

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