

# Measuring Supplier Performance in an international Group

A380  
A340  
A350  
A318  
A310  
A300-600F

A400M  
C-295  
CN-235  
C-212

Tiger  
NH 90  
ATR 42  
TBM 700  
TB 21  
EC135

Ariane 5  
ATV  
Helios II  
Skynet 5  
INMARSAT  
Galileo

Eurofighter Typhoon  
Mako  
Meteor  
EuroHawk  
C<sup>3</sup>I Systems  
Captor



Airbus



Military Transport Aircraft



Eurocopter



Space



Defence & Security Systems

**Marcusevans: Supplier Relationship Management Conference Barcelona  
29./30. September 2005**

**Dr. Anfried Sauerborn EADS HQ: Corporate Sourcing/Strategy**



## Areas to be covered:

- What EADS is and what it does
- Why Supplier Evaluation is important for EADS
- How we set targets and define the corresponding improvement cycle
- Our Common Supplier Approach across the organization
- How suppliers are responding to this



**EADS**  
The Company



## A Global Leader



Commercial Aircraft



No. 1

Helicopters



No. 1

Commercial Launch Vehicles



No. 1

Missile Systems



No. 2

Satellites



No. 3

Military Transport Aircraft














No. 3

Military Aircraft



No. 4

## Competitive Position Revenues 2004 in bn €

	Boeing				42.2	
	EADS	No. 1 in Europe		31.8	No. 2 worldwide	
	Lockheed Martin				28.6	
	Northrop Grumman			24		
	BAE Systems			19.9		
	Raytheon			16.3		
	General Dynamics			15.4		
	Thales			10.3		
	Finmeccanica*			7.1		
	L3 Communications			5.5		
	Saab			2.0		

\* Aerospace and defence activities

Based on 2004 average exchange rates: €/\$ = 1.244; €/£ = 0.679; €/SEK=9.09

# EADS Management Structure



Lean organisation structure with clear lines of responsibility



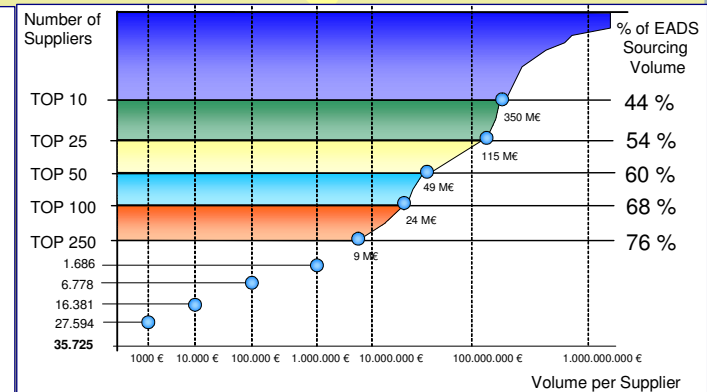
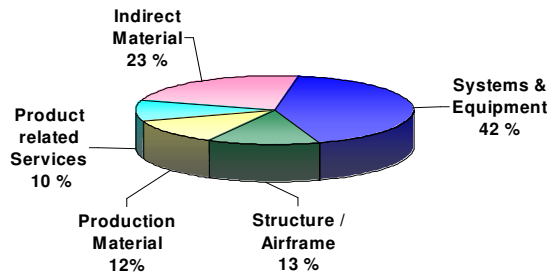
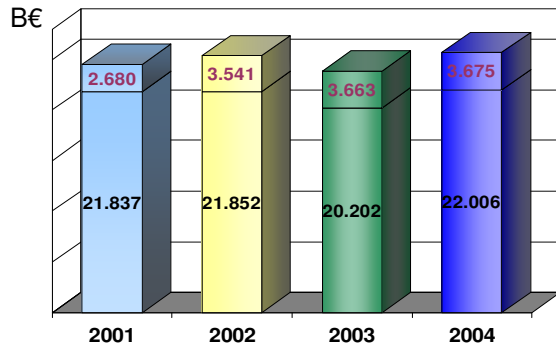
**EADS**  
Sourcing challenge



