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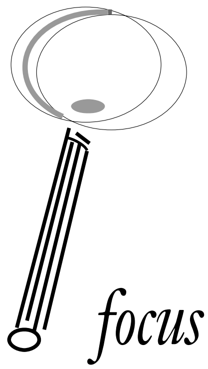
Establishing a World-Class Supply Management Department



Learning Objectives

By the end of this chapter, you should be able to:

- Define the eight key aspects of the supply management strategy.
- Explain the four types of supplier relationships based on the Commodity Matrix.
- Develop and communicate a world-class strategy using a standardized approach.

Setting Direction

Today's supply managers must reevaluate the efficiency of the various supply chains managed by their organizations. To ensure that the function evolves into an effective contributor to the organization's success, supply managers must use a strategic perspective, which includes the following:

1. Support of organization goals
2. Utilization of organization staff
3. Deployment of the supply base
4. Systems and tools needed

This strategic perspective represents a considerable change from the days when purchasing managers focused only on executing users' requests and expediting suppliers' deliveries.

As a supply manager, your most important initial task is to set the supply management direction for the organization. Typically, the direction is provided in a written strategy that is articulated and communicated to the purchasing staff and other key departments. Both senior management and your own staff expect you to set this direction. When the strategy has been already established for the current year by a previous manager or by top management, it will be your job to assess the extent to which actual practice reflects the strategic direction and to make any necessary midcourse adjustments.

So let's assume you have been only recently appointed to your position and that someone held that position in the past. Where do you start in developing an integrated strategy?

First, try to find a written document or presentation that describes the direction that the previous manager was taking the organization. One problem in many organizations is that the strategy document is either difficult to find or is nonexistent. In those cases senior management should be asked to provide strategic direction and objectives. In the absence of such direction, however, you should perform the independent research necessary to obtain the data, reviewing all the procurement decisions that were made during the preceding twelve months. For instance, the release of a new product or the establishment of a new department to focus on a certain type of customer will tell you how the organization plans to shape future products. These decisions, fleshed out by interviews of your key staff members, will give you the basis for outlining your company's supply management direction.

What would such a document entail? The structure of a procurement strategy would include eight key aspects of supply management, each of which will be discussed in turn:

1. How will the market forces be dealt with?
2. What types of supplier relationships will be put in place?
3. How will technology be deployed in the work done by the procurement staff and the supplier base?
4. What metrics will be put in place to measure success?
5. How will the strategy make the overall organization more competitive and productive?
6. What skills or core competencies will the staff possess?
7. How will supplier base capabilities be improved and how will key suppliers be integrated into the business functions?
8. How will procurement protect the overall organization from adverse market trends and leverage the timing of market opportunities?

There may be other aspects of the strategy that may be specific to your industry or business unit, such as relocation of offices or staff, international sourcing, make-or-buy considerations, and the development of investment interests in the supply chain.

MARKET FORCES

This area is often greatly misunderstood by many supply management staff that set out to perform an analysis of their commodities. Their first thought might be to establish pricing and availability trends for the products or services that they buy. They also might perform a search and evaluation of suppliers, using tools such as the Thomas Register or other supplier listings. Although these activities are valuable in evaluating commodity trends and key suppliers, they largely fall short of providing insight on how the market is shaping the organization's response to what they buy and what the key market drivers are for future analysis.

So what are the market forces that you must be familiar with in order to devise an appropriate strategy? First, there are data that describe trends in customer buying behavior, such as how much they are spending as a group, the technologies that are changing the mix of products and services being purchased, how customers are using their products and services, and the true core competencies of the business. Answers to these questions will provide focus and direction in terms of your future requirements of expertise, types of suppliers, and future capacity. The end-customer requirements should always drive your activities. For example, if short cycles are the number one priority, then you need to focus on shorter supplier lead time and more effective delivery methods. Your focus should be on satisfying customers' needs in markets that your organization serves. Attempt to develop answers to some of the questions in the following Work Assignment.

Work Assignment

For your organization, answer the following:

1. Who are your customers, and what do they need?
2. What products or services are doing well or poorly from a sales perspective?
3. What are any strategies or capacity problems in suppliers who support these products?
4. What is currently being done to correct these deficiencies?

