



# SUPPLIER SOURCED INNOVATION

## **THE NEED OF THE HOUR**

## TABLE OF CONTENTS



• Abstract	3
• Introduction	4
• The Journey	5
• The Importance of innovation for today's product organizations	6
• The Symbiotic factor	7
• Innovation – No Longer an In-House Esoteric	8
• The Scope for Supplier Sourced Innovation	9
• The Key drivers for Supplier Sourced Innovation	10
• Mapping Supplier's Innovation Offerings intelligently to the Client's Product Portfolio	11
• Realizing the benefits of Supplier Sourced Innovation	12
• Summary	13



## ABSTRACT



Traditionally, Innovation and Outsourcing as business concepts have always found their way into distinct sets of baskets. The idea over the years has always been to outsource lower-end, non-core business tasks to the vendor, while keeping the USP or core competence of the client organization to itself.

This concept of Outsourcing Innovation to vendors is fast emerging as the major point of distinction between good customer organizations and great customer organizations. This whitepaper attempts to delve deep into this upcoming, game-changing phenomenon.

## INTRODUCTION



Innovation, as an organizational function, has always been an area of strategic importance and competitive advantage for product companies – with a large majority of them spending quite a fortune on it, in a bid to stay at the top of the Innovation Ladder. Outsourcing, on the other hand, has involved entrusting the “not-so-core” functions of product organizations to third-party vendors. This clear distinction between the core activities of an organization and its second-line activities formed the crux of the outsourcing movement of the nineties.

This line of distinction, however, is quickly fading out - thanks to the fast evolving practice of Supplier Sourced Innovation. Unilever estimates that around 70% of their innovations are directly linked to their work with strategic suppliers. Supplier Sourced Innovation, although an oxymoron of sorts, is essentially a practice of involving the ESPs right from the product development or R&D phase and clearly promises to be the game changer for tomorrow’s product organizations. Studies show that organizations that bring in the suppliers during the nascent stages of production are able to reduce the cost of development by nearly 18% and take their time-to-market by about 20%. – Both of which are crucial drivers of today’s product executions. Large scale companies have taken an understanding to this and have already implemented measures to work hand-in-hand with their suppliers to get the most of their production cycles.

