QUOTECH/KEYSTONE

Quotech, Inc. is one of the 3 companies handling materials for Halgus Holdings, a company that booked last year sales at $2.15 billion, with $98.4 million in net income, of which 18% of these sales is attributed to the Materials Handling Division (MHD). While that amounted to $42 million profit on sales of $388 million, compared to proceeding year's figures of $38.9 million and $349 million respectively, the company is looking to find cost savings within the supply chain.

Emily's Purchasing Department at Quotech has done a reasonably well job of extracting the savings, already having posted a savings of $500,000 in the first quarter by consolidating purchases for better volume pricing. Currently, the Department is attending to the tubing requirement for the entire company a year in advance, in order to gain the same cost savings. However, the current supplier, Marmon Keystone, submitted a price that was $18,000 higher than the best competing bid. The service from Marmon Keystone has been historically great, and the customer service by the Director of Sales for Marmon Keystone is a long-founded relationship, based on a large amount of trust.

The problem is, is it worth saving the $18,000 to switch suppliers, and take the risk in ruining the decent track record already established and maintained by the current supply chain?

Emily, it seems, has been informed of the company's decision to select the less expensive supplier already, and she now must let Harmon Keystone know of this choice.

She may approach this in a couple of ways. She may choose to simply let Marmon Keystone down and explain that the consolation work, though a smaller order, would still be available for bid. She may also decide to let Marmon Keystone in on the fact that the price difference is minimal and that he may want to go back and re-work the numbers and re-submit a new more competitive price. Finally, she may decide to challenge the decision and attempt to convince the Canadian Division Manager of Marmon Keystone as the better option, and still decide to work with the established supplier.

The cost savings of $18,000 is not a very significant portion of savings, considering the excellent service to date from Marmon Keystone. In addition, stopping a long-standing relationship simply to gain that additional cost savings may not be wise, as it will force Marmon Keystone to pursue other choice accounts and lose that competitive edge that made the current relationship so strong.

However, the fact that by offering consolation contract work may entice Marmon Keystone to stay interested and ride out this loss, is a benefit for both parties. It is not a bad idea to test and incorporate new suppliers and the statement in “keeping suppliers honest” is a good strategy to implement every time a solicitation for offer is made. I think a supplier that gets comfortable does tend to increase pricing because it is a premium for service, however, in such highly competitive times as this, that service level is an expectation, not a premium.

While the choice of a new supplier does carry with it an untested level of risk in faulty tubing and equipment failure, it is sensible to test this scenario with a new supplier out first, before automatically disregarding the savings in price. It might just be that the less costly choice is just as good! But definitely offer the consolation contracts back out for bidding; however do not let Marmon Keystone automatically think they don’t have to be competitive.