

**CIPS Level 4 – Diploma in Procurement and Supply**

# **Procurement and Supply in Practice [L4M8]**

**Sample Answer Guidance**

---

## (Q1) Data – Schools

The procurement of products and services by government funded schools represents a significant sum of money spent in an important area of the public sector. Staffing typically amounts to around 70% of school costs. The remainder consists of operating and maintenance expenditures, such as gas and electricity, catering, stationery, buildings maintenance, cleaning and insurance. These are purchased from external suppliers and account for a sizeable proportion of any school's budget. There is a growing focus on the importance of procurement activity within schools, as they have often failed to comply with government procedures for procurement.

A report entitled 'Review of Efficiency in the Schools System' published in 2013 found that too many schools continue to purchase products and services individually. They have failed to realise potential economies of scale which might have been achieved by collaborating with other schools by using a consortium or group buying approach. Where competition was sought, contracts were often awarded to suppliers purely on the basis of the lowest prices. This focus on price often created problems with the quality of product and service that were supplied. For example, in the case of catering, pupils could have been offered food with little nutritional value or a limited range of healthy options. By contrast, in other categories of procurement, such as in the supply of energy and insurance of personnel and buildings, very little competition was evident.

A survey of prices for routine items (such as stationery) showed how they varied hugely by supplier, depending on the supplier selected. The report also highlighted a sample of 23 schools, all based within a 15 mile radius of each other, with a combined spend on purchased goods and services of approximately £5m per year.

The following issues were identified:

- 1,828 different suppliers were used
- The annual spend with 1,524 of these suppliers was less than £500 each
- The schools in the sample were using the same suppliers, but on varying terms and conditions
- Schools were also paying different amounts for the same goods and services.

### Question One

Describe **FIVE** sequential stages of a typical tendering process that could be adopted by a new buying consortium for schools.

[25 marks]

LO: 1

AC: 1.1

## Planning your answer

### Command Words

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you to clearly:

---

“**Describe** FIVE sequential stages of a typical tendering process that could be adopted by a new buying consortium for schools.”

**The Command word in this question is Describe: to give a full account or detailed representation of something.**

It is important to note at this point that the assessor will give you marks for describing only **FIVE** sequential stages of a typical tendering process related to the stated scenario.

If you identify and then describe more than **FIVE** you will not gain any additional marks and will also have wasted valuable exam time.

To be absolutely clear any more than **FIVE** stages identified and described **will be left unmarked.**

If you identify and describe less than FIVE then you cannot accrue full marks even though you might describe three or four stages in perhaps too much breadth and depth.

Therefore, you need to time manage your planned answer to ensure that you identify and describe **FIVE sequential stages of a typical tendering process that could be adopted by the new buying consortium**, and no more in the time allocated.

**Note: This question has 25 marks and therefore 5 marks for each stage identified and described.**

## Answering the question

A good approach to answering this question would be to have a short introductory sentence or paragraph stating the purpose of the tendering process which is to invite potential suppliers to bid to supply a product or service with the objective of obtaining the best value for money for your organisation.

And then following on from the introduction perhaps have a short sub-heading

**“5 sequential stages of a typical tendering process that could be adopted by the new buying consortium are:”** Then number or bullet point each of the identified **FIVE** stages accompanied with a good description, account and representation of each.

This approach helps to ensure that you understand the question, recognise the command word and cover **FIVE** and no more identified stages of the tendering process.

**Relevant answers relating to the tendering stages could include a description of the following:**

- Evaluation of the suitability of tendering as a procurement methodology.
- Decision on whether to use open or selective tendering (where not already determined by regulation or company policy).
- Determination of a realistic timetable for the tender process, allowing reasonable time for responses at each stage.
- Preparation of detailed specifications and draft contract documents.
- Issue of invitations to tender, accompanied by specifications. In selective tendering, this would be by means of an invitation to bid or RFQ sent to short-listed suppliers. In open tendering, it would be by means of a public advertisement, with invitations to bid issued to suppliers who respond within the stated timeframe.

