



# Procurement for FMCG

Strategic supplier relationship

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# What is FMCG?



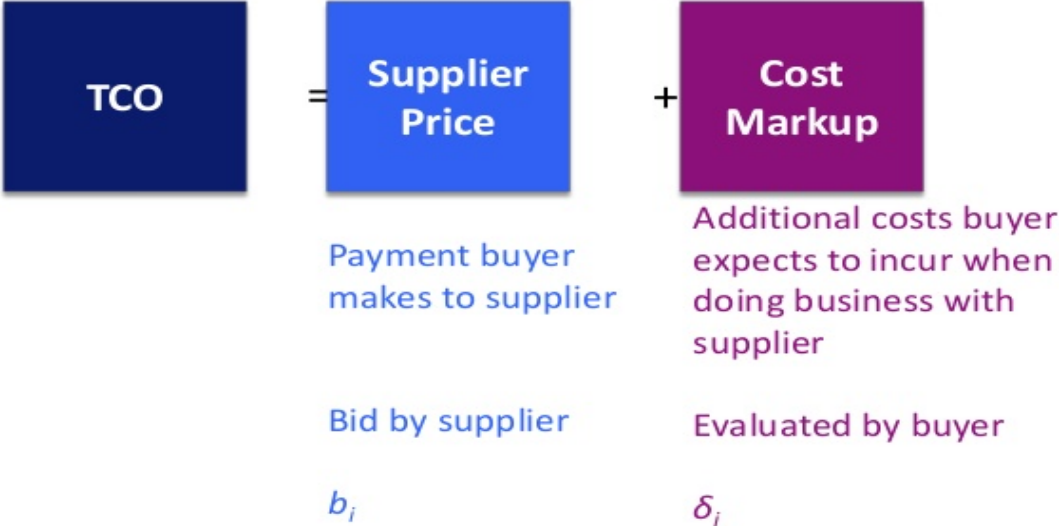
## Five things FMCG companies want from a strategic supplier relationship:

- ▶ **The best price**
- ▶ **Operational effectiveness:**
  1. Consistency of supply
  2. Speed to market
- ▶ **Quality**
- ▶ **Sustainability**
- ▶ **Innovation and technical expertise**

# The best price

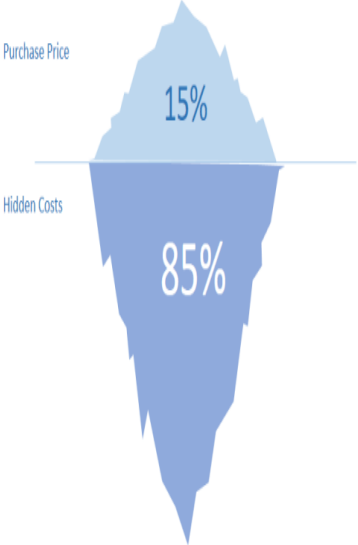
- ▶ This is not necessarily the lowest price, but a fair price for both the supplier and the customer, where both can benefit from a sustainable margin

## Total cost of ownership (TCO)



## The Iceberg Principle

Calculating Total Cost Of Ownership



Lower Cost of Ownership



# Lean supply features in practice

## Establishing a target price and jointly analyzing costs

- A “market price minus” rather than a “supplier cost plus”
- Figuring how the product can be manufactured at the target price while allowing a reasonable profit for both manufacturer and supplier
- Agreement on sharing profits gives supplier incentive to improve his production process
- Lean company picks two or three suppliers for every component, and — rather than asking them to bid against each other — guarantees each a percentage of the business

## Continuous improvement through cost reduction and quality improvement

- Agreement on a cost reduction curve over time that encourages the supplier to engage in rapid and continuous improvement
- If the supplier achieves better cost reduction than agreed , he shares profits with manufacturer
- The supply group gets together in a meeting to share improvement efforts in order to benefit from each other

# Operational effectiveness

In effect, a measure of your supplier's technological expertise can express itself in two ways:

- 1- Consistency of supply
- 2- Speed to market



## What is Speed to Market?



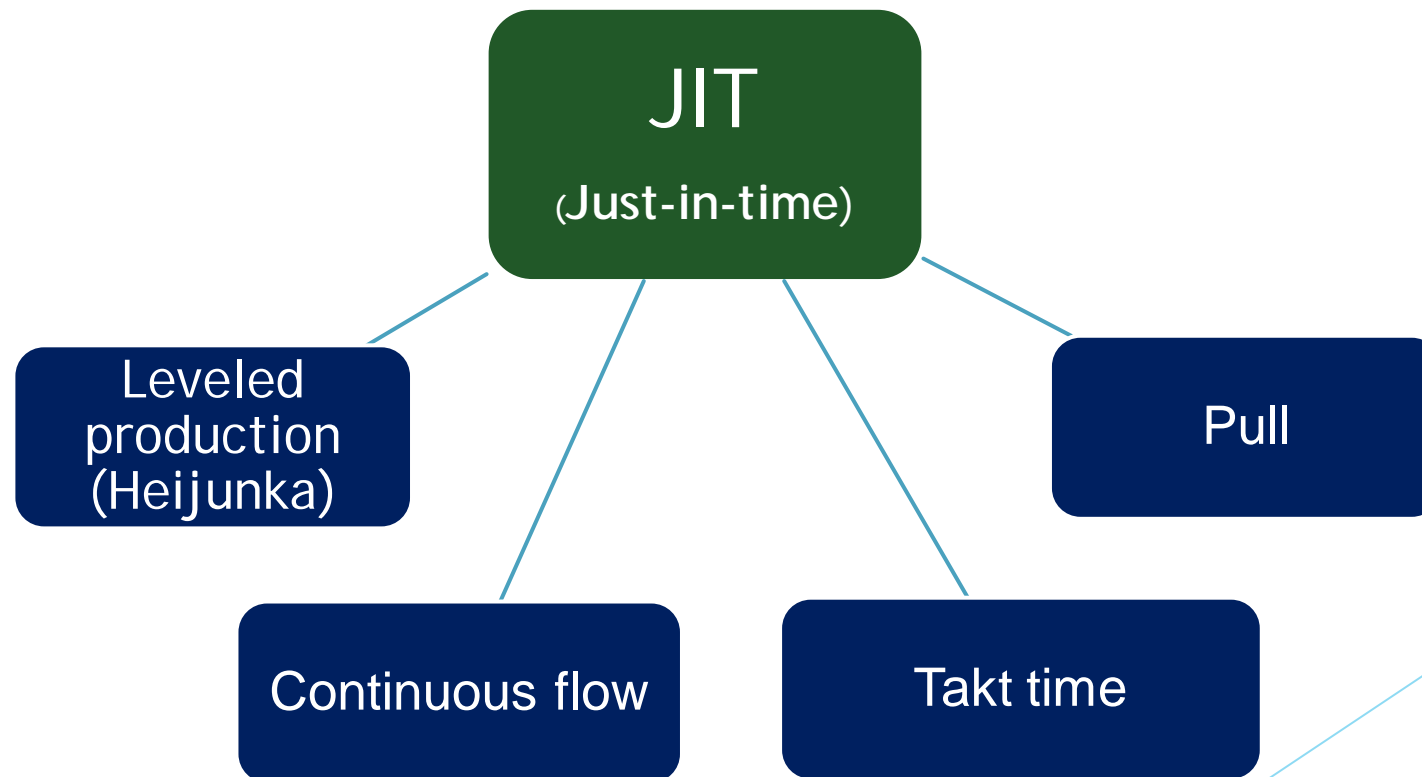
Speed to market is the pace of introducing any change, innovation or creativity in the product in the market to gain the first mover advantage before others.



