

**SOLUTIONS MANUAL**

**CONTEMPORARY  
LOGISTICS**

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**PART II**  
**ANSWERS TO END-OF-CHAPTER QUESTIONS**

**CHAPTER 2: THE SUPPLY CHAIN MANAGEMENT CONCEPT**

1. Discuss the differences between supply chain and supply chain management.

A supply chain refers to the activities associated with the flow and transformation of goods from the raw material stage, through to the end user, as well as the associated information flows. Supply chains are not a new concept in the sense that through the years organizations have been dependent on suppliers and organizations have served customers. Although any organization can be part of a supply chain, supply chain management requires overt management efforts by the organizations in the supply chain. Moreover, supply chain management cannot be successful unless the participating companies adopt an enterprise-to-enterprise perspective.

2. Discuss the SCOR and GSCF models of supply chain management.

The SCOR model identifies five key processes—plan, source, make, deliver, and return—associated with supply chain management. Each of the five processes indicates the important role of logistics in supply chain management. There are eight relevant processes in the GSCF model—customer relationship management, customer service management, demand management, order fulfillment, manufacturing flow management, supplier relationship management, product development management, and returns management. Logistics also plays an important role in the supply chain processes in the GSCF model.

3. What are four key attributes of supply chain management?

The chapter discussed six key attributes of supply chain management: customer power; a long-term orientation; leveraging technology; enhanced communication across organizations; inventory control; interorganizational coordination.

4. Why do contemporary supply chains need to be fast and agile?

First, “fast” encompasses a time/speed component, while “agile” focuses on an organization’s ability to respond to changes in demand with respect to volume and variety. Fast and agile are important attributes of contemporary supply chains in part because customer needs and wants can change relatively quickly. Failure to be fast and agile can result in decreased market share, reduced profitability, lower stock price, and/or dissatisfied customers for supply chain participants.

5. What is the difference between relational and transactional exchanges? Which is more relevant for supply chain management? Why?

Relational exchanges tend to emphasize a long-term orientation, while transactional exchanges have a short-term orientation. Unlike transactional exchanges, relational exchanges are characterized by attributes such as trust, commitment, and dependence, among others. Supply chain management suggests that supply chains exist to improve the long-term performance of the individual companies and the supply chain as a whole. Relational exchanges also have a long-term orientation. As a result, relational exchanges are more relevant than transactional exchanges to supply chain management.

6. This chapter suggests that technology has been at the center of changes taking place that affect the supply chain. Do you agree or disagree? Why?

Although students can support either side of the argument, the text does argue that technology has been at the center of changes taking place that affect the supply chain. In particular, increases in computing power and the Internet have been behind much of this change.

7. Discuss the impact of the Internet on supply chain management.

The Internet can facilitate supply chain effectiveness and efficiency by providing opportunities to simultaneously improve customer service and reduce logistics costs. The Internet allows one supply chain party to have virtually instantaneous visibility to the same data as do other supply chain participants. This can ultimately result in lower inventories and improved profitability throughout the supply chain.

8. Discuss some of the ways that inventory can be reduced in the supply chain.

Ways to reduce inventory in the supply chain include, but are not limited to, smaller, more frequent orders; the use of premium transportation; demand-pull (think of Dell Computers), as opposed to supply-push, replenishment; the elimination or consolidation of slower-moving products.

9. Do you agree that supply chain collaboration can be classified as transactional, tactical information sharing, or strategic in nature? Why?

Students could argue that supply chain collaboration is not transactional, tactical information sharing or strategic in nature, but the text argues for this classification scheme.

10. How might regulatory and political conditions act as barriers to supply chain management?

With respect to regulatory conditions, a number of today's supply chain arrangements were illegal until the early 1980s. At a minimum, companies should be aware of regulatory considerations before pursuing supply chain arrangements. Political conditions such as war and governmental stability can also act as barriers to supply chain management. War, for example, could easily disrupt well-established supply chains. Government policies that either discourage interorganizational coordination or discourage doing business with certain countries which would have a negative impact on supply chain efficiency.

