Chapter 11 *Rapid* Review

Main Heading	Review Material	MyOMLab
THE SUPPLY CHAIN'S STRATEGIC IMPORTANCE (pp. 444–446)	Most firms spend a huge portion of their sales dollars on purchases. ■ **Supply chain management**—Management of activities related to procuring materials and services, transforming them into intermediate goods and final products, and delivering them through a distribution system. *The objective is to build a chain of suppliers that focuses on maximizing value to the ultimate customer.* Competition is no longer between companies; it is between supply chains.	Concept Questions: 1.1–1.4 Problems: 11.2–11.3 **VIDEO 11.1** Darden's Global Supply Chain
SOURCING ISSUES: MAKE-OR-BUY AND OUTSOURCING (pp. 446–447)	■ **Make-or-buy decision**—A choice between producing a component or service within the firm or purchasing it from an outside source. ■ **Outsourcing**—Transferring to external suppliers a firm's activities that have traditionally been internal.	Concept Questions: 2.1–2.4
SIX SOURCING STRATEGIES (pp. 447–449)	Six supply chain strategies for goods and services to be obtained from outside sources are: 1. Negotiating with many suppliers and playing one supplier against another 2. Developing long-term partnering relationships with a few suppliers 3. Vertical integration 4. Joint ventures 5. Developing *keiretsu* networks 6. Developing virtual companies that use suppliers on an as-needed basis. ■ **Vertical integration**—Developing the ability to produce goods or services previously purchased or actually buying a supplier or a distributor. ■ ***Keiretsu***—A Japanese term that describes suppliers who become part of a company coalition. ■ **Virtual companies**—Companies that rely on a variety of supplier relationships to provide services on demand. Also known as hollow corporations or network companies.	Concept Questions: 3.1–3.4 **VIDEO 11.2** Supply Chain Management at Regal Marine
SUPPLY CHAIN RISK (pp. 449–451)	The development of a supply chain plan requires a thorough assessment of the risks involved. ■ **Cross-sourcing**—Using one supplier for a component and a second supplier for another component, where each supplier acts as a backup for the other.	Concept Questions: 4.1–4.4
MANAGING THE INTEGRATED SUPPLY CHAIN (pp. 451–454)	Supply chain integration success begins with mutual agreement on goals, followed by mutual trust, and continues with compatible organizational cultures. Three issues complicate the development of an efficient, integrated supply chain: local optimization, incentives, and large lots. ■ **Bullwhip effect**—Increasing fluctuation in orders or cancellations that often occurs as orders move through the supply chain. ■ **Pull data**—Accurate sales data that initiate transactions to "pull" product through the supply chain. ■ **Single-stage control of replenishment**—Fixing responsibility for monitoring and managing inventory for the retailer. ■ **Vendor-managed inventory (VMI)**—A system in which a supplier maintains material for the buyer, often delivering directly to the buyer's using department. ■ **Collaborative planning, forecasting, and replenishment (CPFR)**—A system in which members of a supply chain share information in a joint effort to reduce supply chain costs. ■ **Blanket order**—A long-term purchase commitment to a supplier for items that are to be delivered against short-term releases to ship. The purchasing department should make special efforts to increase levels of standardization. ■ **Postponement**—Delaying any modifications or customization to a product as long as possible in the production process. Postponement strives to minimize internal variety while maximizing external variety. ■ **Drop shipping**—Shipping directly from the supplier to the end consumer rather than from the seller, saving both time and reshipping costs. Online catalogs move companies from a multitude of individual phone calls, faxes, and e-mails to a centralized online system and drive billions of dollars of waste out of the supply chain.	Concept Questions: 5.1–5.4 **VIDEO 11.3** Arnold Palmer Hospital's Supply Chain
BUILDING THE SUPPLY BASE (pp. 454–456)	Supplier selection is a four-stage process: (1) supplier evaluation, (2) supplier development, (3) negotiations, and (4) contracting. *Supplier evaluation* involves finding potential vendors and determining the likelihood of their becoming good suppliers. *Supplier development* may include everything from training, to engineering and production help, to procedures for information transfer.	Concept Questions: 6.1–6.4

