

Procurement Excellence

Presented by

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Enabling Growth
Through Innovation



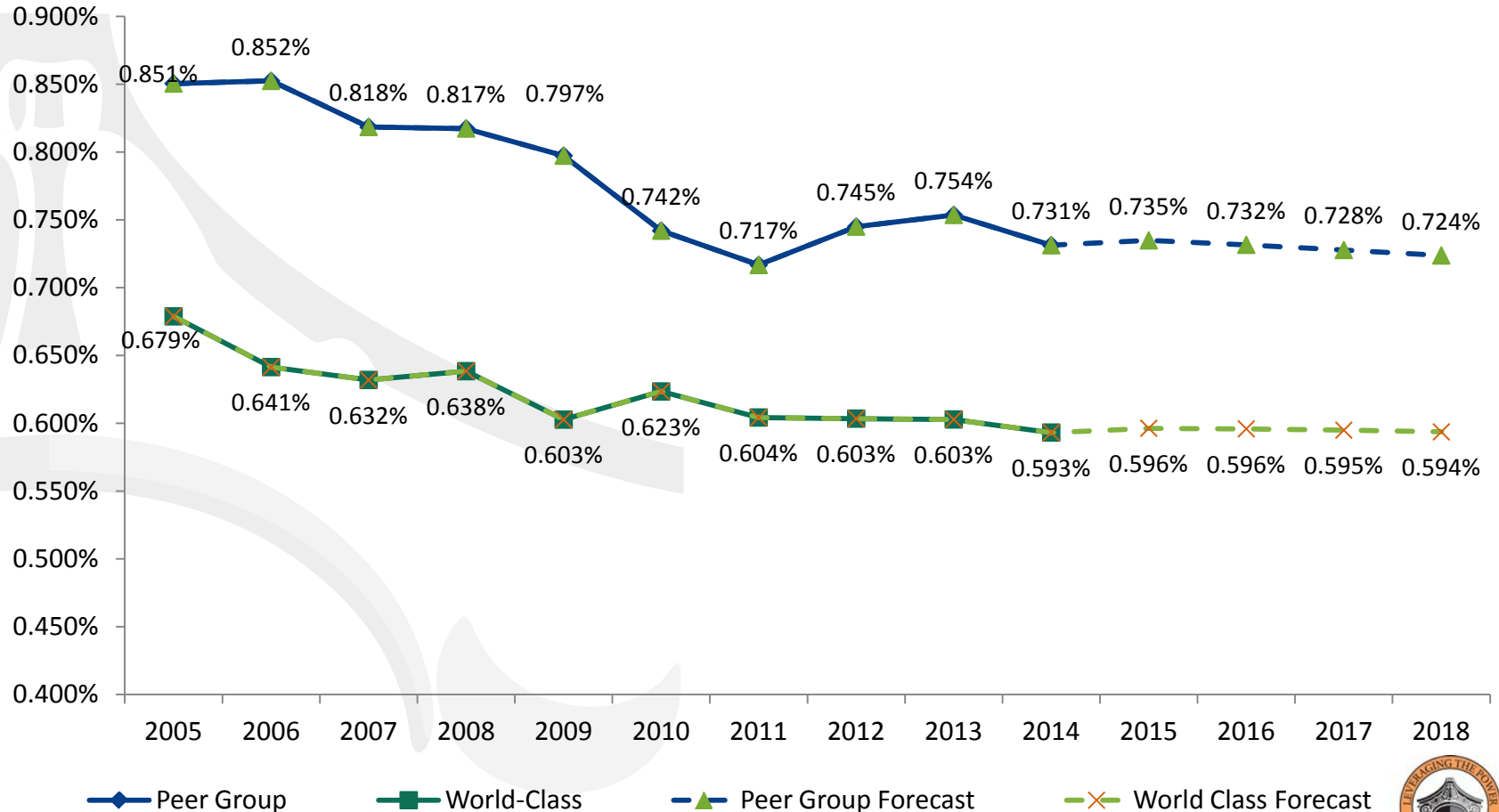
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Agenda

- **What is the imperative for change?**
- Is innovation the answer?
- How do I make innovation real? Actionable?
- Closing thoughts

Today, world-class procurement organizations are running lean... with diminishing opportunity to further reduce costs

