



## CUSTOMER-SUPPLIER COMMUNICATION II: CREATING CONFIDENCE: PURCHASING'S TOUGHEST TASK

In the new world of outsourcing and offshoring created in large part by globalization, evidence continues to show that we're fouling up, or at least that we don't see things clearly. "Supplier Development" has become a really hot subject. One manufacturer of large equipment made it his key improvement effort, but after having injected lots of human and financial resources, the company discovered that 75% of the problems were caused by itself!

Reducing purchasing costs and production costs are the principal reasons for externalization, and 87% et 81% of companies have done that respectively, according to a study by Bearing Point, ESCP-EAP and Supply Chain Magazine°. At the same time, delivery lead times increased in 75% of the cases, stocks went up in 70%, logistic costs in 68%; and customer service dropped in 32%!



Bob STAHL, one of our U.S. partners, thinks that, *"Companies are sacrificing their long-term survival by trying to reduce costs in the short term. I've never seen a company create long-term prosperity simply by reducing short-term costs."*

So we see already the task is not just buying at lowest cost, and it's not only a question of purchasing! The task is rather to establish a relation of reciprocal confidence with the supplier, which is a doable with nearby suppliers as with far-away ones.

A typical customer-supplier relationship consists of signing a contract to buy a specified total quantity at a fixed price. In execution of the contract, we find **two extremes**. **(1) Frozen**: the customer gives 3 months of orders, of which the supplier requires one month firm. **(2) Runny**: the customer orders what he wants, and the supplier always says yes, whether he can deliver or not! Neither one nor the other extreme is particularly reliable nor Lean, nor confidence-creating

°Supply Chain Magazine, ESCP-EAP European School of Management, Bearing Point, « Observatoire de la Supply Chain : Sourcing dans les pays à bas coûts : « Quels impacts sur l'organisation de la supply chain? », janvier 2007, [www.supplychainmagazine.com](http://www.supplychainmagazine.com), [www.bearingpoint.com](http://www.bearingpoint.com).

In a customer-supplier relationship, the planning has to be done by somebody, taking into account lead times and capacities. Some measure of stability is required. In outsourcing, these functions are transferred to the supplier, but if he doesn't assume them, the problem falls back on the Purchasing Department rather than on the former planners, usually downsized (meaning fired) as a result of the outsourcing.

The other problems formerly managed internally, such as quality of materials, machine reliability, qualification and education of operators, etc., continue to exist too but are more delicate and difficult to handle.

An enormous dose of **confidence** is required between customer and supplier to make the relationship work, as well as correct detailed planning systems, either at the customer's, at the supplier's, or at both. Ideally, the customer will supply the supplier with a correct expression of his demand over a long horizon, and the stock he has of each item. The supplier will give the customer his demonstrated capacity, his priorities with respect to other customers and other work, and the true capability of his equipment. The example of NORSE DAIRY SYSTEMS in our last Technical Newsletter illustrates this ideal case.



Jack Gips, another of our U.S. partners, says, *"I believe that Sales and Operations Planning, Master Production Scheduling and Capacity Planning are not only as important as they were before, but these functions can become even more critical and difficult to do because of the lack of good data."*

In a customer-supplier relationship, confidence either exists or it doesn't. To succeed the relationship, communication should be multi-point, not just between the customer's Purchasing Department and the supplier's Sales Department. Knowledge in Anticipation and Acceleration should be at the same level at the customer and at the supplier.

Customer-supplier communication should be placed in the context of the supply chain and of its strategy to serve the final customer. As Michael Dell said, *"We have to translate the Voice of the Customer in terms that our supplier can help us realize."*

