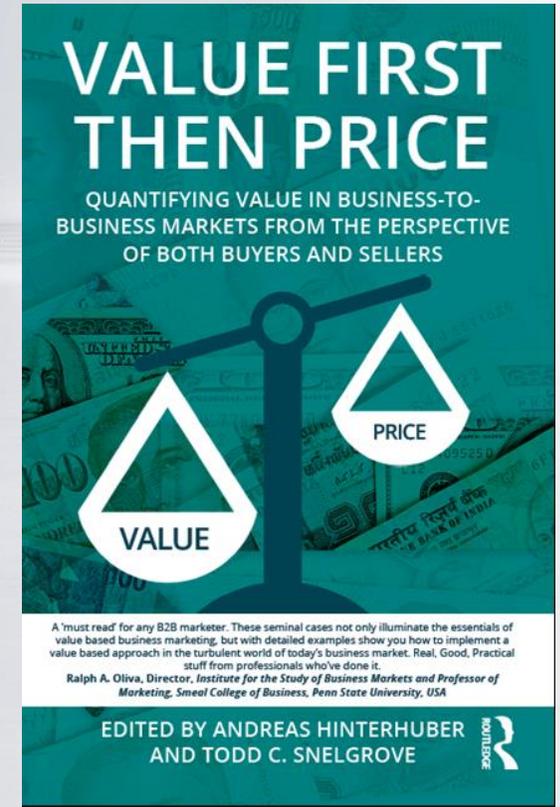


BEARING AND RELIABILITY CONFERENCE AND EXHIBITION 2017

Maintenance, Reliability, Operations, Production, and working together to create the greatest **Total Profit Added™**

Todd Snelgrove, Vice President, Marketing, Collaborative Operations, ABB, todd.c.snelgrove@us.abb.com, Former Global Vice President Value

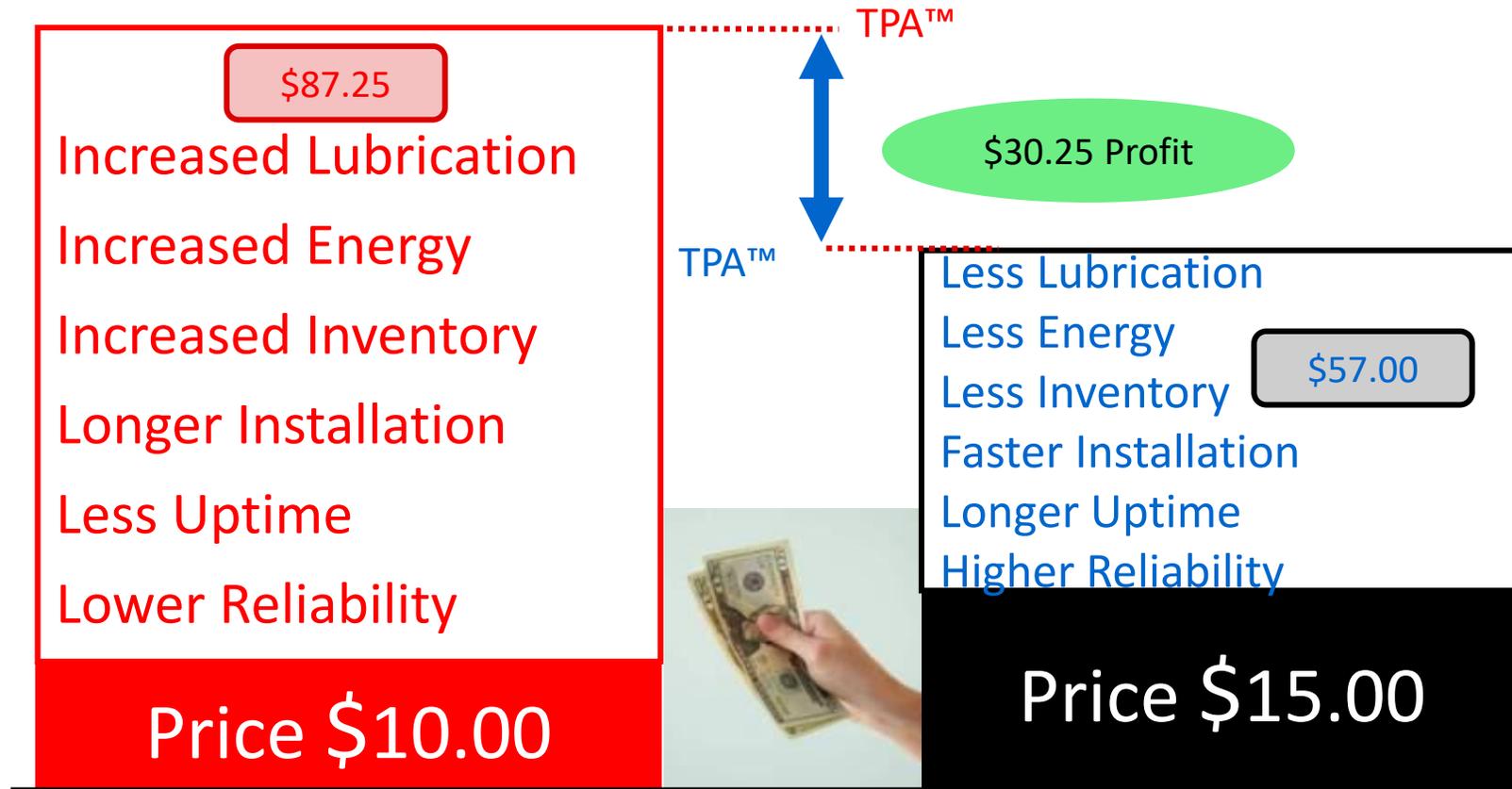


Price \neq Costs \neq Value

“Ceteris Paribus”



Price vs. Total Cost – It's about measuring all the factors...