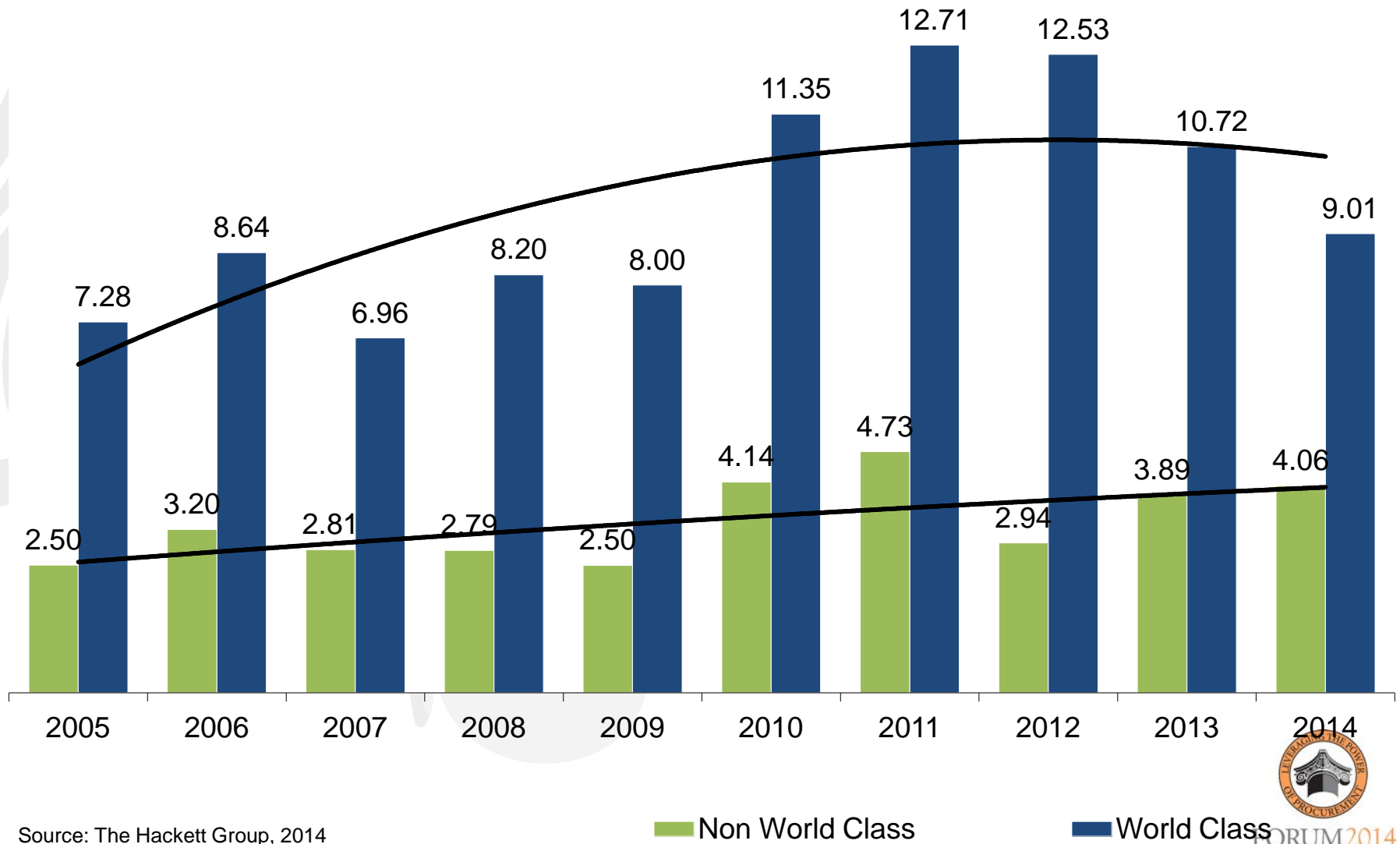
Procurement Cost as a % of spend



Source: The Hackett Group, 2014

12/1/2014

Furthermore, world-class organizations are expecting traditional ROI's to return to pre-recession levels



Source: The Hackett Group, 2014

12/1/2014

Non World Class

World Class



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To stay relevant, procurement has to find new ways to create value... but how? In 2013, we broke down traditional borders.

To align, organize and operate in a network globally that enables “flex capacity” of people and processes to react to short-term volatility and longer-term changes in the business

