

**CHALMERS**

KANDIDAT

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**Sektion 1**

Fråga	Uppgiftstyp
<b>i</b>	Dokument
1	Essä
2	Essä
3	Essä
4	Essä
5	Essä
6	Essä

**1 Question 1 (10 points)**

When it comes to the actual buying in the purchasing process, there are three situations the buyer must be aware of, one of them being “new task situation”. Describe these three situations and illustrate with examples.

**Fill in your answer here**

New task situation, when you are supposed to do a new thing and you need to purchase things that you have never done before. Then you need to be careful when you specify and follow all the procedures and steps so you are not missing anything crucial. The steps when purchasing a new task is usually these:

- Specification
  - Here you need to specify what you need and what the product will look like. It is important to not overspecify and not underspecify, if you overspec then you might only get an expensive supplier which isn't what you wanted from the beginning. And if you underspec then you might not get what you want.
  - Example of overspecification: I want a computer with 4GB Ram, intel core i7 8550u, Nvidia Geforce 1050x etc etc, when you are only supposed to send emails. Then your specification could be, I want a computer that is able to send emails without trouble. That could get you a better price.
  - Example of underspecification: I want a garage for a car. Then you might get a garage for a car, but maybe a small car when you actually have a big car. Then you might specify some dimensions in the inside as well
- Selection of suppliers, select the supplier that gives you the best offer that will give you the lowest TCO, not just the cheapest price but the best total cost of ownership.
- Contracting / negotiation,
  - Price mechanisms
    - Pay per hour?
    - Fixed price?
    - Pay per meter?
    - Fixed plus bonus?
  - Terms of agreement
  - Penalties/ Warranties, what will happen if they break the contract?
- Ordering
  - Have a complete order with amounts, price, org.nr, ord.nr to be able to trace the products to this order and this company, in case of problems in the future.
- Receiving / Examination, is the item the thing we ordered? Is the service executed as expected?
- Evaluation, for next purchase, where they to recommend? Should we use them again or not?

Rebuying situation: When you are buying an item again, that you have used before, then you need to think about other alternatives. Even though you might have good relationships with the supplier, other suppliers might be better in the TCO perspective. Be rational and think about the steps above from the new task situations. You could save some money through not following every step but you should have it in mind to be able to be innovative and competitive.

Totalpoäng: 10

## 2 Question 2 (12 points)

A purchasing executive in the food supply chain comes across the following statement at a meeting with one of the company's largest customer:

*“Competitive bidding is the single most important approach to improve purchasing performance”*

Discuss this statement and produce arguments that both support it and challenge it.

**Fill in your answer here**

Competitive bidding is a process of purchasing.

Key features:

- Every supplier can see all bids
- It should be completely transparent to everyone
- You can argue for that you then will get the best possible bid to a given situation
- You can get the best price in the short term but you might not get to work with the supplier that has the best relationship with your company. There are many other factors except for the price that you need to consider

You have to consider other options of purchasing as well. For example closed bidding, where everyone gets to bid but they can't see each other's bids. That might lead to suppliers pushing their margin even more than they would do in competitive bidding. In competitive bidding you need to have minimum 2 suppliers that are willing to push down the price. In closed bidding you only need one.

Example: You want to buy a house and your limit is 2.5mSEK, while your competitor's limit is 2mSEK, if you would have a competitive bidding here then the final price would land just above 2mSEK and with closed bidding you would land on 2.5mSEK. This works with suppliers and customers as well.

So in this food company when they are purchasing groceries to the store. If one supplier is very keen on getting their food in this store because of its location geographically or because of its customer base, then they might push their prices down.

When purchasing products for the food company you must take in consideration how their supply chain looks like? Will they be able to handle a higher demand than usual? Because it is very important to not have empty shelves in the store, and the products should always be fresh. A lot of products in the grocery store have a pretty short "best before" date and you need to take that in consideration as well. Are your supplier able to deliver small batches?

