



As a new buyer, I was assisting a Purchasing Manager who was managing a supplier in Chapter 11 and headed toward Chapter 7. One day, the firm's owner informed us that the bank was within hours of locking the doors and forcing the Chapter 7. The Purchasing Manager told the firm's owner to stop production and move all tooling to a neutral site. He then called all of his other suppliers for that commodity and asked one question: "Do you have a truck?" Supplier executives who said yes were instructed where to go to pick up tools and were awarded the take over business. Suppliers who said no were left on the sidelines.

With the current situation in the automotive industry, purchasing groups are busy managing supplier closures, consolidations, payments and delivery issues. Customers are looking for all suppliers, regardless of their situation, to understand:

- Their current working capital status and how it will evolve over the upcoming months.
- How each of their products is contributing to positive cash flow and profits.
- The stability of their customer and banking business relationships.

Many customers and banks are placing suppliers in three categories: Stable, At Risk and Severe Risk. The ranks of the Severe Risk and At Risk suppliers are growing daily.

Here is what customers are looking for from each category of supplier:

- **The Stable – Have a Truck and Position Yourself to Grow**
  - Do respond to the current economic situation. But, do not cut resources too far. Keep resources necessary to be able to handle take over business.
  - Have a well documented process to take over "new" business.
  - Do not over commit. The last things customers need is suppliers who lose their stability because they take on too much.
  - Be selective on which customers you keep or grow. If there is an urge to price take over business aggressively, ask: "Is this really a customer that we want".
- **At Risk – Work to Improve Your Situation**
  - Keep banks, customers and lawyers informed – no surprises.
  - Understand your company's product line profitability as well as finances.
  - Explore creative options for the business such as consolidation with a competitor, cutting loose of unprofitable product lines, plants, or divisions.
  - Address the underperforming products in the product line.



# In this Time of Transition, What Do Customers Want?

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- **Severe Risk: Understand Your Situation**
  - Customers, bankers and lawyers we have talked to indicate that their number one issue with leaders of severe risk companies is that the leaders fail to acknowledge and communicate their precarious position.
  - Keep banks, customers and lawyers informed– no surprises.
  - Understand product line profitability and company financials.
  - If addressing the underperforming product lines is not going to reduce overall risk, then develop an exit strategy.

All companies should take actions to assess and mitigate supplier risk:

- Prioritize supplier efforts using a PFMEA risk assessment model. Example:
  - Example: Difficulty to resource X cost risk X issues caused by shortage
- Communicate expectations to all suppliers.
- For high risk suppliers, start negotiating before liquidation is imminent.
  - Negotiate a bank build
  - Obtain agreements on key points should the worst come. A few examples:
    - Tooling acknowledgement.
    - Waiver of liens.
    - Right to buy specialized equipment and to use proprietary processes.
- Purchasing organizations should be working with the stable suppliers to ensure that they have the resources and processes in place to take over business should the need arise – and it will. In short, purchasing leaders need to make sure that they have suppliers in their supply base who have trucks.

*APD has a full complement of solutions to help companies assess and manage supply risks.*

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