

## 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 Bangladesh in 2013, killing more than 1,100 people, which affected brands such as Walmart, Benetton and Loblaws.

*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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***Purchasing and Supply Management, 16e (Johnson)***  
**Chapter 1 Purchasing and Supply Management**

- 1) Supply decisions can affect:
- A) the balance sheet.
  - B) the income statement.
  - C) the income statement and the balance sheet.
  - D) neither the income statement nor the balance sheet.
  - E) none of the financial metrics.

Answer: C

Difficulty: 2 Medium

Topic: Size of organizational spend and financial significance

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

- 2) On average, the dollars spent with suppliers as a percent of revenues:
- A) is greater in manufacturing organizations than in service organizations.
  - B) is about equal in service and manufacturing organizations.
  - C) is greater in service organizations than in manufacturing organizations.
  - D) depends on the type of manufacturing process.
  - E) depends on the type of service delivery system.

Answer: A

Difficulty: 1 Easy

Topic: Size of organizational spend and financial significance

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

- 3) The role of supply management is best captured by the following question:
- A) How can supply help suppliers decrease costs?
  - B) How can supply and suppliers help decrease costs and increase revenues?
  - C) How can supply and suppliers help decrease costs?
  - D) How can supply help decrease costs and increase revenues?
  - E) How can supply help decrease costs?

Answer: B

Difficulty: 2 Medium

Topic: Supply contribution

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

- 4) To contribute to organizational strategy, the supply department should:
- A) set realistic expectations for internal customers.
  - B) execute tasks as designed.
  - C) standardize and automate transactions.
  - D) streamline business processes.
  - E) seek opportunities to provide competitive advantage.

Answer: E

Difficulty: 2 Medium

Topic: Supply contribution

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

- 5) The impact of supply management actions on the balance sheet is measured by the:
- A) return on investment effect.
  - B) return on inventory effect.
  - C) inventory turnover effect.
  - D) return on assets effect.
  - E) profit leverage effect.

Answer: D

Difficulty: 1 Easy

Topic: Return-on-assets effect

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic



6) Evaluation of the supply function's contribution to organizational goals and strategies can be viewed in the context of:

- A) operational and strategic.
- B) strategic and transactional.
- C) direct and indirect.
- D) both A and B above.
- E) both A and C above.

Answer: E

Difficulty: 1 Easy

Topic: Supply contribution

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

7) The profit-leverage effect of supply savings means that:

- A) effective price negotiations with a supplier will lower the supplier's profits.
- B) a reduction in purchase spend increases profit more than an equivalent increase in sales.
- C) the buyer gains leverage over suppliers when purchases are increased.
- D) efficient supply management processes will increase profits.
- E) a reduction in money tied up in inventory improves profits.

Answer: B

Difficulty: 2 Medium

Topic: Profit-leverage effect

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

8) As supply chains have become more global, the risk of supply disruptions has:

- A) increased because emerging economies lack the business ethics of developed nations.
- B) stayed the same because the issues are similar wherever suppliers are located.
- C) decreased because risk is spread among suppliers all over the world.
- D) increased because of financial and exchange rate fluctuations.
- E) decreased because there are global standards for labor and safety.

Answer: D

Difficulty: 2 Medium

Topic: Risk management

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

- 9) Supply management may *indirectly* contribute to the organization's competitive advantage by:
- A) reducing annual spend.
  - B) improving customer satisfaction.
  - C) reducing prices paid to suppliers.
  - D) improving supplier lead times.
  - E) process standardization.

Answer: B

Difficulty: 2 Medium

Topic: Supply contribution

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

10) For an organization with annual sales of \$500 million, purchases of \$300 million and profit of \$50 million, a 10 percent reduction in the cost of purchases would result in a profit-leverage effect of:

- A) 10 percent (sales increase of 10 percent would be required to achieve the same percentage increase in profit).
- B) 15 percent (sales increase of 15 percent would be required to achieve the same percentage increase in profit).
- C) 10 percent (sales increase of 50 percent would be required to achieve the same percentage increase in profit).
- D) 60 percent (sales increase of 60 percent would be required to achieve the same percentage increase in profit).
- E) 75 percent (sales increase of 75 percent would be required to achieve the same percentage increase in profit).

