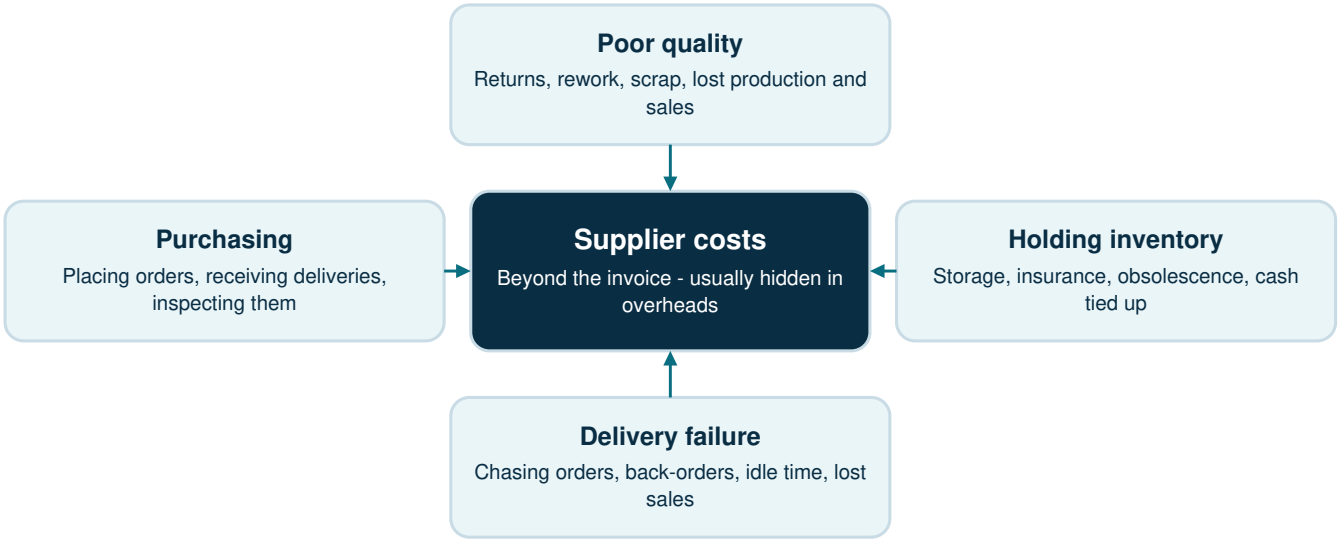
Supplier management

MODULE 6 | PART E.1 | STUDENT COMPANION

Bought-in goods and services are a large share of most manufacturers' costs and most of a retailer's. Reliable suppliers also make just-in-time inventory possible. But a supplier's cost is more than its invoice.

The hidden costs of a supplier



Comparing total procurement cost

	Supplier A	Supplier B
Invoice cost	$200,000	$190,000 (5% cheaper)
Supplier-related costs	$30,000	$47,500
Supplier cost performance ratio	15%	25%
Total procurement cost	$230,000	$237,500

The cheaper price is $7,500 dearer in total - Copperleaf restaurant group (imagined)

Supply chain risks

Macro risks

- Natural disasters
- War and geopolitical events
- Economic downturns
- Social unrest; legal and regulatory change

Micro (operational) risks

- Demand: poor forecasts, changing tastes
- Manufacturing: disputes, capacity limits
- Supply: late, wrong or failed suppliers
- Infrastructure and financial risks

Any of them can also damage reputation - often for longer than the disruption

Global sourcing: savings and costs

Why source globally

- Cheaper labour
- Lower taxes
- Access to commodities
- Specialist skills

What it adds

- Freight, insurance, longer lead times
- Exchange rates, customs, political risk
- Culture, language and legal differences
- Distance and time zones

Codes of conduct need monitoring: audits, corrective action plans, termination for serious breaches

Standards, codes and inventory

Topic	Remember
Certifiable standards	ISO 9001 quality; ISO 14001 environment; ISO 22000 food safety
Guidance standards	ISO 31000 risk management; ISO 26000 social responsibility
Supplier codes of conduct	Hiring (no under-age workers, no discrimination), hours, minimum pay, WHS, environment - plus monitoring
Modern Slavery Act 2018 (Cth)	Entities with consolidated revenue of $100 million or more report annually on modern slavery risks in operations and supply chains, and actions taken
Just-in-time	Less space, staff, obsolescence and working capital; needs small, on-time, complete, to-spec deliveries
Vendor-managed inventory	Supplier keeps stock where and when production needs it
Disruptions	Geopolitical events, natural disasters, supplier failure, logistics failure - more risk and longer lead times mean more safety stock

Case note: about 90% of US infant formula came from four companies. In February 2022 Abbott recalled powdered formula and shut its Sturgis, Michigan plant after a federal investigation into infant infections; shortages spread nationwide. The plant restarted on 4 June 2022, then was halted again by storm flooding in mid-June - a lesson in concentration risk.

From contract to partnership

Behavioural compliance	Attitudinal compliance
• The contract dictates how problems are solved • Formal and arm's length • Typical early in a relationship	• Both parties willingly solve problems together • Trust and informal exchange • Long-term, mutually sustainable supply

Track on-time, in-full and to-spec rates - leading indicators of costs to come

Choosing suppliers: price usually leads, but weigh quality, reliability and environmental and social credentials. Multiple suppliers create competition and back-up; a single supplier can bring trust, service and innovation.

Sources: Abbott and US FDA statements reported by CBS News and NBC News (June-July 2022); Modern Slavery Act 2018 (Cth).

Practice questions

MODULE 6 | PART E.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Hartwell Hardware (imagined): which paint supplier?

Annual figures	Supplier P	Supplier Q
Invoice cost	$480,000	$500,000
Ordering	$6,000	$5,000
Receiving and inspection	$14,400	$10,000
Returns and rework	$9,600	$4,000
Chasing late orders	$12,000	$1,000

Question 1 - Tasks

(a) Calculate each supplier's supplier-related costs, supplier cost performance ratio and total procurement cost. (b) Recommend a supplier. (c) Name two non-financial measures to track.

Question 2 - One supplier or several?

A hospital buys a critical sterile surgical kit from a single supplier. Outline the case for and against adding a second supplier.

Worked answers

MODULE 6 | PART E.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Worked answer

Item	Supplier P	Supplier Q
Supplier-related costs	$42,000	$20,000
Supplier cost performance ratio	$42,000 / $480,000 = 8.75%	$20,000 / $500,000 = 4.0%
Total procurement cost	$522,000	$520,000

(b) Supplier Q: although its invoices are about 4% higher, its total procurement cost is $2,000 lower, and its far lower returns and late-order costs signal better quality and reliability. (c) On-time delivery rate; in-full rate; percentage delivered to specification; defect or return rate; lead time.

Question 2 - One supplier or several?

For a second supplier: back-up if the first fails or is disrupted (patient safety depends on it), more competitive pricing, and less dependence. **Against:** a deeper single relationship can bring trust, better service and joint innovation; two suppliers add qualification, ordering and inspection costs, and lower volumes may raise prices. A common compromise is a main supplier plus a qualified back-up, with safety stock sized to the disruption risk and lead time.