



DIRECT MATERIALS: YOU NEED TO FOCUS ON MORE THAN COST

VIDEO TRANSCRIPT

**Anshul Singhal, Managing Director –
Strategy & Consulting, Supply Chain &
Operations**

Today, if you notice post-Covid, the question about direct materials is not just about cost, it's about resiliency as well.

Covid has taught us that a lot of supply chains can come to a halt if you do not have resiliency built in your supply chain.

Now, that's a different way of looking at direct materials because historically a lot of people think about direct materials as only the cost play. It's what we define as Integrated Direct Materials Management which is about what we call end-to-end inbound supply chain.

So, it's all about how does your procurement work with the engineering, how does procurement intersect with planning, logistics and manufacturing.

So, how do you manage the whole direct material and your direct material transformation all the way through the supply chain. That's what we call the Integrated Direct Materials. Now, having said that, we believe that there are three pillars in direct materials on how to achieve excellence.

One is obviously the cost, so how do you look at your cost modelling, but more importantly how do you think about things like commodity price risk management, how do you think about reducing complexity in tier-downs and so forth. That's really what the cost dimension of the

IDMM framework is.

The second pillar is what we call Risk, resiliency and responsibility.

Now, from risk and resiliency perspective, it's all about do I have the right visibility into my n-tier supply chain, so that I know what supplies are at risk? Do I know what weak points are there in my supply chain? How should I take some mitigation action against it?

And on the other hand, every company today is focusing on sustainability.

So, it's all around how to be responsible in your way of working. And that's where we talk about sustainable sourcing. Leveraging different materials, redesigning your products. As a matter of fact it can be also about tracking your raw materials end-to-end.

The third pillar of the IDMM is about new ways of working which primarily focus on two aspects. One is the operating model: as a procurement or a direct material organization, how do you organize yourself, how are you partnering with engineering and other functions, what are the skill sets you are going to need to succeed in the future.

And there's a whole digital angle to it. How much are you investing into building your digital, are you partnering with your suppliers, are you partnering with your ecosystem, do you know what's available out there? So, it's all about how you digitize your direct material value chain.



So, those are the three pillars of the IDMM framework.

How do you see this coming to life in practice?

Now, take another example. And there are a lot of examples where we are operating on this, where we're helping clients to find semi-conductor components.

What we're noticing is that some of the Tier 1 vendors, they are not able to secure components on time.

We're helping this client to find semi-conductors, so that they can keep selling their products and wipe the loss of revenue because of challenges in their inbound supply chain.

Think about a third example- we've actually gone beyond Tier 1 and provided end-to-end visibility into their n-tier supply chain and identified really the vendors who are at risk, be it a Tier 4 or Tier 5 and were able to come up with a mitigation action for them to basically avoid any disruption to their inbound supply chain.

So, there are plenty of examples, you know, we keep working on them every day and we are seeing this narrative is resonating very well with our clients, whether we're working with them only on one dimension, or pretty much all of them at some point in time as well.