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Supply Chain Management-Partner vs. Supplier.

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Introduction:

In a typical commercial relationship between one organization as a customer and a second organization as a supplier, a certain hierarchy has developed. The customer assumes the superior role and comes to expect that their business is so valuable to the supplier that the supplier should accommodate the customer without limits. The supplier, valuing the customer's business, will go to extremes to work around any problems presented by the behavior of the customer. Furthermore, the relationship is not traditionally based on mutual trust. The customer assumes that the supplier will not meet expectations and, therefore, plans for verification activities designed to protect the customer from the anticipated failings of the supplier. The supplier, on the other hand, believes that the customer is only interested in negotiating a purchase price below that which the supplier needs to generate a fair profit. Consequently, the supplier will engage in all manner of activities dedicated solely to increasing profits not visible to the customer. This is not a healthy relationship.

An effective model for a customer/supplier relationship is based on several principles intended to create a mutually beneficial relationship. This model takes from the International Standard ISO 9000. Elements 4.3, Contract Review and 4.6, Purchasing provide the basic controls which the customer and supplier should have in place in order to form a relationship based on clear definition of requirements, a fair expectation that requirements will be met and communication channels intended to facilitate resolution of differences.

1) Mutual agreement on the requirements of the customer

The first link in the communication chain starts with the customer. It is the responsibility of the customer to have a clear definition of the product or service it has a need for. Too often, the customer's engineers, materials requirements planners or purchasing agents do not have enough information themselves with which to make a purchase from a supplier. Does the product require material testing and certification? What are the tolerances for critical characteristics? Are there appearance or cosmetic requirements to consider? Is there adequate lead-time provided? These questions must be fully answered by the party making the procurement before passing on an order to a supplier.

Once these requirements have been decided upon, there must be communication with the potential supplier in order to make a determination that the requirements are reasonable and deliverable. The customer and supplier must have a free and open dialogue where the requirements of the customer are moderated by the expertise of the supplier and a reasonable definition of the product is arrived at.

2) Proper communication of the customer requirements to the supplier

Upon agreement between the customer purchasing agent and the supplier sales representative of the requirements of the order, the next communication link must be forged. This is the instrument which relays to the supplier the agreed-upon terms of the order. The traditional form of communication has been the documented purchase order. This document is intended to give the supplier important information such as product identification, quantity, price, shipping instructions and delivery information. Also, traditionally, other important information is not included on this purchase order and these omissions are what cause a great number of the future problems between the customer and supplier. Are material certifications required? Is the customer to inspect the product at the supplier prior to shipment? Are there special packaging requirements? Is the invoicing to be sent to a separate location? All too often, this information is missing from the purchasing documents. The supplier will attempt to complete the order and comply with the stated requirements but finds that the customer has omitted important requirements which have not been fulfilled and now reflect back on the supplier as an inability of the supplier to meet the customer's needs. In the USA, this problem is made even more complicated by the elimination of the written purchase order. More and more frequently, orders are placed by telephone with no written purchase order from the customer or confirmation from the supplier. A considerable number of problems are encountered due to this inadequate definition of the order requirements. The customer and supplier must establish clear, effective means of communicating requirements and work to improve those links when communication problems arise.

3) A fair assessment of the capabilities of the supplier to meet these requirements

How is it that most customer/supplier relationships are established? In the traditional scenario, the customer will solicit bids for a particular product or service from several potential suppliers. The customer will compare the pricing and delivery terms amongst the respondents and choose the supplier with the lowest price. Then, the customer's Quality Assurance department will send to the supplier an ISO 9000-based survey form and ask the supplier to complete this form which describes the supplier's "quality system". The supplier quality representative will complete the survey form, providing all the "correct" answers to the questions, thus claiming to the customer that the supplier has the world's most advanced quality system possible.

The customer's quality assurance department will then approve the supplier and the order will be placed. Then, the customer is shocked to learn that this "approved" supplier is delivering product which is nonconforming. The customer has not done its job here in effectively assessing the ability of the supplier to meet customer needs.

