

Managing supplier innovation

Nowadays, innovation is an essential competitive advantage for companies.

This growth engine may be of a technological or marketing nature, be a product or a service, and come from a customer or a supplier.

To stand out, companies give more thought to all of the innovation's dimensions to provide their clients with a new and advantageous feature.

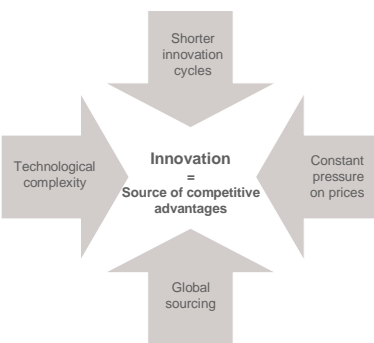
To optimise their resources and maximise their return on investment, companies are however forced to choose a limited number of preferred innovation paths and then to adopt them clearly: costs, service, design, reliability, simplicity, etc.

Finally, they have to manage stakeholders, who are the columns of the innovation, to coordinate them and set the pace of the innovation: internal resources, customers, suppliers, third parties (universities, public research bodies, associations, NGOs, etc.). Among all of these, the supplier is undoubtedly today's wallflower in the process.

INNOVATION AT THE CENTRE OF A CHANGING WORLD

Acknowledgement of innovation as one of the company's key strategies is all the more important as companies develop in a global context which is forever changing.

In a globalised economy with shorter innovation cycles, constant pressure on prices and sourcing in low cost countries, companies have to differentiate themselves even further.



The competitiveness clusters put in place in France represent the firm adoption of a multi-partner innovation approach. In the same physical area, they bring together companies, centres of education and public as well as private research units.

All of these bodies are engaged in joint projects of an innovative nature and thereby apply the notion of a 'cluster' developed by Porter. This partnership is organised around a market and a technological and scientific field specific to the cluster.

The goal is to achieve a critical mass so as to reach a competitive level and visibility at international level.

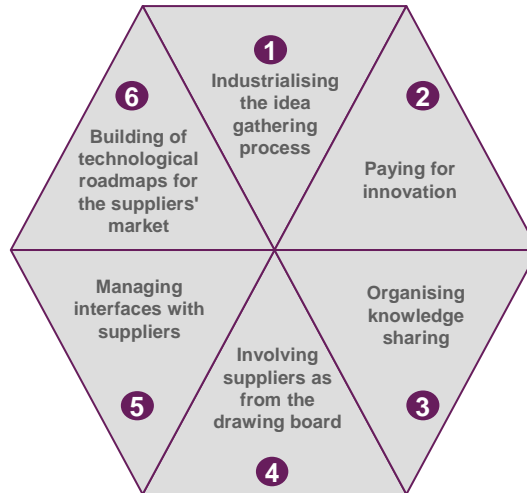
Finally, with innovation reaching highly complex technological levels, a solitary approach to innovation is increasingly expensive. Faced by these challenges, the company must leave behind self-centred innovation and rethink its organisation and practices to favour 'open innovation'. In particular, it must transform its relations with suppliers to organise innovation management with them.

Purchasing plays a key role in the necessary overhauling of relations with suppliers to develop innovation. There are six levers to encourage the adoption of an on-going innovation process within the company which is shared with suppliers.

The six levers to manage supplier innovation

Six levers structure the way in which innovation with suppliers is managed:

SUPPLIER INNOVATION MANAGEMENT LEVERS



1. Industrialising the idea gathering process

The idea gathering process is a company process in its own right; it must be structured with the same standards as all of the company's business processes.

This process must cover all activities from the identification of ideas to their market launch as well as their selection, prioritisation and development.

We can now distinguish three levels of maturity required to achieve an efficient gathering process which involves suppliers:

Maturity level 1: The innovation's framework is built thanks to a structured process based on a network, suitable tools and resources put in place to collect and integrate supplier innovations.

Maturity level 2: Suppliers are encouraged to develop new ideas as they are aware of the reciprocal benefits.

Maturity level 3: Suppliers participate in shortening the time needed to access the innovation from the idea to the development stages. The time to take the idea to market is thereby kept to a maximum to create a decisive competitive advantage.

