

# **Integrated Supply Chain Management Outsourcing Challenges & Opportunities:**

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**Supply Chain Networks**

**Lucent Technologies**



# Integrated Supply Chain Management

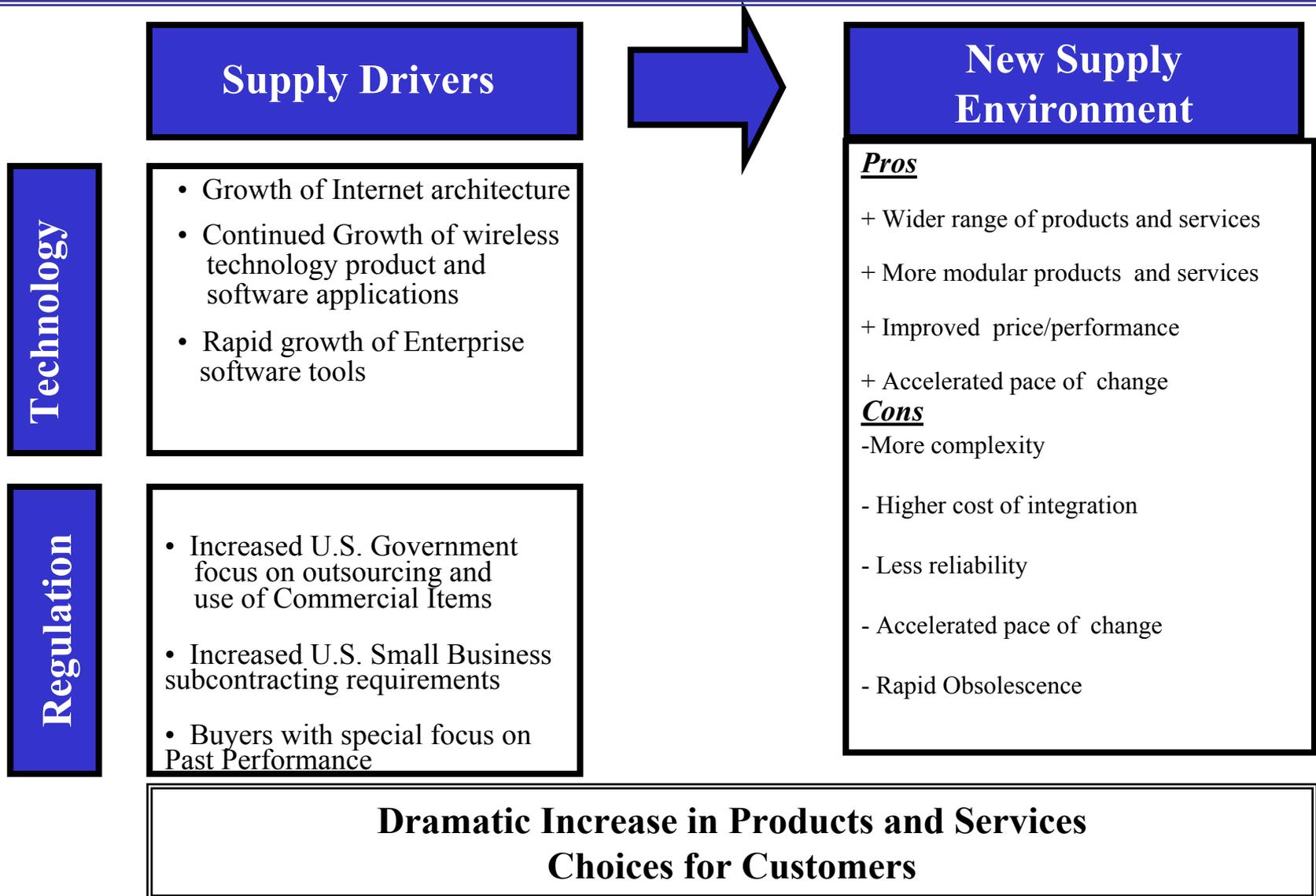
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## Key Topics of Discussion

- The World We Live In – The New Supply Environment
- Supply Chain Management: Cross-Industry Benchmarking Results, Center for Advanced Purchasing Studies (CAPS) 2003 Research Reports
- Integrated Supply Chain Management Best Practices & Lessons Learned

# The World We Live In



# Supply Chain Management

## Cross-Industry Benchmarking Results

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### Summary

Information gathered from hundreds of commercial companies from more than 25 different industries.

### Key Findings

- 40 percent – Purchase Spend as a Percent of Sales \$
- 1 percent – Purchase Operating Expense as a Percent of Purchase Spend
- 1 percent – Purchasing Employees as a Percent of Company Employees
- 5 percent – Cost Reduction Savings (% of Purchase Spend)
- 10 percent – Active Suppliers that Account for 80% of the Purchase \$

# Supply Chain Management

## Cross-Industry Benchmarking Results (continued)

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### Key Findings

- 51 percent – Use of e-Catalogs
- 21 percent – Purchase Spend via Strategic Alliances
- 13 percent – Active Suppliers that are e-Enabled
- 11 percent – Purchase Spend via EDI
- 5 percent – Purchase Spend via Diversity Suppliers
- 2 percent – Purchase Spend via e-Auctions
- 1 percent – Purchase Spend via Procurement Cards

# Supply Chain Management

## Cross-Industry Benchmarking Results

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### Key Findings

- 3 percent – Purchase Spend via Minority Owned Business
- 2 percent – Purchase Spend via Women Owned Business
- 12 percent – Purchase Spend via Other Small Businesses

# Supply Chain Management Case Study: Kodak

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## Background

- Late 1990's – Kodak's Worldwide Purchasing Group was highly decentralized
- Sourcing from a rather arrogant bloated supply-base of 3,500 suppliers that accounted for 80 percent of the company's annual spend.
- Poor communication between Kodak and its suppliers

# Supply Chain Management Case Study: Kodak

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## Over the Next Three Years Kodak

- Reduced number of suppliers from 3,500 to 877 delivering 80 percent of the company's annual spend
- Created a new energized and centralized supply chain management team
- Developed face-to-face supplier conferences
- Used Supplier Conferences to generate breakthrough ideas to help reach cost reduction goals
- Reduced procurement costs by \$1 Billion (U.S.)

# IBM's Supplier Management – Best Practices

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- 31 Global procurement commodity councils responsible for:
  - Sourcing strategy
  - Supplier selection
  - Environmental supplier management
- Selects excellent suppliers and strives for long-term relationships
- First major multi-national to earn a single worldwide registration to the ISO14001 Environmental Management System (EMS)
  - Less waste
  - Less harmful emissions
  - Reduces cost
  - Good for company image

# Supply Chain Management Case Study: Lucent Technologies

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From “Vertical to Virtual – Manufacturing to a Supply Chain System,” by Jose Mejia, NCMA Contract Management Magazine, January 2004.

Beyond manufacturing the company transformed:

- Warehousing and logistics (more than 500 internal warehouse networks completely transitioned to outsourced logistics networks).
- Repair (16 internal repair centers reduced to 4 internal centers and key repair suppliers)
- Supplier Consolidation (More than 3,000 suppliers now focused on key 60 suppliers – for 80 percent spend)

# Supply Chain Management Case Study: Lucent Technologies

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Key Results  
Change from FY2000  
to FY2003

- More than 90 percent reduction of the manufacturing budget (\$1.4 Billion to under \$200 Million)
- Significant reduction in inventory
- Improved On-Time-Delivery from 86 percent to 96 percent On-Time-Delivery for the most complex systems