

Chapter 2--The Purchasing Process

Student: _____

1. Enterprises are relying increasingly on external suppliers to provide only materials and products, not information technology, services, and design activities.

True False

2. The objectives of a world-class purchasing organization do not need to move far beyond the traditional belief that purchasing's primary role is to obtain goods and services in response to internal needs.

True False

3. Organizations are constantly looking for people who have developed the skills necessary to deal with the narrow variety of tasks faced by purchasing.

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4. If a supplier's components are defective and causing problems for manufacturing, then purchasing must work closely with the supplier to improve its quality.

True False

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6. The authority to review material specifications (and for services, a statement of work) is within purchasing's span of control, although internal stakeholders sometimes dispute this right.

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8. Contract management should be used to trigger proactive sourcing events only after a contract expires.

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9. When creating a forecast for a needed product or service, internal customers may not always be able to express exactly what it is they will need at a single point in time.

True False

10. For routine, off-the-shelf items, the purchase requisition may contain all the information that purchasing requires.

True False

11. When purchasing works directly with internal customers to anticipate future requirements, such as during new product development or physician councils in a health care setting, purchasing is being reactive.

True False

12. Buyers use competitive bidding when price is a dominant criteria and the required item (or service) has straightforward material specifications.

True False

13. The process that buyers use to select suppliers does not vary widely depending on the required item and the relationship that a buyer has with its suppliers.

True False

14. For standard items, the negotiation process is an efficient method to purchase relatively straightforward requirements.

True False

15. If the requested item is complex or requires an untested or new production process, purchasing can include additional information or attachments on its RFQ to assist the supplier, which may include detailed blueprints, samples, or technical drawings.

True False

16. In drafting a purchase order, purchasing must take great care when wording such an agreement because it is a legally binding document.

True False

17. Almost all firms establish blanket purchase orders with their suppliers.

True False

18. Buyers use material purchase releases to order items covered by blanket purchase orders.

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19. The responsibility for concealed damage is often simple and easy to detect.

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20. Material discrepancies usually result from incorrect quantity shipments.

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21. The buyer may assume that the purchasing cycle ends with the receipt of an ordered item or the selection of a supplier.

True False

22. Managing the purchase of a semifinished component is not a critical purchasing responsibility because components rarely affect product quality and cost.

True False

23. Historically, most organizations have paid minimal attention to MRO items.

True False

24. The way that MRO items are typically dispersed throughout an organization makes monitoring MRO inventory relatively simple.

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25. Capital equipment purchasing involves buying assets intended for use less than one year.

True False

26. It is common and preferred practice for suppliers to arrange shipment to a purchaser and simply include the transportation cost as part of the purchase cost.

True False

27. Most companies spend too much time and too many resources managing the ordering of goods and services, particularly lower-value items.

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28. The dollar value of the items covered by procurement cards is relatively high.

True False

29. The ____ is used to identify user requirements, evaluate the user needs effectively and efficiently, identify suppliers who can meet that need, develop agreements with those suppliers, develop the ordering mechanism, ensure payment occurs promptly, ascertain that the need was effectively met, and drive continuous improvement.

A. demand management process

B. backdoor buying process

C. materials budgeting process

D. forecasting process

E. purchasing process

30. All of the following are objectives of a world-class purchasing organization *except* ____.

A. ensure that all hard copies of purchase orders and other paper documents are filed correctly in a secure area

B. develop integrated purchasing strategies that support organizational goals and objectives

C. manage the sourcing process efficiently and effectively

D. develop supply base management

E. supply continuity

31. In a practice known as ____, internal users may try to negotiate contracts themselves.

A. strategic sourcing

B. spend management

C. backdoor buying

D. outsourcing

E. internal sourcing

32. One of the most important objectives of the purchasing function involves the selection, development, and maintenance of supply and is sometimes described as ____.

