



# Supplier Collaboration

The Game Changer in Supply Ecosystem

*by Jim Tarabori*

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finding *new answers* in business.



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## The Game Changer in Supply Ecosystem

With more than 50 percent of manufacturers' revenues spent in their supply chains, firms have a burning platform to draw as much value from their supplier relationships as possible. In today's competitive global markets, getting the best price is no longer enough. Margins of manufacturers and suppliers alike are being squeezed, and taking an adversarial approach does nothing to improve either party's competitive position. This is where a disciplined, collaborative business model can be a game changer!

### Background

Large OEMs, especially in the West, have historically spoken of the importance of their "supplier family" but not acted in a way that is consistent with that terminology. In fact, relationships between manufacturers and their suppliers are often confrontational, if not outwardly, then behind closed doors. Unfortunately for all parties, it is behind these closed doors where decisions are made by suppliers regarding which customers to invest in for technology, new facilities in emerging markets, synergistic business discussions and which ones to milk as cash cows.

Strategic sourcing has become the primary process followed by Western purchasing organizations. Although a good and necessary process, it is usually undertaken in a win-lose manner. Even the suppliers who gain business through this process often look for ways to recover lost margins through engineering changes, schedule changes or changes to market dynamics. This does not generate the team environment or ecosystem required for manufacturers to achieve a sustained, competitive edge.

More enlightened corporations have begun communicating closely with their supply base through supplier summits and drawing on untapped supplier capabilities through processes such as supplier councils. However, adopting a structured, collaborative approach

presents a huge untapped potential for incremental profitability, both for manufacturers and their key suppliers.

