



Opening the Door to a Lower-Cost and Better-Controlled Global Wood Market

Through fact-based market insight and rigorous internal discipline, Tenzing Consulting helped a global manufacturer of building products improve its bottom line while improving control of its wood supply chain.



Wood 911

It's tough to be a global sourcing director of wood products—violent price swings in the wood market, volatile supply and demand shifts, currency exchange issues, and inconsistent commercial terms—are all par for the course. For the wood category director at a global manufacturer of residential and commercial door products, this environment made it virtually impossible to take a strategic approach to managing its global wood supply chain.

To add further complexity to the situation, the company had grown dramatically by acquisition over 20 years and was now a loose confederation of three independent, yet interdependent, businesses strewn across 50 plants on four continents. Developing a tightly integrated global strategy seemed a nearly impossible task.

Besides, how could he think strategically, when almost weekly, he was reduced to “emergency management” of double-digit price increases and threats of discontinued supply? But the situation gets tougher still.

To add additional pressure to the global wood director's pressure-cooker job, the company overall was showing early signs of weakness: profits were not growing as fast as revenues, and a looming bust in the home building market was beginning to rear its ugly head. Wood represented about 25% of the total cost of the business and was the most critical raw material for producing its door products. Failure was not an option...call Wood 911.

Strength through Discipline

Fortunately, a new leadership team and governance process was just taking shape to help navigate these troubled waters. With the help of Tenzing Consulting, the new CEO, put in place a rigorous, well-staffed sourcing effort to gain control of the wood category. In concert with this effort all strategic sourcing and supply chain strategies and decisions would be “gated” by a company-wide Executive Steering Committee. Their mission was to eliminate the historic biases and fragmentation of the acquisition era and begin thinking and acting as one company with one voice to the outside world.

The global wood sourcing team got right to work. They enlisted plant managers, plant procurement, and engineering functions in a cross-functional effort to quickly identify opportunities to reduce the total cost of using wood product. By virtue of its grass-roots, cross-functional composition, the team garnered the necessary buy-in to launch what had previously been inconceivable initiatives across the supply chain from value engineering to improved logistics. A small sample of what they tackled includes:

- Standardizing critical wood components across business units
- Documenting (for the first time) all the drawings and specifications for every component in their manufacturing network of 50 plants.
- Implementing a fact-based approach to supplier management

Organizing and conducting a global bidding event was another major initiative the team took on. It was certainly unprecedented in the history of the company and, in fact, rarely seen in the global wood market. For one large consumer of wooden products to bring most of its spend to market in one package worth \$220 million, with a clear and comprehensive strategy, left many suppliers stunned: Was this customer really serious? Would other global competitors play in the game? Many wood suppliers decided to test the process—vigorously. “The market was in constant motion,” said the global wood director, “even while we were discussing a competitive bidding event, prices began moving up and suppliers started bringing more increases. We had serious doubts about our strategy.”

But they stayed the course, with confidence because behind this effort lay a simple, yet effective process for keeping the teams and the decision makers focused and disciplined.

Managing the Change

In order to effectively manage an initiative of this scale and continue the cross-functional involvement that had been developed, a “gated” process was implemented to act as a results management mechanism. Process for the sake of process was not the order of the day. In order to make the initiative successful, the “gates” were used as a forum where the client team needed to make critical decisions to keep the project moving forward, or if necessary, re-direct the overall strategy.

This initiative was designed to codify and regiment global supply chain risk mitigation, establish better cost transparency, global leverage, cost avoidance and cost reduction. Applying these steps to the wood supply chain in particular helped rein in variables, impose structure and order, introduce discipline, and improve the predictability of both revenues and profits.

The ultimate compliment came from the largest incumbent supplier, who said, “I honestly thought the Request for Proposal was excellent. For the first time in history we had detailed specifications, right down to the palletizing instructions.”

Next came a thorough supply market evaluation process. Roughly 60 to 70 percent of the company’s wood requirement came from South America, but constant currency fluctuations, the lack of long-term contracts and opportunistic suppliers threw the sourcing team into crisis mode on a daily basis. Diversification of the supply base was essential and Asia presented an emerging opportunity. The team undertook a disciplined Request for Information (RFI) process and even visited the most promising new suppliers in Asia. Having this deep and current intelligence would prove to be essential in executing the overall strategy.

The company then prepared and executed a rigorous, multi-stage negotiations process which included the company’s first ever reverse auction that was deployed on a sub-set of the products included in the project. The result? Approximately \$2 million in savings which were implementable due to the pre-bid intelligence gathering.

The company then hosted face-to-face negotiations with each key supplier. Customized fact-based feedback for each supplier and clearly defined specific roles and responsibilities for each member of the negotiating team were developed in advance. The messaging to each supplier was crisp and on point. “It was truly empowering,” said the Senior Director. “Suppliers were saying, ‘You can’t survive without us,’ and we were able to demonstrate, with visual aids and data, that in fact, we could. Our knowledge of the market neutralized the suppliers’ negotiating strength.”

The final result? An additional \$5 million in savings, plus written contracts with clearly defined and measurable performance metrics. Interruptions in supply would now be met with financial ramifications. “We can hold suppliers accountable now. How can you say a product does not meet spec if you don’t have a spec?” said the Senior Director, “Now we have metrics against which performance can be measured.” Control had successfully swung back to the buyer.

Achieving Results That Last

The strategic sourcing process brought to the client through the involvement of Tenzing Consulting has installed a foundation that can be applied across all supply categories. The company now has organizational focus. The team now operates from a single location where it is equipped to make informed, strategic decisions for the global enterprise. For the supply chain organization, establishing a repeatable process, rationalizing specifications and gaining a deep understanding of the supply market dynamics have also set the stage for long-term success. They know what they are buying. Specifications are rationalized and updated. Supply chain risks are mitigated. The components of cost are well understood so that supplier price increases can be challenged from a basis of fact. Discipline has been introduced to the process, and every negotiation is scripted well in advance. Millions in savings have dropped to the bottom line and manufacturing costs are down.

As a business unit leader put it, "This approach was successful because it allowed the team to clearly define expectations and goals, and by collectively involving all of the stakeholders, got everybody on the same page, speaking with one voice." These improvement themes defined the desired end-state of the organization. Using this insight, along with additional supporting analyses, Tenzing Consulting helped the new executive build a detailed blueprint for an organizational transformation program.

HOW TENZING BROUGHT VALUE:

INSIGHT

Fact-based, data-driven strategies to achieve aggressive sourcing / supply chain / operations goals

- + Adapting prior experience with value engineering, material substitutions, specification rationalization, strategic sourcing and logistics to this situation.
- + Speaking frankly about internal barriers, supply market dynamics, implementability and the potential for savings.
- + Performing detailed market analysis that produced fact-rich data on which to base decisions.

EXECUTION

Discipline, teamwork, flexible process orientation, practical know-how for measurable results

- + Using a "Gated" Sourcing Process to remove variables, impose discipline, and improve predictability of revenues and profits.
- + Insisting on written contracts, with clearly defined and measurable performance metrics.
- + Relocating entire Global Wood team in a single location.
- + Introducing discipline into the process, with every negotiation scripted well in advance.
- + Giving the client a strategic sourcing process foundation on which it can build.

SUSTAINABILITY

Aligning people, processes, and technology to sustain peak performance results

- + Establishing a repeatable process, rationalizing specifications and gaining a deep understanding of the supply market dynamics for long-term success.
- + Trending manufacturing costs down.
- + Achieving millions of dollars in year over year savings dropped to the bottom line.