



// Dealership Management

Benefits of Narrow, High Performing Supplier Base

// How many suppliers does your organization need to function at a high level? Is having a large supplier base a positive attribute in an organization? Can suppliers do anything more for us than sell us goods and services?

Typical Supply Base Approach

Most organizations realize the benefits of a narrow, high performing supplier base. Let's face it...we need suppliers to keep our organizations running. The better the supplier, the better the overall organization performance.

Benefits of Narrow Supplier Base

1. FINANCIAL – Fewer suppliers equal greater leverage and better pricing and terms
2. EFFICIENCY – Fewer suppliers means less internal time, labor and costs devoted to

managing suppliers

3. RISK – Fewer suppliers means less risk (contracts, auto renewals, insurance, 1099's)

4. IMPROVED SUPPLIER PERFORMANCE

Suppliers are motivated to perform at the highest level when they have the majority of your business

Why Do Organizations Have Too Many Suppliers?

Many dealer organizations have far too many suppliers, particularly those with multiple locations. Why should a four-store group have 1,000 suppliers, when there are only 130 expense categories? Why would a 15-store group have 2,000 suppliers supporting their organization? Reasons for large supplier bases follow:

► Organizations lack management policy on

suppliers – decentralized approach can lead to chaos

► Too many people organizationally can add new suppliers to an organization – no controls

► Management philosophy of not interfering with local management decisions

► Everybody is in charge – meaning nobody is in charge

► Don't know how to control and restrict the process

Costs of a Broad Supplier Base

Having too many suppliers can be costly, inefficient and waste a lot of time. Additionally, too many suppliers can increase the risk an organization takes on.

1. PRICING – Will not be optimized because the supplier has only a portion of the business
2. LACK VISIBILITY –

When too many suppliers are utilized, the dealer will

lose visibility to overall spend and consumption patterns...how much am I spending and what am I buying?

3. INCREASED BACK OFFICE SUPPORT

– more suppliers = more staff to support them, more meetings, more invoices to process, more checks to cut, more 1099's to process, etc.

4. SUPPLIER NOT ENGAGED

– Suppliers are happy to have any percentage of your business...but they are not going to give you everything they have if they are but a small bit player in the grander scheme of things.

Optimized Supplier Base

So what is the right number of suppliers to have in your business? The answer is tied to your expense categories and your desired strategy.

If your strategy is to have a strong primary supplier and a good back-up supplier for each expense category, that would be a very well reasoned and potentially efficient supplier strategy.

If you have 100 to 130 expense categories like most auto dealerships, and your strategy is as outlined above, then your organization should have roughly 200-260 suppliers supporting your organization with some exceptions.

Exceptions to the Strategy

There are a few expense categories where more than two suppliers make sense to an organization for operational purposes. Examples are as follows:

- ▶ Auto Parts
- ▶ Auto Accessories
- ▶ Auto Service Providers (repair shops)
- ▶ Others

Preferred and Certified Supplier Program

Progressive organizations maximize the supply chain

the "buying" organization (dealership) but also to the "selling" organization (supplier) as well. Every supplier has 10's, 100's maybe thousands of employees that your dealership could incent to buy from your organization rather than someone else.

How to Implement a Preferred Supplier Program

If your organization is interested in moving toward a Preferred Supplier Program, please

will be much stronger than they have currently

- ▶ Access to new opportunities within the group

- ▶ Marketing value with other like or similar customer opportunities
- ▶ Potential benefits that will become available to their employees (discounts)

Summary

Suppliers are necessary to a successful business. Optimizing your supplier base will keep your costs low, your prices low and your life a lot

based on volume.

▶ TIME SAVINGS AND CONFIDENCE

– Partnering with a preferred Supplier suggests that the constant quoting, price shopping can be suspended until an RFQ is conducted...every 2-3 years, saving both staff and management time

▶ REVENUE OPPORTUNITIES –

Viewing the supplier community, especially the Preferred Suppliers as a market for sales and service could bring some new incremental sales for vehicles, service, body shop, parts and more.

If you are interested in additional information on how a Preferred Supplier program can benefit your organization, contact me via email at: daustin@dealer-communications.com. I'd be happy to provide you with additional information.

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concept by employing a Preferred Supplier program. Preferred Suppliers, Certified Suppliers, and other descriptors are used by organizations to convey a certain supplier status with the organization and implies a level of trust with their supplier partner. The status is frequently conferred to suppliers who have been thoroughly vetted, tested and proven, and act as a "partner" to the buying organization...hence a Preferred Supplier or a Certified Supplier status.

Your Suppliers as Customers – New Opportunity

Most organizations don't think of their suppliers as potential customers, but they should.

Preferred Supplier programs offer benefits to

consider the following suggested steps:

1. Select a Preferred Supplier and possibly a back-up Preferred Supplier in each expense category after due diligence
2. Secure pricing, terms, quality levels, service levels
3. Consider and implement a volume based rebate based on total sales volume
4. Secure the ability to market to the supplier and their employees to generate top line sales opportunities
5. Publicize the relationship internally and externally

Why Would Suppliers Want to Participate as a Preferred Supplier?

- ▶ Volume commitment

easier. Moving toward a Preferred Supplier Base will provide the following benefits for your group.

Cost Reduction Opportunities – Suppliers that have earned the "Preferred" designation will typically be open to the following opportunities that will reduce your costs and improve your bottom line:

- ▶ **LOCKED PRICING** – negotiated pricing that does not move...locked for a period of time.

- ▶ **IMPROVED TERMS** – favorable business terms that may include early pay discounts, use of credit card for supplier payments, etc.

- ▶ **VOLUME REBATES** – Suppliers want your business. Preferred Suppliers want all of your business to be exact. Build in volume rebates paid to your organization