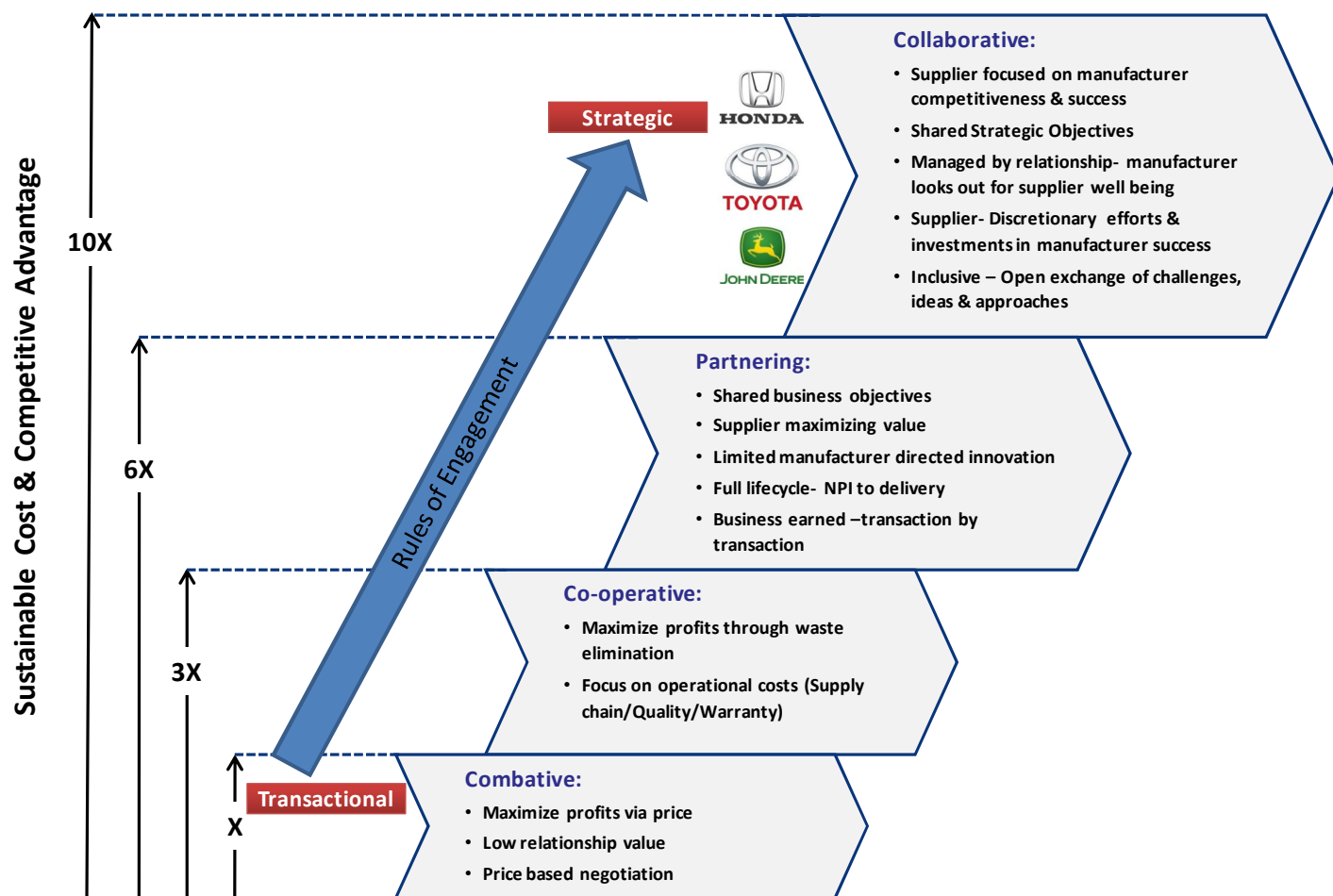
### Early Successes

Toyota and Honda are two companies that first come to mind when one considers the benefits of supplier collaboration. By partnering with their key suppliers, these two manufacturers have taken market share and improved profitability for decades by making better-quality, more-competitive products.

Western companies have long used the excuse that Western culture does not have the keiretsu structure that Japanese companies do, and thus the potential for benefiting with a collaborative approach is limited. However, Thomas Stallkamp proved these skeptics wrong as the Chief Purchasing Officer at Chrysler (1991 to 1998). While his counterpart at GM Ignacio Lopez was tearing up supplier contracts and demanding immediate 10-percent price reductions across the board, Stallkamp took the opposite approach. Instead, Stallkamp started Chrysler's Supplier Cost Reduction Effort (SCORE).

With this program, Stallkamp asked suppliers for their suggestions and shared the financial benefits with them 50/50, resulting in a savings of over \$5 billion to Chrysler during this time. This was not

## Collaborative Relationships Can Lead to Significant Financial Benefits



**Figure 1: Proven Benefits of Collaborative Supplier Relationships**

*Four phases referenced from IMD International's Super Supplier Collaboration, 2006*

simply a cost-reduction program; it was actually an idea-generation program. By making use of the research-and-development capabilities of its suppliers, Chrysler was able to reduce its own R&D costs, reaching the lowest percent of sales of any automotive company. It also reduced its product development cycle by more than two years, while introducing more new products to the market than its competitors. [ref. "Supply Chain Management Best Practices," David Blanchard].

As a result of his supplier collaboration efforts, Stallkamp was promoted to President of Chrysler. In 1998, Daimler, seeing Chrysler's success, bought the company. Unfortunately, since the acquisition, Daimler discontinued SCORE and Chrysler's

performance has suffered!

Interestingly, Ford is now the auto company appearing to lead in the area of supplier collaboration, with their Aligned Business Framework [ABF] initiative. ABF's guidelines for working with suppliers globally have been instrumental in the successful development of a new generation of global cars. Not so surprisingly, the companies that lead in supplier collaboration also seem to lead in profitability and market share! [ref. "Ford Gears up to Manufacture Focus at Plants around the World as Global Product Plan Builds," *ENP Newswire, ENPNEW, Electronic News Publishing*, 2010].

## Key Challenges

Many companies have found that shifting to a collaborative approach with key suppliers is much easier to say than to do. Decades of exercising a win-lose approach resulting in some successes have lulled companies into a false sense of security that their current way of dealing with suppliers is good enough.

Supplier collaboration in manufacturing is much like the forward pass in American football. In 1906 when St. Louis University's coach Eddie Cochems ordered his quarterback to throw the first forward (projectile) pass, many who were present could see how much it would transform the game of football, which had long been a ground-control game. However, it was years before the forward pass was copied by the teams in the east. Why? Because those teams were comfortable playing a ground-control game and weren't interested in changing, even when presented with a much better way.

The forward pass is now dominant in football, but the process of supplier collaboration in industry is rarely used. At best, we find "islands of excellence" where companies have used collaboration in an ad hoc manner, reaped its benefits and gone back to the old way of working due to changes in leadership, market conditions and so on.

