"One thorn of experience is worth a whole wilderness of warning.” -- James Lowell

Those of us who spend our careers in the automotive supply-chain trenches see suppliers repeat the same mistakes. Worse, amid our current prosperity, some of the lessons learned during the 2008-09 Great Recession appear to be receding into the mist. In the spirit of reinforcing some of those hard-earned lessons, I provide the following “baker’s dozen” list of proposed resolutions for this model year.

1. “I will get rid of my worst customer by _____ [insert date – most are between three months and one year].”

   Most suppliers have one: that tool in the corner of your facility that’s sitting idle, waiting for the occasional release from a customer you have no other work with (or worse, work that you’re losing money on). It’s time to dust off the contract, carefully review it, and determine if there is a legitimate basis for exiting. In these times of high volumes and capacity constraints, focus your resources on profitable work for your long-term customers.

2. “I am not a bank.”

   In 2008-09, payment terms shrunk down to 30 days, 20 days, and even cash. They have been slowly creeping back up for years to 45, 60, and even 75 days. Why go back to the bad old days? When you ship a part, you should be paid promptly. Waiting for months to be paid is extending trade credit to your customers. By doing so, you are agreeing that they need your money more than you do.

3. “I will not passively accept all setoffs.”

   Your customer was supposed to pay you $100,000, but you only received $70,000. You investigate and see a $30,000 debit / setoff / chargeback with little explanation or document support. Don’t just accept it – demand proof that the issue was your fault, that your customer suffered true harm, and that the harm was caused by your mistake. Why is it that when you ask for a price increase, your customer demands an endless series of increasingly granular documentation, but that same customer picks your pocket without having to provide proof?
4. “I will not allow parts to carry over from model to model, and program to program.”

Don’t let your old dogs live forever. If you have a standard blanket purchase order requirements contract, the customer can only order parts for the originally contemplated use; it cannot extend that same part to new models and programs ad infinitum. Once your original obligation is exhausted, if your costs have increased, either demand increased compensation or stop production.

5. “I will price to account for annual price decreases and inflation.”

When you get a purchase order with an initial price $10.00 with a 3% annual price decrease (often referred to an “LTA” or “PACT”) for five years, the price shrinks to $8.59 by the fifth year. But wait, it gets worse. If you assume that inflation will be around 3%, as it has historically averaged over the past 15 years, the effects are twice as bad – in the final year, your real, inflation-adjusted price is $7.37. So you need to think, yes, I have a positive margin at $10.00, but do I at $7.37? If not, you need to price the business in the long-term to adjust not only for annual price decreases, but also for inflation.

6. “I won’t give away my intellectual property.”

When you invent something, you should carefully consider how to protect it. Even if you don’t have a patentable invention, your production employees have valuable know-how that is not publicly available and is valuable to your business, what the law calls “trade secrets.” Require your customers and suppliers to sign non-disclosure and confidentiality agreements to protect your IP, and object to customer terms and conditions that would give it away.

7. “At the beginning, I will think about the end.”

Termination, expiration, and obsolescence are the most-often-litigated issues in the supply chain. Negotiate agreements that protect your final run-out numbers and firm fabrication releases, so your customer can’t leave you holding the bag with obsolete finished goods, WIP, raw materials, and unamortized capital expenditures.

8. “I will not enter into casual sales rep agreements.”

Michigan has a statute that provides for treble (meaning: triple) damages for failing to pay commissions to sales representatives, and the prevailing party gets attorneys’ fees rewarded. Avoid “gentlemen’s” or “napkin” agreements, and fully negotiate a sales rep agreement that defines the rights and obligations for both parties, particularly as to post-termination commissions. [For details, see http://www.michbar.org/journal/pdf/pdf4article2419.pdf.]

9. “It only takes one part.”

If you are losing money with a customer, and want price increases, you only need that one part with a contract you can exit to leverage it into negotiation of the entire portfolio. It is hardball that you don’t want to play with your best customers, but is a “in case of emergency, break glass” tool.
10. “PO extensions, amendments, and revisions are a customer’s ‘offer’ and an opportunity.”
   Many changes occur throughout the three-to-seven cycle of a vehicle program. You want things, your customer wants things. Every request by your customer for a change (to a spec, to a shipping arrangement, to anything) is an opportunity to negotiation your laundry list of your own requests – don’t simply make your customers’ changes without compensation and let them ignore yours.

11. “I will get neutral on raw material.”
   Are you paid to gamble on steel or resin prices? No, that’s for the professional commodity investors. You are a parts supplier, and you should make money on your value-add, not changes in the commodities market over which you have no control. This is painful lesson that many have learned in the past decade, and most contracts are now indexed to the market, but many still are not. Think: parts, not pork bellies.

12. “I will get neutral on currency / FOREX.”
   This is the same dynamic as with raw materials. Many suppliers have won and lost on foreign currency exchanges. When they are positive, they are quiet. When they start losing money, they start whining. It is best to be paid in the same currency you’re spending, but if you must cross currencies, set up boundaries for exchange rates so you don’t get burned the next time there’s a wild fluctuation in USD or RMB. The best time to get neutral is when you don’t need it.

13. “I won’t warrant what I can’t control.”
   It continually surprises me how many suppliers believe they are “build to print,” but fail to read their customers’ terms and conditions, many of which purport to hold them design responsible for designs that aren’t theirs. Read the fine print and if you don’t have a control over an issue – design, specification, etc. – don’t warrant it.

I hope that this list is a good start for you to think about the issues affecting your company. Which apply to you? Which do you disagree with? What important resolutions have I omitted? I hope that suppliers take advantage of our current environment to address their long-term issues and ensure long-term prosperity.

Dan can be reached at 248.971.1712 or sharkey@bwst-law.com