To become the “one stop shop” for supply intelligence

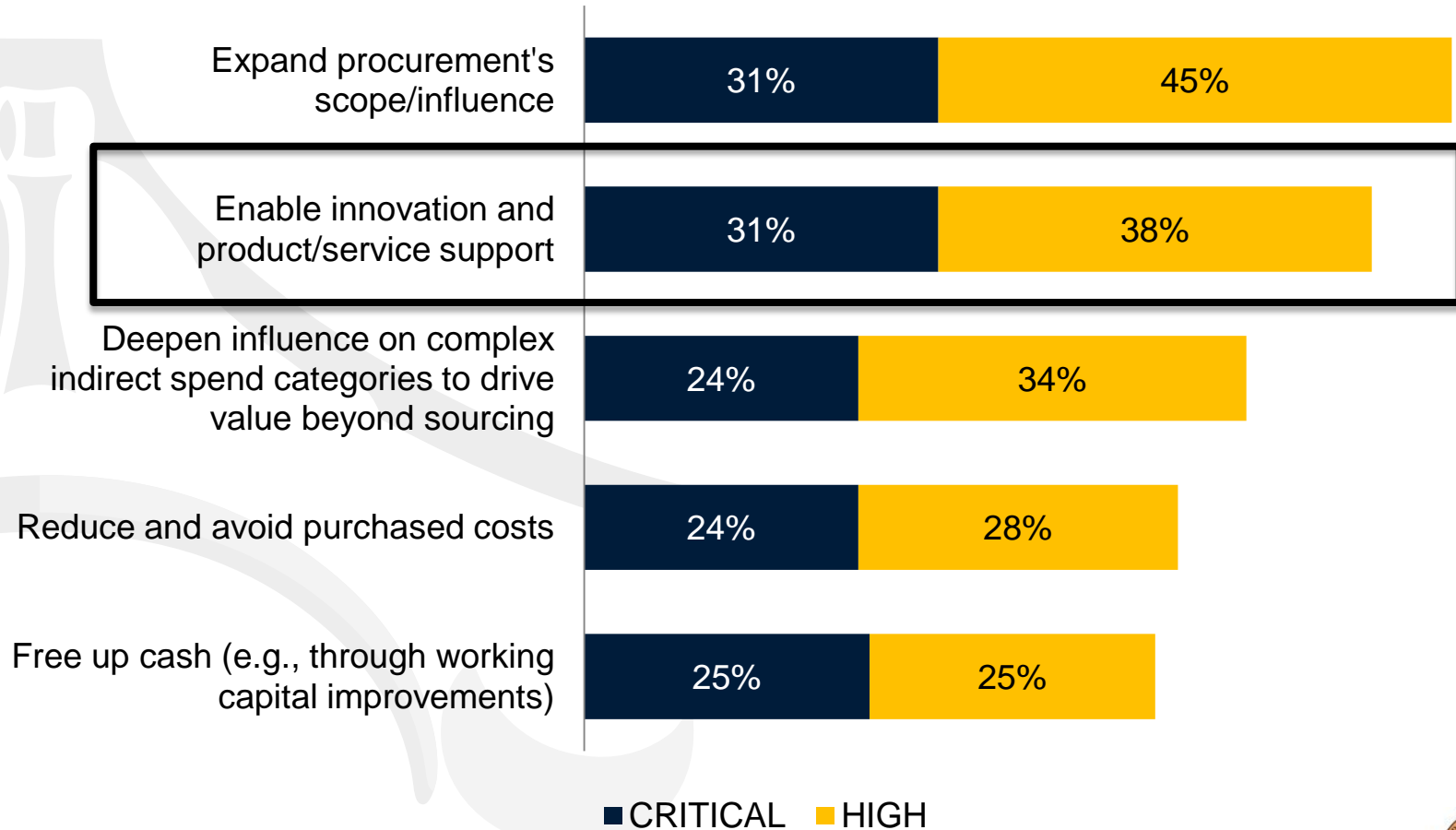


To transition to being an enabler of internal business processes through it's access to suppliers and supply markets

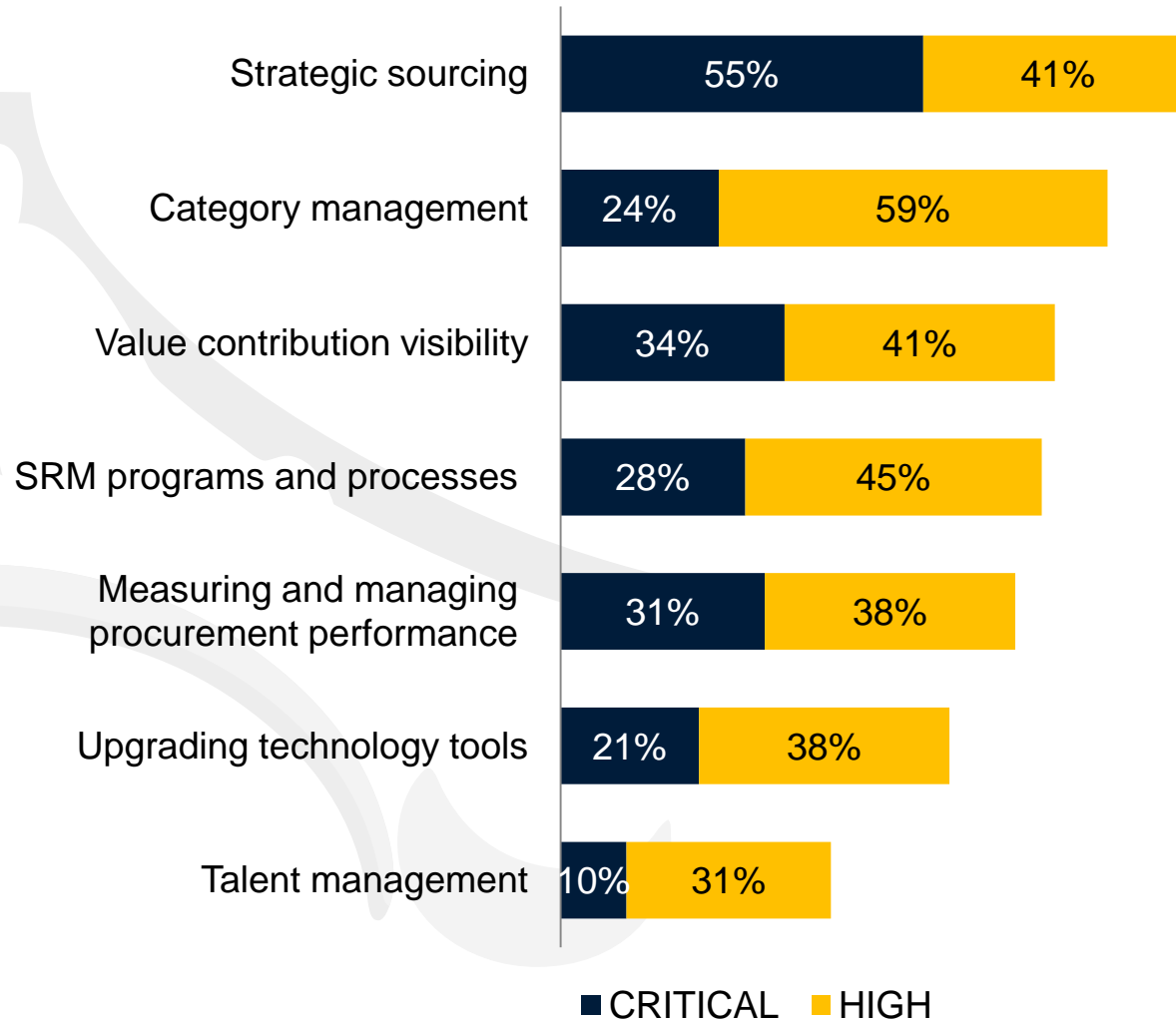


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In 2014, one of procurement's biggest priorities is to enable innovation...



