



Align Yourself with a Strategic Supplier

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Successful Relationships

1. Diagnostic Sales Person
2. Customer Quality Decision Process
3. Leading Edge – Value Centric Supplier



Evolution of Sales People

- ▶ **Era 1**

- ▶ 1950 – Tell me where to go and what to say – Persuader

- ▶ **Era 2**

- ▶ 1970 – Consultative Approach – Problem Solver

- ▶ **Era 3**

- ▶ Source of Business Advantage



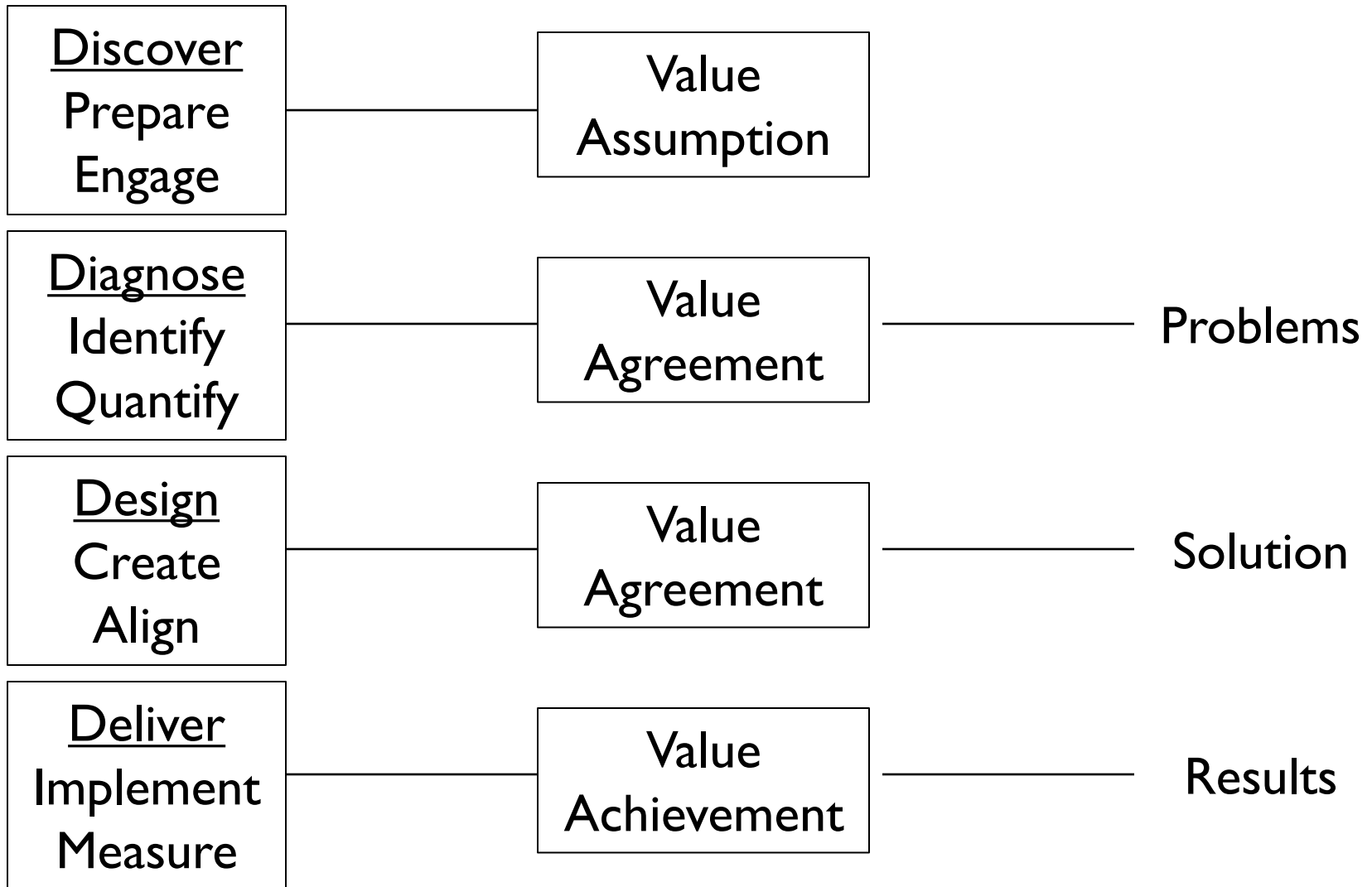
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- ▶ Today's economy and increasing complexity has placed more pressure than ever on Purchasing Departments.

