

**NAPM Supply Chain Management Conference**  
**Strengthening Purchasing Impact**  
**and Role in the Supply Chain**

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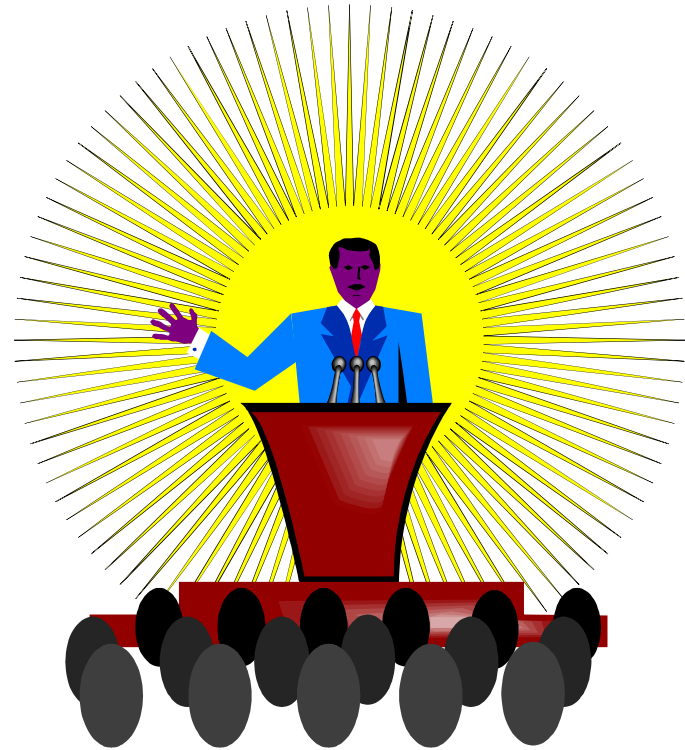
**Global Supply Chain  
Management:  
The New Role for Supply  
Management and Suppliers**

Terry Sueltnan  
Vice President, Supply Management  
Honeywell Industrial Automation & Control  
Phoenix, AZ

# Supply Chain Management Topics

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- Is this just good purchasing?
- The strategy for partnerships
- How to get Value from partnering
- Win-Win Scenario's
- Customized Supply Solutions™
- Integrating Suppliers
- Resident Suppliers
- New SCM Measures

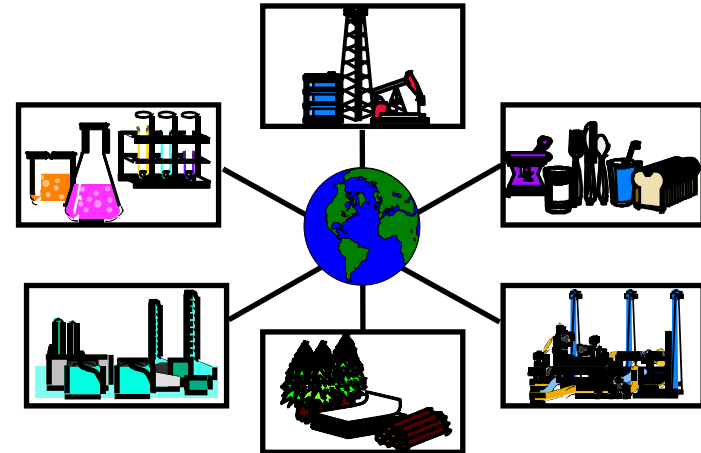


# Who are we??

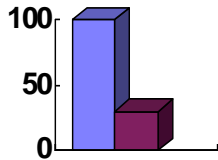
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## Honeywell Industrial Automation and Control

- 1 of 3 major Honeywell SBU's
- Headquarters in Phoenix, AZ
- World leader in process control systems, products, and services
- Global Manufacturing and Supply