Total Profit Added™

Design

Robustness
Ease of manufacture
Tolerances
Design costs

Margin

Sales

Customer TPA™

Acquisition

Inventory amounts
Payment terms
Contract management
Supplier consolidation
Finance charges
Obsolescence
Receiving

Unit Price

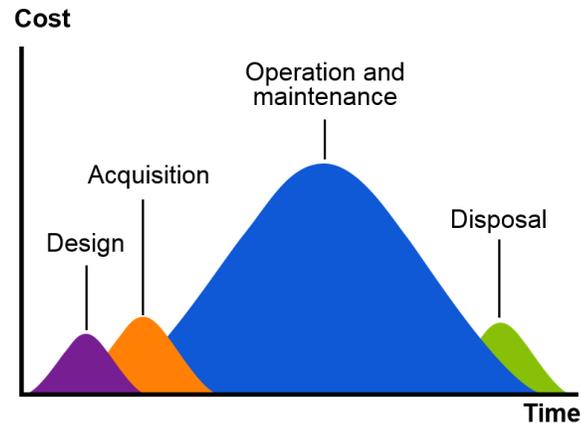
Operation

Energy & lubrication
Product life
Auxiliary repair costs
Production amounts
Production quality
Machine reliability
Cost to install
Taxation
Warranty costs

Disposal

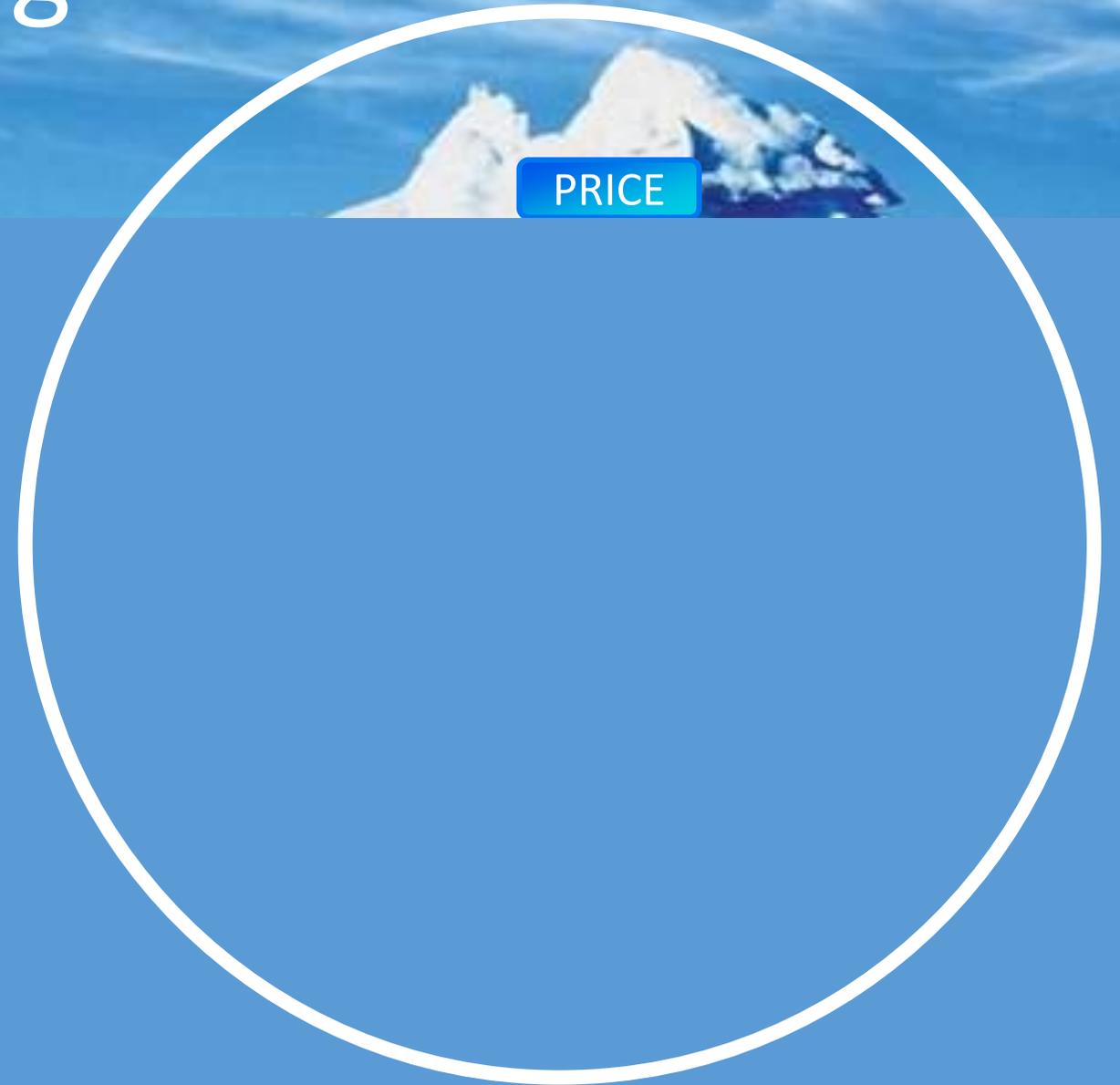
Dismantle
Shipping
Disposal costs
Recycling costs
Treatment costs
Government fees
Sustainability

