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# Supply Chain Challenge - Partner with Small Business Suppliers to Drive Quality, Cost, & Delivery



***Global Executive Solutions***

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# Supplier Partnership

## Driving Long Term Improvement through Supplier Partnering

The strength of the Supply Chain for every manufacturing business is critical to driving performance. Working with suppliers to drive improvement into their processes improving quality, cost, and on-time delivery will directly flow upward to the manufacturing and assembly businesses utilizing the improved supplier. The sometimes-hidden cost that erode earnings from poor performance of the supply chain can be turned into a positive if these suppliers develop strong systems and consistent performance.

***Investments into critical suppliers will translate to direct improvement in quality, cost, & delivery – improving earnings***

The supply chain in the defense and aerospace segment has been shrinking for many years due to multiple reasons. The economic challenges faced by these suppliers to meet all requirements of the FAR as well as the ever growing quality and reporting requirements are a significant barrier to adding new suppliers to grow competition and move away from sole sources, which unfortunately are a prevalent issue throughout many defense and aerospace company supply chains.

**A new approach is needed where the supply chain is viewed differently**, and in some cases similar to a capital expenditures where **targeted investment in specific suppliers** has the opportunity to produce an **ROI that improves company performance, both in customer metrics like quality and on-time delivery, as well as bottom line earnings**. The development of a strategy to invest in specific, critical suppliers that are either currently impeding performance or, sole source and/or small business suppliers that are critical to the ongoing operations that if the supplier had difficulty would severely impact ability to service customers need to be critically reviewed.

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## The Problem – Business as Usual



Traditionally Supply Chain organizations have been responsible for finding and developing sources of supply to support production and assembly operations. Finding multiple suppliers for the same product/component is optimal and provides for alternatives or risk mitigation in the event a supplier has issues in quality, cost, or delivery. Unfortunately, the defense and aerospace supply chain has shrunk over successive economic downturn cycles and has struggled to add new suppliers during stronger market times. The high bar of entry to supply components that may be technically complex, and the challenge in dealing with government contracting requirements and ever-growing quality and reporting requirements dampen interest of many potential suppliers from entering the defense and aerospace supply chain. This has left many companies with multiple sole source suppliers, some of which may be small businesses that lack business processes and systems to support any type of surge or change to demand or quality. Even more disturbing, many small businesses are family owned and may have no documented succession plan for how the company transitions to the next generation, which can result in a total breakdown of the organization.

This approach to Supply Chain has led to many companies having to suffer with poor performance from suppliers that once they get into issues (quality, OTD, etc.) lack the

organization, process, systems or resources to effectively resolve the issue and it ends up being a recurring problem that becomes a standard part of business. This leads to significant costs, which many times are not obvious because they have unfortunately become part of doing business but degrade performance to customers and bottom line earnings. These manifest through creating work arounds, expediting, continual schedule changes, line shortages/stoppages, quality issues leading to disruption and potential to impact reputation with customers due to issues driven by suppliers.

### A New Approach – Partner and Invest in Supplier Performance



A new approach to working with suppliers that are having issues, or those that are not currently struggling, but have resource constraints due to their size, is to partner with the supplier. This approach changes the dynamic of the transactional relationship, which may work fine when everything is working well, however, may break down during times of struggle that all suppliers and manufacturers go through. Changing the dynamic with suppliers and finding ways to partner with them can be a win-win for both the supplier and your company. This will require a reassessment of the Supply Chain and determining the impact of each supplier on the business. By developing an assessment tool that can determine if a supplier is strategic due to specialty/technology, etc. or are they a sole

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source that is critical to the manufacture/assembly of your company product will give a starting place on supplier partnering opportunities. Many times, this can be drawn from data in a supplier rating system that most Supply Chain departments already utilize to rate supplier performance. In addition, gathering data on recent issues or trends with supplier's quality and on-time performance will provide indicators of suppliers that may be encountering problems beyond their current capabilities or resources are able to effectively manage.

### **The First Step – Getting to Yes on Partnering**

Beginning with the data from the supplier ratings, conduct interviews/discussion with your Supply Chain team and understand issues and concerns with specific suppliers. Develop a criterion to enable management evaluation of importance to partner and the impact that will have on the business. Consideration should be given to the impact on sales/earnings that a sudden disruption with a supplier would have on the business, how quality issues would impact the business, the size of the supplier and their ability to respond to challenges.

Once completed with analysis, working from both a strategic and practical perspective for potential impact to the business, determine the leading candidates to partner to have the most significant risk to the business (size of buy, strategic component, sole source, etc.). Once determined, discussions at leadership levels are needed with the chosen suppliers to begin the process and help the supplier understand the support and opportunity this partnership will have on their overall business. **Strategic discussions should include the potential to invest into a supplier's business.** This type of change will need a different type of discussion with the supplier. It may be that strategically the supplier is critical and therefore it is vital to ensure the continued source of supply at a high operating level. Negotiating this may also entail an agreement for exclusive supply, or if that is not possible, preferred pricing and scheduling in exchange for the investment of resources to improve performance. Each relationship and situation will require a different approach but being open to developing a partnership that is beneficial to both entities is a key to beginning the process.

