

MNP2601

MAY/JUNE 2018 SECOND PAPER

PURCHASING MANAGEMENT

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WARNING

- A candidate who without authorisation takes into the examination venue any book document or object which could assist him in the examination, and does not hand over such material to the invigilator before the official commencement of the examination, will be guilty of infringing the University's examination regulations and will be liable to punishment as determined by Council
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- 3 No notes may be made on any part of the body such as the hands, or on any garment
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MNP2601 (492849) SECOND PAPER

May/June 2018

Purchasing Management

Duration

2 Hours

70 Marks

EXAMINERS FIRST SECOND

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Use of a non-programmable pocket calculator is permissible

Closed book examination

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instructions.

- 1 Please complete the attendance register on the back page, tear off and hand it to the invigilator.
- 2. This is a fill-in examination paper consisting of 32 pages, including 2 pages for additional space (pp 29-30) and 2 pages for rough work (pp 31-32). Please follow the instructions below for answering sections A and B.
- 3. Section A consists of 35 multiple choice questions, which should be completed using the mark-reading sheet. As a back-up of your answers, also circle the selected option on the question paper
- 4. Section B consists of descriptive questions of which question 1-is compulsory, after which you have to choose only one question from questions 2 or 3. Write your answers to the descriptive questions in the spaces provided in this book and hand it to the invigilator when you are done.
- 5. Draw a circle on the front cover indicating which descriptive questions you have
- 6. The case study referred to in the paper is at the beginning of the examination paper.
- 7. Read through all questions carefully.
- 8 Important: If you do not have enough space to complete a question, please use the relevant section called additional space" to answer the rest of the question. Clearly mark that you have used the additional space.

Read the following case study before answering the questions related to the case study

Case study Supplying maize in South Africa

This case study explains parts of the supply chain of maize as a critical grain harvest in South Africa (SA)

Maize contribution to the SA economy

SA maize, as an agricultural product, is one of the contributors to the gross domestic product (GDP) of the country. SA produced an average of 11.3 million tons of maize annually between 2001 and 2014. The country exports its maize surplus to Zimbabwe, Japan, Zambia, Mauritius, Kenya and Mozambique. Currently, the maize industry in SA is seen as the largest on the African continent. Maize prices in South Africa have been regulated by the forces of supply and demand since 1997. Since the price of maize is regulated by these market forces, it is expected that an increased supply of maize will result in lower maize prices.

Maize production: yellow or white maize

There are two categories of maize, namely white and yellow maize. White maize is normally produced for human consumption, while yellow maize is mainly used for animal feed. Currently, the South African maize harvest mainly consists of white maize. In the North-West province, farmers have realised that it may be more rewarding to plant white maize instead of yellow maize, because of the growth in the livestock industry in this province.

Maize supply chain

Maize can be harvested either automatically or through human effort, after which it is stored in storage towers or silos. The total grain silo storage capacity in SA is projected as 1.75 million tons 85% of the storage towers are owned by 22 silo owners who fall under the following cooperatives. Senwes, Afgri and Noordwes. Most of these storage facilities are located in the northern part of the country and have a storage capacity of 14.5 million tons of maize.

The harvested maize is usually distributed to maize millers, where maize meal is produced. Bags of maize meal are distributed to wholesalers and then to retail stores where customers can purchase them. Maize grown in remote areas is sometimes transported to big cities for milling and then the bags of maize meal are transported back to the customers in the remote areas.

Government support for small maize businesses

Small maize millers have the capacity to produce 1000 tons of maize meal per month and 288 000 tons per year, which amounts to 6% of SA's total maize meal production. The Agro-processing Business Unit and the Foundation for African Business and Consumer Services (Fabcos) have launched a project to facilitate the entry of small-scale maize millers in cities and remote areas. This project was initiated in May 2014 by the Department of Trade and Industry (DTI) and 24 small maize millers were selected to participate in order to increase the supply of maize meal and to ensure that it is affordable to customers. Funds were made available to establish self-sustainable, competitive and employment-generating mills.

Empowering the small millers as part of the project extended to skills training. Substantial amounts were budgeted to train millers to acquire skills in commercial milling in partnership with skilled millers.

