



## Maximizing Supplier Relationships:

### *Eight Steps to Success*

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#### Introduction:

After four decades serving as customer and supplier at Motorola and NPI, I have learned through education and hands-on experience about the benefits customers can achieve by effectively utilizing the capabilities of their suppliers. Maximizing supplier leverage to achieve a customer’s expectations is linked to the client’s ability to select the right suppliers, plan and execute a shared vision for success, and grow a trusting relationship where the parties are willing to compromise along the way.

The purpose of this document is to share what I have learned to maximize supplier relationships and performance by employing a simple approach I call the “Eight Steps to Success.” I hope you enjoy the journey!

#### **Eight Steps to Success**

1. *Evaluate suppliers to determine capabilities, interest, and fit*
2. *Make the quote process productive*
3. *Supplier negotiations can “make or break” relationships*
4. *Project management, planning, and execution*
5. *Quality, quality, quality*
6. *Cost management*
7. *Logistics and delivery*
8. *Relationship building*

## **1. Evaluate suppliers to determine capabilities, interest, and fit**

- A comprehensive and documented supplier assessment process is essential. The assessment document should include weighted scoring for critical criteria and areas of improvement. Criteria scoring must be consistent for all suppliers to allow fair comparisons of capabilities. Determine the relevancy of the supplier's clients, products, or services to your company's needs. Ask for customer references!
- Never select new suppliers without an on-site assessment of their capabilities and facilities by two or more trained and qualified assessors. Factory capabilities must match the needs of your product(s) requirements. Always ask to see physical evidence of capabilities claims where possible. One example is not enough! The customer should select what evidence is to be provided. Nobody likes surprises!
- Verify compliance to applicable business licenses, regulations, and certifications. You don't want the government or local regulatory agencies to shut them down! Do they have a history of compliance?
- Carefully review the working environment of potential suppliers. Are the facilities safe, relatively comfortable, and well organized? Do workflows, procedures, and equipment appear adequate? What are the training and job certification procedures? How do they control and dispose of hazardous materials?
- Even current suppliers may lack capabilities needed for a new and unique project. Verify that new untested requirements can be fulfilled by your potential supply partner. Don't assume!
- Establishing high level management relationships and support (company and supplier) are critical to ensure your projects receive the priority and resources they deserve. These relationships can often get you through the tough times!

## **2. Make the quote process productive**

- Conduct a brief phone or e-mail assessment for potential suppliers to determine project interest and capabilities. Carefully review potential supplier websites.
- Only request quotes from suppliers which will be truly considered for the work. Wherever possible, utilize excellent suppliers that have supplied product or services to your company in the past. This approach increases supplier leverage!
- Avoid quoting more than three suppliers for a given project. Don't continuously quote the same suppliers without awarding business. This is an unfair practice. Supplier Requests for Quote should only be requested from suppliers you truly would consider when awarding business. Do your homework!

- Select suppliers based on total value, not just price. Transportation and duty costs are often overlooked. How will the change affect lead-times and inventory requirements? Does the supplier have adequate engineering and quality capabilities to adequately meet your objectives? Review past, current, and forecasted currency exchange rate trends.
- Do not inflate product forecasts hoping to get lower pricing. This practice can lead to price increases when the forecasts are not achieved. When it is difficult to predict demand, identify 2-3 likely volume scenarios. Be conservative!
- When possible and practical, keep at least two suppliers engaged during the supplier selection process. This approach allows the customer to have options in the event that a supplier suddenly increases prices or is unable to meet your requirements.
- Price quotes must be detailed and documented. Insist that all deliverables and payment and point of ownership terms are adequately described to ensure the supplier can be accountable for their performance. Inadequate specifications often results in delays, misunderstandings, and costly mistakes.
- Include a thorough engineering technical review of all quotations to ensure that the product you receive is consistent with your requirements.
- The quotation requirements must be well-documented and include:
  - Due date to respond
  - Engineering specifications
  - Engineering prototypes (if available)
  - Product forecasts and delivery requirements
  - A process to document and address quote or business questions

### **3. *Supplier negotiations can “make or break” relationships***

- Always negotiate with a senior management supplier representative with the authority to make decisions. This approach avoids having deal point decisions overruled at a higher level.
- Negotiations should be fair for the customer and supplier. Having “winners and losers” causes hard feelings and weakens the relationship. A successful negotiation results in an outcome where both parties achieve their basic needs, but also feel that there have been compromises on both sides.
- Respect is attained by the negotiating parties when discussions are based on verifiable facts and not assumptions, emotions, or misleading information. Many negotiations fail when one or more parties are unprepared.

