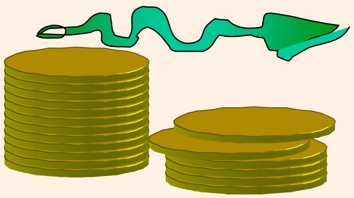
Switching costs

Think of a purchase for your company in the leverage quadrant and complete the table below:

Type of switching cost	Approximate magnitude of the cost

Total switching cost: ______________________



Supply strategy for leverage items

Case 2: Low price variability

a) *If switching costs are negligible and allow you to exploit even small price differences amongst suppliers, and if this is better for you than the additional leverage of placing all your business with one supplier over a period of time, your strategy should be:*

Number of suppliers: Many

Nature of relationship: Arms-length

Type of contract: Spot (purchase order)

Type of supplier to seek: Lowest price at time of purchase

b) *If placing all of your business with one supplier gives you a price advantage (e.g., due to quantity discounts):*

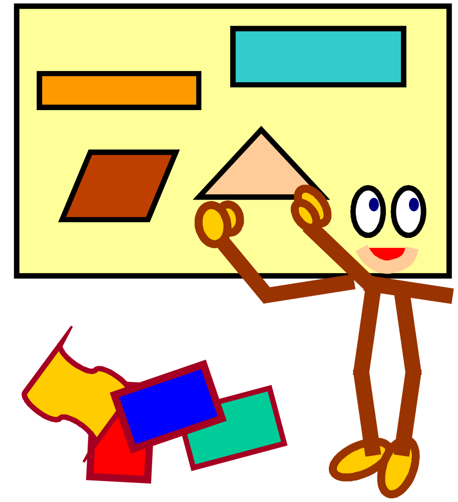
Number of suppliers: One

Nature of relationship: Arms-length (buyer-dominant)

Type of contract: Term contract

Type of supplier to seek: Lowest cost over the term of the contract

Operational Strategies for Leverage Items



- E-commerce
- Benchmarking against industry norms
- Demand forecasting
- Process re-engineering /automation forecasting
- Use of purchasing cards
- Delegation of call-off responsibility to end users
- Consolidated billing
- Inspection
- Customer account manager

Which operational strategy to use?

Strategy	Supply targets	Circumstances
Demand forecasting	• Purchase price	• Price is sensitive to volume
Benchmarking	• Purchase price • Availability • Responsiveness	• Reliable benchmarking data is available
E-commerce	• Purchase price • Cost of acquisition	• A website is available • Internet auctions exist • High number of transactions with single supplier
Delegate call-off responsibility	• Cost of acquisition	• Priced call-off contract and appropriate controls