

# Best Practices in Supplier Management Benchmarking Study

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# Supplier Relationship Benchmarking and Best Practices

- Thoratec Corporation in cooperation with Booz & Company performed a benchmarking study
- Purpose of study was to understand
  - Current Best Practices in R&D and Supplier Management
  - Risk Mitigation Strategies
- 13 companies were interviewed
- Industries covered
  - Medical: Start up, Class I, II and III
  - Aerospace

# Benchmarking Summary

Supplier selection is critical to get right up-front and mitigates many of the post-launch risks

Multifunctional teams led by program managers and supported by R&D, operations, and procurement are responsible for fully commercializing products

Supplier management teams work across all levels in the organization and are driven by procurement

# Categories and Topics

## Study Topics

- Talent Management
- Supplier Selection
- Design Collaboration
- Production Ramp-up
- Intellectual Property
- Alignment on Inspection Criteria
- Willingness to Supply
- Supplier Viability
- Supply Disruptions
- Parts Obsolescence
- Using Supplier Data for Inspection
- Supplier Relationship Management

## Category

## Example Questions

### Pre-Launch (Design Collaboration)

- What is the process today for how you select suppliers?
- When do you identify whether suppliers will be just design contributors or production partners?
- How does the design process incorporate manufacturability constraints?
- During development, what kind of quality inspections do you perform?
- As you approach the handoff to operations, how do challenges start to appear?
- How do you prioritize IP during product development?

### Post-Launch (Risk Mitigation)

- What types of risk do you have in your supply base?
- What actions do you take to ensure supply continuity?
- Do you support suppliers during difficult times – for example, financial hardship?
- How do you manage supplier quality?
- As you get deeper into the product lifecycle, how do you manage parts obsolescence?

### Supplier Management

- Do you have a formal supplier partnership program?
- What types of incentives do you offer to participating suppliers?
- What kind of people manage your supplier relationships?
- How do you determine the importance of each supplier?

# Supply Chain Risk Management Process



<b>Organization Size &amp; Complexity</b>	<b>Small Companies</b> 1-50 Employees	<b>Mid-Market Companies</b> 50 – 2,000 Employees	<b>Large, Regional Producers</b> 2,000 -20,000 Employees	<b>Global Institutions</b> >20,000 Employees
<b>Risk Management Processes</b>	<ul style="list-style-type: none"> <li>Ad-Hoc risk identification and mitigation</li> </ul>	<ul style="list-style-type: none"> <li>Key personnel engage in risk reviews periodically</li> </ul>	<ul style="list-style-type: none"> <li>Risk is managed systemically at the department-level</li> </ul>	<ul style="list-style-type: none"> <li>War-gaming / Simulations by firm leadership</li> </ul>
<b>Capabilities</b>	<ul style="list-style-type: none"> <li>Agile, flexible workforce</li> <li>“Putting out fires”</li> </ul>	<ul style="list-style-type: none"> <li>One-off risk analyses</li> </ul>	<ul style="list-style-type: none"> <li>Documented risk management processes</li> <li>Trained risk management personnel</li> <li>Communicating risks company-wide</li> </ul>	<ul style="list-style-type: none"> <li>Instills active risk mitigation into culture</li> <li>Training management to respond to crisis scenarios</li> </ul>
<b>Example Industries</b>	<ul style="list-style-type: none"> <li>Start-ups</li> <li>Building Contractors</li> </ul>	<ul style="list-style-type: none"> <li>Luxury auto brands</li> <li>Small aircraft manufacturers</li> <li>Household electronics</li> </ul>	<ul style="list-style-type: none"> <li>Medical device companies</li> <li>Automotive suppliers</li> <li>Defence contractors</li> </ul>	<ul style="list-style-type: none"> <li>Global financial firms</li> <li>Governments</li> <li>Automotive OEMs</li> <li>Big Pharma</li> </ul>

