

DEPARTMENT OF
ENTREPRENEURSHIP, SUPPLY CHAIN, TRANSPORT,
TOURISM AND LOGISTICS MANAGEMENT

PURCHASING MANAGEMENT



ONLY STUDY GUIDE FOR **MNP2601**

UNIVERSITY OF SOUTH AFRICA, PRETORIA

© 2017 University of South Africa

All rights reserved

Printed and published by the University
of South Africa Muckleneuk, Pretoria

MNP2601/1/2018–2020

70455457

Contents

Welcome message	iv
Learning units	ix
TOPIC 1: The purchasing function: An overview	1
LEARNING UNIT 1: Purchasing and supply in perspective	2
LEARNING UNIT 2: The task of purchasing and supply management	5
LEARNING UNIT 3: Purchasing and supply procedures	9
TOPIC 2: Managing the supply base	11
LEARNING UNIT 4: Purchasing and supply strategies and policies	12
LEARNING UNIT 5: Evaluation and selection of suppliers	14
TOPIC 3: Key performance indicators	17
LEARNING UNIT 6: Sustainable purchasing and supply management	18
LEARNING UNIT 7: The management of quality from a purchasing and and supply perspective	23
LEARNING UNIT 8: Purchasing and supply price determination and cost analysis	25
LEARNING UNIT 9: Purchasing quantity and inventory management	27
TOPIC 4: Application fields in purchasing and supply management	29
LEARNING UNIT 10: Procurement of capital equipment	30
LEARNING UNIT 11: Procuring services	32
Self-assessment on module content	34

.....Welcome message

(available on the MNP2601's home page on myUnisa)

Dear student

Thank you for registering for

Purchasing Management (MNP2601)

Welcome to the module Purchasing Management (**MNP2601**). I hope that you will find this module interesting, meaningful and enriching.

This module is offered by the Department of Entrepreneurship, Supply Chain, Transport, Tourism and Logistics Management and is intended for students who are pursuing a career in the field of purchasing and supply chain management. It is a six-month module that carries 12 credits towards your qualification.

This is an introductory module in Purchasing and Supply Chain Management. The main objective of this module is to give you insight into the role of the purchasing and supply function and its management of processes, procedures and systems in the organisation. You should, for example, be able to apply your knowledge and skills to the operational processes and management of the purchasing and supply function in the organisation.

VERY IMPORTANT: This study guide serves as a “road map” to lead you through the process of mastering the content and is neither a summary of the prescribed book nor an indication of what you should focus on when preparing for the examination! You have to study **every chapter** in the prescribed book *referred to in this Study guide in detail*. This study guide should be read in conjunction with the Tutorial Letters you receive for MNP2601.

This module has a prescribed book, without which you will not be able to pass. The material on myUnisa and in the study guide is intended to guide you through the prescribed book and **does not replace it**.

Apart from the hard copy, an electronic version of the study guide is available on myUnisa.

You will have a pleasant start to your studies for this module if you consult the **Getting Started** letter first, which you can access at:

<http://www.unisa.ac.za/default.asp?Cmd=ViewContent&ContentID=22379>.

In addition, you might find the following links (which are related to studying online) helpful:

- Study @ Unisa (1) (2:58) <http://www.youtube.com/watch?v=j6QZrRF2iVU&feature=related>
- Study @ Unisa (2): What does it mean to be an ODL student at Unisa? (1:12)
http://www.youtube.com/watch?v=fgO_NcxduGg&feature=related

- Get connected before you start to register on myUnisa (6:10)
<http://www.youtube.com/watch?v=MAGvmgdSkEk&feature=related>

Do not hesitate to contact me and your e-tutors on the discussion forum on myUnisa. You can contact me by e-mail or by paying me a **pre-arranged visit** in my office at the Muckleneuk Campus in Pretoria.

My contact details are:

Dr Orpha Cilliers

Office number: AJH van der Walt Building, Room 4-10

Telephone number: +27(0)12 429 4030

E-mail address: cillijo@unisa.ac.za

Outcomes and assessment criteria of MNP2601

Outcomes	Assessment criteria
<p>Put the purchasing function and purchasing management in perspective</p> <p><i>Range:</i> <i>This knowledge base includes – but is not limited to – the role, functions, processes, procedures and systems of purchasing management.</i></p>	<ul style="list-style-type: none"> ■ Describe the nature of the purchasing and supply function. ■ Explain the difference between supply management, logistics management and supply chain management. ■ Explain the importance of purchasing and supply management for organisations. ■ Discuss the influence of the purchasing function on other organisational functions. ■ Illustrate and explain the elements and procedures of a purchasing system. ■ Differentiate between the management of the traditional purchasing function and the management of the integrated approach to purchasing and supply. ■ Explain and give examples of the different levels of purchasing and supply planning and objectives. ■ Illustrate and explain purchasing and supply as part of organisational strategy development. ■ Identify and explain the basic principles of implementing the supply chain management strategy. ■ Summarise purchasing and supply planning on a tactical and operational level. ■ Discuss a centralised purchasing and supply organisational structure for a large organisation, and point out the advantages of the structure. ■ Discuss a decentralised purchasing and supply organisational structure for a large organisation, and point out the advantages of the structure. ■ Illustrate a combined (centralised/decentralised) organisational structure to show reporting lines. ■ Explain the increasing use of cross-functional teams in purchasing and supply management.

Outcomes	Assessment criteria
	<ul style="list-style-type: none"> ■ Summarise coordination as a management task in purchasing and supply management, and point out why it is becoming more important. ■ Explain the purpose of performance evaluation, including pointing out the problems relating to performance evaluation of the purchasing and supply function. ■ Summarise and illustrate the performance evaluation process. ■ Identify and explain the three levels of performance evaluation. ■ Classify measures and norms for the three levels of performance evaluation in purchasing and supply management. ■ Define the concept and objectives of benchmarking in purchasing and supply management.
<p>Explore the strategic management of the supply base according to the strategic sourcing approach, including the selection and evaluation of suppliers, supplier policies and strategies, ethical aspects, corporate governance and social responsibilities in purchasing and supply management.</p> <p><u>Range:</u></p> <p><i>This knowledge base includes – but is not limited to – the strategic role of purchasing management in organisations and the environment with regard to economical, operational and sustainability aspects.</i></p>	<ul style="list-style-type: none"> ■ Define strategic sourcing. ■ Identify the most important practices of and tools for implementing strategic sourcing. ■ Explain in detail, with the aid of a diagram, the strategic sourcing process. ■ Define subcontracting and outsourcing. ■ Explain why organisations wish to outsource certain activities or part of the production process. ■ Explain the relationship between the parties in an outsourcing agreement. ■ Tabulate the advantages and disadvantages of outsourcing. ■ Explain the outsourcing decision process. ■ List the reasons for the growing importance of supplier selection. ■ Identify the key criteria for supplier selection. ■ Discuss the supplier selection process by applying it to a practical example.

Outcomes	Assessment criteria
	<ul style="list-style-type: none"> ■ Briefly outline and highlight the most important issues of the following purchasing and supply policies and strategies: <ul style="list-style-type: none"> – using local, national or international suppliers – buying from a manufacturer or distributor – using one or more suppliers – using large or small suppliers – deciding to make or buy – using a captive supplier – using reciprocity ■ Give a synopsis of the important strategies of supplier development. ■ Highlight the three main environmental issues in purchasing and supply management. ■ Briefly explain the role of purchasing and supply management in corporate governance. ■ Identify and explain the social responsibilities of purchasing and supply management. ■ Define ethics, business ethics and purchasing ethics. ■ Identify and explain possible areas of unethical conduct in purchasing and supply management. ■ Explain the measures of countering unethical behaviour in purchasing and supply management. ■ Explain the role of purchasing and supply management in ethical conduct in the supply chain.
<p>Explore the most important/key performance areas of the buyer, including assurance of quality, determining fair purchasing prices and managing inventories.</p> <p><u>Range:</u></p> <p><i>This knowledge base includes – but is not limited to – the interdependent key performance areas of purchasing management (ie quality, prices and inventories).</i></p>	<ul style="list-style-type: none"> ■ Explain the concept of quality and its relation to the supply function. ■ Analyse the multiple roles of purchasing in ensuring internal service quality. ■ Analyse the concept of quality and explain the different approaches to quality. ■ Identify where in the supply chain standards should influence purchasing decisions. ■ Discuss a quality control programme for supply management. ■ Distinguish between the elements of value and explain how prices can influence the purchased value. ■ Define the concepts “fair price” and “competitive price”. ■ Differentiate between price analysis and cost analysis as methods that the purchasing and supply manager can use to determine a fair price. ■ Search for sources of information on prices. ■ List the advantages of collaborative cost reduction drives. ■ Discuss the learning curve as a cost/price analysis tool. ■ Do a break-even analysis. ■ Discuss inventory management in a lean supply context. ■ List the reasons for holding inventory.

Outcomes	Assessment criteria
	<ul style="list-style-type: none"> ■ Illustrate the importance of inventory on the return on investment (ROI) of organisations. ■ Analyse the different cost elements of inventory holding. ■ Discuss the ABC classification of inventory. ■ Explain the difference between dependent and independent demand. ■ Discuss inventory timing and quantity as it relates to independent demand management. ■ Analyse and calculate the most economic ordering quantity (EOQ). ■ Calculate the reorder point (ROP) of an inventory item. ■ Discuss response-based techniques to manage independent demand items. ■ Discuss the essence and functioning of the materials requirement planning (MRP) system. ■ Give examples of and discuss the main components of an MRP system. ■ Discuss the influence of an MRP system on purchasing and supply management. ■ Briefly discuss second-generation materials requirement planning (MRP II), enterprise resource planning (ERP) and distribution resource planning (DRP). ■ Explain the philosophy, characteristics and advantages of just-in-time (JIT) purchasing. ■ Describe the symptoms of poor inventory management.
<p>Explore the application areas of purchasing and supply management, including purchasing capital equipment and purchasing services.</p> <p><i>Range:</i> <i>This knowledge base includes – but is not limited to – the important application areas of the purchasing function in the purchasing of capital equipment and services.</i></p>	<ul style="list-style-type: none"> ■ Define capital equipment. ■ Classify capital equipment and give examples of each category. ■ Explain the characteristics of capital equipment. ■ Discuss the size and scope of the procurement team when purchasing capital equipment. ■ Explain the role of purchasing and supply management in the procurement of capital equipment. ■ Explain the factors that should be considered when purchasing capital equipment. ■ Explain the principle of and methodology for the quantitative assessment of capital equipment. ■ Explain the procurement of used capital equipment. ■ Discuss leasing as an option for acquiring capital equipment. ■ Give the reasons why purchasing services has become so important. ■ Explain the nature of services and their implications for the purchasing process. ■ Design appropriate structures and processes for services procurement. ■ Discuss the key features of buying professional services. ■ Give examples of and explain the role of supply management in the acquisition of transportation.

