



# Supplier Performance Management at EADS

- EADS at a glance
- Supplier performance management
- SPACE- a multi-company approach for supplier development

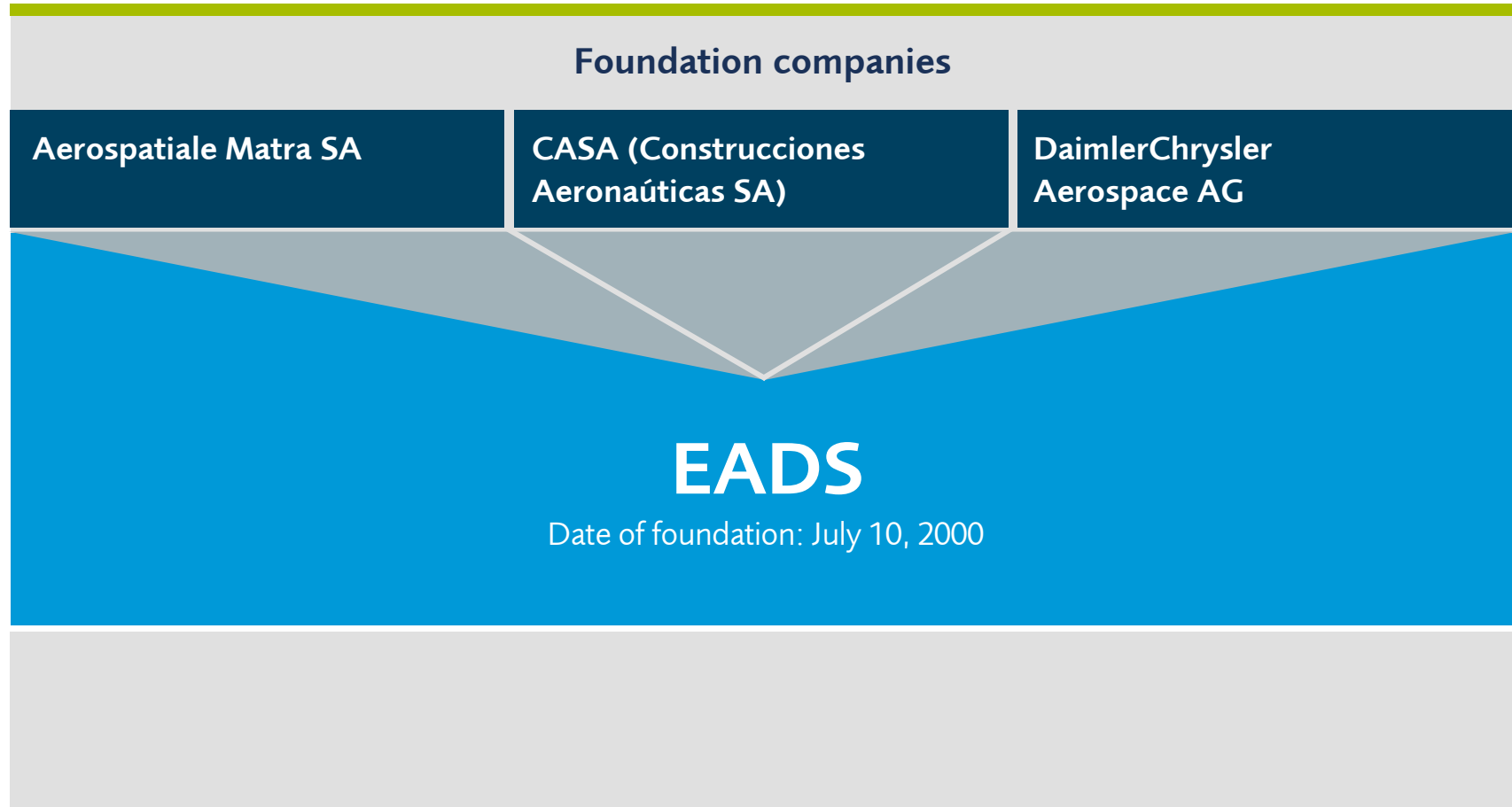
EBS Supply Chain Conference 18th of March 2010

