

Owens and minor case study solution

Business



What is the value-added by Owens and Minor? Is this value-addition visible? *

They own and manage the Inventory for the manufacture * They take on the financial risk associated with the function of managing the inventory flow to the hospitals. * They care for product returns and carry the risk for that. *

They carry the receivables (cash flow issues due to long payment terms of customers; actually a 90 days credit) * They carry and manage most of the inventory for the hospitals, which are sometimes even running stockpiles.

They track and verify customer prices for contracted product purchases and monitor agreements between end-users and manufacturers The dilutions has changed in a way that hospitals required the distributors to carry more of the Inventory and making more deliveries in lower units of measure, while keeping the same originally negotiated prices.

This has put a stronger burden on the distributors. * Owens & Minor creates a clear value-add for both manufacturers and suppliers.

Manufactures usually only want to produce and sell the product before getting it out of the door * Hence Owens and Minor takes the full responsibility for all stressful parts of selling a product. On the other hand customers don't want to buy and own products before they are ready to use it. * Thus Owens and Minor also enables them to achieving more efficient structures, while reducing additional costs related to managing efficiently. 2.

Evaluate the impact cost-plus pricing has on distributors, customers, and suppliers.

Distributors: * Services related to Inventory management are not Included properly, since the percentage they gain is the same for all products.

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Whether they are cheap and efficiently to handle or rather problematic.

Hence costs will skyrocket if customers ill ask for additional services (while keeping the same price). * They have the drawback of customers engaging in cherry-picking and only enabling the distributors to manage low-margin, Inexpensive products.

Customers: * Cost-plus pricing lead to a complicated pricing structures, since distributors and customers negotiated separate product prices from manufacturers, Introduced incentives, let prices vary from customer to customer, covered some products by contract and some don't etc. * Hence purchasing managers were nearly unable to properly track actual product costs and compare quotes from competing manufacturers and distributors.

Suppliers: * Suppliers have no motivation to try to reduce costs and Increase efficiencies since profits remain the same. * Market demand Is not taken Into consideration.

If a supplier has a markup, which takes the reseller's price point beyond current market prices, the reseller's demand will decrease dramatically. 3.

What effect will APP have on customer behavior? Provide an example to illustrate. APP connects O&M's fee to the level of the service they provide customer Is motivate to Keep Its actively clown to a Mullen level Ana only order arrives that he really needs * Customers who want to extend their service-level can get this because there is a way for O; M to price a higher service-level * APP helps customers to optimize their service-level and hence their costs. . What are the obstacles to successful implementation of APP at Ideal? How would you address these obstacles? * Internal systems at

hospitals (e. G. Budgeting, compensation) were tied to cost- plus percentages.

* Product prices with cost-plus percentages were used to determine transfer pricing between hospital departments * Technological barriers:

Customer has to change to an EDI system (electronically data input) *

Hospital would have to change its systems and procedures for material

handling * For a hospital to benefit it would have to be willing to change and shed personnel, equipment and warehousing space. * Culture of hospitals (e.

G. Surgeons have different preferences for many operating room supplies) O;

M's response: * Offered to convert the activity fee to a cost-plus equivalent *

O&M's logistical services worked closely with customers moving to APP to help them realign processes and institute cost savings.