VENDOR, SUPPLIER, OR PARTNER?

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DEFINING VALUE IN PRODUCTS AND SERVICES CAN BE A KEY TO FUTURE PROFITABLITY.

ALL MANUFACTURING AND DISTRIBUTION COMPANIES are facing the challenges of globalization, consolidation, and stock rate of return pressures. High profitability has always been one of the key business measurements for "brick and mortar" companies. In a time when high-tech companies have valuations based on the potential of future products and market share as opposed to profitability, there is little technology glitz and glamour to companies that actually make and deliver goods. The future staying power of the brick and mortar at manufacturing companies exists in building strong supplier alliances, finding "value" in their supply chain, and being able to execute outside the walls of their facilities.

Historically, paper and converting companies have sought profitability from industry-focused equipment and material suppliers that could help increase manufacturing rates or efficiencies or develop new products. Like the rest of their manufacturing brethren in other industry sectors, they will find that future profitability will come from knowing their customer and markets better and leveraging the relationship with their suppliers. Industry-wide reductions in R&D and process resources have changed the role of suppliers. Today, companies rely upon their suppliers to provide new technological advances as well as be on-site process experts. This combination of events and circumstances makes solid supplier relationship management imperative. It is important to focus on the overall value being provided by the supplier's offering. Providing value to the final customer and to your company's overall profitability is the key, as opposed to having a low unit cost or being the lowest bidder.

Information Technology (IT), business system, and service suppliers are a relatively new addition to the cast of suppliers that paper and converting companies have to choose from. Using a value-based approach is even more critical when selecting a software or services company. It is also crucial to work with a company that has a focus on the industry and whose success in the paper and converting industries is also critical to its future. Consolidation and elimination of companies in the IT and services area greatly outpace that in the paper and converting industries. Choosing suppliers that have a fleeting commitment to your business segment or that lack intimate knowledge of your business processes may result in owning millions of lines of code that will never be upgraded or that you will maintain yourself.

Knowledge of the industry should be the initial sorting criteria. The best functionality in a software application is totally useless if implementation execution is poor or software complexity makes users fear the software. IT services companies can always provide resources for a project; the key is whether they can understand your business needs well enough to configure the software to match them.

A "Value Statement Approach" to working with suppliers of all types is the best way to prepare your company for the future and get the expected benefits from the product or service. The concepts behind the approach are simple but require hard work and commitment to be instituted correctly. They include:

1. What is the initial value of the offering or service relative to strategic business plans or issues?
2. What is the future value, and does the technology have inherent flexibility or scalability to adapt to future market changes?
3. How will the supplier and your company measure ongoing value?
4. What is the review frequency to ensure the value metrics are appropriate and results are being obtained?
5. Has an action plan been developed to ensure that the relationship between the two companies grows into a business alliance with shared risks and rewards?

The "Value Statement Approach" is the best way to ensure you are working with companies that understand your company's issues, are committed to the industry, and can provide the expected return from the investment. Whatever name is used to describe those providing services, materials, and technology to a company's supply chain, the key is to convert it to a "value chain" and build those supplier relationships into strong business alliances. TJ

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