# EADS AT A GLANCE

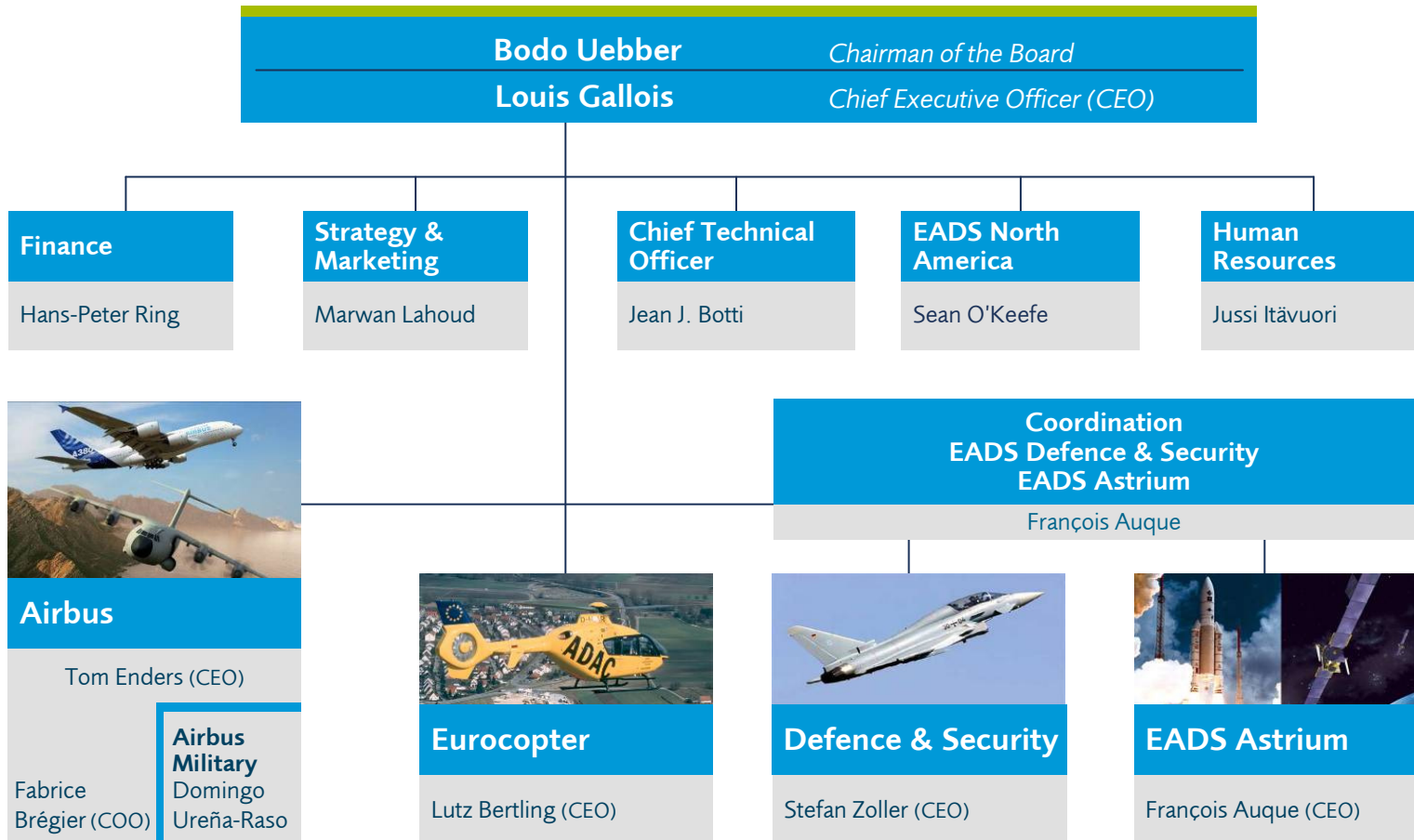


# THE COMPANY

## Foundation Partners



# EADS MANAGEMENT STRUCTURE (I)



# EADS REVENUES

In Mill. €




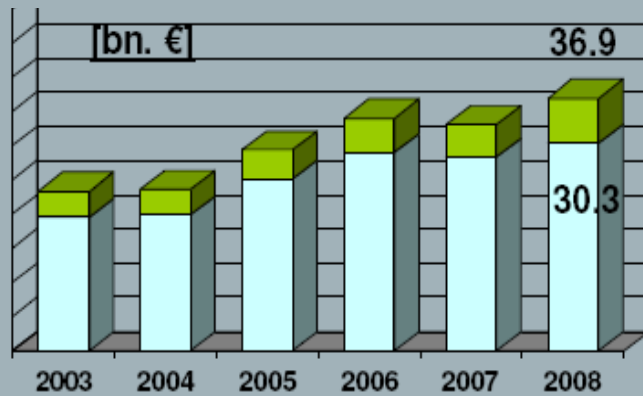
\* Sales revenues from defence in millions

\*\* EADS was in 2008 the largest group in the global aerospace and defence industry.

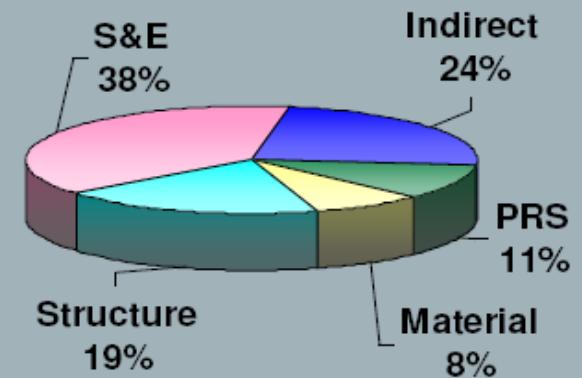


# EADS Key Sourcing Figures:

Sourcing expenditure (external ) regularly exceeds 2/3 of sales



76 % of sourcing expenditure is product related



Sourcing per Category

# EADS Sourcing Strategy

EADS Sourcing Strategy is based on EADS Sourcing Vision

## EADS Sourcing Vision:

Deliver competitive advantage by Winning, Integrating and Developing the World's best Suppliers

- Industrial Strategy
- Offset
- Global Sourcing
- Natural Hedging

- Aggregation
- Standardization
- Demand Management
- One face to Supplier

- Supplier Performance Measurement
- Target Agreement
- Supplier Improvement
- Supplier Development

**Procurement Marketing**

**Joint Sourcing**

**Supplier Evaluation & Development**

*Identify*

*Select*

*Operate*

**Risk & Opportunity Management**

- Risk and Opportunity sharing
- Early Supplier Involvement

EADS Sourcing Strategy with four Key Elements

# Supplier Evaluation and Development

## Key Element of the Sourcing Strategy

### Challenge

Manage Suppliers' Performance by:

- evaluation of their performance
- sharing this evaluation across EADS
- leading the suppliers towards further improvement of their capabilities