Consider asking someone in marketing, sales, even in research and development (R&D), for assistance in answering these questions.

What type of data might you find as a result of this work? You should be able to establish the types of customers by industry, application, or end product. You can receive the data on sales volume by requesting it from the sales department. The research or marketing departments will know trends in future purchases. New technologies can be gleaned from research or from industry publications. You should be able to determine the channels used for marketing, selling, and distributing your products through the respective internal departments. Benchmark data in most organizations can be found through upper management sources or through the review of the organization's overall strategy.

If your organization does have an overall written or deployed strategy, this would also be important to know and review. For instance, if the organization's goal in the marketplace is to be the low-cost producer, then all activities must be focused on securing the lowest purchase price and the lowest overall cost for purchases of products and services. This is the strategy for companies that produce commodities such as petrochemicals, plastic resin, steel, and gasoline.

If your organization is being challenged by competitors who can fulfill orders to customers more quickly than you can, then a key aspect of your supply management strategy would be to reduce lead time with suppliers and reduce administrative cycle times as well. If the lack of fulfillment is due to internal manufacturing and distribution processes, then work with internal customers to define potential supply-side solutions. Similarly, if new technologies are being introduced, then focus your efforts on finding suppliers who are developing these technologies or who have the capabilities to develop these technologies in the future. For example, one small maintenance service company was experiencing reduced demand to its services. It turned out that the company had *increased* their lead times to accommodate temporary labor requirements. To increase sales, they had to develop quick-turn temporary assistance from suppliers on a regional basis.

TYPE OF SUPPLIER RELATIONSHIPS

Organizations choose how they want to work with their suppliers. Many organizations endeavor to find the best suppliers for integration of their products and services. An inevitable decision must be reached regarding how the organization plans on working with the suppliers on a daily basis and how deeply those working relationships should reach into the organization.

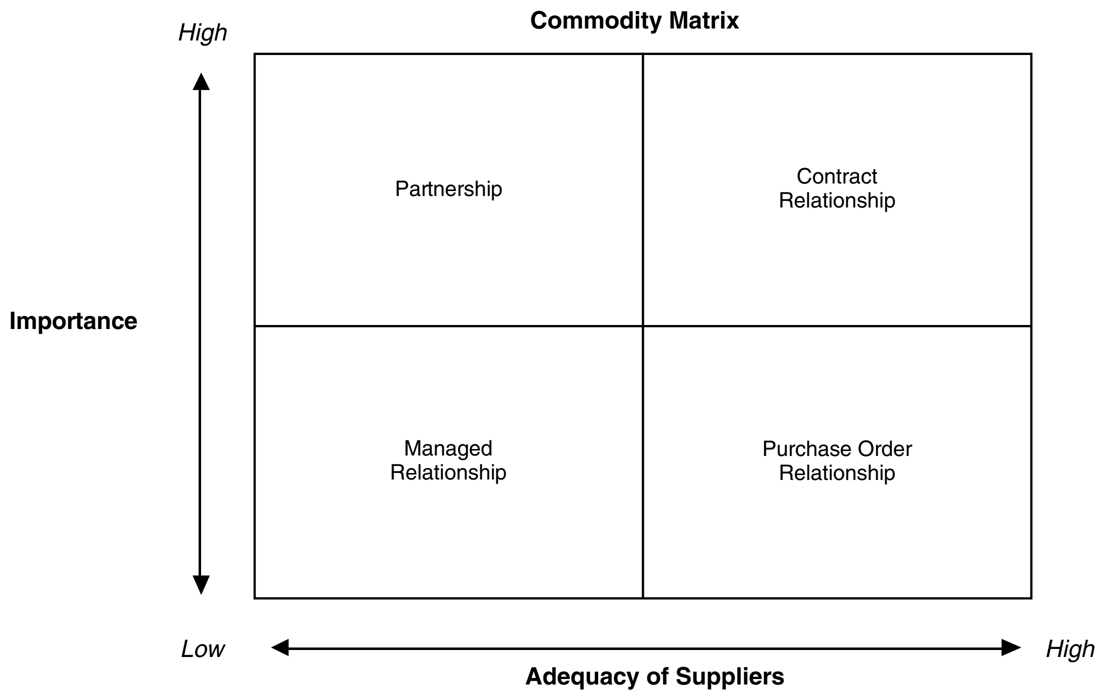
For example, a decision must be made about how much data to provide to the supplier on the company's long-term plans, which might affect the need for subcontracted products and services. The level of detail provided to suppliers on the product and service forecasts must also be established. The supplier may be involved in new product development or value analysis, and may be offered the use of offices and facilities in your organization to facilitate the process.

