The Value of Supply Strategy
Fact: Vertical & Horizontal Disconnection of SCM Organizations

- Disconnection of Internal Business Intelligence
- Disconnection of External Market Intelligence
- Loss of Innovation and Efficiency Improvement Possibilities

> Connection of Market Intelligence has to be a Supply Chain Management Driven Approach: CUSTOMER AND SUPPLIER FACING
Supply Chain Intelligence is the convergence of four activities (information gathering, analysis, dissemination and response) both upstream and downstream in the supply chain.
SCM Enablers - Data, Information, Knowledge

SCM Processes
Supply Chain Design, Supplier Rel. Mgmt, Perf. Mgmt, Supplier Quality Mgmt, Risk Mgmt, Cont. Improvement

BI/MI Enabling SCM Processes
Gather, Analyze, & Synthesize
Data & Information

Business Intelligence
Spend
Demand
Performance
Finance
Quality

Market Intelligence
Markets
Industries
Goods & Commodities
Finance
Suppliers
Competitors
Technologies

DATA

INFORMATION

KNOWLEDGE
Business Intelligence Impact

Enhanced Negotiations
Risk Management
Supply Continuity

Total Cost of Ownership
Supplier Relationship Management
Competitive Analysis

Market Drivers
Internal Drivers
Value Chain News Analysis
Strategic Sourcing follows a rigorous 7-step process; activities in each step are tailored to the nature of the commodity and the supply market.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Profile Sourcing Group</td>
<td>Understand internal spend and external market</td>
</tr>
<tr>
<td>2. Develop Sourcing Strategy</td>
<td>Create ‘Go to Market’ approach</td>
</tr>
<tr>
<td>3. Generate Supplier Portfolio</td>
<td>Identify potential suppliers</td>
</tr>
<tr>
<td>4. Select Implementation Path</td>
<td>Determine execution strategy</td>
</tr>
<tr>
<td>5. Select Competitive Suppliers</td>
<td>Conduct negotiations &amp; select suppliers</td>
</tr>
<tr>
<td>6. Operationally Integrate Suppliers</td>
<td>Operationalize supplier agreements</td>
</tr>
<tr>
<td>7. Continuous Benchmark Supply Market</td>
<td>Operationalize supplier agreements</td>
</tr>
</tbody>
</table>

**Activities**
- Identify & understand current spend/buy
- Conduct industry analysis
- Assess current sourcing practices
- Analyze potential sourcing strategies
- Review savings estimates
- Finalize project plan
- Identify new suppliers
- Generate potential supplier list
- Create and issue RFI
- Develop qualification criteria
- Screen suppliers
- Select competitive selection or supplier development
- Determine negotiation approaches
- Develop RFP execution strategy
- Develop RFP evaluation criteria
- Issue RFP
- Analyze RFP responses
- Finalize contracts
- Determine implementation implications
- Create implementation plan
- Executive implementation plan
- Develop process to benchmark supply base
- Develop process to monitor Industry conditions

**Example Deliverables**
- Internal spend analysis
- Industry overview & market dynamics
- Category positioning matrix
- Sourcing strategy summary
- RFI template
- Qualification criteria
- List of suppliers
- Short list of RFP
- RFP Template
- RFP plan
- Auction plan
- RFP analysis model
- Negotiation strategy template
- Auction strategy
- Sourcing recommendation
- Implementation plan
- Ongoing category review process
- Supplier report card
Operating Model

Operating Model is being changed to strike the right balance between Centrally led and Product led

Centrally-Led

- Provide governance, lead developing of people, drive category planning, manage the supply base and ensure link and leverage

Product Led

- Execute category plans, conduct sourcing transactions, work closely with suppliers to ensure progress against development plan, drive supplier quality, and coordinate / ensure delivery of purchased materials on-time, at the right cost and quality

Mission

- Category Planning
- Cost Management
- Supplier Quality and Development (Strategy)
- Process and Support
- Indirect Material and M&E Purchasing
- Logistics
- People Development