...but capability investments are still focused on legacy value drivers



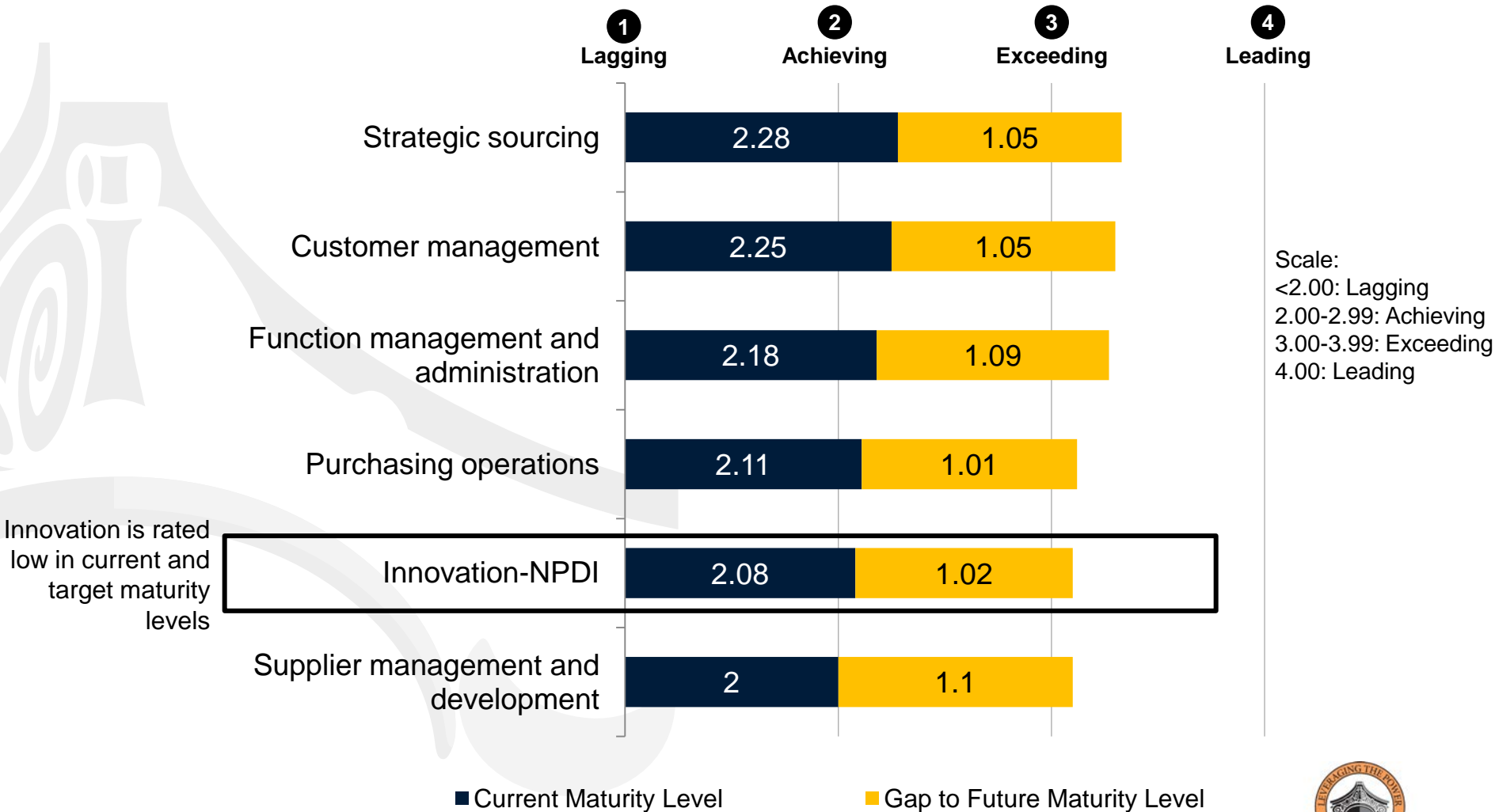
Source: The Hackett Group, 2014

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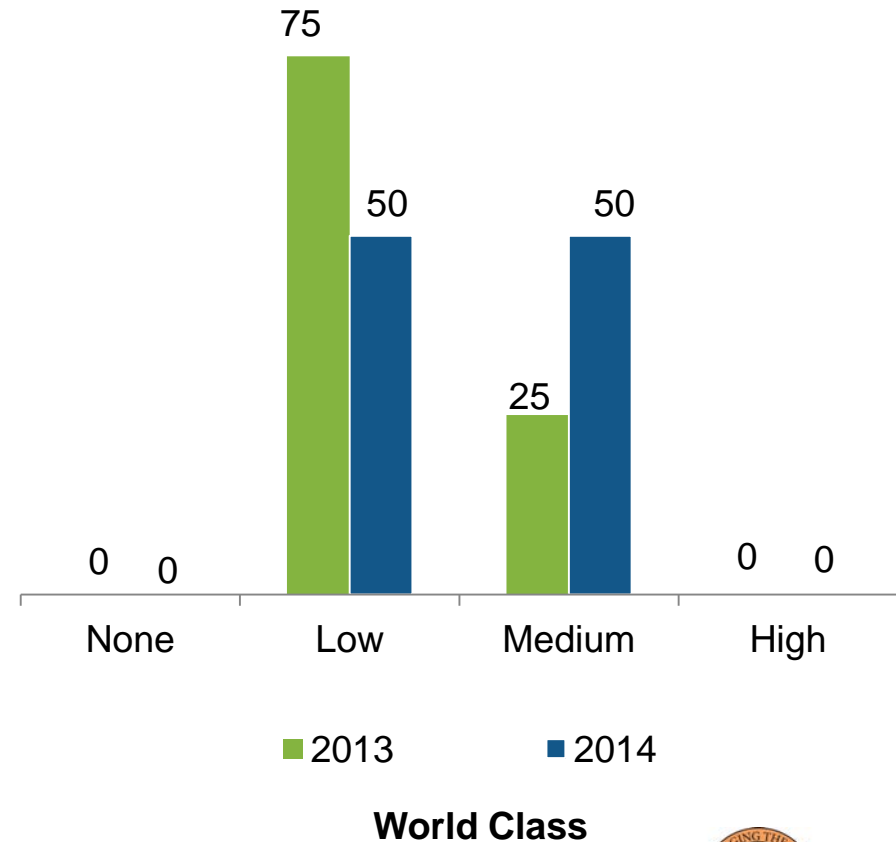
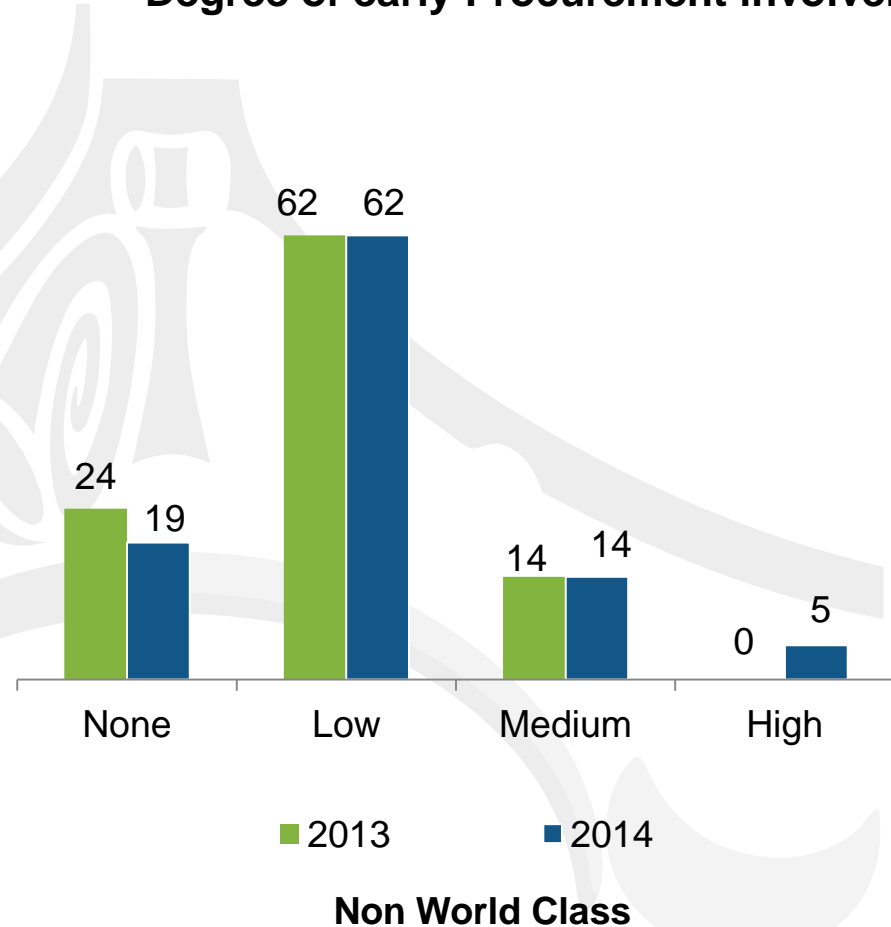
Innovation capability maturity levels (current and expected) are generally low



Innovation is rated low in current and target maturity levels

Case in point: Today, world-class procurement organizations have limited involvement in early product or service design

Degree of early Procurement involvement in New Product/Service Development



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What is innovation really?



First, innovation is not the same as continuous improvement

Incrementalism is innovation's worst enemy.

- Nicholas Negroponte, founder and Chairman Emeritus of
Massachusetts Institute of Technology's Media Lab

