

THE UNIVERSITY OF SOUTHERN CALIFORNIA
Marshall School of Business
IOM 599 (16298) – Sourcing and Supplier Management – Fall 2011

Time: Tuesday, 12:30-1:50 pm
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E-mail: sosic@marshall.usc.edu
Office hours: Tuesday, 11:00-12:00 pm
Thursday, 2:00-3:00 pm

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COURSE SCOPE AND OBJECTIVES

In today's increasingly competitive and globalized world, firms are increasingly trying to find ways to improve their performance and differentiate themselves from their rivals. Clearly, suppliers can have great impact on a firm's total cost and help in this differentiation process. Increased levels of outsourcing and offshoring make correct selection of suppliers and their quality, along with development of relationships between suppliers and producers, more crucial than ever.

This course aims to provide students with an understanding of the impact that sourcing and supply management have on the success and profitability of firms in today's business environment. We will look at some of the factors that need to be considered when making sourcing and supplier management decisions (ethics, contracts, globalization, risks, sustainability), and discuss the influence that sourcing and supply management have on other functional activities, such as product design, inventory management, electronic commerce, etc.

The class format includes lectures, case discussions, simulations, and movie clips.

COURSE MATERIALS

Required: *Course Reader (CR)* – Package of cases and readings available at USC bookstore. In the syllabus, a number such as CR#5 refers to 5th article in sequence in the course reader.

Handouts (HO): Handouts distributed in class.

Recommended:

- ❖ *Purchasing and Supply Management* by Leenders, Johnson, Flynn, Fearon, McGraw-Hill/Irwin, 2006.

COURSE POLICIES

This course is mostly qualitative and uses cases for discussion of issues and illustration of approaches. Active participation in class is important throughout the course. It implies that you should read the assigned material before the session, think about the discussion questions, and hopefully find additional relevant material to share with the class. To ensure everyone's participation, I may at times resort to cold calling.

You should arrive to classroom on time. If you have conflicting schedules that prevent you from that, please let me know at the beginning of the semester.

Please bring a name tent (an 8.5x11" sheet folded in half lengthways, with your first and last name) and place it on your desk during each class.

GRADING

Group case reports (2)	20%
Individual submissions (10)	20%
Group simulation project (1)	20%
Exam (1)	30%
Class participation	10%

GROUP CASE REPORTS

After the class roster is finalized, I will form the groups of 3-4 people. You will be working in these teams for the case write-ups. Each team is required to submit a report on two case studies (Morgan Components on week 10, and Sun Microsystems on week 15). The cases are to be discussed within your team; this Syllabus provides some questions that your report should address. Case write-ups should be at most 4 pages and single-spaced (11 or 12 point font), with appendices attached. The write-up should begin with an *executive summary* and be organized as follows:

1. *Brief* description of the company and its environment
2. *Brief* description of the problems and issues to be addressed.
3. Recommendations and implementation plan.
4. Analysis that discusses why the recommendations will solve the problems identified.

You may choose to organize the report differently; however, please ensure that the above aspects are covered and the report is well organized with clear section headers. Please avoid repetition of case facts and long expositions. General solutions to specific problems will get you little credit. Consider what and why you believe are the most important factors. Creativity in analysis and suggestions that are grounded in case facts will be given high credit. Please state any assumptions made clearly.

INDIVIDUAL SUBMISSIONS

In addition to the cases for which you are required to submit group reports, we will be discussing other cases and articles. You should be prepared for class discussion, and this Syllabus provides some suggested questions that you should address. For the individual submissions, please prepare a short write-up (less than one page, typed) answering the question(s) listed on p. 5. The objective of this short submission is to ensure that you prepare the case. For that reason, **no late submissions** will be accepted. If you are not able to attend the class, you can leave your submission in the Digital Dropbox **before** the class. If you are attending the class, please bring a hard copy of your submission and hand it in at the **beginning** of the class-I will not accept submissions at the end of the class. As long as your answer shows that you have given sufficient thought to the analysis, you will get full credit. I will **not** provide feedback on these submissions (unless your work is not satisfactory).

ON-LINE SUBMISSIONS

If you need to submit any files on-line, your submissions should be made through the Blackboard, Digital Dropbox option. The names of the files should contain your name(s) and assignment number. *Do not use symbols such as “#” in naming your files, because the Blackboard does not support them!* For instance, if you are submitting a word file for group assignment #2 and your group members are Black, Brown and White, the file should be called *BlackBrownWhite_2.doc*. If you do not follow these guidelines in naming your files, points will be deducted from your grade.

GROUP SIMULATION PROJECT

During weeks 4 and 5, we will be involved in a global supply chain simulation project. During week 4, we will discuss issues in global sourcing, discuss "Mexico or China" minicase, and prepare for the simulation. Simulation will take place during week 5; you should bring your laptops to the class. After the simulation, we will discuss your performance and decisions. You should prepare report for week 6. There is no restriction on report length, but it should address the questions that will be provided in the game instructions/handouts.