11. Why is top management commitment necessary for successful supply chain management?

Top management has the ability to allocate the necessary resources for supply chain endeavors and top management has the power to structure, or restructure, corporate incentive policies to focus on achieving organizational or interorganizational (as opposed to functional) objectives.

12. Some companies are hesitant to use frequent shopper cards because the data provided could violate the customer's privacy. Do you agree or disagree? Why?

Although either answer is acceptable, the question of data usage versus customer privacy has generated impassioned discussions by students. On the one hand, the frequent shopper cards can provide a plethora of data about the shopping habits of particular consumers, potentially allowing stores to achieve customized marketing for individual customers. At the same time, frequent shopper cards could violate customer privacy in the sense that certain customers might be uncomfortable that stores have access to such detailed data about them, particularly if the data includes frequent purchases of potentially "embarrassing" products (e.g., laxatives).

13. Discuss the best of breed and single integrator approaches.

In a single integrator approach, all relevant software applications (e.g., inventory management, transportation management, warehouse management, etc.) are provided by a single vendor. One advantage of this approach is that there should be coordination across the various applications. Alternatively, a best of breed approach chooses the best application for a particular function and this approach often requires additional software packages to coordinate the different applications.

14. Do you think corporate cultures are relevant for supply chain management? Why or why not?

Again, either answer is adequate. However, the text indicates that incompatible corporate cultures could present potential obstacles to effective and efficient supply chain management. In addition, manifestations of corporate cultures, such as company rituals, company brochures, and the like, can provide important clues about the ability of potential supply chain parties to work together.

15. Why is supply chain integration so difficult in global supply chains?

Integration challenges in global supply chains include cultural, economic, technological, political, spatial, and logistical differences. Global supply chains translate into both longer, and more unpredictable, lead times for shipments, which increases the chances that customer demand might not be fulfilled due to a potential out-of-stock situation.

16. Discuss the three primary methods that organizations can use to integrate their supply chains.

One method is vertical integration, in which one organization owns multiple participants in the supply chain. Sherwin-Williams, for example, is a paint manufacturer and also owns retail paint stores. A second method involves formal contracts among various participants, such as occurs with franchising. The third method focuses on informal agreements among various organizations to pursue common goals and objectives. This option provides a great deal of flexibility—which can have both positive and negative aspects.

17. Discuss the factors that distinguish contemporary third-party logistics from earlier types of third-party logistics.

For one, there tend to be formal contracts (generally 3–5 years) between providers and users. Contemporary third-party logistics also tends to be characterized by a relational focus, an emphasis on mutual benefits, and the availability of customized (as opposed to standardized) offerings. In short, contemporary third-party logistics has a decidedly long-term outlook, as opposed to “shopping around” for the best deal at the present time.

18. What are some reasons for using third-party logistics services? What are some reasons that third-party logistics arrangements aren't always successful?

The decision to use third-party logistics services can be driven by strategic considerations in the sense that an organization believes that one or more aspects of its supply chain needs to be transformed. Alternatively, the decision to use 3PL services could be more tactical in nature; an organization might have an inefficient distribution network as well as an inability to control costs, among

other reasons. Reasons for unsuccessful 3PL arrangements include unreasonable and unrealistic expectations and a lack of flexibility.

19. Do you agree or disagree with the sentiment that fourth-party logistics companies (lead logistics providers) merely add unnecessary cost and few service improvements to supply chains? Why?

Either answer is acceptable. Because fourth-party logistics is a relatively new concept, it may be too early to have a good idea as to the ultimate role(s) that these intermediaries will play in effective and efficient supply chains. Their usefulness could be limited if they continue to be best suited to large companies with global supply chains.

20. Discuss the various types of supply chain software.

Some software packages focus on specific functional areas such as reverse logistics, transportation, warehousing, or inventory management. Other software packages focus on specific supply chain processes such as customer relationship management or collaborative planning, forecasting, and replenishment. Still other packages attempt to simultaneously optimize supply chain processes across organizations.

