
TEST BANK
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Chapter 2
Value Chains in Global Operations

TRUE/FALSE

1. Proportional increases or decreases in perceived benefits as well as price or cost results in no net change in value.

   ANS: T

2. The focus on value has forced many traditional goods-producing companies to reduce services for their customer benefits package.

   ANS: F

3. A competitively dominant customer experience is often called a value proposition.

   ANS: T

4. A value chain can be considered a “cradle-to-grave” model.

   ANS: T

5. A supply chain is more inclusive than a value chain.

   ANS: F

6. The operational structure of a value chain is the configuration of resources such as suppliers, factories, warehouses and communication links.

   ANS: T

7. Vertical integration is a new method of outsourcing.

   ANS: F

8. A vertical integration strategy provides a firm more control and generally reduces the complexity of managing the value chain.

   ANS: F

9. The organization that outsources still retains ownership of the outsourced process or function.

   ANS: F

10. Forward integration may include acquiring a customer.

    ANS: T

11. Offshoring is the same as outsourcing in terms of transferring ownership and control.

ANS: F

12. Global supply chains face higher levels of risk and uncertainty, requiring more inventory and day-to-day monitoring to prevent product shortages.

    ANS: T

13. A reason for globalization includes shifting work closer to customers for fast delivery and customization.

    ANS: T

MULTIPLE CHOICE

1. Which of the following is not true? To increase value, an organization must
   a. Decrease price or cost while holding perceived benefits constant.
   b. Hold perceived benefits constant while increasing price or cost.
   c. Increase perceived benefits while holding price or cost constant.
   d. Increase perceived benefits while reducing price or cost.

   ANS: B

2. In the value chain model for a hospital, patients, drugs and staff would be considered
   a. Suppliers
   b. Inputs
   c. Transformation processes
   d. Outputs

   ANS: B

3. For a restaurant, order-taking, bill payment and home delivery would be considered
   a. Suppliers
   b. Inputs
   c. Transformation processes
   d. Outputs

   ANS: C

4. From the pre- and post-service view of a value chain, goods and services design, contract negotiation and consulting services would be considered
   a. Pre-production service
   b. A production process
   c. Post-production service
   d. Value creation

   ANS: A

5. From the pre- and post-service view, transportation service, training service and consulting and technical services would be considered
   a. Pre-production service
   b. A production process

c. Post-production service
d. Value creation

ANS: C

6. The decision to outsource or vertically integrate depends upon all the following except
   a. Economics
   b. Technological capabilities
   c. The firm's human resources
   d. Performance measures

   ANS: D

7. The United States has experienced three waves of outsourcing. Which of the following is not one of the waves?
   a. Skilled knowledge workers
   b. Mass customization
   c. Simple service work
   d. Goods-producing jobs

   ANS: B

8. Integration refers to acquiring capabilities at the front of the supply chain, whereas ____________ integration refers to acquiring capabilities toward the back end of the supply chain.
   a. Buy, make
   b. Make, buy
   c. Forward, backward
   d. Backward, forward

   ANS: D

9. Which one of the following is not normally considered a variable cost?`
   a. Labor
   b. Transportation
   c. Leasing equipment
   d. Material

   ANS: C

10. ____________ is the process of managing information, services and physical goods to insure their availability at the right place, at the right time, at the right cost and at the right quantity, with the highest attention given to quality.
    a. Offshoring
    b. Value proposition
    c. Operational structure
    d. Value chain integration

    ANS: D

11. ____________ factories are established to innovate and create new processes, products and technologies.
    a. Lead
    b. Offshore
    c. Outpost

d. Source

ANS: A

12. ____________ factories are established to supply specific national or regional markets.
a. Server
b. Offshore
c. Outpost
d. Lead

ANS: A

13. In examining issues to consider when making offshore decisions, which is different from the others?
a. Learn foreign markets and cultures
b. Possible political instability in offshore country
c. Lower import duties and fees
d. Lack of communication and/or technical skills

ANS: C

14. Which of the following is not a disadvantage of global offshoring or outsourcing?
a. Less control of core outsources capabilities
b. Political fallout and restrictive laws
c. Lower global inflation
d. Difficulty of coordinating a global work force and meeting project/customer deadlines

ANS: C

15. Which of the following is not an advantage of global offshoring and outsourcing?
a. Lower retraining costs
b. Lower total cost of goods and services
c. New business from markets where jobs reside
d. 24/7 customer care and service

ANS: A

16. Which of the following is not considered a major management issue in global value chains?
a. Privatizing companies
b. Transportation infrastructure
c. Global purchasing
d. All choices are major issues

ANS: D

17. Deadlines may not be “exact” but interpreted as “within the next few days” is an example of
a. Infrastructure
b. Cultural differences
c. Value proposition
d. Tracing

ANS: B

18. Operational structure of the value chain deals with
a. Management hierarchy

b. Vertical integration
c. Configuration of resources
d. Culture

ANS: C

19. Which of the following is false?
    a. Transportation is more complex in global value chains
    b. The transportation infrastructure may vary considerably in foreign countries
    c. Global purchasing can be an easy process to manage when sources of supply, regional economies and even governments change
    d. International purchasing can lead to disputes and legal challenges relating to such things as price fixing and quality defects

