

Reimagining Supply Management in a Time of Unprecedented Turbulence

November 17



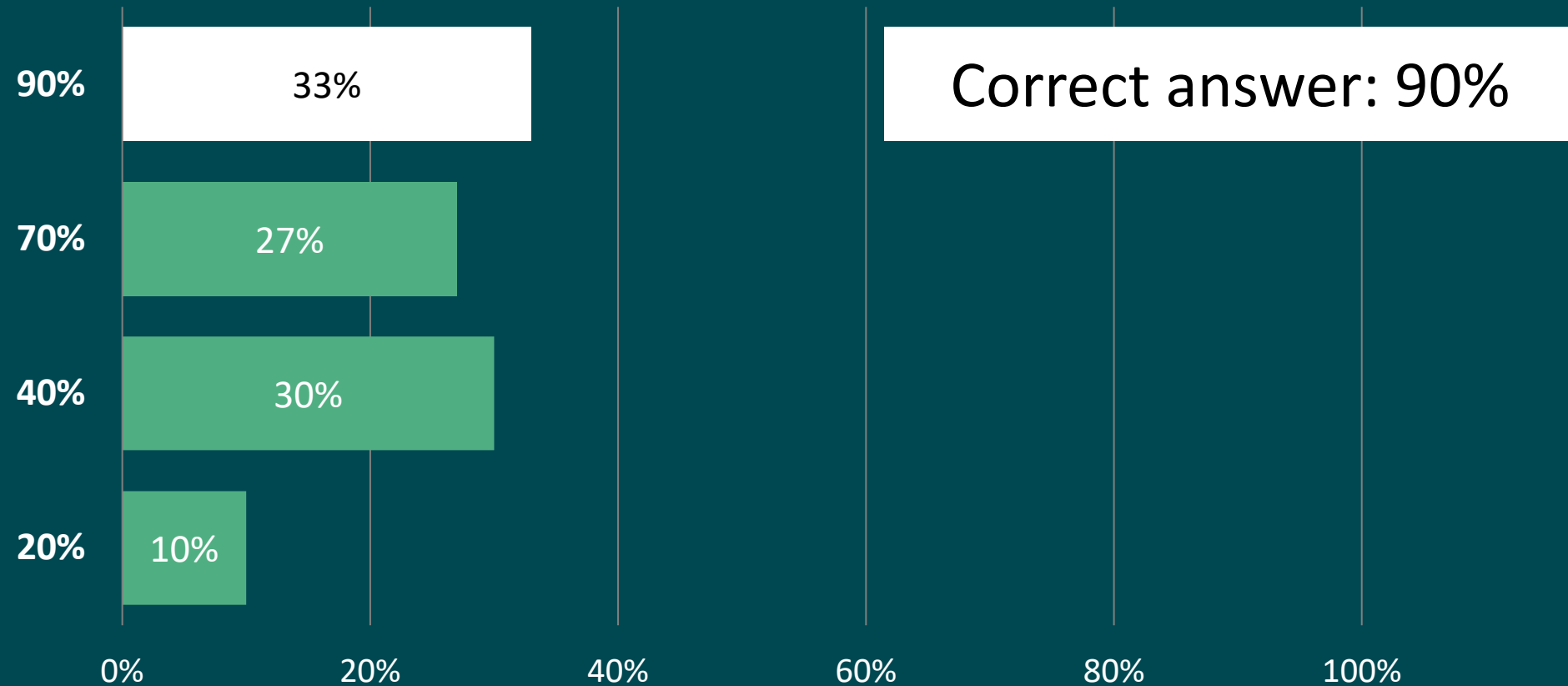
Poll Quiz

What percentage of information available today was created in the last 2 years?

20%, 40%, 70%, 90%

Poll Quiz Results

What percentage of information available today was created in the last 2 years?



Respondents: 30 participants (30 of 44 / 68% participated)

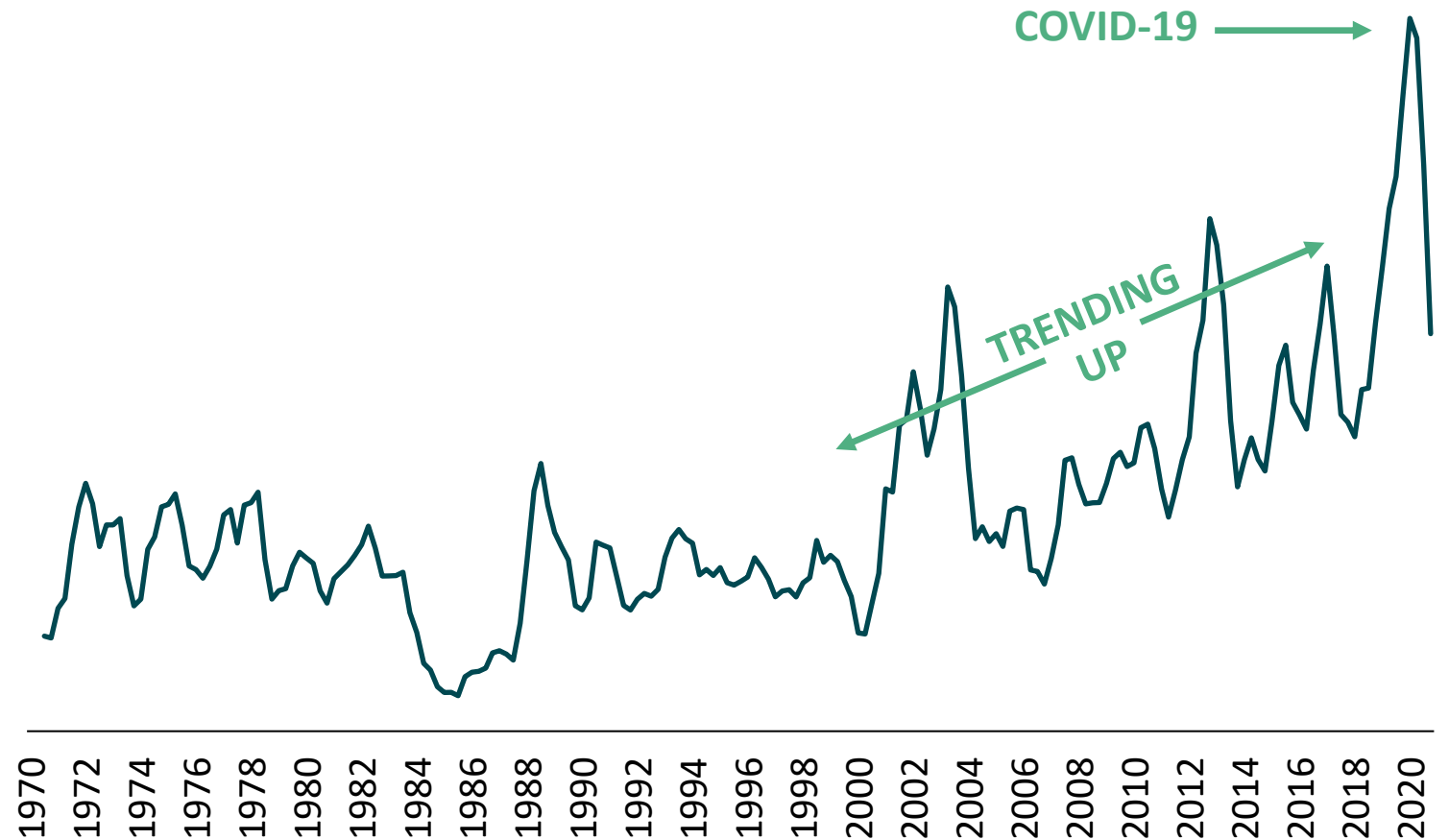
More Complexity, Uncertainty and Speed of Change

Covid-19 has created a spike in
uncertainty and disruption...

But the trend suggests it is *not*
an anomaly.

The pandemic has
exposed underlying challenges.

