

D3/May 2018

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Thursday 17 May 2018
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Time	Start 14:00	End 17:00	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.

CROWN AGENTS

Crown Agents (CA) is a UK-based organisation which dates back to the 1700s, when administrations in overseas countries employed agents in the United Kingdom to procure ship supplies. CA's operations are now global in nature and it is involved in projects in Africa, Asia and the Caribbean.

In 1997, it transferred from public ownership to the private sector as a limited company, wholly owned by the Crown Agents Foundation. Today, CA's role is to help overseas governments reduce poverty, improve health and increase prosperity. CA works across a range of sectors, which include procurement and logistics, humanitarian and crisis response, trade facilitation and IT consulting.

An important part of CA's role is that it helps clients to adopt a strategic sourcing approach, rationalising its supply base, developing long-term agreements and investigating new sources of supply. After contracts have been agreed, CA advises clients on how to monitor and measure supplier performance to ensure that the objectives of the contracts are achieved.

An article in the April 2017 edition of *Supply Management* explained that one of CA's major current projects was to work with Sightsavers, a UK-based charity. CA's involvement included the supply chain management of the medicines required to overcome health problems in Nigeria. The project's aim was to deliver 112 million treatments, protecting 22 million people from devastating diseases, including river blindness. CA's role in the project was to ensure that treatments reached the people that needed them, as efficiently as possible. Commodities procured included vehicles, laptops, bicycles and motorbikes. Because of the large spend and critical nature of these items, potential suppliers had to be assessed carefully before contracts were awarded. This process included careful consideration of the suppliers' financial position, including liquidity and profitability, to ensure that they had the capability to fulfil contracts.

A second major project was to provide support for the improvement of 200,000 kilometres of rural roads across Africa. The result of this project was that rural communities had improved access to health services, education and trade.

Most of CA's projects have a very sizeable monetary value and therefore it uses tendering extensively to award contracts. Also, CA's operations are on a global basis, with the result that electronic sourcing is widely used.

Many of the requirements for CA's projects are sourced from organisations in the United Kingdom, other European countries and industrial countries in South East Asia. As a result, the procurement team at CA needs to be aware of the main legislative, regulatory and organisational requirements when sourcing from international suppliers. These include:

- Documentation relating to imports
- Import duties and tariffs
- Payment mechanisms, including Letters of Credit
- The use of Incoterms
- Customs control and clearance
- Ethical sourcing and fair trade standards
- Currency regulations
- The law applicable in countries where the requirements are being despatched to.

Sources: *Supply Management*, April 2017 edition www.crownagents.com website

QUESTIONS

You are advised to spend 32 minutes on each question.

- Q1** Crown Agents helps clients to adopt a strategic sourcing approach by providing advice on a range of subjects, including the measurement of supplier performance.

Describe **FIVE** criteria that Crown Agents' clients may use to monitor and measure the performance of their suppliers. **(20 marks)**

- Q2** Outline **FOUR** appropriate selection criteria that Crown Agents' clients could apply when investigating new sources of supply and selecting new suppliers. **(20 marks)**

- Q3 (a)** Outline **FOUR** sources of information that Crown Agents might use to investigate the financial liquidity of potential suppliers. **(8 marks)**

- (b)** Explain **TWO** liquidity ratios that Crown Agents might use to assess the financial liquidity of potential suppliers.

As part of your answer you should explain how each ratio is calculated. **(12 marks)**

- Q4 (a)** Assess the potential benefits for Crown Agents in using electronic sourcing in its global operation. **(12 marks)**

- (b)** The case study states that most Crown Agents projects have a very sizeable monetary value and therefore it uses tendering extensively to award contracts.

Explain **TWO** types of competitive tendering that Crown Agents might use. **(8 marks)**

- Q5 (a)** Explain the use of 'Letters of Credit', a payment mechanism of which Crown Agents' procurement team needs to be aware. **(10 marks)**

- (b)** The case study states that Crown Agents' procurement team needs a good understanding of Incoterms. Explain the purpose and use of Incoterms. **(10 marks)**

END OF QUESTION PAPER



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