

---

# The 5 points to better cooperate with (Asia) suppliers - and get what we need

## 1. Avoid price increases down the road

Many Asia manufacturers give a quotation, take on a new project, and then increase the price based on the material consumption and labor content they observe on the first batch they make. So the question is, how to help them keep their costs low?

The response is twofold:

1. Help them reduce scrap. There are many situations where the pass yield is below 50%, and where most of the rejected products have to be scrapped. This is obviously a very important source of costs and needs to be addressed, but the production staff might not have the expertise to find a suitable solution (e.g. better process control, preventative maintenance, better tooling, etc.).
2. Help them make manufacturing easier, better, and/or faster. If the labor content is high, or if many quality issues are likely to appear during manual work, it makes sense to help the supplier organize that aspect of production. Note that the factory owner might be convinced that process automation is the solution, but there are good alternatives that don't require investing and can bring great results.

## 2. Strengthen their supply chains

When did Toyota cars really get better than most of their competitors'? In the 1970s, when they started working on supplier development. Any car maker typically buys around 80% of the total manufacturing cost of a car from suppliers, which means having great suppliers is a must. Doing the design and the assembly right is not sufficient. These car makers rely heavily on their tier-1 and tier-2 suppliers – as these suppliers produce higher-quality parts, the end product gets better too.

The benefit is not only better quality, though. A more reliable supplier will ship components more often on time. Fewer quality issues and delivery delays means our purchasing team can switch to a just-in-time policy and reduce inventory, which in turn reduces costs and lead times significantly.

## 3. Attract the best suppliers

As soon as a company's offering is focused around an industry (i.e. display, packaging, watches and jewelry) and we truly help our suppliers, the word will get around. Our competitors will want to work with the factories that work for us. Our suppliers will tend to grow faster and be more profitable. It means we will have a wider choice of potential suppliers – especially those forward-looking and willing to improve – who will be motivated to work on new product developments, give fair pricing, and in general play the long game.

---

---

#### 4. Allow for tighter collaboration with key suppliers

As we provide help, we send a signal. We are investing, and we expect to work with the supplier for many years. We are not looking for 'one-shot' deals. We are a partner, not a mere customer.

The Scandinavian furniture giant's purchasing prices have dropped by 35% from 1995 to 2004. How did it happen? By reorganizing the purchasing department, but mostly by working much closer with suppliers in certain product categories.

**Make no mistake:** Keeping a healthy distance from a supplier signals not only professionalism but also makes us less dependent. Therefore, avoid going out with your supplier for not necessary social events (and in worst case even alcoholic parties on his expenses) but keep it down to some relationship-building lunches or dinners only to which you might be invited.

- Stick to the anti-corruption and bribery policy as outlined in our Procurement Guidelines!

#### 5. Get immediate savings

This one is tricky, since suppliers probably don't want to open their books – especially if purchasers have a history of using any excuse to request price reductions.

However, certain things can be counted and checked. If we help them to remove 20 operators from production lines that are dedicated to our products, calculating savings is easy. This is the easiest way to calculate the immediate and direct benefits of supplier development.

How to structure the deal? If we reap 100% of the benefits, what's in it for the supplier? Will they be motivated to do the hard work? Probably not. Based on experience, the following approach usually works best:

1. Agree on the planning of improvement initiatives,
2. Calculate final savings after improvements, if possible based on information that cannot be hidden or refuted,
3. Share the savings – for example >50% in the form of lower pricing, and <50% to be enjoyed.

#### Last but not least: You are an Ambassador too!

**Keep in mind:** Purchasers are also sales people as procurement always constitutes sales acts too. Market our procurement guidelines, our purchasing prerequisites & conditions, our company strategy, our line of industry, you yourself as reliable and savvy contact person etc.

Depending on material categories, there are some seller's markets out there, so a buyer is not the only one who selects. Suppliers select the customer as well. Selling "our package" therefore helps to select the right partner!

Any and all personnel involved in procurement shall have a copy.

---