MES Supplier Consolidation Solutions
White Paper

A Time-Tested, Proven Solution

Providing you with a tailored manufacturing, engineering and supply solutions around the world.

Customer Cost Savings

Supply Chain Management

Easy Supplier Consolidations

Consolidate Suppliers • Manufacturing Savings • Faster Product Lead Times • Supply Chain Savings

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Abstract

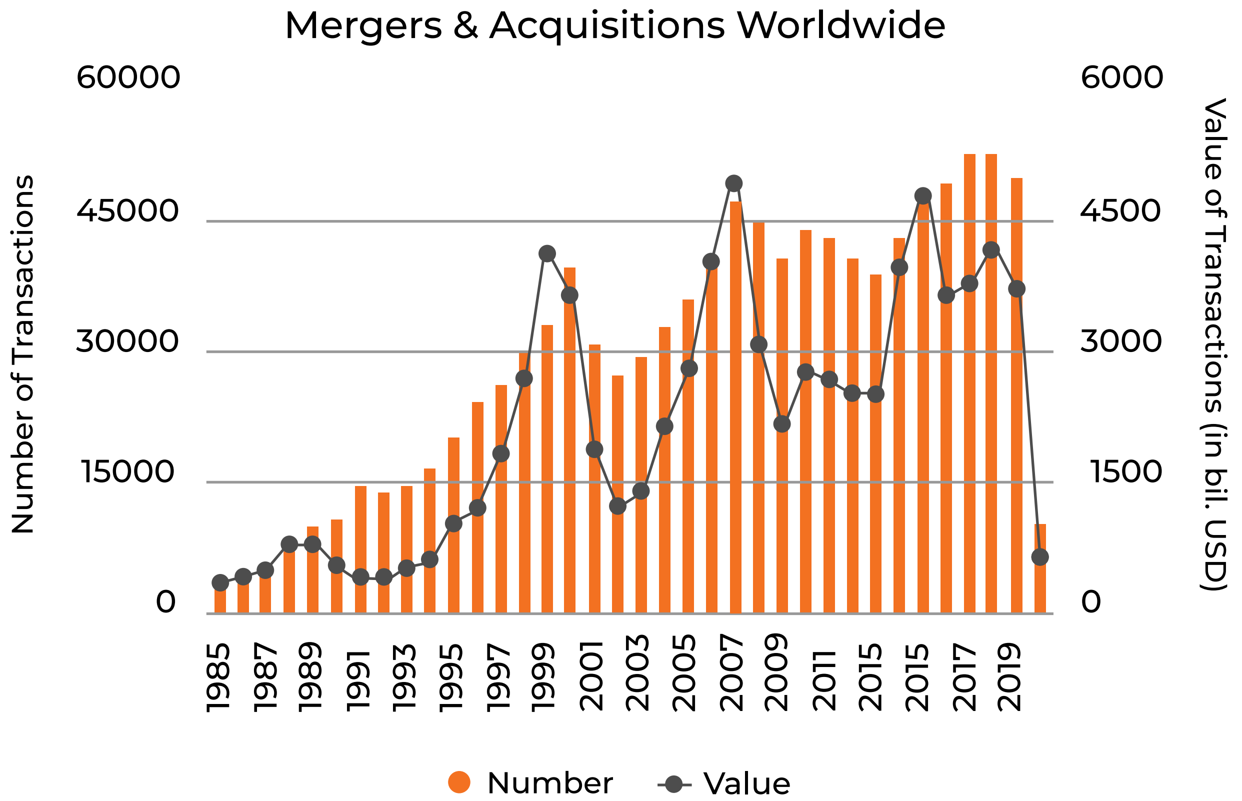
The MES Supplier Consolidation Solution provides a proven, systematic program that has repeatedly delivered to MES customers cost savings and quicker lead times, eliminating the need for retooling (with significant capital cost savings). The consolidation solution also yields immediate efficiencies that reduce warehousing and shipping costs, as well as providing many other supply chain benefits. The sourcing portfolios of manufacturers are filled with OEMs and Tier I suppliers representing various locations, processes and capabilities. By listening to its own manufacturing customers, MES has identified multiple issues that, over time, will necessarily require changes in the working relationships between customers and suppliers. These changes can be the result of mergers and acquisitions, evolving products and services, heightened customer expectations, as well as market demands and global needs. Any combination of these tidal business changes can – and often do – lead to a proliferation of new suppliers and escalating operational costs. In this paper, we will review how supplier portfolios can get out of alignment and how MES Supplier Consolidation Solutions can serve as a proven method for streamlining supplier management.

