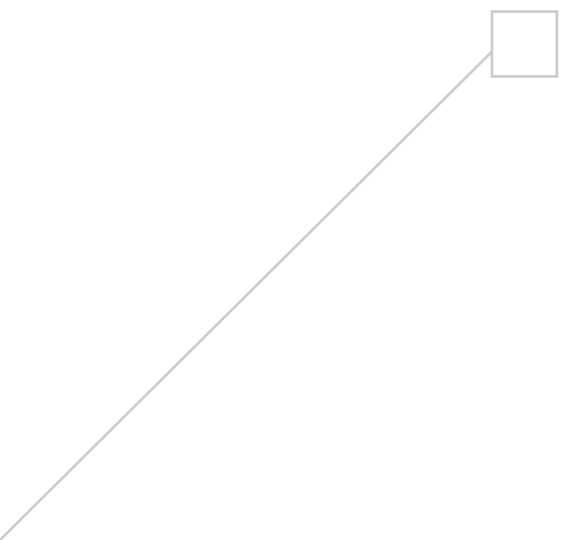


How Business Processes Enable True Strategic Sourcing



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Newview

Is it important to maximize supplier relationships, improve quality and reliability, and reduce costs on an ongoing basis? Your answer is likely a resounding, YES. Today, most leading companies are leveraging Strategic Sourcing as a competitive advantage and there is little doubt that it can add real value to businesses that are prepared to execute against their sourcing strategies. While the benefits can be great, the challenges to implement these initiatives effectively can be difficult to overcome, but are not impossible.

What are the challenges? For starters, gathering, structuring, and analyzing a large volume of spend and performance data necessary to support effective strategic sourcing decisions can be difficult. It is not hard to imagine a scenario whereby data resides in multiple locations and formats leaving your purchasing professionals to operate from a combination of spreadsheets and tribal knowledge. But, let's say you get beyond this hurdle, have access to the data, and are in a position to make sound sourcing decisions. Is this enough? Not without having a coordinated business process structure in place to execute against your strategy. Without this coordination, you will hinder your company's ability to derive the benefits on an ongoing, continuous basis.

Additionally, given the challenges outlined above for managing sourcing and procurement activities *within* the organization, imagine the complexity to extend visibility and control *outside* – to the supplier network – to support strategies such as outsourced manufacturing or integrated supply.

How can companies overcome these challenges? Consider how business processes that are managed by technology can help achieve these benefits in an ever increasing and dynamic business environment.

A Business Process Approach

Fragmentation is the enemy of coordination. Procurement processes can be fragmented in part because separate business units and functional groups are supported by their own IT systems. Multiple Enterprise Resource Planning (ERP), Manufacturing Resource Planning (MRP), Material Requirements Planning (MRP), legacy, and engineering systems all have their own views of information. Even companies that have adopted a single ERP vendor have multiple deployment instances that behave like individual solutions. These systems provide specific functionality for specific parts of the organization, but as they are typically deployed, they do not manage the shared business processes that exist across the organizations of a company. Additionally, they were never intended to coordinate the business processes that exist between a company and its supplier network.

Fragmented processes must be coordinated to ensure the execution of your sourcing strategies and the generation of consistent data. Begin by resolving these fragmented procurement processes. In this white paper, we will outline how a business process approach is used to provide a complete strategic sourcing solution across its four fundamental elements: structure, visibility, control, and the supplier network.

Building Structure

To support strategic sourcing, it is critical to develop a shared and consistent data structure and to create processes that introduce and maintain cleansed, standardized data across the corporation.

Many companies start their strategic sourcing solution deployments with a large-scale data cleanup project. For large companies, this effort can include hundreds of thousands of materials and thousands of suppliers. This is usually a painful, complex and time-intensive project that addresses only the result of the problem, the “dirty data”, and not the cause, the processes that introduce this data.

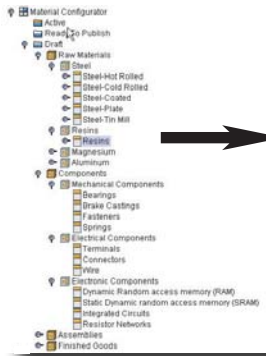


Figure 1: Raw Materials

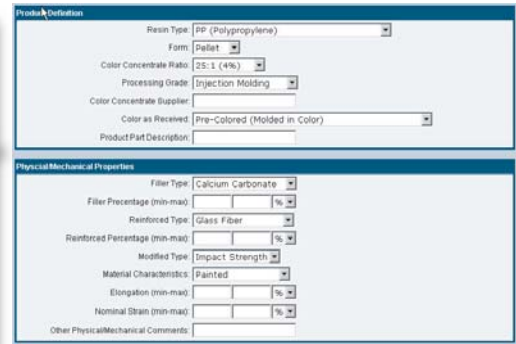


Figure 1 shows an accepted approach for structuring material information. On the left is a classification schema that defines the functional categories of components, which allows similar components to be grouped together. On the right is a set of attributes for a specific type of material that defines what makes the material unique from other components of the same type.

