



MANUFACTURING | SOURCING

JAGGAER Optimizes Complex Sourcing for Global Manufacturer ITW to Achieve Millions of Savings Annually

Customer Profile

Founded over 100 years ago and based in Glenview, Illinois Tool Works (ITW) has become one of the world's leading diversified manufacturers of specialized industrial equipment, consumables and related service businesses. The company's specialty products comprise enclosable packaging products; hand wipes and cleaners; chemical fluids; adhesives; epoxy and resin-based

coating products; industrial food equipment; components for industrial machines; automotive aftermarket maintenance and appearance products; swabs, wipes, and mats for clean room usage in the electronics and pharmaceutical industries; and electronic component packaging trays.

ITW businesses serve local customers and markets around the globe with a significant presence in developed and emerging markets. The company has operations in 56 countries that employ more than 50,000 women and men, all adhering to the highest ethical standards. These talented individuals, many of whom have specialized engineering or scientific expertise, contribute to the organization's global leadership in innovation, which includes a broad portfolio of more than 17,000 granted and pending patents.

Moving from an inflexible procurement solution using a traditional ERP provider to JAGGAER's advanced sourcing solutions, ITW enabled savings around 5% for large direct material events and up to 45% for indirect

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Jonathan Turoff,
Strategic Sourcing Manager, ITW





materials—the latter of which ITW wasn't able to manage with their legacy system. The manufacturer achieved these savings while simultaneously leveraging the procurement processes across its many locations, improving responsible sourcing practices, and reducing cycle times across the board.

Challenge

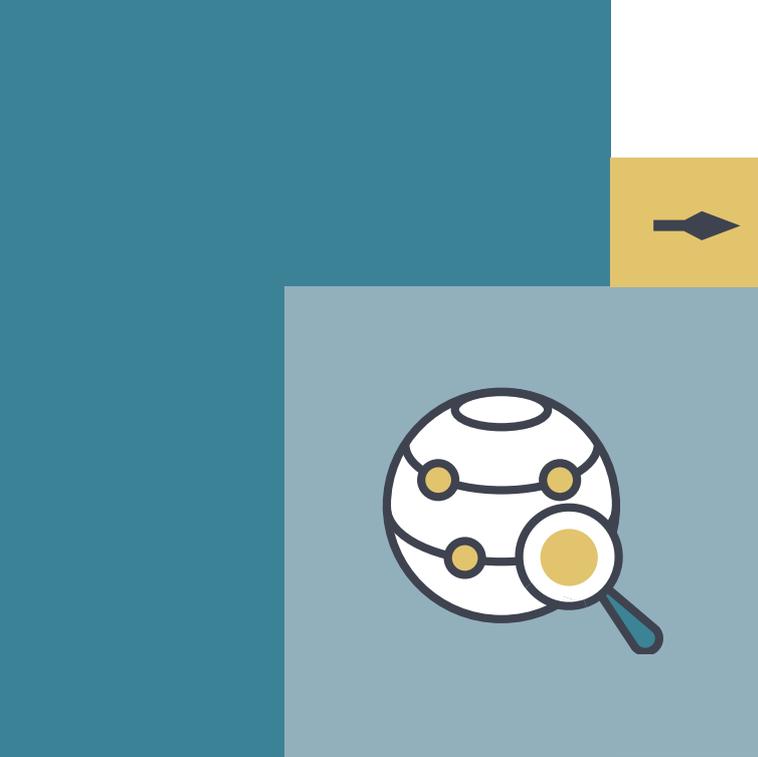
With an annual spend between \$7 and 8 billion USD across over 50 countries, Illinois Tool Works has a procurement outfit that is anything but insignificant.

As a result, the suppliers they work with have a direct and clear impact on their bottom line. A costly, inefficient supplier will shave margins off of the many types of products ITW produces, so the company is consistently looking for ways to reduce costs and ensure that its stable of suppliers is optimized so that all vendors are the best possible fit for ITW's goals and needs.

Prior to 2015, ITW was using a different sourcing tool to procure direct materials in the form of commodity items—such as metals and resins—from both domestic and

foreign companies. These types of materials represent a significant chunk of the company's procurement spend, and since they are relatively simple bulk transactions that don't need a lot of service or follow-up, the company's tool at the time was able to handle them. But when ITW needed flexibility for a more complicated bid, that's when things needed to be improved.

ITW discovered how rigid their old tool was when using it for indirect materials and other categories of spend including anything outside of the bulk commodity orders. For example, the company decided to outsource the manufacture of aerosol products—which can be dangerous, messy, and expensive to produce—to other manufacturers throughout the country in a \$40+ million dollar bid. As part of that process, the company needed to account for the individual costs of components within each vendor's proposal; a single aerosol can is composed of separate costs for the can itself plus the cap, tip, valve and actuator, not to mention the chemicals inside and the printing and labeling on the outside, as well as logistics considerations. ITW needed insight into



each of these components for each bid in order to assure the vendor they chose was as cost-effective as possible.

