

**MANAGING OPERATIONS**  
Across the Supply Chain

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McGraw-Hill/Irwin

**CHAPTER TEN**

**Supply Management**

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## Where We Are Now

Chapter	Relationships	Sustainability	Globalization	Organizational Culture/Ethics	Change Management	Measurement
<b>Part 1 Supply Chain: A perspective for Operations Management</b>						
1. Introduction to Managing Operations Across the Supply Chain	X	X	X			
2. Operations and Supply Chain Strategy	X	X	X	X	X	X
<b>Part 2 Foundations of Operations Management</b>						
3. Managing Processes and Capabilities	X					X
4. Product/Process Innovation	X	X	X		X	
5. Manufacturing and Service Process Structures	X		X	X		X
6. Managing Quality	X	X	X	X	X	X
7. Understanding Inventory Fundamentals	X		X			X
8. Lean Systems	X		X	X	X	X
<b>Part 3 Integrating Relationships Across the Supply Chain</b>						
9. Customer Management	X					X
<b>10. Supply Management</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
11. Logistics Management	X	X	X			
<b>Part 4 Planning of integrated Operations Across the Supply chain</b>						
12. Demand Planning: Forecasting and Demand Management	X		X			X
13. Sales and Operations Planning	X		X			X
14. Independent Demand Inventory Planning	X					X
15. Materials and Resource Requirements Planning	X		X			X
<b>Part 5 Managing Change in Supply Chain Operations</b>						
16. Project Management	X	X	X	X	X	X
17. Evolving Business Models and Change Drivers in the Supply Chain	X	X	X	X	X	

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## Learning Objectives

1. Define supply management and its importance
2. Understand how cost, risk and globalization impact supply management
3. Analyze and make in/outsourcing decisions
4. Explain steps of strategic sourcing
5. Describe types of supplier relationships
6. Explain when to use various sourcing options
7. Understand how to manage supplier relationships

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## Supply Management

- ***Supply Management***: identification, acquisition and management of inputs and supplier relationships
- Also called ***purchasing*** or ***procurement***

10-4

## Effective Supply Management

- A firm's strategic objectives are better met when effective supply management:
  - Ensures timely availability of resources
  - Reduces total cost (not just purchase price)
  - Enhances quality
  - Enables access to technology and innovations
  - Fosters social responsibility

10-5

## Effective Supply Management

- **Supply Risk:** probability of an unplanned, event that negatively affects a firm
  - Delays and disruptions
  - Thefts of intellectual property
  - Price increases
  - Product safety problems

10-6

## Effective Supply Management

- **Total Cost of Ownership (TCO):** sum of costs incurred before, during and after a purchase
  - **Before:** costs of finding, assessing and selecting a supplier
  - **During:** costs of buying and receiving items
  - **After:** costs and risks of storing and owning items including those incurred after sale to customers



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## Activity

- Think of some of the total costs of ownership for the following items:
  - Car or bicycle
  - iPod or other music device
  - Textbook



10-8

## Effective Supply Management

- **Social Responsibility:** behaviors that benefit related communities
  - Add value to communities
  - Increase social diversity
  - Environmental responsibility
  - Ethical behavior
  - Financial responsibility
  - Respect human rights
  - Safe working environment
  - Others?

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## Insourcing/Outsourcing

- **Insourcing:** inputs from within the firm
- **Outsourcing:** inputs from outside the firm
- **Make or Buy Decision:** choosing between insourcing or outsourcing