Key Activities

- Business and Product Line Support (TDP, ADP, PDP)
- Production Support
- Supplier Quality (Execution)
- Category Planning (Product-led)
Global Enterprise Category Team Operational Concept

The Commercial and Engineering team is responsible for finding innovation in the supply base that the Company can leverage:

- Competitive advantage on current business
- Fill technology gaps in current technology portfolio
- Provide Innovative Solutions for future customer needs

Concise Commercial and Technical Strategy for each Category
Strategy and Execution are Related

“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.”
- Sun Tzu

- Corporate financial targets and President’s directives
- Company strategies
- Category plans
- Sub-Category plans
- Supplier plans
- PBU-Level Category plans
- Supplier classification
- Targeted achievement plans (Example: 60% best cost in region; 70% reduction in number of suppliers, etc.)
- Sourcing decisions
- Category team and PBU-level agreed upon actions and timing
- Supplier management
Category Plan Development Future State Map

1.0 Compile/Document Data

1.1 Compile Industry/Market Info
- Reports/shows journals/internet/interviews/consultants/etc

1.2 Compile Category Technical Information (Eye Of the Needle Process)

1.3 Compile the Total Cost & Cost Management Information

1.4 Compile Supplier Data
- Business info/FTS/quality/technology/Category,MCA & Commercial Assessments/Customer Specific Requirements

1.5 Compile Current Company APV Data
- APV data from Portfolios

1.6 Create/Refine/Publish Industry Category Overview

1.7 Create/Refine/Publish Company Category Overview

1.8 Gather Key Product Line Business & Technical Information via meeting or discussion
- Priority matrix determines ECT/PBU/PL engagement level

Q VC gates needed?

2.0 Develop Strategies

2.1/2.2 Create/Refine/Document Product Line/PBU Strategies/Material Group Code/Sub-category Strategies
- 2.1-2.3 are completed based on specific need or request

2.3 Create/Refine/Document Supplier Strategies
- Assess (1) strategy alignment across PL & Categories; (2) total cost impact; and (3) leverage opportunities

2.4 Create/Refine/Correlate Specific Sourcing Strategies
- Formalize input
- Action items/PL info
- SharePoint Document Library (documents & Action Items)

3.0 Approve Strategies

3.1 PBU/ECT Documented Approval of Sourcing Strategies

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Each Process is Integral to the Next

<table>
<thead>
<tr>
<th>Process</th>
<th>Inputs</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category Market Analysis</td>
<td>• Suppliers Capability</td>
<td>• Individual Supplier Analysis</td>
</tr>
<tr>
<td></td>
<td>• Demand and Supply trends</td>
<td>• Market Analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Priorities for Strategic Costing</td>
</tr>
<tr>
<td>Strategic Cost Modeling</td>
<td>• Mapping of Supply Chain</td>
<td>• Commodity “Should Cost”</td>
</tr>
<tr>
<td></td>
<td>• Raw Material/conversion costs</td>
<td>• Relevant Price benchmarks</td>
</tr>
<tr>
<td>Commodity Price Analysis</td>
<td>• Market Prices</td>
<td>• Performance Analysis</td>
</tr>
<tr>
<td></td>
<td>• Internal Costs</td>
<td>• Benchmarks for Planning</td>
</tr>
<tr>
<td>Market Index Planning and Reports</td>
<td>• Market Trends</td>
<td>• Risk Analysis for category</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cost Escalations for category</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Executive Summary</td>
</tr>
</tbody>
</table>
The main outputs drive category strategies ...

