Level 5 Advanced Diploma in Procurement and Supply

AD4 - Category management in procurement and supply

EXAM EXEMPLAR QUESTIONS

QUESTIONS AND INDICATIVE ANSWER CONTENT
Q1 Learning outcome: 1.0

The Board of Management of a leading company that provides facilities management services (such as the maintenance of buildings, catering, cleaning and security) to customers that operate in both the private and public sectors, is looking to implement a category management process to improve their procurement and supply.

(a) Evaluate THREE differences between a reactive sourcing process and a strategic sourcing process.

(b) Propose a methodology that can be applied to categorise the company’s mix of expenditures.

Marking scheme

(a) To achieve a pass mark, candidates should evaluate three differences between a reactive sourcing process and a strategic sourcing process. A total of 12 marks is awarded for this section (a) answer.

Higher marks will be awarded to those candidates that provide more comprehensive answers. It can be appropriate to include examples to justify arguments made.

An assessment of a reactive sourcing process should identify a range of common features such as:

Sourcing decisions are likely to be taken by other departments and so the procurement and supply function may have a limited input into decisions that affect the selection of suppliers.

The sourcing process is likely to be constrained by simple short term decision making and processes. The processes are likely to focus on the processing of documentation.

There is likely to be the same degree of time and resource spent on standard and non-standard or novel requirements.

There is likely to be a strong focus on creating the transaction rather than added value solutions for the organisation or its supply chain.

In conclusion, a reactive sourcing process has a transactional focus and the involvement of the procurement and supply function on decision making is likely to be limited.

In comparison, a strategic sourcing process is likely to have the following characteristics:

A stronger emphasis on demand management so that there is better matching of supply with demand to drive out any unnecessary inventory or resources. There will therefore be a stronger link with sales and operations planning.

Better added value will be achieved through suppliers and the supply chain. The sources of added value can be many, but are likely to stem from reduced costs, improved quality, reduced timescales achieving improved time to market, improvements in sustainability and improved brand image etc.

It is common in strategic sourcing activities for purchasers to be more outward facing so that the market dynamics are more clearly understood. This enhanced understanding of the market can help achieve more informed decision making on a series of criteria such as the choice of pricing mechanism, number of suppliers, the length of contractual agreements and expected levels of performance.

It is likely that under a strategic sourcing, there will be the adoption of supplier segmentation so that transactional suppliers are treated differently to strategic or relationship managed suppliers.
To conclude, strategic sourcing is more likely to adopt the profiling of different suppliers and for added value solutions to be sought by the organisations in the supply chain.

(12 marks)

(b) To achieve a pass mark, candidates are required to propose a methodology that can be applied to assess the facilities management companies’ mix of expenditures. A range of methodologies can be proposed, and candidates can suggest the application of:

A methodology that is geared to assessing costs. The assessment may be based on direct versus indirect costs. The direct cost categories will be linked to units of production whether these be by different products or services either purchased or sold to the companies customers. There are many other classifications of costs such as variable versus fixed costs and labour versus materials costs.

The methodology could consist of the application of Pareto analysis for the assessment of the different expenditures made by the facilities management company. This analysis can be used to profile the relationship between expenditures made and typically the number of stock or non stock items, or the number of suppliers, for example. Pareto analysis can be applied to create different categories of expenditures, with category A items accounting or high value products or services, category B accounting for medium value and finally category C, low value.

Portfolio matrices, such as created by Peter Kraljic, seek to categorise organisations purchases of products or services by the degree of profit impact and according to his article first published in the Harvard Business Review in 1983, the degree of supply risk. There are many derivatives of this portfolio matrix, but the four categories of strategic, bottleneck, leverage and noncritical items are common categories. The organisation’s expenditures should be mapped using the portfolio tool to create broad sourcing strategies.

Higher marks are to be awarded to answers that are comprehensive in answering the question. It would be appropriate to provide examples to justify arguments made.

(13 marks)

CIPS study guide references: (a) Pages 2 - 9  
(b) Pages 18 - 23
Q2  Learning outcome: 2.0

To help initiate and prepare for the introduction of a category management process, propose the types and sources of data which can be used to assess:

(a)  Current market conditions of a supply market.  

(b)  Commercial issues that have been experienced with current suppliers.  

Marking scheme

(a) To achieve a pass grade, candidates should propose the types of data and their sources that can be used to assess current market conditions of a supply market. It is useful for organisations to know what is happening in the markets that they purchase from, as these factors can affect decision making as well as the behaviour of suppliers. There is a wide range of data that can be collated to assess a market and can include the following:

The degree of market competitiveness such as the number of suppliers that operate in a particular market. Such an analysis will reveal the degree of competition and the type of market that suppliers operate in. This can span from a monopoly to a perfectly competitive market. Sources of information that can reveal such information can include the use of an internet search, the use of trade publications, reports in the media, exhibitions and other sources.

Trends in the market such as the changes in prices and availability of the product or service. Competitive forces in a market with changing economic conditions can influence suppliers’ prices, available capacity and their ability to supply the product or service in question. Indices can often be used to assess current trends in pricing. Discussions, interviews or requests for information can be useful sources of information on market trends. Organisations can also employ the use of consultants to assess market trends.

Higher marks will be awarded to candidates that provide breadth and depth of discussion in their answers.

(b) To achieve a pass grade, candidates should propose the types of data and their sources to assess commercial issues with current suppliers. There is a wide range of data that can be assessed which can include:

The levels of prices, delivery and availability, quality and any rejects or other performance issues can be revealed though an analysis of internal records which may include orders, receipts, invoices and any other data that measures performance such as key performance indicators that have been maintained.

