Level 4 Diploma in Procurement and Supply

D3 - Sourcing in procurement and supply

EXAM EXEMPLAR QUESTIONS

CASE STUDY, QUESTIONS AND INDICATIVE ANSWER CONTENT
CASE STUDY - THE PROTECTIVE EQUIPMENT COMPANY

Introduction
The Protective Equipment Company (PEC) is a medium-sized enterprise in the private sector. PEC manufactures and sells a range of protective work-wear and equipment which is designed to withstand the most hazardous working conditions.

The products are made to extremely high quality standards and PEC constantly updates its products to reflect different operating environments and health and safety at work requirements. New product development is often focused primarily on technical excellence rather than profitability.

Procurement Activities
The current buyer at PEC has been in the position for six months having been promoted from purchasing assistant when the previous buyer retired. Due to her limited experience combined with the complexity of the product range and the need for high levels of quality, she has found it difficult to influence sourcing strategy. Formal procurement procedures and systems at PEC are very limited. Currently, the buyer waits to receive a requisition from the production function to place orders for equipment, materials and products. This means that orders are usually urgent and the buyer has little opportunity to review alternative suppliers or sourcing approaches.

Low value maintenance, repair and operations (MRO) requirements cause particular problems as the requisitions are difficult to aggregate. This causes excessive and time-consuming administration for the buyer.

Testing requirements
Pressure testing machinery used for testing the quality of seams in the protective work-wear is nearing the end of its life and will soon require replacement. Product testing is essential to confirm final quality of manufacture and conformance to industry standards.

The test equipment is highly specialised and will be costly to replace. Also, recent machine maintenance highlighted both the cost and the long lead times of the MRO items required to keep the machine operational. If the equipment is not replaced, the test work will need to be outsourced to a facility specialising in this type of service provision.

Supplier data
Recently, the buyer has become concerned that some of her key suppliers could be facing financial difficulties. However, she is uncertain how to investigate the financial position of these suppliers. The information left by the previous buyer is several years out of date and the current buyer is concerned that their position could now be significantly worse.

The buyer believes that she needs to research the supply market in order to gather more information on external supplier capabilities. This will allow her to identify alternative suppliers with the necessary technical and quality standards and good financial stability.
QUESTIONs AND MARKING SCHEME

Q1  Learning outcome: 1.0

Examine THREE different sourcing approaches that could be used by the buyer at PEC to more effectively source safety products and materials from suppliers.

(20 marks)

Marking scheme

Pass grade answers are likely to include the following content.

The buyer at PEC has limited sourcing experience and is finding it difficult to influence sourcing strategy due to the reactive nature of the majority of her sourcing activity. By implementing more proactive and structured sourcing approaches for safety products and materials, she will be able to source more effectively thus helping to improve the organisation’s financial performance. The following are sourcing approaches which might be considered:

• **Single sourcing** – the selection of one supplier for 100% of a particular requirement. This approach might be chosen by PEC for products or materials requiring high investment or where a strong relationship is required. This can however lead to over-dependency and supplier complacency.

• **Dual sourcing** – the selection of two suppliers in order to maintain competition and spread risk. The balance of business with each should be considered to manage supplier complacency. This approach can also help to avoid capacity constraints whilst maintaining high standards for quality and technological expertise.

• **Multiple sourcing** – pre-qualification and use of more than two suppliers to give the buyer choice, maintain competition and manage fluctuations in demand. Often used for less critical and low investment products and services. By having a number of suppliers pre-qualified, the buyer at PEC could respond better to urgent requirements for less critical products and materials.

• **Sole sourcing** – where only one supplier can satisfy the requirement. Usually a monopoly supply market with high barriers to entry and no close substitutes. This carries very high risk for the buyer in terms of price and security of supply. Due to the technical nature of some of the safety materials there may only be one approved source.