Learning units

MODULE OVERVIEW

The purpose of this module is to enable you to demonstrate your knowledge of the field of purchasing and supply management. It will give you insight into the purchasing and supply function's role in organisations; the management of the function; and the processes, procedures and systems within the function and the organisation.

This module has four topics:

- TOPIC 1:** The purchasing and supply function – an overview
- TOPIC 2:** Managing the supply base
- TOPIC 3:** Key performance indicators
- TOPIC 4:** Application fields in purchasing and supply management

Before you start with the module content

MNP2601 is aimed at helping students to develop a fundamental knowledge base of the theoretical processes underlying purchasing and supply management and how the purchasing and supply function is managed by using different processes, procedures and systems.

1

ACTIVITY

Before you start with this module, you have to understand the complexities of purchasing and supply management. To form an idea of the intricate web of complex activities performed as part of purchasing and supply management, first watch this short video clip on supply chain management ([Module 1: What is Supply Chain Management? \(ASU-WPC-SCM\) – YouTube](#)). It will give you an idea of the overall picture of purchasing and supply activities.

2

ACTIVITY

Once you have watched the video clip recommended in Activity 1, read the case studies on Amazon.com (Case Study 1) and Air Chefs (Case Study 2) below to understand what purchasing and supply management imply in organisations that you are familiar with.

CASE STUDY 1: AMAZON.COM PROVIDING EARTH'S BIGGEST SELECTION

Known best as the world's largest internet retailer, Amazon.com is more than a traditional retailer. Amazon.com started as an online bookstore, but soon diversified to sell DVDs, VHSs, CDs, videos and MP3 downloads/streaming, software, video games, electronics, ap- parel, furniture, food, toys and jewellery. The company also produces consumer electronics (the Amazon Kindle e-book reader and the Kindle Fire tablet computer) and is a major provider of cloud computing services.

Amazon.com is renowned for the fact that they only sell online and does not even take telephone orders. They have one of the best-organised websites and are continually referred to by journalists as an e-commerce success story. Despite many revolutionary changes at Amazon.com, their value proposition consistently remains **price** and **convenience**, and one can expect the company to continue its expansion into new areas while continuing to focus on these two building blocks. Low prices can be sustained by ensuring its customer relationships continue to be mostly automated and self-service.

Lines of business

Amazon.com's basic lines of business are online retail, internet services and the Kindle ecosystem. This case study focuses on the online retail line of business at Amazon.com which includes those products sold by Amazon.com as a more traditional retailer (most commonly as a low-cost retailer). Amazon.com claims to have "Earth's Biggest Selection" of products available through its family of websites, sold at the lowest cost at a small profit.

Amazon.com does not stock everything sold through its website. Another part of its retail strategy is to serve as the channel for other retailers to sell their products and to take a cut of every purchase. Amazon.com maintains its status as a destination website, but does not have to maintain inventory on slower-selling products. This strategy has made Amazon.com a leading retailer, expanding its available selection without a corresponding increase in overhead costs.

Amazon.com also extended by introducing the sale of used products through its seller marketplace. Originally developed to compete with eBay, the seller marketplace provides another retail revenue stream for the company without the need to stock products in its warehouses. Advertising and shipping are handled exclusively by the sellers, with Amazon taking a cut of every sale simply for providing the channel.

Behind the scenes at Amazon.com

At Amazon.com, the following conventional functions take place, which are found in all retailing applications irrespective of whether they use the internet (the activities below refer to managing the book inventory items):

- *stock management*: keeping track of what books are in stock and ordering titles when stocks become low
- *payment management*: paying suppliers of books for those that have been delivered
- *customer payment management*: keeping track of payments made by customers and of payments made by credit card companies and banks which correspond to the customer payments
- *delivery*: the process of sending books to customers
- *market analysis*: the process of analysing sales in order to determine what books to order and which to discount in future

Fulfilment centres are located in many main cities worldwide, often near airports. These centres also provide warehousing and order-fulfilment for third-party sellers. The warehouses are large and each has hundreds of employees. Employees at these warehouses are responsible for four basic tasks: unpacking and inspecting incoming goods; placing goods in storage and recording their location; picking goods from their computer-recorded locations to make up an individual shipment; and shipping. A central computer, which records the location of goods and maps out routes for pickers, plays a central role; employees carry hand-held computers that communicate with the central computer and monitor their rate of progress. A picker with a cart may walk long distances inside the warehouse every day.

The future

Amazon.com has been adding warehouses at a furious pace to keep up with skyrocketing sales, and to add new services such as fresh grocery delivery. The company is also becoming more reliant on goods sold by third parties, which it often stocks in its own warehouses, as already mentioned.

Adapted from the following sources (accessed on 4 September 2013):

- <http://www.digitalbusinessmodelguru.com/2013/07/analysis-of-amazon-business-model.html#/2013/07/analysis-of-amazon-business-model.html>
- <http://labspace.open.ac.uk/mod/resource/view.php?id=370332>
- <http://en.wikipedia.org/wiki/Amazon.com>
- <http://blogs.wsj.com/digits/2013/07/29/help-wanted-at-amazons-many-warehouses/>

CASE STUDY 2: FOOD FOR THOUGHT

Background of Air Chefs

Air Chefs, a subsidiary company within the South African Airways (SAA) Group, is the largest in-flight catering company in South Africa with units at all major airports, such as in Johannesburg, Cape Town and Durban. All units are located less than 2 km from the ramp, allowing for faster delivery and response times to last-minute crew requests. A fleet of hi-loader trucks and support vehicles, as well as a state-of-the-art communication network, complement this. They provide a full range of services to various international and domestic airlines, such as:

- special meal production and design (with the support of a full-time dietician)
- hospitality lounge services
- canteen services
- laundry services
- customs clearance
- equipment handling and storage
- bar packing
- branded packaging
- provision of alcoholic and non-alcoholic beverages and dry-store items

Food production at Air Chefs

Serving food in the air is tricky, since the taste of food differs when 35 000 feet above the ground. Taste buds can be dulled up to 30% within the confined aircraft cabin. This is even more complicated by the fact that thousands of meals are initially prepared and partially cooked on the ground for final preparation and serving in the air at a later (higher!) stage. Until being served, the food has to be chilled and the cold chain maintained. Add to this the special packaging for freshness and ease of serving, as well as the challenge of serving the food so that it looks and tastes beyond expectation.

Since Air Chefs is currently producing 40 000 meals and service 140 flights on a daily basis, they have a team developing innovative recipes and menus to satisfy every taste, dietary need, and religious and ethnic requirement. The Cape Town facility is a certified halaal facility and they have separate kitchens in both Johannesburg and Durban. Kosher meals can be sourced, whereas all other special meals and special dietary customer requirements are produced in-house. Air Chefs is known for their high-quality cuisine from around the world.

Typical activities performed within a unit for flight purposes are the following:

- accepting goods into the unit as part of inventory management
- production, which entails preparing tray set-up equipment, setting up the equipment (assembling for full flights), preparing meals, plating meals and the tray set-up for full flights

- dispatch to flights within a specific time frame
- delivery to the aircraft
- loading onto the aircraft
- delivery from the aircraft back to the unit
- recycling and cleaning equipment

To ensure that they comply with quality and hygiene standards, they have implemented a fully documented HACCP food safety system* – which entails monitoring compliance with hygiene and quality control processes, from procurement from suppliers, transportation to their facilities and through the entire production process until the food is delivered to the aircraft.

Apart from the usual in-flight food service, Air Chefs is involved in many other food-providing functions, such as:

- **On-board selling.** With the advent of low-cost carriers, Air Chefs has developed a direct-sales-to-passenger concept that is tailor-made to the needs of each low-cost airline carrier. To deliver excellent service, they use the latest technology point-of-sale equipment to speed up on-board selling and they provide passengers with the convenience of paying cash or by credit card.
- **Canteen services.** They do not only feed passengers, but also deliver canteen services for over 7000 employees in three different canteens with a 24-hour snack shop.
- **Airport lounges.** In the airport lounges, they deliver and serve the best cuisine, benchmarked against some of the best lounges worldwide.
- **Functions.** Air Chefs also has a Full Functions team, averaging three to four functions per day with a full range of a la carte and snack menus for all occasions.

Sustainability drive at Air Chefs

Apart from the challenge of serving tasty, fresh food, SAA has to source the food ethically, based on the SAA Group's sustainability drive. Air Chefs is aligned to the SAA sustainability strategy, and plans on becoming the most environmentally sustainable airline caterer in Africa and eventually the world.

As a result, a number of measures and initiatives have been implemented by Air Chefs.

The first initiative involved energy reduction by replacing traditional, old and inefficient boilers with a modular heat pump solution, providing hot water more efficiently and cost-effective while contributing to reduce emissions. They are investigating installing solar panels to generate a little bit more clean energy to reduce their carbon footprint further.

Air Chefs also started looking into both **what** they buy and **how** they buy. While the **what** was relatively easy, the challenge lies in **how** to buy hundreds of tons of different types of meat, fruit and vegetables, flour and other consumables. They want to ensure that all items purchased are of a sustainable nature and come from local suppliers. One of the cornerstones of becoming the greenest airline caterer is sustainable procurement policies.

