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L4M1 Exam

Scope and Influence of Procurement and Supply

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VERSION

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Questions
& Answers

Version: 4.0

Question: 1

What is 'supply chain management'? Outline the drivers, advantages and disadvantages of using this approach within the Procurement Department of an organisation (25 points)

Answer: See the solution in Explanation part below.

Explanation:

How to approach the question

- There are 4 main components to this question that you will have to answer, so my advice is to first write down subheadings for your essay so you don't miss any out: definition of supply chain management, drivers, advantages and disadvantages
- The question also brings up 2 concepts – supply chain management and tiered supply chains, it would be good to include a definition of both of these.
- Because of the number of things you'll have to write, you don't need to go into lots of detail – one paragraph per section will be enough.

Proposed Essay Structure

Intro – what is supply chain management and what is a tiered supply chain

P1 – drivers

P2 – advantages

P3 – disadvantages

Conclusion – supply chains are complex due to globalisation

Essay Ideas:

- Definition of supply chain management = Making something available in response to a buyer's requirements. The transformation of goods from raw material into an end product (input > conversion > output)
- Drivers = Cost, Time/ Speed, Reliability, Responsiveness, Transparency, Globalisation
- Advantages = reduced costs by elimination of waste, improved responsiveness to customer requirements, joint-ventures with supply partners leading to innovations, tech sharing, improved communication leads to faster lead times for product development
- Disadvantages = needs considerable investment and internal support, closer relationships may be risky (IP, loss of control), issues in fairly distributing gains and risks
(you don't need to talk about all of these- pick 1 or 2 you feel you know the best and focus on that)

Example Essay

Supply Chain Management (SCM) is the arrangement of processes involved in the production and distribution of goods / services - from the origin to the end consumer. In simple terms, it's taking a raw product and transforming it into an end product that a consumer would purchase. For example taking a potato from a farmer, giving it to a manufacturer to make into chips and sending these to retailers to be sold. SCM relies on close relationships between the parties in the supply chain and adds value to the product at every stage. A Tiered Supply Chain is a specific configuration within SCM that involves multiple levels of suppliers and sub-suppliers. A buyer will work with a small amount of Tier 1 suppliers who will in turn work with their own suppliers. In a tiered system there can be many, many layers of suppliers who all ultimately work towards creating the same product. This essay aims to delve into the drivers, advantages, and disadvantages associated with implementing a complex supply chain, such as the Tiered Supply Chain model.

The main drivers of using a tiered supply chain are often rooted in the pursuit of efficiency, cost-effectiveness, and flexibility. By consolidating suppliers into distinct tiers, organizations can streamline their management processes, reduce complexity, and enhance overall supply chain performance. Additionally, tiered supply chains are often employed in response to the global nature of modern business, accommodating the need to source materials and components from various regions while maintaining a manageable and responsive supply network.

One of the advantages of a Tiered Supply Chain is the streamlined management of suppliers. In this model, there are fewer direct suppliers to oversee, simplifying the coordination and communication processes. This can lead to increased efficiency and responsiveness as organizations deal with a smaller, more manageable pool of suppliers. The consolidation of suppliers in a tiered system may also result in potential cost savings and improved collaboration with a select group of trusted partners.

However, the complexity of a Tiered Supply Chain brings disadvantages. One significant drawback is reduced visibility. As the supply chain extends across multiple tiers, organizations may struggle to have a comprehensive view of the entire process. This lack of visibility can lead to challenges in tracking and responding to potential disruptions. Moreover, ethical risks emerge when companies have limited oversight over lower-tier suppliers, potentially exposing organizations to issues such as labour exploitation, environmental concerns, or violations of ethical standards.

In conclusion, supply chain management has evolved into a complex discipline due to the forces of globalization and consumer demands for speed and quality. The Tiered Supply Chain model, driven by these factors, presents both advantages and disadvantages. While managing fewer suppliers can enhance efficiency, the trade-off includes diminished visibility and increased ethical risks.

Organizations must carefully evaluate the specific needs of their operations and weigh the benefits against the challenges when deciding whether to adopt a Tiered Supply Chain. In this intricate landscape, the ability to balance complexity and efficiency becomes paramount for sustained success in the global marketplace.

