

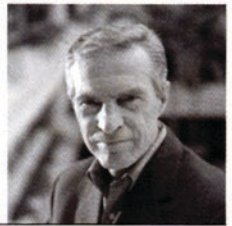
Purchasing

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my turn

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Time to check those steel contracts

ENERGY AND RAW MATERIALS COSTS for steel mills have been going up at a frenetic pace all year. And, as our 2009 outlook report on page 37 predicts, the high costs they've spawned for buyers will stay high next year even if they drop a bit.

It's natural that the mills would demand higher prices to recover their increased costs and make their profit numbers. But should they raise prices through surcharges or other means on already-agreed-upon contracts?

That's an issue steelmakers are arguing now with many of their customers. According to *The Wall Street Journal*, some automakers are starting to fight back. They say the steel companies can't alter contracts they've already signed. And analysts are saying that the steel companies are having difficulty getting the surcharges from their largest customers, such as the auto companies.

But what's a smaller customer to do? Jeff Miller, commodity manager for metals at Cooper Hand Tools, is one of those relatively smaller customers. He and his colleagues at parent company Cooper Industries held an all-day conference recently to discuss the issue. The result: They're resigned to the surcharges. The reason: They're already on allocation and they fear that if they fight too hard, they won't get any steel at all.

Is that a realistic fear. Perhaps.

Suppliers of every commodity have been known to play hardball at times.

The recourse for smaller metals buyers—or, for that matter, smaller chemicals buyers who are also facing similar situations—is to walk over to their legal department with their contract and enlist the aid of their corporate attorneys. Study those contracts closely with the attorneys and get their advice on what leverage you have. And if they say *you* have no leverage, remember that the next time you negotiate a contract, to build in your own protection.

A matter of trust

"WE NEED TRUST."

That's how Mike Shipulski, director of engineering at metal-cutting-tools manufacturer Hypertherm, Inc., describes the ideal relationship between engineering, purchasing and suppliers.

The trust is in place at Hypertherm, where Shipulski and his engineering team worked with purchasing and supplier New Hampshire Metal Fabricators in the design and manufacture of Hypertherm's HyPerformance HPR130 plasma cutting system. Using principles based on Design for Manufacturing and Assembly, they cut the parts count in half, from 1,000 to less than 500.

Shipulski started by going to

purchasing to explain the need to take cost out of the design of the new machine. Purchasing set up meetings with the supplier and scheduled follow ups. Shipulski led the cost-cutting effort.

In another case, purchasing found new suppliers that helped engineering take cost and weight out of design of a transformer.

At Scotsman Ice Systems, Engineering Vice President Matt Allison says purchasing is a key part of all the company's cross-functional project teams, facilitating communication and monitoring first-article inspections to keep engineering informed of differences between requirements in designs and the actual parts from a mold. Recently, purchasing facilitated collaboration between Scotsman engineers and engineers from supplier Donnelly Custom Manufacturing for the former's Prodigy ice machine.

At both Hypertherm and Scotsman, the trust Shipulski refers to exists because of the competency of the staffs. And that's the take away for purchasing at other companies. To earn the trust needed for successful collaboration, you have to understand the cost behind suppliers' prices, have a sense of what makes a good product design, and be able to assess risks of designs or processes that limit supply options. Work on gaining that knowledge and the trust will come automatically.

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