• **Partnership sourcing** – commitment by both customer and supplier to a long-term relationship based on continuous improvement. E.g. high spend/high risk requirements, technical complexity, and fast-moving technology. This could also be a valid approach for PEC to ensure that their products and materials keep pace with latest technologies and quality requirements.

• Other appropriate sourcing approaches should also be accepted.

Answers should examine three appropriate approaches and should consider how the use of these approaches will help the buyer at PEC to source more effectively. Answers should recognise that different sourcing approaches could be used by the buyer at PEC depending on the products or materials being procured. For example partnership sourcing could be appropriate for key safety products and materials, to manage quality and keep up with technological developments. Multiple sourcing could also be appropriate for less critical and more readily available items.

Stronger answers will also recognise that appropriate sourcing approaches will be driven by sourcing strategy and that different approaches will suit different types of requirements.
As a guide, up to 15 marks should be awarded for the selection and examination of three appropriate sourcing approaches. A further 5 marks is available for answers demonstrating a wider understanding such as linking to sourcing strategy and recognising the limitations of particular sourcing approaches in some circumstances.

CIPS study guide reference: Chapter 2
Q2  Learning outcome: 2.0

(a) Explain how the new product development approach at PEC could impact on sourcing effectiveness.

(8 marks)

(b) Discuss the actions that the buyer could take to balance commercial and technical award criteria when selecting suppliers.

(12 marks)

Marking scheme

Pass grade answers are likely to include the following content.

(a) The new product development (NPD) approach at PEC is currently driven by quality requirements and technical excellence which is adversely affecting commercial effectiveness. This means that the buyer is finding it very difficult to negotiate with suppliers to optimise the cost and delivery position. It is likely that supplier selection is being dictated by the conformance specification giving the buyer little or no leverage with suppliers.

Up to 8 marks should be awarded for an explanation of the issues created for the buyer by the NPD approach at PEC and its impact on sourcing effectiveness.

(8 marks)

(b) Actions that the buyer could take to improve the balance between technical/quality and commercial requirements might include:

• Putting in place a sourcing strategy which is jointly agreed between the design, production and procurement functions.
• Encouraging the aggregation of requirements in order to increase visibility of requirements and negotiation effectiveness and develop supplier relationships.
• Looking for standardisation opportunities within specifications or encouraging conformance specifications.
• Pre-qualification of suppliers against a range of sourcing criteria, to more effectively deal with urgent requirements.
• Other appropriate actions should also be allowed.

Answers should discuss how taking these actions will help to improve commercial effectiveness at PEC when awarding business to suppliers. Up to 12 marks should be awarded for identifying and discussing the impact of appropriate actions.

Stronger answers will also recognise that developing the relationship between the buyer and the other functions within the organisation will be very important in balancing overall requirements.

(12 marks)

CIPS study guide reference: Chapter 2
Q3 Learning outcome: 3.0

(a) Identify **FIVE** signs that the buyer at PEC could look for to indicate that certain suppliers are experiencing financial difficulties.

(5 marks)

(b) Explain **THREE** approaches that the buyer at PEC could take to obtain reliable information about these suppliers’ financial positions.

(15 marks)

Marking scheme

Pass grade answers are *likely* to include the following content

(a) The buyer at PEC is concerned about the financial position and accuracy of financial information on some of her key suppliers but is unsure what to look for to confirm her concerns. The following are supplier situations and behaviours that could indicate financial difficulties:

• Poor financial ratios and reducing profits
• Deterioration in delivery and /or quality performance
• High staff turnover
• Adverse press reports
• Problems within the supply chain
• Chasing for payment
• Other appropriate signs should also be allowed.

Answers should identify five appropriate signs. 1 mark will be awarded for each.

(5 marks)

(b) Financial information about suppliers can be obtained from a number of different sources such as:

• Published financial statements and accounts – supplier balance sheets, profit and loss accounts and cash flow statements
• Credit ratings companies – such companies charge a fee to provide information on the credit status of supplier companies e.g. via websites
• Reports in business or trade press
• Networking with other customers of specific suppliers
• Direct discussion with the supplier regarding its financial position – particularly important with more strategic suppliers.

