جامعة الإمارات العربية المتحدة
United Arab Emirates University

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ARMS International

It was about 2pm on a scorching hot August 29th, 2012 afternoon when Richard Wang, Head of Supply chain at ARMS International hung up after talking to Mr. Raza Fadl the VP of Knox Industries. Richard was concerned that Knox Industries had not even started the tooling process to deliver the galvanized metal required by ARMS by the slated date of Oct 15th, 2012. On the other hand Raza was adamant that they could not start the process unless a formal Purchase Order was received from ARMS International.

The management of ARMS International had decided to exhibit their latest designed pistols for the IDEX exhibition slated for Feb 2013. One hundred 100 prototypes with a production lead time of about 15 weeks were expected to be ready by end of Jan 2013 for the show. Richard was charged with ensuring that the production deadlines were met since multimillion Dollar customer orders hinged on exhibiting the prototypes at the show.

After putting the phone on the cradle, Richard loosened his tie, lowered the thermostat of his air conditioner and then slumped on the chair in his room. He could feel the heat tear through the hermetic windows into the cool confines of the office as the magnitude and ramification of Knox Industries not starting the tooling process on time weighed heavily on his young shoulders.

After a year of almost incessant technical and financial negotiations, Richard reasoned it was incumbent on Knox Industries to get its act going immediately otherwise ARMS International could lose out on winning the multimillion Dollar deals at IDEX.

Richard wondered, how he could persuade Raza to kick start the process when he was not even sure if the P.O could be released to Knox industries even after a lapse of another six weeks. Raza, even if personally amenable had his hands tied. The CEO of Knox Industries was known in the industry as a perfectionist who considered risk taking (especially verbal PO's) as anathema. Could the Knox CEO be somehow convinced to shed his proclivity for risk aversion by allowing Raza to commence the tooling process based on a verbal commitment from Richard? Richard was wondering if he could make a commitment on his own and if so would it be binding on the company. Could he take the risk and commit. What would happen if negative decision about supplier was taken. Could the latter option even be considered and even if considered could it be binding or legal? Richard was not sure how to proceed. The order delivered on time could turn out either to be the lode star of Richard's career or prove to be his undoing at ARMS International in case of negative result of supplier qualification. Richard felt very uncomfortable and queasy as he contemplated his limited options.

ARMS International Origins

ARMS International was one of the 13 companies set up by the GCC under the Enterprise Holdings umbrella in 2007 in Abu Dhabi to build indigenous capacity for manufacturing firearms and other light weapons. The company was headed by a CEO appointed by Enterprise Holdings and who reported to the Board. In early 2012, ARMS International was merged with a sister company but retained its name. The present CEO was also the CEO of another sister company as well.

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The company had about 200 employees and exhibited its products at leading arms and ammunition shows throughout the world. ARMS International was known for its quality and workmanship and had won and delivered huge orders to many Governments and law enforcement agencies worldwide with distinction.

Supply Chain Department

ARMS International's Supply chain department's charter was to procure materials and equipment at the lowest possible cost without compromising on quality and the technical specifications. Vendors had to be pre-qualified and bids could be received only from those vendors who were on the Approved Vendor List (AVL).

The Supply chain department was headed by Richard Wang. Procurement Managers and Buyers reported to Richard who in turn reported directly to the CEO.

Richard Wang had a Master's in Engineering and an MBA from United Arab Emirates University and had worked for four years at Airbus in France and Germany as a Design engineer. He subsequently moved into Project management responsible for system installation. In 2009, Richard joined ARMS International as a Project manager. Early 2012, Richard was made Head of Supply chain.

In 2013, Richard was expected to complete the requirements for a Master's of Business Administration degree from the UAE University, in Al Ain.

The Supply chain department had a number of vendors that were on the "Approved Vendor List (AVL)" and with whom only business could be conducted. It was the dream of all potential suppliers to be on the AVL and they made strenuous efforts to get on the coveted list.

The process to classify a supplier as an approved vendor was lengthy, demanding and very detailed and ARMS's engineering and finance people were involved. Once on the AVL, the suppliers could hope to be invited to bid on the big contracts. However, getting on the AVL did not guarantee that the supplier would remain classified as such for eternity. ARMS International continued to regularly monitor the supplier's quality and cost reduction techniques and any slip could render their disqualification. Consequently, suppliers were always on their toes and worked closely with ARMS International in keeping them abreast of their efforts to modernize their equipment, processes and manufacturing efficiency. There were ten categories of materials for which vendors were selected. A vendor could find himself approved for one or more or all ten categories. All products had to have a minimum of three suppliers on the AVL.

