Sample Answers to In-Text Questions

# Chapter 10: Supplier Management

# Discussion Questions

1. Discuss why supplier management is important for both manufacturing and service organizations.

Answer: It is important for ALL companies to be able to operate. The value of receiving the right item, of quality, at the right time requires very good communications and relationships with the supplier.

1. What are the goals of supplier management? Discuss how achieving those goals can improve a company’s supply chain performance?

Answer: The main goals of supplier management are to ensure that the supplies a firm acquires: 1) meet their quality standards, 2) are available when needed, and 3) minimize their cost, and that the supply chain 4) fosters sustainability, 5) promotes ethical behavior, and 6) develops innovative products and processes. Student examples will vary.

1. How can suppliers’ failure to meet sustainability requirements hurt a buying organization? Name some companies that have suffered from this problem.

Answer: It could hurt your brand image if publicity got out that your supplier was having problem issues in this area. Company examples will vary.

1. How would a service company like Marriott Hotels use a spend analysis to manage its suppliers?

Answer: If a company uses spend analysis on its suppliers, it can determine where the most money is spent, and where to look for reductions that would have the most impact, and what competitors to analyze.

1. What is supply-base optimization and why is it important in supplier management?

Answer: Supply base optimization seeks to determine the optimum number of suppliers to use for a group of products to minimize costs and risks for the company.

1. Give an example for each the four categories of purchases presented in Figure 10.3 for a company like Apple. What sourcing strategy would you use for each of these purchases?

Answer: Student examples will vary.

1. What are the three approaches for selecting suppliers and how do they relate to the purchase categories?

Answer: The 3 basic selection approaches are Competitive bidding, Reverse Auctions, and Negotiations.

Examples will vary

1. What are the two basic types of supply contracts, and what is the difference between them?

Answer: Fixed-Price Contracts, and Cost-plus contracts. Self-explanatory.

1. Briefly discuss the three basic types of purchase orders.

Answer: Standard orders are used for one time or seldom used suppliers, Planned purchase orders are used for replenishment of inventory levels, and Blanket purchase orders are for long term purchases to leverage volume, and specify multiple delivery dates against the total order quantity.

1. How do direct and indirect material purchases differ?

Answer: Direct materials purchases are to be used in the actual production of the goods or services. Indirect purchases are used in the general conduct of business processes. They can be goods or services. They are NOT just non production supplies, but can be Service supplier contracts that run into the Millions of Dollars.

1. List the benefits of e-procurement

Answer: Some of the biggest benefits are convenience to the customer, accuracy improvement, and reduction of transaction costs, and efficiency of the bidding processes.

1. Why is it necessary to manage at the strategic level the performance of your suppliers?

Answer: They are strategic, because they effect the whole company, they must be aligned with company objectives, and they are long term, because you cannot change suppliers on a dime, they effect overall quality of the purchases, and therefore your product, and you must mitigate supply chain delivery risks.

1. What types of supply risks do companies face when they contract with suppliers from countries like China and India? Why do these risks have to be managed? Discuss your answers by using some company examples.

Answer: You have all of the normal supply risks, and outsourcing risks, and in addition, you have all of the global risks of currency, language, customs, communications, legal systems, etc., etc. You must manage these risks so that they do not negatively impact the supply chain. The use of technology for greater visibility of suppliers’ progress on completed work. Examples will vary.

1. What are the three different types of supplier relationships discussed in the chapter?

Answer: The main three types are transactional, collaborative, and strategic alliances. This runs the length of arm’s length relationships, to close contractual relationships.

1. What are the features of a well-designed supplier relationship management program?

Answer: It should have a meaningful performance management process, it should detail the frequency and types of information to share, and suggest frequency and types of meetings, and what levels should attend, and outline the mutual improvement process of goals and follow-up, as a minimum.

1. What are some of the unique challenges companies face when managing their service providers?

Answer: Some challenges are defining the service requirements to be performed, as they can be intangible. As some service projects are long term, they should indicate payment schedules. On-site service providers can increase the risk of damage. Contractual terms must identify penalties for delay, improper work,

1. What factors make managing global suppliers more complex?

Answer: Same answer as question 15: You have all of the normal supply risks, and outsourcing risks, and in addition, you have all of the global risks of currency, language, customs, communications, legal systems, etc., etc. You must manage these risks so that they do not negatively impact the supply chain. The use of technology for greater visibility of suppliers’ progress on completed work. Examples will vary.

# Critical Thinking Exercises

Crown Enfield Inc. is a manufacturer of five models of motorcycles in United States. All of the five models use the same engine but the engines will require special tooling during the manufacturing process. The company has identified two reliable suppliers of these engines: one in India, and the other in China.

1. If the Crown Enfield wants to perform a total cost of ownership analysis, what data should collected from each of these suppliers?

Answer: They should determine all of the costs, such as direct and indirect costs for purchasing, handling, inspecting sorting, transportation, fees, and disposal of the parts, special tooling required, and problem resolution.

1. If the company wants to establish a collaborative supplier relationship with the supplier selected, identify the nature and areas of collaboration.

Answer: You may have to provide mutual financial support, and technical expertise. You might even have to create a joint venture with a local company. You might even have to provide extra assistance to their quality improvement capabilities.

1. Assume that Crown Enfield selected the supplier in China. Develop a supplier score card to evaluate this Chinese supplier.

Answer: Examples will vary