

Purchasing's recognition programs reward supplier performance

World-class companies use recognition programs as a tool to develop and reward preferred suppliers.

By Susan Avery -- Purchasing, 11/13/2008 7:00:00 AM

Behind every good supplier recognition program is a strong supplier relationship management (SRM) program.

Purchasing operations that formally recognize suppliers understand that it's nearly impossible to manage a supply base that can number into the hundreds or thousands of companies. So they segment the supply base and actively manage a much smaller number. Of this number, they select a few preferred suppliers to participate in recognition programs that develop suppliers and reward performance in cost, delivery, quality, service and other critical areas.

The rewards for suppliers and purchasing are great. The effort pays off in improved internal operations, new opportunities for additional business and other ways. Here is a close-up look at supplier recognition programs at four companies—United Technologies, Cessna Aircraft, Rockwell Collins and Intel—and some rewards they're bestowing along the supply chain.

Formally recognizing suppliers for performance improvement is relatively new for United Technologies Corp., which started its program about a year ago. The corporate supply management operation is building upon a program that Pratt & Whitney, a UTC company, had been using for years with much success.

"With more than 75% of UTC's cost based in the supply base, it is critical to have world-class performance from our suppliers to drive overall company results," says Leon Veretto, director of operations analysis at UTC supply management in Farmington, Conn. of the program. "We need our suppliers to be successful."

The company calls its supplier recognition program UTC Supplier Gold. It is closely tied to its ACE (Achieving Competitive Excellence) operating system. To date, UTC has 15 suppliers certified Supplier Gold and already it is seeing improvements in quality and on-time delivery.

"These suppliers are all best-in-class for quality and have achieved less than 250 ppm (parts per million) targets," says Veretto. "They also have improved delivery to 98%+ on-time performance."

Veretto explains that the Supplier Gold program is a logical extension of ACE, which ensures world-class quality in UTC's products and processes. The recognition program has two objectives. One is to drive improvements in performance of suppliers of direct materials. The other is to recognize suppliers for delivery, quality and service (customer satisfaction) performance through use of Lean processes. Supply management is working to adapt Supplier Gold for indirect materials and services.

The program has four performance levels. In addition to Gold, there are designations for performing, progressing and under-performing. "We wanted a tiered program through which suppliers could work to exceed their interim successes, which keeps them motivated," Veretto says.

While supply management at UTC measures performance of all its suppliers, the team segments suppliers for inclusion in the program. "We identify key suppliers as defined by the business units, and include those with the highest percentage of spend whose quality and delivery performance is critical to our overall success," he says.

In addition to impacting the company's business, the program also is causing some behavioral changes in suppliers, Veretto says. "We are seeing a reallocation of resources to support the program. Suppliers are proactively looking for help with implementing Lean manufacturing and education on our ACE operating system giving the program some momentum."

UTC recognizes its Gold suppliers at meetings of its supply management council, which is made up of vice presidents of the company's business units. This represents about \$30 billion in purchases annually. "The suppliers get center stage in front of all the vice presidents, which can lead to more business for them," he says. They also receive an award and press coverage.

Perhaps more important, the program helps improve the supplier's business results, says Veretto. "The Lean journey is long and very difficult to implement, but the rewards are very clear if the supplier sticks with it. So, the biggest benefit the supplier gets out of this is a stronger business."

Cessna drives behavior

"Cessna's supplier tracking and rating system is the cornerstone of how we influence the behavior of the supply base," says Brent Edmisten, director of strategic sourcing and ISC strategies at Cessna Aircraft Co. in Wichita, Kans. ISC stands for integrated supply chain.

STARS, in essence the company's scorecard for its supply base, measures direct material suppliers on quality, reliability, schedule and cost performance, using a rolling

12-month average as the metric. Recently, the Aerospace Industries Association singled out Cessna for its supplier rating system as one of the industry's best.

Results of the STARS scorecard are tied to opportunities for additional business on existing and new programs. "This really drives the supply base to improve," Edmisten says.

A recognition program honors top performers as gold and silver suppliers at a supplier symposium awards dinner the company holds every two years. The next one is scheduled for March 2009.

Cessna invites suppliers with long-term agreements to the symposium. They honor the gold and silver suppliers by presenting them with a trophy on a stage in front of an audience of their peers and competitors. Throughout the event, the award recipients wear a badge with the gold or silver designation. Their names are listed in a flyer in the conference proceedings, are publicized on the Cessna website and are listed in trade publication advertising.

"Suppliers want to be recognized when they are performing well," Edmisten says. "Oftentimes we are quick to point out when they are not performing well or we have a problem. Recognition is a key part of Cessna's SRM process of being the customer of choice."

A supplier that's performing well and has received recognition at A.E. Petsche in Dallas/Ft. Worth, Texas. The supplier provides aerospace electrical interconnect products to Cessna from its facility in Wichita.

"Each year, they keep raising the bar, and we keep sharpening our skills," says Mike Terrell, Midwest manager who says he and his team focus on meeting quality and delivery expectations of the aircraft maker.

"Cessna is on the cutting edge of how they manage relationships with suppliers," Terrell says. "They keep the relationship focused and streamlined. For us, one of the real benefits is that we can use the improved processes to benefit other customers."