- 
- Submission of completed tenders or bids by potential supplier within the deadline specified.
  - Opening of tenders on the appointed date. Tenders received after this date should be returned unopened. The tenders received should be logged, with the main details for each listed on an analysis sheet for ease of comparison.
  - Analysis of each tender, according to the stated criteria, with a view to selecting the 'best offer'. This will usually be on a best value for money basis, but other criteria (such as environmental compliance or innovation) may be taken into account, as long as they have been clearly notified in the invitation to tender.
  - Award of the contract, and advertisement or notification of the award.
  - Post tender negotiation, to achieve improved terms, which is common in the private sector, but not in the public sector.
  - 'De-briefing' the giving of feedback, on request, to unsuccessful tenderers, to enable them to improve the competitiveness of future bids.
  - Contract Management of the successful tender bidders

**Other valid responses will be accepted.**

## **(Q2) GFATM**

The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) is an international organisation that aims to attract and distribute resources to prevent and treat HIV and AIDS, tuberculosis and malaria. The organisation has its headquarters in Geneva, Switzerland. It is financed by government grants and public donations. GFATM intends to develop its sourcing and procurement activities. It has recently carried out a review to explore how efficiency could be improved, to develop increased commercial expertise in its field staff, and therefore achieve greater transparency on costs and payments.

A new sourcing process was established to organise the structured purchase of mosquito nets, shifting the power from seller to buyer. The process focused on reducing the market dominance of individual manufacturers and mosquito net suppliers. There would be a strong focus by GFATM on local production and suppliers using this new approach. Long-term contracts resulting from the new sourcing process would improve visibility, production, capacity planning and pricing.

Another aim of the sourcing exercise was to generate overall value by ordering more nets of a standard size and simplifying manufacturing processes to cut costs. Previously the number of mosquito net specifications was very wide. Through standardisation and reduced prices, a third more nets could be bought within the same budget. By using large-scale purchasing power, the new process would provide better value for money, providing savings and the reduction of supply chain bottlenecks and shortages.

---

## Question Two

Explain FIVE ways in which supplier selection may add value in the sourcing process for organisations such as GFATM.

[25 marks]

LO: 2

AC: 2.1

## Planning your answer

### Command Words

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you too clearly:

**'Explain FIVE** ways in which supplier selection may add value in the sourcing process for organisations such as GFATM'

**The Command word in this question is Explain, 'Give reasons for, or account for something, so that it is clear or easy to understand.'**

It is important to note at this point that the assessor will give you marks for explaining only **FIVE** ways in which supplier selection may add value in the sourcing process.

If you identify and then explain more than **FIVE** you will not gain any additional marks and will also have wasted valuable exam time.

To be absolutely clear any more than **FIVE** identified and explained will be left unmarked.

If you identify and explain less than **FIVE** then you cannot accrue full marks even though you might explain three or four in perhaps too much breadth and depth.

Therefore, you need to time manage your planned answer to ensure that you identify and explain **FIVE ways in which supplier selection may add value in the sourcing process for organisations such as GFATM**, and no more in the time allocated.

**Note: This question has 25 marks and therefore 5 marks for each stage identified and explained.**

## Answering the question

A good approach to answering this question would be to have a short introductory sentence or paragraph stating that part of the sourcing process involves the identification and vetting of suppliers who can best supply the products and services that meet the specifications required to fulfil the business needs.

And then following on from the introduction perhaps have a short sub-heading.

**“5 ways in which supplier selection may add value in the sourcing process for organisations such as GFATM are:”** and then number or bullet point each of the identified FIVE ways, going on to providing reasons, or account for why they add value.

This approach helps to ensure that you understand the question, recognise the command word and cover **FIVE** and no more identified ways in which supplier selection may add value.