Cost Models

<table>
<thead>
<tr>
<th>Cost Element</th>
<th>Annual ($)</th>
<th>%Total Cost</th>
<th>$/hr</th>
<th>% of Base Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base annual salary</td>
<td>$66,462</td>
<td>57.1%</td>
<td>$30.79</td>
<td>100.0%</td>
</tr>
<tr>
<td>O/T</td>
<td>$2,472</td>
<td>2.1%</td>
<td>$1.68</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>Total annual compensation</strong></td>
<td>$68,934</td>
<td>59.3%</td>
<td><strong>$32.47</strong></td>
<td></td>
</tr>
</tbody>
</table>

Labor Burden (Statutory)

- Social Security (FICA): 6.2% of total compensation up to $142,800
- Medicare: 1.45% of total compensation
- Federal Unemployment Tax (FUTA): 0.6% of base compensation up to $7,000
- State Unemployment Insurance (SUTA): $277, 0.24% of SUTA
- Workers Compensation: $1,082, 0.85% of SUTA

<table>
<thead>
<tr>
<th>Labor Burden (Non-Statutory)</th>
<th>Annual ($)</th>
<th>%Total Cost</th>
<th>$/hr</th>
<th>% of Base Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance</td>
<td>$5,293</td>
<td>4.6%</td>
<td>$3.01</td>
<td>8.7%</td>
</tr>
<tr>
<td>Supplemental (401(k)) (employer funded/match)</td>
<td>$2,495</td>
<td>2.1%</td>
<td>$1.65</td>
<td>1.9%</td>
</tr>
<tr>
<td>Life/Disability Insurance</td>
<td>$1,602</td>
<td>1.4%</td>
<td>$1.05</td>
<td>1.5%</td>
</tr>
<tr>
<td>Pension</td>
<td>$2,393</td>
<td>1.9%</td>
<td>$1.25</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Total Selling, General, and Administrative (SG&amp;A) and Other Expenses</strong></td>
<td>$24,053</td>
<td>20.7%</td>
<td>$13.42</td>
<td>38.2%</td>
</tr>
</tbody>
</table>

- **Materials and supplies not for resale** $5,351, 4.6% $2.42 8.0%

Market Analysis

- Market Analysis can include:
  - External Market Conditions/Trends
  - Supplier Deep Dives
  - Supplier Financial Health Analysis
  - Market Prices/Trends
  - Recommendations on suppliers based on our analyses

- Labor Cost Models:
  - Industry cost models—any occupation & location
  - Supplier specific cost models

- Product Cost Models
  - High level product cost models
  - Deep dive product cost models
Michigan State U. Benchmarking Study: Impact of Strategic Category Management

• Cost savings
  ▪ 5 to 15% price/cost savings
  ▪ More uniform prices between regions
    – One company reported 20% to 30% price differences between locations
    – Another company reported a reduction in the gap of 10%
Michigan State U. Benchmarking Study: Impact of Strategic Category Management

• Other savings
  ▪ Reduction of logistics cost from 3% to 2% of cost of sales.
  ▪ Lower operating costs of up to 15%
  ▪ Improved quality – typically from 10 to 20% of yield
  ▪ Inventory reduction from 15% to 30%
  ▪ Improved on time delivery to 20%
  ▪ Reduced lead times by 20%
  ▪ Improved productivity – 4 to 20%
  ▪ Improved communication between functions
  ▪ Enhanced strategic role of procurement
  ▪ Development of a learning organization
Gathering Data
There are many sources of market and supplier information

- Trade Journals & Periodicals
- Company Annual Reports & 10-Ks
- Internet
- PBU leaders, PLPMs, colleagues
- Consultants and Research Providers
- Industry Associations
- Headlines
- Suppliers
1.0 Compile/Document Data

• Typical Data
  ▪ Industry Category Overview
  ▪ Description of the Category
  ▪ Total Market Value
  ▪ Major Applications
  ▪ Product Segmentation
  ▪ Cost Management Practices
  ▪ Industry Efforts and Initiatives
  ▪ Breakdown by Major Supplier/Product
  ▪ Industry Structure and Global Reach
Choosing Analysis Tools
Theorists Approach – Linear