Tutor Notes

- Definition of supply chain management is from p.5
- Drivers, advantages and disadvantages p.9
- This topic used to be much more in depth in the old syllabus and has been drastically simplified in the new study guide. The guide is actually quite light on this topic stating simply that "globalisation and localisation are both drivers of using supply chain tiering". If you don't work in manufacturing, or an industry that uses supply chain tiering, this concept may be a bit alien to you and I'd recommend doing a little extra research. The best example of supply chain tiering is in car manufacturing- and

that would be a good example to use in an essay. Some additional links for research:

- Supplier Tiers: What's The Difference Between Tier 1, Tier 2, and Tier 3 | PLANERGY Software
- Sustainable Sourcing - Definition, Examples, Benefits & Best Practices (brightest.io)
- <https://youtu.be/fs1rDgBQy1M>

Question: 2

Describe the main differences between a traditional procurement approach and supply chain management approach to buying (25 points)

Answer: See the solution in Explanation part below.

Explanation:

- The question is asking you to explain the following:

- With this type of question you would be expected to discuss 3- 5 differences, giving examples.

Example Essay Structure

Introduction – explain what is meant by ‘procurement’ and ‘SCM’ – procurement is the traditional way and is to do with purchasing goods, SCM is the new way which is a more multifaceted way of securing goods and is the result of longer, more complex and more globalised supply chains.

Paragraph 1 – the objectives of each approach (5 Rights vs added value)

Paragraph 2 – the approach (reactive buying vs proactive ordering)

Paragraph 3 - the way of working (silo working vs cross-functional working)

Paragraph 4 – the relationships with suppliers (transactional vs collaborative)

Conclusion – There are many differences between the two approaches, and different companies may favour one over the other depending on their specific circumstances. E.g. small organisations that make low value and low risk purchases may take a traditional procurement approach and large multi-national organisations may require a SRM approach due to the volume of suppliers and complexities of the supply chains.

Example essay:

Procurement and Supply Chain Management (SCM) represent two distinct approaches to acquiring goods, reflecting the evolution of purchasing practices. Procurement, the traditional method, involves the straightforward purchase of goods. In contrast, SCM is a more intricate approach, born out of longer, more complex, and globalized supply chains. This essay explores the main differences between these two approaches, highlighting their objectives, methods, ways of working, and supplier relationships.

In the traditional procurement approach, the focus is on achieving the "5 Rights" – getting the right goods, in the right quantity, at the right quality, for the right price, and at the right time. This ensures efficiency in the purchasing process. On the other hand, SCM goes beyond these basic objectives, aiming to add value to the entire supply chain. This might involve developing strategic relationships with suppliers, ensuring sustainability, and aligning with broader organizational goals. For example, a company employing a traditional procurement approach might emphasize getting the lowest price, while an SCM approach could involve working with suppliers to enhance product in-

novation or reduce environmental impact.

Secondly, the traditional procurement approach is often reactive, responding to immediate needs or demands. Companies using this method typically make purchases as required, without a long-term strategy. In contrast, SCM involves proactive ordering, anticipating future needs and trends. For instance, a company employing SCM might engage in demand forecasting, allowing for better planning and inventory management. This proactive approach helps prevent stockouts, reduce costs, and enhance overall supply chain efficiency.

Moreover, traditional procurement often involves silo working, where different departments operate independently. The procurement team may not collaborate closely with other departments like production or marketing. In SCM, there's an emphasis on cross-functional working, breaking down departmental barriers for a more integrated approach. For example, an SCM team might work closely with production to ensure materials are aligned with manufacturing schedules, fostering efficiency and minimizing disruptions.

Lastly, in traditional procurement, the relationship with suppliers is transactional – focused solely on the exchange of goods for money. Conversely, SCM promotes collaborative relationships, emphasizing long-term partnerships. A company using SCM might work closely with suppliers to improve processes, share information, and jointly address challenges. For instance, an SCM approach might involve collaborating with suppliers to implement just-in-time inventory systems, leading to cost savings and improved responsiveness.

In conclusion, the differences between traditional procurement and SCM are substantial and nuanced. While a traditional procurement approach may suit smaller organizations with low-value and low-risk purchases, larger multinational companies with complex supply chains often find SCM more suitable. Understanding these differences allows companies to tailor their approach based on their unique circumstances, emphasizing the importance of flexibility and strategic alignment with organizational goals in the ever-evolving landscape of buying and supply chain management.

Tutor Notes

- This question is taken from learning outcome 1.1.1 (p2 onwards). The new study guide has drastically simplified the information on this topic compared to the old syllabus (the table above comes from the old syllabus). This may be good news for students in that you don't need to know as much, but I do wonder if the study guide gives students enough 'content' to write an essay on the subject.
- If a question is to come up from LO 1.1 it would be likely be something like: definitions and differences between procurement and SCM, difference between a supply chain and a supply network, elements of SCM, or how to add value in the supply chain.

Question: 3

Describe what is meant by the 5 Rights of Procurement (25 points)

Answer: See the solution in Explanation part below.

