

Mirror, mirror...(Customer of Choice)

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Nissan's recent steel crisis highlights the importance of being an attractive customer to your suppliers

by **Carlos Gordon**

Nissan hit the headlines last year with its announcement that it was going to stop production for five days in three factories in Japan owing to a shortage of steel. News reports noted that this was partly due to the increased demand from China. Nissan's CEO, Carlos Ghosn, predicted that other Japanese car manufacturers might have similar problems.

When I heard this news, I wondered whether perhaps some of Nissan's suppliers had been "too tough" with their own suppliers in the past. One could imagine that some second-tier suppliers might be happy to finally get "revenge" after being treated unfairly by their customers.

In a few similar situations, I have witnessed the sudden "promotion" of the chief procurement officer to a different job and the CEO trying to emphasise the need to become an important customer to suppliers. The crude reality is that I do not know any company that measures whether it is an attractive customer to its suppliers, although most companies measure and re-measure every single action of suppliers.

Ask a CPO about the "on-time delivery" or "quality track record" of a supplier and he or she will give you a plethora of information. Ask the same CPO about measures of how attractive they are to their suppliers as a customer, and the answer is something like, "Yeah, that's important, but we do not measure it."

Many companies have talked about "relationship" and sometimes that meant "relation-shit", or about "win-win" and that meant the same guy (the customer) winning twice. No wonder that some suppliers are now calling for revenge.

Obviously, Carlos Ghosn has done the right thing in dismantling the keiretsu of cross-shareholdings with suppliers and pressing them to offer better prices. It was arguably too cosy a relationship for a number of suppliers. By comparing the prices with those that Renault's suppliers charged, Nissan realised that it was paying too much for components. The company has achieved a 30 per cent reduction in costs over the past five years.

However, just when Nissan is regaining market share thanks to the introduction of many new models that customers want, it is a pity to lose sales because of a shortage of steel. Also, I can imagine that the suppliers of other parts are not

very happy because they have also lost sales after putting a lot of effort into developing components for the new models.

So, if we are too soft with suppliers we end up with prices that are too high, and if we are too hard we might lose sales and innovative ideas because we are at the bottom of our suppliers' priority list. As the CPO of one FMCG company says: "We must give our suppliers tough love."

Yes, relations with suppliers are a two-way affair. In fact, experienced purchasing managers know this and intuitively manage it by having supplier days, supplier prizes and so on. But often this is not enough. These relationships are complex, involving many dimensions and many managers at different levels. Suppliers assess their customers not only by sales but also by profit, new development opportunities, common projects, joint investments and social interactions.

In the car industry today, suppliers undertake around 40 per cent of all development activities. Logically, car companies want their suppliers to dedicate the best engineers to their projects. For this to happen, a company not only needs to be an attractive customer but also, more importantly, should be perceived as an important and fair customer. This, in turn, means not only healing the scars caused by hard negotiation but also making sure that the suppliers' staff have a warm and positive feeling about the customer. In fact, perception is more important than reality.

When I talk about developing measures, management systems and behaviours to become an attractive customer to suppliers, many purchasing executives smile and wonder about the consequences of not doing it. As a vice-president of purchasing at another FMCG company put it: "We spend €800 million per year, €50 million of it on research. Our suppliers spend €48 million on our behalf (on average 6 per cent of sales). Is the innovation that we pay for through our suppliers for us, or are we subsidising research for our competitors?"

The bad news is that many companies are very unattractive to their suppliers; the good news is that not many know it.

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