While we have seen how Toyota and Honda have used supplier collaboration to dominate their industry, most corporations refuse to implement this new way of playing the game. They prefer the adversarial, "control" game, because it is something they know how to do and with which they have experienced some success. Other reasons corporations have not followed a collaborative approach may include:

- They have moved from a combative approach to a cooperative one and think they are now world class.
- They think they have to use this collaborative approach with ALL suppliers and simply don't have the resources to do so.
- They think of collaboration as "coddling" suppliers (which it is not!).
- They don't have the courage to take the leap of faith required to carry their business to the next level.
- They tried a collaborative approach once, but did not have a disciplined process to follow and did not achieve their goal...or worse, it backfired on them!

But the future belongs to corporations who know how to collaborate with their "extended enterprise" and use the talents of the entire team to compete and win.

By the way, St. Louis U. beat Carroll College that game, 22-to-0.

## Shifting to a Collaborative Approach

Often, manufacturers conduct extensive sourcing studies to assure they have selected the proper suppliers, or at least those with the lowest prices. They also spend significant time and resources segmenting their supply base to understand which suppliers are critical to their success [strategic] and which are easily replaceable [transactional]. They even implement Supplier Performance Management programs to assure suppliers have goals to improve quality, cost and delivery. But that's when they stop, before reaping the benefits of collaboration! While these steps are fundamental to developing a sound supplier management program, they are not nearly enough to provide the sustained competitive advantage of a disciplined supplier collaboration process.

So how does one go about implementing a Supplier Collaboration program? Taking a more collaborative approach with suppliers does not need to be such a daunting task. But it does require discipline, a process focus and some foundational work to prepare the ground.

## The Solution

Manufacturers can dramatically accelerate their shift to a more collaborative approach with their key suppliers by implementing a supplier collaboration and innovation model.

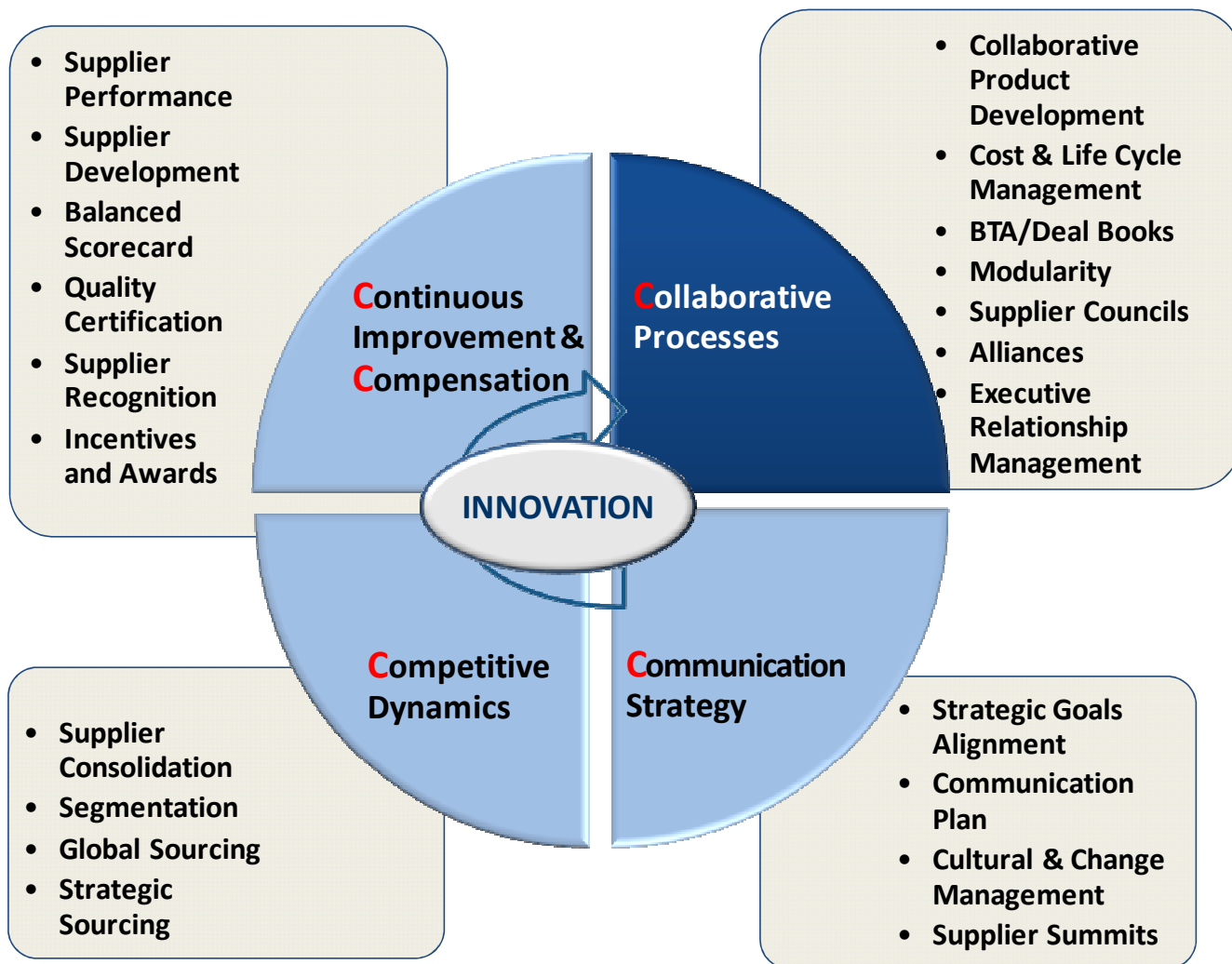
CGN's Supplier Collaboration and Innovation Model is based around "5 C's":

