

Strategic Sourcing: Reducing Cost and Supporting Diversity Goals

Tim Dolan, C.P.M.
Manager, Strategic Sourcing and Supplier Diversity
617.421.7516
Tim_Dolan@gillette.com

Karen M. Fedele, C.P.M.
Category Manager
The Gillette Company
617.421.8382
Karen_Fedele@gillette.com

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Abstract. Today, procurement professionals achieve savings through sourcing strategies like volume consolidation, product specification improvement, best price evaluation, and competitive global sourcing. Procurement professionals are also tasked with meeting Supplier Diversity goals and increasing spend and opportunities for minority and women owned suppliers. Is achieving these savings through strategic sourcing while supporting a supplier diversity initiative possible?

While these objectives may seem at odds with each other due to pre-conceived notions that Minority and Women-owned Business Enterprises (MWBES) aren't competitive, in reality the answer is "no." For a strategic sourcing initiative to be successful, procurement professionals must expand the prospective supplier base, looking beyond traditional sources of supply. They must critically review the products and services they buy and open their business to increased competition. They must evaluate cost savings along with the quality and service provided by all potential suppliers. Procurement professionals will be surprised to learn that there are many certified MWBES with national and global coverage. Many certified MWBES can compete and win business. Moreover, identifying a portion of spend solely for MWBES can foster competition. Introducing MWBES in this manner allows you to experience their capabilities first hand with limited risk, but it also creates a competitive threat to your existing suppliers keeping them in check. To be sure, a strategic sourcing initiative can create opportunities for MWBES where they may not have existed in the past. This paper provides an overview of The Gillette Company's Strategic Sourcing Initiative (SSI) and Supplier Diversity Initiative (SDI), and explains how SSI has enabled SDI at Gillette.

Overview of Gillette's Strategic Sourcing Initiative:

Prior to 1993, The Gillette Company's Procurement Organization was geographically aligned with some product line direction. In 1993, Procurement for the Blades and Razors Business for Europe and North America was centralized into one organization. In January 2000, Procurement was centralized for all geographies and product lines, however this centralization focused more on direct material purchasing collaboration and execution.

In April 2001, The Gillette Company launched a Strategic Sourcing Initiative (SSI) to create savings to invest in company brands, fund research and development, and positively impacted Gillette's bottom line. With the help of management consulting firm AT Kearney, teams were

formed to address both indirect and direct material spend. Teams employed a formal 7-step strategic sourcing methodology to competitive source and evaluate suppliers on cost, quality and services provided:

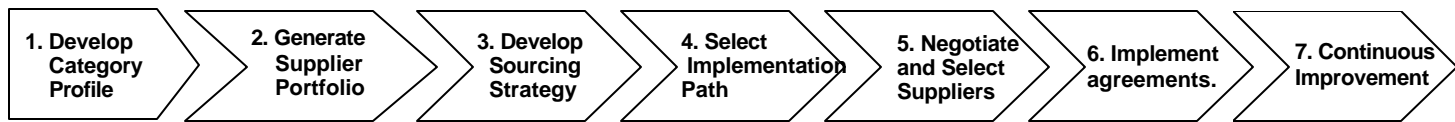


Figure 1 - Note 1

Enabled by a strong commitment from Senior Management and cross-functional global teams, SSI produced and continues to produce tremendous savings and often improve the quality of the products and services procured. SSI has reviewed and extracted savings from Gillette's core direct material costs and touched many non-traditional categories like Public Relations, Legal and Software. SSI created the structure, processes and teams to track progress weekly and continually assess market conditions and opportunities to review and source categories. The Keys to Success can be summarized in the following principles:

SSI Top 10 Keys to Success

1. Introduce sufficient levels of competition
2. Challenge the status quo
 - Undertake appropriate level of risk
 - Determine the value/cost tradeoffs for greater commitments
3. Explore creative supply strategies
4. Challenge suppliers
5. Engage and leverage senior management
6. Manage communications with the supply base in a consistent manner
7. Ensure that stakeholders agree to participate and really support change
8. Maintain strict confidentiality
9. Ensure that the right quality and quantity of resources are made available
10. Drive the process with heavy analysis and a solid fact base

Overview of Gillette's Supplier Diversity Initiative:

The Gillette Company has always recognized the value of developing and utilizing a competitive and diverse supply base. As a result, the Company revitalized its supplier diversity efforts in 2002 and launched a Supplier Diversity Initiative to encourage the development of mutually beneficial business relationships with eligible and qualified MWBEs.

