ADD N°04

Argon&Co JOURNAL OF IDEAS

PROCUREMENT
R&D AND INNOVATION
PRODUCTION AND MAINTENANCE
SUPPLY CHAIN AND LOGISTICS
CUSTOMER RELATIONSHIP
SG&A OPTIMISATION
FINANCE AND PERFORMANCE
CHANGE MANAGEMENT
DIGITAL

PLACING YOUR SUPPLIERS AT THE HEART OF OPERATIONAL PERFORMANCE

SUPPLIERS **AT THE HEART OF OPERATIONAL PERFORMANCE**

Companies have been striving for many years to think and act beyond their own boundaries by including tier-1 or tier-2 suppliers in a range of plans.

Numerous collaborative work initiatives have been launched to enhance overall company-supplier competitiveness so as to maximise value for the customer. These initiatives include redesign to cost, digitalisation of operations, forecast sharing, co-development, co-innovation and even potentially joint investment in new activities.

So what are the facts? Has the ‘extended enterprise’ actually become an absolute must? How can suppliers provide value and help make the difference? And at the end of the day, are the results meeting companies’ expectations?

We carried out a survey with the BVA institute. The answers of approximately one hundred companies show a range of situations. For the best performing, the ‘extended enterprise’ has become a reality that goes beyond the usual power relationship between customer and supplier. But for many more companies, it is still just a question of securing supplies, cost reduction and cash optimisation.

In this issue of ADD, we have given voice to corporate leaders who have taken an original and innovative approach to the role and contribution of suppliers in operational performance.

You will discover concrete examples shared by Isabelle Quettier of Suez Environnement, Pascal Traineau of Lagardère Active and Michel Recatume of Safran Electrical & Power. These testimonies show that numerous companies are already involving their suppliers upstream in their operations and that there is total compatibility between the notions of cooperation, creating value and competitiveness.

We hope you find this issue thought-provoking.

Yvan Salamon
President
Argon&Co

SUMMARY

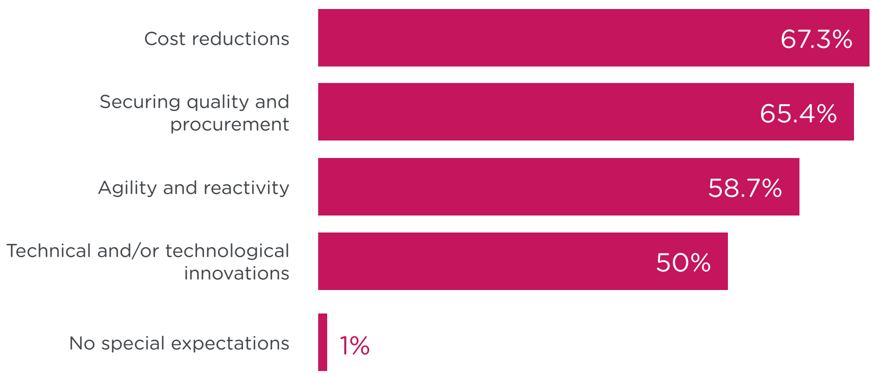
THE **‘EXTENDED ENTERPRISE’**: INNOVATION AND COMPETITIVENESS HAND IN HAND

The ‘extended enterprise’ - integrating suppliers into the value chain - has long been recognised as a source of competitiveness. 90% of companies say that they have identified their strategic suppliers. But are suppliers really partners that help a company broaden its scope and multiply its potential sources of competitiveness?

We wanted to assess in what ways this ambition had become a reality by conducting a joint survey* with BVA the institute, interviewing over one hundred French corporate leaders.

Most companies’ expectations of suppliers are often still limited to cost optimisation, securing supplies and respecting quality.

What do you expect from your suppliers (procurement priorities)?

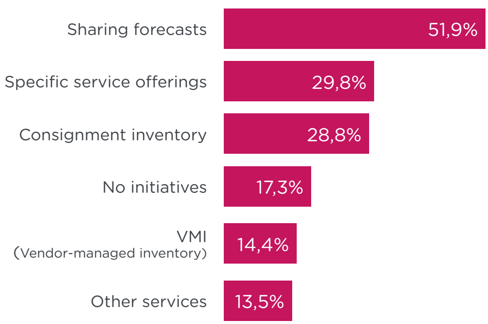


* Argon & Co/BVA survey by phone and online of 104 members of executive committees of French companies

Joint initiatives, usually focusing on aspects of supply chain and logistics, show that the 'extended enterprise' is having a hard time going beyond a company's boundaries.

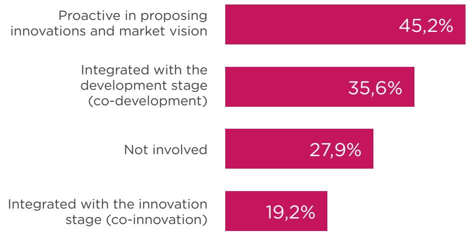
In an effort to secure supplies and optimise inventory, companies have gradually stepped up cooperation with their suppliers in fields ranging from the exchange of information to a liability shift approach.

What supply chain initiatives have you implemented with your suppliers?



Despite their will to go beyond this traditional kind of relationship and go into co-innovation, only 27% of respondent companies say they have worked jointly with their suppliers on R&D activities.
Companies nevertheless expect their suppliers to give them an innovative view of the market and products.

What role(s) do your suppliers play in R&D?



So far, the 'extended enterprise' has come to life only in some aspects of the company-supplier relationship and has proven to be an original means for the buyer to optimise costs and secure supplies in terms of delivery times and quality.