**Relevant suggestions relating to ways supplier selection may add value in the sourcing process for organisations such as GFATM can include but are not limited to the following:**

- Can reduce risk through-out the supply chain by ensuring only those suppliers capable of fulfilling the business requirement are selected.
- Can provide the opportunity to create strategic and collaborative relationships with suppliers supporting continuous improvement in key areas of the supply chain, helping to achieve competitive advantages for the business over the long-term.
- Can ensure that selection criteria meet the needs of the stakeholders and help to avoid a focus not only on price but on the best overall value for money recognising stakeholder and business needs.
- Can help to avoid engaging with suppliers who may be in the midst of current or potential future financial difficulties.
- Can help to ensure that only those suppliers who have a cultural fit to GFATM’s organisational goals and objectives including Corporate Social Responsibility are selected for over the long-term.
- Can help to avoid reputational damage to GFATM by ensuring and adopting ethical sourcing and supplier selection approach.
- Eliminate poor suppliers from the competition early on, saving supplier and buyer time. Enhance the even-handedness of the buyer and build more genuine competition between suppliers.
- Produce a higher quality of suppliers.
- Help to encourage innovation and creativity from suppliers.
- Will give better data on which to base feedback to unsuccessful suppliers.
- Give better evidence to use if needed to back up a challenge to the selection decision, be that through the Courts or through other channels.

**Other valid responses will be accepted.**

### **(Q3) Insta Foods**

Insta Foods purchased new machinery for a new packing line and used it for 3 years. During this period the machine required specialised repairs and part replacement in year two and three. Insta Foods now need to upgrade the packaging operation to fulfil its production schedule.

Insta Foods have prepared the following table of costs associated with the new machine. The table shows generic headings which cover a range of costs. Not all of the costs of the new machine are included but these are the main areas of costs that the organisation believes it must consider.

<b>Item</b>	<b>Description of Costs</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
1	Tender and contracting for new packing machine costs	\$40,000		
2	Purchase cost of machinery	\$20,000,000		
3	Installation and delivery cost of packing machine	\$170,000		
4	Annual raw material costs consumed by machine	\$7,500,000	\$8,000,000	\$8,200,000

5	Machines annual energy and fuel costs	\$250,000	\$280,000	\$290,000
6	Annual maintenance costs for packing machine	\$100,000	\$100,000	\$100,000
7	Residual value and disposal costs			\$500,000

### Question Three

Analyse **FIVE** of the seven costs shown in the table. Provide a categorisation for each of the **FIVE** costs selected and provide examples of actual detailed expenditure that would be in each of the chosen **FIVE** categories.

[25 marks]

LO: 3  
AC: 3.1

## Planning your answer

### Command Words

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question the assessor will want you to clearly:

**Analyse FIVE** of the seven costs shown in the table. Provide a categorisation for each of the **FIVE** costs selected and provide examples of actual detailed expenditure that would be in each of the chosen **FIVE** categories.

**The Command word in this question is Analyse, ‘Examine a topic together with thoughts and judgements about it by dividing the topic into its separate parts and looking at each part in detail’**

It is important to note at this point that the assessor will give you marks for analysing, categorising and providing examples of each for only **FIVE** of the selected costs.

If you analyse more than **FIVE** you will not gain any additional marks and will also have wasted valuable exam time.

To be absolutely clear any more than **FIVE** costs analysed and categorised with examples **will be left unmarked.**

If you analyse and categorise with examples any less than **FIVE** then you cannot accrue full marks.

Therefore, you need to time manage your planned answer to ensure that you **analyse, categorise and give examples of FIVE costs**, and no more in the time allocated.

**Note: This question has 25 marks and therefore 5 marks for each cost analysed and categorised with examples for each.**

---

## Answering the question

A good approach to answering this question would be to have a short introductory sentence or paragraph stating that the question is relating to whole life asset management and reflects categories of costs incurred over the whole life of the new machinery and not just the purchase price of the asset.

And then following on from the introduction perhaps have a short sub-heading

**“5 costs analysed identifying the categorisation of the costs along with appropriate examples:** and then number or bullet point each of the **FIVE** costs.

This approach helps to ensure that you understand the question, recognise the command word along with identifying the categories, along with providing examples of five of the costs in the table.