 - ▶ Purchasing must find sales people who get beyond:
 1. Selling to Managing Decision
 2. Problem Solving to Managing Change
 3. Transactions to Relationships
 4. Meeting Needs to Managing Expectations
 5. Reactive to Clear Communication



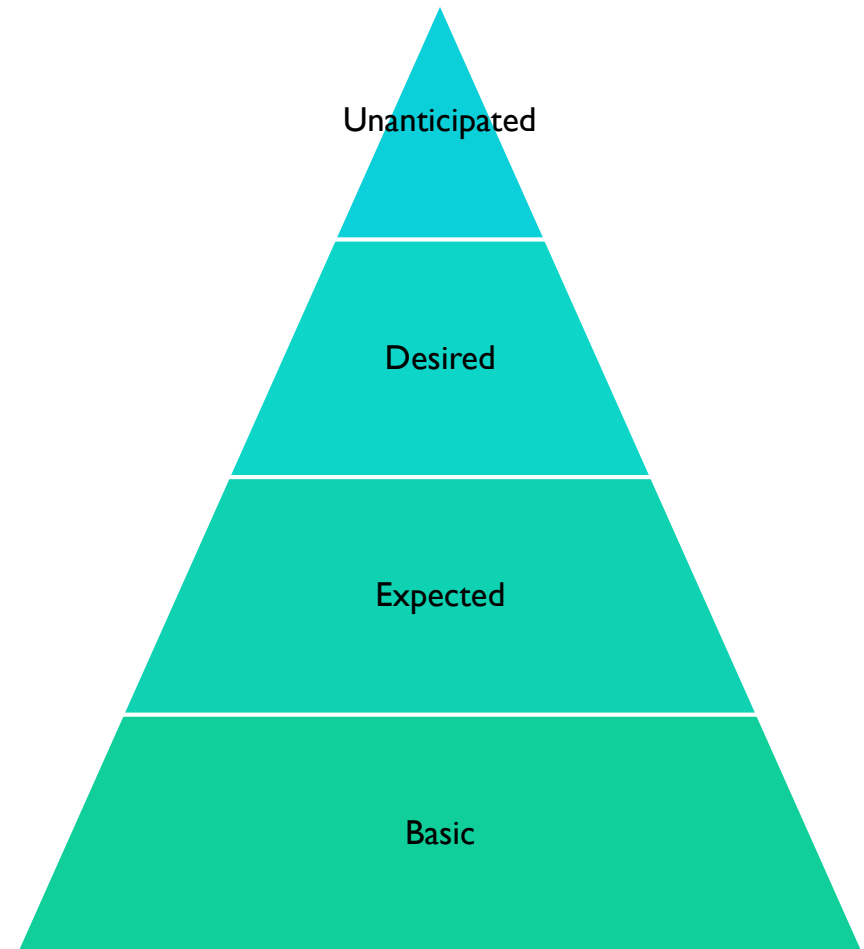


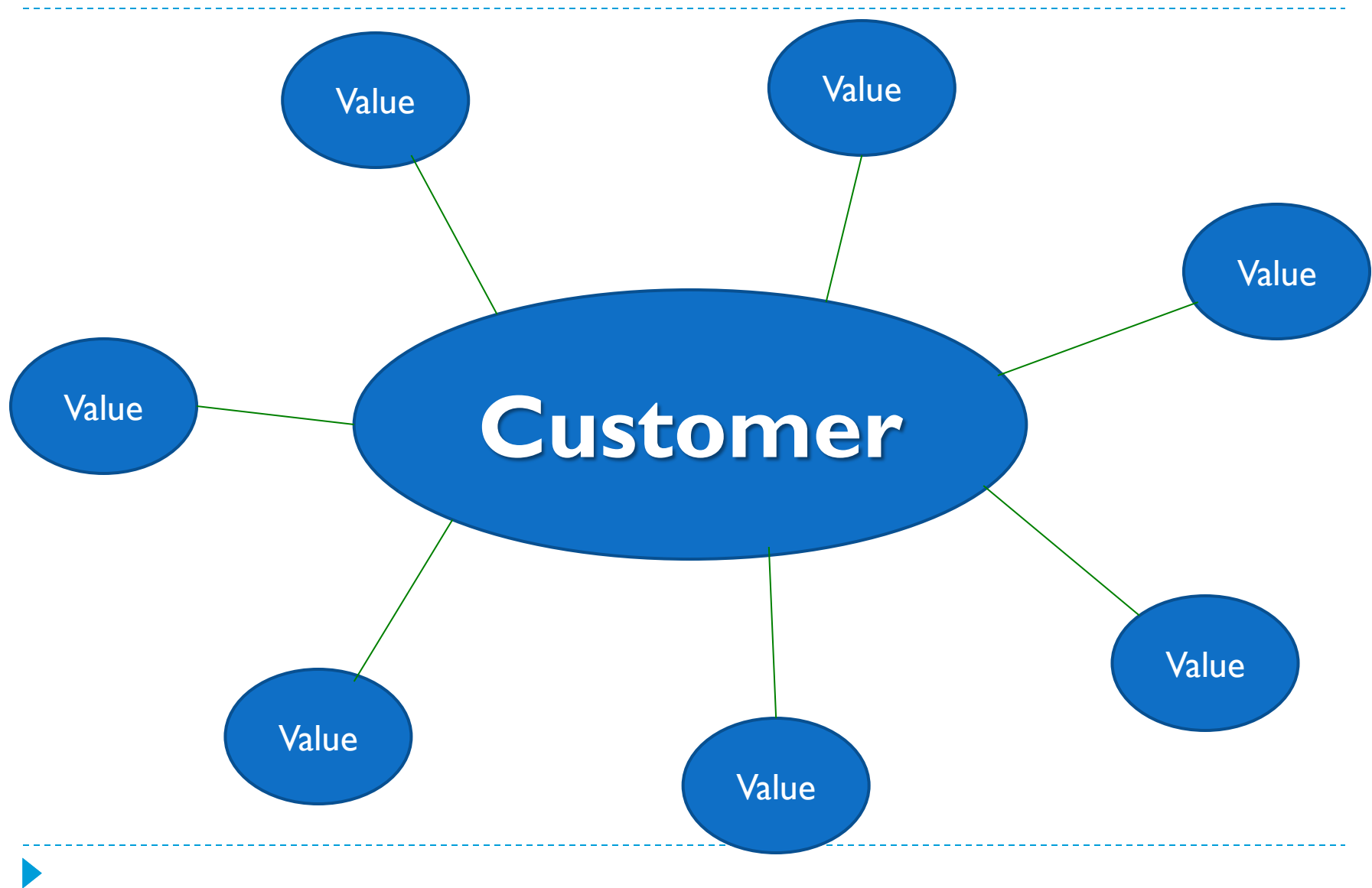
New Business Development



Hierarchy of Value

- ▶ **Basic**
 - ▶ Building
 - ▶ Trucks
 - ▶ Inventory
- ▶ **Expected**
 - ▶ Customer considers normal
- ▶ **Desired**
 - ▶ Add features they would like
- ▶ **Unanticipated**
 - ▶ Well beyond expectations

