



SCA  
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Product Lifecycle  
Management

Total Cost  
Management

Logistics Resource  
Management

Supply Network  
Services

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Strategy Corner



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## Integrating Suppliers Early Key to Cost Savings, Performance, and Profits

In nature, the early bird gets the worm. But in business, the *earlier* bird delivers products to market faster and at a lower cost than competitors. Care to be the earlier bird?



**Key Point**

Findings from the latest Aberdeen Group E-sourcing Index (ESI) [\[1\]](#) indicate that companies that engaged the sourcing team in the design process at the concept and development stages were able to achieve 17.5% average cost savings versus just 12.9% for sourcing groups that get involved in the design process at the pilot/prototype stage or later. These findings echo other Aberdeen and academia research that indicates that integrating sourcing and suppliers earlier in the design process can yield an additional 3% to 15% product cost reduction. Early involvement of sourcing and suppliers has also been proven to drive 10% to 20% improvements in the quality and cycle time. Companies that deliver products to market earlier can achieve significant revenue and profit margin advantages over competitors.

Aligning sourcing and design activities and integrating suppliers early in the design process can provide significant cost, quality, and time-to-market advantages.

Such findings are not surprising. With 80% of the total cost of a product committed by the end of the design process, the greatest opportunity to effect changes in product cost, quality, and performance occurs early within the design process. It is during the design concept and development phases when companies can benefit most from supplier expertise on materials, parts, products, and processes.

To drive such value, sourcing must become an active participant in the product design and development process, providing a critical conduit between a manufacturer's engineering organization and external supply partners. More important, supplier integration can drive revenue and profit growth by providing access to new technology and process innovations and by accelerating time-to-market cycles.

When inserted early in the design phase, sourcing and commodity managers can provide valuable insight into supplier capabilities and material and part costs. Such intelligence can help companies develop cost-effective "manufacturable" products that can be supported by the supply base. Early sourcing involvement can also help drive supplier and parts rationalization and reuse initiatives.

### More Collaboration Required

Despite such benefits, Aberdeen's latest ESI study found that most companies are involving sourcing managers too late in the design process to have maximum impact on product costs,

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quality, and time-to-market cycles. Specifically, only 12% of ESI members reported that their sourcing groups are involved in the design process before the design pilot or prototype stages. Unfortunately, at these late stages, engineers have typically assigned part specifications and suppliers for a product — all without insight into design manufacturability, supplier capabilities, true product costs, or part alternatives.

However, certain sectors — such as high tech and automotive manufacturing — are aggressively moving to align sourcing and design activities and to integrate suppliers earlier in the design phase. Aberdeen interviews of supply management professionals at the largest electronic original equipment manufacturers (EOEMs) found that EOEMs consider early supplier involvement in product design and development as “crucial” to their businesses’ success and key competitive advantage. Most EOEMs reported involving key supplier and EMS partners in the design and development of new products. EOEMs reported that early supplier involvement enabled concurrent engineering, allowing them to design products and focus on target costs in tandem with suppliers. The chief benefits EOEMs cited from such early supplier integration strategies included improved designs, enhanced quality, lower costs, and shorter time-to-market cycles.

One large IT equipment manufacturer has its sourcing managers give its engineering organization a three-year technology road map of supplier products. Such visibility helps the manufacturer ensure that the latest technology advances are designed into its products and enhances relationships with key supply partners.



Faced with similar macroeconomic challenges, other manufacturing sectors are incorporating suppliers into the design and development of new products. For example, most major automakers have transitioned portions of design, manufacturing, and, in some cases, sourcing of key subsystems and modules to strategic supplier tier one partners. Case in point: General Motors recently awarded tier one supplier Lear Corporation responsibility for the design, engineering, and sourcing of the complete interiors for GM’s large and luxury vehicle programs.

- [EDS, A.T. Kearney Hold Stacked Deck for Product Cost Management](#) (Perspective, April 2003)
- [Product Cost Management: Designing and Sustaining a Competitive Edge](#) (White Paper, March 2003)

### Strategies for Early Collaboration

Aberdeen research suggests that driving early design collaboration will require companies to alter culture, processes, and technologies in the following areas:

1. Develop cross-functional teams that align engineering and sourcing/commodity managers early in the design process. Tie incentives for all stakeholders to collaboration activities and performance results (e.g., cycle time reductions, cost savings, product quality, and innovative designs).
2. Integrate suppliers into the design concept and development phases. Ensure capture of technology and process innovation by aligning product road maps with key suppliers and developing gain-sharing opportunities for supplier-contributed product innovations, cost savings, and productivity improvements.
3. Integrate information technology systems that support design and sourcing processes to enable seamless exchange of engineering bill of materials (EBOM), parts data sheets, parts alternatives and obsolescence information, engineering change requests (ECRs), engineering change orders (ECOs), engineering drawings and schematics, approved vendor lists (AVLs), supplier profiles and capabilities information, parts data sheets, parts alternatives, and costing data. Look for alliances and convergence between existing product lifecycle management (PLM) and online sourcing solutions.

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Source: Portions of this document are based on research contained in the [Q4 E-sourcing Index \(ESI\)](#) and [Product Cost Management: Designing and Sustaining a Competitive Edge](#) (White Paper, March 2003).

[\[1\]](#) Aberdeen Group's E-sourcing Index (ESI)<sup>™</sup> is a quarterly measurement of the strategies, use, and success of e-sourcing technologies within corporate supply management operations.

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