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The Role of Supply Management in Achieving World-Class Manufacturing

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Look for long-term, win-win relationships.

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Looking for a quantum leap in long term profitability? "Take a look at your buyer/supplier relationships," suggested Kenneth J. Stork and Ken Dominiak, presenters at the Rosemont, IL seminar, "The Role of Supply Management in Achieving World-Class Manufacturing." According to the presenters, on average 55 percent of each manufacturing company sales dollar is consumed by purchasing resources from suppliers. Thus, it is only natural that you look to the supply management process in your company as the "mother lode of opportunity."

Fundamental to capturing the financial benefits of an improved supply management process is your attitude and view of suppliers. Stop negotiating and begin to build trust and commitment with your suppliers, suggested Stork and Dominiak. Trust your key suppliers, share information, and work the entire value chain in serving the final customer at a profit.

Input from suppliers plays an important role in the opportunity to serve the customer at a profit. The analogy goes something like this: In putting together a winning basketball team like the Chicago Bulls, top management assembled the finest player talent available. Success depends on the talent of each player and a long-term commitment of the player to the team and the team to the player. This analogy suggests that a business should craft the supply management process to build a long-term, win-win relationship with talented suppliers to serve its customers at a profit.

Preparing for and implementing this type of culture change requires a firm to look at the internal sourcing process and suppliers. "Are you a good customer?" is the first question a business must answer. The answer depends on your attitude about achieving excellence in the supply management process.

If you expect excellence from suppliers, you must demand and have in place the culture and processes to build and maintain excellence yourself. Although the culture and processes are unique for each industry, the typical characteristics are: open lines of communication, a focus on serving the customer at a profit, employee empowerment, a continuous improvement environment, leadership with vision, and more.

The "Commodity Team"

A successful internal supply management process builds from this culture. What you purchase should not be the sole responsibility of the purchasing department. The sourcing process is a team effort demanding cross-functional input. The presenters titled this a "commodity team."

The commodity team is made up of a mix of players that support the entire business process of serving the customer at a profit, similar to a chess game where each piece plays a key role. First, vision and strategy from the CEO and board — the king and queen — are necessary to enlist and empower the cross-functional team in the purchasing process.

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That is, developing and maintaining long-term supplier/buyer relationships must be a select core competency integrated into the firm's overall strategy.

Next, bishops and rooks must implement the plan. This means key players from each organization, representatives from operations, marketing, materials, quality control, engineering, financial, and similar executives of both organizations must meet, discuss, and plan how a long-term working relationship can benefit both. Purchasing and sales managers are responsible in coordinating this effort. Finally, buyers and sellers in their traditional roles implement the ongoing exchange of goods, information, and financial resources.

According to Dominiak and Stork, the negotiating aspects should consume approximately ten percent of the time and energy in the buyer/supplier relationship commodity team. The key lesson is that negotiating is a small component of a much larger and more important task at hand. Each player must be dedicated to developing external links among key suppliers and the business.

There are two important lessons to coordinating the commodity teams by the purchasing and sales managers. The goals of each party must be made clear early in the relationship-building process with input from the finance function. An excellent starting point is to show how the sum of mutual gains can be much greater than the sum of individual achievements. The presenters recommended involving the finance and marketing functions of the buyer and seller in working to collectively estimate the long-term financial benefits of a collaborative business partnership. Their experience suggested that the numbers will add up to 1 + 1 = 3. Gaining interest and involvement from the other functional area is easier once the financial benefit to both parties is quantified.

Stork and Dominiak offered the following topic selections as possible starting points for discussion among the commodity team members:

- What can our relationship evolve into over the next three to five years?
- Can we create a value chain continuous improvement plan to become the dominant supply chain in the industry?
- What must we do to improve the entire value chain customer quality and profitability?
- Can we reduce our mutual inventory volume and cost and increase inventory turnover?
- Can we reduce overall response cycle time?

Another important lesson to coordinating the commodity teams is to put the players in the right climate/physical environment, said the presenters. To initiate change from a negotiated relationship where the "winner takes it all" to a collaborative, long-term, win-win financial relationship, the commodity teams must meet on neutral territory under the right conditions. A relaxed atmosphere with a focus on combining efforts to better serve the final customer at a profit goes a long way in building an effective relationship. Figure 1 outlines suggestions offered by Dominiak and Stork.

How To Select Suppliers

Selecting suppliers to build a long-term relationship is the next step. To begin, categorize each supplier in a matrix as shown in Figure 2. Select suppliers where: 1) there is a high level of dollars that exchange hands and 2) the supplies are complex in nature (such as electronic components) and essential to the operation of the final product delivered to the customer. These are your "strategic partners," suggested Dominiak and Stork.

Two benefits are likely to occur. First, a formal process of categorizing and identifying key suppliers will focus the commodity teams' time and energy on opportunities that will benefit the companies most. The 80/20 rule applies here, suggested the presenters; 80 percent of the sourcing dollars and value comes from 20 percent of the suppliers. Thus, it is only logical to focus time and energy on building long-term relationships with suppliers that fall into the strategic partnership category. For all other suppliers, look to simplify the sourcing process by relaxing paperwork controls, empowering employees and suppliers, and streamlining the entire process all the way through monthly statement billing and wiring payment.

Freeing the workforce to work on improvement projects is where huge dollar amounts can be saved.

An important lesson learned is: Do not have valuable employee time and energy wasted on non-value tasks. Too often a company will dedicate excess time, energy, and resources to paper shuffling and negotiating with suppliers. The solution is to automate and simplify the sourcing processes. Freeing the workforce to work on improvement projects is where huge dollar amounts can be saved.

