

Possible questions

Chapter 1

1. Discuss the objectives of purchasing management – p8
 1. To supply organizations with a flow of materials and services to meet needs.
 2. To maintain and develop the quality of purchased goods.
 3. Maintain an optimum balance of inventory
 4. Ensure continuity maintaining effective relationships with existing sources
 5. To buy efficiently, best value for every rand spent.
2. Discuss the objectives of supply management – p8
 - Contribute to the development of overall business strategies
 - Manage supply base
 - To ensure that a timely, cost effective and comprehensive info system is in place.
 - Contribute to multi functional teams and provide outstanding customer services
3. Discuss the elements of the purchasing procedure – p 15 – p23
 - i. Origin of the need
 - ii. Specification identifying the source
 - iii. Selecting suppliers
 - iv. Negotiating and bidding
 - v. Ordering and contracting
 - vi. Follow up and expediting
 - vii. Receiving inspecting and distributing
 - viii. Handling faulty consignments and rejections
 - ix. Analyzing the invoice
 - x. Closing order
 - xi. Measuring supplier performance.

Chapter 2

1. Discuss the levels of purchasing and supply planning and objectives –p27 -29
 - Strategic purchasing and supply Planning. This is organizational planning at the highest level. Top Management, mission and long term objectives.
 - Tactical purchasing and supply planning. Executed at middle management, entails the implementation of strategic plans.

- Operational purchasing and supply planning. This planning is at the lowest level, materials requirements planning, planning the purchasing and supply system.
2. What are the advantages of a centralized structure –p33
 - Standardization of materials and products is possible because purchases are made at one point.
 - Increased negotiating power.
 - Purchasing and supply staff are afforded the opportunity to become experts.
 - Control over all the aspects of the purchasing and supply function is improved.
 - Admin costs are reduced
 3. What are the advantages of a decentralized structure –p 33 -34
 - The needs of users can be better satisfied.
 - Make more efficient use of local suppliers
 - Different plants maintain their autonomy plant managers are often fully responsible for the profitability of individual plants.
 4. Discuss the advantages of cross-functional purchasing teams- p37
 - Different perspectives and expertise of team members.
 - Increased innovation because of informal organizational structures.
 - Teams accepting responsibility for problem correction
 - Enhanced communication between functions.
 5. Name the steps that you will follow in the process of evaluating the purchasing and supply function –p41 – 49
 - 1) Determine the objectives and scope of purchasing and supply.
 - 2) Establish performance measures and purchase and supply norms for evaluation.
 - 3) Measurement of actual performance
 - 4) Evaluation of actual performance.
 - 5) Reporting(feedback)

Chapter 3

1. Name the core principles of supply chain management –p 58
 - Value and the creation of customer value.
 - Total cost of ownership
 - Integration of processors.
 - Reduction of cycle time.
2. Discuss the characteristics of supply chain according to Leenders and Hugo –p59
 - Supply chain management is a philosophy for conducting business.

- Supply chains consist of multiple layers of companies striving as a team to optimize the shared supply chain processes.
- Organizations may be involved in multiple supply chains
- Focus remains on customer value creation
- All links and interfaces in the supply chain are not of equal importance
- Data interchange and data capturing occur across all interfaces of the supply chain.

3. How would you implement a supply chain –p61

- Supply chain strategy is a sub strategy of overall business strategy, it should therefore be developed to support overall corporate strategies.
- Identify supply chain goals and develop plans to ensure that every process is individually capable of meeting them.
- Develop a system for gathering market intelligence.
- Integrate and manage the supplier base by creating long term contracts.
- Develop a performance measurement system.

4. What is benchmarking? –p63

- Benchmarking is a process that allows a company to evaluate its work methods, processes, service levels or products against meaningful standards.
6. What is the difference between internal and external benchmarking
- Internal benchmarking measures the performance of different processes, divisions, business units or manufacturing units on the same firm against each other.
 - External benchmarking is a comparison of performance in any number of business activities between a firm and its competitors within the same industry.

Chapter 4

1. What do we mean by strategic sourcing? –p 71

- Is a strategic management process whereby commodities and suppliers are analyzed and relationships are formed and managed according to the best practices and appropriate strategies in support of long term organizational goals.

2. What is subcontracting? – p74

- Is a business practice which a producer hires another firm to perform part of the manufacturing process or to furnish sub assemblies that will be incorporated into the end product.