Answers should explain three different approaches that the buyer at PEC could take to obtain reliable information on the financial position of the suppliers about which she has concerns. Up to 5 marks will be awarded for each appropriate approach explained in the context of the case study.

Stronger answers will provide a detailed explanation including use of appropriate examples.

(15 marks)

*CIPS study guide reference: Chapter 5*
Q4 Learning outcome: 4.0

(a) Using relevant examples, explain the terms, ‘demand analysis’ and ‘supply market analysis’.  

(6 marks)

(b) Suggest appropriate sources of market and supplier data that could be used by the buyer at PEC to research the supply market.  

(14 marks)

Marking scheme

Pass grade answers are likely to include the following content

(a) A definition or explanation of the two terms such as:

Demand analysis – estimating the likely usage of products and services in the period ahead in order to source the ‘right quantity’ to meet the organisation’s requirements. e.g. a production facility must estimate demand for materials, components and consumables. Some items will be dependent on demand for the final product and others will be independent.

Supply market analysis – appraising general supply conditions within the market. e.g. market structure and stability, product differentiation, technological developments, availability and risk of shortages; market prices, price trends; environmental factors.  

Up to 3 marks should be awarded for each explanation with at least one relevant example.  

(6 marks)

(b) Supply market research involves collecting, analysing and evaluating data on markets and suppliers in order to optimise an organisation’s supply base. As part of this process, the buyer at PEC will need to gather data from a range of primary and secondary sources such as:

• Direct supplier communication with existing or potential new suppliers
• Marketing literature from suppliers
• On-line sources and other networking
• Local and global trade organisations and professional bodies
• Trade fairs, exhibitions and conferences
• Specialist publications and other media
• Other appropriate sources should also be accepted.

Answers should suggest at least two different sources demonstrating how they are appropriate in the context of the situation in the case study.

Stronger answers will consider a range of primary and secondary sources and will justify the suggestions with reference to the case study content.  

(14 marks)

CIPS study guide reference: Chapter 7
Q5 Learning outcome: 5.0

(a) Examine the main legislative and regulatory requirements that PEC should consider when sourcing as an SME in the private sector.

(15 marks)

(b) Explain how these requirements might differ for a public sector organisation.

(5 marks)

Marking scheme

Pass grade answers are likely to include the following content.

(a) PEC is a medium-sized company within the private sector. Its product range includes protective work-wear and equipment which must meet strict safety and quality standards. PEC is subject to legislative and regulatory requirements in a number of areas including:

- Government influence – restrictions on corporate behaviours, taxes and duties, environmental requirements and competition rules
- Legal regulations – protecting the rights of employees, customers, minority groups and the environment; preventing corruption
- Standards organisations – e.g. ISO
- Health and safety
- Quality
- Corporate responsibility
- Financial regulation
- Voluntary codes of practice – whilst these are not legally required, they often become a cultural requirement to continue to compete in business.

Answers should examine at least two key legislative and regulatory areas relating to the business activities at PEC.

Stronger answers will cover a broader range of legislative and regulatory issues and will demonstrate a detailed understanding of the specific implications for PEC.

(15 marks)

(b) Public sector organisations differ from those in the private sector in terms of characteristics such as ownership, funding/financing, objectives and governance.

Some examples of this are:

- Responsibility to members of the public (tax payers) – public accountability
- Value for money objective rather than profitability and share value.

Although many of the legislative considerations examined in part (a) are the same across all sectors, the public sector is subject to additional regulations and scrutiny when sourcing:

- EU public procurement directives – value of contracts, most economically advantageous tender, specific time limits and tendering requirements
- Anti-corruption law
• Freedom of information law
• Sustainable procurement requirements
• Other appropriate areas should also be allowed.

Answers should explain these differences with the use of examples where appropriate. 5 marks are available.

(5marks)

CIPS study guide reference: Chapter 10 and 11