# Lean supply features in practice

## Improving delivery

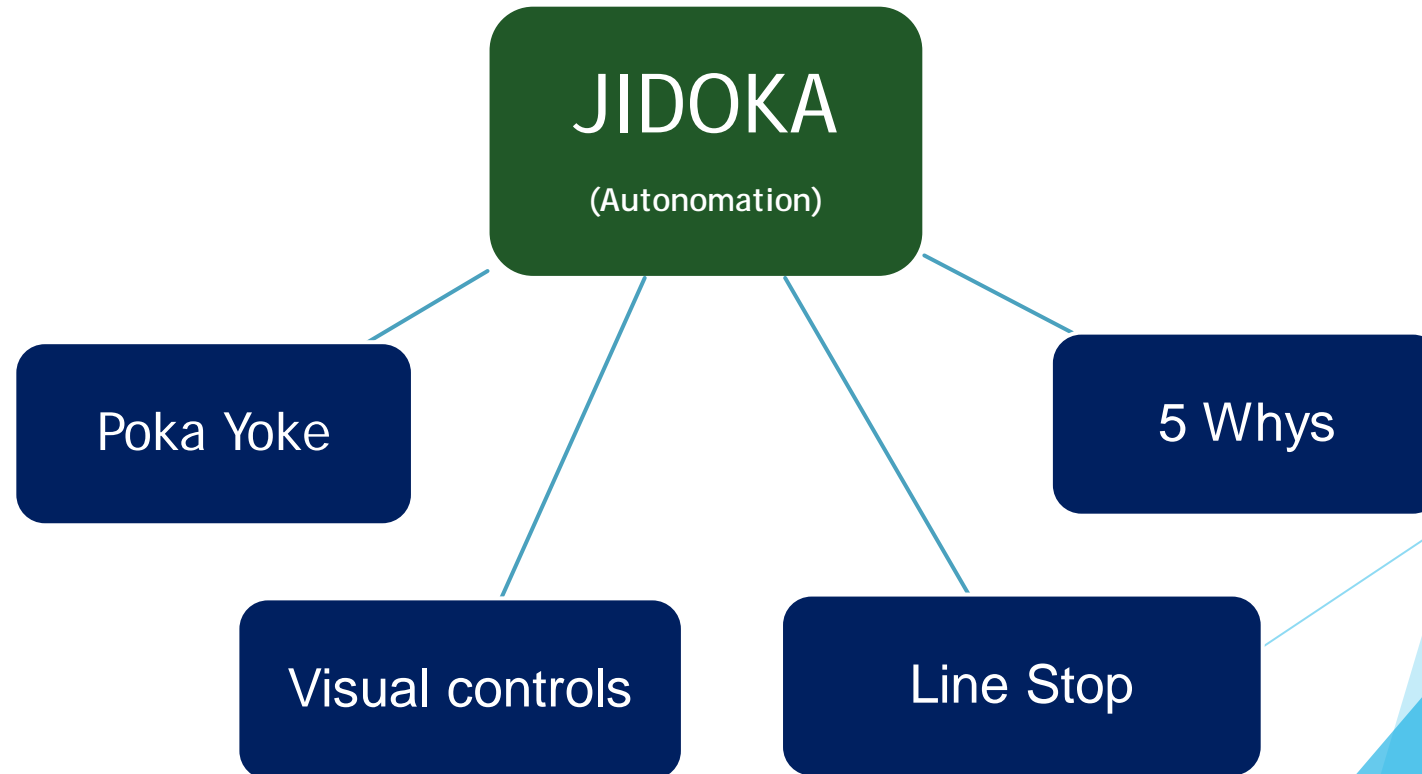
- The supplier learns Just-in-time principle to improve delivery to manufacturer
- The manufacturer gives supplier advanced notice of changes in demand
- Commitment to share the bad times as well as the good



# Lean supply features in practice

## Jointly problem solving

- Lean supply agreement provides access for field visit by manufacturer personnel and vice versa to share problem solving through “5 Why’s” and devised solution that prevents problem from happening again

