CHAPTER 3

Supply Management: An Organization-Spanning Activity

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the importance of integrating supply management with internal and external stakeholders.
2. Understand the role supply management plays in the supply chain.
3. Understand the importance of connecting suppliers with the ultimate customers.

VIGNETTE: TROUBLES AT EAGLE MANUFACTURING COMPANY

It is Saturday afternoon, September 6. Ted Jones, supply manager for the Eagle Manufacturing Company, is in his office, reviewing his life at Eagle. Since becoming the head of supply management, Ted has been struggling with one crisis after another while trying to placate operations, plant maintenance, and seemingly half the management team (and their assistants). Although only age 35, Ted feels like he's 60. Eagle is expecting a large return on the salary it is paying him.

In the two years since taking over the department, Ted has put together a great team of buyers, expediters, and support staff. Their work is tops; they are all professionals. But morale has started to be a problem. On Friday, Bill Wilson, Ted's senior buyer, submitted his resignation. Bill decided to take a job with a handsome salary increase at Cable Manufacturers of America. He said, "If I'm going to get ulcers, I might as well be paid for them!"

Ted looks at the August performance data for the office: 743 transactions, 98 percent with delivery on or before the specified dates, 87 percent of supplies and material purchases at or within 5 percent of target price, 9 percent late deliveries, and a 5 percent rejection rate of materials and supplies received. Compared with the months previous to August, the trends look good, but there is still room for improvement. Ted feels that his department can have a much greater impact on the firm's profitability if he can generate more cooperation with the other departments. He also realizes that a better training program will bring along some of his own people a bit faster.

Ted thinks about some of the "big ones" that happened in August. The maintenance department submitted a purchase request for a new robot on August 29. The machine, according to the estimates supplied, would cost $5.5 million. It was to be delivered and operational in seven months. Only one source of supply was able to meet the delivery date. Ted wonders how much extra money the lack of lead time cost on that one.

Tim Raines, vice president of operations, held Ted's feet to the coals in the weekly staff meeting on August 7. Operations had run out of parts that week. The vice president of marketing, Ron Hankins, had helped to apply the coals on that one. In retrospect, Ted is puzzled about the hopscotch communication patterns among operations, material control, marketing, and his own office.

Tim confronted Ted on August 14, again during the staff meeting, saying that quality on the incoming parts was causing major production problems. Ted tried to explain the greater attrition rate inherent in new production processes, but Tim was not convinced.

In fairness, not all his problems were with operations, Ted is thinking during his Saturday afternoon reverie. The president's secretary called twice to say that the janitorial services contractor had not washed the windows properly. Ted mentioned that poorly described, unenforceable specifications were part of the problem. But the secretary was just trying to do her job in seeing that somebody else's job was done right. She didn't know about the "contractual provisions."

Mary Jacobs, head of administration, had complained to Ted on a daily basis about the new brand of reproduction paper. Mary believed that the quality of reproduction was down and that the paper was constantly jamming the machine. Machine downtime was reducing productivity and increasing frustration with her people. Ted pointed out that finance had reduced the funds available for supplies by 20 percent and that the reduction consequently forced some sacrifice in quality.

Yesterday, John McCauly, an experienced buyer who normally is as cool as a cucumber, exploded when Ted asked how everything was going. John replied, "Those blankety-blank estimators. This morning, I was negotiating with Fenwick Electronics for that robot. The maintenance department's estimate was $5.5 million. Fenwick proposed $7.2 million. You know that because of time, they were already in a 'sole-source' position. Imagine my reaction when I learned that our $5.5 million 'estimate' was not an estimate at all but merely the amount budgeted for that machine last year! I had no basis for developing a realistic negotiating objective. I literally had to throw myself on the mercy of Fenwick's marketing manager." Bringing his thoughts back to the present, Ted decides that there has to be a better way. ■

CRITICAL THINKING QUESTIONS

1. What might be some of the reasons other departments are not cooperating with Ted Jones's group?
2. How will Ted's people benefit from training? How will training improve their relationships with other departments?
3. Would a Supply Chain Management approach improve this situation?