

The Future of Sourcing

Webinar presentation for ISM Corporate Members – 19
March, 2019

Polling results reflect 77 attendees

Topics

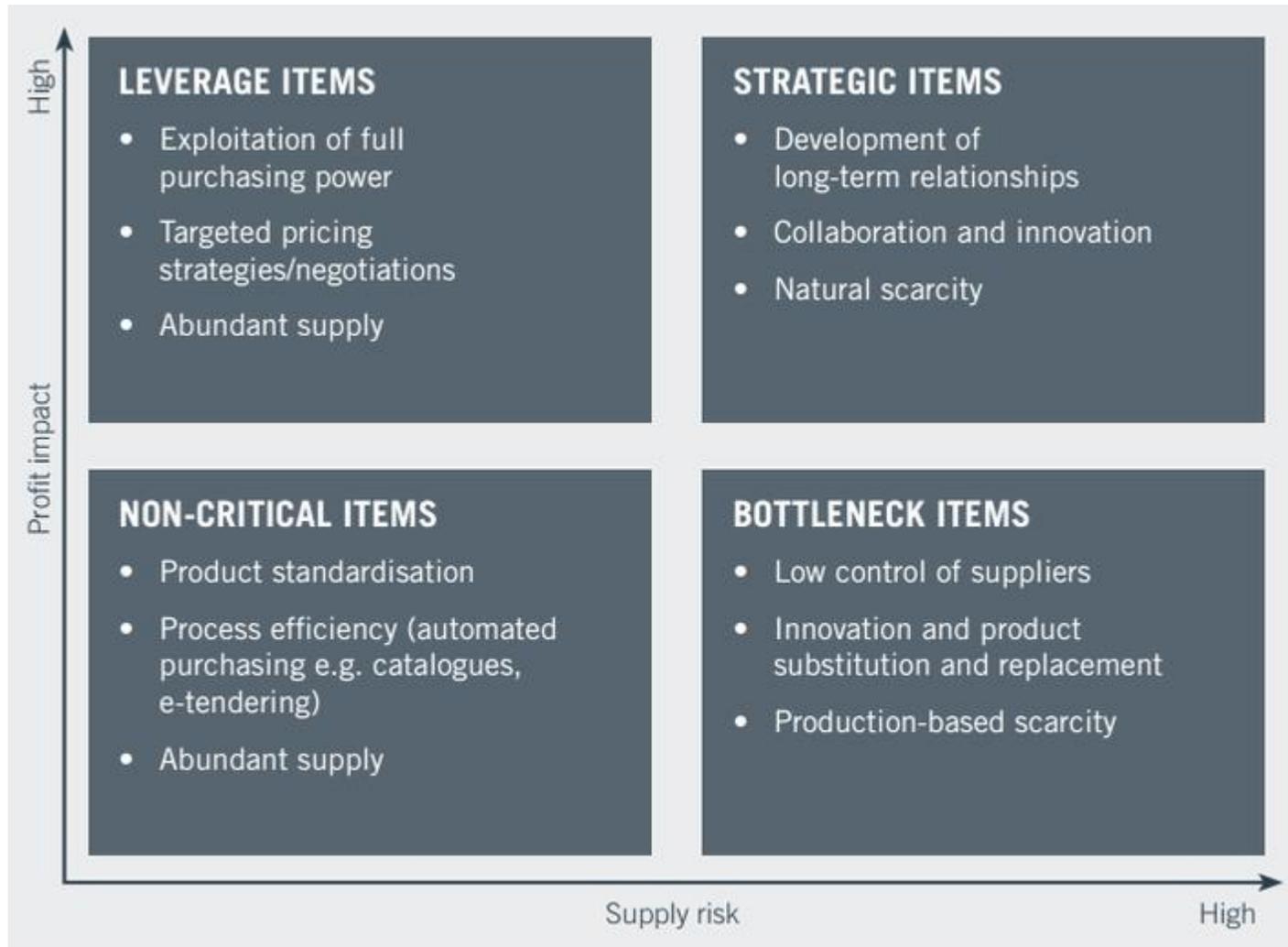
1. The changing context for sourcing
2. Highlights from recent Vantage research
3. A new framework for strategic sourcing
4. Become a trusted advisor to the business
5. Case studies