**We try to differentiate between general
continuous improvement
and innovation.**

- Chris Shanahan, CPO at Becton Dickenson



How do CPOs define innovation?

“ When it comes to my team, we really focus on the **thought-leadership** aspect of innovation – finding ways to approach services differently to grow the customer base. We are always trying to add value by understanding the changes in the marketplace so we can bring new ideas to the table. ”

– Frederic Khalil, CPO at Guardian Life

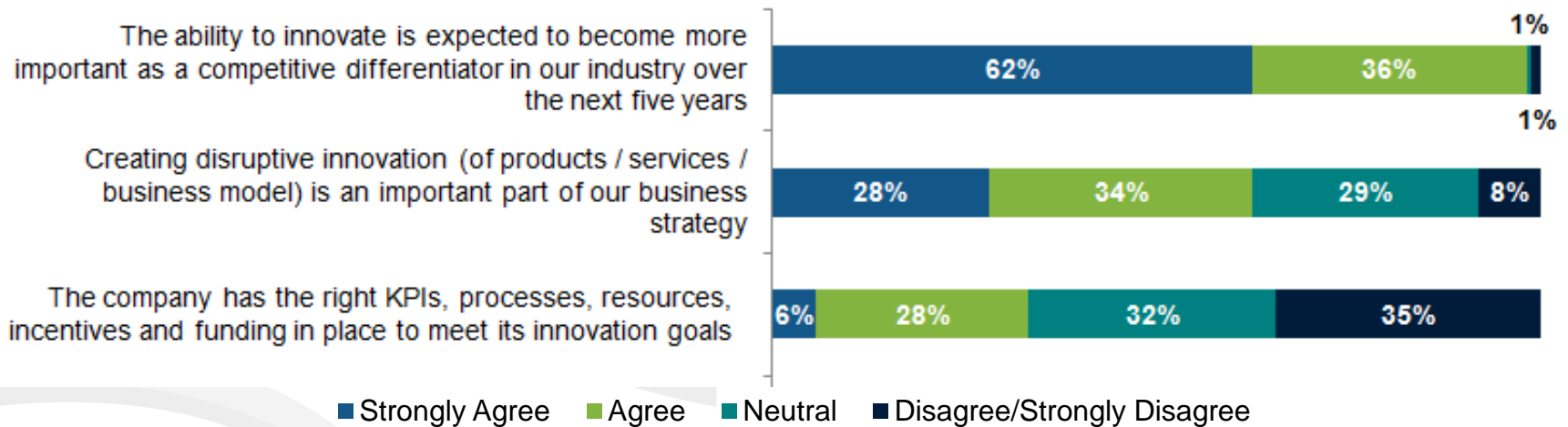
“ Our vision for innovation is for procurement to reach a point where we can successfully **challenge the status quo**, influencing leadership to try something different. To do this, our organization has to become a “constructive disrupter,” displacing traditional, less efficient processes with new, creative solutions that are able to scale with the future strategy. ”

