

THE UNIVERSITY OF SOUTHERN CALIFORNIA
Marshall School of Business
IOM 506 (16299) – Sourcing and Supplier Management – Fall 2013

Time:	Wednesdays, 6:30-9:30 pm	Room:	ACC312
Instructor:	Dr. Greys SOŠIĆ	Office:	Bridge Hall 401E
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Office hours:	Wednesday, 2:00-3:00 pm Thursday, 2:00-3:00 pm		

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 (costs, prices, ethics, globalization, risks), and discuss the influence that sourcing and supply management have on other functional activities, such as product design, inventory management, etc.

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

COURSE MATERIALS

Required: *The Supply Chain Cost Management: The Aim & Drive Process for Achieving Extraordinary Results* by Anklesaria, AMACOM, 2007 (one book per team)

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 posted on the Blackboard.

Optional:

- ❖ *Purchasing and Supply Management* by Johnson, Leenders, Flynn (JLF), McGraw-Hill/Irwin, 2011.
- ❖ *Purchasing and Supply Chain Management* by Monczka, Handfield, Giunipero, Patterson (MHGP), South-Western, 2011.
- ❖ *The Promise and Limits of Private Power* by Locke, Cambridge University Press, 2013.

COURSE POLICIES

This course has both qualitative and quantitative component, and uses cases for discussion of issues and illustration of approaches. We will use Excel as a modeling/solution finding tool when addressing several topics. 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.

GROUP CASE REPORTS

Please form teams of up four persons within the first two weeks. You will be working in these teams for the case write-ups. You should use the "Group" option on the Blackboard to join one of the teams. Each team is required to submit a report on one case study (Mexico or China on week 5). The case is to be discussed within your team; this Syllabus provides some questions that your report should address. Case write-up 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. Both quantitative and qualitative analyses are important. Creativity in analysis and suggestions that are grounded in case facts will be given high credit. Please state any assumptions made clearly. Please submit the excel file end your write-up through the Blackboard.

INDIVIDUAL SUBMISSIONS

In addition to the case 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 (a Word document, one half to one page length, font 10-12, 1.5 spacing, typed) answering the question(s) listed on p. 5. **You need to submit 5 out of 7 possible submissions.** The objective of this short submission is to ensure that you prepare the case. For that reason, **no late submissions** will be accepted. You should submit your assignment through the Blackboard before the class. As long as your answer shows that you have given sufficient thought to the analysis, you will get full credit.

GROUP SIMULATION PROJECT

During week 5, we will be involved in a global supply chain simulation project. You should bring your laptops to the class, and have Safari web browser installed. After the simulation, we will discuss your performance and decisions. You should prepare report and submit it through the Blackboard by 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 SUPPLY CHAIN COST MANAGEMENT STRATEGY PROJECT

During week 3, Jimmy Anklesaria will visit the class as a guest speaker and lecture on his book, *The Supply Chain Cost Management*. He will give you instructions on developing a supply chain cost management strategy and you will then begin working on a related class project. You need to identify a company (if you are currently employed, it can be a company you work for; if you are a full-time student,

you can contact USC administrative offices and find a business unit on campus), analyze its cost management strategy and apply the Aim and Drive process to some of their purchasing activities. You should inform me of your choice by week 6 at the latest. Your final report is due on December 11. Some earlier sample reports will be posted on the Blackboard.

ON-LINE SUBMISSIONS

All submissions should be made on-line through the Blackboard.

GROUP ASSIGNMENTS 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 **December 11, 7pm**. 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. Be prepared to defend your suggestions or solutions with careful and thoughtful analysis!

GRADING

Group case reports (1)	13%
Individual submissions (5 out of 7)	10%
Group simulation project (1)	10%
Group project – SC cost management (1)	27%
Exam (1)	30%
Class participation	10%

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.

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, or during the break. 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.

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 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 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, iPads, iPhones, etc. capable of sending and or receiving electronic communication and all entertainment devices such as 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.