- A. supply base management
- B. maverick spend
- C. customer service
- D. procure-to-pay
- E. backdoor buying

33. Which of the following is *not* one of the objectives in developing supply base management.

- A. Selecting suppliers that are competitive.
- B. Identifying new suppliers that have the potential for excellent performance and developing closer relationships with these suppliers.
- C. Improving existing suppliers.
- D. Developing new suppliers that are not competitive.
- E. Ensuring timely and accurate payment of supplier invoices.

34. Effective supply market intelligence involves all of the following *except* ____.

- A. monitoring supply markets and trends
- B. ensuring that purchasing does not exceed its annual budget
- C. identifying critical materials and services
- D. developing supply options and contingency plans
- E. supporting the organization's need for a diverse and globally competitive supply base

35. ____ is the process of collecting historical data by commodity, relative to demand from lines of business, with the exception of personnel expenses, occupancy, and corporate spend.

- A. Demand management
- B. Supply analysis
- C. Category management
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36. ____ is the process of using rate and unit consumption levels to forecast and estimate future consumption in an internal functional customer and providing guidance and input on how to optimize usage and educating the user on the tradeoffs.

- A. Specification management
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- D. Supply market intelligence
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37. ____ is the process of developing external industry intelligence and analysis, internal demand, supply base capabilities and operational risks, and a strategy to approach that marketplace with the organization's needs to match it with what suppliers can offer.

- A. Spend analysis
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38. ____ is a situation that occurs when sellers contact and attempt to sell directly to end users (purchasing's internal customers).

- A. Insourcing
- B. Bidding
- C. Maverick buying and selling
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39. ____ involves a process of unbundling the price paid and other components of price over the life cycle of a product or service, to deliver a target cost and a unit rate to determine if it is priced competitively in the marketplace.

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40. ____ is the end-to-end process of managing a supplier through the entire sourcing life cycle.

- A. P2P
- B. CRM
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- E. SRM

41. Which of the following is *not* one of the characteristics of a mature, well-developed supply strategy?

- A. Repeatable and well-defined process for building strategy and governance.
- B. Clear alignment with executive vision and internal user-specific business goals.
- C. Established goals and metrics for short-term project plans, as well as a definite five-year plan
- D. Established communication plan to inform senior management and all lines of business updated and reviewed quarterly against defined goals and objectives.
- E. Required use of an online catalog.

42. All of the following are benefits of electronically generating and transmitting purchasing-related documents *except* ____.
- A. a reduction in the need to ensure higher levels of quality from suppliers
 - B. a virtual elimination of paperwork and paperwork handling
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- A. selection of an appropriate supplier
 - B. issuance of a purchase order
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 - D. identification of a need or requirement
 - E. determination of who can authorize the purchase
44. In the ____ approach, purchasing must work with the end user to quickly identify a supplier to provide products on short notice at the lowest possible cost with an acceptable level of quality and delivery time.
- A. spot buy
 - B. long term agreement
 - C. P2P
 - D. e-procurement
 - E. None of these choices.
45. Which of the following is *not* one of the generally accepted ways that internal customers should communicate their needs to purchasing?
- A. Purchase requisitions from internal users.
 - B. Chance meeting in the company cafeteria.
 - C. Forecasts and customer orders.
 - D. Material requirements identified during new product development.
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46. All of the following are required elements in a purchase requisition *except* ____.
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50. ____ is used when a product or service is proprietary or when there is a perceived advantage to using a particular supplier's products or services.
- A. Description by market grade
 - B. Description by industry standard
 - C. Description by specification
 - D. Description by performance characteristics
 - E. Description by brand
51. ____ is appropriate where the requirements are well understood and there is common agreement between supply chain partners about what certain terms mean.
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53. ____ focuses attention on the outcomes the customer wants, not on the precise configuration of the product or service.
- A. Description by industry standard
 - B. Description by brand
 - C. Description by specification
 - D. Description by performance characteristics
 - E. Description by market grade
54. A/An ____ has demonstrated its performance capabilities through previous purchase contracts and receives preference during the supplier selection process.
- A. internal supplier
 - B. new supplier
 - C. capable supplier
 - D. final supplier
 - E. preferred supplier
55. All of the following are conditions under which competitive bidding is effective *except* ____.
- A. the buyer has a preferred supplier for the item
 - B. volume is high enough
 - C. the marketplace is competitive
 - D. the specifications or requirements are clear to the seller
 - E. adequate time is available for suppliers to evaluate the RFQ
56. Which of the following is *not* one of the conditions under which negotiation is effective?
- A. When the purchase requires agreement about a wide range of performance factors.
 - B. When the buyer requires early supplier involvement.
 - C. When the specifications or requirements are clear to the seller.
 - D. When the supplier cannot determine risks and costs.
 - E. When the supplier requires a long period of time to develop and produce the item.

