Level 4 Diploma in Procurement and Supply

D1 - Contexts of procurement and supply

EXAM EXEMPLAR QUESTIONS

QUESTIONS AND INDICATIVE ANSWER CONTENT
Q1 Learning outcome: 1.0

(a) Outline **FIVE** differences between purchasing goods and purchasing services. (10 marks)

(b) Explain any **THREE** of the ‘5 rights of procurement’ including how each might be achieved. (15 marks)

Marking scheme

(a) The major distinctions between goods and services are as follows:

- Goods are tangible, services are intangible: therefore, services cannot be measured, weighed or otherwise inspected: an SLA is usually needed.
- Services cannot be separated from their supplier: goods can be delivered and stored before they are required, whereas, services are produced and consumed simultaneously.
- Heterogeneity: goods are usually uniform in nature while services are unique at each delivery because the personnel and circumstances are always different, making them difficult to ‘standardise’.
- Services ‘perish’ immediately on delivery whereas goods can be stored until required. Planning ahead is required so that the service is available when needed.
- Products are easier to specify, being tangible. Services are harder to prescribe because of their intangible and heterogeneous nature.
- Ownership: services have no transfer of ownership making it difficult to define when a service has been fulfilled and when risk and liability have passed from seller to buyer.
- Services require a higher level of human involvement and interaction especially services carried out for people (e.g. travel services). Quality will depend, to some extent, on the behaviour of the recipient as well as the service provider.
- Goods are usually purchased for immediate use whereas services may be purchased for long periods of time.

2 marks should be awarded for each of five differences explained. A pass mark would be gained if candidates merely mentioned each distinction without explaining them, for which 1 mark should be awarded. (10 marks)

(b) The ‘5 rights of procurement’ are quality, quantity, price, time and place and answers should select any three of these. The importance of each is as follows:

- Quality: goods which are of satisfactory quality and fit for their intended purpose (2 marks) e.g. ensuring an accurate specification of the requirement and its quality standards.
- Quantity: sufficient to meet demand and maintain service levels while minimising stock holding (2 marks): e.g. by ensuring that there is accurate demand forecasting and efficient inventory management.
- Place: goods delivered to the appropriate delivery point, packaged and transported so as to secure their safe arrival in good condition (2 marks): e.g. by including transport instructions including packaging requirements as part of purchase orders.
• Time: delivery of goods at the right time to meet demand, i.e. not too late but not so early as to incur unnecessary inventory costs (2 marks): e.g. by ensuring accurate demand management, placing orders in time for suppliers to provide timely delivery and ensuring that suppliers are aware of delivery requirements.

• Price: securing all of the above at a reasonable, fair, competitive and affordable price. Ideally, minimising procurement costs in order to maximise profit (2 marks): e.g. by carrying out price and supplier cost analysis and/or by carrying out competitive tendering and negotiation. The ‘right’ price is one that represents good value for money.

5 marks should be awarded for descriptions similar to the above for each of the three ‘rights’ selected. If answers merely list any three without explanation, 1 mark should be awarded for each.

Up to 5 marks for each description as above or similar and relevant. 

CIPS study guide reference: (a): Chapter 1 page 18 – 19 
(b): Chapter 2 page 34
Q2 Learning outcome: 2.0

(a) Explain **THREE** circumstances in which a competitive tendering exercise might not be the best approach to making a purchase.  

(15 marks)

(b) Describe **TWO** e-sourcing tools and their use in procurement and supply.  

