

Purchasing and Supply Chain Management 3/e
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Test Bank: Answer Key

Chapter 2: Purchasing Decisions and Business Strategy

Instructor's Notes: The correct answer is next to each question.

Multiple Choice Questions

1. The development of a strategic purchasing plan requires all of the following with one exception. Which one is incorrect?

C A. A complete understanding of corporate strategies and marketing plans
 B. An extensive evaluation/study of current suppliers, how performance is measured, and the expectation of suppliers relative to the industry.
 C. Study of the degree of local purchasing opportunities.
 D. Identification of total costs associated with current purchasing department/function, budgets, staffing, and so forth.

2. *Phase 1. Sourcing Audit*
The sourcing audit is used as a planning process that identifies opportunities for increased profitability.

B A. True
 B. False

- 3.. *Phase 2. Organizational Development*
This phase involves development of sourcing strategies; setting of clearly outlined areas to cut costs and improve profitability; establishment of a sourcing control system based on frequent analysis and systematic approach; formulation of incentive programs; and provisions for training by taking advantage of local ISM seminars and in-house sessions on how to establish purchasing monitoring systems.

A A. True
 B. False

- 4.. *Phase 3. Implementation and Evaluation*

In this phase, a thorough indoctrination of the company with long range strategy, implementation of current procedures, monitoring of marketing activities, feedback

mechanism for evaluation, and refinement of sourcing processes is conducted.

- B
 - A. True
 - B. False

5. Purchased inputs offer a potential source for helping a company develop _____ against its competitors.
- A. A. leverage
 B. a plan
 C. a competitive strategy
 D. a competitive edge
 E. a long term plan
6. Purchasing can give the firm advantages over its competitors. In essence, firms must design their _____ to emphasize the competitive strategy.
- D. A. plans
 B. purchasing manual
 C. policies
 D. purchasing actions
 E. marketing program
7. Purchasing managers need to devise _____ such that they are consistent with each other and with the firm's competitive strategy.
- D. A. negotiations
 B. purchasing actions
 C. pricing policies
 D. marketing strategies
 E. business programs

8. The buyer _____ or _____ criteria are other factors that influence the purchase criteria.
- D
- A. programs / selection
 - B. performance plan / reward
 - C. performance measures / selection
 - D. performance measures / reward
 - E. performance programs / salary
9. Purchasing decisions or actions that constitute purchasing strategy are determined by the firm's _____.
- E
- A. competitive priorities
 - B. its resource capabilities
 - C. marketing initiatives
 - D. all the above
 - E. "A" and "B" only
10. In the formulation of purchasing strategy, the organization's _____, the organization's _____, and the competitive environment must be considered.
- D
- A. market share / competitive strategy
 - B. competitive strategy / weaknesses
 - C. market share / strengths and weaknesses
 - D. competitive priorities / strengths and weaknesses
 - E. strengths / weaknesses
11. A firm can compete in two broad alternate ways. It can either seek competitive advantages on _____ or _____ itself from its competitors.
- D
- A. cost / distinguish
 - B. cost / choose to differentiate
 - C. quality / choose to differentiate
 - D. price / separate
 - E. quality / distinguish

12. The two generic competitive *advantages*— _____ —are operationalized in terms of cost, quality performance, quality conformity, product flexibility, volume flexibility, and customer service.
- A
- A. delivery speed and reliability
 - B. price and quality
 - C. market leadership and quality
 - D. delivery speed and price
 - E. price and reliability
13. A firm competing on _____ must give high priority to purchasing costs. A firm competing on flexibility must give high priority to _____ in buying material.
- B
- A. selling price / just-in-time
 - B. cost / lead time
 - C. cost / quality
 - D. selling price / lead time
 - E. quality / lead time
14. Suppliers with _____ and who are reliable in meeting their _____ minimize the problem of material shortages for the manufacturer; as a result, the company's production can be more dependable in meeting the customers' _____.
- E
- A. long lead times / goals / expectations
 - B. short lead times / delivery times / expectations
 - C. high expectations / due dates / due dates
 - D. short lead times / expectations / expectations
 - E. short lead times / due dates / due dates
15. The _____ on which the buyer's performance is evaluated can influence the effectiveness of purchasing actions and effectiveness in making the firm competitive.
- B
- A. expectations
 - B. criterion
 - C. contract
 - D. plan
 - E. statistics

