

Eco201: microeconomics-mod 4 cbt

[Economics](#), [Microeconomics](#)



ECO201: Microeconomics-Mod 4 CBT - Supply: Production, Costs, and Profits - Introduction For a business to be able to achieve a maximum profitability, the company should be able to produce sufficient supply in order to meet the market demand. The implementation of Demand Chain Management (DCM) enables the managers to accurately determine the market demand wherein the operations manager need to satisfy. Basically, failure of a company to satisfy the market demand as scheduled means that the company will lose a lot of business opportunity caused by production inefficiency or internal miscommunication. For this study, the student will discuss at least two advantages and disadvantages of SCM over the traditional CPP prior to discussing how SCM modify some economic ideas tackled in module 1.

Two Advantages of SCM over CPP

First Advantage: Supply chain management (SCM) is very much focused on the process of planning, implementing, and controlling the company's supply based on the projected demand as dictated by the average weekly sales per item; advanced purchase orders; and a maximum of 10% allowance for emergency cases - a. k. a. DCM. Through SCM, the company can avoid over purchasing unnecessary raw materials and other equipments. Therefore, the company will be able to maintain a positive operational cash flow and higher profitability at all times.

CPP is used in keeping the prices of raw materials down but there is a risk that the winning bidder had intentionally dropped down the prices way below the break-even point just to win the business contract. In the end, winning supplier may not be able to deliver the needed raw materials due to negative profit attached with the contract. Thus, operational efficiency of the company

that purchased the raw materials suffers.

Second Advantage: With SCM, purchasers can strictly focus on the quality of raw materials supplied to them by the qualified suppliers. The problem with CPP, some qualified suppliers may be forced to downgrade the quality of raw materials purchased from them just to compensate with the low prices attached with the contract.

Two Disadvantages of SCM over CPP

First Disadvantage: A centralized SCM may slow down the purchasing process of needed raw materials since all purchasing will undergo a single department. This could create a bottleneck in the company's operational activities. In the case of CPP, it is possible for suppliers to be given advanced purchased order to enable the supplier to get ready with the needed raw materials. Thus, it will make it easier for the purchaser to make an early schedule based on the company's operational requirement for each week.

Second Disadvantage: In line with the use of SCM, it is more difficult to achieve the lowest possible prices of raw materials by going through the process of canvassing. Unlike in CPP, purchasers could easily achieve the lowest market prices of needed raw materials since suppliers themselves will compete for the business contract by keeping their prices low.

Discussion

With the use of SCM, purchasers could easily keep track on the market demand to make sure that the volume of raw materials being purchased is limited only to what the company needs to keep its operational activities going. By doing so, the company is protected from the negative impact of over purchasing during a sudden decline in market demand caused by

external factors such as economic recession.

Reference:

Inforte. (2001). Demand Chain Management (DCM) Philosophy and Practice.

Inforte Corporation. pp. 1 – 4.