Spend Matters™

RESEARCH

# A Case Study in Global Supply Chain Risk Management: How AGCO Implemented an SCRM Solution to Save Millions

By: Thomas Kase, VP of Research, Spend Matters

**Introduction**

Risk and reward: just as in Vegas, one walks hand-in-hand with the other. You'd probably prefer the odds be a little more in your favor - which is why you're reading this and not playing roulette in Nevada.

The concept of supply chain risk is front of mind for nearly all Global 2000 firms like never before, especially after various natural disasters in Iceland, Thailand and Japan - not to mention numerous media fires that stem from unsavory upstream business practices and related regulatory penalties. And there's more: strikes, compliance, political risk – the risk list goes on.

Thankfully, as these risk factors grow in importance, new technology is making the underlying drivers more visible as well as more manageable.

As a result, companies are changing, silos are breaking down and stakeholders are collaborating as never before. A new concept is emerging: global **Supply Chain Risk Management** (SCRM). The decisions to invest in SCRM are often driven more by the fear of negative press (and of course regulatory penalties) than the opportunity to make the supply chain more resilient and maintain topline revenue and market share even in the case of a supply chain upset.

Some of the drivers that make SCRM solutions particularly attractive include:

- The move from a slow internal and compliance driven model to one that looks to external and dynamic content
- Low solution price points – nearly out of box availability and SaaS delivery have combined to make the tools accessible to even small or mid-size businesses
- Big data – with tens of thousands of data sources incorporated, the underlying content has grown beyond what any individual could manage and analyze
- Functionality – ease of use has significantly improved, putting visibility and analytics in the hands of decision makers at all levels in organizations

To be clear, this is still a new space. The newer, smaller, nimbler solution providers are rapidly innovating and the solutions are quickly evolving. What is in the marketplace today will look quite different only a year from now - making it critical for organizations to jump onboard and to start to internalize the progress and new capabilities.

### A Real-Life SCRM Example

How does this technology work in person, though? It sounds very well and good to buy something that will show immediate returns straight out of the box. Most Spend Matters readers, however, appreciate an illustrative case study based on an actual implementation. To that end, this case study examines **AGCO's** experience with **riskmethods.** (See previous riskmethods coverage here, here, and here.)

AGCO is a Duluth, Georgia-based multi-business unit, global manufacturer of agricultural machinery. The company traces its roots back 100 years but was formed 25 years ago and has operations in primarily North America, Brazil, Western Europe, China and India.

AGCO has addressable procurement spend around $7 billion, out of which $5 billion is in direct materials and $1 billion is pure indirect spend, with parts and third parties making up the remainder. AGCO's procurement organization comprises about 250 people, touches 25 direct commodities, and works with around 6,000 suppliers, out of which around 250 make up 90% of spend (the suppliers in risk monitoring).

The procurement function was fragmented and spread across the many business units, which lead to business challenges when external events—such as earthquakes—disrupted the supply base. These events sent buyers scrambling for available capacity without any sense of teamwork or collaboration. In some cases, they were outbidding each other for the same suppliers. When a competitor proved that a center-led SCRM approach was more effective at securing supplier capacity, this drove AGCO to adopt its own strategy, as well as an organizational change to a matrix layout.

Key business objectives were identified:

1. Eliminate internal risks
2. Focus on top 250 suppliers
3. Consider supplier, location and country risks
4. Automate data capture to minimize manual efforts

Outcomes or business benefits were defined as:

- Better sourcing decisions through risk adjusted Total Cost of Ownership (TCO)
- Sub-tier supply chain risk identification through multi-tier supply chain visibility
- Alignment of category management strategy with supply chain risk exposure

The SCRM effort at AGCO was not a quick fix, or narrow point initiative but was rolled into a holistic approach that combined:

- Internal organization change to a matrix structure with category owners that also have regional or even cross-enterprise roles in addition to their responsibilities at the business unit level
- Implementing the position of a risk manager
- Supply base analysis with development of suitable risk mitigation strategies
- Supporting software tools to enable automated visibility and risk analysis

