Now Is the Time to Collaborate with Direct Spend Suppliers – and Here’s Why
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The Changing Face of Manufacturing and Retail Business

As new models of manufacturing and retail become prevalent, new sets of challenges await adopters: challenges in supplier selection, sourcing, and planning disconnects, and lack of visibility into inventory availability. Leading manufacturers and retailers are embracing new technologies to source and collaborate with suppliers of direct materials.

Contract manufacturing has changed the face of business. It allows companies to eliminate capital equipment and buildings and thus free up cash and improve their balance sheet, which is why it is prevalent in the high-tech, industrial components and machinery, and chemicals industries. Industry analysts estimate that over one-third of manufacturing has been outsourced, and this trend continues to grow.

At the same time, the vast majority of the world’s leading enterprises are expanding into new and emerging markets. As they globalize, they seek suppliers of direct materials and services that are green, diverse, and reliably compliant with increasingly complex environmental and related regulatory requirements.

These regulations add a new layer of complexity to direct spend sourcing and collaborative supply chain planning and execution.

And finally, retail models have been reshaped by online commerce. Online retailing is a competitive necessity today and is often combined with drop-shipping models for fulfillment. Under this model, retailers rely on suppliers to fulfill customer orders directly rather than maintaining stock in distribution centers, which drives great cost savings and better balance sheets but creates new requirements around technology and ensuring that data is truly clean, such as 100% perfect order rates.

40% Forty percent of today’s Fortune 500 companies on the S&P 500 will no longer exist in 10 years.¹

¹ Babson F.W. Olin Graduate School of Business Advertisement, Babson Magazine, Spring 2011; and www.cnbc.com/2014/06/04/15-years-to-extinction-sp-500-companies.html
Risks Faced by Manufacturers and Retailers Today

Consider how a brand owner that doesn’t manufacture its own supply for products faces an entirely different set of risks than the vertical manufacturers of yesterday.

Supplier selection errors: Selecting the right supplier often requires visibility into granular supplier qualification criteria, and it is essential to tie qualification information to sourcing activities. For example, a brand owner may need to mitigate the risk of cross-contamination of materials such as chemicals, which means sourcing items from approved suppliers by plant.

Bill of materials (BOM) complexity: And then there’s the challenge of sourcing for complex, multilevel manufacturing BOMs; for instance, for the assemblies (and components of those assemblies) needed to build high-tech devices such as a personal computer or mobile phone. The more complex the BOM, the harder it is for the BOM owner to ensure that the right suppliers are selected for all items in the BOM – and at the right price and other terms.

Sourcing, contracting, and planning disconnects: Once award decisions are made, companies need to create contracts quickly, safely, and in a compliant way. But when sourcing and contracting systems aren’t integrated with enterprise resource planning (ERP) systems, much of this work is manual, slow, and inefficient. Or worse, pricing and other terms negotiated during the sourcing process may never be uploaded to the ERP system, which results in increased materials costs.

Lack of visibility: As product manufacturing moves into planning and execution mode, supply chain systems and processes are often disconnected from suppliers’ ability to provide inventory on time. This, in turn, limits visibility into the availability of supply. When key parts don’t arrive on time, production lines stop and stock-outs and missed shipments occur. To hedge against this, buffer stock can be added as “insurance;” but in this age of lean and just-in-time manufacturing, few companies can afford to take this approach.
Simply throwing more people, inventory, and spreadsheets at these sourcing and collaboration issues isn’t the answer. Here are some leading manufacturers and retailers who are already digitalizing their supply chains.

**Staples Australia and New Zealand:** Without a dedicated, integrated supplier collaboration platform in place, this online retailer found managing direct materials suppliers and stock levels complex and time consuming. With SAP® Ariba® solutions, the company gained a comprehensive overview of supplier commitments and inventory. More than 75% of supplier transactions are now touchless.

**ULTA Beauty Inc.:** This $4 billion cosmetics retailer replaced its EDI platform, which couldn’t autoreconcile orders, fulfillment data, and invoices from suppliers, with an intelligent network that can do all this as well as provide visibility into where inventory is located in the supply chain.

**Yaskawa America Inc.:** This company, which provides automation solutions and support, replaced its homegrown supplier portal system with a strategic source-to-contract solution. Now, the company can consolidate direct and indirect spend on one platform, driving greater simplicity and reducing costs while creating equal and fair opportunities for suppliers.

**National DCP LLC:** This $2 billion supply chain management company serving the franchisees of Dunkin’ Donuts is using SAP Ariba solutions alongside its SAP ERP application system to fuel efficient digital processes for direct materials sourcing to increase productivity and lower sustainable costs.

A multibillion device manufacturer: This company evolved from a demand allocation model, whereby product was sent to the channel on the basis of outdated and often erroneous forecasts, to a demand pull model where forecasts can flex and be updated. This has reduced working capital by $300 million and improved productivity among supply chain planners, who are seeing a 40% reduction in time spent managing manual collaboration processes.

Leading manufacturers and retailers are already digitalizing their supply chains, replacing EDI and homegrown portals to increase productivity and reduce material costs and inventory levels.
At SAP, we believe supply chains should be seamless, and product lifecycle management, sourcing, contracting, ERP, materials management, and other systems should connect internally and with suppliers – end to end. To achieve this, we’ve launched SAP Ariba solutions for direct spend, which help Global 2000 companies qualify, select, onboard, and collaborate with suppliers of direct materials and services.

The result is the release of two solutions for direct materials:

• **A direct materials and services sourcing solution** – SAP Ariba Strategic Sourcing Suite – integrates smoothly with customers’ PLM and ERP software systems from SAP, connecting the people, processes, and information needed to centrally manage all direct and indirect procurement, end to end.

• **Supply chain collaborative planning and execution software** – the SAP Ariba Supply Chain Collaboration for Buyers solution – enables enterprises to extend their ERP and planning systems (SAP and others) to their suppliers. This allows them to obtain supplier commit data to ensure that demand and supply match in the near-term-execution and long-term-planning horizons alike.

Because most of the world’s top manufacturers already use SAP software for supply chain planning and execution, they already have the foundation in place for end-to-end direct materials and services procurement. By integrating their SAP software with Ariba Network and direct materials source-to-settle SAP Ariba solutions, companies can finally unlock seamless, agile supply chains that work from a single, shared source of truth. They can create unified vendor master data across all solutions for better visibility and more efficient processes. And freed from manual processes and legacy systems, they can drive innovation across their supply chain, collaborating in new ways with suppliers to compete more effectively, even as markets evolve.