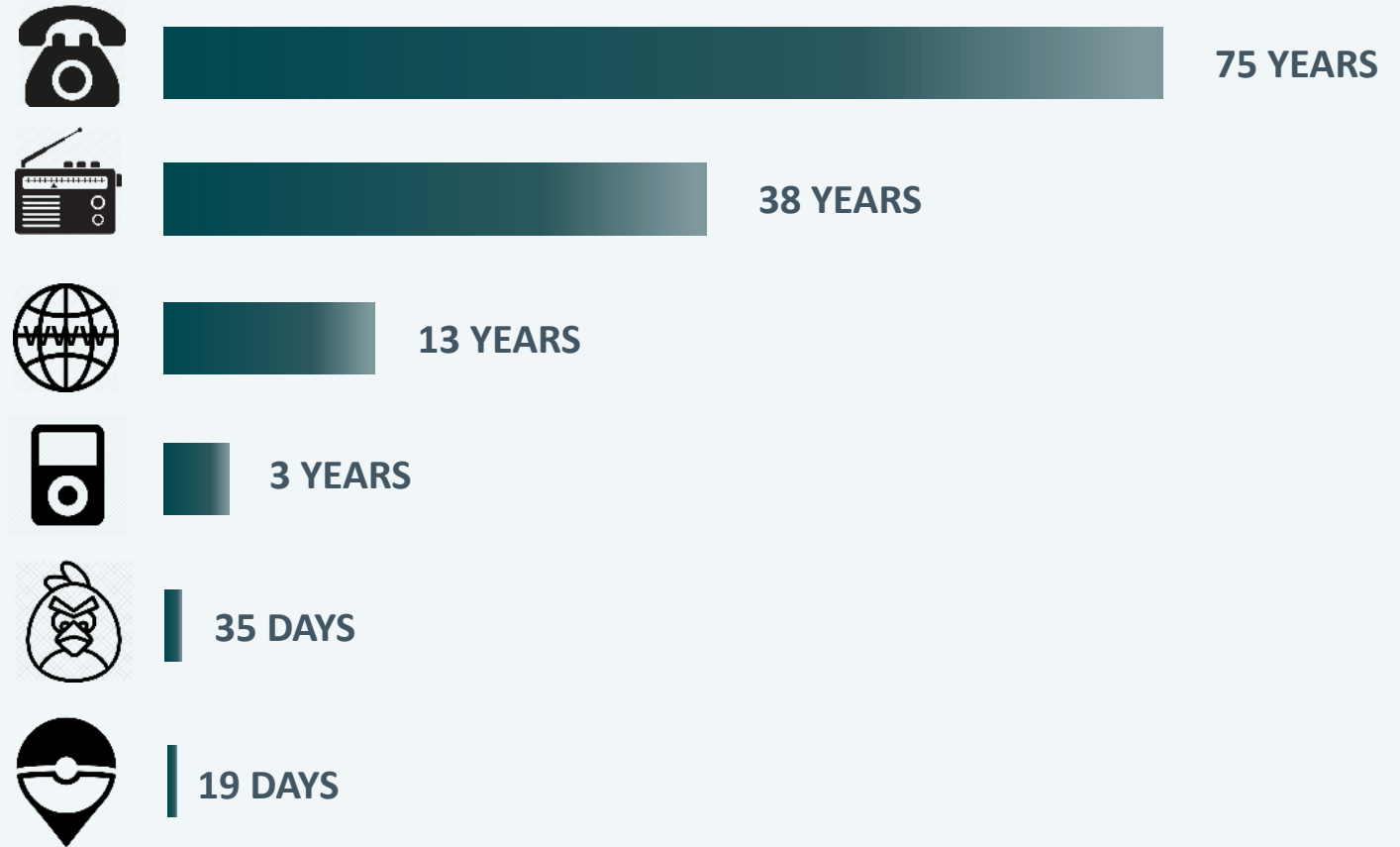
World Uncertainty Index



Adapted from Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo. The WUI is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports.

And it's not just uncertainty. Change is coming at us faster than ever before.

Time To Reach 50 Million Users



Poll Quiz

How much has
shipping capacity
grown in the past
30 years?