Instead, begin by addressing the cause of the problem, which is the set of fragmented business processes that generate inconsistent data. Provide a consistent process for introducing the foundational data that defines materials and suppliers that will establish the baseline and serve as the clean master data for procurement. In many cases – due to rapid turnover of materials, fixing the processes can circumvent the need for a large-scale data cleansing projects and can provide a faster path to benefits versus waiting for this massive effort to be completed. A consistent, detailed definition of material information should be available to non-technical decision makers and engineers across multiple design centers.

Procurement users can seek and identify opportunities for material consolidation, and more easily make downstream re-sourcing decisions. Production users can identify opportunities for inventory sharing and substitution. Engineers can easily find and reuse existing parts across separate business units and design centers.

Current systems have difficulty managing and providing access to detailed material information. ERP and other operational systems do not provide sufficient detail down to the attribute level to support material decisions, since they have typically been architected to provide only a part number and description field. An “intelligent” part number is sometimes used to address this deficiency, but this approach is rarely successful because it provides limited additional information and is not adaptable to inevitable organization changes that will make it obsolete. CAD and PDM systems contain detailed material information, but are too technically oriented to provide easy access to information by non-engineers.

In addition, a consistent, detailed definition of material information should be available to non-technical decision makers and engineers across multiple design centers. Procurement users can seek and identify opportunities for material consolidation, and more easily make downstream re-sourcing decisions. Production users can identify opportunities for inventory sharing and substitution. Engineers can easily find and reuse existing parts across separate business units and design centers.

Figure 2: Structured Process Flow

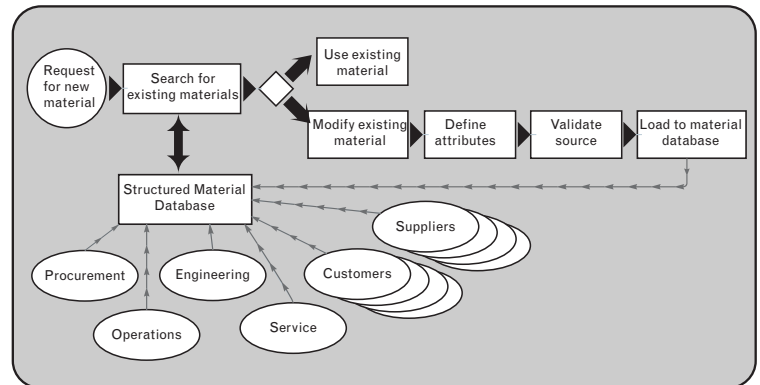


Figure 2 shows a structured process flow for the introduction of new materials. A user, likely an engineer, who needs a material to use in a design, is first required to search a preferred catalog for existing parts that may meet his needs. If no existing material is found, the user follows a process to define a new material by its technical attributes to ensure clean consistent material information. Then, the material approval must be negotiated with other constituents inside and possibly outside the company who can contribute to making the best material selection or who are affected by material decisions. These constituents may include people in engineering, procurement, operations, and service roles within a company, and also people within the supplier and customer organizations.

Gaining Visibility

Another key component of a sourcing solution is consistent and up-to-date visibility to procurement information.

Reporting and data mart tools can be used to generate complex reports and provide “slice-and-dice” and “drill down” information queries. But these tools can only be effective if they are operating with good information. The problem with deploying reporting solutions by themselves is that the disconnected operational systems will continue to generate inconsistent data. Also, data marts are often not directly integrated with operational systems so they must aggregate data using periodic

batch loads. This can cause misalignment between the need to respond to a dynamic business condition and the data that triggers this action.

