

## Speaking Out: How to make effective decisions

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**By Andrew Miller -- Purchasing, 4/30/2009 6:00:00 AM**

As I read the papers every morning, I am more and more astounded by the poor decisions that people have made. And these people are supposed to be the intelligent ones, because they are running some of the largest companies in the world and went to some of the best schools. How can a global car company lose 95% of its value in 10 years? How can one man be permitted to weasel \$50 billion from charities and private investors? How can someone justify taking a \$5 million bonus while at the same time laying off thousands of workers? All of these outcomes were a result of poor decisions.

Looking at the contracts you negotiate, the distribution company you select or the procurement strategy that you develop has an impact on the rest of your supply chain. Have you ever awarded business to a supplier only to realize six months later that it was not a good deal and you want out? How about selecting a software package that when implemented, does not meet your needs like the supplier said it would? Sound familiar?

Here is a quick case study about supply chain decision-making and how it impacted one company:

### **The situation**

Company ABC decided that instead of soliciting competitive bids for an essential piece of machinery they would single source the product (soliciting bids from only one supplier).

### **The result**

One of ABC's competitors sourced a similar piece of machinery from the same supplier and threatened to pull their business from that supplier. The supplier refused to sell the machinery to Company ABC so they had no ability to make their product. That machine was core to the manufacture of one of their products, so ABC was forced to lay off more than 10% of its workforce.

### **How to improve**

When going through the decision-making process, Company ABC should have identified the risks of single-sourcing and putting all of their eggs in one basket, as well as having a better understanding of their competitive landscape. Company ABC should have run through "what if" scenarios to plan for how they might react to various circumstances occurring. If this was an essential machine, they could have contracted two suppliers to ensure that machine would be available. They could have researched other suppliers that sell the machine and have been ready to move the work to another supplier in the event of any issues.

The case study above shows an example of how a decision at the beginning of the supply chain process had a negative impact on the supply chain and the organization as a whole. By making more effective decisions throughout the organization, supply chain success will follow. More effective decisions will lead to better performance from suppliers, improved productivity from employees, shorter lead times for customers and increased accountability for the organization. Imagine the benefits your organization would realize by having a rigorous pre-qualification process for potential business partners. The extra effort up front would eliminate much of the ongoing concern that plagues most companies in their ongoing business relationships.

Always look at the risk-reward spectrum of a decision and challenge the basic premise of the decision. Only then will you develop a different set of alternatives and be able to approach the situation from a new direction. So why don't more companies do it? I guess they just don't know any better.

### **Author Information**

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