When you talk about purchasing performance as the statement does, you have to look at efficiency and effectiveness.

- Efficiency, is costs actual / costs planned, which measure how efficient you use your resources and how you push down your costs. The efficiency is not taking revenue in consideration.
- Effectiveness, is results actual / results planned, is measuring your results against what you planned. Results is measured as revenue - costs.

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Totalpoäng: 12

**3 Question 3 (12 points)**

The principles of equal treatment, non-discrimination, transparency and proportionality are fundamental to the EU public procurement directive. Please briefly explain the meaning of these four principles and illustrate with example.

**Fill in your answer here**

## EU Public Procurement Directive

Public procurement is a big part of GDP so these kind of contracts is very important to competitiveness in the market. It is also very important that the money goes to the right thing to prevent corruption and power abuse.

- Equal Treatment
  - You need to treat all your possible suppliers equal.
  - Everyone should get the same information.
- Non Discrimination
  - You have to include all possible suppliers from the start and are not allowed to leave anyone out.
- Transparency
  - It has to be clear to everyone what is going on and what your plans are. In EU they use the platform TED for this principle. It is a platform which is standardized and where all suppliers can browse through all on going projects and they can join the bidding process.
  - When you upload a project on TED, all the suppliers get it on the same time and they get the same information as well.
- Proportionality
  - You must specify your projects in proportion to what you are supposed to do.
  - This is made to prevent companys from overspecifying their projects.
  - If they want to paint a house which is 200 square meters, they cannot specify a demand that their supplier should be capable of painting 10000 square meter houses.

So basically these principles are set up to make sure all suppliers are treated equally, gets the same information at the same time. And that the information isnt overspecified so the competition is unfair and unreasonable. This because the money is coming from the tax payers.

Totalpoäng: 12

**4 Question 4 (12 points)**

You have been employed as a purchasing manager at GEAB, which is a small company operating in the biotech industry in Sweden. The company's CEO comes back after a two-day workshop about innovation and new product development (NPD) and he is constantly mentioning that "we need to be more innovative" (but he does not seem to have gotten a deeper understanding of the subject). Your purchasing manager, however, asks you to present at the next board meeting a strategy on how purchasing can help the company to become more innovative through purchasing and supply management.

- A. Explain the relevance of new product development for professionals in purchasing and supply management. *(2 points)*
- B. Describe and discuss the role of purchasing in innovation. Elaborate how purchasing may promote or restraint the innovation process (you may need to make certain assumptions about the company and the industry). *(5 points)*
- C. Describe and critically evaluate the positive and negative effects of early supplier involvement on NPD. Summarize your key points with examples. Here too, you may need to make certain assumptions about the company and the industry. *(5 points)*