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Some suppliers may be reluctant to engage in this type of arrangement due to fear of giving away too much information on process or other critical information. This is especially true of family owned small businesses where many times the owner holds information very closely and does not include others, even employees, in information regarding the business. Therefore, it is critical to develop trust in the relationship and to ensure the understanding that this is to help the supplier improve business that will also help them across their entire business. It may be helpful for the first attempt to select and work with a supplier that your company has an existing and strong relationship in order to be able to develop a successful engagement that can be used to demonstrate to other suppliers the benefits and opportunity in the partnership model.

***Gain initial success to launch the program – work with a supplier with a strong existing relationship to demonstrate success***

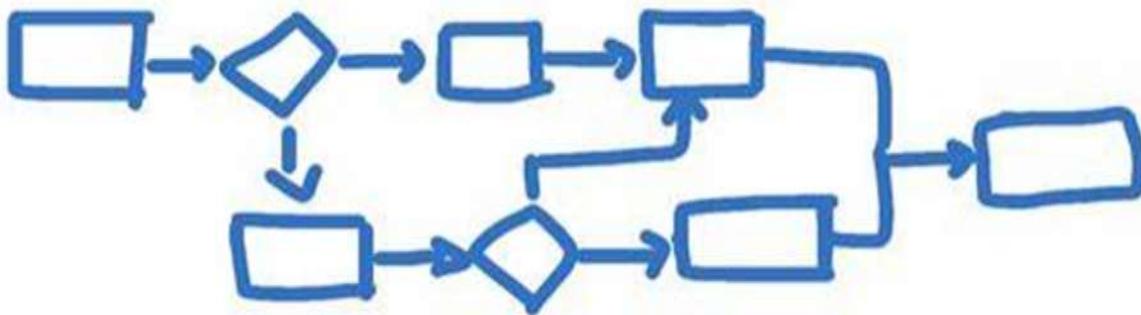
Developing an agreement will potentially include investing resources/time/money into the supplier's business. The approach to this process should be the same as that for a capital expenditure; developing a plan with a budget, resources to be involved, and a detailed project plan and timeline (more on this process next). With the resource planning understood, an ROI can be developed understanding the cost to the business related to the supplier over the past year related to quality issues, on-time delivery issues and the cost to internally manage the supplier with expediting, changes, or other.

Alternatively, there may be a way to partner with a shared cost to drive the improvements. Partnerships in this manner may be used where the cost and resource expenditures for the improvements are split by the supplier and the customer and both companies derive benefits from the improvement process. In this scenario the supplier provides a price reduction in relation to the cost input of the prime/customer for a negotiated timeframe to enable an ROI on their investment in the supplier. This may also help in creating an advantage in the market for both supplier and customer. In addition, if the supplier is non-exclusive, this pricing should be preferential and not available to any other customer in the market. In the event the supplier is a sole source,

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this pricing arrangement should be structured to create a sustained improvement in earning rates for both companies.

## The Process



The process to support the supplier must begin with a detailed assessment of the current state. This is beyond a normal supply chain audit, and must include SME's across a range of areas:

- Organizational Structure
- Production Planning
- Operations
- Maintenance
- Quality Systems
- Quality and Inspection Processes
- Supply Chain & Logistics
- Succession Plan (for privately owned small business)

Working with the supplier's team, the SME team must gain a detailed understanding of the processes and organizational resources as a baseline for determining what type of support will be needed to develop, implement and sustain processes and systems for long-term success. This will require in-depth reviews to provide the gap analysis that will lead to a plan for improvement, therefore the SME's must be experienced and capable of developing an achievable plan that can be accomplished within the framework developed by the company and the supplier.

Depending on the supplier, their size, and complexity of the processes, this may be as simple as implementing industry best practices for root cause analysis and correction

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and other similar processes. However, at many suppliers that have grown but not added resources and processes to match their growth, it will require a lengthier process that builds upon multiple steps of improvement. These steps typically start with realigning the organizational structure to meet the needs of the customers, adding resources, and implementing processes and systems across the business to have a sustainable business that can manage through unforeseen issues that will manifest in every business from time to time. This tends to be especially true in privately owned companies where the owner typically has technical skills in the product but generally does not keep pace with industry best practices for organization and processes and tries to wear too many “hats” in the organization. This will require significant understanding of not just the best practices, but the logic and need to have the systems and process in place to enable improving costs and creating sustainable growth. Without the in-depth understanding, some owners will not embrace and champion these improvements which will lead to a breakdown and inability to sustain the improvements. **It is an absolute necessity to have the supplier’s owner/leadership full commitment to enable success.**

## Summary

Changing the approach to Supply Chain to develop a partnering model in addition to the traditional transactional process has the opportunity to have long-term tangible benefits to the overall business and your customers focused on **Quality, On-Time Delivery, and Earnings**. The process is beyond traditional Supply Chain activities and requires utilizing SME’s in many business areas to diagnosis and develop detailed plans for new processes and systems. It also provides the opportunity for the Supply Chain team to reimagine their role and develop processes to incorporate partnering into the method for engaging the supply base.

*Global Executive Solutions (GES) has access to over 150 SME’s to support your business in implementing this strategy to improve your service to customers and bottom line results. With a management team with over 100 years of experience in all aspects of the aerospace and defense sector, GES is supported by USC Consulting, a consulting group with a 50-year track record of success in Supply Chain, Logistics and Operations consulting.*