



ADMISSION NUMBER											

School of Business
Master of Business Administration MBA Dual Specialization
Semester End Examination - May 2024

Duration : 180 Minutes
Max Marks : 100

Sem IV - MBOP6013 - Sourcing Management

General Instructions
Answer to the specific question asked
Draw neat, labelled diagrams wherever necessary
Approved data hand books are allowed subject to verification by the Invigilator

- 1) Utilize the significance of total cost of ownership (TCO) in sourcing management. Also discuss the various component of TCO K3 (6)

2) **Article 1: Global Sourcing Challenges**

Nowadays, a large number of organisations consider sourcing as a viable option for cutting down their expenses. However, the procurement journey of organisations is not so simple as it may seem. Large-size business firms especially MNCs face numerous hardships when they try to customise their cross-border sourcing activities. The four pillars of global sourcing, namely, people, process, technology, and supply chain play a great hand when it comes to internal procurement operations for an organisation.

Challenges Relating to Global Procurement

The challenges that most business firms face while outsourcing their services include, non-adherence to quality standards, the difference in time zones, long-range logistics, accountability problems, compliance issues, delays in supply and language barriers.

How Companies Should Combat these Challenges

Effective planning is needed before implementation of procurement strategies. If there are issues relating to logistics, companies must focus on their operations and thereby, delivering the required technologies to every location consistently. When organisations select a sourcing destination whose infrastructure and transportation is not up to the mark, delays in supply are a common phenomenon. Sometimes, the lack of a professional mindset among workers also leads to supply delays. There may be other factors in the form of customs inspections, missing paperwork, and local regulatory compliances. More often, companies fail to identify appropriate suppliers while operating in foreign markets. Under such circumstances, organisations may resort to procurement agencies for assistance. Global Procurement Services help business firms in formulating their sourcing strategies. In some cases, the growth strategies of business firms also have a direct impact on their procurement policies. There are instances when mergers and acquisitions delay the supply procedures while creating an intricate web of vendors. It is because of mergers and acquisitions organisations are ready to accept redundant technologies while drifting from corporate technology standards. Business firms have to pay increased prices for products and services in some cases. They have no other option apart from doing so. There are times when companies feel it is better to control costs rather than exploring sourcing opportunities.

With regard to the article, examine how each of the following enablers may contribute to a successful global purchasing network. (a) Organisational design (b) Information Technology

- 3) The Swedish furniture retailer IKEA has been a leader in sustainable procurement for over a decade. They have set ambitious goals to source 100% of their wood, paper, and cardboard from sustainable sources by 2020. This has led to significant changes in their supply chain, including the creation of a verification system for their suppliers and the implementation of strict environmental and social standards. By using sustainable materials, IKEA has reduced its environmental footprint and improved the livelihoods of thousands of people in their supply chain. Examine the various challenges and benefits IKEA must have faced/gained as a furniture retailer while implementing sustainable sourcing initiative K4 (8)
- 4) List the contemporary issues in Sourcing Management K4 (4)
- 5) During the outbreak of COVID 19, public procurement of drugs has been handled by the Indian Government diligently. India helped various nations by providing them with the required drugs to fight with the pandemic. Indian Govt. has started the service of offering portals where in all real time updates & information related to beds & number of Gases (oxygen cylinders) are provided in order to connect prospective buyers with the suppliers of essential commodities. The Govt. also managed the shortage of masks, sanitizers at the initial stages, only by procuring it. Identify K3 (9)
- (I) How did Indian Govt. handle public procurement of drugs successfully during this outbreak of Covid 19?
- (II) How" the service offering portals "by the Indian Govt. helped suppliers? [Each question carries equal marks]
- 6) Cox Power Analysis Matrix in sourcing is a methodology used to create a more sophisticated positioning approach that uses the four power positions identified by Andrew Cox on the basis of buyer power resources and supplier power resources. You are required to evaluate all the four-power position and explain how it is related to Perter Kraljic's Purchasing portfolio matrix K5 (10)
- 7) Imagine a procurement manager, Lisa, responsible for sourcing raw materials for her company. She is negotiating with two potential suppliers, Supplier A and Supplier B, both offering similar quality products at competitive prices. In an unethical negotiation scenario, Lisa might engage in bid rigging. In this case, Lisa has a personal relationship with the owner of Supplier A and decides to favour them despite Supplier B offering a slightly better deal. To create an illusion of fair competition, Lisa shares Supplier B's pricing details with Supplier A, allowing them to adjust their bid slightly lower to secure the contract. Evaluate how this unethical negotiation practices will undermine the principles of fair competition, transparency, and equal opportunity for suppliers. K5 (10)

