Foundation Diploma in Purchasing and Supply

Managing Purchasing and Supply Relationships

L4-04

LEVEL 4

Senior Assessor’s Examination Report

May 2012
INFORMATION FOR CANDIDATES

The senior assessor’s report is written in order to provide candidates with feedback relating to the examination. It is designed as a tool for candidates - both those who have sat the examination and those who wish to use as part of their revision for future examinations.

Candidates are advised to refer to the Examination Techniques Guide (see the following link: http://www.cips.org/en-GB/Qualifications/study-support/ ) as well as this senior assessor’s report.

The senior assessor’s report aims to provide the following information:

- An indication of how to approach the examination question
- An indication of the points the answer should include
- An indication of candidate performance for the examination question

Each question has a syllabus reference which highlights the learning objectives of the syllabus unit content that the question is testing. The unit content guides are available to download at the following link:

http://www.cips.org/Qualifications/About-CIPS-Qualifications/cipsqualifications/

ADDITIONAL SOURCES OF INFORMATION

The Supply Management magazine is a useful source of information and candidates are advised to include it in their reading during their study. Please see the following link to the Supply Management website: http://www.supplymanagement.com/
SECTION A

Q1 (a) Describe the organisation culture of GBL both before and after the appointment of the new chief executive. (10 marks)
Q1 (b) Suggest the organisational culture of World Wide Investments (WWI) (5 marks)
Q1 (c) Explain the likely impact of all three cultures discussed in Q1 (a) and Q1 (b) on purchasing and supply relationships (10 marks)

Analysis of the Question

The aim of this question was to test candidate’s knowledge of the types and nature of organisational cultures on purchasing and supply relationships.

Analysis of the Answer

Three cultural types were depicted in the case and for part (a) of the question a description of the cultural change at Greendowne Bank (GBL) was required. In particular, the cultural types needed to be correctly identified and a brief description of the characteristics of each should have been provided. Thus the change from a bureaucratic culture; typified by defined roles, hierarchical relationships, adherence to laid down policies and procedures and a resistance to change to one of a progressive culture where the new chief executive has provided a compelling vision for change to a progressive culture. Managers have empowered staff, cross-functional teams introduced, continuous improvement programmes have been started and marketing initiatives have signalled a much higher profile for the bank.

In part (b) a further description of the likely characteristics of WorldWide Investments, the international predator bank was required. The aggressive or dominant culture of this organisation is likely to put pressure on GBL to achieve goals, possibly by any means and demand conformance to its own policies and ways of working despite the rhetoric of ‘merger’ rather than ‘takeover’

Part (c) of the question requires an explanation of all three cultures and their impact on purchasing and supply relationships.

Bureaucratic cultures
Relationships internally may be formal with marked demarcation lines within the hierarchy. Externally, relationships with suppliers will tend to be at arm’s-length with supplier selection favouring the tendering process but on a fair and transparent basis. Relationships will paradoxically, tend to be long-term and uncompetitive. There will also be a reluctance to deal with the SME sector because of an often misperceived risk.

Progressive cultures
Buyers will be free to exercise their professional judgement and enjoy a great deal of flexibility in their approach to supply markets. Relationships will develop with suppliers using a pragmatic approach base on risk and spend criteria. Previous practices will not serve as a benchmark for future action unless there is a chance of measured improvement.
Dominating/aggressive
Relationships with suppliers will tend to be adversarial with the culture finding it difficult to make alliances and partnerships; preferring short-term wins over suppliers. Dominating cultures are unafraid of using power to achieve their aims which often involves unethical behaviour. Suppliers are often unable to speak out against some of these practices for fear of being delisted.

Exam Question Summary

There was a marked polarisation of the responses to this question with the majority of candidates correctly identifying the three cultures and assigning their relevant characteristics. Many of these answers were too long in relation to the marks available thus detracting from the time available for answers attempted elsewhere in the paper.

A minority of candidates misidentified the cultural types or gave inadequate or incorrect descriptions of them.