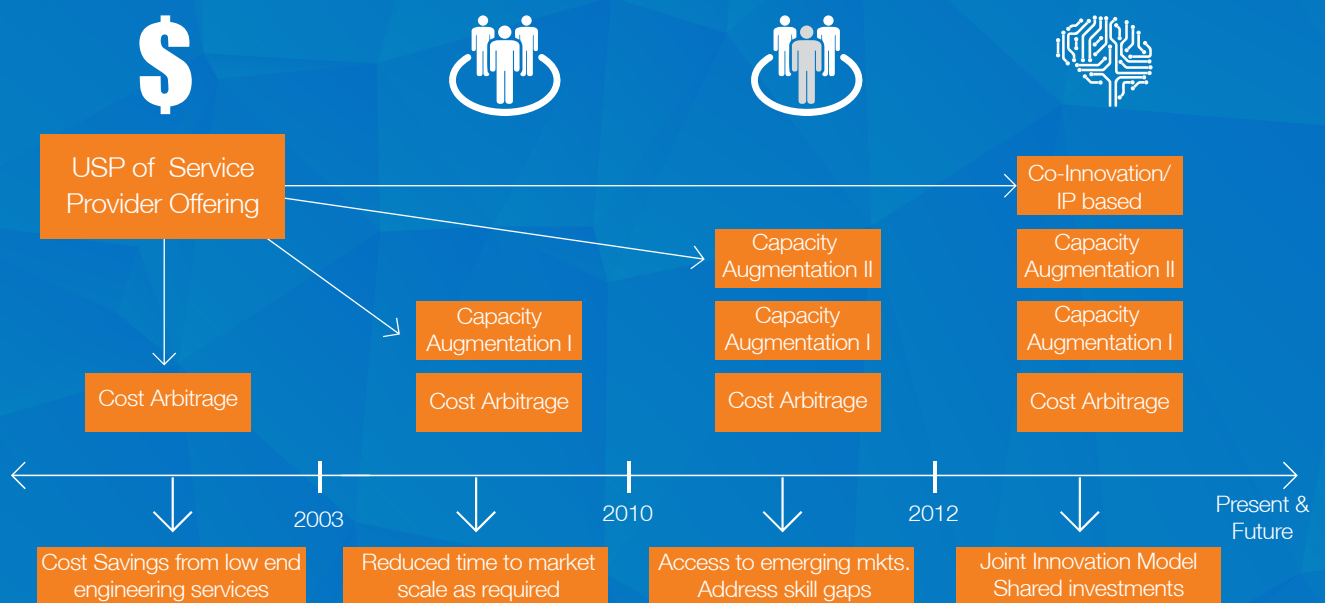


## THE JOURNEY



The Engineering Services Outsourcing (ESO) industry initially saw the Engineering Services Providers (ESPs) involved in tactical, low-end engineering activities, primarily due to cost arbitrage. Innovation - more specifically - Product Engineering was heralded as the core competence of product organizations, then. At the turn of the millennium, cost arbitrage ceased to exist as the basis of outsourced engineering partnerships. Capacity Augmentation became the new USP of vendor organizations, wherein the ESPs helped customers reduce their time to market, and scale only when needed. After 2010, access to emerging markets also acquired importance for customers, as consumer spending rose in these markets. In the last couple of years, however, the ESO industry has made rapid strides in the direction of co-innovation, facilitated by an increased trust quotient, shared investments and a strategic vision.

*From Cost Arbitrage to Capacity Augmentation to Co-Innovation*





## THE IMPORTANCE OF INNOVATION FOR TODAY'S PRODUCT ORGANIZATIONS



*Innovation ranks right up there for product managers*



60% indicated that their companies are spending more on Innovation this year than they did in 2013



50% of Breakthrough Innovators report that they have generated more than 30 percent of sales from innovations that occurred in the prior three years

*Source: BCG Global Innovators Survey, 2013-14*

For a customer organization to succeed in today's rapidly-changing business scenario, innovation needs to permeate its company culture, and be present in all aspects of its operations – including its outsourcing relationships. It is, therefore, not surprising to witness the same innovation tasks being outsourced to supplier organizations with the intent of gaining a competitive advantage in the marketplace – this is the ultimate essence of Supplier Sourced Innovation. According to an AT Kearney study, 90% of leading companies have a structured process for collaborating with the suppliers, but only 54% of them are actually able to implement it successfully. The entire company has to work cross-functionally to enforce collaborative supplier innovation.

