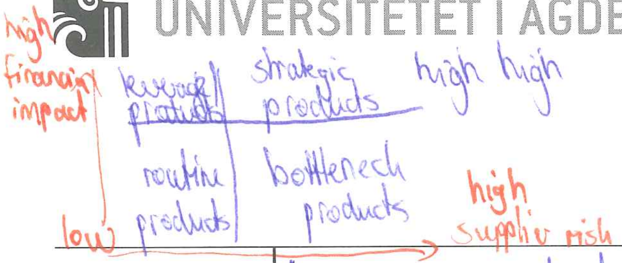
Section A:

task 1: In general purchasing portfolio management helps manager to decide what strategy to use according to their supplier - whether it is a competition or short-term or multiyear contract. It is obvious that the different suppliers do not exist of the same importance to the company. Therfore it is important to pay attention to the supplier with the most importance and do not spend too much time to the supplier who does not have a big value.
In the past the ABC-Analysis was often used, but this became obsolete because focus was only on the items spend. Kraljic introduced a new concept in the early eighties, the Kraljic matrix; he had the idea, when companies are working towards suppliers they need a strategy and suggested that this depends on the financial impact of a certain commodity market and the supplier / supplier risk. The financial impact is measured by the relative spend and the supplier risks looks at the dependence of the company from one supplier and the way the company could change this dependence relationship.
According to that assumptions he conducted the Kraljic matrix. The purchased products of a company can be classified in terms of financial impact and supplier risk. ~~At~~ First you have to look / identify the product (in one category of the matrix), for example strategic products. Then you have to look after purchasing strategies and actions depending on the strength of the company and the strength of suppliers. It is to mention that you have a look on the purchasing power of yourself and that power against the supplier. Kraljic focused mostly on the product category strategic products, for the other categories he has formulated main tasks. The Kraljic matrix consists of four Dimensions, strategic products, bottleneck products,

UNIVERSITETET I AGDER

Emnekode : ORG 440
Kandidatnr. : 2127
Dato : 7.12.2015
Ark nr. : 2 av 10



leverage products and routine products.
~~Strategic products~~ I will start with routin products, they are consisting of a low financial risk/impact and a low supplier risk, therefore the product is available everytime and very often. The strategy is you should low the number of supplier and specialize more and use more technology. The bottleneck products are a special item, you are dependent of one supplier, therefore it is difficult to change suppliers ~~becaus~~, otherwise the financial impact is low. The strategy you should use is to search another supplier, although that is difficult to achieve. leverage products are consisting of a high financial impact, but it is the products are available from many suppliers. to reduce the financial impact, it is better to search/to look after a supplier who will offer the products cheaper than its concurrence, although their a costs of search.
The main focus of Kraljic lies at the strategic products, they are consisting of a high supplier risk and a high financial impact.

Major short commings of that approach are that not always it is possible to classify products in one of the four Dimension. Also, financial impact must not be always high when we hear leverage products or strategic products, the same for supplier risk. We have to consider that this matrix is only a theoretical applications where companies can orient. In general, the Kraljic matrix is a good method, where companies can get a good orientation of the financial impact and supplier risk of their purchased products.

Section B:

Task 1: First I want to define what is Logistics. The Definition of Logistics is without little debate, it explains not only what is Logistics but also the difference between Logistics and Supply Chain Management (SCM). The definition according to the Supply Chain Forum, Professionals define as followed: Logistics is that part of the SCM that plans, controls and implements the efficient and effective forward and reverse flow of goods, services (and information) from their point of origin to the point of consumption in order to meet customer requirements. Logistic management activities are inventory holding, design productivity, inventory management, to use third provider like Logistics service provider; to meet demands of customer and so on.
Another definition of Logistics was given by Mangan, he defined the following eight rights: the right product in the right way, in the right quality, in the right quantity, at the right place, on the right time, for the right customer and at the right costs.
It is important that the term logistics appeared in the 50s of the 20th century. Logistics applied at first to military arrangement to handle procurement, transportation and to handle military facilities.