Turn over

In an effort to reduce logistics costs, the DTI also acquired the Isigayo mill, a compact maize milling plant, to make the harvesting, production and consumption of maize products in one place possible

3

Conclusion

As a staple food, maize satisfies one of the basic needs of human beings and animals, and is critical in both urban and rural areas. Since maize contributes to the country's gross revenue, the South African government has launched an initiative to improve the maize meal outputs of small-scale millers with the aim of reducing the price of maize and increasing the supply of maize meal

Case study adapted from

http://www.namc.co.za/upload/food_pricemonitoring/FPM%20Report%202004_04_02_FoodValueChains_Maize.pdf http://www.southafrica.info/business/economy/development/farmers-220713.htm#.VNx-smwU-po

http://www.arc.agric.za/arc-gci/Fact%20Sheets%20Library/Maize-infopak.pdf

http://www.nda.agric.za/docs/Infopaks/Maize.pdf

http://jadafa.co.za/wp-content/uploads/2014/06/South-Africa_Agricultural_Commodities_Brief.pdf

[The above websites were accessed on 13 February 2015]

SECTION A

- Answer all the questions in this section on the mark-reading sheet. Familiarise yourself with the instructions for completing a mark-reading sheet.
- 2. Make a back-up of your answers as instructed on the first page.
- 3. Questions 21-35 are based on the case study.

Total of 35 marks

QUESTION 1

The concepts of **logistics management** and **supply chain management** can be confusing Which statement explains the difference between these concepts?

- [1] Supply chain management involves activities related to the effective flow of material and information within the boundaries of a specific organisation
- [2] The focus of logistics management is on managing relationships between different organisations across the entire supply chain
- [3] Logistics is that part of the supply chain that manages the forward and reverse flow of goods and information from the point of origin to the point of consumption
- [4] Supply chain management focuses on optimising wealth for a single organisation by adding value

Which one of the following can typically be categorised as an inbound logistics activity?

- [1] inspecting inventory
- [2] cross-docking
- [3] warehousing
- [4] customer service

QUESTION 3

Which one of the following can be categorised as **both** an inbound and an outbound logistics activity?

- [1] customer service
- [2] cross-docking
- [3] transportation
- [4] salvage and scrap

QUESTION 4

If a company adopts the philosophy of lean manufacturing, they would typically use the following statement in conversations

- [1] By keeping large inventories of raw materials, even if these items are not used in manufacturing, we will be prepared to respond to customers' orders when they come in
- [2] If we have more work stations at the plant, we can employ more people to be part of the manufacturing process
- [3] By simplifying our work environment, we can reduce waste and keep our employees, equipment and workspace responsive to current needs
- [4] We have invested large sums of capital in these advanced machines, therefore, we need to get maximum return on our investment before meeting changing demands

QUESTION 5

During the control task, the activity of evaluating the performance of the purchasing and supply function should be based on **both** the following critical dimensions

- [1] tactical and strategic objectives
- [2] centralisation and decentralisation
- [3] quantitative and qualitative bases
- [4] cost reduction and reduced lead time

A typical example of a qualitative indicator for evaluating purchasing and supply activities in the organisation is the the purchasing and supply function

- [1] negotiation ability of
- [2] promptness factor achieved by
- [3] rejection ratio of consignments by
- [4] outstanding orders of

QUESTION 7

A typical example of a quantitative indicator for evaluating purchasing and supply activities in the organisation is

- [1] benchmarking
- [2] supplier credibility
- [3] quality certification
- [4] teambuilding

QUESTION 8

Since the purchasing and supply function is a support function, **lateral** purchasing and supply coordination is essential. This means that purchasing and supply

- [1] has a harmonious relationship with other organisational functions
- [2] uses horisontal thinking to solve purchasing and supply challenges
- [3] distributes an annual report to all the relevant internal and external stakeholders
- [4] promotes a hybrid purchasing and supply organisational structure

QUESTION 9

The following principle should be kept in mind when evaluating purchasing and supply performance

- [1] It would be best to use the generic evaluation system that is available to evaluate purchasing and supply performance
- [2] Quantitative measures give the best and most accurate indication of purchasing and supply performance
- [3] As long as the benefits equal the costs, the evaluation system for evaluating purchasing and supply performance is effective
- [4] A sound database with information on a wide spectrum of purchasing and supply activities is necessary to evaluate performance

When determining responsibilities in the purchasing and supply process, the prime responsibility to contact the supplier base about faulty consignments

- [1] receiving
- [2] inspection
- [3] financial
- [4] purchasing

QUESTION 11

Expediting an order in the purchasing and supply context implies that the purchasing official firstly