EADS Sourcing Strategy with  
four Key Elements





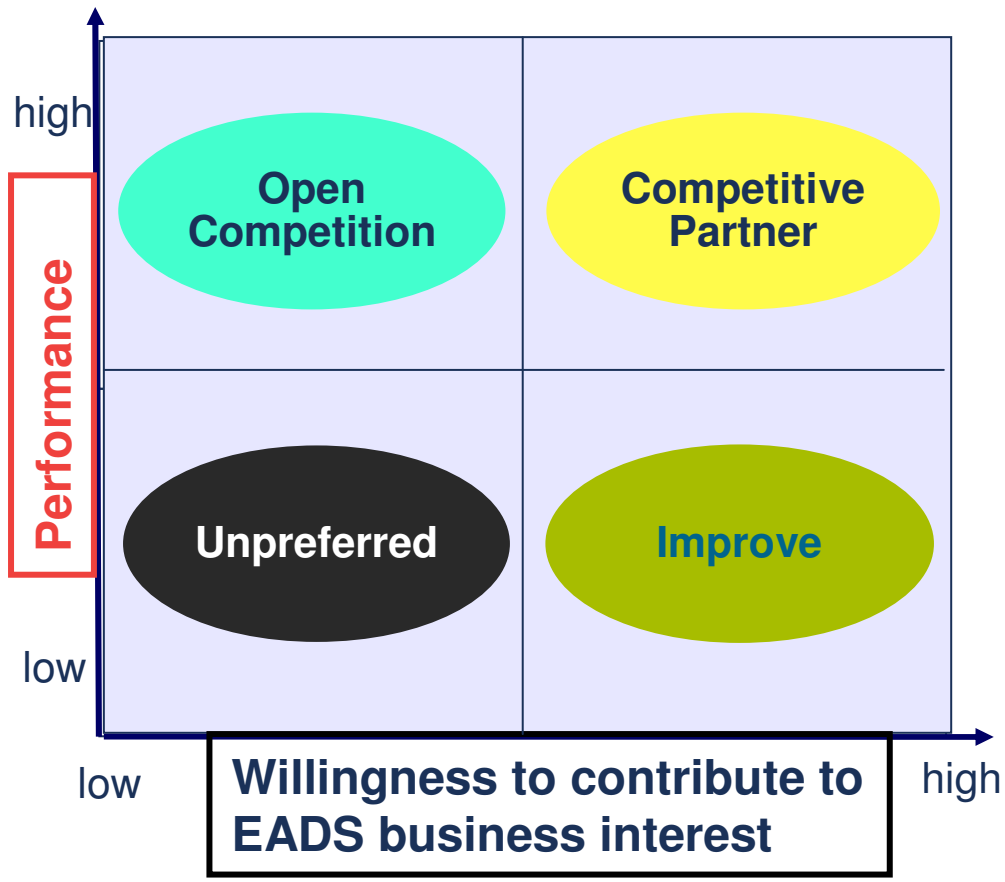
# SED is a major pillar of EADS Supplier Relationship Management

Procurement Marketing

Joint Sourcing

Supplier Eval. & Dev.

Risk & Opport. Mgmt.



Manage suppliers to contribute to EADS business interest



# Five Common Criteria to Evaluate the Supplier's Performance

- **Commercial**
  - Price evolution over time and against market development
  - Willingness to participate in designing cost initiatives, offset fulfilments and sales support.
- **Technical**
  - Ability to meet development requirements: milestones, ability to drive the development process
  - Audits on the Supplier technical and / or innovation capability
- **Quality**
  - Rejection rate
  - Suppliers capabilities in process management and risk management
  - Ability of a Supplier to perform according to a Quality requirement
- **Logistics**
  - Ability to deliver on time, against a defined delivery window
  - Ability to meet desired quantities
  - Flexibility in case of order changes
- **Customer Support**
  - Level of satisfaction concerning the Support given to EADS or EADS's Customers: Product Support, Service, Costs



**All Business Units apply the same 5 criteria to all suppliers**

# Simple Traffic Light Evaluation



**Detailed evaluations, often based on formulas and several weighted sub-criteria, result in four grades**

# Example: Evaluation matrix

CRITERIA (EADS)	Sub-Criteria (BU-specific)	Weight	Detailed description	Way to measure / EXAMPLES	D 0,0<1,0	C 1,0<2,75	B 2,75<3,25	A 3,25<=4
<b>Commercial</b>	Price Competitiveness	30%	with respect of BU specific markets	offered price versus market price or competitive prices willingness of price reduction	prices above market standard and low effort to reduce them	Prices above market standard, but efforts to reduce them	Prices within target, frequently one of the best compliant proposals	Prices within target and always one of the best proposals
	NRC cost	20%	participation on NRC cost	percentage of NRC-cost participation	0-50%	51-75%	76-99%	100%
	Dependency level	10%	EADS's significance for supplier	ratio of suppliers turnover with EADS vs. Total turnover (monetary units)	>70% <=10%	>50-70% >10-25%	>40-50% >25-30%	>30-40%
	Offset	20%	Willigness and active support for the fulfilment off EADS offset obligations	see evaluation part	no willingness despite existing offset potentials	information about procurement volumes to EADS offset countries provided, but no additional activity	support for offset compensation leaded by EADS	Active support for EADS offset obligations + active pro sales support
	Terms and conditions	20%	acceptance of Terms & conditions and sourcing policy	no compliances or exceptions to general terms and conditions	many changes/unreasonable	few changes, but unreasonable	(minor) reasonable changes	full acceptance

- The evaluation matrices contain BU specific sub-criteria and thresholds.
- The content is not harmonized within EADS and is highly context specific.
- Nevertheless, all BU apply the same methodology.
- This approach leaves enough flexibility to the BU but allows consolidation of results on EADS group level

# Who Evaluates ?

People from different functions participate in the evaluation. They contribute with their data to the overall assessment



- Purchasing
- Procurement, Supply Management
- Operations
- Engineering
- Quality
- Finance
- Etc.



