A climbing rope with a knot and three carabiners. The rope is white with colorful polka dots. The knot is a reef knot (square knot). Three blue carabiners with orange locking mechanisms are attached to the rope. The background is white.

Chapter 3

CREATING AND MANAGING SUPPLIER RELATIONSHIPS

THIRD EDITION

Principles of
Supply Chain
Management

A Balanced Approach

Wisner
Tan
Leong



LEARNING OBJECTIVES

You should be able to:

- Explain the importance of supplier partnerships
- Understand the key factors for developing successful partnerships
- Develop a supplier evaluation & certification program
- Explain the importance of a supplier recognition program
- Understand the capabilities of Supplier Relationship Management
- Explain the benefits of using SRM software to manage suppliers



CHAPTER OUTLINE

- Introduction
- Developing Supplier Relationships
- Supplier Evaluation & Certification
- Supplier Development
- Supplier Recognition Programs
- Supplier Relationship Management





Keys to Successful Partnerships

Strong supplier partnerships

- Important to achieving win-win competitive performance for the buyer and supplier -- these require a strategic perspective as opposed to a tactical position
- Involve “a mutual commitment over an extended time to work together to the mutual benefit of both parties, sharing relevant information and the risks and rewards of the relationship”





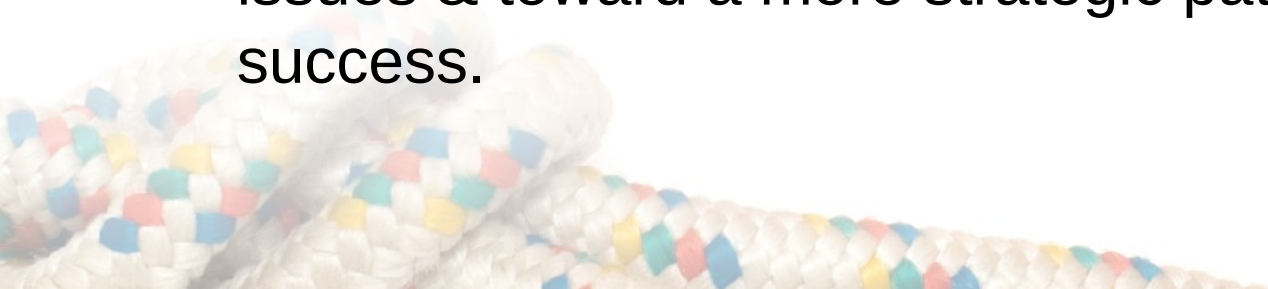
Keys to Successful Partnerships *(Continued)*

Building Trust

- With trust, partners are more willing to work together, find compromise solutions to problems, work toward achieving long-term benefits for both parties, & in short, go to the extra mile.

Shared Vision & Objectives

- Both partners must share the same vision & have objectives that are not only clear but mutually agreeable. The focus must move beyond tactical issues & toward a more strategic path to corporate success.





Keys to Successful Partnerships *(Continued)*

Personal Relationships

- It is people who communicate & make things happen

Mutual Benefits & Needs

- Partnership should result in a win-win situation, which can only be achieved if both companies have compatible needs. An alliance is much like a marriage, & if only one party is happy, then the marriage is not likely to last





Keys to Successful Partnerships *(Continued)*

Commitment & Top Management Support

- Commitment must start at the highest management level. Partnerships tend to be successful when top executives are actively supporting the partnership

Change Management

- Companies must be prepared to manage change that comes with the formation of new partnerships





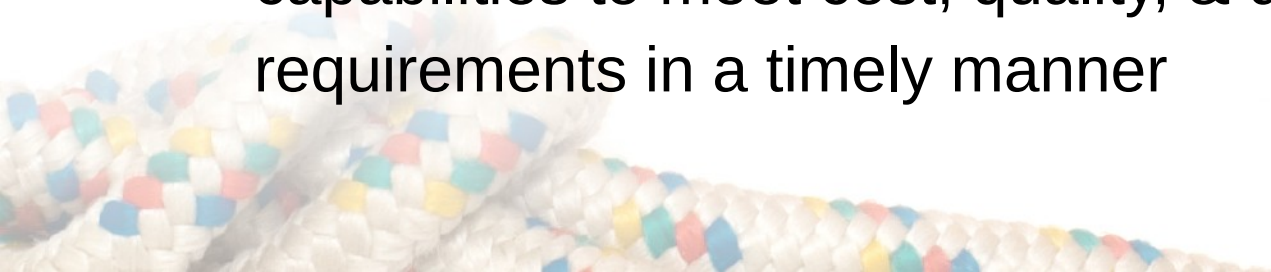
Keys to Successful Partnerships *(Continued)*