Total Profit Added™



The Priceberg

Total
Profit
Added™



Accenture's Asset Lifecycle Total Cost of Ownership

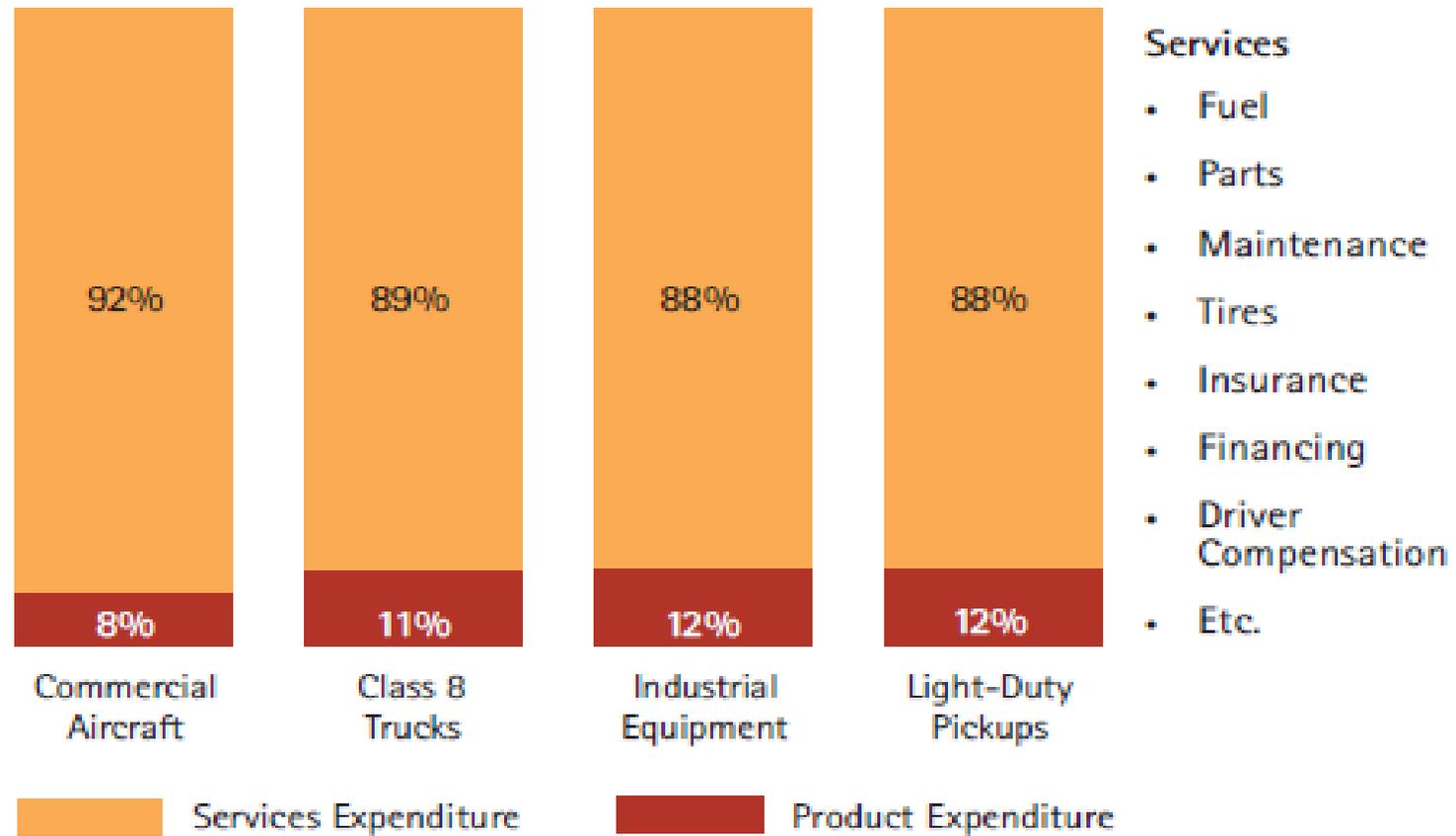
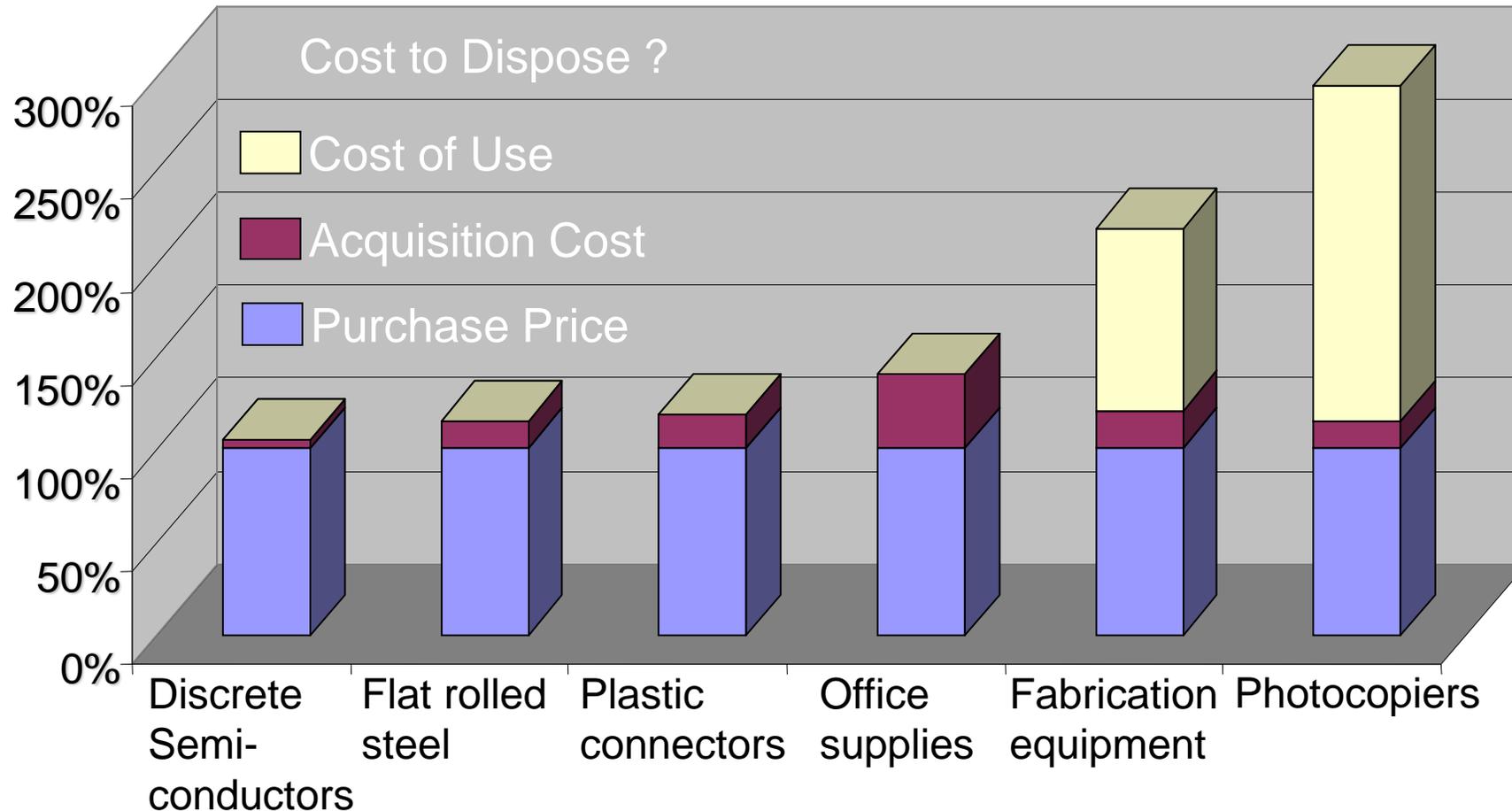