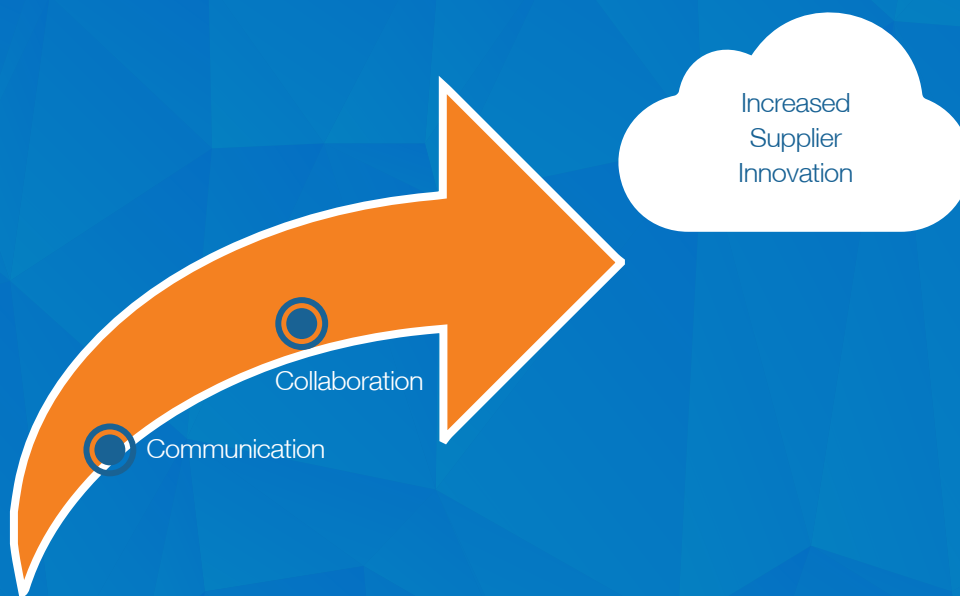
## THE SYMBIOTIC FACTOR



*How does one increase supplier innovation?*

Until the last few years, Innovation wasn't quite the focus and it didn't receive the kind of importance that it should have. Countless management gurus have always heralded it as one of the simplest ways to establish a competitive spot in the market and saw it as a basic bridge. It was only recently that product manufacturers and services alike have begun identifying its requirement and begun exploiting the advantages it has to offer – not only by themselves but by external sources as well. Suppliers and vendors are amongst the top-held widely recognized sources of innovation solely because they know their customers, they know what ails them; they know the follies and also have the connections of imparting newer and different kinds methods and processes into the organization's system.

This symbiotic relationship however does not always stay stable owing to a number of factors. These may be related to goals held sacred by the individual departments of the company which result in a conflict of interest. They may also be because price wars are triggered – a manufacturer always wants to achieve quality work at the lowest possible cost while the supplier's economic needs are not met or even last minute changes in design/prototype/process without giving adequate notice to the supplier thereby impacting the supplier's profitability.



A good way to avoid this is to keep the supplier actively involved during different activities and stages – of course, given keeping the confidential elements confidential. For example, something as simple as prototyping can be executed by involving the supplier during different stages of the design work thereby the resources required from their end can be established as well as the supplier may also give suggestions on improving material and reducing the overall cost. This creates a form of win-win for both the parties – collaboration is the key.

Communication is another important factor that abates disparities in supplier driven innovation. Keep the supplier notified of changes in process and product and furnishing the information they may require in a timely fashion will drastically reduce their own time taken to adhere to the new process or product and again work towards common objectives while constantly providing their suggestions along the way.

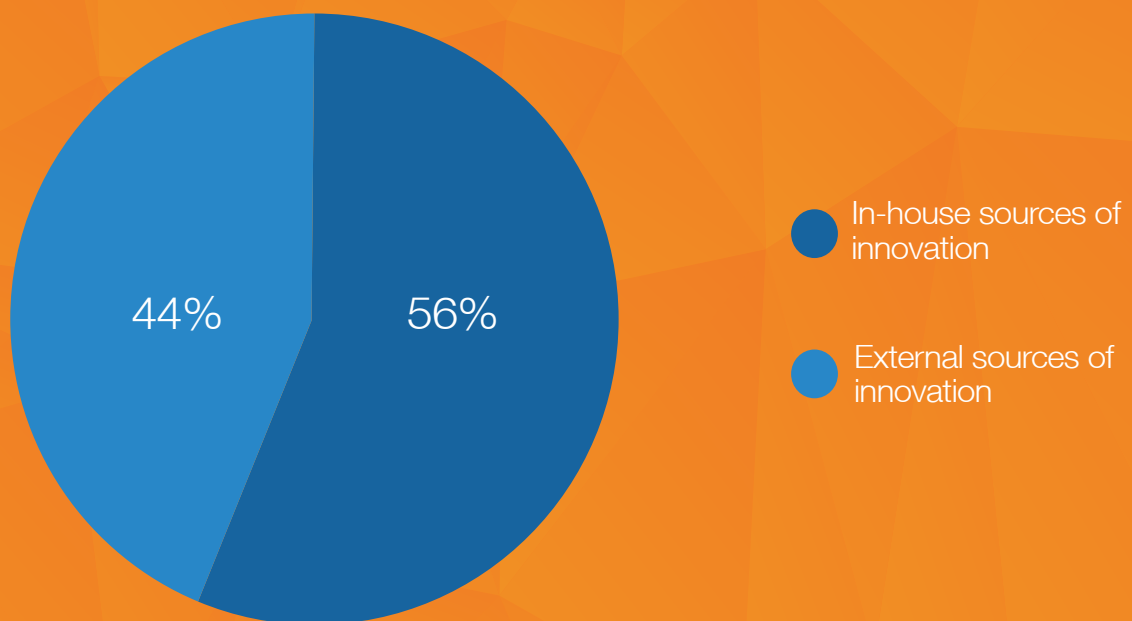
## INNOVATION – NO LONGER AN IN-HOUSE ESOTERIC



It is must for companies, today, to also source their innovation from external parties like suppliers, in addition to their in-house R&D departments and sources. In fact, companies that profess best practices in innovation produce nearly half of their innovations from external sources. Suppliers form a critical part of this group, since they are continually developing and being exposed to the nitty-gritty of the customer organization's products. By capturing supplier ideas during concept development, product companies can revisit product designs for ease of manufacturing as well as low-cost sourcing.

