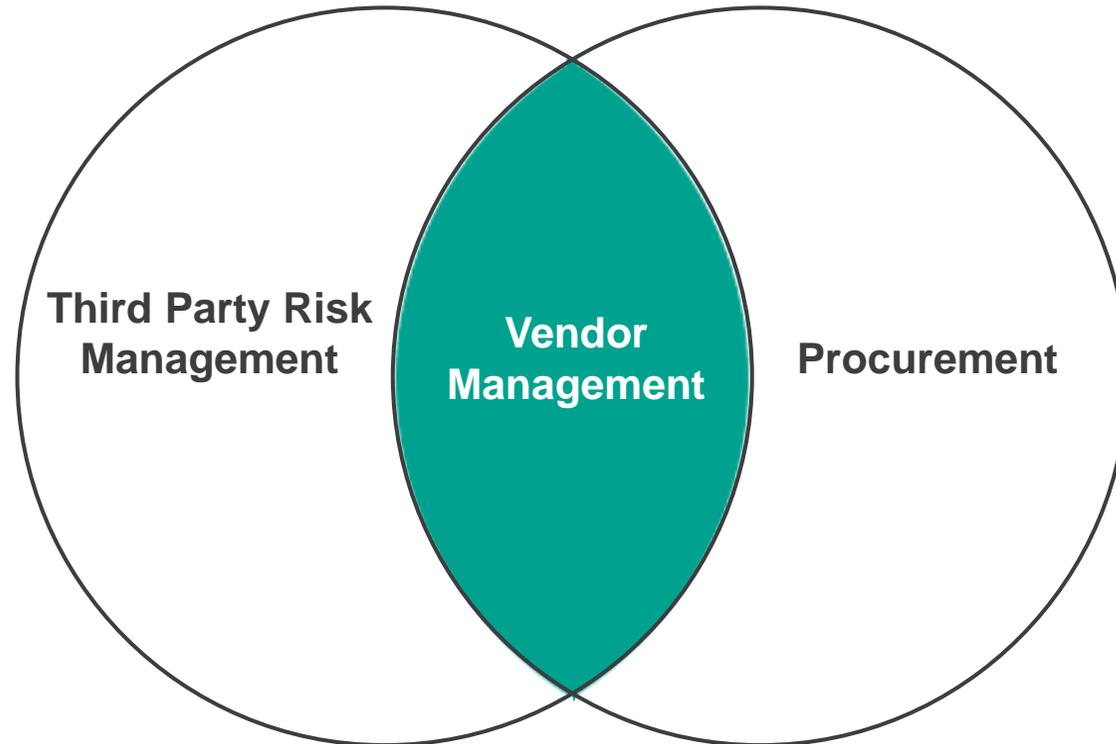
Effective supplier lifecycle management enables organizations to identify, assess, and mitigate third-party risks throughout the supplier relationship.

VENDOR MANAGEMENT

Vendor Management is the component of Third-Party Risk Management and the link between Procurement and Third-Party Risk Management

Third-Party Risk Management provides the framework to measure and monitor the processes that must be followed across all third-party relationships.

Goal: make the unknown known, to determine risk appetite, and to prevent value destruction



Procurement is focused on defining the criteria and conditions for a transaction and defining Roles and Responsibilities between the interested parties.

