Setting the Foundation for Supplier Partnerships

How one company transitioned from traditional purchasing practices to a Supplier Partner Program and became highly profitable along the way

Background:

This $13 million manufacturing company used a traditional purchasing system based on negotiated purchase orders. They had more suppliers than they could keep track of, changed suppliers frequently to chase the best deal, and played suppliers against each other to get a better price.

Labor cost went from 13% of sales before the program to just 3% afterward.

Our Process:

We implemented a supplier rationalization approach and narrowed the field to two key suppliers per component, setting the stage for what we call "The Air Force Fly Off." With two suppliers in place for a given component we performance-tested both suppliers' products, initially splitting orders 60/40 between the two, but over time whittling it down to only one supplier per part. In addition to measuring quality, we assessed delivery and cost in our gradual transition to single-sourcing every part.

Two years later each part came from a single supplier, with a similar part coming from another. We call this "dual-sourcing the technology," meaning that if one supplier were to fail, we could quickly switch over production of that part to another supplier. With ten major suppliers in place, we implemented a Supplier Partner Program in which the company sent forecasts to suppliers, used Memos of Understanding to define the business relationship and expectations, implemented Kanban systems for auto-replenishment, and relied on objective measures to regularly assess supplier performance.

Results:

- The cost of parts dropped significantly
- The business grew, but labor costs did not; in fact, labor cost went from 13% of sales before the Supplier Partner Program to just 3% afterward
- The company achieved a 98% shipped on time rate, 17 inventory turns, and 20% profit before tax

THE R. PAY COMPANY, LLC

503-780-2014 www.rpaycompany.com rickp@rpaycompany.com