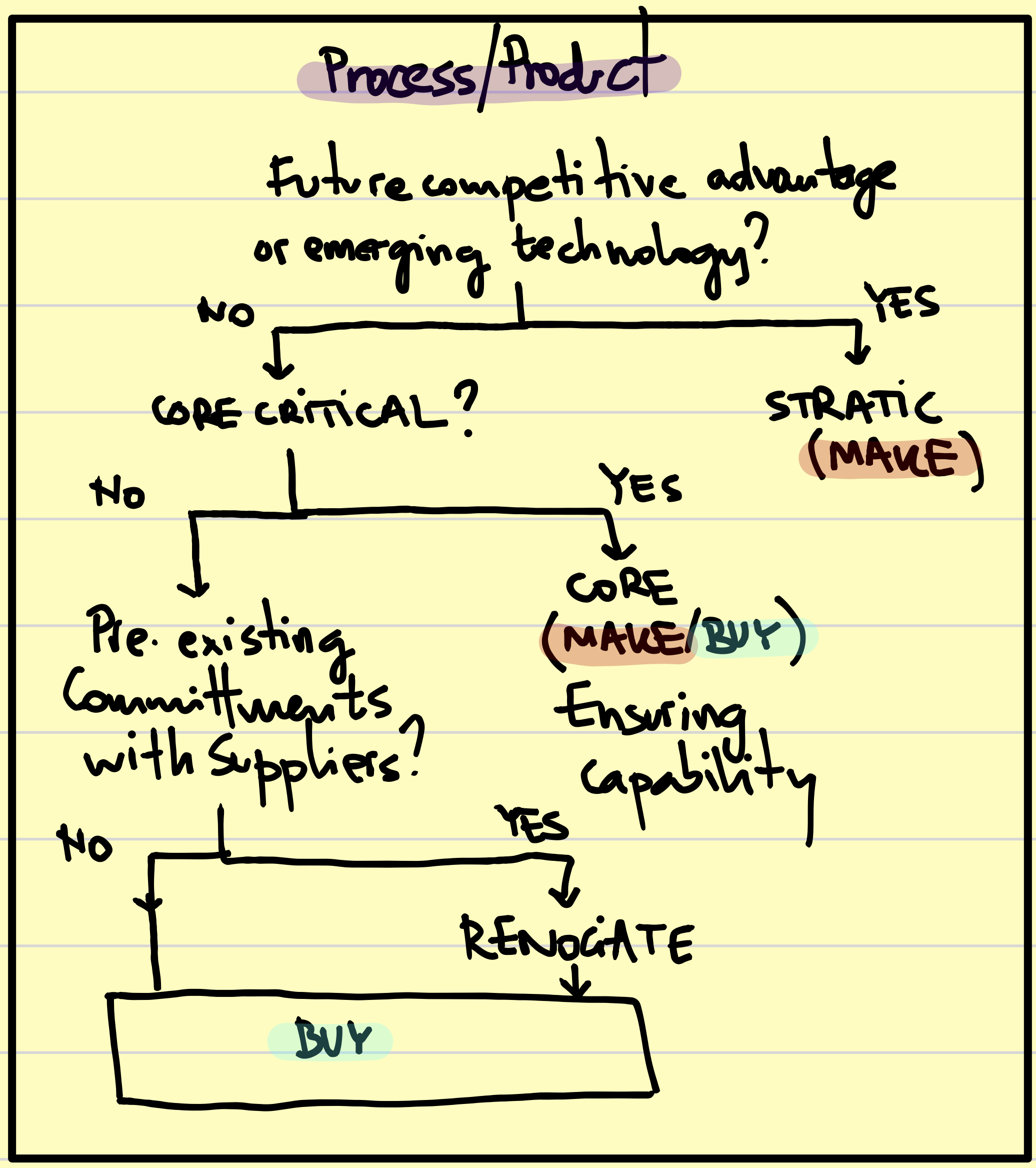
20231120_Supplier_Management_NBW7

1 **Business Strategy**

· Attractiveness of the product needs to be evaluated from a customer perspective.