10-10

# Insourcing/Outsourcing

**FIGURE 10-1**  
Insourcing/Outsourcing  
Decision Process



Figure 10-1

10-11

# Sourcing Strategies

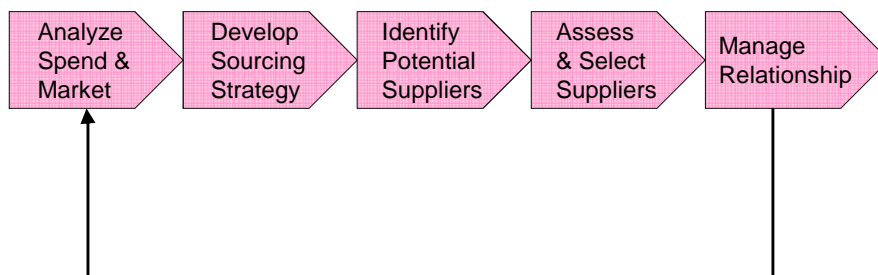


Figure 10-2

10-12

## Sourcing Strategies

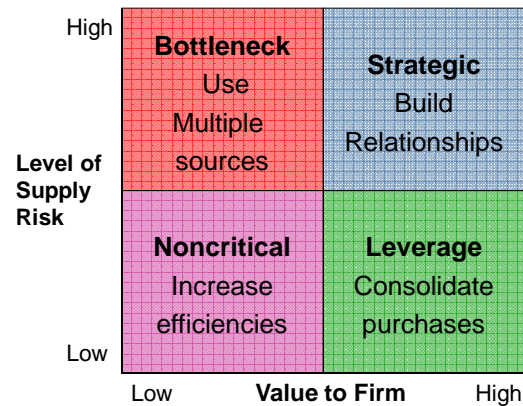


Figure 10-3

10-13

## Sourcing Strategies

- **Supply Base Optimization:** number of suppliers to use
  - Too few increases shortage and price risks, innovation may be limited
  - Too many increases complexity and makes supply management difficult

10-14

## Sourcing Strategies

- Capabilities and location are important:
  - Proximity impacts ease of communication, transportation costs and community perceptions
  - Consideration of trade barriers and incentives
  - Global presence may impact access to markets

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## Supplier Relationships



*Adversarial*

*Arm's-length*

*Acceptance of mutual goals*

*Full Partnership*

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Maintain independence</li><li>• Focus on price</li><li>• Short-term</li><li>• Hoard information</li><li>• Buyer-seller relations</li><li>• Self-interest</li></ul> | <ul style="list-style-type: none"><li>• Mutual dependence</li><li>• Focus on total cost</li><li>• Long-term</li><li>• Share information</li><li>• Cross-functional relations</li><li>• Share risk/reward</li></ul> |
|--|--|

Figure 10-4

10-16



## Assess and Select Suppliers

- **Competitive bidding:** price is most important factor, specifications are clear, high value, several equally qualified sources

– **Request for Proposal (RFP) or Quote (RFQ):** describes what customer wants; supplier responds with cost and other data for consideration

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## Assess and Select Suppliers

- **Weighted Point Model:** establishes performance categories that are weighted by importance

Category

Quality

Delivery

Price

Weighted Score

Table 10-2

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## Activity

Assume you need a new place to live or are considering several job offers:

- Use a weighted point model to assist in the decision making process.
  - What criteria are important to you?
  - How important is each criteria?
  - How will you break a tie score?



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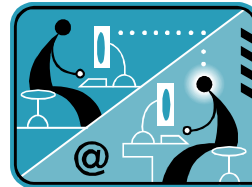
## Assess and Select Suppliers

- **Online Reverse Auctions:** suppliers bid in real time for buyer's business
  - Supplier can make multiple bids
  - Usually price focused
- **Negotiation:** bargaining process of planning, reviewing, analyzing, compromising to reach agreement

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## Managing Supplier Relationships

- Information sharing: buyers and suppliers need to share timely data about demand, supply and delivery
  - **Electronic Data Interchange (EDI)**: structured, secure mode of transmitting data



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## Managing Supplier Relationships

- **Supplier Scorecard**: track and report supplier performance in key areas
- **Supplier Certification**: assessment of supplier's ability to meet buyer's needs
- **Supplier Relationship Management (SRM)**: technology enabled data gathering about suppliers to manage strategic relationships

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## Supplier Management Summary

1. Effective supply management improves performance
2. In/Outsourcing requires both quantitative and qualitative analysis
3. Strategic sourcing finds and manages suppliers that meet the firm's strategic objectives
4. Relationships with suppliers vary based on cost and risk
5. Suppliers are selected using online auctions, competitive bidding, or negotiation
6. Supplier relationship management involves communication and coordination

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