A Call for Collaboration

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There have been two major shifts of purchasing practices in the Detroit Automaker's supply chain since I joined the industry in the early 1980's. I think it is time for a third: a shift towards collaboration.

Prior to 1980, Detroit Automakers and their supply chain who mirrored Automaker practices, operated on a "competitive supply base mode". Buyers maintained many suppliers for commodities and controlled costs through frequent market testing.

The late 70's/early 80's recession brought a near death experience to Chrysler and to a lesser degree Ford. Years of inflation followed by a significant recession and a growing quality gap with Japanese car makers created an impetus for the Big 3 to change their strategic approach to purchasing. To help improve Big 3 profitability, purchasing organizations were asked to significantly reduce headcount, improve vehicle quality and streamline vehicle development costs.

Purchasing organizations moved to develop supply base strategies that would focus business with fewer suppliers. Suppliers had to prove their ability to compete on cost, quality, technology and delivery. The focusing of business with fewer suppliers allowed the smaller purchasing organizations to implement cost, quality and delivery improvement programs. Preferred suppliers were rewarded with more business and long term contracts that guaranteed business. This also provided buyers with pass through of productivity improvements.

These changes were largely successful in improving costs, quality and delivery throughout the supply chain. Automakers continued working with suppliers on optimizing the supply chain. They utilized collaborative tools like part commonization, engineering specification rationalization, and total acquisition cost rationalization as evidenced by Chrysler's SCORE program and Ford's Total Cost Management program.

However, these efforts were soon derailed by the second shift in purchasing practices that occurred in the mid-1990's. At that time, the Big 3 became increasingly concerned with the increased market share of the Japanese OE's and their proven cost advantages of their expanding North American production.

Buyers suddenly had the ability to quickly communicate with more suppliers through rapid improvement in information and communication technology. I remember when fax machines were the size of a refrigerator and there was only one for all of Ford North American Purchasing. Faxing was the only alternative to snail mail.

There was someone willing to use the need and the tools to develop a "new way". Ignaciao Lopez, VP Purchasing for General Motors, led the way. Lopez got significant press for reducing material costs through aggressive market testing and introducing new suppliers into the GM supplier base. Others followed suit. In effect, we started returning to the pre-1980's model of aggressively using price based competition. However, the competition model was pumped-up with the steroids of better communication tools.

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Depending on who you talked to, Lopez was either widely successful because he significantly reduced GM's material costs. Or, the efforts were thought to be a failure because GM experienced significant difficulty in launching new vehicle programs with a new, larger supply base. While we can argue whether or not Lopez was successful in results, I believe he was successful in leading the vanguard of change to where the former Big 3 and its supply chain are operating today:

- Buyers aggressively using market testing to drive pricing with little understanding of the suppliers manufacturing processes and cost drivers.
- A narrow focus on the acquisition price that ignores other cost optimization opportunities throughout the total supply chain.
- Too many suppliers in the market place creating over-capacity and financial distress in the industry.
- Collaborative relationships between the Big 3 and its suppliers being stressed resulted in the Detroit companies no longer being "customers of choice".

We are now again at a place where change is possible:

There is a need – The Detroit based auto companies fight for competitiveness has turned to a fight for survival for them and their extended supply chain. Their rivals continue to grow utilizing the collaborative purchasing model that the Detroit based companies walked away from in the 90's.

There are tools – the information technology that helped us enter into the market testing of the 90's has progressed into a sophisticated and relatively cheap tool that can help buyers understand the total acquisition cost drivers of the products they buy.

I believe that the procurement leaders who recognize the need and start putting tools together in a collaborative approach with their supply base will reap significant rewards. Working with fewer suppliers to truly understand total acquisition costs will improve the benefits provided by collaborative tools such as Kaizen and VA/VE (How can you effectively apply these tools if you do not understand where your costs are today?).

The bad news is that fully executing this shift is not easy and is not quick. The good news is that there are benefits that can be achieved in the short-term. For example: Improving buyer cost knowledge through plant visits, training and effective cost breakdowns can be done relatively quickly on existing and new programs.