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Partnering with Customers: Myth or Reality?

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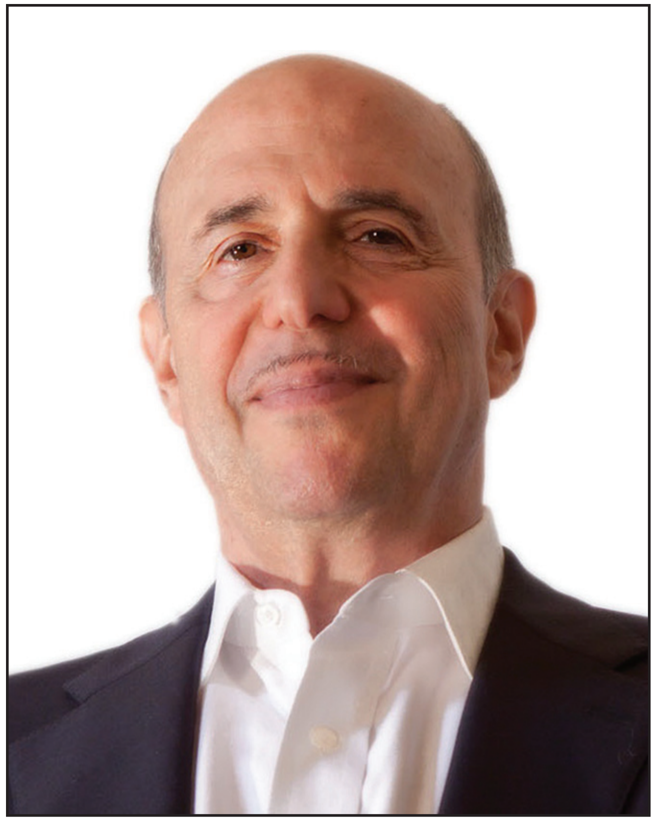
By Loren Smith

The concept of a "partnering" relationship with a customer has been around for a while, and it is often met by harness makers with skepticism. "Partnering" can come across as just another corporate platitude designed to achieve price reductions from suppliers. Given the long life of the phrase "three quotes and a cloud of dust"--referring to the use of competitive leverage to squeeze the last penny out of every quote--it is not hard to understand this wary attitude.

I, too, used to be a skeptic. But then I had the eye-opening experience of interacting with a construction equipment company who, after embarking on a global best purchasing practices study, had decided to go down the road of truly partnering with his suppliers. Because this customer had previously directed teams of engineers to extract fractions of a penny from supplier revenue, his turnaround was remarkable.

Here's how the company partnered: First they sought buy-in from the highest levels of a select number of suppliers so they could describe their concept in the finest detail. They did this by explaining that they had adopted their new approach because they were convinced it would yield them the highest quality and best service at the lowest price—and that their adversarial approach had not consistently yielded those desirable outcomes. They said that, instead, the former relationships had yielded questionable quality and service, and that while purchase prices may have appeared optimal, when they measured component cost, they often discovered costs were excessive.

Their dialogue initially focused on gross margin, which is often misunderstood. It is, according to a generally accepted accounting principle (GAP), the dollars the supplier has left after covering material, labor and factory overhead.



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Once the hurdle of identifying a product's gross margin is surmounted, the harness user and harness manufacturer engage in a collaborative, intensive exercise focusing on the cost drivers. How can they work together to minimize the "cost of goods sold": material, labor and overhead? If this can be accomplished without attacking the gross margin percent, the exercise allows for the harness maker to realize true cost optimization--a result that should yield a lower cost base without affecting the supplier's bottom line

Okay, so you're thinking this all sounds good, but it also sounds like something out of a textbook as opposed to real life. But I can tell you I had the experience of this actually working-with amazing results. The world-class construction equipment company concluded that it did not need a half-dozen wire harness suppliers; it needed only one. We were exceptionally fortunate to be chosen as that supplier, and we went on to be selected as the company's first "vendor of the year."

That designation, however, did not mean we could then coast. We were expected to play an active role in the early design process for new products, as well as in finding ongoing cost reductions for existing products. To meet expectations, we had to have people who were thoroughly dedicated to this new way of doing business.

But on the plus side we weren't worried we'd encounter a flurry of quoting every year that could put our volume of business with this customer in jeopardy. Our partnership with the company stood the test of time, and it is still in place.

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