Figure 1. Initial product purchase relative to total product lifecycle costs.

Understanding Total Cost Of Ownership



Acquisition and life cycle costs will vary by item

Peter Kraljic

Risk/ Business Contribution	Security Reduce risk Continuity Conformance	Strategic Partnership Value engineer Negotiate
	Nuisance Ignore Automate Bundle	Leverage Leverage Exploit Switch
	Spend	

Harvard Business Review 1983 –
Purchasing must become supply chain management

MISTAKE....

Focusing
on
activities
vs.
results.



Minimum Guarantees for Performance
don't work... Performance Reward Contracts Do...

Ceiling



Floor



What procurement wants

Paula Gildert, Head of R&D Procurement, AstraZeneca

Suppliers often don't come to us with a business case.

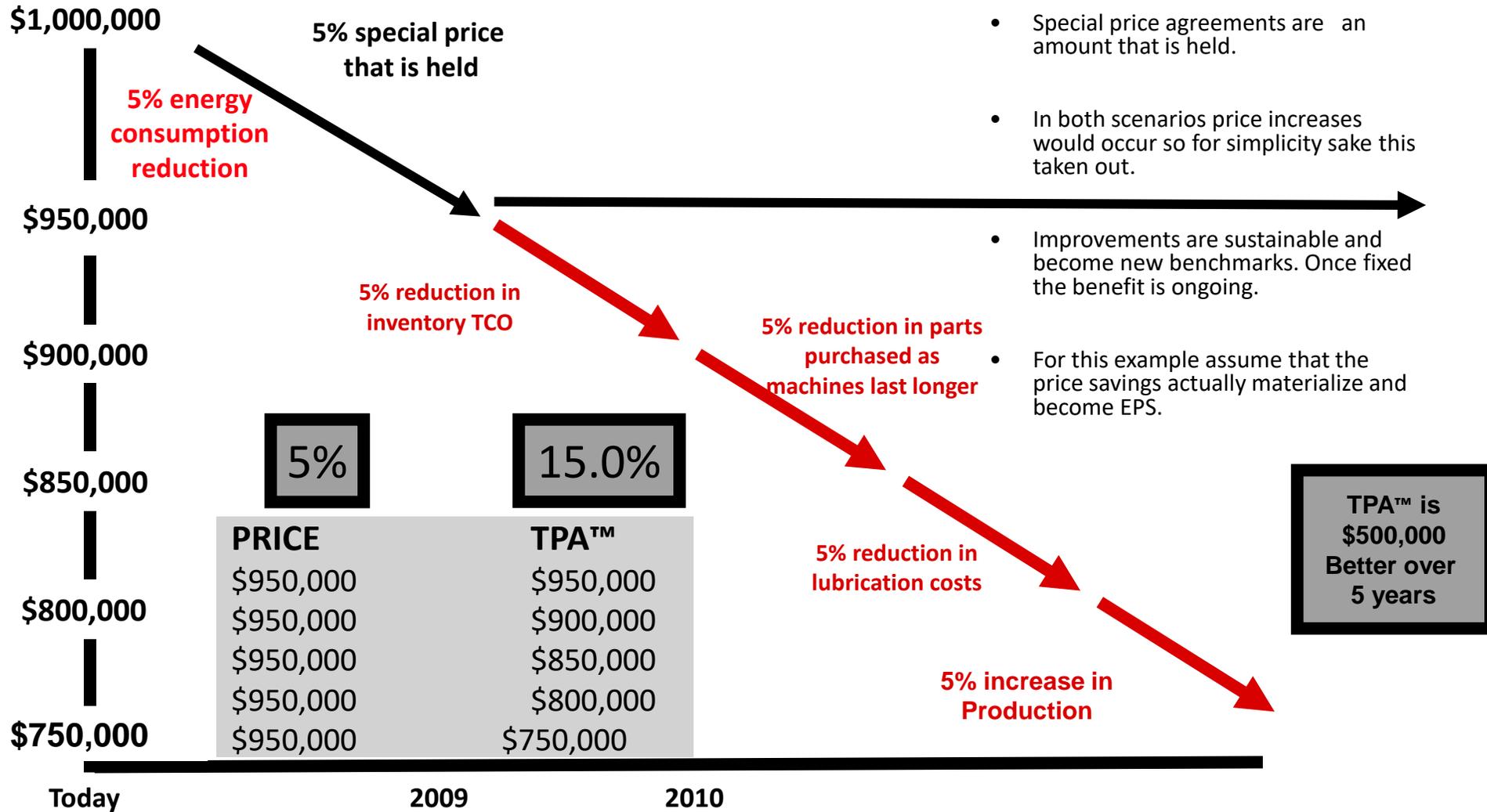
But it's what we want.

Sell your value in our numbers to get our attention.

But if you can't quantify your value – don't be surprised at the failure of procurement to do so.



