

D3/November 2017

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Wednesday 15 November 2017
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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.

CASE STUDY – PEARSON BUS LIMITED (PBL)

Pearson Bus Limited (PBL) is a bus and coach manufacturer in the private sector. PBL produces a wide range of innovative and fuel-efficient single-deck buses, plus a full range of coaches and other vehicles.

Procurement

There is a very large supplier base with over 300 direct suppliers. Many of these suppliers were selected using paper-based tenders and contracts were awarded on the lowest price. These tenders were only advertised nationally and, as a result, PBL has no international suppliers. The supply base is now becoming too large to manage for the small buying team, which is attempting to control and reduce costs.

Developments

The company is always under pressure to develop new innovative and fuel-efficient vehicles and to bring these quickly to market. Several of PBL's key competitors are sourcing internationally many of their parts and sub-assemblies from low-cost countries and, as a result, these competitors can undercut the selling prices of PBL. Several large government contracts have been tendered for, but lost by PBL on price, due to this problem.

PBL needs to access new technology and will need to work more closely with a smaller strategic supply base and develop partnership relationships with key suppliers. The senior management team has identified a need to buy in more complete assemblies, rather than purchasing individual components. This will enable the workforce to be reduced and more efficient production systems such as 'just-in-time' (JIT) to be adopted. As a result, a new procurement manager, Zoe Robins, has been recruited to develop a more strategic approach to sourcing.

Immediate problems

Two of PBL's key suppliers have recently gone out of business following financial problems. Zoe realises that warning signs that these suppliers were in financial trouble were not identified. She has obtained the following information from the financial accounts of Bella Seats Ltd, which has been short-listed as a potential new international supplier.

Extract from Income Statement (Profit and Loss)	2016 \$(000s)	2015 \$(000s)
Sales (Revenue)	5,300	5,956
Cost of Sales	3,810	4,530
Gross Profit	1,490	1,426
Operating Expenses, Tax and Interest	861	974
Net Profit after Interest and Tax	629	452

Fig. 1

Extract from Balance Sheet	2016 \$(000s)	2015 \$(000s)
Fixed Assets	3,537	3,770
Current Assets		
Inventory (Stock)	2,105	1,870
Trade Receivables (Debtors)	2,155	2,132
Total Current Assets	4,260	4,002
Current Liabilities		
Trade Payables (Creditors)	1,158	1,325
Bank Overdraft	758	654
Total Current Liabilities	1,916	1,979
Net Current Assets	2,344	2,023
Total Assets less Current Liabilities	5,881	5,793
Debentures (long-term loans)	2,150	1,900

Fig. 2

Future

Zoe has decided to reduce the supply base by tiering the current supply base and buying more complete assemblies from strategic suppliers. Other improvements to the procurement process will include e-tendering and e-auctions. She has also decided to investigate sourcing from low-cost international sources, but is concerned about exchange rate risks.

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) Explain with the aid of a suitable diagram the term 'supplier tiering'. (5 marks)
- (b) Explain **THREE** possible consequences for PBL if it decides to 'tier' its supply chain. (15 marks)
- Q2** (a) Explain **TWO** benefits for PBL of pre-qualifying potential suppliers before engaging them in a tender process. (8 marks)
- (b) Describe **FOUR** criteria that PBL may use to pre-qualify potential suppliers. (12 marks)
- Q3** (a) Define and calculate **TWO** key short-term liquidity ratios for Bella Seats Ltd for both years. (8 marks)
- (b) Calculate the gross profit to sales percentage and the net profit to sales percentage for both years. (4 marks)
- (c) Discuss, using the data provided and the results from the calculations above, the financial stability of Bella Seats Ltd. (8 marks)
- Q4** Explain **FIVE** benefits for PBL in using e-tendering compared to a paper-based tendering system. (20 marks)
- Q5** (a) Outline why an understanding of exchange rates will be important for PBL in international supply markets. (8 marks)
- (b) Describe **THREE** ways that PBL might manage currency and exchange rate risks. (12 marks)

END OF QUESTION PAPER



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