Collect Data → Conduct Analysis → Create Strategy
Best Practices Approach

Gather Data → Develop Hypotheses → Conduct Analysis → Test Hypothesis → Engage Resources → Develop and Refine Strategy
Sample Hypotheses

• Resin costs should drop as the cost of oil drops.
• Our business case for harness providers is not sustainable.
Market Analysis Tools

• Converting Data into Insight
  – Supplier Analysis
  – SWOT (Strength, Weakness, Opportunity, Threat)
  – Value Chain
  – Risk Analysis
  – Porter’s Five Forces
Supplier Analysis

• Data needed to make the tool work
  ▪ Company APV
  ▪ Current relationships
  ▪ Knowledge of industry players
  ▪ Supplier customer base
  ▪ Annual revenue of suppliers
  ▪ Competitors and competitive position

• Where do you get the data
  ▪ Suppliers
  ▪ Internal Company
  ▪ PBU partners
  ▪ Internet
  ▪ Industry associations
  ▪ Trade publications
  ▪ Consultants & research providers
Supplier Analysis

• What the tool provides
  - Cost structure
  - Financial status
  - Customer satisfaction levels
  - Support Capabilities
  - Relative strengths and weakness
  - How Company fits in their business
  - How Company is viewed
  - Core capabilities
  - Strategy/future direction
  - Culture
  - ...The list goes on as the journey proceeds

• When do you use it
  - Continuous, on-going process
SWOT Analysis

• **Data needed to make the tool work**
  - Can provide insight even with limited data (Often a good way to figure out what data you have and where there are gaps.)

• **Where do you get the data from**
  - Any of the sources mentioned so far
  - Often a good tool for a dialogue

• **What the tool provides**
  - A quick sketch of where you stand
  - A preliminary call to action
  - Quick picture of circumstances

• **When to apply**
  - Analysis of individual divisions
  - Analysis of individual suppliers
  - Market situation
SWOT Analysis

**Strengths**
- Broad customer base
- Established product range
- Established distribution channels

**Weaknesses**
- Low product innovation
- Traditional, unionised business processes
- Low patent protection

**Opportunities**
- Emergence of other uses and markets for products
- Emerging overseas markets
- High barriers to entry

**Threats**
- Emerging overseas suppliers
- New product development costs are high
- Environmental regulations
Value Chain Analysis

- **Data needed to make the tool work**
  - Steps in the process of creating a product
  - Steps in product sales and/or distribution
  - Technology involved
  - “Dirt to the suppliers door”
- **Where do you get the data**
  - Associations
  - Internet
  - Industry research
  - Engineering books
- **What the tool provides**
  - Understanding of supplier cost structure
  - Understanding of how suppliers add value
  - Idea of where you want to participate
  - Benchmarks for value
  - Ability to better predict pricing
  - Bottle-necks that can constrain availability
- **When to apply**
  - When you think there are steps that can be cut
  - Generally works best when everyone in your supply base has a similar value chain (e.g. commodities)
Sample Value Chain Analysis

Source: The Society of the Plastics Industry, Inc. and Management Horizons, A Consulting Division of PricewaterhouseCoopers LLP.
Looking further into the value chain and analyzing the market, we can understand the high level cost structure and cost drivers.

Typical cost drivers are:
- Raw material availability and costs
- Degree of product customization
- Research and Development
- Yield
- Supplier high profit margins
- Complex distribution network
- Scale
Our Challenge – Defining Categories

- Categories Definitions Drive
  - Priorities
  - Availability of data
  - Supplier communications
  - PBU expectations
  - Validity of analyses
  - View of current state
  - View of future possibilities
**Inputs**

- Supplier analyses
- Value chain analysis
- Industry definitions
- Material group codes
- Stakeholder expectations/standards
  - PBU
  - Eye of the Needle
  - Cost
### Look for Patterns