57. Which of the following is not an appropriate performance criterion to be used when evaluating suppliers?

- A. Ability to develop process and product technology.
- B. Commitment to quality.
- C. Management capability and commitment.
- D. Cost performance.
- E. Commitment to effective marketing and promotion.

58. Good reasons for allowing other departments to view purchase orders and incoming receipts does not include which of the following?

- A. The accounting department gains visibility to future accounts payable obligations.
- B. The requestor can refer to the purchase order number when inquiring into the status of an order.
- C. Receiving has a record of the order to match against the receipt of the material.
- D. Traffic becomes aware of inbound delivery requirements and can make arrangements with carriers or use the company's own vehicles to schedule material delivery.
- E. There is never a good reason for purchasing to allow other departments access to purchase orders and incoming receipts due to the confidential nature of the price and delivery terms.

59. A/An ____ is an open order, usually effective for one year, covering repeated purchases of an item or family of items.

- A. outstanding order
- B. pending order
- C. blanket purchase order
- D. completed order
- E. order acceptance

60. When using negotiating a ____, it is necessary to include a/an ____ that allows a buyer to terminate the contract in the event of persistently poor quality, delivery problems, and the like.

- A. spot buy contract....evergreen clause
- B. RFP....RFQ
- C. purchase order....purchase agreement
- D. blanket purchase order....escape clause
- E. online catalog....RFP

61. In a ____, the price stated in the agreement does not change, regardless of fluctuations in general overall economic conditions, industry competition, levels of supply, market prices, or other environmental changes.

- A. blanket purchase order
- B. RFQ
- C. cost-based contract
- D. material purchase release
- E. fixed-price contract

62. In a _____, the supplier is reimbursed all of their actual costs plus some agreed on operational margin and overhead amount.
- A. RFP
 - B. cost-based contract
 - C. material purchase release
 - D. fixed-price contract
 - E. reverse auction
63. The _____, which the supplier provides, details the contents of a shipment.
- A. material packing slip
 - B. purchase requisition
 - C. bill of lading
 - D. electronic funds transfer
 - E. request for quotation
64. Transportation carriers use a/an _____ to record the quantity of goods delivered to a facility.
- A. electronic transfer of funds
 - B. material packing slip
 - C. receiving discrepancy report
 - D. bill of lading
 - E. purchase order
65. The _____ helps protect the carrier against wrongful allegations that the carrier somehow damaged, lost, or otherwise tampered with a shipment.
- A. bill of lading
 - B. material packing slip
 - C. receiving discrepancy report
 - D. material purchase release
 - E. blanket purchase order
66. Which of the following is *false* regarding concealed damage?
- A. A user may discover concealed damages after opening a shipping container.
 - B. Responsibility for concealed damage is often difficult to establish.
 - C. The carrier may blame the supplier or maintain that the damage occurred after delivery of the material.
 - D. The supplier may maintain total innocence and implicate the carrier.
 - E. The bill of lading protects the carrier against charges of concealed damage.