*Mark your answer clearly with A, B and C.*

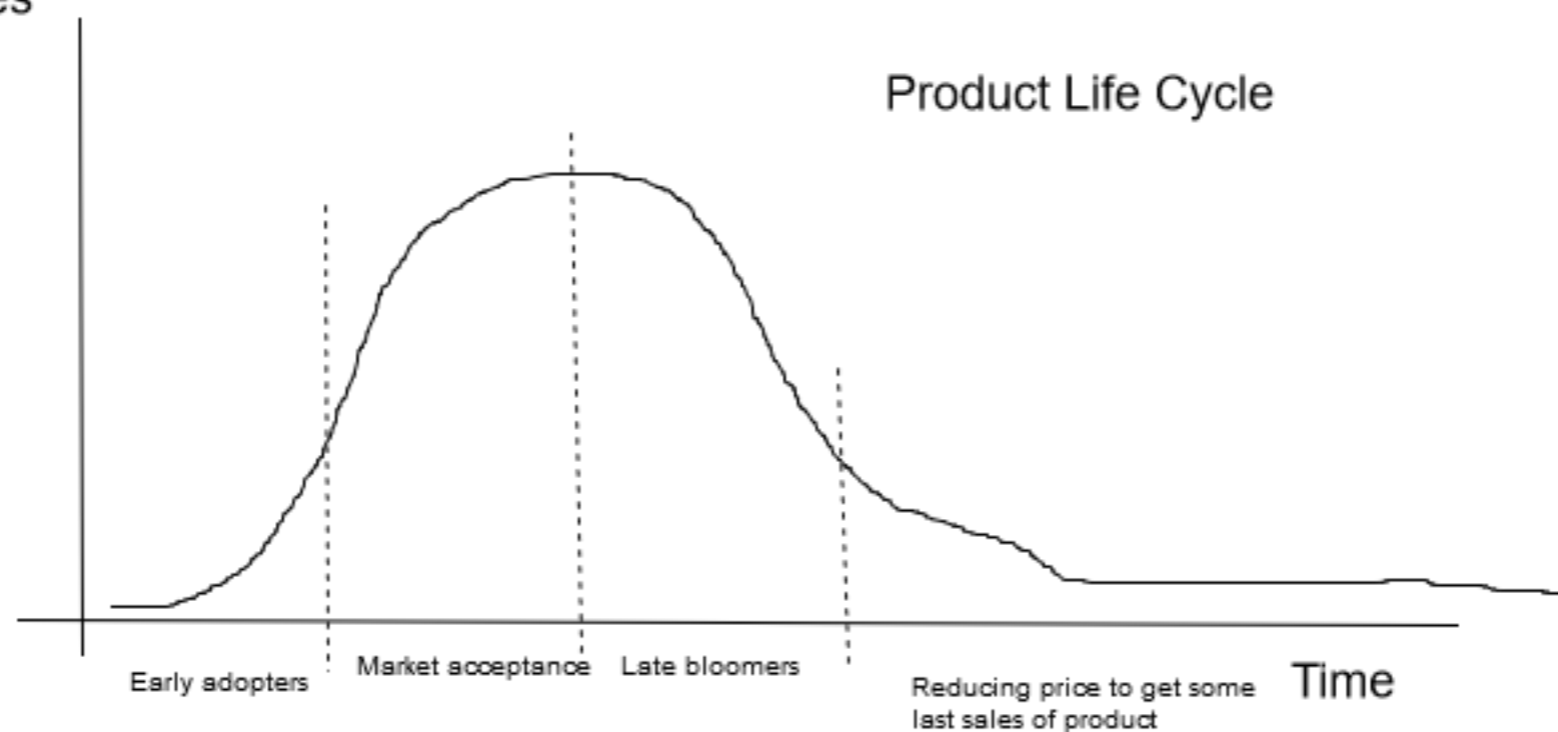
**Fill in your answer here**

A. New product development is very important to be able to stay competitive. Your old products is walking through the product life cycle (described below) and when you reach the end you need to have other product to sell to increase your revenue and be able to grow as a company. When you reach the peak of the product life cycle you must already have another product developed or else

your sales will go down.

If your sales go down your investors won't provide you with any more money and then you might eventually go bankrupt.

Sales



B. You could reach innovation in purchasing on many different ways. But things that might restrain innovation in the biotech industry could be

- You have a very standardized purchasing behaviour, which makes it hard to do changes
- The company has traditions and norms which is hard to break, the employees says "This is what we always have done, so we will keep doing it".
- Traditions and inflexible employees could come from the company culture.
- The biotech industry need to think about CSR, and then they might not be able to test their biological products on animals or humans, which would be the most effective way to develop new products.
- You have to go through alot of regulations with biotech before you can start selling products, and that could restraint innovation as well.

To make the purchasing unit promote innovation in GEAB, you would need to think about following steps:

- Purchase flexible. Remove all standard procedures and question all regular purchases.
- Reduce your order batch size. It might be a little more expensive, but in this fast moving sector it is crucial to develop new innovative ideas.
- Be open minded and allow your employees to buy things to experiment and test what they like.
  - This could change the culture of the company to a more innovative one.
- Reward employees with number of ideas instead of with revenue created.
- Try to shorten lead time from your suppliers so you dont need to plan things far ahead of your purchase

I think a more flexible purchasing unit in this company would benefit this company in the long run. Because in the biotech sector, it is usually one product out of a thousand ideas that is successfull and the revenue from this product outweigh all the losses from the others. That is why I think it is important to be innovative and be able to change.