#### Characteristics of Suppliers that “Fit” within a Market Segment
- Similar production process
- Similar supplier sources
- Similar material content/complexity
- Similar product specifications
- Similar Technology
- Similar Supply chain
- Similar Internal value chain
- Similar Customers and markets

#### Key Question:
At what level do we define the market?

- Office Supplies
  - Paper
    - Copy Paper
    - Legal Pads
  - Writing Utensils
    - Pens
    - Pencils

#### Where does the team have maximum bargaining power?

- Increasing Bargaining Power
Risk Analysis

- **Data needed to make the tool work**
  - The impact of certain products on Company
  - Major suppliers in the industry
  - Typical failure points

- **Where do you get the data**
  - PBU
  - Cost
  - Eye of the needle team
  - Buyers

- **What the tool provides**
  - Cost/benefit of risk mitigation strategies
  - Call to action to change the status quo

- **When to apply**
  - You suspect there are hidden risks
  - Stakeholders do not recognize risk
## Common Areas of Risk

<table>
<thead>
<tr>
<th>Business Risks</th>
<th>Operational Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Product quality/service</td>
<td>• Plant downtime</td>
</tr>
<tr>
<td>• Supply continuity</td>
<td>• Yield</td>
</tr>
<tr>
<td>• Technology dependency</td>
<td>• Regulatory compliance</td>
</tr>
<tr>
<td>• Supplier dependency</td>
<td>• Health &amp; safety</td>
</tr>
<tr>
<td>• Currency exchange fluctuation</td>
<td>• Environmental</td>
</tr>
<tr>
<td>• Business cycle</td>
<td></td>
</tr>
<tr>
<td>• Political</td>
<td></td>
</tr>
<tr>
<td>• Geographic</td>
<td></td>
</tr>
<tr>
<td>• Intellectual Property</td>
<td></td>
</tr>
</tbody>
</table>
## Operational Risk Assessment Example

<table>
<thead>
<tr>
<th></th>
<th>Checklist Status Risk Level</th>
<th>Lessons - 5.4ml SWfl Item: 30408500</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1) Risk Probability and PRV</td>
<td>X</td>
</tr>
<tr>
<td>2</td>
<td>64% ; US$1 506 392 per day</td>
<td>X</td>
</tr>
<tr>
<td>3</td>
<td>Material was in focus for standardization and leverage of multiple specifications for similar or equal applications</td>
<td>X</td>
</tr>
<tr>
<td>4</td>
<td>opportunities are identified</td>
<td>X</td>
</tr>
<tr>
<td>5</td>
<td>3) Is there a possibility to qualify second source or alternatives? (New Material or existing material, but qualified in other plant)</td>
<td>X</td>
</tr>
<tr>
<td>6</td>
<td>yes, Cleveland, Vienna</td>
<td>X</td>
</tr>
<tr>
<td>7</td>
<td>4) Replacement by new technical process possible?</td>
<td>X</td>
</tr>
<tr>
<td>8</td>
<td>yes, e.g. PC lyo injector - but minimum three year time frame</td>
<td>X</td>
</tr>
<tr>
<td>9</td>
<td>5) Replacement or termination possible due to changes of marketing or regulatory requirements</td>
<td>X</td>
</tr>
<tr>
<td>10</td>
<td>see item 4)</td>
<td>X</td>
</tr>
<tr>
<td>11</td>
<td>6) Is the procurement process with supplier systematically implemented</td>
<td>X</td>
</tr>
<tr>
<td>12</td>
<td>in place and effective, except the forecasting part</td>
<td>X</td>
</tr>
<tr>
<td>13</td>
<td>7) Is an accurate forecasting process in place (short and long term)</td>
<td>X</td>
</tr>
<tr>
<td>14</td>
<td>In place since 1/2006 but Historically accuracy level poor</td>
<td>X</td>
</tr>
<tr>
<td>15</td>
<td>8) Is an appropriate safety stock level defined (annual consumption/safety stock level) or is the inventory differently managed (e.g. consignment stock, etc)</td>
<td>X</td>
</tr>
<tr>
<td>16</td>
<td>safety stock low, approximately one month coverage, other inventory management not in place</td>
<td>X</td>
</tr>
</tbody>
</table>
Supplier Risk Example

The following slides will show how the mitigation process works. Specifically:

- Supplier Identification
- Effects of Mitigation
- Reduction in Risk

In the example case, there are several suppliers in the yellow and red zones.

