

**Case: SUPPLIER SOURCING AT SYNERGY METALS, INC.**

The problem in this case is the matter of agreement of terms of service between Synergy Metals, Inc, and a sourcing supplier of the B3755 engine sprocket ring, Ecker Metal products. From the initiation of the relationship with the sourcing supplier, there has been a problem with quality, and these faults in quality have been reported by Daimler-Chrysler, the end user and a client that is responsible for two-thirds of Synergy Metals' revenues. The problem is due to the transfer system that automates the process of tooling the sprockets. Eckert believes this problem is the client's responsibility because the client supplied the equipment and the supplier cannot be held to account on faulty equipment they are supplied.

Eckert is ISO9000 certified and therefore should be considered qualified to handle the quality management portion of the production process. Synergy feels that Eckert should be able to manage the process as well, and reduce the number of faulty sprockets. Eckert believes in order to effectively do this, new equipment needs to be designed at a cost of 25,000 or remove the transfer system and add \$1.00 in labor.

There are several ways to proceed in this case. The alternatives are:

Eckert can make a better attempt to eliminate faulty sprockets using the current system, and show proof of efforts to do so. This may take reporting and charting the frequency of faulty sprockets in an effort to understand when the fault occurs and the determining factors in faulty product.

Synergy may choose to re-tool and re-automate the transfer process so as to eliminate the issue of faulty sprockets altogether. This is costly at \$25000 in equipment

costs. In addition this does not remedy the short term problem, as it will take 2 months to build the new system.

The additional \$1.00 in labor cost is extremely inefficient, and it is better to work with the current system as long as possible, refining any procedural issues before reverting to a labor scenario, which is costly and wastes the production capacity of a machine already invested in.

Synergy may also choose to find a new supplier and manage the instability of transferring the business to a new production facility. One way in which he may manage this is that he may choose to pursue a new supplier while at the same time working with his current supplier.

A final solution would be to develop a quality control component of the process in order to do rigorous checks on the supplied sprockets, and manage this process as a cost shared by both supplier and purchaser. This will allow for an accurate method of determining the real number of faulty sprockets, also allowing time to reconsider the machine requirements for the production of sprockets, and also guarantees the end user a working product.