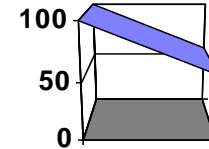


# Industry Week recognition in 1993



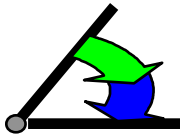
**Internal Defects**

↓ 70%



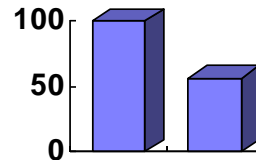
**Total Inventory**

↓ 52%



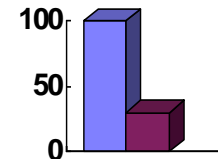
**Mfg Cycle Time**

↓ 72%



**Customer Rejects**

↓ 57%



**Product Lead Times**

↓ 72%

# Supply Chain Management

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## Is this any different than good Purchasing?

### Purchasing

- Functional Excellence
- Tactical/Transactional
- Focus on better buying
- People Purchasing experts
- Measures are tactical internalized
- Communicating with Suppliers

### Supply Chain Management

- Enterprise Impact
- Strategic
- Focus also on linkages with multiple business elements
- Broad business knowledge and skills
- measures Business impact and cross-functional goals
- Integrating Suppliers

- Linking business elements
- Aligning Supplier, Buyer, and customer to better achieve mutual business goals

# Measures of Success in SCM

- More Strategic
- Higher Level Business Impact
- Requires Cross-functional Participation and Cooperation
- Reported Broadly
- Leading Change

Traditional	SCM Measures
<ul style="list-style-type: none"><li>• On-time deliver</li><li>• Incoming quality defects</li><li>• Supplier price reductions</li><li>• Supplier lead time</li><li>• \$ and # of P.O.'s per buyer</li></ul>	<ul style="list-style-type: none"><li>•% components in new product from preferred suppliers</li><li>•% total company expenditures from preferred suppliers</li><li>•# of customer quality issues due to suppliers</li><li>•Product cost reduction</li><li>•Operating Profit impact from supplier cost reductions</li><li>•# Resident Suppliers</li><li>•Working Capital reductions</li><li>•# of business initiatives jointly sponsored by Supply and other business functions</li><li>•Material replenishment cycle time</li></ul>

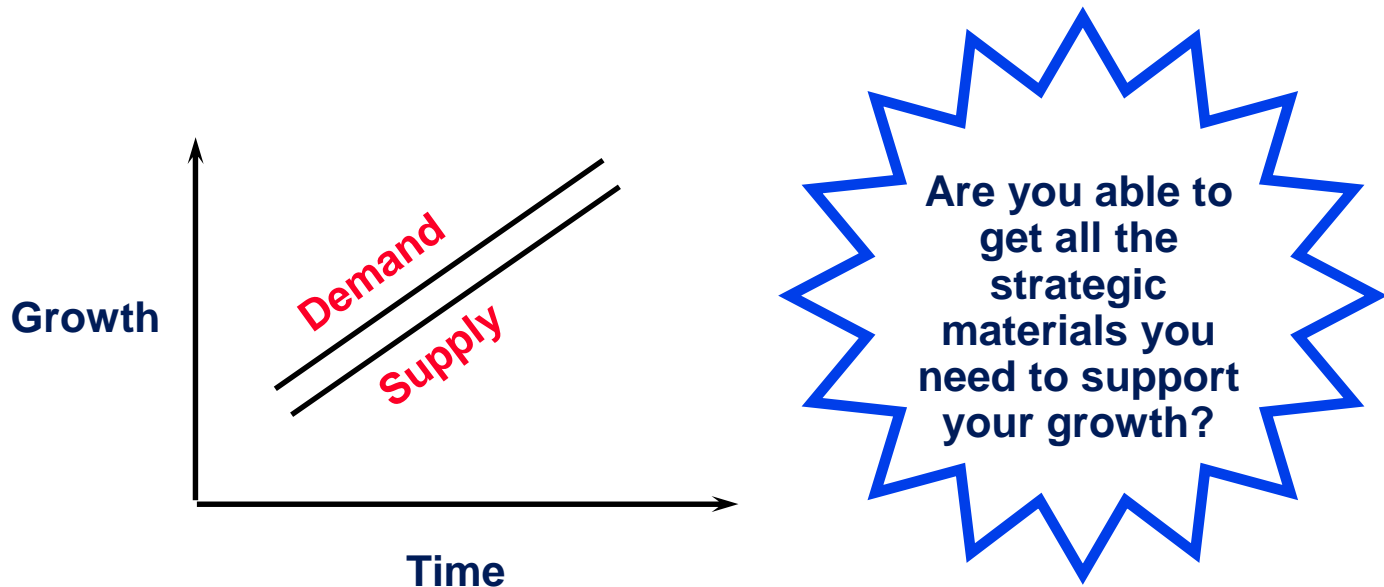
# A Key Enabler for SCM is Having an Enlighten View of Supplier Relationships