The following is suggested answer content rather than a model answer and typical responses to this nature of question, where candidates are required to demonstrate an understanding of whole life asset management, may include:

### **Item 1. Tender and Contracting for New Packing Machine Costs**

A high-value machine of this nature will need multiple stakeholder input to ensure the specification of the machine will meet current and future requirements. Procurement will need to assess the market to identify appropriate suppliers and work with several stakeholders to develop the documentation required for a successful tender. This will include not only the specification but also commercial and contractual documentation involving not only Operations but Finance and Legal. All of these incur a heavy use of internal resources and are costs to the business. Procurement may also need to meet or have virtual meetings with suppliers, perhaps local and internationally to help develop the spec and said documentation to support the tender. On an international basis, we have the complexity of language, contractual law and time differences and meetings may have to be out-with UK hours. All of this is resource-intensive.

These may be considered as Pre-Acquisition Costs, and clear examples above can include travel, perhaps local and global, hotels, taxis etc. Overtime costs for key personnel who are working out of hours and of course Legal resource is always expensive!

Others include:

- Preparation and issuing of invitation to tenders
- cost of tender evaluation

### **Item 2. Purchase Cost of the Machinery**

The purchase cost of the machinery will, of course, include the actual Purchase Price of the machine itself. There are lots of things to consider here regarding the cost of acquisition of the purchase. For example, if we buy internationally, we have to consider relevant exchange rates, not only at the time of purchase but at time of receipt as there can be serious swings that can affect the cost of the asset. We would also have to consider contractually what the agreed exchange rate would be.

As the purchase price is part of the Acquisition Costs of the asset. Other acquisition costs could also include.

- Delivery charges
- Insurance and taxes
- Training and support



---

### **Item 3. Installation and Delivery Cost of Packing Machine**

These are important and significant costs particularly if buying the asset overseas and given that the size of the new machinery may be both large and heavy. Sea-freight will likely be the most cost-effective delivery option and that will, of course, have an impact on overall lead-time. It could be that the overseas supplier has 'local' engineers in place perhaps even with a 3<sup>rd</sup> party but these costs need to be recognised as part of the asset purchase. A local supplier may be the best total cost option and would certainly need to be a consideration.

As with above, these costs are Acquisition costs and along with the installation there is likely to be the cost of additional training and support packages to operate and maintain the machine.

### **Item 4. Annual Raw Material Processed by Machine**

The packing line will have been purchased to package the food and probably capable of packing different types of foodstuffs, in different shapes and quantities to meet the needs of different customers. This is essentially the direct materials and will be considered here as part of the Operating Costs. Other examples of Operating costs could include consumables and labour.

### **Item 5. Machines Annual Energy and Fuel costs**

These costs are significant and could be due to perhaps operating in a 24x7 day environment as some foodstuffs packaged could well be seasonal. It could be a high use-age of electricity to power the machine along with oils for maintenance.

These as above are part of the Operating Costs, and of course, could have an environmental impact which may also incur costs either in prevention perhaps to minimise noise pollution or even disposal of spent oils.

### **Item 6. Annual Maintenance Costs for Packing Machine**

These costs are again significant and are likely to be incurred as part of site quality assurance and a planned maintenance schedule by qualified engineers with a view to 'sweating the asset' and have it employed in full use to gain maximum return on the asset in what is likely to be a 24/7 working environment.

These are categorised as Maintenance Costs, others can include the costs of specialist tooling and spare/replacement parts.

### **Item 7. Residual Value and Disposal Costs**

It looks like the residual value of the asset after year three isn't worth much given that the actual purchase price was \$20 million. The machine itself is likely to be depreciated over a four or five year period and one would expect a better residual value. This should, of course, have been taken into account by the business and Procurement at the very beginning of the procurement process.

Regarding disposal, we have to recognise that there is likely to be legal and environmental regulations dictating the safe disposal of the machine itself. The residual value and disposal costs are End of Life Costs. Other end of life costs could include decommissioning costs to ensure safe disposal or removal for sale/scrap.