Supplier Portfolio Dynamics:

Supplier portfolios, as well as customer-supplier relationships, inevitably change over time. They evolve continuously for various reasons:

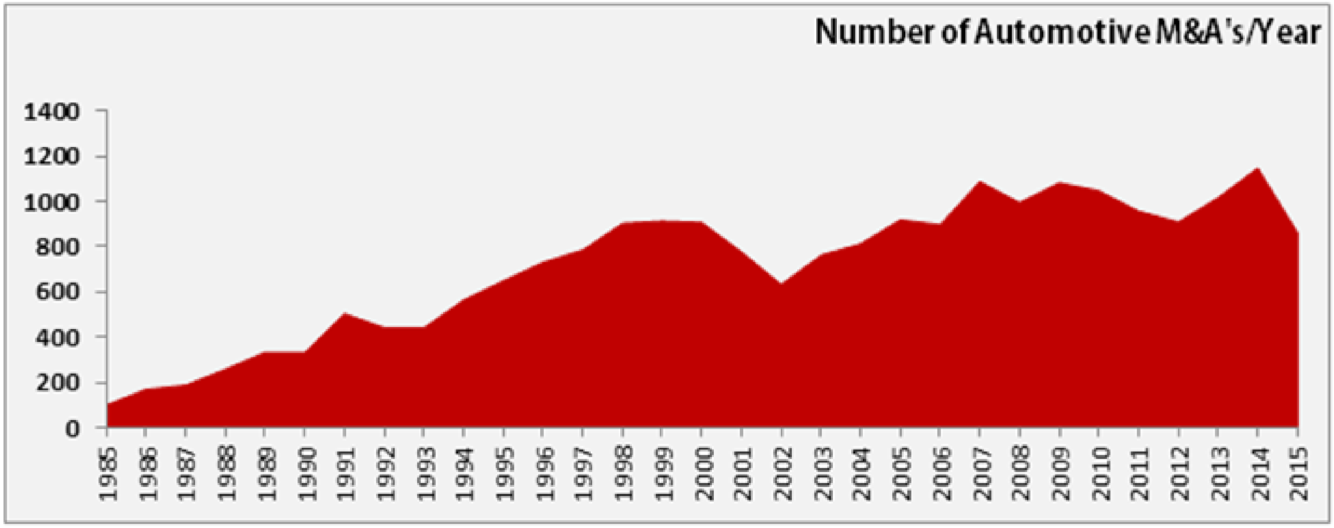
1) Merger and Acquisition:

The most frequent business change that is likely to impact a customer's supplier portfolio involves merger and acquisition (M&A) activity. Since 2000, more than 790,000 M&A transactions have been announced worldwide with a known value of over 57 trillion USD. The table below shows the significant increase in M&A over the last two decades, spurred by low borrowing costs around the world.



Source: IMAA analysis; imaa-institute.org

The graphic below demonstrates the growth in the number of mergers and acquisitions that have occurred in the automotive industry alone since 1985.



One immediate result of mergers is the addition of several suppliers to the "new" organization's operation. This, in turn, can lead to issues with sourcing teams, and sorting out which suppliers should be kept, eliminated or replaced can become an extremely costly exercise. In addition, the amalgamation of suppliers for the new, post-merger organization may not be in the best interest of the suppliers themselves for a number of reasons, including issues of geography, differing levels of capabilities, product duplication or a change in product focus brought about by the merger, differences in what services will be required going forward, and more.

2) Changes in Products and Services

Rapid disruptions due to technology and changing consumer tastes require OEMs and Tier 1 suppliers to improve relentlessly the quality and timing of their offerings. In addition, a change in what manufacturers demand to remain competitive frequently requires an investigation for new suppliers. A key example is offering electric vehicles across the entire product line for an automotive customer such as Audi or Honda. A small number of electric vehicles across the product platform can require displacement in the manufacturer's supplier strategy, involving possibly the discontinuation of existing suppliers, a reduction in sales from existing suppliers and the addition of new component sources … all to assure that the manufacturer remains competitive and profitable.