67. A ____ details any shipping or receiving discrepancies noted by the receiving department.
- A. receiving discrepancy report
 - B. bill of lading
 - C. material packing slip
 - D. change notice
 - E. RFP
68. The ____ purchase category includes such items as petroleum, coal, lumber, and metals such as copper and zinc.
- A. semifinished products and components
 - B. finished products
 - C. MRO items
 - D. raw materials
 - E. capital equipment
69. A key characteristic of a/an ____ is a lack of processing by the supplier into a newly formed product.
- A. component
 - B. semifinished product
 - C. finished good
 - D. MRO item
 - E. raw material
70. Suppliers are more often being paid through a/an ____, which is the automatic transfer of payment from the buyer's bank account to the supplier's bank account.
- A. RFQ
 - B. EFT
 - C. MRO
 - D. PO
 - E. None of these choices.
71. ____ include anything that does not go directly into an organization's product.
- A. MRO items
 - B. Raw materials
 - C. Production support items
 - D. Service
 - E. Components

72. ____ include(s) the materials required to pack and ship final products, such as pallets, boxes, master shipping containers, tape, bags, wrapping, inserts, and other packaging material.

- A. Raw materials
- B. Production support items
- C. Semifinished products
- D. Components
- E. Work-in-process inventory

73. Which of the following is *not* a feature that separates capital equipment purchases from other purchases?

- A. Capital equipment purchases do not occur with regular frequency.
- B. Capital equipment investment requires large sums of money.
- C. For accounting purposes, most capital equipment is not depreciable over the life of the item.
- D. Buyers can rarely switch suppliers in the middle of a large-scale project or dispose of capital equipment after delivery because of dissatisfaction.
- E. Capital equipment is highly sensitive to general economic conditions.

74. All the following are expected growth areas in e-commerce *except* ____.

- A. transmitting purchase orders to suppliers
- B. submitting requests for quotes to suppliers
- C. placing orders with suppliers
- D. making electronic funds transfers to suppliers
- E. submitting written check requests to accounts payable

75. Once a purchaser and a supplier reach agreement on a longer-term purchase contract, material releasing responsibility should shift to ____.

- A. marketing
- B. purchasing
- C. the supplier
- D. user groups
- E. accounts payable

76. While similar in concept, blanket purchase orders are typically used more often for ____ purchases, while longer-term purchase agreements are used for ____ purchases.

- A. unique....routine
- B. lower-value....higher-value
- C. complex....simple
- D. higher-value....lower-value
- E. There are no differences in the types of products or amounts purchased in either method.

77. Which of the following is not an advantage of online ordering systems?

- A. Immediate visibility to backordered items.
- B. Longer order cycle time from input to delivery.
- C. Faster order input time.
- D. Reduced ordering errors.
- E. Ability to batch multiple items from multiple users on a single online order.

Chapter 2--The Purchasing Process **Key**

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- B. The requestor can refer to the purchase order number when inquiring into the status of an order.
- C. Receiving has a record of the order to match against the receipt of the material.
- D. Traffic becomes aware of inbound delivery requirements and can make arrangements with carriers or use the company's own vehicles to schedule material delivery.
- E.** There is never a good reason for purchasing to allow other departments access to purchase orders and incoming receipts due to the confidential nature of the price and delivery terms.

59. A/An _____ is an open order, usually effective for one year, covering repeated purchases of an item or family of items.

- A. outstanding order
- B. pending order
- C.** blanket purchase order
- D. completed order
- E. order acceptance

60. When using negotiating a _____, it is necessary to include a/an _____ that allows a buyer to terminate the contract in the event of persistently poor quality, delivery problems, and the like.

- A. spot buy contract....evergreen clause
- B. RFP....RFQ
- C. purchase order....purchase agreement
- D.** blanket purchase order....escape clause
- E. online catalog....RFP

61. In a _____, the price stated in the agreement does not change, regardless of fluctuations in general overall economic conditions, industry competition, levels of supply, market prices, or other environmental changes.