Companies can make decisions based on the *importance* of the commodity to the organization in terms of risk, volume, control, safety, and complexity (from high to low), and on the *adequacy of suppliers* available to provide the products and services.

A matrix can be developed to describe the relationship between these variables, as shown in Exhibit 1–1.

Use the matrix to determine the type of relationship for a particular commodity and supplier. For instance, products that are important to the organization and have many suppliers (top right quadrant) may be leveraged in terms of obtaining the lowest total cost for a product family. This would mean that the supply management group would work with the supplier to provide a higher volume of products that meet the lead-time and the quality requirements of the buyer. This type of relationship would be best described as a *contract relationship*, with all the terms of the arrangements spelled out in a contractual document.

Exhibit 1–1
Commodity Matrix



On the other hand, products or services that are deemed less important and have fewer suppliers willing to support requirements in the market (bottom left quadrant) may require ongoing monitoring and negotiating to ensure that the commodities are available when needed. This is called a *managed relationship*, because of the need to manage the continuity of supply.

The type of relationship that applies to products and services falling in the lower right quadrant is a spot buy or *purchase order relationship*, because there are many qualified suppliers who are able to supply a "low importance" commodity to the organization. In this case, the role of supply management is to obtain the lowest purchase price.

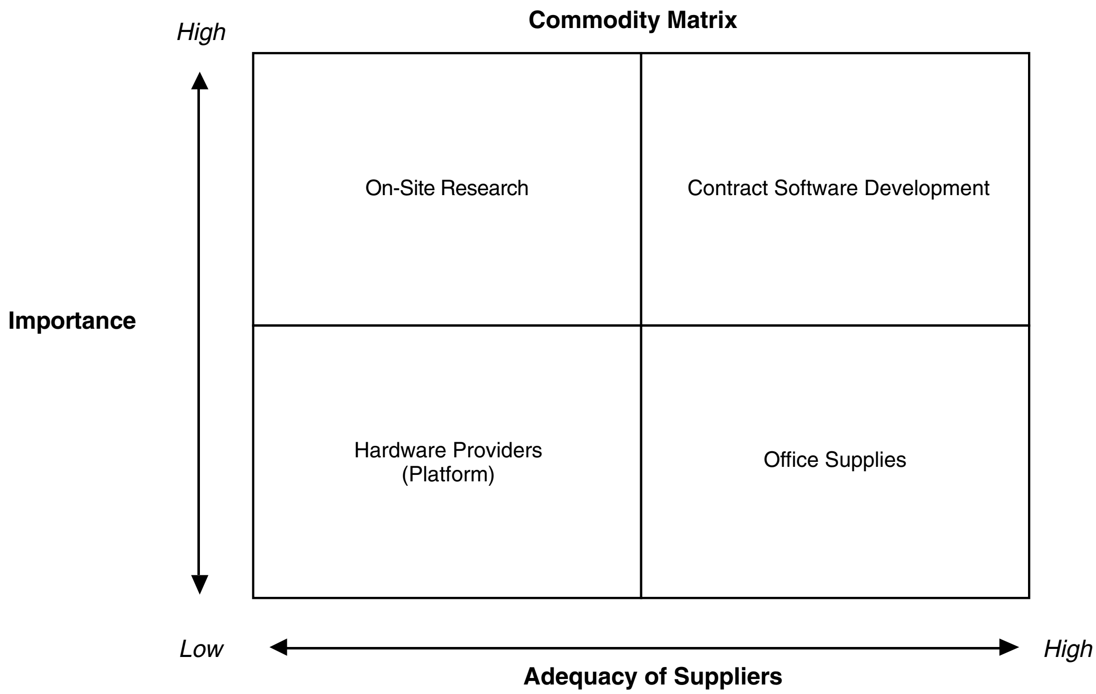
The last quadrant, located at the upper left-hand corner, is reserved for extremely important products and services, with few suppliers to choose from. This quadrant typically encompasses about 50 to 60 percent of the purchase dollar volume and requires significant ongoing management, both by supplier and buyer. This is called a *partnership* relationship. A partnership exists when sellers and buyers have joint and mutual goals, share resources and risks, sign long-term contracts, and are focused on mutually beneficial results.