# Increasing Importance of Sourcing and SRM

**Sourcing amounts to 2/3 of Sales**

**250 suppliers cover 76% of sourcing volume**



**Intense sourcing of complex structures, systems and equipment**



EADS Sourcing Strategy has to address various challenges



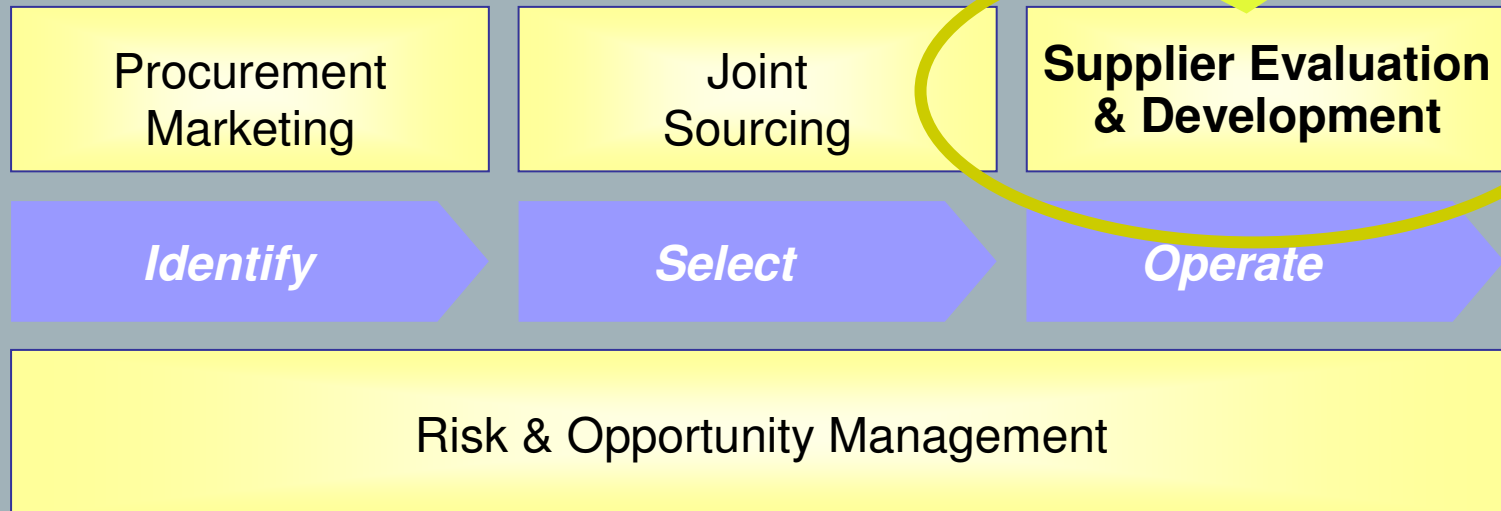


# Supplier Evaluation and Development is a Key Element of the Sourcing Strategy

**Challenge:**  
to manage Suppliers' Performance by

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

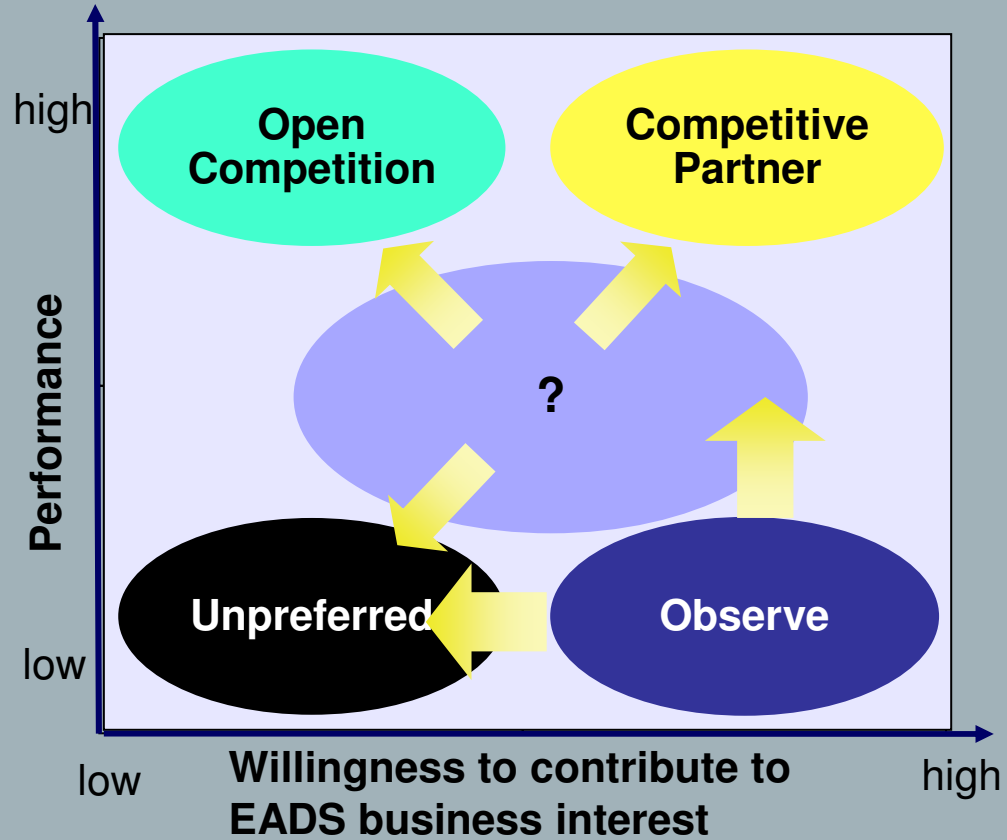
EADS Sourcing Strategy with  
four Key Elements