– Ramsay Chu, CPO at Rio Tinto



Innovation is becoming more important, but we don't have the right KPIs, processes, and resources in place yet to enable it

To what extent do you agree with each of the following statements related to innovation in your company?



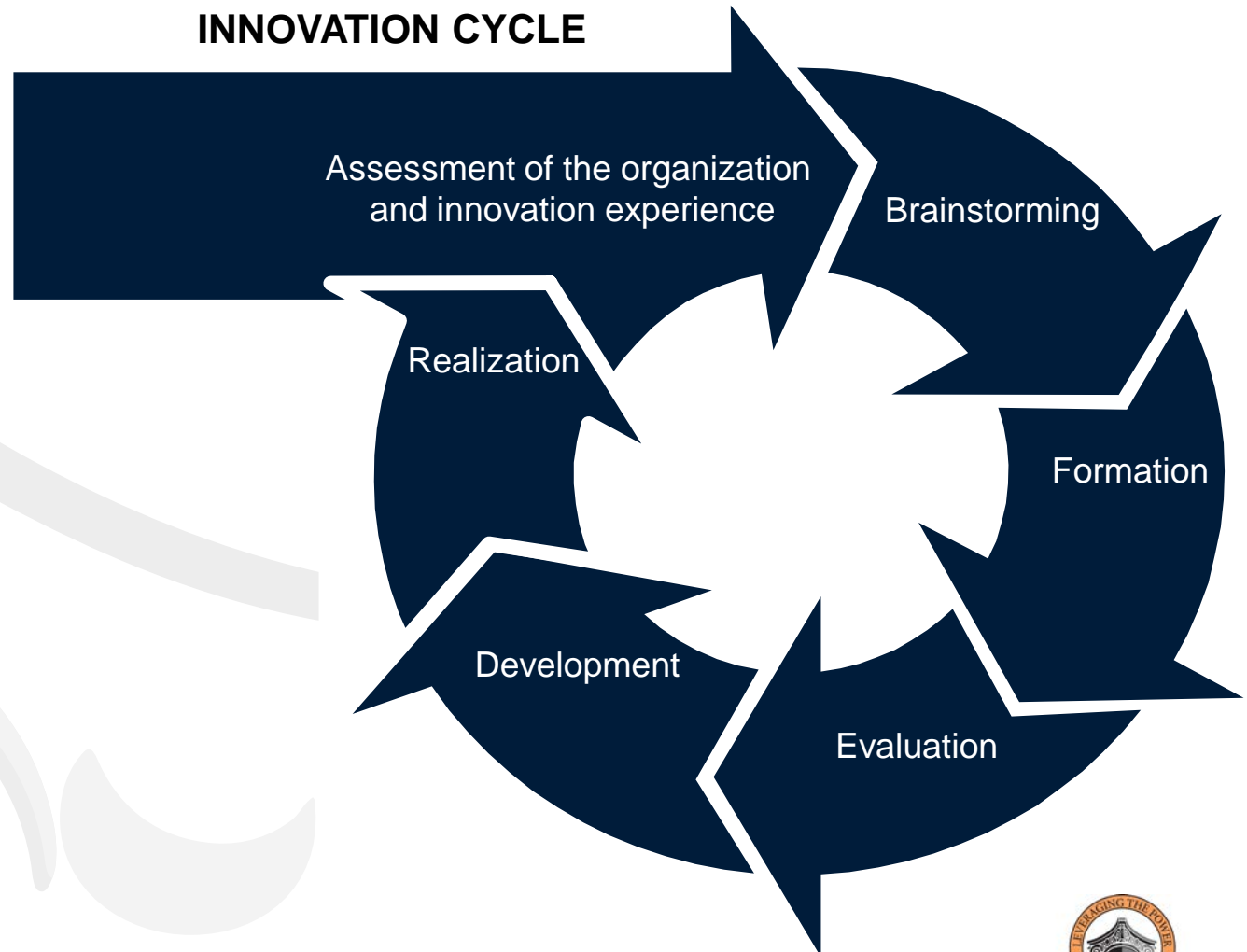
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It is possible to treat innovation as an actual discipline...
without stifling creative thinking

INNOVATION CYCLE

The Innovation Cycle is a formal timeline and engine to drive and capture innovative ideas and initiatives



However, simply capturing the new ideas will not lead to success

Proposal Entry Screen

Idea 1004 - Lotus Notes Desktop

File Edit View Create Actions Section Window Help

Edt Close Create Supplemental Information

DESCRIPTION OF PROPOSAL

Kodak Part #: _____ Kodak P _____

Service Type: TEST

TEST

Description

Note: Use the file attachments section below to provide

SUPPLIER SAVINGS

Current Cost in US\$: _____

Proposed Cost in US\$: _____

Annual Projected Volume: _____

Proposed Annual Savings in US\$: **\$1**

Implementation Time: **< 1 month**

Implementation Cost in US\$: _____

Description of Investment: _____

Save +

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Twitter

Google+

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Kodak: Suppliers could input details of innovation ideas, including name of project, project costs, etc.; assigning the idea to a commodity manager responsible for providing feedback to supplier, and prioritizing implementation

Kodak Moments Just a Memory as Company Exits Bankruptcy

By Beth Jinks | 2013-09-03T19:05:00Z | - Comments Email Print

Eastman Kodak Co. (EKDKQ), the photography pioneer overcome by digital competition, emerged from bankruptcy today as a commercial -printing company that sells nothing to consumers.