Logistics played a crucial role in the loss or victory of a war. Examples of Logistics in war, could be mentioned the defeat of the British in American Revolution (1781), there the Logistics of the British Army was inadequate, but they were dependent upon their supplies because of food, equipment and so fourth. They had mistakes in their SCM. Another example is the gulf war in 1991, the US shipped over half million of tones and materials. During the time more activities are counting to the field of Logistics, but it is also important to mention that at the "beginning" of Logistics, perhaps in the 1960s

the importance of logistics was not seen, and not the eight rights (mentioned before) Only a few researchers discussed the importance of logistics (the right product at the right place to the right time) to some commercial firms.
In the beginning of logistics it is useful to know, that logistics was not integrated, it was fragmented from business. In the company was one president = one authority and there were three main parts of a company: Marketing, Finance and Production. Logistics was not seen as main function of the company, it was fragmented. Therefore existing different persons who were responsible for logistics, from the three areas, so conflicts between the three areas were normal. The three areas had different responsibilities, due to the fact that logistic was fragmented, no communication and no coordination between the different parts. So for example Marketing was responsible for customer service, Finance for reducing costs and Production for distribution Channels. Because of that objectives were different and conflicts arose, for example Marketing wants a fast delivery, but Production wants to save costs.
In the year 2000 a new word was coming SCM. At first I want to give some definitions of it. The first definition explains the main part of SCM. SCM is a structured process, wherein raw materials were delivered and then transformed into a finished good. SCM is logistics taken to a higher level of sophastication aimed at examing SC activities. Another definition of SCM is dealing with the different players of SCM - Suppliers, Manufacturers and Customers, Retailer, Transportation and other Information and business partners who are involved in providing goods to customer. The SCM comprises both internal and external associated. It is important to mention that it is impossible to mention all the players of SCM. They have different objectives, task in the field of SCM. It is a network of SCM members,

UNIVERSITETET I AGDER

Emnekode : ORG 440
Kandidatnr. : 2127
Dato : 7.12.15
Ark nr. : 5 av 10

Therefore it is important to mention that an effictive information flow is important in the SCM the manufacturer (most important/powerful player) aquires inputs from their suppliers and then transform the inputs into finished goods and deliver it to the customers.
SCM is logistics taken to a higher level of sophastication, it involves logistics (as part of it) but also some activities who can't be classified as logistics, for example Marketing and Sales, that is SCM.
There are four different schools of thought who tried to give a connection between logistics and SCM.
The traditionalist view consider that SCM is only a sub concept of logistics, therefore logistics is the broad concept and SCM only a sub concept of logistics. In contrast, the unionist view consider the opposite, it says that logistics is only a part of SCM, the same view has the Supply Chain forum and we follow it, as well.

re-labelling, intersectionist

Re-labelling view suggest that logistics and SCM are the same, they are re-labelling. And the last view intersectionist consider that logistics and SCM are distinct/different concepts, with some overlapping areas.
So to sum up, we can say that at the beginning was logistics and than later came the term of SCM, and SCM includes logistics and some other activities.
Now to the the theoretical concept. In reality relative few firms reach the concept of theoretical integration, it is complex. On half of the firms have only a relationship between the borders of their own company (due to difficulties in SCM), they are not dealing with suppliers or customers.
On third of the firms have a relation ship with their key suppliers, but NOT with their key customers. They do not have the capacity to deal with key customers.
11 per cent of the firms have a relationship to their key customers

Emnekode	OR6 440
Kandidatnr.	2127
Dato	7.12.15
Ark nr.	6 av 10

UNIVERSITETET I AGDER

~~and key customers~~ 8 per cent have a relationship to key customers and key suppliers. The ideal part that companies have a relationship to all members of the SCM does not exist in reality (only in the theory).

Section B: task 3

3a) inventory turnover

Companies success depends on the way they manage and control efficiently their inventory existing in different form at different stages of the opportunities/activities of a firm. The inventory volume depends on many factors and the firms strategy, for example geographical location of suppliers, materials scarcity, a rise in the price of a good, to mention only a few.