Industrialising the innovation process at FLEXTRONICS

Flextronics, one of the largest digital camera module suppliers for mobile devices, signed an agreement with Hewlett-Packard to supply Flextronics with its image processing technology under an exclusive licence. This agreement will last five years and allow Flextronics to offer its manufacturing clients modules for mid- and high-range mobile phones with significantly higher quality photos compared with today's devices.

In a high growth market (+40% by 2010), Flextronics has reduced its time to market through this operation and acquired an important competitive advantage which has made it the leading supplier of high quality digital camera modules.



2. Paying for innovation

The relationship between the ordering party and the supplier must benefit both parties so that they can enjoy the competitive advantages together. Terms and conditions must be laid down as early as possible and innovation must be paid for fairly.

Such payment can take various forms and it is worthwhile establishing where the limits lie:

- Industrial cooperation,
- Joint investments,
- Revenue sharing,
- Co-branding,
- Turnover guarantee,
- Sharing of intellectual property with the possibility of external use,
- Payment at pre-study stages,
- ...

Faurecia offered BMW a major innovation for the 3 series in the assembly of the front end. Responding to BMW's goals in the area of fit and finish and to cut the vehicle's assembly time, Faurecia put forward its 'mEasy' system which mechanised the alignment of the headlamps with the vehicle's wings and bumper.

The front end is jointly developed by Faurecia and BMW and a Faurecia plant is now set up in Leipzig and directly integrated into the BMW site and operating in just-in-time.



3. Organising knowledge sharing

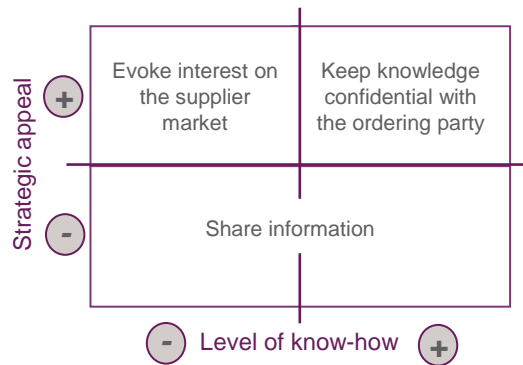
A knowledge sharing strategy depends on two factors:

- The level of know-how in the area concerned,
- Its strategic appeal.

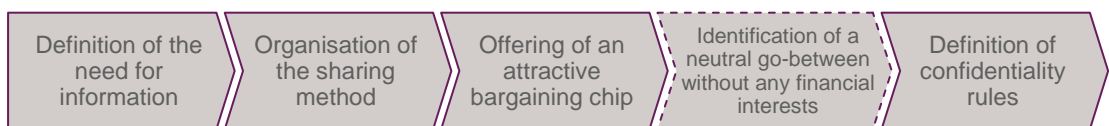
If the ordering party has a low level of know-how and considers this knowledge to be of strategic interest, he will be very interested in seizing the innovation. To do this, he will have to put in place an attractive package for the supplier by defining, in particular, a bargaining chip for the supplier market (e.g.: knowledge of end users).

If, on the other hand, his level of know-how is high but the strategic interest remains strong, the ordering party will be interested in keeping knowledge confidential to seize the innovation and avoid too much knowledge from leaking to the outside world. The methods to keep knowledge confidential must then be defined.

