

## Competitive Foundry\*?

Finnish machine manufacturer MAMA uses thousands of cast iron components yearly. Most components have been purchased from two nearest foundries since 20 years. Relationship with both of them is relatively good, key people are well known, and the logistics routines work well with these suppliers, both situated round 50 kilometres from MAMA's plant.

MAMA had regularly arranged a bidding round amongst several Finnish foundries, thus "keeping the cost level in shape". Proposals have also been asked from some German and Swedish foundries, but "they have not been so competitive", as the purchasing manager said.

MAMA's new purchasing director Anne came from another machine company, who already had invested in global sourcing practices and built a modern purchasing function. Anne had an intuition, that the prices paid by MAMA for cast iron components were relatively high. There was also constant pressure from the board of directors and top management to improve margins through new lower cost supplier markets.

Anne initiated a systematic sourcing process, which covered e.g. some voluminous cast iron components. MAMA owned the IP-rights of the models for these castings, and had an extra set of moulds in own warehouse so there were no juridical or practical issues that would have prevented asking for competitive proposals.

The systematic analysis revealed, that countries like Brazil, Taiwan, Turkey, China and India could be potential sources for this type of cast iron components. Preliminary search and request for information revealed several high level companies in these countries, most of them willing to open discussions with MAMA and give an offer. Ten of these supplier candidates were given a request for proposal, on which 8 answered properly. Six of them had regular customers in Europe, all identifiable well-known companies.

After detailing three best proposals and negotiating, Anne had a credible offer from a Chinese company, promising 70% lower prices than the present supplier. The company supplied overseas, and had well-known international manufacturers as its customers in China. The communications with this company were smooth and professional.

1. Why did MAMA get into this situation?
  - a. Reflect on the Kraljic matrix to understand MAMA's traditional purchasing strategy for cast iron components. How does the more detailed analysis of supply markets change the position of iron cast component category on the Kraljic matrix? What does this mean in terms of change in purchasing strategy?
  - b. Reflect on the "Balanced sourcing" matrix MAMA's traditional sourcing approach. Is this approach still valid? Given that you have now updated information about potential suppliers, what do you think is the new approach MAMA should implement?
2. As Anne, what would you do next? Describe your actions (step by step), and the order of activities. Explain, why you chose to do a specific action.
3. What were the lessons learnt? How can MAMA avoid similar situations in the future?

\*foundry is a factory that produces metal castings