The new, smaller Kodak has shed the cameras, film sales and consumer photo developing that made it a household name, focusing on printing technology for corporate customers, touch-screen sensor components for smartphones and computer tablets, and film for the movie industry. U.S. Bankruptcy Judge Allan Gropper last month approved Kodak's exit plan, which cut about \$4.1 billion of debt and left shareholders empty-handed.

For leading organizations, innovation is a formal discipline that's recognized and embedded in the culture



Google

- Follows three horizons approach (i.e. 70/20/10) for managing innovation portfolio (70% of time for regular job, **20% of time for job related innovation**, 10% of time is open for any ideas)
- Employees' contribution to innovation is **linked to their performance results**
- **Formal communication platforms are in place** to enable internal collaboration (e.g. Google Projects, Google Ideas, Google Caribou, Moma inside Google)



3M

- **15% of employee's time** is devoted to generation or development of new ideas
- Promotes a culture of **'small company within a big company'** by creating small autonomous business units and product divisions
- **Internal venture capital is available** to support new ideas
- 'Innovator' (a **collaborative tool**) supports communication between internal and external teams, and tracking of ideas



P&G

- More than 50% of product initiatives at Procter & Gamble involve **significant collaboration with outside innovators**
- P&G's Connect+Develop open innovation strategy has established more than 1000 active agreements with innovation partners
- The current structure is a network model that has P&G globally linked to external innovation assets to **accelerate innovation through identifying ready to go ideas**



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HONDA
The Power of Dreams

- To leverage the capabilities and technology of its suppliers in research and development programs, Honda has developed a process called Design In, which **focuses directly on early supplier involvement**.
- Honda will "invite" guest designers as many as 100 at a time from its outside supplier organizations to locate within Honda's facilities and work side by side with resident engineers, designers and technologists in the very early stages of a new project.