To provide additional motivation to the supply base, Edmisten and his team occasionally meet with personnel at supplier facilities and speak with executives at tier-two supplier companies. Cessna began recognizing suppliers in 2000. The company has a separate scorecard and program for indirect suppliers called ISTARs.

Rockwell Collins says thank you

The material and supply operation at Rockwell Collins presented its 2008 President's Award, its highest award recognizing supplier performance, to Altera Corp. at its annual

supplier conference held in the spring. Altera, which is based in San Jose, Calif., also received the company's ASIC/MMIC/FPGA Commodity Supplier of the Year award.

"The awards are our way of saying thank you to suppliers for their contributions and recognizing them for the success they helped bring to our company by their performance," says Phil Krotz, director of lean supply at Rockwell Collins in Cedar Rapids, Iowa. The material and supply operation began recognizing supplier performance in 1983.

"Receiving this reward is an honor," says Amr El-Ashmawi, senior business unit manager for the military and aerospace business unit of Altera. "It is very important to us." Altera provides custom logic devices for Rockwell Collins' military and commercial avionics systems.

The achievement is not something that occurred overnight, El-Ashmawi explains. The companies have developed a strategic partnership over the years through which their management and engineering groups develop a technology roadmap.

"We provide Rockwell Collins with products that make them successful with their customers," he says. "We understand what they are trying to achieve with their customers and that input goes into the way we define our products."

The relationship is one that Altera is working to replicate, El-Ashmawi says. "We try to model what we have with them with other customers. We can't do it with every customer, but we select those with whom we think we have a lot of synergy."

At the Rockwell Collins supplier conference, the material and supply operation recognizes top suppliers in a number of different categories or commodities. The company's commodity teams nominate suppliers for the award. Roger Weiss, vice president of material and supply, and his leadership team, select the recipients. The criteria, which is based on performance expectations, vary by category.

"Suppliers must be integrated with Rockwell Collins," Krotz explains. "This means they must be committed to using our supplier portal and other business processes."

The material and supply operation also presents capstone awards that recognize diversity suppliers and suppliers actively involved in environmental awareness programs, and it rewards a supplier for its commitment to using Lean manufacturing principles to improve cost, delivery and quality performance.

Suppliers attending the conference have access to Rockwell Collins executives, who present attendees with an outlook of the company's business. "This really helps them

understand what they need to do to align with us and the opportunities they have," says Krotz. "It is an honor just to be invited."

Intel looks for competitive edge

Intel Corp. has been recognizing supplier performance with its Supplier Continuous Quality Improvement (SCQI) awards since 1987.

The SCQI awards are part of Intel's supplier continuous improvement process. To qualify for SCQI status, suppliers must score at least 95% on a report card that assesses performance and ability to meet cost, quality, availability, delivery, technology and responsiveness goals.

Intel also presents a Preferred Quality Supplier (PQS) award. This award recognizes suppliers that consistently meet expectations, are aligned with manufacturing and technology roadmaps and meet cost and service metrics.

Because organizations are leaner today, supply operations "need to get as much return on our supplier relationships as possible," says Craig Brown, director of materials at Intel in Chandler, Ariz. "It is important to segment the supply base, have an agenda, meet with suppliers and reward them in a people kind of way for their success."

He says supply operations have to figure out which suppliers are important to the business. "You have to ask yourself, 'If I lose this supplier, do I lose competitive advantage?' With these suppliers, you need to have a dialogue to understand what they need from you and what you need from them and then you need to measure it."

The end result is a more predictable supply line and a better business relationship. "It is always tough when you take cost out, but you are sharing in the problems and being jointly successful," says Brown. "Suppliers are able to reduce their costs and improve their output and can apply this learning to all their customers."

Michael Harvey, executive vice president and general counsel of Moses Lake Industries, a supplier that provides Intel with ultra high purity process and performance chemicals, recalls a time when MLI realized that it had to get products to an Intel facility in Ireland overnight. Harvey jumped on a plane.

"It's dramatically changed our company," he says of the award that he calls "one of the most meaningful in the electronics industry." Intel and MLI work together to ensure quality and continuous improvement throughout the supplier's processes. MLI, in Moses Lake, Wash., has received Intel's SCQI award five years in a row.

Kelly Services, a provider of staffing services for a contingent workforce based in Troy, Mich., has received the SCQI (twice) as well as the PQS award (four times). The two have done business together since 1989, taking the relationship global in 2002.

The bar is different for suppliers of indirect services, says Michelle Steffes, vice president, strategic customer relationships. "Intel looks for very high quality services and a devotion to quality in everything we do as well as our ability to quantify that quality, which presents a challenge for services."

To do so, the two have to collaborate on measures and ways to quantify such things as productivity and cycle time improvements, says Steffes, adding that Kelly Services has developed a formula for doing that for Intel. "They also look for a consultative approach out of everyone who touches the account and an ability to innovate. They raise the bar every year. Executive sponsorship is important as well."

What it Means to Buyers:

- At world-class companies, supplier recognition programs are part of an overall supplier relationship management (SRM) program.
- The best way to manage suppliers is to segment the supply base into a smaller, more manageable groups. Still, not all these suppliers should be involved in a recognition program.
- Results of a supplier recognition program consist of improved operations—and new business opportunities—for both the buyer and the supplier. The supplier, in turn, replicates results with its supply chain and its customers.