

CIPS Level 4 – Diploma in Procurement and Supply

Scope and influence of procurement and supply [L4M1]

Sample Answer Guidance

(Q1) INFONT Logistics International Ltd

INFONT is a reputable logistics company with headquarters at its multimillion dollar Distribution Centre located just ten miles from the country's main sea port. The port handles all bulk imports and exports of its clients. INFONT also owns two warehouses within the country and has contracted an agent in each of the other five countries in the region. The services INFONT provides to its clients include warehousing, packaging and transportation of their finished products or production materials. It owns and operates transport vehicles, folk lift trucks and other material handling equipment (MHE). INFONT uses 10% of its warehouse space for its maintenance, repair and operational (MRO) requirements such as oils and tyres for the vehicles; pallets and plastic sheets for repacking split deliveries to clients; etc. In order to maintain the high level of service to its clients, a substantial part of the operating expenditure budget is allocated to staff and consultancy expenses. In addition, significant capital expenditure is also spent on a range of storage and handling equipment, vehicles and IT infrastructure. INFONT's agents are contractually required to maintain the same level of space for their MRO requirements.

Some well-known retailers and manufacturers are loyal clients and they rely on INFONT's high quality logistics services for their own successful competition in the market. INFONT's business had been stable and growing prior to year 1.

Extracts from the Financial Statements and Budgets: INFONT Logistics International Ltd

	Year 1 \$000	Year 2 \$000	Next Year (Plan) \$000
Turnover	33400	32800	30000
Gross Profit	9350	9840	9000
Operating Expenditure	4010	4920	6500
Capital Expenditure	1110	2060	9850

However, due to concerns over deteriorating agency service levels, INFONT has decided that next year it will not renew the contract with its agent in the neighbouring country. Instead it will purchase and directly operate its own warehouse in that country. This is a major decision that will require a complex analysis of INFONT's budget which involves many categories of spend to be considered in acquiring and operating the new warehousing facility.

Question One

Describe **FIVE** distinctive features of capital procurements, using examples from INFONT scenario.

[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:

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.

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** distinctive features of capital procurements using examples from the stated scenario.

If you identify and then describe more than **FIVE** following on from your introduction you will not gain any additional marks and will also have wasted valuable time, only the first FIVE will be marked.

To be absolutely clear any more than **FIVE** distinctive features of capital procurements identified and described *using examples from the scenario* **will be left unmarked.**

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

Therefore, you need to time manage your planned answer to ensure you identify and describe **FIVE distinctive features of capital procurements**, using examples from the INFONT scenario and no more in the time allocated.

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

Answering the question

A good approach to answering this question would be to have a short introductory paragraph providing a brief description and/or definition/overview of Capital Procurements in general.

Following on from the introduction perhaps have a short sub-heading '5 Distinctive Features of Capital Procurements from the INFONT scenario' and then bullet point each of the identified FIVE features with a good description, account and representation for each. This approach helps to ensure that you understand the question, recognise the command word and cover FIVE and no more identified features from the scenario.

Relevant answers from the INFONT scenario could include but are not limited to the following content:

Introduction to Capital Procurements/Purchases

Capital purchases relate to the assets of an organisation and are usually purchased to help a business develop and grow and to keep up with market and competitive trends. They are often referred to as "the spending of money with a view to making money". They are also usually one off purchases such as land, property, equipment and machinery. They differ from Operational expenditure which is incurred by the business to ensure the efficient and effective day to day running of the business and which include the likes of rent, raw materials, and salaries, insurance and so forth.

Distinctive features of capital procurements, using examples from INFONT scenario may include.

(Remember to explain Five!)