- [1] obtains advanced technology to speed up the process
- [2] phones the supplier to discuss future relationships
- [3] monitors the supplier's progress with the order
- [4] suggests lean manufacturing as an efficient alternative

QUESTION 12

When buying specialised equipment, the purchasing procedures might require that requisitions exceeding a predetermined amount be accompanied by two or three written quotations. In such cases, the has the prerogative of selecting the supplier

- [1] user
- [2] purchasing official
- [3] equipment specialist
- [4] financial function

QUESTION 13

When making the decision to insource or outsource, which one of the following options is most suitable when a buying organisation is more competent in performing an activity than a potential supplier?

- [1] Outsource to any supplier that has the capability to perform the activity
- [2] Outsource a core activity even though it gives a competitive advantage
- [3] Invest in disadvantaged suppliers to create their capability to perform the activity elsewhere
- [4] Keep the activity in-house and invest to maintain and increase competitive advantage

is when an organisation decides to partially transfer the activities of a function to a supplier while keeping the rest of the activities in-house

7

- [1] Outsourcing
- [2] Insourcing
- [3] Co-sourcing
- [4] Back-sourcing

QUESTION 15

Reciprocity is a practice where

- [1] suppliers, who are also customers of the organisation, enjoy preferential treatment
- [2] the supplier is directly or indirectly owned by the purchasing organisation
- [3] the buyer buys from a supplier that is owned by a family member of the buyer
- [4] a purchasing organisation buys more than half of the supplier's production

QUESTION 16

Which one of the following statements refers to the most likely decision of whether inventory will be held by suppliers on behalf of the buying organisation?

- [1] Suppliers should not be asked to hold sufficient safety inventory for the buying organisation based on ethical reasons
- [2] Even if the supplier is located near the premises of the buying organisation, it would still be best to hold inventory at the buying organisation's premises
- [3] Inventory held by a supplier can have cost implications for the supplier, which will be transferred to the buying organisation
- [4] Only contingency inventory should be held by the supplier in their warehouses until needed by the buying organisation due to the insurance risks borne by the supplier

QUESTION 17

If a company leases computer equipment, which one of the following best describes **risk transfer** as a way to manage risks?

- [1] The financial consequences of losing computers are transferred to the insurance company
- [2] In the lease agreement, the risk of obsolescent computers is transferred to the owner of the computers
- [3] The risk of stolen computers is transferred to the board of directors
- [4] The risk of redundant computers can be transferred to the computer equipment manufacturer

According to the King Report, which level of the organisation is **primarily** responsible for the development and implementation of good ethics?

- [1] financial officials
- [2] shareholders
- [3] internal stakeholders
- [4] board of directors

QUESTION 19

- . costs typically arise from warranty claims and product recalls
- [1] Internal failure
- [2] Appraisal
- [3] External failure
- [4] Prevention

QUESTION 20

Amazon com, an online retailer, uses a central computer in their warehouses, which records the location of goods and maps out routes for pickers of ordered items. If the central computer should have insufficient capacity to handle all the required transactions, it would imply the following type of operational risk.

- [1] hardware risk
- [2] systems risk
- [3] policy risk
- [4] process risk

Questions 21.- 35 are based on the case study at the beginning of the paper.

QUESTION 21

Storing 14.5 million tons of maize in silos at different cooperatives can hold some risks, of which risk refers to the supply risk when maize prices fluctuate

- [1] core business
- [2] external downside
- [3] incidental business
- [4] foreign exchange

risk is experienced when damaged roads due to flooding delay the delivery of maize to the silos

- [1] Lead time
- [2] External downside
- [3] Incidental business
- [4] Foreign exchange

QUESTION 23

The risk of receiving sub-standard quality maize in the silos could proactively be managed by the following management technique

- [1] ABC inventory management
- [2] supplier certification
- [3] target costing
- [4] buffer inventory

QUESTION 24

As a general rule of thumb, small-scale maize millers should realise that the poor quality of incoming maize grain from farmers could cause approximately % of the problems and related costs associated with the maize meal products reaching the final consumer

- [1] 20
- [2] 40
- [3] 75
- [4] 95

QUESTION 25

The quality of service that internal suppliers provide to internal customers is equally important. In terms of the government's support programmes to help the small-scale millers as discussed in the case study, the would most probably be the internal supplier/s of maize grain to small millers.