**Purchasing takes the lead**

# Consolidated EADS View on a Supplier:

Real examples from the 2009 supplier rating campaign:  
(2 different suppliers serving a couple of EADS BU's)

## A good supplier:

### EVALUATION OVERVIEW

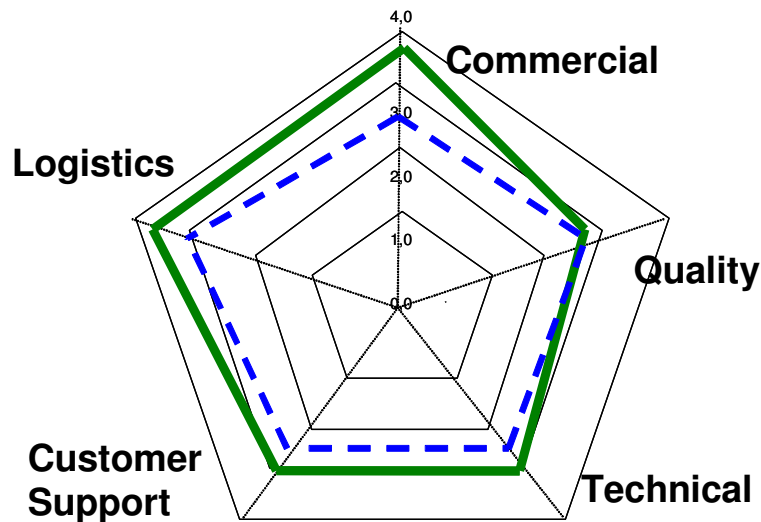
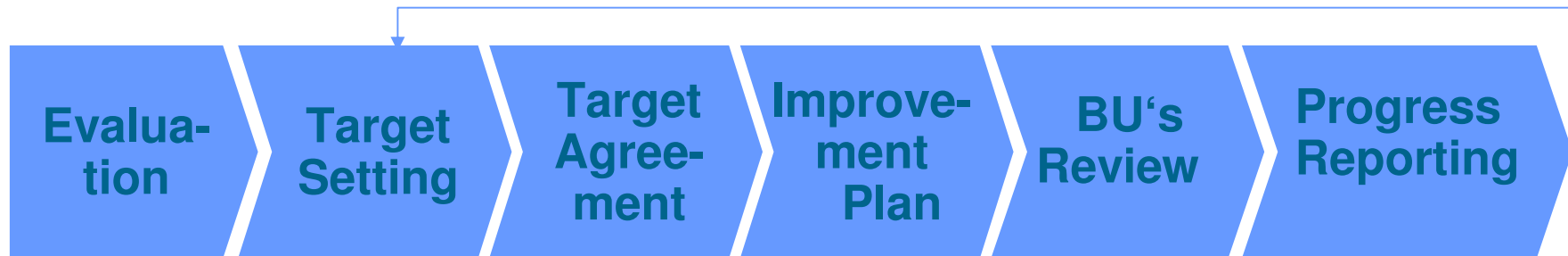
<i>by</i>	C	L	C/S	Q	T
Eurocopter	B	B	B	B	B
Airbus Military	B	B	B	D	B
LFK	C	A	B	A	B
ATR	B	D	B	A	B
MAS	A	B	B	A	A
Astrium Sat.	B	D	B	B	B
Airbus Military	C	B	B	C	C
Airbus Eqt.	A	A	A	B	B
Airbus Cabin	B	A	B	B	N/A

## Room for improvement

### EVALUATION OVERVIEW

<i>by</i>	C	L	C/S	Q	T
Airbus PPS	C	D	C	D	D
Astrium	B	A	A	A	A
Eurocopter	B	C	N/A	C	N/A
Airbus Gen. Proc.	C	D	C	D	B
Airbus AS	B	B	N/A	B	B
Eurocopter	C	B	N/A	B	B
ATR	D	D	D	A	C
Airbus Military	C	D	N/A	C	C
Airbus Eqt.	D	A	C	B	C
Airbus Eqt.	A	B	C	B	C
Eurocopter	C	D	B	C	B
Eurocopter	D	D	D	C	N/A
MAS	C	C	D	C	C

