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**Nelson Mandela
Metropolitan
University**

for tomorrow

Port Elizabeth & George - South Africa

Africa Week Lecture

SUPPLIER PERFORMANCE IN THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

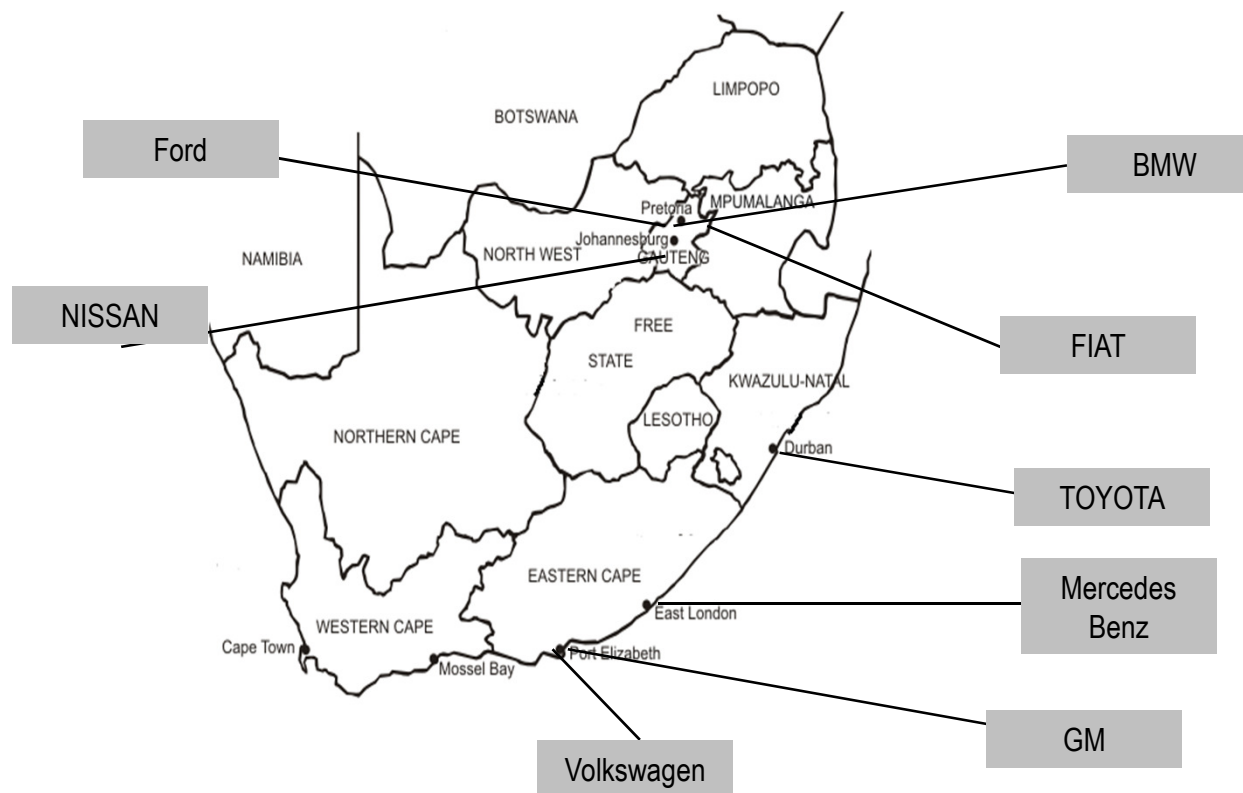
**Presenter: Gavin Cook
Logistics Department**

Presentation structure

- **Introduction – Background of the S.A Automotive Industry**
- **Consequences of poor supplier performance**
- **Benefits derived from trading with World-Class Suppliers**
- **Key factors to consider when engaging in supplier selection**
- **Remedies to assist suppliers on improving automotive supplier performance**

BACKGROUND OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

Motor vehicles assembled in South Africa



INTRODUCTION

- The automotive sector plays an important role in the South Africa economy, contributing in the region of 6% to its Gross Domestic Product and creating much-needed employment.
- Similar to other countries, the South African automotive industry is faced with demanding challenges which include:
 - Slower local and global economic growth rates
 - Aggressive global competition

INTRODUCTION

- Customers continually demanding new & improved products with the latest technologies at shorter intervals
- A limited domestic market and located far away from the major world markets
- To withstand these challenges and to remain competitive, South African automotive manufacturers must provide:
 - Better value and quality to its customers, at lower costs than its competitors

INTRODUCTION

- This depends on the pricing, quality and service delivery levels they receive from **their suppliers**.
- Selecting the “wrong” suppliers results in:
 - Out-of-stock situations
 - Failure to meet production schedules
 - High purchasing costs to fix crisis situations
 - Disappointed customers and cancelled orders
- Therefore, the successful procurement of requirements has become an integral ingredient for overall business success.

CONSEQUENCES OF INFERIOR SUPPLIER PERFORMANCE

- Late deliveries
- Inability to respond to customer schedule changes
- Lack of continuous improvement
- Uneconomical pricing

CONSEQUENCES OF INFERIOR SUPPLIER PERFORMANCE continued.....