- **Communication Strategy**
- **Managed Competition**
- **Continuous Improvement**
- **Value-based Compensation**
- **Collaborative Processes [BTA]**

The **Communication Strategy** is based upon the development of a corporate strategy, a communication plan to all impacted internal and external stakeholders, a cultural and change management program to assure alignment, and tactical initiatives (such as supplier summits) to launch the strategy.

**Managed Competition** is all about strategic sourcing by category, supplier consolidation to reduce the numbers of suppliers and consolidate spend with preferred sources, and segmentation of the supply base into hierarchal roles such as Strategic, Preferred and Transactional.

**Continuous improvement** in the supply base is undertaken through processes such as Supplier Performance Management, where metrics and goals are mutually agreed upon using a balanced scorecard approach and monitored for progress routinely. Often, certification programs require suppliers to achieve certain quality



**Figure 2: Supplier Collaboration and Innovation Model**

performance levels both in their products [such as PPM] and processes [such as ISO certification].

**Value-based compensation** assures suppliers are properly rewarded for achieving goals mutually beneficial to the supplier and manufacturer. It assures supplier's efforts are aligned with the manufacturer's goals so that the entire supply chain is pulling in the same direction.

These four C's are the foundation work mentioned previously. But the collaborative process, the Business Transformation Architecture is where the real money is made! BTA is a disciplined approach to setting up the structure, developing the plan, and executing the plan to achieve the benefits of supplier collaboration.

By focusing on a few key suppliers, companies can begin to see significant benefits immediately.

### **Business Transformation Architecture (BTA)**

CGN's Business Transformation Architecture (BTA) methodology blends customized tools that enable organizations to achieve enterprise alignment and collaborative relationships with key suppliers. BTA helps companies become more nimble and responsive by building partnerships, alliances and close relationship with their most critical suppliers.

By identifying the needs of all stakeholders within an organization and elevating key manufacturer-supplier relationships from transactional relationships to strategic partnerships, the methodology drives increased efficiencies and benefits for both partners.

BTA is a five-step process that begins with supplier data collection

Figure 3: Business Transformation Architecture Process



and analysis. It is followed by three phases of strategy development and design where all aspects of the manufacturer-supplier relationship are evaluated and opportunities for improvement are identified. Once an action plan has been created, CGN works with the organization and suppliers to set up internal teams, tracking every step to assure execution.

During each phase of the process, in-depth interviews are conducted and data is gathered from internal and external sources to understand relationship history, pricing structure, growth potential, total cost of ownership and waste elimination opportunities.

This process has a proven track record of transforming relationships between manufacturers and suppliers to uncover the hidden potential within an OEM's organization and their supply base.

### Benefits of a Collaborative Approach

Teaming with suppliers in a collaborative way has enabled many companies to reap a myriad of benefits.

For example:

**Quality:** Jeffrey Liker, author of *"The Toyota Way,"* reports that supplier quality (as measured in defects in parts per million) from 1990-96 improved 47 percent for the U.S. Big Three car makers but 84 percent for Toyota, using their more collaborative approach.