8) The essence of a make or buy decision is to manufacture a product if it costs less than to buy it; and vice versa, to buy the product if doing so will cost less. Costs are compared for both make and buy options and the one with the lower total cost is chosen (note: there are other factors to be considered besides cost). There are costs which can be changed (avoided) and costs which cannot be avoided. The first type of costs is also called relevant costs and the second type is called irrelevant costs. Examples of relevant costs in the context of a make or buy decision include direct labour, direct materials, variable overhead. Other costs that should be considered in this category are any incremental costs necessary for a part manufacturing. For example, if a company decides to make a part internally, but this requires a purchase of additional equipment, the cost of such equipment is relevant for the decision. In addition, sometimes making one decision or another can result in income which should be considered in the analysis; for instance, if a company decides to buy a product from a vendor and the manufacturing space frees up, it can be leased and result in income. Such income would be part of the whole make or buy decision analysis. Examples of irrelevant costs are sunk costs (e.g., prior fixed asset acquisitions) and fixed overhead. In making a make or buy decision, a company would compare costs under both make and buy options by considering relevant costs. Irrelevant costs would be ignored because they cannot be changed. Assume that **Friends Company** manufactures a product which requires a particular type of valves. The company currently purchases the valves from a supplier at a price of \$5 per unit. The company can also produce the valves internally. In the coming year, the company anticipates a need for 10,000 of such valves. If the company produces the valve internally, it will incur the following costs:

- Direct labour =\$1 unit
- Direct material =\$2 unit
- Variable overhead =\$0.5/ unit

The manufacturing process for the valves would also require a purchase of tooling which is typically used within a year. The cost of such tooling for the 10,000 valves is \$20,000. Based on this information, Friends Company performs the following analysis

1. Evaluate both the options (make or buy), give appropriate justification for your decision? [8 Marks]
2. Select some of the other factors which you feel need to be considered while deciding to make or buy the products or spare parts. [7 Marks]

9) Read the case carefully and answer the questions given below

K6 (18)

Case study: Sony Ericsson Procurement – without product specification

Traditional purchasing procedure is not applied at Sony Ericsson. Traditionally the company sends out specifications on requested products to a number of suppliers in order to get a quotation. However, in Sony Ericsson's case, an unspecified proposal is sent out without any product specifications. Sony Ericsson uses its market position to delay the final specification of the product until late in the process. This allows Sony Ericsson and the supplier to have a longer development phase before specifying the final product. Further on, by using its company strength this way, Sony Ericsson can postpone price discussions until late in the process where they have a much better bargaining position.

The traditional procurement involves ***Determining Specification, Selecting Supplier, Contracting, Ordering, Expediting and Evaluating***. However, Sony Ericsson take advantage of their market position and company strength to restructure the purchasing process into one that is more suitable for the company which involves ***Unspecified proposal, selecting supplier, Preliminary ordering, Determining Specification, Ordering/price discussion, Expediting, Evaluating***.

By adapting the purchasing process as described above where the price discussion has been relocated to appear later in the purchasing process, Sony Ericsson have a much better position to negotiate since the supplier has already booked capacity in their production. Further on, the delay of the final specifications gives the development team more time to finalize the product. This is an important factor since mobile phones have become a fashion-related product. The customers' increased awareness and demand on design forces the mobile phone companies to postpone final completions of products until the very end. This way customer demands on certain designs and colors are better known.

According to Kraljic, (1983) it is important to use a strategy for analyzing the market when searching for new suppliers and should have a procurement portfolio model when selecting the suppliers. But Ohlin, the purchase manager of Sony Ericsson says that Sony Ericsson does not have a specified strategy or model for analyzing supply markets when searching for new suppliers and they use a rating model for existing suppliers' abilities based on past experiences and Sony Ericsson does not follow a portfolio model when selecting suppliers.

Question for Discussion:

1. Discuss how Sony Ericsson had gained a competitive advantage in the market by placing an unspecified product proposal to the

suppliers? Does it help companies operating in automobile industry to make competitive advantage? (9 Marks)

2. Fitting yourself as a purchasing manager, discuss how will you identify the procurement needs of Sony Ericsson in the absence of Purchasing portfolio matrix? (9 Marks)

10) In 2000, a fire at the Philips microchip plant affected phone manufacturers Nokia and Ericsson. The companies reacted in different ways, and ultimately, Ericsson did not do well, quitting the mobile phone business and allowing Nokia to win over the European market. While Ericsson had tied up all of its key components in a single source and planned to wait out the problem with the fire, Nokia worked to snatch up spare chips from other plants and suppliers, as well as re-engineered some of their phones to adapt to different chips from new suppliers. It's not hard to imagine what happened after that. Nokia kept trucking along, while Ericsson suffered from months of lost production and sales, allowing the market to be dominated by Nokia. This incident and fallout are a classic lesson in supply chain risk management. You are required to discuss the various risks involved and strategies which are used or could be used Nokia to manage this situation (Address how would you apply the various risk identification tools and risk management strategies in this scenario)

K6 (12)