**PART III**  
**EXAMINATION QUESTIONS**

**CHAPTER 2: THE SUPPLY CHAIN MANAGEMENT CONCEPT**

**Multiple Choice Questions**

1. According to Professor Mentzer and colleagues, the supply chain concept originated in what discipline?
  - a. marketing
  - b. operations
  - c. logistics
  - d. production(c; p. 33)
  
2. The supply chain management philosophy emerged in which decade?
  - a. 1960s
  - b. 1970s
  - c. 1980s
  - d. 1990s(d; p. 33)
  
3. A \_\_\_\_\_ encompasses all activities associated with the flow and transformation of goods from the raw material stage, through to the end user, as well as the associated information flows.
  - a. production line
  - b. supply chain
  - c. marketing channel
  - d. warehouse(b; p. 34)
  
4. Although nearly any organization can be part of a supply chain, supply chain management requires:
  - a. the involvement of third-party logistics companies
  - b. overt management efforts by the organizations in a supply chain
  - c. the participation of world-class organizations
  - d. at least one organization to be a multinational company(b; p. 35)

5. Two of the most prominent supply chain management frameworks are the Supply-Chain Operations Reference (SCOR) model and the \_\_\_\_ model.
- a. Council of Supply Chain Management Professionals (CSCMP)
  - b. Supply Chain Efficiency (SCE)
  - c. Global Supply Chain Forum (GSCF)
  - d. Penn State University (PSU)
- (c; p. 35)
6. Which of the following is not one of the processes in the SCOR model?
- a. sell
  - b. plan
  - c. make
  - d. return
- (a; p. 35)
7. The current Global Supply Chain Forum (GSCF) model identifies \_\_\_\_\_ key processes associated with supply chain management.
- a. five
  - b. six
  - c. seven
  - d. eight
- (d; p. 35)
8. Which of the following are not key attributes of supply chain management?
- a. inventory control
  - b. leveraging technology
  - c. customer power
  - d. a long-term orientation
  - e. all are key attributes
- (e; p. 36)
9. Contemporary supply chains should be fast and \_\_\_\_\_.
- a. lean
  - b. agile
  - c. interactive
  - d. relevant
- (b; p. 37)



10. Contemporary supply chains should be agile and \_\_\_\_\_.
- a. fast
  - b. lean
  - c. interactive
  - d. relevant
- (a; p. 37)
11. An organization's ability to respond to changes in demand with respect to volume and variety refers to \_\_\_\_\_.
- a. responsiveness
  - b. leanness
  - c. agility
  - d. relevancy
- (c; p. 37)
12. What is a perfect order?
- a. simultaneous achievement of relevant customer metrics
  - b. an order that arrives on time
  - c. an order that arrives undamaged
  - d. an order that is easy for the receiver to fill
- (a; p. 38)
13. Which of the following is not associated with relational exchanges?
- a. independence
  - b. trust
  - c. commitment
  - d. shared benefits
- (a; p. 38)
14. Positive, long-term relationships between supply chain participants refer to:
- a. co-opetition
  - b. tailored logistics
  - c. partnerships
  - d. supply chain management
- (c; p. 38)

15. According to the text, \_\_\_\_\_ has been at the center of the changes taking place that affect the supply chain.

- a. logistics
  - b. warehousing
  - c. technology
  - d. customer power
- (c; p. 38)

16. The two key factors that have sparked much of the technological change affecting supply chains are \_\_\_\_\_ and \_\_\_\_\_.

