



CASE STUDY

EASTMAN



Mike Gonce

Global IT Procurement
and Contracts Manager



Mike Stallard

Senior Procurement Manager

Our research and engagements with organisations have identified a pattern: in some larger, more complex organisations, SRM has developed in pockets. This can represent good practice, and when identified, organisations are keen to roll out to the wider enterprise. Eastman is faced with such a challenge and this case study examines its approach so far.

STATE OF FLUX



Eastman is a global specialty chemical company that produces a broad range of products found in items people use every day.

With a portfolio of specialty businesses, Eastman works with customers to deliver innovative products and solutions while maintaining a commitment to safety and sustainability. With headquarters in Kingsport Tennessee, Eastman Chemical Company was spun off from Eastman Kodak in 1994 and has become a highly successful publicly traded company. In 2012, sales revenue was \$9.1 billion. The company has 43 manufacturing locations plus a number of sales offices around the globe, employing around 13,500 people, serving customers in ~100 countries. Eastman's products are sold to numerous end markets including transportation; building and construction; consumables; tobacco; industrials and chemicals processing; durables; and health and wellness.

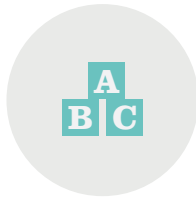
In 2012, Eastman Chemical Company participated in State of Flux's supplier relationship management (SRM) research. When we analysed their responses, it was evident that they had a relatively mature and well developed approach and were clearly amongst the leaders identified by our survey. An area of particular strength was stakeholder engagement and support. This prompted us to talk to Eastman in more detail whereupon we discovered that the survey responses had been submitted on behalf of IT where SRM was well established. Our conversations with Mike Gonce (Global IT Procurement and Contracts Manager) and Mike Stallard (Senior Procurement Manager) also revealed their plans to expand the adoption of SRM across the wider enterprise, starting initially with indirect procurement. We felt this challenge might resonate with other organisations that are wrestling with a similar challenge. We were delighted when the two Mikes agreed to share their experiences.



CHALLENGE

Eastman's SRM programme can be traced back to 2004 when, following a challenge by the IT leadership, a more formal and structured approach to SRM in the IT function was initiated. The programme emerged from a realisation that in most cases suppliers were taking ownership, driving relationships and following their own agenda, often engaging directly with C-level executives outside of the IT leadership. At that time IT was not comfortable working with suppliers to solve technical challenges and would only collaborate with 'key' suppliers when facing major issues. It was also clear that the teams responsible for managing suppliers didn't always understand the contracts and that management was largely reactive. Relationships were also deemed far too dependent on individuals. Mike Gonce explained:

"It was imperative that we addressed the risks that this situation created. We needed to better align the IT procurement team with the IT organisation as a whole and turn results into value."



KEEPING IT SIMPLE

With strong sponsorship from the CIO and other IT leadership, a basic SRM framework was developed. This was piloted with a well established supplier where the existing relationship was very strong, and then launched formally with six suppliers in the IT, contract labour, software, hardware, and telecom categories. These suppliers were identified as tier one following a rudimentary and largely intuitive segmentation exercise, taking spend and business criticality (risk) into account. According to Mike Gonce, 'keeping it simple' was key, and also the strong leadership and involvement of the CIO who locked in supplier commitment via a 'supplier charter' letter, personally signed by each of the suppliers involved.

“Being too rigid in the initial segmentation or in the framework can impede value and be a barrier to the launch of a successful SRM programme. We felt providing a simple tool kit and framework, and allowing a focus on letting the key issues drive each relationship was the right place to start. We knew that we could mature the process and grow the programme over time. It worked out perfectly for us.”

Key elements of the initial framework included team orientation to 'get everybody on the same page' in terms of the approach and what needed to be achieved. A simple standard tool kit and programme level scorecard was developed with three basic measures: number of suppliers, spend under management, and value created. Some other pieces in the initial toolkit included a supplier relationship scorecard, sample agendas, guiding principles, and a collaboration website.



DEVELOPMENT

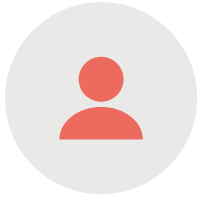
Mike Gonce explained that the programme has matured since the early days and now encompasses 25 suppliers (with plans to add another five), resulting in ~70% of third party spend under management. The framework itself has also been developed with additional criteria added to segmentation that is refreshed annually. More structured training has been provided and treatment strategies developed for suppliers in four tiers. Mike was keen to point out that 100% of what Eastman classify as higher risk relationships are being pro-actively managed within the SRM programme.