A second benefit is that categorizing suppliers makes obvious 1) the number of suppliers a company purchases from and 2) the redundancy in suppliers. With this information, your company can consider paring the supplier base to capture another cost savings opportunity. It simply costs less and is easier to manage purchases from a smaller supplier base. For these reasons and others, IBM went from 640 suppliers to 32 and Sun Microsystems went from 450 to 150 suppliers, said the presenters. Similar results have been documented at Ford Motor Company, Honda, Intel, and others. Each of these organizations works to maintain strong buyer/supplier relationships (see the box, "Ford Motor Company "Walks the Talk").

Supplier Audit

A supplier audit is another important step in selecting long-term partners. Can this supplier meet your needs today and into the future? The audit includes looking at financial resources, commitment of management to excellence (an intangible), asset structure, the quality of and relationship with the labor force, responsiveness to change, ability to deliver as needed, cost and more of the potential partner. An illustrative supplier audit check list is available from Motorola for $6 by contacting Motorola Literature Distribution, telephone 602/994-6561; it is titled, *The Motorola Quality System Review Guidelines*, publication BR1202-D.

What you find or do not find in the audit process is critical to the potential success or failure of the partnership. "The devil is in the details," say Ross Perot. For example, a careful audit may reveal that a company lacks the engineering talent to meet your needs. Or the potential supplier may need more time to meet the "demand for excellence" requirement. The lesson to be learned is that a talented work force and development leadtime are resources that are built into an organization, not simply acquired like dollars from a bank.

The Measurement System

How you approach measurement affects the success of a buyer/supplier relationship program. Financial and non-financial measures are important. Plan on a measurement system that can change as the relationship builds and matures. Figure 3 recaps measurement suggestions offered by Stork and Dominiak and the event participants. Each company, however, must tailor the measurement system to focus

The Physical Environment	What To Call The Assemblage
Off-site informal setting, "retreat/lodge"	Partnership planning conference/workshop
Casual attire, not a formal meeting	Relationship round table
Side-by-side functional seating	Supplier summit
Companies intermixed facing facilitator	Alliance assembly
Statement of purpose on overhead sign	Supply chain co-destiny conference[1]
Reserve an entire day and evening with communication devices in the "off" position.	Supply team improvement workshop.

Figure 1.

attention on their key strategic initiatives.

How to "Walk the Talk"

Begin by creating world-class supplier partnership goals, such as a three-year plan to shrink leadtimes 50 percent; decrease rejects, late shipments, and back orders 50 percent; and reduce the total cost of acquisition and use of purchased goods and services ten percent, suggested Dominiak. Start with a major opportunity to improve cost, quality, or cycle time, said Stork.

In addition, put a dollar value to the potential savings in building a strong buyer/supplier relationship with strategic partners. For example, work with the finance function to estimate the potential savings in reducing inventory carrying cost, storage space, waste, etc. Do not be concerned with buttoning down every detail and exact estimate. The specific saving figures typically are not available. Your goal at this point is to gain support from the kings, queens, bishops, knights, and rooks of the company. Attaching a dollar value to this opportunity is one approach that will gain their attention.

Next, search your company for key people who are interested in your plan. You can use the same savings opportunity report to sell the program and get people excited. This group can serve as the backbone for the "commodity team." The commodity team can then begin to 1) determine if the company is a good customer and 2) identify "strategic partners."

Begin to educate the commodity team. The buyer/supplier relationship is about trust and long-term commitment, not "winner takes it all." Such a win-win relationship requires time to develop and implement. The presenters suggest that a successful program requires approximately three to five years to implement.

The time is now to start this journey. Begin by selecting potentially world-class suppliers anxious to work with your commodity team and where early success is likely and measurable. Use this learning experience to build a program that will better serve the customer at a profit throughout the entire value chain. World-class manufacturing starts by creating a process driving world-class inputs. Paying close attention to external manufacturing partners is a company-wide priority and should become a core competency.

Supply Strategy Square		Value Potential: Low	Value Potential: High
Complex resource	High	Close relationship	Strategic partnership
	Low	Simple contracts	Close relationship

Figure 2.

Title	Measurement
Financial resources	Financial ratios, such as ROA, inventory turns, or gross margin
Commitment of management to excellence (an intangible)	Look for documented evidence in training and management style
Quality of and relationship with labor force (an intangible)	Speak with union representative, interview employees, employee turnover; training process and level of key employees, such as engineers
Responsiveness to change	Record of new products and time for new product development
Innovative processes	Identify where the potential supplier is a leader in value chain innovation such as delivery, training, or product development.

Figure 3.

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Ford Motor Company "Walks the Talk"

Ford Motor Company successfully applies the "commodity team" concept. Working with suppliers, Ford has saved substantial dollars and improved quality in its assembly plants. According to Andy J. Benedict, director of Ford's Total Cost Management program, the commodity team approach to buyer/supplier relations saved the company $2.1 billion in 1996. In May 1997, J.D. Power and Associates awarded Ford's Atlanta plant the 1997 Platinum Award for assembly plant. This year's award reflects the ongoing commitment of Ford, its suppliers, and the unions to work together and deliver quality vehicles to consumers.

This is how it works according to Benedict (source: phone interview June 9, 1997). A team of engineers, managers, and assemblers from Ford and the supplier (bishops, knights, and rooks), led by executives (the kings and queens) from both companies study the product, assembly, and the entire value chain. The mission of each commodity team is to reduce waste, where waste is defined as, for example, reducing unnecessary packaging, movement, and idle time. That is, the focus of the commodity team is to make certain the highest quality product is delivered to the final customer with minimal cost. Made clear at the very beginning of the relationship in a written document, according to Benedict, is that Ford is not looking to reduce the supplier's margins. More information on this topic is available from Ford Motor Company by contacting Cheryl Eberwein, purchasing public affairs manager, by fax at 313/594-4385.