

PRIME Advantage



WHITEPAPER

Five Key Obstacles to Building a Reliable Supplier Network for Small and Mid-Sized Manufacturers, and How Joining a Private Network Can Help Overcome These Obstacles

U.S. manufacturers are being challenged by the most intense global competition in history. Passing on cost increases to customers can be extremely difficult and finding the right vendor partners is crucial to containing or reducing costs in this environment. However, for small and mid-sized manufacturers (less than \$1 billion in revenues), the task of finding reliable and qualified suppliers can be even more difficult due to issues sited below.

The top five obstacles to building a reliable supplier network are:

- 1. Limited human capital resources**
- 2. Limited access to national and global supply chains**
- 3. Limited supplier qualification and auditing processes**
- 4. Limited negotiating power: for pricing and overall clout**
- 5. Limited ability to “build a bench” of suppliers across categories**

This white paper explores how joining a pre-existing network of manufacturers can ease the difficulties that companies face in overcoming these five obstacles and help build a reliable supplier network that drives both immediate and long-term value throughout an organization.

1. Limited human capital resources

If you asked your purchasing department what its top constraint was to achieving greater results, more times than not the answer would be “resources.” Whether a company is large or small, the biggest obstacle preventing companies from achieving an optimal supply chain is limited resources. The results are an inadequate ability to source products, an incomplete roster of qualified suppliers, and a lack of depth within product segments. Other common resource constraints include an inability to implement, evaluate, and communicate a standardized supplier qualification and evaluation process, as well as conduct supplier site visits with your strategic partners.

If large companies agree that inadequate resources inhibit them, small and mid-sized companies clearly experience the impact of these limitations in greater levels. Within our network of more than more than 550 manufacturers, Prime Advantage has witnessed and identified several common themes in procurement departments:

- **Limited head count:** Often times, purchasing is comprised of 1-3 buyers with limited responsibility over select categories
- **Dual roles:** purchasing professionals are performing functions outside of the procurement area (e.g. operations, accounting, logistics)

In this organizational situation, purchasing tends to be a tactical role and the primary goal becomes getting orders out the door. Overall supply chain management and sourcing strategy are rarely addressed. The essential actions to source new products, build relationships with key vendors, and qualify secondary sources often get neglected.

A private network of buyers can help these companies mitigate the problems caused by having limited human capital. Members can draw upon the expertise of the network’s staff, as well as the expertise of their fellow members.

Through its Regional Account Managers, Prime Advantage provides an extension of our members’ purchasing departments and a window to a world of strategic procurement opportunities. Without adding any staff to their purchasing or procurement departments, our members receive assistance and expertise in the aforementioned areas, ensuring that top quality suppliers are available in core categories as well as indirect goods and services.

“Our Regional Manager from Prime Advantage analyzed our supply base as well as our procurement needs. We worked with him to set up a one day event in which we mutually identified 17 Prime Advantage endorsed suppliers, across a broad spectrum of direct and indirect categories, to present to our company. This enabled us to look at alternative sources in key categories, as well as build a bench of quality suppliers in specific categories where we only had one supplier. This service proved to be an extremely efficient experience for us for two main reasons: first, it would have taken two years to see 17 suppliers on our own. Secondly, it saved us a lot of time in researching the supply chain across such a broad spectrum of items we purchase.”

Mike Yonker, Materials Production Control Manager
Structural Concepts, Muskegon, MI

2. Limited access to national and global supply chain

How can you be certain that your local supply base offers you the best possible value? The only way to test this is through competition, and if you don't create a competitive environment for your suppliers, or if you solely source from local companies, you could be putting yourself at a competitive disadvantage.

Geography plays a key role in large, core purchases that tend to be freight sensitive. In those cases, the freight cost alone may dictate that you source locally. But what about everything else? Whether it's broadening your supply chain nationally or internationally, the best performing procurement departments discover that sourcing from a broader geographic area can lower total cost of ownership. They've taken the time to identify, qualify, and select the best performing suppliers that align with their corporate and procurement strategies.

Prime Advantage members gain access to a broad geographical network of elite national and international suppliers. Relationships with these suppliers are formed at the semi-annual conferences and facilitated by Prime Advantage Regional Account Managers who understand your procurement department's needs and strategic sourcing strategy.

"We consider ourselves good negotiators, but expanding our sources beyond our southeastern base has helped us get even more competitive bids. In essence, we had conquered our region price-wise, but broadening our supply chain geographically resulted in additional savings."

Harmon Lewis, Executive Vice President
American Panel, Ocala, FL

3. Limited supplier qualification and auditing processes

In business, when performance objectives are not met, management must be able to determine what needs to be changed and plot a course of action to implement those changes. Managing your supply chain is no different and the best performing companies have formalized supplier evaluation systems in place that enable them to accomplish this same objective. As an example, when a supplier is continuously late with shipments, a spend management professional must identify the infraction, quantify it, communicate it to the supplier, and implement corrective action. Corrective action can take the form of a 3 strike policy, monetary compensation, a combination of both, as well as others.

Based on our experience, we've found that few small to mid-sized manufacturing companies have formal processes in place to track, evaluate, and communicate supplier performance, let alone assess risk within their supply chain. These companies simply lack the resources and expertise to create and maintain a supplier evaluation system. Without such a system, companies have a hard time defining if supplier performance is productive or if it should be better. Often, companies find out when it's too late that a supplier is continuously underperforming.