# SED is one element of EADS Supplier Relationship Management

- Procurement Marketing
- Joint Sourcing
- Supplier Eval. & Dev.
- Risk & Opport. Mgmt.



**Manage suppliers to contribute to EADS business interest**



**EADS**  
Supplier Performance Measurement

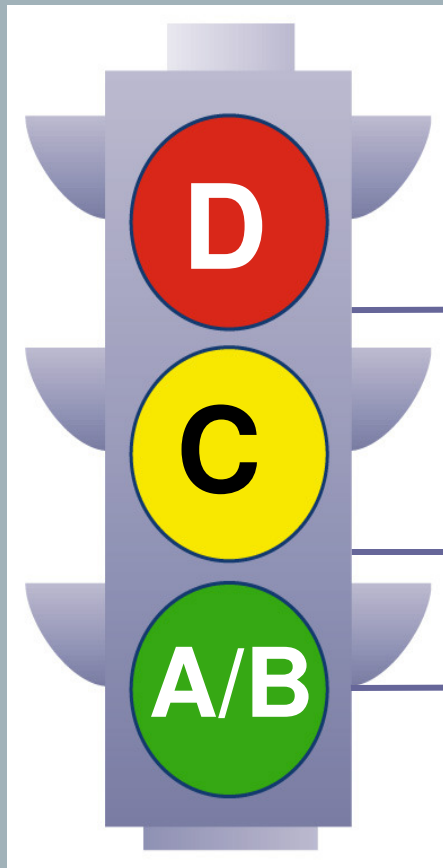


## Five Common Criteria to evaluate the Supplier's Performance

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>■ <b>Commercial</b></li></ul>       | <ul style="list-style-type: none"><li>■ Price evolution over time and against market development</li><li>■ Willingness to participate to design to cost initiatives, offset fulfillments and sales support.</li></ul>      |
| <ul style="list-style-type: none"><li>■ <b>Technical</b></li></ul>        | <ul style="list-style-type: none"><li>■ Ability to meet development requirements: milestones, ability to drive the development process</li><li>■ Audits on the Supplier technical and / or innovation capability</li></ul> |
| <ul style="list-style-type: none"><li>■ <b>Quality</b></li></ul>          | <ul style="list-style-type: none"><li>■ Ability of a Supplier to perform according to a Quality requirement</li><li>■ Suppliers capabilities in process management and risk management</li></ul>                           |
| <ul style="list-style-type: none"><li>■ <b>Logistics</b></li></ul>        | <ul style="list-style-type: none"><li>■ Ability to deliver on time, against a defined delivery window</li><li>■ Ability to meet desired quantities</li><li>■ Flexibility in case of order changes</li></ul>                |
| <ul style="list-style-type: none"><li>■ <b>Customer Support</b></li></ul> | <ul style="list-style-type: none"><li>■ Level of satisfaction concerning the Support given to EADS's Customers by a Supplier: Product Support, Service, Costs</li></ul>  |