· Criticallity of the product for overall business success.

· Industry dynamics and competitive positioning of the company regarding the product.



MAKE

· In-house differentiates the product.
· Capability used for new product has synergies across the business
· Supply market is hostile
· Need to „push" technology into the market.

BUY

· Process/Product is not attractive (i.e. its hard to find workers, strict environmental regulations, ...)
· Product are not critical to end products or marketing efforts.

. Supply market is suitable for building close partnerships.
. Suppliers are willing & able to meet innovation needs.

? RISKS

- Availability of alternative sources and switching costs.
- Supply market risks : political stability / exchage rate
- Transportation risks: lead time (Quality), supply chain disruption.
- Intellectual property protection.
- Risks include lower quality, supply relialability, and reduced predictability of outsourced products compared with inhouse- ones.
- Risks inherent in the process of identifying and selecting the right supplier and structuring a workable relationship.

MAKE

- Few or no alternative sources of supply.
- High supply market risk.
- Imperative short lead times (quick response).
- Sensitive intellectual property involved.

BUY

- Hold-up risk is low or sufficiently managed through contract or business relationships.
- low switching costs and accessible alternative sources of supply.
- Uncoupling supply with demand has little or no impact!
- No sensitive intellectual property involved.

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3. Economic factors

- Relative economic and operating performance advantage : SCALE-UP THE BUSINESS?
  INCREASE UTILIZATION?
  RELIABILITY OF SUPPLIERS?
  COST-FACTORS?
  QUALITY ISSUES?
- Calculate the capital requirements and financial returns (BREAK EVEN ANALYSIS)