### **Other relevant costs to consider can include:-**

Transaction costs, such as taxes, foreign exchange costs and the cost of forming a contract

Finance costs, such as interest charges and bank charges

Storage costs, such as warehousing, security, protection against theft, heat and light, internal

Quality costs, such as inspection, re-work, loss of sales revenue and any compensation paid to

---

Compute the present value to allow decisions to be made. The value of money spent in the future depends on the firm's capital costs

**Other valid responses will be accepted.**

#### **(Q4) Infinity Inc.**

Infinity Inc. is a global technology company and produces TV sets, cell phones, computers, and tablets. In just 12 years after being founded, Infinity has become one of the world's most valuable technology company and its products are in high demand across the globe.

In recent times the dynamics of consumer electronics manufacturing has changed, and the majority of manufacturers are now based in China. Infinity has adopted a similar approach and sources parts for all its products from multiple suppliers based in China and South-East Asia. Technica China holds the long-term contract for assembling all Infinity products and is responsible for liaising with other parts manufacturers.

It is widely accepted that the primary reason behind Infinity's high-profit margin is its supply chain which uses a 3-pronged approach to keep costs under control: reduce inventory, cut down on high warehouses costs and promote competition between the suppliers.

While the extent of Infinity's supplier base has enabled it to drive down costs, it has been constantly criticised for the conduct of its suppliers including very poor compliance with ethics guidelines.

The other concerns which have come to light include the HR manager of Technica, hiring staff through a company owned by his son-in-law.

Infinity is aware of the CIPS code of ethics and other organisations who encourage improved conditions and practices such as the ILO (International Labour Organisation) but have not yet addressed them.

#### **Question Four**

Explain **FIVE** areas which would be addressed by a code of ethics produced by organisations such as CIPS.

**[25 marks]**

LO: 4

AC: 4.1

### **Planning your answer**

#### **Command Words**

It is important in any constructive response question to understand the Command word used in the question as they tell you exactly what the assessor wants you to do. In this question, the assessor will want you too clearly:

**'Explain FIVE areas which would be addressed by a code of ethics produced by organisations such as CIPS.'**

**The Command word in this question is Explain, 'Give reasons for, or account for something, so that it is clear or easy to understand'**

---

It is important to note at this point that the assessor will give you marks for explaining only **FIVE** areas which would be addressed by a code of ethics.

If you identify and then explain more than **FIVE** you will not gain any additional marks and will also have wasted valuable exam time.

To be absolutely clear any more than five areas identified and explained will be left unmarked.

If you identify and explain less than **FIVE** areas then you cannot accrue full marks even though you might have explained three or four in perhaps too much breadth and depth.

Therefore, you need to time manage your planned answer to ensure that you identify and explain **FIVE** areas that would be addressed by a code of ethics, produced by organisations such as CIPS and no more in the time allocated.

**Note: This question has 25 marks and therefore 5 marks for each area identified and explained.**

## Answering the question

A good approach to answering this question would be to have a short introduction relating to established bodies that produce ethics codes and why they are important for companies such as Infinity Inc.

There are various national and international bodies such as CIPS/ILO/ETI/IFTA who publish ethics codes which set out the moral principles and values for steering the conduct of the business community including the procurement and supply chain professionals. Infinity can use the ethics guidance issued by these bodies to achieve effective ethical governance throughout the supply chain and its sourcing operations.

Establishing a company code provides a clear message internally and externally of a company's corporate values, what the company stands for and its commitment to high standards and ethical behaviours throughout the business and supply chains. They can support compliance with ethical business practices and help to mitigate risk against reputational and legislative damage to companies such as Infinity Inc.

And then following on from the introduction perhaps have a short sub-heading:

**"FIVE** areas which would be addressed by a code of ethics include: and then number or bullet point each of the identified areas, explaining each.

This approach helps to ensure that you understand the question, recognise the command word and explain five areas that would be addressed.

**The following is suggested answer content rather than a model answer and can include:**

**NB: Read the notes and information below on CIPS/ILO/ETI/IFTA**

Five areas addressed by these ethics codes include:

1. Corruption. This can be an abuse of power for personal gain. Within the case study, there is a Conflict of Interest where the HR Manager of Technica is hiring staff through a company owned by his son-in-law. The CIPS code clearly states that everyone must disclose personal interest that may impinge on their impartiality in decision making.

