



## Four Traits of a Successful Parts Procurement Program

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The essence of business is buying and selling. Transactions made without an underlying strategy, however—especially in manufacturing, when millions of dollars are typically involved—can be highly inefficient. Without a strategic focus to procurement, opportunities are lost to improve service, maximize production, and optimize pricing.

Manufacturing equipment parts, in particular, is one of the most overlooked yet most consequential categories in industrial purchasing. The wrong part, or a part on backorder, can shut down whole production lines—yet overpaying for purchases or not realizing the full benefit of vendor terms can create their own problems.

Optimizing a parts procurement program is not simply a matter of finding reliable vendors. It must be a 360-degree effort that focuses on all aspects, from locating obsolete parts to logistics management and lowering total cost of ownership. Most of all, procurement teams must be adept at fostering relationships. Parts vendors are critical to production and as such, must become integral partners in any manufacturing operation. Good relationships result from a combination of people, policies and information—and in all three areas, experience counts.

Understanding the best practices in supply chain and procurement programs can yield huge gains. Here are four traits every procurement program should embrace:

### **A Smart, Fair Bidding Process.**

For bidding to be truly effective, the playing field must be level, concise and easily understood. RFPs must be well thought out; in order to get useful price quotes, specs must be based on common purchasing categories (for example, electrical, janitorial and safety). Sample SKUs should reflect high volume purchases, since quotes on higher quantity items are more revealing. Numbers of SKUs should be kept reasonable as well, so bidders aren't overwhelmed.

When reviewing responses, it's important to know what value-added benefits to look for. It's easy to focus on price and overlook attractive rebate thresholds, options for training, or onsite "crib crawls" that can reveal ways to improve parts crib management. Local or regional vendors may also outperform on shipping costs.

A smart practice when making final choices is to establish primary and secondary suppliers in each segment of the purchasing mix. Doing so allows for

more concentrated purchasing and greater leverage, along with fallback options should the primary supplier run into unforeseen difficulties.

### **Contracts That Remain Active.**

Contracts must be living documents. They define a relationship that evolves over time; from the first stages to the years afterward, they should be accessible and malleable.

As in any relationship, the initial steps are important. All vital questions must be settled early on, including net terms (important for good cash flow), spend commitments that define minimums and/or preset increases, contract length, and so on. Other issues such as the opportunity to review changes to discounts prior to implementation, pre-approval on price increases, reporting commitments, procedures for resolving invoice or shipping errors, and customer support privileges should be covered.

To ensure that all contracts are easily at hand, they should be filed electronically alongside other high priority documents. Contact information for primary and escalation personnel should be clearly in evidence. Finally, it's useful to have a database trigger in place as a reminder for periodic review.

### **Everyone Knows The Score.**

The supplier scorecard is the best tool for determining performance and it should be carefully constructed. It must cover basic metrics including discounts, rebates, payment terms, Net Promoter scores, fill rates, and product quality; weighted scores should be assigned to each metric according to importance so that final grades accurately reflect manufacturer priorities.

It's important to note that supplier scorecards are an evaluation of both parties. To be helpful to the relationship, the scorecard must gauge performance in ways that both buyer and supplier can understand and act upon; i.e., it should state mutually agreeable corrective actions, along with responsibilities and deadlines.

Scorecards, administered quarterly, semi-annually or annually, are a great way to ensure meaningful communications. But feedback is important with every phone call and email.

For a strong relationship to develop, expectations must be clearly spelled out. How is accountability ensured? What steps, from periodic meetings to documentation, will be necessary? What are the escalation points?

Who gets involved and when? Laying down a solid foundation is the means by which good relations are built.

### **Incentives For Spend Commitments.**

Strategic suppliers—those that form the core of the parts purchasing program—often want a spend commitment. Obviously, these cannot be granted without promises on both sides. Purchasing agents must be adept at identifying opportunities that are mutually beneficial.

If a supplier is only at 20% in a particular spend category and wishes to achieve 60%, for example, appropriate performance measures have to be created. Terms such as rebates, incentives, shipping allowances must work to the buyer's advantage; these can be defined by reviewing historical and scorecard data.

Both parties have a vested interest in the benefits of a spend commitment—and the advantages are not simply monetary. Commitments show the supplier that you have faith in its ability to perform. Moreover, it offers you leverage not only in pricing, but also in fostering an environment of healthy competition, loyalty, and better performance over the long haul. Spend commitments should be viewed as a way to strengthen and solidify the bond between vendor and customer.

Keep in mind, as you consider these four traits, that their value lies both in their adoption and their development over time. Continuous improvement is a hallmark of great business processes as much as it is in manufacturing processes. Don't miss opportunities to strengthen your program.

A third-party procurement specialist, one that is highly experienced in industrial equipment maintenance, can be invaluable to the effectiveness of a parts supply chain program. Experts can do more than optimize the purchasing process; they can help with hard-to-find parts, set onsite versus offsite inventory strategies, make 24/7 emergency parts purchases, and much more. The return on investment from specialists can far exceed the program cost.

Whether you choose to develop an in-house program or secure an experienced procurement partner, make sure the steps are in place to maximize every dollar you spend. By doing so, you can transform your parts procurement from a simple cost center into a strategic advantage that is a true asset to your manufacturing operation.