MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BMS 425: STRATEGIC PROCUREMENT

DATE: 2/6/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS.

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

A $300 million global specialty coating companyLLC with locations in North America, Europe and Asia, engaged Source One Management Services (SOMS), to assist in the strategic sourcing of its indirect spend items. The company was already operating with above average sourcing practices, and asked Source One to assist in areas where their internal resources were constrained. Collaborative and innovative approaches were required in each project category in order to obtain best-in-class total value in procurement. Initially, the two companies focused on LTL freight, small parcel, telecommunications, and packaging.

In order to produce savings in less than load freight shipments, Source One and its client compiled a shipping profile and lane analysis with over one year of shipment data. By consolidating shipping to one national carrier to service all of the company's long-haul requirements and one primary regional carrier for each location's short-haul requirements, the two companies were able to produce a projected 14% annual savings.The customer wished to retain their incumbent small parcel carrier, but also wished to produce larger savings than in prior years. In order to produce tangible savings, Source One collaborated with the incumbent supplier. Together, they did a thorough review of the client's shipping characteristics. After review and collaboration, the company changed their preferred shipping methods for a particular product from an express shipment service to a ground shipment service, and could produce $170,000 in annual savings. Most importantly, the organization was able to maintain the same level of service and delivery dates that their existing processes required.

At the start of the telecommunications project, the client had already implemented advanced telecommunications technologies such as VOIP at all of their locations. The client had also already identified further network enhancements, but engaged Source One to assist in the implementation of the enhancements due to lack of available in-house resources. In order to produce further results, Source One assisted in the negotiation and implementation of MPLS technology. By implementing VOIP over MPLS and replacing the frame relay network, the company saved over 47% in their total telecommunications spend.

The packaging project required a combination of several sourcing strategies and heavy collaboration between Source One, the client, and the suppliers. After data collection and interviews, the team focused on the functional requirements for their corrugated packaging and the pallets used to transport them. Through collaboration with suppliers, the Source One packaging team and the client company's engineering department, it was determined that the client could shift to industry standard-sized boxes which would not only lower their unit cost of boxes, but would allow them to purchase a standard-sized pallet with a lower unit cost. To take the project one step further, Source One utilized WhyAbe.com to conduct a Request for Proposal. The RFP also incorporated other packaging supplies and containers that complimented client company's largest corrugated spend items.WhyAbe.com allowed Source One to simultaneously invite multiple suppliers to participate in the RFP, and the client was able to monitor the incoming questions and bid responses in real-time as Source One conducted the event. Ultimately, pricing of the new corrugated packaging and pallets reached the market floor, and the client was able to obtain annual savings in excess of $200,000.

The corporation never could have resourced this effort with available personnel. By outsourcing portions of its procurement cycle, it achieved savings that would not otherwise have been possible. In addition, it learned things about the marketplace and their own operations that make them better purchasers for future efforts in other areas.

a) Explain the challenges that LLC was experiencing (5 marks)

b) Explain five strategies that the consultant took to enhance sourcing at LLC (5 marks)

c) Explain how LLC has benefited from the strategic sourcing initiatives (5 marks)

d) Describe the procedure followed in formulating a procurement strategy. (5 marks)

e) Discuss the importance of category management. (5 marks)

f) Discuss circumstances that would create the need for strategic plans in procurement. (5 marks)

QUESTION TWO (20 MARKS)

a) Explain five Elements of strategic management (7 marks)

b) Explain the criteria that would be used to evaluate procurement strategies before selection (7 marks)

c) Discuss the factors considered in developing procurement strategies (6 marks)

QUESTION THREE

a) Explain five Distinctive characteristics of a strategy (6 marks)

b) Discuss the Contribution of supply function to corporate strategy (7 marks)

c) Describe the Aspects covered in internal analysis during the formulation of a procurement strategy (7 marks)

QUESTION FOUR

a) Outline five Strategic decisions that can be made in purchasing and supply. (7 marks)

b) Discuss the importance of monitoring the implementation of procurement strategies (6 marks)

c) Discuss the role of SWOT analysis in the strategic planning process. (7 marks)

QUESTION FIVE (20 MARKS)

a) Describe the application of BCG model in strategic procurement by an organisation. (10 marks)

b) Explain how an organisation may use supplier development strategy to enhance its competitiveness. (10 marks)