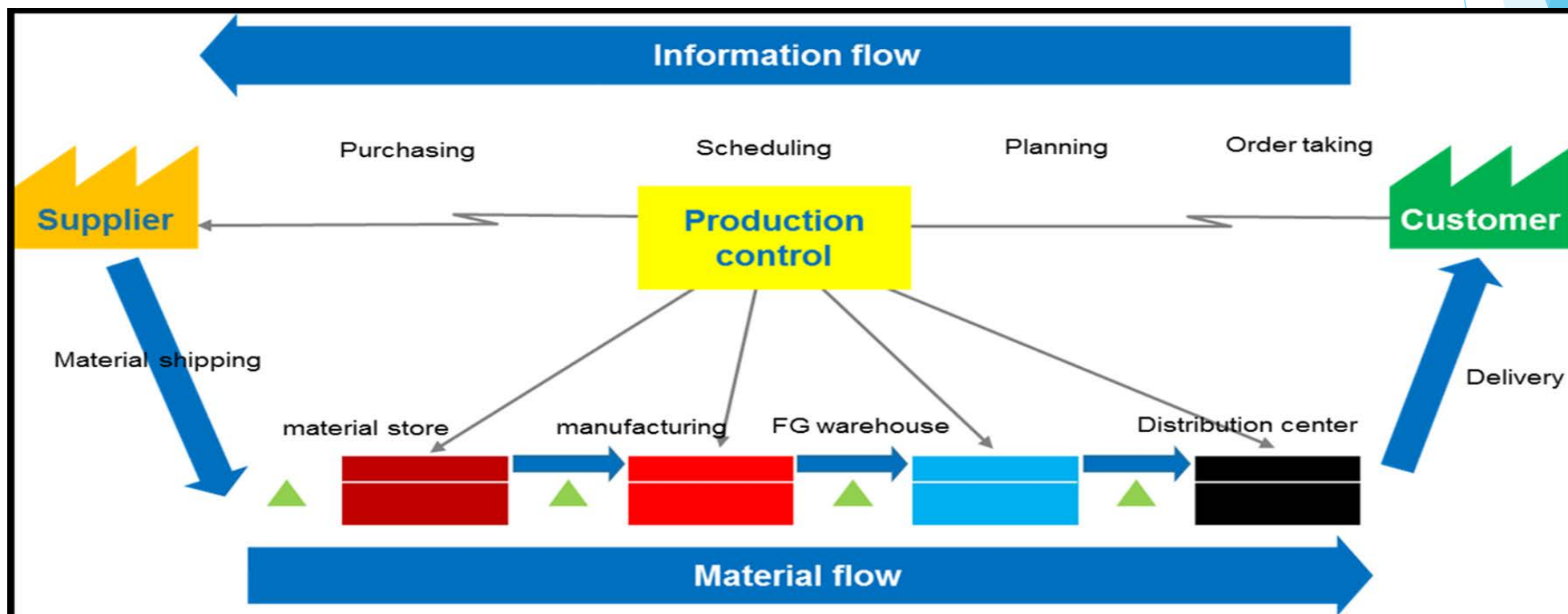




# Lean supply features in practice

## Speed to Market

- Eliminating waste-Non value adding activities- from the entire value stream enabled Lean companies to reduce new product development time from years to months. Example, Lantech stretch wrapper company from 4 years to 1 year. Wiremold cable company from 3 years to 6 months



# 8 SOURCES OF WASTE



# Quality

There are two influences on ROI to consider:

- Consistent quality in keeping with the brand's promise, no matter where the product is made
- Maintaining this quality during rapid increases in demand



# Lean supply features in practice

## Performance tracking through grading system

- Supplier is evaluated against number of defective parts, percentage of on-time deliveries , and reducing cost
- When supplier falls short on quality or reliability the manufacturer shifts a fraction of the business to another source for that part for a given period of time as a penalty
- Only if no sign of improvement will the supplier, in the end, be fired

# Sustainability

SUSTAINABLE  
PROCUREMENT



- ▶ Source products and service in line of principle of social , economic and environment suitability beyond the traditional aspects of cost , quality and consist supply.



# Lean supply features in practice

## Collaboration with suppliers on implementing environmental initiatives

- Supplier is involved in Toyota Green Purchasing Guidelines revision , seminars, meetings, etc.
- Supplier collaborates with Toyota in designing environment-friendly parts/equipment
- Recycling and reuse programs are shared and collaborated between Toyota and its suppliers to minimize environmental impact and reduce cost

