WHITE PAPER

VENDOR RELIABILITY PROGRAM

Vendor Reliability Program

What do Just-In-Time, Lean Manufacturing, Kaizen, inventory leveling, production scheduling, and On-Time-In-Full (OTIF) have in common?

They all require a consistent, reliable source of incoming materials. Most consulting firms focus on internal efficiencies and downstream customers. While these areas are important, improving the reliability of your suppliers will have a direct, positive and continuing impact on your bottom line. This is the goal of LEP's Vendor Reliability Program (VRP).

Every year, companies develop new strategies to get a competitive edge. Many implement Lean systems, Six Sigma or similar methodologies, seeking to reduce waste, lower costs or improve quality. Some install Kanban and Heijunka systems to ensure the Just-In-Time delivery of materials. Some opt to design and install multi-million dollar ERP, MRP, PSS, and a whole host of other systems in order to increase efficiency and throughput, lower inventory or even decrease carbon footprint.

Unfortunately, all the planning and often expensive tools and systems can only work to a company's advantage if its vendors are also pulling their weight by providing a consistent supply of material and services.

Figure 1.0 shows that just some of the key areas impacted by vendors and also indicates some of the direct and indirect costs of unreliable suppliers, such as:

- Inventory costs
- Procurement—additional buffer stocks
- Production—delays stoppage
- Finance—carrying costs, expedited freight
- Customer relations—late or incomplete deliveries
- Margins—added costs and expenses

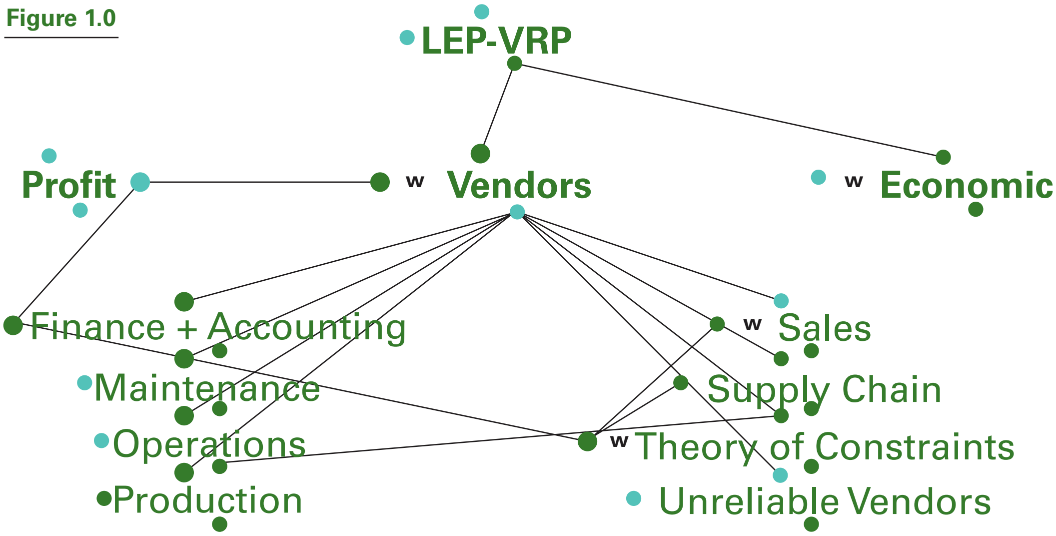
SIGNS YOUR VENDORS ARE NOT RELIABLE:

- **Have your vendors failed to deliver quality products on time and in full?**
- **Have your vendors failed to fulfill any contractual obligations?**
- **Have you incurred additional costs (excessive expediting, overtime, spot purchases) to ensure your customers are satisfied?**
- **Do you use outside contractors to bring components into specification?**
- **Do you have to quality-check every component coming into your facility?**
- **Do you have production stoppage due to lack of materials?**
- **Do your vendors regularly change the estimated delivery dates?**
- **Have you air-freighted heavy parts to meet your production schedules?**

If you answered "yes" to any of these questions, then you may be:

- Incurring excessive costs
- Squandering hard-to-recover revenues
- Seeing the additional material cost ripple through your business, increasing in magnitude
- Experiencing weakened margins
- Negatively impacting your relationship with your customers

Figure 1.0



In fact, without reliable sources of material, most businesses would shut down. Commonly, suppliers are considered "just another link" in the supply chain. But, as the adage goes, "a chain is only as strong as its weakest link."

In general, the goal of an effectively managed supply chain is to create a flow of inventory that ensures the greatest availability of resources while eliminating surpluses. One of the key philosophies in achieving this goal is the *Theory of Constraints (TOC).* Effective when used to address a single link in the chain, such as vendors, or when applied across the entire supply chain, the primary purpose of TOC is to establish a decisive competitive edge by dramatically decreasing the variability of the flow of goods by removing constraints (disruptions, shortages, delays and surpluses).

The TOC process involved identifying and then minimizing the constraints within the system, or in this case, the supply chain. One of the tools used for identifying and measuring constraints is *Replenishment Time (RT).* Once a material replenishment order is transmitted to the supplier, RT is equal to the time it takes for the supplier to manufacture the order, plus the time spent in transporting the order and the time spent receiving/processing the order to make it available for production.

There are a number of ways to minimize Replenishment Time, including holding inventory at aggregation point(s) as close as possible to the source or establishing inventory buffers equal to the maximum expected consumption within the average RT (buffer sizes are constantly monitored and adjusted).

Once inventory is managed, continuous efforts should be undertaken to reduce RT, late deliveries, supplier minimum order quantities (both SKU and per order) and customer order batching.

Other solution sets include:

- **Vendor-Managed Inventory (VMI)** is where the supplier manages the inventory levels. In some cases, VMI is provided on consignment and not billed until consumed.
- **Third Party Logistics (TPL)** providers manage buffer stocks, usually off-site. TPLs can also handle bulk storage, overflow storage, or large economic, defensive purchases. There may be increased costs and multiple handling of material.
- **Production Smoothing**, or producing at a constant rate, can be effective as long as aggregated demand is forecasted accurately.

Through the Vendor Reliability Program, LEP works with organizations to identify the suppliers that are either, the most critical, or causing the greatest disruption. Then, we leverage the organization's relationship with the supplier to partner on a fact-finding analysis of the supplier's operation. We examine how our client's demand flow impacts the supplier, analyzing the entire operation from order entry, through production, inventory management, their vendor issues, order fulfillment and delivery to our client.

Upon completion of the analysis, we present the supplier with our observations and recommended solutions. A joint review of the issues and recommended strategy is a critical next step to ensure the solution is tailored to the specific needs of the vendor as it relates to our client's business. Then, if desired, LEP will work with the supplier to implement the solution.

Improving the reliability of your suppliers will have a direct, positive and continuing impact on your bottom line. Typically, cost reductions on the supplier-side have a multiplicative effect throughout your value stream.

About LEP

Established in 1998, LEP is transforming businesses by solving today's challenges and planning tomorrow's success. We base our success on helping companies achieve real change and strategy for sustainable success.

LEP has a solid, distinguished reputation for:

- Skilled consultants and staff who are truly experts selected for your specific needs
- Implementing sustainable, holistic solutions
- Guaranteeing and achieving a ROI of 300% for you in the first year.

Communicate. Innovate. Accelerate.

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