1

2X

2

5X

3

10X

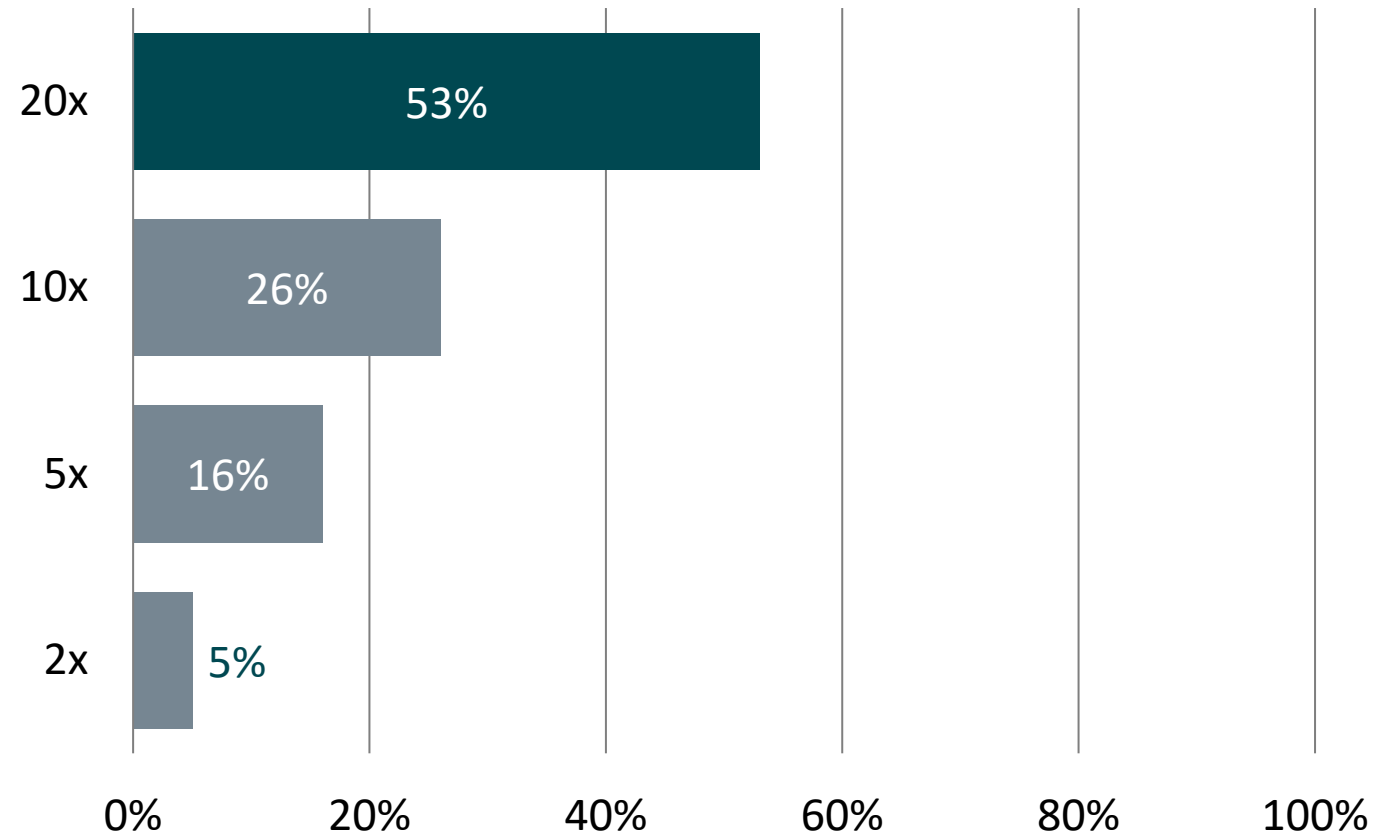
4

20X

Poll Quiz Results

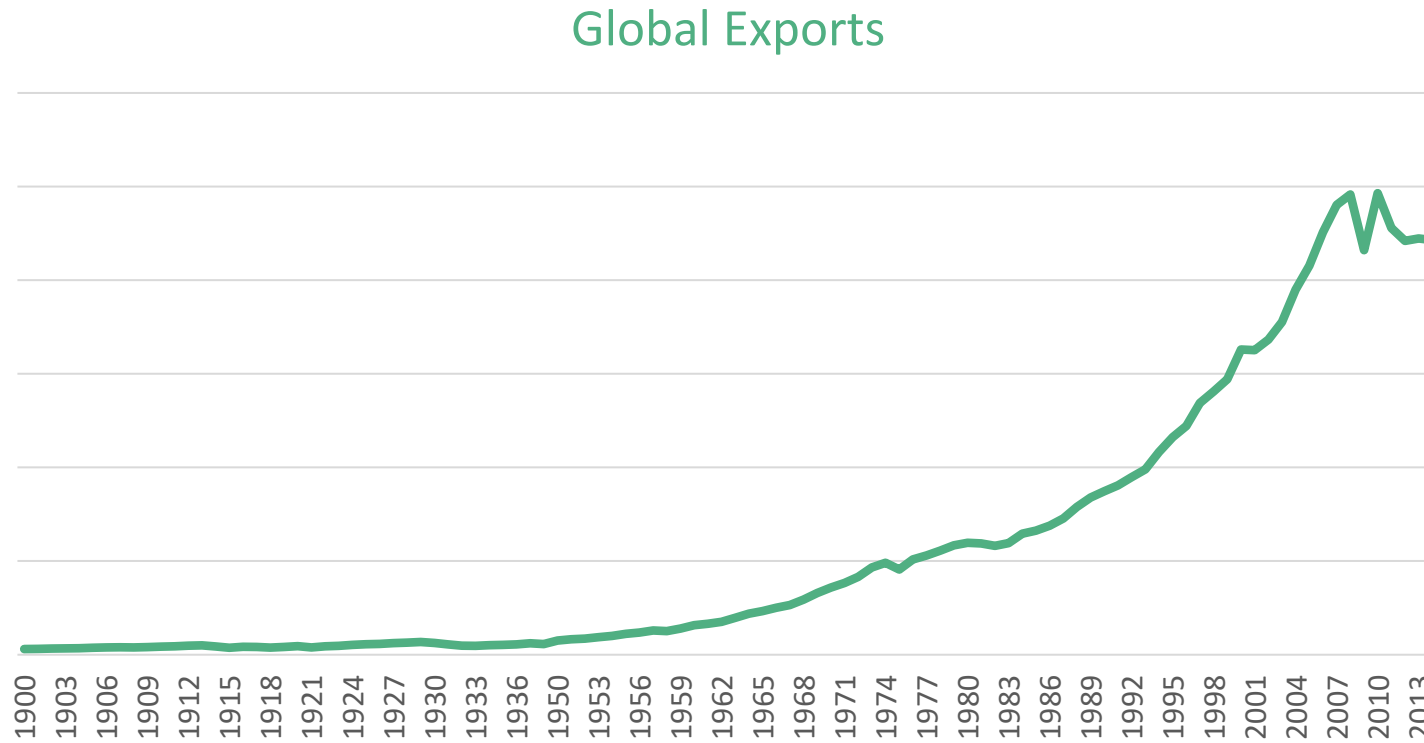
And it's not just uncertainty. Change is coming at us faster than ever before.

Correct Answer: 20x



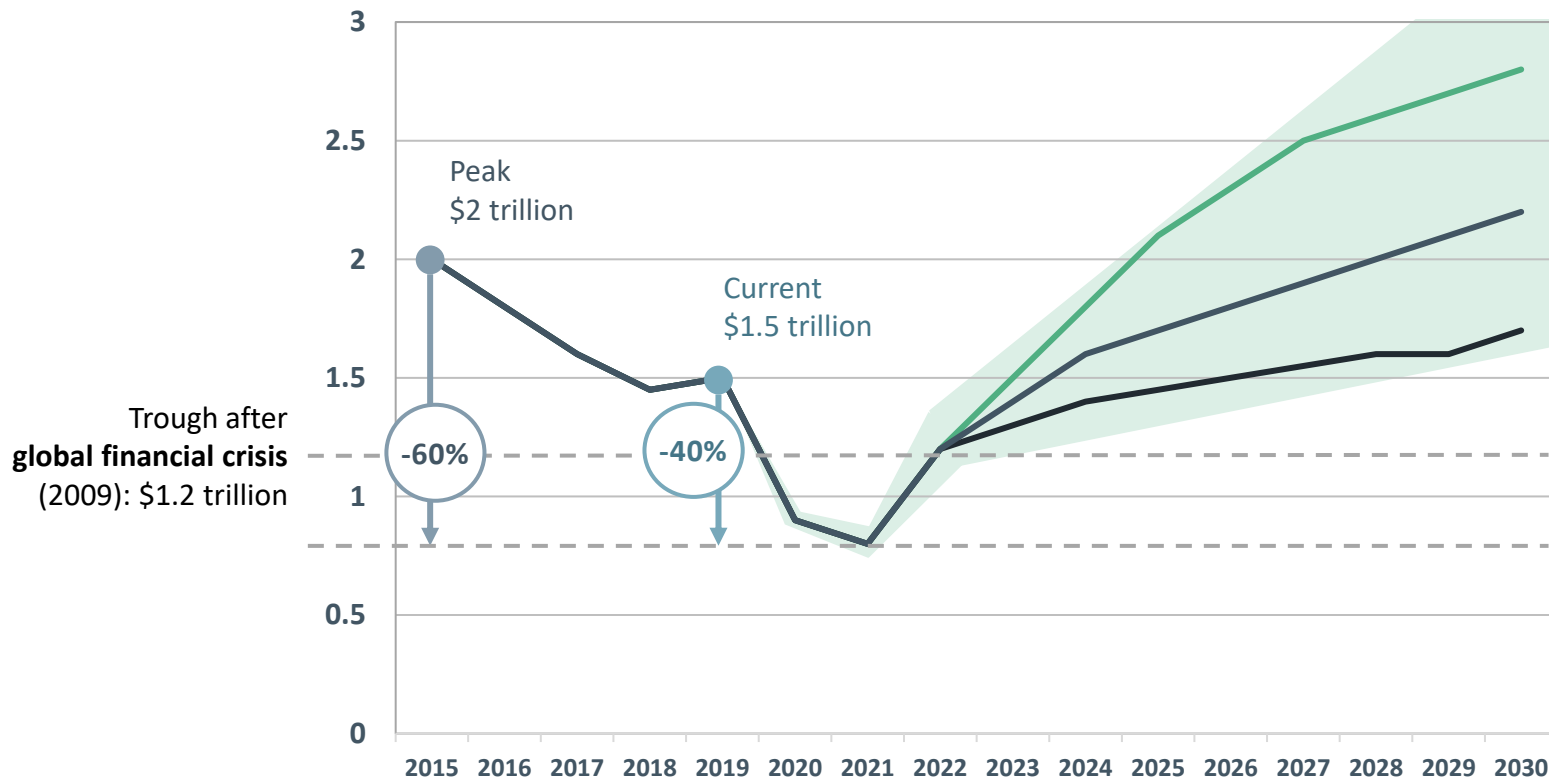
Respondents: 38 participants (38 of 43 / 88% participated)

Globalization has Accelerated the Change



Whither globalization?

Global FDI inflows, 2015-2019 and 2020-2030 forecast



Announcements of new investment projects and cross-border M&A both dropped by more than 50% year-over-year in the first months of 2020.

64% of companies across the manufacturing and industrial sectors "are likely to bring manufacturing production and sourcing back to North America."

Source: United Nations Conference on Trade and Development: World Investment Report, June 16, 2020. SupplyChainDive: 64% of manufactures say reshoring is likely following pandemic: survey, May 14, 2020.



Supply Chain IMPACT

■ Crisis in numbers

- ▶ 500% increase in the cost of shipping containers from China to the US
- ▶ 80,000 vacancies for truck drivers
- ▶ 92% of people expect more supply disruptions
- ▶ On time rates dropped from 80-30%