Companies' expectations of their suppliers are evolving towards upstream activities and this shows that the challenge for tomorrow consists of combining competitiveness and innovation; creating value together while remaining ever more competitive.

SUPPLIER RELATIONSHIP AT THE HEART OF COMPANY STRATEGY

In 2008, Safran launched an in-house program named Safran+, aimed at enhancing the group's performance, covering all businesses and functions including purchasing and supplier relationships. Michel Recatume, Improvement Plans and Industrial Coordination Director at Safran Electrical and Power (formerly Labinal Power Systems), tells us about the make-or-buy studies carried out within the Safran+ context.

Safran Electrical & Power in short

The company was created on January 1st, 2014, from the merger of Labinal, Technofan and Safran Power. Safran Electrical & Power (formerly LPS) specialises in electrical solutions for the aeronautics industry: cables, power generation, distribution etc. A subsidiary of the Safran Group, it has 40 sites and 14,000 employees in 9 countries around the world.

Michel Recatume
Improvement Plans and Industrial Coordination Director
Safran Electrical & Power

At what level is the industrial integration of your suppliers?

Alongside a conventional approach in purchasing, we strive more and more to engage in upstream partnerships with our suppliers, particularly in R&D. The aim is to co-develop high added-value products. We also seek to better integrate our various supply chain partners into our internal processes by working on supplier development principles.

What led you to undertake the rationalisation of your supply chain?

A context of strong growth and the acquisition of complex and varied businesses! As an example, we recently integrated the electric systems activities of two North American companies: Goodrich and Eaton. We had supply chains that were specific to each entity with the purchasing of very distinct products, different approaches and so on. Our mission consists of overhauling and repositioning their approaches to harmonise them and make them more efficient.

After the creation of LPS (Labinal Power Systems) on January 1st, 2014, we quickly seized the opportunity to carry out make-or-buy studies. The idea was to define a unified methodology to conduct state-of-the-art studies and make sure our industrial strategy was heading the right way.

So how do you balance maintaining strategic expertise and economic performance?

We start by asking ourselves whether this or that knowledge is truly strategic or not and by assessing our economic performance on the basis of objective criteria. That is what we did in our first make-or-buy study focused on the windings of electrical motors and generators. This activity was considered strategic by the preceding management. But is that still the case?

Another question that should be asked is about the way customers perceive a change of approach in some activities and this is particularly true in case of a switch from ‘make’ to ‘buy’.

> “We were fully transparent in our communication on the project with a will to make the stakes clear throughout the study.”

What resistance did you meet during the implementation of this approach?

The key challenge was to communicate with all stakeholders, both in-house and external, at the right time and with an educational approach. Internally, we also needed to have a look at the market, for example identifying suppliers that had better expertise than us on some technologies or industrial processes. But apart from that, there was no real resistance to managing change. We were fully transparent in our communication on the project with a will to make the stakes clear throughout the study. This enabled us to align all stakeholders: staff, suppliers, partners etc.

What's coming next?

First of all, this study strongly recommended the make-or-buy process in the windings activity. For example, we identified some automation possibilities on complex-shaped windings that were previously considered impossible. They will soon be implemented. We also developed a global and unified make-or-buy methodology for LPS. It is based on a document repository that Argon helped us develop. It can be used by all of our businesses according to the issues: economic performance, strategic questioning etc.

> "We favour working in partnership with them and that implies getting to know each other better and building mutual trust."

Going beyond the project you conducted, what are the internal consequences of a more int grated supplier relationship?

We favour working in partnership with them and that implies getting to know each other better and building mutual trust. It is absolutely necessary to involve our key suppliers as far upstream as possible and to develop sustainable strategic relationships with them as these are the sources of added value for both supply chain partners and customers.

LEARNING HOW TO MANAGE STRATEGIC PARTNERS AS REAL PARTNER

Christophe Durcudoy, Partner, Argon & Co

For over 20 years companies have understood that some suppliers require special attention, but few have managed to control the balance of power and make the most of the potential benefits.
Whether under the responsibility of purchasing or directly under general management, the interaction process with suppliers is something like a no-hear-no-see situation (hiding the problems under the carpet) or opting for a headlong rush (awarding more volume to nurture good relationships with key suppliers).

But some companies have made it a real priority to manage strategic suppliers for the following reasons:

1. These suppliers too must be subject to cost requirements (they can account for as much as 30% of spend).
2. They are at the heart of companies' development and innovation initiatives.
3. They can be a major risk for a company that highly depends on them.

Therefore, large groups and mid-cap companies regularly launch initiatives to better manage their strategic suppliers.

There are three good practices to reverse the situation and switch from dependence to partnership:

1 – Know-how to identify the real ‘strategic suppliers’

Ask five people and you will probably get five different definitions of strategic suppliers; a CFO will consider the largest companies whereas a purchasing director will name half of the panel.

The objective definition of a strategic supplier is actually quite simple. It is based on two key criteria:

The supplier’s contribution to the company’s strategy:

- Contribution to the growth of the activity (providing innovation, contributing to the company’s image).
- Contribution to the company’s competitiveness (reducing production costs and development costs etc.).

The supplier’s criticality (industrial, financial, sales):

- Operational risks (stockout, excessively long deadlines, price volatility).
- Legal/financial risks (particularly true if the company is economically dependent on the supplier), quality etc.

Once the analysis has been completed, the supplier panel appears in a new light with a vision of each supplier’s strategic importance. The challenge is then to ensure that strategic suppliers become partners.

