

SMALL Business Times

Reprinted from *Small Business Times*, March 15, 2002

Chain reaction

*How to handle problems with a supplier
before they hurt your customer base*

Question:

We have a 12-year supplier whose quality level and on-time delivery performance has dropped significantly. While we value the relationship, it is beginning to impact our credibility with some customers. What is the best course of action?

Answer:

It takes a great deal of time to develop trustworthy and loyal customers. A customer relationship touches many part of your organization: the salary earnings and reputation of the salesperson who nurtured the relationship, operations whose work level is dependent on satisfied customers and, of course, the many employees who benefit from the volume.

It has been my experience that every customer has some threshold of tolerance for less-than-perfect quality or delivery if the customer knows it is a short-term problem, and knows it is being addressed in a timely fashion.

However, when customer relationships are jeopardized, the rules change.

Tolerance and forgiveness must transmute into a foolproof action plan.

Following are the six steps to protect your business:

1) Do your homework - Collect all the information you can find regarding the quality issues and failure to

meet the delivery expectations. Document the dates and specific problems. This will help facilitate your discussion and will demonstrate to your supplier that you are "on top" of the issues.

2) Schedule a meeting with your supplier - Ask your account executive's boss to attend. This is not an attempt to overstep the account executive's authority but, rather, to emphasize the gravity of the situation to his or her management so additional resources needed to fix the problems can be authorized.

Begin the meeting by reinforcing the long-standing relationship and the mutual value that each party has received over the 12 years. If appropriate, compliment the account executive. There is nothing more valuable to a professional salesperson than having a customer acknowledge, in front of the salesperson's boss, the value the salesperson offers to a customer.

Then transition the meeting to the agenda. Begin on a positive note: "I want you to know we value our relationship with Acme Corporation. At present, we have some very serious problems with both quality and on-time performance. My concern is that if they are not rectified on a timely basis, we will be forced to consider other options."

Take out your documentation, handing a copy to everyone present. Begin by addressing the most critical issue - quality or on-time delivery. Highlight when the problems began and how many incidents have been reported since the tracking began. Review all your information.

That will help you accomplish two things: 1) You demonstrate that you are

"on top" of your business. Facts are facts. 2) The supplier can now validate your information with its records. It's interesting that even with advanced technology, that system information is not always correct, nor is it updated with the appropriate frequency.

Ask strategic questions to uncover or gain some insight about what might be causing these issues. For example, ask if there has been a recent management change in either manufacturing or purchasing. Or ask if there has been a new system implementation that is impacting materials.

You might find the supplier reluctant to disclose its "dirty laundry." That's OK. Your objective is to gain an understanding of the potential issues. Through this dialogue, you may discover that your company has the expertise to help your supplier make the transition.

This exact situation happened to one of my customers whose supplier recently transitioned to cell manufacturing. It was a disaster. The firm had made a transition to cell manufacturing three years earlier. It sent a team to the supplier's location for a week. The team reconfigured two cells, which resulted in the supplier resuming its normal high-quality performance operations within a week.

3) Establish accountability - You want to walk away from the meeting knowing what you can expect and when. Recognize that the supplier may need some time to conduct its own investigation and meet with some key people before a corrective action plan can be offered.

Mutually agree to the "next step" so

you don't over-manage or under-manage the relationship.

You might want to consider asking the supplier the level of confidence it has in meeting the performance expectations outlined. The supplier's reaction may be indicative of the quality of resolution and communication that will unfold following the meeting.

For example, if the supplier tells you its confidence level is high, you can hedge bets that it will keep you updated on its progress and will let you know what's happening even if it will fall short of its commitment. However, if it responds by telling you that its confidence level is low, that may be a warning signal that there's more to the situation that it hasn't disclosed.

4) Define consequences – Next, be clear about the consequences. What happens if the supplier is not able to meet the performance expectations defined? I do not suggest or support being nasty or threatening.

In a firm but compassionate voice say, "Joe, it's important that I be upfront with you. You know that we place a high value on our customer relationships, just as you do. Our salespeople, like yours, work very hard to deliver what they promise. Unfortunately, Acme Company has placed us in a situation where these relationships are being jeopardized, and this is not acceptable.

"I know that you will do everything possible to fix this. However, if we are not able to attain a 97% quality level and a 98% on-time delivery performance by such and such date, we will be forced to move our business to another supplier.

"I will be forwarding a letter to you capturing the details of our discussion today, including the need to examine an exit strategy if Acme cannot meet the performance requirements outlined. I am hopeful that this will help you secure the support you need to make the necessary changes."

Notice that the focus of your communication is on the company, not on Joe. Joe is a representative of the company and most likely is not responsible for the problem. However, he is or can be an advocate for the resolution.

Writing a letter substantiates Joe's commentary when he returns to the office. It eliminates the opportunity for key decision makers to minimize Joe's concerns. They are real, black and white, for all to see.

For added impact, you may even want to add in the volume of business your company has represented in the 12 years; \$2.5 million gets more attention than \$200,000.

5) Begin your search for a replacement supplier

– Starting immediately, begin researching and interviewing potential suppliers. Find the one or two suppliers that are able to meet your performance expectations.

6) Communicate to your customers

– Futurist Dan Burrus mentioned in a seminar I recently attended that you should never condition your customers not to trust you. Unconventional wisdom. For example, how do you feel when your cell phone company offers lower rates and you don't know about them? Is it only when you call and inquire that the company reduces your rates? Doesn't that make you nuts? Do you feel taken advantage of? How would you feel if the company initiated a call to you and said something like: "Christine, we noticed you are using 750 peak minutes rather than the 500 you thought you would use. We offer some more attractive packages that would significantly lower your bill. Are you interested?"

If you have an issue that is negating a promise you made to the customer, handle it up front. Let the customer know you are aware of the situation and indicate the corrective action you are taking. That may shock them, but in a good way. You will get a lot more positive attention because you were proactive.

7) Take action – Follow up with your existing supplier on the specified timelines. If its progress is satisfactory, continue to work with the firm. If not, then it is necessary to move forward with your exit strategy.

Replacing a long-term supplier is a difficult. Switching suppliers can be costly, depending on your industry. If you have a good relationship with your current supplier, work with them to resolve the issues. If however, you are losing the trust and confidence of valuable customers, pursue alternative options.



Christine McMahon is the owner of Christine McMahon & Associates, a training and coaching firm in Milwaukee. She can be reached at 414-290-3344. Small Business Times readers who would like a negotiating situation addressed in this column can send a fax to 414-290-3330, or e-mail her at: ccm@christinemcmahon.com. Her column appears in every other issue of SBT.