C. Early supplier involvement is the concept of integrating your suppliers very early in the NPD process.

- This could be good, because they might have special competence that you lack at your company. With this collaboration the products could be even more innovative than you thought, because combining differnt skills is usually good for being innovative.
- It could decrease costs due to that they could provide some staff, and your transactional costs with dealing with multiple suppliers (that you might not even work with in the end) could be decreased.
- It could speed up the development process
  - Because you are working close with your suppliers from day 1, then you will establish routines and you will know what the supplier is capable of from the start
  - Two parties which is pushing each other and heading for the same goals could be faster because of then you need to set up deadlines and meetings and you are forced to get the job done.
- A problem with ESI could be, who owns the intellectual property? Who is the owner of the product when it is developed?
- Another problem could be lack of trust, what happens if the supplier is choosing to exit the

partnership, steal the product idea and move to another customer?

- If you get a too close relationship with a supplier you can behave irrational in the future. Your staff will probably get tight relationships with the supply companys staff. That might lead to bad decisions in the future when evalutating suppliers. Then you might pick "your buddies" even though they might not be the most innovative supplier anymore.

Totalpoäng: 12

## 5 Question 5 (20 points) – concepts

Explain the following concepts and discuss in brief their usefulness to purchasing professionals. Illustrate key points with examples:

A) Leverage services (5 points)

B) Post-contractual stage (5 points)

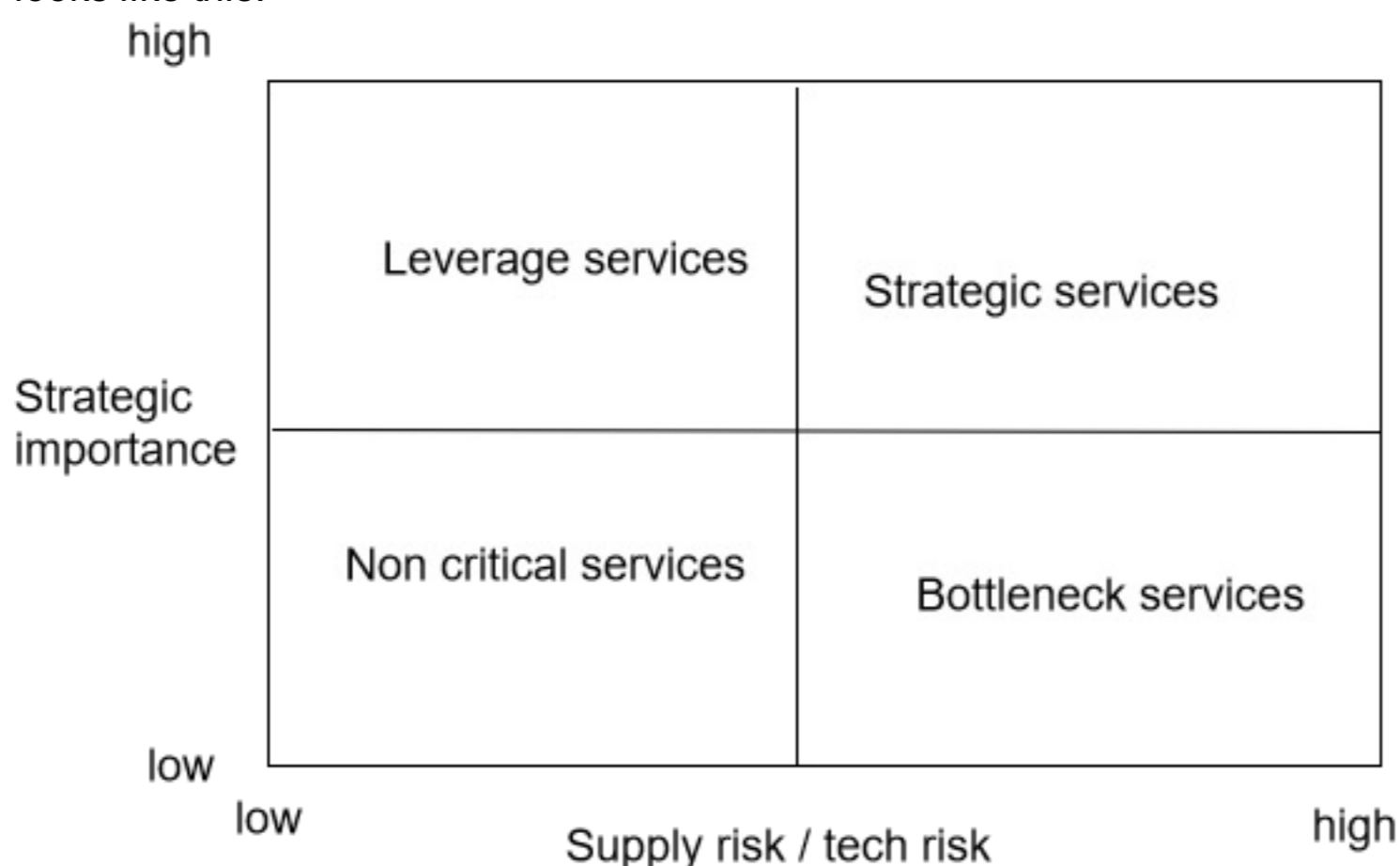
C) Backshoring (5 points)