3) Changes in Customer Expectations – Commercial Terms, Insurance Needs, Tighter Performance Requirements:

Customers' expectations of their suppliers continue to evolve, yet their requirements in areas such as maintaining competitive cost and quality, delivery performance, supply chain expectations, engineering support, and commercial terms cannot be compromised. For example, to meet new corporate standards, a recently merged organization may begin requiring its suppliers to extend their payment terms from 45 days to 90 days. Many suppliers will not be prepared to handle such a dramatic change in payment terms and therefore will not be able to continue supplying components to the merged organization. Today many customers require a 90-day end of month term, meaning payment will be made effectively on an average of 105-110 days. Such extended financing terms are often not acceptable to suppliers who are working on slender margins or are heavily debt-burdened.

Many customers are acquired by or have merged with publicly traded companies, which will require considerably more product liability protection as a non-negotiable condition for working with them. Having to carry this type of insurance can easily cost a smaller supplier from $75,000 to as high as $200,000 in additional annual overhead, depending upon the volume and type of component they are providing. Many smaller, specialty suppliers are not willing to absorb this kind of sudden additional cost, or simply cannot afford to.

Finally, to remain both competitive and profitable, many manufacturing customers continue to tighten their own quality ppm and delivery window requirements, making it harder for some suppliers to meet the new and, inevitably, more costly standards.

4) Global Needs

Over the last four decades, the scope of business has expanded beyond traditional markets and national boundaries. Out of necessity, many customers have evolved to embrace a global presence and serve a worldwide consumer base. Their businesses need engineering and supply chain support that span continents. They need warehousing and services that can accommodate a global presence. Specialty suppliers who were successful for years in local markets too often find themselves rendered inadequate to accommodate the new global dynamics. For example, a reliable supplier in the Mexican market may be able to operate efficiently within its own borders and yet fail miserably if, in order to meet the customer's new product and delivery demands, that supplier has to manage shipping, warehousing, and engineering support for customer plants in Eastern Europe.

Re-engineering the Supply Base

For these reasons, customers often find themselves having to seek out new component suppliers. Yet few customers are ready to take on that kind of challenge – and do it successfully.

The process of developing entirely new working relationships with suppliers has three distinct requirements:

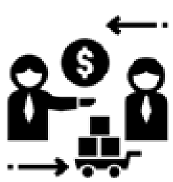
1. Capital for tooling investment
2. Engineering time to test and approve a new supplier and its component output
3. Time and execution by assembly plants to create a bank of parts and coordinate the work flow with a new supplier

A customer's resources – critical to all three of these requirements – tend to be limited. That limitation can pose an expensive set of problems for the manufacturer. Recently, one member of the customer's purchasing department saw a cost reduction opportunity by changing suppliers and convinced the company to pursue that initiative. New tooling was developed, and parts were submitted. However, because engineering had not been represented during the supplier selection process, purchasing missed the fact that $140,000 in testing would be needed prior to approving the component. This missed step nullified the entire cost reduction expected from the project. In another example, a customer initiated a supplier change without alerting its entire manufacturing operation. Because of existing minimum order quantities (MOQ), the customer mistakenly accumulated nearly nine months worth of inventory, forcing it to delay the switch to a new supplier and thus postpone the anticipated cost savings.

There is nothing simple or easy about switching suppliers. It is difficult at best and treacherous to the bottom line more often than it needs to be. There will be multiple reasons for expensive oversights. For example, if a component had been fine-tuned and modified away from its original drawing, and had been produced in its current version for several years, it would not be unusual for the fit of the application and drawings to have never been updated. Thus any new supplier will not have the benefit of working with the engineering resources and knowledge necessary to assure that the part will be made exactly to today's specifications. The change in supplier will require the kind of extensive – and expensive – reworking that should be reserved for a new component, not a mature one.

Bottom line: Unless the entire process is managed thoroughly, switching suppliers and re-engineering components can lead to risks that would consume any expected savings.

With Our Supplier Consolidation Solutions - MES Manages




Your Purchasing Function	Your Supply Chain	Your Warehousing	Your Global Logistics

MES Supplier Consolidation Solutions

In instances where the manufacturer has restructured its supplier portfolio efficiently enough to cut costs while maintaining its quality and delivery standards, you will often find that an intermediary like MES has participated in the risky and complicated process and delivered a solution that saves the customer time and money faster and more efficiently. MES has developed a comprehensive solution called the MES Supplier Consolidation Solution. It is a discipline that has been refined over years and thousands of supply chain transactions. It involves keeping the manufacturer's requirements and standards the same as have been tested and approved, but taking over the purchasing function and managing the supply chain, logistics, warehousing, and service functions to assure just-in-time delivery service over 98.5%.