An example of the completed matrix for a software company is shown in Exhibit 1–2.

Of course, the strategic importance of the purchases may change the elements of this matrix for some companies.

Exhibit 1–2

Commodity Matrix: Software Company



Work Assignment

Create a blank matrix, and then enter the descriptions of your commodities, keeping in mind the labels on the x- and y-axes. Then define the type of relationship you should develop with the suppliers of these commodities.

This is an eye-opening exercise, for it often indicates that existing supplier relationships are not appropriate for the type of purchase and the quality of the supply base. To complete this exercise, it may require that you work with a cross-functional group of staff to define the strategy of how best to work with your suppliers.

DEPLOYMENT OF TECHNOLOGY

This area of the strategy can be very broad and it requires the involvement of engineering and manufacturing/service operations. Technology can be described in many ways and it does vary across industries. Some generalizations can be made, however, in the interest of assisting in your analysis. The following list indicates the various categories of technology that should be considered.

- *Product Technology*. Substitutes for current products, new designs, and new materials.
- *Manufacturing Technology*. How the product will be made taking advantage of new equipment or new manufacturing processes.
- *Information Technology*. How information will be shared between the parties, such as sending orders, sending acknowledgments, use of bar coding, and use of the Internet and Web pages for order management.
- *Knowledge Transfer*. How drawings and work instructions will be exchanged, and the means of exchanging best practices and benchmark information with suppliers.

All of the above areas require evaluation and analysis by cross-functional teams. For instance, don't expect that all suppliers will have the capability of receiving electronic versions of specifications or that they will be able to ship product using bar-coding technology without evaluating whether they indeed have that resident capability. Similarly, if you expect the suppliers to bid on specific requirements, make sure that they have the required type of equipment before you solicit proposals or bids. Otherwise, the requirements will increase cost and reduce competition.

In evaluating technology, consider the present state of technology used in the industry and then speculate on the future technologies that might be deployed. The use of technology must provide an improvement in one or more of the following areas to provide advantage to both buyer and supplier:

- Purchase cost
- Total cost
- Quality
- Speed or cycle time
- Delivery process
- Administrative time
- New product release
- Safety
- Installation and service
- Interconnectivity to other products

Companies often stipulate technological requirements upon suppliers only to find out that there is not a single supplier who has the full compliment of the requests. Supply management then is placed in a position where the total cost of the purchase is above the budget that marketing or planning had established for the product or service. It makes sense to discuss the upcoming requirements with suppliers before releasing any bid documents. This is often called *early supplier involvement*, or "ESI."

Technology requirements must also tie into the organization's overall business strategy. Typically, technology is used to advance the organization's image and products, and it also serves to differentiate the organization from others in terms of cost and quality.

You need to become thoroughly familiar with the current technology being employed in the industry and any future technology being planned. If you lack the requisite knowledge in this area, you must become more familiar with present and evolving technologies by developing intra-organization interfaces and enrolling in training courses in engineering and marketing. Establishing and participating in cross-functional teams will help you to understand the technological issues inherent in purchase decision making. Do a self-assessment and develop an action plan to keep up with technological advantages. By the way, you can also ask your suppliers for industry knowledge—they will help you get up to speed!