Answer: D

Difficulty: 3 Hard

Topic: Profit-leverage effect

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

11) The supply function in public sector organizations can differ from those in private sector organizations in the following area:

- A) regulatory requirements regarding the acquisition process and policies.
- B) size of total spend.
- C) percentage of total spend.
- D) supplier lead times.
- E) There are no differences.

Answer: A

Difficulty: 2 Medium

Topic: Purchasing and supply management

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

12) A systems approach to managing the flow of information, materials, and services from tiers of suppliers through the buying organization to tiers of customers is:

- A) strategic sourcing.
- B) materials management.
- C) supply chain management.
- D) procurement management.
- E) inventory management.

Answer: C

Difficulty: 1 Easy

Topic: Purchasing and supply management

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

13) Supply is of great consequence in most manufacturing organizations since the costs of purchased materials and services greatly exceeds labor and other costs.

Answer: TRUE

Difficulty: 1 Easy

Topic: Size of organizational spend and financial significance

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

14) Public institutions are service providers with economic and social aims that differ from private sector firms, which can affect the policies and processes of the supply function.

Answer: TRUE  
Difficulty: 2 Medium  
Topic: Purchasing and supply management  
Bloom's: Understand  
AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

15) One of the most important steps in achieving the potential of the supply function is hiring someone from outside of the company's industry into the top supply position.

Answer: FALSE  
Difficulty: 2 Medium  
Topic: Supply contribution  
Bloom's: Understand  
AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

16) Supply management has evolved from a transaction-based, tactical function to a process-oriented, strategic function.

Answer: TRUE  
Difficulty: 1 Easy  
Topic: Purchasing and supply management  
Bloom's: Remember  
AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

17) Since labor and other costs greatly exceed outlays for purchased materials and services in most service organizations, supply is of little consequence in most service organizations.

Answer: FALSE  
Difficulty: 1 Easy  
Topic: Size of organizational spend and financial significance  
Bloom's: Understand  
AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

18) Sustainability performance includes the impact of the organization's supply chain on the natural environment, *and* the social practices of the firm and its suppliers.

Answer: TRUE  
Difficulty: 1 Easy  
Topic: Sustainability  
Bloom's: Remember  
AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

19) There is not one best way for all organizations to organize and manage the supply function, conduct activities, and effectively integrate suppliers.

Answer: TRUE  
Difficulty: 3 Hard  
Topic: Supply contribution  
Bloom's: Apply  
AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

20) Reductions in inventory investment primarily come from getting users to reduce their demand for inventoried items.

Answer: FALSE  
Difficulty: 2 Medium  
Topic: Size of organizational spend and financial significance  
Bloom's: Apply  
AACSB: Analytical Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

21) Supply makes a significant contribution to organizational risk management since many supply decisions have downside risks that might impact the organization's strategy.

Answer: TRUE  
Difficulty: 2 Medium  
Topic: Risk management  
Bloom's: Understand  
AACSB: Reflective Thinking  
Accessibility: Keyboard Navigation  
Gradable: automatic

22) The ratio of total purchases to sales (the percentage of dollars paid out to suppliers as a percentage of sales) varies little from industry to industry.

Answer: FALSE

Difficulty: 1 Easy

Topic: Size of organizational spend and financial significance

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

23) The true test of supply's contribution is when the chief executive officer and the senior management team recognize that supply and suppliers are critical to organizational success and competitive advantage.

Answer: TRUE

Difficulty: 2 Medium

Topic: Supply contribution

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic

24) Terms such as *purchasing*, *procurement*, *supply*, and *supply chain management* are terms that are used almost interchangeably.

Answer: TRUE

Difficulty: 1 Easy

Topic: Purchasing and supply management

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

Gradable: automatic