Course plan at a glance (tentative)

Week	Topic	Readings	Cases	Submission
1	Introduction-Purchasing and supplier management Cost analysis	Capabilities for managing a portfolio of supplier relationships (CR#1) How the U.S. Lost Out on iPhone Work (HO) In China, Human Costs Are Built Into an iPad (HO) Foxconn plant closed after a riot, company says(HO) Foxconn Audit Reveals Workweek Still Too Long (HO) JLF: Ch. 10 Price (CR#2)		Short #1 – Apple (q.1)
2	Prices and contracts Supplier selection	JLF: Ch. 10 Price (CR#2)	Option pricing model (HO) Loren Inc. (CR #3)	Short #2 – TLC (see p.6) Short #3 – Coral Drugs (case 10-2, JFL; q.1 on p.6)
3	Guest speaker (Anklesaria Group, Inc.)	The Supply Chain Cost Management: The Aim & Drive Process for Achieving Extraordinary Results (textbook)		
4	Supplier selection and evaluation Global sourcing	MHGP: Ch. 7 Supplier evaluation and selection (CR#4) MHGP: Ch. 10 Worldwide sourcing (CR#6)	Sun Microsystems (CR#5)	Short #4 – Sun (q.4)
5	Global dual sourcing simulation game	Global dual sourcing simulation game (HO)		Group #1 – Mexico or China (CR#7)
6	No class - Thanksgiving			Simulation group report
7	Procurement risks Environmental and social issues	Western Firms Feel Pressure as Toll Rises in Bangladesh (HO) Bangladesh Fire: How Rules Went Astray (HO) A Bangladesh Factory Inspector's Grueling Day in the Life (HO) Bangladesh Fire: What Wal-Mart's Supplier Network Missed (HO) Public Outrage Over Factory Conditions Spurs Labor Deal (HO) U.S. Retailers Offer Plan for Safety at Factories (HO)	Boeing (CR#8) IKEA (CR#9)	Short #5– Boeing (q.2) Short #6 – IKEA (q.3) Short #7 –Bangladesh (q.3)

Detailed course plan

Week 1 Introduction-Purchasing and supplier management; Cost analysis

Readings:

- *Capabilities for managing a portfolio of supplier relationships* (Business Horizons #BH 083)
- *How the US lost out on iPhone work* (NYT, 1/21/2012)
- *In China, Human Costs Are Built Into an iPad* (NYT, 1/25/2012)
- *Foxconn plant closed after a riot, company says* (NYT, 9/24/2012)
- *Foxconn Audit Reveals Workweek Still Too Long*(NYT, 5/16/2013)

Discussion Questions:

1. Why did Apple replace “Made in America” with “Designed by Apple in California; Assembled in China”; that is, why did they move the manufacturing portion of their operations offshore? Do you support their decision? What are some arguments against it?
 2. What is your evaluation of Foxconn social condition policies (wages and benefits, occupational health and safety, labor and human rights)? Do they have any impact on Apple’s image? Should Apple try to influence Foxconn to change some of its policies?
 3. What should be a company’s main criteria when making business decisions? What are?
- *Purchasing and Supply Management* JLF, Ch 10 Price

TLC assignment: Suppose you are a buyer for California Farms, a major US food processing company. The company uses fruit and vegetable concentrates and purees to make its products. You have to negotiate annual contract for mango pulp, which is grown and harvested in several countries. You are currently examining your contract with a long time supplier, a Pakistani grower and processor. The supplier packages the pulp, priced at \$0.43/pound, in aseptic drums, each containing 500 lb of pulp. Each 20 ft container contains 80 aseptic drums, and the ocean freight charges \$4,200 per container. Once the containers reach the port of Los Angeles, a trucking company takes them to a warehouse at a charge of \$1,300 per container. US customs charges import duties at a rate of 12.5%of the original purchase price (excluding freight charges).

Each container is warehoused in the public storage facility until needed for processing, with average storage of one month. The monthly storage charge is \$6.5/drum. In addition, the warehouse charges a one-time in/out fee of \$3.5/drum to cover its administrative costs. California Farms annual inventory carrying charge is 18.5%, applied to the purchase part of units stored in the warehouse. As California Farms pay for items only when they reach the port of Los Angeles, they to not incur inventory cost on in-transit inventory.

What is the cost per pound of mango pulp from Pakistan to the port of Los Angeles? What is the cost from dock to the warehouse? What is the total cost for California Farms before they start production? If they wanted to reduce the total cost, what might be some alternatives?