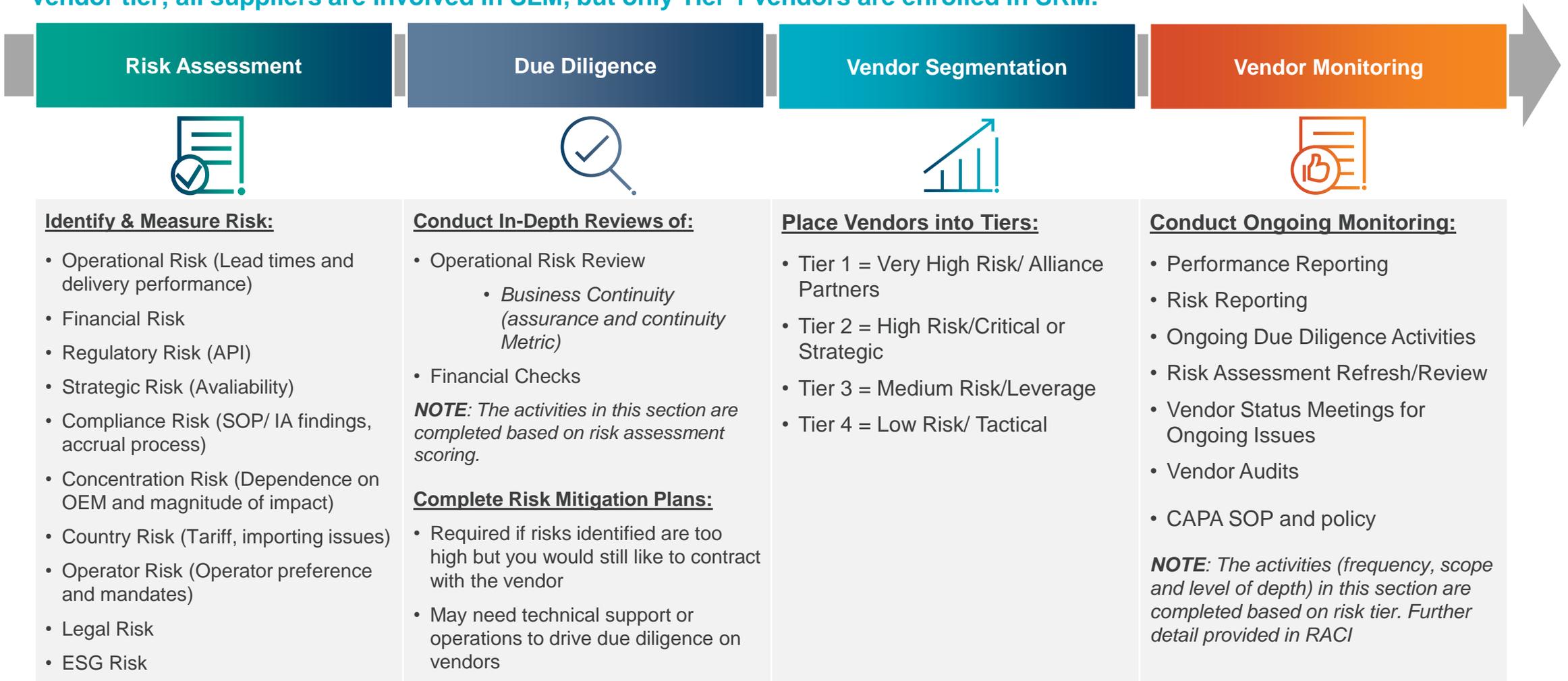
Goal: increase transaction value

Vendor Management is focused on managing individual third parties and applying the processes outlined by Third Party Risk Management.

Goal: increase value through the mitigation of risks

SUPPLIER LIFECYCLE MANAGEMENT JOURNEY

Standing up a Supplier lifecycle program requires identification of risk through Risk Assessments and Due Diligence Activities, resulting in a scored and tiered vendor management scale. Vendors are then monitored on a cadence based on the vendor tier; all suppliers are involved in SLM, but only Tier 1 vendors are enrolled in SRM.



VENDOR SEGMENTATION FRAMEWORK

ILLUSTRATIVE

Vendors will be segmented into “Tiers” based on the guidelines listed below. These tiers will drive the level of vendor management conducted, review frequency, and ownership. All suppliers will get a scorecard to improve self-managed performance.