2 – Develop an action plan tailored to the suppliers’ nature and potential

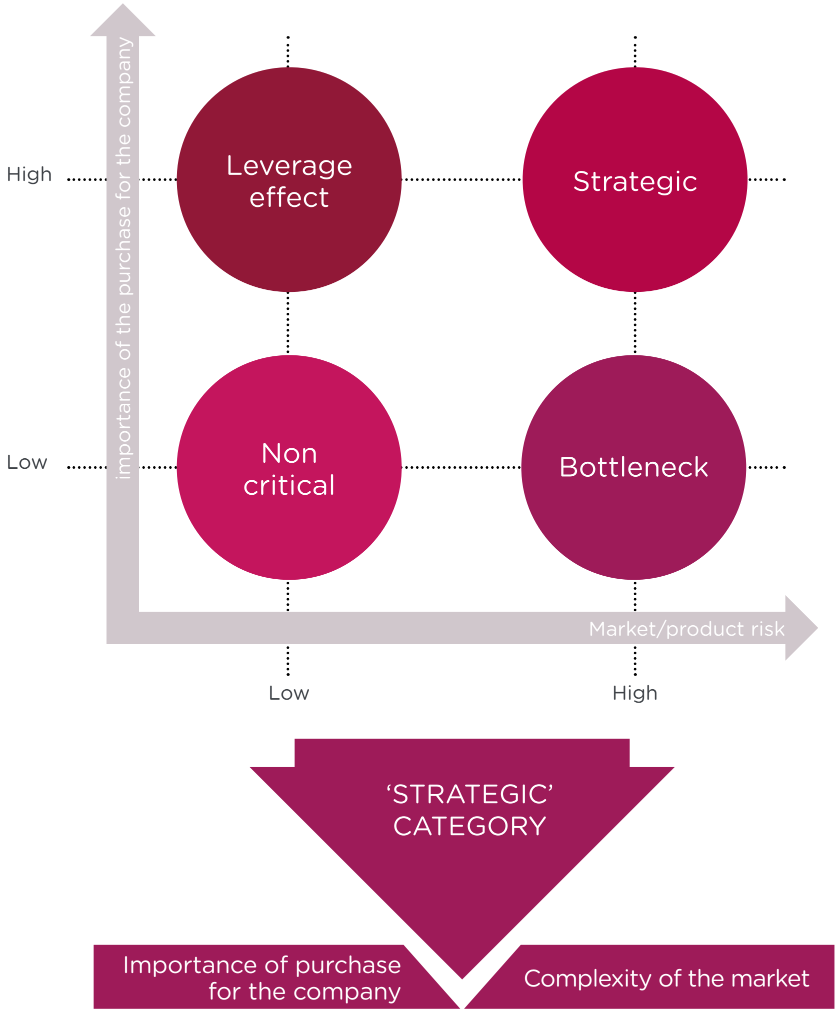
Establishing a new relationship with strategic suppliers implies a thorough knowledge of these companies and their market.

For each strategic supplier, you need to have detailed knowledge of the cost structure, strategy and weaknesses of that company. A new balance of power can then be created. In addition to that, the identification of potential synergies between your company and a supplier highlights the mutual interests, cornerstones for future cooperation.

- Developing business, e.g. providing support to a supplier for setting up in a new country or jointly developing new sales offers.
- Innovation and business expertise: co-development of projects enabling the supplier to gain new know-how.
- Improving competitiveness: implementing joint cost-reduction projects (improving forecasts, re-thinking production processes, development cycles, logistics support).
- Lowering risks and sharing them (joint investments, commercial risks).

On the basis of this analysis, the company can then offer the supplier a new type of relationship opening up a win-win partnership.

