



CASE STUDY

Kellogg's

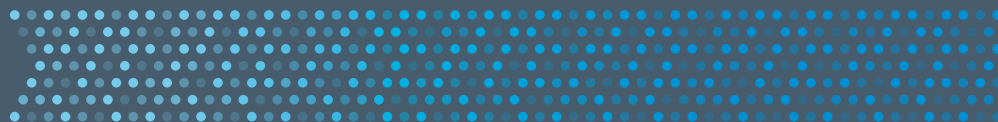


Cathy Kutch

Director, Supplier Relationships
and Diversity

Here we have the opportunity to gain insight on the development of a successful supplier relationship management (SRM) approach over 16 years, from the person who has been at the centre of things from the start.

STATE OF FLUX



In 1898, W. K. Kellogg and his brother Dr John Harvey Kellogg were trying to make granola. The attempt failed but resulted in them accidentally flaking wheat berry.

W.K. kept experimenting until he successfully flaked corn, and created the delicious recipe for Kellogg's Corn Flakes. By 1906, W.K had opened the Battle Creek Toasted Corn Flake Company where the initial batch of Kellogg's® Corn Flakes® was created. In the years that followed, Kellogg Company continued to expand and eventually opened factories in Australia, England, Mexico, Japan, India, and beyond. Today Kellogg's breakfast cereal and other products can be found in over 180 countries.

Kellogg's has a commitment to quality and one of the most recognisable global brands in the famous red signature of founder W.K. Kellogg. They have long realised the importance of their suppliers in maintaining quality and protecting their reputation.

While supply chain management has been a feature of Kellogg's operations since the very early days, the current approach to SRM can be traced back to 1997.

Cathy Kutch, Director of Supplier Relations and Diversity, is almost unique in having been part of the Kellogg's SRM programme from the very start. We were delighted when she agreed to share with us some of the highlights of the journey that Kellogg's has been on and in particular the role of programme lead.

When was SRM in its current form established and what were the key business drivers?

We started in 1997, developing an approach that consisted of three main pillars. First, we knew we had to achieve excellent supplier performance that could be more clearly demonstrated. Second, we wanted to share our expectations more effectively and embed them in strategic discussions with suppliers. And third, we wanted to engage with suppliers more effectively.

We started with performance. At this time we re-engineered our sourcing process and it was clear we needed to improve the later steps in the process around post contract supplier management. At that time we were changing or introducing a number of new suppliers and therefore needed to re-engage stakeholders. We saw it as our responsibility to put in

place a clearly documented strategy to engage suppliers more pro-actively and manage the documentation of supplier performance more effectively. This process enabled issues to be managed based on a proper examination of the facts, allowing the issues to be resolved at the source of the problem.

We started with direct suppliers of ingredients and packaging, and later expanded to include co-manufacturers*.

In terms of business drivers it was primarily cost, contract compliance and an increasing appetite for innovation that were our priority. In the US we have the additional dimension of a strong supplier diversity agenda that large corporations need to consider.

How did the programme develop from there?

Initially, the programme was focused on performance and direct suppliers, and it took a while to expand the scope to include more strategic dialogue with key suppliers. We took incremental steps starting with basics around KPIs and measurement, before starting to get more feedback from stakeholders on how well they thought objectives were being met. It wasn't until about 2004 that we introduced the concept of executives sharing directly with suppliers what the relevant strategies were for the company, through a supplier day. Between 2006 and 2010, we expanded the programme to include co-manufacturing suppliers. This was an interesting development in that we had to re-evaluate how we measured performance for these suppliers, as the traditional plant based measures of quality and delivery were not applicable. The expectations of these suppliers are far more about how well they assure their own manufacturing processes and how they are aligned to our corporate objectives and values.

* *Co-manufacturers are partner companies that also manufacture Kellogg's products*

In 2004 you started to get the executive engagement. Is that with the upper tier of strategic suppliers?

Yes, we hold annual supplier days which include a reception the night before for the most strategic suppliers, where they meet a number of our senior executives. On the actual day we have a structured series of meetings that start with a strategy presentation from our executives followed by department meetings facilitated by relevant vice presidents and one on one meetings. These meetings rapidly bring top level strategy down to a practical level. Other meetings and operational reviews take place with strategic suppliers, sometimes at a senior level on a less formal basis.

How do you approach the segmentation of your supplier base?

We work with the business to segment our supplier base into four groups. Our highest designation is strategic, followed by key suppliers, operational and finally transactional. We use a set of segmentation criteria that have a number of consistent features, along with the flexibility to accommodate different business needs. We have defined the general treatment strategies we believe are appropriate to each group. For our strategic, and a number of our key suppliers, this includes attendance at our annual supplier day. All suppliers in the strategic, key and operational groups are managed operationally on a day-to-day basis at plant level, but we do a more formal performance assessment three times a year.

What operating model have you adopted for SRM and how many people are involved?

Our approach is for managers in procurement to maintain the relationships. There are a small group of our raw materials suppliers that can do extremely innovative things that are managed out of our research quality and technology group. However, we adopt a team approach and they work very closely with us, because in the end we maintain the relationship within procurement. I know that people debate that and I see merit in the argument to position SRM more in the business. However, we believe that having the relationship managed here in procurement works better to promote a single interface and consistent communication.

Is that a dedicated role or is it combined with the sourcing role?

We combine SRM with the sourcing role. Again, I know opinions vary on this, but we regard SRM as part of the end to end strategic procurement process and believe that involvement in, and a good understanding of, current supplier relationships is vital to long term strategic sourcing.

What are the most significant challenges the programme has faced?

There are numerous challenges but I think the biggest of all is to communicate the value, as it not always tangible at first. Everybody is very busy but it is important for everyone to see the value of their efforts realised. Suppliers themselves reinforce this value constantly. It is our job to make sure the message is carried throughout the organisation.

The second challenge I would say, is the technology it takes to pull all that information together. I have been very fortunate to have a small team that supports me. We are currently working on a better technology solution which will be a great help.

Continuous marketing of SRM and its value to the business is a challenge as well. Our supplier days help on this front, when the suppliers meet with our executives and promote the benefits of the approach themselves. I've never had a supplier say 'look this doesn't add any value to me'. In most cases suppliers would pay to get this level of information and engagement.

What are the most successful features of the programme?

We see successes all over and they vary significantly. When we were segmenting our suppliers we were very clear with them about the level at which they were positioned. As a result, we have a much better alignment of expectations for both sides. We have seen examples of suppliers responding very positively to the investment we put into engaging with them in this manner. One of our suppliers said to us, "you investing in us and keeping us top of mind means we'll do the same thing for you", and we have seen that happen.

Having performance data has made a huge difference. Conversations with suppliers are very different. They have a much better business structure because we have put something in place that generates a different thought process. When you start providing direct feedback, your suppliers get involved and they start asking what they need to do to become better, so their conversations with stakeholders are very different.

The more I think about it, the more convinced I am that it's the information that makes the difference. I know that changed attitudes and behaviours are also key, but without information you have little to work with. We now provide information that then becomes the stone we throw in the pond, that then ripples out and has an impact around the business.