GROUP ASSIGNMENT AND GROUP PROJECT EVALUATION

Team assignments provide a valuable learning experience – how to work effectively and efficiently in groups, learning from others, and honing your ability to communicate to others. Although your team's grade depends on each member's efforts, some students can be tempted to let others carry their load. In order to provide an incentive for all students to make maximum contributions to the study group, you will be asked to grade each team member's contributions for your group assignments and for the simulation project. Your group grades will be adjusted to obtain an individual grade based on feedback about performance provided by other members of the group (see the group assessment forms posted on the Blackboard). If you do not submit your group assessment form, it is assumed that you have assigned a rating of 100% to all your group members. The forms can be submitted in person or via e-mail, but no later than the time of the final exam.

FINAL EXAM

There will be one exam, and it will be closed-book and mostly qualitative.

According to the USC Final Exam Schedule, the final exam is scheduled for **Tuesday, December 13, at 11:00 am**. Please take this into account when scheduling your trips! If there are extenuating circumstances that prevent you from taking an exam, you must discuss the reason with me before the time of the exam. You will not be given a make-up exam unless you obtain a permission from me in advance. In addition, you must be able to document the extenuating circumstance. If you miss the exam due to a medical emergency that can be documented and verified, then a make-up exam will be given. Otherwise, a grade of zero will be given for the missed exam. Note that a make-up exam cannot be taken before the actual exam date!

CLASS PARTICIPATION

Class participation requires that you do the assigned readings, analyze the cases based on the questions given, and participate actively in class. I prefer substantive comments based on good analysis rather than brief, general comments that add little to the discussion and learning. If you are reluctant to talk in class but would like to show your preparation, please provide me with your analysis before class (Please send it through the Digital Dropbox). Be prepared to defend your suggestions or solutions with careful and thoughtful analysis!

GETTING HELP

If you have questions about any aspect of the course, you can always talk to me. If it is a quick question, you can contact me before or after the class. If you need more time or privacy, you can come to my office hour. If you cannot make my office hours, you can contact me and we can arrange for an alternative time. The best way to reach me is by e-mail.

RETURN OF PAPERS

Graded paperwork that is unclaimed by a student will be discarded after 4 weeks. Students who miss class sessions when paperwork is returned are responsible for arranging for an appointment to retrieve the material. Disputes over graded material should be brought to my attention as soon as possible.

NOTICE ON ACADEMIC INTEGRITY

The use of unauthorized material, communication with fellow students during an examination, attempting to benefit from the work of another student, and similar behavior that defeats the intent of an examination or other class work is unacceptable to the University. It is often difficult to distinguish between a culpable act and inadvertent behavior resulting from the nervous tensions accompanying examinations. Where a clear violation has occurred, however, the instructor may disqualify the student's work as unacceptable and assign a failing mark on the paper.

Academic dishonesty includes: (*Faculty Handbook*, 1994: 21-22):

- Examination behavior - any use of external assistance during an examination shall be considered academically dishonest unless expressly permitted by the teacher.
- Fabrication - any intentional falsification or invention of data or citation in an academic exercise will be considered a violation of academic integrity.
- Plagiarism - the appropriation and subsequent passing off of another's ideas or words as one's own. If the words or ideas of another are used, acknowledgment of the original source must be made through recognized referencing practices.
- Other types of academic dishonesty - submitting a paper written by or obtained from another, using a paper or essay in more than one class without the teacher's express permission, obtaining a copy of an examination in advance without the knowledge and consent of the teacher, changing academic records outside of normal procedures and/or petitions, using another person to complete homework assignments or takehome exams without the knowledge or consent of the teacher.

FOR STUDENTS WITH DISABILITIES

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible.

STATEMENT ON TECHNOLOGY USE

Please note that communication devices such as cell phones, Blackberries, iPhones, etc. capable of sending and or receiving electronic communication and all entertainment devices such as iPods or other MP3 players are to be turned off and kept off throughout the class session. Receiving or sending communication or entertainment during class disrupts the learning environment and is rude to those around you. If you use your laptop for note-taking purposes, Internet connections are prohibited unless otherwise stated by the professor.

