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Eaton Wins Purchasing's Medal of Professional Excellence

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From strategic sourcing to supplier management, the Cleveland-based diversified manufacturer shows that fierce adherence to principles and to business basics wins supply chain success—and Purchasing's Medal of Professional Excellence.

By Paul E. Teague --
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The room grew appropriately quiet as Eaton Corp. Chairman and CEO Alexander M. (Sandy) Cutler, walked to the podium last March 28 to address the winners of the company's Supplier Excellence Awards. Introduced by Vice President for Supply Chain Management Rick Jacobs, Cutler was there to thank the winners and explain the company's goals. But the goal he emphasized didn't include price reductions. Instead, he talked about values. "We want to be the most admired company in our markets through supply chain performance," he told the attendees.

"Most admired" is not a goal you expect to hear from a corporate executive in such a setting. But the attendees have heard it at Eaton gatherings before. Cutler;

Jacobs; Rich Holder, vice president of Eaton Business Systems and Jacobs' boss; and the entire senior management team talk constantly about the Cleveland-based diversified manufacturer being a values-driven company rather than a results-driven company.

"Have the right ethics and the right business practices and you'll attract the best people and suppliers who'll produce the best results," Cutler says.

With that ethos as their foundation, Jacobs and the 3,500-strong supply chain team examine suppliers' ethics and business practices as closely as they look at their product quality, core competencies and potential for value creation. The company has an ombudsman for ethics that employees or anyone else can confer with. And, Eaton doesn't hesitate to stop doing business with suppliers whose business practices aren't up to its own high standards, regardless of the suppliers' quality or prices.

Working collaboratively with the key suppliers that make the cut, Eaton's supply chain team has birthed a variety of strategic initiatives that constitute a virtual textbook of purchasing fundamentals. In recognition of its commitment

and accomplishments, *Purchasing* has awarded the company the magazine's Medal of Professional Excellence.

Among the initiatives:

- A supply chain data warehouse that integrates data from the company's myriad ERP systems to create a single repository of critical data for decision making. Its genesis was a shared service center the supply chain organization initiated with the company's finance group. "But it only contained financial data, and we knew we needed much more, such as information on quality, logistics, nonpurchase-order data and other items so we could more effectively manage spend and monitor suppliers," Jacobs says.
- Significant progress toward the corporate goal of reducing the supply base by 50% by 2010. Jacobs and his team will cut the supply base by 48% by the end of 2007.
- A 50% reduction in the number of incoming parts defects over the last three years, in part by eliminating poor-performing suppliers.
- Major savings and improved cross-functional

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communication from the work of special hub-and-spoke commodity teams composed of supply chain representatives from each of Eaton's business groups. Each team develops commodity strategies that integrate supply chain and business strategies. On each team, the hub is the business group with the highest dollar purchases in the commodity. The spokes are the remaining businesses. The

electronics team, for one, reduced its supplier base from 127 to just five key distributors, and has achieved 12% annualized savings so far.

- A 10% per-year savings in North American small-package logistics from moving 95% of shipments through a single provider. Partnering with five lead logistics suppliers across the globe for raw materials and finished goods shipments has led to 6% savings per year since 2005.
- Globalization of the indirect buy, including MRO, capital equipment, energy, information technology, telecom and fleet services.
- Development of special software tools for improving communication with suppliers and other

Eaton functional business groups. One, WISPER (Worldwide Interactive Supplier Performance Evaluation Resource), helps the supply chain team manage and evaluate suppliers. Another, Supplier Visualization, gives suppliers visibility into purchase orders, forecasts and inventory so they can manage Eaton's inventory appropriately.

- And development and implementation of a state-of-the-art training initiative—called the Supply Chain Functional Excellence Program—that helps supply chain staff improve their knowledge and skills and prepare for advancement within the company.

Deep dives into suppliers' practices

All those and other successes begin with Eaton's rigorous process to find suppliers whose business practices match their own. For an idea of how rigorously Eaton analyzes the quality, fitness and potential of prospective suppliers, talk to Jon Barfield, CEO and president of the Bartech Group. The Livonia, Mich.-based minority supplier finds and manages all of the company's temporary help.

"We had discussions and did testing for the better part of a year before they decided to go with us," says Barfield, who calls his company's relationship with Eaton one of the best of all his customers.

Or Gregg Hammer, national accounts manager for Pratt Industries in Conyers, Georgia, a supplier of corrugated containers. "They are very meticulous about analyzing suppliers' business practices, more so than most others," says Hammer. "Environmentalism is one of their big pushes, and they talked with us about that and our own views on ethics." In fact, Hammer believes Pratt's "green" practices—the fact that their products are 100-percent recyclable—was a big reason that Eaton increased its business with them.