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- Price is only one element, and sometimes not the most important one. If for instance INFONT plans to acquire a specialised material handling equipment (MHE) for the new warehouse, then the main consideration will be the total cost of ownership (TCO)/whole life cost which include other costs like installation, maintenance, operating cost, down time, and disposal.
 - The monetary value of assets such as INFONT's new distribution centre will be very high. Its procurement process will generally require specialised investment techniques, evaluation and control, asset maintenance, etc. It also involves procurement and financing considerations such as purchase, lease, hire, acquisition, joint-venture, etc.
 - Negotiations can be complex and extended due to the complexity of the 'package' of benefits being sought over the asset's lifecycle.
 - A team approach is needed in which contributions of other departments and other stakeholders, must be effectively coordinated and managed, usually by procurement. Given the very high level of investments required these stakeholders will not only include the user groups but finance and legal departments.
 - Capital procurements tend to be unique or non-recurring, without similar recent purchases on which to base the present procurement decisions. Each new acquisition must be evaluated afresh.
 - Specifications are difficult to draft due to their uniqueness and technical complexity, which usually involve elements of service such as research, installation, training, after-sales service, etc.
 - Benefits to be obtained from the procurement are often difficult to evaluate and quantify in monetary terms. Investment evaluation techniques will usually need to be utilised in evaluating the long term costs and benefits of capital procurements.

Other Distinctive Features can include:

- The capital assets that INFONT are procuring such as the warehouse, storage & handling equipment, vehicles and the additional IT infrastructure required will be used to support the business and business growth over a long period of time and these acquisitions will be accounted for and depreciated over a number of years, plant and equipment usually over four or five years but the IT infrastructure and buildings can be much longer.
- The Capital Expenditure in year one is \$1,110 million, in year two \$2,060 million and is planned to be \$9,850 million in the next year. This is a huge increase and unlikely to be fully funded from annual profits or even financial reserves and INFONT may need to fund the investment from other sources which may include bank loans, involving both cost and risk over time.
- Given the complexity and lengthy timescale of different capital purchases, formal contracts for each of the different capital spends will need to be developed. For example IT infrastructure will need Service Level Agreements that include 'uptime' guarantees, risk mitigation and recognise any relevant GDPR legislation, such as the UK Data Protection Act 2018. Purchasing a warehouse will take a significant amount of time, effort and resource by a number of stakeholders to include not only Finance but specialised and knowledgeable legal support.

- Trucks, material handling equipment may require spares agreements to ensure that they too are available and can operate 7x24 over the agreed periods.
- This very high level of capital spend planned in the one year is business critical to INFONT as most of the costs will be irreversible once set in motion and the investments will need to generate sustainable profits over the longer term recognising the current levels of profit being generated both currently and forecasted. (see table)
- For INFONT the capital expenditure also creates a level of uncertainty recognising that costs incurred are to create future benefits (as we know the future can be impossible to predict). There is no certainty that the levels of investment will yield the planned benefits as the dynamics of both business and the wider political and economic environment can change very quickly. For example the financial crisis of 2007/8, Brexit and the USA/China trade wars.

(Q2)

Question Two

- a) Identify the main stages of a sourcing process (also known as the purchasing or procurement cycle).

[9 marks]

LO: 2
AC: 2.1

Planning your answer

This is a two-part question and as such you should review the number of marks available for each section and manage your time accordingly.

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:

'Identify the main stages of a sourcing process (also known as the purchasing or procurement cycle).'

The Command word in this question is **Identify**; essentially you need to name the main stages, accompanied with a very brief description, separately in number order or by using bullet points. In essence, you need to identify the generally accepted 9 stages, gaining one point for each stage identified.

Answering the question

Answers regarding the main stages of the sourcing process can include:

- Identify the need – user groups, customers, requisitions or Bill of Materials
- Define the need – developing specifications

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- Make v Buy assessment
 - Develop Strategy – which type of suppliers, local national or global? Evaluate competitive landscape etc.
 - Develop Documentation e.g. PPQ, spec, contract terms
 - Source the market – identify potential suppliers
 - Appraise suppliers
 - Supplier selection
 - Invite quotations or tenders
 - Bid/Tender evaluation
 - Negotiation and contract award
 - Contract/supplier management and development
 - Asset Management/End of Life Management & Lessons learned

Please refer to the Procurement and Supply Cycle which can be found on CIPS web-site [here](#).

NB: To gain the full nine points you need to identify nine stages. Identifying more than nine stages will **not** accrue any more marks and will be a waste of valuable exam time.