The example will follow “Alcoa” – currently in the yellow zone, with medium RPI and medium revenue impact.
The Bar Chart report shows the supplier risk index rankings within the group. The color coded zones help direct the priorities for mitigation activities.

Alcoa is in the yellow zone indicating medium or long term mitigation action.
Risk Reduction by Shifting Supply from High to Lower Risk Suppliers

Result:
Significantly reducing the disruption risk of $170 million in revenue impact from an RPI of 20.3 to 18.9 (-1.4%).

Action:
Shift supply from Alcoa to Alga, Tek, and AIP Thermoform
## Supplier Risk Example

### Risk Report

**Supplier View**

<table>
<thead>
<tr>
<th>Risk Zone</th>
<th>Vendors</th>
<th>Spend (K)</th>
<th>Part#</th>
<th>Risk Reason</th>
<th>Mitigation</th>
<th>Rev Impact (MM)</th>
<th>Risk Probability Index RPI</th>
<th>Risk Index</th>
<th>RI</th>
<th>SRIM</th>
<th>SRIM% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prent</td>
<td>2382.01</td>
<td>65</td>
<td></td>
<td>1) Low BSC business/Prent revenue 2) High SRIM%</td>
<td>1) Allocate more resources such as inventory 2) Contingency plan for backup</td>
<td>367.71</td>
<td>367.71</td>
<td>0</td>
<td>14.32</td>
<td>14.32</td>
<td>0.00</td>
</tr>
<tr>
<td>Alcoa</td>
<td>1156.22</td>
<td>36</td>
<td></td>
<td>1) Low BSC business/Alcoa revenue</td>
<td>Move to Prent, Alga, and Computer Design.</td>
<td>470.29</td>
<td>0</td>
<td>-170.29</td>
<td>20.31</td>
<td>0</td>
<td>-20.31</td>
</tr>
<tr>
<td>Perfecseal</td>
<td>460.34</td>
<td>6</td>
<td></td>
<td>No survey response</td>
<td>Get survey response</td>
<td>109.13</td>
<td>109.13</td>
<td>0</td>
<td>38.00</td>
<td>38.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Alga</td>
<td>200.61</td>
<td>9</td>
<td></td>
<td>1) Low BSC business &amp; profit margin/Alga revenue</td>
<td>1) Consolidate other thermoform business to Alga 2) Help develop regular information sharing system with tier II suppliers 3) Quality audit</td>
<td>44.98</td>
<td>130.00</td>
<td>85.02</td>
<td>17.76</td>
<td>17.76</td>
<td>0.00</td>
</tr>
<tr>
<td>TEK</td>
<td>165.47</td>
<td>9</td>
<td></td>
<td>1) Low BSC business/TEK revenue 2) Cost structure is not shared</td>
<td>1) Consolidate other thermoform business to Alga 2) Negotiate for cost structure</td>
<td>18.59</td>
<td>77.10</td>
<td>58.51</td>
<td>16.89</td>
<td>16.89</td>
<td>0.00</td>
</tr>
<tr>
<td>AIP</td>
<td>76.99</td>
<td>1</td>
<td></td>
<td>1) Overall interest alignment is low</td>
<td>Consolidated to other vendors</td>
<td>23.25</td>
<td>50.00</td>
<td>26.75</td>
<td>22.07</td>
<td>22.07</td>
<td>0.00</td>
</tr>
</tbody>
</table>

The Risk Report - by Supplier provides a view of the risk indices and progress for each supplier in a category. The current status and mitigation actions are input by the commodity managers to provide detailed metrics and a mitigation report for each supplier.
Porter’s Five Forces Model