# Target Setting to Drive Improvement:

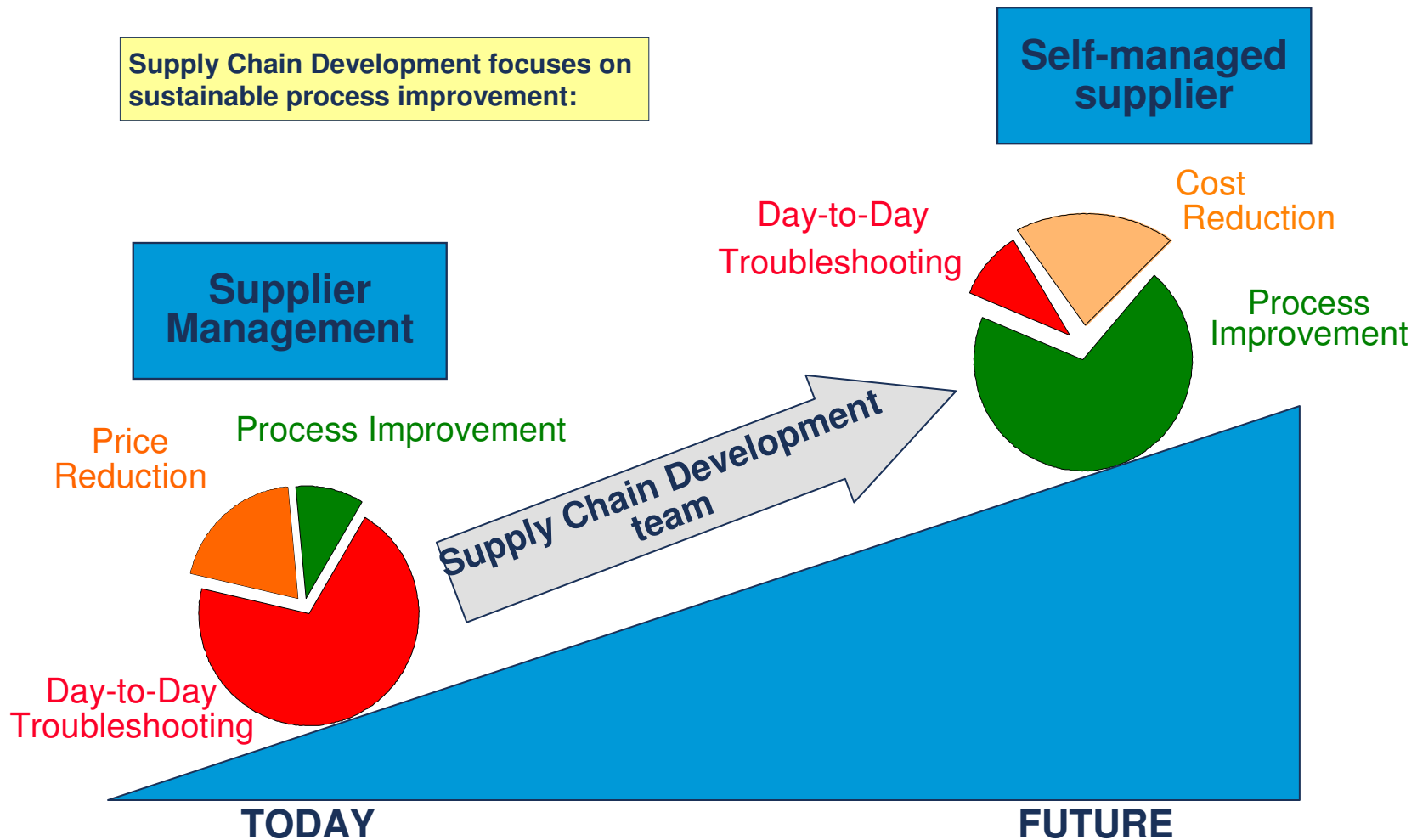


- Evaluation done by EADS BU
- Targets set by EADS BU, agreed by suppliers
- Improvement plan defined and committed by supplier



**Evaluation and Improvement follow a clear process**

# The Supply Chain Development Vision:





# Supply chain Progress towards Aeronautical Community Excellence:

An innovative approach to share supplier development resources and tools



# Supply chain Progress towards Aeronautical Community Excellence

[www.space-aero.org](http://www.space-aero.org)

# Background/History

- **June 2006: Airbus Suppliers Council (Group of Airbus +Airbus suppliers) launched a project : “Improvement of industrial performance of the Supply Chain”**
- **October 2006: 8 pilot projects were carried out**
  - The pilots have shown interesting results
  - Legal constraints due to cartel regulations
- **June 2007: Creation of a permanent organization → SPACE**
  - an independent organization
  - with a compliance code
  - and experts working under SPACE authority, with a non-disclosure agreement

# SPACE members structure:

## Executive Members

Dedicate skilled resources to implement common supplier development action plans

## Associate Members

On board aeronautic product suppliers

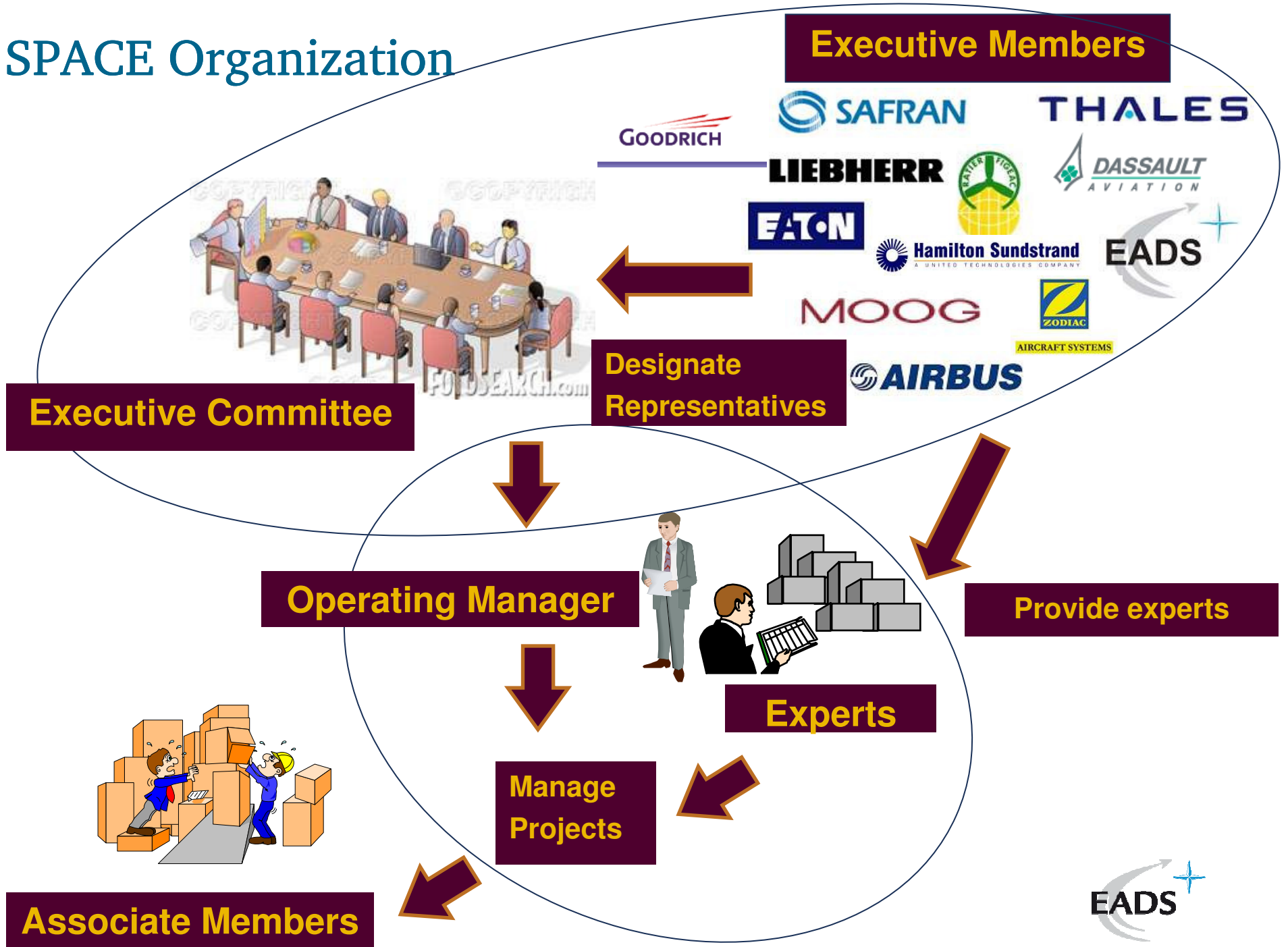
Willing to improve their industrial & Supply Chain performances

