Level 5 Advanced Diploma in Procurement and Supply

AD2 - Managing risks in supply chains

EXAM EXEMPLAR QUESTIONS

CASE STUDY AND QUESTIONS
CASE STUDY - GOLIATH QUARRY PRODUCTS (GQP)

Introduction
Goliath Quarry Products (GQP) was formed in the late 1960’s in the UK to supply quarry equipment that required strong, robust machinery capable of crushing and screening 6000 tonnes of quarry rocks per day.

As the market developed GQP became a leading global supplier. GQP’s production facilities expanded from one factory site to four factory sites in the UK. The main focus for GQP became new product development and ensuring that it maintained the quality and reliability synonymous with its brand.

In the last decade new low-cost competitors have entered the market and are starting to reduce GQP’s market share. GQP needs to concentrate on costs if it is going to sustain its market share leadership. GQP directors insist that it must maintain its brand image but achieve the same quality product at a lower cost. This may involve the use of low-cost country sourcing. Areas of concern for low-cost country sourcing are as follows:

- Poor quality product
- The passing of title
- Initial prices increasing once a commitment to supply has been made
- Orders not shipping on time and ‘premium’ transport arrangements having to be made
- Low-cost country suppliers subcontracting work and GQP not being aware that they have done this. This may result in poor quality.

The supply base
Simon Jones is one of GQP’s Supply Chain Managers and is responsible for the procurement of the fabrications for his site. The fabrications supplier base for GQP is mainly local. Simon realises that if he is to reduce costs he needs to expand his supply base, introduce competition and consider procurement from lower cost countries. Simon needs to review the range of fabrications and find product lines that would be suitable for low-cost country sourcing. Simon decides that the best way to do this is with the next planned new product introduction in 6 months’ time. Simon drafts a sourcing plan outlined in Table 1.

Table 1

<table>
<thead>
<tr>
<th>Task</th>
<th>Description</th>
<th>Estimate duration (weeks)</th>
<th>Predecessor</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Identify a product line suitable of sourcing globally</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>Gather drawings, material and finish specification</td>
<td>1</td>
<td>A</td>
</tr>
<tr>
<td>C</td>
<td>Determine the volumes over a medium/long-term period</td>
<td>2</td>
<td>A</td>
</tr>
<tr>
<td>D</td>
<td>Analyse the supplier market locally and internationally</td>
<td>3</td>
<td>A</td>
</tr>
<tr>
<td>E</td>
<td>Review international sourcing options and select</td>
<td>3</td>
<td>D</td>
</tr>
<tr>
<td>F</td>
<td>Send tender enquiry</td>
<td>2</td>
<td>B, C &amp; F</td>
</tr>
<tr>
<td>G</td>
<td>Visit potential suppliers</td>
<td>2</td>
<td>F</td>
</tr>
<tr>
<td>H</td>
<td>Receive tenders</td>
<td>4</td>
<td>F</td>
</tr>
<tr>
<td>I</td>
<td>Select potential suppliers</td>
<td>1</td>
<td>G &amp; H</td>
</tr>
<tr>
<td>J</td>
<td>Prototype build</td>
<td>6</td>
<td>I</td>
</tr>
<tr>
<td>K</td>
<td>Airfreight prototype for approval</td>
<td>1</td>
<td>J</td>
</tr>
<tr>
<td>L</td>
<td>Gain Quality approval</td>
<td>1</td>
<td>K</td>
</tr>
<tr>
<td>M</td>
<td>If approved then Final Negotiation and contract award</td>
<td>2</td>
<td>L</td>
</tr>
</tbody>
</table>
**Sourcing from low cost countries**

GQP has a set time-frame of 6 months for the launch of its new product and needs to ensure no risk of failing to meet this deadline.

The local fabrication suppliers to GQP are very financially dependent on GQP with GQP being 80% of most of the local fabricators business. Simon believes that there may be collusion between the local suppliers when pricing. It is time for change and Simon believes that low-cost country sourcing may remove some of the complacency GQP feels they are experiencing with the local suppliers. Simon must ensure that any change to low-cost country sourcing must be seamless.
QUESTIONS

Q1  Learning outcome: 1.0

For each of the Activities A to E suggest how the risks associated with international sourcing and the selection of global suppliers in the future may be reduced. (25 marks)

Q2  Learning outcome: 2.0

(a) Based on the information in Table 1:

(i) Identify the critical path for the project. (5 marks)

(ii) Determine the planned duration for the sourcing project. (5 marks)

(b) Calculate the maximum time saving that could be made on Task H in order to reduce the overall duration of the project (taking into account the fact that all other task durations will remain as in Table 1). Show your calculations. (8 marks)

(c) If the maximum time saving on Task H is achieved (and Task D is reduced by 2 weeks as suggested by GQP Managing Director) calculate:

(i) The revised overall planned duration of the project. (3 marks)

(ii) An approximate start date if the project is to be complete by 01 September. (4 marks)

Q3  Learning outcome: 3.0

Discuss the contract terms and clauses that GQP can use to manage the risks identified for low-cost country sourcing. (25 marks)

Q4  Learning outcome: 4.0

(a) Identify key risks for GQP’s future business to be included in a risk register for GQP to address potential risks. (13 marks)

(b) Discuss how Simon can ensure a successful introduction of a low-cost country supplier to GQP through good supplier transition planning. (12 marks)