Their old eSourcing client was unable to do this. ITW stopped running the event in the tool, took it offline, and was left to complete the bid the time-consuming, manual way—with Excel spreadsheets. Following this event, ITW decided it needed a new solution that could handle both direct and indirect spend, would be easier for internal stakeholders to use—allowing them to communicate with suppliers—had a feature set matching their needs, and would provide expert support as they deployed and used the tool. “We had a bigger picture in mind of a tool that would allow us to touch more categories while utilizing more complex scenarios than simply direct material commodities coming from foreign countries,” said Jonathan Turoff, Strategic Sourcing Manager at ITW.

Solution

The Corporate Strategic Sourcing Department got up and running with sourcing optimization solutions from JAGGAER, managing over \$500 million in spend for the manufacturer,

largely for complex bidding events across numerous categories. “All seven ITW segments use JAGGAER to optimize sourcing, and their software has been utilized in a number of the countries we operate in,” said Turoff. In addition to providing a flexible tool to customize bids for complex fields and requirements, “JAGGAER helps us leverage our spend among all of our locations and divisions, which normally operate independently and rarely interact with each other. But with this sourcing tool, we can identify when two or more entities have similar category spends and required materials, and consolidate buying power between them.”

Many of the RFPs ITW issues have multiple price components, whether it’s in the Construction Products segment, Performance Polymers and Fluids, or other segments of their business. A robust, flexible sourcing tool like JAGGAER allows the company to get deeper insight into vendor’s offerings, cost structure and profit margins, helping it make the right choice for short- and long-term success in supplier relationships. This is particularly helpful given Illinois Tool Works’ mission to only contract with socially responsible suppliers; JAGGAER enables ITW to upload the exact fields they want a vendor to bid on. This can include rates and delivery times, of course, but the gating process in the advanced sourcing tool also allows ITW to ensure that vendors are in accordance with their conflict minerals policy and are responsibly sourcing (and not manufacturing in factories with unfair conditions or labor rates), at an early point in the bidding process—right when suppliers register.

Savings on sourcing events depend on the type of materials (and other factors like industry, time of year, etc.) being procured,

but ITW has enjoyed on average 5% or more for direct materials—which represents significant savings due to the size of the spend—and for indirect materials and purchases such as office supplies, packaging and MRO, which sometimes have much higher margins, event savings can reach over 40%.

For example, ITW saved over \$220,000 on a \$5 million lubricant buy—the type of event that is repeated regularly for the supplier, meaning that 4% savings will be addressable for a longer period of orders. Meanwhile, a one-time purchase on heating elements at nearly \$140,000 was reduced by over \$63,000 using JAGGAER’s advanced sourcing tools—a 45% savings.

The cost savings ITW has achieved with JAGGAER don’t come at the expense of speed—quicker turnaround is a part of the value the advanced sourcing tools offer. “Cycle times through JAGGAER are markedly improved over the times with our prior tool, while still handling complexity,” Turoff said. “Often we are able to push through events faster than if project teams had to manage these bids on their own.”

The Future

Illinois Tool Works continues to look for opportunities to utilize other features of JAGGAER’s advanced sourcing tools. Certain lookup tables, configurable bidsheets and auction features for RFPs are available in the tool that ITW simply hasn’t had

the need for yet, but are there as they expand their procurement initiatives.

The next big challenge for ITW’s Corporate Sourcing team, says Turoff, is managing their arrival at the maturity stage of a number of their categories, as materials costs worldwide continue to climb—they plan to look to JAGGAER to help them push on suppliers to make sure they receive the best-in-class price on all sorts of materials, from commodities to specialized products to office supplies. The ITW team is also reviewing JAGGAER’s evolving spend analysis solutions to see what kind of insights such tools could provide to identify further opportunities for cost savings and efficiencies in their processes.

Bottom Line Results

- ➔ Managed events totaling upward of \$500 million annually through JAGGAER
- ➔ Savings averaging nearly 5% for high-quantity direct material sourcing, and as high as 45% for smaller, indirect spend
- ➔ Greatly reduced bid cycle time
- ➔ Increased ease of compliance with corporate responsible sourcing policies

Americas

+1 919 659 2600
sales@jaggaer.com

Europe

+43 1 80 490 80
dach_sales@jaggaer.com

MEA

+9714 360 1300
info-mena@jaggaer.com

APAC

+61 (2) 8072 0644
apac_sales@jaggaer.com