## Honorary Members

Professional organizations willing to support and promote this initiative



# SPACE Organization



# Improvement Projects : Diagnostic

## A SPACE project starts with a diagnostic

### The diagnostic is

- A service offered by SPACE to the associate member (sub-tier supplier), to develop an action plan, to help this member to improve its efficiency

### The diagnostic is not

- A certification system
- A rating system

### The tool developed by



- “Supply Chain Management Handbook”  
Supplier Selection and Capability Assessment
- Objectifs: To build a common model to assess the Maturity of a Supply Chain to achieve sustainable On Time & On Quality delivery objectives

# Diagnostic Covers 11 Supply Chain Processes:

1. Sales, Master Scheduling & Sequencing
2. Contract requirements flow down (Customer-related process)
3. Design and development
4. Suppliers sourcing selection & approval (Purchasing process)
5. Plant, material, skills, capacity planning & scheduling  
(Planning of product realisation)
6. Order Management and logistic (Internal/external)
7. Manufacturing and inspection (Production and service provision)
8. Supplier operational management and product validation (Purchasing process)
9. Control of non conformities, corrective and preventive actions
10. Customer Support (Control of service operations)
11. Business Management and Customer Satisfaction Monitoring

# Diagnostic Results in 5 Maturity Levels

## Process maturity levels:

- 1: Undefined and not capable (**No Process, Methods, Tools and/or inappropriate behaviours**)
- 2: Defined and applied : **but not 100% efficient or not applied everywhere in the company (capable for low risk products and services)**
- 3: Defined, applied and effective: **repeated satisfactory performance capable**
- 4: Predictable : **performance of proactive improvements towards planned targets, but not systematically on all processes / areas / products**
- 5: Optimised : **best in class, continual improvement fully deployed, involving all stakeholders as part of company culture**

# Diagnostic: General Observations from Projects

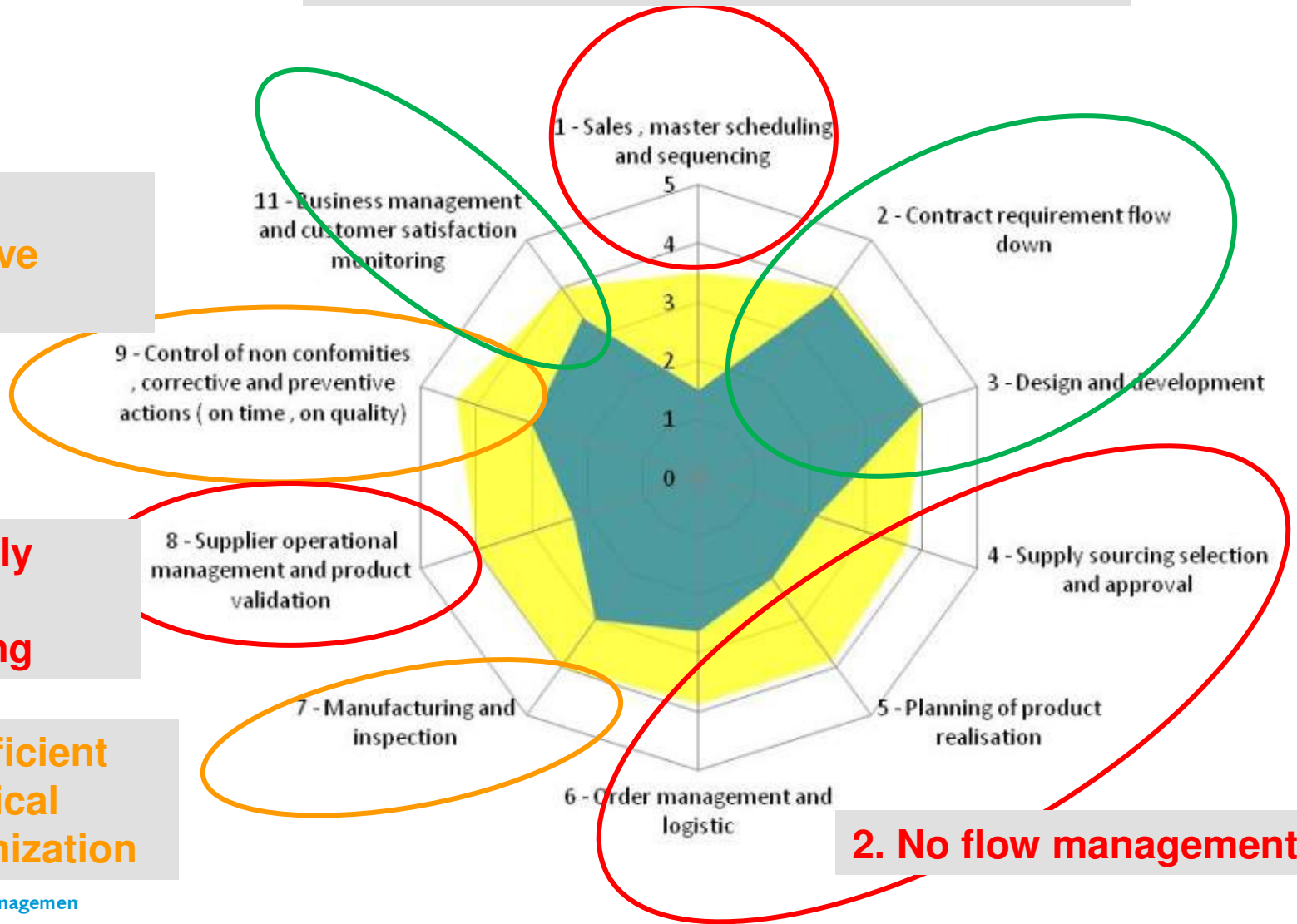
**1. Lack of planning (tier-1 flow down)**