Strategic supplier identification matrix

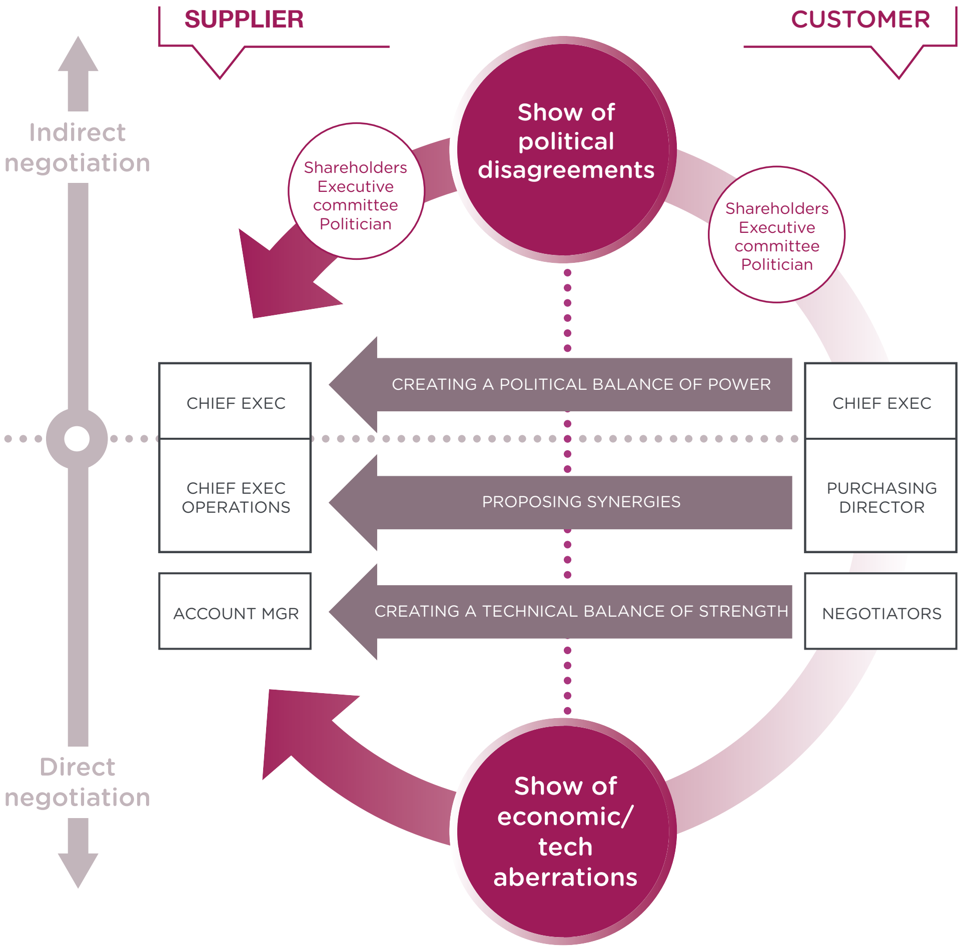


- Competitiveness objectives
- Customer satisfaction objectives (quality, delivery time)
- Innovation objectives

- Number of suppliers liable to provide service/product at the appropriate quality/cost/time
- Easy/hard to change suppliers (approval, switching cost, de facto monopoly)
- Specific cases: supplier imposed by the customer, political considerations...

3 – Creating and driving a partnership

Delivery model of the power relationship levers in negotiation



In the context of strategic supplier management, it is useful to formalise the partnership. There are various kinds of documents available for this formalisation but it is vital to clearly state the rules governing the relationship and the mutual commitments. This agreement also enables the planning of systematic reviews and fosters a long-term win-win relationship.

Three elements should be in the agreement:

- The conventional trade conditions.
- The purpose of the partnership: performance targets, expected mutual benefits etc.
- The terms of the partnership: governance, organisation, respective investments etc.

These elements will fully optimise the company-supplier relationship.

But a good partnership must also be managed to:

- Shape and monitor jointly-defined action plans.
- Ensure in-house alignment on the topics to be worked on with the supplier.
- Detect alerts and determine the appropriate solutions.

Teams will steer this partnership through regular meetings, reviewing key indicators and dealing with the main risks, enabling the planning of future activities.

Switching from a defensive stand to a partnership framework to create value

When they are in a situation of co-dependence, companies frequently take a defensive stand in the management of strategic suppliers, considering them more often a risk than an opportunity. But with appropriate management, a partnership with strategic suppliers can be a driver for value creation.
Purchasing and other functions are starting to grasp the stakes and are implementing plans.

ESTABLISHING A TRANSPARENT SUPPLIER RELATIONSHIP TO OPTIMISE COSTS

Patrick Legris, Partner, Argon & Co

Lagardère Active is the French leader in magazine media and the number one audiovisual producer in France. It is a flagship of French culture around the world with renowned publications such as Elle and Paris Match.
The group, just like its competitors, must nevertheless deal with the crisis facing print publications and has to adapt to the growth in digital media.

In 2013, Lagardère Active embarked on an ambitious cost-saving plan driven by executive management and the Director of Internal Operations and Purchasing, Pascal Traineau. This plan transformed its relationship with suppliers.

Objective: optimising costs while preserving the quality of spend

To address this challenge, Lagardère Active, with the support of Argon & Co, implemented a three-directional strategy:

1. Understanding the company's needs to clearly explain them to suppliers.
2. Taking full advantage of the evolution of the supplier market.
3. Co-developing tailored solutions with suppliers.

1 – Understanding the company's needs to clearly explain them to suppliers

The analysis of internal needs sometimes already exists for some of the current spend like photocopying and telephone but generally it has not been extended to analysing all needs.

A comprehensive analysis is however necessary to control and manage costs. Not only does this allow spend to be adjusted to the strict necessary but it also provides solid arguments that will be used during negotiations with suppliers to get a tailored service.

There is another advantage to mapping internal needs; it involves all functional and operational management, increasing awareness of the related issues and their possible impact on financial results (something many managers are often unfamiliar with).

> "The work we carried out allowed us to have a better understanding of our spend in terms of volume but in terms of the quality required. This is a major issue for any company that relentlessly seeks to control costs."
>
> **Pascal TRAINEAU,**
> Director of Internal Operations and Purchasing – Lagardère Active

If a need has not been well understood and clearly defined, it will generate unnecessary expenses that will drive up costs. Additionally, a supplier has a 'natural' tendency to overcharge non-standard services so it is necessary to clearly define the need.