Course plan at a glance (tentative)

	Date	Topic	Readings	Cases	Submission
1	8/23	Introduction-Purchasing and supplier management	Capabilities for managing a portfolio of supplier relationships (CR#1) Supplier diversity and supply chain management (CR#2) The impact of strategic procurement practices on account management (CR#3)		
2	8/30	Collaboration on new product introduction		Cisco Systems (CR#4)	Short #1 – Cisco (q.3)
3	9/6	Global sourcing	Achieving Excellence in Global Sourcing (CR#5) Li & Fung 2006 (CR#6)		Short #2 – Li & Fung (q.3)
4	9/13	Global dual sourcing simulation game	Mexico or China? Managing a global network (CR#7)		Short #3 – Mexico or China (q.2)
5	9/20	Global dual sourcing simulation game			
6	9/27	Organizational challenges in offshoring		Coloplast (CR#8)	Simulation group report Short #4 – Coloplast (q.3)
7	10/4	From OEM to a global brand		ASUSTeK (CR#9)	Short #5 – ASUSTeK (q.2)
8	10/11	Offshoring risks		Shanzhai (CR#10)	Short #6 – Shanzhai (q.4)
9	10/18	Quality control		Mattel (CR#11)	Short #7 – Mattel (q.4)
10	10/25	Contracts	Relational Contracts (CR#12)	Morgan Components (CR#13)	Group #1– Morgan Components
11	11/1	Group purchasing		Premier, Inc. (A) (CR#14)	Short #8 – Premier, Inc. (q.2)
12	11/8	Environmental and social issues		IKEA (CR#15)	Short #9 – IKEA (q.3)
13	11/15	No class-I am at a conference			
14	11/22	Environmental sustainability		Nestle (CR#16)	Short #10– Nestle (q.4)
15	11/29	Supplier management; supplier scorecard		Sun Microsystems (CR#17)	Group #2– Sun Microsystems
		FINAL EXAM			

Detailed course plan

Week 1 Introduction-Purchasing and supplier management

Readings:

- *Capabilities for managing a portfolio of supplier relationships* (Business Horizons #BH 083)
- *Supplier diversity and supply chain management: A strategic approach* (Business Horizons #BH 232)
- *Holding up the mirror: The impact of strategic procurement practices on account management* (Business Horizons #BH 183)

Week 2 Collaboration on new product introduction

Readings:

- *Cisco Systems, Inc.: Collaborating on New Product Introduction* (Stanford case #GS-66)

Discussion Questions:

1. What are the challenges and risks faced by technology companies in new product introduction?
2. What were the risks and benefits of using Chinese contract manufacturing from the start?
3. In selecting Foxconn and expanding its role in the supply chain, what were the potential risks and values to Cisco?
4. What should Cisco do to mitigate these risks and ensure successful development and launch of the Viking router?

Week 3 Global sourcing

Readings:

- *Achieving Excellence in Global Sourcing* (MIT Sloan Management Review, Reprint #47108)
- *Li & Fung 2006* (HBS case #9-307-077)

Discussion Questions:

1. What is the added value that Li & Fung bring to global supply chains?
2. How does Li & Fung make the supply chain more responsive (i.e., reduce response time)? Should they try to find new inefficiencies in supply chains and develop solutions for them?
3. How do you evaluate the current position in which Li & Fung find themselves?
4. Do you think that Li & Fung should enter any new areas of business?

Week 4,5 Global dual sourcing simulation game

Readings:

- *Mexico or China? Managing a global network* (Kellogg Minicase)

Discussion Questions:

1. Quantify the total landing cost for both locations for three scenarios: % of China shipments by sea = 100%, 50%, and 0%. Based on this analysis, how should the tradeoff between the transportation mode and lead time be assessed? How can air shipments be minimized while maintaining a high on-time fill rate to customers?
2. What are the key criteria to consider in assigning products to plants? How should "base" demand be differentiated from "surge" demand? What steps can be taken to determine the optimal allocation mix?
3. Given the dynamic nature of the industry, what key performance indicators should be used to evaluate and assess the strategy on an ongoing basis?

Week 6 Organizational challenges in offshoring**Readings:**

- *Coloplast A/S-Organizational Challenges in Offshoring* (Ivey case #908M31)

Discussion Questions:

1. What were the main factors determining the choice of location in Hungary?
2. What are the arguments for offshoring versus outsourcing?
3. Identify and discuss the challenges associated with knowledge transfer between the Danish headquarters and the Hungarian product subsidiary.
4. How did relocation of production to Hungary influence Coloplast's organization?
 - a. Why are standardization and structured interfaces among the value-chain activities so important?
 - b. What determines the configuration of Coloplast's global value chain?
5. What are the organizational challenges facing Coloplast if they want to establish production in China?

Group report on simulation due at the beginning of the class

Week 7 From OEM to a global brand**Readings:**

- *Transforming ASUSTeK: Breaking from the Past* (HBS case #5-610-041)

Discussion Questions:

1. What are traditionally motivations of companies who outsource?
2. What was ASUSTeK's motivation to move up the value chain? How serious a threat they represent to HP or Dell?
3. What kind of challenges will Jonney Shih face as he tries to build ASUSTeK's global branded business?

