

Example of case study on study naval operating base

[Business](#), [Company](#)



1. The disadvantage of using a sole-source supplier is the high supplier bargaining power, which forces buyers to agree on any terms, convenient for the supplier (Ptak, 2005). Therefore, it is hard for Lieutenant Early to question additional costs of the Trustworthy Company. Moreover, investigation of inefficiencies in resource allocation and management is very time-consuming and even if such inefficiencies are found, there is no guarantee that the overheads are going to be reduced. Since further delays are very expensive for the Navy, Lieutenant Early should agree on the current prices and purchase equipment as soon as possible. However, in the long-run it may be appropriate to engage in more close cooperation with Trustworthy, in order to be able to control their costs and keep product prices within the reasonable limits. In this case the Naval Base should emphasize that in the market the monopoly is both on the supply and demand side, thus if the base will not buy equipment from Trustworthy, there will be little market left for the company.

2. The allocation for contingency allowance, or the money set aside for covering potential risks for the business, can be questioned by Lieutenant Early. Firstly, it is possible to request a justifications for the particular level of allowance, and subsequently to question the assessment of risk by Trustworthy. Moreover, risk minimization can be achieved by establishing tighter relationships along the supply chain. Therefore, Lieutenant Early could suggest the managers of Trustworthy to work together on reducing uncertainties and risks, in return for a decrease of contingency allowance. This approach will be beneficial for both parties, since it will reduce the selling price for the Navy without decreasing the margins of the Trustworthy.

3. Unfortunately, there is very little Lieutenant Early could do in the short-run. Since Trustworthy is the sole supplier, the Naval Base has to accept the terms of the company in order to avoid immediate losses due to the absence of machines for maintenance. However, in the long-run Lieutenant Early has several options. Firstly, she may consider sourcing internationally, trying to find more favourable offers from international suppliers. Secondly, she may sign a binding agreement with Trustworthy, which would clearly outline input price components and allow more control of the Navy over the operations of its suppliers. In this case the key influence factors may be both the pressure from the government, since the Navy is a strategically important industry, or a threat to reduce purchases, leveraging on the fact that Trustworthy is unlikely to find another market for their product or will face a sharp decrease in demand, if such a major customer as the Navy discontinues sourcing from them.

References

Ptak, C. (2005). Why single-source suppliers?. Retrieved from <http://www.globalspec.com/reference/46185/203279/why-single-source-suppliers>