



Implications of global customer-driven competition

Your customers are influencing the way you compete by shifting responsibilities to you that have historically been their domain. Downsizing, technology and consolidation have dramatically changed the competitive environment. By understanding the positive and negative ramifications of customer-driven competition, suppliers will be in better positions to respond to the new global competitive environment.

Customer-driven competition

Customer-driven competition is a process of measurement, evaluation and selection of a supplier by a customer within the context of customer-defined performance criteria.

The criteria can be comparative and/or absolute. It is intended to replace product-oriented information and personal relationships based on golf or luncheons.

Customer-driven competition is intended to reduce costs and motivate suppliers to meet customer demands in the absence of “natural” competitive forces. It is the result of the accelerating trend toward oligopsonies and oligopolies.

The 'survival of the fittest’ doctrine is replaced by man-made vendor selection procedures. The main drivers of this new competitive model are:

- Global consolidation
- Price-minus annual contracts
- Multidirectional integration
- E-commerce

Each of these drivers is described and the implications for suppliers are discussed.

Global consolidation

It is well documented that using fewer suppliers saves money and improves quality. The customers' desires for fewer vendors will continue until the logical conclusion is reached: one subsystem/ one supplier throughout the world.

When large corporations make pronouncements that they intend to “purchase globally,” the new meaning is not that the world is their supermarket. Rather, these corporations are seeking a limited number of suppliers who can provide them with selected products, parts, materials or services anywhere in the world.

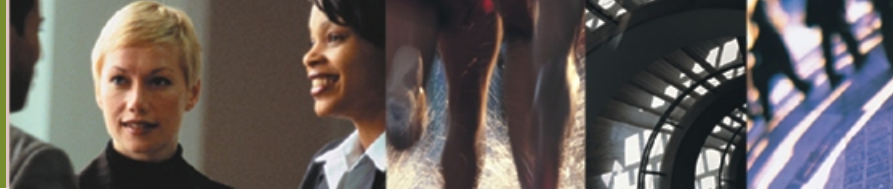
These suppliers can be foreign or domestic. Many large entities in the U.S., Japan and Europe are purchasing globally for many products ranging from refrigerator components to mainframe computers. The Japanese auto OEMs have invited their traditional domestic parts and material suppliers to set up in Europe, Latin America and North America to serve them. These suppliers must constantly prove themselves in both product quality, delivery, cost and other factors or they will be quickly replaced.

The consolidation of the customer base also changes the competitive landscape. From supermarketstoavionics, industries are becoming so concentrated that both Taft and Hartley would blush. There is now more competition for fewer, but larger national/global accounts.

Size, scale and coverage are becoming important competitive attributes in addition to product, price, quality and service. Most suppliers are now forming teams of account specialists with responsibilities for the same customer but at different levels in the customer's organization.

Positive factors

- Winners develop closer relationships with customers and are involved earlier in new product and/or market initiatives.
- “Back room” costs are reduced and greater efficiencies are created. Fewer people are needed and transactions become simpler.
- Winners can develop critical mass to defend their businesses.



Negative factors

- Losers will find it difficult to re-enter if the customers' needs are satisfied.
- Fewer suppliers contribute to greater supply disruption risks.
- Often winners become complacent resulting in reduced service levels and less innovation.

Price-minus contracts

Cost-plus contracts, made infamous by the U.S. defense industry, are now obsolete in the context of today's global industrial environment. In fact, the rule today is the "price-minus contract."

Large global customers expect that, with exclusivity and more direct participation, suppliers should share these advantages in the forms of future cost savings and productivity gains.

Suppliers trying to break into these customers have a double disadvantage of having to compete with an incumbent supplier that is also reducing prices. The existing supplier must reduce production costs to maintain profits and the upstart company must provide even lower costs and/or develop new designs or technologies to displace the incumbent.

The implications of global price-minus contracts on suppliers are as straightforward as they are challenging constantly improve productivity and/or develop new products or lose to your competitors.

Multidirectional integration

Your customers are rethinking their relationships with their customers and you. Some customers have opted to backward integrate and private label products for higher margins and a consistent brand image. In this case, the results are obvious you lose a customer and gain a new competitor.

Forward integration by your customers is less likely to cause the same level of anxiety but will change your relationship. Suppliers will have to consider additional products and services to keep up with a forward integrating company.

E-commerce

E-commerce represents another new decision point and screening mechanism for customers to evaluate and select suppliers. The days of EDI, as we know it, are over. Suppliers will be expected to comply and operate within a customer's e-commerce system and absorb the hardware, software and service costs.

Electronic price lists, inventory, catalogs, data sheets, service advisories and other aspects of pre-sales, sales and post-sales activities must be supported by the suppliers. E-commerce will require suppliers to clearly understand the value they add for their customers.

Industrial product suppliers will have to maintain the resources and flexibility to operate in this new environment. Security and access to pricing, inventory and delivery information has to be segmented and segregated for different groups of distributors and customers. National accounts may require an entirely separate and proprietary system.

These are downside threats of e-commerce. Your customers may decide to unbundle your product/service offering or go direct to another supplier based on its e-commerce capabilities.

E-commerce also breaks down barriers to entry into a market. The scope and size of your distribution network is no longer an unassailable competitive advantage.

On the upside, there is a major opportunity to create a higher level of service and enjoy substantial cost reductions through e-commerce. This tool can also be effective for very complex international transactions with your customers.

A brave new world

The nature of competition in the global marketplace is changing through industry concentration, new relationships and new technologies. Suppliers will have to respond to this challenge by improving products, reducing costs and adopting new ways to transact and communicate with customers.

Consolidation, price-minus contracts, integration and e-commerce are the key trends in the new order of competition. The implications for companies are the risks associated with reaching critical mass, developing closer relationships with customers and adopting new means of transacting faster than your competitors.

Strategies can be created and adopted. Effective tools for suppliers in the quest for competitive advantage are available. However, these tools have to be applied with speed to maintain your competitive edge.

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