5 Biggest Mistakes Made by Purchasing Agents

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Purchasing Agents Beware!

This book reveals five common mistakes made by purchasing agents. Are any one of the five mistakes a revelation? Hardly. Yet the compilation of the five mistakes can create significant and serious issues for the companies that are blind to them. Make them at your peril.

The Five Biggest Mistakes Made by Purchasing Agents is technical consulting available to you for free. Use it to set your buying criteria for your success and profitability.

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Mistake 1: Not Demanding High Quality

Poor quality products are a death sentence for a company. To a degree, you can overcome most other mistakes, but inferior quality is a slippery slope that leads to the dreadful destination of closing your doors.

The cost of poor quality. The sum of all costs associated with poor quality or product failure includes refunds, replacement, rework, scrapping, scheduling changes, warranty costs, and costs incurred in preventing or resolving future quality problems. Those are the immediate money costs. But the greatest cost is the loss of goodwill.

A simple definition of the cost of poor quality (COPQ) is all the costs that would disappear if your manufacturing process was perfect. The industry average of expenses tied directly to COPQ is around 20% of sales, with a range of 1% of sales in a six sigma organization up to 40% of sales in some companies not emphasizing quality. For the average company, there is a large potential for improvement.

A widely used rule of thumb says if a defect costs $100 to fix in the field it would only cost $10 to fix in your facility and $1 to prevent. Simply put, you want to stop defects before they are created, not after. You want to have a predictive model and not a reactive one.

That improvement starts with your vendors. You need to demand high quality of all your suppliers. If they can't comply with your demand, find someone else who will.

The Rule of 256. Let's say, for the sake of argument, that your slip in quality only affects one customer. No reputation breaker, right? There is an old adage regarding poor quality in the restaurant business. If someone has an unsatisfactory dining experience, that person, through his/her network of friends and acquaintances and their networks of friends and acquaintances, etc., will eventually reach the ears of 256 people, on average.

A case study. This is a true story, but the name of the company has been withheld for obvious legal reasons. A customer bought a defective vacuum cleaner from a well-known (and respected) company that sold appliances. After a few months, the vacuum cleaner stopped ten minutes after being turned on. It was sent back to the manufacturer for repair but still shut down after ten minutes. Then a new motor was put in, and the vacuum still didn't work properly. Finally, the manufacturer sent a replacement vacuum that had been in its repair shop. It wouldn't even turn on.

The customer brought his vacuum back to the store where he purchased it and said he would never buy another item from that company again. So the Rule of 256 was in play, right? No, this customer had a rather extensive blog site where he told thousands of people to never buy anything from the offending company.

Moral of the story: don't use suppliers that have shoddy quality. Doing so will harm your reputation. That leads to the second mistake to avoid – Accepting Inferior Service.

Here's how to demand high quality: Don't just hope for high quality. Confirm it with your suppliers. Here's how.

1. Start with yourself. Are you providing complete drawings, precise specifications, and reasonable tolerances? Communicate your expectations clearly to a supplier, preferable in writing. Be available for any questions.
2. Ask vendors if they anticipate any issues in producing your product to your specifications.
3. Determine if your supplier has a quality assurance program in place. High-quality companies will.
4. Expect quality information from a supplier. For example, does the pricing information clearly state what is and what is not included in the quoted price?
5. If not already defined and agreed upon, ask what the variation limits (reasonable tolerances) will be for the component your supplier is making for you.
6. Request information on the rejection rate a supplier tolerates in their manufacturing process. The higher the rate, the more likely you are to get defective parts.
7. If there is a quality issue, is your supplier proactive in contacting you to outline the extent and severity of the problem, what caused the problem, and what corrective action is being put in place to prevent that problem from happening again? Can the parts be reworked to meet your specifications or do the parts need to be re-manufactured?
8. Do the parts you receive exactly meet all your specifications; and, if not, were variations discussed with you prior to delivery.
9. Does your vendor submit a first article inspection report prior to or with the first shipment?