Figure 3: Outsourced Supply Management

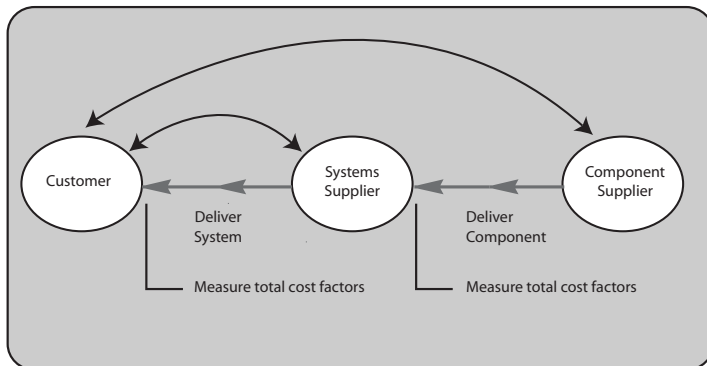


Figure 3 shows an outsourced supply management process in which a customer sources a component from a 2nd-Tier supplier that will be used in a system they buy from a 1st-Tier supplier. The customer wants to control this process to ensure that the Systems Suppliers are buying off his leveraged Component Supplier contracts. The customer also wants to manage this process to develop a cost model for the supply of the system that considers the actual component cost, as well as total cost factors across the supply network including delivery, responsiveness, and inventory performance.

reasons for the problem, and have tools to re-plan supply – either collaboratively with that supplier, or by re-ordering from another supplier. A commodity manager, on the other hand, also wants to see the

delivery problem, but does not need this information in real time. Instead, he wants to be able to use it in the longer term as an input to the supplier’s performance metrics and as a root cause example that can be used to help the supplier improve their future delivery performance.

By starting with the business processes, you can control the generation of the data, which will make it much easier to achieve clean, consistent, and up-to-date views of procurement information in real time. By tapping into the actual processes, you can quickly access detailed information that provides visibility to the “total cost” effects of your sourcing decisions.

Coordinating purchasing processes for an outsourced manufacturing program, for example, allows you to isolate cost components that go into the final purchased material price. This makes it possible to closely monitor costs such that you can pay contract manufacturers or integrated suppliers based on the value add and not on the total cost including material. Isolating cost components also allows you to negotiate more effectively on the remainder of cost components for which the supplier is responsible.

Managing the operational process associated with the supply of materials allows you to measure true cost of supply, included factors such as inventory, delivery and quality performance, instead of simply estimating future material cost savings.

Today, many companies run RFQs, accept lower price quotes, and hope the new suppliers will deliver true cost savings sometime in the future. Instead, by managing the actual operational supply process in addition to the upfront sourcing processes, you can measure the *true* cost savings as the materials are actually delivered to your plants, including actual invoiced pricing and the suppliers’ ability to reduce inventory and delivery related costs.

Figure 4: System Cost Profile

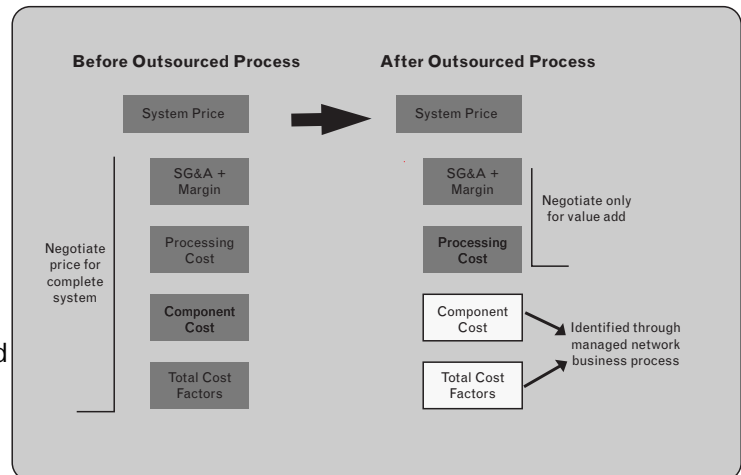


Figure 4 shows the effect of gaining visibility to network component and total cost factors. Instead of negotiating with the Systems Supplier for the complete system price, you now only negotiate for the value add provided by that supplier.

Providing Control

A key element that is often overlooked in the initial phases of a strategic sourcing deployment is the ability to control the *execution* of your strategic sourcing strategies.

Today, in many instances, procurement execution takes place across multiple, (fragmented) ERP, MRP and legacy systems, each with its own individual processes and limited views of the roles and relationships that support the true processes. Sourcing decisions are tossed over the wall

to operations and then forgotten; new and potentially redundant designs are introduced by engineering; suppliers who were phased out later get re-introduced; and preferred suppliers are not properly rewarded for their ability to reduce the true cost of supply.

These processes must include not only the execution of your *sourcing* processes, such as creating RFQs and contracts, but also the actual *purchasing* processes that occur at the plant level to order, receive, and pay for materials. This ensures that your strategic decisions are being executed, with the ability to measure true compliance. It also allows you to respond in real time to dynamic business conditions such as the integration of spot market opportunities with your planned purchasing processes.