Vendor Classification Framework Example

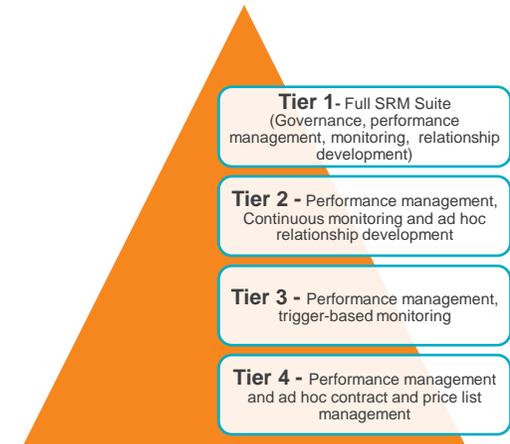
	Tier 1 – Alliance Partner	Tier 2 – Critical/Strategic	Tier 3 – Tactical	Tier 4 – Leverage
Guidelines	<ul style="list-style-type: none"> • Critical to company operations (i.e., type of service or good provided) • High risk posed to strategic interests • Direct access to Confidential Information and internal systems • Highly unique service offering • Sole sourced/OEM replacement parts • High switching cost; few alternatives • Typically, large spend (>\$10M* annual) • Critical to the development or maintenance of a core competency or other source of competitive advantage. 	<ul style="list-style-type: none"> • Integral to business or revenues • Poses a risk to strategic interests • Exposure to Confidential Information in the normal course of business • Sensitive data (including confidential and/or proprietary information) exchanged • Unique service offering; or few suppliers • Moderate switching costs • Preferential or unique pricing terms (may result in added costs if not managed) • Typically, sizable spend (>\$2M* annual) 	<ul style="list-style-type: none"> • Important to business or revenues • Minimal risk to strategic interests • Regional service providers • May inadvertently or indirectly receive Confidential Information, but not required for business • Alternate suppliers exist; low switching costs • Typically, moderate spend (>\$500K* annual) 	<ul style="list-style-type: none"> • Non-vital to business or revenues (i.e., type of service such as Office Supplies) • No risks to strategic interests • No access to Confidential Information • No data exchanged • Commodity type of service; no switching costs • Typically, low or nominal spend
Est. Range of Suppliers	• <1% of Active Vendors	• 1% - 5% of Active Vendors	• 10% -30% of Active Vendors	• 40% - 60% of Active Vendors
Typical Review Frequency	• Not less than Bi- Monthly	• Not less than Quarterly	• Not less than Semi-Annually	• 3 years or contract renewal
Ownership	• Business Unit Leaders	• Strategic Sourcing –Supply Chain	• Strategic Sourcing – Supply Chain	• Procurement

SUPPLIER LIFECYCLE GOVERNANCE

ILLUSTRATIVE

Ongoing performance monitoring and stakeholder engagement is critical to driving the most value out of a supplier relationship program. Timely review of actual issues, emerging issues, and early detection of performance deterioration, will allow for timely corrective action, if needed.

Responsible Party	Tier Based Monitoring	Tier 1	Tier 2	Tier 3	Tier 4
Supply Chain	Service Level Agreements (SLA)	M	SA	A	B
	Key Performance Indicators (KPI)	M	SA	A	B
	Billing accuracy and timeliness	M	SA	A	B
	Financial Health and/or D&B assessment	M	AN	AN	N/A
	Alignment and adherence to lead time reduction plans	M	AN	N/A	N/A
	Continuous Monitoring	Tier 1	Tier 2	Tier 3	Tier 4
Operations	Down time caused by supplier part availability	A	A	B	B
	Open Issues and Remediation Plans	AN	AN	AN	AN
	Trigger Based Monitoring (if applicable)	Tier 1	Tier 2	Tier 3	Tier 4
Technical support	Sub-contractor oversight	Q	SA	N/A	N/A
	CAPA and Intensive Technical Action plan	M	A	N/A	N/A
	Service Component Monitoring (if applicable)	Tier 1	Tier 2	Tier 3	Tier 4
Supply Chain and Operations	CAPA and commercial or service-based Action Plan	AN	AN	AN	N/A
	Review Information Security Risk Assessment	AN	AN	AN	N/A
	Review Business Continuity Assessment	AN	AN	AN	N/A
	Review Compliance Assessment	AN	AN	AN	N/A
	Reporting	Tier 1	Tier 2	Tier 3	Tier 4
Supply Chain and Operations	Reporting to Governance and SRM Oversight Committee	SA	SA	A	A
	Reporting to Executive Sponsor	SA	A	A	A
	Reporting to Board of Directors	A	A	A	A