CREATING AND MANAGING THE RIGHT METRICS

Every strategy should have succinct and achievable goals. These goals should have the following key characteristics:

- Easy to understand
- Track with the organization goals
- Easy to evaluate performance
- Simple to apply
- Limited to few measures (five or fewer)

Florida Power and Light Corporation, a regional power company located in Florida, is viewed as a progressive, quality-oriented company that won the coveted Deming Prize. Many companies, inside and outside of the utility industry, benchmarked them. However, their status as a model of quality has been severely tarnished as a result of establishing measurements that were not linked to the day-to-day business. At one point in time over fifty measures were tracked. You can imagine the chaos created in the management of so many measures on a daily basis, especially since many of the measures were meaningless to the people performing the work! So as a supply manager, you must have relevant measures that track to real business imperatives. You should establish relevant benchmarks based on previous outstanding performance by your company or by others within or outside your industry. These benchmarks are typically quantitative performance levels that can be used as targets.

Most organizations use purchase price variance or comparisons of current purchases against last price paid as the primary supply-management measure. This prompts the question: if you are measured on purchase price, what kinds of actions or behavior are exhibited when people attempt to improve performance? The answer is that they make purchase decisions based on low purchase cost. Low purchase-cost suppliers often have quality and delivery problems that the organization must manage after having made the purchase decision. The costs associated with these problems, which are experienced once the supplier begins fulfilling orders, are usually not tracked or reported.

Examples of measures used by one worldwide procurement organization illustrate the types of measures that are meaningful and effective:

1. Number of certified suppliers
2. Inventory turns
3. On-time-delivery percent
4. Percentage of purchases made under long-term agreements
5. Part-per-million defect rate (incoming/in-process/installation)

Progressive companies measure their financial performance on the basis of *total costs*—measuring not only purchase prices but also such costs as the following:

- Delivery
- Expediting
- Inspection
- Installation
- Inventory
- Maintenance
- Purchase Costs
- Quality
- Receiving
- Spare Parts Provisioning
- Tooling
- Training
- Transportation
- Warranty

The quantification of these costs is sometimes difficult to ascertain, but it is possible to quantify them in some fashion and use them consistently. The total cost method can also be used to select suppliers and provide the basis for performance evaluation.

Another useful measure is the amount of *cost and quality improvement* achieved through innovative purchasing techniques, such as value analysis and early supplier involvement. The magnitude of these results will depend on what type of working relationships you have with suppliers.

A human resource measure may also be a useful means of rationalizing suppliers. For example, you can measure the number of hours of *training*, or the number of *teams* involved in purchasing issues, or the number of *projects*. When purchasing organizations work to increase the quantity of purchases made under *long-term contracts*, or by using electronic data interchange or the Internet, or under partnership agreements, it is an indication of the quality of the supplier relationships. This then is a link to cost savings and quality improvement, such as:

- Lower defect rates
- Reduced transportation costs
- Lower purchasing transaction costs
- Fewer supplier invoice errors

Adequate measures should also be put into place to provide feedback to suppliers on performance. Minimum requirements include quality, delivery performance, and responsiveness. The feedback system must also be simple and dynamic to enable suppliers to receive prompt information and be able to develop plans to improve based on the data.

Work Assignment

Develop a list of the measures of purchasing performance that are used by your organization. Evaluate each one of these measures in terms of the characteristics mentioned above.

Perform the same analysis for the measures used for suppliers. Once you have completed this work, make adjustments to the measures and feedback systems used and develop plans to implement.

If you have not yet developed your strategy, you should probably wait to finalize any of these improvement activities.

IMPROVEMENT IN ORGANIZATION'S COMPETITIVENESS

All functional strategies should provide a competitive advantage to the organization. This is difficult to achieve when strategy development occurs in a vacuum, so make sure to fully seek out and utilize cross-functional input as you implement the following process.

The first step of the process is to understand how your organization competes before developing core competencies or key objectives for the coming year or years.

Organizations compete in one of five ways:

1. Cost
2. Quality
3. Delivery
4. Features
5. Innovation

Almost all organizations embrace one or more of the above elements in the way that they build their business, enhance their reputation, hire people, and provide direction to their staff and suppliers. A critical activity for you is to map potential measures against the way(s) that your organization competes or wants to be known.