Q2 (a) Discuss the likely impact of the lean approach to GBL’s activities on purchasing and supply and its stakeholder relationships (15 marks)

Q2 (b) Discuss the likely effect of electronic reverses auctions and a company intranet on supplier relationships at GBL (10 marks)

Analysis of the Question

The aim of this question was to test the candidate’s understanding of the application of lean supply concepts to a service organisation and also to test the candidate’s knowledge of the effects of e-procurement techniques on buyer-supplier relationships.

Analysis of the Answer

Part (a): Lean production emphasises the ruthless reduction of waste by manufacturing customer-determined quality products to order in the minimum time so as to satisfy customer needs. The key features of lean production are; the specification of quality according to customer needs, the design of production systems that flow (pull rather than push), the elimination of the 7 wastes, the creation of a value steam and just-in-time supply. All these features are accompanied by continuous improvement.

Lean can be applied equally to administrative functions as in the case of GBL The approach is similar to that used in production except that, for a bank, the product is more intangible. A ‘product’ could be an insurance policy, a financial transaction or the creation of an investment opportunity. Both require the processing of information and collaborative working between differing functions towards the achievement of a specified outcome or event. Relationships both internally and externally are therefore of vital importance for the effective achievement of the end result for the customer.

Thus the answer should contain a description of the basic principles of lean supply, an explanation of the application of the lean approach to the context of the case and an explanation of the likely impact such a move might make on the relationships between both buyers and suppliers and other internal and external stakeholders.
Some discussion about the nature of the changes made – a move from a traditional purchasing approach to a more strategic approach requires a change in the attitudes both in the host organisation and the wider supply market – in effect a major cultural realignment. In practice, this would be extremely difficult to achieve.

**Part (b):** E-purchasing and e-procurement together cover the entire purchasing cycle in an attempt to automate or improve the process of purchasing activity. They fall neatly into any regime of lean supply as they are instrumental in eliminating waste. Their effect on relationships both internally and externally will depend on the appropriateness of their use as well as the provision of suitable hardware and software to enable that use.

A reverse auction may be entirely appropriate for use in an adversarial or arm’s-length relationship for the supply of a package of goods or items with a standardised specification but entirely inappropriate for a strategic alliance relationship.

The use of a company intranet containing a supplier’s stationery catalogue enables internal users to order items for their desktops (subject to some restrictions relating to cost and range) which enables the purchasing function to monitor users requirements without the time and trouble of raising purchase orders for each item supplied. The supplier is assured of continuing business if price and delivery targets are met while, for the buyer, transaction costs are substantially reduced.

**Exam Question Summary**

**Part (a):** There were a small number of excellent answers to this question that displayed a sound knowledge of lean supply and its application to a service organisation like GBL. Other responses inappropriately applied the manufacturing model of lean supply to the case, failed to contextualise the answer to the case at all or gave a superficial response based on Ohno’s seven/eight wastes in a brief paragraph which was insufficient to provide a pass mark for a 15 mark question.

**Part (b):** There was a marked difference in the answers given to this part of the question than the one above. The majority of responses explained reverse auctions and their likely effects on supplier relationships when used inappropriately. Most candidates were familiar with company intranets and their uses as both an internal and external communications tool which could enhance purchasing and supply relationships considerably.

**SECTION B**

**Q3 (a)** Explain the effect of the following aspects of CSR policy on supplier relationship development

(i) Human rights
(ii) Equal opportunities
(iii) Corporate governance
(iv) Sustainability

**Q3 (b)** Suggest THREE main arguments against implementing a CSR policy

(16 marks)

(9 marks)
Analysis of the Question

The aim of this question was to test the candidate’s knowledge of aspects of CSR policy and its impact on supply relationships.

Analysis of the Answer

Part (a):

(i) Human rights

The UN charter on human rights provides for protection of people against exploitation by employers particularly in respect of:

- Freedom of association
- Bonded and compulsory labour
- Child labour
- Employment discrimination

These provide a constraint on suppliers using any of the above to gain competitive advantage. They also constrain buying organisations from dealing with such companies at risk of damaging their reputation or brand image.