Legend	
M	Monthly
Q	Quarterly
SA	Semi Annual
A	Annual
B	Biennial (Every 2 years)
T	Triennial (Every 3 years)
AN	As Needed
N/A	Not Applicable

SLM ROLES AND RESPONSIBILITIES - RACI

ILLUSTRATIVE

Primary Activities	Supply Chain Excellence	Strategic Sourcing	Supply Chain Leadership	Technical Support and Operations	Procurement	AP	Finance	Business Stakeholders	Executive Sponsor
Oversight of program: Development and deployment of process and procedures	R	C	A	I	C	I	I	I	C
Governance: Established committees and deploy plans	R	C	A/R	C	C	C	C	A/R	A
Supplier segmentation: Overall segmentation and determine suppliers in scope	I	R	A	C	C	I	I	C	C
Performance Management-Scorecard Data collection and creation	R	C	A	C	C	C	C	C	I
Performance Management-Supplier business review meetings	C	R	A	R	C	I	I	I	C
Performance Management-Survey Feedback and scorecard inputs	R	R	A	R	R	R	R	R	C
Supplier Development- Action plan and execution	C	A/R	A	R	C	I	I	I	I
Supplier development- CAPA and intensive action plan	C	A/R	C	A/R	A/R	C	A/R	C	I
Supplier development- Innovation and business development exploration and execution	C	A/R	C	A/R	A/R	C	I	A/R	I

A/R- depending on issue, activity, or objective, Supply Chain or stakeholder may be accountable and / or responsible for leading and ensuring completion of activity

VENDOR SCORECARD

ILLUSTRATIVE

Supplier scorecards should be used to monitor contractual obligations and specific performance criteria. Leveraging **IMPACT** categories for KPI creation: **I**nnovation and Design, **M**anagement and Financial, **P**erformance and Operation, **A**ssurance and Continuity, **C**ost and Value Creation, and **T**ransparency.

IMPACT Category	Sample Measures	Description
Innovation and Design	<ul style="list-style-type: none"> Investment in Company ABC related products and services Contributions to joint process improvement 	Does vendor plan on continuing investment of Company ABC related goods and services?
Management and Financial	<ul style="list-style-type: none"> PO / Invoice compliance Supplier data accuracy Ease of doing business Company ABC satisfaction 	Does supplier ensure data is up-to-date?
Performance and Operation	<ul style="list-style-type: none"> On-time delivery % Perfect Order % of invoice exceptions 	Have POs been accepted right away? Were POs delivered on time? Were POs invoiced correctly?
Assurance and Continuity	<ul style="list-style-type: none"> Count of Quality Issues Quality Resolution Performance 	Has product been rejected due to quality issues?
Cost and Value Creation	<ul style="list-style-type: none"> Pricing Competitiveness Price Increases/Decreases Total Year Savings (\$ and %) 	How competitive is pricing? Have prices increased or decreased?
Transparency	<ul style="list-style-type: none"> Responsible Sourcing Regulatory Requirements Business Relationship (Qualitative Survey) Supplier Diversity 	How well does a supplier behave in a trustworthy, transparent and honest manner? Has the supplier demonstrated consistency between words and actions?

SUPPLIER DUE DILIGENCE & MONITORING

ILLUSTRATIVE

The matrix below illustrates displays the key supplier risk management factors and provides an example of the required due diligence for each supplier tier level

