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Automotive rebrands procurement

New directions at Toyota, Chrysler provide supplier relations best practices.

By David Hannon -- Purchasing, 3/11/2010 12:00:00 AM

If you went to sleep in 2007 and woke up today, you might not believe the headlines you're seeing about the U.S. auto industry. Toyota under fire for quality issues? Chrysler promoting its supplier relations strategies? Under its new partner, Italian giant Fiat? Yes, there have certainly been some major changes in the automotive industry in the past couple years.

As profiled in *Purchasing* stories last year, Ford Motor Co. is sharing more production plans and forecasts with its suppliers while General Motors is paying suppliers earlier to improve their cash flow. And while Toyota's recent experiences provide their own supplier relations lessons, Chrysler's post-bankruptcy, post-bailout plans to improve supplier relations may provide the best learning opportunities of all for purchasing professionals.

Case #1: Chrysler designs a new future

With a new strategic partner and a new business plan set last year after its emergence from bankruptcy, Chrysler is starting with a clean slate. And improved supplier relations is a key component of that turnaround strategy Chrysler outlined last November. The strategies Chrysler employed to improve supplier relations provide purchasing teams a very clear and direct benchmarking opportunity. The company's purchasing organization, under newly appointed CPO Dan Knott, has not only been developing and implementing its strategy (see "Chrysler targets \$3B in savings through joint buying with Fiat," *Purchasing*, December 2009, p. 11), but it has been very visible in doing it. No secret, back-room supplier pressures, they say. Tried that, didn't work. Today, with Fiat's input, Chrysler is striving for deep and transparent relationships with its suppliers.

Even the selection of Knott as CPO is a clear sign that Chrysler is ready to move in a new supplier management direction. He's not a career purchasing professional and he's not an outside hired gun brought in to lay down the law and cut costs. He's a "car guy" by his own description whose responsibilities are to increase supplier partnerships with the goal of making better vehicles.

His extensive and varied background with Chrysler began at its AMC unit in the engineering organization and includes time in vehicle program management, quality and material cost management at Chrysler. He even did a stint at an automotive supplier early in his career.

"One of the key shifts in our company is the focus on the product," Knott says. "At the end of the day or job is not about if I wrote a good purchase order, it's about enabling the product execution through the purchasing excellence."

So how does his diverse experience working with purchasing from other organizations help in his CPO role? Well, he has many examples, but the first one is his time in product development.

"I worked closely with purchasing and suppliers in that role and I learned that sometimes purchasing works in a bubble and focuses on metrics that don't always enable great product execution," he says. "For example I know from executing programs or designs the downstream problems that come from not having a supplier on board on time. Not only do you create internal supply chain issues, but you set the supplier up to fail from the quality and the financial perspective. If I take six months out of their expected timeframe, they have to accelerate their work and look for some kind of recovery from me or they will have to absorb that extra cost, which we don't want either."

That kind of talk hasn't come out of Auburn Hills, Mich. in a long time, and the company's reputation among suppliers has suffered as a result. Chrysler finished last among North American OEMs in the 2009 North American OEM-Tier 1 Supplier Working Relations Study from research firm Planning Perspectives. At the time, John Henke, president and CEO of Planning Perspectives, said "Right now, Chrysler's suppliers are not doing anything to support the company because of the treatment they've been getting for the past two years."

And Knott is well aware of the impact supplier ratings can have on Chrysler's purchasing teams. "One of the worst things I can imagine is my buyers and directors having to negotiate with a supplier and the supplier drops out a list of legacy issues," he says.

So that's not going to happen on Knott's watch, and suppliers are going to see a new Chrysler. "It's no fun to do business when you're fighting," Knott says. "We have had the lowest supplier relationship rating in the U.S. for the past couple years. My focus is to improve that. I think I can do that and deliver better on my metrics and deliver a better product for the company."

In fact, he goes so far as to say, "If I have to do something that may negatively affect my organization's rating in the short-term so that the supplier can improve and provide us with a better product, I may have to do that. I will have a better relationship with the supplier and at the end we have a better product. And I think that's a mentality we haven't always had in this industry."

Walking the walk

But it's not just talk. There are real steps and initiatives in place at Chrysler to improve its standing with suppliers. One is reducing the time it takes for a supplier to file a payment claim. Knott says it used to take an average of 287 days for a supplier's claim to be processed in Chrysler's supplier claim process.

"Making suppliers wait that long for an answer to their claims is unacceptable to me," he says. "We have gotten it down to 105 days since the end of last year when we began working on that process, and we would like to get it even lower." Specifically, he says, the improvements have come through acceleration of the review, validation and disposition process.

Another initiative aimed at improving supplier relations is paying suppliers not only for the cost of their final part, but also paying them for engineering and design work they do in making the parts Chrysler needs. Knott says some suppliers will be paid for their design work completed by a certain date or milestone, while previously their payment for such advance work was amortized into the piece price over the life of their contract. The model gets money into the supplier's hands earlier to help it fund production of the part going forward.