Week 8 Outsourcing risks**Readings:**

- *Shanzhai ("Bandit") Mobile Phone Companies: The Guerilla Warfare of Product Development and Supply Chain Management* (Stanford case #GS-75)

Discussion Questions:

1. What are the environmental factors that help drive the Shanzhai phenomenon?
2. What characteristics are critical to the success of Shanzhai handset companies?
 - a. How have these characteristics been used by leading edge mainstream companies?
 - b. What can mainstream companies do to mitigate the impact of Shanzhais?
3. What must companies like Shanzhais do to become mainstream?
4. What are positive and negative contributions of Shanzhai companies to the industry and the larger economy?

Week 9 Quality control**Readings:**

- *Unsafe for Children: Mattel's Toy Recalls and Supply Chain Management* (Stanford case #GS-63)

Discussion Questions:

1. What were the primary causes of Mattel's recall problems? Were these the result of outsourcing?
2. What actions were taken by the principals in the case to address the recall problem? Where these the right actions? Why, or why not?

3. What should Mattel do now? What should China do?
4. How can accountability be better managed in long, global supply chains?

Week 10 Contracts

Readings:

- *Developing Cooperative Project Client-Supplier Relationships: How Much to Expect from Relational Contracts?* (California Management Review, CMR422-PDF-ENG)
- *Morgan Components* (IESE case #IES 092)

Discussion Questions:

1. Was Morgan Components right to give the project go-ahead after reviewing project costs under its own system?
2. What costs are differential for:
 - a. Deciding whether or not to accept the order initially?
 - b. Deciding whether or not to accept the orders once the factory had been acquired from Plasticom?
 - c. Deciding whether to accept the price reduction without adopting any other measures?
 - d. Deciding whether to accept the price reduction with the proposed measures?
3. Estimate the economic and qualitative impact of the three cost reduction options.
4. Should Sean accept Asiagar request?
5. Should Sean make any changes to the manufacturing process?
6. Would you change Sean's incentive pay?

Week 11 Group purchasing

Readings:

- *Premier, Inc. (A)* (Babson case #BAB117)

Discussion Questions:

1. What problem does Rick Norling and the executive team of Premier face?
2. What conflicts of interest arise in this case? For each, identify the agent, the principal, and whether or not, and why, you think the conflict poses a problem
3. What other ethical problems, if any, should be addressed by management?
4. Evaluate Premier's existing ethics policy. In your view, does the existing policy adequately address the concerns raised by The New York Times?
5. What do you think Premier should do next, and why?

Week 12 Environmental and social issues

Readings:

- *IKEA's Global Sourcing Challenge: Indian Rugs and Child Labor (A)* (HBS case #9-906-414)

Discussion Questions:

1. How should Marianne Barner respond to the invitation for IKEA to have a representative appear on the upcoming broadcast of the German video program?
2. What actions should she take regarding the IKEA supply contract with Rangan Exports?
3. What long-term strategy would you suggest she take regarding IKEA's continued operation in India? Should the company stay or should it exit? Describe the impact of such a decision and how you would manage it.
4. If IKEA continues to source carpets in India, would you suggest that they:
 - a. Continue IKEA's own monitoring and control processes or sign-up to Rugmark?

- b. Continue to focus only on eliminating the use of child labor in IKEA's supply chain or engage in broader action to address the root causes of child labor as Save the Children is urging?

Week 13 **No class****Week 14** **Environmental sustainability****Readings:**

- *Nestle: Sustainable Agriculture Initiative* (HBS case #9-705-018)

Discussion Questions:

1. Was sustainability at Nestle a compliance function, a risk management device, or a source of differentiation? How did sustainability activities contribute to the successful implementation of the firm's overall strategy and to an increase in shareholder value?
2. Did SAIN project need to be bigger in order to be successful? Was it already taking too much time of various firm's executives as it was?
3. How can probabilities of business interruption due to unsustainable upstream agricultural practices be quantified? How can the impact of SAIN on those probabilities be evaluated?
4. What changes in the behavior of purchasing, production, and marketing managers would be required for SAIN to deliver its promise? What change in management systems, information flows, and incentive design would be required? What changes in the behavior of suppliers are needed?
5. How fast should the portfolio of projects that the initiative covers be expanded? Should it include sugar?

Week 15 **Supplier management: supplier scorecard****Readings:**

- *Supplier Management at Sun Microsystems* (Stanford case #OIT-16 A)

Discussion Questions:

1. Did the scorecard motivate suppliers to focus more on the mechanics than on the substance?
2. How can Sun insure that suppliers that did not deliver directly to Sun (but to its suppliers) are properly motivated and that their contribution to Sun's product is properly recognized?
3. How did the supplier react to the fact that the management's attendance was higher when the supplier was experiencing problems, while the suppliers were ignored when their performance was high?
4. Did the payback from the scorecard process justify the time required for the development and implementation (establishing consistent criteria, collecting the data, reporting results to management, giving feedback to suppliers)? Could the process be improved? How?