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Are there any reasons today that should cause you to consider a supply strategy of partnering with key suppliers and integrating them more into your business?

# Changes in the Supply Marketplace

## Worldwide Allocations of Critical Materials & Services



**We need to grow our business without supply constraints**



# Changes in the Supply Marketplace

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- Are you able to easily meet your rapidly changing time-to-market goals?
- Are suppliers playing a bigger role in the success of new products?

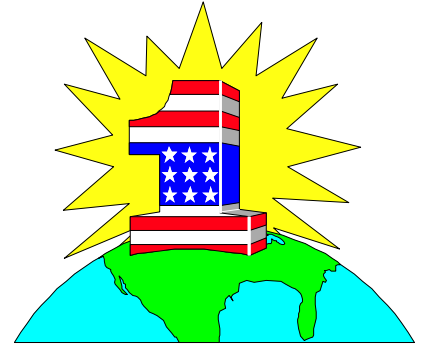


**Cycle times for introducing new products are shrinking**

# Changes in the Supply Marketplace

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Suppliers are managing their globally distributed customers as **ONE customer**



Customers should manage their globally distributed suppliers as **ONE supplier**

**We must leverage our global business, and buying power, effectively**

# Leveraging Global Business

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- Understand your global utilization of a supplier
- Leverage total global business volumes to improve:
  - price
  - service consistency
  - lead time/replenishment time/cycle times
- Think of a Global Agreement
- This is new to many companies and suppliers
  - keep refining it

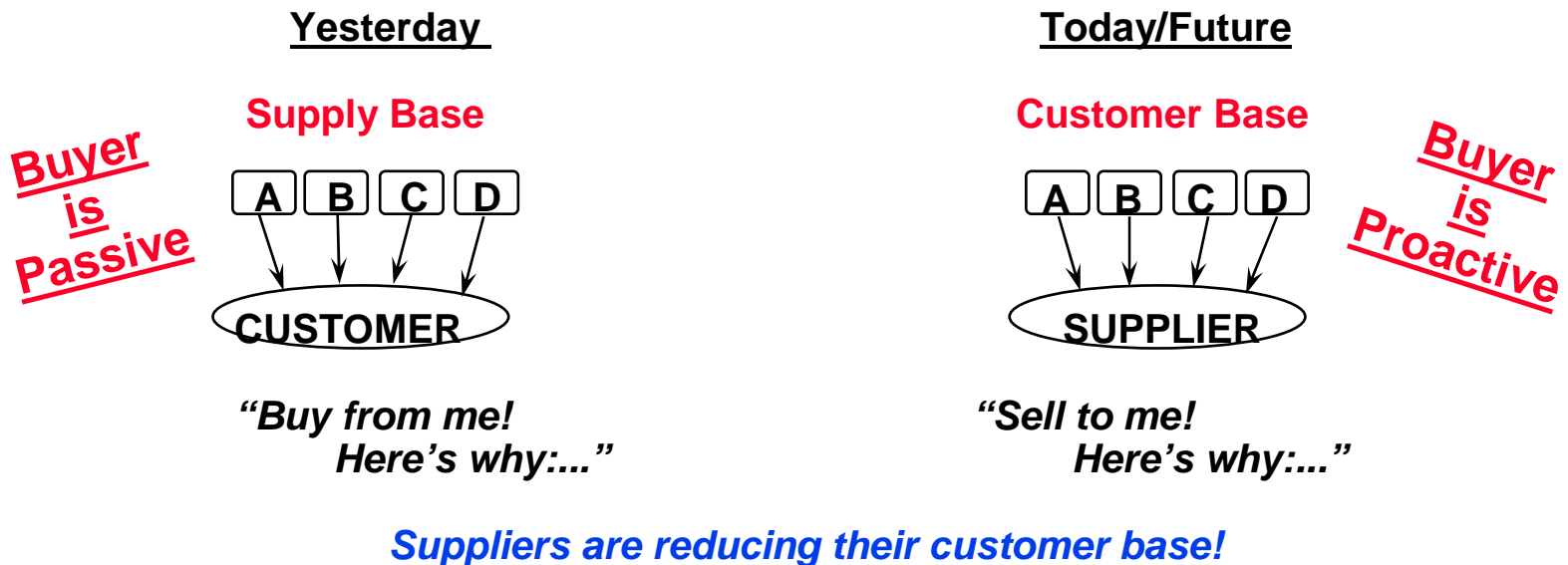
# How should we react?