For example, consider the following:

If your organization competes on:	*Then use this metric:*
Cost	Total cost
Quality	Parts per million defects or number of lot failures or warranty costs/experience
Delivery	Supplier delivery performance or lead time
Features	New product introduction efficiency
Innovation	Number of ideas or suggestions from suppliers

The next step of the process is to demonstrate that improvements in the measures will directly impact the organization's success. For instance, link the reduction in supplier lead time to the ability of the organization to get products and services to customers more effectively and increase inventory turns.

The third step is to communicate these measures to other departments and seek their appreciation and perhaps joint ownership of the measures. World-class companies find it useful to have joint measurements of their purchasing performance to ensure alignment and resource allocations. You should regularly reinforce and actively use these measures in managing supply management activities. Consider developing an incentive plan for personnel who contribute the most to the attainment of the plan. Make the measures very visible and ensure that the people involved in key supply management activities evaluate ongoing performance, such as identifying the root causes of the problems and developing solutions to improve performance. You can also involve suppliers in developing action plans.

Work Assignment

One business unit of an international specialty chemical company decided to align the goals of supply management with the mission of the overall business unit. That company's corporate mission is as follows:

> The company's mission is to be the leading supplier of specialty chemicals worldwide. This leadership position will be established by operating in a manner that values innovation, effective manufacturing, personnel development, and lowest total costs to our customers.

Develop the overall goals and objectives for a supply management organization to support this mission.

Suggested Answer

In your strategy, include a component on international sourcing to support the business' worldwide leadership position. The strategy should address the need for innovative suppliers. Training for staff and suppliers should be included. Lowest total costs can be used to evaluate, select, measure, and manage suppliers. Supply management should also support manufacturing plans, schedules, Just-In Time (JIT) metrics, and quality objectives. The strategy should address how supply management will assist suppliers in improving their manufacturing performance.

It is a world-class practice to follow this approach in all organizations.

Core Competencies

The skills and competencies of the purchasing department must be considered as part of the strategy. In other words, the purchasing department's skills must be able to deliver on the goals that have been set. For sizable goals or for goals that represent a significant change in policy, there may need to be one or more shifts of the required skill sets, including the following:

- Tactical to strategic
- Arms length to partnering relationships
- Price to cost analysis
- Cost to total costs
- Intradepartmental to interdepartmental
- Individual to team
- Purchase order to contracts

By reviewing these shifts, you can anticipate the nature and extent of the skills that must exist. By comparing the skills of your current staff vs. what is needed in the future, you can develop training and development plans for the organization. You may also need additional or different resources, which may require redeployment of existing resources or hiring of qualified staff.

You can assist the organization to achieve a competitive advantage by putting into place the requisite personnel to drive the change. Typical skills that are needed in today's supply management departments include:

- Specification and statement of work drafting
- Price and cost analysis
- Strategic thinking
- Written and oral communication
- Quality management
- New product design and development
- Team building
- Total cost negotiations
- Contracts and legal
- Inventory management
- Supply chain management

Admittedly, this list of skills is extensive, but if you really want to make a difference in the organization, then you must be able to develop or hire the skills and knowledge you need. When you put the resources and plans in place to deliver the skills to the existing employees in the department, it signals to the staff and the rest of the organization that you are prepared to invest to make your department more effective and add increased value. Eventually the shift in skills of the supply management group will more extensively engage the organization and its suppliers in improving supply management performance.

Work Assignment

If you are in the position of assessing the qualifications of your staff, follow this procedure:

1. Write down the skills you want in all levels of the staff, plus any specialized skills you may need.
2. Map the current skills of your staff against the desired set, using the matrix illustrated in Exhibit 1–3.

At a future point, you should identify the gap and specify the training and/or development activities needed to improve the skill sets. Also, you should decide how you would implement the training and development plan.

Exhibit 1–3

Core Competencies Assessment

Skills Desired	*Individuals/Function*				*Gaps to Be Addressed in Priority Order by Individual*			
1. Price analysis	Ross	Davis	Jones	Smith	E	MA	NI	NI
2. Inventory assessment	Ross	Davis	Jones	Smith	MA	E	MA	NI
3. Legal aspects	Ross	Harris	Walker	Jones	NI	NI	MA	E
4.								
5.								
6.								
7.								
8.								