5% Price versus 5% Annual TPA™ Improvements?



- Special price agreements are an amount that is held.
- In both scenarios price increases would occur so for simplicity sake this taken out.
- Improvements are sustainable and become new benchmarks. Once fixed the benefit is ongoing.
- For this example assume that the price savings actually materialize and become EPS.

Total Cost of Ownership

Responses Segmented by TCO Methodology

The table on the right shows responses to key questions based on whether or not the respondent has a methodology to define TCO when buying equipment, supplies, or repair parts.

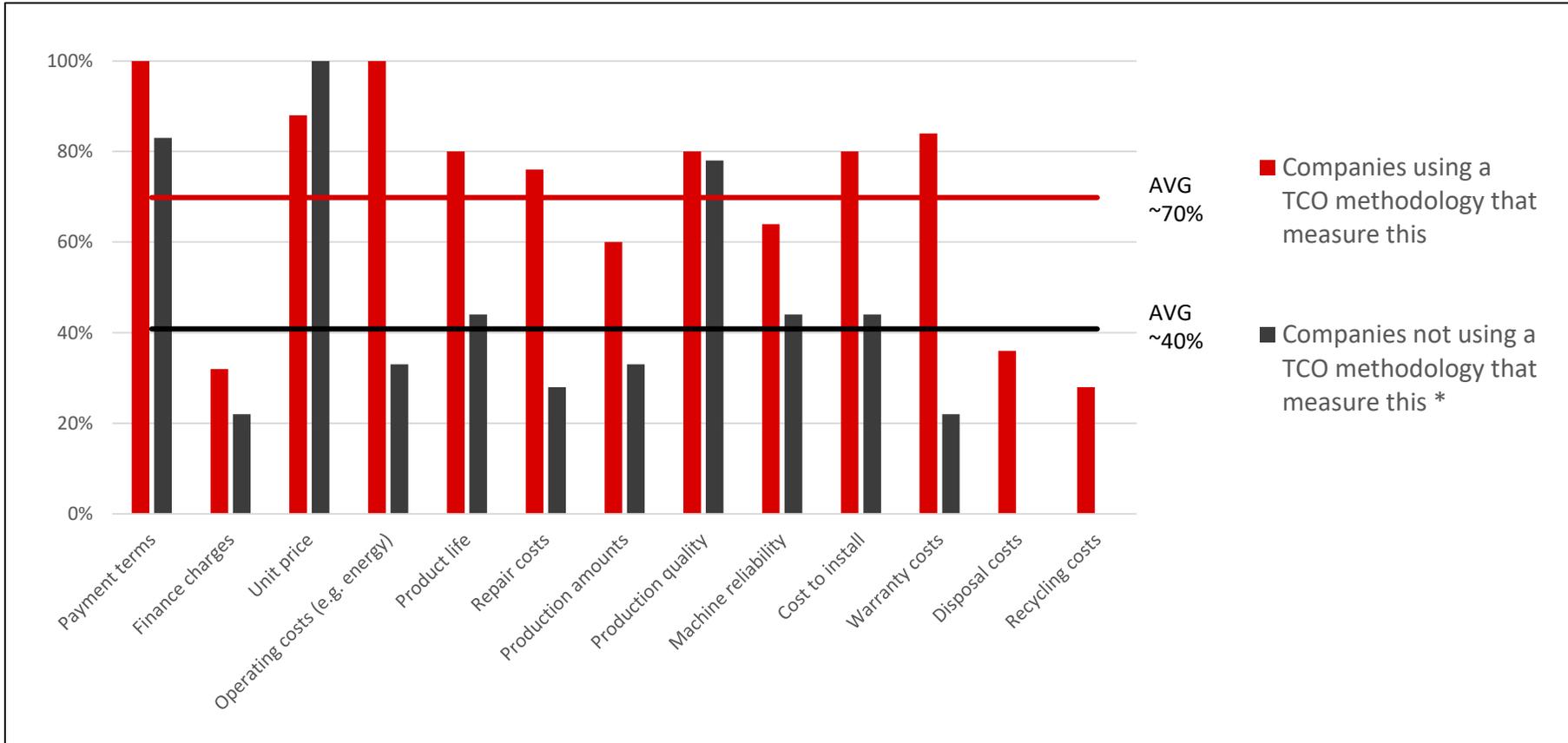
Companies with a TCO methodology are twice as likely to enter into pay-for-performance agreements with suppliers, nearly twice as likely to realize 90% or more of savings promised by a supplier, and more than seven times as likely to receive supplier offers with a TCO component.

