Improving Business Characteristics through Procurement

Honda
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Honda North America Indirect Procurement

Improving long term business characteristics through Procurement

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Introduction:

Procurement Specialist with MRO Strategy for Honda America Manufacturing. Prior to his current role, he worked as a Project Manager in the Strategic Inventory Management team.

Esteban Valenzuela

10 years of experience in Supply Chain Management with responsibilities focused around capital expenditures procurement, North American contracts, category management / strategy and supplier quality. Currently, facilitating purchasing for Honda’s largest engine plant in North America as their Lead CAPEX Buyer.

Jacob L. Knoderer, CSP

Sudeep Deb

10+ years’ work experience with product, services and consulting firms in the Supply Chain Management industry. At GEP, Sudeep is leading delivery teams for achieving strategic sourcing and procurement transformation objectives of our Fortune 500 clients.
Agenda

❖ Improving Business Characteristics through Procurement

- Honda Motor 2030 company vision
- Indirect Procurement Transformation
- Role of procurement to improve Honda’s business characteristics through managing Safety, Quality, Cost, Delivery & Morale (SQCDM)
How many brand names does Honda market globally?

A. 2  
B. 4  
C. 5  
D. 7
Over 50 Million vehicles sold globally; with roughly 5.2 million vehicles being produced in FY 2018

First market segment for Honda, which represents over 100 million units sold globally

Recognized as the world’s largest engine manufacturer

Honda’s latest market segment with over 30 years of history in the making

Audience Round

Motorcycles

There are currently over 50 different models of mobility products being sold globally under the Honda Motor Company name…

All to enhance the lives of our customers
WHO IS HONDA?

Honda is a Mobility Company

Our driving inspiration is creating intelligent products to enhance the mobility and increase the joy in people’s lives through the Power of Dreams.
What We Do

GEP helps global enterprises operate more efficiently and effectively, gain competitive advantage, boost profitability, and maximize business and shareholder value.

- Boost profitability
- Drive innovation
- Minimize risk
- Increase enterprise and shareholder value
- Enhance business agility
- Gain competitive advantage

Fresh thinking, innovative products, unrivaled domain and subject expertise, and smart, passionate people – this is how GEP creates and delivers unified procurement solutions of unprecedented scale, power and effectiveness.

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Honda Indirect Procurement
Direction Across Global Honda

Growth through the pursuit of Quality
- Fuel the Passion of Associates – Quality Mindset
- Strengthen QCD Characteristics
- Quality in all Processes (Don’t Pass bad Quality)

Open Innovation to Create New Value
- Technology that makes peoples lives better
- Accelerate Open Innovation
- Evolve how we collaborate with other companies

Inter-Regional Coordination and Collaboration
- Utilize the Strength of each Region
- Shift from Autonomy of each region to Coordination and Collaboration
- Utilize ‘Lead Country’ System for global models
North America Indirect Procurement Scope

Primary Objectives:

Cost control | Indirect Procurement governance | Fair and ethical procurement practices

To Achieve:

Consistency in supply chain management | Best value

The company’s Indirect Procurement function serves to:

- Support operating expense and investment cost management through maximizing value in the supply chain
- Assure consistency in the sourcing and contracting process, while maintaining fair and ethical procurement practices

The Indirect Procurement Function works to maximize supply chain value and assures appropriate procurement practices and governance
Indirect Procurement Evolution Journey

16 Unique Indirect procurement organizations
Journey to ‘Best-In-Class’

Previous State

1. Difficulty influencing consumption and mix
2. Lack of central direction, individual decision making
3. Lack of collaboration between procurement and business users
4. Focus on price rather than TCO (total cost of ownership)
5. Buying decisions were fragmented into many buyers
6. Data limitations hindered effective category strategies
7. Lacked formal policies to govern purchasing behavior
8. Procurement team does not have the right skillset

Industry Benchmark

Focus areas for future

- Identified areas to increase Indirect Procurement effectiveness
  A. Manage all indirect spend through sourced contracts
  B. Deliver optimum savings results through organizational transformation
  C. Implement standardized sourcing & contracting process
  D. Introduce Policy & Governance that requires individuals to engage Procurement for sourcing goods & services

Benchmark Indirect Procurement to Best-in-Class Organizations on 10 Key Procurement Performance Indicators
Transformation Pillars

**Governance**
- Gain executive sponsorship and commitment for vision, policy, and operating model
- On going governance with senior leadership to ensure success

**Digital Strategy**
- Develop a digital vision and culture in procurement
- Leverage technology development—automation (RPA), big data, machine learning, and smart contracts

**Performance Metrics**
- Clearly define key performance metrics, measuring methodology and reporting
- Define transformation milestones and outcomes

**Policies and Processes**
- Enterprise wide procurement policy covering role of procurement and buying channels for various spend thresholds
- Standardization of process across production sites
- Policy aligned with NA leadership

**Operating Model**
- Focus on collaboration and coordination—Nurture business partnership with production sites
- Enhance customer experience—natural engagement with Purchasing
- Define role of procurement and production sites (end users) responsibility
- Innovate with third party partnerships