(ii) Equal opportunities

This includes equal pay for equal work (still not achieved since the Equal Pay Act 1970). Equality in selection methods in a competitive environment and the treatment of people in a way which is fair to all. Purchasing organisations should ensure that it has such policies for itself (and rigorously follows them) as well as encouraging their application to supply organisations.

(iii) Corporate governance

This area is high on the agenda of most organisations following the WorldCom and Enron scandals in the US and the very high profile failure in the banking and financial services industry in the US, UK and around the world. Much work was done during the 1990’s in the UK with the Greenbury Committee Report, the Turnbull Report to improve corporate governance in the UK while in the US the Sarbanes Oxley Act revolutionised accounting standards in the US. From a purchasing viewpoint it is incumbent on reporting risks that might occur if a supplier is in serious financial difficulties.

(iv) Sustainability

Emphasises the use of materials which are either reusable or which are derived from materials which can be recycled or regenerated frequently. Also using the minimum amount of material for a particular use; packaging for example. Thus timber production should be from sources that are continually replanted, fishing from stocks that are conserved to allow re-growth using methods that do not destroy habitat.

Part (b): The main argument against CSR policies is concerned with the role of business in the capitalist world. Business exists to produce profits on behalf of its owners, the shareholders. Any other activity is a mere distraction from that aim. This view is summarised by Milton Freidman in the phrase ‘The business of business is business’.

Other arguments could include: CSR is just cosmetic and companies only have such policies because it is good to be seen to do so.

Buying green means substandard products which will not be as durable or to such high quality standards as those from conventional materials.
Sourcing from companies engaged in human rights abuses is better than not directing business their way at all – many families in less well developed countries rely on their children an important source of income.

Exam Question Summary

Part (a): Although a highly popular question, few candidates gained high marks in part (a). Answers for human rights were generally strong as were those for equal opportunities though several answers for the latter took this to mean equal opportunities for suppliers to be given equality of treatment in tendering exercises – for which some credit was given. Corporate governance was very weakly answered by a great many candidates despite the prominence this has received in the financial press and elsewhere. Sustainability was probably the best answered with many candidates earning full marks.

Part (b): The majority of candidates earned a pass mark for this with most being able to make the philosophical arguments put forward by Freidman et al. The issue of cost was mentioned in almost all responses.

Q4 Describe each of the following and suggest how each may impact on purchasing and supply relationships
(i) Supplier appraisal (8 marks)
(ii) Relationship assessment (8 marks)
(iii) Vendor rating (9 marks)

Analysis of the Question

The aim of this question is to test the candidate’s knowledge of supplier appraisal, relationship assessment and vendor rating and their likely impact on supplier relationships.

Analysis of the Answer

Supplier appraisal is the pre-contract assessment of a potential suppliers’ capabilities in regard to quality, capacity, capability, cost and a range of other factors relevant to the client organisation. The aim of the appraisal is to predict the performance of the supplier and to identify and reduce risk in dealing with that supplier. The depth of supplier appraisal and the range of aspect covered will be dependent on the value of the proposed business and its strategic importance to the customer. The conduct of the appraisal forms the early part of any buyer-supplier relationship and is crucial to how it may develop. The depth and scope of the appraisal is an opportunity for the buyer to understand the supplier’s business and how it can interact with the buyer’s business to produce a synergistic effect. The professionalism of the buyer signals to the supplier organisation that the process and its costs to the supplier are a vital start to the relationship building which is yet to come as multiple contacts are forged between the two companies.

Relationship assessment is relatively undeveloped but candidates may refer to the purchaser-supplier satisfaction model. This attempts to map both the buyers and the supplier’s view of the relationship from multiple points in both organisations. The 2 x 2 matrix comprises axes for the buyers and the seller’s satisfaction measured on a scale from 0 to 10 in both directions. This 0 represents total dissatisfaction and 10 represents total satisfaction. Both supplier may thus be totally satisfied (an excellent relationship) or totally
dissatisfied meaning no relationship at all, or one which is doomed. In between, there are clearly a number of possibilities which can be used as a basis for the development of greater understanding between the parties in the same way that the Johari window model can be used to develop understanding through greater individual self awareness.