- b) Describe **FOUR** benefits of using electronic systems in the sourcing process.

[16 marks]

LO: 2

AC: 2.3

Planning your answer

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 **FOUR** benefits of using electronic systems in the sourcing process.'

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 **FOUR** benefits of using electronic systems in the sourcing process.

If you identify and then describe more than **FOUR** following on from your introduction you will not gain any additional marks and will also have wasted valuable exam time.

To be absolutely clear any more than **FOUR** benefits described will be left unmarked.

If you describe less than **FOUR** then you cannot accrue full marks even though you might describe two or three benefits in perhaps too much breadth and depth. Therefore, you need to time manage your planned answer to ensure you identify and describe **FOUR** benefits and no more in the time allocated.

NB: This part question has 16 marks allocated that equates to **FOUR** points for each benefit described.

Answering the question

A good approach to answering this question would be to have a short introductory paragraph stating that many of the procurement cycle stages now take place electronically even though the theory behind the processes remain the same.

Following on from the introduction it may then be useful to have a short sub-heading “4 benefits of using electronic systems in the sourcing process “ and then bullet point each of the identified FOUR benefits individually with a good description, account and representation for each of them. This approach helps to ensure that you understand the question, recognise the command word and cover FOUR identified benefits.

Benefits can include but are not limited to the following:

- Cost saving: There is a significant and potential cost saving in the use of electronic systems which streamline and speed up processes, minimise inefficient (and potentially inaccurate) manual data and reduce the number of document handling tasks such as data input and transfer.
- Communication: Improved communication and transparency of information throughout the internal and external supply chain to support co-ordination and decision making.
- Accuracy: Higher accuracy of data input, manipulation and transfer. Greater data accuracy can support decision making and well as minimise the risks of errors.
- Responsiveness: Reduced cycle and lead times as electronic systems are generally more responsive. For example, suppliers may benefit from reduced cycle times for the payment of their invoices.
- Supplier relations: Improved supplier relations and the potential for virtual collaboration and SM.
- Real Time Information: Inventory levels or delivery progress to support planning, decision making and expediting.
- Fraud Risk: Reduced risk of fraud through fewer cash transactions, less human intervention in transactions, controlled access to data systems and the automatic identification of incorrect data.
- Fraud Risk: Reduced risk of fraud through fewer cash transactions, less human intervention in transactions, controlled access to data systems and the automatic identification of incorrect data.
- Traceability: It is much easier to track and trace documentation, who it was sent to, who replied, who authorized what and when etc. all within digital recording processes.
- International and global sourcing in real time. Electronic systems provide you with the ability to communicate and source 24x7 on not only a local but global basis.
- Provenance. Transparency throughout the supply chain using Blockchain technology.

Other valid answers will be accepted.

(Q3)

Question Three

Explain **FIVE** reasons why it is important to maintain effective governance standards within the procurement function.

[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 this is what the assessor wants you to do. In this question the assessor will want you too clearly:

‘**Explain FIVE** reasons why it is important to maintain effective governance standards within the procurement function’

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** reasons if you identify and then explain more than **FIVE** reasons following on from your introduction you will not gain any additional marks and will also have wasted valuable time.

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

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

Therefore, you need to time manage your planned answer to ensure good explanations **of FIVE reasons**, and no more in the time allocated.

Note: This question has 25 marks and therefore 5 marks for each reason explained.

Answering the question

A good approach to answering this question would be to have a short introductory paragraph providing an explanation, definition or brief overview of corporate governance along the lines of “The mechanisms, procedures, and processes that are used to direct and control an organisation and the actions of stakeholders.”

Following on from the introduction perhaps have a short sub-heading **5 Reasons why it is important** (to maintain effective governance standards within the procurement function) and then bullet point/number each of the identified FIVE reasons with a good explanation for each.

This approach helps to ensure that you understand the question, recognise the command word and cover FIVE and no more identified reasons.