**Supply chain woes cause Target to exit
Canadian market and incur a \$5.4 billion loss**

Source: Reuters, Jan. 15 2015

**Chip shortage will cut \$60.6 billion in revenue
from the global automotive industry this year**

Source: CNBC, Feb. 11 2021

**Cold-chain failures can cost pharmaceutical
companies up to \$1b in lost revenue**

Source: outsourcing pharma, dec. 22 2020

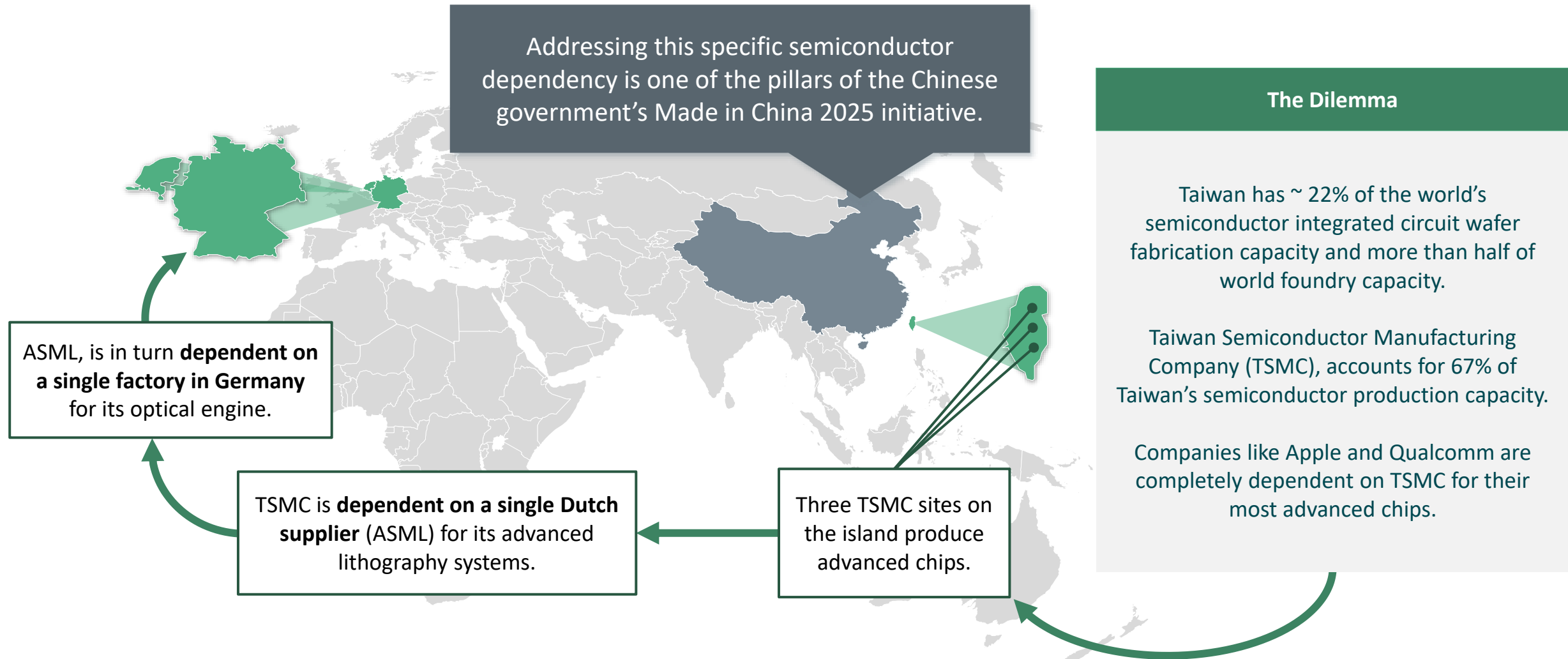
**Pharmaceutical counterfeiting is a \$200B problem
with deadly potential that necessitates robust
supply chain track and trace capabilities**

Source: Outsourcing Pharma, Jan. 13 2021



**What happens when
supply chain management
goes awry**

A case study of global supply chain dependencies and points of failure



Source: MIT Sloan Management Review: Is It Time to Rethink Globalized Supply Chains?, March 19, 2020.

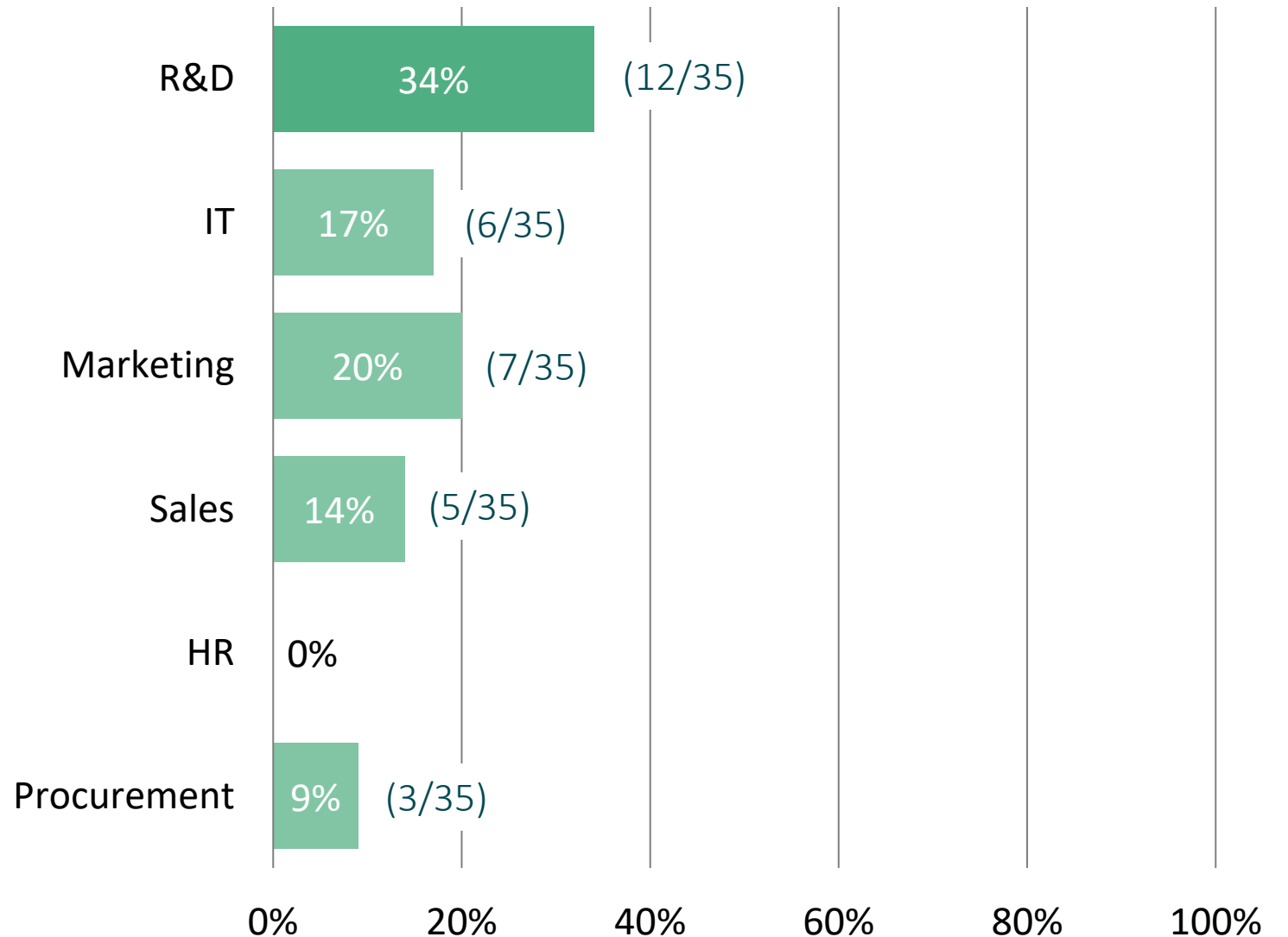
Poll

What part of your company is most agile and innovative?

1	R&D
2	IT
3	Marketing
4	Sales
5	HR
6	Procurement
7	Other

Poll Results

What part of your company is most agile and innovative?



