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BUILDING SUPPLIER NETWORKS IN LOW COST COUNTRIES

The fact that it is possible to achieve big cost savings through a well-built supplier network is a trivial truth. Less trivial is the way of realizing this. Some experience, gathered while building supplier networks in Central and Eastern Europe and Vietnam, is presented in the following article.

The first choice is the selection of a territory where the supplier network is to be located. This selection is mostly an answer to the question "Is it to be in Europe, its near vicinity or somewhere else?" If the answer is yes, (due to the need to achieve cost savings) the choice is mostly narrowed to Central and Eastern Europe or Turkey, or the Maghreb countries, or to a combination of those. If South East Asia is considered, China or Vietnam are the most probable candidates. Or are there other reasons to consider different territories - e.g. India?

Helpful method to support decision making

The choice of a territory is mainly influenced by: (a) the complexity of components/ products to be purchased there, (b) requirements on flexibility and speed of deliveries, (c) the reasoning that building of a supplier network is to be a part of a sales

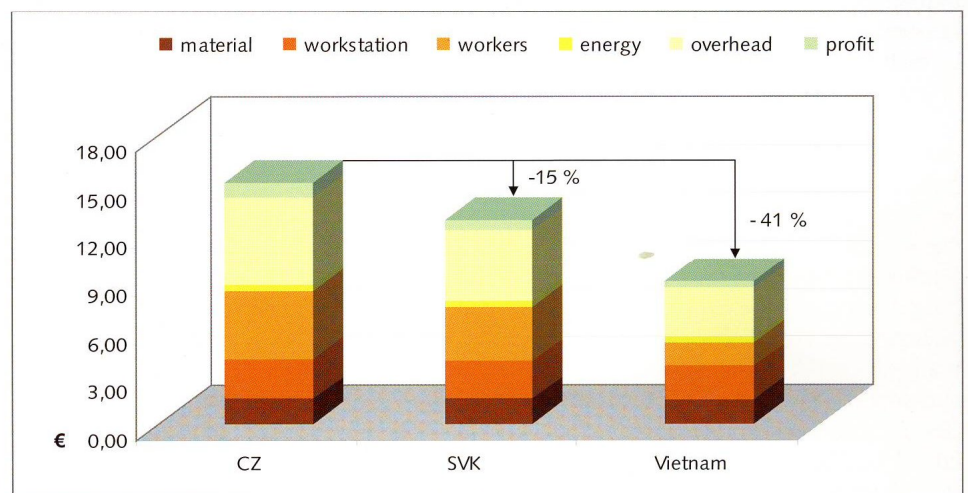
expansion on a selected territory, (d) the idea that building of a supplier network will provide info and experience for a later decision on one's own investment in a selected territory (e.g. taking over a local producer).

It is useful to apply 'a decision support model' especially when factors (c) and (d) play a role (a frequent case in practice). The preparation of such a model requires to address the following key issues: (i) what are potential risks at the respective territories? (ii) how to mitigate those risks?

(iii) is essential knowledge and data (for building supplier network) available in-house or through partners? The last issue is absolutely crucial.

Evaluation of suppliers

The preparation phase of building supplier network and decision on territory (ies) requires at least: (1) specifying the nature and rough volumes of components/ products to be purchased (in a long term); (2) to make 'a pre-selection' of territories,



Production costs in various countries.

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to a priori exclude unacceptable territories (for whatever reasons); (3) to select partners who are able to look for and to select suppliers in particular territories; (4) to construct a decision support model; (5) to gather essential data; (6) to prepare a proposal of the selection of a territory (by means of a decision support model and partners); (6) to prepare a plan for building a supplier network on recommended territories, (7) to make a final decision. The plan should also contain time projections of: (i) costs incurred by a work on building a supplier network; (ii) cost savings stemming from the utilization of a built supplier network.

It is recommended to make employees or partners (who provided inputs and prepared the decision and the plan for building the supplier network) responsible for the realization/ carrying out of that plan as well. This is the way of decreasing the risk of later "nasty surprises".

The key success factor in building a supplier network is the ability to rightly evaluate the capabilities and potential of prospective suppliers - search for prospective suppliers is mostly not a problem. This evaluation should primarily stem from info gathered through research directly at pre selected prospective suppliers and their present clients. In the above-mentioned territories publicly available info about companies is less complex and reliable than usually needed.

The research and evaluation should be done by persons speaking the local language and experienced in application of a proven methodology. The evaluation should cover (at least): (a) processes (including possessed machinery/ technology and its state), (b) human resources (separately top management, mid management, shop floor and administrative workers), (c) financial stability, market position and ownership structure. This is surely the most expensive part of the project.

Gathered info also serves as a basis for a Supplier Development Program (SDP). The SDP ought to be prepared concurrently with a contract and tailored to a particular selected supplier situation. Agreement on the realization of the SDP, milestones and parameters of the SPD should be stipulated in a contract as well.

It is useful to solve logistics of supplies separately, after having a clear enough picture about the selected suppliers and product volumes delivered by particular suppliers. The rules for logistics of supplies should be included in a contract as well.



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Education

Degree in Electrical Engineering at the Czech Technical University (Prague)
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Industrial experience

20 years – organization and management systems development/ process changes implementation
Last position: CEO of Demares, a.s. (the Czech engineering company)

Consulting experience

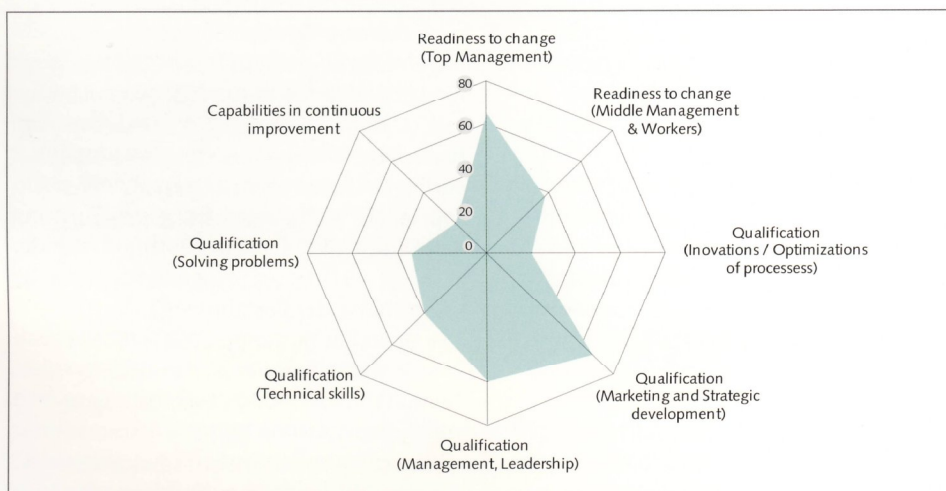
18 years, from 1994 partner at AMTERA, s.r.o.

Consulting focal points

- Management of national and international consulting projects
- Business Process Reengineering
- Change Management
- Broad business reorganization and optimization programs
- Factory planning, plant development planning
- Implementation of Lean Production and production systems
- Optimization of the Supply Chain

Branch focal points

- Automotive industry
- Aircraft industry
- Mechanical engineering



HR Evaluation