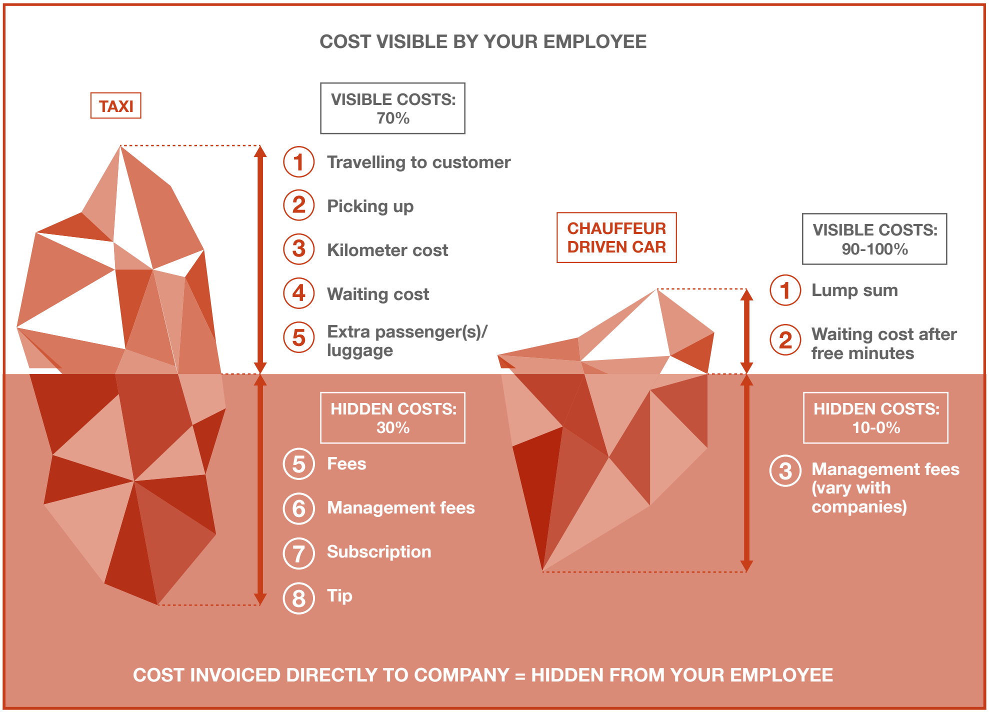
Analysing taxi requests per hour / per day

2 – Taking full advantage of the evolution of the supplier market

The analysis carried out at supplier level showed that the company was not making best use of its supplier resources and was not taking full advantage of what the competition could offer. Each supplier differentiates itself in its market by technical or technological characteristics. A key lever in controlling costs lies in understanding these specificities and comparing them to each need. One example of this approach is the comparison between taxis and chauffeur driven cars.

Companies are often exclusively dependent on taxis and don't look for alternative solutions for employee travel. Understanding the difference between these two means of transportation, in terms of service but also cost, can offer significant sources of savings without jeopardising internal service.

Comparing structure costs of a taxi vs. chauffeur driven car: total supplier cost analysis highlights differentiating elements and facilitates defining the service best suited to the company.



3 – Co-developing tailored solutions with suppliers

Achieving new objectives in cost control requires going back to the fundamentals of a customer-supplier relationship.

The conventional levers (price negotiation, reducing order volumes, reviewing specifications) remain relevant but they no longer generate the expected levels of savings. It is by an open-book approach with suppliers, jointly developing tailored solutions, that a company will ensure effective cost control with the guarantee of having the best service (i.e. really matching needs).

Lagardère Active explained its precise needs to its suppliers and devised services that took into account the whole array of service opportunities as well as their suppliers' business model (guaranteeing them a decent profit margin).

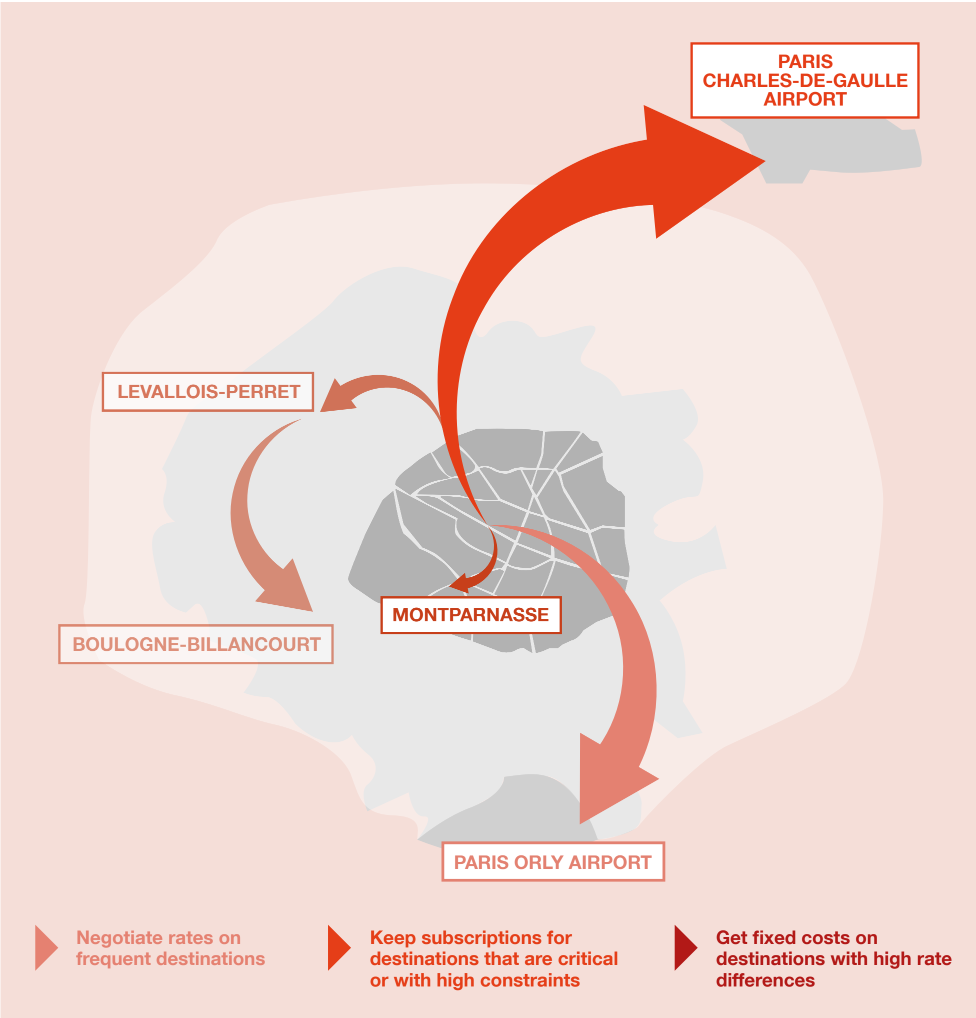
So this actually creates a win-win situation: the company is invoiced on the basis of its real needs and the supplier enhances its offer, becoming more attractive while keeping its margin and contracts.

