Supplier Relations Development:
The Groundwork for Supplier Certification

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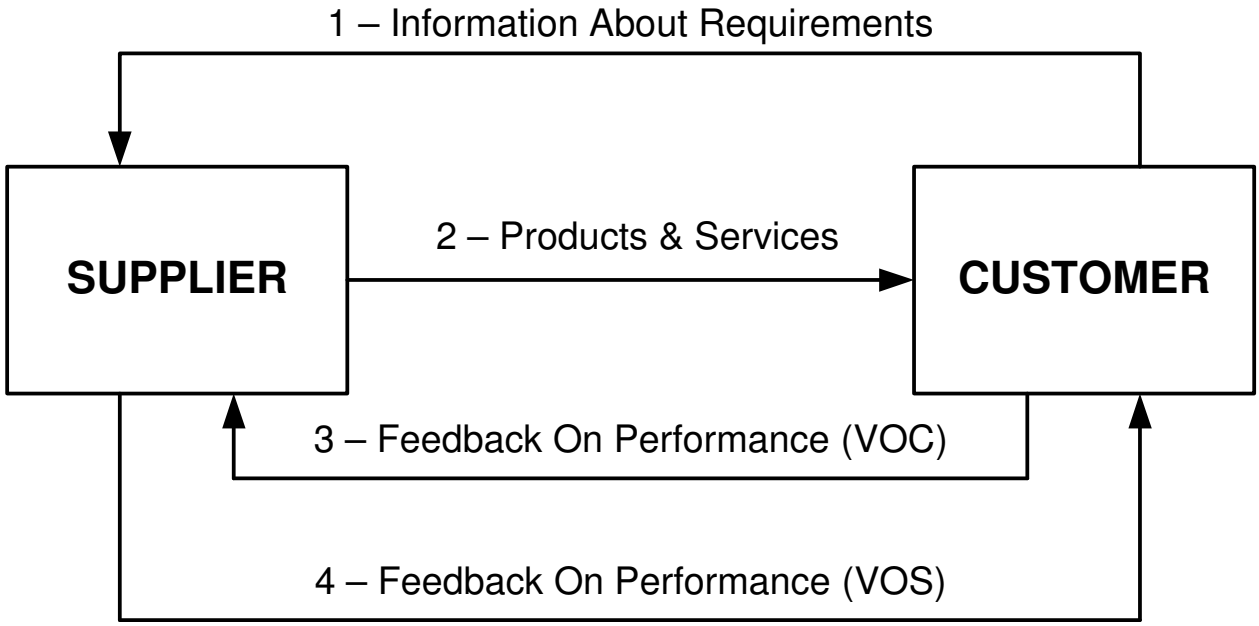
"I know you believe you understand what you think I said, but, I am not sure you realize that what you heard is not what I meant." --Author Unknown

Summary. Developing mutually beneficial relationships with your suppliers is critical to any company. Today, we look at the entire supply chain to deliver high value products and services to our customers. The key to building excellent customer-supplier relationships is communication. Communication can't be one-way; it must be a 360-degree exchange of information.

Most of us are familiar with a quality system that provides a framework or roadmap. "A quality system is the agreed on, companywide and plant wide operating work structure, documented in effective, integrated technical and managerial procedures, for guiding the coordinated actions of the people, the machines, and the information of the company and the plant in the best and most practical ways to assure customer quality satisfaction and economical costs of quality." (Feigenbaum, 1983)

Communication systems, not unlike quality systems, provide a framework for achieving consistent results.

The following model illustrates the flow and sequence of two closed-loop circles of information, a double-loop system that must be exchanged in a long-term customer-supplier relationship based on continuous improvement.



Information About Requirements: Suppliers more often than not get blamed for nonconformances and customer dissatisfaction, yet, in our experience, at least fifty percent of the time the root cause of the problem is miscommunication between the customer and the supplier. This communication can be as simple as what day to ship the product and how to package it for shipment, or as complex as raw material formulations and processing parameters.