- [1] government purchasers of maize grain
- [2] sellers of milling equipment
- [3] rural maize users
- [4] Department of Trade and Industry

QUESTION 26

One of the cost elements that small-scale maize millers should consider is direct material costs, which in this case would refer to the

- [1] cost of the cleaning materials for the milling machines
- [2] electricity cost for operating the milling machines
- [3] cost of adjusting the coarseness of the milled maize
- [4] cost of the maize grain used in the milling process

[Turn over]

An example of millers' overhead cost will be

- [1] milling machines
- [2] maize bags
- [3] electricity
- [4] bulk maize

QUESTION 28

The decision-makers in the Department of Trade and Industry most probably assumed that the miller's learning curve would change over time to decrease the labour cost component of milled maize. In this case, an improved learning curve would imply that

10

- [1] the more small-scale millers attend training sessions before being selected for the programme, the more skilled they will be during the milling process
- the more skilled the small-scale millers become in actually handling the milling equipment, the more bags of milled maize will be produced
- [3] maize millers' labour skills can be improved indefinitely through the repeated handling of milling equipment
- [4] skilled workers who are unwilling to work or often go on strike should be replaced by advanced milling equipment

QUESTION 29

As a rule of thumb, the millers should learn that the inventory holding costs of produced maize usually represent on average % of the amount invested in maize inventory

- [1] 10
- [2] 20
- [3] 50
- [4] 75

QUESTION 30

Optimum maize inventory for millers would imply a situation where

- [1] maize transportation costs from rural areas are the lowest
- [2] overall maize inventory costs are the lowest
- [3] inventory holding costs equals inventory ordering costs
- [4] the stock-out costs of maize inventory are related to transportation costs

A typical example of multi-purpose capital equipment purchased by millers would be

- [1] forklifts for moving bags of maize meal in storage
- [2] milling machines for grinding maize grain
- [3] stitching machines for closing maize bags
- [4] specialised maize milling plants to produce maize meal

QUESTION 32

When contracting a repair expert to fix a milling machine, there is no lead time in repair service delivery. This refers to the following characteristic of services

11

- [1] heterogeneity
- [2] simultaneity
- [3] perishability
- [4] intangibility

QUESTION 33

If a machine repairman arrives at the plant, only to realise that he needs other tools and more hands to repair the machine at that specific time, the subsequent non-rendering of the service would be due to the of services

- [1] perishability
- [2] simultaneity
- [3] intangibility
- [4] heterogeneity

QUESTION 34

When the Department of Trade and Industry buys transportation services for delivering maize to the 24 small-scale milliers, they should ensure that the potential transportation companies are able to deliver the maize at the geographically dispersed milling plants. In this case — is a key variable in transport decision making

- [1] reliability
- [2] capability
- [3] accessibility
- [4] speed

Distinguishing between ethical and unethical conduct is difficult. Which ONE of the following statments would be ethical when allocating a budget to a province to train millers for a six-month period in commercial milling?

- [1] My brother-in-law has a training facility in Kimberley which we could easily use for our training. By doing this, both my family and the Department of Trade and Industry would benefit.
- [2] It would make financial sense to use a written quotation from one of the training companies to help a competing training company to quote the lowest price for the training
- [3] Since bribes are common practice in other African countries, we can do the same when awarding contracts to trainers in the Northern Cape province
- [4] Loyalty has a price, therefore, even if my career is at stake, I have to blow the whistle on my superior who awarded the training contract to his best friend

SECTION B

| AND THE TRANSPORT OF THE TAX AND THE TAX A | |
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| ANSWER QUESTION 1: (COMPULSORY) AND THEN ONLY ONE QUESTION OF | |
| FINANCIAL PROPERTY OF A STATE OF | |
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| QUESTION 1 AND PARTS OF QUESTIONS 2 AND 3 ARE BASED ON THE CASE STUDY | ۱Ţ. |
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| TOTAL OF 35 MARKS | 4. |

Question 1 (compulsory)