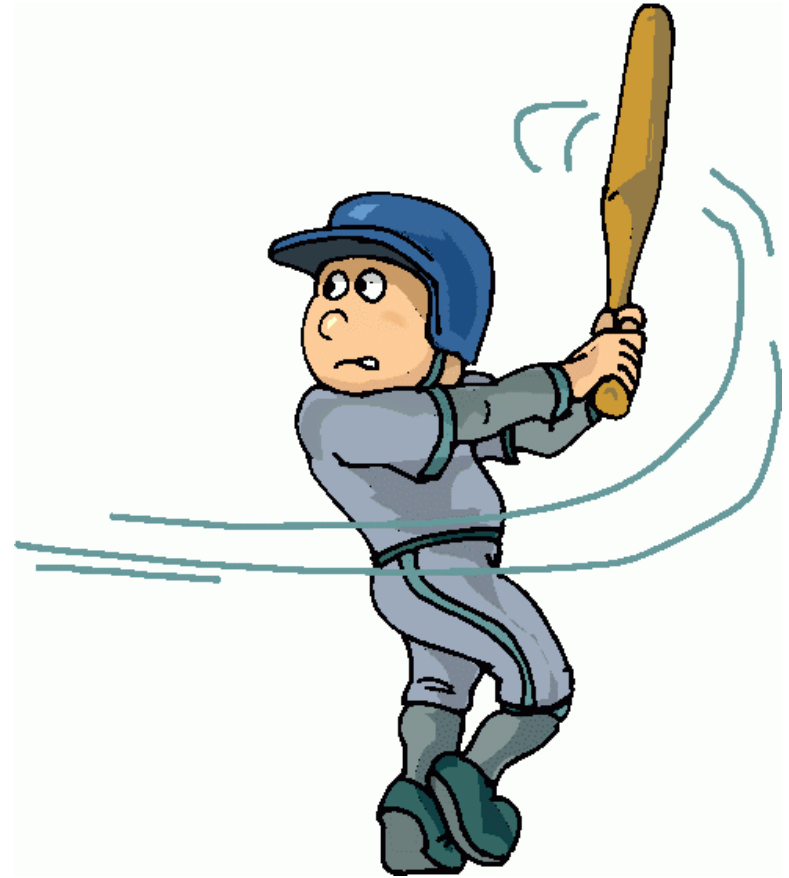




▶ Presentations can be the least effective way to help customer.

1. Become a lecture - - people retain only 30% of what they hear - - visual aids take that to 40%
2. Most presentations devote 80-90% to sales persons, company, and services
3. All competitors do the same thing.







