

UNIVERSITY OF BOLTON
BUSINESS & CREATIVE TECHNOLOGIES
BUSINESS LOGISTICS & INFORMATION SYSTEMS
SEMESTER TWO EXAMINATIONS 2010/2011
PROCUREMENT & OPS MANAGEMENT
MODULE NO: EBU4012

Date: 31st May 2011

Time: 2.00-5.00pm

INSTRUCTIONS TO CANDIDATES:

There are SIX questions on this paper.

Answer ANY FOUR questions.

All questions carry equal marks.

Please note the related case study has been provided in Appendix A. The Organisational Structure is Appendix B.

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Question 1

Review the existing KPI's for the Procurement and Supply Chain departments and identify where these might create tension and conflict between the two departments, explaining the reasons for your views.

(15 Marks)

Suggest changes to the existing KPI's, or alternate measures, to alleviate this conflict and explain how these could also lead to improvements in performance.

(10 Marks)

Total 25 Marks

Question 2

Analyse the distribution of tasks between the two departments, commenting on your findings.

(13 Marks)

Identify any improvements, or changes, you believe would be in the best interests of the business.

(12 Marks)

Total 25 Marks

Question 3

The case study indicates that this company is about to undertake a review of its main business information system. Based on the information contained in the case study, debate how this review might be conducted and how this might be aligned to the review of departmental responsibilities.

(15 Marks)

As part of your answer you should detail any weaknesses identified in the current practices and suggest corrective action.

(10 Marks)

Total 25 Marks

Question 4

From the information provided in the case study, consider the general customer/supplier relationships you believe exist between the company and its suppliers.

(15 Marks)

From this review state where you believe the business stands in terms of its relationships against one of the theoretical models and explain the reasons behind your view.

(10 Marks)

Total 25 marks

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Question 5

Explain how the business might use e-procurement to reduce the load on the Purchasing department, whilst increasing the level of control.

(15 Marks)

Expand your answer to by identifying additional benefits that might accrue to the business from the introduction of e-procurement methods.

(10 Marks)

Total 25 Marks

Question 6

Consider alternative management structures more aligned to the company's business processes and review how the organisation and decision making structures could be changed to provide this alignment.

(15 Marks)

Describe the benefits and drawbacks of this form of management structure which need to be considered when undertaking such a structural change.

(10 Marks)

Total 25 Marks

END OF QUESTIONS

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APPENDIX A

Case Study

Company Background and Outline

The company is an established business (over 50 years) that manufactures and markets a range of household cleaning products which are predominantly sold through the major UK retail chains with a small volume being distributed through a number of export agents.

In addition to the items they manufacture, the Company purchases a limited range of products manufactured by third party suppliers. These items tend to be those that require specialist manufacturing facilities, or new product introductions where sales volumes have yet to be built to a level that supports investment in in-house manufacturing facilities.

The level of new product development is steadily increasing as the marketplace becomes more demanding and competitive. To meet this demand the Company set up a dedicated NPD team two years ago to project manage the introduction of these new products. Demands created by this new team are putting more pressure on the buyers to involve the suppliers in the development process, which is becoming more technically challenging.

The Company has two manufacturing plants, a head office / factory in Manchester and a factory in York. Each factory manufactures a discrete range of products, with no products capable of being transferred between factories.

Organisational Structure

The company is organised around functional departments, each headed by a director who reports to the Managing Director.

The organisation chart shown at the end of this scenario provides an outline of the departmental divisions, with more detailed structures for the Purchasing and Supply Chain functions.

All directors, with the exception of the York Production Director, are based at the Company's Manchester site.

Where not specifically stated, it should be assumed that the positions are Manchester based.

Support Systems

The main Business Information system used by the company is a comprehensive ERP system used for all financial, manufacturing, sales and material control activities.

The system was implemented over 10 years ago and a review of its use is planned to take place over the next six months, prior to an upgrade to the latest software release.

As with most businesses, the formal company system is supplemented locally by numerous informal spreadsheet applications.

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The Company operates an MRPII process to create, source and manage their manufacturing and materials management processes. Both production and purchase orders are fully integrated within the computer system, with all authorisations carried out electronically.

