

The Only Game in Town
Purchasing Single/Sole Source Goods Effectively

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Abstract: This paper will discuss the differences, advantages, and disadvantages when purchasing from single/sole source suppliers. It will look at the situations which require such strategy and discuss the importance of careful source selection. Some contractual items which may make this type of purchasing tactic effective will be covered.

Objectives: The objectives are to present information to assist the supply manager in the following aspects of dealing with single/sole source suppliers:

- Major Advantages
- How to Deal With Disadvantages
- Source Selection Necessities
- Writing an Effective Contract

There is a major difference between “single” and “sole” source procurement. Single sourcing is defined as “the practice of using one source among others in a competitive marketplace which, for justifiable reason, is found to be most advantageous for the purpose of fulfilling a given purchasing need.”¹ A single source is not necessarily the only place which can supply a particular item, therefore, when talking about single source one must be aware that other sources can and do exist. The key word here is “single” not “sole”. On the other hand a “sole” source is truly “the only place that a particular item can be obtained”. It is “the only game in town.”

“Single/sole source” procurement can be a buyer’s nightmare. There are some advantages which should be noted:

1. Quality can be more consistent.
2. The supply manager need only approve and manage one supplier.
3. The supply manager need only focus on one supplier for delivery and service.
4. There might be better opportunities for design improvement.
5. Purchase quantities may be larger.
6. One purchase may provide more efficient shipping and lower costs.
7. Single purchases may result in less accounting efforts.

The supply manager must be aware of some critical disadvantages:

1. A catastrophic event will stop production and shipments.
2. The supplier may become complacent.
3. Risks of financial problems, price increase demands, inability to meet shipment requirements and possible mergers or acquisition can cause different management focus

¹ ISM – Glossary of Terms

Single/sole source purchasing can be appropriate or necessary when the following situations present themselves:

- The supplier has a patent on the device or item.
- The basic assembly demands tight tolerances and many parts must work together.
- The supplier has a good deal of previous experience in the manufacturing of a particular device.
- Important time constraints exist.
- The supplier is willing to bear some of the development costs.
- The supplier's quality is better than any of the competitors.

Sole source in particular can be caused by many unique situations, such as an engineering design which restricts the use of an item noting that it is the only one which will function or fit as required by the overall design. As noted, it might be an item on which the supplier has a patent and so he is the only source. Sole source could also be attributed to a problem with raw material where a particular supplier has the corner on the market. Again, when talking about sole source it must be noted that no other sources exist or sourcing is completely restricted.

It is important to take steps to reduce risk as much as possible when purchasing from single/sole source suppliers. Strangely one of the first and important things to consider is to investigate the market thoroughly and assure that the chosen supplier is indeed the best supplier. It is important to encourage competition which will create a healthy hedge in the marketplace for you. If possible you might even wish to pre-qualify a second supplier. This makes sense even if it requires a small investment on your part.

Another tactic which is good would be to encourage your requisitioners to share new design ideas with the supplier early and fully. In this manner the supplier can be working to avoid "impossible design criteria" and they can also be prepared to act quickly when new requirements are released. Only keep design details "in house" if there is a proprietary need.

W. Edward Deming encouraged buyers to "end the practice of awarding business on the basis of price tag alone."² Although this is a very notable statement, healthy competition is not a bad thing when used prudently. Buyers must watch the purse strings as we all know because hardly anyone else does. I have always believed that buyers would be much more able to operate effectively if they shared the budget responsibility with the requisitioners.

Source selection is important and significant even if you are dealing with "the only game in town." If there are financial or quality problems with the chosen supplier the supply chain professional is obligated to address those problems and find solutions. There might be a need for progress payments or "in plant" inspection prior to shipment to preclude production problems.

The supply chain manager must seek and obtain information concerning the following issues:

- Can the supplier meet your quality requirements?
- Does the supplier have a quality system?

² W. Edward Deming – "Out of Crisis" (1982)

- Has the quality system been audited?
- If appropriate, does the supplier have the ability to perform statistical analysis?
- Are there any short or long term issues concerning the supplier's financial stability?
- Is there a union contract and when is it to be renewed?
- What kind of a vacation schedule does the supplier have (plant shutdown, or individual vacations)? How does it mesh with needed delivery requirements?

There are other important issues to consider. It would be helpful to find out if the chosen supplier plans on maintaining technological leadership in the areas of your material or software. The supplier's philosophy concerning "just in time" shipping also might be something to investigate before signing a long term contract. Is the supplier ISO approved and if so, in which area of endeavor? Finally, it would be helpful to find out what the employer's relationship with their employees seems to be. Unhappy employees can cause many problems. Take the "sick out" of US Air employees during the Christmas and New Year's holidays last year and the resultant baggage turmoil. This can be a sensitive area and a difficult one to check into, but a little creativity can produce some results. Actually, even a walk through the facility noting the employee lunch area can reveal some interesting information. Is the area clean and cheery and a comfortable place for employees to be? What has management done to make things better and what seems to be the attitude of the subordinates when asked about their management? All good ways to determine the strength of this aspect in looking at the relationship which you are about to enter.

We cannot look at this subject without considering the contractual aspect of the single/sole source procurement. There are some opportunities in this area to assure a successful purchasing experience. For instance, consider building into the contract maximum price increases with detailed backup. These could even be linked to an agreed upon index or indices. A no penalty exit for both parties could be included. When working with a longer term contract there could be pricing incentives, shorter future lead-times (after product development) and better warehousing arrangements including better shipping costs. The type of contract which is involved in a long term relationship could include day by day information on design progress, inventory, logistics, subcontract suppliers and even cost savings. Perhaps some incentive type wording could encourage cost reduction over the term of the contract.

In summary, single/sole source purchases can be made effectively if you are aware of your supplier's strengths and weaknesses. Additionally, it can be done if you strive for a cooperative relationship and create a strong contract. Lastly, you must trust your suppliers and treat them as valuable members of the team. A truly "win win" situation will assure a more effective single/sole source purchase.