



CASE STUDY – REDEFINING THE SUPPLIER BASE

An automotive component supplier, part of a major Plc., manufactures switch controls for all the major motor manufacturers. In line with increasing competition from the Far East and customer pressures to reduce costs and increase service, level (in order to retain the existing business) the company embarked on a major program of change. At the forefront of the change activity was a major strategic sourcing program due to significant cost (>60%) and problems being in the supplier base.

To drive this initiative within the organisation a Strategic Sourcing Manager was appointed with the sole responsibility of embedding this process within the organisation. As this was a fundamentally new approach to the business, they employed the help of Worldwide Business Solutions

The program was launched with a diagnostic to help prioritise which spend areas should undergo strategic sourcing. The outcome was to begin with Cable Assemblies due to:

- Easier of potential spend areas to tackle
- Use as demonstrator
- Significant spend

The Executive accepted the recommendations for Cable Assemblies and the changes were implemented. The results have been spectacular resulting in significant improvement in supplier due date compliance, significant cost savings and a dramatic reduction in the number of suppliers.

The first phase was to identify the problems. Three fundamental reasons were identified as:

- 1) Poor supplier delivery performance (always top of the shortage list!)
- 2) High annual price increase (>8%)
- 3) High number of suppliers (~8)

Following the strategic sourcing approach, which highlighted that Cable Assemblies was a fairly simple and stable technology requiring a strategy that was focussed on driving out non-capital costs through the development of appropriate systems, the recommendations proposed were as follows:

- Select the single supplier in this case and develop a long-term business relationship – it is currently best in class in OE and Aftermarket



- Implement open book costing with agreed profit margins
- Synchronise planning and control processes to ensure supplier has maximum visibility of schedules and agree change control process
- Provide supplier with long term forecasts so that they can plan any potential investments
- Get supplier involved in the design of new products as well as any design changes to existing products

The changes resulting from these recommendations were implemented. The results, as can be seen in Fig 1 have been impressive. The company has seen a 'step change improvement' in its performance by adopting the strategic sourcing approach. The company has begun a continuous improvement program aimed at improving further the supplier's processes as well as the interface.

The major benefits came from improved planning and control resulting in better delivery performance as well as significant cost savings.

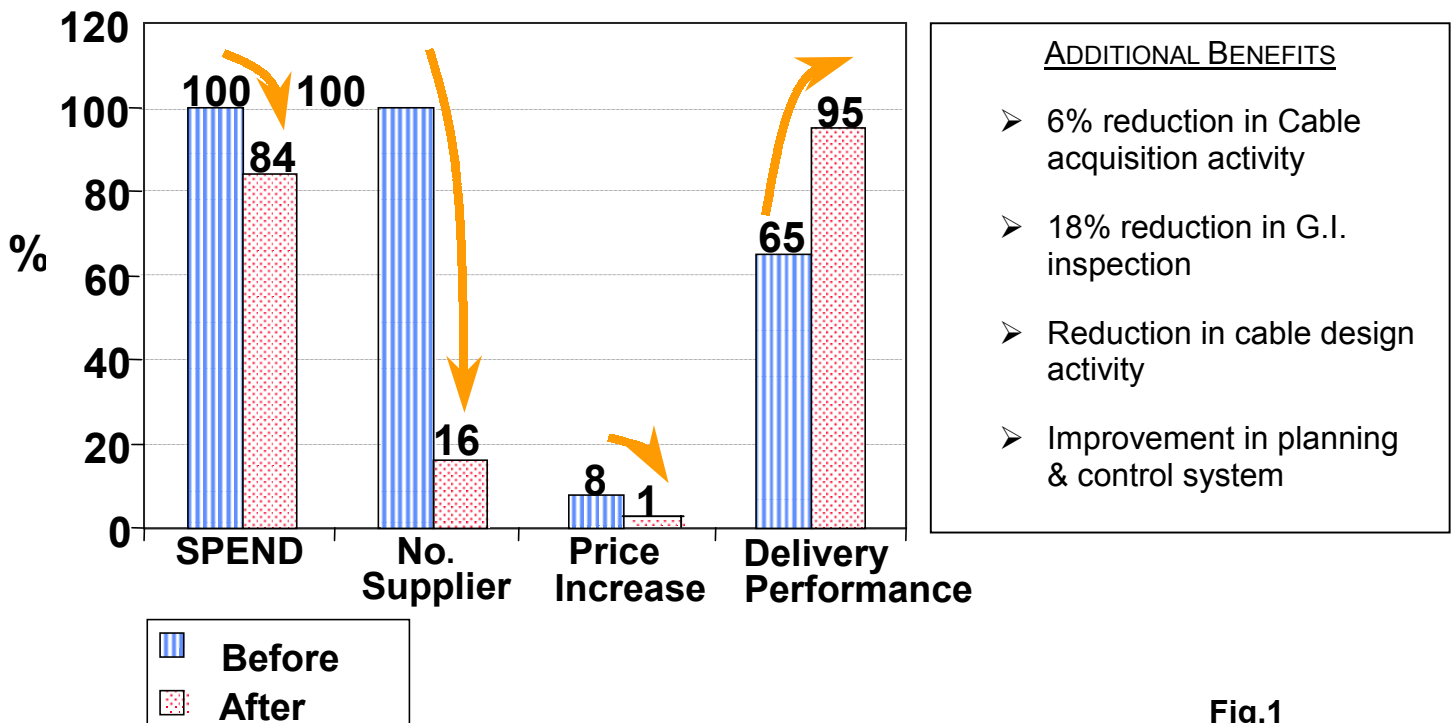


Fig.1



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This is a key example of the successful application of Strategic Sourcing. Previously suppliers were chosen based on price with a very much win/lose relationship involving a lot of a fire fighting. Now suppliers are chosen based on total cost with key suppliers seen as partners providing a significant contribution to the business. The marked improvement in the performance of the supplier base has put this company in a strong position from which to grow the business in the future.



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