

D3/January 2018

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Tuesday 23 January 2018
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Time	Start 09:30	End 12:30	Duration 3 hours
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QUESTION PAPER

INSTRUCTIONS FOR CANDIDATES

This examination has **FIVE** compulsory questions worth 20 marks each.

1. Do not open this question paper until instructed by the invigilator.
2. All answers must be written in the answer booklet provided.
3. All rough work and notes should be written in the answer booklet.

You are advised to allow 20 minutes to read carefully and analyse the information in the case study before attempting to answer the questions.

CASE STUDY – NATURALLY ME

Naturally Me is a global personal care and cosmetics company. It supplies 112 markets across five global regions to third party outlets, which are typically department stores. The company's unique selling point is its strong ethical approach to sourcing and producing its products. Julie Jones is the chief procurement officer (CPO).

One of the research and development (R&D) team has discovered that people in the tiny South-East Asian state of Monrisha have been using a local oil called Sherabu oil in their beauty routine for centuries. Naturally Me's marketing team is really excited about the oil and has designed a whole bodycare range around it.

It is important for the organisation that they launch the range quickly before its competitors discover Sherabu oil. The R&D team has asked Julie to help with sourcing Sherabu oil and has supplied some data to help:

Time period	Volume of Sherabu needed (litres)
Launch (three-month campaign)	100,000
Year 1	500,000
Year 2	750,000
Year 3	1,300,000

The Sherabu oil cosmetic products will be manufactured at Naturally Me's main production facility in Bratislava.

One of Julie's team has carried out some research about Monrisha and the Sherabu oil and reports that:

- Monrisha is a developing economy which has an emerging commercial infrastructure. Internationally, it trades with near neighbours such as Indonesia
- The GDP per capita is \$2,003, ranking it at 164
- It has its own currency which has swung +/- 30% against the USD in the last three years
- Monrisha has a reasonable technological infrastructure – over 50% of the population own mobile phones and one in five homes has a computer with Internet access
- Sherabu oil is harvested from the pods of a tree of the same name and is indigenous to the mountains in the north of Monrisha
- Sherabu trees could be cultivated in other humid areas at altitude
- Sherabu pods are seasonal; there is one harvest per year which is usually in July
- Sherabu oil is pressed using traditional stone grinding techniques, similar to olive oil
- Sherabu oil producers are small businesses who bottle the product on their own premises
- Many Monrishans also have their own Sherabu trees and produce the oil to make their own homemade products
- Sherabu oil is not edible and has a shelf life after pressing of around one year

Julie's team has also identified the top five commercial producers of Sherabu oil:

Producer	Annual revenue (\$)	Gross profit percentage	Operating profit percentage	Annual volume of Sherabu oil produced
A	1,033,446	19%	6%	400,000
B	986,443	21%	15%	475,000
C	945,200	13%	5%	300,000
D	657,331	17%	6%	275,000
E	398,456	12%	3%	100,000

Annual revenue shown in the table above includes sales of other products.

Owing to the time constraints, Julie knows she has to source the Sherabu oil quickly and she puts a small team in place to ensure that this is achieved.

Julie is keen that the company's ethical policies are fully observed and that the tender process and the negotiations are achieved in the shortest possible time.

Julie is aware that complex regulatory requirements may have to be met, which include trade tariffs and export restrictions. In addition, Naturally Me will require robust risk management processes to be in place.

PLEASE TURN OVER

QUESTIONS

These questions relate to the case study and should be answered in the context of the information provided. You are advised to spend 32 minutes on each question.

- Q1** (a) Describe **FOUR** potential benefits for Naturally Me when sourcing from small businesses rather than larger suppliers. **(12 marks)**
- (b) Explain how ethical issues may affect sourcing from Naturally Me's suppliers. **(8 marks)**
- Q2** Explain **FIVE** selection criteria that Julie's team might use to identify suitable suppliers for Naturally Me's new bodycare range. **(20 marks)**
- Q3** The case study contains a table showing information on the financial performance of the top five commercial producers of Sherabu oil.
- (a) Explain the terms 'gross profit percentage' and 'operating profit percentage' as used in the table. **(8 marks)**
- (b) Using the information in the table, comment on the financial performance of Producer B and Producer C. **(12 marks)**
- Q4** Describe any **FIVE** stages of a tender procedure that Julie's team at Naturally Me might use to select suppliers of Sherabu oil. **(20 marks)**
- Q5** Explain **FIVE** issues that need to be considered by Naturally Me when importing goods such as Sherabu oil products. **(20 marks)**

END OF QUESTION PAPER



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