Doing Business in the global value chain

Supplier Requirements for successful integration

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Linkage Director (USAID LinkSME Project)
Typical Procurement Process of International Companies

Procurement process at most International Organizations looks as below:

**Activities**

- **Design demand and planning**
  - Procurement strategy and operations advisory
  - Demand and compliance
  - Tax effective procurement

- **Purchasing**
  - Procurement skills and capability assessment
  - Category management
  - Complex sourcing levers
  - Inbound logistics

- **Performance management**
  - Performance management (KPI tracking, PPM surveillance, delivery performance, supplier review...)

- **Contract management**
  - Tax effective procurement
  - Supplier relationship management

- **Supplier relationship management**
  - Performance management
  - SLAs

**Sub Activities**

- **Planning and Demand assessment**
- **Supply Order Management**
- **Logistics Management**
- **Strategic Sourcing & Tendering**
- **Identification & Registration**

- **Requirements & Specifications**
- **Requisition & Approval**
- **Quality Management**
- **Contract Management**
- **Supplier Risk Management**

- **Make vs. Buy Analysis**
- **Receipt, Inspection & Invoicing**
- **Warehouse Management**
- **Negotiation**
- **Supplier Relationship Management**

- **Pricing, SLA Definition**
- **Reconciliation, Control & Payment**
- **Inventory Management**
- **Contract Finalization & Implementation**
- **Performance Management**

**Key Processes**

- **Key supplier touch points**
Supplier’s journey with an organization starts with his Onboarding

In order to become a part of an International Organization’s Supply Chain, the Supplier undergoes the following onboarding process:

1. **Supplier Pre Assessment**
   - Assessment of Organization, Management, Financial Status, Capability, Know How

2. **Supplier Evaluation**
   - Detailed evaluation of capability + know how of all departments, quality, capacity

3. **Supplier Audit**
   - Process or System Audit
   - Audit Passed

Result
- Supplier approved to attend RFQ / RFP process

**Criteria**
- Technologies
- Quality
- Cost
- Responsiveness
- Dependability

**Behaviors**
- Trust and integrity
- Respect and care for each other
- Teamwork and collaboration
- Closed loop communication
- Metrics

**Key considerations for supplier evaluation**

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Once approved, the Supplier proceeds to the RFQ / RFP Process

As a part of the Request For Quotation (RFQ) / Request For Proposal (RFP) process, Supplier is required to fulfill all the requirements of the RFQ / RFP package. Shown below is a typical RFQ / RFP process:

**Step 1**
Organization floats the RFQ / RFP package

**Step 2**
Suppliers submit their competitive bid

**Step 3**
Review bids and shortlist suppliers for negotiation

**Step 4**
Suppliers undergo negotiations with the organization

**Step 5**
Finalize suppliers & implement contracts

**Typical contents of RFQ / RFP Package**
- Confirmation of Interest from Suppliers
- Confidentiality Agreement / NDA
- RFQ / RFP Overview
- RFQ / RFP related questions from Suppliers
- Supplier Questionnaire
- General Terms + Conditions
- Specification & pricing Workbook
Sample RFQ / RFP Package Contents

RFQ / RFP Overview

Introduction

About ABC

ABC is a leading global firm in the defense and aerospace sectors. Its operations and services cover a diverse range of industries, including Construction, Equipment, Power, Projects, and others. It works in partnership with some of the biggest names in these sectors, including ABC, ABC, ABC. Each of these firms is looking for one of the largest consignors of steel raw material for its business space, with an average usage of 50,000 MT of steel per annum.

Sourcing Initiative

In 2013 and beyond, ABC is looking to expand aggressively into new markets of operations and diversify into other related sectors. At this time, we are well positioned to achieve this. ABC is well positioned and well received by ABC, an established global PE firm with over 100 billion of assets under management globally. ABC is led by a professional Board and Management team with an average of 20 years of combined experience across industries. In view of the exposure to the market, we have launched this sourcing exercise to improve performance and drive supply chain excellence.

Scope of RFP

The objective of this RFP is to reduce the total cost of ownership of steel by determining top performers, and selecting business transactions, lowering material inventories, and extending payment terms to improve working capital, and continuously improving quality and service levels. ABC is looking for suppliers who are willing to enter into a mutually beneficial long-term agreement. Please note that we are open to receiving quotes from outside suppliers (Australia, China, Japan, etc.) as long as quality standards and customer requirements are met.

