

# Sparking innovation with suppliers

## KEY TAKEAWAYS

- A model can be implemented to bring a more deliberate direction to the sourcing innovation process.
- An ecosystem of processes must work together in order to form a high-functioning innovation sourcing process.
- Understanding the function's maturity allows teams to self-diagnose strengths and weakness in respect to particular steps.

FOR SOME time now we have been delving into the question of what procurement teams imagine themselves becoming. The question may seem sophomoric on the surface but there are plenty of indicators that the same old results will no longer earn you a seat at (or near) the table. In fact, if current trends continue, it's likely that the heady days of purchasing's ascendancy may well be over.

A recent instalment of A.T. Kearney's *Assessment of Excellence in Procurement, 2014* showed that most respondents had seen savings rates fall dramatically back to pre-financial crisis levels of 2008. With savings rates now hovering around 4%, the function needs to impact the business in more durable ways than simply being the producer of expected cost savings year in, year out.

The Beyond Group paired up with universities, research institutes and thought-leading publications, such as *Procurement Leaders*, to continue building insights into the changing world of procurement. The greatest findings came directly from industry itself, with sector-specific think tanks aimed directly at answering key questions about the state of our art.

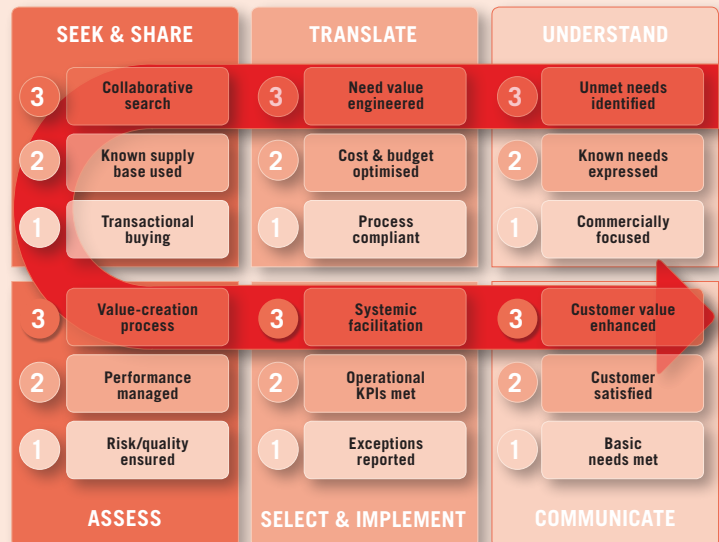
Thus, we have recently completed the 2014 Productivity in Pharma series. Our topic was 'How does purchasing strike the spark of innovation from suppliers and then nurture those innovations through to realisation?' It brought together leaders from pharma companies throughout Europe, along with consultants, academics, innovation experts and industry thought leaders.

Our first part of the discussion was dedicated to understanding what is wrong with the current approach, and setting the stage for key areas to be explored and resolved. By and large, attendees indicated that most innovations from suppliers came randomly to the buying company. Most companies had some sort of infrastructure to guide supplier-developed innovations but no clear alignment existed with corporate strategy and the search for innovation. It was clear that other industries, such as fast-moving consumer goods and automotive, have a history of seeking and acquiring innovation much more effectively.

The reasons for the seemingly uneven way the industry manages sourcing innovation are a product of several factors. They included: the absence of pain in not developing effective ways to channel supplier innovation, the industry having a strong 'not invented here' culture, and the ultimate customer being so distant from the supplier source that there was no internal 'pull' to bring in new ideas and, finally, no company-wide system existing to enable the management of innovation.

Figure 1: TRM maturity overlay

Reaching highest maturity level will require new capabilities, positioning procurement as an innovation enabler



Source: The Beyond Group

From this, in the second part of the discussion, we were able to distill five key points that form the character of any effective innovation sourcing process:

- **Random is not acceptable:** An unfocused approach that passively accepts supplier innovation is simply a non-functional model in today's world. Companies must have a methodology to extract innovation from the supply base.
- **Strategic landscape:** Companies need to be solving real issues with innovative ideas that will be 'pulled' through the organisation rather than 'pushed'. Suppliers must be actively engaged in the process.
- **Champion the process:** The innovation process must have systemic facilitation to manage innovation through the supply chain. The programme must have senior level visibility with executive champions.
- **Manage expectations:** Intellectual Property (IP) and proprietary information must be protected, and benefit sharing must be clearly spelt out.
- **Talent:** New talent is often required to effectively drive a supplier innovation process, as current resources may have limitations. The innovation process is used to featuring and developing highly capable talent.

But where does one start? In searching for the answer, we used a model that we had developed in a prior think tank. We have named it the Trading Relationship Management (TRM) canvas.

The TRM canvas seeks to describe the process by which companies look downstream towards customers to understand

their met and unmet needs, effectively translating those needs to the supply base, searching for innovative ideas, and then finally managing those ideas through to a benefit that is returned to the customer. The model represents this through six process blocks. It is important to note that the TRM canvas is not a *prescriptive* process, indicating each step that a company must have the infrastructure to support, but a *descriptive* process that large companies probably possess, regardless if it recognises or manages any of the steps.