Information Sharing & Lines of Communication

- Both formal & informal lines of communication should be set up to facilitate free flow of information. Confidentiality of sensitive information must be maintained

Capabilities

- Key suppliers must have the right technology & capabilities to meet cost, quality, & delivery requirements in a timely manner





Keys to Successful Partnerships *(Continued)*

Performance Metrics

You can't improve what you can't measure

- Measures related to quality, cost, delivery, & flexibility are used to evaluate suppliers.
- Metrics should be: 1) understandable, 2) easy to measure, & 3) focused on real value-added results
- A multi-criteria approach is best
- **Total cost of ownership (TCO)**, is made up of all costs associated w/acquisition, use, & maintenance of a good or service





Keys to Successful Partnerships *(Continued)*

Continuous Improvement

- Making ***a series of small improvements over time*** results in the elimination of waste in a system
- Buyers & suppliers must be willing to continuously improve their capabilities in meeting customer requirements of cost, quality, delivery, & technology





Supplier Evaluation & Certification

- A process to identify best & most reliable suppliers
- Sourcing decisions are made on facts & not on perception
- Frequent feedback can help avoid surprises & maintain good relationships.
- Suppliers should be allowed to provide constructive feedback to the customer
 - **Supplier Certification** refers to “an organization’s process for evaluating the quality systems of key suppliers in an effort to eliminate incoming inspections.” - *Institute for Supply Management*





Supplier Evaluation & Certification *(Continued)*

Criteria Used in Certification Programs

- No incoming product lot rejections (e.g., less than 0.5 percent defective) for a specified time period.
- No incoming non-product rejections (e.g., late delivery) for a specified time period
- No significant supplier production-related negative incidents for a specified time period
- ISO 9000/Q9000 certified or successfully passing a recent, on-site quality system evaluation
- Mutually agreed-upon set of clearly specified quality performance measures
- Fully documented process & quality system with cost controls & continuous improvement capabilities
- Supplier's processes stable & in control



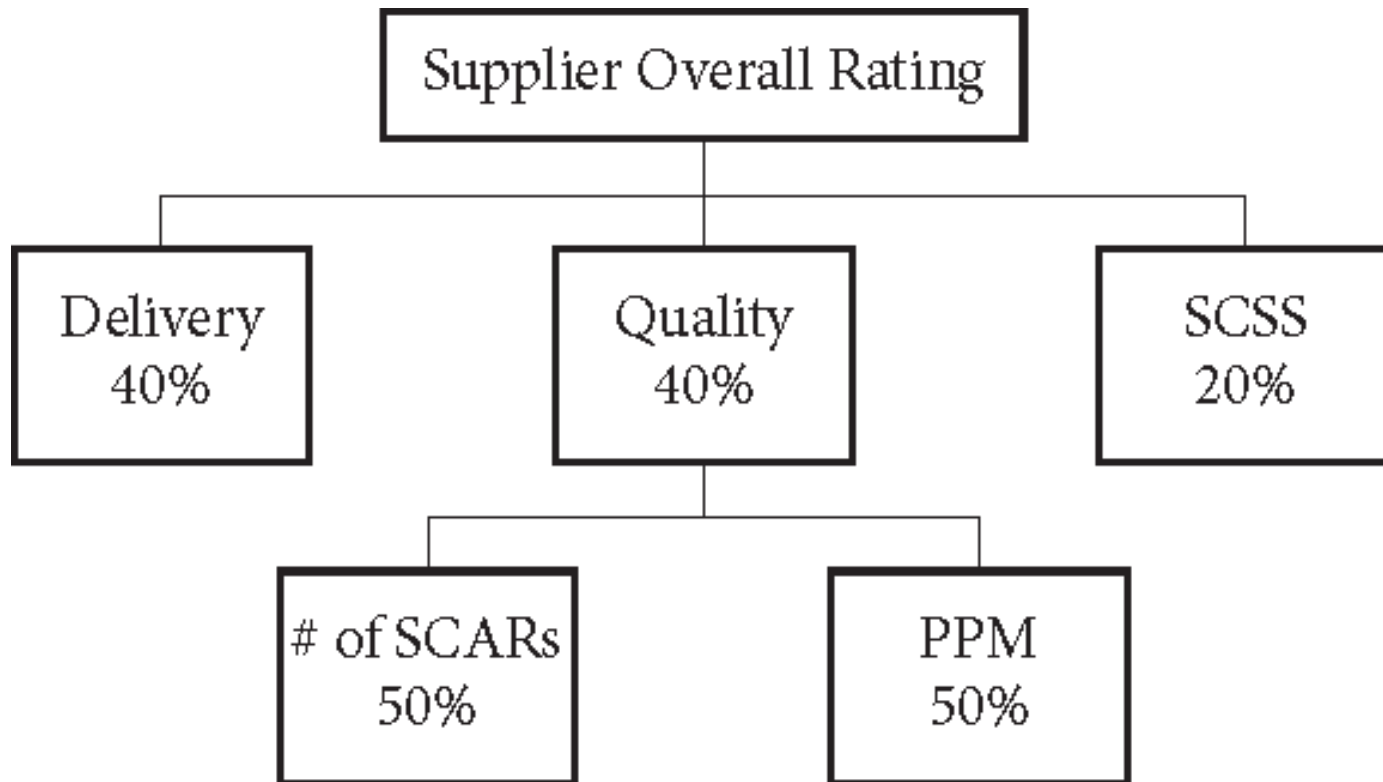
Supplier Evaluation & Certification *(Continued)*