Process Timelines

<table>
<thead>
<tr>
<th>Process</th>
<th>Timeline</th>
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<tbody>
<tr>
<td>Outcome</td>
<td>90 days</td>
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</table>

Supplier Questionnaire

Product Specification & Pricing Worksheet

<table>
<thead>
<tr>
<th>Specification</th>
<th>Price</th>
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<tbody>
<tr>
<td>Item 1</td>
<td>$100</td>
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<tr>
<td>Item 2</td>
<td>$200</td>
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<tr>
<td>Item 3</td>
<td>$300</td>
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</tbody>
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Questions from Suppliers on RFQ / RFP

<table>
<thead>
<tr>
<th>Question</th>
<th>Supplier</th>
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<tbody>
<tr>
<td>Q1</td>
<td>Supplier A</td>
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<tr>
<td>Q2</td>
<td>Supplier B</td>
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<td>Q3</td>
<td>Supplier C</td>
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<td>Q4</td>
<td>Supplier D</td>
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General Evaluation Criteria during RFQ / RFP stage

During the RFQ / RFP stage, suppliers maybe evaluated on one or more of the following criteria:

### Capabilities
- Reporting (metrics, spend, price paid, etc.)
- Product Development
- Plant and Equipment
- Capacity
- Number of Facilities
- Quality System
- Cost Control
- Geographic Locations
- Planning Flexibility
- Logistics Integration
- Innovations
- Electronic Communications

### Service
- On Time Delivery
- Lead Times
- Cycle Time Reductions
- Response Time
- Metrics Data

### Quality
- Quality Standards
- Quality Inspections
- Number of Rejections
- Preventive Maintenance

### Cooperation
- Quality Response
- Sales Service
- Technical Service
- Administrative Service
- Organization
- Ethics
- Partnership
- Supplier Management Commitment

### Price
- Lowest Purchase Price
- Fixed Price for Period
- Regular Price Reductions
- Price to Indices

### Others
- Environmental Programs
- Quantity Fulfillment
- Labor Stability and Training
- Currency Risk
- Engineering Capabilities
- Warranty
- Inspection Services
- Local Content

### Possible Selected Evaluation Criteria – EXAMPLE
- Reporting
- On Time Delivery
- Quality Inspections
- Geographical Location
- Warranty
- Local Content
Shortlisted Suppliers are then invited for Negotiations

For global players, the key idea behind a negotiation may include one or more of the following aspects. If the suppliers are able to fulfill the requirements, they may win an opportunity to develop business relationships with the global players.

- Average Annual Cost Reduction
- Annual Productivity increase
- Expected Annual Savings in the form Total Cost of Ownership (TCO) initiatives
- Better Compliance and Customer Service
- Continuous Improvement initiatives
- Cost Transparency
Typical Expectations Global Players have from T1 Suppliers

Typically, the International Organizations (with supplier involved in development process) have following expectations from T1 Suppliers:

- **Solid and Reliable Management**
- **Project Management Organization in place (Project Teams)**
- **Account Management with one face to the customer approach**
- **QM System certification: ISO 9001, 19949 14001, OHSAS, IATF 16949**
- **Development responsibility & regular simultaneous engineering team participation**
- **Technical Change Management**
- **Highly Innovative Supplier**
- **Systems functionality**

T1 Supplier
Once integrated, Supplier Performance is regularly monitored

Contracting is not the end of the Supplier Journey. Once finalized for contracting, International Organizations constantly monitor the performance of these suppliers. Common Key Performance Indicators for suppliers are developed around the following areas:

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<tbody>
<tr>
<td>1</td>
<td>Understand and listen to your customer</td>
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<td>2</td>
<td>Experienced with specific customer processes (purchasing, ordering, accounting, etc.)</td>
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<td>3</td>
<td>Well managed company with healthy financial background</td>
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<td>4</td>
<td>High production flexibility to cover volume change (+ / - 10% to 20%)</td>
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<td>5</td>
<td>Innovation, annual cost reduction, annual savings, continuous improvement</td>
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<td>Cost Transparency (cost break down, quotation analysis forms, etc.)</td>
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<td>7</td>
<td>A reliable, professional and stable organization</td>
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Not all suppliers can make it to the global value chain

For successful integration into global value chains, suppliers must get rid of the following drawbacks:

1. Lack of and / or fragmentary operation / control system across supplier’s supply chain
2. Gap between Commitment and Delivery to the customer
3. Short term gain vs. long term win approach
4. Lack of LEAN practices and insufficient Quality Management (QM) system
5. Lack in problem solving techniques – no analytical approach
6. Absence of Safety Standards / Safety behavior
7. Missing customer orientation
8. Communication (Language, system, structure...)

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