

**D3/July 2018**

## **Diploma in procurement and supply**

# **Sourcing in procurement and supply**

<b>Date</b>	<b>Tuesday 17 July 2018</b>
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<b>Time</b>	<b>Start 09:30</b>	<b>End 12:30</b>	<b>Duration 3 hours</b>
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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 – ZINGLE SOFT DRINKS COMPANY**

Zingle is a global soft drinks company with a £7 billion turnover and which is renowned for its fizzy fruity drinks. It manufactures globally at five sites and supplies over 50 markets with its products. The company has a centralised sourcing team which manages global contracts. Many vital ingredients, including the flavours, are single-sourced. The company is a supporter of responsible sourcing and it promotes its sustainability policies in its marketing. Matt Lewis is the newly appointed global head of ingredients sourcing at Zingle.

Orange flavouring is a strategic purchase for Zingle. One of Matt's team, Dana Richards, is responsible for sourcing the orange flavouring for the highest volume selling product for Zingle. The budgeted spend for the orange flavouring is £250 million annually. This is bought from Fruity Flavours, a UK company that has been reliably supplying Zingle for over 15 years. Dana is concerned because Fruity Flavours is constantly asking for invoices to be paid early and has recently asked for advance payment against the latest order. Without this, Fruity Flavours has indicated that it may be unable to supply the order due to cashflow problems, and Zingle would run out of orange flavouring within three weeks.

Matt called an urgent meeting with Dana to discuss the issues with the supply of orange flavouring. He asked Dana to prepare data for the meeting, on the last five annual reports for Fruity Flavours. The data showed that price rises had been agreed at 5% each year during the last few years.

Dana also conducted some research on the flavours supply market ahead of the meeting and found that:

- Fruity Flavours is the third largest supplier globally and is the biggest category of spend for Zingle;
- six companies comprise 80% of the global supply of the flavours market;
- the largest company, Fruitz R Us, has received some bad publicity relating to its farming methods, which led to deforestation in South America;
- the global market for fruit ingredients fluctuates, but the volumes used have been on a downwards trend for the last three years;
- the second largest company, Citrus Stars, has recently lost its biggest contract to supply the world's largest beverages company, owing to its failing several quality audits;
- the typical operating profit for the market is 25% and most of the top six companies achieve this.

In addition, Dana has found that:

- Zingle is the second largest buyer of the orange flavouring globally;
- Zingle has not run a competitive tender process for orange flavouring since the contract with Fruity Flavours began 15 years ago;
- the revenue and operating profits for Fruity Flavours are as follows:

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Revenue (£m)	698	794	655	650	674
Operating profit (£m)	151	183	127	105	90

At the meeting, Matt and Dana realised that they would need to act quickly or risk being unable to manufacture Zingle's core product in just three weeks' time. Matt was particularly concerned about Fruity Flavours' financial stability, but was also aware that otherwise, Fruity Flavours meets all of Zingle's supplier criteria. Matt and Dana have agreed that they need to carry out a tendering exercise for the orange flavouring product.

Matt has also decided that his priority in his new role is to develop a new sourcing strategy for selecting appropriate suppliers to address the potential risks in the supply chain. Matt knows he will also need to engage with Zingle's stakeholders to ensure that the sourcing process will continue to meet their needs.

## 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 the nature of 'strategic' purchases and their likely impacts on Zingle's sourcing process. **(10 marks)**
- (b)** Explain how the adoption of 'supplier pre-qualification' might assist Zingle's sourcing process. **(10 marks)**
- Q2** The case study information states that Matt's priority is to develop a sourcing strategy for selecting appropriate suppliers. Matt will need to develop a sourcing plan to formalise his strategy.
- Describe **FOUR** elements that might be included in a sourcing plan for Zingle. **(20 marks)**
- Q3 (a)** Describe **FOUR** sources of information that Zingle might have used when assessing the financial stability of new suppliers, before awarding the contracts. **(8 marks)**
- (b)** Explain the terms 'revenue' and 'operating profit' shown in the table in the case study. **(6 marks)**
- (c)** Utilising the data shown in the table in the case study, evaluate the financial performance of Fruity Flavours over the period shown and comment on this performance in comparison to the typical industry norms quoted in the case study. **(6 marks)**
- Q4** Suggest and explain **FOUR** stages that Zingle might include in its tendering process for the procurement of the orange flavouring. **(20 marks)**
- Q5** Analyse **FOUR** legislative, regulatory or organisational requirements that an organisation such as Zingle will need to consider when sourcing from international suppliers. **(20 marks)**

**END OF QUESTION PAPER**



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CIPS ASSESSMENT MANAGEMENT CENTRE

c/o LINNEY DIRECT, A2 GOODS IN

BELLAMY ROAD, MANSFIELD

NOTTINGHAMSHIRE NG18 4LN

UNITED KINGDOM

TEL: +44(0) 845 880 1188

FAX: +44(0) 845 880 1187

[www.cips.org](http://www.cips.org)