The chart below shows the sourcing strategies adopted by some of the world's most innovative companies. The importance given to sources of innovation outside of an organization covers a good chunk of the pie and is ever increasing.

*Sourcing mix for generating new ideas, for some of the world's most innovative companies*



*Source: A.T.Kearney analysis*

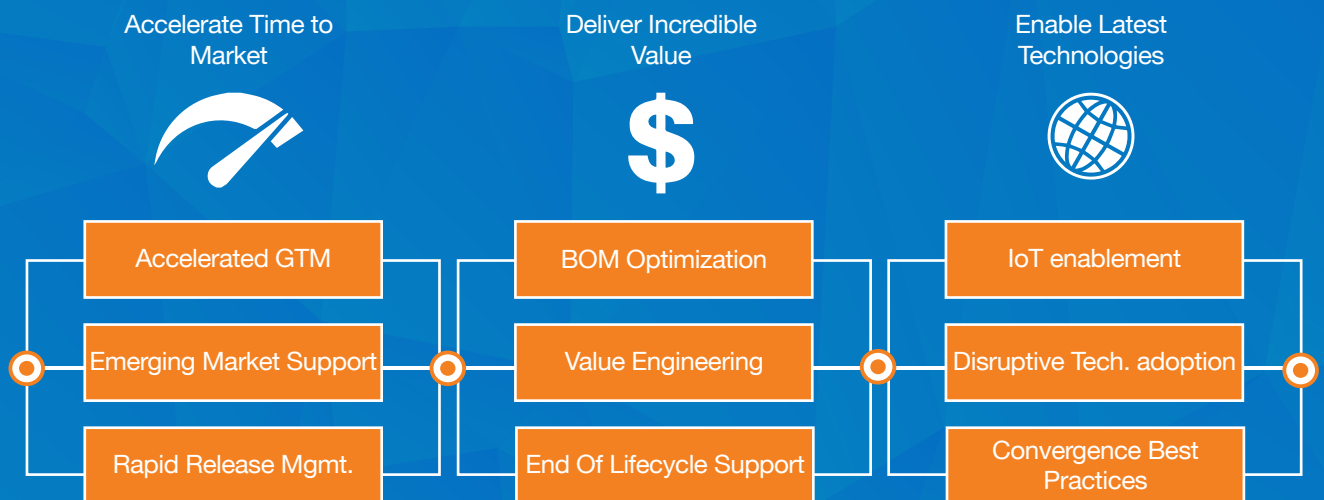


## THE SCOPE FOR SUPPLIER SOURCED INNOVATION



Based on the different product lifecycle stages at which a supplier can help deliver innovation to the customer organization, there are three categories under which all innovation effort can be broadly classified with a number of underlying services in each as follows:

- Product or Service Acceleration: Accelerated Go-To-Market, Emerging Market Support, Rapid Release Management, Ecosystem Engineering, User Experience Engineering, etc.
- Deliver Incredible Value or Price-To-Benefit Ratio: Integrated Sustenance & Support, Frugal Engineering, Bill-Of-Materials optimization, Value Engineering, Tear Down Analysis, Product Quality & Compliance, On-Demand Testing, etc.
- Application of Latest Technologies: Internet of Things (IoT) enablement, Disruptive Technology Adoption, Technology Readiness Assessment, Rapid Mobility Engineering, Mobile App Certification, Smart Product/Services Enablement, Convergence Best Practices, etc.



