Supplier partnership, Partnering, supplier selection, supplier rating.

Supplier Partnership.

+ An organization spends a substantial portion of its resources on the purchase of raw materials, components, and services. Therefore, supplier quality can greatly affect the overall cost and quality of a product or service. It is important for the customer to work with suppliers in a partnering atmosphere to achieve high quality levels in its end products and services.

+ Organizations (customers) and their suppliers have the same goal – to satisfy the end user. Since both the customer and the supplier have limited resources, they must work together as partners for their mutual benefit.

+ There have been a number of forces that have changed supplier relations. Prior to the 1980s, purchase decisions were typically based on price, thereby awarding contracts to the lowest bidder.

As a result, quality and timely delivery were sacrificed. The advent of the TQM philosophy exemplified by Deming's fourth point (Stop awarding business based on price alone) addressed this problem. Another force changing supplier relations was the introduction of the just-in-time (JIT) concept. It calls for raw materials and components to reach the shop-floor in small quantities when they are needed and not before. As a result, the supplier will have many more process setups, thus becoming a JIT organization itself. The practice of continuous process improvement has also caused many suppliers to develop partnership with their customers. Suppliers are now taking increased product-development responsibilities. They are becoming involved in product design, formation of specifications, and component testing. A final force is ISO 9000 which requires suppliers to work towards zero defects, 100% on-time delivery, and a process for continuous improvement. All these forces have changed adversarial customer-supplier relationships into mutually beneficial partnerships. Joint efforts improve quality, reduce costs, and increase market share for both parties.

PARTNERING

+ Partnering is a long-term commitment between two or more organizations for the purpose of achieving specific business goals. The relationship is based upon trust, dedication to common 16 goals, and an understanding of each participant's expectations and values. Benefits include improved quality, increased efficiency, and lower cost.

+ There are three key elements to a partnering relationship: long-term commitment, trust, and shared vision.

1. Long-term commitment: Long-term commitment provides the needed environment for both parties to work toward continuous improvement. Each party contributes its unique strengths to the processes. A supplier might not take risks, such as acquiring new equipment or systems, without a long-term commitment.

2. Trust: Mutual trust forms the basis for a strong working relationship that is non-adversarial. The purchasing function must be subordinate to the overall relationship goals and objectives. Open and frequent communication avoids disputes while strengthening the relationship. The parties should have access to each other's business plans and technical information, such as product and process parameters. In addition, they may share or integrate resources such as training activities, administrative systems, and equipment. Both parties become motivated when “win-win” solutions are sought rather than “win-lose” solutions.

3. Shared vision: Each of the partnering organizations must understand the need to satisfy the final customer. Shared goals ensure a common direction and must be aligned with each party’s mission. Employees of both parties should think and act for their common good. Decisions must be formulated and implemented as a team.

SUPPLIER SELECTION

+ Before deciding on suppliers, the organization has to decide whether to produce or outsource a particular item. This decision is a strategic one and must be made after answering the following questions: How critical is the item to the design of the product or service? Does the organization have the technical knowledge to produce the items internally? Are there suppliers who specialize in producing the item? These questions must be answered in terms of cost, delivery, quality, safety, and the acquisition of technical knowledge.

+ Once the decision has been made to outsource, then the supplier must be selected. The following are some important criteria for evaluation and selection of suppliers:

- The supplier has the capability to produce the item in quantities needed by the organization.
- The supplier has excellent quality practices and a commitment to quality.

- The supplier maintains high technical standards and has the capability of dealing with future technological innovations.

- The price is right and the delivery dates can be met.

- The supplier is easily accessible in terms of transportation and communication.

- The supplier has a track record of customer satisfaction and organization credibility.

- The supplier has an effective quality system and improvement program such as ISO 9000.

- The supplier understands and appreciates the management philosophy of the organization.

SUPPLIER RATING

* The customer rates suppliers to:

[i] obtain an overall rating of supplier performance,

[ii] ensure complete communication with suppliers regarding their performance in the areas of quality, service, delivery, and other measures the customer desires, and

[iii] provide each supplier a detailed, factual record of problems for corrective action.

* A supplier rating system (often called a scorecard system) is usually based on quality, delivery, and service; however, some customers have added other categories, such as lead time, product support, technology, etc. These categories may also have subcategories.

* These basic categories are weighted, with quality usually given the greatest weight. A score is given to each category by means of a numerical value or a letter grade, which can then be converted to a numerical value.

* Reports are prepared and issued quarterly, and overall grades are provided to each supplier. The basic objective of such supplier rating systems is to have high quality, dependable suppliers in the long run.