The changing context for sourcing

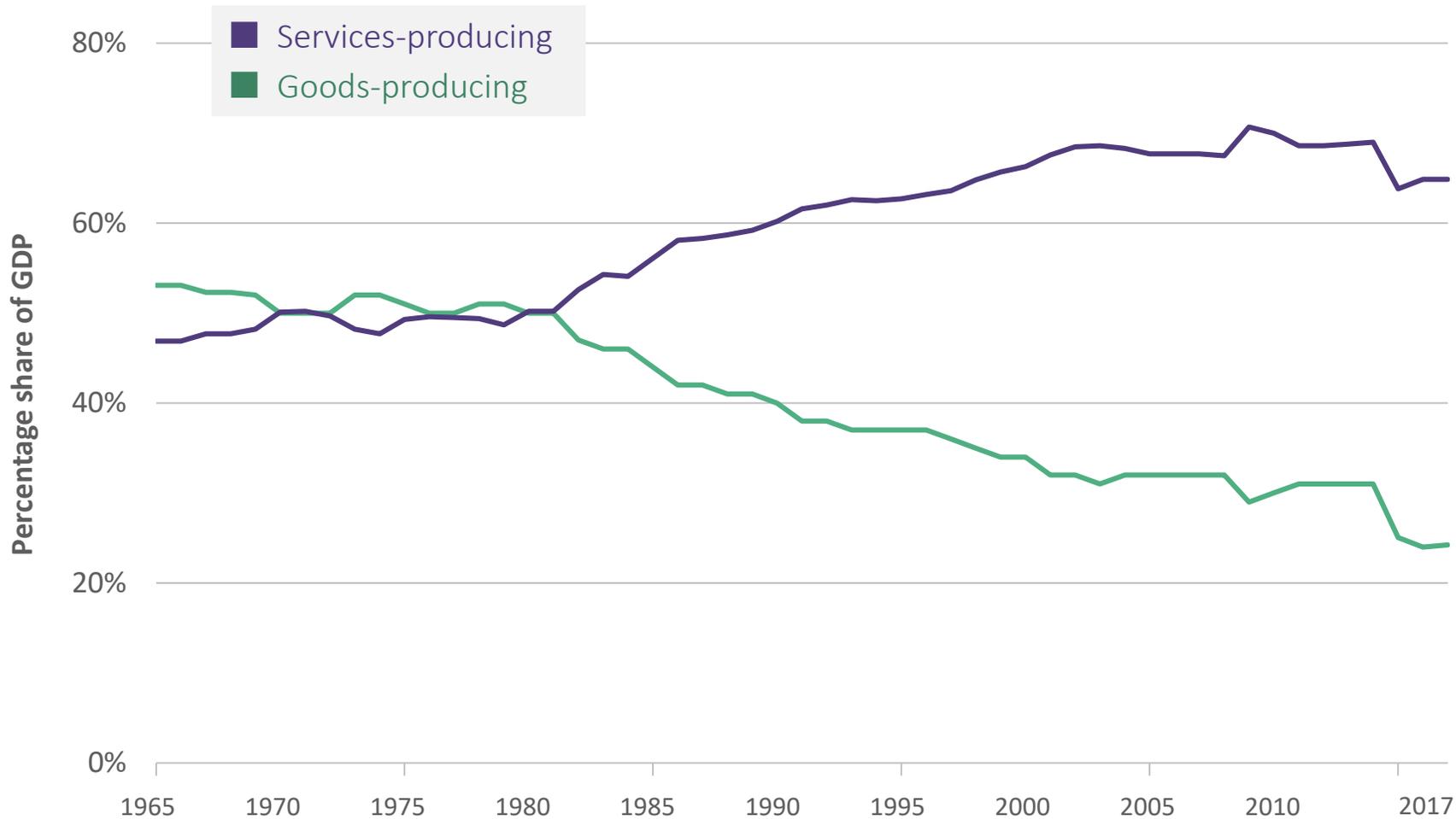
Krajlic's sourcing matrix



“The purchasing portfolio matrix plots company buying strength against the strengths of the supply market and can be used to develop counterstrategies vis-à-vis suppliers.”

Source: Purchasing Must Become Supply Management by Peter Krajlic in the Harvard Business Review, 1983.

Increase of services-producing companies as a share of U.S. GDP



Globally, services' value added accounted for **74% of GDP** in high-income countries, an increase of 7% since 1997, and more than 20% since 1990.



The value of intangible assets

“In 1976, 16% of the S&P 500 was made up of intangible assets (patents, trademarks and copyrights). Today it is 90%.”

Source: Forbes, March 12, 2019

Companies invested the equivalent of **14% of the private sector's share of GDP in intangibles** (such as their brand and data assets) versus approximately 10% in physical assets (such as factories).

Source: Carol Corrado, The Conference Board

Global intangible value **exceeds \$50 trillion** in 2018.

Source: Brand Finance 2018 Global Intangible Finance Tracker (GIFT) report

Intangible value comprises **more than 52%** of the value all publicly traded companies.

Source: Brand Finance 2018 Global Intangible Finance Tracker (GIFT) report

The technology sector, unsurprisingly, has the largest percent of total valuation comprised of intangible assets, although intangible asset value at life sciences, healthcare, and financial services companies are substantial and rising, and in a world of big data, and new technologies like IOT and 5G, data assets will become increasingly significant across all sectors.



Recent headlines

**AMAZON SURPASSESS APPLE IN
TERMS OF INTANGIBLE ASSETS**

Source: Lexology, Oct 14, 2018

**SPOTIFY'S INTANGIBLE ASSETS
COMPRISE NEARLY 99% OF \$26B
VALUATION**

Source: Bloomberg, April 9, 2018

**Amazon intangible assets
valued at \$827B – 96% of
company value**

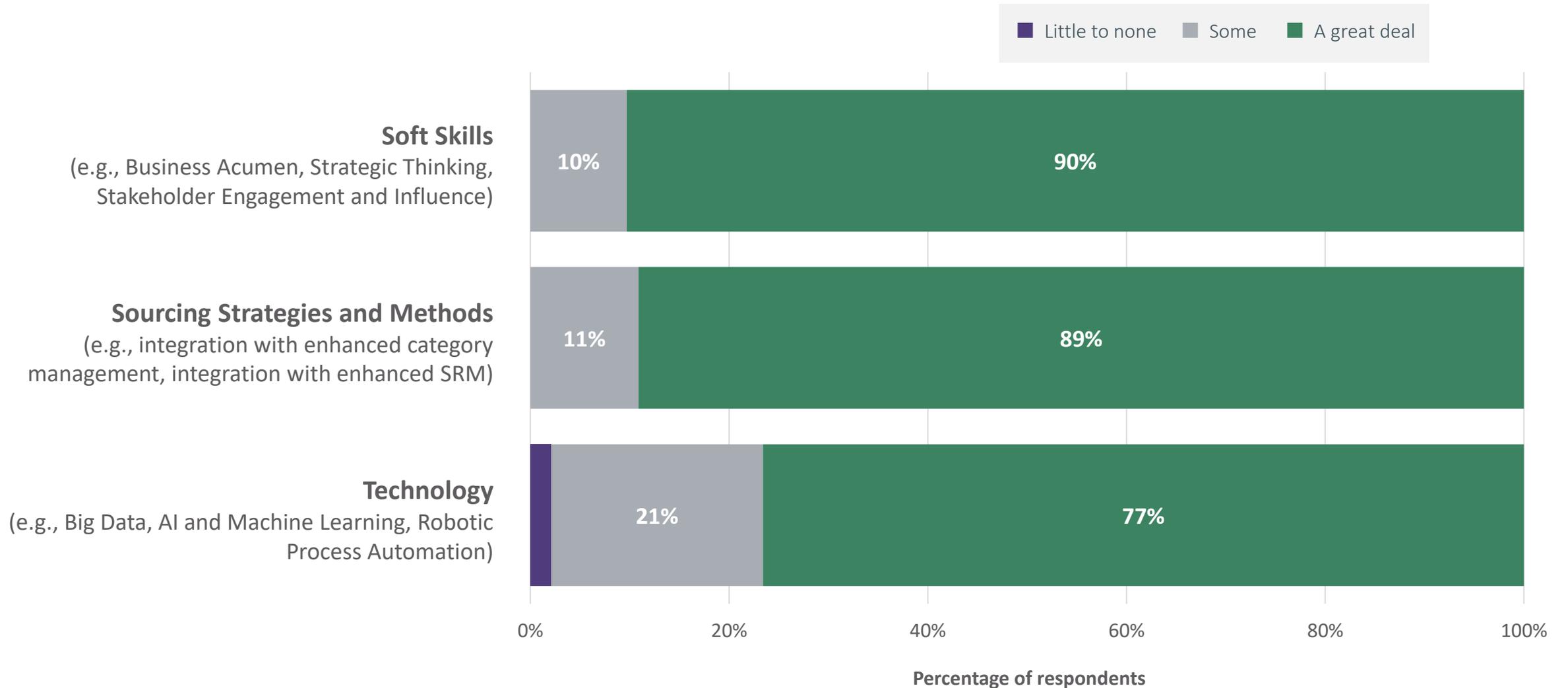
Source: Brand Finance 2018 Global Intangible Finance Tracker (GIFT) report

Anheuser-Busch InBev's balance sheet
discloses \$187B in intangible assets.