This Supplier Diversity Initiative (SDI) brought the various business units' supplier diversity programs under a single corporate umbrella. The first step in revitalizing this program was to develop, document and communicate the "business case" for supplier diversity to senior management. After receiving senior management's endorsement, the team led by Procurement went about developing the objectives for its first year:

First Year Objectives

1. Solicit Senior Management approval
2. Establish baseline and track MWBE spend
3. Support minority supplier development councils and MWBE events

4. Develop infrastructure to lead and track program
5. Benchmark with companies who have best in class supplier diversity programs
6. Market the program externally and internally

After establishing the baseline and developing the team, processes, structure and implementation plan to drive the program, the Team began attending minority trade shows and events, benchmarking with best in class and marketing the program both internally and externally. It was through this activity that the Supplier Diversity Team learned that Procurement could not do it alone.

Accordingly, the SDI Team enlisted the help of "Supplier Diversity Champions," senior managers from various functional and business unit areas to report on SDI activity, meet periodically with the SDI Program Directors, and champion the Initiative. The Team identified champions first in areas where opportunities seemed more probable. These champions were critical to advancing the program in the first year.

Through this cross-functional collaboration and leveraging of data, processes and knowledge from SSI, the Team soon realized that the greatest positive impact on SDI would be SSI. SSI, the initiative aimed at cost savings, would soon become the best vehicle to identify opportunities and increase spend with MWBEs.

SSI Enabling SDI

In following Gillette's 7-Step Sourcing Methodology, incorporating Supplier Diversity in each of the first three steps enables sourcing teams to better meet Supplier Diversity goals and often contributes to a more effective sourcing strategy.

Step 1 - Develop the Category Profile

In Step 1, Teams are formed to develop a comprehensive understanding of their category profile. They must understand what we buy, who we buy it from, what are the product/service characteristics/specifications, what is the current cost, and who and how the spend is managed internally. They must understand market trends and economics that impact these purchases as well as our current negotiation leverage with suppliers. This data collection process often requires the greatest resources, but is critical to effective strategic sourcing.

This step is also critical to Supplier Diversity. First, it enables us to understand what our current MWBE spend levels are and helps in setting realistic, but challenging future targets. It also identifies internal stakeholders and creates a team with the appropriate resources to gather data, assess and select vendors, and implement new suppliers. This comprehensive understanding of the Category also enables teams to break down spend into subcategories, components, services, transportation costs, administrative costs or other divisions to be either be consolidated with one supplier or divided among several suppliers which could include minority or women owned businesses. Indeed, this sourcing step facilitates procurement managers in setting supplier diversity targets and strategies.