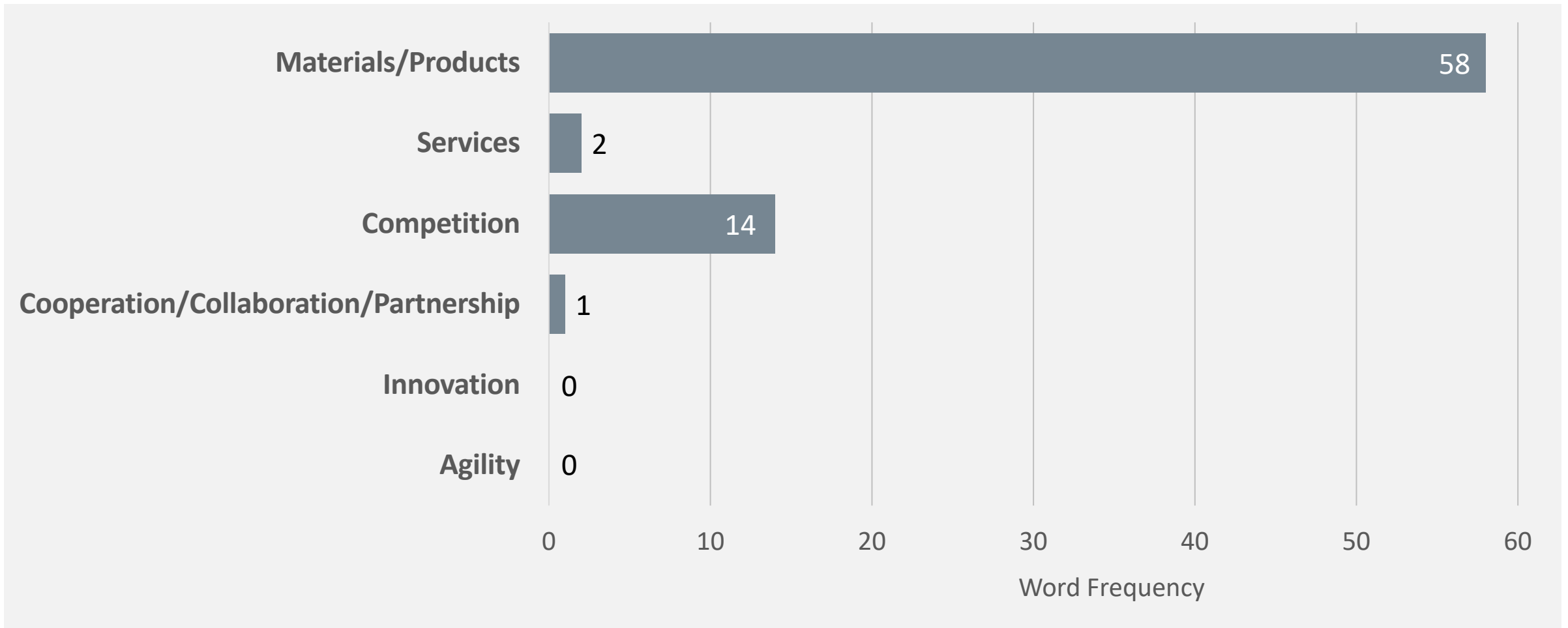
Respondents: 35 participants (35 of 35 / 100% participated)

“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.”

[presenter emphasis]

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

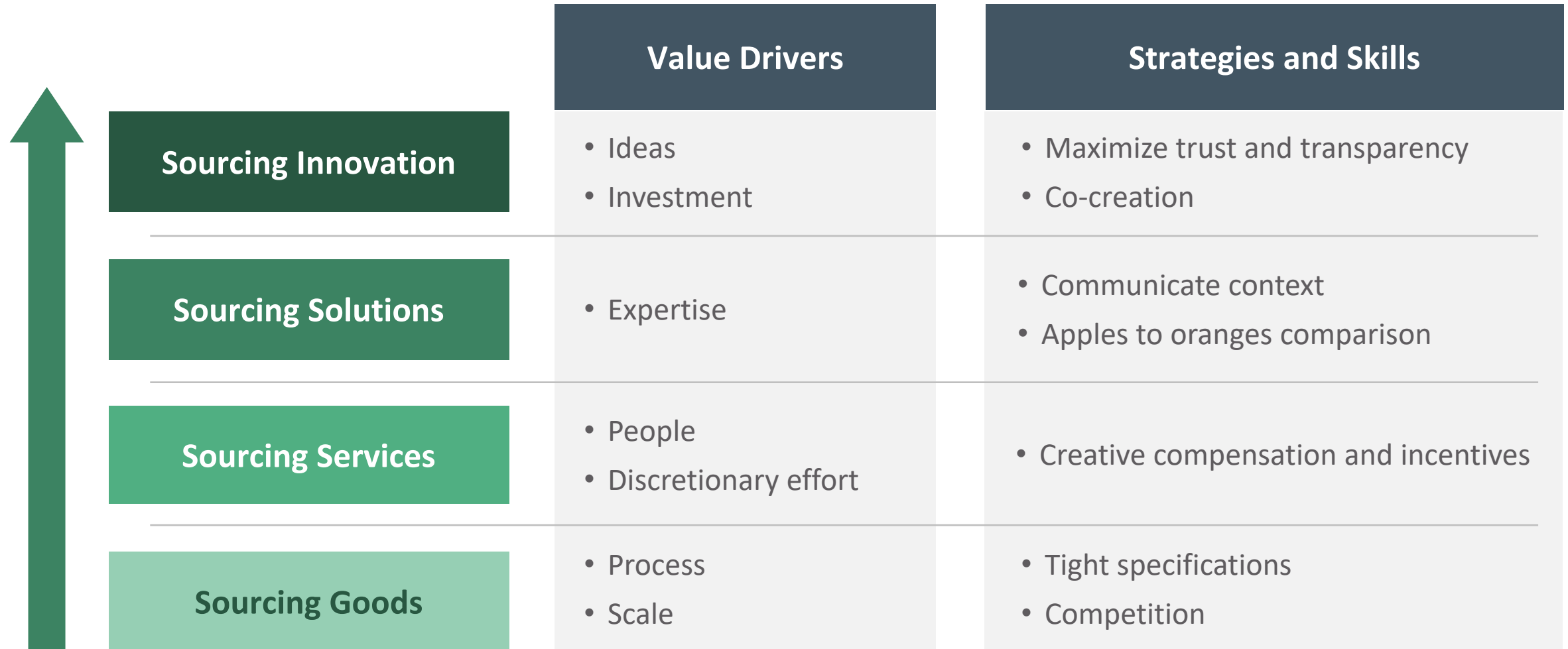
Word frequency analysis of Krajlic's article




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

A word cloud visualization of terms related to the 'Gatekeeper' role. The words are arranged in a circular pattern, with 'Gatekeeper' being the largest and most central word. Other prominent words include 'Transactional', 'Control', 'Partner', 'Obstacle', 'Challenging', 'Difficult', 'Secretive', 'Price', 'Rigid', 'Pain', 'Evil', 'Short-sighted', 'Necessary', 'Uninformed', 'Humourless', 'Protective', 'Painful', 'Combative', 'Pressure', 'Shady', 'Diligent', 'Cost', 'Professional', 'reductions', 'Purchasing', 'Controlling', 'Cross-company', 'Singular-focused', 'Non-strategic', 'Cheap', 'Tough', 'Blockers', 'Disconnected', 'Unavoidable', 'Desperate', 'Negotiate', 'Risk-averse', 'Negotiators', 'Complication', 'Complex', 'Short-term', 'Intermediary', 'Centralization', 'Saving', 'Budget', 'Hell', 'Devil', 'Trouble', 'Dogmatic', 'Point', 'Reactive', 'Pain', 'RFP', 'Focus', 'Siloed', 'Lower', 'Egomaniac', 'money'.

A new sourcing continuum



Illustrative sourcing requests along the continuum



	Question from Procurement to the Supplier	Outcome of the Request
Sourcing Innovation	“What ideas do you have and what new technology are developing that might create competitive differentiation for us and that we might help you bring to market?”	New solutions that are not yet available, that rapidly accelerate development cycles, make significant efficiency gains, result in new customer offerings, etc. May not be linked to an identified business problem.
Sourcing Solutions	“What solutions do you have that would enable us to move faster and more effectively to the next production node while managing our energy utilization and optimizing yield?”	An optimized tool or combination of tools, bundled with services and support.
Sourcing Good/Services	“We need a tool that adheres to this detailed list of requirements and yield targets.” “We need a maintenance contract to cover break/fix repairs on this toolset.”	A tool the supplier currently manufactures with a corresponding price/terms. A maintenance contract with specific issues/costs to resolve.

Poll

How much of your company's sourcing is **currently** focused on

- Innovation
- Solutions
- Services
- Goods

Reimagining Supply Management in a Time of Unprecedented Turbulence: Webinar Poll

	Value Drivers	Strategies and Skills
Sourcing Innovation	<ul style="list-style-type: none">• Ideas• Investment	<ul style="list-style-type: none">• Maximize trust and transparency• Co-creation
Sourcing Solutions	<ul style="list-style-type: none">• Expertise	<ul style="list-style-type: none">• Communicate context• Apples to oranges comparison
Sourcing Services	<ul style="list-style-type: none">• People• Discretionary effort	<ul style="list-style-type: none">• Creative compensation and incentives
Sourcing Goods	<ul style="list-style-type: none">• Process• Scale	<ul style="list-style-type: none">• Tight specifications• Competition

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How much of your company's sourcing is **currently** focused on:

Should total to 100.