Another measure taken by Air Chefs is a comprehensive measurement of their carbon footprint to comply with the aviation industry's emerging environmental standards.

Final food for thought

From the above, the challenges that Air Chefs faces seem demanding and complex and being a full-service provider makes their task even more daunting. The effort that goes into offering all customers service based on particular needs often goes by unnoticed by the ever-demanding and sometimes difficult customer. Realising Air Chefs' objective of having an effective, efficient and sustainable supply chain might change the way passengers feel when they have to settle for the chicken option when the beef is done!

***Hazard analysis and critical control points (HACCP)** is a systematic preventive approach to ensure food safety from biological, chemical and physical hazards in production processes that can cause the finished product to be unsafe; it is used to design measurements to reduce these risks to a safe level. In this manner, HACCP is referred to as the prevention of hazards rather than finished product inspection. The HACCP system can be used at all stages of a food chain, from food production and preparation processes (including packaging) to distribution.

Sources:

SAWUBONA (SAA's in-flight magazine), May 2014.

www.wikipedia.org/HACCP (accessed on 3 July 2014).

www.web.up.ac.za/industry_collaboration (accessed on 3 July 2014).

www.airchefs.co.za (accessed on 3 July 2014).

www.sayellowpages.com (accessed on 3 July 2014).

3

ACTIVITY

After you have read the Amazon.com case study, we advise that you watch the following video clip to get an idea of the different inter-related processes of purchasing goods: Module 9: Business Processes – YouTube.

4

ACTIVITY

To get a glimpse of expected future developments in purchasing and supply, see this enjoyable video clip (The purchasing function in restaurants in 2025 – YouTube) about the purchasing activities and skills that will characterise the purchasing function in European restaurants in 2025. This clip shows how the evolution of the function is envisaged, as well as the differences and similarities between and the singularities of the perceptions of restaurateurs from various areas and cultures.

How to master the content

After you have read the above case studies, you are ready to start mastering the content. You should always have the prescribed book, Tutorial Letter 101 and this study guide next to you when you work through the study material. Now follow the following six steps in sequence:

- Step 1:** Make sure to read the lecturer's notes at the start of every learning unit in this study guide.
- Step 2:** Get an overview of chapter on which a learning unit is based.
- Step 3:** Attentively read and summarise the relevant chapter in the prescribed book.
- Step 4:** Study the specific chapter.
- Step 5:** Try to answer the questions of the different activities in writing.
- Step 6:** Visit your e-tutor site to participate in discussions and to learn from one another.

.....

1

The purchasing function: An overview

Contents

LEARNING UNIT 1:	Purchasing and supply in perspective	2
LEARNING UNIT 2:	The task of purchasing and supply management	5
LEARNING UNIT 3:	Purchasing and supply process	9

Purchasing and supply in perspective

In TOPIC 1, we focus firstly on putting the purchasing and supply function into perspective. In Learning unit 1, you are introduced to the concept of purchasing and supply management in order to get a perspective on the terminology that can be confusing in this field, the objectives of purchasing and supply management, and the importance of this function for the organisation.

Lecturer's notes on Learning unit 1

Chapter 1 of the prescribed book is quite extensive and some students (incorrectly) tend to view the first chapter of any module as basic and “introductory” – and subsequently devote their time accordingly. **Do not underestimate** Chapter 1 and make sure to plan sufficiently to master its content. Without a thorough knowledge of the basic concepts, your understanding of the rest of the content could be jeopardised.

After you have attentively read and studied Chapter 1 and before you continue with the next chapter, you should make sure that you can answer the following basic questions off the cuff. You should have internalised the basic concepts referred to below before you can continue with the rest of the learning units. (Hint: Not only does chapter 1 discuss the basis terminologies you need to master, but we have compiled a glossary – see your Tutorial Letter 101 – of all the important terminologies you will need to know throughout your studies in this programme. Take time to study the glossary.)

- (1) What is the difference between logistics management and supply chain management (SCM)?
- (2) What is supply management? Does supply management differ from purchasing management? What is procurement then? (These types of questions should encourage you to make sure that you know how the terminology is used in the field of purchasing and supply chain management!)
- (3) What is the difference between a supply chain and a value chain? Are these chains related?
- (4) How is value added in supply chains?
- (5) How would effective purchasing and supply influence return on profit and investment (ROI)?
- (6) What does total cost of ownership (TCO) mean?
- (7) What is cycle time? What decisions in the supply chain will shorten or lengthen the cycle time?
- (8) What is lead time?
- (9) What is meant by a customer-driven supply chain?

The above questions are only based on the basic principles presented in this chapter. **The chapter contains substantially detailed information on which you will be assessed in the assignments and the examination.**

Note that you have to study the formulas discussed in this chapter.

Activities in Learning unit 1

1.1

ACTIVITY

(Preparatory reading for Learning unit 1): Work through Learning unit 1 in the study guide and study Chapter 1 in the prescribed book.

1.2

ACTIVITY

Access the following link to see where logistics and transportation fit into the supply chain: [Module 4: Move It: Transportation and Logistics – YouTube](#).

1.3

ACTIVITY

Answer the following self-assessment multiple-choice questions [MCQs] on Learning unit 1 to assess the degree to which you have mastered the content (the answers can be discussed on your e-tutor site upon request).

Question 1

From a purely management theory point of view, the terminology that is used to define concepts such as “purchasing”, “supply management”, “supply chain management” and “logistics” can be confusing. Identify, from a management theory point of view, the CORRECT statement.

1. Supply management is a progressive and strategic version of basic purchasing.
2. The objective of the purchasing function is to ensure the continuous flow of products and services at the most advantageous conditions for the business, irrespective of the total cost of ownership.
3. Supply chain management integrates only demand management activities within and across organisations.
4. In terms of the supply chain management approach, it is common that although the logistics function of many organisations is linked, coordinated and even integrated, the objective of the logistics function is not necessarily to optimise customer service.

Question 2

Complete the following sentence by choosing the option with the correct words.

The profit leverage effect means the following in terms of purchasing: A relatively small percentage of saving in the ... may develop into a relatively large percentage increase in ...

1. cost price; turnover.
2. selling price; net income.
3. purchasing price; net income.
4. overhead cost; profit.

Question 3

Purchasing and supply management can contribute to increased sales in an effort to increase net income by means of improved customer lead time, among others. This statement implies that supply management can contribute by ...

1. increasing lead time by improving supplier relations.
2. increasing cycle time from the design stage to the finished product.
3. reducing lead time by maintaining higher inventory levels.
4. encouraging lower inventory levels to save costs.

Question 4

Maintaining the optimum balance of inventory means to ensure ...

1. the maximum number of inventory items for ultimate customer satisfaction, irrespective of the costs involved.
2. the desired level of customer service while minimising the costs associated with such service levels.
3. that minimum inventory items are kept in stock to maximise profits.
4. the optimisation of inter-functional relationships.

Question 5

Any organisation wants to earn a favourable return on investment (ROI) on its assets. The ROI rests on two pillars, namely:

1. Turnover and asset turnover
2. Total asset costs and profits
3. Asset turnover and total asset costs
4. Profit margin and asset turnover

1.4

ACTIVITY

Participate on the e-tutor site

The e-tutor will base a discussion on the above questions in the lecturer's notes. Other discussions will be about the answers to the above MCQs. The answers will not only be discussed in terms of why an option is correct, but also why the other options are incorrect. These discussions will show you how to approach MCQs and how you should master the content in order to be able to answer basic MCQs.

When you did the above activities, you most probably had some challenges and gained some profound insights. I encourage you to share your experiences on the e-tutor site. Sharing with others might result in you not feeling isolated and sometimes despondent. Tell the other students (for example) how you see the difference between logistics and supply chain management, or how you view the process of value-adding in the supply chain. The e-tutors will also initiate these type of discussions.

Never forget that the e-tutor can provide you with the support you need to master the content. Verbalising on the site what you do not understand might encourage others to voice their uncertainties too and will help the e-tutor to focus his/her communication with you.

I plead especially with students who have work experience to share how the concepts discussed in the prescribed book relate to your work environment. This will enliven the discussions and highlight the similarities (or differences) between theory and practice.

The task of purchasing and supply management

2

In TOPIC 1, we focus secondly on the task of purchasing and supply management.

In Learning unit 2, you are shown how the basic management tasks of planning, organising, coordinating and controlling would typically be applied in a purchasing and supply context.

Lecturer's notes on Learning unit 2

Keep the following in mind when you answer questions or do activities on Chapter 2:

- (1) This chapter is based on the management task of purchasing and supply chain management. Therefore, the four basic management tasks of planning, organising, coordinating and controlling structure the content of this chapter. Typical management elements (which you have dealt with in other modules) are discussed, such as the levels of management, hierarchy of goals, organisational structure, coordination between and within functions, and controlling performance – but within the context of purchasing and supply chain management.
- (2) Since you have (hopefully!) mastered Chapter 1, Chapters 2 should contain more familiar concepts to you. However, the last section on *controlling* purchasing and supply chain performance includes a discussion of new concepts related to performance measure and performance indicators (metrics). You have to familiarise yourself with the three evaluation levels of measures and norms. Summarise this section in the prescribed book (for example by compiling a mind map using the figure provided in the chapter) and write down the concepts so that you can familiarise yourself with the different metrics. This part can be quite confusing and MCQs are often based on this section. Spend time on mastering the content.
- (3) The question below can help you to get an idea of how some of the content in Chapter 2 may be assessed. Note that in the prescribed book, the decentralised and centralised organisational structures are discussed in terms of structuring the purchasing and supply function. You should be able to discuss why the one structure is preferred above the other. Without providing a discussion, your answer will be incomplete. This example question below would show you how to approach the content when studying.

Example question: A management decision to centralise a purchasing and supply function could have both advantages and disadvantages. Shortly describe ANY five advantages of centralising this function and use them as headings to give a short explanation (or example) of why/how this is an advantage for the organisation. (10)

Guidelines when answering this question: You have to discuss ANY five advantages (1 mark for a suitable heading + 1 mark for the explanation/example = 10 marks). You might provide different explanations or examples. The e-tutor will show you how you should elaborate on the information provided in the table in the prescribed book. This implies that you should truly understand why an aspect can be seen as either an advantage or a disadvantage.

