

Session: “Ensure Your Suppliers Are Recovery-Ready”

This session focused on developing a collaboration strategy with suppliers in an effort to ensure their — and your own company's — survival.

Presenters:

- *David Burton, AICP, founder/president/CEO, Diverse Manufacturing Supply Chain Alliance (DMSCA)*
- *Javara Perrilliat, principal, A.T. Kearney*

Collaboration Is in the Air, According to A.T. Kearney

To begin his session, Javara Perrilliat asserted that current economic conditions — in which demand power has increased — provide greater opportunities to collaborate with suppliers. In fact, he estimated that 80 percent to 90 percent of a given company's suppliers fall into the “leverage” quadrant (in other words, high demand power and low supply power) and would, therefore, be more open than ever to opportunities to promote revenue stability/growth, competency development and brand enhancement.

To support his case, Perrilliat shared results from a 2008-2009 A.T. Kearney survey on collaboration with key suppliers. In it, companies said they expected the value derived from collaboration to grow eight times faster than the value derived by sourcing by 2011.

Additionally, although the survey found that most companies only have about 20 key suppliers, many general managers don't know the number of strategic suppliers that could shut down their businesses tomorrow. “This isn't just a supply management problem — it's an organizational issue,” Perrilliat cautioned attendees.

Despite the anticipated value growth of supplier collaboration, as well as the criticality of ensuring key suppliers' health, the survey indicated that only 50 percent of companies devote staff to supplier collaboration. Meanwhile, only 41 percent of the companies surveyed have secured executive sponsorship for supplier collaboration efforts, and a mere 7 percent have gainsharing methodologies in place. According to Perrilliat, the discrepancy between what's needed and what exists boils down to lack of trust: “If you spend most of your career beating down your suppliers, it'll be a tough audience when you come to them about collaboration.”

Beyond this, Perrilliat contended that many companies don't have supplier collaboration programs and processes in place because they have the bodies, but not the necessary skill sets.

He believes the economy also plays a part: “As it recovers, suppliers won’t hire new people and turn on product lines — they’ll raise prices first. That’s another reason supplier collaboration is key.”

Structured Corporate Mentoring Pays Off

According to David Burton, although positioning diverse suppliers for economic growth should be a priority in the challenging economic climate, it can also be a difficult objective to focus on right now. He began his session with the analogy of “Slick Willie” Sutton, a bank robber in the 1930s. When asked why he robbed banks, Sutton simply replied, “Because that’s where the money is.”

Burton believes the same is true of supplier development: “Today’s diverse suppliers need to be able to not only get the ball and shoot, but position themselves in *advance* of the ball.” To help them achieve this, he has them undergo a nine-phase, 22-week corporate mentoring program (CMP). It’s a quality-driven supplier development model that systematically aligns a supplier’s performance with the supply chain performance mandates of its customers and that of its global competitors. Among other measurables, the CMP encompasses performance benchmarking, in-plant assessment, root-cause analysis and a supplier’s continuous improvement process. “CMP moves suppliers from transactional (which 80 percent to 90 percent of diverse suppliers are) to strategic,” Burton explained. “To do it, you need to look to your suppliers to bring you innovation.”

It’s also important to note that this model isn’t really focused on your own company, Burton added. (“The last thing you want is a supplier that’s attached to your belt.”) For example, an automotive injection-molder might see risk and want to make a shift. But, to be effective, it needs to be *the supplier’s* plan, not your company’s plan *for* that supplier. “You want that supplier to be there when you need it, but not because you kept it alive,” he explained. “You risk too much that way. If they fail, so do you.”

The CMP model also aims to improve a supplier’s reliability through calculated improvement plans. As a hypothetical, Burton cited a diverse supplier that is currently at 97-percent perfect order fulfillment, but it needs to reach 98 percent to meet your company’s “superior” supplier standard. “The model drills down to find out what that supplier needs to do to get there,” he explained. “It translates into actionable items.”

“Everything is about metrics,” Burton finished. “It’s about aligning a supplier’s metrics with your own.”

Q & A

After Perrilliat's and Burton's session, the two presenters answered attendee questions. Here are a few:

Q: Are suppliers really ready for collaboration efforts?

Perrilliat: Right now, as the economy recovers, most suppliers want to be strategic suppliers. Many are investing in their R&D processes.

Q: How would you recommend “selling” the gainsharing methodology element of supplier collaboration to C-level executives outside of supply chain?

Perrilliat: Find out what they really need, in numbers, to OK it. Basically, it's going to take an ROI calculation.

Burton: They can justify it based on innovation and value. We've found that a lot of diverse suppliers are in survival mode right now.

Q: How do we evaluate our suppliers' off-the-book sales if we aren't privy to that information?

Perrilliat: Learning how to accurately read a balance sheet is key, but it's kind of late in the game most of the time. So, go visit the plant. Are they doing layoffs? This is an old-fashioned, but very valuable, approach to getting the information you need.

Burton: Also, as more value is driven down into the supply chain, you need to start looking more and more at small and medium suppliers. They're the ones who really need you.

Q: Going back to your moving-ahead-of-the-ball analogy from earlier, what does that look like if you're a supplier?

Burton: Well, it's no longer about who you know, especially if you're a diverse supplier. Instead of waiting for offshore suppliers to replace you, you've got to learn to compete with them now.

— Reporting by RaeAnn Slaybaugh