Sourcing **Innovation**

Sourcing **Solutions**

Sourcing **Services**

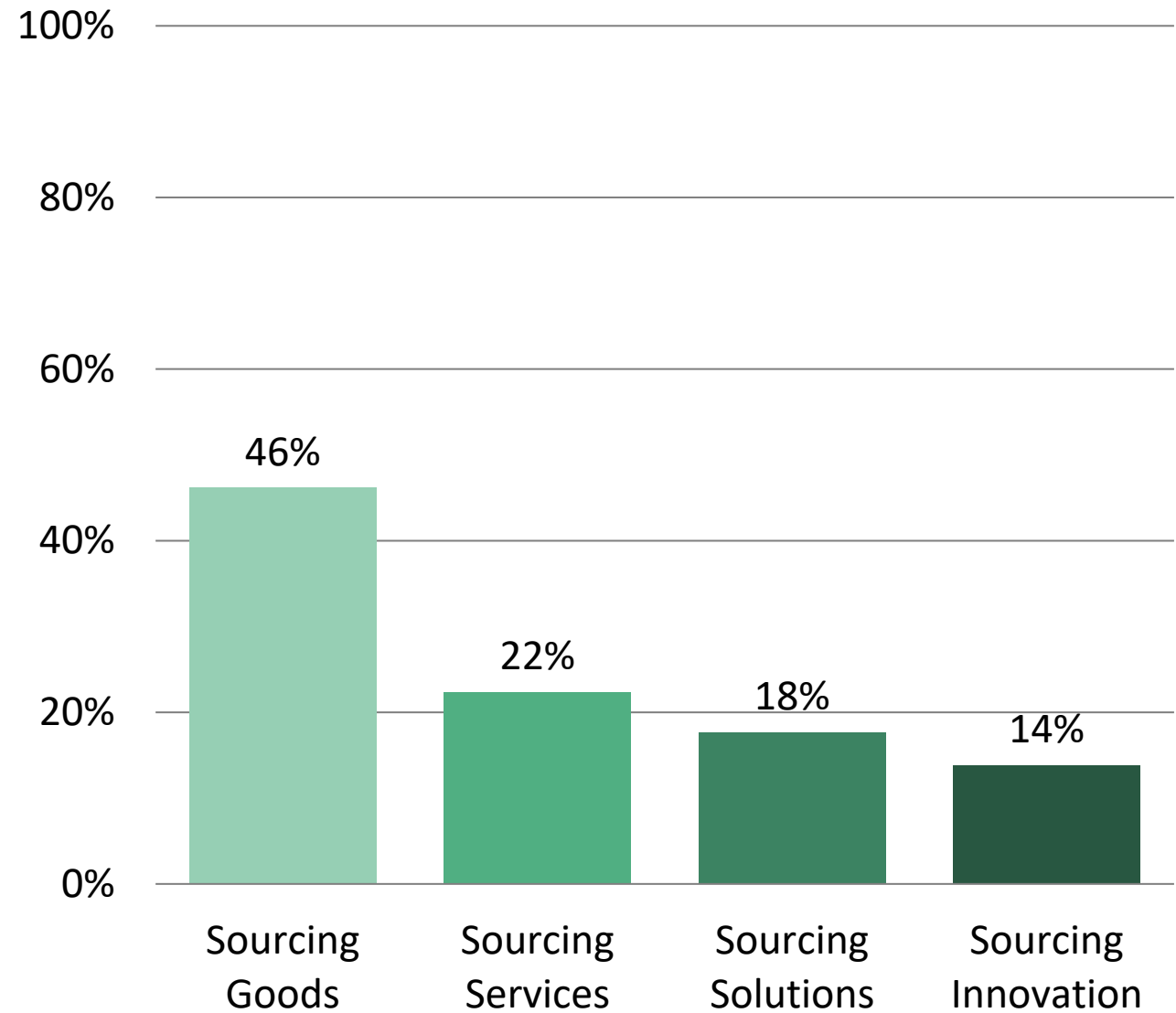
Sourcing **Goods**

Total

Poll Results

How much of your company's sourcing is *currently* focused on

- Innovation
- Solutions
- Services
- Goods



Poll

How much of your company's sourcing ***should be*** focused on

- Innovation
- Solutions
- Services
- Goods

How much of your company's sourcing **should be** focused on:
Should total to 100.