# Strategic Supplier Risk Identification

## Supplier Segment

## Description and Capabilities

A

Commodity Suppliers

- Suppliers that are currently or can readily be multi-sourced
- Cost reduction is prioritized and supply markets should be exploited
- Traditional sourcing levers apply:
  - Active bidding to ensure market pricing
  - Leveraging buy to enable better supplier fixed cost coverage
  - Purchasing forward contracts, LTAs, supplier raw material

B

Risk-Holding Suppliers

- Supplier-unique strategies are necessary to manage risk in the supplier relationship, e.g. –
  - Monitoring and supporting the financial health of high fixed cost suppliers
  - Ensuring capability redundancy at niche suppliers
  - Protecting IP and priority to supply under consolidating supply markets
  - Engaging product development to diversify sources of supply

C

Value Chain Partners

- Suppliers manufacturing high-risk components and/or holding critical IP
- Relationships with suppliers need to be strengthened; vertical integration should be considered
- Suppliers critical to competitiveness, and specific SRM capabilities are needed, such as:
  - Leveraging innovation in the supply base
  - Maintaining supply exclusivity and rights to IP

D

Unnecessary Suppliers

- Supplier power in relationship is unbalanced
- Supplier incentives are difficult to align
- Diversification strategies should be pursued, e.g. –
  - Designing out powerful, non-critical suppliers
  - Engaging procurement early in product development

# Supplier Selection Mitigation

## Best Practice

## Observations

Supplier quality is audited routinely and inspection is aligned upfront

- Best-in-class companies run quality audits prior to inclusion on approved supplier lists
- Quality audits include an assessment of the supplier's supply chain stability
- Inspection criteria are aligned upon up-front

Scalability of supplier manufacturing processes is monitored

- Switching suppliers deeper in the product lifecycle is more costly
- Prototype shops and quick-turn houses are avoided

Intellectual property rights are negotiated up-front

- A thoughtful approach to IP early avoids problems later in the product lifecycle
- IP in the supply base increases switching costs

# R&D Involvement in Supplier Selection

## Best Practice

Supplier selection decision rights are shared between R&D & procurement

## Observations

- At healthy companies, purchasing and R&D both conduct supplier assessments
    - R&D identifies and chooses technology suppliers
    - Procurement assesses the business risk associated with suppliers
  - Procurement and R&D collaborate on the supplier selection decision, with each organization holding a veto over the final decision
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- Procurement's involvement in and control over supplier selection decisions has increased
    - Ten years ago at most medical device companies, R&D controlled supplier selection, with procurement serving to validate R&D decisions
    - FDA field actions forced companies to improve supplier management practices
    - Now, procurement feeds business and quality information into the design process, preventing supplier selection decisions risky to the greater business

Procurement is proactive in supplier selection

# Up-Front Involvement

## Design Collaboration Best Practices

### Best Practice

Manufacturing & procurement  
involved early in  
design process

### Observations

- Procurement needs to own the supplier relationship up-front
- Best for suppliers to know early that long-run quality and inspection criteria must be satisfied to receive payment

Procurement owns supplier  
relationship from the get-go

- The first interaction with a supplier has a very different dynamic when procurement is in the room
- Helps set the expectation that procurement's needs are met up-front