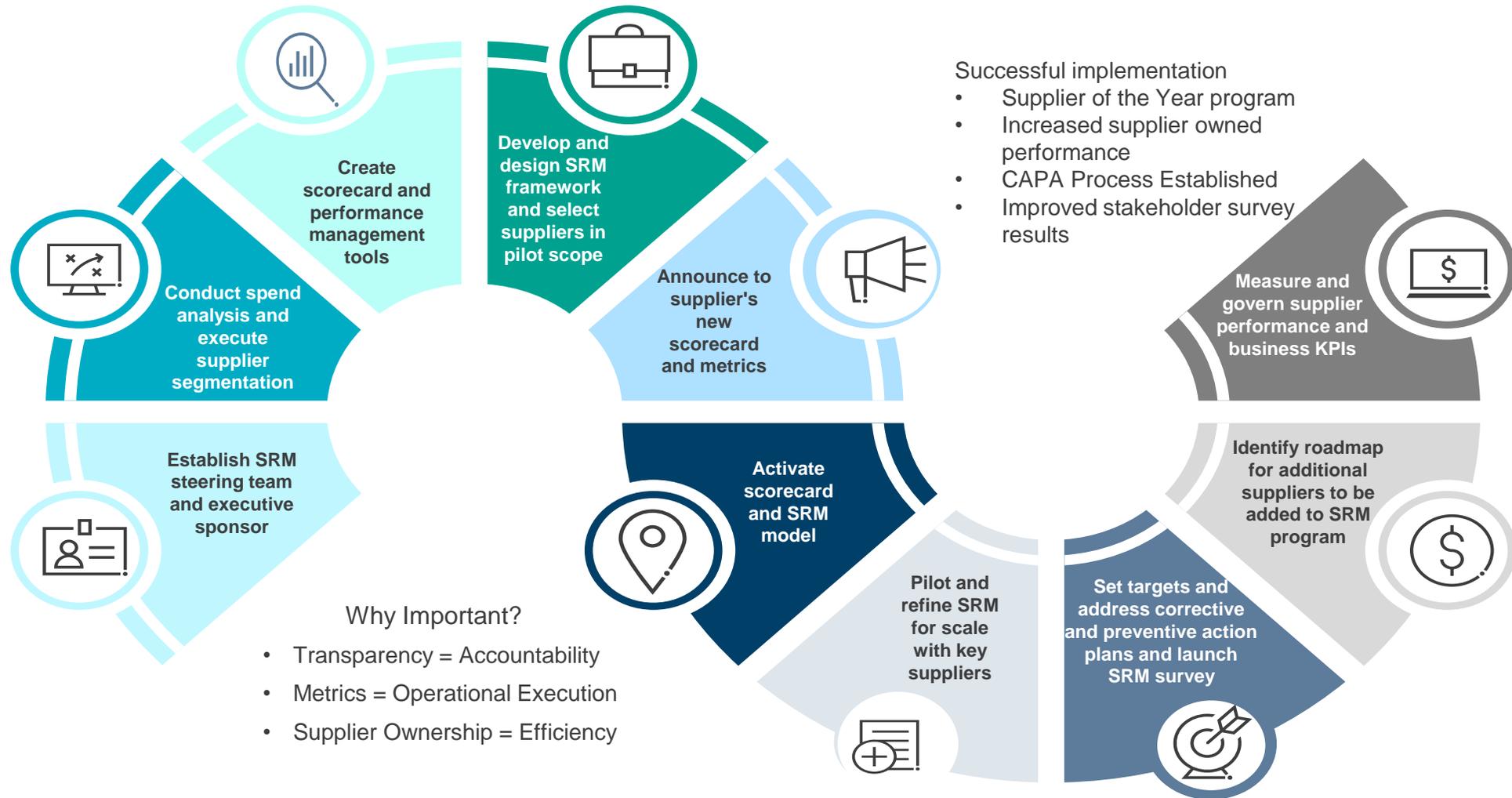
Risk Domain	Type of Due Diligence Required	Tier 1	Tier 2	Tier 3	Tier 4
Financial & Amount of Spend	Financial Statement Assessment or Covenants	✓	✓	○	
	Client Reference	✓	○		
	D&B Report (Credit Reporting)	✓	✓	✓	✓
Concentration Risk	Porter's Five Forces	✓	✓		
Operational	Management Stability & Succession Plan	✓	○		
	Strategy & Reputation	✓	✓		
	Disaster Recovery & Business Continuity	✓	✓	○	
	Procedures for Termination	✓	✓	✓	○
Physical Security	Physical Security & Access Requirements	✓	○	○	
Data Privacy / Security	Data Security and logical Access Requirements	✓	✓	○	
	IP Security and Data Privacy	✓	○	○	
Supplier Organization	Employee and Contractor On-Boarding and Training	✓	✓	○	
	Business License, Certifications and Insurance	✓	✓	✓	
Legal / Contract	Clear Specification of All Relevant Terms, Conditions, and Liabilities	✓	✓	✓	✓
	Legal and Compliance Oversight	✓	✓	✓	○
	Potential / Pending Litigation	✓	✓		