Activities in Learning unit 2

2.1

ACTIVITY

(Preparatory reading for Learning unit 2):

Work through Learning unit 2 in the study guide and study Chapter 2 in the prescribed book.

2.2

ACTIVITY

The following video clip will help you to understand what is meant by integrating the purchasing and supply function with other organisational functions, as well as the need for successful cross-functional teams to perform essential organisational activities: [Module 6: Supply Chain Integration – YouTube](#).

2.3

ACTIVITY

Access the following link to get a basic understanding of performance evaluation by using both objective quantitative measures (or metrics) and subjective qualitative measures (or metrics): [Module 10: Measuring Performance – YouTube](#).

2.4

ACTIVITY

To help you understand the role and function of purchasing practitioners in sourcing and obtaining essential requirements for the organisation, watch the following video clip: [Module 2: Buy It: Managing Supply \(ASU-WPC-SCM\) – YouTube](#).

2.5

ACTIVITY

Self-assessment MCQ on Learning unit 2:

Do the following quick MCQ test to assess the degree to which you have mastered the content (a discussion of the answers to these questions will be facilitated by your e-tutor).

Question 1

During the control task, evaluating the performance of the purchasing and supply function should be based on both of 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

Question 2

A typical example of a qualitative performance 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. consignment rejection ratio used by
4. outstanding orders of

Question 3

The following principle should be kept in mind when conducting purchasing and supply performance evaluation:

1. It is best to use the available generic evaluation system 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 costs, the evaluation system for 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.

Question 4

The concept of ... refers to determining the extent to which the purchasing and supply function has achieved the overall objectives for which it was initially established in the organisation.

1. Supply efficiency
2. Pricing efficiency
3. Supply efficiency planning and control
4. The purchasing/cost ratio

.....

2.6

ACTIVITY

.....

Participate on the e-tutor site

During discussions on this learning unit, the e-tutor will show you how to approach answering a basic theory question in which elaboration and examples are expected. First do the question on your own and then participate on the e-tutor site. Other discussions about this learning unit on the e-tutor site will focus on answering the MCQs (again, the focus will be on why one option is correct and why the other options are incorrect).

When you did the above activities, you most probably had some challenges and gained some profound insights. I encourage you to share your experiences on the e-tutor site. Sharing with others might result

in you not feeling isolated and sometimes despondent. Tell the other students (for example) how you see the link between Chapter 2 and your other modules. Also share how you summarise and master the content. Keep in mind that the e-tutor can provide you with the support you need to master the content; therefore, ask boldly for advice in this regard. Verbalising on the site what you do not understand might encourage others to voice their uncertainties too and will help the e-tutor to focus his/her communication with you.

I plead especially with students who have work experience to share how the concepts discussed in the prescribed book relate to your work environment. This will enliven the discussions and highlight the similarities (or differences) between theory and practice.

.

3

Purchasing and supply process

In TOPIC 1, we finally focus on the steps of the purchasing process and the relevant procedures to follow.

Learning unit 3 is about the sequence of steps to follow when obtaining requirements for the organisation.

Lecturer's notes on Learning unit 3

Chapter 3 is mainly devoted to a discussion on the purchasing process (or cycle). Again, DO NOT confuse the steps in purchasing process with the other processes that are discussed in the prescribed book. When summarising the purchasing process, make sure that you are able to apply the steps in a typical purchasing and supply situation. Mastering the content without being able to apply the principles that you have studied would be replicating content without any depth. If you find it challenging to apply the steps, start a conversation on your e-tutor site. By doing that all the group members will be able to learn from one another.

Activities in Learning unit 3

3.1

ACTIVITY

(Preparatory reading for Learning unit 3):

Work through Learning unit 3 in the study guide and study Chapter 3 in the prescribed book.

3.2

ACTIVITY

Participate on the e-tutor site

The e-tutor will, upon request, provide a discussion on how the different processes that are discussed in the prescribed book differ. Make sure that you ask questions about this on the site to ignite discussion. Such discussions will help to clear any confusion that you might have about all the processes and their different steps.

Start a discussion on how you would follow the purchasing process when buying a new vehicle. Then have a follow-up discussion on how purchasers follow this process in the company where you are employed. The e-tutor might join in this discussion by describing how the purchasing process is performed at the organisation where he/she is employed. The more examples you have of the way in which purchasing is typically performed, the easier it will be for you to memorise the different steps of the purchasing process.

.

.....

2

Managing the supply base

Contents

LEARNING UNIT 4:	Purchasing and supply strategies and policies	12
LEARNING UNIT 5:	Evaluation and selection of suppliers	14

Purchasing and supply strategies and policies

In TOPIC 2, which consists of only two learning units, you are firstly introduced to the process of strategic sourcing, the decision to outsource or not, and the different purchasing and supply strategies and policies. The second part of this topic focuses on the supplier selection process.

In Learning unit 4, the discussion focuses on the process of sourcing suitable suppliers (strategic sourcing), the make-or-buy decision (also referred to as the outsourcing decision), and the supply policies and strategies.

Lecturer's notes on Learning unit 4

To help you work through this learning unit systematically, take note of the following:

- (1) Many new concepts are introduced in Chapter 4. Write them down to familiarise yourself with these concepts.
- (2) In Chapter 4, the strategic sourcing process is discussed. As part of the strategic sourcing process, the strategic sourcing matrix is discussed. You should be able to draw this matrix. Make sure you correctly name the axes and the different quadrants. Populate the matrix with other examples than those provided in the prescribed book. This will help you in providing good answers when application/case study questions on the matrix are asked.
- (3) This chapter also concerns the outsourcing decision (also known as the make-or-buy decision). Spend time on this section. You should be able to discuss (a) why outsourcing should be considered; (b) why outsourcing would not be a viable option and (c) what the outsourcing process entails (another process!).
- (4) The final section of the chapter contains important information on several aspects related to supply policies and strategies. Make sure that you study the new concepts (such as supply base optimisation, reciprocity and captive suppliers) are discussed. This section would take some time – plan wisely!

Activities in Learning unit 4

4.1

ACTIVITY

(Preparatory reading for Learning unit 4):

Work through Learning unit 4 in the study guide and study Chapter 4 in the prescribed book.

4.2

ACTIVITY

(Self-assessment MCQs on Learning unit 4):

Below are two questions that were asked in previous examination papers. First try to do the questions on your own and then visit the e-tutor site, where the e-tutor will facilitate a discussion on how the answers should be presented to show the suitability of the outsourcing decision.

Question 1

KFC has been baking their own bread in each of their franchises. Recently, they got the opportunity to outsource the bread baking to an independent baker. This baker will bake all the bread and distribute it to the different franchises. Discuss four advantages and four disadvantages of outsourcing that KFC should consider in their decision of whether they should outsource this activity. (Take note that the advantages and disadvantages should be relevant to KFC.) (8)

Question 2

Green Harvest is a family company with 15 years' professional experience in the manufacture and sale of Rooibos tea. They are considering going into the coffee business. They have the options of either importing the coffee ingredients and making the coffee product or buying the finished coffee product. Green Harvest has come to you for advice. Discuss the decision to make or buy coffee by highlighting the favourable circumstances for each option. (10)

4.3

ACTIVITY

Activity 3: Participate on the e-tutor site: The e-tutor will discuss the strategic sourcing matrix and the relevance of such a tool in the purchasing and supply situation. The discussion will really add value to your studies if you come to the discussion forum with examples of typical goods that can be associated with the different quadrants.

The e-tutor will focus on the application questions on outsourcing and the make-or-buy decision by guiding you in your approach to the questions and how to present your answers. The discussion will show you how important it is to comprehend the content and use the theoretical principles that you have studied in your answers to basic application questions.

Evaluation and selection of suppliers

The next part of TOPIC 2 focuses on the process of supplier evaluation and selection. In Learning unit 5, you are introduced to the criteria for evaluating suppliers and the process of selecting suppliers. The final section is a discussion on the management of the selected suppliers based on the type of relationship established.

Lecturer's notes on Learning unit 5

To master the content of Learning unit 5, you have to ensure that you follow the guidelines below:

- (1) In chapter 3 we discussed the purchasing process and **one** of the steps was referred to as the "selection of suppliers". If we take only this step and place the selection process under the microscope, the decisions related to the selection process forms the basis of the discussion in Chapter 5. As already mentioned, the processes can become confusing! Therefore, make sure that you can distinguish between the different processes in purchasing and supply management.
- (2) Students also often confuse the supplier assessment criteria discussed in this process with the process of supplier selection. Although the selection criteria should be used when selecting suppliers, deciding on and using these criteria are part of the bigger process of supplier selection (and supplier selection forms part of the bigger purchasing process!).
- (3) Also note that the weighted average method (a calculation you should be able to do!) forms part of the supplier selection process and can be used to either select suppliers from a list of potential suppliers or evaluate the performance of selected suppliers. This method thus have useful application possibilities not only in the field of purchasing and supply, but also in other management disciplines. Make time to grasp this method for use in future and even in your personal lives.
- (4) The chapter concludes with the different supplier-buyer relationships that may be established and maintained as part of supplier relationship management.

Activities in Learning unit 5

5.1

ACTIVITY

(Preparatory reading for Learning unit 5):

Work through Learning unit 5 in the study guide and study Chapter 5 in the prescribed book.

5.2

ACTIVITY

(Self-assessment MCQs on Learning unit 5):

Now test to what degree you have mastered the weighted-point supplier performance evaluation by answering the following MCQs. This is a good exercise before attempting your assignments.