Source: AB InBev, 2018



Relative importance of key enablers to the future success of sourcing?

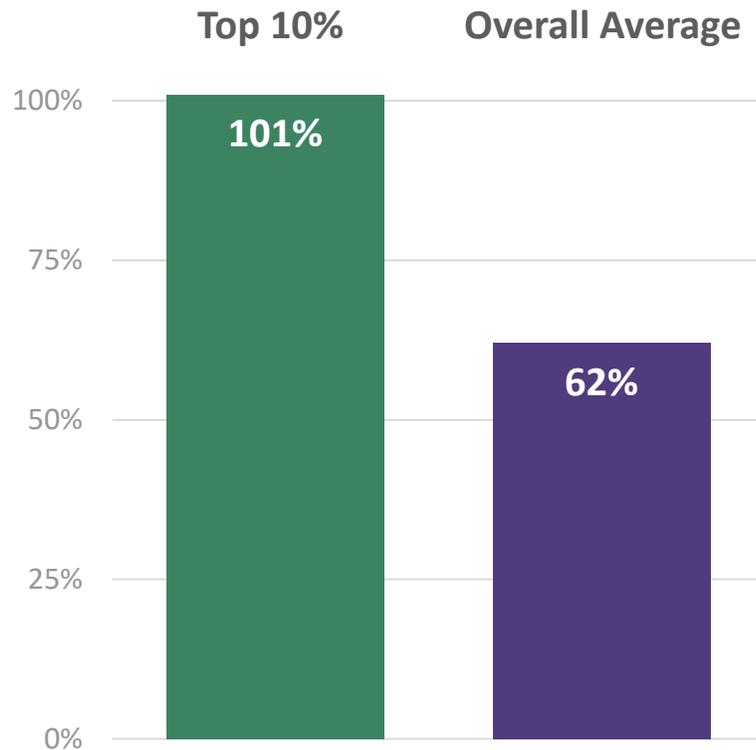




Recent research highlights

Value realized from strategic sourcing

Average value *realized* from strategic sourcing
(of total targeted value)



Leading companies realize, on average,
63% more of the value
they target through strategic sourcing

Characteristics of leading organizations

82% have significant procurement involvement from start-to-finish.

64% are “significantly” incented to achieve the best total value
(inclusive of total cost, quality, innovation, etc.).

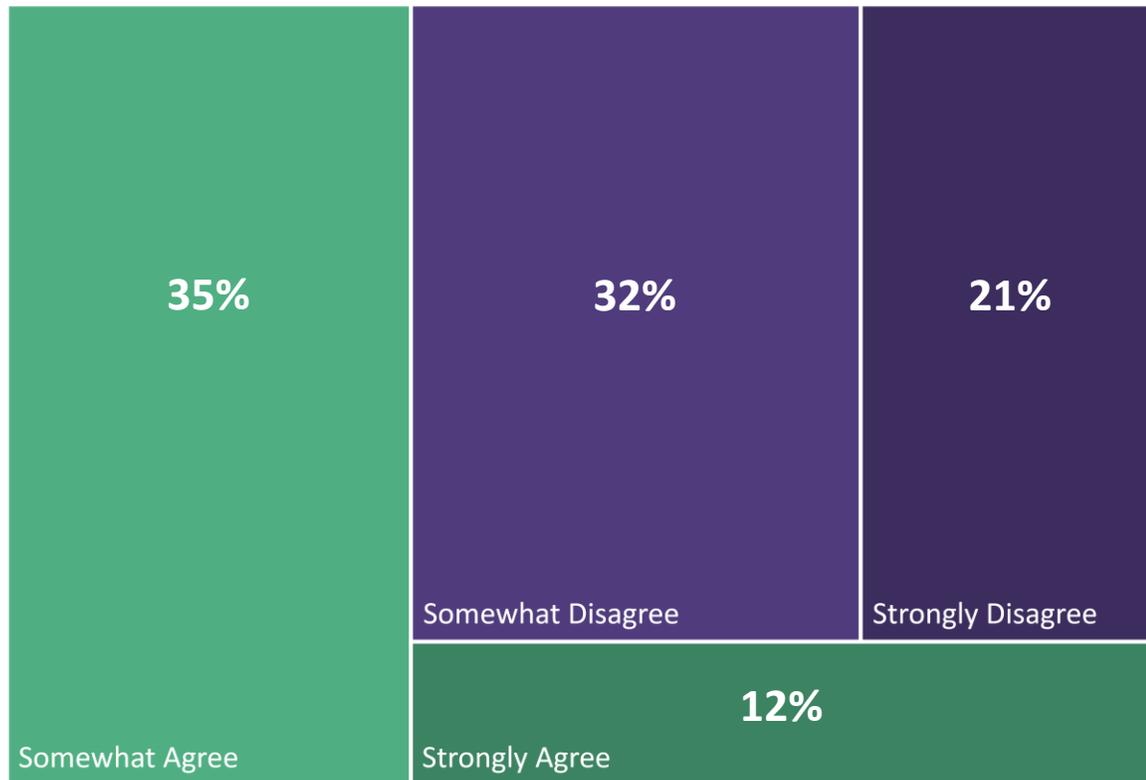
75% have a formal negotiation process that is “usually” or “always”
followed.