Step 2 - Generate the Supplier Portfolio

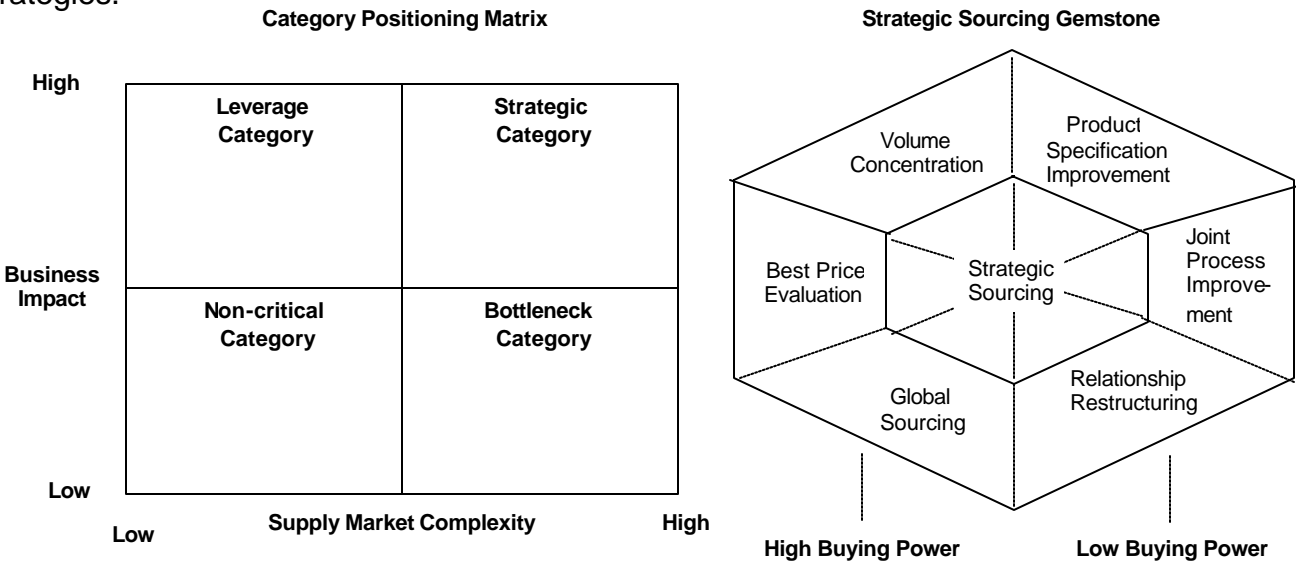
In Step 2, Gillette teams are taught to cast the net wide in the beginning in order to generate an effective supplier portfolio. Teams must look beyond incumbents and their competition. Teams must include minority and women owned suppliers as well as look to non-traditional

suppliers. The must look at companies that provide total outsourcing capabilities and suppliers who are best in class in specialized spend categories. Then through a rigorous process of researching suppliers, evaluating and prioritizing capabilities, the list of suppliers is culled to a manageable list. This step reduces the workload of reviewing RFPs and negotiating with suppliers later in the strategic sourcing process. It also forces the team to consider supplier diversity as part of their strategy.

In generating supplier portfolios, teams will often set diversity goals. They may allocate a percentage of spend or whole subcategory of spend to be sourced with MWBEs. Other teams may look to partner with Tier 1 suppliers who also value supplier diversity and can create Tier 2 opportunities for MWBEs. Teams will utilize supplier databases like the National Minority Supplier Database or internal supplier diversity databases to increase competition in the process. Clearly, opening a category to competition, especially if an incumbent is non-MWBE can advance supplier diversity goals.

Step 3 - Develop the Sourcing Strategy

In Step 3, SSI Teams are asked to assess their Category in a Category Position Matrix. This process aids teams in developing their sourcing strategies. Teams must evaluate the complexity of the market, the competitiveness, the ability to switch suppliers, and the number of suppliers in the market. They must also position their Category in terms of business impact, how much total spend and how does this category impact core business operations. In doing so, teams will find their category falls into one or two of the following boxes: Leverage Category, Strategic Category, Non-critical Category or Bottleneck Category. From this positioning matrix, teams can determine which of the sourcing strategies are most appropriate. Typically, Teams who find themselves in the Leverage or Non-critical Categories will use the left side of the Sourcing Gemstone: *Volume Concentration*, *Best Price Evaluation* or *Global Sourcing*. Teams who confront more complex markets, may want to consider *Product Specification Improvements*, *Joint Process Improvements* or *Relationship Restructuring* strategies.



In assessing and implementing each of these strategies, supplier diversity can be advanced. In a *Volume Concentration* strategy, teams will often look to reduce cost by conso
volumes from different facilities, regions, or business units. This strategy encourages suppliers to lower their costs in anticipation of greater volumes. Supplier diversity can be advanced

Figure 2 - Note 2

either by contracting with a single MWBE supplier thus increasing overall corporate spend. Teams can also negotiate Tier 2 requirements into a sole source non-MWBE scenario. Teams can also set aside a portion of spend to be allocated with an MWBE. This situation can satisfy your diversity goals, but also create a competitive atmosphere after the contracts are signed. This scenario would help the MWBE develop as a supplier and for your team and company to experience first hand their services with limited risk. Should they or even the primary company fail, it is easier to switch volumes to the more qualified supplier.