Questions 1 to 5 below are based on the following example of the weighted average method (the level of difficulty of each question is indicated in brackets next to the question number):

Criteria	Weight	SUPPLIER A		SUPPLIER B		SUPPLIER C		SUPPLIER D	
		Scale (1–5)	Score	Scale (1–5)	Score	Scale (1–5)	Score	Scale (1–5)	Score
On-time delivery	40	4	?	4	160	2	80	2	80
Price	?	3	?	4	140	1	35	?	70
Quality product	15	3	?	4	60	1	?	1	15
After-sales service	10	1	10	1	10	4	40	1	10
TOTAL	?		?		?		?		?

Question 1 (Challenging)

When using the weighted average method to determine the selected suppliers' performance, the following best describes the criteria (shown in the table) on which the suppliers are evaluated:

1. After-sales service is not important when evaluating suppliers' performance.
2. Suppliers A, B, C and D should all score the highest in terms of on-time delivery as the most important criterion.
3. The decision of which criteria to use is one of the subjective (qualitative) parts of this method.
4. Once criteria are selected, they will remain the criteria that management will use to evaluate current and future suppliers' performance.

Question 2 (Moderate)

When using the weighted average method to identify the most suitable supplier, the calculations in the above table show that supplier ... is the best supplier. (To answer this question, you should complete the table by doing the necessary calculations.)

1. A
2. B
3. C
4. D

Question 3 (Moderate)

When only focusing on the scores the different suppliers received in terms of price, the score of 35 obtained by Supplier C on the price criterion can be interpreted as follows:

1. Supplier C offers the highest-priced product compared to the other suppliers.
2. Supplier C offers the lowest-priced product compared to the other suppliers.
3. Supplier C will be eliminated from the list due to the low score on the price criterion.
4. Supplier C seems confident that having the lowest price will compensate for the perception of poor quality.

Question 4 (Easy)

If quality was the ONLY criteria used when deciding between potential suppliers, which supplier would be the most obvious one to select?

1. Supplier A
2. Supplier B
3. Supplier C
4. Supplier D

Question 5 (Moderate)

Before you answer this question, change the weight of quality products to 25 and ignore after-sales service as a criterion.

If on-time delivery, price and quality product were the only three criteria used in evaluating the potential suppliers, which supplier would be the best supplier (use the scales indicated in the table)?

1. Supplier A
2. Supplier B
3. Supplier C
4. Supplier D

.....

5.3

ACTIVITY

.....

Participate on the e-tutor site

Although the prescribed book contains detailed information on the aspects discussed, you might need some help not to get confused with the different processes and to understand where the section on supplier selection criteria fit into the supplier selection process. The e-tutor will guide you in this regard.

It is recommended that the weighted average method be used during the supplier selection process. Make sure that you read the lecturer's notes and try to answer the MCQs of Activity 2.

.....

.....

3

Key performance indicators

Contents

LEARNING UNIT 6:	Sustainable purchasing and supply management	18
LEARNING UNIT 7:	The management of quality from a purchasing and supply perspective	23
LEARNING UNIT 8:	Purchasing and supply price determination and cost analysis	25
LEARNING UNIT 9:	Purchasing quantity and inventory management	27

Sustainable purchasing and supply management

6

In TOPIC 3, we focus firstly on what sustainable purchasing and supply management entails.

In Learning unit 6, you are introduced to what sustainability, corporate governance and corporate social responsibility imply within the purchasing and supply context. Several ethical and environmental issues are highlighted. The learning unit concludes with a discussion on managing risks in purchasing and supply.

Lecturer's notes on Learning unit 6

Use the following practical guidelines when mastering the content of Chapter 6:

- (1) Make sure that you know the definitions provided in this chapter. You are allowed to formulate definitions in your own words, but remember to include the main concepts in the definitions.
- (2) To make the content more realistic, find more information on the King Report discussed in the chapter and indicate, by using other examples from the internet, how the report guides actions and decisions in companies. Determine the motivation behind compiling the different versions (there are now 4 versions!) of the King Report. This will help you to realise that the information in the prescribed book is not isolated from practice. If you are working, I encourage you to provide practical examples on the e-tutor discussion forum. This will spark conversation among students.
- (3) Also think of an example (and discuss on the discussion forum) of how a company has been committed to fulfilling its social responsibility. Examples of Coca Cola's involvement in uplifting communities are provided below. You can debate the relevance thereof and the way in which all stakeholder groups benefitted (or not). Keep in mind that you are assigned to a small (exclusive!) e-tutor group and that participation will not expose you to the entire group. Use this opportunity to learn from one another.
- (4) It is always easier to discuss ethical conduct by thinking of examples of unethical conduct! Think of general personal examples, elaborate on business in general and then on purchasing specifically. Debate these examples on the e-tutor discussion forum and see other students' views on their own value framework and personal ethics.
- (5) Get an example of an ethical code of conduct from the internet or the company where you work at. This will give you an idea of what should be included (or you can debate on what should have been included or even be omitted). Such discussions will make the information in the prescribed book more real.
- (6) The greening of the supply chain and opportunities for greening the supply chain is discussed in the prescribed book by using several examples. Can you add some examples?
- (7) The discussion in the prescribed book on the classification of risks is quite detailed. The content can be structured and then mastered by using a mind map. Make sure that you know where all the risks fit in and include examples. The more examples you include, the more confident you will be during e-tutor discussions of when completing assignments and the examinations. While reading and studying the section on purchasing and supply risks, determine why a section on risk is included in this chapter.

- (8) Think how you would typically manage the risks discussed and then look at the different options of handling risks, which are categorised according to the basic options provided in this chapter. Study the specific techniques for proactively managing these risks are provided in the prescribed book. Highlight the main groups and mind map all the options.

Activities in Learning unit 6

6.1

ACTIVITY

(Preparatory reading for Learning unit 6):

Work through Learning unit 6 in the study guide and study Chapter 6 in the prescribed book. .

6.2

ACTIVITY

Read the following case study of The Coca-Cola Company to see a few practical examples of this organisation's involvement in and responsibility towards the community that it serves.

Coca-Cola's promises bear fruit in Ghana

Coca-Cola's mission to exploit growth opportunities

The Coca-Cola Company (the world's leading non-alcoholic beverage producer) is committed not only to continue investing and benefitting from the growing opportunities in emerging markets, but also to assist in building sustainable communities in these markets. The company is particularly pleased with the opportunities for growth and community development in the nine West African countries that their subsidiary office, Coca-Cola Equatorial Africa Limited, manages from Ghana. In an interview, Mr Becker (general manager of Coca-Cola Equatorial Africa Limited) said the following: "Globally, six out of the top 10 growth markets over the past few years have been in Africa. Ghana happens to be one of the top six with an emerging middle class. We see tremendous opportunities in Ghana and we will continue to expand and tailor our products to meet the lifestyle needs of our consumers." The Coca-Cola system in Ghana consists of Coca-Cola Equatorial Africa Limited and their franchised bottling partner, The Coca-Cola Bottling Company of Ghana.

The aim of The Coca-Cola system in Ghana is to continue to expand their product offerings to become a total non-alcoholic beverage business. Currently – in addition to their well-known sparkling brands that include Coca-Cola, Coca-Cola Light, Fanta, Sprite, Schweppes and Krest – the company also produces Minute Maid fruit juices, Bon Aqua water, Burn energy drinks and Schweppes Malt.

Coca-Cola is giving back to communities

The Coca-Cola system has contributed to the socio-economic development of Ghana since they started operating in Ghana through their franchised bottler in 1956. The Coca-Cola Company believes that they are one of the largest economic growth engines of the Ghana economy because they estimate that for every job that they create, an additional 10 jobs are created due to their supply chain linkages. This is evident from the large number of organisations that distribute and sell their products countrywide.

Developing people by being part of the supply chain

Enjoying a chilled bottle of Coca-Cola used to be nearly impossible in Africa. Narrow roads made it difficult (or even impossible) for big delivery trucks to reach the tiny local shops, and a lack of storage facilities meant that these shops could not stock large amounts of Coca-Cola drinks. The situation was addressed by engaging a large number of micro-distributors to deliver products to outlets throughout the country. By establishing local Coca-Cola depots, shops can order small amounts of Coca-Cola products to sell and drive revenue from sales to provide a valuable boost to the economy. The micro distribution centres (MDCs) – also known as manual distribution centres – are fully owned by local entrepreneurs in Africa. They are not run or managed by The Coca-Cola Company; the MDCs own the franchise and work with The Coca-Cola Company's bottlers to distribute Coca-Cola products in hard-to-reach areas.

The Coca-Cola Company believes that there are opportunities to continue to expand their supply chain linkages to the youth, females and small businesses. They estimate that about 90 per cent of the micro-distributors are owned and operated by women. In some cases, these women are the sole breadwinners of their families. This is in line with The Coca-Cola Company's global ambition to empower an additional five million women by 2020 by using their supply chain.

In addition to female empowerment, The Coca-Cola Company has programmes that are focused on developing the youth; providing access to safe, clean drinking water and improved sanitation facilities; improving the educational system; and providing healthcare assistance to communities throughout Ghana.

Coca-Cola partnering in delivering medical supplies

The Coca-Cola Company – in partnership with the US Agency for International Development; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and the Bill & Melinda Gates Foundation – recently announced an investment of US\$21 million to expand Project Last Mile to 10 African countries over the next five years.

Focused on Tanzania and Ghana, this public/private partnership applies The Coca-Cola Company's logistic, supply chain, distribution and marketing expertise in helping African governments to bring critical medical supplies to remote communities. Through this initiative, government agencies responsible for managing the procurement and distribution of essential medicines and medical supplies learn how to forecast demand for medicines and vaccines, better market the availability of such commodities, and properly maintain the cold chain equipment for storing certain medicines and vaccines.

Coca-Cola's challenges in the Ghana economy

Although Coca-Cola is growing in line with healthy GDP growth, there were some challenges in 2012, including rapid depreciation of the Cedi (Ghana currency). The situation was difficult. Because Coca-Cola buys their raw materials overseas, this depreciation increased their costs in local Cedi terms. To continue to have a viable business, Coca-Cola had to recoup part of the increase through a price increase. Coca-Cola remains hopeful that the currency will stabilise and that the business will respond positively.

