

# How To Attain Supplier Performance Reliability

Today's competitive and economic pressures have increased the expectations customers have regarding their suppliers. Increased quality, greater overall value, and excellent on-time delivery performance can only be achieved and sustained through long-term customer-supplier relationships. To support these relationships, operating personnel will be called upon to embrace new behaviors as well as new business processes. Key words: *customer-supplier relationship, quality improvement, supplier rating system*

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**N**O ONE WILL deny that the right materiel, when it is required, is essential. However, there are many problematic characteristics of the materiel management process that are well entrenched and difficult to change. In order to improve this process, the users will have to support and implement change.

## MATERIEL COSTS

Having materiel on hand (inventory) means carrying costs composed of the cost of capital, stores, personnel salaries, facilities, field delivery, obsolescence of inventory, information systems, utilities, insurance, security, and so on.

What are your carrying costs? Forty percent? Sixty percent? We recently completed a study and found some of our clients have carrying costs as high as 61 percent.

There is a cost of quality. Do you have to inspect all incoming materials because you cannot rely on suppliers to deliver defect-free products? How often do you have to return materiel? What is the cost of re-packing and shipping materiel back to the

supplier and then receiving the replacement materiel? How often does defective materiel cause a job postponement? Job site delays? What is the cost of reworking jobs as a result of materiel defects? Are you able to recapture these costs?

What is the cost of an incident? It is generally from 10 to 30 percent—and can be seen as a penalty for inadequate sourcing. Have you limited yourself to local suppliers? Have you moved away from competition to a supplier of choice? Our experience has shown that a restricted supplier base and unstructured supplier relationships add 20 to 30 percent to the cost of procured materiel.

## HOW TO CHANGE

We have to change how we view our relationships with our suppliers. We have to move from being adversaries to being allies or partners. The big question to be answered is, What's in it for me? Like all relationships, to survive and grow a customer-supplier relationship must be beneficial for both parties.

We need to realize that our suppliers have technical expertise that can be a valuable resource for us if properly cultivated and applied. Many of our suppliers have been doing business with us for many years. They probably have a better understanding of our strengths and weaknesses than we have. If we truly want to achieve technical or general materiel process improvement, we have to tap this wealth of knowledge.

We must have open, two-way communication. We have to learn to become better listeners. As hard as it is to believe, we do not always have all the facts, nor do we always make the best decisions.

Open communication means sharing information. Often suppliers are afraid to speak up out of fear of biting the hand that feeds them. We have to measure supplier performance so we know exactly when and where a supplier is in noncompliance. However, with much of our materiel, we do not effectively capture supplier performance. How can we expect improvement unless we are communicating the specifics?

Also, if a supplier's deliveries are late, how late or how often does the supplier have to be late before we point out there is a delivery problem? Having clearly defined performance standards and measurement systems in place to capture supplier performance lets us identify opportunities for improvement.

## INVOLVEMENT

We must involve ourselves in joint problem solving. When opportunities for improvement are found, do we bring in our suppliers and tell them to "just correct the problem" or do we use these opportunities to hold in-depth discussions and, if necessary, establish problem-solving teams to seek out the root cause of the problem? The second method will result in discovery of the real cause, elimination of the problem, probably cost reduction, and possibly price reduction.

We cannot beat our suppliers over the head to reduce prices. This is especially so if the suppliers have been selected competitively. The profit margin for a supplier operating in the competitive arena may be so low that it cannot afford to reduce its price. We want to concentrate on two issues:

- What can our suppliers do to improve their manufacturing or business processes to reduce their costs? Are they

implementing total quality management and continuous process improvement?

- What are we doing that adds to our suppliers' costs? We may find that we are a major contributor to these costs.

It is only through waste and cost reduction that lasting price containment or meaningful price reduction can be achieved.

It is equally important that we understand our suppliers' cost structures and cost drivers. For example, when a supplier approaches us and asks for a materiel increase of 5 percent, should it get this increase? The answer is a qualified yes. Yes, if the contract permits an adjustment—but only to the extent that the materiel contributes to the supplier's overall cost. If the materiel in question represents only 20 percent of the overall cost, the supplier would be entitled to 5 percent of 20 percent, or only a 1-percent price increase.

There are a great number of economic indicators that can help you, the user, or your purchasing group in tracking costs. A key index is the Bureau of Labor Statistics producer price index. If the producer price index for finished manufactured goods showed no increase, what did your materiel costs do?

We must also recognize and accept that we do not need a large supplier base to be effective. We want to optimize our supplier base, which probably means no more than three suppliers for a specific commodity.

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As users, we will be called upon to let go of suppliers that cannot meet our needs. This is very difficult when a supplier has become part of our extended work family.

We have to expand product standardization. We have to get away from not-invented-here, not-invented-within-our-company, and not-invented-within-our-industry thinking.

### **MAKING IT WORK**

How do we put all this together and make it work? It is most important that we maintain a cooperative attitude. We must provide information about the steps in the process. It starts with an initial presentation to a selected group of suppliers (usually by commodity). The presentation should focus on telling the suppliers the reason for this new approach, who will be involved, what the process will address, what the payback for both parties is, and how long the process will take.

The presenters represent leadership. They each explain their role and their specific questions. They must be aware of the important issues and trained accordingly. Following the presentation, there must be continued communication. This is necessary in order to ensure success (cooperation can only happen when people are constantly tuned in).

Training of the suppliers will be needed to demonstrate the principles. We can use external resources and/or develop our own. Of course, we must recognize that change is continuous. People move on, get promoted, and retire. Who will carry on? We must structure the training into different levels. Everyone will undergo core (basic) training, which addresses basic principles, operating philosophies, and techniques.

Training at the next level involves teaching the specific functional techniques needed for doing particular tasks, such as purchasing practices and inventory control methods. The third level involves teaching state-of-the-art techniques that let individuals develop and grow.

### THE PLAN

Any program needs to have a plan—a map that shows the way to the chosen destination. A plan also provides a baseline to measure progress against. The following 10 steps can be used to guide you to a successful partnering relationship with your suppliers:

1. Establish an organization structure consisting of a steering committee, facilitator, and implementation team.
2. Develop a detailed plan for selecting a commodity pilot and/or item.

3. Initiate an education and training plan.
  4. Create criteria for classifying suppliers and apply them (approved versus preferred and so on).
  5. Introduce the process to the suppliers and the internal organization.
  6. Develop a survey, audit process, and a documentation package, including quantitative values and guidelines.
  7. Establish a supplier rating system based on performance measurements.
  8. Employ an agreement that includes criteria for continuous improvement and measurement.
  9. Start a program of awarding performance.
  10. Maintain ongoing communication, internally and externally.
- This set of steps is not the end; it is only the beginning of an ongoing process for improving supplier and customer performance.

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