Explanation:

How to approach the question

- This question is worth 25 marks so you can imagine what the mark scheme will look like. There are 5 Rights so there will be 5 points for each Right. Naming the Right will be one point, then you have 4

points for a description and example. You should therefore aim to have 4-5 sentences per Right.

- I would recommend using headings for this type of essay- clearly putting your essay into 5 sections for each right. This makes it easy for the examiner to mark.

Proposed Essay structure

- Introduction – what is meant by the 5 Rights
- Price
- Quality
- Quantity
- Time
- Place
- Conclusion – why it's important, all rights are equally as important

Example Essay

Procurement revolves around achieving the delicate balance of acquiring goods and/ or services at the right price, quality, quantity, time, and place. This essay explains why these "Five Rights of Procurement" are important and explains how using this metric can help procurement to make smart choices when they purchase goods or services.

Price:

Firstly, it is important that procurement do not simply seek to find the cheapest option. The First Right is about finding the product/ service at an affordable price that doesn't compromise on quality. Let's say a company is buying office furniture. They might go for a supplier that offers a good balance between cost and quality, ensuring they get good value for their money. Considerations here may include Total Cost of Ownership, the Price Iceberg, and Whole Life Costing. The company therefore may seek to get the best price, but in relation to how long the furniture will last. A cheap chair that will break after one year may not be the best price compared to another chair which will last 10 years.

Quality:

The second right, quality, looks at legal compliance and fitness for purpose. Quality adherence aligns with specifications as well as legislation such as the UK Sale of Goods Act 1979. This helps ensure that items meet their commonly intended purpose and maintains satisfactory condition. Buyers deploy both reactive measures like Quality Control and proactive approaches like Quality Assurance to uphold the stipulated quality. This commitment not only ensures legal compliance but also underpins customer satisfaction, brand reputation, and ethical sourcing policies. An example of quality is an organisation buying a washing machine that conforms to ISO standard 97.060 and has a 2-year warranty.

Quantity:

The third right, quantity, is a strategic consideration about how much of an item to order. It is connected to efficient inventory management. One tool that procurement can use to ensure they order the right quantity of a product is Economic Order Quantity (EOQ) – this serves as a tool for finding the equilibrium between stock-holding costs and avoiding stockouts. Market conditions, supply chain dynamics (e.g. JIT / Lean manufacturing), and organizational policies collectively play a pivotal role in determining the right quantity. For example a confectionary manufacturer will need to order the right number of eggs to make cakes- they will need to consider how many eggs they will

need in order to make the cakes, but also take into consideration that they may not need them all at once and that eggs can expire. The use of an MRP system is helpful when determining quantities of products to order.

Time:

Time is about getting things when we need them. In the above example, an egg delivery timing for a confectionary manufacturer will be pivotal to making the cakes on time. Other considerations about time include changing market forces and customer demand. The use of forecasting is therefore extremely useful; particularly if there are peaks in demand for a product, such as toys at Christmas. Moreover, organizations need to avoid bottlenecks and production stoppages, so time (including lead time and delivery time) is an important consideration when making orders.

Place:

Lastly, place is about getting things to the right location. Minimizing environmental impact, reducing risks during transit, and optimizing warehousing practices contribute to achieving the right place. This is particularly important for perishable items such as food, and for items which require specific storage conditions such as chemicals. This involves good planning in terms of logistics, minimizing any impact on the environment during transport and a consideration for safety.

In conclusion, the Five Rights of Procurement provide a structured framework for organizations to optimize their sourcing practices. All rights are equally as important and it is the relationship between the Rights which is key. While price, quality, quantity, time, and place form the foundation, evolving models acknowledge additional elements like the Right Relationship with the Supplier. Embracing these principles not only ensures operational efficiency but also promotes sustainability and ethical conduct throughout the procurement process, contributing to long-term success in a globalized and dynamic marketplace.

Tutor Notes

- The 5 Rights is a big topic in CIPS so do learn them off by heart. It's p. 20 in the study guide.
- The conclusion mentions that additional 'rights' are starting to be introduced into the matrix, this is true and isn't mentioned in this study guide. I believe this starts to come up in Level 5. Just something to be aware of- some people are now talking about other Rights such as finding the right supplier and the right relationship. It's good to know, but not essential for this essay. Neither is knowing the ISO standard for washing machines – that's certainly not in the book. You can sprinkle in your own knowledge to essays like this, as it demonstrates you're able to apply the theory to real life. Why I remember the ISO for washing machines is a different story....
- You could also have mentioned the following topics;
 - o price – using the right currency and incoterm, aggregation of spend, negotiating prices
 - o quality – conformance and performance specs
 - o quantity – fulfilling retail orders, large order quantities leading to discount
 - o time – additional costs of a stockout, impact on relationships and reputation
 - o place – additional costs if delivery fails
- This is the type of question you can easily over-write. It's a huge topic and you could easily spend too long on it and not have enough time to answer other questions. So be careful with your timings. You don't need to mention everything above.
- Another way this type of question can come up is as a scenario. E.g. XYZ is a manufacturer of cakes and needs to order eggs. Discuss how XYZ can ensure the 5 Rights of Procurement when ordering Eggs.

