

Carl O. Hilgarth's Commentary on "Conflicts within a Manufacturing Firm"

Commentary On
Conflicts within a Manufacturing Firm

I

Now that T&D's internal tool and die department can bid on new tooling by offering a price to produce it internally, they will have to abide by the procedures established by the Purchasing Department so the integrity of the bidding and contract award process is not compromised. They should be placed on the approved bidder list, receive a copy of the approved tooling part prints and specifications, and the sealed bid envelope in which to respond with their quote. The department head of the internal tool and die is totally out of order when he asks the Purchasing Department for the prices obtained from the outside vendors before he submits his quote. With this inside information, he can become the low bidder.

Purchasing should refuse the internal tool and die department request as unethical--give him a set of the prints and specifications, the sealed bid envelope, the bid closing date, and tell him to submit quote. After contract award, he can review the source selection evaluations and bids in the same manner as the other bidders.

II

Well, T&D's Purchasing Department shares the quotes with T&D's tool and die department head. T&D's outside vendors complain that T&D has acted in bad faith. They're right! By being able to see the competing bids, the tool and die department head had inside information. If I was an outside supplier to T&D Manufacturing, I would decline to bid any of the jobs under these ground rules.



The logic of the tool and die department head in trying to persuade the Purchasing Department that it is making a mistake in not providing him the quotes of the other vendors in advance is ludicrous. If he thinks he can be competitive with the outside vendors, let him submit a bid like everyone else.

An interesting point here is the bid rate that internal tool and die uses in preparing their quotations. If their direct labor rate and material costs are not properly burdened, they'll use only the base rates and inherently underbid anyone. Management should have the cost accounting department prepare appropriate burdens for the internal tool and die to apply to their base labor rates and material costs so their bids are truly competitive with those of the outside vendors. If this is not done, the outside vendors will have another complaint in that T&D is only obtaining pro-forma outside bids and awarding the contract to internal tool and die on the basis of unrealistically low pricing.