USC CONSULTING GROUP™

Empowering. Performance.

Aircraft manufacturer lands savings with direct supplier negotiations.

Client:

A leading aerospace company, producing the world's most versatile utility aircraft. They have manufacturing, assembly, modification, and repair facilities located in North America, and customers around the world.

Challenge:

As the client's business grew and demand started taking off, it quickly outgrew the start-up pricing and contract terms it held with two of its most crucial supply chain partners. Where once they only produced one or two aircraft per year, they were now capable of producing 18 aircraft annually. They also had plans in place to increase annual production to 24 by year end.

Scaling up wasn't a matter of choice - due to the popularity of their aircraft, they had created a substantial backlog of sales, one of its most lucrative bargaining chips, should suppliers agree to negotiate with them. They brought USCCG in to facilitate direct negotiations, so both parties could reach an amicable, mutually beneficial agreement reflective of the new production levels and sales backlog.

Process:

The client had already done much in the way of reducing manufacturing costs on a per-aircraft basis by optimizing labor spend and manufacturing processes. To achieve further substantive cost reductions, they needed to reduce Bill of Materials (BOM) costs by sitting down with suppliers and renegotiating existing contracts from a position of greater leverage than they had in the past when they were a start-up operation.

Solution 1 – Storytelling

We knew our client had a long history; growing from a small manufacturer to a major player in its market. However, as with many growing organizations, deals made in start-up stood to jeopardize future success. In direct negotiations with key suppliers, we wanted to reveal honestly how our client conducted business in the past, how it has scaled operations over time to meet rising demand, and where it saw itself after advantageous mediation with suppliers.

As part of that story, we also detailed the client's pain points with the current supply agreements. Our approach was never confrontation, but rather, we aimed to promote an environment of transparency between partners for greater depth of understanding of a changing situation.

Solution 2 - Objectivity

Simply put, introducing a third party to large-scale proprietary supply negotiations changes the negotiation dynamics for the better. Rather than both parties volleying offers that solely reflect their respective interests, a mediator helps ease tensions by focusing the discussion on hard numbers and objectivity instead of emotion.

Our team was able to bring a clean perspective, powered by predictive models and data analytics showing how different scenarios would impact pricing and drive down BOM costs for our client while generating significantly increased revenue streams for suppliers. With those resources available, both parties understood how shifts in commercial terms affected factors like cost per component, as well as new agreement structures opening new channels of revenue for everyone involved.

Solution 3 - Strengthening Supplier Relations
Another indispensable aspect of direct negotiations involved airing aspects of the current relationship where the client created pain points for its suppliers. Where could processes be tighter? How could manufacturing operations complement supply chain management rather than hinder it?

A healthy customer-supplier relationship requires a bilateral exchange of ideas for improvement. Although we had a fiduciary responsibility to represent our client's interests; negotiating for collective benefits strengthens the bond between both parties, itself a significantly cost-effective result. Regulations over aircraft manufacturing required manufacturers to adhere to certified build specifications, charging considerable fees to switch out parts with others, not to mention the long recertification process. Therefore, it was in our client's best interest to resolve issues with its suppliers and reevaluate its shortcomings instead of simply walking away from the table and finding a new supplier. Moreover, strong supplier relations opened up the possibility of receiving better deals in the future.

For our client's suppliers, the advantages of a robust partnership were obvious: Changes in the manufacturer's processes to blend more collaboratively with suppliers' saved both time and money.

Performance Results:

- More than $200,000 annual reduction in bill of materials
- New, more supportive supply agreements reflective of its enhanced operations
- Stronger, more collaborative relationships with suppliers
- Support process efficiencies for both supplier and client

Conclusion:

Through direct negotiations, our client managed to successfully reduce its annual bill of materials costs and restructure their supply contracts. However, the real value accomplished upon contract renegotiation was the investment both parties placed in future prosperity through win-wins in pricing, process and relationship.