Digital Evolution in **Consumer Durables** Supply Chain and Strategic Procurement Processes

Innovate by Digitalizing and Virtualizing Direct Spend Procurement and Supply Chain Collaboration

SAP Ariba Solutions for Direct Spend
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The Changing Face of the Consumer Durables Sector

The consumer durables sector continues to evolve. Consumer demand for connected, energy-efficient appliances is driving investment in R&D – even as profitability pressures necessitate new cost-cutting measures. And intensifying vertical and virtual integration means manufacturers need stronger relationships with extended supply chains. Supply chain and sourcing professionals are leading the charge. Learn how a digital strategy enables the transformation needed to excel today.

Innovators in the consumer durables sector, including manufacturers of white goods and appliances such as air conditioners, washing machines, fans, microwave ovens, and refrigerators, are investing heavily in digitalization and virtual supply chain collaboration. But what’s driving this trend? And how are these organizations benefiting?

Three trends have helped to propel growth and margins in the consumer durables sector:
• A period of relative stability in mature markets in Europe and North America
• Growth in emerging markets
• Relatively low commodity prices

But because of the cyclical nature of this industry – combined with the maturing of key North American and European markets and the threat of higher commodity prices – consumer durables leaders are competing for greater market share in high-margin segments in these mature markets. Meanwhile, they are investing in innovation to harness growth in emerging markets and looking to their extended supply chain as a way to gain flexible manufacturing capacity. This level of transformation requires unprecedented leadership from supply chain, sourcing, and procurement teams to:
• Drive agility in time to market and time to volume by transforming sequential processes into digitally enabled, agile processes
• Digitalize source-to-contract processes and integrate them with execution processes to drive hard cost savings
• Orchestrate their extended supply chains to compete as a frictionless business ecosystem

Let’s explore the industry trends spurring this supply chain and procurement innovation.

Success requires transforming sequential, linear, time-intensive processes into digitally enabled, agile, and real-time processes.
INNOVATION LEADS THE WAY
As consumer demographics change, smart and connected appliances are creating great opportunities to gain market share in high-margin segments. At the same time, savvy manufacturers are using data-driven capabilities such as predictive maintenance to strengthen consumer loyalty – for example, by improving postsales service and support. These opportunities, together with consumer preferences for more energy-efficient and environmentally friendly products, are driving investment in R&D, accelerating the pace of technological evolution, and making fast innovation essential to success.

INCREASED FOCUS ON PROFITABILITY IS KEY
While growth in emerging markets and higher housing-related spending in recent years have buoyed the consumer durables sector, three market developments have heightened manufacturer focus on profitability, including:
• Increased competition across many segments from local and regional competitors
• More educated consumers, which is leading to greater price pressure
• The threat of higher commodity and raw material prices

As a result, consumer durables companies are embracing cost-cutting measures and performance management initiatives. Examples include strategic global procurement, lean manufacturing, and zero-based budgeting, as well as third-party or contract manufacturing for cost-effective access to flexible manufacturing capacity.

COMPETING AS ECOSYSTEMS
Leaders in the consumer durables sector have fundamentally changed the structure and role of supply chains by partnering with contract manufacturers for flexible parts manufacturing, assembly, and even complete, end-to-end product manufacturing services. In fact, working effectively with contract manufacturing partners, suppliers, and other trading partners is now critical to success. Market leaders are even “competing as an ecosystem” by integrating vertically and virtually and working closely with global supply chains – for example, on supplier-managed inventory replenishment.

The retail and consumer products industries will change more in the next 10 years than they have over the past 40 years.

Vision: Full Digitalization of Direct Procurement and the Supply Chain

To meet these challenges, consumer durables leaders are digitally connecting their people, processes, and external partners end to end. Let’s explore what this means by sharing a few examples.