**Vendor rating** is the post-contract activity designed to measure the supplier’s performance. The aim is to provide an objective assessment using measures preferably agreed with the supplier either as part of the contract terms and conditions or as part of an ongoing exercise in performance improvement through the use of SLA’s or KPI’s. How vendor rating is conducted may act to improve and develop a potentially good relationship or to bring it to an end at an early stage. Developing the criteria against which the supplier is to be rated can provide a very good opportunity for relationship building as well as an objective way of measuring performance. Regular reviews of performance can also build on the relationship as well as providing opportunities for mutual learning and performance improvement on both sides.

**Exam Question Summary**

An extremely popular question attempted by the majority of candidates. Most answered all parts of the question well giving very welcome examples of each from personal experience to good effect. Some candidates mixed up supplier appraisal and vendor rating both descriptively and in relation to the definition which was quoted as being post-contract and pre-contract activity respectively rather than the reverse. Most candidates were aware of and used the Leenders and Fearon (1997) satisfaction model of relationship assessment while others used the Kraljic/supplier positioning model to greater or lesser effect in illustrating the desired relationship between buyer and supplier for which some credit was given.

Q5 (a) Draw and label the supplier preferencing model[repeat] (4 marks)
Q5 (b) Outline FOUR attributes of an attractive buying organisation as perceived by the seller (12 marks)
Q5 (c) Outline THREE attributes of an attractive supplier as perceived by a buying organisation (9 marks)

**Analysis of the Question**

The aim of the question was to test the candidate’s knowledge of the supplier preferencing and position models and their implications for supplier relationships

**Analysis of the Answer**

In part (a) a correctly labelled diagram was expected showing the attractiveness of the buying organisation in a range from low to high set against the amount of spend, also ranging from low to high. Superimposed a two by two matrix correctly matching the axes with Development, Core, Nuisance and Exploitable.

In part (b) the likely attributes of an attractive **customer organisation** as perceived by a seller may be considered as follows:
To constantly measure and seek improvement in the relationships enjoyed both upstream in the supply chain with suppliers and downstream with the customer.

One who provides a comprehensive specification for all their needs together with clear and unambiguous terms and conditions of purchase, including delivery contact details.

Value of spend. A high value of spend accompanied by a preference for a long term relationship reflected in equally long-term contracts.

A sound reputation. This may arise from a brand or corporate image, the values of which are ‘lived’ by all parts of the organisation. It can also refer to the prominence the organisation has in the market place and the reputation it has amongst its other customers for honesty, integrity and fair dealing.

An organisation that does not constantly change it corporate mind in its requirements unless there is a convincing need to do so.

Objective feedback on performance based on agreed measures taken at appropriate times and preferably, automated were possible

Honesty, integrity and fairness in business dealings

Attractiveness because it also provides opportunities for the supplier to develop its products or market coverage or provides opportunities for reciprocal trading.

In part (c) The likely attributes of an attractive selling organisation as perceived by the buyer may be considered as follows:

Invoicing: When an invoice is rendered by the supplying organisation it is correct in every detail and contains the buyers PO no and date.

Purchasing processes. These must be easy to understand, transparent and highly automated to reduce transaction costs and complement traditional communications between parties.

Environmental and ethical policy. While statements of intent towards the pursuit of ethical and environmental policies are commonplace, the attractive customer will rigorously put these into practice. This will ensure that the buyers as well as the customer’s reputation is safeguarded.

Capable of producing goods or services in the quantities and to the quality demanded by the customer to ensure zero defects. Probably ISO 9000 accreditation also.

The motivation to become responsive to the changing needs of the market and to participate actively in the identification of trends in manufacturing or process technology accompanied by a willingness to experiment and innovate.