(10 marks)

Marking scheme

(a) Candidates should select any three relevant circumstances. These might be as follows and answers should explain any three:

- Urgency: tendering can take a long time and there may not be enough time to perform it correctly. If potential suppliers rush to complete a quotation, it might lack accuracy or might be ‘overpriced’ to cover unforeseen eventualities.
- Commercial confidentiality or national security (e.g. military organisations): tendering confidentiality might be required. This would be difficult to achieve due to the ‘open’ nature of most tendering processes and the need for many potential suppliers to be involved.
- Value of the purchase: if this is insufficient to justify the costs and time of tendering, negotiating with one supplier might be better.
- Production costs cannot be measured accurately: an issue for potential suppliers but buyers should be aware of typical production processes and if suppliers cannot estimate production costs, the buyer should consider alternative ways of supplier selection.
- Price is not the only criterion for supplier selection and contract award. Service and the supplier’s ability and willingness to contribute to cost reduction and design improvement might also be important and tendering might not take account of it successfully.
- Tooling or set-up costs are major factors: these can add considerably to costs but here it could be very difficult to make comparisons between different potential suppliers.
- Intellectual Property Rights and monopoly: these might prevent meaningful competition because there is only one supplier. Candidates might explore how buyers can escape from monopoly situations by e.g. avoiding branded goods, and seeking generic solutions based on output/outcome specifications.  

(15 marks)

(b) There is a range of e-sourcing tools available and answers should provide a description of any two of these and their use in procurement and supply:

- E-catalogues: these can be viewed online or downloaded by purchasers. This can speed up the location of potential suppliers as well as suitable products or services.
- Supplier portals and market exchanges: sites where multiple buyers/sellers share information about requirements and offerings. Again, this can speed up the process of supplier selection.
- E-tendering: involves using e-RFQs and specifications posted online or e-mailed to potential suppliers. Bids can be received and evaluated electronically, speeding up tendering and sourcing considerably.
- E-auctions, using the buyer’s or seller’s website, or third party auction sites: suppliers offer goods online, and potential buyers bid competitively. Bids are ‘open’ so buyers may raise their offers competitively during the auction. At the end of the bidding period, the highest bid wins.
• Reverse auction: here the buyer specifies its requirements, and suppliers submit competitive quotes. Bids are open, so suppliers may lower their prices competitively during the auction. The lowest bid compliant with the specification wins.
• Online supplier evaluation data: (e.g.) third party reports, customer feedback, registers and directories of approved or accredited suppliers, benchmarking reports, market intelligence tools, etc. Thus, supplier appraisal (visits, etc.) would be speeded up considerably.

Answers merely stating two of the above without any explanation should be awarded 1 mark for each one.

CIPS study guide reference:  
(a) Chapter 5 Page 112 – 113  
(b) Chapter 6 Page 131
Q3 Learning outcome: 3.0

(a) Explain the role of a shared services unit (SSU). (10 marks)

(b) A manufacturer of electrically powered tools for the engineering industry consists of four separate business units, each of which undertakes its own purchasing activities.

Discuss THREE benefits of centralising all purchasing activities with those of retaining the present decentralised structure. (15 marks)

Marking scheme

(a) SSUs reflect a desire to centralise and share services (2 marks).

The shared service provider becomes a dedicated provider of services such as; finance, HR, IT and procurement (1 mark) which continue to be provided internally (2 marks).

An SSU manages costs and quality SLAs to demonstrate value for money (2 marks).

An SSU’s benefits may be summarised as:

• cost effective internal service;
• liaison with its customers;
• anticipating future demand;
• employing resources and providing higher levels of service more cost effectively than if they were provided by a department or an external provider.

Marks should be awarded as above up to a maximum of 10. Points stated as being worth 2 marks above should only be awarded 1 mark if no detailed explanation is given. (10 marks)

(b) ‘Centralisation’ and ‘decentralisation’ refer to the degree to which responsibility and authority is delegated. Arguments for centralisation can only be evaluated in the context of specific organisational environment and might include:

• Policies and procedures are easy to standardise and implement facilitating standardisation, variety reduction and better value for money and minimising ‘maverick’ purchasing. Staff training and development would be better organised.
• Consolidation of requirements: higher volumes could lead to savings based on economies of scale.
• Location: If units are in different places, distance may hamper supply coordination. Consistency is easier because of the single location.
• Supply market structure: if there is only a small number of suppliers a centralised coordinated approach could facilitate a better negotiating position.
• Expertise required: expertise for buying the products and services required may suggest a specialist buyer for each and a centralised approach. It could lead to a ‘category management’ approach.
• Customer demands: Different customers may dictate which products must be purchased, obstructing efforts aimed at coordination.

