

Where Are My Tools?

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With today's economic times, pressure on purchasing organizations is stronger than ever. They are being asked by their management to cut material cost in anyway they can because for most companies, with the exception of service firms, material cost is usually greater than 50% of the cost of production. The problem with this is that most buyers are young and inexperienced team members working their way through the organization. And to add fuel to the fire the highest cost savings and best results come through collaborative work with engineering and manufacturing to get the best solutions for the company. And most domestic automotive companies today do not have this type of working relationship within their organization. So the deck is stacked against purchasing.

One great example of this is the purchase of supplier tooling within the OEMs. Harbour-Felax Group is currently working on a tooling study which is due out to the public in February 2009. During our analysis we have seen the gamit of inefficiencies from poor sourcing choices to get tools manufactured in China or India for low cost; to find that when the tool was sent to the US more money was spent to productionize the tool than if they had just had it built in the US. Other examples include domestic OEM buyers purchasing similar parts for different platforms at 3 and 4 times another program within the company not to mention more than market rate. What is the reason for this – inexperienced buyers, different buyers for similar commodities and lack of experience and communication.

In the past the goal has been cost reduction from the previous program but not a tremendous amount of time has been spent comparing programs internally or getting outside market data to validate what they are paying current day for tools and what their competitors are paying.

Another major problem uncovered in purchasing throughout this study is the lack of follow up and confirmation of bids from suppliers all the way through to production. Making sure that all the tools were built as specified in the purchase order and that the process was followed as agreed; is typically not done consistently. This means that suppliers have been making a ton of money over the years in customer tooling that was agreed to way in advance and once purchase orders were signed, money was distributed and engineering changes came through no follow up was done to ensure consistency to the commitment.

As a result OEMs and Tier 1 suppliers have paid for tools that don't exist because they may have been engineered out of the process or volume was dropped. Additionally, they have paid property taxes and depreciation for years on those tools that they believe exist at a supplier and in fact they don't.

This tooling inefficiency has cost the OEMs and suppliers millions of dollars and even to this day many companies are struggling with this to the point of bankruptcy. Tooling is just one example

that highlights opportunities in purchasing to improve the business and reduce cost beyond just nickle and diming suppliers to death. As we have said so many times in the past – OEMS and suppliers must get to the root cause issue and attack it first if they expect to improve the rest of their business. And they can no longer do that in a vacuum they must meet with their peers in other groups and they must problem solve these issues with experienced and trained professionals. Whatever happens changes are necessary to survive through future downturns.