

Additional Summary Notes

Chapter 11: Supply Chain Management

DISCUSSION QUESTIONS

1. Supply chain management is the coordination of the activities that procure raw materials, transform them into intermediate goods and final products, and deliver the products to customers through a distribution system.
2. The objective of supply chain management is to structure the supply chain to maximize the supply chain's competitive advantage and benefits to the ultimate customer. The supply chain function's role is to help identify the products and services that can best be obtained externally; develop, evaluate, and determine the best supplier, price, and delivery for them.
3. The objective of logistics is to obtain efficiency of operations through the integration of all material acquisition, movement, and storage activities in the firm.
4. Table 11.3 identifies types of supply chain risk:
 - Supplier failure
 - Logistics and distribution failures
 - Information loss or distortion
 - Political/regulatory changes
 - Economic/legal changes
 - Natural catastrophes
 - Theft, vandalism, and terrorism
5. Vertical integration implies that a manufacturer moves backward into purchasing raw materials for components and forward into packaging and distribution. An example would be a coffee blender moving backwards by buying coffee plantations and moving forward to develop retail coffee shops.
6. The three basic approaches to negotiation are:
 - The cost-based model
 - The market-based model
 - Competitive bidding
7. The adversarial relationship must be changed dramatically to one of trust and the establishment of long-term relationships. To implement long-term relationships, purchasers must move to communicating the broad objective of the firm and the end customer. This usually requires sharing product information and schedules.
8. There are differences between postponement and channel assembly. Postponement implies that the final product is not assembled until it is shipped, usually with some modular features such as the power system for a printer. However, channel assembly actually moves assembly to the wholesale level where parts are received and assembly takes place. They are related but different.
9. CPFR, which stands for collaborative planning, forecasting, and replenishment, is another effort to manage/coordinate inventory with members of the supply chain to improve efficiency.
10. Online auctions lower entry barriers for buyers and seller, increasing the number of people in the market, typically reducing cost.
11. FedEx, UPS, and DHL use the Internet to track and coordinate pickup and delivery. This can facilitate delivery of combined orders at opportune times, improving efficiency for both supplier and customer.
12. An organization moving to JIT deliveries must ensure that the supplier is capable of delivering quality products on time, provide production schedules for their suppliers, examine its layout to ensure that deliveries can move quickly to where they are needed, and train and empower employees to evaluate quality as the product is produced.
13. E-procurement is electronic purchasing—i.e., the use of the Internet to buy or sell goods.
14. Darden finds competitive advantage in the supply chain through a very proactive evaluation, development, and auditing of suppliers. Darden has adequate volume to find and develop suppliers on a worldwide basis and work with those suppliers to provide the quality and timing of deliveries necessary for its customers. Additionally, Darden is large enough that it has developed four different supply chains: one for seafood; one for dairy/produce/other refrigerated foods; one for other food items, such as baked goods; and one for restaurant supplies.

END-OF-CHAPTER PROBLEMS

11.5 Baker Mfg. Inc.

Net revenue	\$27,500
Cost of sales	21,500
Merchandise inventory	1,250
Total assets	16,600

$$(a) \text{ Turnover} = \frac{\text{Cost of sales}}{\text{Inventory}} = \frac{\$21,500}{\$1,250} = 17.2$$

$$(b) \text{ Inventory investment} = \frac{\text{Inventory}}{\text{Total assets}} = \frac{\$1,250}{\$16,600} = 0.0753 \Rightarrow 7.53\%$$

(c) Baker is doing better than the industry. It has a turnover of 17.2 versus 13 for the industry and only 7.5% of its assets invested in inventory versus 8% for the industry.

11.6 Arrow Inc.

Net revenue	\$16,500
Cost of sales	13,500
Merchandise inventory	1,000
Total assets	8,600

$$(a) \text{ Inventory investment} = \frac{\text{Inventory}}{\text{Total assets}} = \frac{1,000}{8,600} = 0.1163 = 11.63\%$$

$$(b) \text{ Turnover} = \frac{\text{Cost of sales}}{\text{Inventory}} = \frac{13,500}{1,000} = 13.5$$

(c) Arrow's Inventory investment at 11.6% is not as good as Baker's, 7.5%. Arrow's inventory turnover is only 13.5 times versus Baker's 17.2 times. Note, however, that they are two different industries, and this may be a good place to discuss different performance/standards in different industries.

EXTRA EXERCISES

1) The following data are pulled from a recent Walsh Manufacturing annual report.

Assets

Raw material inventory	\$120,000
Work-in-process inventory	\$50,000
Finished goods inventory	\$300,000
Property, plant, and equipment	\$500,000
Other assets	<u>\$200,000</u>
Total assets	\$1,170,000

Condensed Income Statement

Revenue	\$2,000,000
Cost of goods sold	\$600,000
Other expenses	<u>\$1,000,000</u>
Net income	\$400,000

Calculate:

$$(a) \text{ Percent invested in inventory} = (120,000 + 50,000 + 300,000)/1,170,000 = 40.17\%$$

$$(b) \text{ Inventory turnover} = 600,000/(120,000 + 50,000 + 300,000) = 1.28$$
