

WOMEN'S UNIVERSITY IN AFRICA



Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

**BACHELOR OF SCIENCE HONOURS DEGREE IN PURCHASING AND SUPPLY
CHAIN MANAGEMENT**

MAIN PAPER

PSM 422 : RISK MANAGEMENT IN PURCHASING AND SUPPLY

INTAKE 8 : THIRD YEAR FIRST SEMESTER

TIME : 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer Question **1** and any other **two**.

Question 1

City Carpets Ltd manufactures high quality value added carpets at its premises in the light industrial area in Graniteside. The company has a daily capacity of 1000 pieces daily and operates 6 days a week on a two shift system. City Carpets is vertically integrated and is reputed in Europe for its high-quality products. Over the past six months, they have lost major orders because of cost. The feedback from two major customers- one in Turkey and one in France - has been that City Carpets' prices are at least 25 per cent higher than those of its competitors with the same quality level. A 'Cross-functional Cost Reduction Team' (CCRT) was set up, with representatives from sales, design, purchasing, finance, manufacturing and marketing.

As Procurement Manager, you were an active member. In the past there has been no international sourcing, other than some spare parts and carpets' accessories from the Far East. The raw materials are purchased from a local spinning plant and account for around 70 per cent of the cost of a finished garment. A friend of the Managing Director – John Makore, an import agent- was commissioned to look for sources of supply. He has now issued his report and presented the outline findings shown in the table.

	Raw Materials Type A	Raw Materials Type B	Raw Materials Type C
Current Cost	\$ 5.25/kg	\$ 5.50	\$ 10.50
Comparative Cost	\$ 3.50/kg	\$ 4.80	\$ 6.00
Country of Origin	Vietnam	Laos	Indonesia
INCOTERM	FOB	CIF	EXW

It was agreed that you would consider sourcing the raw materials from overseas. The Managing Director has appointed you as Procurement Manager to conduct an exercise, to be completed within 8 weeks, with the objective of moving 50 percent of all raw materials purchases overseas by month 12 of the current year. He suggested that Procurement and Quality personnel visit the three countries and sources identified by John Makore as well as some other sources.

Required

- (a) Explain the risks borne by Laban Textiles for each raw material under each INCOTERM. [15]
- (b) Discuss cultural issues that could pose some risks which the team must be aware of before visiting those countries. [15]
- (a) Explain to Laban Textiles five benefits of an effective Contingency Plan in risk management. [10]

Question 2

With the aid of examples, explain in detail the following:

- (a) Inherent risk [5]
- (b) Ambiguity [5]
- (c) Murphy's Law [5]
- (d) Indirect loss [5]

Question 3

With the aid of examples, discuss any **five** strategies for building supply chain resilience. [20]

Question 4

- (a) 'Risk identification mainly relies on people's awareness and experience.' Explain **five** methods of risk identification. [10]
- (b) Appraise five benefits of a risk register. [10]

Question 5

- (a) Explain the risk management cycle [10]
- (b) Outline in detail **five** benefits of risk management in international purchasing and supply. [10]

Question 6

Using the Power/Interest matrix, discuss the importance of stakeholder analysis in any project of your choice. [20]

END