Question: 4

Explain what is meant by added value (5 points). Describe 4 ways the Procurement Department can add value for their organisation (20 points)

Answer: See the solution in Explanation part below.

Explanation:

What to include in the essay:

- Definition of added value: the economic enhancement given to products or services before offering them to customers. Examples may include a product which has additional features at no additional cost to the customer or the provision of an extended warrantee.
- Description of four of the following with examples and s: providing better customer service levels, risk management, cost control and reduction, relationship management, reputation management, innovation, use of technology, streamlining processes, improving specifications, increasing sustainability, improving quality, ordering processes such as bulk ordering, inventory management, improving the product from the customer's perspective (e.g. packaging, exclusivity), sustainability, convenience, market development.

Example essay:

Added value in procurement refers to the enhancement or improvement in the economic worth, quality, or utility of products or services before they are offered to customers or end-users. In the context of procurement, the goal is to go beyond simply obtaining goods or services at the lowest cost. Instead, procurement aims to contribute additional value to the organization through various means. This essay explores the concept of added value and outlines four ways the Procurement Department can contribute to organizational improvement.

Improving Specifications

Procurement can add value firstly by ensuring all critical items are procured against a specification, and secondly by improving and regularly updating those specifications. For example, the procurement department might be responsible for procuring light-bulbs for an office. Having an effective specification for this purchase (lightbulbs must meet X safety standard and Y environmental standard) would result in less maverick buying for the organisation and the procurement of a better-quality product. Furthermore, regularly updating specifications ensures that purchases are made against current safety standards and regulations (e.g. the use of low-energy lightbulbs). If procurement don't update specifications, then there is a risk that items are bought that don't meet the correct standards. Added value in this regard could also therefore be considered the removal of risks of procuring the wrong item.

Stream-lining Processes

Procurement can add value by stream-lining processes such as requisitions and POs. This reduces the time it takes to procure an item, thus saving the company money. Another process that could be streamlined is the re-ordering process of regularly bought items. This could be automated when the stock levels reach a certain level. For example if an organisation requires its staff to wear PPE, an automatic request could be made once there are only 50 face masks left.

Managing Supplier Relationships

Having strong, positive relationships with suppliers is a source of added value as it means suppliers value you as a buyer and are therefore more likely to help in situations which are adversely affecting business. For example, if a manufacturer puts an order in for 300 items with their supplier but then realises that they have made an error in the amount, if there is a strong relationship, the supplier may allow the buyer to amend the order after the fact. If there is a poor relationship, the supplier may not be as flexible. The flexibility in the supply chain is therefore a source of added value.

Improving Quality / Innovation

This involves adding value from the customer's perspective. E.g. a customer may choose to purchase a phone that has a longer battery life than others. Procurement's role in this may be in completing a Value Engineering exercise or procuring higher quality components or materials at the same price in order to achieve this additional feature.

In conclusion, the Procurement Department plays a crucial role in organizational success by adding value through improved specifications, streamlined processes, strong supplier relationships, and a focus on quality and innovation. These strategies contribute to enhanced efficiency, reduced risks, and increased customer satisfaction, making procurement an essential function for organizational excellence.

Tutor Notes

- The question asks specifically to name 4 ways of adding value. You therefore won't get any additional points if you talk about 5 or 6, even though it may be tempting. Instead, focus your response on providing more information on the 4 you have chosen and bulking out your answer with examples. This demonstrates to the examiner that you fully understand the topic AND that you can apply the theory to real situations.
- You could use real-life examples from your own organisation/ experience or you could give a hypothetical situation such as a cake manufacturer. You could talk through how the procurement department at the cake manufacturer can add value by doing the four things in your essay: by amending the specification so the cakes are more tasty, by streamlining the process for ordering flour, by managing the relationship with the company that fixes the machines when they break down, and by introducing innovation such as using an e-procurement system to source raw materials and the benefits that these will bring to the organisation.
- Added value is part of the syllabus for Learning Outcome 1.2 starting from p.19 but I'm gonna be honest, I think the new study guide is a bit crap on this part of the syllabus. The section starts talking about the 5 rights of procurement and I think that makes things very confusing for students. The 5 rights and added value are linked subjects, but they're not the same. Getting the rights right, CAN lead to sources of added value, but added value is value that is IN ADDITION to what is expected. So, when you have a question on added value, focus on stuff that's listed under 1.1.4 'other sources of added value' on p.35 rather than talking about the 5 rights of procurement. My list at the top is more exhaustive than the one in the study guide.
- If you're looking to be really clever you can quote Michael Porter on 'what is added value?'. Michael Porter looks at this from a customer perspective - 'added value' refers to the addition of greater value (either by reducing the cost to produce it, or by adding something that customers are willing to pay more for). These could be; marketing / design, customer service, maintenance, delivery etc. This comes up at Level 5 / 6.