76% of negotiations are collaborative (32% are highly collaborative)



Aligning sourcing with other supply management disciplines

“Strategic sourcing, category management, contracting and contract management, and SRM at our company are fully integrated and aligned”

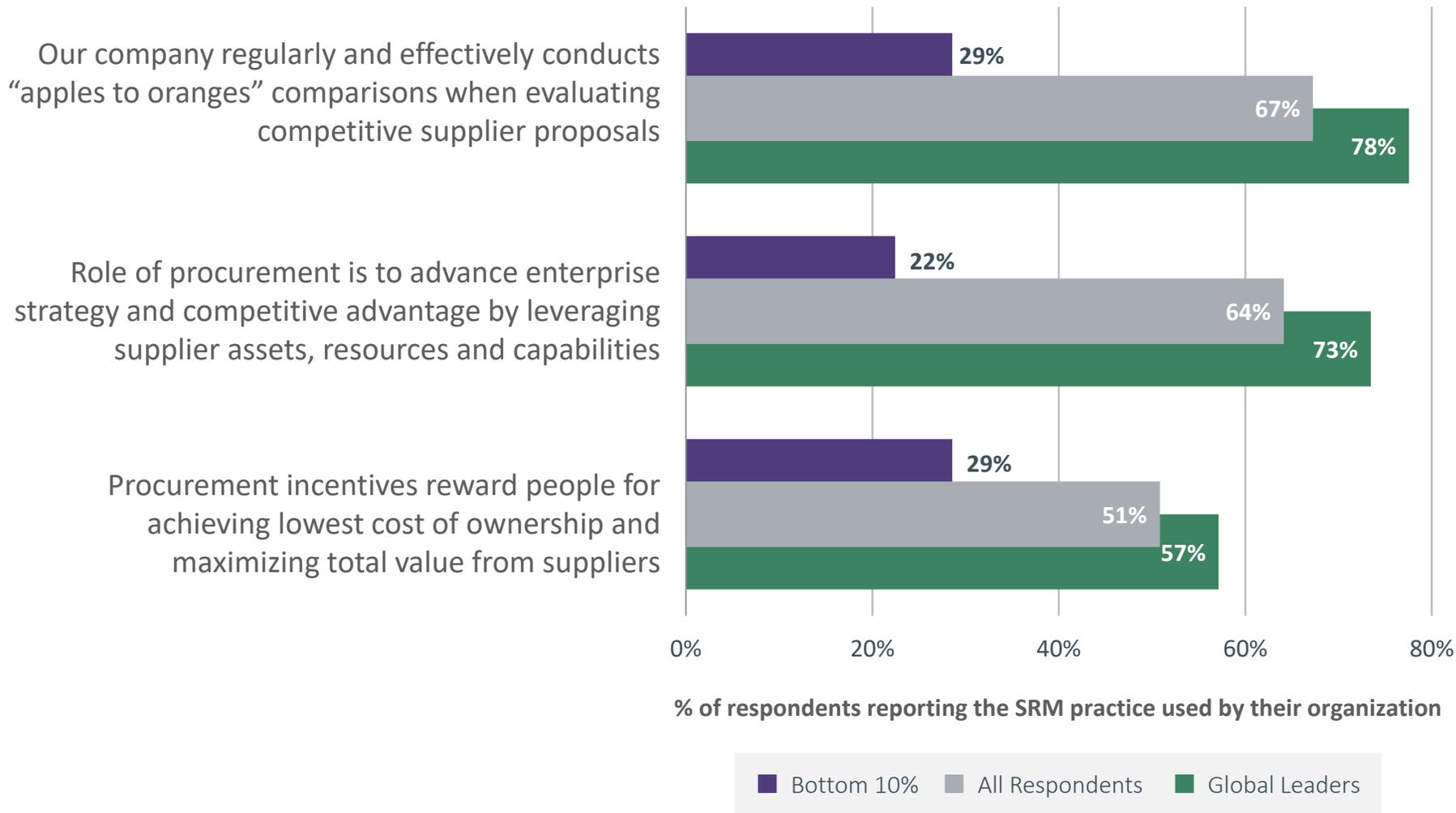


80% of Global Leaders
align strategic sourcing, category management,
contract management, and SRM.

Companies that align sourcing and other supply
management disciplines realized, on average,
\$38M more from SRM
in the past year, than those that don't.



Sourcing best practices



Companies with all three best practices in place

realize 17% more of the total potential value from their suppliers than the average, and

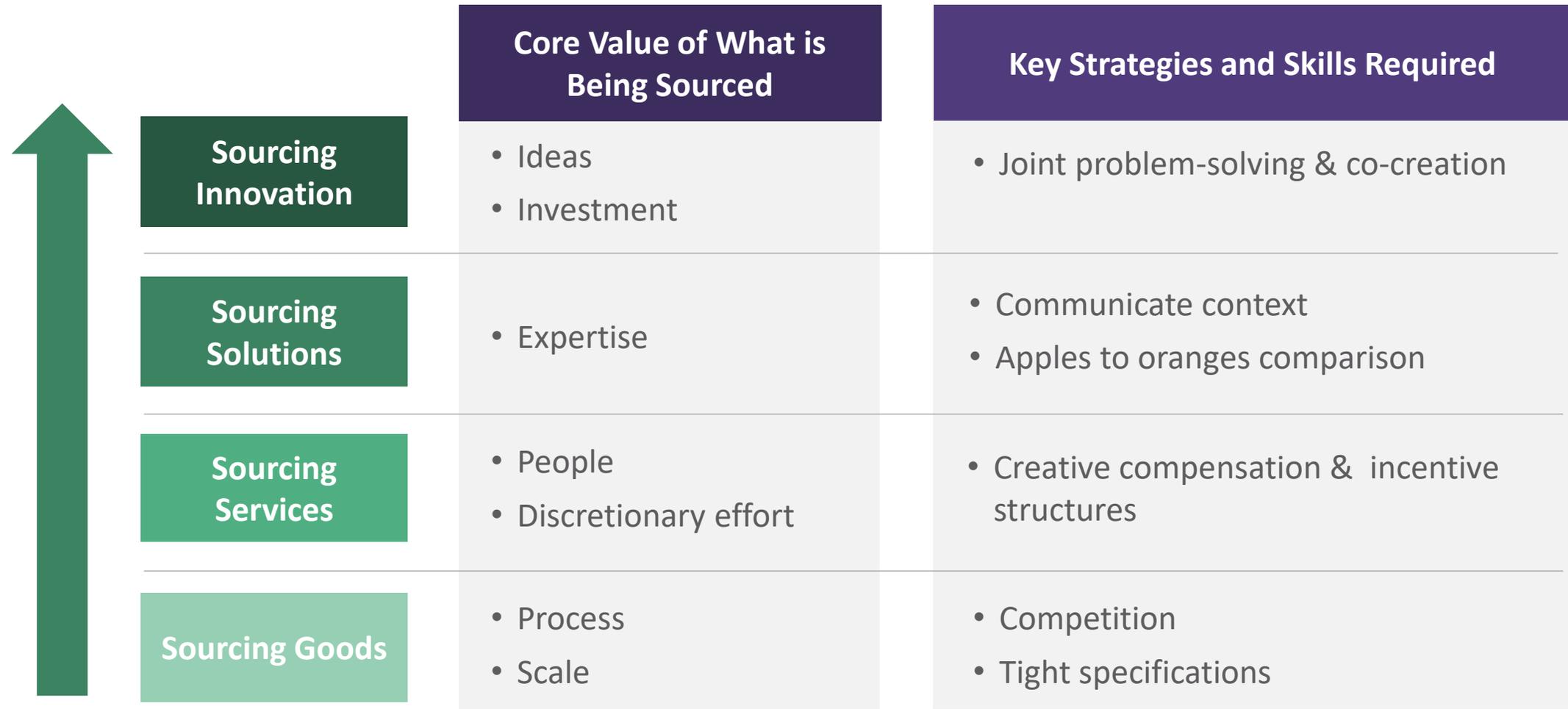
42% more value than companies that do not have any of the three.