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**With all these changes occurring,  
do you think there is the need to  
have a STRATEGY for Supply??**

# One interesting strategy

## Reverse Marketing\*



\* Dr. Michiel R. Leenders, University of Western Ontario

# Our Approach to Supplier Relations Has Changed:

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## FROM

Auctioning/price shopping

Short-term relations

Large and growing supply base

Isolation

Vendors

Erratic performance

Buy/Sell - box to the dock

Dumping

“We’re the customer”

Local mindset

## TO

**Total cost focus**

**Long-term commitments**

**Focused business relationships**

**Mutual goals/understanding**

**Extension of IAC business**

**Consistent and flexible supply of quality materials/services**

**Business solutions**

**Helping**

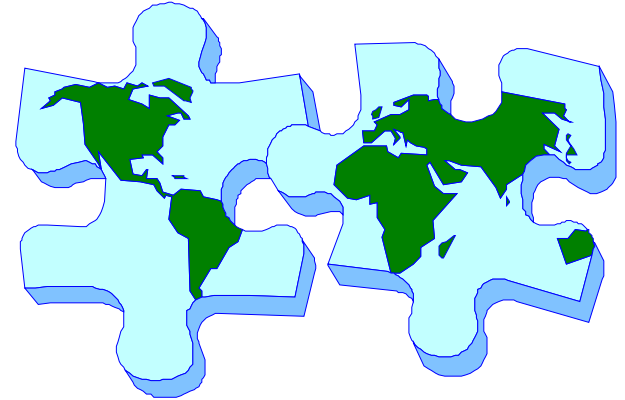
**“We’re partners in business”**

**Global Supply chain**

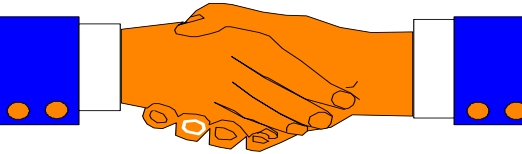
# Supplier Relations In 1998

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- More strategic in nature
- Integrated multi-functionally
- Increased sharing of information and technology
- Less legally binding
- More global in scope
- Focus on improving the process
- Involve total cost, cycle time and quality goals for the life of the product
- More focused on “solutions”
- Recognizing benefit of “Win-Win”



# Supplier Alliance: Our partnering strategy



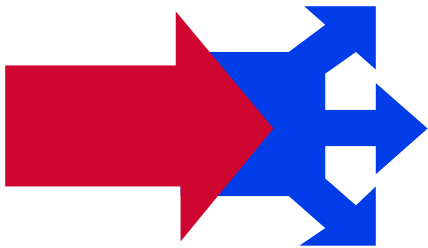
Supplier Alliance is the process of ***partnering with key suppliers*** to bring them on our team as an extension, not only of our business, but also of our ***commitment to World Class excellence*** in the products and services provided to our customers.