They also have 35% higher average net operating margin (11.92% vs. 8.82%)

	Companies <i>using</i> a TCO methodology	Companies <i>not using</i> a TCO methodology
Usually or sometimes enter into pay-for-performance agreements with suppliers	52%	26%
Have never had a supplier offer a TCO arrangement before	13%	40%
50% or more of supplier offers include a TCO component	22%	3%
Usually or always ask in RFP for an analysis to show how a supplier will reduce TCO	35%	8%
Realize 90-100% of savings promised by supplier	59%	33%
Operating margin (calculated for public companies only)	11.92%	8.82%

Companies using Total Cost of Ownership know more

Product Lifecycle Metrics - Responses Segmented by TCO Methodology



Companies with a TCO methodology were more likely to gather data on almost every single metric we asked about.

Some of the differences were dramatic: this group is *four times as likely to collect data on warranty costs*, and *three times as likely to collect data on operating costs*.

Companies that buy and sell on best value are more profitable

Academia



Procurement



Government



Consultants



The Customer NEEDS it....

Easier to do-nothing than change

It's **easier** for B2B buyers to “do-nothing” than change

Frugalnomics
is in Full Effect



90%

of buyers require a business case for new projects

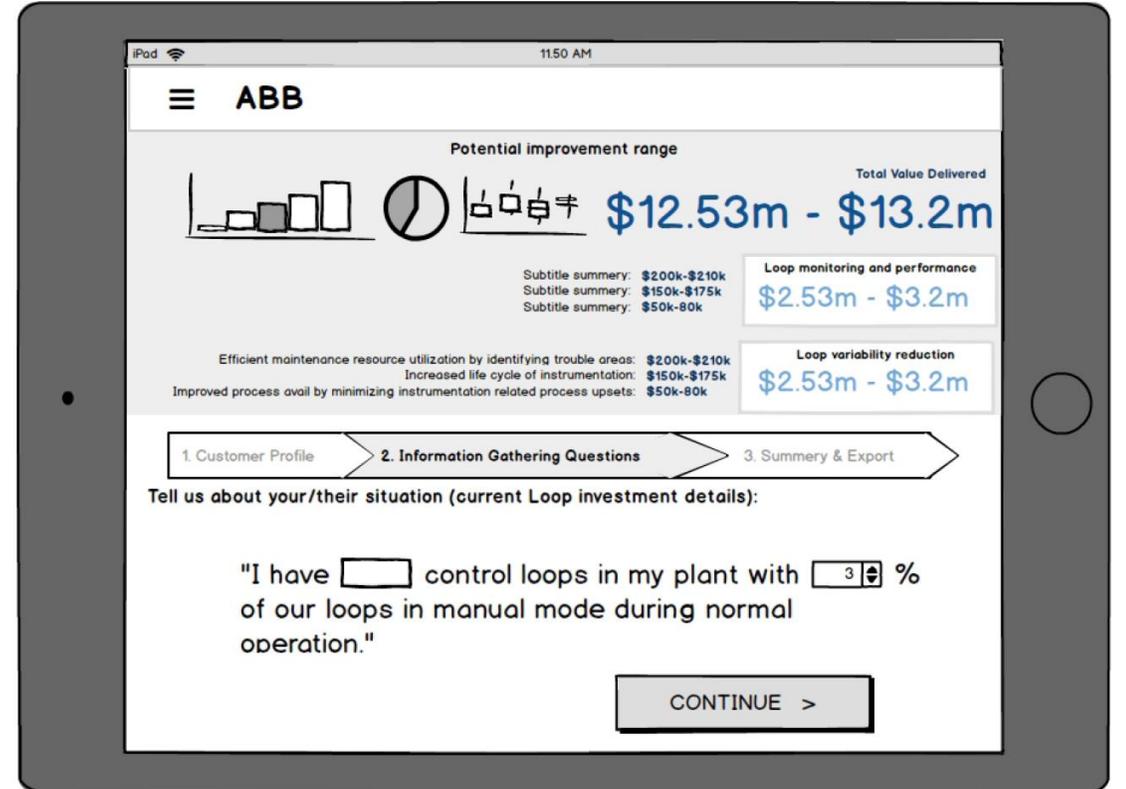
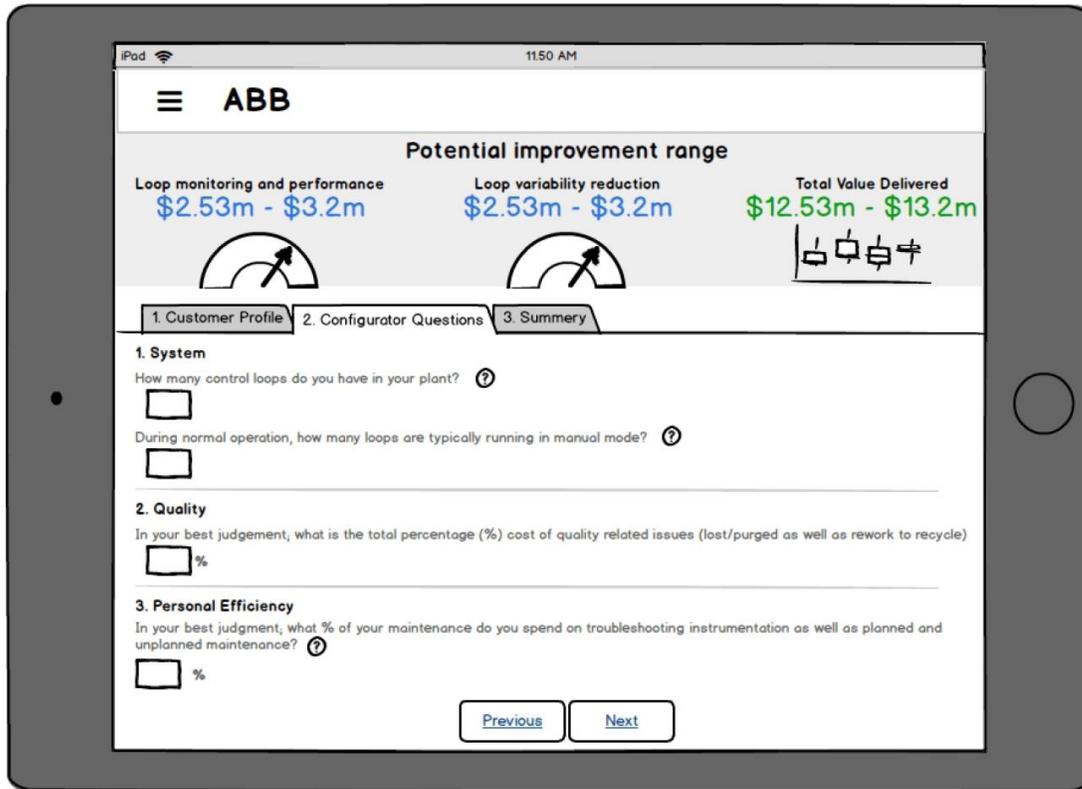


81%

expect vendors to provide economic justification

Evidence of Value

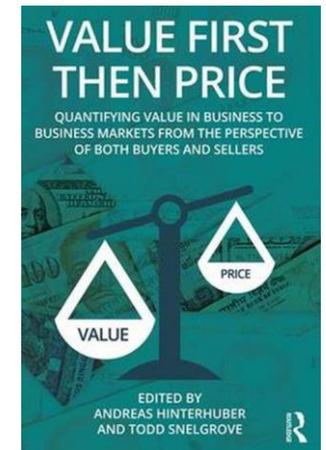
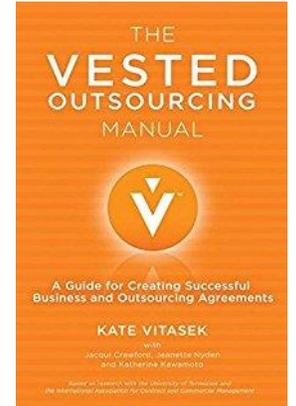
Creating Outcome Based Value Agreements... How we get there



Partnering with Suppliers Based on best Total Profit Added™

The best way to become sustainably more profitable

- Manufacturers Alliance for Productivity and Innovation 2013 Chief Procurement Officer Survey
Bought and rewarded suppliers on TPA™ were 35% more profitable than Industrial Companies that did not
- The Vested Outsourcing Manual
Based on 2009 Nobel Economics Prize Winner Prof Oliver Williamson – WIIFWE
- State of Flux 2016 Supply Relationship Management Report
Obtained 4-6% Over and Above Contracted Agreement by using SRM



This book challenges many of the assumptions that exist in inter organizational relationships. It truly is possible to achieve win-win outcomes that drive mutual value and shared risks and rewards, Snelgrove explores this proposition in detail, providing a great read for practitioners.