- Never give up an important negotiating point without receiving something of value in return. This approach assures that outcomes are more balanced and promotes mutual respect.
- When negotiations stagnate, it is usually time to take a break and allow both parties to reevaluate their positions and develop new options that can “break the ice.” This is the time to become creative and rethink hard positions. Don’t forget that negotiations can include items beyond price and payment terms, such as post delivery service, planned cost reduction, tooling and equipment amortization, warranty, inventory management, logistics, quality and delivery performance, etc.
- Silence is often an effective response to excessive emotion or unreasonableness demonstrated by the other party. This tactic also allows one to listen more carefully to determine the best approach for moving forward.
- Carefully document all agreements to avoid future misunderstandings. Documentation can include contracts, proposals, letters of intent, memorandums of understanding and many other forms. Lack of documentation can lead to the demise of the relationship between parties. Keep agreements as short as possible.

#### **4. Project management, planning, and execution**

- Customers must assign someone internally or hire a third party to manage projects with suppliers. This person, often called a “project manager,” must be skilled enough to serve as the focal point for all work and communications with the supplier. These individuals should be skilled in leading and managing all key aspects of the project, including project planning/scheduling, execution, contingency planning, and reporting. A similar role should be filled at the supplier. This approach avoids the confusion often observed when multiple parties are involved with a project without a “clearing house” to ensure project objectives are understood and fully achieved by the customer and the supplier.
- For complex projects that include new product or component designs, the customer should consider a project manager with an engineering background. These types of projects require the technical expertise to understand the ramifications of design and quality decisions.
- Most projects require the support of a team that supports the project manager, which may include marketing, manufacturing, quality, supply chain, procurement, engineering, logistics personnel, etc. The project manager must strive to ensure that the agreed upon objectives of the key stakeholders are met.
- Project objectives and performance measurements must be documented and agreed upon by the customer and supplier early in the project. Project performance metrics must be regularly reported to verify compliance and modify direction when needed.

- Avoid making major design changes during the product launch process unless critical to the end customer's requirements. Late changes often result in significantly higher tooling, equipment, labor, and rework/scrap costs. These changes can also cause huge delays in project launches and unhappy end customers. All design changes must be well documented and the ramifications to schedule and cost should be communicated to senior customer management.
- Keep senior customer and supplier management involved and well informed throughout the launch process. This approach ensures that they are aware of the benefits of accomplishing the project and encourages them to assist in clearing internal or external project roadblocks or supporting the need for additional resources.

## **5. Quality, quality, quality**

- Engage with suppliers that have a strong quality team and a Customer Satisfaction Driven Quality System focused on manufacturing defect avoidance, minimization of design and process variation, statistical process control, and elimination of waste, not just inspection. When a customer assists with supplier training, it usually results in better products for the customer and supplier benefits by applying this knowledge for their other clients.
- To produce high quality products companies should have excellent, well-documented and tested product designs that can be efficiently and consistently manufactured with minimum variation to specifications. This requires the development of detailed bill-of-materials, establishment of well-thought out processes, specifications, and procedures. These critical elements can be managed internally, by a highly capable supplier, or competent third party. Relying on a supplier to manage such documentation can lead to problems in the event of a dispute whether a product or component meets specifications. If a supplier controls the documentation, it could be difficult to support a claim when a product or component fails. For best results, either the customer or a competent third party should manage this process.
- Either the customer or a third party should validate the quality of supplier parts, products, and processes utilizing modern inspection and testing processes prior to production start-up. Never rely on your supplier to provide this service without independent verification!
- Checks and balances work best when managing in-process and ongoing production quality. For example, although a supplier may inspect before a product leaves its factory, the client or third party should verify compliance at the factory as well. This is especially important in Asia and other third world countries. Finding quality problems when they arrive at your dock or your customers is too late!