AGILE DESIGN-TO-DELIVER PROCESSES
Sourcing and supply chain leaders are accelerating time to market and time to volume by transforming previously sequential, linear, time-intensive processes into digitally enabled, agile, and real-time processes. For example, a high-tech appliance manufacturer evolved from an allocation-driven to an agile, demand-driven business by digitalizing its design-to-deliver processes. To do this, the company:

- **Strengthened the link between product development and sourcing processes** – This involved both a process and an IT system transformation that automated all key handoffs from design to procurement. The result? Today, the manufacturer runs all of its sourcing and supplier-selection activities directly from the bill of materials (BOM) developed in its product lifecycle management systems. This helps ensure that all items in the BOMs are sourced, which eliminates fire drills during production and costly spot buys.

- **Linked sourcing and strategic procurement processes to manufacturing execution** – Now, when the manufacturer’s sourcing team completes the supplier and component selection and negotiation processes, all key terms and conditions – including specifications, pricing, delivery, and related terms – are transferred directly into the ERP system that manages manufacturing and production purchases. The result? Production purchases are fully compliant with negotiated terms, leading to tens of millions in savings in cost of goods sold.

- **Shared forecasts and production information externally with key suppliers** – Previously, the manufacturer had shared production plans with its contract manufacturers and tier 2 suppliers through spreadsheets and conference calls. While this manual process provided for alignment, it did not allow for manufacturing flexibility. As a result, during a holiday season, when demand for one model exceeded supply, the manufacturer and its partners missed opportunities. Today, the manufacturer has automated its information exchange with suppliers. Collaboration technology replaces spreadsheets and conference calls. This injects agility into the process and supports the evolution to a hybrid, demand-driven, build-to-order supply chain. As a result, the company has eliminated hundreds of millions of dollars in excess buffer inventory while improving on-time, in-full performance.

In addition, by integrating supplier management and qualification into sourcing processes, manufacturers can help ensure their supply comes from environmentally and socially conscious suppliers.
SIMPLE YET GLOBAL STRATEGIC SOURCING PROCESSES
Consumer durables leaders are cutting costs by harnessing economies of scale and transforming strategic procurement. In an example in a related discrete manufacturing industry, a diversified company across industrial and automotive industries has grown by acquisition and now maintains hundreds of legal entities. Such a diversified company would typically struggle to realize any kind of purchasing power. But this manufacturer has a vision to accomplish this and more.

The secret? Digitalizing its source-to-settle processes for direct spend by streamlining supplier management processes from regional and tactical to global and strategic. The company relies on local teams for regional expertise and global business-unit teams for subject-matter expertise, establishing these as virtual agile teams. These teams translate and implement the business strategies, serving as experts who help accelerate adoption across regions and business units. Consumer durables multinationals have similar opportunities to transform disparate sourcing and supplier management processes.

SEAMLESS COLLABORATION WITH MULTIPLE TIERS OF SUPPLIERS
Finally, consumer durables leaders are orchestrating extended supply chains to compete as connected business ecosystems able to respond quickly to changes in supply and demand. These ecosystems always know exactly where all inventory is in the supply chain, regardless of whether it is in production, in transit, or in an inventory hub.

Successful, frictionless ecosystems require:
• Smooth collaboration across multiple tiers of trading partners – starting with complete supplier onboarding and support
• Network intelligence for proactive alerts regarding any issues across the supply chain
• Comprehensive supplier qualification and management to mitigate risk in supply, which is key when just one noncompliant part can result in significant negative revenue and brand impact
HOW SAP® ARIBA® SOLUTIONS CAN HELP
As summarized in the following table, SAP® Ariba® solutions for direct spend can accelerate the digital transformation of strategic procurement and supply chain collaboration.