With the example of taxi expenses, this approach led to an original cost reduction strategy, far from the conventional practices of price negotiation or the consolidation of a supplier panel: the choice of supplier is based on the 'importance' of destinations, negotiating with suppliers on the contents of the offering…

"Just as with spend analysis, understanding our suppliers' business practices helped us to find significant sources of savings and develop tailored solutions; less costly with the same level of service."

Pascal TRAINEAU,
Director of Internal Operations and Purchasing
Lagardère Active

Building a target spend with supplier(s) gives the company the best service at the best cost.



Lagardère Active has perfectly understood the need to find breakthrough solutions to meet its savings objectives. This led to significant work on understanding its own needs and having a clear vision of the supplier market. The company remained open to original action proposals based on a more transparent supplier relationship, enabling maximum in-house benefits.

INVOLVING YOUR SUPPLIERS IN A DESIGN-TO-COST APPROACH

Jean-Pierre Pellé, Director, Argon & Co

All businesses look to enhance their competitiveness by means of cost-reduction initiatives (purchasing, manpower and process). In manufacturing companies, competitiveness often starts at the design of products and even services.

And that is the very issue that is addressed by design to cost (DTC), where the aim is to ensure optimum customer satisfaction (no less, no more). This method aims at identifying breakthrough levers and enhancing customer-perceived value. In this method, supplier involvement facilitates the review of an important part of the product cost structure and leverage on innovation.

When correctly implemented, DTC generates savings of 10 to 30% on average with very high returns on investment.

Some people still question the relevance of DTC but we think it should be used unconditionally.

Let's have a look at what are still all too often common beliefs, and also look at good practices.

4 common beliefs that are still widespread today:

Common belief n°1: that's engineering's business.
The major challenge in DTC projects is not so much in the technical teams' capacity to find innovative ideas than for the company and its ecosystem to identify the true gems; those that will bring the expected leaps in performance.
DTC is a strategic approach that first aims at breaking down walls in the organisation and fostering innovation. This is why purchasing has a key role to play; it has in-depth knowledge of suppliers' technical expertise and innovation capacities.

Common belief n°2: it's too risky to involve suppliers.
Most of the time, supplier invoices make up a significant part of the cost structure; 50% and more in manufacturing companies. So it is clearly useful, if not necessary, to involve suppliers in a DTC approach.
This can be a sensitive process on a day to day basis as it requires the partners to cooperate efficiently throughout the project. This is a challenge in terms of balancing flexibility and transparency and at the same time maintaining a strict contractual approach, especially in terms of sharing risks, savings and required investments.

Common belief n°3: nothing can change because there's just no leeway.
The launching of a DTC project is often hampered by culture or because current practices have not been questioned. One example is that tolerance margins on some parts may have become so stringent that it takes very costly technology and processes to manufacture them. Critical and objective analysis of one's own requirements eliminates quite a lot of roadblocks and opens up new opportunities. So the amount of leeway actually depends on the technical characteristics or technical 'margins' that were set in good faith, often because of the technical team's dislike of any form of risk.

Common belief n°4: a DTC project costs a lot.
Return on investment is a natural concern and of course it applies to DTC projects too. That is why it is vital to outline the expected gains and total implementation cost as soon as the issues and challenges have been identified. It is not uncommon to observe that savings are 10 to 100 times higher than the implementation cost for a DTC project deployed over a few weeks. The overarching stakes in using DTC should definitely cut short the debate over the profitability of such projects.

Supplier involvement in DTC approaches generates striking savings while building long-term cooperation.

When involving suppliers in a DTC approach there are three key principles to build a successful and balanced relationship… leaving aside all naivety!

1 – Deal with the balance of power
The more you foster effective cooperation, the more you get overall performance! It is necessary, however, to agree on the framework and terms of this cooperation.
It is essential to define a contractual framework with a balance of power: scope of the commitment, duration, obligations, roles and responsibilities, intellectual property… And obviously a non-disclosure agreement! There is another essential point and this one is often forgotten. To engage in a smooth and peaceful cooperation, it is absolutely necessary to complete all price negotiations with each partner beforehand.

2 – Set clear rules
How will the savings be shared? How will risks be shared? And what about recurring and non-recurring costs? What are the expectations in terms of financial benefits (securing business volume) and non-financial benefits (access to new markets)? What is the governance model? Who decides which opportunities are selected?

These are the kind of questions on which consensus must be found by the general management of both parties before starting a DTC project. Otherwise it will fail.

3 – Be transparent in your relationship with the supplier
You can have a trusting relationship only if you open your books, share the objectives, scope, cost structure and cost drivers, risks etc.

The involvement of leadership on both sides is a key success factor that is critical to show common willingness to engage in a relationship that creates value.
But that in no way means being naive! It is essential to have an in-house agreement on exactly what information will be shared with the partner before starting together on a DTC project. This should be clearly defined and adhered to.

