

GM's / López' PICOS Program

Program for the Improvement and Cost Optimization of Suppliers

1. Overall Strategy
 - a) Get immediate price reductions (please remember that two-thirds of GMs European profit was generated by price reductions we got from our suppliers).
 - b) Secure longer-term price reductions from all suppliers.
 - c) Sort out the first and second tier suppliers.
 - d) Only single source with significant price reductions (18 to 40%) that are firmly backed [tied?] into fixed price, long-term contracts.
2. Tactical Overview
 - a) Establish well-qualified, well-trained, and articulate purchasing clones in all business units to implement these practices.
 - b) Plan extensive supplier price reductions for each car model.
 - c) Send out inquiries around the world in search of the lowest unit price.
 - d) Establish short- and long-term price reduction targets and go very low.
 - e) Know your potential winning suppliers and their competitors inside and out before you begin to negotiate and play first and second tier suppliers against each other.
3. The Underlying Themes
 - a) Identify and parade the enemy as Japanese companies, not GM.
 - b) Understand the balance of power between each supplier and GM.
 - c) Keep taking the temperature with vendor ratings and supplier council meetings.
 - d) Offer exaggerated growth and future order quantities as bonuses.
 - e) Start working with the likely winning suppliers as early as possible on price reductions that are termed „cost reduction improvements“.
4. Before Awarding the Deals
 - a) Establish long-term contracts as the ultimate goal.
 - b) Establish the long-term contract rules.
 - c) Establish that nonprice factors like tooling costs and R&D are not allowed.

- d) Resist all suggestions that some supplier costs are not controllable (i.e., raw materials).
 - e) Focus all activities on dramatically and immediately reducing the unit price.
5. The Agreements
- a) Tie up the short-term unit price.
 - b) Keep nibbling away at the price and terms even at the midnight hour.
 - c) Always appear to be in a desperate hurry, but in reality take as much time as needed.
 - d) Pull the long-term deal out of the cupboard.
 - e) Intensely squeeze some more out.
 - f) Get the supplier to sign.
6. Managing the Chosen Suppliers
- a) Introduce the suppliers to our corporate commodity councils and our advanced purchasing product development teams.
 - b) Totally involve each supplier's top and upper management - get commitments that the supplier's middle management would never make.
 - c) Request that each supplier provide you with detailed information on the cost-profit structure of the products it currently or proposes to sell to us.
 - d) Don't accept raw material indexes as cost information when a supplier proposes a price increase; get the cost-profit information.
 - e) Establish a friend-buddy relationship with middle- and lower-level supplier people to pass cost-profit and competitive information to us.
 - f) Be prepared indirectly and under pressure to bluff and lie.
 - g) Destabilize each supplier's people with many urgent meetings and many demands for information.
 - h) Set new deadlines for suppliers to meet but defer decisions to increase their anxiety.

Source: Mack Hanan, *Sales Shock! The End of Selling Products - The Rise of CoManaging Customers*, American Management Association, 1998, pp. 24 - 26.