

3 Don't Shoot the Messenger¹

Teaching Note

On July 5, 2000, the unit general manager of Billings Equipment, Inc. instructed the supply management team to renegotiate existing agreements for a 10 percent reduction with major suppliers due to target costs exceeding expectations. Jeff Martin, a supply management engineer, was instructed along with the entire purchasing staff to contact his suppliers immediately with what they would view as very bad news. Jeff had to face his suppliers with this demand.

Teaching Objective

This case was written for an introductory course in purchasing and supply-chain management. It provides the student an opportunity to develop analytical and decision-making skills involving ethics and supplier relationships.

Immediate Issues

- The general manager's demand to solicit further price reduction.
- Ethical issues that inhibit additional demands from suppliers, that are not cost-based.

Basic Issues

- Treating suppliers in an ethical manner.
- Long-term development of supplier relationships.
- Aggressive timelines that lock in design before cost-reduction is complete.

Other Discussion and Evaluation Elements

- *Early Supplier Involvement (ESI)*
 - Investment of time and effort to meet deadlines and control costs.
 - Level of obligation to supplier
 - Negotiation Vs competitive bids following ESI

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- *Level of supplier relationships: Short-term and long-term*
 - Transactional—Arm's-length relationship
 - Collaborative—An awareness of the interdependence and necessity of cooperation. Trust building, communications, joint efforts and planning.
 - Alliance—In addition to collaborative characteristics, the development of “institutional trust” that includes upper management of buyer and supplier organizations to promote a shared vision of future business. Key component is TRUST and long term concern over the well-being of the other party.
- *Price analysis vs. Cost Analysis*
 - Sharing of cost data.
 - Purchase decisions based on sharing cost reductions vs. target price levels.
- *Business Ethics*
 - Negotiating in-good-faith.
 - Enforceable contracts.
 - Trust—Who is trustworthy, the buyer or the buying organization?
 - Short- and long-term impact of ethical/unethical behavior.
 - Business relationships vs. personal relationships with suppliers that impact business decisions.
- *Human Resources*
 - Ethical differences with supervision.
 - When do personal values come in conflict with job conditions that impact the ability to do what's ethical?