The Weighted-Criteria Evaluation System

1. Select the key dimensions of performance mutually acceptable to both customer & supplier.
2. Monitor & collect performance data.
3. Assign weights to each of the dimensions.
4. Evaluate performance measures between 0 & 100.
5. Multiply dimension rating by weight & sum of overall score.
6. Classify vendors based on their overall score:
Unacceptable, Conditional, Certified, & Preferred
7. Audit & perform ongoing certification review.



Supplier Evaluation & Certification *(Continued)*





Road to Supplier Performance Excellence Supplier Rating Criteria Overview

Introduction

Federal-Mogul Corporation uses the following criteria to rate the performance of our suppliers for all Federal-Mogul manufacturing and distribution facilities.

Purpose

Identification of continuous improvement and cost-savings opportunities
Promote and encourage improved communication on performance issues
Provide objective data for use in supplier management and sourcing decisions
Recognition of exceptional supplier performance

Terminology

Category: These are the main groupings by which suppliers will be measured. The initial set of categories for which measurements will be compiled are Delivery, Quality and Supplier Cost-Saving Suggestions (SCSS). Each category has assigned weighting, which is rolled into the overall score. Category scores range from 0 to 100 points.

Overall Rating: The Overall Rating is a description of the performance level of supply as viewed by Federal-Mogul. Scores for each category are multiplied by the weighting, and the summation entails the overall score for the supplier. Overall Ratings associated to the overall score are as follows:

Overall Rating Weighted Point Score:

Preferred: 90 to 100

Acceptable: 70 to 89

Developmental: 0 to 69

“Preferred” Supplier Rating:


1. Federal-Mogul will work with these suppliers on new product development.
2. Federal-Mogul will assist these suppliers in maintaining a competitive position.
3. Federal-Mogul will maintain a listing of “Approved for New Business” suppliers.

“Acceptable” Supplier Rating:

1. Federal-Mogul will require a plan from the supplier outlining how to achieve preferred status.
2. Federal-Mogul will monitor supplier improvement.

“Developmental” Supplier Rating:

1. Federal-Mogul requires corrective action if the supplier is rated at this level for three consecutive months during the calendar year.
2. The supplier must provide plans to improve performance to an acceptable level.
3. Federal-Mogul will look at alternative sources if performance does not improve.



Supplier Rating Qualifications: The rating system will entail any supplier deemed appropriate by the Federal-Mogul Manufacturing/Distribution Purchasing Team.

Quality Category: Rating Criteria

The Quality category is comprised of two components:

Parts Per Million (PPM) 50 percent

Quantity of supplier corrective action requests (SCARs) issued 50 percent

PPM is based on SCARs. Both the number of SCARs and PPM are reported monthly. SCAR responsiveness does not factor into the supplier's Overall Score. Currently, it is only displayed on the Scorecard.