## THE KEY DRIVERS FOR SUPPLIER SOURCED INNOVATION



*The key drivers for Supplier Sourced Innovation*

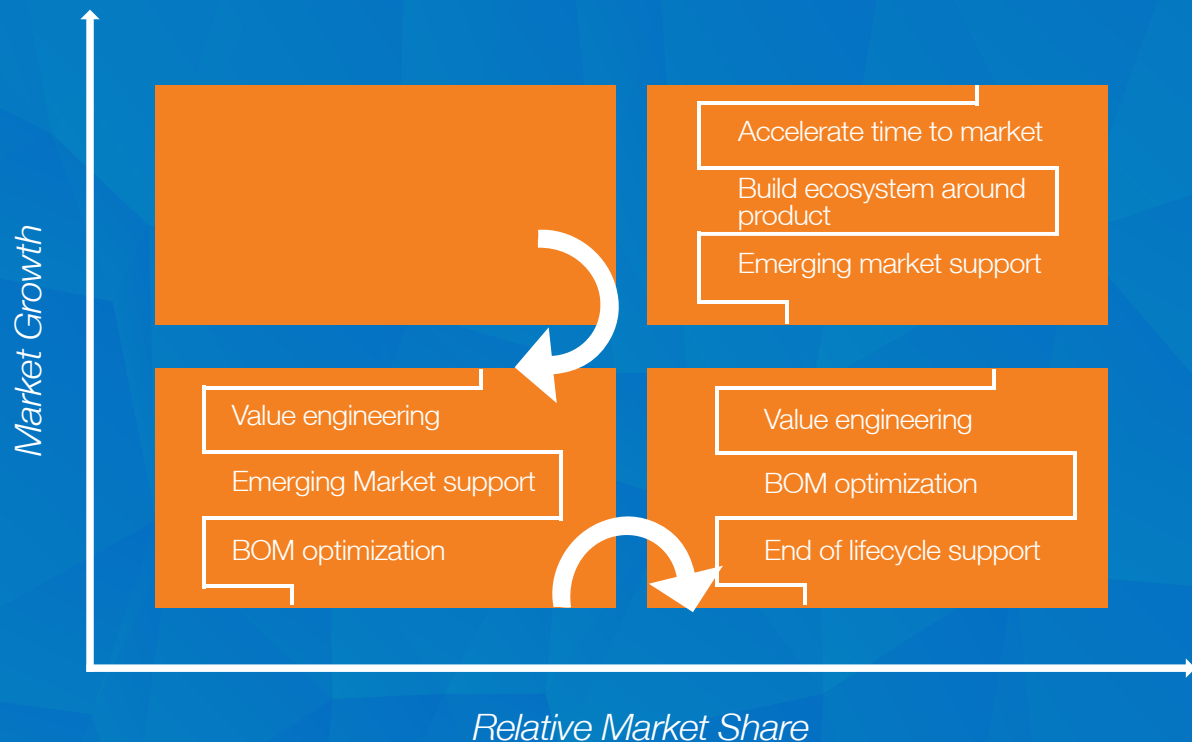
	Competitive Advantage	Customers look at Supplier Sourced innovation as a source of competitive advantage
	Time to Market	Shortened product lifecycle has impelled faster time to market
	Ecosystem Coverage	Customers realize importance of addressing the entire product ecosystem
	Resources & Capabilities	Customers may have limited resources and capabilities
	Access to Talent	Customers may have shortage of subject matter experts in the domain
	Risk Management	Customers are better able to manage innovation related risks
	Convergence Best Practices	Customers may be able to exploit innovation best practices from unrelated verticals

Supplier Sourced Innovation can prove to be a tremendous source of competitive advantage for customer organizations. Not only this - the need for reduced time to market as well as availability of limited resources & capabilities has further contributed to the rise of Supplier Sourced Innovation. Then, there's the added advantage of not only being able to cover the entire product ecosystem but also being able to better manage innovation related risks. Finally, lack of sufficient subject matter experts as well as the need to exploit innovation best practices from previously unrelated verticals, are amongst the other key drivers of Supplier Sourced Innovation.