References:

A Big Blog Site Not Named for Legal Reasons
"An Old Restaurant Saying," author unknown
"Reducing the Cost of Poor Quality," Michael Cieslinski, Panasonic Factory Solutions Company of America
Six Sigma for Dummies

Mistake 2: Accepting Inferior Service

The case study of Mistake 1 has a negative outcome related to inferior service as well as to poor quality.

Moral: Do not accept shoddy customer service from your suppliers. Don't let their problems become your problems. If you are experiencing inferior service from any of your suppliers for a manufactured or fabricated component, find a new supplier.

What do customers value? A study was conducted to determine what customers value. We'll translate that to what manufacturing companies' expectations are for their suppliers.

1. Time not wasted: Do you spend minimum time with suppliers in ordering, receiving, and inventorying products? Do you waste time with managing service problems of any kind? Do you spend too much time with supplier shipment delays or incomplete orders? Do you spend time managing your output because of a vendor's service problems?
2. Processes are designed for customers: Is it convenient to work with a supplier? Are management, sales, and production staff easy to work with? Are the phones answered promptly and efficiently? Is billing accurate and understandable?
3. Services that make you feel important: When you get off the phone with a supplier, do you feel like you've been treated well? When suppliers say they will do something, do they do it? Do suppliers try to shift the blame to you for their service problems? Do you anticipate a battle when you call a particular supplier?

The cost of poor service. What are your costs related to poor service by one of your suppliers?

- You may need additional inventory
- Scheduling disruptions for your own production
- All the time spent in crisis management
- Loss of productivity
- Lost sales
- Equipment and personnel downtime
- Worker overtime to catch up on your commitments
- Late shipments or premium freight costs to expedite on-time shipments on your end
- Delayed payments from your customers
- Customer dissatisfaction resulting in diminished future orders – you can't effectively blame your suppliers to your customers
- Loss of reputation for your own company
- Loss of customers

The bottom line is that poor customer service is expensive. Analysts' data show that enterprises in the U.S. lose an estimated $83 billion each year as a direct result of a poor service experiences. You don't want to be part of that statistic.

What you should demand for superior service: A survey of 8,800 customers from 16 countries resulted in the following factors that have the greatest impact on customer service. You need to demand these factors from all your suppliers.

1. All employees involved in customer service are competent, friendly, and helpful – all the time. (78% of those surveyed)
2. All communication channels are convenient and efficient, from the person who first answers the phone to the CEO of the company. (48% of those surveyed)
3. Suppliers are proactive in reaching out to a customer, not reactive. They solve problems before they reach their customers. (39% of those surveyed)
4. The entire transaction process is personalized. Customers are valued for who they are. (38% of those surveyed)

The bottom line. Choose suppliers who value your business. Don't tolerate poor service. Keep track of the four factors above for each of your suppliers. If they don't perform at a high level for each of the factors, find a new supplier.

References:

Enzine Articles
The Customer Institute
Wikipedia

Mistake 3: Choosing the Lowest Price for Every Bid

There is nothing fundamentally wrong with choosing the lowest bid on components you shop out. Just make sure that is not your ***only*** purchasing criteria.

A Case Study. A large high-quality automobile insurance company, which will remain unnamed to avoid legal challenges from its competitors, bills itself as a low-cost insurer. The truth of the matter is that, much of the time, it will not be the lowest cost insurer. But to beat this company's rates consistently, one has to change insurance companies as often as every six months. Is that a good idea? Not really. Those who remain with this company year after year benefit from consistently low rates, without the inconvenience, disruption, and problems associated with constant changes of insurance companies.

Moral. There's something to be said about consistency and knowing a single supplier on a personal basis. Use a supplier that can deliver high-quality products at a consistently low cost. The lowest price every bid should not be your criteria. A low-cost vendor year after year is a better choice.

A Realistic Look at Low-Cost Manufacturers. The question becomes, why are some companies able to offer a low price or the lowest price for a product? There are several reasons. Choose the right one.

- A company makes a bid without analyzing its costs and will lose money on the job – unless it finds various ways to cut costs to the potential detriment of the final product.
- A company makes an unrealistically low bid to get your business, with the intent of raising prices once they have you as a customer.
- The intent of a low bid is to make a profit by cutting corners on the overall project – with substandard materials, equipment, processes, or production time.
- The bidding company has the combination of manufacturing know-how, efficient equipment, low overhead, and a commitment to high quality at the lowest cost.