D) Supply base management vs. supply network management (5 points)

Mark your answer clearly with A, B, C and D.

### Fill in your answer here

A) Leverage services, this comes from the kraljic matrix of classifying services. The Kraljic matrix looks like this.



So leverage services is the kind of services where its of high strategic importance, for example it creates alot of value to the company and the cost is a big part of your companys total costs. But at the same time the supply risk is low. It is not only one supplier that is capable of doing this service and it is maybe not so complex as a strategic service might be. This also depends on your company, the same service could be a leverage service for one company and a bottleneck service for another company.

Example: You are having a car rental shop and then you are doing repairs at workshop. In your town it exists 10 different repair shops that can do your job. Your costs from your company is 55% purchasing of cars and 35% repairs and service of cars, and then 10% other costs. Then your repair costs is of a high strategic importance to you.

With a leverage service you should try to take benefit of this and negotiate a really good price. Put up competitive or closed bidding with all the repair shops to get the best price possible. According to the du pont model, if you decrease your purchasing costs a little it would make a leveraged positive impact on your final ROI (return on investment).

B) Post-contractual stage, this is the stage of a purchase after you have made a contract with a

supplier.

- Then you need to establish a working routine to actually check that the supplier is doing what says in the contract.
- You could have inspectors that visits the construction sites (if its a construction job) and see that the contract is followed up on
- You will of course have someone working with complaints and the legal issues if something isnt working. Therefore it is important to specify in the contract what is expected and what criterias you should fill up.

C) Backshoring is the concept of moving your production back to your home region or country. This is the latest trend today when the wages in LCC (low cost countries) has begun to get higher and higher. Their standards of living has increased and competition from other actors make it harder to put wages low.

- CSR has gotten more attention in the media and we are heading towards a society that promotes and rewards CSR work. The employees needs good working coditions, not many working hours and you cant use child labour.
- Regulation about taxes and customs has made it more expensive to produce offshore, Donald Trumps latest import taxes for example which makes it a little less profitable. You can look at the Q3 2018 report from Volvo where their margins got decreased and the CEO states that it is because of taxes.
- Transportation Costs increases as prices of gasoline gets higher, which makes it more beneficial to produce locally.
- You have less control of your production site if it is in China compared to if it is close to your head quarters in US or Europe.
- It could be cultural differences that makes it harder to work with chinese staff compared to from your own regions.
- Your customers might demand that your products is produced locally, and that demand gets stronger and stronger when customers and people of this planet gets aware of the enviromental issues we have infront of us. I am choosing to buy shirts from companies that produce them in europe, and I am ready to pay a premium for that as well.