Elevate control of the true business process above the functional tools that support it. First, think about the integrated processes that are needed to provide control and visibility across the multiple roles that must interact with it. To effectively provide control, a process must reach all participants, across multiple roles and organizations. The process must recognize the different roles and different levels of control that are necessary to affect it, and must only prompt people to introduce/review information that is relevant to their specific role in the moment of any given process. *Then*, after you have defined the business process and roles, you can consider the specific tools that will help people perform their roles more effectively, such as eRFx, spend visibility, performance management, and supplier collaboration products. By focusing first on deploying functional tools, it is easy to lose control of the overall process.

Enabling the Supplier Network

Promote your processes onto a network, using a common framework, over which you can extend visibility, and control, and realize the compounded value of your strategic sourcing efforts. By using a “networked set of business processes,” you can:

- Have your suppliers execute your sourcing decisions and even resolve issues on your behalf without your direct involvement.
- Execute sourcing decisions through outsourced manufacturers and integrated suppliers.

Coordinating Sourcing Events with Planned Production Purchases

A large consumer goods company is trying to integrate spot-market sourcing events with its planned supply processes – all within a highly dynamic environment of supply and demand fluctuation for the raw materials it purchases.

This company buys large quantities of aluminum, which it uses to manufacture cans to package its products. They would like to periodically take advantage of spot markets for recycled aluminum.

They can use numerous approaches to buy recycled aluminum from the spot market including bid automation software, auction services, and industry exchanges, but their issue is not related to making the bid process faster and more efficient.

Instead, the problem is that they are unable to turn off their planned purchasing processes when a spot market purchase is made. In other words, the strategic sourcing decision of making spot aluminum purchases is not coordinated with the planned production process for ordering the aluminum. The result is over-ordering throughout the supplier network – from the beverage company’s plants through the aluminum production processes to the mining companies that mine and ship the raw material – and an unnecessary increase in inventory throughout the network.

- Allow your N-Tier suppliers to purchase against your strategic contracts where they can achieve a lower cost, and use the contracts of your suppliers when they have the most leverage for a particular category of materials.
- Break down the barriers that hinder lean inventory management by providing visibility to network manufacturing processes and inventory levels.
- Understand how your supply network is performing – not just at the 1st -Tier – but also throughout entire supply chain back to the raw material supplier.

If internal procurement processes are fragmented, most companies feel they are not in a position to extend their sourcing efforts out to their tiers of suppliers. A key barrier to extending sourcing strategies and execution to the network is that current solutions do not include a concept of a *network business process* that allows multiple participants from different companies to share consistent information in a coordinated process to serve the end customer.

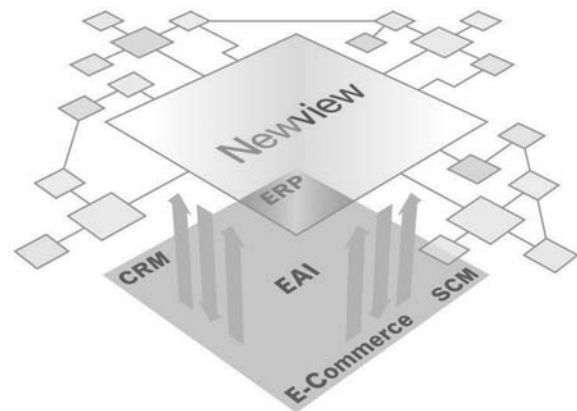
But it is possible today to enable the supplier network. And it is possible without a global ERP deployment and without building a comprehensive strategic sourcing data mart. These solutions, while highly functional, do not understand the people, roles, relationships, and interactions that occur outside of their immediate environment. In fact, given the cross-enterprise and N-Tier business processes required for such a solution, only a network business process approach will work.

Companies like Ford Motor Company are executing billions of dollars of direct material spend with coordinated multi-tier procurement processes, from initial material specifications and sourcing requirements through to shipping notifications and back-end claims resolutions. Newview provides this solution for Ford and other leading companies who recognize the value in using a network business process approach to manage their strategic sourcing initiatives.

What are the essential elements that make this possible?

Newview Provides a New, Proven Solution to Deliver True Fit Network Business Processes

Newview offers a new, proven approach that addresses the challenges outlined in this paper. What were once fragmented or disparate processes can be coordinated in a common framework allowing true fit, network business processes that let the supplier network help you achieve your objectives. This gives you both coordinated execution as well as consistent and powerful views of information that will support strategic sourcing decisions and the evolution of your procurement processes.