# Innovation and technical expertise

## The innovation process

### External sources of innovation

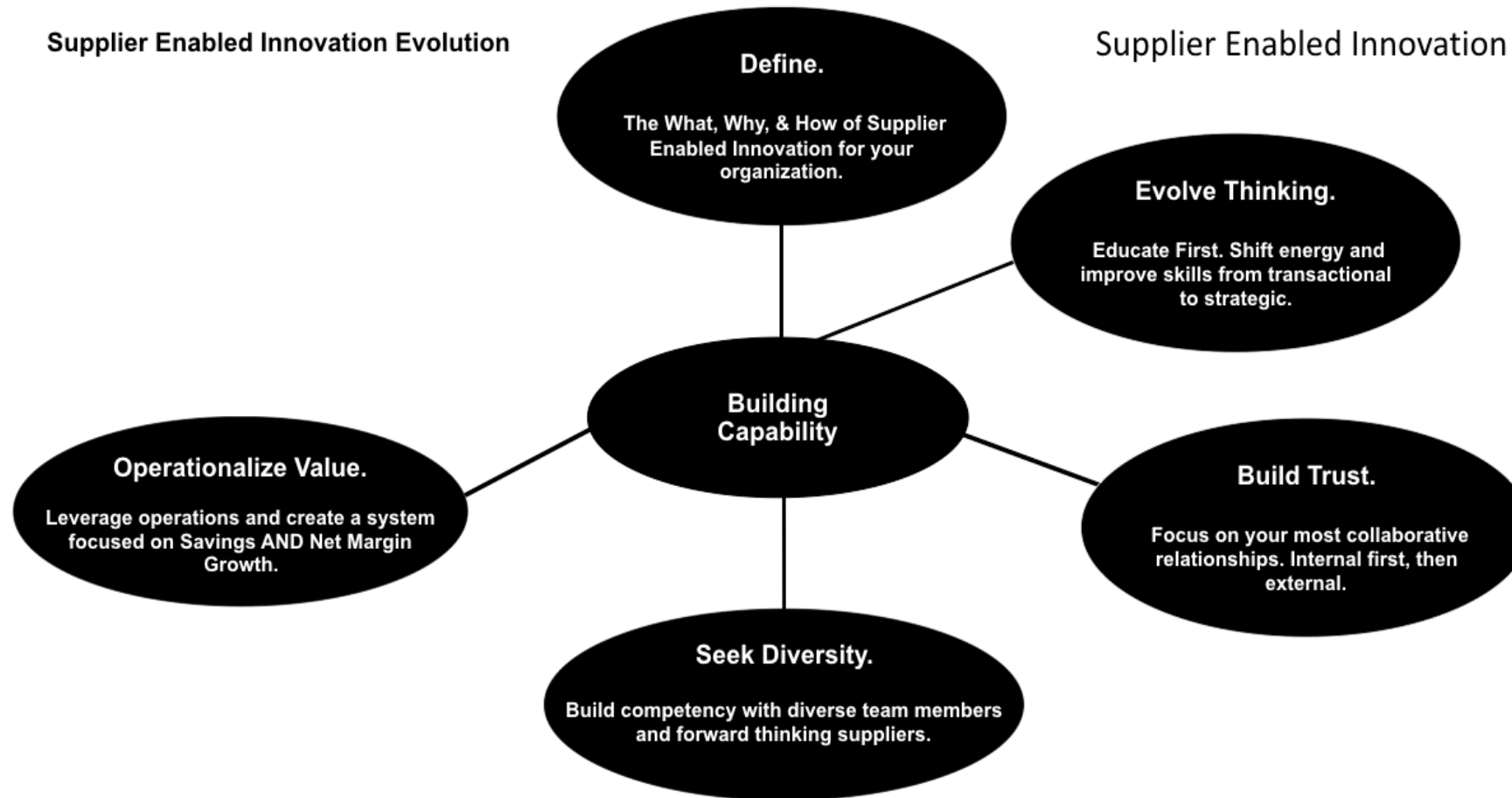
- *Supplier as a source of ideas*
- *Continuous interaction with supplier.*
- *Supplier as co-developer.*
- *Supplier as innovator.*