The supply chain department was responsible for two types of procurement activities. The first pertained to ongoing purchases for 'Serial production' and the other to the 'Development of New products'.

Any product once transferred to manufacturing was considered to be in the Serial production category. The raw materials and Bill of Materials (BOM) were well defined and purchases had to be made per this approved BOM. Sometimes, there could be a deviation due to unforeseen causes and an Engineering Change order (ECO) was generated to cope with the issue. The approval of material and process per the ECO had to comply with the new product development procedure.

Supply chain's real challenge lay in procurement of material for new products. Vendors had to be short listed per the technical and project specifications and their names put on the AVL. The chosen vendor then had to come up with the molds, jigs and tooling and which cost a sizable sum. Once selected, ARMS International was in a way married to that vendor. Changing that vendor mid stream would entail increase in lead time, cost inflation and even lowering of yields as the original suppliers fine tuned processes had to be replicated by the new vendor on their own self-paced learning curve.

Supply Chain Processes

The Purchase request could be initiated by any department head. Marketing and manufacturing/production were the primary sister departments that entered such requests in the Oracle ERP system. Once a request was received, the product was broken into its Bill of Materials (BOM). The Research and Development(R&D) developed some prototype samples. If the product attained a minimum acceptable standard, R&D created a Purchase request that was submitted to the Supply chain department. It was now the Supply chain's procurement team job to go to the suppliers, explain the specifications and arrange teleconferences or meetings with engineering if needed. Once all the technical issues were out of the way and the suppliers selected, the Buyer generated a Purchase Order. It had to be approved by the Procurement Manager, then Richard. From the Supply chain department it was then forwarded to the Finance Officer on to Legal and then to the Head of Finance. After Finance's approval it was put up to the CEO for his approval. In case, the sum involved was above a certain limit, the Board had to approve the CEO's call. Only then the P.O could be released to the vendor. There was no defined time limit for the completion of this process. The availability of the CEO and the Board was thus very critical. In the past, Richard sometimes had to call the CEO on his phone when he was travelling abroad to get his approval. However, the issue got complicated when Board's

approval was required since the CEO was also the member of the Board – not only of one organization but two. The Board wanted to hear the CEO's explanation before agreeing to sign on the dotted line. And if the CEO happened to be outside the country then the whole process was kept pending until his return. (See Exhibit 1 for the PO to payment process).

All Enterprise companies followed the above procedure for issuing P.O's. No deviations were allowed. The whole process had to be vividly transparent and strict financial probity adhered to, as a matter of principle.

POST P.O challenges

ARMS's RFQ process was not automated. Richard still had to issue the RFQ manually. Unlike the Purchase Request that could be worked through the Oracle system, RFQ generation through the system was a work in progress. The Oracle ERP system had the capability to automate the RFQ process and the Consultants were working to implement it. The Consultants or Implementors interfaced only with Enterprise -- the holding company and ARMS had also to direct its needs through Enterprise.

The manual RFQ process came with its own challenges. It was not possible to generate reports that could indicate where the snags were in the delivery schedule or other problems. The Oracle system was capable of generating reports that could pinpoint how long it was taking for each vendor to supply material, the way the material was winding through the system to manufacturing besides identifying the bottlenecks. It could also pinpoint with deadly accuracy:

1. Tracking lead time for each step in the process.
2. Categorize by the goods bought by project.
3. Categorize steps, processes and amount of material consumed by Project.

According to Richard" The company had the latest Bentley. It was taking its load from point A to point B. However, instead of driving on its own, it was being manually pushed to go from one point to the other as no one could locate the key".

In other words, it was almost impossible to plan and arrange logistics to comply with the demands of the project. The hit and trial method could deliver only so much. It was time the Oracle system came to the rescue. But the issue was when, how and who would bell the cat?

Richard's Dilemma

Richard was unsure where to begin. Should he first work internally through the system to expedite the release of the P.O or take the bull by the horn, himself. It was a classic chicken and egg situation. He was damned if he failed to get Knox Industries to start the tooling process immediately and damned if he didn't.

The ringing silence in Richard's room was for once broken by the thud of his sweat falling from his forehead on the tiled floor, as Richard pondered over his future course of action.

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Exhibit 1 :Typical PR to Payment Process

PR	RFQ	PO	Advance Payment	POR	Payment
• Generated • Submitted • Approved	• Launched • In Process • Received	• Created • Submitted for approval • Approved by procurement manager • Approved by head of SC. • Approved by Finance • Approved by Legal • Approved by Head of Finance • Approved by GM	• invoice Received • Payment Done • Confirmation Received	• Goods Received • Quality Passed • Added to Stock Levels	• Invoice Received • Order Closed • Confirmation Received