



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF HEALTH SCIENCES
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT (SCM OPTION)
3RD YEAR 1ST SEMESTER 2019/2020 ACADEMIC YEAR
MAIN CAMPUS EVENING

COURSE CODE: ABA 335

COURSE TITLE: Procurement & Supply Chain: Theory & Practice

EXAM VENUE:

STREAM: (BBA-SCM)

DATE:

EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer question ONE in section A and ANY other 2 questions in section B**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**

SECTION A

You are strongly advised to read carefully and analyse the information in the case study before attempting to answer question 1

THREAT TO UNITED STATES OF AMERICA AUTOMOTIVE SUPPLIERS

Recent market conditions could cause more than half of the USA's Tier 1 automotive suppliers to file for bankruptcy in 2009, creating one million additional job losses and creating an estimated \$9 billion income tax revenue shortfall, according to a study. The study also found that a dramatic drop-off in sales volumes of the three major automobile manufacturers is having an effect on the viability of their Tier 1 suppliers. In particular, suppliers with large under-used capital investments are especially at risk.

Key findings from the study include:

1. **Volume Decline:** A significant drop in automobile sales has exposed under-used high capital intensive operations.
2. **Commodity Prices:** Raw material prices have increased 24% over the past year – a portion of which some suppliers have still been unable to totally pass on to their main customers (automobile manufacturers).
3. **Operational Issues:** High fixed costs and excess capacity present a significant challenge in the face of falling demand that has impacted cash flow, bringing many suppliers to the brink of bankruptcy.

Tier 1 suppliers are in an especially difficult financial position. In addition to the difficulty of passing raw material costs on to automobile manufacturers, their supply base (Tier 2 and 3 suppliers) is becoming increasingly financially unstable. The study findings indicate that Tier 1 suppliers anticipate that up to an additional 23% of their supply base will be in immediate financial distress within the next 12 months and present a significant challenge to their own operations.

In addition, the recent, extremely weak automobile sales figures are the result of complacency in failing to match non-USA competition in the areas of fuel efficiency, quality, reliability and design as well as trends such as falling home prices, a fragile stock market and an uncertain economic future.

What Automotive Suppliers Must Do – Now

The study indicates that more than 29% of Tier 1 suppliers plan to restructure in 2009, while more than 20% will choose to focus first on operational improvements. Activities in the short term can include financial restructuring and improving cash positions via wage adjustments, inventory or asset liquidation.

According to the study, Tier 1 suppliers will have to reassess their own supply base and determine which suppliers should be chosen as long-term business partners. Currently fewer than 40% of major Tier 1 suppliers effectively manage risks.

The study concludes that Tier 1 suppliers should put the following in place to help them through the months ahead:

Short-term actions:

- Suppliers should take short-term actions to manage their cash flow
- Taking a proactive stance to reduce dependence on failing suppliers will minimise
- The cost of finding alternative sources of supply in the event of bankruptcy.

Long-term actions:

- Develop a financial and operational plan to restructure the business to restore profitability.
- Seek strategic opportunities to gain market share by taking advantage of competitors in financial distress or bankruptcy. In this way market leadership can be gained as and when demand recovers.

Adapted, with permission, for examination purposes from a report by AT Kearney, Consultants in Logistics and Supply Chain Management dated 20 March 2009.

QUESTIONS

Questions 1 and 2 relate to the case study and should be answered in the context of the information provided.

Q1 (a) Explain the difference between a non-tiered and a tiered supply chain. **(5 marks)**

(b) Explain the actions a Tier 1 supplier might take in these circumstances, to ensure its Tier 2 and 3 suppliers continue to provide high quality supply. **(10 marks)**

(c) Explain the term 'dependency' in the context of the case. **(5 marks)**

(d) Discuss **THREE** ways in which the dependency of the Tier 1 suppliers on the automobile manufacturers might be reduced. **(15 marks)**

SECTION B

Answer **TWO** questions from section B.

You are strongly advised to read carefully all the questions in section B before selecting **TWO** questions to answer.

Q2 (a) For each of the following aspects of corporate social responsibility (CSR), define the term and outline its impact on supplier relationships.

(i) Sustainable purchasing. **(3 marks)**

(ii) Equal opportunities. **(3 marks)**

(iii) Corporate governance. **(3 marks)**

(b) Discuss the main arguments against adopting CSR policies. **(11 marks)**

Q3 Describe the potential attributes a procurement consultant would be required to possess if he has to add value to client organizations. **(20 marks)**

Q4 Describe the relationship characteristics for each of the following types of relationships:

(a) Adversarial relationship. **(5 marks)**

(b) Transactional relationship. **(5 marks)**

(c) Single-sourced relationship. **(5 marks)**

(d) Outsourcing relationship. **(5 marks)**

(e) Co-destiny relationship. **(5 marks)**

Q5 Describe **FIVE** e-purchasing tools and assess its impact on purchasing and supply relationships **(20 marks)**