- Quoting lengthy lead times
- Products not conforming to specifications
- Lack of quality policy/philosophy

CONSEQUENCES OF INFERIOR SUPPLIER PERFORMANCE continued.....

- Lack of technical ability and infrastructure
- Incompatible business philosophies
- Withholding of cost structures

CONSEQUENCES OF INFERIOR SUPPLIER PERFORMANCE continued.....

- Poor overall management
- Unavailability of supplier representatives
- Incompatible e-commerce software packages
- Displaying of unethical behaviour

Benefits derived from trading with World-Class Suppliers

- Production schedules are met as the business firm does not experience:
 - I. Production stoppages
 - II. Production delays
 - III. Forced production schedule changes.
- The business firm experiences improved productivity as downtime is limited.
- Crisis management situations owing to bad supplier performance are limited.

Benefits derived from trading with World-Class Suppliers continued...

- Performances of world-class suppliers are conducive to the application of modern business practices such:
 - i. Lean manufacturing
 - ii. Total quality management and
 - iii. JIT-supply by business firms.
- World-class supplier performance allows the business firm to become more flexible to the changing needs of its customers.

Benefits derived from trading with World-Class Suppliers continued...

- The positive impact on the firm's *product offerings* specifically when dealing with world-class suppliers includes:
 - World-class suppliers render assistance to the business firm with regard to the design and development of new products. This results in better designs at lower costs and at faster rates.
 - The good infrastructure, well-established procedures and quality systems of world-class suppliers ensure that the business firm is supplied with quality products at economical prices, in the correct quantities required, and at the right time.

Benefits derived from trading with World-Class Suppliers continued...

- Business practices applied by world-class suppliers, such as continuous improvement and TQM, impact positively on the quality and cost structures of the business firm's own products.
- Open-book pricing by world-class suppliers ensures that prices quoted are not inflated. This allows the business firm to submit competitive quotations to their own customer base.
- High customer service levels rendered by world-class suppliers enable the business firm to offer high service levels to its customer base, e.g. shorter lead-times.

Benefits derived from trading with World-Class Suppliers continued...

➤ The positive impact on the *profitability*

- More efficient and effective internal operations which lead to lower cost structures are achieved, thereby increasing the firm's competitiveness in terms of:

- I. Pricing,
- II. Quality and
- III. Service delivery.

This enables the firm to attract more business, which increases profitability.

Benefits derived from trading with World-Class Suppliers continued...

- Less working capital is tied up in inventory as world-class suppliers offer short lead times and have the necessary infrastructure to support JIT and lean manufacturing business practices. This results in the following benefits:
 - I. Lower inventory carrying costs
 - II. Decreased operational costs
 - III. Increase in profits.

Key factors to consider when engaging in supplier selection

- Culture of continuous improvement
- Ability to respond to customer schedule/demand changes (flexibility)
- Consistently meeting delivery deadlines
- Clear and open communication
- Respect for business ethics

Key factors to consider when engaging in supplier selection continued...

- High product reliability
- Consistent application of their quality policy
- Conforming to specifications
- Quoting fair prices
- Prompt response to business requests
- Supplier back-up support
- Technical capability of the supplier
- Buy-in from supplier with respect to new business strategies

Key factors to consider when engaging in supplier selection continued...

- Strict adherence to contractual commitments
- Competent supplier representative(s)
- Willingness to assist in new product development
- Short delivery lead times

Key factors to consider when engaging in supplier selection continued...

- Application of quality policy company-wide
- Fair supplier profit margins
- Availability of supplier representatives
- Healthy supplier financial status
- Product innovation
- Open book pricing policy
- Good cost reduction buy-in and initiatives

Remedies to assist suppliers on improving automotive supplier performance

- Encouraging open dialogue with suppliers on how to better current performance and engaging in supplier development programmes.
- Rewarding good suppliers with more opportunities by granting them more business and threatening those with below par performance with cancellation of contracts.
- Engaging in full-cost analysis to identify areas wherein suppliers could improve their processes and pricing.
- Requiring suppliers to achieve quality certification linked to specific quality programmes.
- Having regular supplier audits and motivating improvement requests through the use of regular monthly performance reports.

Remedies to assist suppliers on improving automotive supplier performance continued....

- Applying thorough vendor evaluation before business is awarded and having mission-directed workshops. (Buying-firm team visits)
- Establishing formalised quality agreements with suppliers that measure performance and give feedback for corrective action.
- Applying a formalised supplier rating process in which their quality, pricing and general performances are rated on a regular basis.
- Coaching suppliers in world-class practices and manufacturing concepts and establishing partnership agreements.

A close-up photograph of a red ballpoint pen with a silver tip, positioned diagonally from the upper right towards the center. The pen is in the process of writing the words "Thank you" in a black, cursive script on a plain white surface. The lighting is soft, creating a subtle shadow beneath the pen and the text.

Thank you