2. **Human Rights.** Infinity is sourcing mainly from China and South-East Asia. This region has a mixed record regarding Human Rights. Infinity should be looking to promote fair and reasonable human rights within their supply chains including fair pay, safe and hygienic working conditions and reasonable working hours.
3. **Modern Slavery.** We know that Modern Slavery is a global phenomenon and with extended global supply chains can be difficult to ascertain and manage from overseas. Modern slavery can manifest itself through the use of child and bonded/forced labour, by taking passports and personal documentation from the workers, holding back wages for prolonged periods and forcing excessive overtime working without payment or agreement by the workers.
4. **Environmental Factors.** Responsible and ethical sourcing promotes working with suppliers who want to have a positive effect on the environment or at the very least minimise the damage they cause. We're looking for suppliers to work with environmental standards such as ISO14001 or equivalent and working to avoid pollution and encourage recycling, renewable and sustainable processes.
5. **Equality.** This is about the assurance that everyone is treated equally and that workers performing the sale role receive the same working conditions and training opportunities as everyone else.

All of the above and other areas that can be addressed such as Diversity, Company Values and Sustainability can be found in the codes and guidance of the various international bodies championing ethical behaviours and practices such as the ILO/ETI/IFTA and CIPS.

Infinity can improve compliance by regularly auditing supplier sites, ensuring that employees and suppliers agree to the code of conduct on annual basis and all serious breaches could be appropriately penalised through termination of contracts, financial penalties etc.

#### **Ethics Codes Notes and Additional Information and that can help support your answers:**

**CIPS Code:** The CIPS Code is the ethical standard and disciplinary framework for procurement professionals and emphasises the principle that the members should not use the position of authority for personal gain. The members also have a responsibility to enhance and protect the dignity and reputation of the profession and the Institute by their conduct both inside and outside of their employing organisations. The CIPS code also guides members on the following:

- Must disclose any personal interest which might impinge on their impartiality in decision making;
- Must respect the confidentiality of information received and not use it for personal gains;
- Must promote fair competition;
- Except for a small value, not accept gifts from business associates;
- Not accept any hospitality from suppliers which might influence a business decision or appear to do so.

**International Labour Organizations:** The ILO is the UN's specialised agency promoting human, civil and labour rights. It develops conventions, codes of conduct, resolutions, and declarations on the contribution of multinational enterprises to economic and social progress and how to minimise problems arising from these actions. The ILO principles focus on:

- Decent work for all
- Employment creation
- Fair globalisation

- Rights at work
- Social dialogue
- Social protection
- Working out of poverty

ILO's Multinational Enterprise and Social Policy (MNE Declaration) makes recommendations:

- Sustainable development and compliance policies
- Equal opportunity, employment standards and security and fair treatment
- Skills development and training
- Equitable remuneration, benefits and conditions, minimum employment age and Health and Safety
- Industrial relations including fair grievance and dispute procedures

Ethical Trading Initiative (ETI): ETI is an alliance of companies, NGOs and trade unions who work together to identify and promote internationally agreed principles of ethical trade and employment as standards for ethical sourcing. The ETI publishes a code of labour practice which guides the fundamental principles of ethical labour practices including the following:

- Working conditions are safe and hygienic
- Child labour shall not be used
- Working hours are not excessive
- No harsh or inhumane treatment is allowed
- No discrimination is practised

International Fair-Trade Association (IFTA). The IFTA proposed supports and advocates similar standards for the following:

- Transparency and accountability in dealing with trading partners
- Safe and healthy working conditions
- Fair payment
- Gender equality and children's rights
- Better environmental practices and the application of responsible methods of production

Answers may identify the ethical issues and the codes whose guidance can be used to achieve effective ethical governance:

- Poor working conditions: ETI, IFTA
- Hiring underage staff: ETI, IFTA
- Poor working conditions: ILO, ETI, IFTA
- Long working hours: ILO, ETI
- Employee welfare: ILO, ETI, IFTA
- Bribes: CIPS
- Lack of transparency and accountability: CIPS, ILO, ETI, IFTA

**Other valid responses will be accepted.**