# **Avion, Inc.**

**Instructor’s Guide**

This very integrative case should stress some key points clearly to the student:

* Communication with suppliers is perhaps even more critical after contracts are signed
* Changes in volumes and other requirements can alter the assumptions in the original negotiation and cause significant problems
* Buyers and sellers need to be proactive as demand and markets change
* Supplier switching costs are often very high, making the quality of the initial supplier evaluation and selection decision critical
* A natural tendency exists with many buyers to blame suppliers at the first sign of a problem, even when the buyer contributes to or even causes the problem
* Being a good customer entails certain responsibilities, such as treating the supplier ethically, communicating frequently, and working together to prevent or solve problems

**Question 1:**

Students should identify the different parts of the value chain involved in this situation. Look for the identification of specific departments or groups along with their responsibilities.

**Question 2:**

Stress that what initially appears to be the problem (i.e., the supplier) may not be the root problem. Furthermore, the initial reaction was to blame the supplier without collecting the required facts.

Students should probe to identify the root cause, which is really a lack of communication on the part of the buyer and changing demand and delivery conditions. It is possible the buyer has a poor forecasting system that created the initial demand figures.

**Question 3:**

Students should discuss the various costs, activities, and time associated with supplier switching decisions. In this case, switching would be a difficult activity.

**Question 4:**

Root cause is the cause that once corrected will eliminate the problem.

**Question 5:**

Suppliers enjoy working with buyers that are good customers just as buyers like to work with good suppliers. Some ways that a buyer can be a good customer include:

* Pays invoices promptly
* Treat the supplier ethically
* Share information early and often
* Work together to pursue new opportunities and solve problems (rather than blame)
* Respect the supplier’s need to earn a fair profit
* Do not switch suppliers frequently to chase better prices

**Question 6:**

Frequent performance measurement can indicate when performance is trending downward or upward. Measurement can also indicate in what area performance is deteriorating (or improving). Measurement helps when investigating the root causes of problems.

**Question 7:**

Students should understand that suppliers have lead times with their suppliers, and that changes can cause higher costs, production schedule disruptions, and quality problems. At some point schedules should be frozen or locked in with minimal changes.

**Question 8:**

Reducing lead-time reduces uncertainty and variability. It is generally much easier to forecast for a short time horizon that a longer horizon.

The instructor should look for creativity and quality of ideas with this question. If this is a class discussion question, then the instructor should ask the students for suggestions to reduce the lead times for purchased materials and components. The instructor could create a table, such as the following:

|  |  |
| --- | --- |
| Action or Activity to Reduce Material Ordering Leadtimes | Why the Action or Activity |
|  |  |

**Question 9:**

Students should present at least four good reasons to single source a contract. Possible reasons include:

* Combine volumes with a single supplier for greater leverage
* Avoid additional negotiations
* Minimize supplier management and transactions costs
* To pursue a closer relationship with a single supplier, perhaps even an alliance
* Few qualified suppliers exist
* Switching costs may be low, reducing the risk of single sourcing

**Question 10:**

The instructor should look for a plan that (1) clearly defines specific actions that will be taken and (2) works collaboratively with the supplier to address the issues presented in the case. Some students will argue for a second supplier to alleviate the capacity problems.