Getting Strategic With Your Supplier

By Bill Becker, Fastenal's National Accounts Cost Savings Specialist

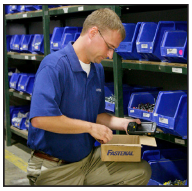
Over the past 20-plus years, U.S. industrial firms have been pressured to improve quality, speed, and efficiency in order to compete globally. One result has been the rise of Lean manufacturing here in the States. Another, related trend has been a move beyond transactional purchasing, with its narrow focus on piece price, to more strategic supplier relationships focused on core goals like improved productivity or better cash flow. In short, businesses have stopped "jumping over dollars to chase nickels" – factoring not only the quoted price of a product, but also how much it costs to acquire, carry and use it.

To meet this demand for total cost savings, today's best-in-class strategic suppliers don't just process transactions; they work closely with customers to drive continuous improvement and, in turn, define new industry best practices. In fact, according to the *Harvard Business Review*, today's most innovative companies are innovating at ten times the rate of the average company – and 60% of their innovative ideas are coming from suppliers.

What separates a truly strategic supplier from a merely transactional one – one that works to improve overall profitability versus one that simply ships orders? Here are five primary areas of activity you should look for:

1. **Expenditure-focused activities** that impact the price you pay for product and services. Examples include product substitutions, volume-negotiated pricing, and reduced freight costs. Vending can also play a role. Case in point: as a result of the controls and reporting provided by Fastenal's FAST 5000℠ program, organizations typically reduce product consumption by 30%, often significantly more.

2. **Revenue-focused activities** that help you generate more revenue – for example, identifying new product or market opportunities, suggesting a labor-saving process, reducing turnaround time, or implementing point-of-use stocking locations to increase output.



3. **Asset-focused activities** that help you reduce asset costs. Examples include local product stocking, vendor-managed inventory (VMI), point-of-use industrial vending and store room management services. All help the bottom line by reducing the amount of inventory that must be kept on hand without causing service or productivity automated supply disruptions.

4. **Process-focused activities** that streamline processes to lower costs. Examples might include supporting web ordering and EDI/EFT, integrating with your ERP system, or using supply technology (like Fastenal's FAST 5000) to automate ordering.

5. **Service-focused activities** to drive additional value. For Fastenal, this includes things you might expect from a service-oriented supplier, like VMI and 24-hour emergency service, but also services like custom parts manufacturing, parts kitting, tool repairs, and engineering support. These and many other service offerings were developed to meet specific customer needs over the years; cumulatively, they represent a menu of opportunities to overcome challenges and operate more efficiently.

If you're looking to develop a truly strategic partnership with a supplier, the first step is to create a mutually agreed upon business plan – with buy-in from upper management. As part of the process, the supplier should work with key personnel in your organization (the plant manager, receiving personnel, inspectors, buyers, et. al.) to map how product flows through your system, identify areas of waste, and propose ideas to drive down costs. A clear cost reduction goal should be set, and moving forward, the supplier should regularly report on progress toward that goal. In our experience, some of the areas typically targeted for cost savings reporting include P.O. reduction, inventory reduction, freight reduction, hours saved in receiving, longer product life, invoicing savings (e.g., via EDI transactions), usage reduction (through vending controls, etc.), and committed local store inventory.

Today's globally competitive environment demands that suppliers take a 360-degree approach to improving efficiencies for their customers, driving not only expenditure and asset reductions but also improved processes and revenues. In short, if each party – the customer (whether it's an OEM, a facilities maintenance operation, a contractor, or a government agency) and the supplier – represents a "leg" upon which the success of the venture depends, the most successful organizations will stride into the coming years with two strong legs carrying them forward.

Looking to grow your partnership with Fastenal? Contact your local fastenal store to learn more and arrange a no-obligation Process Mapping event

As Fastenal's longest-tenured employee, Bill Becker brings 36 years of industrial market experience to his current role as manager of Fastenal's cost savings programs. In addition to directing the company's internal savings initiatives, he regularly consults with large, multi-site customers to help them eliminate waste from their supply chains through strategic buyer/seller relationships, efficient material management, and custom cost savings programs.

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