A DTC project is a winning bet if the appropriate organisation is set up. The whole of the company ecosystem must be involved, both internally and externally.
The ROI is fast and savings can often reach spectacular levels. The sustainable transformation of the company is at stake and that is a source of innovation, added value, decompartmentalisation and partnerships with strategic suppliers.
DTC is an ideal transformation agent used by general management both to generate breakthrough leaps in performance and to develop real teamwork in-house and with partners.

OPTING FOR CATEGORY MANAGEMENT

In an economy characterised by competitiveness and innovation, the role of suppliers is not limited to providing products and services. They have become fully-fledged partners, helping a company to create value and stand out from competition. Backed by this conviction, Suez Environnement enhanced its purchasing strategy, notably by opting for category management. Isabelle Quettier, Group Purchasing Director, provides insights into this approach.

Suez Environnement: global footprint, global purchasing

With a presence in over 70 countries, Suez Environnement offers innovative solutions in waste recycling and resource management with three business units: water management, recycling and recovery (transforming waste into value) and land management. The group's annual revenue is €14.3 billion and its annual purchasing amounts to €6 billion: 1/3 in France, 1/3 for the rest of Europe and 1/3 for the rest of the world.

Isabelle Quettier
Group Purchasing Director
Suez Environnement Group

What are the key issues of purchasing at Suez Environnement?

The first issue is a very standard one: competitiveness via resource and cost optimisation. Among other things, we think in terms of total cost of acquisition, and not only purchasing price.

For example when we buy pumps, the price of the equipment amounts to 10% of the total bill. The majority of the cost is divided into the energy it consumes and maintenance operations. So it could be far more profitable to buy a pump at a higher price if it consumes less and requires less maintenance.

Then there is the question of territorial anchoring. In France we foster business relations with small- and medium-sized companies and that represents 30% of our purchase volume. And the approach is identical on an international scale; we observe principles of diversity and understanding of local specificities. That's why our supplier base is so broad.

Do you have specific expectations concerning your suppliers?

Yes and this is one of our major issues. Our suppliers must support us in the development and enhancement of our solutions. We work with them very much upstream to create innovation, particularly on new services and the circular economy: smart meters, waste recovery etc. We always keep this question in mind; how will our suppliers provide us with the resources tomorrow to create value and stand out from the competition? That's how the procurement function contributes to the group's business development.

What initiatives have you launched to contribute to your company's performance?

We started by reorganising the whole procurement network with a new governance model and new processes. The other operating lever was the implementation of a category management policy with the support of Argon & Co.

The principle consists in globalising purchases and organising them into categories. Instead of scattered purchasing, we define common strategies that are then applied by our business units (BU).
There are two specificities at Suez Environnement:
• First, we choose to designate the category managers by business: mechanical processing, incineration etc.
• Secondly, our category managers are positioned in a BU instead of staying in our headquarters. They each lead a core team made up of buyers and technical managers associated to that BU. The reason is that apart from helping the

teams buy at the best cost, their role is also to support them in the optimisation of their processes.

Is category management associated with make-or-buy decisions?

Yes they are because once procurement volumes have been globalised we can quickly start working on standardisation of the specifications and the choice of products. So the make-or-buy decision approach is on the agenda. For our group and for the BUs it helps raise strategic questions on what can be outsourced or not. So we ensure that the Technical and Operations Directors of the BUs are represented at steering committees when group procurement strategies are on the agenda.

What achievements have you had using category management?

We have an obvious leverage effect thanks to procurement pooling and that enhances our competitiveness. Beyond that, category management has enabled us to spot innovation opportunities that we are putting to work. As for our relationship with suppliers, the leap forward is both quantitative and qualitative.

> "Our suppliers must support us in the development and enhancement of our solutions."

> "Continually starting over again because the DNA of an efficient procurement policy implies questioning ourselves on a regular basis!"

And what are the next steps?

Procurement standardisation at group level is not so obvious for everybody. So we have to educate people on category management. It does take time but things are moving along nicely. Teams come to realise that group decision-making creates value for everyone. In the longer term we must continue to define clear procurement strategies for each business. And this means continually starting over again because the DNA of an efficient procurement policy implies questioning ourselves on a regular basis!

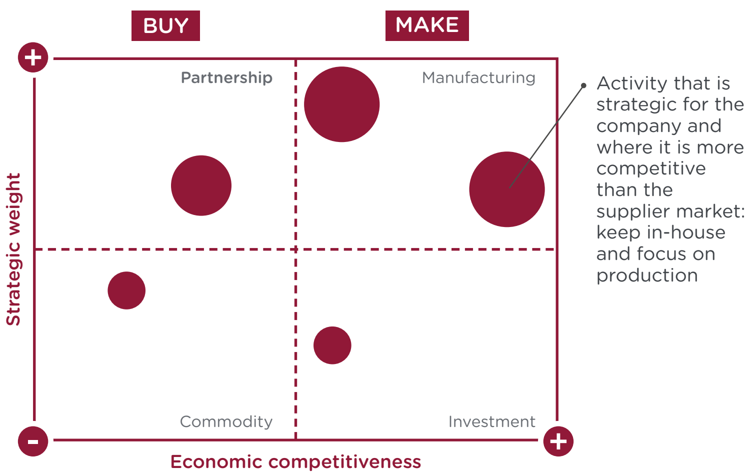
MAKE-OR-BUY OR HOW TO PLACE YOUR SUPPLIER AT THE CORE OF YOUR CORPORATE STRATEGY

Jean-François Laget, Partner, Argon & Co

In an economic context where competition is getting tougher and more diversified, defining operational strategy is more than ever a key issue. How can a company determine its core business and its differentiating features?