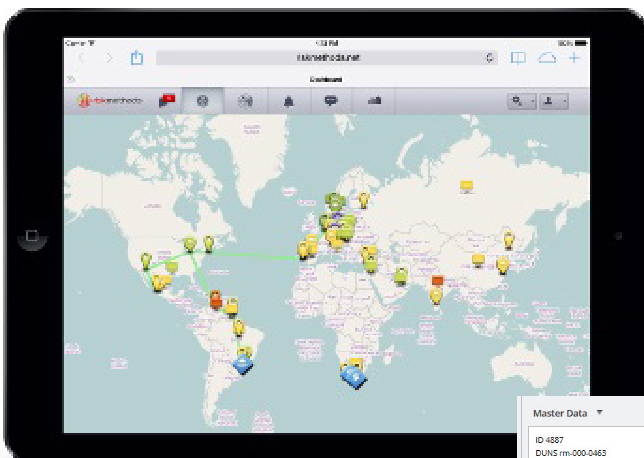
Training was a key component in all of the above to drive the transformational aspect of changing the way the company engages with its risk exposure.

## The New Approach

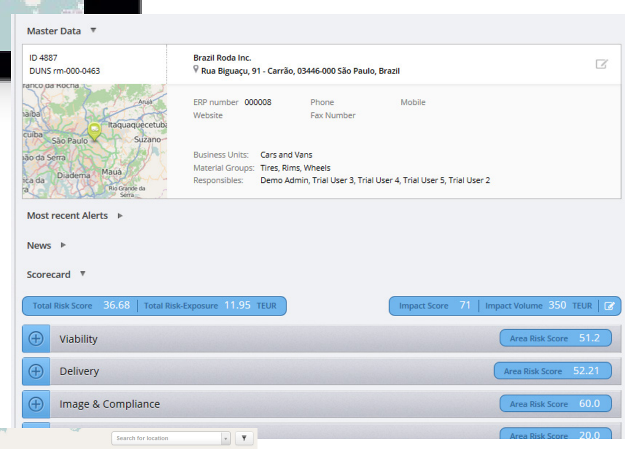
With the company prepared, the stage was set to engage with risk in a new way that managed to span several areas - country, logistical, performance, supplier, supply and more.

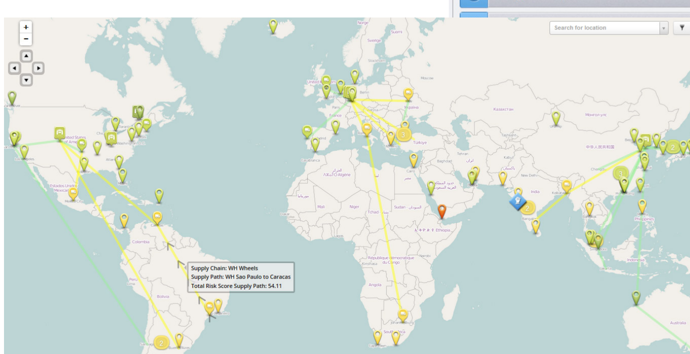
AGCO's new approach, which integrates SCRM and Supply Risk Network into its daily operations, is created by riskmethods. It delivers:

- 100% automation - with early warning signals
- Multi-tier supply base visibility
- Full visibility of all types of risks: by supplier, category and location, including natural disasters, legal and compliance, CSR, cost and quality
- Comprehensive approach: monitor the entire process from risk analysis and risk evaluation through risk management right up to residual risk control
- Mobile technology and high user acceptance through ease of use



"The return on the taken investments increased continuously over the first 3 years."



To manage the remaining risk exposure, AGCO created a supply chain risk strategy team out of the matrix organization, which in turn is supported by more operational risk managers, and finally with the all global commodity managers held to risk aspects in execution, supplier assessments and reporting.

Together with the new software solutions, the company now has a single place to go for information on its core supplier relationships—supplier development, performance management, cost analysis, other risks and sustainability.