Requirements cover multiple aspects of the product or service. In defining the requirements, the customer attempts to describe the desired end result. The supplier has to determine the raw materials and the process used to achieve the end result. There are numerous requirements that must be considered. Product specifications define performance requirements as expected by the customer. Process specifications define parameters of the manufacturing process that must be controlled to produce a product. Service specifications define non-product parameters such as methods of delivery, certificates-of-analysis, and engineering support.

Many customers write specifications assuming the supplier will know all the “little” details. But when the product arrives at the customer’s site and it is not what the customer expected, the customer gets upset with the supplier.

As a customer, it is your responsibility to thoroughly identify ALL OF YOUR REQUIREMENTS – both product AND service! Once you have defined all of your requirements, review them with your supplier, preferably during the request for quote. Experience indicates that the supplier will not only have clarification questions, but will also have a few additions. Because the supplier has the expertise in the process and the customer knows the product, it only makes sense that the requirements are developed together. This valuable communication step not only saves costs associated with rework, scrap, and downtime, it also gets the end users their product or services faster.

The following is a list of some questions to ask when identifying requirements:

What is acceptable raw material for the manufacturing process?
Does the bill of material call out all parts? Are their meanings understood?
What parameters are measured at incoming inspection?
What are the critical inspection features?
Should SPC data be collected? What variables? How often? Who retains the data and for how long?
Are there fixtures or any other special equipment required for testing and measuring? Are they called out on the drawing or BOM?
Are limit samples or color standards required? How are they controlled?
Are test methods identified in the specifications? Are the test limits clear and achievable? Is the test sequence critical?
Is the drawing clear and comprehensive?
How should product be identified, palletized, and loaded into a trailer?
Are any special shipping documents required?
Are any special shipping conditions required?
How should the supplier respond to a nonconformance notification?

There are many types of questions that could be stated about the everyday business dealings with suppliers. Each and every one of them is crucial to the success of both the customer and the supplier. If the customer can think like a supplier and provide clear and complete specifications, the relationship between the companies will start with trust and will result in shorter lead times, reduced nonconformances, and increased profitability.

Measurement System: Specifications help to communicate performance targets for suppliers, but how do you know if your suppliers are consistently meeting requirements? To know the quality of the goods and services you are receiving requires a system to capture important data and turn it into usable information - for both the customer and the supplier. A measurement system is needed to monitor performance.

Performance information such as conformance to specification, nonconforming material costs, and level of service can be used to compare suppliers, monitor improvement, and determine “Best Value” suppliers. Best Value means those products that have the lowest overall cost through the entire system.

Best Value looks at the total cost of doing business with a supplier, the purchase order price along with the associated costs-of-poor-quality to utilize the product through the system. These costs-of-poor-quality, or non-value added costs, include incoming inspection, lab analyses, rejecting product, re-receiving product, manufacturing wastes (scrap, rework, downtime, reduced efficiencies) and customer complaints.

Identify and determine your costs for these non-value added activities, to do so, flowchart each activity (such as rejecting defective product). The flowcharts follow both product and paperwork through the system and assign costs to the associated labor and waste.

This measurement system monitors the frequencies of non-value added activities. The frequency of each type of activity during a specified time frame multiplied by its associated

cost provides the non-value added costs. These costs added to the original purchase price yield the Total Cost of the product purchased from a supplier.

Numerous supplier measurement systems are set up to report in pounds rejected, percentage of defective or defects per million. While these are useful indicators to measure supplier performance, they fail to provide cost information that is necessary to make sound supplier management decisions that impact the profitability of a company. Quantifying the cost-of-poor-quality helps focus both the customer and the supplier on improving those things that will generate the greatest return.

Performance Feedback - Supplier Performance: Open and honest communication builds a trusting customer-supplier relationship. Providing suppliers with factual performance information encourages continuous improvement. Two fundamental ways that performance information is communicated are formal and informal methods.

Formal methods include meetings and reports that inform suppliers how well they are progressing. Formal methods should be in place to provide regular feedback to suppliers. As suppliers achieve targeted quality levels celebrate the success and personally congratulate those involved for a job well done.

Informal performance feedback can take on many forms. Immediate feedback, such as a telephone call or a fax, that focuses on improvements shows that you value your suppliers' efforts and care about progress. Establish and frequently use these easy channels of communication to provide feedback.