[10 marks]

| 1.1 From the case study it can be deduced that the approach followed when determined the case of the c | nining the |
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| price of maize is based on prevailing market prices. Motivate this statement from | n the case |
| - \$\tau_study \tau_i \t | (3) |
| [lf the case does not provide specific information to substantiate your answer you are | allowed to |
| make relevant assumptions] | |
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| 1.2 Standardisation is a helpful technique in managing quality in purchasing and si | upply |
| (a) Define standardisation | (2) |
| ື້ (b) Discussihow silozowners can use standardisation in terms of the white maize | received |
| in the farmers in the farmer in the farm | (2) |
| (c) Discuss how standardisation implemented by silo owners would benefit the si | mall-scalé |
| millers who purchase from these silos | (3) |
| You may make relevant assumptions if the case does not provide relevant infor | mation to |
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| C | may/June2018 From the case study it can be deduced that the approach followed when determining the price of maize is based on prevailing market prices |
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| ٨ | Motivate this statement from the case study (3) |
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| 1.2 | Standardisation is a helpful technique in managing quality in purchasing and supply (a) Define standardisation (2) (b) Discuss how silo owners can use standardisation in terms of the white maize received from the farmers (2) (c) Discuss how standardisation implemented by silo owners would benefit the small-scale millers who purchase from these silos (3) |
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| (2 | a) Define standardisation (2) |
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| (b) Discuss how silo owners can use standardisation in terms of the white maize receifrom the farmers | vea (2) |
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| NOW ANSWER ONLY ONE QUESTION OF QUESTIONS 2 OR 3 | |
| Question 2 [25 n | narks] |
| 2.1 Discuss ANY 9 supplier selection criteria when assessing suppliers Your discu | ssion |
| should also include one relevant example from the case study per crite | erium |
| A CONTRACTOR OF THE CONTRACTOR | (19) |
| [This question is a basic theory question and no application to the case study is requ | ured] |
| 2.2 Based on the case study, the small-scale millers produce maize products at afford | dable |
| prices Categorise ANY 3 types of inventory held at the small-scale milling plan | 1 |
| providing a short discussion of the inventory categories and a relevant example | (6) |
| You may make relevant assumptions if the case does not provide relevant information | |
| to substantiate your answer] | |

| 2 1 | Discuss ANY 9 supplier selection criteria when assessing suppliers. Your discussion should also include one relevant example from the case study per criterium (19) |
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| 22 | Based on the case study , the small-scale millers produce maize products at affordable prices. Categorise ANY 3 types of inventory held at the small-scale milling plants by providing a short discussion of the inventory categories <u>and</u> a relevant example. (6) |
| | [You may make relevant assumptions if the case does not provide relevant information to substantiate your answer] |
| • | Category 1 |
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| Category 2 | way/June2010 |
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| Category 3 | |
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| Ruestion 3 | [25 marks] |
| 3:1: elf suppliers are using price analysis to determine se | 2 |
| supplier pricing models (also known as market- them in determining prices | 1 |
| The state of the s | (19) |
| This question is a basic theory question and no application and second control of the control of | lication to the case study is required] |
| 3.2 From the case can be deduced that decisions sho machines as part of small scale millers' capital ed | uipment Explain shortly what the |
| decision about milling machines mean in ter considerations: | mså of the following qualitative |
| (a) reliability (b) flexibility | |
| (d) space. 1.4 (d) safety 2.5 | ! |
| (e) effect on quality of end products | (6) |
| [If the case does not provide specific information to allowed to make relevant assumptions] | o substantiate your answer you are |
| | |

| 3.1 | If suppliers are using price analysis to determine selling prices, discuss the six different | | | | | | |
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| | supplier pricing models (also known as market-driven pricing strategies) to assist them | | | | | | |
| | in determining prices (19) | | | | | | |
| | [This question is a basic theory question and no application to the case study is required.] | | | | | | |
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| From the case it can be deduced that decisions should be made on appropriate machines as part of small-scale millers' capital equipment. Explain shortly what the deabout milling machines mean in terms of the following qualitative considerations: | |
| machines as part of small-scale millers' capital equipment. Explain shortly what the deabout milling machines mean in terms of the following qualitative considerations: (a) reliability (b) flexibility (c) space (d) safety | |
| machines as part of small-scale millers' capital equipment. Explain shortly what the deabout milling machines mean in terms of the following qualitative considerations: (a) reliability (b) flexibility (c) space | ecisior |
| machines as part of small-scale millers' capital equipment. Explain shortly what the deabout milling machines mean in terms of the following qualitative considerations: (a) reliability (b) flexibility (c) space (d) safety (e) effect on quality of end products (f) durability [If the case does not provide specific information to substantiate your answer years) | ecisior |
| machines as part of small-scale millers' capital equipment. Explain shortly what the deabout milling machines mean in terms of the following qualitative considerations: (a) reliability (b) flexibility (c) space (d) safety (e) effect on quality of end products (f) durability [If the case does not provide specific information to substantiate your answer you allowed to make relevant assumptions.] | ecisior |

| (d) safety | |
|---------------------------------------|--|
| (e) effect on quality of end products | |
| (f) durability | |