- a. EDI; ERP
  - b. Computing power; ERP
  - c. EDI; Internet
  - d. Computing power; Internet
- (d; p. 38)

17. The bullwhip effect:

- a. is an ineffective way to motivate warehouse employees
  - b. applies to rodeos and has nothing to do with supply chain management
  - c. refers to the “swaying” motion associated with triple trailers
  - d. refers to variability in demand orders among supply chain participants
- (d; p. 39)

18. The variability in demand orders among supply chain participants:

- a. cannot be controlled
  - b. refers to the bullwhip effect
  - c. can be controlled with electronic order placement
  - d. is more pronounced in relational exchanges
- (b; p. 39)

19. Which of the following is not a way to reduce inventory levels?

- a. supply-push replenishment
  - b. smaller, more frequent orders
  - c. use of premium transportation
  - d. elimination of slower moving products
- (a; p. 39)

20. Cooperative supply chain relationships developed to enhance the overall business performance of both parties is a definition of:

- a. third-party logistics
  - b. supply chain collaboration
  - c. dovetailing
  - d. relationship marketing
- (b; p. 41)

21. Supply chain collaboration can be classified as transactional, strategic, or \_\_\_\_ in nature.

- a. operational
  - b. superorganizational
  - c. managerial
  - d. tactical information sharing
- (d; p. 41)

22. \_\_\_\_ collaborations offer the best opportunity for improving supply chain performance.

- a. Transactional
  - b. Strategic
  - c. Tactical information sharing
  - d. Operational
- (b; p. 41)

23. Which of the following is false?

- a. top management commitment is essential if supply chain efforts are to have any chance of success
  - b. some companies are uncomfortable with the concept of customer power in supply chains
  - c. senior management commitment to supply chain management occurs in one of every two organizations
  - d. some companies are hesitant to enter into long-term relationships because such relationships might be perceived as limiting a company's operational flexibility
  - e. all are true statements
- (c; p. 42)

24. Which of the following is not a barrier to supply chain management?

- a. regulatory and political considerations
  - b. lack of top management commitment
  - c. reluctance to share, or use, relevant data
  - d. incompatible corporate cultures
  - e. all are barriers
- (e; pp. 42–44)

25. Data mining:

- a. is illegal in the United States
  - b. is synonymous with marginal analysis
  - c. looks for patterns and relationships in relevant data
  - d. can only be done by grocery stores
- (c; p. 43)

26. Looking for patterns and relationships in relevant data refers to:

- a. data warehousing
  - b. marginal analysis
  - c. correlation analysis
  - d. data mining
- (d; p. 43)

27. In a(n) \_\_\_\_\_ approach, all relevant software applications are provided by a single vendor.

- a. single integrator
  - b. captive customer
  - c. information outsourcing
  - d. customer centric
- (a; p. 43)

28. \_\_\_\_\_ refers to “how we do things around here” and reflects an organization's vision, values, and strategic plans.

- a. Supply chain management
  - b. Organizational behavior
  - c. A mission statement
  - d. Corporate culture
- (d; p. 43)

29. Which of the following is not a routine occurrence in global supply chains?
- a. documentation errors
  - b. incomplete shipments
  - c. packaging errors
  - d. failure to follow order guidelines
  - e. all of the above are routine occurrences
- (e; p. 44)
30. Supply chains can be integrated by having various parties enter into and carry out long-term mutually beneficial agreements. These agreements are known by several names. Which of the following is not one of these names?
- a. partnerships
  - b. strategic alliances
  - c. third-party arrangements
  - d. contract logistics
  - e. all of the above are correct
- (e; p. 44)
31. There are three primary methods that organizations can pursue when attempting to integrate their supply chains. Which of the following is not one of them?
- a. vertical integration
  - b. intensive distribution
  - c. formal contracts
  - d. informal agreements
- (b; p. 45)
32. All of the following are factors that distinguish contemporary third-party logistics from earlier efforts except:
- a. there tends to be a formal contract in contemporary 3PL
  - b. contemporary 3PL focuses on customized offerings
  - c. contemporary 3PL has a transactional focus
  - d. contemporary 3PL focuses on mutual benefits
- (c; p. 46)
33. Which of the following statements is true?
- a. 3PL services are not used outside of Western Europe and North America
  - b. The decision to use third-party logistics can only be strategic in nature
  - c. Contemporary 3PL began to emerge in the 1970s
  - d. A common cause of 3PL failure is unreasonable and unrealistic expectations
  - e. None of the above are true
- (d; pp. 46-47)

