

**“Rules of Engagement for Global Procurement”**

**Panel Discussion**

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Good morning! You know, as I was preparing for this panel, it was suggested to me that I might want to discuss “rules of engagement” for global procurement. To me, that sounds like something you decide when you’re squaring off for a fight ... or getting ready for war.

Let me start out by saying that’s not the direction we see supplier relationships going ... the successful ones, anyway.

We’re not looking to wage war at all; we’re here to make peace ... and live in prosperity. At Delphi, we’re driving the message of winning by collaboration and cooperation, not conflict or confrontation.

There's that old line someone once said about being caught up in the Rat Race; that "even if you win, you're still a rat." We think that pretty much sums up the old contentious, price-focused approach to procurement. One side bashes the other until neither can stand up anymore, and no one really ends up winning, at least not in the long run.

Before I start talking about the way we're working in Delphi to change that for the better, let me give you some quick background. When I joined Delphi in 2002, the company had only been independent for three years. The company's mission was, and still is, to become our customers' best supplier. Seems simple enough. But to reach that desired result meant changing everything upstream in the procurement process. That's not so simple. So I was invited to come aboard to drive the implementation of supply chain management best practices.

I came to Delphi from John Deere, where I had been working on transforming that OEM's procurement practices; and before that I had the experience of working at Honda, where they have used lean supplier development to excellent advantage. Honda, like its rival Toyota, works in tandem with suppliers to cut waste, expense, and develop the best possible product for the best possible cost. Lean practices helped make all these OEMs, and their suppliers, the most competitive and the most profitable ... as you've probably heard!

Sometimes, I confess, I feel more like a preacher than a purchasing executive, because to affect the changes we need to stay competitive means getting our folks to take a big leap of faith, to take a new approach to their working relationships, and develop trust in people they've long considered adversaries.

Coming from Honda, that's really a different mindset, because the Japanese corporate culture requires partner participation. Nobody needs to be sold on the ideas behind the collaborative approach championed by Honda, Toyota and others, because it's the accepted practice.

But at Delphi, we have had to go straight to “Square One” and change the philosophical underpinnings in our company and to reverse the perceptions and values that had been formed by years of contentious, price-focused activity. We realized pretty quickly that we needed a “change of heart” within the company in order to make the leap to a system that rewards continuous improvement and business practices that are conducted in good faith.

So, in order to go in the right direction and navigate by a recalibrated compass, our aim now is to build relationships based on mutual trust and collaboration. I’m talking about getting lean, not mean. It’s not just a nice thing to do, but a smart thing to do. It’s a lot easier – and more effective and long-lasting – to work as a team to remove waste and inefficiency from the value stream.

In order to transform the extended value stream, we at Delphi are taking specific steps that will substantially alter our procurement landscape.

First, we are moving to transform our supply base. What do I mean by that? Simply stated, it means we will have far fewer suppliers we work with. But it will result in strong trust-based relationships with those remaining suppliers we choose to do business with. And they will be partners who share in our success.

For Delphi to become a world-class lean enterprise, we must partner with our suppliers to remove all forms of waste – which equals cost – from their portion of our joint value streams. We're doing this because about 50 to 60 percent of Delphi's costs come from our supply base.

To achieve this we are focused on "total cost," improving processes, trimming time to market, encouraging a freer flow of ideas through trust and partnerships, and achieving elevated financial performance. Of course, this is easier said than done.

To get there, we are implementing nine strategies or best practices that are leading us to a leaner supply base. Let me mention just three key ones to help round out the picture.

Our first strategy is to develop strategic suppliers and commodity strategies. Why? Because we need fewer suppliers to be agile. The trick is in selecting the right ones.

Globally, we buy around \$14 billion in direct material and have a little more than 4,000 suppliers – that’s a lot of relationships to manage.

Our vision is that components with high value and complexity are core and will ultimately be sourced to a group of about 100 strategic suppliers with whom we will have close and deep relationships. Lower value materials, but still with high complexity, may require about 200 near-core suppliers.

Niche suppliers – those in unique products or with patents that restrict Delphi’s ability to compete – and commodities with low value and less complexity will round out our supply base. So, we’re moving from about 4,000 suppliers to about 1,000. And, we’re already using this segmentation approach in our business lines and commodity teams.

Our expectations of these newly defined “Strategic Suppliers” are high. These suppliers must exhibit a history of flawless launches, meeting zero PPM and zero disruptions and improving first-time quality. They must be willing to work with Delphi, early in the program design and development phase, to establish cost targets that satisfy Delphi’s model-to-model cost improvement goals. And they must be committed with the right attitude toward continuous waste reduction and lean thinking. That’s crucial, because not everyone is willing or able to travel this new path with us.