With all of these arguments summed together, it makes sense that offshoring to LCCs isnt always as profitable as it was before, and then I can understand that companies is moving their production sites back.

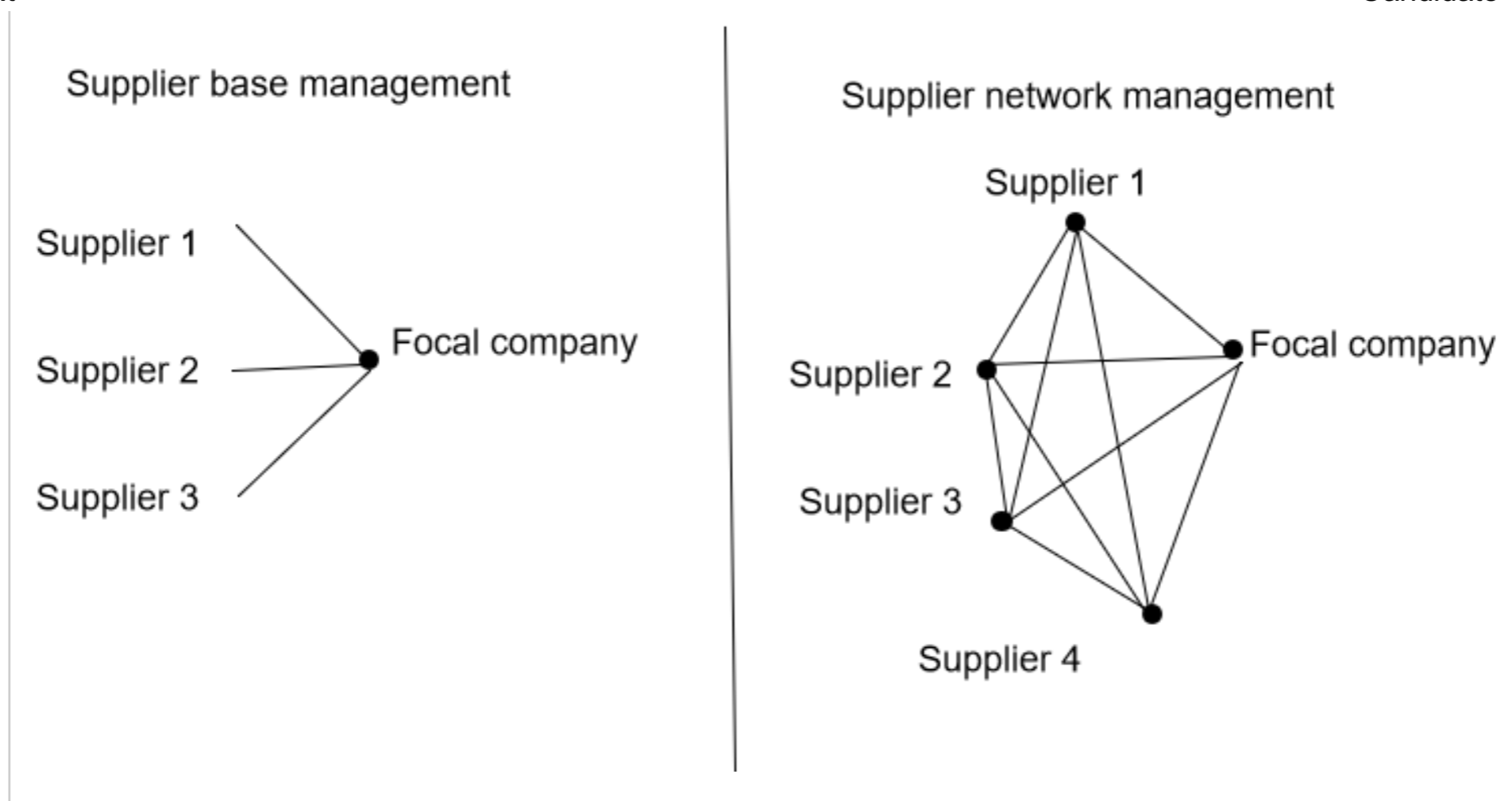
- To be able to do backshoring you must already have been preforming off shoring, which is kind of obvious.

