City of Granston\*

On November 25, Ted Barton, the new purchasing manager at the City of Granston in Canada, was considering a contract extension for two years for the supply of mineral aggregates (rock, sand, and gravel). The contract had to be signed within a week. CITY OF GRANSTON The City of Granston had an annual budget of $700 million and employed 9,000 people. There had been a steady population increase over the past two decades. The purchasing department consisted of three support staff, six buyers, and a manager. City budgets were usually adjusted annually to cover the cost of inflation. THE AGGREGATE INDUSTRY The city purchased about $3 million worth of aggregates for road construction and repairs and construction projects. The local mineral aggregate sector consisted of three

major extracting and processing companies— Lamoulin, Richmond, and Atlantic—and several smaller ones. Lamoulin and Atlantic owned the two dominant concrete production facilities. The local aggregate industry was near capacity with major construction projects underway and increased demand in export markets.

AGGREGATE PURCHASING A request for quotation had been issued in 2000 for a three-year agreement for the supply of aggregates, with prices firm for the first three years. If the parties agreed, a two-year option was available, with prices being subject to inflation. Lamoulin and Richmond were the only two bidders and each received about half of the total contract with each bidder quoting for separate components of the total aggregates contract (see Exhibit 1).

EXHIBIT 1 A Selection of Mineral Aggregates Supplied b yLamoulinand Richmond

Description Original Price Current Price New Price City Requirement Request (metric tons) Screening\* 9.80 9.59 9.78 3, 000 Crushed rock\* 8.80 8.57 8.74 6, 500 Drain rock\*\* 12.20 11.88 12.11 3, 000 Tailings\*\* 8.00 7.80 7.95 75, 000 Mulch\*\* 7.10 6.98 7.12 250,000

On November 25, both Lamoulin and Richmond sent notice that they were willing to extend the current threeyear contract to five years. Both wanted an increase of 2 percent to cover the increased cost of doing business. The suppliers were referring to the Consumer Price Index (CPI) clause in the agreement for price reviews. This clause allowed the supplier an annual price increase based on the change in the CPI. According to the city engineers’ department, both suppliers had performed reasonably well during the past three years. Because of a significant slump in the local construction industry, both suppliers had voluntarily lowered their prices by about 3 percent after year one of the contract. However, in the past few months the local economy had shown signs of revival.

TED BARTON Ted Barton had become purchasing manager for the City of Granston after having worked in private industry as a supply manager for several decades. He had been selected because the city’s administrators wished to integrate supply better into the overall decision processes and to help search for better value for the taxpayer’s dollars. Shortly

after arriving on his new job, Ted Barton hired a part-time professional to help him develop better metrics for the city’s supply function. One of the metrics that concerned Ted was the city’s price performance. Thus, he developed a representative basket of 128 city requirements for which the amount used appeared to vary little from year to year. For this basket he asked his assistant to develop a price index, going back three years, starting with a base of 100.0 (see Exhibit 2). Ted’s assistant also developed a list of key cost indicators based on published indices from a variety of sources (see Exhibit 3).

THE DECISION Ted Barton wondered whether any of the metrics he had recently developed were relevant for his decision on whether to extend the current mineral aggregates contract. Since a significant number of existing city contracts were also of the multiyear, extendable type, he believed his actions on the aggregate contract might have a bearing on how to deal with other requirements. Having only one week left, he wondered what action to take.

EXHIBIT 2 City of Granston Price Index for a 128-Item Basket of City Requirements Current Year Year 3 Years 2 Years 1 Year Q-1 Q-2 Q- 3 Ago AgoAgo Cost of supplies (basket of goods) 100.00 .9199 .9446 .9477 .9410 . 9614

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EXHIBIT 3 Selected List of Key Cost Indicators Current Year

Key Indicators 3 Years 2 Years 1 Year Q-1 Q-2 Q- 3 Ago AgoAgo Business prime rate (%) 7.000 6.875 4.250 4.750 5.00 5.00 CPI 111.4 114.7 116.2 121.9 122.0 122.2 Fats & oils 161.82 165.38 194.44 218.99 221.02 236.98 Raw industrials 258.06 235.55 231.72 258.69 260.01 269.91 Textiles 236.39 230.50 221.41 234.29 241.01 239.83 Diesel fuel 50.36 52.56 54.34 65.04 56.41 58.69 Coarse road salt 57.28 52.91 52.91 52.91 52.91 52.91 Natural gas 4.50 6.08 3.82 6.22 6.00 5.96 Copper (US$ per ton) 1788.00 1578.00 1559.00 1663.00 1641.00 1753.00 Metals subindex 236.06 193.55 178.92 201.50 207.09 218.15

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