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<th>SAP® Ariba® Solution Functionality</th>
<th>Associated Benefits</th>
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<td>Supplier qualification matrix</td>
<td>Qualify suppliers at the category, region, and even specific plant or factory level using a flexible matrix for supplier qualification. Gain automated integration to the sourcing process to help ensure that only prequalified suppliers can be invited to bid on RFPs.</td>
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<td>Supplier categorization and segmentation</td>
<td>Use comprehensive tools to onboard, qualify, segment, and manage supplier performance, as well as control who is invited to bid in order to drive spend to preferred suppliers. Use a unified vendor data model in the cloud, which suppliers can keep up to date in a self-service model to help ensure accurate supplier records.</td>
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<td>Supplier risk information</td>
<td>Obtain targeted risk intelligence and enable compliance across source-to-settle processes to help ensure a focused approach to risk due diligence during the selection, onboarding, and contracting of suppliers. Proactively monitor and address risks throughout the entire supply base.</td>
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<td>Product lifecycle management (PLM) integration with product lifecycle sourcing</td>
<td>Import bills of materials (BOMs) directly from a PLM system and assign sourcing projects – even from multilevel BOMs. Advanced capabilities, such as product costing, alternative parts specification, and split allocations across multiple suppliers, enable sourcing teams to maximize product cost savings.</td>
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<td>Product sourcing with BOM visibility</td>
<td>Assign owners to each item – or key items, as needed – in the BOM and enable the owners to request detailed or simple proposals from suppliers. Obtain supplier responses and manage operations with a closed-loop source-to-contract process. Final terms are integrated smoothly with the ERP system and material or service master.</td>
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<td><strong>Source-to-contract process management</strong></td>
<td>Enjoy streamlined integration with back-end systems such that terms from sourcing agreements flow to an ERP system, enabling adherence to the terms during the execution of processes.</td>
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<td><strong>Forecast collaboration with suppliers</strong></td>
<td>Extend supply chain planning, ERP, and other related systems to suppliers to give them visibility into demand and obtain their commitments over planning horizons. Provide connectivity options that meet the needs of suppliers of all sizes and technical abilities.</td>
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<td><strong>Order collaboration</strong></td>
<td>Check the real-time status of order confirmations and supply availability while giving suppliers greater transparency into longer-term and near-term demand.</td>
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<td><strong>Contract manufacturing collaboration</strong></td>
<td>Collaborate with contract manufacturers on purchase orders and subcontract service orders, including consigned inventory, components shipped, and components to be used. Receive component consumption data from contract manufacturing organizations, and provide manufacturing visibility to them.</td>
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<td><strong>Quality collaboration</strong></td>
<td>Share quality information – including inspection results and deviations on components, work in process, and end products – with contract manufacturers and other trading partners. Create a joint record and resolution process for quality issues initiated by the business or its trading partners’ quality assurance teams across multiple quality notification types and deviations. Request and obtain inspection results from trading partners. Obtain certificates of analysis. Confirm or make usage decisions and stock postings based on inspection results.</td>
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<td><strong>Delivery collaboration</strong></td>
<td>Collaborate on ship notices and goods receipt notices to anticipate deliveries and improve productivity in warehouses.</td>
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<td><strong>Multitiered supply chain collaboration</strong></td>
<td>Manage the complexities of multtier supply chains by connecting and collaborating with all suppliers – including contract manufacturers, tier 2 players, and beyond. Tier 2+ suppliers can receive key demand signals and view responses from a tier 1 supplier, as needed.</td>
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<td><strong>Supplier-managed inventory (SMI) collaboration</strong></td>
<td>Gain instant visibility into inventory managed by direct spend trading partners. Collaborate with them on schedule agreements, inventory and minimum and maximum information, replenishment signals, advance ship notices, and goods receipts notices to help optimize inventory levels across the supply network.</td>
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<td><strong>Single platform</strong></td>
<td>Use a networked-based, single system that harmonizes processes and provides a “single face” to contract manufacturers, assembly suppliers, component suppliers, raw materials suppliers, and others across multiple tiers of trading partners.</td>
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<td><strong>Comprehensive supplier onboarding services</strong></td>
<td>Use turnkey supplier onboarding services and on-demand technology, including supplier enablement and help-desk services that are built in with every deployment. Quickly onboard thousands of global contract manufacturers, subassembly suppliers, component suppliers, raw materials suppliers, and more. Flexibly connect their systems and processes to internal manufacturing systems.</td>
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<td><strong>Multiple collaboration means for suppliers</strong></td>
<td>Meet trading partners at whatever level of technical sophistication they have. Offer them end-to-end, business-to-business process integration using a variety of industry payloads and protocols, as well as portal-based access and many options in between.</td>
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<td><strong>Intelligence and collaboration dashboards</strong></td>
<td>Newly enhanced collaboration tools provide intelligence that wasn’t possible in the days of EDI. Get real-time status information, measure trading partner performance, and prevent potential supply chain disruptions using proactive exception alerts that flag potential issues.</td>
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<td><strong>End-to-end process management</strong></td>
<td>Integrate sourcing and contracting processes with manufacturing execution through manufacturing’s ERP system so that terms negotiated are fully executed.</td>
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<td><strong>Integration with ERP and advanced supply chain optimization tools</strong></td>
<td>Enjoy streamlined integration with back-end systems so that sourcing agreements flow to ERP software from SAP® Ariba® solutions. Execution documents such as purchase orders, work orders, and quality notifications also flow smoothly between internal and supplier systems. Choose from a portfolio of integration options, and get support for more than 100 preconfigured processes to accelerate digital supply chain transformation.</td>
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The Benefits of Digitalizing Supply Chains for Direct Procurement