Up to 8 marks for detailed answer based on the above benefits.
The above is not intended as a definitive list and there are other arguments that could be used in the comparison.

The benefits of retaining the present de-centralised structure include:

- Local responsibility: important where units are a long distance away from a central location and/or where each unit’s requirements are specific.
- Knowledge of the local environment, culture and customer needs might give benefits to local suppliers and the local economy.
- Skills development of buyers in each unit as there may be an element of local purchasing if only for MRO items and facilities management.
- Better communication and coordination between procurement and operating departments,
- Customer focus: buyers are ‘closer’ to internal and external customers developing understanding of user needs and problems.
- Quicker response to operational and user needs, environmental changes and problems by local buyers close to the scene of operations.
- Smaller purchase quantities: sacrificing economies of scale, but reducing costs and risks of holding inventory.
- Accountability: divisional managers can be held accountable for performance only if they have genuine control over operations.
- Freeing central procurement units to focus on higher-level, value-adding tasks.

Up to 7 marks for a detailed answer that goes beyond general points.

CIPS study guide reference: Chapter 8, Page 170-172

(15 marks)
Q4  Learning outcome: 4.0

Compare and contrast a private sector company with a public sector organisation in the following FIVE areas:

(i) Ownership and control  
(ii) Sources of finance  
(iii) Legal and regulatory environments  
(iv) Organisational objectives  
(v) Importance of corporate social responsibility.

Marking scheme

5 marks should be awarded for reasonably detailed explanation of each of the question parts, showing clear distinction between private and public sectors, as follows:

(i) Ownership and control: by individuals in the private sector – owners who have provided the finance and manage the business or, in a plc, appointed directors. Shareholders may vote to remove or elect directors. Public sector organisations undertake a public service. They are publicly owned to serve the public through a political purpose and the general benefit of society.

(ii) Sources of finance: in the private sector usually from owners or, in a plc, from shareholders investing money in expectation of financial reward. Other sources might include: bank loans or overdraft facilities secured against assets or investment from venture capitalists in exchange for a share of the business and expected returns. Additionally, revenue from selling goods or services would be a source of finance. Public sector organisations are funded by the taxpayer and include: company taxation, personal taxation, specific duty or duties on (e.g.) imported goods, fines resulting from criminal activity, fees and ancillary charges.

(iii) Legal and regulatory environments: In the private sector, plcs are regulated to offer protection to consumers, to offer protection within a market, to maintain competitive markets and prevent the development of monopolies, and to maintain national interests and public welfare. Regulation is by statutes and rules imposed by regulatory bodies such as the Office of Fair Trading. The regulatory environment of the public sector is similar in many ways but there is a difference because regulators are not regulating openly competitive commercial markets. Public sector regulation exists to protect national interests and standards. Organisations in the UK public sector have to follow EU procurement directives.

(iv) Organisational objectives: typically profit in the private sector. However, there are also potential objectives such as the organisation’s survival in highly competitive markets and growth of sales and/or market share. Others might relate to enhancing the organisation’s reputation, making its brand more well-known, new product development and increasing the return to shareholders. The public sector provides public services established by the government. The objective here is to provide a service fulfilling economic and social goals.
Importance of corporate social responsibility: difference between the sectors is increasingly less as CSR is becoming, an essential element of corporate governance. Profit motive and need to satisfy shareholders’ financial expectations might suggest that the private sector is slower to engage with CSR pointing to the treatment of suppliers and the use of buyer power to influence suppliers’ behaviour. The public sector is usually better placed to influence/adopt CSR. Additionally there is the impact of EU Procurement Directives on CSR issues such as sustainability and the environment.

As stated above, 5 marks should be awarded for each section given a reasonably detailed explanation but a pass mark of 2.5 marks per section should be awarded for brief but accurate explanations and/or explanations of the differences between private and public sector organisations without examples.

(CIPS study guide reference: Chapter 10 Page 194-196
Chapter 11 Page 212-215
Chapter 12 Page 224-232)