

D3/July 2015

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Tuesday 21 July 2015		
Time	Start 09:30	End 12:30	Duration 3 hours

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.

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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 – GFATM

The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) is an international organisation that aims to attract and distribute resources to prevent and treat HIV and AIDS, tuberculosis and malaria. The organisation has its headquarters in Geneva, Switzerland. It is financed by government grants and public donations.

GFATM intends to develop its sourcing and procurement activities. It has recently carried out a review to explore how efficiency could be improved, to develop increased commercial expertise in its field staff, and therefore achieve greater transparency on costs and payments.

Malaria, which is carried by mosquitoes, kills many thousands of people every year, many of whom are children. One of its first sourcing activities under this new approach was to carry out the world's largest tender for the supply of mosquito nets, designed to produce estimated savings of \$140 million for GFATM over two years. The project would provide 190 million bed nets and protect 400 million people at risk of malaria in 30 African and Asian countries. The lives of an estimated 1.3 million children could be saved.

A new sourcing process was established to organise the structured purchase of mosquito nets, shifting the power from seller to buyer. The process focused on reducing the market dominance of individual manufacturers and mosquito net suppliers. There would be a strong focus by GFATM on local production and suppliers using this new approach. Long-term contracts resulting from the new sourcing process would improve visibility, production, capacity planning and pricing.

Another aim of the sourcing exercise was to generate overall value by ordering more nets of a standard size and simplifying manufacturing processes to cut costs. Previously the number of mosquito net specifications was very wide. Through standardisation and reduced prices, a third more nets could be bought within the same budget. By using large-scale purchasing power, the new process would provide better value for money, providing savings and the reduction of supply chain bottlenecks and shortages.

The new sourcing process was also meant to achieve a balanced sustainable supply chain. Contracts would be spread among a number of suppliers and this would support innovation, optimise capacity and reduce risk in GFATM's supply chain.

In addition, the sourcing process would support domestic production in countries with high demand for mosquito nets, which would lower transportation costs and utilise advice from local experts.

However, the move towards using smaller local suppliers would need to be managed carefully in order to ensure the suppliers' financial stability. The mosquito net sourcing exercise was part of a more proactive approach to procurement being adopted by GFATM. The organisation aims to follow it up with a similar sourcing exercise for medical supplies.

The GFATM sourcing team has introduced a strategic review of its approach to sourcing and is trying to gain a better understanding of market dynamics. The strategic review process aims to promote capability development throughout the supply chain, including better coordination and cooperation. Expected outcomes of the strategic review process include the better understanding of stakeholder needs, comprehensive supply market intelligence, a common sourcing process, reduced costs, and improved innovation.

This is a collaborative approach which should help GFATM to achieve common objectives and eliminate duplication of effort.

Sources:

www.supplymanagement.com – 14 October 2014

www.globalfund.org – January 2015

www.guardian.com – 15 November 2013

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 Discuss **FOUR** criteria that GFATM might apply when awarding the contracts to suppliers. **(20 marks)**

Q2 A new and structured sourcing process was established by GFATM as part of its new proactive approach to procurement. This would involve the development of sourcing plans for goods and services from external suppliers.

Describe **FIVE** elements that GFATM should include in such sourcing plans. **(20 marks)**

Q3 The case study information states that the move towards using smaller local suppliers would need to be managed carefully in order to ensure the suppliers' financial stability.

(a) Describe **THREE** sources of financial information about suppliers which could be used to assess their financial stability. **(9 marks)**

(b) Describe **TWO** liquidity ratios that GFATM might use to assess a supplier's financial stability. **(6 marks)**

(c) Explain the significance of liquidity ratios to GFATM in assessing the financial stability of a supplier. **(5 marks)**

Q4 (a) One of GFATM's first sourcing activities was to carry out the world's largest tender for the supply of mosquito nets. The organisation aims to follow it up with another sourcing exercise for medical supplies.

Outline **FOUR** electronic systems that GFATM could use to source its requirements from external suppliers. **(8 marks)**

(b) Explain **THREE** benefits that GFATM might gain by using electronic systems to source its requirements from external suppliers. **(12 marks)**

Q5 The case study information states that GFATM is an international organisation which supports local production in several countries.

Analyse **FOUR** legislative, regulatory or organisational requirements that GFATM will need to take into account when sourcing from international suppliers. **(20 marks)**

END OF QUESTION PAPER

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