The company intends to source some of their raw materials in Ghana in future, and plans to assist and develop strong partners that can produce the world-class quality products that the company demands. In some markets where they are in the juice business, for example, they are able to source juice locally. Coca-Cola communicated their willingness to devote some resources to develop partners with the right capability in this area as well.

Conclusion

Coca-Cola has a strong presence in the African market. The above examples show their involvement in giving back to the communities where they operate, because they know that they will not have a sustainable business without building healthy and economically vibrant communities.

Case study adapted from:

<http://news.moneygh.com/pages/industrial/201209/766.php>

<http://allafrica.com/stories/201310231605.html>

<http://www.philanthropynewsdigest.org/news/coca-cola-partners-commit-21-million-to-expand-last-mile-project>

<http://www.triplepundit.com/2014/08/coca-cola-invest-5b-sustainable-development-across-frica/>

<http://www.coca-cola.co.uk/community/micro-distribution-centres.html>

[The above websites were accessed on 29 October 2014.]

6.3

ACTIVITY

Access the following link to watch a video clip on the consequences that “socially irresponsible” behaviour might have: [Module 8: Socially Responsible Supply Chain Management – YouTube](#)

6.4

ACTIVITY

Self-assessment application question on Learning unit 6

In The Coca-Cola Company case study provided for Activity 2 above, numerous examples are given of the manner in which The Coca-Cola Company accepts their purchasing and supply social responsibilities. Discuss, with relevant examples, the manner in which The Coca-Cola Company has met the discretionary responsibilities expected by the Ghanaian community. Structure your answer by discussing two activities related to each of the following (if the case study does not provide examples, you may make relevant assumptions):

1. The environment (4)
2. The community (4)
3. Ethics (2)

Please note: No answers will be provided for the above question, since the e-tutors will facilitate discussion among students on these aspects.

6.5

ACTIVITY

Participate on the e-tutor site

At this stage, the examples of how content can be assessed become more advanced. The e-tutors will propose how you should go about approaching case study questions. You will learn that it is essential to read the case study attentively at least three times. The e-tutor will guide you in identifying the main topics highlighted in the case study. The question of Activity 6.4 is a typical question based on a case study. To answer such questions, you have to master the theoretical principles first and then apply them

to the case at hand. The e-tutor will show you how to make relevant applications. You can add value to the discussion by adding your examples to the list of examples discussed by fellow students and the e-tutor. The input of others during the discussion of this case study question will empower you to answers similar assessment questions. The value of learning from one another should hopefully entice you to be more active on the discussion forum.

.

The management of quality from a purchasing and supply perspective

7

In TOPIC 3, we focus secondly on the importance of managing quality in the purchasing and supply management process.

In Learning unit 7, you are introduced to what quality means from a purchasing and supply perspective. The discussion also focuses on the cost of quality if quality standards are disregarded. A few quality management systems that are appropriate for purchasing and supply are highlighted, and the discussion concludes with the technical elements of quality and the quality control process.

Lecturer's notes on Learning unit 7

This is quite an extensive chapter. Since many new concepts are introduced, make a list of all the new concepts with their accompanying definitions and keep the list next to you when you study Chapter 7. Although you have to study the entire chapter, the guidelines below (and typical assessment questions) indicate what we will typically expect of you in terms of certain concepts discussed in this chapter:

- (1) When studying the concept of quality make sure to grasp that quality is seen from the viewpoint of **customer** (i.e. the organisation's market).
- (2) Not only does purchasing and supply have to satisfy the needs of external customers, but also the needs of internal customers (other organisational functions) they provide for.
- (3) You should be able to discuss the cost of quality by providing examples. A basic theory question on this section can be as follows:

Question: Quality products should reach the organisation and the customer. Discuss the three main categories of quality costs AND provide ONE relevant example under each category and subcategory. (9)

The answer to this question will be part of your discussions with your e-tutor.

- (4) You also have to be able to discuss the different quality management systems provided in the chapter.
- (5) A question on a specific system may be asked, but you will not be asked to discuss all the systems in one question. The principles underlying the systems are important and are often tested in MCQs. In terms of the third quality management system you only have to know the very basic ISO numbers and names (in other words, you need not go into detail on the different ISO 14000 numbers).
- (6) The final part of the chapter is devoted to the three main techniques that can be used to ensure quality (standardisation, value analysis and quality assurance). You should also understand the concept of standardisation. Explain **standardisation** in terms of quality management in purchasing and supply. Make sure to discuss all the pros and cons of standardisation. Make an extensive list and state why an aspect is an advantage or disadvantage. You have to be able to EXPLAIN. An example of a question to test your basic knowledge of the concept of standardisation is the following:

Question: Standardisation is an option to help make quality decisions by having uniform specifications. Explain the cost-saving advantages of standardisation from a purchasing point of view. (5)

(Note: When answering, you have to show in which way costs are saved; you should not merely mention that costs are saved.) The e-tutor will guide you in answering this question once you start discussing your answer on the discussion forum.

You should also be able to discuss the **value analysis procedure** and the **description of quality** by means of specifications and indicate the value of these techniques to purchasing and supply.

The chapter concludes with quality control, which entails applying the basic steps of the control process when managing quality aspects in purchasing and supply.

Activities in Learning unit 7

7.1

ACTIVITY

(Preparatory reading for Learning unit 7):

Work through Learning unit 7 in the study guide and study Chapter 7 in the prescribed book.

7.2

ACTIVITY

The consequences of poor quality are dramatically portrayed in the following video clip: <https://www.youtube.com/watch?v=nN4FblgQFcQ>.

7.3

ACTIVITY

If you need further explanations to help you understand the quality systems of TQM and Six Sigma I, I suggest that you watch these video clips:

■ <https://www.youtube.com/watch?v=tj8Saa1MbrI>

7.4

ACTIVITY

Participate on the e-tutor site

The questions in the lecturer's notes above should form the basis of your discussion with your e-tutor. Again, you will see that you have to truly comprehend the facts in the prescribed book in order to provide detailed answers to the assessment questions. The e-tutor will point out the importance of identifying relevant examples while you are studying the content.

Purchasing and supply price determination and cost analysis

8

The third learning unit of TOPIC 3 focuses on purchasing and supply price determination and cost analysis.

In Learning unit 8, you are introduced to the importance of purchasing prices as one of the elements of value. The importance of determining the right price and competitive prices are also discussed. The behaviour of cost related to volumes is discussed after the different cost elements are defined.

Lecturer's notes on Learning unit 8

Students tend to be scared of chapters containing the word “price”! In Chapter 8, many new concepts are introduced and familiar concepts are discussed within the purchasing context. Make sure to see how these concepts relate to purchasing and supply chain management. Even though you have to study the entire chapter for examination purposes, the following guidelines will help you on how to approach the different sections:

- (1) You should understand how price and value are related, and what is meant by fair and right prices.
- (2) The well-known cost elements are discussed in this chapter, but with specific reference to the cost elements of **suppliers**. Make sure to approach and master the content from this perspective. The discussion in the prescribed book is quite lengthy and might require that you compile a mind map (or another technique based on your learning style) to get an overview of the different cost elements and subsections provided.
- (3) The next part of the chapter is devoted to the role of supplier relationship category and importance of the buying transaction, with specific reference to cost analysis as part of price determination. By using the matrix provided, purchasing and supply managers can determine what kind of cost or price analysis should be used in a particular situation. The next section in the prescribed book discusses how to select the best type of cost analysis tool based on the quadrant of the matrix their purchases fit in. Do you see the resemblance of some kind with the strategic sourcing matrix? Although not the same, you can now see how different tools and techniques with similar underlying assumptions can be applied and adapted based to the needs of the decision-maker and the relevance of the technique/tool for a specific situation.
- (4) The discussion in the chapter evolves from the previous discussion and continues by paying attention to price analysis and cost analysis. Note the tools referred to in the discussion (you might have come across these tools in other modules) and make sure to study these sections *from a purchasing and supply viewpoint*.

8.1

ACTIVITY

(Preparatory reading for Learning unit 8):

Work through Learning unit 8 in the study guide and study Chapter 8 in the prescribed book.

8.2

ACTIVITY

Participate on the e-tutor site

It would be worthwhile to absorb all possible guidance that the e-tutors will give you to master the content. The chapter is quite extensive and the e-tutor will help you to identify “digestible chunks” to study. Although you might be familiar with many of the concepts (from previous modules that you have studied), the e-tutor will help you to understand their relevance in a purchasing and supply context. By doing this, you will see how your degree (called a programme) has been carefully compiled to integrate different disciplines of study.

Purchasing quantity and inventory management

9

In TOPIC 3, the final learning unit is on purchasing quantity and inventory management.

In Learning unit 9, you are introduced to the reasons for holding inventory and the basic inventory concepts (such as the inventory categories, inventory costs and the ABC classification of inventory items). This learning unit also has a discussion on how to manage inventory, especially in terms of planning and controlling inventory to be held. Finally, the symptoms of poor inventory management are highlighted.

Lecturer's notes on Learning unit 9

This chapter focuses on inventory and is, again, quite extensive. Do not underestimate this chapter. After studying this chapter, you should be able to answer the following questions:

- (1) Why is inventory necessary?
- (2) Why should inventory be kept to a minimum?
- (3) What are the different categories of inventory?
- (4) What inventory costs are identified? Make sure to distinguish between the different cost components and do not confuse them. Remember the previous chapter also had a discussion on cost elements. Always study the concepts against the background of the main theme of a specific chapter. In this unit costs are studied from an inventory costs perspective.
- (5) How can inventory be classified using the ABC analysis?
- (6) What does inventory planning and control involve? How does inventory planning and control differ for independent and dependent demand items? Of what does the MRP system consist? What is MRPII? What is DRP? What is ERP? What is JIT, and the basic principles and advantages of JIT? Where does kanban fit in? The discussion on these systems are quite extensive. Make sure to have enough time available to summarise and familiarise!
- (7) What would happen if poor inventory management takes place (symptoms)?

Note: In this chapter the diagrams, figures or graphs might assist you to follow the discussion. Keep them next to you when reading and studying the chapter if you are a visual learner.