This program can yield a seamless supplier transition without the need for extensive engineering and redundant quality testing and approval. **However, MES Supplier Consolidation Solutions is consistently successful only when an intermediary such as MES is able assure the that the following requirements are met:**

1. Customer quality expectations (dimensional, material, other testing) are clear and matched with supplier quality capabilities.
2. MOQ / EAU / raw material authorizations are clarified, matched and communicated between both parties.
3. Tooling quality and life are evaluated thoroughly and documented for the sake of both the customer and the supplier.
4. Leadtimes are matched and communicated with customer and supplier alike.
5. Supplier capacity is researched and verified to meet the customer's standard and surge demands.
6. Supply chain program is well developed for the fastest deliveries from the supplier to customer.
7. Warehousing / KANBAN sizes and JIT delivery plans are approved by the customer.
8. Commercial terms are agreed upon between the supplier and the intermediary.

MES Supplier Consolidation Solutions

The MES Supplier Consolidation Solution follows a systematic approach to re-aligning supplier relationships based on a comprehensive checklist which is presented to customer and supplier alike. Any variance in the issues listed above – quality, lead times, MOQ, tooling, commercial terms – are clearly outlined to both parties. Once all the elements of the new relationship have been addressed and the processes and outcomes approved, MES can take over and start placing purchase orders immediately (within two weeks). Parts can be warehoused for JIT shipments within a minimum of 30-50 days (depending on geographical location) from the placement of the initial purchase orders. Customers typically will start to see inventory go down on their books within 60 days. In short, MES improves the delivery metrics to the customer from the original supplier.

MES Supplier Consolidation Checklist

Needs From the Customer

- ☑ Initial Contact
- ☑ Verbal agreement to work together
- ☑ MOQ Agreement
- ☑ Production Lead Time Agreement
- ☑ Capacity by Part
- ☑ Tooling Agreement
- ☑ Tooling Shots & Tooling Details
- ☑ Quality Expectations
- ☑ Pricing Confirmation
- ☑ Payment Terms Agreement
- ☑ MES Supplier Audit Score

DOWNLOAD FULL CHECKLIST HERE >

Needs From the Supplier

- ☑ Initial contact
- ☑ Verbal agreement to work together or 3-part meeting confirmation
- ☑ Agreement on MOQs
- ☑ Agreement on production lead times
- ☑ Capacity by party - if volume is critical
- ☑ Tooling agreement
- ☑ Tooling shots and tooling details
- ☑ Quality expectations explained and agreed upon by supplier
- ☑ Pricing confirmation
- ☑ Payment terms agreement
- ☑ MES supplier audit score

Conclusion

Through its proven Supplier Consolidation Solutions, MES is ready to manage the entire supply chain process, from purchasing to warehousing and service functions, providing just-in-time delivery on a global scale. For MES customers, the Supplier Consolidation Solutions takes away the pricing headaches that usually come with managing a diverse supplier portfolio. It relieves the customer from having to do inventory level planning and perform quality inspections. **In fact, relying on MES for comprehensive supply chain management provides all of the following:**

MES Customer Benefits

Customer Cost Savings

Faster Lead Times

Warehousing, Inventory & Shipping Savings

1. It eliminates the cost of switching suppliers, typically a long and expensive process.
2. It eliminates the need for retooling, reducing capital costs.
3. It eliminates the need for quality testing and re-approval of a component, reducing lead times to achieve sustainable cost reductions.
4. It maintains suitable suppliers in the mix, utilizing their manufacturing know-how and capabilities while shielding suppliers and customers from the stress of logistics and shipping, which are not areas of core expertise.
5. It improves lead times to customers by warehousing within 1-3 days and relieves suppliers from holding inventory for 60-120 days, while still achieving high on-time delivery metrics.
6. It accelerates cost-saving lead times for purchasing organizations.
7. It helps achieve significant improvement in inventory levels for customers and suppliers alike.
8. It reduces inefficient warehousing and shipping costs, which are typically handled by suppliers who don't have the scale or expertise for negotiating the best possible terms.
9. It provides local customer and quality support near the customer's manufacturing locations, allowing customers to work with the best available suppliers, even when they operate on different continents.