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| te: Continue using the lines below if the lines at a specific question were not enough ake sure to mark the question CLEARLY and also indicate at your answer to the question at you continued in the additional space provided | | | | |
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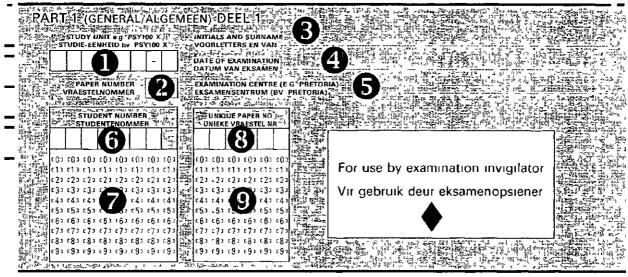
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| ROUGHWORK | | | | |
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[Turn over]

UNIVERSITY OF SOUTH AFRICA UNIVERSITEIT VAN SUID-AFRIKA **EXAMINATION MARK READING SHEET**



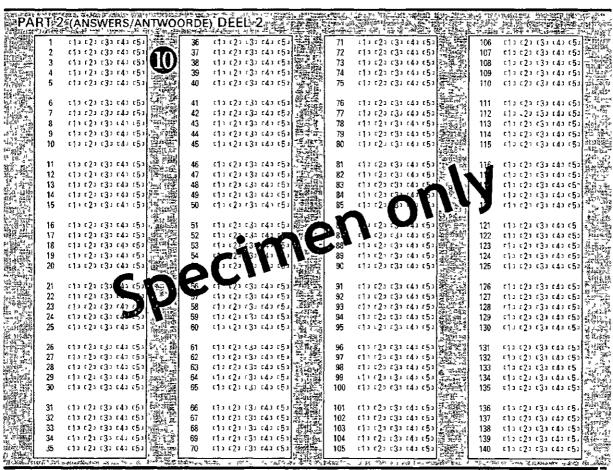


IMPORTANT

- 1. USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
- 2 MARK LIKE THIS 😝
- 3. CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
- ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
- 5. CHECK THAT YOUR STUDENT NUMBER HAS BEEN FILLED IN CORRECTLY
- 6 CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
- 7 CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
- 8 DO NOT FOLD

RELANGRIK

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- 2 MERK AS VOLG +
- 3 KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS
- 4 VUL U STUDENTENOMMER VAN LINKS NA REGS IN
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- 7 MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
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MARK READING SHEET INSTRUCTIONS

Your mark reading sheet is marked by computer and should therefore be filled in thoroughly and correctly

USE ONLY AN HB PENCIL TO COMPLETE YOUR MARK READING SHEET

PLEASE DO NOT FOLD OR DAMAGE YOUR MARK READING SHEET

Consult the illustration of a mark reading sheet on the reverse of this page and follow the instructions step by step when working on your sheet

Instruction numbers **1** to **1** to refer to spaces on your mark reading sheet which you should fill in as follows

Write your paper code in these eight squares, for instance

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The paper number pertains only to first-level courses consisting of two papers

WRITE 0 1 for the first paper and 0 2 for the second If only one paper, then leave blank

- Fill in your initials and surname
- 4 Fill in the date of the examination
- Fill in the name of the examination centre
- WRITE the digits of your student number HORIZONTALLY (from left to right) Begin by filling in the first digit of your student number in the first square on the left, then fill in the other digits, each one in a separate square
- In each vertical column mark the digit that corresponds to the digit in your student number as follows
 [-]
- WRITE your unique paper number HORIZONTALLY

NB Your unique paper number appears at the top of your examination paper and consists only of digits (e g 403326)

- In each vertical column mark the digit that corresponds to the digit number in your unique paper number as follows [-]
- Question numbers 1 to 140 indicate corresponding question numbers in your examination paper. The five spaces with digits 1 to 5 next to each question number indicate an alternative answer to each question. The spaces of which the number correspond to the answer you have chosen for each question and should be marked as follows. [-]
- For official use by the invigilator Do not fill in any information here