- Management and documentation of ongoing engineering changes requires vigil and often on-site factory management. Uncontrolled or unauthorized product or process changes often results in production shutdowns/delays, rework/scrap, and field returns.
- A supplier's product should be occasionally (at least annually) subjected to in depth inspection and testing to verify materials, processes to assure that overall product performance meets specifications. The customer should insist on visiting and assessing the key second tier suppliers (such as painters, molders, die-casters, etc.) utilized by the supplier. You should be well aware of the capabilities and performance of these critical supply chain partners.

## **6. Cost management**

- The bulk of product cost is determined during the product development stages when materials, processes, and tolerances are established. A poorly designed product or a design without manufacturability considerations will result in higher costs and the likelihood of increased quality and delivery problems.
- Customers usually face cost challenges throughout the life cycle of a component or product due to market pressure. This pressure can be minimized in several different ways:
  - By providing high quality products and services
  - Achieving superior brand recognition, marketing, and channel management
  - Having proprietary products and/or processes or have a high barrier to market entry
  - By introducing innovative, high value products much earlier than the competitors
  - By constantly changing and improving design and features to reduce "knock-offs"
  - Through a well-designed method for maximizing cost reduction
- Because suppliers must apply significant resources during a product launch, customers should avoid seeking cost reductions during the launch cycle and until "steady state" production is achieved, which is normally after the first 6 months after production start.
- As a product matures, it is sometimes possible to eliminate or implement value-added features or design changes that will reduce costs or generate increased sales. Customer marketing often defines the required changes based on market need. A customer should have an in-house or external source or sources capable of executing such changes for the product and in the factory.
- Never accept pricing from suppliers that is not detailed to the component level. Without this detail it is difficult to evaluate supplier competitiveness or cost impact resulting from engineering changes. A customer should understand the cost driving components (top 5-10) that make up the bulk of the product cost. Customers must have personnel capable of evaluating the key components of cost, or have a third party that can evaluate and provide alternatives that will reduce or minimize costs moving forward.

- Suppliers are not motivated to provide cost reduction. It is the customer's role to drive reduced costs. Always monitor the cost of raw materials, labor, and transportation to understand trends and adjust strategies accordingly. Internal or external resources must be focused and deployed to work with suppliers to achieve your cost reduction objectives.

## **7. Logistics and delivery**

- Many large companies have powerful leverage with transportation and distribution service providers that may be superior to what can be achieved by their suppliers. By managing the logistics internally, these major firms may be able to minimize freight costs.
- For small or midsize companies, their suppliers or a third party may be more experienced or provide better service and costs than what they can achieve independently.
- To minimize supplier manufacturing and logistics risks, some customers would rather deal with a U.S. third party contract manufacturer than a foreign manufacturing supplier that can serve as the “manufacturer of record” and handle their logistics needs.
- Today, transportation costs change rapidly. The ever-changing fluctuations in oil costs, government regulations, terrorist threats, labor unrest, port restrictions, currency changes, and many other factors can dramatically influence logistics pricing and delivery. Customers must monitor relevant changes and evaluate how these changes will affect their costs in the near term and in the future. It may be possible to negotiate rates for a 6-12 month time period, but extended firm pricing for transportation is generally not possible for most small to midsize companies.
- Logistics providers should be able to provide timely online delivery status reports and provide insight regarding business climate changes within their industry.
- Although customers want to maximize their payment terms with their suppliers, this strategy can backfire when dealing with small to midsize suppliers. Because suppliers must pre-pay for their raw materials, unbalanced payment terms can cause cash-flow problems that may result in supply delays or insolvency. To minimize these problems, customers should either pre-pay for high cost raw materials or establish shorter payment terms. Many suppliers would prefer offering lower product costs than extend payment terms.
- Customers must understand the ownership risks and costs associated with the transport of goods from the supplier to the final destination, such as EXW, FCA, FAS, FOB, CFR, CIF, DDU, DDP, etc. Misunderstandings in this area can result in major financial and delivery disappointments.