Week 2 Prices and contracts; Supplier selection

Readings:

- *Purchasing and Supply Management* JLF, Ch 10 Price

Discussion Questions (for Coral Drugs case):

1. *If you were in the position of Shirley Black, what would you recommend to the vice president of purchasing? Why? Provide both quantitative and qualitative support for your answer.*
 2. *Do you agree with the way Shirley handled the issue? Would you have done anything differently?*
- *Option pricing model*

Please download the excel file for Option pricing model from the Blackboard and bring your laptops to class.

- *Case: 12-1 Loren, Inc., from Ch. 12 JLF*

Discussion Questions (Loren, Inc case):

1. How important is price in the awarding of this contract?
2. Does it make sense to have multiple sources for materials such as this?
3. How important is the past record of suppliers in this case?
4. Does the fact that this is Brent's first major contract have any bearing on the deliberations?
5. Is the purchasing strategy of Loren consistent with its documentation to suppliers?
6. Do you believe the one bid policy of Loren to be a wise one?
7. What would your decision be?

Week 3 Guest speaker—Jimmy Anklesaria (Anklesaria Group, Inc)

Week 4 Supplier selection and evaluation

Readings:

- *Purchasing and Supply Chain Management MHGP, Ch 7 Supplier evaluation and selection*
- *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?*
- *Purchasing and Supply Chain Management MHGP, Ch 10 Worldwide sourcing*
 - *Mexico or China? Managing a global network (Kellogg Minicase)*
- Discussion Questions:
1. Consider products LEX 100021, 100023, 100026 and 100028. Quantify the total landing cost for both locations for two scenarios: % of China shipments by sea = 100% and 0%. Disregard the last two columns in table 6.3 (sales mix). In your calculation of inventory costs, assume that you want to achieve CSL of 90%, and that the monthly cost of holding inventory corresponds to 2% of product cost. Based on this analysis, how should the tradeoff between the transportation mode and lead time be assessed?
 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 5 Global dual sourcing simulation game

(Bring your laptops to class)

Group report on Mexico or China due at the beginning of the class

Week 6 No class – Thanksgiving

Group report on simulation due on 11/27

Week 7 Procurement risks: Environmental and social issues

Readings:

- *Boeing: The fight for fasteners (WDI case #1-428-787)*
Discussion Questions:
 1. What were the causes of the fastener crisis at Boeing? What effect did the 787 Dreamliner project have on fastener supply? How was the problem ignored for so long? What could Boeing have done differently to avoid the fastener crisis?
 2. What are the key elements of the Fastener Procurement Model (FPM)? Describe the material, information, and financial flows between Boeing, fastener manufacturers and Tier-1 partners under FPM.
 3. Evaluate FPM from the perspective of Boeing, fastener manufacturers, Tier-1 partners and other stakeholders.
 4. Critique the approach taken by Boeing in implementing FPM. What problems has Boeing encountered in rolling out the FPM?
 5. FPM is not the first time Boeing has redesigned its procurement system. What did they do in TMX? What learning can be derived from TMX for FPM?
 6. How should the value-sharing be managed? How could Boeing construct a supply chain and governance model that would consider the concerns of all involved parties (Boeing, fastener manufacturers, Tier-1 partners)?

- *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 SC or engage in broader action to address the root causes of child labor as Save the Children is urging?

- *Western Firms Feel Pressure as Toll Rises in Bangladesh (NYT, 4/25/2013)*
- *Bangladesh Fire: How Rules Went Astray (WSJ, 12/6/2012)*
- *A Bangladesh Factory Inspector's Grueling Day in the Life (BW, 5/30/2013)*
- *Bangladesh Fire: What Wal-Mart's Supplier Network Missed (WSJ, 12/10/2012)*
- *Public Outrage Over Factory Conditions Spurs Labor Deal (NYT, 5/19/2013)*
- *U.S. Retailers Offer Plan for Safety at Factories (NYT, 7/10/2013)*
Discussion Questions:
 1. Who is responsible when accidents like the one in Bangladesh occur? Could it have been prevented? How should western firms approach the safety issue for factories to which they outsource their manufacturing?
 2. Was Wal-Mart approach to factory safety flawed? Would you have done anything differently?
 3. How does European approach to factory safety differ from the American one? What are the pros and cons of each of them?