

2. Answer question ONE and any other THREE questions

This paper consists of 4 printed pages. Please turn over

QUESTION ONE

Read the following case study carefully and use it to answer question (a) and (b)

PLUMP PIES LTD

Background

Plump Pies Ltd (PPL) is a medium sized bakery that produces vegetarian pies and pastries for the restaurant market. Its main product 'The Crumb-licious' has twice been voted 'Vegetarian Pie of the Year' by a leading hotel chain.

PPL Purchasing Team

The PPL purchasing team is run by former baker Cherry Well, a dynamic individual who works at a very fast pace. She has an assistant who processes the raw ingredient orders. Neither Cherry or her assistant are CIPS qualified or have any formal purchasing training.

An increase in demand as a result of recent magazine coverage has meant that at least three additional bakers are needed in order to fulfil existing and future orders. Cherry has decided to undertake a review of the labour market so that she can benchmark wage rates and recruitment agency fees prior to negotiation.

Cherry's Approach to Negotiation

Cherry dislikes face to face negotiations as she believes they take 'too much time' and prefers to negotiate by telephone or email.

Cherry takes a distributive approach to negotiation. She does not engage in small talk and likes to tell the supplier what she is willing to pay in order to avoid bargaining. She is of the opinion that time is of the essence, and is only willing to speak to suppliers for five minutes in order to 'get the deal done'.

Recruitment Agencies

There are only two recruitment agencies in the local area that can provide the baking skills required by PPL. Manbake Ltd charges on the basis of 25% profit margin, whilst BakePeople charges on the basis of 25% mark up.

In general, demand for baking skills is considered fairly elastic, however, due to skills shortages within the region, demand has become inelastic locally. This has meant that wage rates have reached an all time high. Consequently, two more generalist agencies have recently entered this market due to the high profit that can be made.

Cherry's Negotiation

A hurried telephone conversation recently took place between Cherry and Philip, the sales representative from Manbake Ltd. The telephone call took place whilst Cherry was on her lunch break doing some shopping and went as follows:

Cherry 'I have not got much time to talk to you as I am doing my supermarket shopping, but I do need to close this deal quickly as I am under a lot of pressure at work.'

Philip 'We can agree a price over the telephone. All my facts and data show that you should be paying a premium for the type of skills you require. We are forecasting an increase in market rates.'

Cherry 'I am not willing to pay any more than a 15% profit margin. If you cannot agree to that I will go to your competitors.'

Philip 'We cannot get the right people for you unless you are prepared to pay the right price. We know our market and this is the best labour rate available. Logically speaking you have little alternative.'

Cherry '15% or nothing.'

Philip 'OK. I am not very happy but I will agree to it. I will send you our terms and conditions by email.'

Cherry 'Do not worry about the paperwork, I am fine with a verbal agreement.'

Questions

Questions (a) and (b) relate to the case study and should be answered in the context of the information provided.

- (a) Discuss the main method of persuasion demonstrated by:
- (i) Cherry. **(10 marks)**
 - (ii) Philip. **(10 marks)**

(b) Discuss FIVE ways in which Cherry could have improved her telephone negotiation with Philip. **(10 marks)**

(c) Explain why it is important to undertake financial analysis, prior to a negotiation. **(10 marks)**

Question two

a) Discuss the factors considered in the purchase of capital equipment **(10 marks)**

b) Define the term outsourcing. Most organizations in Kenya are tending towards outsourcing of non-core services; discuss the benefits of this trend. **(10 marks)**

Question three

a) Explain the following concepts and how they can be used in the negotiation process

- i. Price/cost analysis
- ii. Contractual terms
- iii. Delivery issues **(6 marks)**

b) Discuss five various parameters used to evaluate suppliers

(14 marks)

Question four

a) Explain the five essentials that a contract must satisfy for it to be legally enforceable.
(10marks)

b) Identify seven ways in which information technology can be applied to the purchasing and supply function and evaluate the possible benefits. **(10 marks)**

Question five

a) What is “green” procurement? Discuss the benefits for an organization that embraces green purchasing. Explain any seven.
(10 marks)

b) Discuss the various ethical issues covered in the Kenya Public Procurement and Disposal Act of 2005. Explain any six.
(10 marks)

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