34. What is a fourth-party logistics provider?
- a. a third-party logistics provider that has been in existence for at least 25 years
  - b. a third-party logistics provider that has achieved ISO 9000 certification
  - c. a logistics intermediary that specializes in one logistics activity (e.g., transportation, warehousing)
  - d. a general contractor that coordinates the activities of third-party logistics providers
- (d; p. 47)
35. Which of the following statements about supply chain software is false?
- a. many supply chain software packages are developed for specific, rather than general, applications
  - b. supply chain software packages can focus on specific functional activities such as transportation and warehousing
  - c. supply chain software packages can focus on specific supply chain processes such as customer relationship management
  - d. supply chain software packages can attempt to simultaneously optimize supply chain processes across organizations
  - e. all are true
- (a; p. 48)

### **True-False Questions**

1. The supply chain concept originated in the logistics literature. (True; p. 33)
2. Customers are not included as part of supply chains. (False; p. 34)
3. Supply chain management requires overt management efforts by the organizations within the supply chain. (True; p.35)
4. Two of the more prominent supply chain management frameworks are the Supply-Chain Operations Reference (SCOR) and Global Supply Chain Forum (GSCF) models. (True; p. 35)
5. The SCOR model identifies four key processes associated with supply chain management. (False; p. 35)
6. Because customer needs and wants change relatively quickly, supply chains should be fast and lean. (False; p. 37)
7. With respect to supply chains, relevancy focuses on an organization's ability to respond to changes in demand with respect to volume and variety. (False; p. 37)

8. A perfect order simultaneously achieves relevant customer metrics. (True; p. 38)
9. Supply chains should employ a long-term orientation with various participants. (True; p. 38)
10. Relational exchanges cannot be successful without information sharing among various participants. (True; p. 38)
11. Power retailers have been at the center of changes taking place that affect the supply chain. (False; p. 38)
12. The Internet has been referred to as the greatest force of commodization known to man, for both goods and services. (True; p. 39)
13. Enhanced communications across organizations in a supply chain is only dependent on the technological capabilities of the organizations. (False; p. 39)
14. Variability in demand orders among supply chain participants is known as the *bubble effect*. (False; p. 39)
15. Inventory control in supply chain management is attempting to move from “stops and starts” to continuous flow. (True; p. 39)
16. Supply chain disruptions (e.g., terrorist attacks, natural disasters) have caused some supply chains to reassess their emphasis on inventory reduction. (True; p. 40)
17. As a general rule, supply chain collaboration is widely and successfully applied. (False; p. 41)
18. Tactical information sharing offers the best opportunity for improving supply chain performance. (False; p. 41)
19. Regulatory considerations present a bigger obstacle than political considerations to supply chain management. (False; p. 42)
20. The overall global climate for business has shifted toward allowing more cooperation among firms—which should help supply chain management. (True; p. 42)
21. Top management is sometimes hesitant to fully commit to supply chain management. (True; p. 42)
22. Actual senior management commitment to supply chain management occurs in one of every two organizations. (False; p. 42)
23. One cause of the bullwhip effect is asymmetrical information among supply chain participants. (True; p. 43)

24. Data warehousing is a technique that looks for patterns and relationships in the relevant data. (False; p. 43)
25. Although customer loyalty programs (e.g., frequent shopper cards) can provide highly detailed data to companies, there are some who believe that these programs potentially violate a customer's right to privacy. (True; p. 43)
26. Today, computer hardware is a larger barrier than computer software to interorganizational collaboration. (False; p. 43)
27. A best-of-breed approach chooses the best software application for a particular function. (True; p. 43)
28. Corporate cultures should not be considered when designing a supply chain. (False; p. 43)
29. Supply chain integration tends to be more challenging in global, as opposed to domestic, supply chains. (True; p. 44)
30. An individual firm can only be involved in one supply chain at a time. (False; p. 44)
31. Vertical integration is one of the methods that organizations can pursue when attempting to integrate their supply chains. (True; p. 46)
32. Contemporary third-party logistics has existed since about 1975. (False; p. 46)
33. Contemporary third-party logistics tends to be characterized by standardized, as opposed to customized, offerings. (False; p. 46)
34. Indications are that third-party logistics will become increasingly important in parts of the world such as Eastern Europe and Asia. (True; p. 46)
35. Shipment routing and reverse logistics are common activities demanded by third-party logistics customers. (False; p. 46)
36. The decision to use third-party logistics companies can be driven by strategic or tactical considerations. (True; pp. 46-47)
37. A fourth-party logistics provider should be viewed as a company whose primary purpose is to insure that third-party logistics providers are working toward relevant supply chain goals. (True; p. 47)
38. The fourth-party logistics concept appears to be best suited to small companies that need logistical assistance in only one or two functional areas. (False; p. 47)



