



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FIRST YEAR FIRST SEMESTER EXAMINATIONS
FOR THE DEGREE OF MASTER OF SCIENCE SUPPLY
CHAIN MANAGEMENT**

CITY CAMPUS - WEEKEND

MSC 818: PURCHASING STRATEGIES

Date: 17th June, 2017

Time: 9.00 - 12.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE
- All questions carry equal marks



QUESTION ONE (15 Marks)

You have just taken over the responsibility for strategic purchasing function as a senior officer at a major information logistics company and you are reviewing purchases for the last 3 years.

The company spends a fortune on fuel. You have discovered that because of the diverse nature of your companies transportation methods (which is air, ground and ocean freight) each individual department purchases its own jet fuel, the trucking division purchases its own diesel and the shipping freight division purchases its own oil.

On further analysis you have discovered that the fuel takes 25% of all expenses and there were periods in the last 3 years when there were stock outs. (The few suppliers in the Middle East could not supply in time due to late placement of orders). You further realize that the company spends 20% of all expenses on stationaries and related items. You also discover that there were periods in the last three years when there were stock outs in this items category. There was also big variance in prices of similar items for orders placed at same time from same place.

The organization uses Toner cartridge HQ082F which is manufactured by a dealer in Germany. The cartridge is not available locally and the total cost of ownership (TCO) is about 10% of the total expenses. The variety of staff uniforms are apparel also accounts for 20% of the value of expenses. The organization has not disposed idle, surplus, redundant, unserviceable stores for the last 3 years, but such items are missing from store. The items earmarked for disposal are: 4 motor vehicles, 1000 litres of adulterated fuel, 450 computers and assorted computer stationaries.

Required:

- (a) With the aid of SCOR model on lean supply chain, analyze the above case study and identify pitfalls (6marks)
- (b) Identify four areas of concern for strategic purchasing based on the above case (4marks)
- (c) Based on total cost of ownership concept, and on the case above, identify advantages of implementing strategic cost management (5marks)

QUESTION TWO (15 marks)

- (a) The Maji Irrigation project in Kenya included a civil works contract and tunneling, estimated at about US\$ 20 million. The project was fully financed by the World Bank. International competitive bidding (ICB) with prequalification was chosen as the method of procurement. A total of 40 firms submitted prequalification documents to the executing agency (EA). The EA evaluated applications with assistance from the implementation consultants. 15 individual firms and 3 joint ventures were prequalified. Some firms were disqualified because they did not display sufficient financial capacity although they had adequate technical capacity and experience. Other firms met both the experience and financial criteria but had poor performance in recent world-bank financed projects. The World Bank and the EA considered different approaches to the issue that a rose.

Required:

- (i) A firm meets the criteria for technical capability, has good performance record, but does not have sufficient financial resources. Should the firm be prequalified or not (5marks)
 - (ii) One of the applicants is a joint venture comprising of two international firms and a local partner. The local partner is technically and financially weak. The two international partners have adequate technical and financial capabilities. Explain how this application should be evaluated for strategic decision making. (5marks)
- (b) Give five approaches for rationalizing the supplier base (5marks)

QUESTION THREE (15 Marks)

- (a) Lovega University is a public institution operating in Kenya with high population of students. The university transport department has several buses that are used for students and staff trips. There have been frequent breakdown of the buses, causing trips to be postponed or cancelled. The cost of operating the fleet of the vehicles is also high, and the management is now considering strategic purchasing using e-procurement, with an international fleet companies including outsourcing.
- (i) The University is interested in analyzing the total cost of ownership for the various buses, explain three important elements of total cost of ownership they must consider (6 marks)
 - (ii) State five benefits of purchasing by e-sourcing in public (5marks)
- (b) Briefly explain Michael Porter's Generic Strategies (4marks)

QUESTION FOUR (15Marks)

- (a) Kisumu IT Limited is a major manufacturer of hard disks and other high technology storage components. It is faced with two key challenges in its operations.

The first challenge has been streamlining the purchasing process in order to lower the inventory cost. This is a strategic level decision, the company traditional sourcing and ordering included phone calls and manual inventory checks. To ensure that production was not interrupted, the process requires network sourcing, but IT environments are becoming increasingly complex and challenging to manage and operate. Network Sourcing requires experts in IT infrastructure that are not available locally.

The second challenge is on the type of material and component suppliers to deal with, and how to improve the quality of the component data in its material requirement planning (MRP) system. The company's solution of manually reviewing reports to identify errors is labour intensive and is often done too late; problems in the production

are experienced before reports are even reviewed. Kisumu IT limited needs a strategic purchasing solution that will enable it to operate proactively to arrest the problems before they cause delays.

Required:

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- (i) Propose to Kisumu IT Limited the Strategic Approaches to adopt during purchasing (3marks)
 - (ii) Explain challenges of Network sourcing as proposed by Kisumu IT (6marks)
- (b) Based on the above case study, who is the **three** potential types of their suppliers to suit their needs? Explain (6marks)

QUESTION FIVE (15 Marks)

- (a) Discuss the models the ramifications of adopting a strategic purchasing approach for a firm's supply management practices strategies (8marks)
- (b) Strategic suppliers' relationship management is critical for any organization. Briefly explain the strategic relationship of suppliers using the suppliers positioning model for purchases. (7marks)