What W.D.s Do for Customers

- ▶ Consolidate All Purchasing Costs

- A. Shopping Time

- B. Paperwork

- ▶ Lower Holding Cost

- A. Smaller Orders

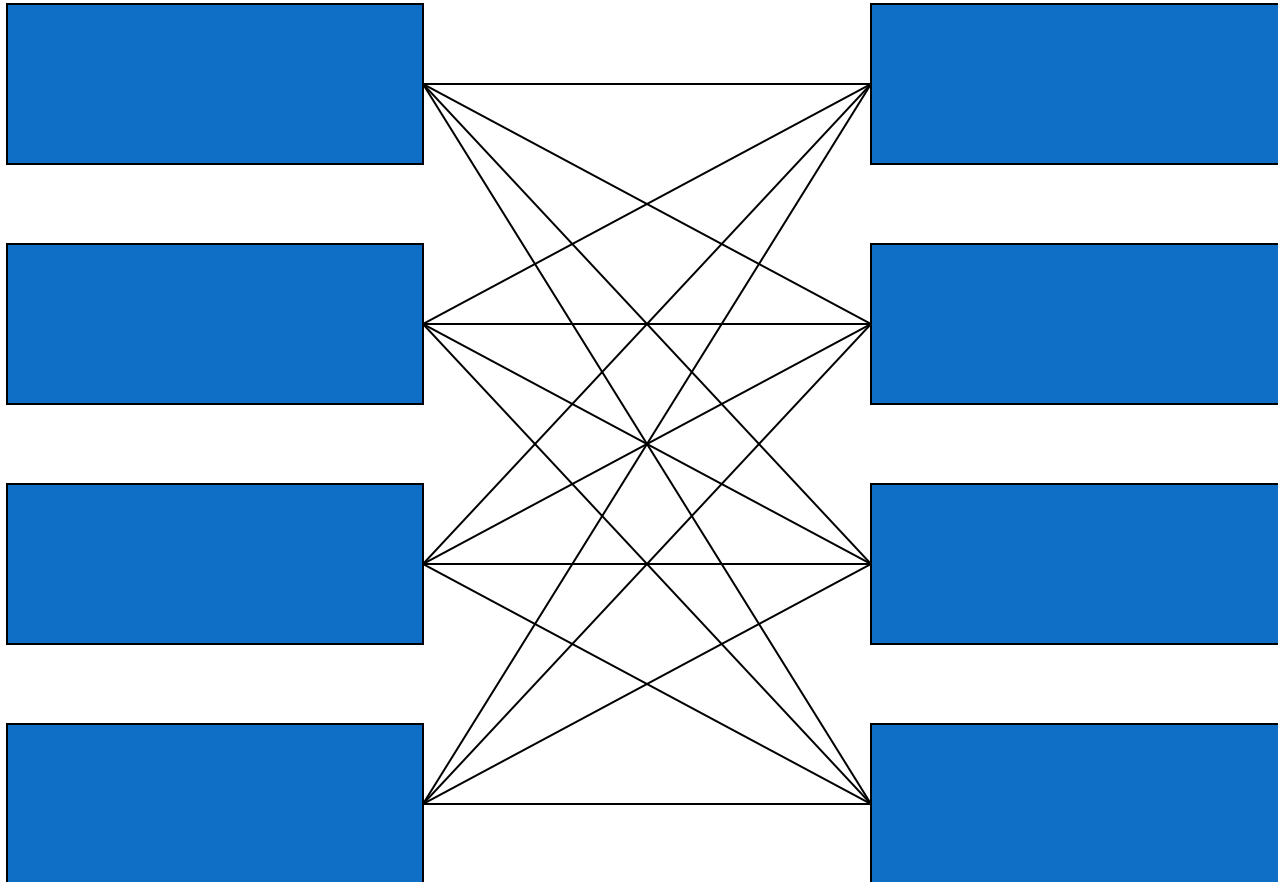
- B. Short Lead Times



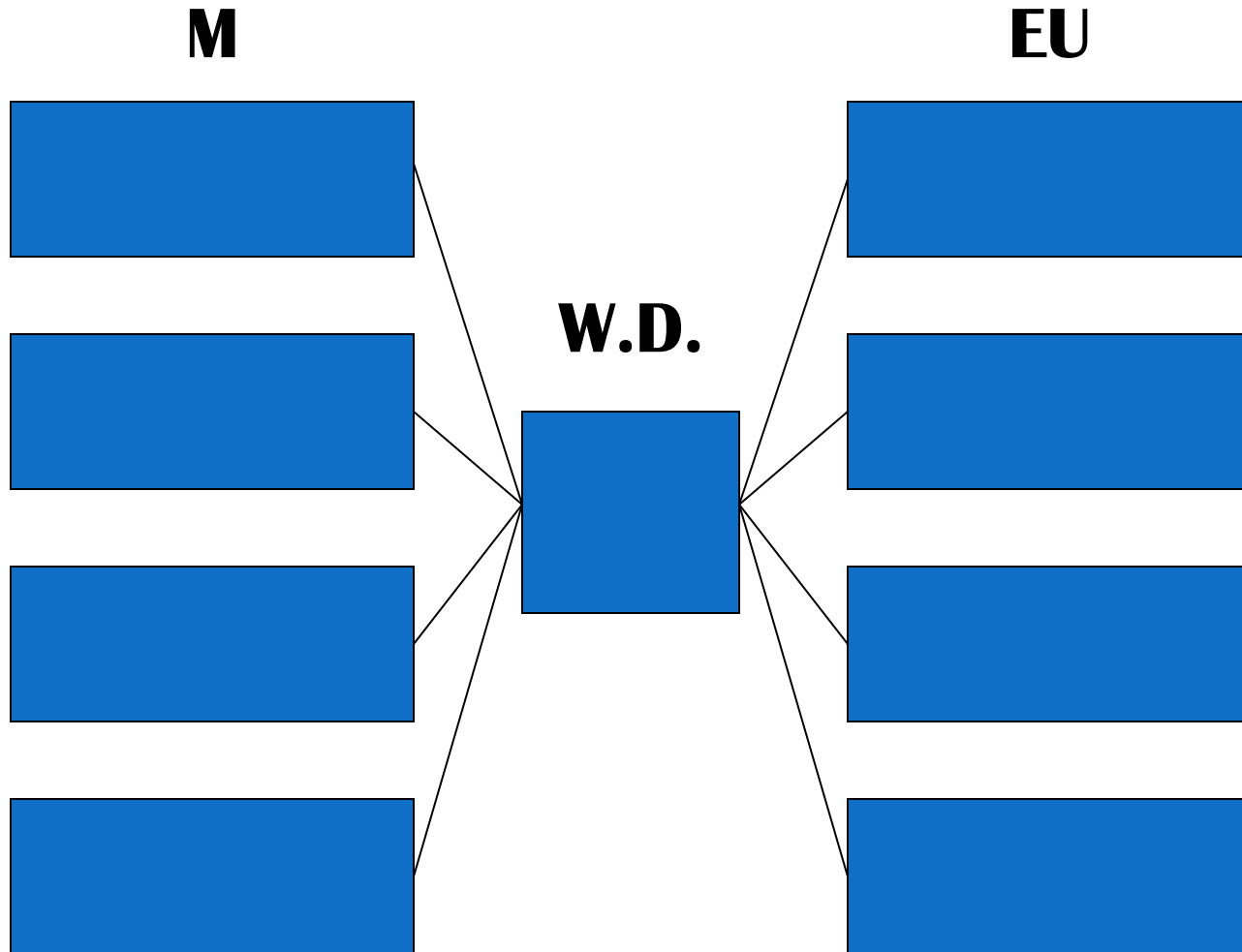
w/o W.D.