• Data needed to make the tool work
  ▪ Major players in the industry
  ▪ Financial conditions of the players
  ▪ Threats to the industry

• Where do you get the data
  ▪ Publicly available financial data
  ▪ iSupply iAlert
  ▪ Industry overviews
  ▪ Investor industry analysis reports

• What the tool provides
  ▪ Long-term picture of the industry
  ▪ Broad perspective
  ▪ Competition for demand
  ▪ Where do we have leverage

• When do you use it
  ▪ Stakeholders are overly focused on short-term
  ▪ Stakeholders have unrealistic expectations about supplier behavior
  ▪ Predict degree of supplier flexibility
  ▪ Understand competitive threats they face and where you can add value
As a variation of the Porter's framework, additional forces are sometimes examined. These are “globalization,” “digitization,” and “de-regulation.”
Porter’s Five Forces –
Supplier Bargaining Power

Factors Influencing Suppliers’ Bargaining Power

- Prices of major inputs
- Ability to pass on price increases
- Availability of key technologies or other resources
- Threat of forward or backward integration
- Industry capacity utilization
- Supplier concentration
- Importance of volume to supplier

Implications: Suppliers may not offer better pricing if they are captive to their suppliers or are squeezed by their position in the value chain and there may be an opportunity to buy at a different point in the value chain.
Criticality to Buyers

- The concentration of purchase volumes in a market defines the relative strength and negotiating power of the buyers.

- The buyers’ ability to influence the market demand is directly proportional to their ability to influence suppliers behaviors.

- The more critical the item being purchased, the lower the buyer’s negotiating power.
## Criticality to Buyers

### Characteristics of Critical Items

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Characteristics of Non-Critical Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product is in short supply</td>
<td>Product is purchased in large volume compared to other customers</td>
</tr>
<tr>
<td>Client’s purchasing volume is small relative to most other customers</td>
<td>Product is undifferentiated</td>
</tr>
<tr>
<td>Product is a large portion of the overall cost</td>
<td>Backward integration is possible</td>
</tr>
</tbody>
</table>

### Factors Influencing the Buyers’ Bargaining Power

- Buyer concentration
- Buyer volume
- Buyer switching costs
- Price sensitivity
- Product differences
- Brand identity
- Impact on quality or performance
- Buyer profits
- Availability of substitutes

**Strong**

A few buyers purchase most of suppliers’ output.

**Weak**

Suppliers have many buyers to choose from.
Factors Influencing the Threat of New Entrants

- Capital markets
- Availability of skilled workers
- Access to critical technologies, inputs or distribution
- Product life cycles
- Brand equity/customer loyalty
- Government deregulation
- Risk of switching
- Economies of scale

Implications: Suppliers may be eager to offer improved terms to keep new companies from entering the market and new market entrants may offer improved terms to gain a foothold.
Porter’s Five Forces – Threat of Substitutes

• The threat or availability of alternate products in a market also affects the relative strength and influence the buyer can exert.

• Possibility of a switch to a substitute increases options and leverage
Porter’s Five Forces – Threat of Substitutes

<table>
<thead>
<tr>
<th>Original Product/Service</th>
<th>Substitute Product/Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper grocery sacks</td>
<td>Plastic grocery sacks</td>
</tr>
<tr>
<td>Airline travel</td>
<td>Video conferencing</td>
</tr>
<tr>
<td>Printed forms</td>
<td>Electronic forms</td>
</tr>
<tr>
<td>Steel pipe</td>
<td>PVC pipe</td>
</tr>
<tr>
<td>Electricity</td>
<td>Co-generated power</td>
</tr>
<tr>
<td>Grocery stores</td>
<td>Internet</td>
</tr>
</tbody>
</table>

**Factors Influencing the Threat of Substitutes**
- relative performance of substitutes
- relative price of substitutes
- switching costs
- buyer propensity to substitute
Internal Competition

• Higher levels of internal competition increase buyer options and supplier flexibility.