What you should demand from low-cost manufacturers. An on-line study lists the following characteristics of companies that offer high-quality products at a consistently low cost. Due diligence on your part is needed to insure that low cost is not just low cost at any cost. Use the following characteristics for your purchasing criteria.

1. Select companies that have a demonstrated strategy of low cost with an emphasis on high quality. Check websites. Ask for customer references. Talk to CEOs.
2. Ask bidding companies what value they offer *your* company in addition to low cost. If they don't have a good answer, choose another supplier.
3. Ask companies how they manage costs while yet incorporating advanced features and attributes. Don't accept a non-answer.
4. Find out the experiential qualifications of the production staff and what training they have received. You don't want a low cost because staff is basically hired off the street at low wages.

5. Determine what equipment a supplier is using to manufacture your product. Are costs low because highly productive equipment is being

6. used with quality processes. Or are costs low because substandard equipment is being used with ill-defined process control?
7. Does the low-cost company you are contemplating to use have a history of ten or more years of a commitment to high quality and low cost. Be wary of older companies that are switching strategies or newer companies who are trying to establish themselves as a low-cost supplier without the experience of making that strategy work on a long-term basis.

References:

"Five Generic Competitive Strategies," Slideshow.net
"Lowest Cost Car Insurance Rates," Google
Wikipedia

Mistake 4: Having Too Many Vendors

This mistake is often an outcome of committing **Mistake 3: Choosing the Lowest Price for Every Bid**.

A wise man once said, “It’s better to have a few true friends than lots of acquaintances.” So it is with your vendor list. You are best off with a few true suppliers who are looking out for your best interests and who will stick with you during good times and bad.

Good business relationships are a critical component of the success of your company. As good relationships give meaning to your personal life, good business relationships give meaning to your business life. But good relationships take time and effort, which can’t be accomplished with a myriad of suppliers doing this and that for you.

If you could find one, two, or three suppliers who could meet much of your manufacturing needs, you would be in a good spot to build lasting relationships. You may ask, “But if I depend on one or two suppliers for all my needs, doesn’t that make me vulnerable if they go under?” That’s always a risk, which is why it’s important to choose your suppliers carefully. To paraphrase a renowned poet, it’s better to have a few true suppliers and lose one of them than never to have built a deep relationship at all.

How to choose your suppliers carefully. There is something more important than depending on two or three suppliers to provide your component needs – and that’s carefully selecting the suppliers you *know* you can trust.

First, research and gather information about all your present vendors and selected potential vendors with “friendship criteria,” as suggested below. This process will take time. If your present vendors don’t provide an adequate pool for capability and trustworthiness, ironically, you will want to expand your vendor base to include manufacturers you feel may meet your “friendship criteria.” In other words, you want to test new vendors out by giving them a small order to see how they perform.

1. Examine your experiences with each of your vendors. Are they true friends? Do they look out for their own interests or for yours?
2. Evaluate the level of honest communication with each of your vendors – web site visits, phone calls, faxes, on-site visits, mail – to determine that they are open, friendly, and efficient. When you get off the phone with a vendor, for example, do you say, “My day is brighter from talking to that person”?
3. How long have present or potential vendors been in business? Have they consistently been high quality and low cost?
4. Talk to the CEOs of each supplier or potential supplier. Are they excited and enthusiastic about the prospect of being one of your main suppliers? Are they committed to a long-lasting relationship? Ask them what they will bring to the table.

5. Find similarities between your company and your suppliers. Do they share the same values? Are they open in talking to you, or guarded? Are they friendly? Do they want a long-lasting relationship?

