D3/July 2016

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Tuesday 19 July 2016					
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.

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 – McDONALD'S

McDonald's is a global restaurant chain, with 36,000 restaurants in 119 countries at the end of 2015. Fifteen per cent of the restaurants are operated by the McDonald Corporation, with others operated through a variety of franchise agreements and joint ventures. McDonald's latest annual accounts revealed a sales turnover of $27.4 billion and an operating profit of $2.8 billion, after foreign currency adjustments.

Typically, the products sold in its restaurants are hamburgers, chicken, French fries, salads, soft drinks, breakfast items and desserts. Apart from food materials, other items which must be sourced include plastic trays and branded brown paper bags. As a matter of policy, McDonald's does not sell foodstuffs or materials directly to franchisees. Instead, it instructs franchisees to purchase these from approved third party suppliers, which are pre-qualified by McDonald's procurement team. The performance of suppliers is then monitored closely by McDonald's to ensure that the company's requirements are being met.

The procurement teams at McDonald's are constantly looking for new suppliers, as the scale of its operations increases. Also, as the company enters new markets which often have different cultures, customs and taboos, it introduces different products. In such situations, McDonald's has a sourcing plan, in order to achieve the best results. For example, it opened vegetarian-only restaurants in India in 2013. Rice dishes were added to the menus in Indonesia and prawn burgers in Japan, because of local consumer demand. These developments resulted in different products being sourced.

The total annual spend on foodstuffs and materials across the globe is almost $6 billion. Effective and efficient sourcing is a key factor in a fast-food environment to minimise the risk of supplier failure. McDonald's ensures that potential suppliers have sufficient financial liquidity to fulfil contracts. The procurement teams at McDonald's are aware that, if a potential supplier does not have sufficient financial resources, there is a danger that the supply of some foodstuffs and materials might not be delivered when required.

Because of the global nature and the large size of its business, McDonald's uses electronic systems extensively to source its requirements from external suppliers.

In the past McDonald's has been criticised for its environmental, sustainability and ethical records. In response to this, the company has changed some aspects of its operations. In an effort to respond to growing consumer awareness of food sources, it has changed its suppliers of coffee beans and milk. All coffee beans are now sourced from ethical suppliers that are certified by the Rainforest Alliance, a conservation group. McDonald's UK restaurants now source all the milk used in its restaurants from organic milk suppliers.

The company has designed more efficient packaging and promotes the use of recycled materials. In the 1970's, a typical McDonald's meal required 45 grams of packaging materials, but by 2015, this had been reduced to 25 grams, a saving of 45%.

Another problem that a global organisation, such as McDonald's, faces is potential exchange rate losses. In its latest annual accounts, it made a provision against its profits of $1.95 billion for foreign currency translation adjustments or losses. Exchange rate provisions arise because some McDonald's restaurants source inputs from other countries. Exchange rate provisions are also required because money has to be transferred to the McDonald's company in the USA for worldwide franchise fees and rental payments.

- Sources: www.mcdonalds.com February, 2016
- www.aboutmcdonalds.com February, 2016
- https://en.wikipedia.org/wiki/McDonalds

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 Outline **FIVE** factors that an organisation, such as McDonald's, might use to monitor the performance of its suppliers. **(20 marks)**

Q2 Explain how **FOUR** appropriate selection criteria might be applied by an organisation, such as McDonald's, when pre-qualifying and selecting its third party suppliers. **(20 marks)**

Q3 **(a)** Describe **FOUR** sources of financial information that an organisation such as McDonald's could use to assess the financial liquidity of a supplier. **(12 marks)**

(b) Explain **TWO** liquidity ratios that an organisation such as McDonald's might use to establish whether a supplier has sufficient liquidity to meet its short-term liabilities. **(8 marks)**

Q4 **(a)** Assess **THREE** benefits for an organisation such as McDonald's of using electronic systems to source its requirements. **(12 marks)**

(b) Explain the application of **TWO** e-sourcing tools that an organisation such as McDonald's might use in the sourcing process. **(8 marks)**

Q5 Suggest **FOUR** ethical principles that an organisation, such as McDonalds, should adopt when sourcing in international markets. **(20 marks)**

END OF QUESTION PAPER

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