Our second strategy is to develop and manage cost standards that determine what a part, or service, “should” cost, with real details. Once you really know what something should cost, the entire design and sourcing dynamic changes from an “auction mentality” to a joint waste elimination focus. This best practice leads to better designs and better processes and the highest level of true competitiveness. However, it’s imperative that this information be handled with the utmost integrity and confidentiality by both parties.

This is a leading-edge approach because many business models in our industry still tend to push costs down the supply chain rather than remove the waste. In contrast, Delphi is establishing Best-in-the-World cost standards and we intend to use them in everything we design and buy.

By the end of this year, we plan to have cost standards that cover 80 percent of Delphi's annual purchase value. That's an aggressive target and we are on track to hit it.

Cost standards allow us to clearly see the gap between our price and the most competitive scientific cost the part or service can be purchased for. They also help reveal gaps in design and manufacturing costs, and permit us to gain knowledge, unlock value and promote continuous improvement through joint activity.

Our third strategy is lean supplier development engineering. It is generating dramatic results and it is beginning to build new levels of trust within our supply base.

This strategy requires the expertise of lean supplier development engineers, dedicated to enabling suppliers to achieve the best levels of lean manufacturing in their operations. Over the past year, we've placed 57 lean supplier development engineers in the global supply management team.

Delphi's lean supplier development process starts with a meeting, then a workshop that includes me and the supplier's CEO. We clear the air, so to speak, and lay out our expectations of each other. We've had 76 workshops so far and 65 of the companies have completed the initial process.

It is inspiring to see the exact same double-digit improvements with these suppliers as we have experienced inside Delphi's manufacturing operations. Reduction in people costs generally ranges from 20 to nearly 50 percent, increases in productivity range from 30 to 60 percent, first- time quality has improved in a range of 10 to 45 percent.

And, as you can guess, this process is generating savings, which helps everyone involved. Remember, this is not about eroding margins; it is about eliminating waste and thereby reducing cost. Just as margins are important to Delphi, our strategic suppliers also need them to remain the most competitive suppliers in the world.

Now here are a couple of examples of how these strategies – strategic sourcing, cost management and lean supplier development engineering work together and generate results.

Recently we worked with a supplier who needed to increase capacity and reduce cost at the same time. Our lean supplier development engineering team engaged the supplier in a series of

continuous improvement workshops focused on the product value stream where the business opportunity existed.

The team applied the Lean Supplier Development Process to address opportunities identified through detailed value stream mapping.

As a result, an old-style, process-oriented operation was converted to a manufacturing cell, upstream supporting operations were linked through a pull system, and motion analysis provided the basis for productivity and ergonomic improvement.

The results were impressive: Lead time was reduced by 28 percent, productivity improved by 98 percent, first-time quality improved by 17 percent, Operational Availability improved by 15 percent. The supplier has embraced the process and, together, we are now applying it to another value stream.

Here's another example of the power of the strategies working together. This is for a Japanese OEM. In this case, the customer, Delphi and our strategic suppliers worked together early in the design phase to design out costs and design in quality. The team's efforts generated significant model-to-model cost reduction – shared by all parties – and superior quality performance.

Obviously it is critical that we work with our suppliers and customers as early as possible in the design process, not only to eliminate waste and save money but also to ensure on-time product and flawless vehicle launches.

When you begin to consider the many possible applications for lean principles in design, engineering and production, you begin to understand the profound potential these tools offer us in operating at maximum efficiency and profitability. They are too powerful to ignore!

This is winning by collaboration. It means redefining our idea of “business relationship” – a term that in too many cases has become devalued to mean simply “lunch and a round of golf.” The collaborative model has room for both to win, and plenty of compelling reasons for both to intensify the lean process, since both stand to benefit.

That’s why I said at the beginning ... lean supplier best practices are not just a nice thing to do but also a smart thing to do. I sincerely believe that the end result of this approach is a better product at a better price.

[DEEP BREATH]

You know, there are always people who come up to me after speaking engagements like this one and say, “Dave, why are you doing this?”

My answer is always this: the people who truly understand how to implement lean end up with the most competitive product in the marketplace. There's nothing mystical about it. It's just good business – and the proof shows up in the bottom line. Seeing these bottom-line results and forging strong relationships with suppliers motivates my team and me to do more. It's just that simple.

I think my time is just about up, so let me close by saying that Delphi's "golden rules" really boil down to forming long-term partnerships with a few key suppliers, based on mutual trust. We share ideas, designs, best practices, and the rewards that are derived from eliminating waste from our combined processes. This includes the savings as well as the practical knowledge that we gain from our efforts.

We get stronger, leaner, smarter, more profitable, and more interdependent, which further cements that relationship. It's certainly easier to develop the necessary trust when you can see the tangible results. And that's the best part – we know it works.

Thanks for allowing me to speak today. I wish you all a pleasant and productive conference.