The Purchasing Department Perspective

The Purchasing Director has worked for the Company for twenty five years, initially within the Production department, rising to the position of Production Director for the York Plant. Five years ago he took on the role of Purchasing Director and moved to the Manchester head office.

The department has a record of regularly achieving its objectives and believes that a major contributing factor to this success is the way in which individual buyers have developed relationships with their suppliers. These relationships are seen as personal achievements by the buyers, who protect them fiercely by ensuring that all communications are routed through themselves or their assistants.

Roles and Responsibilities

There are currently about 70 regular suppliers. Through a planned rationalisation this has been reduced to this number from 130 over the last 18 months. The supply base is predominantly within the UK, although a small number of key materials are sourced on the international commodity markets. These strategic items are purchased by either the Purchasing Director or the Senior Buyer based upon market supply and price.

Buying responsibilities are divided into four categories which are each managed by a team of a buyer and assistant. This can be seen in the department organisation chart.

All members of the purchasing department are based at the Manchester head office.

Key Performance Indicators

- Monthly Purchasing Budget
- Purchase Price Variance (PPV) – purchase price per unit targeted to be below the current year's standard cost.
- Reduction in the number of suppliers (reducing year on year)
- Supplier Performance Index (combination of delivery performance, price, quality, invoice accuracy and communications)
- Reduction in the number of purchase orders raised annually and an increase in the use of "blanket orders" and call-offs.

Issues

- Concern over the volume and frequency of purchase order changes. The delivery dates of orders are often changed a number of times before delivery, although the quantity ordered is changed less frequently. The perception is that this is damaging the Company's credibility with its suppliers.

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- The work levels created by the increasing level of NPD activity and the widening gap between the management of repeat and new material purchases.

The Operations Planning Department Perspective

The Operations Planning function was originally a part of the Production department, but has been operating within the Supply chain department for the last three years. This change was as a part of a move towards the creation of a demand pull production planning process.

The Supply Chain Director has held the position for the last eighteen months, before this he was the Company's Warehouse and Distribution Manager, a position he held since joining the Company four years ago.

The Department is divided between the two factories, as shown in the department organisation chart, with the Operations Planning Manager being based at the Manchester head office.

Roles and Responsibilities

Each Production Planner is responsible for the planning of a number of production lines. This includes determining production requirements and resourcing these plans through the MRP system. The Planner raises purchase requisitions directly within MRP and passes these for authorisation to purchase to the relevant buyer. Any changes required to existing purchase orders have to be passed to the buyer, or assistant, who then checks the feasibility of these changes with the supplier. If the supplier agrees the changes, the Planner can then amend the purchase order.

The Operations Planning Manager is responsible for creating the Master Schedule from demand forecasts created between the Marketing and Sales departments and also, for providing the Production Manager with details of projected labour requirements.

The Master Schedule is created monthly with production plans developed weekly. MRP is run nightly with any changes being actioned daily by the Production Planners.

Key Performance Indicators

- Component & Raw Material Inventory Value (minimise)/ Inventory Turns (maximise)
- Finished Goods Inventory Availability (to meet sales orders)
- Component & Raw material Availability (to meet production plans)
- Finished Goods lead-time reduction.
- Production Schedule Adherence.

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Issues

- The inability to contact the supplier directly causes a great deal of frustration within the Operations Planning department, who view it as a lack of trust in their ability by the Purchasing department.
- The slow response to requested changes to delivery dates by the suppliers to meet the needs of the production plan. Production management are insisting

that no products are included in the weekly plan unless all materials are on-site at the start of the week.

- Frustration at the inability to influence the lead-times offered by suppliers.

The Managing Director's Perspective

The Managing Director is relatively new to his position, having moved from one of the Company's overseas businesses to take up this role three months ago. Having reviewed the recent performance of both the Purchasing and Operations Planning departments, he believes, that although both departments have met the majority of their annual objectives, they could each improve their performance significantly. He has also committed to continuing the increase of new products and range extensions offered to the market, and plans to offer these new products to other group companies within Europe.

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