# Supplier Relationships

## Supplier Relationship Management Best Practices

### Best Practice

### Observations

Supplier relationships should be open book

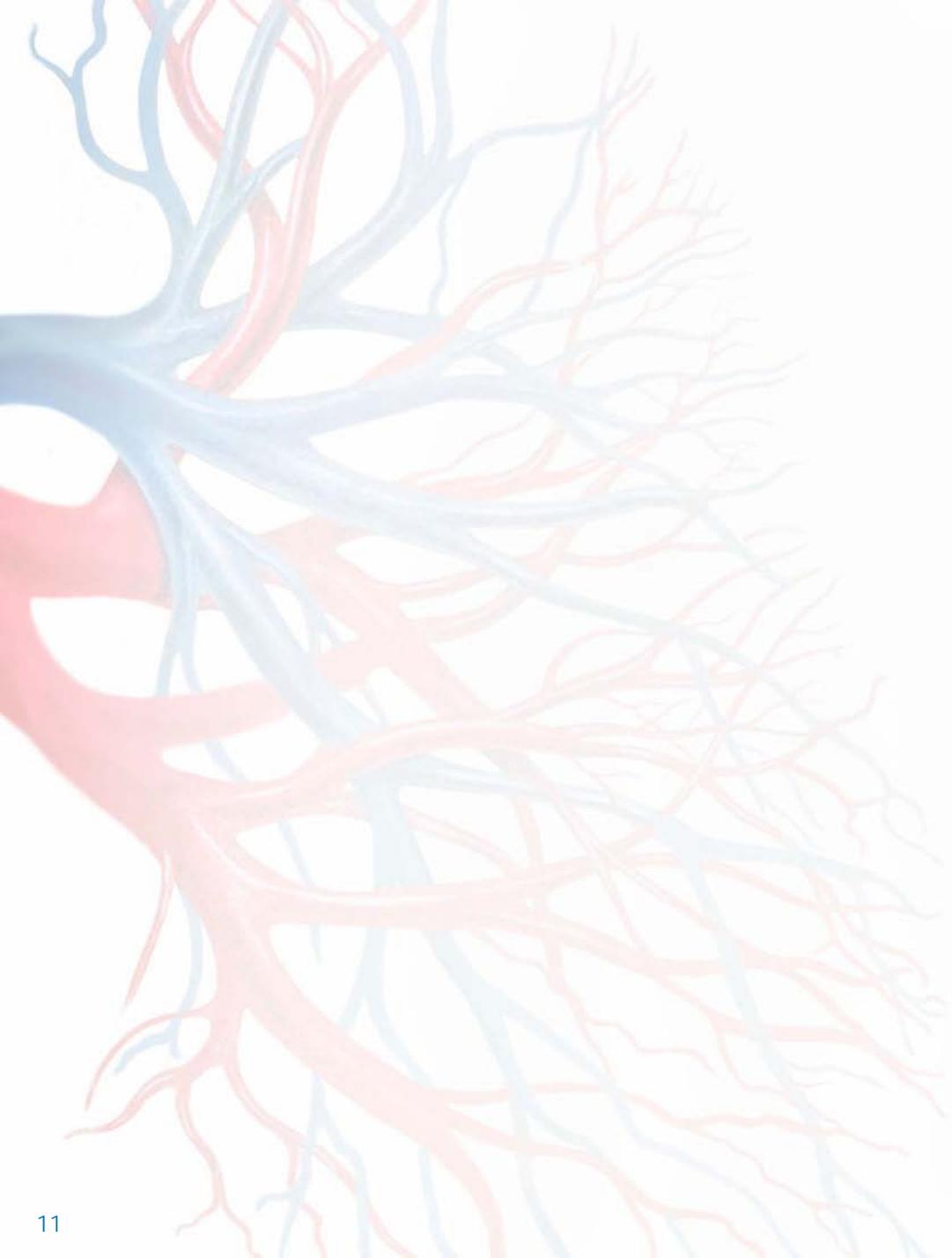
- Outside-in risk monitoring (e.g., D&B, supplier self-reporting) does not help you to anticipate potential problems
- Commodity managers should have deep understanding of their supplier's operations

Personal relationships build trust with suppliers

- Personal relationships with suppliers engender trust and lead to open dialog about potential risks
- 'Boots on the ground' operating knowledge of suppliers helps solve issues quick

'One size fits all' SRM tools are ineffective

- The emphasis on scorecards, supplier portals and reporting can distract from focusing on more important risk management issues
- Tools should be tailored to managing the unique risks faced by individual suppliers



  
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