"Eaton is a values-driven company, not a results-driven company. It's about total

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value, not cost."
-Rick Jacobs

Collaboration is key

Besides ethics, quality and environmentally sound practices, the willingness to collaborate is critical in Eaton's evaluation of suppliers. Within the company's own walls, Jacobs and his team collaborate with virtually every function in the company, including finance, information technology, human resources, legal and ethics, boosting the supply chain organization's image and influence internally, as well as its value. For example, representatives from product engineering, accounting and other functions brainstorm strategies with supply chain personnel on the hub and spoke commodity teams. Additionally, supply chain staff is working closely with finance and information technology to develop a system to completely digitize invoicing.

In another example, evaluating and bidding the existing domestic and international employee relocation program, supply chain collaborated with human resources (domestic and international), business groups, tax, finance and payroll to streamline administrative processes,

define and develop management reports for financial stakeholders and improve overall service.

Externally, the supply chain team facilitates collaboration between Eaton's engineering staff and its customers to solve design problems. Case in point: the Eaton Automotive Division's work on a supercharger for the Cadillac Northstar.

Superchargers are positive-displacement devices that add power and efficiency to car engines. But, they have to fit within a very tight space, and the design envelope often changes. Despite the changes, Eaton's task was to hold to its quote.

"We could only get our costs down so much through negotiations," says Jeff Place, director of supply chain management for the Automotive Group. So, Place and his team sat Eaton engineers down with the customer's engineers and the suppliers of the various components of the supercharger. Together, they identified the individual cost drivers for each component, the possibility of unnecessary tolerances and identified opportunities to cut costs. "We took a product-centric view," Place says, "and collaborated with the

suppliers to find the lowest cost."



"Engineering, manufacturing and supply chain all have the same goal. You can't be successful without collaboration"
—Jeff Place

In another case, the supply chain team worked with suppliers of a DC motor to get the cost down. Again, supply chain formed a team with members from engineering, manufacturing and representatives of the suppliers to identify the key cost drivers. Result: They achieved double-digit cost reductions.

The supply chain team's collaborative relationships with Eaton's own engineers were critical in those and other cases. Of course, there can be hurdles to jump over during problem-solving meetings. Engineering or

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manufacturing may not want to change tolerances on a part and may push back, saying they can't or won't do it. Place admits that sometimes there is some pushback, but Eaton's organizational structure helps overcome the problem. Engineering, manufacturing and supply chain all have the same goal for getting costs down, he says. "The demands on all three groups are more than the capacity of the individual groups to perform, so we have to work together."

Connected to that, Place says, is the fact that Eaton is a matrix organization, with overlapping reporting relationships and responsibilities. "You can't be successful if you don't collaborate with other functions," he says.

The search for innovation

And you can't be successful without innovation. Like most progressive manufacturers, Eaton encourages—indeed, expects—its suppliers to be innovative. "That often requires bringing them in at the earliest stages of the design process so they'll understand the product better," says Mike Bungo, vice president of supply chain and operational excellence. And, the supply chain team

will help suppliers succeed, he says, even if it requires bringing in a master scheduler to adjust delivery dates, or posting Eaton quality engineers and technicians to strategic-supplier sites for extended periods to guide the suppliers' quality efforts.

And that includes off-shore suppliers, with whom Eaton has grown its purchases to greater than 30% for direct materials.

Much of the supply chain management innovation at Eaton originates in the hub and spoke commodity teams. That's where corporate and supply chain strategies come together, and it's where much of the leveraging of suppliers begins.



"One goal was to give supply chain staff a path for career advancement."

—Deborah Pickens

There are hub and spoke teams composed of supply chain representatives for each business group and for virtually every commodity, including electronics, plastics and packaging. Each team develops a single commodity strategy that integrates supply chain and business strategy. Among other things, the teams act as clearing houses for information and communication, and for resolving supplier problems.

For example, two business units located in the United Kingdom and Netherlands were using the same supplier for custom electronics and electrical assemblies. The supplier was producing these assemblies at several of its plants in Hungary and Bulgaria.

Because of timing differences at the two Eaton business units, the production ramp up started at an earlier date for the U. K. sites than for those in the Netherlands. As a result, the individual business units signed separate supplier agreements that included differing performance parameters for the relationship.

