

# Supplier management strategy

- Strategic sourcing questions
- Evolution in approaches to supplier management
- Numbers of suppliers
- Single versus multiple suppliers
- Structure and management of relationships

# Strategic sourcing questions

- Role of supplier (product, module, service, design, etc.)
- How many suppliers
- Structure and management of relationships

# Trends in Supplier Management

<b>Dimension</b>	<b>Old model</b>	<b>New Model</b>
<b>Task</b>	<b>Parts</b>	<b>Modules</b>
<b>Goal</b>	<b>Build to specs</b>	<b>Design to goal</b>
<b>Number of suppliers</b>	<b>Many</b>	<b>Fewer</b>
<b>Selection criteria</b>	<b>Price</b>	<b>Quality price, etc</b>
<b>Role in development</b>	<b>Smaller</b>	<b>Larger</b>
<b>Price practices</b>	<b>Competitive bids</b>	<b>Target</b>
<b>Price changes</b>	<b>Upward</b>	<b>Downward</b>
<b>Defect rates</b>	<b>Higher</b>	<b>Lower</b>
<b>Quality improvement</b>	<b>Lower</b>	<b>Higher</b>
<b>Information exchanges</b>	<b>Lower</b>	<b>Higher</b>
<b>Suggestions to suppliers</b>	<b>Few</b>	<b>Many</b>

**In automotive industry, die changes, inventory levels, and other measures were an order of magnitude better (*Machine that Changed the World*)**

**In general, suppliers take larger, independent roles within modular structures, and are Viewed as partners, not adversarial contractors**

# Some Data on Supplier Base Reduction

- Major decreases at companies, like Xerox (-90%) and Motorola (-70%) through early 90's (source: LFM Workshop)
- Decreases at major auto companies from thousands to hundreds
- More recently, trend is continuing but more modestly. (55% cite recent decrease, Source: KPMG). UTC companies have recently seen major decreases
- Approaches of Toyota and Honda
- Issue is still important today ("Ford seeks big savings by overhauling supply system", WSJ)

# Advantages of reduced supplier base

- Easier coordination and management
- Ease of cooperation in design, scheduling and quality management
- Ease of use of selection criteria other than cost
- Easier to procure modules rather than parts
- Easier to track performance
- Ease of information exchange

# Single versus multiple

- stability of technology
- Viability and reliability of suppliers
- Significance of business to supplier
- size of player
- performance and learning
- Branding implications
- Uniqueness of item or equipment
- Competitiveness of market

Type of Relationship	Description
Arm's length relationships	Traditional, cost-based, free market, short duration, purchase-order driven relationships
Modified vendor relationships	Value-added services (e.g., supplier managed inventories)
Long-term contracts	Long-term supply contracts
Non-equity based collaboration	R&D consortia (e.g., Sematech) Cross-marketing agreements Cross-production agreements Joint purchasing activities
Minority equity investments	Invest in supplier
Licensing arrangements	Provide license to supplier in technology that host firm develops but in which it wants to limit investments
Investment integration	Coordinate investment jointly
Joint ventures or strategic alliances	Allow firms to exchange certain goods, services, information or expertise while maintaining a formal trade relationship on others
Asset ownership	Host firm retains ownership for critical assets in adjacent stages of the industry chain, but contracts out all other aspects of ownership and control
Full ownership	Host firm fully owns activity



More  
Toward  
Vertical  
integration

Exhibit 6-2: Spectrum of relationships with suppliers or customers

# Developing relationships (Liker and Choi)

- Understanding how your suppliers work
- Turn rivalry into opportunity
- Supervise your suppliers
- Develop compatible technical capabilities
- Share information intensively but selectively
- Conduct joint improvement activities