Mondelēz
International

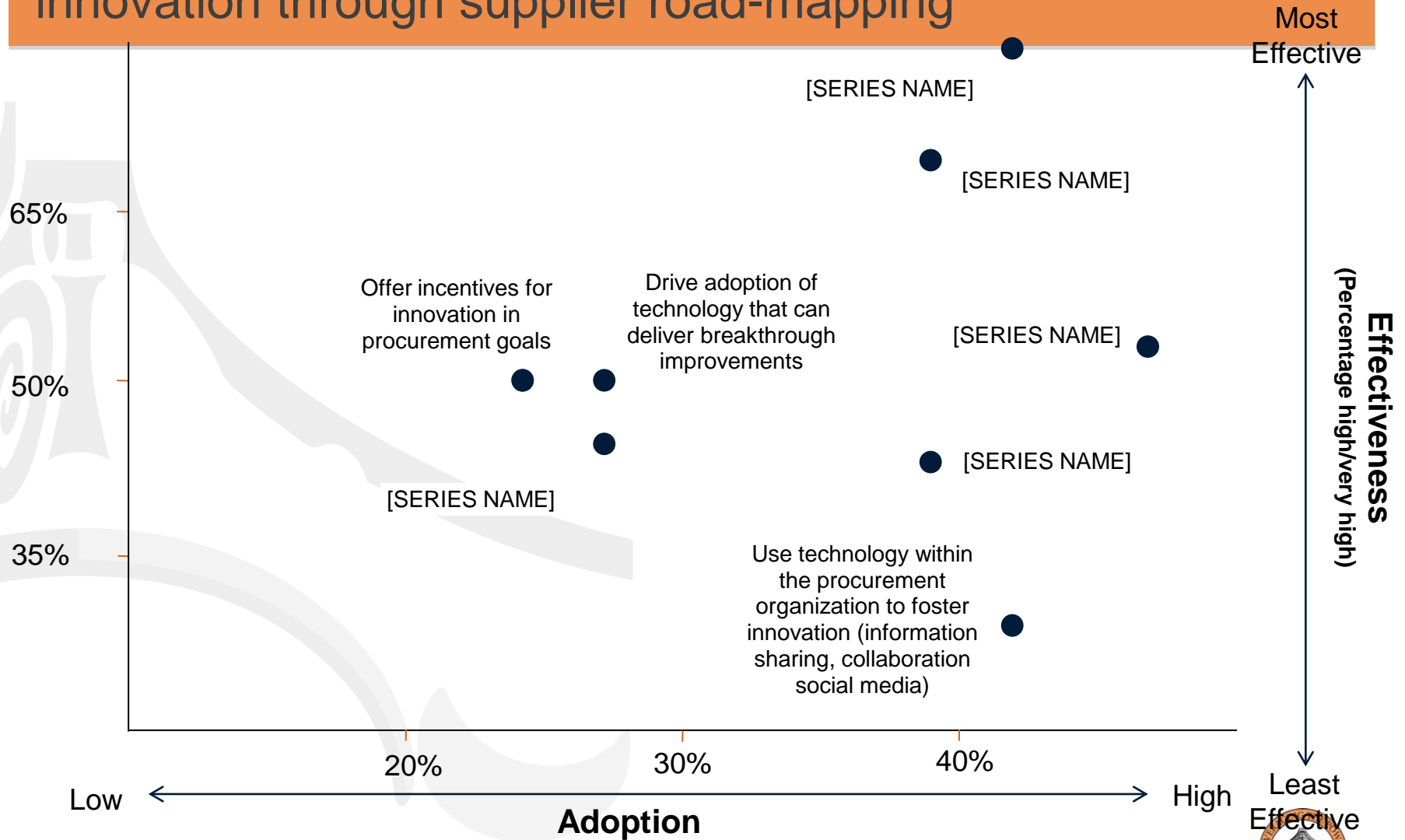
NINESIGMA

- Open Innovation: "We have an Open Innovation Team which is basically in R&D. The procurement innovation managers and R&D are working quite closely together at either the category level, or like myself, at the leadership level. **When we have needs or challenges that we cannot solve by the usual means then we work with companies like NineSigma to help us find the right experts, to effectively screen the market, working out the challenge for us.** Companies like NineSigma are an important part of our innovation toolbox." - Head of Procurement Innovation at Mondelēz International



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Procurement has been most effective in enabling innovation through supplier road-mapping



There's still a lot of work to do: three of the top five largest innovation related capability gaps are related to new product or service offerings

Innovation: Top five capabilities based on size of gap and importance

New offering-related

Priority ranking*	Future-state aspiration stage
1	Procurement's market intelligence CoE is formally set up to deliver strategic market intelligence to internal customers across the business; resources are leveraged for maximum benefits.
2	Together with supply chain/service delivery and R&D partners, procurement works to establish and achieve product/project objectives and plans that support a successful launch and production strategy (costs, design for manufacturability and supply chain, life-cycle considerations, seamless integration into manufacturing, and current or future supply base).
3	Procurement matches current and future supplier capabilities to product/service and technology roadmaps; prepares suppliers to meet future requirements.
4	Formalized procurement process with internal and external stakeholders to foster, capture, assess and channel innovative ideas to feed the new-offering pipeline.
5	Strong role in due diligence, pre-merger planning, and post-merger benefits realization.

How do you incent suppliers? Do supplier award programs work?

- Supplier award programs not only give organizations a chance to honor their key supply partners. They also **provide a forum for reinforcing** what they see as best practices, and serve to instill loyalty in the supply base.
- According to a recent study of 600 publicly traded winners of supplier awards and independent quality awards such as the Baldrige Award and the Shingo Prize, award winners on an average derive measurable, statistically significant gains.
- **Works in progress.** Most organizations characterize their supplier awards process as a journey that has a long way to go. That's so even in automotive manufacturing, where supplier awards have been a staple in the procurement toolbox since the mid-1980s or even earlier.

Example: National Grid generates innovative ideas through its supplier design competition

- The very first National Grid Supplier Design Competition was launched in February 2013 to generate innovative ideas from our supply base, to raise the profile of Sustainability at National Grid and promote Circular Economy principles.
- The competition succeeded on all fronts; with strong National Grid leadership support and commitment; executive sponsorship; high level of innovation from suppliers; and a shared understanding of the opportunities that Circular Economy principles and sustainability can have in business and the wider environment.
- No other company in the UK are known to have undertaken this type of competition.

A screenshot of the National Grid Supply Management website. The page is titled 'Connecting' and features an article about the 'Winning ways' of the National Grid supplier design competition. The article highlights the winning entry by Midal Cables, which developed an innovative concept of overhead line recycling. The article includes a photo of the winning team and a quote from the National Grid Director of Procurement. The website header includes navigation links for Home, Articles, Bulletins, Debate, and Contact. The main navigation bar includes News, Blog, Law, Analysis, Resources, Careers, Jobs, CIPS, and Contact. The article text is as follows:

Winning ways

Supplier design competition winner develops an innovative concept of overhead line recycling that reduces the use of aluminium and preserves precious resources.

Article: Winning ways

Midal Cables understands the power of a ground-breaking idea. The Bahrain-based company was among the National Grid suppliers that participated in our first-ever **Sustainability Summit** in 2012 when the doors were flung open to fresh perspectives from both inside and outside the business.

Responding to the call to action on sustainability, Midal has developed an innovative concept of overhead line recycling that reduces the use of aluminium and preserves precious resources. The company has also been named as the winner of our first **Supplier Design Awards**.

Under the proposal old aluminium and aluminium alloys conductors – a critical part of the transmission grid – will be recovered, transported to Bahrain and recycled by re-melting the metal at Midal's facility. New conductors with a lifespan of 40 years will then be produced from the original material and returned to the grid.

'We are really excited about the potential of the overhead line conductor recycling'

Related articles

- ▶ National Grid calls on suppliers for sustainable design ideas
- ▶ Former CIPS president joins ambitious 'National Grid 2'
- ▶ National Grid to appeal against competition fine
- ▶ 42 organisations and five buyers on 2005 shortlist
- ▶ Mains attraction

Latest News articles

- ▶ No increase in SRM efforts
- ▶ Following supplier chain

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Discussion points

- **How do you measure success?**
- **How much can procurement really engage?** Is procurement just an enabler of innovation or is there a role to be played in the germination of new ideas?

Four “tried and tested” recommendations for getting started

- Get to know the emerging products/services team and the organizations process.
- Ensure procurement leadership is engaged during the new product/services checkpoint process – most big organizations have a formal project review process, where there are milestones from ideation to design to production.
- Understand that emerging and innovative product/service suppliers are not usually selected through a formal RfX process. Developing strong partnerships with existing suppliers is a more effective tactic for unearthing the newest ideas.
- Ensure that your New Service or Product Introduction / Development / Innovation team is aware of your current supplier roadmaps – for strategic suppliers, this should part of the SRM governance process and executive to executive meetings.



Questions & Answers

