

How can Manufacturers Reduce Risk in Direct Procurement? Deploy a Secure, End-to-end Solution

By: JP Morris, Editor

“They supply for success.”

That sums up the BMW supply chain mission statement, said Doug Markle, the CEO of Allocation North America, in a webinar with BMW about how the automaker gets the most out of its manufacturing process.

BMW's high standards and its technology combine to meet its drive for excellence. To create a competitive advantage, a manufacturer or business with complex operations must ensure a controlled, digitized management process across the entire production lifecycle. And BMW stated that it organizes all of its sourcing events by using Allocation's ASTRAS software solution.

In Part 1 of this series on technology for direct procurement, research showed a need for manufacturers to upgrade their risky manual processes and digitally transform how they source parts, collaborate with suppliers, manage the lifecycle of parts and materials, and how they can add visibility and value across the whole business. Manufacturers can do that by having one technology platform that manages the entire manufacturing process – from requisition through end-of-life.

In addition to updating manual processes, it's best to move away from having a disparate patchwork of different software modules. Doing so helps businesses ensure “golden records” – the main, centralized records relating to suppliers, part/items and more that everyone can rely on to be updated and work correctly. When a company has a global network of suppliers and users, it needs a solution that is easy for stakeholders to access and is reliable for daily users. It must manage the complexity, not add to it.

“In order to optimize for decisions, when you think about the complexity that BMW has, they really need to rely on accurate and timely information,” Markle said.

Two companies that have made that upgrade are BMW and INEOS Automotive, another manufacturer that participated in the webinar hosted by MetalMiner, a sister site of ours. Both automakers have deployed ASTRAS, which enables end-to-end management of the complex supply chain and parts lifecycle. And they're having success.

“We founded Allocation over 20 years ago to help manufacturers with their complex direct procurement sourcing projects,” said Bernhard Soltmann, Allocation’s co-founder. “We are a German-engineered software company, with a heritage of working within a demanding manufacturing culture. It quickly became obvious to us that the greater value to our customers was to help them ensure that all processes within the part lifecycle were locked down, that information flowed correctly and that everything is auditable. With hundreds of internal stakeholders, thousands of suppliers and over 1,000 sourcing processes going on at any point in time – within any one customer alone – it is imperative that nothing is managed outside a controlled system.”

Alexander Scholz, BMW’s head of program for its global supply chain, said having a secure, single source of truth in the manufacturing process is vital.

“If you know the automotive industry, we do our negotiations two years, three years, four years before we actually launch a product. So, we do not want the whole world knowing what we are sourcing. There is a huge amount of confidentiality,” Scholz said. “And that’s why you need a really close, technically really safe environment where you actually collaborate with the suppliers.”

Dr. Oliver Frille, INEOS Automotive’s Managing Director of Procurement and Supply Chain Management, said its “start-up” OEM that is building a new 4&4 vehicle, the Grenadier, created its company with a consolidated structure.

“We have procurement, supplier quality engineering and supply chain management ... centralized so you can see them, actually in one organization,” Frille said. As such, using Allocation’s single solution is a good fit to support INEOS’ cross-functional needs across the part lifecycle.

“That’s one integrated organization, and we use one single IT platform for all three. That’s our approach and that’s really beneficial for partners. So, they only have to log in once. “It’s one platform where it all comes together,” Frille said of the Allocation solution, referencing tasks like supplier management, sourcing and supplier quality processes such as PPAP and 8D.

What’s at risk?

The biggest risks to manufacturers are the everyday tools that professionals have come to rely on – often spreadsheets and emails to fill gaps that traditional ERP systems or procurement solutions cannot support. The problems introduced by them include, at a minimum, entry errors and not knowing who has the most current version. In fact, both PricewaterhouseCoopers and KPMG report that more than 90% of sophisticated corporate spreadsheets have material errors in them, with an average cost to the corporation of \$165,000 per incident. How much larger is this amount in the case of a failed launch or a supply chain disruption?

Also, suppliers and their customers simply must not be discussing their sensitive IP and other matters over email.

Gaps in those systems – and security problems inherent in using a patchwork of technology – create too much risk within a variety of areas. And visibility across the part lifecycle is often lacking with these setups. If you go into any business and ask how many suppliers they have, many can’t say – yet that should be an easy question to answer. What if one needed to overlay direct materials per supplier, and all the information related to that particular engagement (from bid through performance)? If the business leverages ASTRAS, then you’re quite likely to have that visibility.

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“We have the target of 100% ASTRAS usage for all our direct material sourcing projects,” BMW’s Scholz said. “So nothing is done actually using Excel and email attachments or any another way around it, because it’s not only a question of efficiency but it’s a question of process documentation. You have to document what quotes the buyers were giving. You have to document changes in the specifications during the sourcing project. This is all done in ASTRAS. So you can, even years later from a compliance perspective, see the details what was decided upon, what was the basis for a decision, who was deciding what and why.”

Why change now?

It might seem difficult for many professionals to work without spreadsheets and email, but the Allocation system can import existing spreadsheets (e.g., RFQs, comparison sheets, PPAP surveys, tool tracking, surveys and more) so it’s possible to govern changes, track revisions, automate data transfer, integrate processes and reduce manual efforts – and all changes and/or transactions are auditable. ASTRAS combines the flexibility of spreadsheets with the traceability of workflow systems.

ASTRAS also provides a secure communication platform so manufacturers and suppliers can have safe discussions about sensitive topics, innovations and product launches. All relevant data can also be transferred to and from existing PLM and ERP systems.

Further, if you seek to optimize supplier participation, ASTRAS sourcing can enable qualified suppliers the ability to opt-in to upcoming RFQs. This is a useful feature, as many organizations know their suppliers for what they have previously purchased; however, suppliers evolve through acquisitions and/or adding to their capabilities. As such, customers can increase their negotiation position by having more participants, do so with suppliers that have a documented track-history with them, and further consolidate their supply base.

Markle said Allocation’s solution focuses on the greatest needs that companies face in direct procurement.

“We have partnered with four automotive OEMs and over 27 tier one suppliers, but I do want to underscore the fact that ASTRAS is not just relevant for automotive manufacturing,” he said. “We work with diversified manufacturing, food and beverage, pharmaceutical, banks and more. And, though we are typically brought in, initially, to assist in direct procurement, in almost all cases we are also used for all procurement needs: CapEx, construction, indirect procurement, etc.”

ASTRAS is not a suite loaded down by multiple disparate modules – and there are no plans to add things like e-invoicing or supply chain financing. Mirroring Jim Collins’ “Hedgehog Concept” from the book Good to Great, “Do one thing better than anyone else,” ASTRAS is a platform that is focused on the lifecycle (requisition, source, award, readiness and management).

In an age of cross-functional stakeholders, countless processes, tons of information flow and high risk if anything goes wrong, it’s important to have a system that can govern the entire part lifecycle, yet is flexible enough to use in part or outside of just direct procurement.