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You can by-pass the distributor, but you can't replace the cost of distribution.



SC Digest Study

- ▶ 58.4% of respondents focus on Total Cost
- ▶ SC Digest estimates this is high in practice
- ▶ 15% - Price
- ▶ 10.6% - Quality
- ▶ 6.4% - On Time Performance
- ▶ 8.6% - Unique Supplier Capabilities



Total Procurement Cost

▶ **Two Costs for Product:**

1. Cost of Acquisition
2. Cost of Possession



Cost of Acquisition

1. Price – only measurable element
2. Paperwork – purchase order, billing, shippers
3. Shopping Time
4. Expediting – contingency buy – downtime
5. Mistakes
6. Internal handling



1996 Procurement Study

Average Cost of Purchase Order:

Federal Government	\$119.33
State Government	146.42
City Government	87.00
County Government	52.25
School System	45.10
University/College	39.78
Health Care	55.65
Prison	38.07
Average	76.79



2006 Study from APQC (American Productivity Quality Center)

- ▶ Bottom to Top Performer
 - ▶ \$35.88 - \$506.52

- ▶ Supply Management Handbook
 - ▶ \$100 to generate P.O.
 - ▶ Many firms can exceed \$200

- ▶ CAPS Research indicates variance by industry with the average being:
 - ▶ \$217



Cost of Possession

1. Interest cost
2. Storage cost
3. Control cost
4. Taxes, insurance on inventory
5. Shrinkage – obsolescence
6. Annual turnover



Customers Want

1. Costs reduced
2. Jobs made easier
3. Productivity improved



Why Does Customer Buy from Wholesale/Distributor?

- A. Ability to perform services for the customer more efficiently

- B. Customer provided with services not available elsewhere



Three Main Objectives of Any Buyer

1. Minimize Total Procurement Cost
2. Minimize Average Investment in Inventory
3. Maximize the On-Hand Availability of Product



Best Total Economic Deal

- ▶ Buy from only one supplier
- ▶ Lower price
- ▶ Get/Demand better service
- ▶ Mistakes kept to zero
- ▶ Very high fill rates
- ▶ Just in time
- ▶ All elements of TPC approach zero

**Takes two people to make this happen



Measurement of Suppliers

- ▶ Lead Time – Turn Inventory
- ▶ Accuracy of Shipment
- ▶ Condition of Shipment
- ▶ Accuracy of Paper work
- ▶ Defective Merchandise Rate
- ▶ Average Response Time (correct any mistakes)
- ▶ Quality of Employees – Set Standards (0 – 10)



Measurement of Suppliers

Score:

- ▶ Determine Best Supplier
- ▶ Constructive Service for Supplier
- ▶ Better Total Service Value



18% have formal score card for all Suppliers

58% have formal score card for some

25% have no score cards



New Supplier Scenario

Customer switches ... they lose:

- ▶ All right items
- ▶ All right quantities
- ▶ Defined right places
- ▶ Just in time
- ▶ Service value



Total Procurement Cost

Developing a best total value deal with a wholesale distributor

- ▶ Achieve a pure system with only one supplier who delivers perfect service just in time, with 100% fill rates ... and offers only the added services you want to pay for
- ▶ Such a solution makes price low because:
 - A. You maximize your bargaining power by focusing 100% of your purchasing power.
 - B. You are dealing with a low-cost producer if they have zero errors (operationally efficient and enough critical mass to turn a great inventory). Asset efficiency.



Four Supplier Relationship Management Tactics

1. Supplier Performance Evaluation
 - A. Collaborate with strategic suppliers to develop
2. Idea Sourcing and Value Creation
3. Supplier Development
 - A. Make suppliers more capable of delivering benefit
4. Joint Review of Purchase Cost



Buying on Price Alone

Service deteriorates

Inventory builds because volume discounts are taken

No return on assets tied up is considered

In-house paper handling, delivery and control system proliferate

