MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

FIRST YEAR FIRST SEMESTER EXAMINATION FOR

DIPLOMA IN PROCUREMENT AND SUPPLY CHAIN

DPS 110: PURCHASING PRINCIPLES AND TECHNIQUES

DATE: 9/12/2019 **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

Answer Question ONE and any other TWO Questions.

QUESTION ONE (30 MARKS)

AGCO

AGCO is a leading global force in the manufacture and supply of agricultural machinery. The company grew substantially over the course of two decades, achieving a considerable portion of that growth by way of acquisitions.

As commonly happens when enterprises grow in this way, AGCO experienced increasing degrees of supply chain complexity, along with associated increases in cost, but for many years, did little to address the issue directly, primarily due to the decentralized and fragmented nature of its global network.

In 2012, AGCO's leaders recognised that this state of affairs could not continue and decided to establish a long-term program of strategic optimisation.

Supply Chain Cost Reduction Challenges: With five separate brands under its umbrella, AGCO's product portfolio is vast. At the point when optimisation planning began, sourcing and inbound logistics were managed by teams in various countries, each with different levels of SCM maturity, and using different tools and systems.

As a result of the decentralised environment, in which inbound logistics and transport management were separate operational fields, there was insufficient transparency in the supply chain. The enterprise as a whole was not taking advantage of synergies and economies of scale (and the benefits of the same). These issues existed against a backdrop of a volatile, seasonal market.

The Path to Cost Reduction: Following a SCOR supply chain benchmarking exercise, AGCO decided to approach its cost reduction and efficiency goals by blending new technology—in the form of a globally integrated transport management system (TMS)—with a commitment to form a partnership with a suitably capable 3PL provider.

As North and South American divisions of the company were already working with a recently implemented TMS, leaders decided to introduce the blended approach in Europe, with commitments to replicate the model, if successful, in its other operating regions.

With the technology and partnership in place, a logistics control tower was developed, which integrates and coordinates all daily inbound supply activities within Europe, from the negotiation of carrier freight rates, through inbound shipment scheduling and transport plan optimisation to self-billing for carrier payment.

Supply Chain Cost Management Results: Within a year and a half of their European logistics solution's go-live, AGCO achieved freight cost reductions of some 18%, and has continued to save between three and five percent on freight expenditure, year-on-year, ever since. Having since rolled the new operating model out in China and North America, the company has reduced inbound logistics costs by 28%, increased network performance by 25% and cut inventory levels by a quarter.

a) Outline the measures that **AGCO** has adopted to minisime costs in purchasing (6 marks)

b) State the benefits that **AGCO** is bound to benefit from use of globally integrated transport management system (TMS) for its purchasing operations (6 marks)

c) Describe the cost reduction challenge at **AGCO** (6 marks)

d) Highlight the disadvantages to **AGCO** of using decentralised environment before automation. (6 marks)

e) Propose the way forward for **AGCO** to ensure sustainability of the cost reduction strategy in future. (6 marks)

QUESTION TWO (20 MARKS)

a) Describe the procedure for value analysis in manufacturing companies (10 marks)

b) Explain the importance of carrying out supplier market research by a procurement officer (10 marks)

QUESTION THREE (20 MARKS)

a) Explain the importance to an organisation of adopting Total Quality Management(TQM) approach of its operations (10 marks)

b) Explain the factors that an organization may consider when choosing to develop a supplier (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain the measures that an organization may institute to control unethical practices among procurement staff. (10 marks)

b) Discuss the distinguishing features between adversarial and collaborative approaches to a negotiation for a procurement (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain the factors that a supply chain officer should consider when carrying out supplier appraisals (10 marks)

b) Explain the principles of purchasing (10 marks)