Activities in Learning unit 9

9.1

ACTIVITY

(Preparatory reading for Learning unit 9):

Work through Learning unit 9 in the study guide and study Chapter 9 in the prescribed book.

ACTIVITY

.....

The principles of the philosophy behind the just-in-time system are explained in the following informative video clip: <https://www.youtube.com/watch?v=CBFKBf1rOyo>.

Activity 3: Participate on the e-tutor site

E-tutors will never summarise the content on your behalf or give a crash course on it. I encourage you to pose a few questions to the e-tutor (and other students) about what inventory decisions the purchasing and supply function has to make. Initiate a discussion on the necessity of having inventory and indicate what inventory costs should be kept in mind. Come to the discussion forum with examples of how carrying additional inventory items had an effect on your organisation's bottom-line figures. The e-tutor will show you how the ABC analysis is used in inventory management. Tell others on the site which inventory management system your organisation has used and share the advantages, as well as the challenges, of implementing the system.

.....

.....

Application fields in purchasing and supply management

4

Contents

LEARNING UNIT 10: Procurement of capital equipment	30
LEARNING UNIT 11: Procuring services	32

10

Procurement of capital equipment

In TOPIC 4, the first application field in purchasing and supply management that is discussed is procuring capital equipment.

In Learning unit 10, you are introduced to capital equipment and how this equipment can be classified and characterised. The specific role of the purchasing and supply team in acquiring capital equipment items is discussed, as well as the factors (both qualitative and quantitative) to consider when buying capital equipment. The last section is on the reasoning behind buying used capital equipment and the decision between buying and leasing the capital equipment that is needed.

Lecturer's notes on Learning unit 10

Since this chapter is about purchasing capital equipment, you have to make sure that you know what is meant by capital goods and be able to provide relevant examples. Focus on the following when mastering the content:

- (1) Discuss the different circumstances characterising the purchasing of capital goods.
- (2) Discuss the role of the purchasing and supply function in procuring capital equipment.
- (3) Identify examples of capital equipment other than those provided in the prescribed book. The more examples you have, the more you can relate to the discussion in this chapter and participate on the e-tutor discussion forum.
- (4) Explain the reasons for buying capital equipment. You must be able to distinguish between the qualitative and quantitative considerations when procuring capital equipment. You only need to be able to define the main methods of evaluating a capital investment.
- (5) Discuss why used capital equipment is bought instead of new capital equipment.
- (6) Discuss the leasing of capital equipment and the reasons for leasing instead of purchasing and vice versa.

Activities in Learning unit 10

10.1

ACTIVITY

(Preparatory reading for Learning unit 10):

Work through Learning unit 10 in the study guide and study Chapter 15 in the prescribed book.

Participate on the e-tutor site

It would be to everyone's advantage to provide examples of what capital equipment items refer to in different business contexts. Do not wait for the e-tutor and initiate the discussion to get the ball rolling. The e-tutor will facilitate a discussion on what would typically be qualitative and quantitative considerations when purchasing capital equipment. Here I urge all students who are employed in an organisation that buys capital equipment to provide relevant examples. Elaborate on your discussion by briefly explaining why new capital equipment was bought instead of used capital equipment and vice versa. The e-tutor will also facilitate a discussion on the reasons behind leasing capital equipment and what arrangements should be made in this regard.

.

11

Procuring services

In TOPIC 4, the procurement of services is also discussed.

In Learning unit 11, you are introduced to purchasing activities related to services. The difference between buying services and buying goods are explained and guidelines are provided for performing the core activities of purchasing services. Finally, more detail is provided on buying specific services (such as consultancy and transport services).

Lecturer's notes on Learning unit 11

This chapter focuses on when the purchasing and supply function is involved in purchasing different types of services. Make sure to explain the difference between buying services and buying goods. Have a look at the typical guidelines for purchasing services and the typical activities that are performed. See how the purchasing of different types of services might differ.

Since services are not tangible students also find it difficult to follow the procurement of services. Start by thinking what services organisations might need. Numerous examples can be found, such as transportation services, warehousing services and catering services. Add to the list! A revolutionary way of making services available and of obtaining such services is seen in the way that the Uber company has evolved. Read the following case study and identify how the roleplayers in this supply chain functions to the benefit of the entire chain.

Case study: Uber-ising supply chains

Introduction

The business model of Uber has become so popular that many supply chain practitioners refer to the Uberisation of supply chains. From Cape Town to Cairo, the Uber service concept has revolutionised the transportation of people and the delivery of goods in Africa just as it did in several cities worldwide. Africa's growing middle class offers a huge opportunity for Uber and its competitors in addressing the traffic challenges in big cities.

How does the Uber service work?

The Uber service concept is a new type of supply chain, where competition is not between organisations, but between supply chains. The Uber company has no inventory and the service is available at any time in the cities where Uber operates. The basics of the Uber service concept can be explained as follows: The Uber company offers an intangible service (e.g. a car ride or delivery of goods) by connecting the supply and demand of transportation services. Uber has designed a mobile application that enables drivers to make money and people to get rides at a fee. The transportation service involves connecting a driver to a passenger for a ride via a smartphone application. If a passenger wants to get from point A to point B, the Uber smartphone application should be opened to get a "fare quote" to calculate the cost of the trip and select the appropriate car service. The service options are, among others, UberX (the lowest-cost option, with a maximum of four passengers), UberBLACK (a more stylish and

luxurious option for special occasions), and UberVAN (a seven-seater ride option), depending on the passenger's needs. Once the pick-up location is set, the closest unoccupied car will be matched and confirmed; thus providing the passenger with a ride within a very short time. The car's number plate and the driver's name will appear on the smartphone screen along with the estimated time of arrival and the most efficient route. As soon as the car arrives, the passenger gets in and instructs the driver where to go to. Upon reaching the final destination, payment is done (usually by credit card). The drivers are carefully screened by Uber before being allowed in the network and after every ride Uber drives are evaluated by passengers to rate their level of service. The entire service delivery process – from quoting prices to payment of the service – is fully automated. The Uber company provides the technology (smartphone application) and is remunerated a percentage commission paid by the drivers. Practically, the money for the ride does not go into the driver's pocket immediately. The Uber application keeps track of every driver's earnings and pays them weekly via electronic payment.

Uber's new ventures

Uber's success led to new service markets of not only moving people, but also delivering goods. The Uber company recently launched UberEATS (Uber's on-demand meal delivery) in South Africa and UberRUSH (Uber's on-demand goods delivery network) will be launched shortly. UberRUSH is part of a plan to minimise Uber drivers' waiting time between passengers and to help them allocate their time more productively. For example, in the quieter times during the day, Uber drivers could deliver parcels when Uber has fewer requests for transporting passengers. Thus, Uber drivers would fill idle time between the morning and afternoon rush by delivering goods in an effort to earn more money. UberRUSH is mainly aimed at small businesses that want to save on courier costs or save on time spent on the road doing deliveries. Even businesses that could not otherwise afford an in-house delivery service might have the option of outsourcing delivery through Uber. The application allows users on both ends (customers and businesses) to track the delivery in real time, and only kilometres on the road are charged, as opposed to roundtrip delivery costs. UberRUSH will charge small businesses fees which may be charged to those customers who requested the delivery. Depending on the city and delivery location, fees to participating small businesses can include a base delivery fee, a per-kilometre delivery fee and a minimum per-trip fee.

Conclusion

The revolution caused by the introduction of disruptive technologies (such as Uber) cannot be denied or ignored. Though widely criticised, supply chain practitioners have no option but to investigate the possibilities that such technologies have for improving supply chain performance.

SOURCE: Adapted from:

<http://www.i-scholar.in/index.php/samvad/article/viewFile/107906/97060>

<http://cmuscm.blogspot.co.za/2014/11/last-weekend-i-went-to-san-francisco.html>

<http://www.2oceansvibe.com/2016/03/11/uberrush-might-hit-sa-at-the-end-of-this-year/>

<https://www.uber.com/cities/johannesburg/>

<http://n4bb.com/uber-drivers-salary-update/>

<http://www.supplychainwizard.com/index.php/blog-categories/blog-consulting/100-track-trace-how-to-get-started-3>

[accessed 15 September 2016]

Activities in Learning unit 11

11.1

ACTIVITY

(Preparatory reading for Learning unit 11):

Work through Learning unit 11 in the study guide and study Chapter 16 in the prescribed book.

.....

(Self-assessment application question on Learning unit 11):

Read the Amazon. com case study (presented towards the beginning of this document). Below is an example of a question that deals with an aspect of services purchasing, as covered in this learning unit.

Question

Assume that Amazon.com decides to outsource all outbound transportation services for the delivery of parcels to final consumers to approved courier services. Discuss the way in which Amazon.com's purchasing and supply management would consider the following five key variables in acquiring these outbound transport services. (Use the same headings below in your discussion, followed by a short theoretical explanation and then an application of the theory to Amazon. com. Make sure that you write your answer in the prescribed, structured way.)

- (1) Total cost (2)
- (2) Speed (2)
- (3) Reliability (2)
- (4) Capability (2)
- (5) Accessibility (2)

(A proposed memorandum will be discussed by your e-tutor.)

.....

11.3

ACTIVITY

.....

Participate on the e-tutor site

Once you have mastered the content of Learning Unit 11 (Chapter 16) and have done Activity 2, you should participate on the e-tutor site. The e-tutor will use all the student's inputs to develop a model answer to the question on the Amazon.com case study. The e-tutor will show you how to approach a case study and how to present an answer to the question in Activity 2. You will also get guidance on how to apply the theoretical principles that you have studied to an organisation with which you are familiar.

.....

Self-assessment on module content

At the beginning of this study guide, you had to read the case studies of Amazon.com and Air Chefs to get an overall idea of what the purchasing and supply task entails. After studying all the relevant chapters referred to in the learning units, you probably wonder how you may be assessed on the principles, processes, procedures and systems of purchasing and supply management. Below is an extensive list of possible descriptive questions about Amazon.com, which have been included just to show you how the different concepts discussed in this module can be assessed in application questions. After these questions, a few application MCQs on the case study of Air Chefs follow. From these questions, you will be able to determine whether you have to truly comprehended the principles discussed in this module before you can answer application-type questions in other assessments. Take time to master the content and only then try to answer these questions because they can form the basis of valuable discussions in your e-tutor group.