# Selection Criteria

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- Everyone can't be an alliance partner
- Suppliers of strategic value



Unique or preferred capabilities

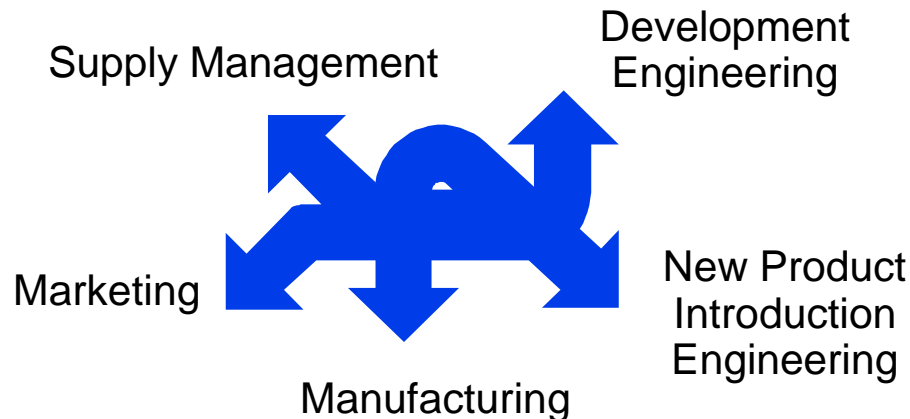
Technology leaders

Similar goals

# Selection Process

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- Supplier commitment obtained
- Nominated by Supply Management
- Approved by cross-functional steering committee including:



# Our Commitment To Supplier Alliance Partners

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- A mutually beneficial relationship
- Open and honest communication
- Professional and ethical conduct
- Accurate and timely performance feedback
- First opportunity to supply new designs
- Involvement in our business
- A long-term relationship



# Elements Of A Successful Partnership

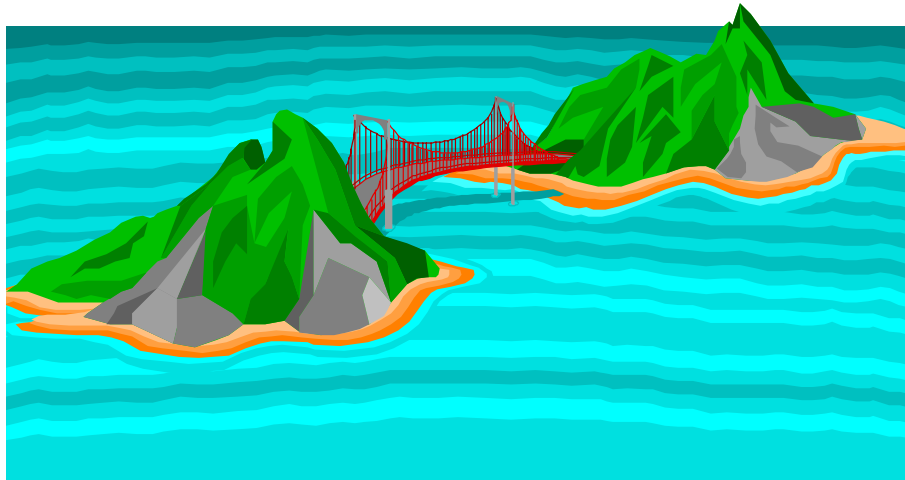
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- Commitment
  - Long-term
  - For “better or worse”
  - Resource sharing (not just material)
  - Need company-wide buy-in, not just a supply or sales program
- Communication
  - Open
  - Multi-functional
  - Frequent
- Trust
- Understand of each other’s businesses
- Demonstrated mutual benefit
  - Extra value achieved by both parties
  - Beyond traditional buy/sell relationship

# Our Supply Management Mission

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To provide a competitive advantage to IAC by maximizing the contribution, or value, suppliers provide to our business.



