

**Importance of Knowing the S.C.O.R.E.
(Supplier Collaborative Cost Reduction Evaluation)**

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Abstract. Do you know the importance of knowing the S.C.O.R.E. (Supplier Collaborative Cost Reduction Evaluation) and its impact on the operation of both your organization and that of the supplier? S.C.O.R.E. is a dynamic formal process designed to evaluate the application of the suppliers' products and services in manufacturing while simultaneously engaging their expertise in identifying and addressing opportunities for improvement. Through the workshop, you will be introduced to S.C.O.R.E., the design objectives underlying it, its applications, and its proven results. The use and impact of this process is demonstrated through examples and proven results.

S.C.O.R.E. background. S.C.O.R.E. is the result of a major thinking that took place in the supply chain group at Masco that began in 2002. Prior to the launch of S.C.O.R.E., Masco, like most other firms, viewed suppliers primarily as a source of product, services, and capacity. Suppliers were treated as if they were interchangeable. The emphasis was on cost and quality. There were Kaizen and Value Engineering supplier improvement programs in place; however, we did not have a formal supplier process in place to engage the other critical capabilities offered by suppliers – their expertise. However, beginning around 2001, Masco's purchasing management became aware that a different approach was needed.

This approach had to achieve certain desired outcomes. First, it had to be a formal process. Second, it had to be measurable in objective, quantitative terms that were meaningful to the participants, affected performance of both the product and the manufacturing processes using these products, and it had to relate directly to and be supportive of Masco's strategic objectives. Third, it had to be dynamic in its application. That is, while the process had to specify and set the outcomes, this process had to be sufficiently flexible as to allow the participants to change its application to fit the evolving needs of both the supplier and the user. Finally, it had to be simple – simple to understand, simple to apply, simple to teach, simple to measure, simple to implement. In focusing on developing a process that met these objectives, the result was S.C.O.R.E.

What is S.C.O.R.E.? In today's increasingly turbulent environment, firms need a dynamic process like S.C.O.R.E. – a process that can help identify the *critical* strategic suppliers, engage them *meaningfully* through all stages of the *product life cycle*, and that can improve the *applications* of their *products* in our *manufacturing* (important issues have been

emphasized). S.C.O.R.E. builds on the database information provided by the Supplier Relationship Management (this system was recognized for leadership and innovation in the technology category by ISM and it was awarded the R. Gene Richter Award in 2008). S.C.O.R.E. is a process for evaluating the application of a commodity, product or service in the manufacturing process. S.C.O.R.E. is strategic rather than tactical in that it seeks to help the firm to differentiate itself in the marketplace by continuously delivering better value to its customers. These improvements take place through one or more of the following options (as embodied in S.C.O.R.E.): (1) process elimination; (2) process improvement; (3) reformulation; (4) improved and more effective capacity utilization; (5) standardization; (6) waste elimination/recycling; (7) new product development (8) collaborative engineering; and, (9) pursuing new initiatives and opportunities as they emerge (e.g., green/sustainability in operations and purchasing).

The first step in S.C.O.R.E. is to identify and flag the critical strategic suppliers. These suppliers are critical because they provide you with goods and services that are essential to your organization's needs. They are the suppliers on whom you depend for sourcing on an on-going basis. In most cases, these are few in number (less than 15 percent of the total supply base) but their impact is significant. They are suppliers who can become disruption points. That is, a disruption at these suppliers (e.g., a strike, a fire, the supplier leaving the market, a hurricane) can cause a significant and long-term negative impact on your organization's performance and its ability to serve the customers' needs.

The second step in S.C.O.R.E. is to secure the commitment of the various parties to a collaborative effort. This commitment includes both the buying organization and the suppliers. Both have to be willing to work together on an on-going basis, not just when there is a problem. This collaboration is needed if we are to identify, anticipate, and mitigate potential problems. Consequently, S.C.O.R.E. is proactive rather than reactive. Underlying this collaboration is a need for mutual respect, mutual trust, and openness. This latter aspect is critical because S.C.O.R.E. requires bilateral openness. That is, just like we, as buyers, can go into our suppliers' plants to assess and understand the suppliers' processes and capabilities, the supplier is also extended the courtesy to come into our own manufacturing plants.

The third step in S.C.O.R.E. is to take a broad based view of opportunities for improvement. While we often focus on cost and cost savings, the goal of the S.C.O.R.E. process is to generate improvements either through reduction in total costs or increases in total revenue. The latter occurs when a supplier helps us identify a better way of using the supplier's inputs – a way that makes the product more attractive to the customer (thus increasing total sales). When evaluating costs and revenue, a total cost perspective must be used. This perspective gets the buyer away from focusing on the acquisition costs alone.

Fourth, S.C.O.R.E. requires continuous evaluation of all areas of operation. This focus, consistent with the preceding perspective on total cost, forces the participants to look at areas such as shipping and receiving, incoming inspection, and disposal. It also forces the partners to look at all stages of the product life cycle (from design to disposal and increasingly from "cradle to cradle").

Finally, S.C.O.R.E. emphasizes the need for documentation of all benefits generated. This means that performance metrics play a critical role in this process. When developing metrics, there is a conscious effort to have SMART metrics – Specific, Measurable, Action-oriented, Realistic, and Time bound. All benefits are quantitatively documented and audited to ensure that there is an agreement between the claimed and actual benefits. This last step is critical in developing and maintaining the resulting credibility of the process,

What's involved in a S.C.O.R.E. project?