16. As competitive forces diminish, customers demand better products, faster delivery, increased service, and decreased costs.
- B A. True
 B. False
17. As inventory levels are reduced throughout the supply chain, each member becomes more insulated from demand variation.
- B A. True
 B. False
18. Companies participate in a variety of supplier relationships and take on a variety of roles.
- A A. True
 B. False
19. Supplier partnerships can be categorized using five factors. Which of the following is not one of the five factors?
- C A. degree of risk/reward
 B. type of relationship
 C. product type
 D. information
 E. asset ownership
20. The characteristics of buyer-seller relationships exist on a continuum beginning with the traditional approach of _____, with a single short-term contract that presents minimal risk to both parties. The opposite extreme is _____ integration, where the parties are fully integrated as one unit.
- C A. open-market / horizontal
 B. closed-market / vertical
 C. open-market / vertical
 D. closed-market / horizontal
 E. supplier-market / horizontal

21. A long-term relationship provides the ability to _____ and integrate planning, technology, and processes.
- A. A. share assets strategize
B. share liabilities
C. strategize
D. reduce inventory
E. reduce assets
22. In dynamic business environments, _____ is a major survival factor.
- C. A. reducing costs
B. increasing sales maintaining a competitive advantage
C. maintaining a competitive advantage
D. improving quality
E. controlling expenses
23. The advent of supply chain management has led to a more complicated operating environment. Not only does the individual firm have to maintain its _____, the entire supply chain must be _____.
- A. A. competitive edge / competitive
B. quality / flexible
C. technological edge / cutting edge
D. market share / competitive
E. quality / cost conscious
24. The supply chain relationship pegging system consists of four phases. Which of the following is *not* one of the four phases?
- C. A. *Phase I* is an assessment of the current performance gaps in the process.
B. *Phase II* consists of questionnaire development, interviews, or other data collection methods.
C. *Phase III* is the certification and planning phase.
D. The final phase (*Phase IV*) is the interpretation stage.

25. The decision maker faces multiple goals in making the buying decision. The _____ (is the only / are some of the) issue(s) that a decision maker faces in making the buying decision.
- D A. cost per unit
 B. quality
 C. lead time
 D. all the above
 E. "A" and "B" only
26. The cost per unit of material depends on _____.
- C A. the volume or amount purchased
 B. the quality level desired
 C. the desired lead time
 D. all of the above
 E. "A" and "C" only
27. The quality level of material purchased must meet the desired objective as defined by the firm's competitive priorities. The _____ the acceptable defect rate, the _____ the quality level of the material purchased.
- D A. lower / lower
 B. higher / lower
 C. higher / higher
 D. lower / higher
 E. more reasonable / better
28. Six sigma suppliers focus on three things. Which of the following is *not* one of those?
- B A. defects per million units as a standard metric
 B. provision of employee pay for performance
 C. the reduction of non-value-added activities
 D. All of the above are correct

29. Supplier lead time affects a firm's flexibility and service to its own customers. Firms that compete in _____ markets and face rapidly changing _____ require greater flexibility than firms competing in _____ markets.
- B
- A. volatile / consumer demands / stable
 - B. volatile / product or technology / stable
 - C. stable / product or technology / volatile
 - D. competitive / consumer demands / stable
 - E. competitive / consumer demands / volatile
30. The _____ there is in a vendor's lead times; the _____ it is to manage the production process.
- D
- A. less uncertainty / less difficult
 - B. more uncertainty / less difficult
 - C. less uncertainty / more difficult
 - D. more uncertainty / more difficult
 - E. more certainty / more difficult
31. A buyer must not only satisfy cost, quality, and lead-time goals, but also stay within _____ constraints.
- C
- A. quality and inventory
 - B. financial and budgetary
 - C. quality and budgetary
 - D. technological and budgetary
 - E. quantity and consumer
32. The buyer must ensure that the _____ of material is purchased to satisfy the demand; otherwise, _____ may occur, resulting in _____ customer service.
- C
- A. right quality / shortages / poor
 - B. right quality / excesses / poor
 - C. right quantity / shortages / poor
 - D. right quantity / excesses / good
 - E. right quantity / longages / poor

33. *Phase 4. In-House Training Sessions*
Classes should be conducted in groups of no more than ____ individuals.
- D A. 10
 B. 36
 C. 12
 D. 15
 E. 20