

SOURCING STRATEGIES

SMTA Symposium
June 16, 2006
HCS Consulting * Herb Shields

GETTING STARTED

- Commodity Plans
- Develop sourcing strategies
- Understand the total cost structure

COMMODITY PLANS

- What do you buy?
- How much do you spend?
- Who are the current suppliers?
- Are there alternate suppliers and where?
- What is the market structure and current status?

SOURCING STRATEGIES

- Why do you buy from your current suppliers?
- When was the last time you changed suppliers?
- How do you develop the right plan?

RISK/VALUE MATRIX

High	Bottleneck	Strategic (critical)
Low	Routine	Leverage
	Low	High

copyright 2006 HCS Consulting All rights reserved

5

RISK/VALUE MATRIX Material Classification

High	Bottleneck <ul style="list-style-type: none"> ■ Low spend ■ No customer impact ■ Unique specs 	Strategic (critical) <ul style="list-style-type: none"> ■ Significant P&L impact ■ Key customer benefit ■ Limited supply base
Low	Routine <ul style="list-style-type: none"> ■ Industry standard spec ■ Many producers ■ Low cost to switch 	Leverage <ul style="list-style-type: none"> ■ High COGS ■ Does not differentiate ■ Many producers
	Low	High

copyright 2006 HCS Consulting All rights reserved

6

RISK/VALUE MATRIX Strategic Approaches

High	Bottleneck <ul style="list-style-type: none"> ■ Ensure supply availability ■ Develop alternates 	Strategic (critical) <ul style="list-style-type: none"> ■ Develop partnerships ■ Joint development programs
Low	Routine <ul style="list-style-type: none"> ■ Simplify acquisition process 	Leverage <ul style="list-style-type: none"> ■ Maximize buying power
	Low	High

copyright 2006 HCS Consulting All rights reserved

7

UNDERSTANDING COST STRUCTURE

Cost breakdown of a plastic bottle

- Raw materials – resin, colorant
- Manufacturing – labor and overhead
- Packaging – corrugated boxes
- Transportation – freight rates

COST DRIVERS

Plastic bottle

- Raw materials – oil, ethylene, dyes, pigments
- Manufacturing – wage rates, scrap, inspection, inventory carrying cost
- Packaging – linerboard, setups, wage rates
- Transportation – oil, wage rates, distances

TAKE A TOTAL COST APPROACH

- Use landed costs vs. in-house or US outsourced
- Inventory cost
- Travel for team
- Legal fees

NEXT STEPS

- Conduct a global search
- Develop an RFP
- Invite potential suppliers and current suppliers to respond
- Narrow the field
- Plan supplier evaluations
- Conduct negotiations