Self-test 4.1

Should the buyer rely upon a single supplier or utilise several? The answer to this question must be the very unsatisfactory one, "It all depends."

Briefly, the arguments for placing all orders for a given item with one supplier are as follows:

1. As discussed in category management (**Figure 4.2**), the order may be so small (in value) as to make it not worthwhile to divide it.

2. Prior commitments, a successful past relationship or an ongoing long-term contract with a preferred supplier might prevent even the possibility of splitting the order.

3. The supplier may be the exclusive owner of certain essential patents or processes and therefore be the only possible source. Under such circumstances, the buyer has no choice, provided that no satisfactory substitute is available (e.g., bottleneck items).

4. A given supplier may be so outstanding in the quality of product or in the service or value provided as to preclude serious consideration of buying elsewhere.

5. Concentrating procurements may make possible certain discounts or lower freight rate that could not be had otherwise.

6. The supplier will be more cooperative, more interested, and more willing to please if it has the entire buyer's business.

7. When the procurement of an item involves a dye, tool or mould change or costly setup, the expense of supplicating this equipment or setup is likely to be substantial.

8. Deliveries may be more easily scheduled.

9. Single sourcing is a prerequisite to partnering.

On the other hand, there are arguments for multiple sourcing:

1. It has been traditional practice to use more than one source, especially on the important requirements.

2. Knowing that competitors are getting some of the business may tend to keep the supplier more alert to the need for giving good prices and service.

3. Assurance of supply is increased. Should fire, strikes, breakdowns or accidents occur to any one supplier, deliveries can still be obtained from the others, for at least part of the needs.

4. The buying organisation has developed a unique capability for dealing with multiple sources.

5. It avoids supplier dependence on the buyer.

6. The buying organisation obtains a greater degree and volume of flexibility, because the unused capacity of all the suppliers may be available.

7. Strategic reasons, such as military preparedness and supply security, may require multiple sourcing.

8. Government regulations may insist that small or minority sources be used. If there is high risk associated with a small or single-minority source, multiple sourcing may be necessary.

9. Sufficient capacity may not be available to accommodate the buyer's current or future needs.

10. Volatility in the supply market makes single sourcing unacceptably risky.

Self-test 4.2

Certain types of procurements are necessarily complex and requires the need to carefully think through the transfer of risk and the usefulness of the effort represented by the INCOTERMS.

1. In the case of computer software services, a very detailed procedure of testing and acceptance may be required to arrive gradually at a point where delivery/acceptance of delivery is implied. While the buyer may bear most risks of malfunction after this delivery, there may be exceptions clearly stated in the contract. For example, the seller may still be required to bear the risk for events such as the impact of the software on other programs.

2. For a machine, a guarantee/retention structure can also be imagined. For example, the parties may foresee a provisional acceptance of the machine. At that time, there is a joint minute prepared by the parties laying out any deficiencies in the machine. The machine may be allowed to run and any problems noted would be included with the minute. Following this, there would be repair or adjustment by the seller, further testing, and a gradual increase in the use of the machine. At a certain level of production, the machine would be considered to conform, and formal acceptance (a completion certificate) would be provided by the buyer to the seller. This would start the guarantee period running, at the end of which the buyer would return the completion bonds of the seller. At each step of this process, risk would be transferred from the seller to the buyer.