Application questions on the Amazon.com case study

Question 1 (Chapter 4) [8]

Due to the fact that Amazon.com sells all its products through its online platform, gathering and storing historic information on sales is a much simpler task than it would be for most other retailers and, as result, Amazon.com has built up a noteworthy database of sales information. Amazon.com's purchasing manager is wondering if this historic data could be combined with forecasts and data from the market analysis function in order to formulate a strategy for dealing with different commodity items differently. He has approached you for help.

Consider the role of the strategic sourcing matrix in developing a purchasing and supply strategy, and inform the manager how the data at his disposal can be used in dealing with suppliers.

- 1.1 Give a short explanation on how the historic and future data can be used to classify products into one of the four different types of items. (4)
- 1.2 Explain how, after products have been classified, the matrix can be used to develop a strategy for products in each of the four quadrants. (4)

Question 2 (Chapter 8) [8]

The purchasing manager of Amazon.com has conducted a cost analysis on some of the company's key suppliers in order to determine what makes up the cost price of purchased items. The general manager, impressed with his analysis, asked your help in outlining the framework for a similar analysis to determine how Amazon.com can streamline its purchasing and supply processes to reduce the internal cost of providing a product to a customer.

Name the various cost elements that impact Amazon.com's costs to source a product. For each of the elements, give one example that could be relevant to Amazon.com. (8)

Question 3 (Chapter 9) [10]

The purchasing manager of Amazon.com has decided to make use of an opportunity to achieve a significant bulk buy discount on a particular product from one of the company's biggest suppliers. But since it is a medium-selling product, the general manager believes that the supplier merely wants to sell off the product because it has overproduced and does not want to hold the inventory at its own facility. He asks if you can inform him what elements are generally at play when considering the cost of holding inventory.

Question 4 (Chapter 1) [8]

Amazon.com has a purchasing function that handles matters such as stock management. The purchasing official should know when to order more stock of book titles when it gets low. What influence would the purchasing function have on the other organisational functions of Amazon.com? List any four and expand on the influence of the purchasing function.

Question 5 (Chapter 8) [6]

According to the case study, Amazon.com's value propositions are price and convenience. Their low prices can be sustained by ensuring that their customer relationships continue to be mostly automated and self-service. However, there are other cost elements that need to be taken into account. Name and explain three cost elements that Amazon.com has to take into account when deciding on their prices.

Question 6 (Chapter 9) [6]

Traditionally, organisations regarded inventory holding as essential, if not unavoidable. Discuss any three reasons why Amazon.com should hold inventory.

Question 7 (Chapter 15) [10]

Amazon.com has been adding warehouses at a furious pace to keep up with demand for their products; however, they are uncertain about whether they should own or lease a particular warehouse. Do the following to help Amazon.com:

- 7.1 List and discuss the types of leases available to Amazon.com. (4)
- 7.2 List six benefits that Amazon.com would get from leasing the warehouse. (6)

Question 8 (Chapter 9) [10]

Answer the following questions about efficient customer response (ECR) systems as part of Amazon.com's strategic purchasing and supply plan.

- 8.1 Define an ECR system. (3)
- 8.2 List the aims of ECR systems and describe how each of these aims relates to Amazon.com's service and order fulfilment policy. (8)

Question 9 (Chapter 1) [9]

Define the three concepts below and describe how you think they are applicable to Amazon.com. (You may make reasonable assumptions based on the information in the case study.)

- 9.1 Customer-driven supply chain
- 9.2 Efficient logistics
- 9.3 Information processing

Question 10 (Chapter 5) [6]

Name and describe two types of buyer/supplier relationships that Amazon.com has with its suppliers. Provide an example of each type.

Question 11 (Chapter 1) [12]

According to the case study, Amazon.com claims to have “Earth’s Biggest Selection” of products available through its family of websites, sold at the lowest cost at a small profit.

Discuss the four factors that contribute to lowering total cost which Amazon.com could use to reduce costs and increase profit.

Note: In your discussion, give a theoretical explanation (one mark for each factor) and then apply the theory to Amazon.com (two marks for each application).

Question 12 (Chapter 6) [9]

The purchasing and supply department of Amazon.com is subject to a number of risks. Discuss the incidental business risks of purchasing and supply that Amazon.com might experience.

Note: In your discussion, give a theoretical explanation (one mark for each risk and the discussion of the risk) and then apply the theory to Amazon.com (two marks for each application).

Question 13 (Chapter 1) [5]

Amazon.com has hired a new purchasing officer named Tom who will be responsible for buying DVDs, VHSs and CDs on behalf of the organisation. His job description was compiled by the human resources manager. Explain the core objectives of the purchasing and supply function that should be included in Tom's job description.

Question 14 (Chapter 4) [5]

Explain the benefits that Amazon.com may have when introducing the sale of used products through its seller marketplace.

Question 15 (Chapter 5) [5]

Amazon.com adopted a strategy of selling products online on behalf of other retailers and receiving a cut of every purchase. Briefly name **and** explain this type of relationship in purchasing.

Question 16 (Chapter 6) [16]

Amazon.com aims to manage risks. Discuss the four actions that Amazon. com can take to manage risks. (Make relevant assumptions in your discussion.)

Note: One mark for naming each action, one mark for the theoretical discussion on each action and two marks for applying the theory to Amazon.com.

Multiple-choice questions on the Air Chefs case study

Try to answer the following MSQs ONLY if you have mastered the module content. These questions can ignite discussion in the e-tutor groups if students focus on why an option is the correct answer and why the other options are incorrect.

Question 1

Air Chefs offers a wide range of services. Assume that they conclude that the canteen services should rather be outsourced. Which one of the following situations best describes the possible disadvantage of the contractor becoming a captive supplier in the Air Chefs context?

1. The market can be saturated with too many canteen catering specialists, leading to fewer business opportunities for entrepreneurs.
2. The contractor is captured by daily operational activities, which might lead to a loss of strategic focus.
3. The contractor can become dependent on Air Chefs when business with Air Chefs accounts for more than half of the contractor's total business.
4. Air Chefs can get over-involved in the contractor's development, resulting in a situation where the contractor will always need Air Chefs' assistance.

Question 2

In the case study, it is mentioned that kosher meals can be sourced. If Air Chefs finds that the supplier of kosher meals are not performing to their satisfaction and then decides to rather source the activity internally due to a lack of capable suppliers of kosher meals, it is called ...

1. supplier evaluation.
2. insourcing.
3. captive suppliers.
4. subcontracting.

Question 3

As part of their sustainability drive, Air Chefs has decided to buy ingredients from local suppliers. Buying from local suppliers usually has the following advantage:

1. Express orders based on crew members' late requests can be accommodated.
2. Transportation costs are higher, since usually no delivery is possible by the local suppliers.
3. Lead times are longer due to local suppliers' labour-intensive techniques.
4. Larger inventories are carried to provide in the unforeseen needs of passengers.

Question 4

Air Chefs has implemented a fully documented HACCP system to monitor compliance with hygiene and quality control processes. Suppliers that have shown that their past performance consistently met and exceeded Air Chefs' required levels of quality are known as ... suppliers.

1. weighted average
2. approved
3. preferred
4. accredited

Question 5

For Air Chefs, a typical example of striving towards environmental sustainability would be the following:

1. Traditional boilers are replaced with modular heat pumps to have warm water more efficiently and cost-effectively.
2. Air Chefs' directors have the economic accountability to ensure that resources are used in such a way that Air Chefs' viability is continued.
3. Air Chefs accepts their social responsibility and provides nutritious food for the Feed-a-Child project to show their community involvement.
4. Air Chefs realises that happy workers are productive workers and provides fringe benefits to suit workers' diverse compensation needs.

Question 6

A possible greening opportunity that Air Chefs identified in their supply chain would be ...

1. installing solar panels.
2. buying unripe fresh produce.
3. planting flowers at the kitchen units.
4. using air-conditioners in canteens.

Question 7

If Air Chefs' suppliers of sustainable products do not keep to the agreed delivery dates, Air Chefs can be affected negatively. This type of risk is called a(n) ... risk.

1. operational
2. external downside
3. incidental
4. lead time

Question 8

If strategic sourcing is performed at Air Chefs, it would be a process of ...

1. selecting a purchasing team with knowledge about specific products and services to purchase for Air Chefs.
2. setting policy guidelines at Air Chefs to enable the purchasing and supply function to make decisions more easily.
3. purchasing goods at Air Chefs that were previously produced in-house from external suppliers.
4. buying packaging materials at Air Chefs that can be more easily recycled or reused.

Question 9

Which one of the following purchasing and supply activities performed at Air Chefs would represent the responsibility of abiding by Air Chefs' code of conduct when executing tasks?

1. Activities related to the community
2. Activities related to diversity
3. Activities related to ethics
4. Activities related to safety

Question 10

In Air Chefs' supply chain ... would typically form part of the upstream linkages in the supply chain.

1. sustainable sources of chicken
2. streamlined kitchen units
3. hi-loader trucks at ramps
4. finished meals correctly plated on trays

Question 11

Air Chefs is probably reducing lead time by ...

1. having units less than 2 km from the ramps.
2. constantly increasing the lines of services provided.
3. identifying sustainable sources of organic fruit and vegetables.
4. reducing waste in the kitchen units.

Question 12

If purchasing at Air Chefs is organised so that the units in Cape Town, Johannesburg and Durban manage their own purchasing and supply, it would typically be known as ...

1. a decentralised purchasing and supply structure.
2. economies of scale.
3. interdivisional competition.
4. demand-driven sales planning.

Question 13

When Air Chefs decides to purchase soya beans, lentils and lean meat from the suppliers of dietary ingredients, this is known as ...

1. contract awarding.
2. inspecting.
3. selecting.
4. expediting.