D) Supply base management vs supply network management

You can manage your supplier base but you can also manage your supplier network. The main difference between supplier base and supplier network is that suppliers is interacting with each other as well.

- In Volvo's case for example, they have a supplier of tyres (Pirelli) and a supplier of rims (BBS). And then they might have a supplier of the service putting the tyres on the rims. Then you need to manage so your suppliers can interact with each others. This is important so that the tyre and rim comes in one piece to your production line, and that it comes at the right time in the right shape.





Totalpoäng: 20

**6 Question 6 (14 points)**

As an external consultant, with expertise in purchasing and supply management in particular, you are asked to identify at least *three key managerial challenges* in this following situation. What would be your recommendation in addressing these? At the end of your answer, summarise your key points in clear statements -- a set of bullet-points or a table -- that can be presented to the relevant stakeholders.

*Background and context:* The **2013 meat adulteration scandal** is on-going in Europe; food advertised as containing [beef](#) were found to contain undeclared [horse meat](#), as much as 100% of the meat content in some cases, and other undeclared meats, such as [pork](#). The issue came to light in January 2013, when it was reported that horse [DNA](#) had been discovered in frozen [beef burgers](#) sold in several Irish and British supermarkets. While horse meat is not harmful to health and is eaten in many countries, it is [considered a taboo food](#) in many countries, including the UK and Ireland. The analysis stated that 23 out of 27 samples of beef burgers also contained pig DNA, which is a taboo food to some communities.

While not a direct food safety issue, the scandal revealed a major breakdown in the traceability of the food supply chain, and therefore some risk that harmful ingredients were included as well. Sports horses for instance could have entered the food supply chain, and with them the veterinary drug [phenylbutazone](#), which is banned in food animals. The scandal has since spread to 13 other European countries and European authorities have decided to find an EU-wide solution. They initiated meat testing of about 4,000 horse meat samples for the veterinary drug. The EU Recommendation on Labelling the Origin of Processed Meat will be published as soon as possible.

A variety of viewpoints have been provided in the media coverage of this: "Inspections of supermarket meat suppliers are a disgrace", there is a need of "total review", and "supermarkets have failed to check the meat suppliers". Others pointed out a more fundamental issue and believed financial gain was the motive for the fraud – "horsemeat is cheaper than other meats in some countries". Allegedly, supermarkets have squeezed profit margins and it is "understandable" that people might "cut corners".

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**Fill in your answer here**

Challenge 1: Regain trust from your customers, it doesn't matter what kind of company you are, if you are selling meat, your customers will have lost trust. And as the customer is the most important thing in the end and the only thing in the supply chain that actually provides money you must take care of the customers.

Recommendation 1: You can advertise your company as a serious and reliable company. Change your visions and business plan to include and serious company that cares about everyone. As in this case, it is not anything that is dangerous, but it is of cultural or religious causes that people don't want to eat a certain kind of meat. And this is something you need to respect.

I think you should spend money in mapping out your supply chain. Decrease number of suppliers and only have reliable suppliers. Have supplier assessments to control how much CSR the supplier has implemented. This is something Philips did and that was successful for them. You

must evaluate the suppliers both quantitatively and qualitatively, with spreadsheets for example to get a clear view of all the suppliers. And then with supplier audit, that you actually visit their production plants and talk to them to get a qualitative impression from them.