PPM	COUNT	POINTS	# OF SCARS	POINTS
0	100		0	100
1 – 25	90		1	70
26 – 50	80		2 – 4	40
51 – 100	60		5+	0
101 – 250	40			
251 – 500	20			
501+	0			

Delivery Category: Rating Criteria

On-time delivery: The delivery score is based on the average percentage across using plants for the current month. On-time delivery percentage has a window of one day early and zero days late to the due date and +/- 5 percent of order quantity. The on-time delivery percentage is determined by line items received on time divided by the number of line items due by the supplier for the month.

Consignment programs receive a 100 percent delivery percentage unless a stockout is caused. The score is reduced by 10 percent for each day of the stockout.

SCSS (Supplier Cost-Saving Suggestions): Rating Criteria

5 percent target performance: SCSS are targeted at 5 percent of the year's forecasted dollars spent. The supplier must make SCSS submittals to the plant or the commodity manager.

SCORE	SCSS MEASUREMENT
100	5% and above
85	4% to 4.9%
70	3% to 3.9%
40	2% to 2.9%
20	1% to 1.9%
0	0.9% and below



Supplier Evaluation & Certification *(Continued)*

Supplier Scorecard Used for the XYZ Company

Performance Measure	Rating	x Weight	= Final Value
Technology	80	0.10	8.00
Quality	90	0.25	22.50
Responsiveness	95	0.15	14.25
Delivery	90	0.15	13.50
Cost	80	0.15	12.00
Environmental	90	0.05	4.50
Business	90	0.15	13.50
Total score		1.00	88.25

(Table 3.3.)



Supplier Evaluation & Certification *(Continued)*

ISO 9000

- Developed by International Organization for Standardization (ISO) - series of management & **quality standards** in design, development, production, installation, & service.
- Companies wanting to sell in the global market seek ISO 9000 certification.

ISO 14000

- A family of standards for **environmental management**.
- The benefits include reduced energy consumption, environmental liability, waste & pollution, & improved community goodwill.



Supplier Development

Supplier development

A buyer's activities to improve a supplier's performance and/or capabilities based on the following approach –

1. Identify critical products & services
2. Identify critical suppliers
3. Form a cross-functional team
4. Meet with top management of supplier
5. Identify key projects
6. Define details of Agreement
7. Monitor status & modify strategies



Supplier Recognition Programs

Three Attributes –

- Companies should recognize & celebrate the achievements of their best suppliers.
- Award winners exemplify true partnerships continuous improvement, organizational commitment, & excellence.
- Award-winning suppliers serve as role models for other suppliers.





Supplier Relationship Management

Supplier Relationship Management (SRM)

- Improves profits & reduces costs.
- Refers to extended procurement processes such as sourcing analytics, sourcing execution, procurement execution, payment & settlement, supplier scorecarding and performance monitoring.





Supplier Relationship Management *(Continued)*

Five key points of an SRM system

1. **Automation** handles routine transactions
2. **Integration** spans multiple departments, processes, & software applications
3. **Visibility** of information & process flows
4. **Collaboration** through information sharing
5. **Optimization** of processes & decision making





Supplier Relationship Management *(Continued)*

SRM Software Suppliers –

- **EcVision** www.ecvision.com
- **i2 Technologies, Inc.** www.i2.com
- **Oracle** www.oracle.com
- **SAP** www.sap.com
- **SAS Institute** www.sas.com
- **SupplyWorks** www.supplyworks.com





Trends in Supplier Relationship Management

- Sourcing & procurement are increasing in importance in organizations. They are becoming more strategic
- More companies expect more cost reductions to come from their procurement functions
- Staff is being reallocated from low-level transaction activities to more strategic & higher value-added positions
- Companies with effective transaction activities tend to reduce costs better & have strategic & automated systems





Practice Question

The Margo Manufacturing Company is performing an annual evaluation of one of its suppliers, the Mimi Company. Bo, purchasing manager of the Margo Manufacturing Company, has collected the following information.

PERFORMANCE CRITERIA	SCORE	WEIGHT
Technology	85	0.10
Quality	95	0.25
Responsive	90	0.15
Delivery	80	0.15
Cost	90	0.20
Environment	75	0.05
Business	95	0.10
Total score		1.00

A score based on a scale of 0 (unsatisfactory) to 100 (excellent) has been assigned for each performance category considered critical in assessing the supplier. Different weights are assigned to each of the performance criteria based on its relative importance. How would you evaluate the Mimi Company's performance as a supplier?