**Time to market:** Lexmark cut introduction time for new products in half by involving three key suppliers early in the design process [as reported in *"The Purchasing Machine," The Free Press,* copyright 2001 by Dave Nelson, Patricia E. Moody, and Jonathan Stegner].

**Productivity and Inventory:** Liker reports that through Toyota's Supplier Support Center, they were able to improve productivity 124 percent and reduce inventory 75 percent by working with key suppliers on 31 projects over five years [ref. *"the Toyota Way"* McGraw-Hill, 2004, p.212].

**Cost:** Using CGN's BTA methodology, one major North American manufacturer was able to take more than 7 percent out

of the total cost of ownership with ten suppliers. Techniques employed included:

- Moving some Tier 2 work to developing countries [axle supplier],
- Improved aftermarket penetration leading to increased revenue and profits [track supplier] and
- Lean/Six Sigma initiatives to eliminate waste [structures supplier].

Relationships with these suppliers were greatly improved as they saw the customer speaking with one voice and interested in identifying opportunities and removing waste, not just in improving profits via margin shift. This process helped create the type of stable, well-balanced customer/supply chain ecosystem that fosters innovation and sustainable competitive advantage. This manufacturer has expanded the use of the BTA methodology to other divisions in their business to reap similar rewards.

**Risk Management:** In a 2010 survey, CGN found that the top three risks companies battled in the past year included cost [100 percent of respondents], general availability of product from their supply base usually caused by increased demand volatility [more than 85 percent] and a lack of supplier alignment with their goals [more than 55 percent]. All three risks scream for an increase in collaboration between corporations and their supply base.

Additionally, dependence on strategic suppliers is a risky but necessary undertaking. Developing a close, collaborative relationship converts this dependency into interdependency, with shared goals and shared rewards. Collaboration also helps mitigate the risk of losing out to competition when suppliers develop innovative products or services. You always want to be the "customer of choice" (i.e., those who use a collaborative, teaming approach with their key suppliers), who they bring their best ideas to first.

The Procurement Strategy Council conducted a survey of marketing executives who were suppliers to larger corporations. They reported that their supplier companies offer their "customers of choice," the following:

- Top priority for materials and services which are on allocation 75 percent of the time,
- New product/service ideas and technology first 82 percent of the time, and
- Unique cost reduction opportunities 87 percent of the time.

There are many, many more examples of the innovation unleashed by collaboration with the supply base in other areas such as part rationalization, complexity reduction, delivery performance, aftermarket support and expansion into global markets. Obviously, the rewards of engaging collaborative processes with key suppliers pay dividends!

## Summary

There are many reasons that companies have not been successful in implementing supplier collaboration initiatives. Too often, they are satisfied with the mediocre results gained through their current supplier management programs. Sometimes it is the lack of a disciplined process and an experienced partner to help them get started.

But just as the forward pass has transformed the game of football, our Business Transformation Initiative can transform your supplier relationships and drive incremental profits giving you a sustained competitive advantage... it is a game changer!

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**Would you like to know where your organization stands relative to companies with world-class supplier collaboration programs?**

Complete our survey at [www.surveymonkey.com/s/SCIM](http://www.surveymonkey.com/s/SCIM), and our survey analysis/report would provide you with useful pointers to greatly improve your company's profitability and competitiveness in supply chain.

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### About Jim Tarabori

Jim joined CGN in 2009 as Director-Supplier Development and Sourcing following a distinguished thirty-five year career with Caterpillar Inc., most recently as Director of Purchasing- North America. Jim led major cost reduction programs, integration of procurement organizations following large acquisitions, and creation of their Supplier Relationship and Development organization within the Global Purchasing organization.

To exchange ideas and insights on supplier collaboration, please contact Jim at [jim.tarabori@cgn.net](mailto:jim.tarabori@cgn.net).

CGN makes it possible for companies around the world to *transform* their organizations, improve their performance and become more profitable.

## Global Supplier Collaboration & Procurement

Superior supplier partnerships can help you improve quality and efficiency throughout your entire supply chain— increasing cash flow and productivity. We offer sourcing strategy and relationship support through our signature processes and tools, aiding you in supplier rationalization, cost modeling, product life-cycle cost management, supplier performance management, quality assurance and improvement.

## Other CGN Focus Areas

- Global Emerging Markets Strategy
- Global Supply Chain & Operations
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