Chapter 11 *Rapid Review* continued

MyOMLab

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	Negotiations involve approaches taken by supply chain personnel to set prices. Three classic types of negotiation strategies are (1) the cost-based price model, (2) the market-based price model, and (3) competitive bidding. *Contracting* involves a design to share risks, share benefits, and create incentives so as to optimize the whole supply chain. ■ **E-procurement**—Purchasing facilitated through the Internet.	
LOGISTICS MANAGEMENT (pp. 456–459)	■ **Logistics management**—An approach that seeks efficiency of operations through the integration of all material acquisition, movement, and storage activities. Six major means of distribution are trucking, railroads, airfreight, waterways, pipelines, and multimodal. The vast majority of manufactured goods move by truck. Third-party logistics involves the outsourcing of the logistics function. ■ **Channel assembly**—A system that postpones final assembly of a product so the distribution channel can assemble it.	Concept Questions: 7.1–7.4
DISTRIBUTION MANAGEMENT (p. 459)	Distribution management focused on the outbound flow of final products. Total logistics costs are the sum of facility costs, inventory costs, and transportation costs (Figure 11.3). The optimal number of distribution facilities focuses on maximizing profit.	Concept Questions: 8.1–8.4
ETHICS AND SUSTAINABLE SUPPLY CHAIN MANAGEMENT (pp. 460–461)	Ethics includes personal ethics, ethics within the supply chain, and ethical behavior regarding the environment. The Institute for Supply Management has developed a set of Principles and Standards for ethical conduct. ■ **Reverse logistics**—The process of sending returned products back up the supply chain for value recovery or disposal. ■ **Closed-loop supply chain**—A supply chain designed to optimize all forward and reverse flows.	Concept Questions: 9.1–9.4
MEASURING SUPPLY CHAIN PERFORMANCE (pp. 461–464)	Typical supply chain benchmark metrics include lead time, time spent placing an order, percent of late deliveries, percent of rejected material, and number of shortages per year: Percent invested in inventory = (Average inventory investment/Total assets) × 100 (11-1) ■ **Inventory turnover**—Cost of goods sold divided by average inventory: Inventory turnover = Cost of goods sold ÷ Average inventory investment (11-2) Weeks of supply = Average inventory investment ÷ (Annual cost of goods sold/52 weeks) (11-3) ■ **Supply Chain Operations Reference (SCOR) model**—A set of processes, metrics, and best practices developed by the APICS Supply Chain Council. The five parts of the SCOR model are Plan, Source, Make, Deliver, and Return.	Concept Questions: 10.1–10.4 Problems: 11.5–11.8 Virtual Office Hours for Solved Problem: 11.1

Self Test

■ **Before taking the self-test,** refer to the learning objectives listed at the beginning of the chapter and the key terms listed at the end of the chapter.

LO 11.1 The objective of supply chain management is to ________.

LO 11.2 The term *vertical integration* means to:
- **a)** develop the ability to produce products that complement or supplement the original product.
- **b)** produce goods or services previously purchased.
- **c)** develop the ability to produce the specified good more efficiently.
- **d)** all of the above.

LO 11.3 The bullwhip effect can be aggravated by:
- **a)** local optimization.
- **b)** sales incentives.
- **c)** quantity discounts.
- **d)** promotions.
- **e)** all of the above.

LO 11.4 Supplier selection requires:
- **a)** supplier evaluation and effective third-party logistics.
- **b)** supplier development and logistics.
- **c)** negotiations, supplier evaluation, supplier development, and contracts.
- **d)** an integrated supply chain.
- **e)** inventory and supply chain management.

LO 11.5 A major issue in logistics is:
- **a)** cost of purchases.
- **b)** supplier evaluation.
- **c)** product customization.
- **d)** cost of shipping alternatives.
- **e)** excellent e-procurement.

LO 11.6 Inventory turnover =
- **a)** Cost of goods sold ÷ Weeks of supply
- **b)** Weeks of supply ÷ Annual cost of goods sold
- **c)** Annual cost of goods sold ÷ 52 weeks
- **d)** Average inventory investment ÷ Cost of goods sold
- **e)** Cost of goods sold ÷ Average inventory investment

Answers: LO 11.1. build a chain of suppliers that focuses on maximizing value to the ultimate customer; LO 11.2. b; LO 11.3. e; LO 11.4. c; LO 11.5. d; LO 11.6. e.