The performance of one company can be measured by the inventory management by calculating the inventory turnover, which compares the annual sales of a firm achives with the average amount of inventory held throughout a year.

$$\text{Inventory turnover} = \frac{\text{annual sales of a firm}}{\text{average amount of inventory hold}}$$

The inventory turnover explains the time the average inventory is moving through a firm in a year. For example an inventory of 12 means that the average inventory is moving through a firm once per month (in a year). The inventory turnover ratio measures how quickly the inventory is moving through the warehouse. The performance of a company is good, when inventory turnover is high, because then inventory costs can be reduced. Now to the specific case of you Race company

UNIVERSITETET I AGDER

Emnekode : ORG 440
Kandidatnr. : 2127
Dato : 7.12.15
Ark nr. : 7 av 10

daily context

2006 : $\frac{3\,000\,000}{250\,000} = \underline{\underline{12}}$: 365 = 31

: 365 = 25

2007 : $\frac{4\,500\,000}{300\,000} = \underline{\underline{15}}$

As you can see, the inventory turnover in the year 2006 was 12 and the inventory turnover in 2007 was 15. That means that the inventory was sold in 2007 12 times and in 2007 it was sold in 15 times. To put it in daily context, the inventory turnover rates has to be divided by 365., to put days sales inventory in daily context. In daily context it means that in 2006 the whole inventory was sold in a 31 -day period and in 2007 the whole inventory was sold in 25- day period.

31 25

We can see that the inventory from 2006 to 2007 has improved, from 12 to 15, that means that through implementation of just-in-time principles (the aim is to have no waste, impossible) the inventory has improved, because it is higher. We can also see, that there is an increase of 50 % of products sold and an increase (more less) of inventory of 20 %. It is important, that when you want to improve your inventory turnover, ~~h~~ you have to reduce the quantity what the firm is buying from their suppliers. Wase reduction could lead to inventory turnover improvement. Netheless you should also have a look at the industry benchmark, to see if the success in inventory turnover is right.

Section B: task 3b

Now we have a look on the Economic Order Quantity (EOQ) - Model, which address the question, if it is better to buy in a bulk or in small amounts (products). In general majority is saying that it is better to buy in a bulk, because then you will get a quantity / or a volume discount.

To could answer this task, following questions have to be qualified:
First; how much will be the discount?
Second, how much do we have to buy before to get that volume discount?
Third, how much will be the cost, if we are buying products without worrying the volume discount, to buy in small amounts?
And fourth: how much will we pay extra, when we buy more costs in our safety stock?

B

To answer all these questions we are using EOQ, because with the help of that formula we will see how many amounts of one product we have to buy at that time. We put the given data in the formula, whereby

$$EOQ = \sqrt{\frac{2 \cdot D \cdot S}{H}} = \sqrt{\frac{2 \cdot 1200 \cdot 25}{50}} \approx 35$$

or 38

D = the annual demand,
S = processing cost per order
H = inventory holding costs.

The company has to order 35 jackets in one shipment.

UNIVERSITETET I AGDER

Emnekode : ODG 440

Kandidatnr. : 2127

Dato : 7.12.15

Ark nr. : 9 av 10

Section B : task 2

~~Logistic performance measurement is the formal, informative discussed~~

(additional information)
to task 1 Section B

As mentioned before the SCM consists of different members, in the middle is the focus company, it is the most powerful player of SCM, the focus company can have key suppliers (who have direct contact to the focus company, direct communication and direct negotiasn. Furthurmore these key suppliers can have suppliers (second tier suppliers in the eyes of the focus company) The focus company has no direct, only indirect contact with it, but there are also an important part of the SCM.
The direction from supplier to manufacturer is inbound logistics, because the focus company buys products from the suppliers.
The focus company also have customers, tier one customers who are buying the product, they also can sell it ~~t~~ to other customer. The end-customer is consuming/using the product. This kind of flow from manufacturer to customer is outbound logistics, because the product is sold to the customer.
The product flow is from intial supplier to end-customer.