"We feel that this change in policy is very positive for the supply base and will result in healthier suppliers and a fairer, more productive relationship," he says. "In the past our approach has been 'We control the purchasing order, so everyone shall do our bidding.' This is a partnership approach."

Another vehicle for building closer supplier relationships involves the creation of a 12-member supplier advisory council, which allows Knott's team to get feedback on supplier-facing initiatives before they actually implement them. In certain cases, if an initiative requires more analysis before it's finalized, Knott says a sub-committee is formed to give the attention certain issues require.

Other supplier communication tools include the increased use of a supplier portal, supplier-only webinars and public town hall meetings at suppliers groups.

"It's a constant communication," Knott says. "We have to talk to them, we have to listen and we have to deliver things that show we're changing and we 'get it.'"

Another major initiative that Chrysler put in place that will ease the burden on its suppliers was the creation last year of a Supply Chain Management organization focused specifically on managing inventory levels and better matching component supply with automotive demand. The goal is to reduce complexity. Michael Keegan, senior vice president, heads up that organization, which will address many of the concerns suppliers have, according to Knott.

One of the biggest areas of frustration among automotive suppliers is the instability of production scheduling in the automotive industry, which changes schedules with short notice to meet consumer trends. "Too often, we force unnatural acts and push high costs on suppliers because we change schedules," Knott says. The new Supply Chain Management organization will help minimize those changes by better understanding the demand from dealers and sending that message down the supply line.

"Understanding what our dealers want and when they want it is very different than shipping product to dealers and hoping they sell it," Knott says. Now, every day, the purchasing organization talks with the Supply Chain team about demand and where any potential shortages may lurk based on suppliers' input and data. "We talk about those ahead of time so we can change our schedule or mix to better match supply and demand," he says. "By forecasting demand we can get ahead of the curve and let our supply base know when we think we'll see increased demand to help them manage their business."

Better relationships, better parts

All of these efforts will not only improve relationships with suppliers, but also improve the quality of parts supplied by those companies.

"The key to supplier quality is to engage that supplier into the program as soon as we can and make sure they have a voice in the process," Knott says. To ensure that suppliers do, in fact, have a voice internally at Chrysler, Knott has emphasized that the supplier quality person in Chrysler's organization should be the advocate for the supplier, not the blame-assessor as it has been at some automotive OEMs in the past.

"If the supplier says they have a design that they feel is better than our engineers' for some reason, we want to have someone to help them get their case heard in our company," he says. "In the past there may have been roadblocks to that process, and we would wind up getting very close to a launch before we realized there was a problem that could have been solved two years ago. Now we realize that if we set our supplier up to fail, then we fail. We need the right part and the right quality level to make this product successful."

To help in this effort, Knott says Chrysler's revamped supplier quality organization will have 80 more people in it this year and will spend more time focusing on future projects than it has in the past, in addition to its current product lineup. And Chrysler plans to spend much of 2010 reducing its reliance on troubled suppliers, saying the goal is to reduce the number of suppliers on the financial watch list by 50% this year.

New partner, new attitude

Suppliers can thank Chrysler's new strategic partner, Fiat, for some of the changed attitude they may benefit from going forward. The purchasing teams at Chrysler have been closely aligned to Fiat's and share the same goals and incentives in an effort to begin building similar processes. The two companies are already going to the supply base with one face in many instances where it makes sense (Fiat actually spends \$40 billion with suppliers each year to Chrysler's \$28 billion). Weekly conference calls between the two organizations are used to review sourcing projects at hand and look for shared savings opportunities, Knott says.

Most recently, Fiat sourced suppliers for its Fiat 500 program and suppliers were given an introduction to Chrysler and given the opportunity to bid on Chrysler business where appropriate.

Knott says beyond these situations, the cultural similarities between Fiat and Chrysler run deep. "We have been through some tough times and in some ways it's a miracle that I'm sitting here talking to you right now," Knott says, alluding to Chrysler's emergence from bankruptcy in 2009. "That breeds a certain type of organization. And Fiat had been through that five years ago as well so they have a similar organizations."

Case #2: Toyota's quality woes provide purchasing with a valuable supplier relations lesson

The exact factors and reasons that led to Toyota's massive recall and production shut-down earlier this year may be under dispute for decades to come (and are very much in dispute as of this writing). But for the purchasing function, the lesson in that story came from Toyota's steadfast support of its supplier under the worst conditions imaginable.

Historically, Toyota held what many manufacturers considered the model relationship with its suppliers. Toyota's Japanese tradition emphasized viewing suppliers as partners, going so far as to take ownership stakes in many of its suppliers. But in recent years suppliers in North America had been downgrading their view of Toyota. In the annual Working Relations Index survey from Planning Perspectives last year, Toyota's ranking by suppliers posted the largest one-year decline ever. But even with its plunge, Toyota remained the second-most preferred OEM to work with. (Honda was number one.)