Range: Needs Improvement (NI); Moderate Ability (MA); Expert (E)

SUPPLIER DEVELOPMENT

Most organizations have poorly performing suppliers who are either sole source or who possess important technologies that are difficult to replace. Buyers and supply managers as well as other individuals in the organization often complain about these companies, but are forced to keep them as a suppliers and to cope with their poor performance due to the lack of alternatives.

Supplier development is the process of improving the cost, quality, and delivery performance of the supply base. Most buyer–supplier interactions today are oriented toward correcting short-term problems to allow products and services to be shipped to customers to meet their immediate demands. This short-term orientation keeps both the organization and the supplier from trying to solve whatever caused the problem in the first place.

Common development programs focus on the short-term resolution of supply issues, such as quality defects, late deliveries, responsiveness, and unavailability of supplier personnel for service. Not willing to spend the time to do what is needed to keep the problem from recurring, organizations fix one problem and then move on to the next without first ensuring that the supplier has the system in place to eliminate similar problems. To do differently requires a commitment to provide resources, engage the supply base, focus on the long term, and involve cross-functional resources.

The goal of supplier development is to work with the best suppliers, to help improve those suppliers so that (1) they are able to provide defect-free products and services, and (2) they are ultimately able to assume the contracts of poorly performing suppliers who cannot reach the quality goals.

The elements of supplier development are:

- Conducting supplier quality and business assessments
- Assisting in equipment utilization and service conduct
- Providing training
- Developing continuous improvement plans
- Performing value analysis
- Jointly conducting root cause analysis
- Developing plans to free up capacity and lead time constraints
- Reducing total costs

From this partial list you can readily determine that an effective working relationship must be developed with suppliers. Based on the earlier discussion and application of the four quadrant matrix, suppliers who are partners and sole source suppliers are likely candidates for these types of activities, as are companies that wish to provide more significant services and value to their customers.

Most companies develop suppliers based on a prioritized list that would consider total spending, severity of performance problems, urgency, availability of alternate supplier choices, ease of implementation, and potential benefit. Choosing a candidate supplier for development involves identification of commodities as well as an assessment to determine that the supplier is willing to cooperate in these types of activities.

Pursuing development activities with suppliers indicates the desire to improve the supply base and supply chain. It also provides an incentive for improvement, since they will receive what will amount to free consulting and training, with the promise of increased business if performance improvement continues. Furthermore, the supplier can use the improvements derived from your efforts to enhance their performance and profitability with other customers.

Another aspect of working closely with suppliers is the integration of their daily activities into those of the organization. Integration means that the supplier becomes an extension of the organization's staff and performs work with more meaningful amounts of information and business understanding. Examples of this integration include:

- Having the supplier work as a member of new product or service development teams.
- Relying on the supplier to provide ideas and input into manufacturing and service operations.
- Jointly developing marketing and distribution plans.
- Working together to resolve end product cost, quality, or lead-time issues.

Honda of America, General Electric, Allied Signal, and Boeing are examples of companies that have integrated their suppliers, both across the enterprise and in all aspects of their work. Companies in the automotive, aerospace, electronics, and heavy manufacturing industries tend to integrate their suppliers more fully because of the level of complexity of their end products, impact of costs, the many levels of vertical integration needed, and the sheer dollar value of the commodities purchased.

Most companies find that the most important aspect of integrating suppliers is the suppliers' willingness to devote resources to the working relationship. From an organization's standpoint, the supplier's input and involvement will be considered and valued.

Work Assignment

Based on your own knowledge and experience, or based on conversations with other members of your organization, identify a supplier for immediate development activities. Decide what type of work you will initiate and set appropriate goals. You will most likely be surprised as to the potential gains and power from supplier development and/or integration.

TAKING ADVANTAGE OF MARKET OPPORTUNITIES

Someone needs to monitor the marketplace for changing circumstances, such as shifts in raw material prices, labor availability, merger and financial restructuring, new technologies, supply base capacity, or currency fluctuation.