39. As a general rule, supply chain software packages look to coordinate and integrate functions, processes, and/or systems across multiple supply chain participants. (True; p. 47)
40. The supply chain software market has been characterized by a great deal of consolidation in recent years. (True; p. 48)

**PART IV  
CASE SOLUTIONS**

**CASE 2-1 JOHNSON TOY COMPANY**

**Question 1:** From the standpoint of an individual concerned with accounting controls, discuss and evaluate Johnson Toy Company's present policies for handling returned items.

The controls are poor from the standpoint of accuracy of financial records, because they provide poor information to management.

**Question 2:** Answer question 1, but from the standpoint of an individual interested in marketing.

Marketing people tend to favor less stringent controls in the sense that they provide more flexibility when bargaining with retailers.

**Question 3:** Propose a policy for handling returns that should be adopted by the Johnson Toy Company. Be certain to list circumstances under which exceptions would be allowed. Should it apply to the Jungle Jim dolls?

One student's answer is reproduced here.

- I. **HIGH VOLUME CUSTOMERS** (defined as purchasing \$75,000 of merchandise from Johnson's per year)
  - A. Functionally damaged goods may be returned to Johnson's plant at Johnson's expense with a full refund.
  - B. High volume customers will receive a straight 2% deduction off of the wholesale selling price to cover defectives—whether defectives are classified as cosmetically damaged or slow moving items, except when unable to sell due to special circumstances (see Section III).
- II. **LOW VOLUME CUSTOMERS**
  - A. Functionally damaged goods may be returned to Johnson's plant via Johnson's salesperson with a full refund.
  - B. Low volume customers will NOT receive an automatic deduction for defectives. Instead, the damage or defect must be defined:
    1. Cosmetically damaged goods (classified as functionable and sellable): a 25% discount granted upon inspection by Johnson's salesperson.

2. Slow moving items: NO RETURNS
3. Non-moving items (for reasons other than physical damage): see special circumstances, Section III)

III. SPECIAL CIRCUMSTANCES When product is not resellable for reasons other than being functionally damaged or just a slow mover in the off season, such as when the product receives bad press (as in the case of Jungle Jim and Jogger Dolls), Johnson will allow return of all such non-resellable items under the following conditions:

- A. Retailer must pay for the returned merchandise to reach Johnson's plant.
- B. Retailer's account will be credited for the full amount of said purchase.
- C. Credit is to be used within 30 days of receipt of returned goods at Johnson's plant; credit will be void after 30 days.

No mention was made as to whether it should apply to the Jungle Jim dolls. The firm might try to enforce it but customers might complain that it should not be applied retroactively.

**Question 4:** Should this policy, if adopted, be printed and distributed to all of the retailers who handle Johnson Toy Company products? Why or why not? If it should not be distributed to them, who should receive copies?

Yes, retailers should know exactly what the returns policy will be. One element of a customer service policy is to let customers know in advance what the policy is.

**Question 5:** Assume that it is decided to prepare a statement on returns to be distributed to all retailers and that it should be less than a single double-spaced page. Prepare such a statement.

The answer provided for question 3 would suffice here as well.

**Question 6:** On the basis of the policy in your answer to question 3, develop instructions for the Johnson Toy Company distribution and accounting departments with respect to their roles and procedures in the handling of returns.