**5. Limited preventive actions**

**3. Weak supply chain monitoring**

**4. Non-efficient physical organization**

**2. No flow management**





# Main Weaknesses observed in Projects:

No anticipation

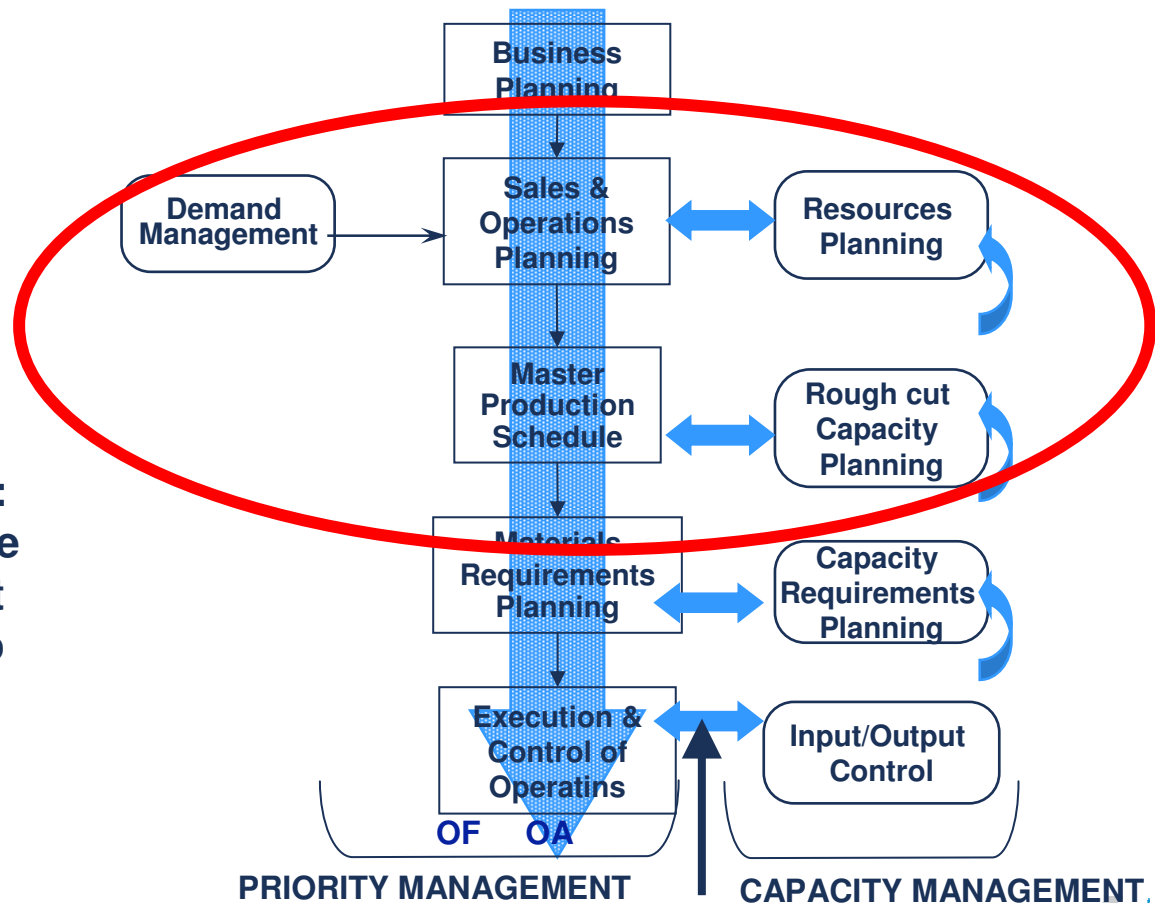


No realistic schedules

# Main Weaknesses observed in Projects:

## - 1 - Planning

- No SOP (Sales & Operations Planning) : only short-term and detailed capacity planning, no anticipation, no vision
- No MPS (Master Production Schedule) : the input for MRP is the customer procurement plan : nervousness, no realistic plan, so not realised, generates WIP, delays

