

# Procurement outsourcing strategies: wonderful widgets



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## Procurement Outsourcing Strategies: Wonderful Widgets

### Summary

In the given case, Wonderful Widget is a company that produces widget. It used to produce the widget parts internally, and the supply manager has noted that the operational cost of producing the components is escalating month after month. It is the responsibility of the manager to ensure the costs are kept low so that the profit level does not go low. In addition to that the corporate expects the cost to be low, and therefore, the manager has to streamline processes before the end of the quarter.

### Problem

The problem for Wonderful Widgets is the increased cost of producing widgets which is “ eating into” the profit expected.

### Possible solutions

It should be noted that operational cost consists of both fixed and variable costs. The company can reduce the operational cost by adopting Just-In-Time (JIT) model in the production of widgets. Using the model only orders that have been ordered will be produced. In this case, the cost of maintaining inventory will be lower thus reducing variable cost. According to (Finch, n. d.), this model can result in an organization to have high lead time (time difference between placing an order and receiving the order). It can lead to consumer dissatisfaction.

Another solution is outsourcing the components instead of manufacturing in-house. The cost of producing the components will be shipped to the contracted supplier, while Wonderful Widgets concentrate on assembling of widgets. The beneficial impact on this is that it will lead to specialization, (Greaver, 1999), thus enhancing the overall processes of wonderful Widgets. <https://assignbuster.com/procurement-outsourcing-strategies-wonderful-widgets/>

Outsourcing might be good but great reliance on it might lead to dependency that is dangerous for a business.

Lean manufacturing model can be helpful in the reduction of operational cost. History has proven there is no competitive advantage in the production of those parts. The model discourages activities that do not add value to the end product, but instead increase the cost (Wang, 2011). It will be wise for the supply manager to eliminate some activities like packaging and cost will be reduced. However, the model does not clearly give the threshold of determining the activities that are less vital, and this might result in essential activities being withdrawn which will impact on customer relationship.

#### Recommendation

The above solutions will all reduce operational cost, but at different rates. From assessing the company's need and the components, it is advisable for Wonderful Widgets to outsource component for the widgets from reputable producers. Though outsourcing will make them rely on the outsourced company, it will be cheaper than Wonderful Widget producing it in-house. The challenge of dependency can be overcome by contracting several firms to supply the components (Finch, n. d.). In case of a breakdown in one outsourced firm, the other firms can fill the gap.

#### Questions

Deciding the best procurement strategy for Wonderful Widgets was challenging. It was confusing whether to select minimizing total landing cost or flexibility in lead time. Though the correct answer was minimizing total landing cost, the lead time should be flexible to prevent instances of orders being canceled by a client due to long waiting period.

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Strategic alliance is the agreement between two organizations (Tjemkes, & Vos, 2012). The agreement is meant to ensure a cordial relationship between the firms exists. For procurement outsourcing strategies, the agreement sets the price, lead time and expected responsibilities from each side. If these concerns are taken care at the initial stage of forming the strategic alliance, procurement will run smoothly and benefit both parties.

#### References

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