**Robert Handfield Bank of America Distinguished Professor of Supply Chain Management
Director, Supply Chain Resource Cooperative North Carolina State University**

Todd Snelgroves measurement of a new view on Total Cost of Ownership (TCO), a more holistic measurement focused around Cost, Benefit, and Value called Total Profit Added™ (TPA) is a great step in the evolution of enabling both buyers and sellers to make the right decisions based on best value not lowest price."

**Prof Thomas Choi Center for Advanced Procurement Studies
Professor Arizona State University**

Top 10 starting drivers of good TCO procurement / reliability ...

Do

Align company culture – management and cross functional.

Understand your TCO drivers.

Define corporate TCO benchmark numbers.

Communicate these drivers and values to suppliers.

Reward / Penalize suppliers on Cost reductions.

Reward “all” company on Cost Reductions / Profit (EVA).

Review and communicate in pipeline projects, and results.

Do Not

Take cash out of departmental budgets.

Accept “similar product” / lower price substitutions.

Accept non quantified “obvious” or “trust us” results.

I now see Both Sides Now

“Pay half the
price at twice the
cost”

Rock Legend Sammy Hager



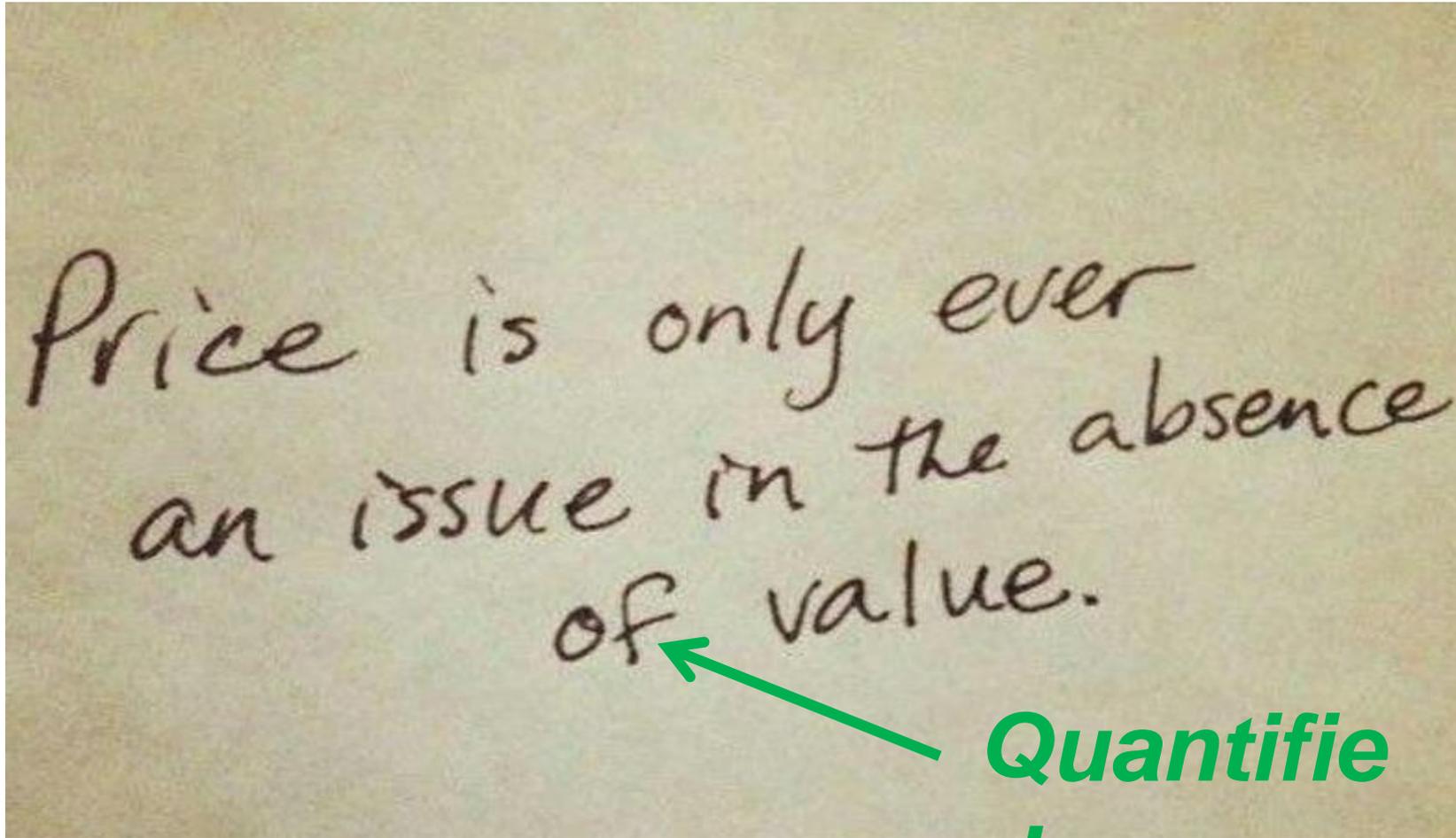
“At half the **price**
its really twice the
cost”

Value Merchant
Todd Snelgrove

Price \neq Costs \neq Value

todd.c.snelgrove@us.abb.com

Helping companies create, calculate, communicate, and realize value.



Quantified