That, of course, inevitably led to different performance expectations and communication issues. Since both business units were part

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of the electronics hub and spoke team, they eventually found a way to jointly set performance parameters by completing a single supply agreement with the supplier and standardizing on communication and performance. Supplier performance improved and the team agreed to consider giving more business to the supplier.

Back to school

For all the effort Eaton invests in developing and nurturing the thousands of suppliers it works with in more than 100 countries, the company also invests in development of the supply chain team itself. In 2004, the company started its Supply Chain Functional Excellence initiative to help its own supply professionals increase their knowledge so they can support corporate objectives, and advance in their careers. In fact, employees asked for such a program in a company survey. "We had a program before," but we wanted to improve it," says Deborah Pickens, who oversees the Functional Excellence program as well as the company's diversity efforts.

Among the first steps was to define what the core competencies are for supply chain personnel. The

company defined 20 such competencies, including negotiations, program management, Lean, global business practices and general problem solving. Then, the Functional Excellence team matched the competencies with specific jobs to see if people holding those jobs really had the skills needed.

One of the goals of Functional Excellence, says Pickens, was to give supply chain staff a path for advancement. And to help in that endeavor, the company hired consultant Hodge Enterprises to develop a curriculum. Most of the courses are based on an e-learning concept where employees study via computer. But there are also instructor-led courses at Eaton facilities. "The individual businesses decide which courses are best for their staff," says Pickens. For example, the Truck Group might decide that they want a negotiations course for staff in China and Brazil, while the Automotive Group might decide they want the same course in Mexico.

There are also courses that help employees understand Eaton's supply chain strategies. Among the subjects are sales, operations and inventory planning, commodity strategies,

materials management, supplier performance and logistics. Ethics and good business practices are part of every class discussion. "The program helps create an aligned mindset among employees," Pickens says. "A common mindset develops commitment to a common set of behaviors and competencies for achieving operational excellence."

And achieve it they have. "It's all about total value, not cost," Jacobs told that March gathering of top suppliers. With that attitude and the programs the company has in place, Eaton might just become the most admired company in its markets.

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Eaton at a glance

Products: Electrical systems and components for power quality, distribution and control; fluid power systems and services for industrial, mobile and aircraft equipment; intelligent truck drivetrain systems for safety and fuel economy; automotive-engine air-management systems, powertrain solutions and specialty controls for performance, fuel economy and safety.

Sales: \$12 billion in 2006

Annual spend: Direct, approximately \$4.5 billion; indirect: approximately \$1.5 billion

Spend visibility: 90%

Supply chain employees: 3,500

Purchasing organization: Centrally led from Cleveland by Vice President of Supply Management Richard B. Jacobs, who reports to Richard Holder, vice president

of Eaton Business Systems, who in turn reports to the CEO. Jacobs executes supply chain strategic initiatives through a Leadership Team of his direct reports and a Senior Management Advisory Council, which includes supply chain leaders from each business group.

Procurement software: Various versions of Oracle; MAPICS; MFG Pro; Open Ratings.

Locations: North America (headquarters in Cleveland), Latin America, Africa, Asia-Pacific, Europe, Middle East

Commodities savings

Eaton's hub-and-spoke commodities teams integrate commodity and business strategies. Here are some of the savings the teams have realized:

- **Electronics team:** Consolidated 127 suppliers into five key distributor partners. Annualized cost savings of 12 percent.

- **Plastics team:** Consolidated the resin-distribution base from ten suppliers to one supplier. Savings of 5%.
- **Packaging team:** Consolidated 175 suppliers to one supplier. Savings of 12%.
- **Raw materials team:** Leveraged low spend (\$5 million) in one group and \$100 million in another group. For a similar product, saved more than 10% on the low-spend portion.

Supplier diversity grows

Eaton considers supplier diversity to be a key component of the strategic sourcing process. Since 2004, the company has increased its spend with minority and women-owned suppliers from six percent to 11 percent. Attendees at the company's supplier diversity conferences increased their sales to the company by more than 35 percent from 2005 to 2006.



From left: Jeff Place, director of supply chain management for the Automotive Group; Mike Bungo, vice president of supply chain and operational excellence; Rick Jacobs, vice president of supply chain management; and Leo Diaz, vice president for supply chain management and operational excellence for the Trucking Group.



The corporate supply chain team, from left: Deborah Pickens, director of supplier diversity and functional excellence; Victoria Van Bennekom, supply chain manager, information and finance; Jeff Thompson, director of commodity management and supplier performance; Terry Wahlgren, global manager for capital and MRO; Mario Hegewold, director of global logistics.