### The six steps of the TRM toolbox:

**Step one: Understand** – the process by which a company understands the needs of the customer, including those the customer may be unaware of (met and unmet needs), a critical prerequisite eventually communicating these to the supply base. This creates a ‘pull’ directly from the customer that helps ensure that innovations have a residence in the value perceived by customers.

**Step two: Translate** – the step by which customers’ needs are translated into tangible specifications that can be used with a broad supply base to encourage innovation and ‘decommoditise’ the conversation between buyer and seller.

**Step three: Seek and share** – the ability to reach out to a wider base of suppliers in a way that breaks with the historical process of spec-bid-quote-order that typifies most procurement operations, but still operates in a regulated way.

**Step four: Assess** – the competence to engage suppliers in an environment of clear and transparent discussion about innovative ideas where IP and the benefits of sharing are clear.

**Step five: Select and implement** – the all-important process that provides infrastructure to guide innovation through the organisation and actively suppresses the ‘allergic reaction’ that is often engendered by new ideas.

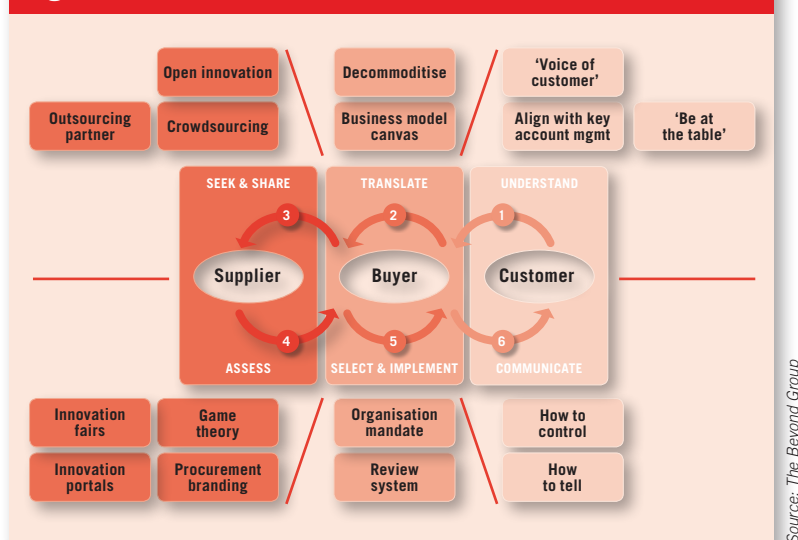
**Step six: Communicate** – the final step that connects an innovative idea back to the customer who can receive the expected tangible benefits. This closing of the loop is the culminating point at which firms can evaluate the success of the innovation process.

Thus, the TRM canvas is a useful describer of the process through which companies seek, evaluate, and implement innovation. The most cogent of observation about this model is that it is an ecosystem of processes that must work together in order to form a high-functioning innovation sourcing process. Describing the process in elegant terms is simply not enough.

The fact of the matter is that most companies are not good at all of the steps. This was born out in our day two discussions where many attendees described the ‘showpiece’ of their internal process that represented a best-in-class element of the model, but no one could point to having achieved excellence across all of the process steps. This was clearly reflected in the discussion of why so many innovations fail to make it through to realisation. Simply, some other part of the process had failed (e.g. it’s not enough to have showcase vendor innovation fairs when there is no infrastructure to guide the innovations garnered). The TRM model goes a long way to helping understand that innovation is a series of interdependent steps.

Yet, as noted by our members, the model falls short in its ability to prescribe ameliorating actions along the process steps. This is where the maturity overlay comes in. In Figure 1, we can see the TRM canvas with an overlay on each step that

Figure 2: TRM toolbox



helps companies to evaluate their level of sophistication with respect to that step. For example, in step three (Seek and Share), companies can operate at the lowest level of sophistication and simply be transactional buyers, however at the highest level of sophistication in this step, companies can be actively collaborating with suppliers to search for new value. Another example would be in step five (Select and implement), where the lowest level of supplier management is simply measuring performance factors on an exceptions basis. A higher level of performance in this step is a process that not only evaluates supplier performance across a range of monetary and non-monetary factors, but also provides a system for innovation review and management. Using the maturity overlay allows a company to self-diagnose its strengths and weakness along the sourcing innovation process.

The final remaining question was what tools can be used to strengthen the areas of weakness that have been exposed with the maturity overlay?

Through discussions and presentations we heard about tools, processes and methods used or researched by each of the corporations and faculties present that can be utilised to improve specific areas of weakness in the model. This became the TRM Toolbox and is shown in Figure 2. From Johnson & Johnson we learned about its supplier portal and global innovation support model, from Novartis we heard about the use of enhanced tools for crowdsourcing, while AstraZeneca shared its supplier development capability aimed at growing the ability of its preferred vendors to better support their business needs. Our academic and research partners showed how game theory can be used to evaluate innovative options and how important procurement branding is to building the sense of being the ‘customer of choice’.



**Giles Breault** is principal and co-founder of The Beyond Group. Breault was previously head of global productivity and CPO at Novartis Pharmaceuticals AG.



**Sammy Rashed** is principal and co-founder of The Beyond Group. He is a procurement strategist and productivity adviser, with more than 25 years of experience at Merck & Co and Novartis Pharmaceuticals AG.