



**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF SCIENCE IN SUPPLY CHAIN AND OPERATIONS MANAGEMENT**  
**END OF SEMESTER EXAMINATION**  
**SCM 2101: CONTRACT MANAGEMENT AND NEGOTIATION SKILLS**

**Date:** Friday, 28<sup>th</sup> July 2023.

**Time:** 08.00 - 10.00

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**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

Swazuri Limited, a service organization in Ongata Rongai, Kajiado County, worked for many years on contracts that operated without any performance measures, although there were regular or random check against specifications (depending on the nature of the contract). Standards were met, costs remained largely within the budget, and there were few disputes and no early terminations. This was only possible because they were working with several small suppliers, for whom they were a key client. Keeping the business was very important to these suppliers.

As they started to professionalize procurement, the following became apparent.

- Staying within the budget did not necessarily mean getting good value
- There was no incentive either to drive down the costs (e.g, through eliminating wastes) or drive-up quality.
- Carrying out reviews of available suppliers in each product and service category led to larger contracts with large suppliers. This meant that the client status changed, and buying power was effectively reduced. It seems counter intuitive that combining spend can reduce buying power, but it can have effect by taking the purchaser from one supply market into another, in which it has less influence e.g from small local suppliers to large national or international suppliers.) Goodwill was no longer a good enough initiative. There was a clear need to measure and manage.

- A. Specification is central to effective contract management for Swazuri, Discuss **FOUR** merits of performance specifications in commercial agreements. **(8 marks)**
- B. Explain **FOUR** consequences that Swazuri Limited may face due to lack of clarity in specifying requirements **(8 marks)**
- C. Swazuri noted that goodwill was no longer a good enough initiative, they needed to manage contracts. Highlight **FOUR** critical questions at the heart of commercial agreement that, they may engage in with the supplier. **(4 marks)**

- D. During Swazuri's negotiation with the supplier, they asked for a price increase of 50% on a regularly supplied item. Currently inflation increase is running at 5%. What is the most effective remark you can make and why? **(2 marks)**
- No
  - Why
  - I was thinking of a decrease
  - I can only afford half
  - Can it be delayed.
- E. Discuss TWO reasons why performance measurement is of importance in commercial contracts. **(4 marks)**
- F. Standard terms are the basic terms and conditions of business governing transactions that do not have a definitive contract, usually designed to be included in form of documents such as orders. Highlight FOUR (4) advantages of the standard forms of contract. **(4 Marks)**

### **QUESTION TWO**

- A. You are the buyer of a range of machinery items and need to negotiate the price down by 10%. You are in negotiation and your supplier has just surprised you with a 5% reduction on the initial price offered. Which option would be the most ideal in engaging your supplier and why? **(4 marks)**
- Tell them to increase it to 10%.
  - Say that if they will increase it 10%, you will give them a longer contract.
  - Make a matching concession of your own.
  - Take a sarcastic line and tell them how sensible they were to make the concession.
  - Thank them, but insist they look again to reduce the price further.
- B. Using FIVE characteristics, compare collaborative (integrative) negotiation with adversarial (distributive) negotiation. **(10 marks)**
- C. Identify the sources of information or insight that will assist you in avoiding time wasting in situation where there is no Zone of Possible Agreement (ZOPA) in commercial negotiation. **(6 Marks)**

### **QUESTION THREE**

- A. Discuss TWO reasons why a buyer might develop a 'best alternative to a negotiated agreement' (BATNA) when preparing for a negotiation. **(4 marks)**
- B. Explain THREE cultural differences between the parties to a negotiation that may impact on the negotiation process or outcome. **(6 marks)**
- C. Suggest THREE persuasion methods that can be used in a negotiation. **(6 marks)**
- D. Explain TWO requirements that an offer must fulfil in order to be legally valid. **(4 marks)**

### **QUESTION FOUR**

- A. Explain what is meant by 'battle of the forms' in relation to the precedence of the buyer's contract terms or the supplier's contract terms. **(4 marks)**

- B. Discuss FIVE phases of a negotiation and suggest the activity that might take place at each stage. **(10 marks)**
- C. Explain the term 'balance of power' in contract negotiation. **(2 Marks)**
- D. With relevant examples, explain TWO situations when a directive persuasion approach in commercial negotiation is most effective instead of collaborative approach. **(4 marks)**

### **QUESTION FIVE**

- A. In negotiations, tactical ploys or gambits are important. Briefly explain FOUR tactical ploys that can be used in commercial negotiations. **(8 marks)**
- B. Explain TWO advantages and TWO disadvantages for a procurement organisation of leasing an asset (such as a piece of equipment), rather than buying it outright. **(6 marks)**
- C. With relevant examples, explain THREE (3) vitiating factors that render contracts incomplete or invalid. **(6 marks)**