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



**Unacceptable**

*Requirements not met*

**Mandatory Improvements**

*Requirements not fully met*

**Good - Requirements met**

**Excellent – Outstanding performance**

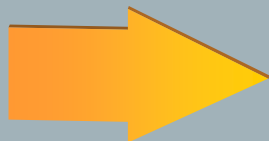


**Detailed evaluations, often based on formulas and several weighted sub criteria, result in four grades**



## Example: evaluation matrix

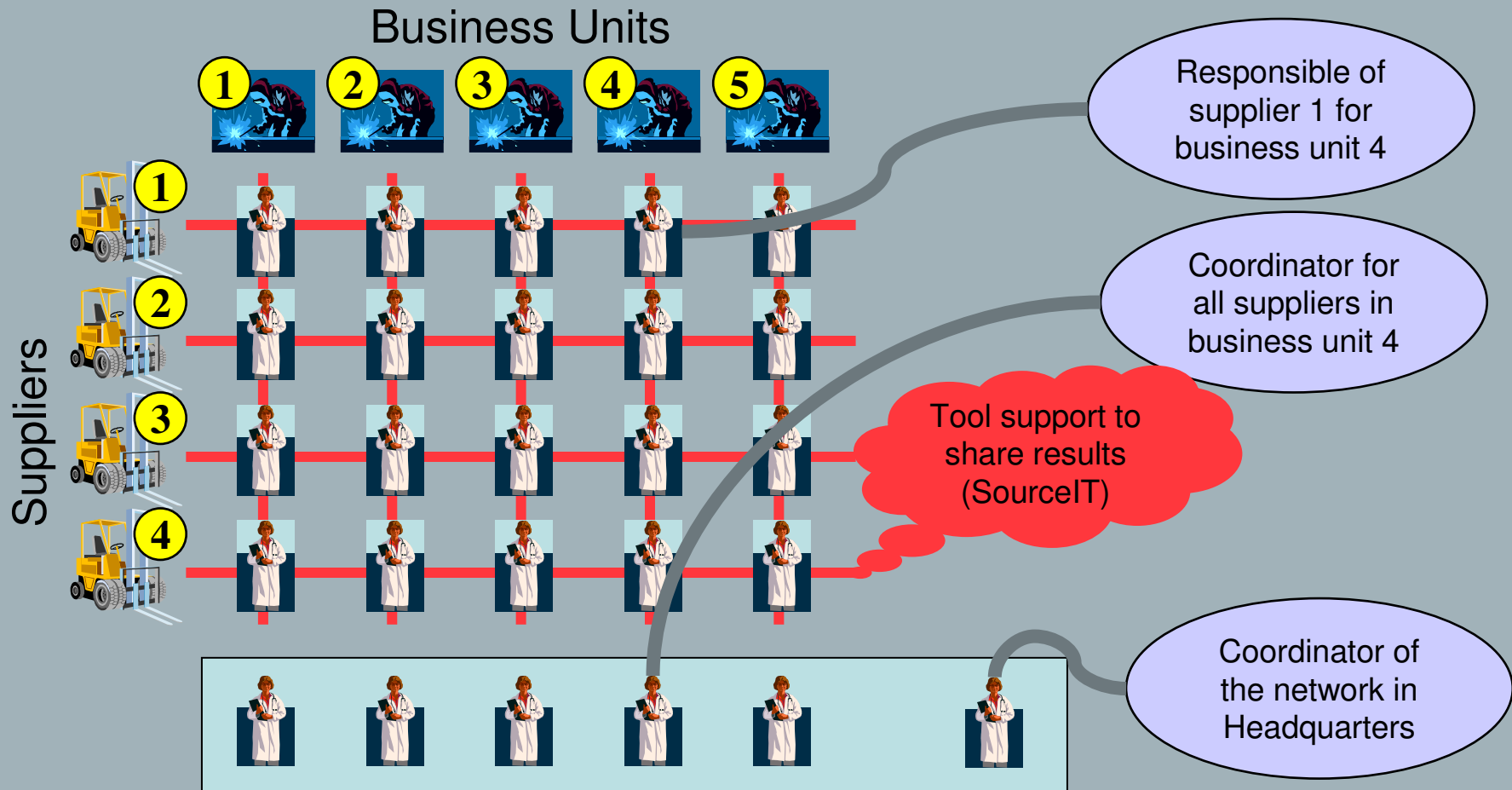
CRITERIA (EADS)	Sub-Criteria (BU-specific)	Weight	Detailed description	Way to measure / EXAMPLES	D 0,0<1,0	C 1,0<2,75	B 2,75<3,25	A 3,25<=4
Commercial	Price Competitiveness	30%	with respect of BU specific markets	offered price versus market price or competitive prices willingness of price reduction	prices 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 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



