

## **TURNING OUR CORPORATE FOCUS TO PURCHASING**

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To be successful, manufacturing businesses must achieve the near impossible: ensure a constant supply of appropriate components, an efficient stream of products going out and the ability to sell them profitably. Most corporate leaders tend to give the lion's share of their focus to the principle disciplines of manufacturing, engineering, finance and marketing. These disciplines, of course, have obvious direct effects upon the bottom line. However, my years of experience have demonstrated that purchasing is deserving of equal attention.

At a typical manufacturing operation, purchased components usually represent 60% of the product costs. This high percentage has put purchasing very much on my radar screen. Insufficient attention to this critical area could put the product and the company at risk.

Tom Stallkamp, the former president of DaimlerChrysler Corporation, influenced my personal awareness of the significance of procurement. During his prior assignment as the head of procurement, Tom fully appreciated and stressed the significance of the entire supply chain and what he referred to as Supply Chain Management. He felt that, even among purchasing professionals, the focus remained too exclusively on Tier I suppliers. Little attention, if any, was given to the lower tier suppliers.

During one of his presentations to industry executives, Tom provided a vivid example. He explained that valve lifters, a necessary component in automotive engines, are sand-cast. His major Tier I supplier of engine valve lifters' exclusive source for the casting sand, also served another market – kitty litter. If this particular Tier II supplier of sand suddenly determined that the kitty litter market was more profitable, it could re-align its customer priorities accordingly. DaimlerChrysler would have been without valve lifters, causing engine production, and ultimately, automobile production to stop – *all for the lack of sand.*

During my years in automotive management I have often been asked, “What are the issues and concerns that have caused you to lose sleep?” Well, suddenly I did worry about kitty litter! After hearing Tom's presentation, purchasing dynamics and the supply chain held my attention for much of the business day and, frequently, much of the night. In this regard, I offer some examples of key issues and concerns that occupied my thoughts:

- A manufacturer, with its dependence on the competence and integrity of multiple layers of suppliers, must live with a “cascade effect.” When a lower and often “unknown” tier supplier alters a product, that change can have a devastating and completely unanticipated negative impact on the entire supply chain, and to you, the ultimate and accountable Tier I supplier to the car company.

One example from my own past comes quickly to mind. A supplier of brass terminals to our electrical harness supplier wanted to lower its material costs. They took it upon themselves to make an unauthorized material change to a different brass alloy. The resulting change brought their costs down by a fraction of one penny per terminal, but resulted in a catastrophic failure of the product in the field. This Tier III supplier failed to recognize that what seemed to be a simple and insignificant change could, and did, result in product failure, and a safety related recall, costing millions of dollars and customer dissatisfaction.

- Sourcing from China and other low cost countries has become the ubiquitous procurement “band-aid” to reduce material costs. However, in their rush to source from these low cost suppliers, many purchasing professionals neglect to consider all of the potential implications to the total cost equation. While the component itself may be less costly because of cheaper labor or material, the additional costs associated with low cost country sourcing must be identified and included in the total cost analysis. For example, flying engineers around the globe to oversee production and ensure a quality product adds significantly to the final price. Additionally, logistics and the integrity of supply can be affected by events completely beyond the control of the manufacturer. Examples are numerous, but a few to be considered are: the possibility of a dock- workers’ strike requiring you to air ship in order to meet daily production requirements. Or a quality spill causing you to reject all of the parts in the very long pipeline from a supplier’s facility that is thousands of miles away, and then having to air ship

until the pipeline is again filled with quality product. In short, purchasing professionals must look beyond the obvious and consider all of the potential intangibles. They must look to the total cost equation. I found that when the labor content of the product was less than 10%, local sourcing could be equally competitive.

- Accurate records are also absolutely necessary for an effective purchasing organization. Maintaining records that reflect pricing history and projected cost reductions is obvious. Again, there should be more to vendor selection than just pricing. The performance metrics for measuring and monitoring a supplier should include other service criteria such as quality, productivity, delivery performance and technology. But don't forget the financial stability of your supply chain. Nothing can stop your production dead in its tracks quicker than a lower tier supplier going "belly up." Monitoring the financial health of your suppliers and their supply chain is vital in today's world of distressed companies. While I know that the auto companies and most of the Tier I suppliers do this very effectively, I'm confident that many of the lower tier suppliers do not. This could, therefore, influence your company's performance in a way that would cause you to lose sleep.

After learning the myriad issues involved in the science of purchasing, I came to recognize the benefits of informed decision-making and an effective purchasing management over-sight process. If you haven't already, I sincerely urge you to take a

good look at you purchasing process in order to minimize the number of potential unintended consequences and resulting sleepless nights.

Article Published by Advanced Purchasing Dynamics in APD Q2 2007 Update, June 2007, and on APD website [www.apurchaisngd.com](http://www.apurchaisngd.com).

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