The requirements for this solution includes both a Network Business Process Architecture™ and a rich library of business processes to use as a baseline to get started.

Network Business Process Architecture

Newview's Network Business Process Architecture was designed from the ground up to manage the key components of a network business process solution, including roles, relationships, materials, and information. It allows you to define the true business processes that are necessary to coordinate your sourcing activities, and that span internal organizations and functional groups and those of your suppliers. Newview's solution was designed to integrate to existing enterprise applications and deep dive into these applications where necessary to provide deep functionality – but only when you need them. It is highly configurable to allow you to easily configure and execute your true processes, but also comes with a rich library of best practice business models to use as a starting point.

A Rich Library of Business Processes

Newview has specific domain expertise building processes associated with strategic sourcing and procurement execution for complex direct materials. We offer a rich library of business processes that help you get started, including:

Collaborative Specification Management

Enables people across engineering, sourcing, supply management, and even at supplier sites, to jointly define optimal material specifications. This collaborative definition is critical for optimizing cost and performance tradeoffs early in the design process where there is the most ability to reduce downstream costs.

Procurement and Supply Execution

Provides purchasing execution processes to manage and coordinate activities such as contract definition, PO creation and releases, shipping notification, payment, and claims management.

Network Procurement and Supply Execution

Extend your processes to the supplier network. Model and manage a comprehensive private trading exchange for the supply of direct materials. Provide a shared way to define procurement data that allows you and your suppliers the visibility and control necessary to drive total cost out of the supply network processes.

Inventory Management

Use the leverage of controlling the actual business processes to gain visibility to critical inventory information across your plants and even out to your suppliers. Newview provides inventory management views and alerts that allow you to proactively monitor supply situations and respond to changes when they happen.

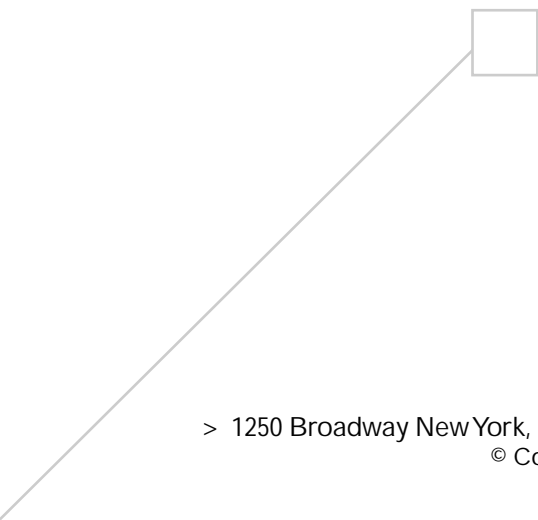
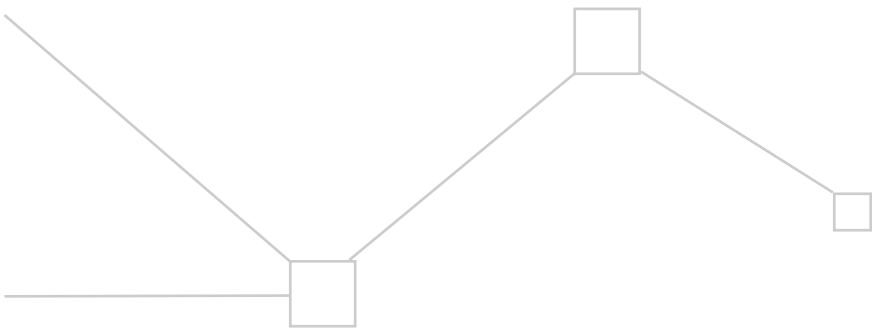
Spend Visibility and Performance Measurement

By modeling the roles, relationships, and interactions involved across a network of business processes, Newview provides powerful views of information that offer new insight into how your organization and your suppliers are performing. Access performance scorecards that let you measure not only the performance of your internal organization but also the performance of your supplier network. Identify quality problems at the root cause – where they occur in the supply network – instead of being hidden within a large Tier 1 supplier.

Strategic Sourcing with Network Business Processes

To make and execute better strategic sourcing decisions, it is critical to start by considering the business processes that support your procurement and supply activities – both within your company and across your supplier network. Newview enables a complete strategic sourcing solution with its approach of employing structure, visibility, control and management of the supplier network. This approach allows you to efficiently merge fragmented processes, helps control the execution of strategic sourcing decisions, and provides consistent data to support on-going strategic decisions.

Notes:



Newview