- A. blanket purchase order
- B. RFQ
- C. cost-based contract
- D. material purchase release
- E.** fixed-price contract

62. In a _____, the supplier is reimbursed all of their actual costs plus some agreed on operational margin and overhead amount.
- A. RFP
 - B. cost-based contract**
 - C. material purchase release
 - D. fixed-price contract
 - E. reverse auction
63. The _____, which the supplier provides, details the contents of a shipment.
- A. material packing slip**
 - B. purchase requisition
 - C. bill of lading
 - D. electronic funds transfer
 - E. request for quotation
64. Transportation carriers use a/an _____ to record the quantity of goods delivered to a facility.
- A. electronic transfer of funds
 - B. material packing slip
 - C. receiving discrepancy report
 - D. bill of lading**
 - E. purchase order
65. The _____ helps protect the carrier against wrongful allegations that the carrier somehow damaged, lost, or otherwise tampered with a shipment.
- A. bill of lading**
 - B. material packing slip
 - C. receiving discrepancy report
 - D. material purchase release
 - E. blanket purchase order
66. Which of the following is *false* regarding concealed damage?
- A. A user may discover concealed damages after opening a shipping container.
 - B. Responsibility for concealed damage is often difficult to establish.
 - C. The carrier may blame the supplier or maintain that the damage occurred after delivery of the material.
 - D. The supplier may maintain total innocence and implicate the carrier.
 - E. The bill of lading protects the carrier against charges of concealed damage.**

67. A ____ details any shipping or receiving discrepancies noted by the receiving department.

- A.** receiving discrepancy report
- B. bill of lading
- C. material packing slip
- D. change notice
- E. RFP

68. The ____ purchase category includes such items as petroleum, coal, lumber, and metals such as copper and zinc.

- A. semifinished products and components
- B. finished products
- C. MRO items
- D.** raw materials
- E. capital equipment

69. A key characteristic of a/an ____ is a lack of processing by the supplier into a newly formed product.

- A. component
- B. semifinished product
- C. finished good
- D. MRO item
- E.** raw material

70. Suppliers are more often being paid through a/an ____, which is the automatic transfer of payment from the buyer's bank account to the supplier's bank account.

- A. RFQ
- B.** EFT
- C. MRO
- D. PO
- E. None of these choices.

71. ____ include anything that does not go directly into an organization's product.

- A.** MRO items
- B. Raw materials
- C. Production support items
- D. Service
- E. Components

72. ____ include(s) the materials required to pack and ship final products, such as pallets, boxes, master shipping containers, tape, bags, wrapping, inserts, and other packaging material.

- A. Raw materials
- B. Production support items**
- C. Semifinished products
- D. Components
- E. Work-in-process inventory

73. Which of the following is *not* a feature that separates capital equipment purchases from other purchases?

- A. Capital equipment purchases do not occur with regular frequency.
- B. Capital equipment investment requires large sums of money.
- C. For accounting purposes, most capital equipment is not depreciable over the life of the item.**
- D. Buyers can rarely switch suppliers in the middle of a large-scale project or dispose of capital equipment after delivery because of dissatisfaction.
- E. Capital equipment is highly sensitive to general economic conditions.

74. All the following are expected growth areas in e-commerce *except* ____.

- A. transmitting purchase orders to suppliers
- B. submitting requests for quotes to suppliers
- C. placing orders with suppliers
- D. making electronic funds transfers to suppliers
- E. submitting written check requests to accounts payable**

75. Once a purchaser and a supplier reach agreement on a longer-term purchase contract, material releasing responsibility should shift to ____.

- A. marketing
- B. purchasing
- C. the supplier
- D. user groups**
- E. accounts payable

76. While similar in concept, blanket purchase orders are typically used more often for ____ purchases, while longer-term purchase agreements are used for ____ purchases.

- A. unique....routine
- B. lower-value....higher-value**
- C. complex....simple
- D. higher-value....lower-value
- E. There are no differences in the types of products or amounts purchased in either method.

77. Which of the following is not an advantage of online ordering systems?

A. Immediate visibility to backordered items.

B. Longer order cycle time from input to delivery.

C. Faster order input time.

D. Reduced ordering errors.

E. Ability to batch multiple items from multiple users on a single online order.