Teams may also consider a *Best Price Evaluation* strategy, where they select various suppliers who have the best offering for each segment of the spend. For example, a Team reviewing relocation and moving services spend may consider a separate supplier for office moves and separate supplier for employee home relocations. Each supplier possesses both capabilities, but may offer better pricing in their core business.

In this situation, teams may find MWBEs that specialize in subcategories, providing more competitive pricing and more attentive services. MWBEs may be located physically closer to your facilities and have less overhead and bureaucracy than majority companies. Over the past 2 years the Gillette Company has found several MWBEs who can compete and win in subcategories or components of the spend, whether it be in packaging, office moves or even a single office supply product like toner cartridges. Indeed, *Best Price Evaluation* allows you segment and optimize your spend, but also provide opportunities for MWBEs to compete and earn your business.

In the third strategy, *Global Sourcing*, teams look beyond their region or country and attempt to find more competitive or more qualified suppliers who can provide you products and services on a global basis. What many procurement professionals may not realize is that there are MWBEs who have either national or global capabilities. Many of these suppliers are included in the National Minority Supplier Development Council's Corporate Plus MBEs (Note 3). In addition, many of these companies have offices abroad or have developed partnerships with other suppliers to possess these global capabilities. For example, Gillette recently contracted with a woman owned home relocation supplier who had an established network of partner companies to service Gillette on a global basis. Finding an MWBE with global capabilities can clearly increase your MWBE spend. If a team is unable to find a global supplier in their category, setting up a required Tier 2 program or partitioning off an MWBE segment can be effective as described above.

The remaining three strategies: *Product Specification Improvements*, *Joint Process Improvements* or *Relationship Restructuring* are most often applied when there is complexity in the market place or significant switch costs. In these cases, we often work with the incumbent supplier to reduce cost and maintain if not improve the quality of the products and services provided. If this supplier is an MWBE, this can benefit them in developing or enhancing their capabilities so they are better equipped to sell to other corporations. It can also build a stronger relationship between a company and an MWBE, thus ensuring diversity spend continues into the future. In the case of *Relationship Restructuring*, teams may be able remove a middle man and contract directly with an MWBE. Teams may also explore the possibility of inserting a distributor or value-added supplier to reduce administrative cost. In addition, this distributor may have greater purchasing power and be able to negotiate better prices on behalf

of the company. Once again, if this distributor is an MWBE, diversity spend can be significantly increased. If this distributor is not an MWBE, Tier 2 or set aside programs are possible.

Summary

To be sure, The Gillette Company's Strategic Sourcing Initiative has not only produced significant cost savings, but has enabled and advanced Gillette's Supplier Diversity Initiative. Procurement professionals can meet diversity goals by incorporating these goals into the structure, methodology and strategies of strategic sourcing. The comprehensive understanding of a category achieved through strategic sourcing facilitates teams considering, evaluating and selecting MWBEs are competitive and can satisfy your internal customers. In strategic sourcing, procurement professionals are encouraged to "cast the net wide" to create opportunities for non-incumbents - thus opening the door for MWBEs. In evaluating each of the various sourcing strategies, procurement professionals can improve effectiveness by considering MWBE opportunities and goals. Tier 2 or set aside programs can create opportunities for MWBEs as well as keep other suppliers more competitive. Finally, as Gillette has realized, there are MWBEs who can compete and provide products and services on a global basis.

References:

Note 1. Figure 1 is a graphical representation of Gillette's 7-Step Strategic Sourcing Methodology (adopted through an engagement with management consulting firm AT Kearney)

Note 2. Figure 2 is a graphical representation of the Gillette's Category Positioning Matrix and Strategic Sourcing Gemstone (adopted through an engagement with management consulting firm AT Kearney)

Note 3. Information about the National Minority Supplier Development Council and their *Corporate Plus* Program can be found at www.nmsdc.org