



ADVANCED
PURCHASING
DYNAMICS

Where will the knives be pointed?

Jeff Burris
Advanced Purchasing Dynamics, Inc.
June 16, 2009

The recently published article, ["With Andersson Gone GM Must Find New, Sharp Knife"](#) (Automotive News June 15, 2007) raises a significant question. Will the new sharp knife be pointed at the GM suppliers or at inefficiencies that exist in the supply chain?

In the 1990's, Ignacio Lopez led the Detroit 3 in the implementation of rampant market testing and the introduction of new suppliers into the supply base as methodologies to reduce material costs. Favorable press, successful short term results and changes in Chrysler ownership all helped Ford and Chrysler follow the lead. In effect, rampant market testing and introduction of new global suppliers focused on pricing and not supply chain optimization. Rampant market testing and globalization became the "knives" pointed at the Detroit 3 Suppliers.

Meanwhile, Toyota and Honda employed collaborative processes that engaged their supply bases in reducing supply chain cost structures to the benefit of all. Their purchasing organizations focused on lowering the cost of local supply over the short term gains of global sourcing.

Collaboration does not mean that customers accept supplier pricing and cost structures as they are. Instead, under a collaborative model the customers actively engage their suppliers in joint efforts to identify and eliminate waste that exists in the supply chain. Under the collaborative model, the knife is not pointed at the suppliers but held jointly by the customer and the supplier and pointed at waste.

As a result of their employment of collaborative processes, Honda and Toyota have increasingly become preferred customers of the supply base. It has been my experience that preferred customers get preferred commercial treatment including preferred pricing. Also, suppliers who develop innovative features and technology provide their preferred customers with access to the technology first. This allows preferred customers to bring new technology to market faster than their competition.



ADVANCED
PURCHASING
DYNAMICS

Where will the knives be pointed?

Jeff Burris
Advanced Purchasing Dynamics, Inc.
June 16, 2009

In the new, reconfigured, North American automotive market there will be more potential customers for suppliers and no automaker will dominate the market as GM once did. As a result, suppliers will be more likely to guide their resources to preferred customers.

Recent customer relationship surveys and anecdotal evidenced signify that Ford is being effective in efforts to reconnect with its supply base on more collaborative terms.

Bankruptcies identify the need for GM and Chrysler to get out their knives and address material costs. But where will they be pointed; at waste that exists in the supply chain or, at their suppliers?

I am hopeful that the shift at Ford is real and sustainable and that GM and Chrysler will recognize the opportunity that exists from using a collaborative approach with their supply bases. If they do, I believe they will reap significant rewards. Working with fewer suppliers to truly understand total acquisition costs and to effectively utilize collaborative cost reduction tools such as Kaizen and VAVE are the long-term sharp knives to cut waste and costs from their cost structures.

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.

APD has a full complement of solutions to help purchasing organization collaborate more effectively with their suppliers to identify and eliminate costs from their supply chains.

***For information call 734-927-0836 or e-mail jburris@apurchasingd.com.
www.apurchasingd.com***