    ANS: C

20. Regarding offshore candidates for service and information work activity, which of the following is not low risk?
    a. Transaction processing
    b. Telemarketing
    c. Investment analysis
    d. Benefit administration

    ANS: C

SHORT ANSWER

1. Define value and discuss three (3) ways for organizations to increase value.

   ANS:
   Value is the perception of the benefits associated with a good, service or bundle of goods and services in relation to what buyers are willing to pay for them. A simple way of expressing value is: Perceived benefits/price (cost) to the customer. To increase value, an organization must ...

   a.) increase perceived benefits while holding price or cost constant

   b.) increase perceived benefits while reducing price or cost, or

   c.) decrease price or cost while holding perceived benefits constant

2. Explain a value proposition. Relate this to a customer benefits package of goods and services

   ANS:
   A competitively dominant customer experience is often called a **value proposition.** A winning value proposition is one that meets the full set of customer needs, including price. The focus on value has forced many traditional goods-producing companies to add services to their customer benefit packages.

3. Contrast the two views of a value chain. What is the significance of each?

   ANS:

The first view is the classic process flow diagram of a value chain from suppliers to customers, along with supporting management infrastructure. This view makes it easy to understand the value chain from a process perspective.

The second view shows the value chain from pre- and post-production service perspectives, focusing on gaining a customer, value creation and keeping the customer. This view of the value chain emphasizes the notion that service is a critical component of traditional manufacturing processes.

4. Differentiate a supply chain from a value chain.

   ANS:
   A **supply chain** is the portion of the value chain that focuses primarily on the physical movement of goods and materials and the supporting flows of information and financial transactions through the supply, production and distribution processes. A value chain is broader in scope than a supply chain and encompasses all pre- and post-production services to create and deliver the entire customer benefit package. A value chain views an organization from the customer's perspective -- the integration of goods and services to create value -- while a supply chain is more internally-focused on the creation of physical goods. The value chain idea is more applicable to services where service, information and entertainment play an increasing role in the total bundle of goods and services, that is, the customer benefit package.

5. Contrast outsourcing with vertical integration. Also, contrast backward integration with forward integration.

   ANS:
   Outsourcing is the process of having suppliers provide goods and services that were previously provided internally. Vertical integration refers to the process of acquiring and consolidating elements of a value chain to achieve more control.

   Backward integration refers to acquiring capabilities at the front-end of the supply chain (suppliers, for example), while **forward integration** refers to acquiring capabilities toward the back-end of the supply chain (distribution or even customers, for example). Backward integration provides more control over the production portion of the supply chain. Forward integration can provide better marketing advantages.

6. Explain the six (6) categories of foreign factories.

   ANS:
   The six categories of foreign factories are offshore factories, outpost factories, service factories, source factories, contributor factories and lead factories.

   Offshore factories are established to gain access to low wages and other ways to reduce costs such as avoiding trade tariffs.

   Outpost factories are established primarily to gain access to local employee skills and knowledge.

   Server factories are established to supply specific national or regional markets.

   Source factories, like offshore factories, are established to gain access to low cost production, but they also have the expertise to design and produce a component part for the company's global value chain.

   Contributor factories are established to serve a local market and conduct activities like product design and customization.

Lead factories are established to innovate and create new processes, products and technologies.

7. Define multinational enterprises. What challenges do they pose to operations managers?

   ANS:
   A **multinational enterprise** is an organization that sources, markets and produces its goods and services in several countries to minimize costs and to maximize profit, customer satisfaction and social welfare. Some issues that operations managers must confront in a global business environment include: (1) How to design a value chain to meet the slower growth of industrialized countries and more rapid growth of emerging economies? (2) Where to locate manufacturing and distribution facilities around the globe to capitalize on value chain efficiencies and improve customer value? (3) What performance metrics to use in making critical value chain decisions? (4) Should partnerships be developed with competitors to share engineering, manufacturing or distribution technology knowledge?

PROBLEMS

1. A company has two alternatives for meeting a customer requirement for 9,000 units of a specialty molding. If done in-house, fixed cost would be $350,000 with variable cost at $30 per unit. Alternative two is to outsource for a total cost of $80 per unit. Determine the break-even point and determine if they should make the item in-house or outsource it.

   a.) Break-even point = 7,000 units; outsource

   b.) Break-even point = 7,000 units; make in-house

   c.) Break-even point = 11,667 units; outsource

   d.) Break-even point = 11,667 units; make in-house

   ANS:
   a.) Break-even point = 7,000 units; outsource

2. Two machines are being considered for a customer's order. Fixed cost for machine one is $340,000 and variable cost is $2.90 per unit. Fixed cost for machine two is $275,000 and variable cost is $3.50 per unit. Determine the break-even point.

   a. 117,241

   b. 111,272

   c. 108,333

   d. 78,571

   ANS:
   c. 108,333