The Management University of Africa

Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 104 : INTRODUCTION TO PURCHASING AND SUPPLIES

DATE: 4TH AUGUST 2023

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow

Case study: Price negotiation between Amazon and Whole Foods
Source: https:// procurement-case-studies

Whole Foods Market has been declining in performance in the market for the last two years. Due to this, the activist hedge fund that owns almost 9% of the common stock is pressuring the former. The activist hedge fund is eyeing the reform of the management style of the executive officers as it asserted that they are the ones responsible for the poor results achieved by the Whole Foods Market. In other words, the CEO of the Whole Foods Market is in trouble of losing his position

In light of the pressure that comes from the activist hedge fund, four different equity firms send separate inquiries to Whole Foods Market. One of the equity firms offered a share cash price of $36.00. This is in line with the historical share price of Whole Foods Market. Private investment in public equity (PIPE) is the shortcut for companies that are in need. However, pursuing this will put Whole Foods Market at numerous disadvantages. The result of the buy-out might make shareholders quickly sell their stocks. If a large number of stocks are sold at a lower price, the private equity firm may pressure the company. Additionally, it may claim ownership of the company.

A few days ago, Amazon's CEO reached out to Whole Foods Market. It was expected as many news outlets reported that Amazon is interested in acquiring the latter for opportunities in the retail sector. The reason why the Whole Foods Market is a good candidate for Amazon to acquire is its attractive value and strategic deal. Amazon expects that it can guarantee a substantial premium. The first signal of commitment by Amazon is the face-to-face meeting with the Whole Foods Market's CEO. Moreover, Amazon just launched a new service called AmazonFresh that fits perfectly with what Whole Foods Market has developed which is the local-based fresh-goods delivery system.

Before the prospect of acquiring Whole Foods Market, Amazon has another candidate which is Silvia's Market. The strategy of this company is focused to become the best supermarket that a middle-class family can trust. However, looking at the collaborative opportunity of the two parties, you will start to have some doubts. This is because Silvia's Market's mission is too far away from the core value of Amazon which is Innovation. That is why the most attractive option is to choose Whole Foods Market rather than Sylvia's Market because the synergies between Amazon and Whole Foods Market are the best option.

One core aspect of Amazon is high-velocity decision-making. However, this strategy does not line up with Whole Foods Market. That is why Whole Foods Market suggested the decisional strategy of disagreeing and committing. Most negotiators face challenges within themselves thinking about what to offer, what is the reasonable agreement to accept, and the real interest in the negotiation. For this, you would need high-velocity decision-making because time is important in negotiations and the time you will need to decide is crucial. Whole Foods Market needs to know that Amazon is not used to long bidding wars. It needs to be interested in Amazon's proposal exclusively or else Amazon will find another company for opportunities in the retail sector.

In the negotiation, Amazon has the upper hand as it has the capability to inflict damage on Whole Foods Market by not pursuing the negotiation. The threats looming the Whole Foods Market will cease if it collaborates with Amazon.
Additionally, Amazon demands secrecy. Any leakage will force Amazon to terminate the negotiation. In bidding situations, secrecy is important. Any leak of confidentiality will have disastrous outcomes regarding the agreements. A non-disclosure will allow Amazon to have steadiness, speed, and information symmetries in the negotiation.

The limits of the offering price for each party are laid out in the agreement which makes them able to compute their reservation price (RP). When Amazon first bid, it evaluated the historical value per share of Whole Foods Market which is about $35.00 per share. At first glance, the $42.00 per share bidding price of Amazon seems too high. However, the calculations of Amazon were totally inclined with the prospect of growth of Whole Foods Market in the case of an acquisition.

The Whole Foods Market's attempt to counter-offering the bid with $45.00 per share was just to hold onto the financial resources of Amazon. Although we must take note that Whole Foods Market does not expect Amazon to be willing to bid at a higher price. Simultaneously, Amazon expects Whole Foods Market to accept its high offer. The expectations of both parties have coincided with one another which makes the negotiation reasonable and advantageous for both parties. Additionally, a profitable outcome depends on how negotiators deal and discuss during the negotiation process. Being an active listener and discussing issues is pivotal in the negotiation to be successful. Finally, after rigorous research and consideration between one another, Whole Foods Market approved the deal with Amazon which acquired the former for $42.00 per share which amounts to $13.7 billion including its debt.

Required:

a)"We learn from this case study that both parties must make an effort to retrieve data from both sides to quantify and evaluate the outcome of every possible solution". Analyse the statement. **(10 marks)**

b) A good negotiator can anchor the positioning battle around the other party's reservation price. **(10 marks)**

c) Discuss why a final outcome can be reached once both parties meet on the same ground or terms. **(10 marks)**

QUESTION TWO.

a) Analyse five ways in which buying from industrial/ producer organisations may differ from buying from a) intermediate organisations and ii) institutions. **(5 marks)**

b) Supply chain management was initially developed by wholesaling and retailing organisations. Discuss the reasons why organisations in the distributive sector led the way. **(10 marks)**

QUESTION THREE

a) Discuss five challenges of a devolved purchasing organisation. **(5 marks)**

b) In certain organisations the functional approach to purchasing has advantages. Consider the extent to which this statement is true. **(10 marks)**

QUESTION FOUR

a) Distinguish between dependent and independent demand items, outlining an inventory management system which would be suitable for each category of item.

(7 marks)

b) Explain four main principles of the just-in-time (JIT) approach to inventory management. **(8 marks)**

QUESTION FIVE

a) The purchase of capital items, despite being some of the most important acquisitions made by organisations, are frequently conducted very badly. Discuss how this problem arose and explain how capital acquisition from overseas should be made to ensure that such problems are minimised. **(10 marks)**

b) Explain the concept of "green purchasing", illustrating your answer with appropriate examples. **(5 marks)**

QUESTION SIX

a) Identify and discuss four ethical and environmental "green" issues which need to be taken into account when considering commercial relationships. **(8 marks)**

b) Explain why ethics is important for the purchasing staff and discuss the management's responsibility in upholding an ethical purchasing environment.

(7 marks)