Sampson products

In chain supply management purchasing can be described as act of procuring raw materials, capital equipment, and services among other supply requirements in exchange for their equivalent value in dollar terms. In industrial organizations purchasing plays the important role of acquiring the necessary raw materials, capital equipments or services required in production. Most organizations purchase their raw materials in large volumes in order to enjoy the economies of scale by taking advantage of discounts and transportation economy. Supply management departments therefore are crucial to organizations and are tasked with the indentifying, accessing acquiring of the resources needed in production.

Sampson products is an electrical equipment products company that supplies most of its products to manufactures for production of washing machines, fridges, washers and electrical stoves amongst other uses. The company has a sales turnover of four hundred million dollars and most of these sales are generated by their electrical motors precisely the small size which accounts for more than one hundred million dollars worth of sales. The company has a reputation for production of high quality excellent products.

The company is among the leading producers of smaller electrical motors in the USA but faces stiff competition from four other comparable producers. One quarter of the company's electrical motors are used in production of vacuum cleaners, home equipments and air conditioers as special brands . This means that the brand names of the manufactured appliances have their own brand names which the electrical motors carry since they are components of the manufactured appliances. The company obtained a supply contract in 1997 to supply General Motors Company with twenty million dollars worth of electrical motors that were to be sold as General Motors under the special brand arrangement.

The company won the contract in a competitive bid against five other comparable suppliers and a single major producer. Sampson products also had the lowest bid but the sales manager believed they won the bid due to their reputation for production of excellent products. The terms of the contract stipulated that it was a one year contract with a possibility for renewal. Sampson products won the contract again in 2002 and made a nine percent profit from the contract. In return the company started buying shaft rotors from General Motors to produce high speed motors and therefore the two companies started a trading relationship.

The company shaft rotors purchases from General Motors were estimated to be two hundred thousand dollars worth annually. The company anticipated in the year 2001 that the USA government would in future restrict the use of the scarce alloys metals for military purposes only. The purchase director therefore decided to stock up their shaft rotors before the restriction was enforced. By buying a million dollars worth of shaft rotors in 2001 aand invited manufactures to submit their bids. General Motors was among the four suppliers chosen for the bid consideration. It was on the basis of their trading partnerships that General Motors was trying to influence the Sampson products company to be their single supplier of shaft rotors.

In other words General Motors was exploiting their business relations even though they were the highest bidders amongst the four companies chosen for consideration by trying to blackmail Sampson products. Smithe the purchasing manager for Sampson products was faced with two problems . One by refusing to give in into the General Motors blackmail he risked losing their business that was worth twenty million dollars annually. His second problem was that if he gave in his company stood to lose in that they would buy products from the most expensive suppler therefore their production cost would be higher than were they to choose the lowest bidder.

Since the one million dollar contract was on offer in order for the company to stock up their shaft rotors supplies in anticipation for the restriction. Implying that they would have enough shaft rotors stocks for the next five years . This is on the basis that the company estimated heir requirement to be two hundred thousand dollars worth annually. Mr. Smithe decision should therefore be based on the business loss that would accrue if he refused to give in to General Motors demand. His decision should therefore be two accept General Motors bid offer.