A more effective method of assessing a supplier's capabilities cannot be based on the lowest-priced supplier self-describing a fictional, advanced quality system. The customer must apply some common sense and realize that there is risk in buying consistently from the low bidder. Perhaps it would make more sense to pay a little more for the purchased product and offset the increased purchase price with reduced cost of receiving inspection and failures. If the potential supplier is to be providing critical material or large volumes of material, perhaps an on-site inspection of the supplier is warranted. If a satisfactory relationship exists with a supplier, the customer should look to procuring more from the proven supplier rather than constantly looking around for a different, lower-priced supplier. And, finally, perhaps the customer should do business only with suppliers with an ISO 9000 registration from an internationally-accredited registrar.

4) Negotiation of a fair price for the goods and services provided by the supplier

Why is it that customers do not expect suppliers to make a reasonable profit? In the expected relationship, the customer will place unreasonable requirements on a supplier, negotiate the lowest, most painful terms, force the supplier to make good when un-specified requirements are not met and abandon a supplier as soon as a fractionally lower-priced supplier appears. The original supplier never has an opportunity to earn back its investment in tooling, technology or training before the customer is off to "greener" pastures.

At the beginning of the relationship between customer and supplier, some basic rules must be established for the relationship to work. These rules specify the requirements of the product or service being purchased as well as the price, delivery and other terms. If the Supplier complies with these rules, the customer should be willing to reflect some loyalty to the supplier. If the supplier is confident that its investments will be realized over a longer-term relationship, it will be more comfortable in providing lower pricing at the beginning of the relationship; secure in the knowledge that the long-term payoffs will be attainable and worthwhile. The customer will consistently receive competitive pricing, compliant product and not have to incur the hidden costs associated with continually dealing with unproven suppliers.

5) Reliance upon the supplier to meet customer requirements

Because the customer has been doing business with suppliers who have been performing poorly, the customer now expects that all suppliers will perform as badly. Therefore, rather than anticipate and expect that all material received from the supplier will be conforming, the customer expends considerable resources in verifying supplier goods. Most companies have extensive receiving inspection activities designed to provide a sort of final inspection of the supplier goods upon arrival on the customer's loading dock. If a supplier is responsible for meeting customer requirements, why does the customer have to spend its resources inspecting supplied product? If this receiving inspection demonstrates that the supplier is not able to meet customer requirements consistently, why is the customer doing business with the supplier? The customer must insist on its requirements being met all the time, and when they are not, cease doing business with the supplier. There are suppliers who will step in and meet customer requirements.

6) **Development and implementation of a fair and effective system of verification**

We must presume that the partnership we have established between supplier and customer will be effective. The customer has completely defined the reasonable requirements that must be met by the supplier and has agreed to pay a fair price. The supplier has committed to consistently delivering compliant material to the receiving dock. A comprehensive “ship-to-stock” program at the customer has essentially eliminated receiving inspection. Now, the customer may rely on quality material always being available in the stockroom. If the rare failure does occur, the customer’s production may suffer but the low incidence of supplier failure makes this an acceptable risk. If a supplier failure does occur, swift and effective corrective action is needed to eliminate the cause of the failure.

Conclusion:

This model for a customer/supplier relationship will use the requirements of ISO 9001 to define the roles and responsibilities of both parties in the relationship. Under the Purchasing element of the International Standard, channels for communication must be established between customer and supplier. The supplier’s capabilities must be evaluated and appropriate controls be exercised by the customer commensurate with the supplier’s capabilities. The information provided to the supplier that defines the customer expectations must be complete and unambiguous. Under the Contract Review element of the Standard, the supplier must understand the customer requirements, resolve any differences between the customer expectations and the supplier capabilities and commit to fulfilling the requirements. If both parties participate openly in the relationship presented by this model, and if each party assumes its respective responsibilities and obligations, this partnership will experience a more harmonious and profitable environment.