6. Explore how they can benefit you and how you can benefit them. Friendships are a two-way street. Win-win relationships last; win-lose ones don't.
7. Are they problem-solvers or problem-makers?
8. Finally, here is the critical question to ask a vendor. "If your company were to go out of business tomorrow, what plan do you have to avoid disrupting our supply chain with all components you make for us"

   That plan is how you address your vulnerability if a key vendor goes under for whatever reason. It is the ultimate mark of a true business relationship – one you can bank on. Without such a plan, you don't have an open relationship. Find vendors who will work with you to have a Plan B in place *before* it may be needed.

References:

"Customers Value Good Business Relations, "customer-relations. suite 101.com
"In Memoriam A.H.H," Alfred Lord Tennyson
"Top 7 Steps to Creating Lasting Business Relationships," top7business.com

Mistake 5: Sourcing Offshore-Jeopardizing Quality & Intellectual Property

Offshore sourcing is a strategy large manufacturers follow to lower their production costs, allowing them to be more competitive and still make a profit. These companies have the expertise, extensive legal resources, and leverage to ensure that offshore sourcing meets all their quality specifications, while protecting their proprietary rights.

Smaller manufacturers don't have these same resources and thus put themselves at risk with sourcing offshore. If you are considering having components manufactured overseas, you need to understand the big picture and perform due diligence on any source you are thinking of using.

Cost. Calculating the cost of offshore sourcing is like buying a new car. There's more to the final cost than the sticker price. Additions to the bid price of a product – transportation costs, shipping insurance, duties, currency fluctuations, transit damage and delays, the cost of carrying inventory, and a host of other possible cost factors – can impact the cost of cheap offshore products and parts.

Quality. You don't want to be listed amongst the companies who choose the cheapest outsourcing option instead of the best quality. Yes, these companies are frustrated with the quality of work being provided, and they admit that their focus on cost increases the likelihood of their products failing, but they still plan to offshore more work in the next two years. How foolish.

There are often not manufacturing standards – such as ASTM, JIS, and DIN standards – in offshore countries that exist in the United States, Canada, and Europe. Secondly, materials used in a product may be stated to be a "local equivalent." Furthermore, because of poor regulatory control, offshore manufactured products may introduce safety or toxicity issues to the components of a finished product manufactured in the United States. That could eventually lead to legal trouble.

Small to mid-sized manufacturers "need to open their eyes" to the dangers and unforeseen problems lurking out there for those who choose to outsource overseas. "Quality concerns can often result in more management time being required and increased travel and troubleshooting." And there are concerns with "staff churn and communications difficulties" with providers that are located at a great distance.

Return to **Mistake 1: Not Demanding High Quality** for the repercussions of accepting poor quality from suppliers who are not concerned with your reputation. It's difficult enough to demand quality products and services from suppliers in your own country. Demanding quality products and services from a supplier overseas is exponentially more difficult.

Jeopardizing Intellectual Property. The legal framework in the United States protects intellectual property, such as patents, industrial design, and trade secrets. If one of your suppliers tries to steal your intellectual property, you have venues to challenge them. These same venues in countries you may outsource to are difficult to navigate, ineffective, or non-existent. Small or mid-size manufacturers too often find that outsource suppliers either counterfeit their product and sell it in the outsource country, or become new competitors in the United States – using designs, specifications, and confidential information stolen from the company who contracted with them.

The bottom line. To be competitive, companies must be able to fairly evaluate the balance of risks, costs, and performance of a supplier before making a global sourcing decision. If you do choose to source offshore, make sure to receive extensive legal advice and work with an offshore manufacturing consulting firm, to which you would perform your due diligence. It's not that you should never source offshore; it's that you weigh the costs, evaluate the quality, and receive assurance that your supplier won't counterfeit or otherwise misuse the proprietary information you give them.

References:

"Businesses Disappointed with Quality of Offshore Work," computerworldUK.com
"Globalization of Information: Intellectual Property Law Implications" by Kim Nayyer, firstmonday.org
"Hidden Costs of Offshore Sourcing," Industry Week

Ask Yourself,
Are you tired of dealing with…

- Late Deliveries
- Quality Issues
- Unexpected Overrun Costs
- Phone calls/emails not getting returned?

IT'S TIME TO STOP BAD SUPPLIERS FROM WREAKING HAVOC ON YOUR BUSINESS AND PROFITABILITY!

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