# Innovation and technical expertise

## Total Value Creation

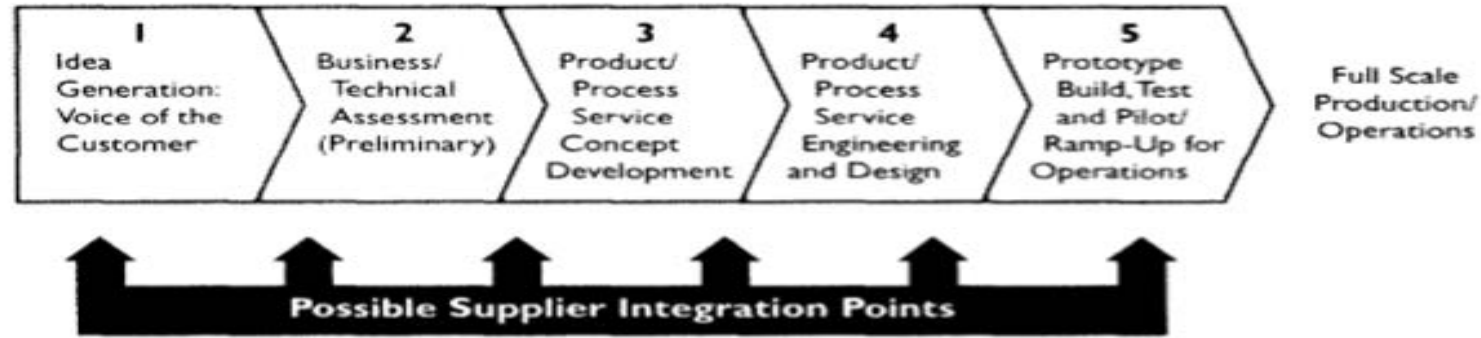
Supplier Enabled Innovation Evolution

Supplier Enabled Innovation™





# Lean supply features in practice



## Supplier information sharing

Share inventory mix/level information

Share Marketing information

Share Production Plans

Joint production operations

Joint process engineering

Share technological information

Joint product design

# Benefits of Transforming to Value Stream thinking

## The Lean Transformation At Lantech

	Batch-And-Queue	Flow
Development time for new product family	3-4 years	1 year
Employee hours per machine	160	80
Manufacturing space per machine	100 square feet	55 square feet
Delivered defects per machine	8	0.8
Dollar value of in-process and finished goods inventory*	\$2.6 million	\$1.9 million
Production throughput time	16 weeks	14hours-5 days
Product delivery lead time	4-20 week	1-4 weeks

\*Note that sales doubled during this period

## Benefits of Transforming to Value Stream thinking

Wiremold Under Lean Management		
	Batch & queue	Lean
<b>Changeover</b>		
Punch presses	2-3 hours	1-5 minutes
Rolling mills	8-16 hours	7-35 minutes
Plastic injection molding machine	2-4 hours	2-4 minutes
Changeover frequency	2-4 times aweek	20-30 times aday
<b>Labor</b>	4-8 operators	1-3 operators
<b>Productivity</b>		160% increase
<b>Suppliers</b>	320	73
<b>Product development time</b>	3 years	3-6 months
<b>Defects</b>		90% decrease
<b>Injuries and accidents</b>		50% decrease
<b>Space required( index)</b>	100	50
<b>Throughput time</b>	4-6 weeks	1-2 days
<b>Sales per employee</b>	\$90,000	\$190,000
<b>Operating profits(index)</b>	100	600

Source: "Lean thinking", Womack &amp; Jones

# Can we build such a relationship with suppliers?

In 1997, a fire destroyed Aisin factory. Aisin factory is one of the Toyota biggest and closest suppliers. Normally Toyota duals sourcing parts but Aisin was the sole source for something called “p-calve” which is essential brake part used in all Toyota vehicles worldwide. Toyota vaunted JIT system meant only 2 days of inventory were available in total in the supply chain. 2 days and a disaster would strike - evidence that JIT is a bad idea?

Instead of faltering, 200 suppliers self-organized to get p-valve production started within 2 days. Sixty three different firms took responsibility for making the parts piecing together what existed of engineering documentations, using some of their own equipment, rigging together temporary lines to make the parts and keeping Toyota in business seamlessly.

It is the power of ingenuity and relationship

**Conduct joint improvement activities.**

- Exchange best practices with suppliers.
- Initiate *kaizen* projects at suppliers' facilities.
- Set up supplier study groups.

**Share information intensively but selectively.**

- Set specific times, places, and agendas for meetings.
- Use rigid formats for sharing information.
  - Insist on accurate data collection.
- Share information in a structured fashion.

**Develop suppliers' technical capabilities.**

- Build suppliers' problem-solving skills.
  - Develop a common lexicon.
- Hone core suppliers' innovation capabilities.

**Supervise your suppliers.**

- Send monthly report cards to core suppliers.
- Provide immediate and constant feedback.
- Get senior managers involved in solving problems.

**Turn supplier rivalry into opportunity.**

- Source each component from two or three vendors.
- Create compatible production philosophies and systems.
- Set up joint ventures with existing suppliers to transfer knowledge and maintain control.

**Understand how your suppliers work.**

- Learn about suppliers' businesses.
  - Go see how suppliers work.
  - Respect suppliers' capabilities.
  - Commit to coprosperity.

**The Supplier-Partnering  
Hierarchy**

# Questions?