So what will a digitalized supply chain for direct procurement – as described above – mean for your business?

When you adopt SAP Ariba solutions for direct spend, you unlock a whole new world of benefits for your business. For example, you can:

- Drive agility in product development by speeding up the product-design-to-sourcing handoff
- Support your company’s sustainability efforts by better assessing supplier risk
- Reduce cycle times
- Increase productivity and eliminate errors in processes by using automation that reduces manual processes for all parties
- Drive hard cost savings to reduce cost of goods sold
- Gain better visibility and predictability of product costs
- Decrease IT costs – for example, by simplifying supplier integrations and eliminating the need to manage multiple systems
- Increase revenue through fewer stock-outs
- Reduce the need for buffer stock and inventory carrying costs
- Increase inventory turns
- Reduce days inventory outstanding and improve working capital
- Enable easier information access and planning process consistency for all parties

Enterprises can achieve a 12% reduction in days inventory outstanding with dynamic, frequently updated forecasts.

Source: SAP Performance Benchmarking
Proving the Value: Customer Successes

Consumer durables leaders are adopting SAP Ariba solutions for direct spend to digitalize their direct-spend source-to-settle processes. Consider the following real-world customer examples.

**A MAJOR GLOBAL HOUSEHOLD APPLIANCE MANUFACTURER**

A major global manufacturer of household appliances has adopted SAP Ariba solutions for direct spend to increase inventory visibility across its supply network and to reduce inventory costs. This manufacturer relies on its suppliers and third-party logistics providers (3PLs) to replenish its manufacturing facilities with the components and assemblies needed to build appliances. It sought to streamline and simplify its supply chain by focusing on two areas:

- **Receipts at the warehouses** – The complex, multitiered nature of consumer appliance BOMs was leading to inefficiencies in the warehouse. For example, pallets had too many assemblies, subassemblies, and components to track items easily. By gaining automated visibility into shipments and automating a multilevel goods receipt process to connect each pallet with orders, product numbers, and more, the company will drive efficiency at the warehouse.

- **IT infrastructure** – Like many large enterprises, the manufacturer built a collaboration system that enabled suppliers and 3PLs to share information. However, over time, the cost and effort to maintain this system grew. The company is replacing that legacy application with SAP Ariba solutions.

**A GLOBAL MIDMARKET APPLIANCE MANUFACTURER**

A midmarket consumer appliance company sought to transform the way it engages with direct spend suppliers. To this end, it is:

- Deploying SAP Ariba solutions to improve supplier collaboration by extending processes in its SAP ERP application
- Gaining greater visibility into the status of orders, commitments, and responses from suppliers

This manufacturer is initially focusing on order and scheduling agreement processes, ship notices, goods receipts, and invoices. The goal is to improve supply chain productivity by anticipating problems and addressing them quickly to mitigate supply chain risk.

**NEXT STEPS**

To learn more about SAP Ariba solutions for direct spend, please visit us [online](#).

Leaders in consumer durables are digitally connecting their people, processes, and external partners end to end.