

TIME FOR SUPPLIER ALIGNMENT?

Bad wheel alignment can scrub out tyres and compromise safety, quite apart from the damage to your bank balance that can be caused by having to replace tyres prematurely

The problem of course is that by the time you can see the damage, it is too late. You need to be proactive. You need to measure and adjust and periodically recheck.

Poor supplier alignment can have the same sort of effect. Not surprisingly however, the recipe to keeping things on track is quite similar, and involves measurement and adjustment too.

But before we look at how to improve supplier alignment, let's explore how to recognise poor supplier alignment. What does it look like?

You will likely have problems if some of these signs are present:

- MOQs – Minimum Order Quantities and large pack sizes are the bane of our lives at times, especially with the massive range of parts arising from the size of the Australian Car Parc. MOQs might be needed for your supplier's profitability but what do they do to your working capital?
- Failure to Deliver – what happens when your supplier simply fails to deliver what you asked for? Even worse, what happens if they only tell you they cannot supply three months after you placed the order? What does that do to your service levels?
- Failure to Communicate – some suppliers "Fill and Forget" ie. they send you what they can and just cancel the rest. Now it is up to you

to scramble to order the rest from elsewhere, and then of course you discover that the alternate supplier has an MOQ and a higher price. The one thing that perhaps you could be happy about is when the supplier advises you promptly that they cannot deliver the stock when you need it.

- Erratic performance – some suppliers wander all over the place. Sometimes they can deliver in 30 days, sometimes in 60 days and sometimes in 90. Your safety stock has to be inflated to cope with this, but often your customers suffer too.

You can of course do much better.

The relationship must be Win-Win

In the article published in March, "The Certainty Principle," we described how Mark Watson, the Group Forecasting and Planning Manager for Inenco has worked with suppliers to significantly improve the certainty of lead times and thereby reduced safety stock and improved service levels.

Inenco achieved this by understanding the supplier's processes and issues and then worked with suppliers to better connect its needs with what the supplier can provide on an ongoing basis.

Where they could not reach perfect alignment, Inenco then tweaked the way they use the



Horizon inventory planning system to make the best of the relationship as it stands.

A good supplier relationship normally involves the sharing of the risks and the rewards, and normally at the crux of that is the effective sharing of information.

For example, the Horizon planning system plans stock levels out over time, taking into account the need to increase safety stocks for seasonal highs or promotions.

Some Horizon clients provide suppliers with projections of likely POs they will need over the next 12 months. This allows their suppliers to position stock in their supply chain so that they



have a higher chance of delivering the stock when it is called for. The suppliers still have their MOQ challenges and the like, but now they can be much more confident in investing in stock. In one case, we understand that the two parties have put in place some incentives for accurate projections of supply needs – now that is Win-Win.

A relationship that really works also involves an ongoing dialogue about problems. If your sales are outstripping your forecasts or there has been a slippage of an important order, can you easily find out what items you really must have, and even, in what quantity?

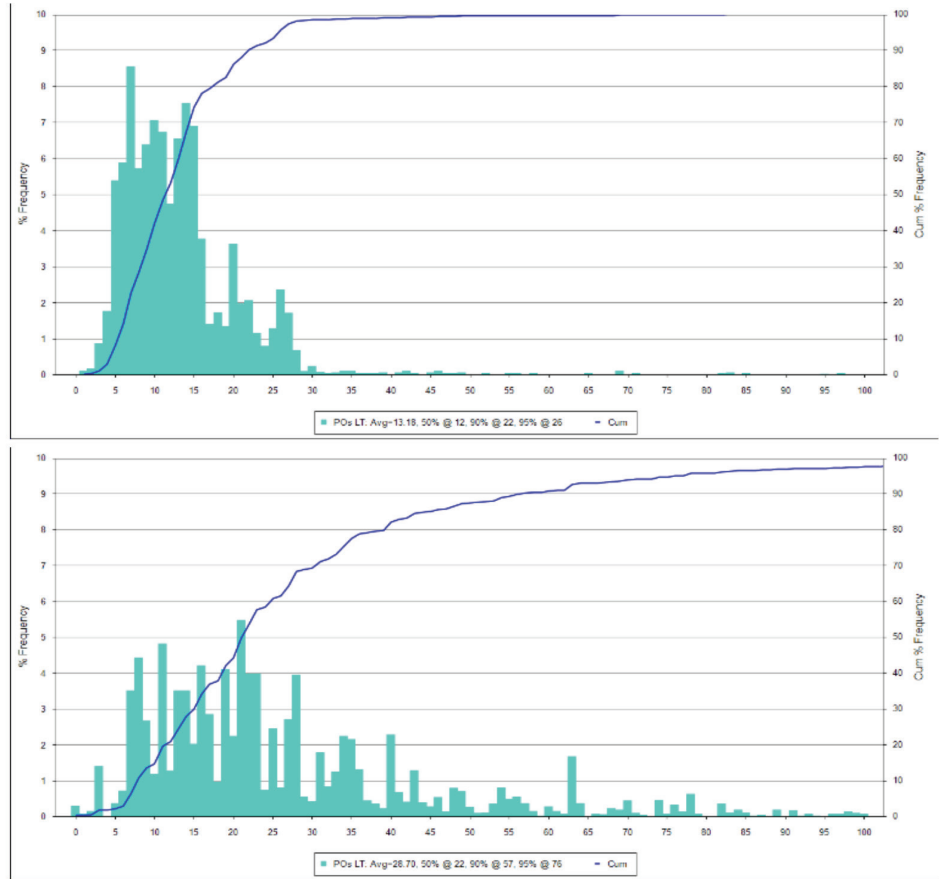
You don't want to cry wolf, but having a really good expedite defer capability in your inventory planning system can help you and your supplier alike. You can easily focus on getting what you absolutely must have, and who knows, maybe your supplier can take what you don't need as quickly, and provide it to one of their other customers.

All of this of course is not hard to do if you have the will, the right partners, and the right tools to free up your time, so you can work on creating and maintaining a good relationship, rather than fighting with your systems and your suppliers.

Measurement and Refinement

When you are dealing with supplier lead times you need to periodically assess the quality of your supplier performance. When you need stock, who are you going to call? If you order on day zero, when does the stock arrive? Does it arrive consistently on the expected lead time?

How often are they early, how often late? By how much? How often do they leave you in the lurch



and cancel your order after you have already waited for some time? How often do they supply in full or part ship? Are the lead times getting shorter or longer? More or less reliable? Is it

possible to segment what your supplier provides into products that are more reliable, more certain versus those where you really need to carry more safety stock?



If however you can gather the right data and tools, you can easily quantify supplier performance. You can then have an objective discussion about the degree of reliability or lack thereof. You can be more certain of lead times and feed this into lower safety stock requirements, and even supplier selection. Facts can help you work wonders especially if they are gathered in a spirit of mutual trust.

It is important that you approach this with a win-win attitude in concert with your supplier. In the end however it is really in your self-interest to align with your suppliers and to use the right tools to assist you to do so. After all you wouldn't take your family on a trip without making sure your car is in tip top condition.

The consequences of not doing the right thing are simply not worth contemplating, particularly when doing the right thing can be so easily achieved and the tools are available.

For further information consult
www.horizoninventory.com.au or
 email info@horizoninventory.com.au