But Toyota's handling of the January recall could have a bigger impact on how it is viewed by suppliers than any prior efforts it has made to right its image among suppliers.

And the early returns show Toyota has done well by its supplier in this crisis. In unveiling its much-anticipated accelerator pedal fix in January, Toyota did not blame its supplier, but said that the problem was caused by a faulty part design. Toyota went so far as to issue a statement supporting the supplier, CTS of Elkhart, Ind.

"We commend CTS for working diligently and collaboratively to find a solution to the potential problem and in developing a new design," said Chris Nielsen, Toyota's vice president of purchasing in the U.S. "CTS is a long-term and valued supplier to us."

In addition, from Japan, Executive Vice President Shinichi Sasaki, who is in charge of Toyota's quality efforts, also supported the supplier, saying CTS has solid technology. Sasaki said Toyota stuck with CTS as a supplier partly to contribute to the U.S. economy. (In a prior interview with *Purchasing*, Nielsen also said "we want to buy the parts near where we produce the vehicles.")

In another apparent effort to lessen the blame on CTS, which makes sensors and accelerator pedal modules, Sasaki said there were no electronic problems in the vehicles being recalled, addressing speculation that the recall was software or electronics-related. He said Toyota has looked into the pedal's sensors, and "as far as we can tell now, we have not found a single case where electronics played a role in the sudden acceleration issue," Sasaki said, according to a *Wall Street Journal* report.

Historically, Toyota was so pleased with CTS' performance CTS was actually recognized by Toyota in 2007 for "outstanding quality performance." Both CTS and Toyota said the fix for the accelerator pedal recall came through an OEM-supplier collaboration.

Neil DeKoker, president of supplier industry group Original Equipment Suppliers Association (OESA) in Troy Mich., agrees, telling *Purchasing* that Toyota and CTS were working seamlessly on a solution at the height of the problem. "There is no blame game taking place either in private that we know of or in public. Toyota is not shrinking from its responsibility. The supplier community sees that and views the handling of the process positively."

DeKoker says that, to some extent, the large growth in volumes experienced by Toyota might also have created some additional pressures with its North American suppliers in recent years, "But, Toyota's reputation with suppliers still remains very strong."

John Henke, of Planning Perspectives, however, feels the problem might be a bit deeper and that Toyota has in fact taken its eye off the supplier relations ball in North America. "They're not letting suppliers know how they are performing. There's a malaise in the Toyota way. There's an increasing number of recalls and we're hearing it from suppliers about how Toyota treats them."

"Toyota is becoming just another automaker," Henke says.

The pressure may have been evidenced in the supplier's reaction to the recall. While Toyota supported and involved CTS in developing a fix, there are definitely signs that CTS was on the defensive in the eye of the storm. Vinod Khilnani, CEO of CTS, told investors on a conference call in late January in the midst of the recall that, "Our product has consistently met Toyota's specifications. This is their recall."

And while that kind of supplier pushback may not be what Toyota executives back in Japan are used to, it provides a valuable lesson to OEMs everywhere—supplier relations are as much about listening as they are about talking or buying.

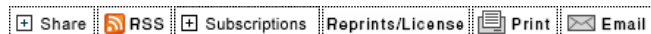
Knott gets the early nod from OESA

Dan Knott is certainly ambitious with his plans to revamp Chrysler's supplier relations strategy. To get a supplier industry opinion of Knott's plans, *Purchasing* recently talked with Neil DeKoker, president of the Original Equipment Supplier Association, a Detroit group that serves as a voice for the automotive supply base.

"We have met with Dan on several occasions and he is very committed to strong supplier relations by addressing issues of concern head-on," DeKoker tells *Purchasing*. "I was at his webinar recently for suppliers and listened firsthand to the changes taking place at Chrysler and the significant supplier issues and concerns that are being addressed. I think Dan is doing the kind of things that will gain the supplier support necessary for Chrysler to weather the storm during the transition between now and when new product will come to the dealer showrooms. Frankly, I am impressed with the healthy, open and supportive atmosphere taking place at Chrysler today."

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There is no question that the auto industry has changed over the last few years. Massive issues seem to be plaguing many manufacturers. Who would have thought that Toyota would ever fight quality issues? Who would have thought that the words "Fiat" and "giant" would be used in the same sentence? Furthermore, changes are rapidly occurring in the financing realm of the auto industry. Both dealers and potential buyers are fighting for financing. Car buyers need affordable financing that is readily available to buy their new car. Dealerships need floorplan financing to help cover their inventory holding costs. The industry must adapt, and do so quickly. -Robertson Howard Dealers First Financial www.dealersfirst.com

Robertson Howard - 3/12/2010 11:44:07 AM EST

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