



Logistics Association of Australia Ltd

STRATEGIC PRODUCT SOURCING – THE CLOROX COMPANY

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Phil Taylor from Steelmark – Eagle & Globe, winner of the 1998 International Study Award, presents a review of the Procurement Strategy implemented within The Clorox Company.

The Clorox Company is an international organisation, head-quartered in Oakland, California. It supplies retail products across a broad range including:

- Laundry additives
- Home cleaning
- Automotive appearance
- Charcoal
- Insecticides
- Cat litter
- Retail food
- Water filtration systems

Clorox in brief ...

Net sales in 1998 – US\$2.7 billion

Net profit after tax in 1998 – US\$298 million

Employees – 6,600 worldwide

Purchasing for the mainstream products is serviced through a shared service centre in Oakland, California linked via an Intranet.

I met Charles Strickler (Director of Corporate Purchasing) from Clorox during one of the conference sessions (as a fellow participant rather than session leader) and was able to meet with him in the Oakland Head Office. The procurement strategy adopted by Clorox provides some interesting ideas suitable for any organisation.

Tapping into and integrating the full capability of key suppliers is fundamental to achieving and sustaining a competitive advantage throughout the supply chain. We all know the significance of procurement costs - PriceWaterhouseCoopers quote that for every dollar a manufacturer earns on

the sale of a product, 50 cents is spent on the purchase of materials. For a distributor such as Steelmark - Eagle & Globe, the figure is substantially higher.

The overall Clorox Procurement Strategy flows down from "Goals" to "Strategies" to "Tactics".

The Goals of Procurement...

- Reduce the total supply chain costs
 - Strategies*
 - Supplier management
 - Strategic sourcing
- Upgrade functional capabilities within procurement
 - Strategies*
 - People
 - Systems
- Support the product portfolio
 - Strategies*
 - Brand support
 - Business unit support

The key tactics under-pinning the strategies included Supplier Categorisation, Product Supply Chain Integration and Product Improvement Support. For reasons of confidentiality, however, I'll only refer to the tactic - "Sourcing Methodology Implementation" within the Strategic Sourcing Strategy in more detail.

Some history...

The procurement of raw and packaging materials had typically been a price driven and "quote" based system within Clorox. The change in emphasis for Clorox resulted in a "motivational" rather than "big stick" approach to dealing with suppliers. An alliance focus to work together to take costs out of the system also resulted in the consolidation of suppliers. For example, the number of suppliers of corrugated cardboard fell from 15 to 3, one of which provides 70% of the total requirement. Agreements were typically one year; however, the tendency is now for two to three year, and sometimes five year terms to allow suppliers to plan more effectively to deliver improved pricing packages.

A review of purchasing was undertaken to effectively re-engineer the process. Consultants were utilised to assist in supplier assessment and savings in the range \$20-\$40m were identified. Pilot projects were proposed and a cross functional team brought together to develop the strategies and implement the required actions.

Putting ideas into action...

Three pilots have been undertaken to date with anticipated benefits within the range of US\$10 to US\$16 million.

Pilot 1 - 'Trees Project' - The focus here was on all paper related products (hence "trees"). Price stability was not evident in some aspects of the respective markets, especially for pine oil, a key component of some Clorox products.

Pilot 2 - Contract manufacturing of aerosol products

Pilot 3 - Evaluation of charcoal briquettes

The details of each are not specifically relevant, however, their approach to funding the next project through the savings on the first is interesting. Benefits were identified and "partitioned" for this very reason.

Strategic Sourcing Teams - How they work...

Cross functional teams were an essential part of the success of the strategy. A six step approach was undertaken to provide a model that could be replicated for further projects.

1. Assess the opportunity
Included establishing a team charter, communicating the team scope, stratifying the "buy" and identifying key stakeholders.
2. Assess the internal supply chain
Identify the demand drivers, specification review and gap analysis, map and evaluate current processes, and identify opportunities.
3. Assess the supply market
Identify the potential sources of supply, industries and viable alternatives. Assess and compare suppliers and identify opportunities.
4. Develop a sourcing strategy
Reconfirm the scope and compile opportunities. Derive process enhancements and supply strategies and prepare action plans.
5. Implement the strategy
Training of internal and external participants. Develop a supplier solicitation strategy, and conduct negotiations. Award relevant contracts.
6. Institutionalise the strategy
Develop supplier relationships and joint teams, implement operational changes, monitor and report on savings and performance.

Change Management strategies underpin the process ranging from establishing and communicating a procurement vision and enlisting stakeholders, developing new skills and behaviours, redesigning the supply infrastructure and establishing measurement criteria.

A word about training...

One of the key elements of the change management programme undertaken was training of all involved people. Negotiation was the key focus.

"You don't negotiate from positions, you negotiate by understanding each others interests and try to grow the pie to develop options to suit each others interests." Charles Strickler - Clorox

Two day courses were developed and run for 700 people across all areas within Clorox. Representatives from key suppliers were also involved to ensure they were familiar with common terminology and shared the same fundamental principles.

Note!

The book "Getting to Yes – Principle Negotiation" by Roger Fisher was the basis for the training undertaken.

Training was also provided to other suppliers at a cost and was also used in one instance to leverage growth in a new market where it was seen as a value added activity that differentiated Clorox from others trying to enter the same market. It has been so successful that Clorox has been approached to provide third party training to other unrelated organisations.

Skills in procurement...

I had a chance to get an insight into the human resource systems within Clorox and was most impressed with the level of integration as well as the attention that it receives. The value placed on "people as the most important asset" is indicative in the processes they have in place.

People within procurement in Clorox need to display strong inter-personal skills and be self directed. PC skills and a cross functional background in logistics or manufacturing are very important. "Knowing the material" is essential and a large number of those in middle to senior positions have either engineering or materials related degrees. One of their key people holds a science related "PhD" and has moved from a technical manufacturing area into procurement. A shared understanding of issues with suppliers has proved to be a significant benefit.

Where to next...

Some aspects of the pilot projects are still to be completed, however, benefits are being derived and future projects are planned.

Some of the challenges identified through the pilots involved supplier management. Evaluation of suppliers is currently ad-hoc and there is a lack

of real time feedback against performance criteria. There is also a need for a change in focus in some areas from an accounting perspective (material rejection) to one of ongoing improvements in quality. Some certification of suppliers exists in the food businesses and this needs to be expanded.

There is a growing trend among some of the larger retail customers to move toward EDI and supplier managed inventories. Improved forecasting systems and production planning and scheduling are also targeted for further development as part of a data warehouse or information sharing strategy

Finally, there is still a lot work to be done to truly integrate the supplier within the Clorox business. Defining measurement criteria for both parties, sharing innovation and being proactive will develop with a handful of the key suppliers, as greater levels of trust are formed. Procurement still needs to become more strategically involved in the future of the business.

"In the future, the nature and strength of our leadership skills will determine our position in our markets."

Management is about planning and budgeting. It's about organising and staffing and controlling and problem-solving – and it is absolutely necessary.

Leadership is about establishing direction and developing a vision for the future. It's about aligning people and motivating and inspiring them. Leadership is also about producing change.

G. Craig Sullivan
Chairman and Chief Executive Officer – Clorox
Annual Report – 1998

I'd like to thank Charles Strickler (and Clorox) for his time and willingness to share ideas. I'll be maintaining contact with Charles and if anyone has further questions, please let me know and I'll pass on the request. Phil Taylor can be contacted at Steelmark - Eagle & Globe on (02) 8833 0548 or email at ptaylor@steelmark.com.au.