To be able work with the customer in joint development programmes towards new product development and process improvements such as lean/agile supply and to involve other members of the supply chain in such initiatives in order to leverage maximum benefits.

To act, if necessary, as a first tier supply organisation and to co-ordinate second tier suppliers in quality, process and capability improvement.

Exam Question Summary

A very high percentage of candidate’s gained maximum marks for part (a) with a minority producing the wrong diagram, incorrectly labelling a diagram or providing a description instead of the diagram specifically asked for in the question. Most candidates had little trouble being able to outline four of the attributes of an attractive buying organisation in part (b) but a few wasted time by providing more than four.
Part (c) was also well answered with candidates also outlining three attributes of an attractive supplier. It was noted that, where difficulties did occur with answers, this question was the last to be attempted and some candidates may have run out of time. However, this was a very popular question.

Q6 (a) Explain ‘supply base tiering’ (5 marks)
Q6 (b) Outline FIVE benefits of supply base tiering (5 marks)
Q6 (c) Explain FIVE characteristics of a first tier supplier (5 marks)
Q6 (d) Explain how a company at the head of a tiered supply chain exercises control over the activities performed at the lower tiers (10 marks)

Analysis of the Question

The aim of this question is to test the candidate’s knowledge of the functions and relationships in tiered supply chains

Analysis of the Answer

Part (a): A tiered supply base is one where a hierarchy of suppliers is created by a prime manufacturer so that more effective control may be delegated and exercised over a large number of subsidiary suppliers. Generally to be found in the automotive industry where many thousands of individual parts are assemblies are manufactured and supplied to the OEM for final assembly and testing.

Part (b): The benefits of supply base tiering may be as follows:
The OEM has fewer commercial relationships to manage and therefore can spend more time on their management
The OEM may maintain a strategic focus rather than fight fires in the supply chain directly
The OEM can work with the first tier suppliers to improve the performance of the network as a whole
As decisions are delegated to the tiers the quality of decision making improves as they are closer to the problems and are better able to solve them effectively.
There is less administration as there will be fewer transactions with the OEM directly
The closeness and duration of tiered arrangements lends itself to longer term supplier development activity to improve the performance of the supply base as a whole

Part (c) Characteristics of a first tier supplier:
Direct supplier to the OEM
Usually a supplier of a high cost or complex sub-assembly
Usually a partnership of equals with the OEM
Responsible for dealing with a number of second tier suppliers
Will channel ideas for improvement from the network to the OEM
Disseminates standards and working practices to the network

Part (d): Ultimate control of the network is the responsibility of the head or OEM company and has the power to influence what happens lower in the tiered structure. This means that the first tier supplier may be forced to adopt a second tier supplier against the first
tier suppliers’ preferences. This applies further down the line with suppliers who will have little or no contact with the OEM. The top level purchaser will exert a huge influence over the choice of suppliers as well as the costs and prices along the supply chain, particularly in cases where there is open book costing. Suppliers may be pressured to pass on gains to the OEM rather than benefiting from them directly. Also the OEM or first tier supplier can dictate the systems and processes used throughout the supply structure. While this has the advantage of reducing transaction costs overall, it may increase the costs for particular suppliers as they are forced to re-engineer their systems.

Exam Question Summary

A reasonably popular question which was answered well by the majority of candidates who were able to give a strong explanation of tiering and its benefits, many providing automotive or other strong examples. The characteristics of a first tier supplier were also well explained by most. The final part of the question was not so well answered with only a minority of candidates explaining the exercise of control by the first tier supplier over those at lower tiers. First tier suppliers often have to act as a ‘gatekeeper’ to restrict access to the OEM as well as ensuring the performance of lower tier suppliers matches the expectations of the OEM.

APPENDIX:

Syllabus matrix indicating the learning objectives of the syllabus unit content that each question is testing
# MANAGING PURCHASING AND SUPPLY RELATIONSHIPS

## SYLLABUS MATRIX

### May-12

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