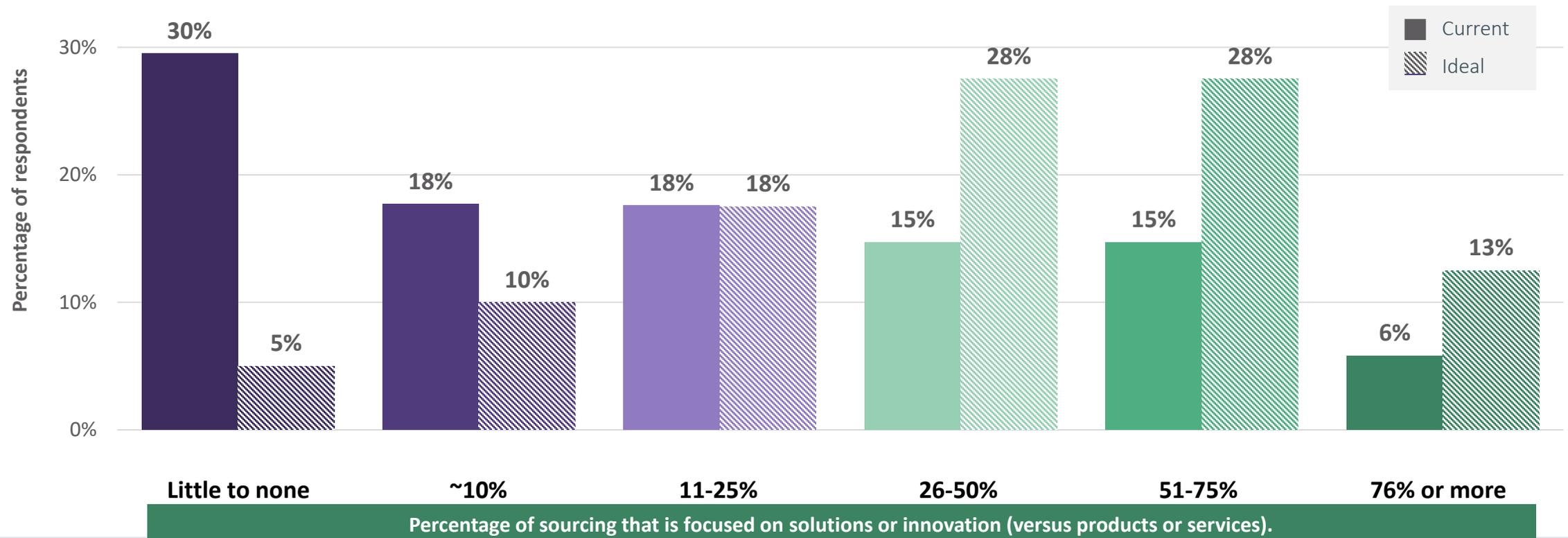
Making sourcing truly strategic

A new sourcing continuum

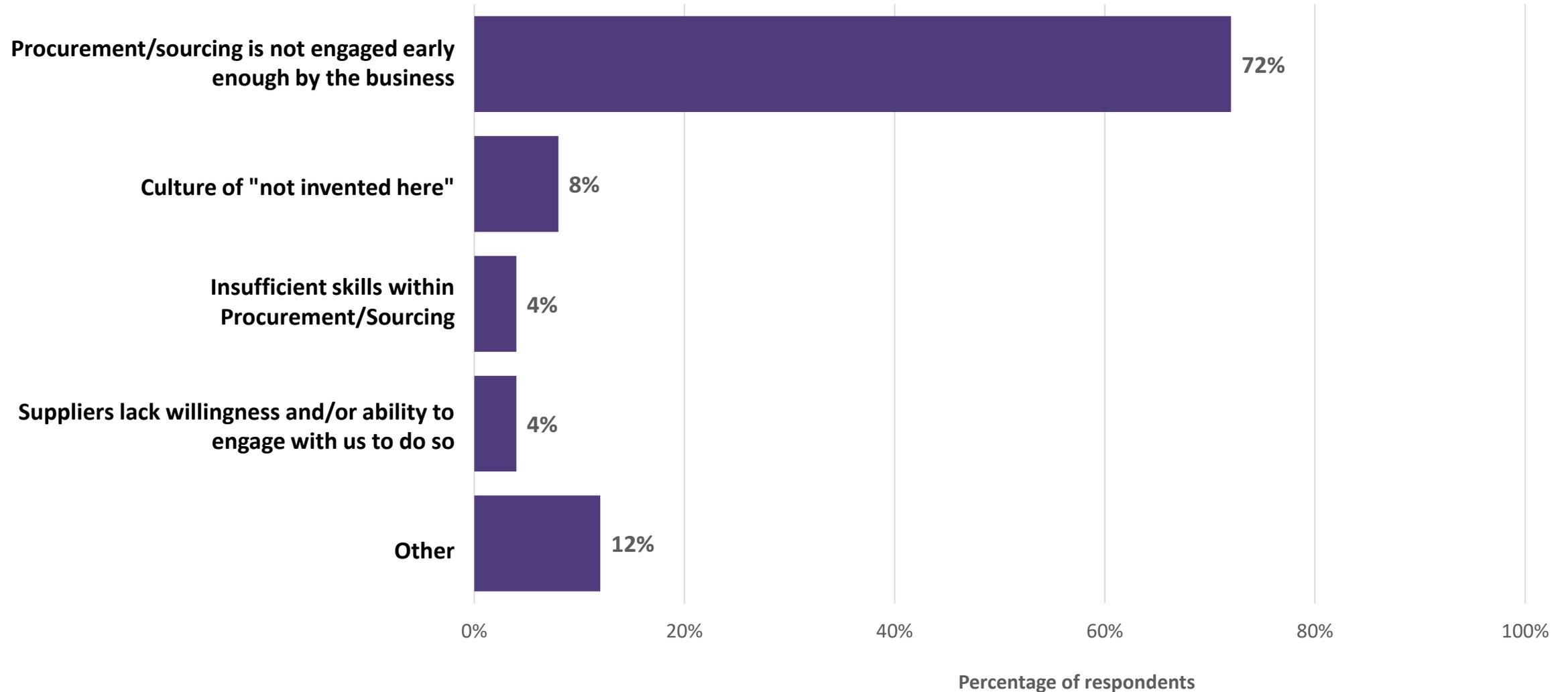


Sourcing products and services versus sourcing business solutions and innovation

Roughly half of respondents report that **currently, sourcing solutions or innovation comprises *at most 10%*** of sourcing activity, whereas nearly 40% state that **ideally sourcing solutions or innovation *should comprise more than 50%*** of sourcing activity.



What is the most significant impediment to sourcing business solutions and innovation?



Sourcing a new solution to an old business need



- What business problem are we trying to solve?
- How do we describe it to suppliers so they can offer creative solutions?
- How do we measure value to the business?



- Cost increase: 15%
- Reduction in downtime: >50%
- ROI: >500%

Sourcing supplier innovation to create the lab of the future



- Strategy briefing to suppliers
- Parallel workshops with suppliers
- Differentiated supplier proposals
- Basket pricing comparison



- Successful transition from single source supplier
- 13% Year One savings
- \$40MM realized savings over contract term
- Improved service, and renewal of contract with new supplier



To get more value, we need to ask different questions

Perfectly Fine Questions

- How do we extract more savings from the supplier?