3. What is outsourcing? – p74

- Does not form part of the production process but involves the provision of support services, such as credit management, HR, cafeteria services, cleaning services, transports etc.

4. Discuss the advantages and disadvantages of subcontracting and outsourcing

- Advantages- cost savings
 - Specialization by smaller, more streamlined enterprises
 - Better competitive position
 - Enlarged production capacity
 - Limit or eliminate inventory
 - Increased responsiveness to changes in the market.

Disadvantages- subcontractors become dependant on the enterprise 'captive suppliers'
- unsuccessful development of suppliers

5. Name the different phases in the outsourcing decision process – p76

1. assess technology and demand trends
2. define core activities
3. strategic analysis
4. consider non cost factors and make a decision
5. conduct a total cost analysis of core activities
6. Relationship Analysis

Chapter 5

2 Name criteria that you would use to select a supplier –p83

- Quality
- Price cost structure
- Delivery
- Time
- Flexibility
- Service
- Financial status of supplier
- Systems: Operations planning and control
- Technology and process capability
- Supply chain management
- Environments, ethics and social responsibility of supplier.
- Capabilities, responsiveness and motivation.

2 Discuss the supplier selection process – p89 – 93

STEP 1: Identify possible suppliers

- Various sources to identify suppliers

- Internet search engines
- Company websites
- Chambers of commerce or business
- Embassies and consular general officers.

STEP 2: Prescreening to reject unsuitable suppliers

- Here we eliminate suppliers who are unsuitable
- Will eliminate suppliers in a poor financial situation
- Suppliers who experience labor problems
- Suppliers who don't meet organizations quality requirements.

STEP 3: Conduct research on potentially suitable suppliers.

- Information in the public domain
- Supplier visits
- Supplier surveys or questionnaires

STEP 4: Choose evaluation method and analyze the suppliers

- Formal method is the weighted point supplier performance rating system. Where all pertinent criteria are weighted according to their importance and each potential supplier is scored against them.

STEP 5: Select Suppliers

STEP 6: Ongoing measure of supplier performance

- Supplier performance measurement can be done using the weighted point evaluation method
- Many organizations base their ongoing measurements on quality, cost reduction, on time technology and service.

STEP 7: Supplier accreditation

- Approved suppliers
- Preferred suppliers
- Certified suppliers

Chapter 6

1. Name the benefits of procuring from Local; National suppliers –p95
 - Lower transport costs
 - More reliable service
 - Lower prices due to mass production
 - Greater continuity suppliers are in a stronger financial position
2. Discuss the three main ways in which an enterprise may become involved in the development of suppliers –p97
 - Purchase of disadvantaged suppliers
 - Taking action when a product or service is not available.
 - Performance appraisal of suppliers
3. What do we mean by captive suppliers –p99
 - Captive suppliers refer to suppliers that are too dependant on one client for their survival.

Chapter 8

- 3 Why is an ethical conduct important for purchasing and supply? –p119
 - Purchasing and supply managers have power over large sums of money; the largest outflow of funds from an enterprise is from the purchasing department.
 - Purchasers have the greatest say in which supplier will receive an order.

Due to the above the temptation to act unethically are greater.

 - Unethical actions by purchasers influence relations with suppliers
 - Temptation influences purchaser's objectivity and rational thinking.
 - The climate of interaction in the purchasing process creates an environment for potential and unethical behavior due to the purchaser and supplier interaction. Sale reps are often less mindful of ethical conduct and may try and influence the purchaser through offers of personal gain for the purchaser.

Chapter 9

1. Explain quality from a technical perspective – p126

A technical explanation of quality should reflect the inherent characteristics of requirements:

- Design quality, specific characteristics of the product that determines its value in the market place.
- Conformance quality, defines how well the product is made with respect to its design specification.

2. Explain quality from a business perspective – p126

A business management explanation of quality should reflect:

- The objectives of efficiency and effectiveness
- Combined optimization of value and costs

Therefore concentrates how the technical aspects of quality should be managed internally as well as external as part of the supplier management to achieve a competitive advantage in customer service levels.

3. Why is internal service quality from a purchasing point of view important?-p127

- Impacts on an organizations ability to meet external customer needs
- Dual role (external/external) quality.
- Internal customers to a large degree determine the quality of products and services delivered to the external customer.
- The internal quality of the work place is the biggest contributor to employee satisfaction.