BENEFITS

Eastman maintains that benefits from the programme are real and tangible. This is evidenced by lower cost, improved supplier responsiveness, improved service levels, and much improved collaboration and communication. Mike went on to explain a 'softer' benefit which he described as 'relationship capital'. Relationship capital, like financial capital, is something that is built over time and drawn upon when needed. Fair and reasonable treatment will, in most cases, create a reserve of goodwill that can be drawn on when issues need to be resolved or extra effort is required. A healthy relationship capital balance has assisted Eastman in its call on supplier cooperation to help manage the integration challenges from its recent acquisitions.

“When we think about innovation, productivity or sustainability, many times these come from, or can be enabled by, strong supplier relationships.”



RESOURCES

No SRM programme is without its challenges and the single biggest challenge faced by Eastman will be familiar to many – resources. This manifests itself in various ways, from a simple lack of numbers and capped headcount budgets, to maintaining and developing skills through additional training, to then being able to schedule that training as resource comes under more pressure. It's a vicious circle.

Despite this, the IT SRM programme has been deemed a success, to the point that a previously sceptical business is now willing to embrace the approach.



ENTERPRISE

Mike Stallard has been tasked with paving the way for an expanded enterprise wide SRM programme that will initially involve indirect procurement. Mike explained:

“The wider business has been convinced of the value of SRM as a result of the measureable savings and total value realised via the IT programme. From the beginning, the intent and challenge was to use the experience and the proven model to extend our SRM programme throughout the company.”

Mike went on to say how the value of SRM had been defined for the wider business in a way that resonated with their varied needs. *“As a programme our goal is to achieve total supplier performance, business client satisfaction, incremental innovation, and maximum ROI. To achieve this we will need to leverage all the potential value that effective SRM can deliver.”*



MORE CHALLENGES

Expanding the adoption of SRM from IT to businesses throughout the enterprise, creates a whole new set of challenges. Complexity on a global scale will multiply the variety of business drivers, stakeholders, processes, technology, cultures, etc. that will need to be accommodated. Mike listed what he sees as the major challenges facing the Eastman enterprise SRM programme. *“We are looking hard at these and have not yet prioritised the list, and we potentially expect more challenges to emerge as we move forward. However, these are what we are looking at currently...”*

Internal relationship management – We will need to gain business leader endorsement, sponsorship and stewardship. We need to achieve a position where we are regarded as trusted advisors to the business.

Resources – We will need to secure time to perform the role, and also time to train procurement and key business resources.

Lack of available tools – While we have a great start using SharePoint for the IT programme, that knowledge is not available in other parts of the organisation or in key business areas. The single biggest concern is how to aggregate the data / information to the programme level.

Achieving consistency – Creating a flexible framework and process for managing a diverse set of indirect material categories across the enterprise.

Training – Challenge to train up the organisation to be ‘relationship’ managers not just category managers.

Cross business categories / suppliers – Managing commodity categories or major suppliers that cross business unit boundaries or serve the company as a whole.”



WHAT GREAT LOOKS LIKE

Mike acknowledges the size of the task facing Eastman but has his eyes fixed on an ultimate goal. *"We need to align SRM, ESEP (Eastman Supplier Excellence Program) and category management to create a common expectation and perspective across multiple geographies and cross-functional teams. Ultimately, we would like to establish a formal vendor management office with knowledgeable and accountable SRM programme advocates managing supplier relationships across the organisation, and to become a customer of choice for all critical relationships."*

We asked Mike Stallard what he believes are the key elements of a strategy to expand a successful business unit or functional SRM programme enterprise wide. He responded as follows:

"Have a best practice template – for us that means replicating the IT programme practices, tools and templates, and making them scalable."

"Build flexibility into a framework that accommodates different business needs."

"To achieve consistency it's necessary to have a single training programme."

"Assess skills and get the right people facilitating / managing the right relationships."

"To manage relationships on a global scale, it's essential to aggregate all SRM information to one centralised collaboration tool."

"Ensure that value can be continually demonstrated by ensuring that value can be captured, measured and reported via a dashboard that is easy to use, maintain and understand."

The two Mikes share
a personal mantra:

GREAT RELATIONSHIPS



GOOD CONTRACTS



**EXCELLENT VALUE
& SUPERIOR RESULTS**