# Value from Suppliers

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**Definition**

$$\text{Value} = \frac{\text{Benefits}}{\text{Costs}}$$

Re-Engineer your mindset and allocation of time & resources to improving **BENEFITS** versus just focusing on the **PRICE** you pay!

# Value from Suppliers

## • Customized Supply Solutions™

- “We want solutions to our business problems, not just a box delivered to our dock”
  - From working with lead times, to establishing rapid replenishment times
  - Reduce the transactions it takes to do business

- |                                     |   |  |
|-------------------------------------|---|--|
| <input type="checkbox"/> Kanban     | <input type="checkbox"/> Floor Stocking     | <input type="checkbox"/> Capacity Reservation  |
| <input type="checkbox"/> Faxban     | <input type="checkbox"/> Rolling Forecasts  | <input type="checkbox"/> Consignment Inventory |
| <input type="checkbox"/> Web Buying | <input type="checkbox"/> Resident Suppliers | <input type="checkbox"/> Procurement Card      |

The Steps to take for each part or commodity:

- Create a Demand Profile
- Create a Supply Profile
- Evaluate and establish improvement goals
- Develop Customized Supply Solutions™ to meet the goals





# A Win-Win Scenario

## Customer “wins” with:

	Consignment Inventory	Direct Floor Stocking	Releases from Rolling Forecast	Resident at Customer
More Business	✓	✓		✓
Access to New Designs				✓
Stablized Production	✓	✓	✓	
Fewer Transactions	✓	✓	✓	
Quicker Payments	✓			
Less <b>Selling</b> Expense	✓	✓		✓
Assured Sales		✓	✓	✓
Access to Info. Earlier			✓	✓

## Supplier “wins” with:

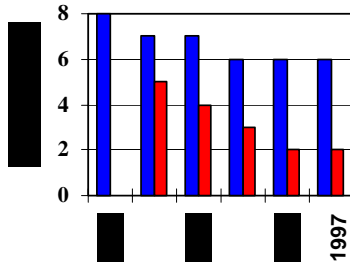
If you want a World-Class supplier, you must be a World-Class customer!



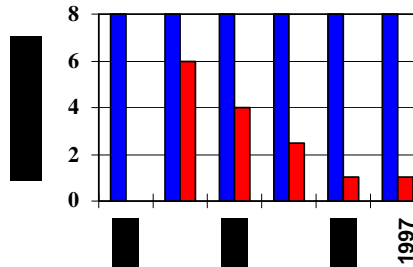
# Value from Suppliers

(Utilizing Customized Supply Solutions™)

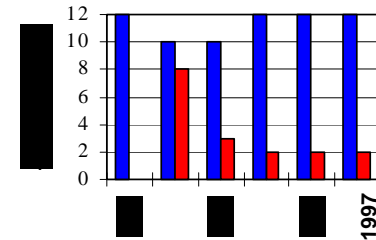
**Boards**



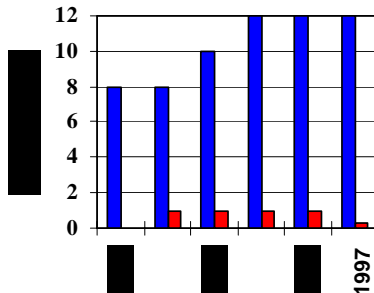
**Cable Assemblies**



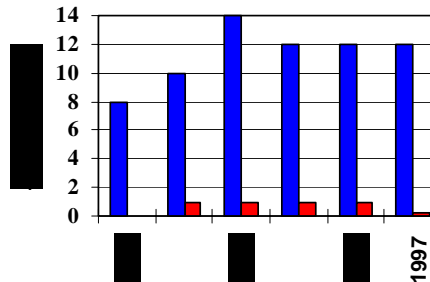
**Peripherals**



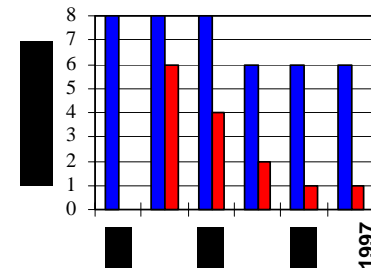
**Fasteners**



**Passives**



**Mechanical**



 Standard Lead Time  
 Customized Supply Solution Replenishment Time

# But do they “*take advantage*” of the relationship?

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- 1997 study statistically demonstrated:
  - More cost savings come from partners
  - Better on-time delivery from partners
  - Better quality from partners
  - More improvement suggestions come from partners