## 8. Relationship building

- A powerful relationship between a customer and supplier has many common elements.
  - Each party benefits from the relationship
  - Capabilities of the parties are complementary
  - Senior management recognizes and supports the relationship
  - Common respect for each other's confidentiality
  - Supplier performance feedback is fair and fully acted upon by both parties
  - Adequate and capable resources are assigned and focused
  - Discussions and decisions are based on facts instead of emotion or assumptions
  - Each party recognizes the need to learn from each other
  - Parties act with high integrity and trust
  
- Business is awarded to “preferred suppliers” that have a documented track record for performance. The use of a “Supplier Scorecard” is an effective way of conveying performance over time.
  
- Never speak disparagingly about a supplier to another supplier or customer. This behavior demonstrates disrespect and is viewed as unethical and unprofessional.
  
- Face-to-face meetings between companies should be conducted regularly to review:
  - Business climate
  - Product forecasts
  - Project and product performance (schedules, delivery, cost, quality, and service)
  - New project opportunities
  - Celebrate accomplishments and discuss performance improvement opportunities
  
- Preferred suppliers should be occasionally tested to ensure they remain competitive. Disclose the process to suppliers early in the engagement process, so expectations can be established.
  
- Customers must recognize that “total value,” should be the basis for selecting suppliers and awarding business. Price is only one factor!
  
- Most customers only complain when there are problems. Establish a reward system for superior supplier performance. This can be in the form of recognitions, such as awards, or financial incentives.

## **Final Thoughts:**

The major points expressed within this paper can be summarized as follows:

1. Selecting and partnering with the right supplier requires an effective supplier assessment procedure and on-site capabilities evaluation conducted by trained personnel.

2. Supplier Request for Quote packages must be consistent and thorough. Supplier quotes should be detailed to the component level and based on client specifications.
3. Supplier negotiations must be fair (“win-win”) and relationships can be developed or destroyed depending on how they are handled. Never give up an important negotiating point without receiving something of value in return.
4. Experienced, skilled, and technical program managers responsible for product transfers or new product introductions must be assigned by the customer and supplier. Project objectives must be clearly defined upfront.
5. The quality of the end product is dependent on a well-executed design and the implementation of quality controls that focus on defect avoidance and a system designed to ensure continuous quality improvement. The Quality System of your suppliers must be capable of consistently meeting your objectives. If specifications are inadequate or outdated the customer may not be able to hold the supplier accountable when product is defective.
6. The bulk of the ongoing cost of a product is controlled by the design. Cost reduction should be prioritized based on opportunity (Top 5-10). Supplier pricing should be detailed to the component level. Keeping your design “fresh” through redesign by adding innovative and value-added product modifications or features is an effective strategy for maintaining or minimizing price erosion.
7. The decision to handle logistics internally or externally is dependent on the customer’s capabilities and willingness to accept risks. Understanding the fluctuations in key factors, such as oil pricing, government regulation changes, port restrictions, etc., should be carefully considered when developing or managing logistics strategies. Many suppliers would prefer offering lower product costs than extend payment terms.
8. Building a sound relationship at the senior level with suppliers can be helpful to expedite projects and resolve problems. Always consider the total value a supplier provides when assessing their performance. Awards and incentives are effective tools for increasing supplier cooperation and motivations. The use of a “Supplier Scorecard” is useful for evaluating and comparing supplier performance.

I hope you enjoyed my message. If you have any questions about the content or how NPI can assist in achieving your manufacturing objectives, please call me at **614-570-5712** or e-mail me at [neil.macivor@npi.com](mailto:neil.macivor@npi.com). Our company website is [www.npi.com](http://www.npi.com).