Relevant answers could include but are not limited to the following content:

- The Procurement function is the custodian of large sums of money and within the private sector for which profitability is a key objective. Effective ethical procurement, supply chain management governance policies and procedures contribute significantly toward this.
- If relating to the Public Sector, Procurement professionals have a huge responsibility to the public they serve and to ensure that value for money is accrued and monies are spent in an effective, ethical, sustainable and transparent manner.

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- In Third Sector (Not-for-Profit) organizations, which are primarily funded by donations and grants. These entities also have governance throughout their organisation to protect their reputation and to meet the needs of their many stakeholders. Procurement professionals have a huge responsibility within this type of organisation, often working in poor regions where bribery, corruption, and unethical behaviours can often be a higher risk.
 - Procurement professionals are faced by many opportunities to commit financial fraud or to misuse systems or information for personal gain
 - The decisions of procurement professionals typically benefit some suppliers over others, creating an incentive for suppliers to try and influence those decisions. Meanwhile, it can be difficult to determine wholly objective criteria for deciding between rival suppliers, allowing bias or unfairness to enter the process.
 - Procurement professionals are in a position of trust within a business, with control over potentially strategic decisions and expenditures which could impact on the interests of the organisation and its shareholders. There is a 'duty of care' to protect those interests, which may be jeopardised by unethical conduct.
 - Procurement professionals are in a 'stewardship' role, responsible for the custodianship of finance and assets which are owned by other people. Unethical conduct may represent the theft, loss or damage of assets belonging to the shareholders (or other funders/owners) of the business.
 - The standing, credibility, and trust of the profession (and the employing organisation) may be damaged by fraud and other forms of unethical conduct – and enhanced by ethical conduct. Ethical standards are an important element in managing reputational risk.
 - Supply chain relationships may be damaged by unethical conduct, to the detriment of the buying organisation – and enhanced by ethical conduct. Ethical procurement practices are an important element in buyers maintaining 'good customer' status with suppliers, and supplier commitment and loyalty

Other valid reasons:

- To ensure individuals do not take advantage of the organisation in any unfair or corrupt way that could result in a personal or professional gain.
- To ensure that there are no conflicts of interest where a person can influence decisions in favour of their own personal gain. E.g. awarding business to a family member.
- To ensure ethical and sustainable behaviours in procurement and the wider supply chain e.g. prevention of child labour, slavery, bribery, corruption, to ensure Fair Trade and to protect the environment.
- To ensure compliance with relevant laws and regulations.

Other valid responses will be accepted.

(Q4) Milkshake Press

The executive board at Milkshake Press set its new three-year business strategy to “increase profitability by improving effectiveness and efficiency across all business areas”. To help achieve this, a new head of procurement, Martina Schweer was appointed to ensure that procurement activities were aligned to the new strategy. Martina arranged a meeting with the procurement team to start discussions about the strategy but was surprised to learn that the team had not previously considered overall profitability beyond negotiating the lowest price with suppliers.

Milkshake Press is a brand of milkshake mix sold in cafes and retail outlets in the United Kingdom and China. With offices in China and the UK, Milkshake Press directly employs 250 staff and has a procurement team of eight, three of whom are based in China.

As part of the strategy, Milkshake Press has developed a business plan which focussed on innovation. The most popular flavours were chocolate, banana, and strawberry. The brand has successfully increased its market share by 5%, by introducing new flavours like lime and cherry. They also undertook a successful re-branding exercise which increased their market share in China by 15%.

Question Four

Discuss **FIVE** ways in which the objective of profitability at Milkshake Press, might impact on its procurement activities.

[25 marks]

LO: 4

AC: 4.3

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:

'Discuss FIVE ways in which the objective of profitability at Milkshake Press, might impact on its procurement activities'

The Command word in this question is Discuss: to 'Consider something by writing about it from different points of view. Compare with, Argue or evaluate'

It is important to note at this point that the assessor will give you marks for discussing only **FIVE** ways in which the objective of profitability might impact on Milkshake Press' procurement activities.

If you identify and then discuss more than **FIVE** following on from your introduction you will not gain any additional marks and will also have wasted valuable time.