**Organization**
- Define and classify strategic, tactical, and operational activities, teams and structure
- Define the role of internal and external partners
- Invest in capability development

Enhanced Value and Experience to the Customer in all of our Processes and Interactions
Journey to ‘Best-In-Class’

Discovery

**Supply Only**
- Buy & Receive
- Local only

**Supply & Price Negotiator**
- Negotiate individual spend
- Few National Contracts
- Grab low hanging fruit

**Lowest Total Cost**
- Low Cost
- Managed Spend
- Contract Mgmt
- Regional Sourcing

**Best in Class “Value Generator”**
- Lowest Cost
- National & Global
- Best Processes
- Strategic Partnerships
- Efficient Organization
- Sustainable Cost Savings

Previous
Reactive

Proactive

Recent Activity

Future Activity
Strategic

Maturing Procurement Objectives
Agenda

- Improving Business Characteristics through Procurement
  - Honda Motor 2030 company vision
  - Indirect Procurement Transformation
  - Role of procurement to improve Honda’s business characteristics through managing Safety, Quality, Cost, Delivery & Morale (SQCDM)
• All processes have to quantify improvement to the business characteristics as per below
Characteristic Improvements: **Delivery, Quality and Morale**

Skill development according to Customer Feedback

**Gaps addressed**

Personnel & Skill Assessment

**Capabilities**

Procurement Delivery

**Spend Managed Decision influence**

**Customer Satisfaction**

- Process
- Negotiations
- Results
- Strategy
- Organization
- People Skills

Long term Vision
Characteristic Improvements: Delivery, and Cost
Procurement Seat at the Table

Gaps addressed
1 2 3 7

Future
• 100% spend under management
• Drive demand
• Catalogs
• Budget authority

Current
• Supplier comm. SOD
• Benchmark studies – Should Cost
• Defined sourcing process

Intermediate
• Cash Authorization
• Segregation of Duty
• Bid confidentiality

Decision Influence

Start
• Support

Demand → Market Intel. → Supplier → Award → P.O.
Characteristic Improvements: Quality and Cost
Inter-Regional Coordination leading to Standardization

Gaps addressed

1. Governance
2. Policy standardization
3. One Honda approach
Characteristic Improvements: Delivery, Quality & Cost
Understand and Document Demand (SOW)

Before

After

- Well detailed and latest demand
- Standardized across companies
- No Ambiguity
- Performance Level Guarantees
- Central repository

Procurement

1. Internal Analysis
2. Market Analysis
3. Review Sourcing Strategy
4. Sourcing Execution
5. Implementation & Continuous Improvement

Gaps addressed

2 4 5 3

Process Steps

Data Collection & Scoping
Characteristic Improvements: Delivery
Contract Compliance

- Policy
- Process
- Technology

Gaps addressed:
- Policy
- Process
- Technology

Honda Business Units

- Company 1
- Company 2
- Company 3
- Company 4
- Company 5
- Company 6
- Company 7
- Company 8

- Central repository
- Meta data collection
- Verify contract price to invoice price
- Auto pay through verification
Characteristic Improvements: **Cost**

Budget reduction (Contracted to Realized)

**Before:**
- No tracking of reduction
- Budgets not reflected
- Utilized in other initiatives

**Now:**
- Accounting & Finance notified
- Removed from budget

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Gaps addressed:

- 2
- 5
- 7

Last year Contract → Negotiated Contract → Contractual Savings → Accounting
Characteristic Improvements: **Quality & Delivery**

End characteristic of product

**Market Quality Results**

- **Wind Noise**
- **Signal receptions**
- **In-cabin Media**
- **Paint Quality**
Characteristic Improvements: Quality & Delivery
Wind Tunnel, Antenna Lab & Telematics Solution

Wind Tunnel & Antenna Lab – Collaboration working with Largest wind tunnel operator

Paint shop upgrades – Implementation

Telematics – Collaboration working with Industry leading provider

Smart Center – Next Gen testing of Mobility Solutions

Scope

Cost Benchmark

Market Intelligence

Cross functional coordination

Performance measures

Gaps addressed

1 3 4

Procurement Role

Organization design

Smart Center

Telematics

Telematics

Costs

Cost Benchmark

Market Intelligence

Cross functional coordination

Performance measures

Gaps addressed

1 3 4
Key building blocks for procurement’s success in improving business

FORMULA to MAXIMIZE VALUE and ACHIEVE SAVINGS

Leadership
- Strong Organization, Company Direction

Volume
- Common Contracts, Consolidated Volume

Strategy
- Competition, Market Factors & PH Expertise

Result
- Max Savings & Total Value Improvement

Methodology used at Honda can be deployed at any company

- Business plan theme – Top priority with visibility throughout the company
- Understand opportunity to consolidate purchase volume
  - Assess indirect spend
  - Compare cost, suppliers, and requirements between sites/departments
  - Align with end users, clearly define requirements, work to standardize where possible
- Leverage consolidated volume and market conditions to achieve cost reduction and improve value from supply chain

Goodbye to business as usual. Create the procurement function of the future today
Thank You

Questions ?
# Contacts

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