*It appears WE are taking advantage of the relationship!*

- But sales with partners grew at a higher rate than overall supply base expenditures

# Value from Suppliers

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## Resident Supplier Concept

- On site full time resource (at least 3 days/week)
- Location can vary with assignment:
  - Supply Management
  - Manufacturing
  - Design Engineering
  - Logistics
  - Human Resources
- Integrate into the business
  - Has a Honeywell Badge
  - On e-mail and voice mail
  - Access to MRP information
- Assignments:
  - Manage inventory & generates own orders
  - Cost reduction ideas
  - Design advice: Technical info, cost, life cycle status, standardization
  - Work with other suppliers

# What type of suppliers are resident

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- Electronics
- Electromechanical
- Machining
- Computers
- Software
- PC Boards
- Logistics
- Travel Services
- Temporary labor services
- Office Services
- Procurement Card

**All Kinds!**

# Resident Supplier Advice

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- Have a documented practice for adding, maintaining, terminating suppliers
- Get buy-in from other groups
  - Finance, Mfg, Engineering, etc.
- Have goals & metrics
- Interview & approve the resident person
- Involve residents in the business
- Co-locate throughout the business
- Review their personal and business status & performance

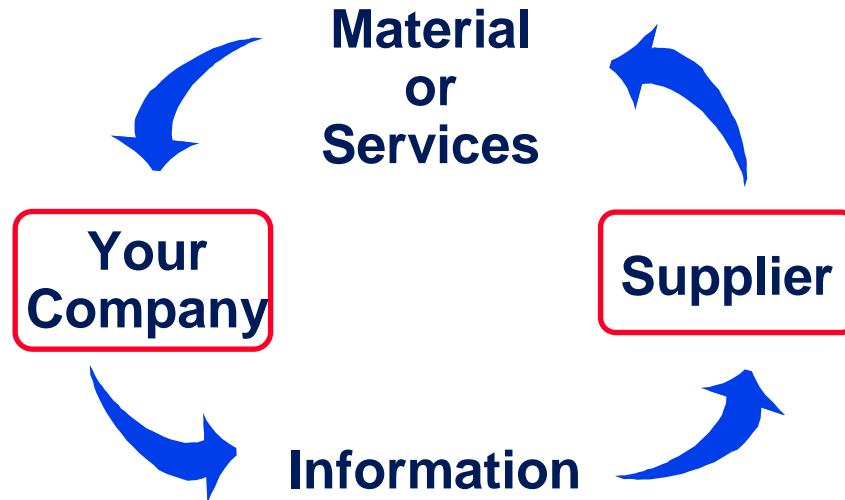
# Communicate with Suppliers

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- E-mail
- Web Pages
- Newsletters
- Meetings
- Performance reviews
- Supplier Days
- Project reviews
- Executive relationships
- Supplier recognition processes
- Alliance Teams

# Be a World-Class Customer

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If you want to improve the flow of materials to your company, you must improve the flow of information to your suppliers.

# Organizing for Success

- Organizational Level at Supply Management equal to Engineering, Manufacturing, Marketing
  - Not a subset of another function
  - No filtering of communications
- Segment Supply Management into strategic elements
  - Strategic/tactical/transactional
  - Future oriented/today oriented
  - Technical/administrative
- Co-locate people for success
- Get the best people: A “new” profile of the supply professional
  - Degreed: Supply chain, Operations Mgmt, Engineering
  - MBA for business and financial basics
  - Strong interpersonal skills, creative, innovative
- Positive, supportive, involving, challenging work environment