To be absolutely clear any more than **FIVE** ways identified and discussed from the Milkshake Express scenario **will be left unmarked.**

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

Therefore, you need to time manage your planned answer to ensure you identify and discuss **FIVE ways, relating to the Milkshake Press scenario** and no more in the time allocated.

Note: This question has 25 marks and therefore 5 marks for each of the ways identified and discussed that might impact on Milkshake Express' procurement activities.

Answering the question

A good approach to answering this question would be to have a short introductory paragraph explaining the importance of profitability and a short definition along the lines of “In the private sector, profitability is often a key objective. It is the difference between revenue earned by selling a product or service, and the cost to produce it. Procurement activities directly impact this equation”

Following on from this short introduction perhaps have a short sub-heading **‘5 Ways in which the objective of profitability at Milkshake Press, might impact on its procurement activities’** and then number or bullet point each of the identified FIVE ways providing a short discussion on each.

This approach helps to ensure that you understand the question, recognise the command word and cover **FIVE** and no more identified features from the scenario.

Relevant answers from the Milkshake Press scenario could include but not limited to the following:

Ways in which the objective of profitability at Milkshake Press, might impact on its procurement activities

- A pressure to focus on the reduction in expenditure: this makes a direct contribution to profit. It is often said that a 1% reduction in expenditure will increase profit by 5%. Thus, if buyers can reduce the amount they spend they will contribute directly to profit. This can lead procurement to a short-term approach targeting lowest cost, which contributes to profit in the short term but in the longer term may add costs if a lower quality results in increased waste, scrap and reworking.
- Procurement priorities will become those spends where there is more potential to deliver monetary savings which hit the bottom line and sourcing projects that can deliver savings quickly.
- This could also lead to procurement taking a more adversarial approach to negotiating to maximise the “win” for the buying organisation and lead to consideration of transactional supplier relationships and one-off purchases
- Procurement risk losing profitability in the longer term through poor/no supplier relationships.
- Alternatively, procurement might increase time and resources spend on analysing and developing longer strategies to deliver profit through value-added activities Value Analysis (VA) or Value Engineering (VE), supplier relationship management etc.
- Design specifications: VA and VE are cost-cutting initiatives that reduce costs without reducing quality. Buyers should contribute to these processes and involve relevant suppliers to add value
- Waste reduction and value-adding: This has required purchasing to move from a reactive activity (placing orders) to pro-actively develop new skills to eliminate costs at source.
- A broader view of the traditional buying role: this has resulted in such activities as increasing participation in the development of requirements and specifications; managing VA activities; conducting supply market research and managing supplier negotiations.
- Supply Chain Management (SCM) concepts. Adopting SCM concepts has resulted, in many instances, in a move away from an adversarial approach to the supply market to one of working in a more collaborative/partnership manner.
- Pay more, save more. The role of purchasing not only in specification formulation but also in supplier appraisal, supplier selection, and supplier management ensures quality objectives are achieved and costs through poor quality and/or non-availability of parts or materials are eliminated or significantly reduced. This might mean that a higher price is paid but overall value-adding contributes to profitability.

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- Relations with other departments: all functions are integrated and this has led to initiatives such as early buyer / early supplier involvement to assist in lowering costs at the early stages of design. Cross- and multi-functional team working is often used to ensure a balanced outcome.
 - Conversely, procurement may experience conflict with internal stakeholders when the drive for cost reduction might not support, for example, a marketing requirement for a higher quality component or an over-specified item. Some functions might want to reinvest savings.
 - Conflict with other objectives – if implementing other service improvements or CSR policies will cost the organisation money the procurement will either avoid these or spend time assessing the justification and are likely to have to quantify any benefit before approval to implement.

Others can include:

- Reviewing sourcing strategies such as local v. global to support to perhaps consolidate and aggregate spend with key suppliers or reduce transportation costs, use returnable/re-useable packaging strategies
- Review and analyse the total value chain for each category or high-value raw materials to reduce cost and waste.
- Work with key suppliers to introduce new and innovative flavours increasing market share.

Other valid answers will be accepted.