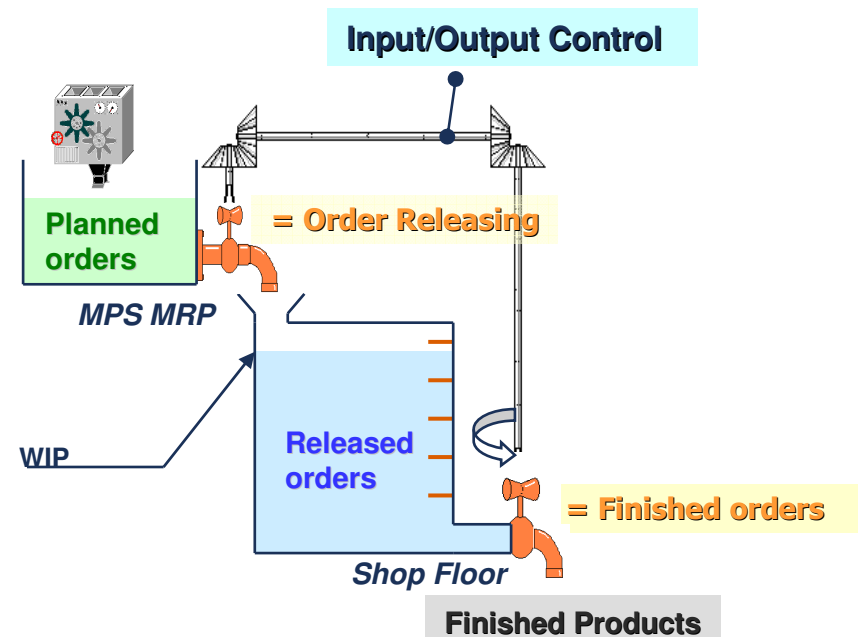
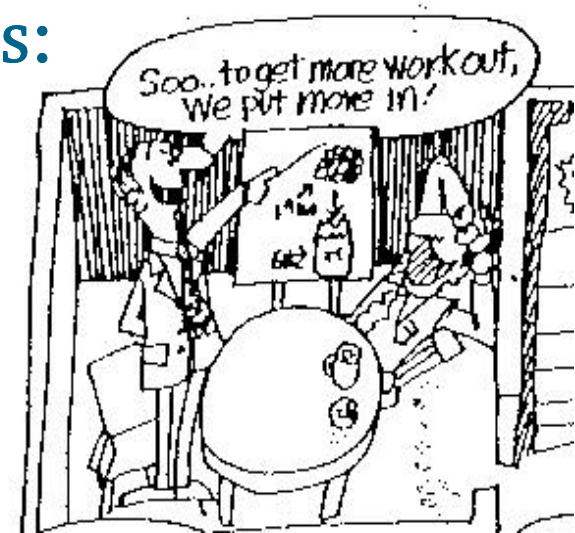


# Main Weaknesses observed in Projects:

- 2 -

## Flow management

- No Work In Process control:
  - WIP volume is excessive
  - Lead time is long
- Flow is generally driven by a push system
- No level flow on the shop floor



# Main Weaknesses observed in Projects:

**- 3 -**

## **Supplier management**

- **No formal supplier approval**
- **No strategy for reducing the supplier base**
- **The supplier performance is often measured but not communicated nor used for improvement**



# Main Weaknesses observed in Projects:

- 5 -

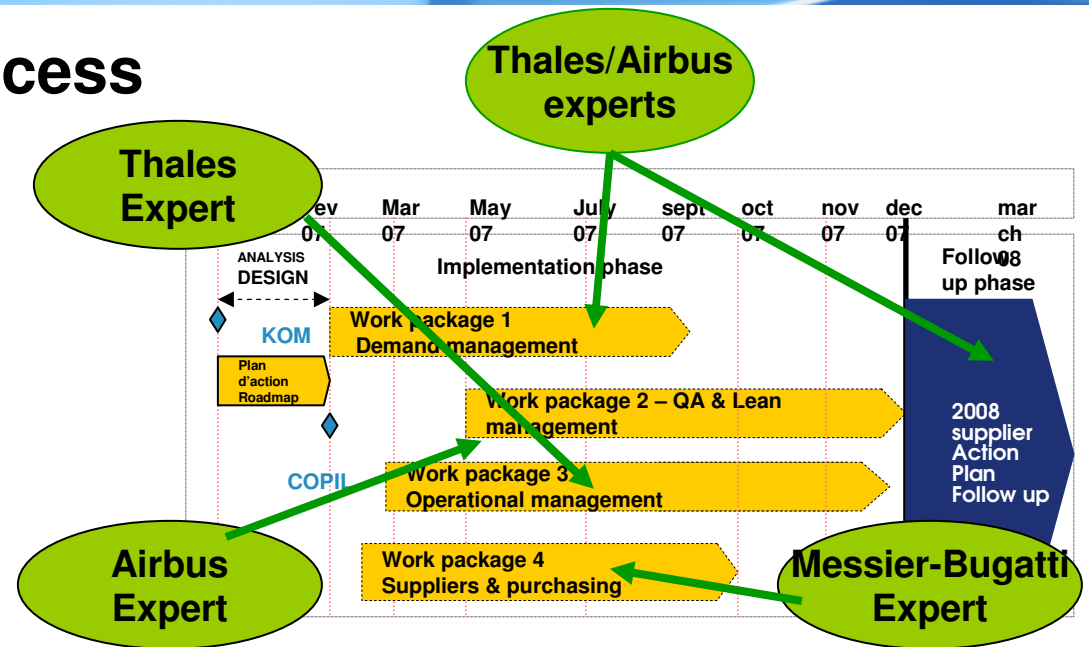
## Quality, Problem-Solving

- **No structured and systematic method for problem-solving**
  - **Problems are identified and highlighted (usually measured)**
- **The metrics are not systematically used to manage and to improve the business**

# First results – Example: Electronics factory



## When people lead to success



	End 2006	End 2007	Variation	End 2008	Variation
Raw material inventory	NC	NC	-11%	NC	-20%
Work In Process	NC	NC	-24%	NC	-18%
Suppliers critical delays	200	9	-96%	10	+11%
Depth of delay (days)	15	5	-66%	4	-20%
Suspended Works orders (shortage)	250	110	-56%	80	-27%
OTD	64%	84%	31%	90%	7%
Schedule adherence	62%	88%	42%	92%	5%

## Summary/ Conclusion:

- Supplier performance management is a key lever in Supplier Relationship Management
- EADS has deployed a coherent rating system based on 5 common criteria and a traffic light grading
- Sub-criteria and thresholds are Commodity/Division specific and not harmonized within EADS
- EADS is an active founding member of SPACE, a non-profit association targeting the industrial improvement of the European Aerospace Supply Chain