Any changes in these areas should be discussed with members of the supply management organization and with key customers. You should take on this responsibility, even if it means involving other functions in monitoring activities and action plans.

For example, at General Electric (GE) Company, a senior purchasing management role was established to react to worldwide sourcing opportunities. Thus, when currency rates declined in Malaysia against the U.S. dollar, this individual was able to identify world-class suppliers that could be used to supply GE-sourced parts at 30 to 40 percent cost reduction.

You will also be asked by senior management to provide periodic updates on the status of parts and services being purchased, and on the various trends that may or may not develop. This type of monitoring is necessary to ensure that the proper actions can be put in place, such as:

- Ensuring proper levels of inventory
- Negotiating prices
- Hedging commodities and currencies
- Hiring available staff
- Establishing contracts for new technologies
- Taking advantage of innovative solutions
- Establishing long-term pricing and contracts
- Pursuing lower cost sourcing in foreign markets

To adequately pursue market opportunities, you must ensure that you have access to the data and knowledge base to effectively screen and evaluate the necessary information. This might involve developing an in-house library, subscribing to information sources, hiring consultants, conducting Internet searches, and speaking with other information sources, such as suppliers, industry associations, and governmental bodies.

The core competency to perform this work must be present in a number of the supply management department staff or other cross-functional individuals who have committed a portion of their time to supply management efforts. For example, when America Online (AOL) sent out free upgrades and usage offers, it experienced a significant increase in demand for its services. When customers began to lose the ability to access the Internet, a fair number of them left AOL. The root cause was the lack of system availability due to an underestimated need for data switching products. In this case, supply management could have worked with technical staff to establish reserve or subcontracted capacity to handle the increased demand.

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Your game plan is your strategic plan, a document that reflects the philosophy and the culture of your department and your organization. As such, it must reflect the organization's overall strategy and support established corporate objectives.

The elements of the strategy include ensuring that the organization remains competitive, that the suppliers are the absolute best possible, that existing suppliers receive ongoing supplier development, that supplier relationships are structured, and that the supply management staff has the competence to implement these relationships.

In crafting the strategy, you need to consider the number of suppliers with whom the organization wishes to engage and to define the type of relationship desired. The skill sets and core competencies required from your staff should be established, and a training and skills/knowledge improvement plan should be developed.

You need to be aware at all times of market changes and opportunities, so that your organization can respond quickly to changing market requirements.

The strategy should be communicated to other departments, and the supply management staff should institute effective measures to track performance. Strategies are dynamic and must also reflect shifts in the market and in customer needs.

? Review Questions

INSTRUCTIONS: Here is the first set of review questions in this course. Answering the questions following each chapter will give you a chance to check your comprehension of the concepts as they are presented and will reinforce your understanding of them.

As you can see below, the answer to each numbered question is printed to the side of the question. Before beginning, you should conceal the answer in some way, either by folding the page vertically or by placing a sheet of paper over the answers. Then read and answer each question. Compare your answers with those given. For any question you answer incorrectly, make an effort to understand why the answer given is the correct one. You may find it helpful to turn back to the appropriate section of the chapter and review the material of which you were unsure. At any rate, be sure you understand all the review questions before going on to the next chapter.

1. Before starting to develop an integrated supply management strategy, the supply manager must first review: 1. (c)
(a) supplier adequacy.
(b) staffing needs.
(c) the organization's strategy.
(d) market conditions.

2. The supplier relationship based on obtaining the lowest purchase price from many available suppliers is called a __________ relationship. 2. (b)
(a) partnership
(b) purchase order
(c) managed
(d) contract

3. Supply management goals should track with the organization, be limited to five or fewer, and: 3. (d)
(a) provide for on-time delivery.
(b) be long term.
(c) be cross-functional.
(d) be easy to understand.

4. The process of improving the cost, quality, and delivery performance of the supply base is called: 4. (c)
(a) core competency.
(b) value analysis.
(c) supplier development.
(d) quality improvement.

5. Organizations compete in which of the following ways: 5. (a)
(a) cost.
(b) delivery.
(c) environmental considerations.
(d) employee skill sets.