AGCO's goals for its iinvestment is mainly focused on cost avoidance:

- Avoidance and reduction of crisis costs through reaction time advantage
- Prevention of price increases
- Prevention of revenue shortfall
- Prevention of loss of goodwill and shareholder value through reputational damage
- Identification of first and second tier supply chains, data updates, risk monitoring
- That said, the company has also achieved hard savings from:
    - “Advanced Sourcing” savings through supply chain risk transparency
    - Automation of manual risk data search, input and updating
    - (Coming soon) Reduction of CBI insurance premium through supply chain transparency

A major benefit for AGCO has been removing the blinders from everyone in the company, letting all stakeholders see how its piece of the supply base puzzle fits in with others, and creating awareness of the many risks that exist throughout.

**Lessons Learned**

- An SCRM program needs to create and drive risk awareness at all corporate levels
- Include internal stakeholders (engineering, finance, logistics, quality etc.) early to identify functional risks and align them with responsibilities
- Make risk management part of organizational design, roles and processes before implementing tools
- Spend time on master data management, cleanse supplier master data
- Understand supply base (locations, industries, competition, etc.) and select pilot group (AGCO: top 250 suppliers comprise 90% of spend)
- Invest in training to create awareness and change mindsets (buyers can be overly focused on PPR savings - consider PPR savings vs. risk reduction)
- Select one core SCRM content provider (AGCO chose riskmethods) and enrich content & monitoring capabilities using additional partners

**Tools:** Create an easy to use tool for buyers (AGCO uses riskmethods combined with an Supply Lifecycle Managment solution), management and suppliers that promotes risk awareness through a positive user experience.

**Final Takeaways**

Supply chain risk management is still in its infancy. The solutions on the marketplace today are only scratching the surface of what is possible. Any company that has grown beyond a trivial size realistically has to be proactive about risk, not reactively fighting the fires when emergencies strike.

Here's how you can get started:

- **Start to engage with solution providers** - Try them out, start to inflict the pain of visibility on your internal stakeholders, teach your organization to act with many blinders removed and adopt a more strategic level of thinking.
- **Solutions are in a state of flux** - Early adopters will likely have to go through radical changes in their programs as this industry matures, but this is preferable to remaining on the sidelines, getting stuck deeper in the old ways.
- **Heuristics will make a big difference over time** - Both in helping to eliminate false positives but also in identifying real issues with greater precision. Aggregated metadata from your third parties, combined with other big data sets, all processed in real time, will drive a change toward solutions that not only show what your supply base looks like but also helps manage risk scenarios and develop mitigation plans of action.
- **A picture is worth a 1,000 conference calls** - Think of a map, showing all your major internal and external business relationships (manufacturing facilities, warehouses and distribution facilities, logistical paths, suppliers and their suppliers etc.). This simple illustration can quickly rally stakeholders around a common cause.
- **Good SCRM analysis requires good data** – Don't skimp on the prep work. You know that sooner or later you do need to get to a clean MDM understanding, as well as item level PO analysis. You also need to fully assess your key suppliers and their immediate supply base and product lifecycles. This is a good time to start on that journey.
- **Executive perspective of importance** - All initiatives with company-wide impact need to have C-level sponsorship. Since SCRM carries a very big stick this is usually not a problem to obtain. Nonetheless, don't overlook how to address internal political resistance to a new approach like this.
- **Don't forget HR** - Risk management should be tied to job descriptions and performance evaluations and maybe, more importantly, to train employees.
- **Be strategic** - This is not a Big Bang initiative; it is a journey. Leverage Kraljic's methodology to assess which areas to look at first. Refine your selection by adding revenue impact and sensitivity analysis to make it even better.
- **Be flexible** - Assume that whatever you start out with is going to look radically different in one year. Don't paint yourself in a corner – risk is dynamic and flexible, learn to behave in a similar way.

riskmethods

Spend Matters would like to thank riskmethods for sponsoring this research.