Data can be collected on the volumes of demand as well as sales if this is appropriate. An analysis of commercial issues can also highlight the proportion of sales represented by the purchasing organisations spend, and how this proportion may have changed over time. Current contracts will reveal the duration of agreement with any periods for reviews and re-negotiation of terms.
Higher marks will be awarded to candidates that provide breadth and depth of discussion in their answers.

(12 marks)

CIPS study guide reference:  
(a) Pages 77 - 78  
(b) Page 76 - 77
Q3  Learning outcome: 3.0

For the successful implementation of a category management strategy, it is vital to obtain the acceptance and support of internal stakeholders.

Explain how this acceptance and support can be best achieved.

(25 marks)

Marking scheme

The question is concerned with how an intended category management strategy can be accepted and supported by internal stakeholders. Internal stakeholders will be those personnel that are to be affected by decisions taken on a particular category of purchase. It would be relevant, although not essential, to provide an explanation of stakeholder mapping techniques to demonstrate an understanding of the different types of stakeholders. There are various methods that can be used to map stakeholders such as the work of Mitchell, Agle and Wood as well as Mendelow for example. To achieve a pass grade, candidates should provide a reasoned account of how best to achieve change with stakeholders rather than devote too much content to stakeholder mapping.

Relevant answers will argue that those involved in creating the category strategy will have an understanding of the needs of their internal stakeholders as well as their customers, and that these should be aligned with the organisation’s vision, strategy or objectives. Conflict with and between stakeholder can be expected. As a result of the category strategy, suppliers that may be favoured by particular stakeholders may not be selected, for example, and such decisions can cause conflict. Stakeholder engagement is necessary to stem any antagonism towards the intended change.

The achievement of acceptance and support should stress the role of communication. The potential benefits of the proposed strategy should be shared with stakeholders. The use of progress reports, updates on developments should be demonstrated in the implementation stages of a category strategy.

It would also be relevant for candidates to cite the work of Kotter and Schlesinger or other authors on the implementation of change. The work of Sharma can also be cited. This emphasised four elements of communication from awareness, performance, change and knowledge transfer and how these aspects of communication can be delivered.

Relevant answers can also include discussion on the use of formal presentations and reports to stakeholders. Better results will often be achieved by adopting a consistent approach as this is more likely to encourage trust and confidence. Jonathan O’Brien for example, provides a useful matrix which assesses the number and variety of stakeholders and the degree of change. The matrix points to the different emphasises that should be made, making the change through the category strategy.

Higher marks will be awarded to answers that cite relevant theories to justify the arguments made.

(25 marks)

CIPS study guide reference:  Pages 162 - 167
Q4 Learning outcome: 4.0

(a) Justify THREE examples of performance measures that can be used to assess the success of a category management process.

(9 marks)

(b) Assess the exit arrangements that should be applied if a category management process were to prove unsuccessful.

(16 marks)

Marking scheme

(a) To receive a pass mark for this question, candidates are required to justify three examples of performance measures that can be used to assess the success of a category strategy. A general discussion on performance measurement or on KPIs would not be sufficient.

The measures can be drawn from a wide range of metrics. It would be relevant in this answer for candidates to cite the work of authors that have written on the possible structures of performance measures. Cameron Howes for example, pointed to four classes of measures:

(1) Category specific measures: these could include issues such as prices, price paid per hour, savings per employee or worker, contract coverage of either the number of employees or workers or the geographical coverage.

(2) Relationship specific metrics: Cameron Howes work emphasised features such as the percentage of spend transacted through procurement, the percentage of engagement of procurement early in the procurement cycle etc. There can be other relationship specific metrics such as a reduction in the number of disputes, innovations made and cost savings achieved through relationship developments.

(3) Purchasing process metrics: examples in this category would be the average cost of processing orders, levels of compliant spend per category and average purchase to pay process times.

(4) Organisational metrics: which includes numbers of suppliers per $ spend, number of suppliers by legal entity per $ spend and purchase spend as a percentage of operating costs.

Candidates can argue that performance measures can be geared to the assessment of increased sales, margins, profits, market share, customer satisfaction and return on assets etc. Alternatively, the measures could be based around cost reductions achieved or other forms of value add such as improved quality, reduction achieved in time to market, delivery schedule performance or other such measure.

(9 marks)
The second part of the question requires candidates to assess the arrangements that should be applied if a category management process were to prove unsuccessful. Candidates should advocate the need for contracts to contain exit arrangements. Contracts can be discharged by breach. However, not every breach entitles the innocent party to treat the contract as discharged as there should be a breach of a condition as opposed to a mere breach of warranty.

Contracts can often include ‘determination’ clauses and these entitle one or other or both parties to terminate the contract. The term ‘forfeiture’ clause is also traditionally used for clauses that entitle the purchaser to determine the supplier’s employment in specified circumstances. The events covered under these termination clauses may be for breaches such as failure to deliver on time, not executing the work properly with due diligence or not complying with the purchaser’s instructions etc. Alternatively, they may cover events of greater or lesser commercial importance such as the insolvency of the supplier, or sub-contracting without the purchaser’s permission. Termination clauses are exercised in accordance with agreed time limits or within a reasonable time if no exact timescale is agreed to, and should also follow any procedures set by the contract terms.

Alternatively, the contract may contain a term entitling on or both parties to terminate if they wish. Termination ‘at will’ or ‘for convenience’ wording may be inserted into a contract allowing one party to terminate without having to establish that some event has occurred or breach has been committed by the other party.

Purchasers will also need to understand the impact of severing a relationship with a supplier. There may be serious issues around continuity of supply that will need to be resolved, and so the risk presented in the transition from one supplier to a different one will need to be mitigated and planned for.

Higher marks will be awarded to candidates who provide answers that provide depth of discussion on exit arrangements.

CIPS study guide reference: (a) Pages 188, 196 - 197
(b) Pages 214 and 215