

**CHAPTER 5**

# **SUPPLIER PARTNERSHIP**

**Expected Outcomes**

Identify the principles of customer-supplier relations for service providers as well as for manufacturers.

Able to explain on how to develop supplier selection plan.

*\*Note: Most contents of this slide adapted from Besterfield, "Total Quality Management", 2003*

# Chapter Outline

- Introduction
- Principles of Customer / Supplier Relations
- Partnering
- Sourcing
- Supplier Selection
- Supplier Certification
- Supplier Rating
- Relationship Development

# Lesson Outcomes

- Identify the principles of customer-supplier relations for service providers as well as for manufacturers.
- Able to explain on how to develop supplier selection plan.

# Introduction

- An organization spends a substantial portion of every sales money on the purchase of raw materials, components and services.
- In order to obtain high quality products / services in satisfy the end user – customer must work with suppliers for achieving the same quality level
- Both have limited resources, so they must work together to maximize their return on investment
- Nowadays, concept likes JIT and Kaizen change the supplier relations from customer-supplier relationship to mutually-beneficial partnerships.

# Principles of Customer / Supplier Relations

## *Customer :*

- Providing the supplier with clear and sufficient requirements

## *Supplier :*

- Providing the quality that will satisfy the customer and submitting necessary data upon request

## *Customer and Supplier :*

- Fully responsible for the control of quality
- Independent of each other and respect each other's independence
- Always have the best interest of the end user in mind

# Principles of Customer / Supplier Relations

## *Customer and Supplier (cont.) :*

- Enter into a nonadversarial contract with respect to quality, quantity, price, delivery method and term of payments.
- Establish method by which they can reach an amicable settlement of any disputes that may arise.
- Continually exchange information.
- Decide the method to evaluate the quality.
- Perform business activities that an amicable and satisfactory relationship is maintained.

# Partnering

- Long-term commitment between two or more organizations for the purpose of achieving specific business goals and objectives by maximizing the effectiveness of each participant's resources.
- Benefits include improve quality, increased efficiency, lower cost, increased opportunity for innovation and the continuous improvement of products and services
- Relationship is based upon trust, dedication to common goals and objectives an understanding of each participant's expectations and values

*\*Source: Rusty Haggard , 1991*

# Sourcing

## Sole

- Organization use only one supplier
- Situation is due to factors such as patents, technical, raw material location, only one organization producing the item

## Multiple

- Sourcing use of two or more suppliers for an item
- Theory shows that competition will result in better quality, service and lowering costs
- Also eliminates disruption of supply

## Single

- A planned decision by the organization to select one supplier for an item when several sources are available
  - A guaranteed future volume
  - Improve the processes with less variability

*\*Source: Besterfield et.al, 2003*



# Supplier Selection

## **SELECTION**

- 3 criteria often considered by firms selecting new suppliers:
  1. Price
  2. Quality
  3. Delivery

## **CERTIFICATION**

- Programs verify that potential suppliers have the capability to provide the services or materials the buying firm requires

# Supplier Selection

**TEN** conditions for selection & evaluation of suppliers:

1. Understand and appreciates the management philosophy of the customer organization
2. Has a stable management system
3. Maintain high technical standards and has the capability of dealing with future technological innovations
4. Can provide those raw materials and parts required and also meet the quality specification
5. Has the capability to produce the amount of production needed

# Supplier Selection

6. There is no danger of the supplier breaching corporate secrets
7. The price is right and the delivery dates can be met – easily accessible in terms of transportation and communication
8. Sincere in implementing contract provisions
9. Has an effective quality system and improvement program such as ISO9000
10. Has a track record of customer satisfaction and organization credibility

# Supplier Certification

## **EIGHT** certification criteria

1. Agreed specifications that are mutually developed, justifiable and not ambiguous
2. No product-related rejection for a significant period of time
3. No non-product-related (wrong count or billing error) rejections for a stated period of time
4. No negative non-product-related (problems that occur even though inspection and tests showed conformance to specifications) incidents for a stated period
5. Fully-documented quality system
6. Successfully passed an on-site system evaluation
7. Conduct inspections and tests
8. Ability to provide timely inspection and test data

*\*Source: Besterfield et.al, 2003*

# Supplier Rating

The customer rates supplier to:

- Obtain an overall rating of supplier performance
- Ensure complete communications with suppliers concerning their performance
- Provide each supplier with a detailed and factual record of problems for corrective action
- Enhance the relationship between the customer and the supplier
- Requires 3 key factors:
  1. An internal structure to implement and sustain the rating program
  2. A regular and formal review process
  3. A standard measurement system for all the suppliers

\*Source: Besterfield et.al, 2003

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# Supplier Relations

## Competitive Orientation

- A supplier relation that views negotiations between buyer and seller as a zero-sum game
  - ✓ Whatever one side loses, the other side gains
  - ✓ Short term advantages are prized over long term commitments

## Cooperative Orientation

- A supplier relation in which the buyer and seller are partners, each helping the others as much as possible

# Relationship Development

- Inspection
  - There are 4 phases of inspection
    1. 100% inspection – critical quality characteristics
    2. Sampling – confidence in quality performance
    3. Audit
    4. Identity check – statistical control of the process and continuous improvement; experience in Japan & US has shown that it takes about 5 years to achieve this final level of quality
- Training
- Team Approach
- Recognition

*\*Source: Besterfield et.al, 2003*