

D3/January 2015

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Tuesday 27 January 2015
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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.

[illegible]

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 – JTW

JTW is a leading manufacturer of windows for both civilian airplanes and for military aircraft. Glass has limited use in the manufacture of windows in modern aircraft as the main material that is now used is acrylic, which is much lighter than glass. In an interesting development in the civil airline industry, a number of leading airlines have shown interest in creating glass bottomed planes. Such a feature can make plane travel more thrilling as the centre aisles would allow passengers to watch the ground beneath them, many thousands of metres up in the sky. JTW is keen to develop its technology but will need large quantities of liquid monomer, a vital raw material used to create acrylic.

JTW has traditionally relied on a domestic supplier, MP Products, that is located nearby for supplies of the liquid monomer. Due to the greater quantities needed in the future, other suppliers have had to be identified. Two potential suppliers of the liquid monomer have been found; one is in the Far East and the other is in America. JTW's head of procurement, Vasseem Ibrahim, appreciates that procuring the material from international sources will raise a number of important issues on which he will need specialist advice.

Vasseem is required to report to his senior management team on the likely unit costs that can be expected if larger quantities of acrylic are to be produced by JTW. Firstly, he needs to decide whether to negotiate directly with these two international sources of the liquid monomer or to run a more formalised tendering competition. He also realises that any judgments on potential sources would not be based purely on the suppliers' pricing. Any potential supplier must be closely appraised, as JTW would be seeking to develop a long term collaborative relationship. The new supplier would be expected to create innovations that would benefit not only JTW, but also, its end customer.

An analysis of the published accounts of JTW's main supplier, MP Products, reveals a healthy net profit margin of over 8% in the last two financial years. Vasseem is also keen to scrutinise the accounts of the two potential international sources.

Vasseem is aware that there is competition for the supply of liquid monomer and knows that this is a tough category of spend to manage since prices and availability can vary significantly over time. The collaborative relationship that has been formed over the years between JTW and MP Products has helped mitigate the variations in the market. This relationship has ensured that JTW is treated as a priority customer.

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) Explain **FOUR** objectives that Vasseem should aim to achieve, if he decides to negotiate directly with the two international suppliers of liquid monomer. **(12 marks)**
- (b) Discuss whether competitive tendering would be an appropriate method of awarding the contract to one of the international suppliers of liquid monomer. **(8 marks)**
- Q2** The case study information states that Vasseem realises that any judgements on potential sources should not be based purely on suppliers' pricing.
- Discuss **FOUR** other criteria that Vasseem might use to select appropriate suppliers. **(20 marks)**
- Q3** (a) Explain **TWO** reasons why Vasseem should scrutinise the accounts of the two potential international suppliers. **(10 marks)**
- (b) Describe **TWO** liquidity ratios that Vasseem might use to assess the financial stability of the two potential international suppliers. **(10 marks)**
- Q4** (a) If Vasseem decides to obtain quotations from the two international suppliers, outline **SIX** pieces of information that he should include in the request for quotation (RFQ) document. **(12 marks)**
- (b) Not all of the criteria for the selection of the international supplier will be of equal importance.
- Explain how a weighted points system might be used by Vasseem to evaluate the quotations from the two international suppliers. **(8 marks)**
- Q5** JTW's head of procurement, Vasseem, has asked for your advice on issues relating to sourcing from international suppliers, such as those identified in the Far East and America.
- (a) Provide an explanation of the use of Incoterms in the context of sourcing from international suppliers. **(12 marks)**
- (b) Describe **TWO** payment mechanisms that JTW might use to pay for the monomer sourced from an international supplier. **(8 marks)**

END OF QUESTION PAPER

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