## MAPPING SUPPLIER'S INNOVATION OFFERINGS INTELLIGENTLY TO THE CLIENT'S PRODUCT PORTFOLIO



*The Needs-Offering matrix*



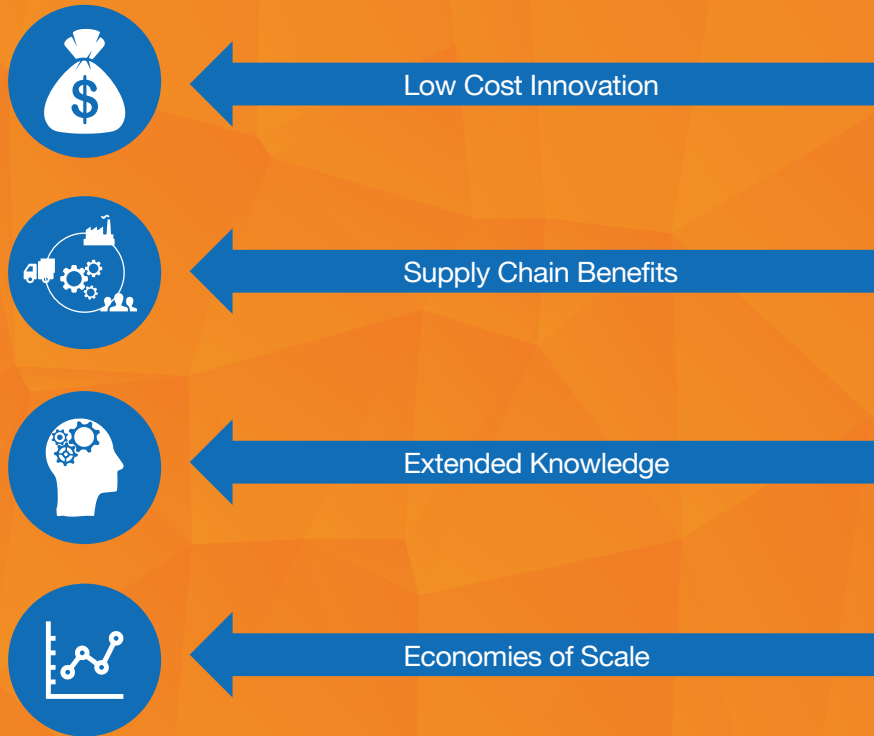
WE TAKE A STEP AT TRANSLATING THE SUPPLIER INNOVATION OFFERING INTO THE BCG MATRIX MAPPING SERVICE OFFERINGS APPROPRIATELY TO THE QUADRANTS TO BRING OUT THE BEST IN EACH.

While the question mark quadrant remains untapped as they remain debatable for both the supplier and the manufacturer, mapping services such as End of Lifecycle Support to the cash cows or accelerate time to market for a star are some of the services by which the best in each can be brought out.

## REALIZING THE BENEFITS OF SUPPLIER SOURCED INNOVATION



With more than 45% of innovation efforts going into external sources by large-scale organizations, it's quite apparent that the benefits of supplier sourced innovation are manifold. Increasingly, large scale organizations are trying to reap these strategic sourcing benefits and convert them into core-competencies to have an added edge over the market.



- **Low cost innovation:** The dollars spend on research and development is enormous and strategic teams are exhausting immense time and money in trying to bring out the best of the organization's outputs while reducing the cost of inputs and increasing customer satisfaction at the same time. A good amount of trust and collaboration with the supplier is an easy low-cost access to crucial measures of improvements in the PLC.
- **Supply chain benefits:** Suppliers today have considerable amount of knowledge of the market and the way materials are being used. They can bring in new and innovative ways of production as well.
- **Extended Knowledge:** Bringing in the knowledge pool from different sets of organizations a supplier may or does supply too is an added advantage to the organization.
- **Achieving Economies of Scale:** With the know-how of the resource utilization, suppliers can bring in innovative strategic sourcing methodology and practices to achieve great economies of scale.

## SUMMARY



Innovation can't be and shouldn't be confined to the premises of product companies, today. Sourcing innovation from suppliers can propel product organizations to unprecedented levels of success. Involvement of suppliers with innovation in their DNA bring phenomenal value to the table.

An organization must explore, connect with and collaborate with their suppliers to achieve the hidden benefits of supplier sourced innovation. A supplier is more than just a resource junction – it is an idea station.

On the plus side, any innovation from the supplier's side while working on a customer project is considered to be the customer's Intellectual Property. A win-win then, for customer organizations. All in all, Supplier Sourced Innovation is the clear harbinger for the crème-de-la-crème of tomorrow's product engineering and technology behemoths.



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