CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION

MBAD 865: SALES MANAGEMENT

STREAMS: MBAD Y2S1 **TIME: 3 HOURS**

DAY/DATE: TUESDAY 05/10/2021 **2.30 P.M – 5.30 P.M.**

INSTRUCTIONS

- **SECTION A-QUESTION ONE (1)- IS COMPULSORY**
- **SECTION B-ANSWER ANY OTHER TWO QUESTIONS**

SECTION- A

QUESTION ONE (1) IS COMPULSORY (30 MARKS)

QUESTION ONE.

BANKS RAISE LOAN INTEREST RATES ON T-BILLS INCREASE

A rise in interest rates on short-term treasury bills is prompting banks to start raising their pricing for loans, setting costly credit for homes and businesses in a recovering economy.

Absa Bank Kenya, for instance, has notified some clients that the base rate on their loans will rise by half a percentage point to 7.5 percent effective June 4.

The lender attributed the rise to an increase in T-bill rates in recent weeks as more banks consider increasing their base rates in an economic setting where the State does not have full control over loan prices.

Banks use a base rate that is normally the cost of funds, plus a margin and a risk premium, to determine how much they charge a particular customer.

They are now reviewing base rates and many have applied to the Central Bank of Kenya to revise upwards the risk premium in what could end the era of cheap credit.

“We are forced to increase the interest rate on deposits for our high-net worth depositors when T-bills rise because we are in competition for funds with the government,” a CEO of a top bank.

“The T-bills are rising and the industry is facing pressure to increase lending on the high cost of deposits.”

The 91-day T-bill rate breached the seven percent mark on March 8 and has risen to the current high of 7.13 percent, from an average of 6.23 percent in the quarter ended September last year.

Average lending rates by banks also rose to 12.02 percent in February from a low of 11.75 percent in September.

Increased domestic borrowing is expected to influence lending rates in the short term.

The government plans to borrow some Sh662 billion from the domestic market in the new fiscal year starting July 1, up from Sh540 billion in the current period.

Analysts say that rising rates on government debt securities is forcing banks to also increase returns on large scale deposits from cash-rich firms and high-net worth investors like pension schemes.

This ultimately ups pressure on lending rates because deposits from large savers influence the pricing of loans.

Besides the 91-day T-bill, other government securities have also seen a significant increase in rates in recent weeks.

The rate on the 364-day T-bill, for instance, broke through the nine percent mark on March 1 and stood at 9.47 percent in the recent auction, from an average of 6.67 percent in September.

“Furthermore, the incessant government borrowing in the domestic market continues to have a negative impact on credit to the private sector,” the Parliamentary Budget Office (PBO) said in a January report.

The PBO added that private sector credit uptake is still weak, attributing this to “either low demand for credit in the private sector or “cautious lending” by commercial banks.”

While banks are allowed to adjust their base rates to keep up with the T-bill rates, they are blocked from adding a risk premium on loans despite the removal of lending rate controls on November 7, 2019.

The Central Bank of Kenya asked banks to submit new loan pricing formulas that would be the basis of setting interest rates on new credit in an environment where the government was not controlling loan costs.

The CBK has, however, gone silent and failed to approve their submissions, forcing them to continue operating as if they are under lending rate controls to avoid falling in trouble with the regulator.

The CBK wants every lender to justify the margins they put in their formulas but is not engaging the institutions.

Banks say that the delayed shift to risk-based lending has forced many of them to deepen investment in government securities and restrict lending to high quality customers with lower risk of default.

REQUIRED.

A.). How would you recommend the Banks address the problems they are facing? **(10 Marks)**

B.). How would you turn the Banks around? Provide your reasoning for your recommendation(s). **(10 Marks)**

C.). Develop a sales strategy for the Banks' products. **(10 Marks)**

SECTION B-ANSWER ANY OTHER TWO QUESTIONS

QUESTION TWO

A.). As a sales manager at K.C.B, prepare a presentation entitled, Sales team training. **(7 Marks)**

B.). Discuss Adam's inequity theory in motivating the sales team. **(8 Marks)**

QUESTION THREE

A.). Compare and contrast transaction focused traditional selling with trust based relationship selling. **(7 Marks)**

B.). Discuss the 'types of selling' during the monthly departmental meeting. **(8 Marks)**

QUESTION FOUR

A.). As a sales manager at Co-operative Bank, discuss with new sales team the selling process. **(7 Marks)**

B.). As the sales director at equity bank, prepare a management paper entitled, 'territory management' to the Chief Executive Officer. **(8 Marks)**
