

Supplier Management: Step One in Microsoft's Digital Transformation Journey

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About Microsoft's Hardware Group

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Scaling Supplier Management for Exponential Growth

Microsoft's hardware device group needed to scale very quickly in the face of exponential demand growth for Surface and Xbox. The supplier management team's existing processes, running on disconnected homegrown systems and with disjointed supplier lists managed in different tools, threatened to impact that growth and drove up materials costs due to poor contract compliance.

Identifying the Problem

Microsoft sought to evolve from disjointed to fully-integrated design-to-deliver processes – a transformation that would require process changes, a thought-leading team, and an integrated technology platform. But Microsoft identified potential risks of immature technology in the market; for example, in the integration of product lifecycle management (PLM), supplier management, and sourcing, including supplier selection and sourcing from a multi-level bills of materials (BOMs). So Microsoft's sourcing team engaged with a software vendor that was able to make it a partner in product design, and Microsoft co-innovated on new functionality.

Integrating Supplier Management and Product Development Is Principle #1

Microsoft recognized that accelerating product development required sourcing and supplier management processes that are fully integrated into design, supply chain, and manufacturing operations. This integration offers tremendous benefits, including early visibility into the cost impact of design decisions, opportunity to incorporate supplier innovation in product development, greater visibility and control into the supplier selection process for better compliance, and finally – lower product costs. Product costs drop when sourcing and contract processes are fully aligned with execution from the ERP. Why? Because execution processes that embed contract terms can minimize contract leakage.

Becoming Demand-Driven Is Principle #2

Supplier management helped Microsoft evolve from a make-to-stock to a demand driven, build-to-order environment. This is important, because consumer demand for Microsoft Surface has been growing rapidly, and the traditional manual means of collaborating on production plans with contract manufacturing partners do not allow for the production agility that Microsoft required. Microsoft evolved from a make-to-stock approach to a demand-driven, build-to-order environment by collaborating, in real time, with those suppliers engaged and onboarded throughout its supplier management cycle.

Embracing Intelligence and New Technologies Is Principle #3

Microsoft is harnessing machine learning and artificial intelligence by integrating its own cloud apps, such as Azure and Cortana, to its end-to-end sourcing and supply chain platform from SAP Ariba. This enables Microsoft to drive intelligence and run analytics on data that comes out of the sourcing and supply chain processes. The impact? Greater visibility and control into sourcing processes. And much faster ability to identify and resolve potential supply continuity issues.

Enjoying the Results

Now, Microsoft's product development team has early visibility into the cost impact of design decisions. In addition, Microsoft reduced COGS by millions and accelerated its product development cycle, as the time required for the engineering to supplier management handoff decreased significantly.