Key	
✓	Mandatory
○	If applicable

SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

ILLUSTRATIVE

SRM is an enterprise-wide initiative to develop and strengthen relationships with strategic and critical suppliers in order to deliver greater levels of value to both organizations and requires all functions to implement.





Joe Zedan

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Areas of Expertise

- Supply Chain Management
- Process Optimization
- Sourcing and Procurement
- Shared Services Optimization
- Finance Transformation and Working Capital Optimization

Industry Expertise

- Lawn and Garden
- Energy
- Manufacturing
- Transportation and Distribution
- Digital Audio and Entertainment
- Nonprofit (NPO)

Education

- B.S. Finance, Virginia Tech
- B.S. Accounting, Virginia Tech

Certification & Professional Membership

- Certified Supply Chain Professional (CSCP)
- Lean Six Sigma Greenbelt
- Mentor, Council of Supply Chain Management Professionals
- Association for Supply Chain Management

Professional Experience

Joe is a Senior Manager within Protiviti's Business Performance Improvement practice and has 10+ years of experience in supply chain, accounting, & finance including manufacturing optimization, working capital management, procurement, product benchmarking, pricing analysis & negotiation, FP&A, & cost accounting.

Prior to Protiviti, Joe was a Global Value Management Engineer at Husqvarna Group focusing on Total Cost of Ownership (TCO) initiatives for a \$1.4B business unit as a part of the Husqvarna Operating System (HOS), the company's continuous improvement program. In this role, he led the product management, operations, quality, transportation, sourcing, industrial design & engineering functions in product benchmarking exercises to compare & contrast against competitors while also identifying cost out opportunities through sourcing, production, design, packaging, & transportation. Additionally, he worked on manufacturing optimization with the global supply base through lean implementation & workshops as well as implementing low-cost automation solutions.

Before Husqvarna Group, Joe was in GE's Plant Financial Leadership Program. An intensive two-year early career development program consisting of four rotational assignments coupled with intensive coursework and interactive seminars to equip you with exceptional technical, financial & business skills.

Major Projects

- **Lean Manufacturing** – Coordinated and executed a Common Kitting Kaizen event which led to a reduction of 331 weekly SAP transactions, reduced 3.5 miles of walking per operator per week, and 50% better utilization of material coordinators and stockroom staff.
- **Invoice Centralization & Quote to Cash Improvement** – Enhance reporting capabilities through dashboarding in order to provide better insight and accountability to the invoicing process, increase timeliness and accuracy of invoicing and reduce subsequent collections as well as identify bottlenecks in the process for further continuous improvement. The visualization of this data led to greater oversight of the billing process and led to reductions of UIB (Un-invoiced Billable) transactions as well as improvements to DSO by 15+ days as customers were receiving completed invoice packets which met the revenue recognition guidelines and requirements set forth by contracts. Guided client through investigation, design, and implementation of the shared service center while identifying resources needed to accomplish the goals set forth in the project charter by using departmental output to arrive at a projected headcount.
- **Supply Chain and Distribution Strategy Business Case** - Developed current state analysis through stakeholder interviews with both the client and the distributor, documented baselines for distribution program through data analysis, and conducted impact analysis of supply chain variables, such as demand planning, customer populations / locations, service levels, shipment methods, and regulatory requirements. We then analyzed additional costs, such as warehouse management, inventory holding costs, procurement, technology, and back-office support costs. These were then summarized to showcase the impact of all variables across 6 distribution scenarios with a recommendation for the most optimal future state solution. Lastly, a roadmap with key activities to execute against was developed to implement the future state solution.
- **Spend Assessment, Procurement Enablement, and Sourcing Execution** – During Phase 1, we compiled \$1.7B in spend data and processed this through a spend analytics tool in order to summarize the spend into a custom taxonomy. This data was then validated with stakeholders and assessed for savings opportunities. The team then outlined a roadmap to stand-up a procurement department and its associated technologies. In Phase 2, the team developed the policies, processes, procedures, and tools that the newly formed procurement department would leverage. Additionally, the team worked with business stakeholders to validate savings opportunities and then execute against them, delivering over \$4M in savings with more identified for the pipeline.