Factors Influencing the Market
Internal Competition

- Speed of industry growth
- Capacity utilization
- Exit barriers
- Product differences
- Switching costs
- Diversity of competitors
Internal Competition

Numerous Competitors
High Fixed Costs
High Exit Barriers
Excess Capacity
Perishable Products

Negotiating Strength

Suppliers may be eager to offer improved terms not to lose their volume and revenue to their competition
Balance of Power as Input to Supply Strategy

Sourcing Implication

Suppliers Hold the Balance of Power

Buyers Hold the Balance of Power

Source: Competitive Strategy, Michael E. Porter, 1980
Summarizing the Market Analysis

A Compelling Story—Basis for Strategy
Preparing Documentation
Company Templates

- Value of documentation
  - Establish base lines
  - Easy reference
  - Basis for dialogues
- Value of standardization
  - Ease of interpretation
  - Ease of consolidation and trend spotting
- Dangers of standardization
  - Becomes rote
  - May not tell the story you need told
Category Name Overview
Owner: Global Enterprise Category Team Manager Name

Industry Background

Category Description:
Describe this category and the important characteristics.

Total Market Value:
Estimate what is the total market value of this category globally.

Major Applications:
Identify the major applications in/of this category.

Product Segmentation:
What is the product segmenting within this category? (i.e. Commodity, Niche, Near Core, Core)

Cost management practices:
Indicate if there is a common cost management practice or methodology used in the industry.

Industry Breakdown

Breakdown by Market Segment
For graphs above: Identify and size the major market segments in this category (e.g., Automotive, Medical, Consumer, Electrical, Industrial etc.). Identify and describe the major suppliers in this category and their share of the market.

Additional Comments Relative To Major Market Segments / Suppliers
### Industry Structure and Global Reach

<table>
<thead>
<tr>
<th>Barriers to Entry</th>
<th>Supplier Power</th>
<th>Buyer Power</th>
<th>Competitive Rivalry / Intensity of Competition</th>
<th>Threat of Substitution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Are there economies of scale?</td>
<td>• How easy it is for suppliers to drive up prices?</td>
<td>• How easy it is for buyers to drive prices down?</td>
<td>• What is important here is the number and capability of your competitors?</td>
<td>• How easy is it to substitute what you provide?</td>
</tr>
<tr>
<td>• Are the costs high or low of entry?</td>
<td>• How many supplier choices do you have? The fewer the supplier</td>
<td>• How important is each individual buyer to your business? How expensive is it for them to switch from your products and services to those of someone else?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• What is the ease of access to distribution channels?</td>
<td></td>
<td>• Are buyers often able to dictate terms to you?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Are there cost advantages not related to the size of the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Will competitors retaliate?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• What can be the impact of government action (effect of legislation)?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• How important is differentiation?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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### Manufacturing
List the manufacturing trends – in terms of global sourcing and BCC sourcing.

### Globalization/Footprint
Note the global trends and how they may affect BCC sourcing.

### Legislation
Provide details around any specific legislation in any part of the world impacting the buy and how does it impact the category in general.

### Cost Drivers
Ascertain how costs of related commodities (input) affect the category. What are the cost drivers?

### Other

### Technology Trends and Road Map

#### New Technologies
List any new technologies that are impacting this category.

#### Substitutions
List the technologies that will be phased out in the near term and what are the new technologies that will replace these existing products.

### Global Factors

#### Significant Global Factors:
Identify and list the major global factors (for example political, geographical, technological, meteorological and any other factors) that affect the category and note how they impact this category.
<table>
<thead>
<tr>
<th>Category</th>
<th>Team Leader Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ Provide comments / suggestions.</td>
</tr>
<tr>
<td></td>
<td>▪ List major issues or directions</td>
</tr>
</tbody>
</table>