This may seem a trivial question but companies often have a hard time finding the answer. A make-or-buy thought process can help them.

As its name indicates, a make-or-buy decision-making process induces companies to ask themselves what they should manufacture and what they should buy. The choice is based on an assessment of the importance of each of their activities in terms of strategy and competitiveness.



It can prove useful to bring suppliers into this discussion.

There are three good practices in approaching this method:

1 – Use your supplier's vision of the market to engage in a better positioning.

How should you position your company in its market? How competitive is your company?

Those are questions that a make-or-buy decision process can help you answer. Not only because the question is asked in explicit terms to the company's staff but also and especially because it will enable you to get the point of view of your competitors... and suppliers.

Suppliers are in contact with other companies competing in the same market or on the same product so they often have an excellent vision of the way a market is structured. They represent a wealth of objective information that contrast with in-house common beliefs.

But relying on suppliers to have a better understanding of the market (and the company's positioning) is not common practice today.
Contrary to what people might imagine, suppliers are quite open to sharing precious information if they are approached with the right attitude.

2 – You can improve by learning from your supplier.

Suppliers face growing pressure on price, quality and delivery time so they have had to develop new expertise to keep their margins and win new contracts.

That is why it is not uncommon to find that an activity you have not outsourced can actually be done by a supplier in a more efficient and optimised way.

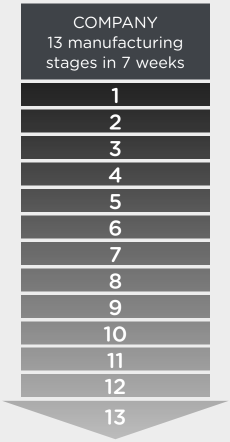
If you have thorough knowledge of your supplier market and what they do, and if you develop a relationship based on transparency and trust, you will have an original and effective way to find optimisation levers.

True: the practices of your suppliers may not be the same, your respective structures may be different and they may be located far away. But reassessing, questioning, challenging your company's present choices... isn't that the way to have a better vision of what your company's core business actually is? Or how to identify the most profitable way to generate value for your customers?

Make-or-buy analysis places your company, your competitors and your suppliers on an equal footing on the basis of an objective comparison. This means each player's structural competitiveness can be determined, along with the size and value of potential optimisations. Those are key factors in defining a company's strategy.

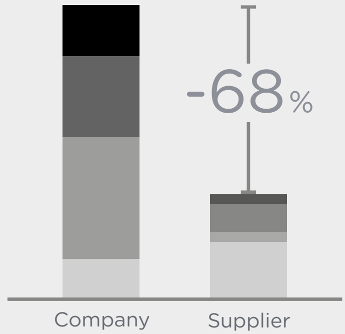
In the case of a substitutable product (made/bought), the company can learn from its suppliers to optimise the manufacturing process and costs.

THE COMPANY'S MANUFACTURING PROCESS IS 'UNDER-OPTIMISED' COMPARED TO THE SUPPLIER'S.



The supplier has identified the unnecessary manufacturing stages or has found optimised alternatives for identical quality.

THE ECONOMIC COMPETITIVENESS OF THE SUPPLIER PROVES TO BE MUCH BETTER.



Forced by his customer, the supplier has found ways to significantly reduce costs with identical quality: plant locations, better performing sourcing, reduction of indirect costs etc.

3 – Make your supplier relationship evolve from 'off-the-shelf supplier' to 'strategic partner'.

Make-or-buy analysis is also the opportunity to establish a new relationship with suppliers on the basis of the strategic weight of their activity and the competitiveness of their products or services.

It reveals a wide and complete range of suppliers from 'off-the-shelf', managed like a commodity supplier with standard products and services, to 'strategic partner' associated to some extent with the company's core business.

How many companies are actually able to rank their suppliers into various categories and consequently determine the nature of their relationship?

A one-size-fits-all kind of supplier relationship is clearly a thing of the past. Each relationship must be tailored to allow the company to focus on the key steps of its value chain, securing procurement, optimising cost, quality and delivery time. This is the main lesson that can be expected from make-or-buy and it should be the cornerstone of an objective industrial/operational corporate strategy.

Make-or-buy analysis is an efficient tool to define and implement corporate operational strategy. One of the elements of analysis highlights the importance of supplier relationships in the creation of value.

List of **contributors**

Christophe Durcudoy – Partner

After achieving a degree in engineering, Christophe graduated from HEC, a French Business School. He is involved in projects pertaining to procurement competitiveness and performance.
christophe.durcudoy@argonandco.com

Patrick Legris – Partner

A graduate of École Polytechnique and Agro Paris Tech, French Engineering Schools, Patrick specialises in competitiveness programs and supply chain in the industry and power generation.
patrick.legris@argonandco.com

Jean-Pierre Pellé – Director

A graduate of INSA Lyon, a French Engineering School, Jean-Pierre has worked on numerous projects dealing with competitiveness, procurement performance, engineering efficiency and program management.
jean-pierre.pelle@argonandco.com

Jean-François Laget – Partner

With a degree from Sup'Aéro, French Engineering School, and an MBA from HEC Group, French Business School, Jean-François specialises in competitiveness programs with a focus on operational performance in manufacturing, luxury goods and health.
jean-francois.laget@argonandco.com

Managing Editor : Yvan Salamon / Editor in chief : Fabrice Bonneau / Marketing Director : Aline Rivet / Editorial Staff : Argon, WordAppeal / Graphic Design & Layout : Emmanuelle Morand

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