

By Eric Leclair

Just find suppliers who deliver on time, every time. Sounds easy enough, doesn't it? It's easier said than done.

Many factors affect a supplier's willingness and ability to deliver goods on time: your purchase history, payment track record, order size, customization—but most important is how they perceive your relationship.

So how can you become that special customer in the eyes of your supplier? How can you expect to receive your orders on time, every time? First, let's take a closer look at some of the buzzwords floating around to understand exactly what they mean.

### Just-in-Time: myth and reality

It seems that everywhere you look these days, companies are touting the benefits of their Just-in-Time (JIT) delivery programs. In most cases the folks in marketing have stretched the truth in an effort to create a buzz. What most of them really mean when they advertise JIT is just on-time delivery. Very few companies have the discipline, patience, and follow-through to implement a

true JIT system—which minimizes exposure to inventory and streamlines manufacturing to produce only what is needed when it's needed.

The JIT system was developed and perfected by Toyota manager Taiichi Ohno following World War II. It is also referred to as the Toyota production system, and by other buzzwords like “Kanban” and “lean manufacturing.” At the time, Ohno pursued his production system on the basic principle of eliminating waste. He identified several factors that added additional costs without adding any value: inventory, overproduction, work stoppages, machine downtime, poor quality resulting in defects, setup time, and even time spent moving product from one space to another.

JIT was designed to relieve manufacturers of the cost and burden of housing and managing idle parts. The Just-in-Time method demands a very committed workforce, integrated suppliers and flawless synchronization among all departments in the supply chain. Recently, high-tech giants such as Dell Computer Corp. and Cisco Systems Inc. have followed Toyota's pioneering example.

### Kanban

Kanban is basically a method of communication within a JIT system. The term combines the Japanese words for “card” and “signal;” essentially, workers use information cards to communicate what work has been completed and what components or processes are needed.

A Kanban agreement is best suited for linear demand. With this type of support system, the supplier must look at ways of increasing their production throughput by analyzing their overall cycle time for the finished product, as well as the individual cycle times for each operation in the production process.

Production is split up into individual “cells.” These cells are grouped in close proximity to one another in order to minimize transit time, and they work to support each other; cycle times are analyzed and maximized so that no individual production cell produces more than the next one in the chain can handle. Doing so would create a backlog in the process.

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Why not build in economic order quantities? Simply put, in fully implementing lean manufacturing, your order costs are reduced to a point that they no longer have an impact on the lot size. In Ohno's world, only demand pulls production, nothing else.

In their purest form, these agreements require both you and your supplier to adhere to strict delivery schedules. As a customer, you will always have to assume some responsibility for the semi-finished and finished product within your system. Since production occurs daily within the Kanban, the supplier often has to reserve labour and machinery in each production stage solely to fulfill the Kanban agreement.

Although part of the JIT philosophy, Kanban works for some mid-sized enterprises, and is a good way to ensure on-time delivery of higher volume parts. But it can only be feasible if you lower your ordering costs to a point that makes a more frequent buy affordable in the long run. Kanban can be done in many different ways to satisfy most firms' requirements. But its flexibility is only as good as your contract writing skills.

#### Blanket orders or stocking agreements

A more reasonable supply agreement is a blanket order or stocking agreement. This

type of agreement is used more for cyclical/seasonal demand where there is no specific date for the finished product to ship.

Once delivery is requested, the supplier will ensure that the product is shipped and delivered on time.

#### Blanket order/Kanban hybrid

The best of both worlds is for your supplier to have both finished product stocked and ready to ship, as well as semi-finished product in inventory waiting to replenish the finished product inventory. The problem with a blanket order system is that, once the finished product has shipped, it takes time to replenish the inventory for the next shipment. For some products, this can take several weeks.

#### Improving your relationships

All companies assume dual roles. We act as suppliers to our customers and as customers to our suppliers. And we value customers who order consistently, pay on time, sign agreements to support our inventory and adhere to their forecasts.

Think of how your company treats its best customers. What are the reasons you do what you do for them? More often than not, it is because they realize the importance of your products or services to their organization, and would never put that partnership at risk. In

return, you put them at the top of the list and make sure they get what they need on time, every time.

When you explain the type of agreement you are interested in, let them know that you will adhere to their requests provided they maintain their end of the agreement and don't miss delivery.

It is also important to insist that both parties sign the agreement and understand each other's responsibilities.

Make sure you stick to the basics with your suppliers. Make sure both parties sign the agreement and follow up with regular visits to your suppliers, to ensure your inventory is properly maintained.

The result is stronger communication, improved relationships and, most importantly, peace of mind that you will get what you need when you need it most—on time.

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