Sourcing **Innovation**

Sourcing **Solutions**

Sourcing **Services**

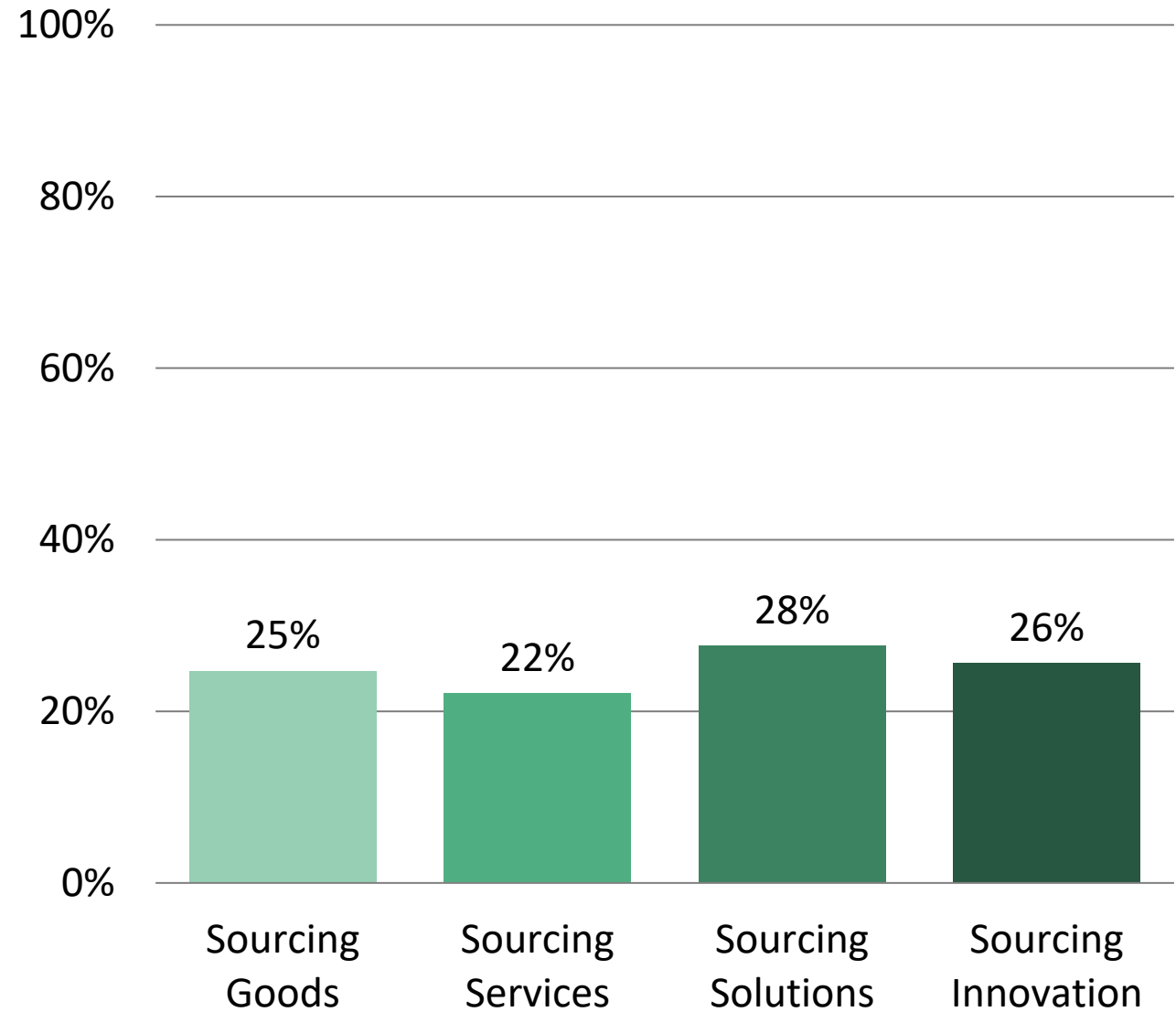
Sourcing **Goods**

Total

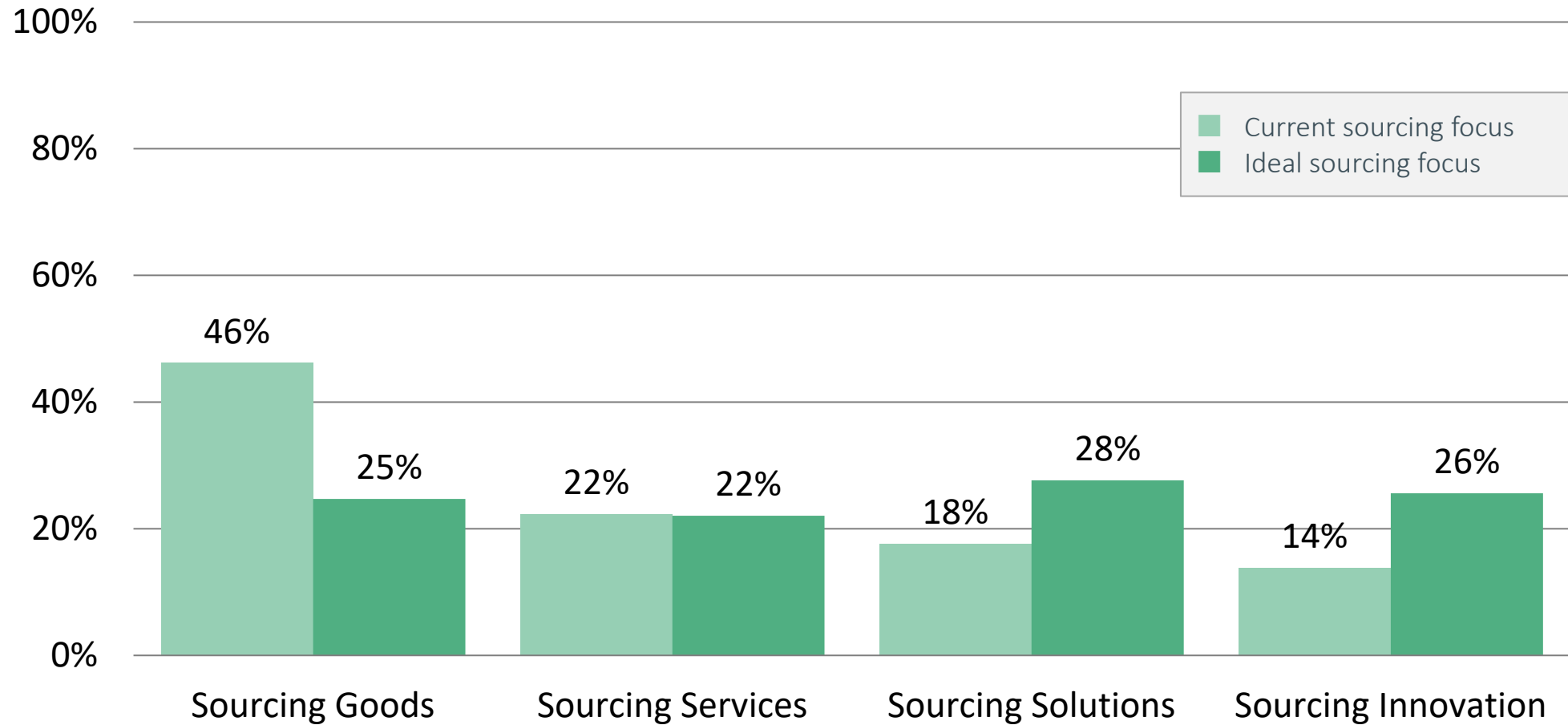
Poll Results

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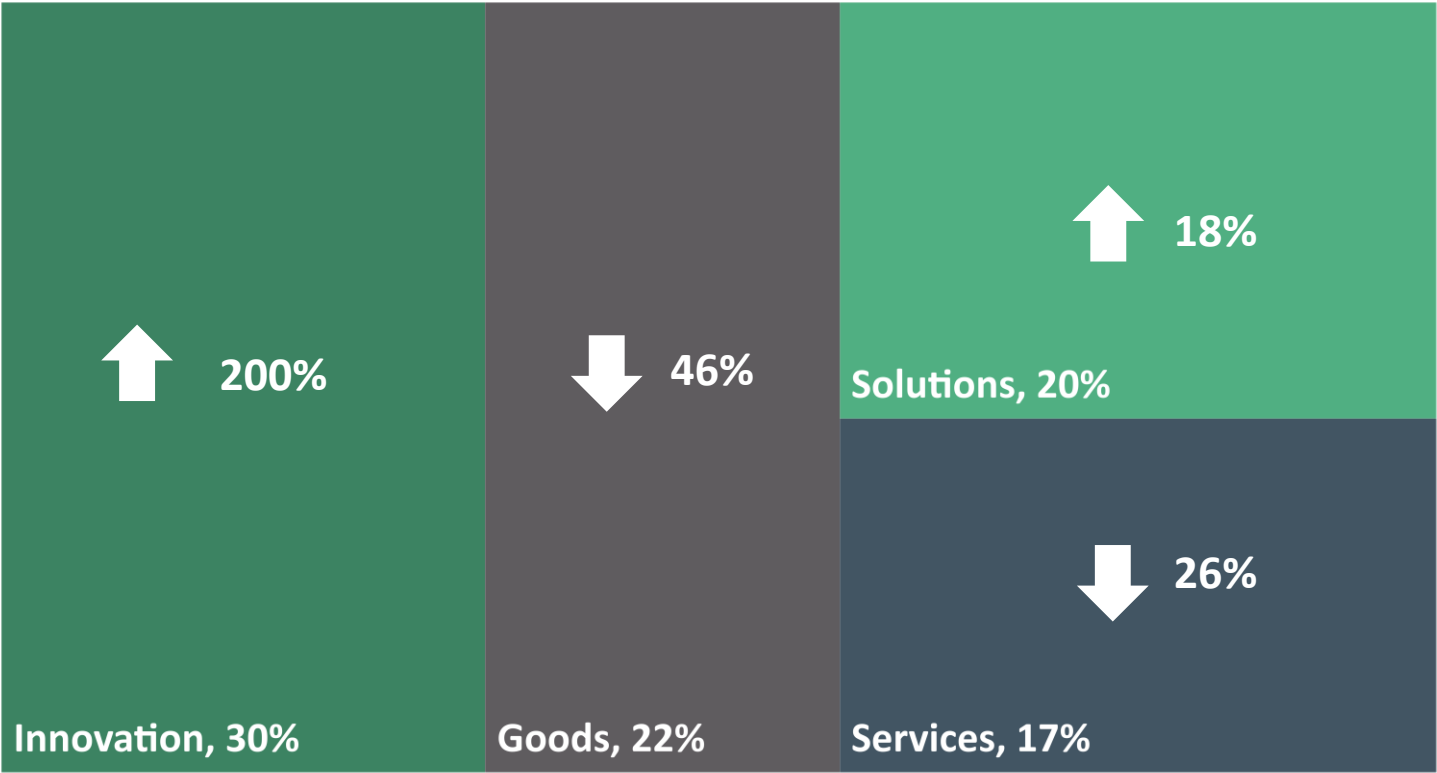


Current versus ideal sourcing focus



Increased focus on sourcing solutions and innovation

Expected allocation of procurement activities in 5 years



Sourcing innovation is expected to *triple* as a percent of total sourcing activity in the next five years.

Source: Vantage Partners – Research in-progress. N>300 Companies

A perennial question: competitive pressure, or collaboration?

We are operating in a relatively stable environment

Suppliers understand customer needs and have ability to meet those needs.

But suppliers are complacent, and/or making excess profits.



Competitive pressure



We are operating in a highly kinetic environment

Customer needs are complex and/or unclear.

Investment and innovation are required to solve problems and deliver value.



Collaboration

To get more value, we need to ask different questions

Perfectly Fine Questions

- How do we extract more savings from our suppliers?
- How can we shift more risk to our suppliers?
- How do we define clear requirements for what we want from suppliers?
- How do we get more innovation *from* suppliers to contribute to our company's topline?

Different Questions

- How do our suppliers make money?
- How can we better allocate risk between our company and suppliers and jointly manage risk?
- How can help suppliers better understand our strategy, business needs, and constraints so that they can offer creative solutions?
- How do we create more innovation *with* suppliers — to contribute to our company's topline and bottom line?

Contrasting definitions of “relationships” between business partners

Common Definition

- We play golf together
- We avoid disagreement or conflict
- Suppliers are shielded from competitive pressure
- We don't hold each other accountable for commitments and performance
- We are naively trusting

A More Useful Definition

- We treat each other with the courtesy and respect due to all people – in all our interactions
- We are candid, and able to disagree (even forcefully), without being disagreeable
- We hold ourselves to the same standards as we hold our supplier
- We actively search out opportunities for mutual benefit
- We actively seek to cultivate mutual trust

Toyota: Responding to disaster at a sole-source supplier

Situation

- In 1997, a fire destroyed the Aisin Seiki factory responsible for producing a critical brake valve (manufactured in 200 variations) for Toyota. Running JIT, most Toyota factories had only a four-hour supply on hand.
- Toyota had to shut down 20 plants in Japan; production was expected to cease completely for weeks.