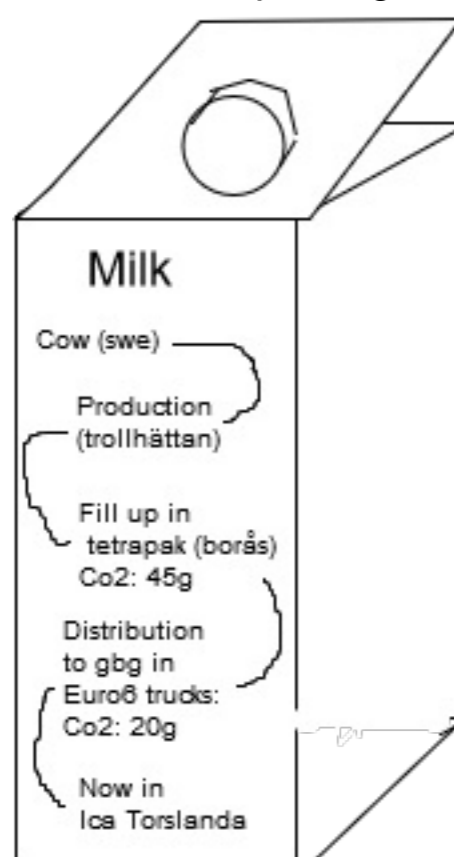
Think about every relationship with every customer as crucial. As Warren Buffet said "It takes 10 years to build a reputation but only 10 seconds to ruin it". Make sure you are very transparent to the customer and have a close relationship with your suppliers. Make sure you are striving and heading towards the same goals and visions to know exactly what you sell.

Challenge 2: Do profits to survive in the short term and long term, the issue with this meat scandal is that for short term profits you cant spend money on mapping out your suppliers. And for the long run you cant have any scandals ruining your reputation.

Recommendation 2: You need to find suppliers that already has a good overview of their supply chain, then you only need to do your part of the work. You can also try to decrease the number of suppliers, then it is easier to keep track of all of them.

Challenge 3: Use this situation to gain competitive advantage. If you get the first mover advantage in having a completely transparent supply chain, I think that could be beneficial in the long run. A managerial challenge could be to get this competitive advantage out of this situation. That could lead to you as a company beeing an icon of transparent supply chains. As Ferrari is the icon of red sportscars, how HM is swedens icon of affordable clothing and how Rolex is the icon of luxury-watches (even though it might not make the best watches).

Recommendation 3: Spend aggressively on rebranding your food company towards a green, transparent company. Instead of having an image of your packages you might have your supply chain on the package? It could look like this:



Then in the future when people are talking about knowing what they get when they buy stuff they will always think of your brand. When for example reiligous people or other kinds want to make sure they get what they get, they will go to your store. When vegetarians or vegan people want to make sure their product is free from meat they can come to your store as well.

This is a very expensive process and its a process that you need to work with all your suppliers closely to achieve, but it could be beneficial in the long run. An example of branding could be Red Bull, some people bought the company from nowhere, and then put time and money on branding it as the coolest energy drink you can have. With being sponsors to Formula 1, extreme sports like snowboarding, skateboarding and skiing, making it one of the most icon energy drinks on the market.

You need to find the trend and ride on it, like with CSR and enviromental friendly products. If you are a grocery store or a restaurant you might skip meat completely to show how seriously you take this issue? Or have a week each month with only vegetarian food. This will also be hard to implement but it could be benficial in the long run.

So what should be presented for the board of this company:

- 1: Regain trust from your customers, through no mistakes and advertisement about seriousness, CSR, transparancy and social procurement.
- 2: Decrease number of suppliers and keep the best through supplier assessments, both quantitative and qualitative.
- 3: Use the situation to gain competitive advantage, but be aware of your spendings so you dont go bankrupt.

- 4: Build a strong brand as an environmental friendly company who thinks about both social and environmental aspects of CSR.
- 5: Think about skipping meat completely to show that you are a serious company.

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Totalpoäng: 14