4. Name the elements of internal service quality – p130

- Responsiveness needs
- Quality of delivered products or services.
- Meeting customers expectations
- Flexibility in meeting customers changing needs.
- Delivering information on time(internal/external)
- Explaining service delivery products
- Communication level.

5. Name the main characteristics of TQM. – p131

- Its is a management philosophy that flows through the whole organization including the supply chain.
- Philosophy of continuous improvement.
- All employees of firm and partners in the supply chain have some quality project responsibilities.

- Team problem solving insures that goals are shared and relationships are stabilized.
 - Feedback of customer satisfaction with regards to quality value of products and services
6. Name the steps that you will use for quality planning. –p132
- Analyze the environment from suitable quality may be obtained
 - Setting quality objectives
 - Making decisions on quality.
7. Discuss the quality control process (9.8)
- Set standards
 - Recording performance
 - Report and explain deviations
 - Corrective action

Chapter 10

1. What is a fair price? – p151
Is the lowest price that ensures a continuous supply of proper quality where and when needed
2. What is a competitive price? – p151
Is a price which relates to the strategic importance of purchased materials, components and services for long term profitability and survival of the enterprise.
3. Name the elements of cost in determining price. –p152 – 153
 - **Direct cost of materials**
Estimated with a aid of materials cost of a similar product.
Basis of a materials list provided by the supplier
Direct material costs, all materials that can be directly identified in the final product, do not include small items eg welding rods , cleaning materials.
 - **Direct labour costs**- all labour that is physically traceable to the final product or services.
to componets are important labour hours and wage rate.
Purchases own production function may assist in estimating number of labour hours needed
 - **Indirect manufacturing costs(overheads)**
 - **Profit mark up**
4. What do we mean by Total fixed costs? –p153
5. Name the different supplier pricing models. –p158 – 159
 - Price volume model
 - Market penetration model

- Market skimming model
 - Revenue pricing model
 - Promotion price model
6. What is hedging? –p166
- Is a method for reducing the risk of fluctuations in the prices of raw materials.
 - It involves a simultaneous purchase and sale in two different markets which are assumed to operate so that a loss in one will be offset by an equal gain in the other.

Topic 4

1. Classify capital equipment and provide examples of each category?

Capital equipment includes all equipment that is used directly in the manufacturing process and or the overall running of the enterprise. I.e. drilling machines lathes, fax machines.

Multi purpose equipment- variety of uses various industries longer technological life and may have considerable salvage values. Forklift.

Single purpose equipment- design to do one or several similar operations, quality of work is much better. Limited to a single industry unlike multi purpose equipment.

2 Explain the role of purchasing and supply management in the procurement of capital equipment?

Purchasing and supply management does not play a dominant role in the purchasing of capital goods, but can give important input in some areas.

In the case of supporting capital goods, the role of the p+s department is mostly supportive and gives advice and manages supplier relations.

The department concentrates on cost savings(to reduce investments) which because of the nature and magnitude of capital goods purchases are of vital importance.

1) **Provision of information**- availability of suppliers
new equipment
prices of capital equipment

2 **evaluation and selection of suppliers**- subordinate role, p+s management should investigate the financial positioning of its suppliers

- 3 **Coordination administration of the purchase.-** specific purposes are analysed and considered. P+s also involved in placing the order.
- 3 **Specific purchases-** purchasing of standard equipment of relatively low unit value, is another area where p+s management could play a role.

4. Discuss leasing as an option for acquiring capital equipment?

Leasing involves the use of a specific fixed asset

Asset involves the property of the lessor, the lessee pays a fixed regular installment on it normally in advance for a fixed term

Advantages of leasing:

- Leasing provides certainty
- Very convenient from an operational management point of view
- Flexible in the sense that the organizations are not locked into long term commitments due to capital investments
- Provide organization financial leverage,
- Investment responsibility lies with the lessor.
- A small initial capital outlay is required.
- Expert service
- Advice and maintenance are often available.
- Risk of obsolescence is reduced.

Disadvantages

- May be more expensive than other purchasing methods such as loans
- The lessor may insist on supervising
- There is less freedom of use in action
- No residual value for the lessee
- Sometimes more difficult to make changes or improvement to the equipment under the contract.

Give reasons why the purchasing of services has become so important.?

- The service sector is by far the fastest growing one in world trade
- Large portion of revenue spent on purchasing services.
- Deregulation of previously government controlled service industries.
- Reduced costs due to the fact it has received little attention in the past.
- Outsourcing of non core activities.