Actions

- Within a day, Toyota sent hundreds of engineers to assist Aisin Seiki, and set up a war room at Aisin Seiki headquarters to coordinate activities across multiple suppliers.
- **Suppliers immediately jumped into action to assist – without any new contractual agreements**

Results

- Within three days, some production was restored.
- Overall, Toyota lost production of only 72,000 vehicles – just **25% of the predicted loss.**
- *"Many people say you might need to scatter production to different suppliers and plants, but then you have to think of the costs of setting up expensive milling machines at each site", Mr. Ikebuchi says. "We relearned that our system works."*

Sources: The Wall Street Journal, Sloan Management Review

Two views of suppliers

Naively Adversarial View

Suppliers are a necessary evil and risks to be managed.

Suppliers only care about making money and will take advantage of us whenever they can — we need to “stand up to them”.

Value comes from closely monitoring supplier performance and holding suppliers accountable to contracts.

Our interactions with suppliers are fundamentally zero-sum.



Enlightened View

Suppliers are sources of innovation and competitive advantage.

Suppliers will act rationally to achieve their goals, which includes making a profit — we need to align our objectives.

Value comes from understanding supplier strategies, business model, and culture, to identify and capitalize on opportunities.

In a world of competing supply chains, our success is tied to that of our suppliers.

The future of Supply Management

Past 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

Future Sourcing and Supply Management

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

What do we know about how to create more agile organizations and supply chains?

Human Nature + Change

We are hardwired to *fear*
some kinds of change

And to *embrace*
other kinds of change

Human Hardwiring

Survive | Thrive

System



SURVIVE

THREAT-SEEKING RADAR

(Chemicals release)



BRAIN + BODY + EMOTIONS

Laser-focused
Energy spikes
Fear, anxiety



BEHAVIOR

Fast problem-solving

THRIVE

OPPORTUNITY-SEEKING RADAR

(Chemicals release)



BRAIN + BODY + EMOTIONS

Perspective broadens
Energy increases
Passion, excitement



BEHAVIOR

Innovation, collaboration

The Modern Organization

1

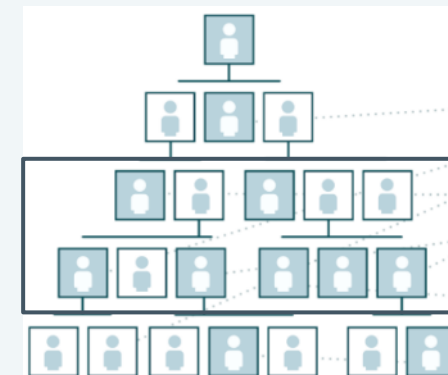


2

Managing the complexity needed new ways of operating

3

- Reporting Structures
- Job Descriptions
- Measurement And Metrics
- Processes And Policies
- Formal Systems



**NEW ROLES:
MIDDLE MANAGERS**

Creating Adaptable Organizations: Multi-Stakeholder View

The idea is seeing a resurgence as reflected in the Business Round Table redefining the purpose of the corporation

The concept is simple, organization that are focused on the needs of employees, customers, suppliers, communities, and shareholders, are far more likely to spot threats and opportunities early and be able to pivot fast

Reflected in:

- Supplier relations – strategic partnerships not transactional relationships
- Sustainability across the supply chain

Creating Adaptable Organizations: 4 Key Principles

THE 4 PRINCIPLES



MANAGEMENT + LEADERSHIP



HEAD + HEART



HAVE TO + WANT TO



SELECT FEW + DIVERSE MANY

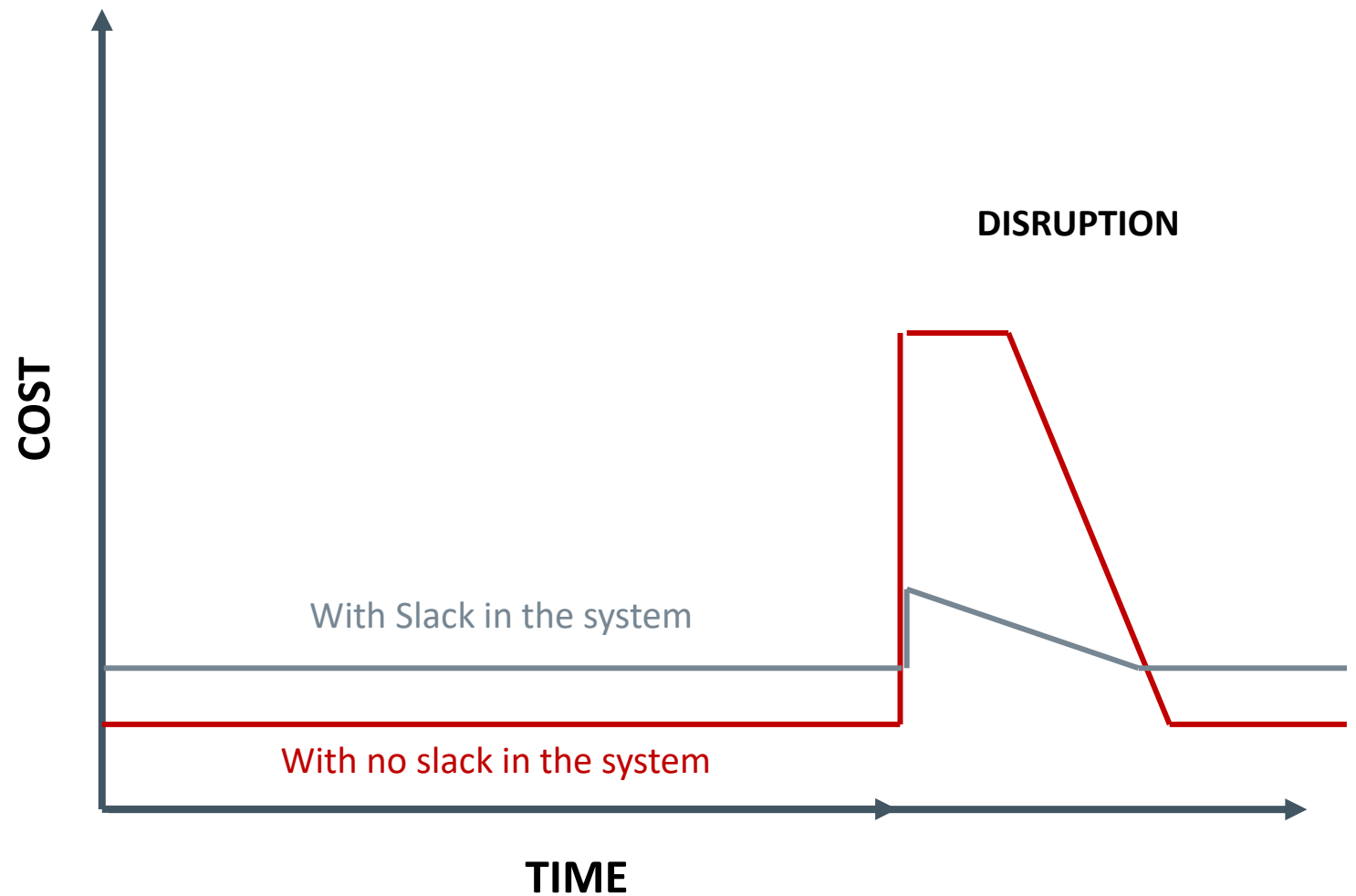
Creating Adaptable Organizations: More Leadership



Take a Long-Term View

The drive to lowest cost has left very little slack in the system. In the long-term this may prove to not be the low-cost solution.

As the frequency of change and disruption goes up, the balance between efficiency and flexibility changes.



Pre-Mortem and Flexible Planning

- Identify potential modes of failure
- Status-quo bias — Create review points with third party reviews
- Commitment bias — Articulate underlying assumptions — make it easier to change direction
- Certainty bias — For key decisions assign a probability or confidence interval

Q&A

Questions for discussion

- What is the most important force that will affect Procurement and Supply Management over the next 5-7 years? (Geopolitics, Demographics, Technology, the Environment, Other)
- What are the biggest challenges, and the biggest opportunities, for Procurement and Supply Management over the next 5-7 years?
- What changes are you most confident of?
What are you most uncertain about?

Thank You!

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