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 – LION AIR

Lion Air (LA) is a small airline which operates in four countries: Kenya, Tanzania, Uganda and Botswana. In each of these countries, it has a small private airfield with an office and customer reception area. The head office is located at its site in Kenya and this is where all business functions, such as finance and human resource management, are carried out.

LA specialises in providing safari holidays for tourists, mainly from Europe and North America, flying them to remote parts of each country to view big game (lions, rhinos, elephants, etc.). It owns a fleet of 12 small aircraft, which seat between 5 and 14 passengers.

Up to now, LA has not employed procurement specialists and all procurement activities have been undertaken by the four operating unit managers, independently of each other. As a result, there has been no centralisation of procurement. The company’s annual expenditure budget is $10.5 million, which is spent on fuel, spare parts and food and beverages for the tourists. Because of a lack of training and experience, the operating unit managers do not appraise potential suppliers and they award contracts to suppliers they have used for many years. Similarly, there is no process for monitoring the performance of suppliers, to ensure that they are complying with contract terms. Finally, all processes are done manually and there is no use of e-procurement tools.

LA has now employed a group procurement manager, Philip Otieno MCIPS, who will be based at the head office in Kenya. One of his first tasks will be to introduce improvements in procurement processes, including formalising the appraisal and selection of potential suppliers and monitoring the performance of existing suppliers. A longer term task will be to purchase three new aircraft, to replace ones that have been in use for many years. LA’s board of directors has given Philip a budget of $5.5 million for the replacement aircraft. Philip believes that LA can achieve best value for money by using a tendering process and he needs to consider which form of tendering to use.

Because the three new aircraft are likely to be bought from a supplier in Europe or North America, Philip will have to consider carefully the implications of sourcing from an international supplier. These include Incoterms, foreign currency issues, documents relating to imports and which country’s laws will govern the contract.

A different major problem that Philip faces is that one supplier of food and beverages is reported to be in financial difficulty and there are still two years left before its four-year contract ends. He has done some research into the supplier’s accounts and discovered that its ‘current ratio’ and ‘acid test ratio’ have both fallen significantly over the last three years. Three years ago, the company’s current ratio was 1.3:1, but in the latest year’s accounts it was 0.75:1. Similarly, the acid test ratio has fallen from 1.05:1 to 0.52:1.

A further project that Philip has been asked to investigate is the introduction of a range of e-sourcing tools to improve the sourcing process.
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) Outline FOUR reasons why LA should introduce a process for the formal evaluation of supplier performance. (8 marks)

(b) Describe FOUR critical success factors in a supplier’s performance that LA might want to evaluate. (12 marks)

Q2  
The case study information states that Philip intends to formalise the appraisal and selection of potential suppliers.

Explain FIVE appropriate selection criteria that he might use in the process of selecting suppliers. (20 marks)

Q3  
(a) Explain what is meant by the terms ‘current ratio’ and ‘acid test ratio’. (6 marks)

(b) The case study information states that a supplier’s current ratio and acid test ratio have both fallen below 1.0:1.

Explain the significance of this to LA. (10 marks)

(c) Outline ONE limitation of ratio analysis. (4 marks)

Q4  
(a) Outline FOUR e-sourcing tools that LA might use to help the sourcing of requirements from external suppliers. (8 marks)

(b) Describe FOUR potential benefits that LA might achieve by introducing e-sourcing tools. (12 marks)

Q5  
The case study information states that Philip will have to consider carefully the implications of sourcing from international suppliers.

In this context, explain the following terms, providing examples of each, and how they could be used by Philip:

(i) Incoterms. (12 marks)

(ii) Letters of credit used for payment of suppliers. (8 marks)

END OF QUESTION PAPER