Suppliers that are true partners want to help customers succeed by improving their own performance. These suppliers value the consistent and measurable feedback that a formal

evaluation system provides. The advantages to having a formal evaluation and audit process in place benefits your organization as well as your supplier's organization. Empirical evidence illustrates that firms with supplier evaluation systems realize improvements such as a higher rates of on-time deliveries, fewer defects, and quicker response time.

For instance, a Wells-Fargo study on supplier evaluations that was presented at a recent ISM Conference examined best practices in supplier evaluations for companies in a variety of industries, including aerospace, agriculture, electronics, financial, household manufacturing, semiconductor, telecommunications, and utilities. The study found that supplier evaluation scorecards are critical to a company's success, and stressed that a consistent approach to measuring supplier performance is critical to delivering an objective report.

Prime Advantage has two systems in place to ensure our members are only exposed to best-in-class supply partners. There is an audit process that suppliers must pass to enter the network and attain endorsed status. Once the supplier attains endorsed status, our network of members provides ongoing feedback through our formal evaluation to ensure each supplier's continued performance.

"Awarding business to Prime Advantage-endorsed suppliers has been a seamless process for our company. Since all the suppliers within the group have already been fully qualified and are continuously audited, the amount of time and internal resources we spend on supplier qualification is greatly reduced and in some situations, eliminated. It's extremely assuring to Royal Vendors as we look to further leverage more of their suppliers that Prime Advantage understands the value that a high quality supply base provides to their member companies."

Ray McCadden, Vice President, Engineering
Royal Vendors, Kearneysville, VA

4. Limited negotiating power: For pricing and overall clout

It's no secret that the more volume you award to a supplier, the more important you become to its organization. It's a matter of economics; channeling more business to a supplier enables it to achieve greater efficiencies within its organization and supply chain.

Multi-billion dollar organizations generally tend to leverage their size and clout more effectively to realize economies of scale within their supply chain. Small to mid-sized manufacturers tend to struggle more in this area. While having spend management professionals with strong negotiating skills is essential to getting the good results, better results can only be achieved by bringing significant volume to a supplier. You can't expect to win an Indy car race driving a stock car.

Below are two commonly used strategies supply chain management professionals implement to drive down costs.

Competitive bid scenario: The common practice of sending an RFQ to several suppliers will give you different prices to pick from. There are obviously other things to consider, but from a price standpoint, this should help drive down the cost vs. just getting 1 quote.

Consolidate your purchases to fewer suppliers: Giving an existing supplier more business should provide you with a lower cost structure, assuming the marginal gain by the supplier enables them to do so. The obvious advantage here is the existing relationship already exists and qualification or evaluation of a new source is not required.

In either situation you must ask yourself “what’s in it for the supplier” because if you believe markets are efficient, you’re probably priced where you should be based on your volume. Each of us has experienced the low bid supplier which buys the business, only to raise the prices dramatically later on.

Prime Advantage leverages the volume of the entire member base to negotiate extremely aggressive rebate and discount programs with its endorsed suppliers. More than \$17 billion in aggregate purchasing clout ensures members are reducing costs in strategic purchased and often custom items as well as indirect goods and services.

“Our membership in Prime Advantage has enabled Stellar to pursue better pricing from suppliers than we could have attained by ourselves. It also offers a forum for best practice discussions. The discussions that I have had a part in are just as valuable to our bottom line as the discounts and rebates that we receive.”

Margaret Tue, Purchasing Manager
Stellar Industries, Garner, IA

Stellar will realize an additional 5-10 percent savings this year due to its participation in Prime Advantage.

5. Limited ability to “build a bench” of suppliers across categories

What to do if your go-to supplier is acquired by a competitor? Potentially, you’ve suddenly lost an important resource for your business. Do you have a pre-qualified second source? Will you get the customer service you expect from your alternative suppliers?

The endorsed suppliers in Prime Advantage are held to the highest standards through the continuous audit and evaluation processes that our members perform and report. Our network provides pre-qualified alternate suppliers in more than 100 categories of goods and services. This availability of quality alternate sources is essential to mitigating inherent risks in your supply chain. Members can instantly access new sources through our network and save days of sourcing and qualifying time by relying on the work that others in the network have already performed.

“We’ve benefited greatly from the quality and depth of the endorsed suppliers within Prime Advantage. Early on in our membership, we were able to switch our business to key Prime Advantage suppliers and realize significant savings.

“As time went on, we were able to build depth within our supply chain, across many categories, and subsequently have switched more business to some of these suppliers. The innovation and level of quality that the Prime Advantage suppliers have provided has enabled us to stay ahead of the curve in our industry. Our exposure to this supply base has made a direct impact on our ability to sustain our market leader status.”

Bill Collins, General Manager
Ultrafryer Systems, San Antonio, TX

CONCLUSION

Since 1997, hundreds of industrial manufacturers across the U.S. have extended relationships in their purchasing departments through Prime Advantage’s Regional Account Managers (RAM) with the goal of more easily identifying qualified suppliers.

Regional Account Managers work closely with members and provide strategic direction in sourcing, serving as the extension of the purchasing department. By honing in on members’ business challenges, RAMs can become extensions of members’ purchasing departments, can shorten the sourcing cycle time and also introduce qualified suppliers from which to choose.

Prime Advantage’s approach also allows these manufacturers to remain competitive in such a fierce market.

By aggregating the purchasing power of individual manufacturing companies and driving their purchases toward a limited network of qualified suppliers, Prime Advantage delivers increased cost savings, more productive relationships, and countless related benefits for manufacturers that are often forced to compete against global organizations.

For more information on this white paper or to speak with someone about Prime Advantage contact Mike McDonald, Vice President, New Business Relationships, at mmcdonald@primeadvantage.com or directly at 312-601-3110.