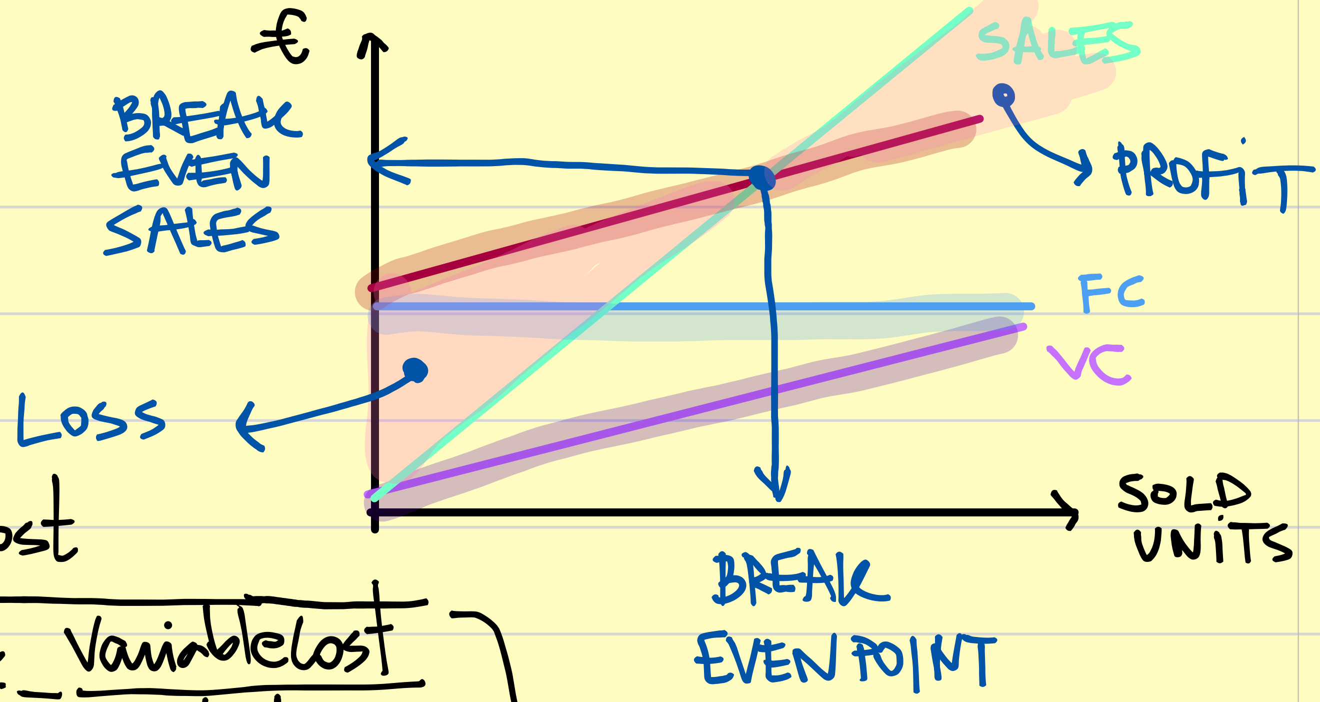
BREAK-EVEN ANALYSIS

Parameters

Total Cost (TC)

Variable Cost (VC)

Fixed Cost ($FC = TC - VC$) $\Rightarrow TC = VC + FC$



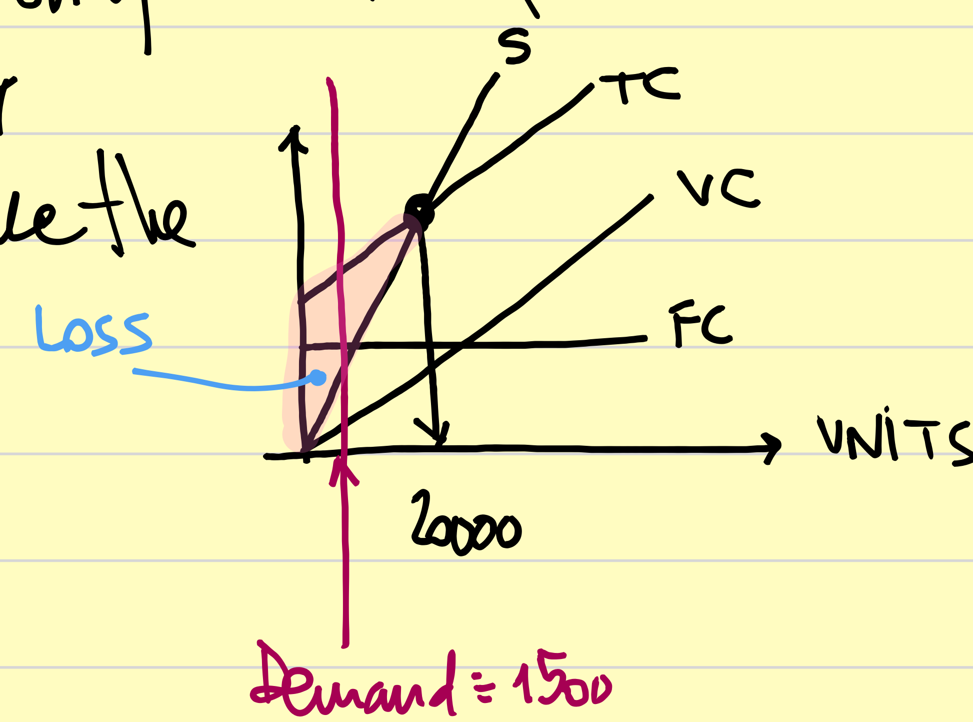
$$BEP = \frac{\text{Fixed Cost}}{\frac{\text{Selling Price}}{\text{unit}} - \frac{\text{Variable Cost}}{\text{Unit}}}$$

Example: A firm buys a product for 500 € each. In case they make it, the fixed cost is 4.000.000 € and the variable cost is 300 €/unit. Demand is 1500 units.

MAKE or BUY?

$$BEP = \frac{4000.000\,€}{500\frac{€}{\text{unit}} - 300\frac{€}{\text{unit}}} = 20000 \text{ Units}$$

Since the demand is only 1500 units (less than BEP), the company should BUY the product. If we make the product, we loose money!!



MAKE

- Internal cost advantage.
- Investments meet ROI requirements.

BUY

- Supplier has less costs or better quality
- Major new investments inhouse are required.
- Supplier has lower ROI target.
- Insufficient in-house skills or are difficult to acquire.