- Why is the supplier failing to meet our expectations, and how do we get them to change/improve?
- How do we define clear requirements for what we want the supplier to do?
- How do we get more innovation *from* suppliers?

Different Questions

- How does the supplier make money?
- What do we do that creates cost, risk, and/or frustration for the supplier?
- How are we inhibiting the supplier's ability to deliver maximum value to us?
- How can we define the business problem we want the supplier to solve?
- How do we create more innovation *with* suppliers?





Sourcing breakthrough innovation: a case study

An example of sourcing innovation

Sourcing breakthrough innovation cannot be done transactionally

Cross-functional, facilitated by
Procurement

A balance of structure, and
serendipity

Continuous and connected to
disciplined execution



“HP and Shell Oil are collaborating on....technology in a bid to uncover oil and gas reserves industry analysts say could be worth as much as \$4 trillion that would be found at half the cost of conventional exploration.”

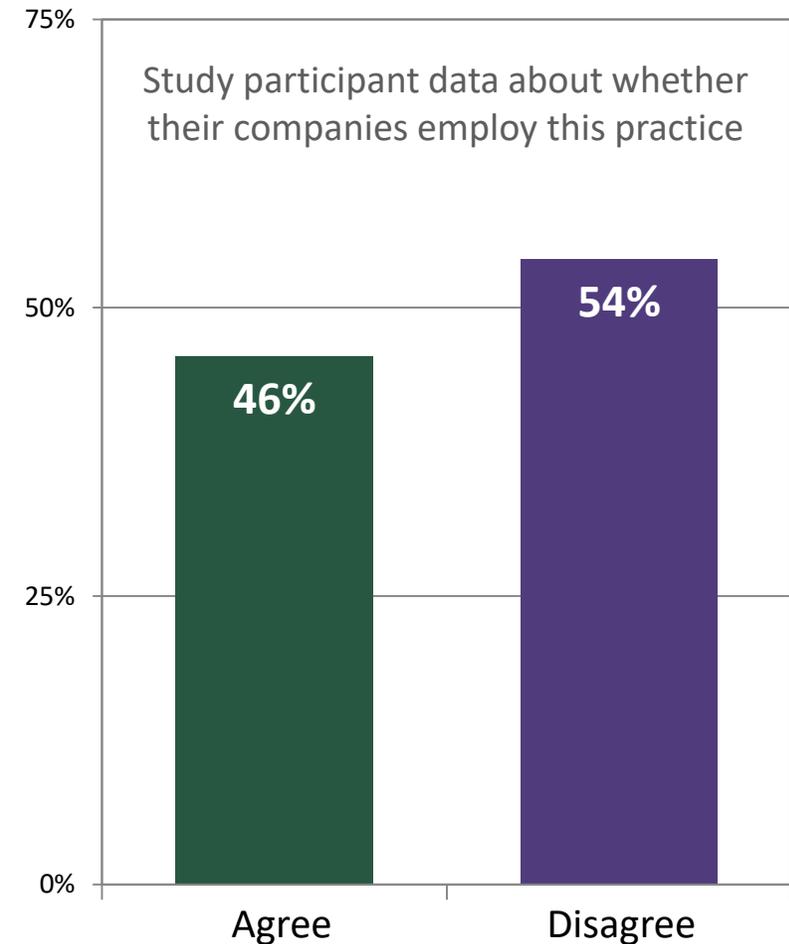
Signal Magazine, February 2014

Aligning multiple suppliers for joint innovation

Companies that systematically engage with *multiple* suppliers to jointly pursue opportunities that require collaboration amongst multiple parties in the supply/value chain