REFEREEING THE SHARING OF INFORMATION



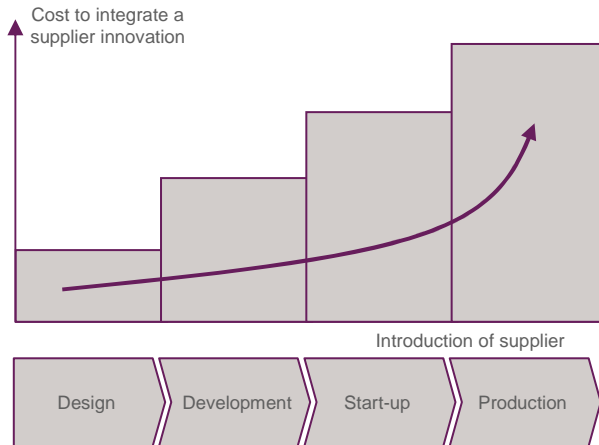
INFORMATION SHARING PROCEDURE BASED AROUND FIVE STAGES



In 2004, **Motorola left the Taiwanese ODM (Original Design Manufacturer) subcontractor, BenQ**, a mobile phone manufacturer, as BenQ was selling competing products under its own brand and had thereby become an OBM (Original Brand Manufacturer). Today, Motorola and BenQ face each other in the 'Emerging Market Handset' programme, initiated by the GSM Association (GSMA) with an aim to offering very low cost mobile phones (<\$30) to potential customers in emerging markets.



4. Involving suppliers as from the drawing board



Traditionally integrated as from the development stage, involving suppliers as from the design stage has several advantages:

- Better control of target costs,
- Reduction in development lead times by integrating a greater number of constraints and solutions from the outset,
- Improvement in the launch success rate through better anticipation of risks by suppliers.

Valeo innovates by involving its suppliers in the early stages of its developments.

Valeo's goals in this area:

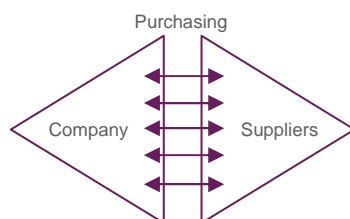
- 100% of designer-suppliers integrated in stage 0,
- 100% of target costs achieved,
- Development time halved,
- 100% of initial samples are correct first time and on time,
- Launch of new products with zero PPM.

Valeo incorporates the suppliers' suggestions upstream of the project with regard to the design to fulfil Quality, Cost and Lead time goals.



5. Managing interfaces with suppliers

Purchasing is the most suited to managing supplier innovations. This is due to its transversal position within the company and its global outlook which let it consider technical and financial issues in the relationship with suppliers. Purchasing must be a facilitator and leader and not simply a letter box between the internal client and the supplier. It must therefore manage and organise relations between internal and external teams: coaching of marketing teams, supplier teams, the ecosystem, etc.



In close contact with the Research and Development Department and the core businesses, **the Purchasing Department at PSA manoeuvred itself into a position to promote supplier innovation:**

- Creation of specific teams integrated in the major innovation programmes,
- Implementation of innovation agreements with a pre-defined legal framework: Delphi, Pechiney, Valeo, Magneti Marelli, Trèves, Faurecia, Visteon,
- Supplier innovation open days.

Conclusion

The application of these six levers lets the company implement a relationship of trust so as to enjoy, together with its suppliers, decisive competitive advantages.

This new dimension given to the management of supplier innovation sometimes contradicts decisions on large scale relocations to leading cost countries which have taken place in recent years. The management of supplier relations and the sharing of information are even more difficult to implement when the distance is great and there are significant differences in practices.

Nevertheless, the strictly financial reasons which led to these relocations, in certain cases, are currently changing. Some multinationals (see box below) now consider it essential to source a part of their innovation where the market is most dynamic, namely, in emerging markets.

Suppliers and their capacity to innovate are therefore on the same level as internal contributors, customer perception and third parties, in other words, a player in the innovation process. Optimal management of these various contributors will ensure the best return on investment from these 'immaterial' assets.

The challenge, therefore, is to move away from a strict analysis of the costs of each supplier and towards analysing the value contributed by the supplier to the company's development.

Intel wishes to increase its visibility in a market where its Taiwanese competitors already have a strong presence while also benefiting from innovation opportunities which arise in China in the area of manufacturing techniques. Determined to progress in the international division of work, China is warmly welcoming high technology investments. Around 85% of the 218 billion dollars from high tech product exports made in 2006 by China can be put down to joint-venture companies.

The welcoming of R&D centres is at the heart of this strategy: from the Swiss Novartis to the American Microsoft and Motorola, multinationals consider it essential to **'source' a part of their innovation where the market is the most dynamic.**

At the end of December 2006, Pekin announced that new laws were being studied to make the implantation of R&D centres funded with foreign capital easier.