

## Supplier Partnerships for Competitive Advantage

By Rick Pay

I spoke with a client the other day about his business relationship with one of his customers, a large well-known company. I asked if he had a partnership with them. He laughed! He said each year they force him to give 3% to 5% cost reductions, they've recently enforced 125-day payment terms, and they refuse to provide forecasts or other means for him to plan his capacity. He is considering firing them as a customer.

The recession is causing many companies to lean hard on their suppliers for cost reductions. A recent issue of "Supply Chain Strategy," a newsletter from MIT, reveals that many companies are demanding as much as 15% in price reductions across the board. These companies are squeezing their

suppliers just to survive. However, the same article cites a number of companies who take another approach, one that involves partnering with suppliers to cut costs in ways that are mutually beneficial. This collaborative method helps ensure that when order volume expands, suppliers won't have to put buyers on allocation.

Supplier Partner Programs are based on an element of trust and require a more advanced level of buyer to administer, often called a Supplier Business Manager. What characterizes a Supplier Partner Program?

1. They are founded on mutual understanding
2. Both partners share information openly
3. They afford a true win/win relationship in which both sides become more profitable

The foundation of a sound supplier relationship should take the form of a Memo of Understanding (MOU). The MOU does more than the standard contract most



*Rick Pay is president of The R. PAY COMPANY, LCC, a Portland-based management consulting firm that helps manufacturers and distributors achieve peak operational performance.*

companies use; it defines the relationship and outlines both parties' responsibilities. An MOU includes information such as the key contacts for both sides, payment terms, quality expectations, delivery, lead-time, cost reduction efforts, participation in design activities, and communications including quarterly meetings. It clearly describes the collaborative environment, yielding a high degree of interaction that benefits both companies. A supplier recently told one of my clients that the MOU was the best partnership-setting document they had ever seen.

The second vital component of Supplier Partnerships is information sharing. The customer should provide 12-month rolling forecasts so the supplier can plan capacity, labor and materials. This alone can create initial cost reductions of 5% to 20%. In turn, the supplier offers data on cost structures so

the customer can improve their designs to reduce costs. Involving the supplier in design reviews and gaining access to information such as technical capabilities can also reduce costs and cut lead times. In addition, customers should review their suppliers' performance (and vice versa) with regular scorecards. Many suppliers are unaware of the impact their performance has on customers until they receive an honest scorecard.

Supplier partnerships create win/win relationships. I know of one company who strives to be their supplier's most profitable account, while the supplier provides them with world class pricing. This supplier willingly goes the extra mile, even

working on Thanksgiving Day one year to help the customer capture significant market share.

Supplier Partnerships afford these advantages:

1. World class pricing
2. Shorter lead-times
3. Enhanced quality
4. Greater profitability
5. Increased inventory turns

To reap these benefits, both parties must actively participate in win/win relationships. When the economy picks up, companies whose supplier/customer relationships are built on solid partnerships will be ready to respond quickly, snap up market share, and gain strategic advantage. Supplier Partnerships are the foundation.

Contact The R. PAY COMPANY, LLC:

Phone: 503-780-2014

Email: [rickp@rpaycompany.com](mailto:rickp@rpaycompany.com)

Web: [www.rpaycompany.com](http://www.rpaycompany.com)