**are 17X more likely
to get best pricing, people, and ideas from
suppliers**

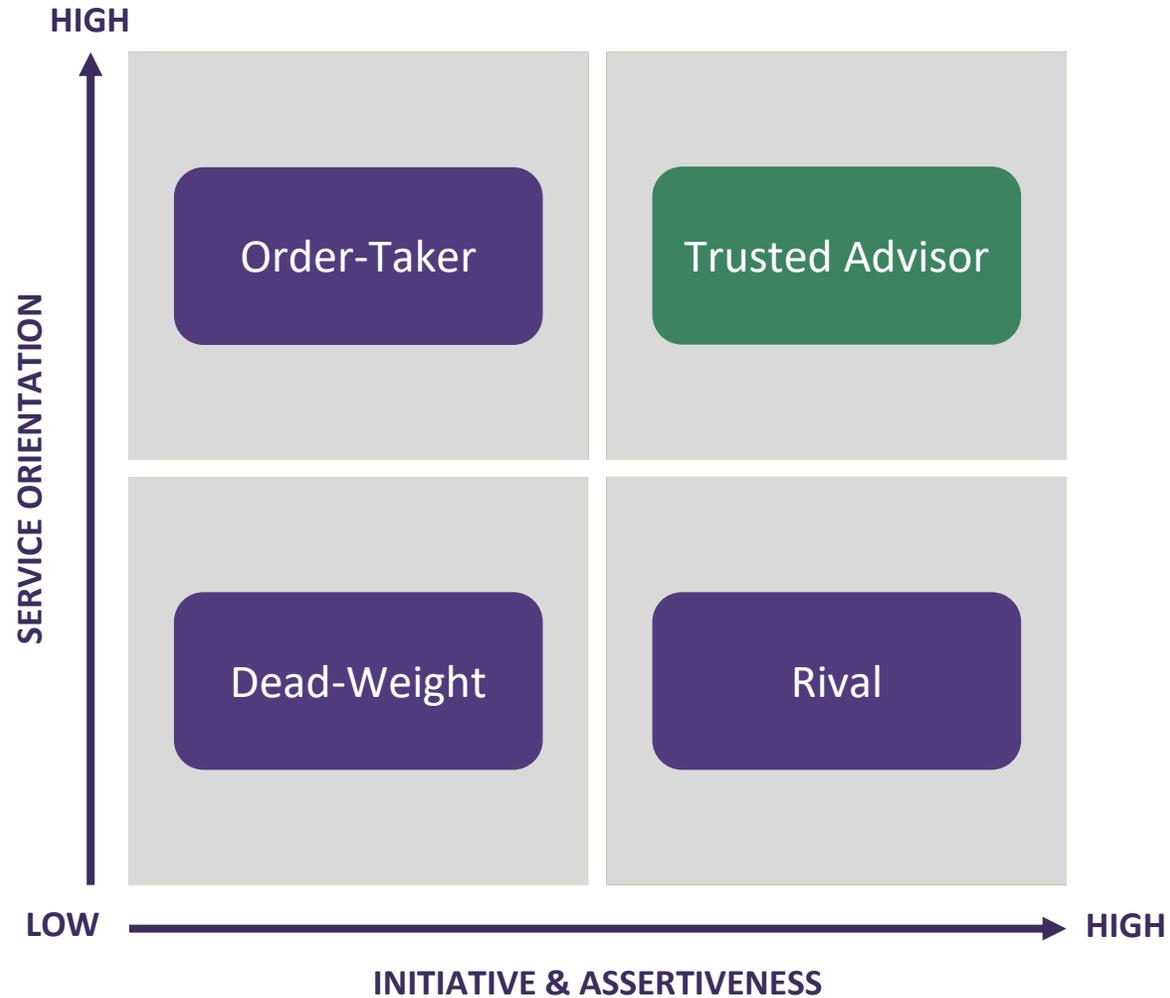
**realize \$130M more
in annual value from supplier relationship
management**





Become a strategic advisor to the business

How do your internal clients and business partners view your team?



Creating value with suppliers and internal business partners

What does the business need?

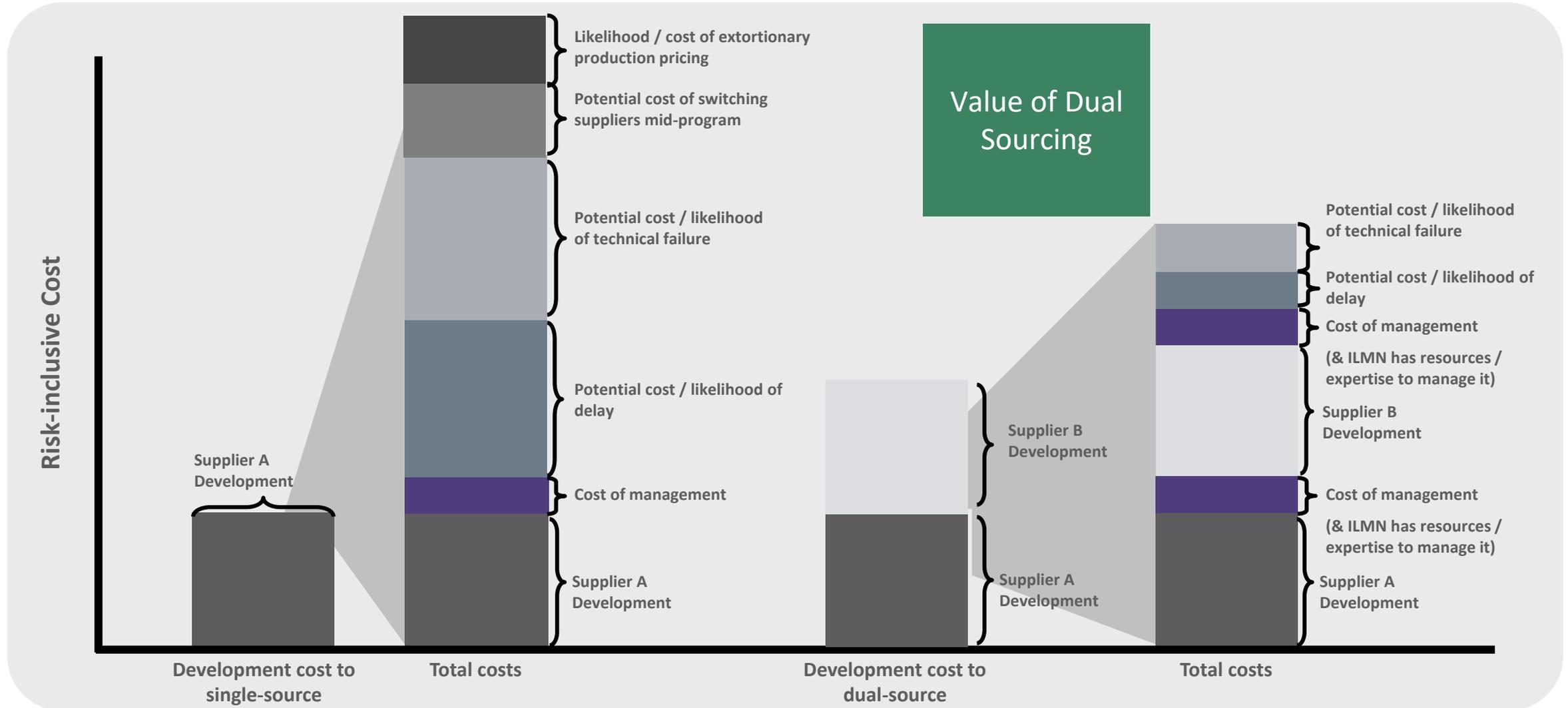
Close collaboration with internal business partners

