Chapter 01 Quiz Key

1. Evidence of the growth and influence of supply management in an organization includes:

A. fewer activities under the management or span of control of supply.

B. meaningful involvement at the operational level.

C. involvement in strategic planning.

D. executive status of the chief supply officer.

**E.** involvement in strategic planning and executive status of the chief supply officer.

Functions that are deemed critical to an organization typically have representation at the highest levels in the organization, have financial impact, broad span of control, and are involved in strategic decisions, such as mergers and acquisitions.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Topic: Growth and influence*

2. Company image may be directly influenced by:

A. treating suppliers in a fair and equitable manner.

B. complying with regulatory requirements.

C. sustainability practices of suppliers.

**D.** treating suppliers in a fair and equitable manner, complying with regulatory requirements and sustainability practices of suppliers.

E. complying with regulatory requirements and sustainability practices of suppliers.

How suppliers are treated will spread throughout the supply community; non-compliance with regulations may lead to negative publicity or fines; and poor supplier sustainability practices will reflect poorly, and may have legal implications, for the buying organization. One example is the collapse of the Rana Plaza in Bangladeshi in 2013, killing more than 1,100 people, which affected brands such as Walmart, Benetton and Loblaw.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Topic: Supply contribution*

3. The use of the concepts of purchasing, procurement, supply, and supply chain management will vary from organization to organization depending on:

A. the organization’s stage of development and/or sophistication.

B. the industry in which they operate.

C. the organization’s competitive position.

**D.** the organization’s stage of development and/or sophistication, the industry in which they operate and the organization’s competitive position.

E. the organization’s stage of development and/or sophistication and the industry in which they operate.

As with other areas of management, the degree and speed in which companies adopt leading supply practices varies.The level of sophistication may vary by industry because of the perceived relative importance of purchasing to organization success. Less sophisticated organizations frequently under appreciate the potential of supply and do not invest in resources to develop capabilities in this area. Competitive pressures force organizations to adopt best practices and take innovative approaches.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Topic: Purchasing and supply management*

4. The design and management of seamless, value-added processes across organizational boundaries to meet the needs of the end customer is called:

**A.** supply chain management.

B. strategic sourcing.

C. value management.

D. customer relationship management.

E. strategic process management.

The components of the supply chain include downstream entities -- the organization’s customers and their customers -- and upstream entities – suppliers and suppliers’ suppliers. The focus is on minimizing costs and lead times across tiers in the supply chain to the benefit of the final customer.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Topic: Supply chain management*

5. Supply has the potential to contribute to:

A. financial performance.

B. financial performance and competitive position.

**C.** profitability, competitive position and sustainability performance.

D. competitive position and sustainability performance.

E. financial performance, competitive position and sustainability performance.

Supply can potentially contribute directly to the company’s financial performance through cost of purchased products and service and investments in inventory. The environmental footprint of any organization is affected by the environmental practices of suppliers. Superior supply capabilities and performance can be a source of competitive advantage.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Topic: Supply contribution*

6. For an organization with revenue of $100 million, purchases of $60 million, and profit of $8 million before tax, a 10 percent reduction in purchase spend would result in an increase in profit of:

A. 10 percent.

B. 36 percent.

C. 57 percent.

D. 60 percent.

**E.** 75 percent.

If spend ($60 million) is reduced by 10 percent ($6M) then profit increases from $8 million to $14 million, with all else being equal. The $6 million increase in profit is a 75 percent increase (6/8 = 75 percent).

*AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Blooms: Analyze  
Difficulty: 3 Hard  
Topic: Profit-leverage effect*

7. Interest in the supply function as a managerial activity began:

A. before 1900 when railroads recognized it as an important function.

**B.** during World Wars I and II because of global materials shortages.

C. in the 1970s during a period of high inflation.

D. in the early 1980s with high interest rates and the costs of financing inventory.

E. more recently with the rise of e-commerce.

The function was recognized as an independent and important function by many of the nation’s railroad organizations well before 1900, but it was not until the materials shortages of WWI and WWII that supply was recognized as a managerial activity.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Topic: Purchasing and supply management*

8. The return on assets effect (ROA) quantifies and measures:

A. the indirect contribution of supply management to profitability.

B. any increase in sales that occurs at a greater rate than the cost of assets.

C. reduction in the allocations to the operating budget of the supply department.

**D.** the impact of supply actions on inventory and the balance sheet.

E. the effect on profitability of reduced spend compared to a sales increase.

Assets include goods held in inventory. The return on assets is a measure of the impact on the organization’s balance sheet of a reduction, or an increase, in money tied up in these assets.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 1 Easy  
Topic: Return-on-assets effect*

9. In manufacturing organizations, the dollars spent with suppliers fall into what range as a percent of revenues?

A. 25 to 35

B. 30 to 60

C. 45 to 75

**D.** 50 to 80

E. 65 to 75

Empirical data indicate that manufacturing organizations spend 50-80 percent of revenues with suppliers while service organizations spend only 25-35 percent. This makes sense because manufacturers must buy inputs to transform into tangible outputs, and many manufacturers are highly capital-intensive and less labor-intensive. Service organizations spend less as a percent of revenue because they are more labor intensive and therefore spend more on labor (employees).

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Topic: Size of organizational spend and financial significance*

10. Supply can influence risk management in which area(s)?

A. financial

B. operational

C. reputation

D. financial and operational

**E.** financial, operational and reputation

The supply function impacts the organization in terms of operational, financial and reputational risks. Financial risks are the most evident, such as the costs of purchased materials and services. Operational risks include supply disruptions. Reputational risks include inappropriate conduct of suppliers.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy  
Topic: Supply contribution*

11. The supply area is a good training ground for managers because it provides exposure to:

A. accounting systems.

B. pressure of decision making under uncertainty.

C. various levels and functions in the organization.

D. accounting systems, pressure of decision making under uncertainty, and various levels and functions in the organization.

**E.** pressure of decision making under uncertainty and various levels and functions in the organization.

Many organizations include supply as part of their rotation system for high-potential employees. It exposes the employees to different parts of the organization, such as operation and engineering, as they address supply requirements. The day-to-day decisions can have a significant impact on the organization and allows for evaluation of individual judgement and willingness to assume responsibility.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  
Topic: Supply contribution*

12. A successful supply chain management strategy integrates:

**A.** processes and systems within and across organizations.

B. processes and systems within the organization.

C. the flow of materials within an organization.

D. the flow of information within the buying organization.

E. the flow of information with first tier suppliers.

The “chain” piece of supply chain management symbolizes the linkages between and among organizations. While internal integration is essential, an organization has not really embarked on supply chain management until it has expanded integration beyond the walls of its own organization.

*AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium  
Topic: Purchasing and supply management*

Chapter 01 Quiz Summary

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| --- | --- |
| *Category* | *# of Questions* |
| AACSB: Analytical Thinking | 1 |
| AACSB: Reflective Thinking | 11 |
| Accessibility: Keyboard Navigation | 12 |
| Blooms: Analyze | 1 |
| Blooms: Apply | 1 |
| Blooms: Remember | 4 |
| Blooms: Understand | 6 |
| Difficulty: 1 Easy | 6 |
| Difficulty: 2 Medium | 5 |
| Difficulty: 3 Hard | 1 |
| Topic: Growth and influence | 1 |
| Topic: Profit-leverage effect | 1 |
| Topic: Purchasing and supply management | 3 |
| Topic: Return-on-assets effect | 1 |
| Topic: Size of organizational spend and financial significance | 1 |
| Topic: Supply chain management | 1 |
| Topic: Supply contribution | 4 |