

UNIVERSITY OF BOLTON

SCM PROFESSIONAL CENTRE

Bolton Business School

MSC LOGISTICS AND SUPPLY CHAIN MANAGEMENT

SEMESTER 2

EXAMINATIONS 2008/2009

PROCUREMENT AND OPERATIONS MANAGEMENT

MODULE NO: EBU4012DL (KLR)

Date: Saturday 30th May 2009

Time: Three hours

INSTRUCTIONS TO CANDIDATES:

Answer FOUR out of FIVE questions.

Where appropriate, the inclusion of hand-drawn diagrams in your answers is encouraged.

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1a. Define centre led procurement and discuss how it is different from other purchasing structure with an example. **(8 Marks)**

1b. 'Look why should we waste our time dealing with suppliers who can merely deliver good product on time and in full? There are many numbers of suppliers who can do that. What we are interested in is developing a set of suppliers who will be able to supply us with suitable components for the generation of products that comes after the next products we launch. It's the underlying capability of suppliers that we are really interested in'.

Devise a set of criteria that this manager could use to evaluate alternative suppliers and suggest ways he could determine how to weight each criterion. **(17 Marks)**

(Total 25 Marks)

2.

Carbon is an organisation involved in the manufacture and distribution of fertilizers and insecticides. It has a sales turnover of 810 million Malaysian Ringgits (compared with 300 million in 1999–2000) with the majority of sales derived from Indonesia. Carbon remains a traditional organisation in terms of its attitudes towards working practices, Management disciplines and functional approaches towards running the business, Four months ago, carbon purchased a family business Knowles and Son (KS) located in Penang, with a 20 million turnover, who make a comparable product range. Carbon has achieved its growth by taking large amounts of business from “trade” supermarkets. This has been a painful experience because all of them insist on two key trading conditions. They will agree to have products delivered in the winter months at a discount of 45%. Alternatively, Carbon must stock the products until the spring (when demand takes off) at their own cost. Payment is made 75 days after delivery. Carbon has a new Managing Director who has invited his senior management team to a business briefing. You are the Purchasing and Supply Manager. The Managing Director has told you all that profit this year is a disaster; it is 2.5 % gross profit before tax. He said that the money invested in the business would be better in the bank. He then launched an attack on you and the Production Manager for not getting inventory systems modernised, not getting suppliers engaged in the problem and failing to manage working capital. He has given you 48 hours to produce a high-level report that “must be radical” in its approach. He then launched an attack on the Sales Director and told her to get a grip of customers, adding that the retailers made excessive profits without sharing the risks. So there you are, no doubt about what is required. It is obvious that things must change, and fast!

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Question 2 continued...

You have the accountability for purchasing and supply chain (the latter including all inventory excluding work-in-progress but including finished stock).

2a. What are the critical areas that you would study and offer comment in you report?
(15 Marks)

2b. Explain the main principles of the Just-in-Time approach to inventory management and its impact on purchasing operations.
(10 Marks)

(Total 25 Marks)

3. The Miller group designs and manufactures engineering equipments for the Malawian army. Three years ago it won three large contracts from Zambia and South Africa. This lead to a requirement for machining and forgings. The surge in demand required 10,000 hours of machinery each month to be sub contracted. This meant that more than twice the capacity was kept in-house. The subcontracted work was tendered by the procurement department and was awarded to a local company – Cope manufacturing. When it won the work, it invested in special purpose machining equipment having negotiated a bank loan. The Miller group now takes more than 60 percent of cope manufacturing's output, by value.

The Miller group's own machine shop is now short of work because a military supply contract has ended. The production director, Gerald has asked the buying manager to cancel the arrangements with Cope manufacturing. It was an 'arrangement' because the Miller group took advantage of cope's lack of contract expertise and agreed a form of words that items would be 'called off as and when required'. A weekly production schedule has been issued and has become the method of advising the requirements.

Last week, the buying manager called in Andrew, the Managing Director of Cope manufacturing and told him that no more subcontracting would take place. Cope was horrified and said that the decision would bankrupt the business. He added that local labour would be made redundant and that the decision was illegal and unethical. He further added that not only had he invested in machinery, he had also invested over 10 Million Kwachas in special tooling. To make matters worse, he had just declined a large subcontracting job from a competitor of the Miller group. The buying manager was very sympathetic but added he had no choice but to stop outsourcing.

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Question 3 continued...

In the last few days, things have got worse. Cope has now stopped machining components and refuses to answer telephone calls from anyone at Miller group. The Managing Director for Miller group has told his buying manager to ensure that the matter is resolved 'immediately' otherwise miller group will be paying 400,000 Kwachas a week due to late delivery to a South African company.

As a buying manager what action will you take? **(13 Marks)**

Analyse the history of this deal and suggest how it could have been differently?

(12 Marks)

(Total 25 Marks)

4. One of the biggest challenges in corporate buying is 'maverick buying': Discuss its relevance to a specific industry and suggest strategies reduce maverick buying.

(13 Marks)

e-Procurement models can be broadly classified as 'buyer centric'; 'seller-centric', market place, e-Market place and portals. Define these models and discuss its applicability to a specific industry of your choice.

(12 Marks)

(Total 25 Marks)

5.

Organization Background

North West Enterprises Ltd is a leading distributor of petroleum products – unleaded petrol, super unleaded petrol, diesel and gas. They are head quartered in KL and have thirty branches spread all over Malaysia. Apart from fuel, every branch sells grocery, magazines and news papers, tobacco, frozen foods, cool drinks, milk, sandwiches, flowers, sweets, photocopy, tobacco, phone vouchers and automobile spares.

Current Procurement Process

1. In every branch, Purchases for the shop items are managed by the manager.
2. Every week he forecasts sales and raises purchase orders to the suppliers.
3. The PO's are approved by the Regional Manager who then fax it to the supplier.
4. A copy of the PO is sent to the head office.
5. Supplier reviews the order and sends the goods.
6. After verifying the invoice amount, branch manager approves the invoice and fax it to the head office.

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Question 5 continued...

7. A copy is sent to the Regional Manager as well.
8. Head office completes the payment.
9. However there are some exceptions.
 - a. For magazines, news papers, sandwich and milk no purchase orders will be raised because the vendor manages the inventory.
 - b. For these category items, payments will be made by using the delivery note.

Issues with the current process

- Branches are spread across Malawi and each branch has got its own list of suppliers.
- The group purchases the same goods from different supplier at different costs.
- It makes around 400 payments a week to different suppliers by different mechanisms (Check, Cash, BACS).
- The paper based system is error prone and some time double payments are made.
- Due to paper based system, there is little room for analysis and forecasting is made purely by manager's experience (Their sales order system is not integrated with the traditional inventory system).
- When a manager leaves the job, it takes more than two months for the new manager to get the inventory right.

Draw a process diagram of the existing purchasing process.

(5 Marks)

Evaluate their current technology usage, purchasing structure and compliance and provide suggestions for improvement along with the process map for new purchasing process.

(20 Marks)

(Total 25 Marks)

END OF QUESTIONS