Close collaboration with key suppliers

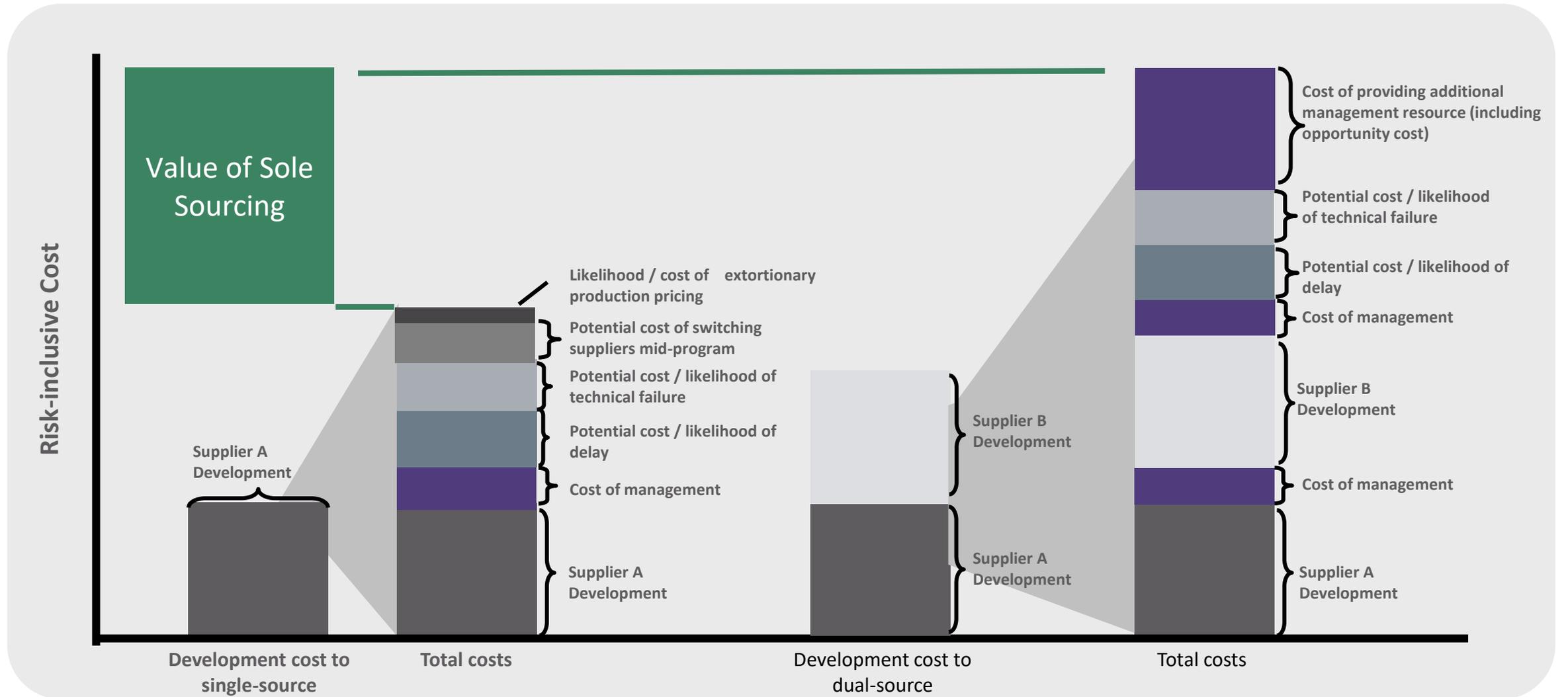
What can suppliers do to help?



Example of comprehensive risk-adjusted cost analysis: points to dual source development



Example of comprehensive risk-adjusted cost analysis: points to sole source development



Sole-source versus dual sourcing

Single Source		Dual Source	
PROS	CONS	PROS	CONS
<p>Focus all available Company resources on working with a single supplier team to solve technical issues</p> <p>Commitment to a single supplier may encourage greater reciprocal commitment, thus enhancing collaboration and enabling better supplier performance</p>	<p>Lack of competitive pressure may encourage supplier complacency or opportunism</p> <p>Risks associated with single point of failure</p>	<p>Competitive pressure may motivate supplier to deliver better performance</p> <p>Allows Company to explore alternate design and/or technology in parallel – hedge against difficulties or even failure in the face of technical uncertainty and risk</p>	<p>Splitting Company resources to manage two development programs may significantly reduce the odds of success for both</p> <p>Doubles hard and soft costs for development</p> <p>If/when Company shuts down development with a supplier, it may de-motivate them to work with Company on future programs</p>





Closing thoughts

The evolving role of Sourcing and Supply Chain Management

Traditional Sourcing and Supply Management

- Leverage over suppliers
- Focus on internal stakeholder compliance
- Analytical skills
- Primary value is cost reduction/management
- Manage transactions
- Secure external supply of goods and services
- Own/execute

New Sourcing and Supply Management Paradigm

- Engagement with suppliers
- Trusted advisor to internal business partners
- Soft skills
- Primary value is competitive advantage
- Manage relationships
- Solve business problems
- Facilitate/enable

Vantage's sourcing and supply chain management practice

Negotiation

Collaboration

Innovation

Transformation

We partner with clients to help them achieve world-class procurement and supply chain performance through strategic advice, organizational transformation, hands-on advisory support, and design and delivery of training and coaching programs.

Transforming procurement organizations and enhancing supply chain performance for competitive advantage.





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