



CROSSLINK TECHNOLOGY INC.

Formulated Epoxies, Urethanes • Custom Cast Parts

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From the supplier's point of view

October 24, 2003

It is interesting to see that whenever the economy slows, many manufacturers decide that the most important item in assuring the survival of their companies is to reduce costs by demanding price reductions from their suppliers while totally disregarding the value of their suppliers or the real value of the goods and services received from them.

What is wrong with this picture..? First of all, cost reduction should be an ongoing daily process, regardless of the economic climate. An unnecessary expense is unnecessary regardless of the prevailing economy. The cost reduction process must always be based on the end value, that is, the increased profit or market share which will result from it. Cost reduction must also be in harmony with and not compromise the overall manufacturing process.

This brings us back to the value of the goods and services being purchased.

The lowest cost goods and services are not always the most cost efficient if we consider the complete process. There are many occasions where paying slightly more for a raw material will result in greater cost savings. This is where the value of the goods and services being purchased must be carefully analyzed.

One should consider the following key points during such analysis:

1. The availability of identical products or services from other suppliers

This is important since not all products are identical although they claim to be the same. The differences may be slight but the nuances could cause major headaches in the overall process. Only products that have already passed performance testing should be used in the comparison.

2. The reliability of the available suppliers

In many cases, during the cost reduction process, reliable suppliers who deliver goods and services at consistently useable levels of quality on time are discarded for lower cost products. Previously required supplier quality certifications are ignored for the sake of cost reduction. The short term results will be impressive but the long term damage could be a disaster.

Focusing only on price instead of value is even more dangerous when comparing a long established supplier to an offering from a newcomer. Chances are that the person making the comparison was not involved in the growing pains and the difficulty encountered at the beginning of the project and believes that anyone can provide the goods and services in question at the same level of competence. The results could be disappointing.

3. The long term plans for the goods and services being considered

The customers purchasing the finished products expect to pay the lowest price for the best possible quality. Since every business must meet the needs of its customers, it only makes sense to utilize ingredients that will consistently yield the level of quality and selling price required by the market while maximizing profits for the manufacturer.

These goals are best maintained by working with reliable suppliers who are familiar with the manufacturing process at hand and who are in the position to respond to new requirements including required cost reductions. Since suppliers are also in business to make a profit, it is unrealistic to demand drastic price reductions unless they are accompanied by an equally drastic increase in purchase volumes or a corresponding reduction in the services required by the purchaser. In any case, the chances are that reducing the supplier's margins on the existing levels of business will eventually result in reduced quality or the reduction of the services provided.

4. The support available from each available supplier

A supplier of a particular product is usually an expert in his field. Even if he can not be considered an outright expert, he will know more about his product than the purchaser since he is involved with its application every day. On the other hand, the purchaser knows his overall process requirements better than any supplier for the same reason. The lowest cost, most efficient manufacturing processes are achieved by the purchaser stating his requirements and the supplier providing the best possible product to meet those requirements and perhaps even improving upon the expected results. This process of interaction must represent value to both the purchaser and the supplier. The value must represent increased profit for both.

This cooperation must be close and ongoing in order to solve any problems encountered in the manufacture of the end product. An experienced, knowledgeable supplier, who already knows the process at hand, will have a higher value to the purchaser than one who lacks the required knowledge. This must also be considered in any cost reduction effort. The willingness and ability of a supplier to respond in case of problems is paramount in achieving the lowest overall cost.

The saying, "talk is cheap", must be included in the final assessment of the cost reduction process.

Considering formulated epoxy and polyurethane products, it is extremely critical to avoid rash decisions. A product with proven performance is, in many cases, very difficult to match by other formulators. Slight changes in formulation can result in major failures in the field. The epoxy or urethane being substituted must be fully tested to confirm its performance characteristics even if the processing appears to be identical.

Focusing only on the cost instead of the value of a supplier's product, at the exclusion of every other factor, will produce immediate results on the bottom line but could also spell disaster later on in lost customers and market share. Cost reduction should be viewed and assessed based on the total cost of a given process. In many cases, purchasing a slightly more expensive product or service, one that eliminates steps or speeds the process or results in fewer rejects or increases the value to the customer will result in the optimum increase in profitability. Switching raw materials and/or suppliers without regard to anything else is probably not the way to go.

"The most valuable product or supplier is not necessarily the cheapest but the one that generates the most profit for the purchaser. "

Crosslink Technology Inc.
Karl Egenberger.
Marketing Manager.