# Network: develop methods and share results



# Who evaluates ?



- Purchasing
- Procurement, supply management
- Operations
- Engineering
- Quality
- Finance
- Etc.



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

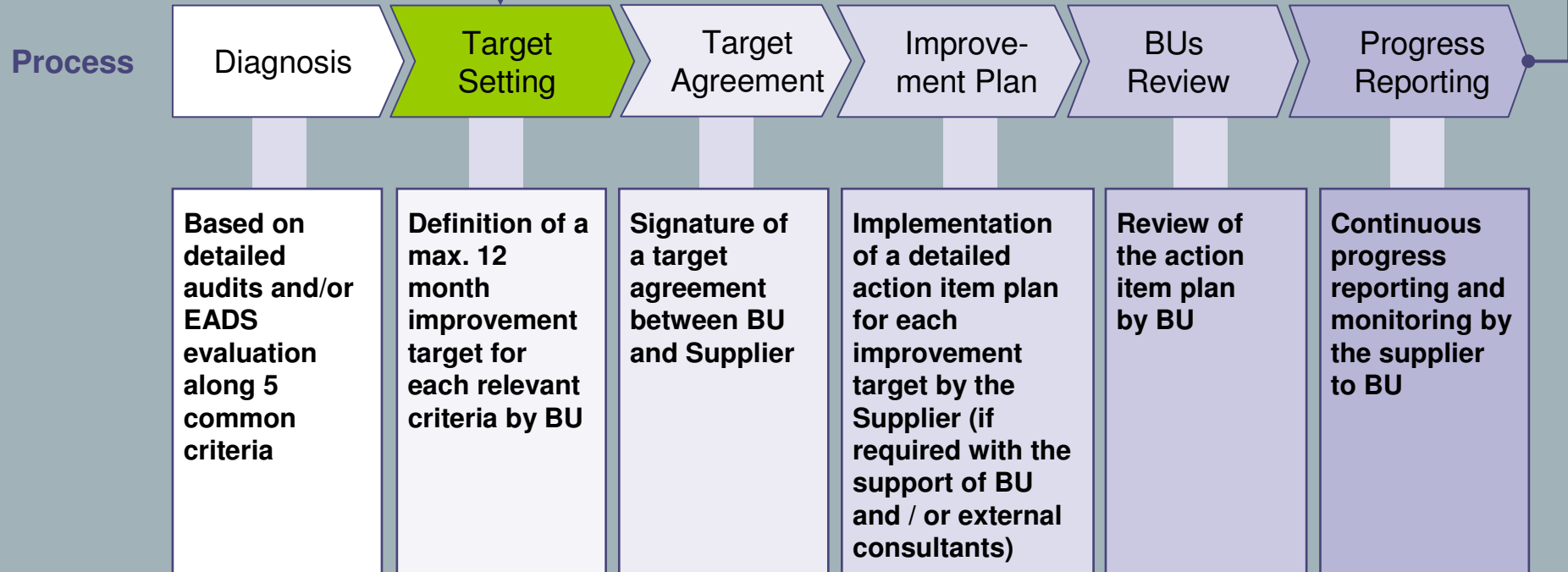
Purchasing takes the lead





# Target Setting to Drive Improvement

*Make new evaluation and check progress versus target*



## Responsibility





# Corporate Evaluation Picture

Evaluations on all criteria are collected across all concerned Business Units

	Quality	Technical	Logistics	Customer Support	Commercial
AIRBUS	D	B	C	D	A
EUROCOPTER	A	B	D	D	C
MBDA	D	C	B	C	A
LAUNCH VEHICLES	C	A	B	B	A
ASTRIUM	A	B	C	A	D
MTAD	A	C	D	B	C