Sending improvement teams to work with suppliers provides support and often times clears up misunderstandings that can lead to improved performance. Customer supplier teams also emphasize a commitment to a long-term relationship.

Care needs to be exercised with informal feedback. As a customer, conflicting performance feedback is sent whenever products or services are accepted that do not meet the established requirements.

Performance Feedback - Customer Performance: A "supplier survey" is generally understood to be a customer asking the supplier questions to determine the supplier's ability to meet the customers needs. Well, this understanding represents the old survey paradigm. As part of the supply chain you, the customer, are also a supplier to your customers. You are a supplier of information that the supplier needs to produce and deliver products and services.

A commonly used method to measure customer satisfaction is to send surveys to end-users. The marketing department usually does this and the information is shared with numerous departments in the hopes to improve the product and services. Keeping in mind that continuous improvement can be achieved throughout the entire supply chain, why not survey your suppliers to determine how good a customer you are.

Survey questions should be designed to benchmark the relationships with your suppliers. For example, a rating scale of a one (1) through four (4), one being poor and four being above average, can allow you to numerically monitor your progress over time. There should be a

couple of open-ended questions that encourage suppliers to share concerns. The questions should address effectiveness of communication, i.e.: specifications, changes to specifications, quality requirements, performance feedback, etc.

Collect information from multiple sources at the supplier, not just the sales representative. If you want valuable, actionable data you need to get answers from the people who use your information - from order entry through production, and even accounting. Your target should be at least the Quality Department, Document Control, Engineering, Manufacturing, Accounting, and Sales. If there are other departments that are applicable, ask them too.

When the results are tabulated, share them with your Engineers, Buyers, Quality Engineers, and Management. Make sure you develop an action plan with responsibilities assigned and due dates identified. Communicate back to your suppliers your plans and thank them for their feedback. When suppliers start seeing positive results, they will be more encouraged to stick with you during hard times and rush jobs. The relationship will be solid enough to handle the "out of normal" situations.

Conclusion: The quality of a product begins and ends with a customer. Your actions should reflect the fact that in every relationship there are both a customer and a supplier with shared responsibilities. Where can you go for more information to assist you in developing strong customer-supplier relationships? The most important resources available to you are people - network with your colleagues. They can share not only published material but they can share experiences, both positive and negative. What worked for them and what didn't? By listening to the experiences of others you can pick and choose the process steps that will work best for you and your company. Listed are some resources that may be helpful.

Associations:
American Society for Quality (ASQ), http://www.asq.org/cs
ASQ, Customer-Supplier Division, http://www.asq.org/cs

Books:

Bhote, K.R. 1989. *Strategic Supply Management - A Blueprint for Revitalizing the Manufacturer-Supplier Partnership.* New York, NY: American Management Association. A resource for both technical tools and human skills to create and maintain customer-supplier relationships.

Bossert, J.L. (Ed.). 1994. *Supplier Management Handbook.* Milwaukee, WI: ASQC Quality Press. This handbook provides a thorough examination of all facets of procurement quality activities. It is a definitive reference for purchasing and quality professionals, as well as management interested in understanding, developing, and participating in supplier improvement programs.

Juran, J.M. and Gryna, F.M. 1993. *Quality Planning and Analysis, Third Edition.* New York, NY: McGraw Hill, Inc. With a focus on internal and external customers in both manufacturing and service industries, this books looks at a systems approach to quality from product development through use.

Maass, R.A., Brown, J.O., and Bossert, J.L. 1994. *Supplier Certification - A Continuous Improvement Strategy.* Milwaukee, WI: ASQC Quality Press. A step-by-step approach to bring suppliers through the certification process.

Morse, W.J., Roth, H.P., and Poston, K.M. 1987. *Measuring, Planning and Controlling Quality Costs.* Montvale, NJ: Institute of Management Accountants. An introduction to quality costs.

United States Department of Commerce - National Institute of Standards and Technology. *Malcolm Baldrige Quality Award.* The criteria to achieve performance excellence and competitiveness improvement.