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The Single Supplier and the Internet

The single supplier drive was brought into the industry by Demming, Duran and others, in the 1950's to solve manufacturing quality supply problems, as it is much easier to solve a quality or service issue when working with one supplier than when working with a number of suppliers.

The other by-product of this initiative was a reduction in the number of invoices issued by the suppliers and processed by the customer, reduction in bank charges and consequently a reduction in the number of people required through the supply chain, resulting in further savings.

The single supplier initiative was aimed primarily at direct material purchasing, but was later applied to indirect materials.

We generally classify direct and indirect materials as:

Direct materials would be wood for a furniture maker, or flour for a baker. These products should be sourced from a single supplier where possible at best value for money not only to remain competitive but also because it will provide consistency through the manufacturing process and will ensure scrap is maintained as low as possible.

Indirect materials, products and services are all items which are normally classified as overheads. This will include stationery, insurance, utilities, telecoms, cleaning materials, etc. (For some companies utilities and telecoms would be classified as direct products and services, and therefore we must use caution when differentiating between direct and indirect items.) These products should be sourced from the best value supplier.

The implementation of the single supplier initiative for the purchases of both direct and indirect materials was correct in the 1950's through the 1980's (ie prior to the internet era), and may not be appropriate now, with the introduction of the internet for the purchase of indirect materials.

Over the last 10 years the introduction of the internet created a paradigm change (shift) which provides both customers and suppliers with great opportunities to buy and sell on the internet respectively with ease and at a reduced competitive cost.

The internet provides the buyer with an opportunity to quickly check prices for products and it also allows the supplier to offer the product at a reduced cost.

The supplier is able to offer their product at a reduced cost since they did not have any expenses associated with that sale. That is, that they did not have any acquisition cost for the new customers. (The supplier did not have to pay a salesperson's salary and expenses to look for the customer, and no marketing and promotions expenses.)

In summary, the implementation of the single supplier should be done for the purchasing of direct materials (materials that go into the making of the company's products). A company should aim to use the internet to its fullest potential (information, speed, local, national and global accessibility) for the purchases of indirect materials.

Turning cost into profit