Greg Scharine

Associate Director, Business Performance Improvement
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Areas of Expertise

- Procurement
- Supplier Relationship Management (SRM)
- S&OP Integrated Business Planning
- Product Development and Supply Chain Design
- Inventory Management
- Should Costing & Regression Analysis

Industry Expertise

- Consumer Packaged Goods
- Packaging
- Manufacturing
- Powersports – OEM
- Electric Vehicle Development

Education

- B.S. – Operations/Supply Chain-University of St. Thomas
- MBA- Supply Chain and Finance- Washington University in Saint Louis

Certification & Professional Membership

- Lean Six Sigma

Professional Experience

Greg is an Associate Director with the Business Performance Improvement – Supply Chain Practice. Greg has 11+ years of experience ranging from CPG, consulting to OEM. Greg has managed strategic sourcing for direct and indirect categories ranging from packaging, powertrain and EV components to engineering professional services and capital machine assets. Greg is a resourceful supply chain and procurement professional who brings tremendous energy, enthusiasm, collaboration, and naturally strong leadership to every endeavor. Greg delivered lowest total cost of ownership (TCO) using sourcing techniques, cutting edge negotiations and procurement best practices including: SRM, supplier score carding and ASN/EDI compliance. He has managed new product introduction and worked in the EV and Gov & Defense spaces developing supply chain design techniques to minimize risk and maximize agility throughout the value chain. He brings a balance of professional service experience as well as industry experiences to solve client problems while increasing agility and gross margin.

Major Projects

- **Source to Pay Optimization** – Performed a source to pay assessment that yielded savings opportunities over \$16M with numerous system automation opportunities with detailed roadmaps and technology fit gap analysis to reach their desired level of capability maturity. Developed implementation roadmap with detailed measurable return and built process efficiencies leveraging process mining and industry specific benchmarks.
- **Inventory and Purchasing** – Responsible for leading materials purchasing and supply planning of global Parts Garments and Accessories (PG&A), encompassing over 50K products and over 1000 global internal and external suppliers. Provided leadership vision, business knowledge and direction to PG&A Purchasing and supply chain organization of 21 employees. Managed special projects to effectively execute on changing business demands and provide unsurpassed delivery advantage and supply availability. Evaluated purchasing technology and recommend improvements to drive results and new capabilities, while negotiating contracts and purchasing agreements. Optimized cash flow and inventory targets and delivered over \$18M in back-order recovery while reducing on hand inventory levels by \$21M and increasing inventory turn by 2x YOY.
- **Project management and New Product Introduction** – Lead the program management for the strategic sourcing team responsible for Off Road Product (ORV) and Defense (CGD) business divisions. Actively managed a multi-million-dollar budget and a team of project managers and material coordinators. Provided commercial strategic guidance to category sourcing teams to drive negotiations, manage and lead change to provide breakthrough tooling capital procurement, product lifecycle asset management, and risk management.
- **Supply Chain and Sourcing Transformation** – Developed and defined vision and KPIs, leading a cross functional sub-team, driving change management and building decision management capabilities within an OEM Manufacturing client to modernize their Global Supply Chain organization.
- **Vendor Management** – Evaluated and designed vendor scorecards and implemented “supplier of the year” criteria around service, quality, financial stability and innovation as a larger Supplier Relationship initiatives.

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