7  
8  
15



Cross EADS view on a supplier



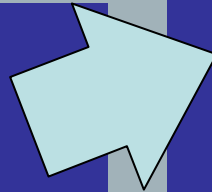
# Review of Supplier Performance Improvement

Evaluations are essential inputs for **Common Supplier Approach meetings** with top management involvement on EADS and Supplier's side  
 Increased leverage because of common EADS approach

**02/2004**

## STATUS OF SUPPLIER XXXX OPERATIONAL PERFORMANCE

	Quality	Technical	Logistics	Customer Support	Commercial
AIRBUS	D	B	C	D	A
EUROCOPTER	A	B	D	D	C
MBDA	D	C	B	C	A
LAUNCH VEHICLES	C	A	B	B	A
ASTRIUM	A	B	C	A	D
MTAD	A	C	D	B	C



- 7
- 8
- 15

**02/2005**

## STATUS OF SUPPLIER XXXX OPERATIONAL PERFORMANCE

	Quality	Technical	Logistics	Customer Support	Commercial
AIRBUS	D	B	C	C	A
EUROCOPTER	A	B	C	C	B
MBDA	D	B	B	C	A
LAUNCH VEHICLES	C	A	B	B	A
ASTRIUM	A	B	C	A	D
MTAD	A	C	B	B	C

- 3
- 9
- 18

**Monitored by a detailed action plan**



**EADS**  
Common Supplier Approach Meetings



## Objectives of CSA meetings:

- To review performance evaluation versus targets
  - EADS performance improvement programs such as POWER/Route 06
  - Supplier Performance ratings
  - Critical issues
- To discuss issues of mutual business interest



## EADS cross BU key suppliers (extract):

THALES

ZODIAC

ALCOA

HAMILTON  
SUNDSTRAND

FAIRCHILD  
FASTENERS

SAFRAN

GOODRICH

VSMPO

LISI

SABCA

NORTHROP

HONEYWELL

SMITHS

HEXCEL

ALCAN

ROCKWELL  
COLLINS

PRATT CANADA

LIEBHERR



# EADS Principles of operation:

- Participants:
  - EADS:
    - Head of Corporate Sourcing
    - Corporate Sourcing Strategy
    - BU Procurement Directors
  - Supplier:
    - CEO
    - Heads of Divisions/Business units
    - Performance coordinators



## Some Supplier responses:

- Difficulties:
  - ❖ Reliability of data: Suppliers contest the findings or their responsibility.
    - √ Response: be concrete, give examples, explain process,.. But listen, maybe the supplier is right: address critical issues beforehand on working level
  - ❖ TOP management involvement in CSA meetings: Supplier tries to delegate to lower management levels, to split responsibilities to BU levels jeopardizing the EADS CSA method.
    - √ Response: Long term planning, Involve EADS TOP executives, simply do not accept supplier participants without decision power
- Benefits:
  - ❖ Encourages buy in and support from suppliers decision makers to the agreed improvement plan
  - ❖ Suppliers generally appreciate free-of-charge performance feedback for driving change in line with customer needs.
  - ❖ Suppliers' perception of EADS as a group helps EADS BUs to get the desired awareness from suppliers. This applies particularly to the small BUs.
  - ❖ One supplier (1B€ annual turnover with EADS) that had recently undergone a merger intends to copy the EADS evaluation methodology for their own supplier relationship management approach. So EADS sub-tier suppliers of this supplier could in future be assessed to EADS standards.





## Supplier Evaluation, way forward:

- Extend the 5 criteria to include Supply Chain Management capability, measured through a CMMI like approach
- Include an element of Corporate Social Responsibility
- Extend internal coverage of Supplier Evaluation (Performance indicator)
- Further harmonize sub-criteria and thresholds where beneficial
- Extend the deployment of the tools
- Extend the Supplier Development approach
- Refine the definition of Competitive Partner status



## Conclusion:

- Supplier Evaluation and Development is a major element in the EADS Sourcing Strategy providing significant benefit
- An EADS wide common methodology enables to “one voice to suppliers” and thus powerful negotiation levers (CSA meetings)
- The EADS Corporate Sourcing SED guidelines are simple and easy to understand. They are widely accepted and applied across EADS
- They provide only basic rules and leave therefore enough space for adaptation to BU or project specific needs



**Thank you for your attention.**



The step beyond

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