One could take the information as developed in answers 3 and 5, and draft a memo to be sent to both the distribution and accounting departments, telling them of the new policies, and their roles in carrying them out. The accounting department should be told to develop additional procedures that will protect against fraud. In addition, other departments in the firm should receive some

information concerning the returns, because they may contain information that should interest marketing, quality control and production scheduling.

**Question 7:** Assume that you are Cheryl Guridi, the firm's logistics manager. Do you think that the returns policy favored by the logistics manager would differ from what would be best for the firm? Why or why not?

Yes, the returns policy favored by the logistics manager will favor a tight return policy so that her department does not have to be responsible for keeping track of returned inventories, and for shipping damaged goods. The firm would probably prefer a looser return policy so that it could be used as a bargaining tool to increase sales.

**Question 8:** Until the policy you recommend in your answer to question 3 takes effect, how would you handle the immediate problem of retailers wanting to return unsold Jungle Jim the Jogger dolls?

There are several approaches to this question. Some students have provided very specific policies. Others have said that because the policy was not in effect when the Jungle Jim dolls went out, it should not apply to their situation. This latter group favored a policy of "almost anything" that would keep retailers happy. They argued—with support from the case material—that there were a number of valued long-term relationships with retailers that should not be harmed.

## **CASE 2-2 WYOMO GROCERY BUYERS' COOPERATIVE**

**Question 1:** Co-op members presently pay for goods “on the basis of cost to the co-op plus 23% to cover warehousing and transportation from the warehouses to the members’ retail stores.” Is this a fair way to cover warehousing costs? Can you think of a better way? If so, describe it.

This system probably favors the stores that have smaller order sizes and higher transportation costs to reach. “Better” may or may not be the issue; it is only if one thinks that the rates should be cost-oriented.

**Question 2:** Answer the problem posed in question 1 with respect to transportation costs.

The previous answer is applicable here. If one wanted rates oriented toward transportation costs, they might devise a method that takes into account tonnages carried and distances traveled.

**Question 3:** Toward the end of the case, Bright described how some manufacturers pay bribes to get shelf space in retail stores. Should retailers accept such bribes? Why or why not?

The bribes are paid in two ways. One is a gift of additional merchandise to be sold, which merely lessens the store’s cost of goods purchased. This is sometimes called a “stocking allowance.” The other way is cash paid to salaried employees, which they would probably pocket. The first method is a fairly common practice; the second method would be viewed by many as wrong and thus should be discouraged.

**Question 4:** The case says, “Stores were responsible for placing orders with the co-op, although a co-op representative would call on a weekly basis, and one of her/his functions was to help some store operators complete their order forms.” Is this a function that the co-op should be performing? Why or why not?

It’s a way for the co-op to help some of its members and it also helps to keep certain stores loyal to the co-op. Unless the co-op’s board adopts a policy against the practice, then there’s nothing wrong with it. The practice can be viewed as a form of customer service.

**Question 5:** The case mentions that some of the larger stores that belonged to the co-op sometimes threatened to form their own co-op. Assume that you are hired by some of them to study the feasibility of such a move. List the various topics that you would include in your study.

One could look at all the elements in the distribution system needed to serve the larger co-ops: warehousing, transportation, inventories, order management, etc. Then one would determine the costs serving the larger co-ops and compare these

costs to what is presently offered by Wyomo. This is an area where quantity discounts are important: can the new co-op earn large enough discounts on what it buys to have some major savings?

**Question 6:** How would you vote on Hardy's motion? Why?

A student can vote either way, although freezing the number of SKUs may force the larger members to leave the co-op.

**Question 7:** Would it make a difference whether you represented a large or small store? Why?

Small stores would probably favor the resolution, unless they realized that expansion was necessary for the survival of the co-op. If they lose their larger members, many costs per unit may increase.

**Question 8:** Are there other strategies that the co-op might pursue to overcome this problem? If so, describe.

They could get additional product space for some product lines, or arrange to have some large volume orders delivered directly to stores, bypassing the warehouse.