At the heart of the S.C.O.R.E. process is the S.C.O.R.E. project, the vehicle by which the objectives and goals of this process are achieved. The S.C.O.R.E. project is itself the result of a structured process that has been developed at Masco. The first step in this process is the identification of the appropriate supplier partner. This presentation has previously discussed what is meant by a strategic supplier and what traits we look for in such suppliers. However, what has not been discussed is the process by which a specific partner supplier is selected. To select these suppliers, a cross-functional team representing buyers, manufacturing and marketing is organized. Included in this team are not only management personnel but also operating personnel who will be working side-by-side with the supplier's technical plant personnel. The organization of this team is critical because it is the team that will work on the S.C.O.R.E. projects and ultimately deliver the results critical to the success of the S.C.O.R.E. process. The team members should embody certain critical skills and capabilities. They must be creative and they must be empowered to apply creativity. They must also be capable of working together as part of a team.

Once the team has identified the potential supplier partner, the third step is for the buyer to contact the selected supplier, explain the program, secure commitment to the collaborative effort and schedule a brainstorming meeting. This meeting should include the organization's cross-functional team participants and participants from the suppliers cross-functional team that will be working together. This meeting will be the open forum for discussing and selecting targets for process improvement, developing goals, metrics and identifying expected financial impact. It is important to determine baseline metrics and how you will know when you have succeeded. The team should not be shortsighted to focus on only the greatest internal financial impact, but consider evaluating all areas of the operation and the ultimate impact, delivering better value to the customer. Part of the forum discussion should be addressing cost avoidance and/or savings generated from the S.C.O.R.E. projects.

There are several options to jointly setting and agreeing on an annual cost avoidance and/or savings. One option that was initiated in the "Pilot" was agreement on a target of cost improvement based on annual purchases from the supplier (e.g. 1% of purchases, etc). It was agreed that if the savings were not met the supplier would be responsible for the shortfall in the terms of a payment to the organization. The "Pilot" success in terms of financial impact far exceeded the goals and continued to do so year after year.

As the program has evolved to include multiple strategic suppliers, it is both interesting and gratifying to note that the financial goals that were set have always been exceeded by the actual improvements generated. However, the potential for shortfalls had to be recognized. From the outset of the process, the buying organization was not held responsible for paying the shortfalls; that obligation was assumed by the supplier. This tact towards shortfalls brought

with it two major implications. First, the supplier was given an incentive to engage actively in identifying and assessing the impact of alternative S.C.O.R.E. projects. Second, careful consideration of the exact, precise definition of a shortfall had to be generated. This definition had to be broad enough to deal with the following scenarios: (1) if the supplier identifies an opportunity, but the organization does not consider the improvement or, (2) if the improvement was tested and failed. Care was taken to balance the need for quantitatively based improvements with the need to encourage the participants to take appropriate risks. A guiding principle used was that you did not want to penalize the supplier or you would lose momentum. Ultimately, the operating definition of benefits focused on cost avoidance and/or savings goals that were part of the joint discussion and responsibilities to meet the goals.

The fourth step is to document the targets, prioritize, develop SMART metrics (the term was previously defined), allocate resources (both buyer and supplier), and implement. The fifth step is to document the target outcome, report out to management, obtain agreement between the claimed and actual benefits and celebrate your success. As part of this last step is an external auditing of the benefits. This external auditing is important because it enhances the credibility of the overall process. It also sends a clear signal to the participants that any and all benefits attributed to the projects will be subject to external scrutiny. Inflating the benefits just to make things look good or to avoid having to pay for any shortfalls will not be tolerated.

Implementing S.C.O.R.E. Masco's purchasing management championed this project as a "Pilot" with a cross-functional team representing our manufacturing organization and a strategic supplier. The first step was to launch a "Pilot" to validate the value. The "Pilot" results exceeded both the organization and supplier expectations and generated momentum to continue the program. Through the "Pilot" results, the process gained support from our operations executives and as a result the process, since 2002, has been launched across the organization with several strategic suppliers and is now a component of Masco's Leadership Program with Michigan State University.

Funding S.C.O.R.E. While there are no direct costs to implement S.C.O.R.E. there are costs of allocating personnel to the project and time on the plant floor. The return on the investment of personnel and time to implement S.C.O.R.E. continued to validate the process.

Impact. S.C.O.R.E. has enhanced strategic supplier relationships, eliminated waste, positively impacted financial results; ensured Masco maintains a competitive market advantage, and we have gained a greater understanding of the interaction between material, process and people, our greatest asset. Through the first five years of the program, with a single strategic supplier, Masco has implemented savings representing six figures and we exceeded our goal by 41%.

Sustaining the S.C.O.R.E. process. Validate results, communicate results, develop a scorecard by supplier to track results, celebrate success, and provide feedback.

Has behavior changed? Yes, through the success of the "Pilot" our organization and strategic suppliers have embraced the process. We continue to expand implementation of the process across our strategic supply base. S.C.O.R.E. is a dynamic process and through continuous evaluation of our processes, in collaboration with our strategic suppliers, we will deliver better value to our customers and differentiate our product in the marketplace.