Question: 5

Bob is a procurement manager at ABC Ltd. He has been asked to ensure all future purchases achieve 'value for money' for the organisation. What is meant by 'value for money'? (5 points). Describe 4

techniques that Bob could use to achieve this (20 points)

Answer: See the solution in Explanation part below.

Explanation:

1) A definition of Value for Money: ensuring a purchase is cost effective. This may be that the purchase achieves the 5 Rights of Procurement or that the purchase achieves the 4Es: Economy, Efficiency, Effectiveness and Equity. – this is only worth 5 points, so don't spend too long on this

2) 4 techniques Bob can use to achieve VFM: this is the bulk of your essay. Each of the 4 will be worth 5 points, so remember to give a thorough and example. Pick 4 from the list below: complete a value analysis to eliminate non-essential features, minimise variety/ consolidate demand, avoid over specification, pro-active sourcing, whole life costing methodologies, eliminate / reduce inventory, use electronic systems, international sourcing, sustainability / environmental policies, currency/ exchange rate considerations, negotiating good payment terms, packaging, warranties.

Example Essay:

"Value for money" (VFM) is a concept that refers to obtaining the best possible return on investment or benefits relative to the cost incurred. It involves assessing whether the goods, services, or activities provided offer an optimal balance between their cost and the quality, benefits, or outcomes they deliver. Value for money is not solely about choosing the cheapest option; instead, it considers the overall efficiency, effectiveness, and long-term value derived from an expenditure. For Bob, the Procurement Manager at ABC Ltd there are four key ways that he can achieve this for all future purchases.

Value Engineering

This is looking at the components of a product and evaluating the value of each component individually. You can then eliminate any components that do not add value to the end product. To do this Bob would choose a product to review and determine whether any parts of this can be omitted (thus saving the company money) or could be replaced by components that are of a higher quality at the same price (thus providing added value to the customer). For example, Bob could complete a Value Engineering exercise on the new mobile phone prototype ABC plan to release next year. His findings may discover a way to provide a higher quality camera at no additional cost or that some components don't add value and can be eliminated.

Consolidate demand

Bob can achieve value for money by consolidating demand at ABC Ltd. This would mean rather than each individual person/ department ordering what they want when they need it, Bob creates a centralised process for ordering items in bulk for the departments to share. For example, if each department require stationary to be ordered, Bob can consolidate this demand and create one big order each quarter. This will likely result in cost savings for ABC as suppliers often offer discounts for large orders. Moreover, consolidating demand will allow for saving in time (one person does the task once, rather than lots of people doing the same task and duplicating work).

International sourcing

Bob may find there is value for money in changing suppliers and looking at international sourcing.

Often other countries outside of the UK can offer the same products at a lower cost. An example of this is manufactured goods from China

a. By looking at international supply chains, Bob may be able to make cost-savings for ABC. He should be sure that when using this technique there is no compromise on quality.

Whole Life Costing methodology

This is a technique Bob can use for procuring capital expenditure items for ABC. This involves looking at the costs of the item throughout its lifecycle and not just the initial purchase price. For example, if Bob needs to buy a new delivery truck he should consider not only the price of the truck, but also the costs of insurance for the truck, how expensive it is to buy replacement parts such as tyres and the cost of disposing of the truck once it reaches the end of its life. By considering these factors Bob will ensure that he buys the truck that represents the best value for money long term.

In conclusion Bob should ensure he uses these four techniques for all items he and his team procures in the future. This will ensure ABC Ltd are always achieving value for money, and thus remain competitive in the marketplace.

Tutor Notes

- This case study is really short, and the ones you'll receive in the exam are often longer and give you more guidance on what they're expecting you to write. With case study questions, you have to make your entire answer about Bob. So don't bring in examples from your own experience, rather, focus on giving examples for Bob.
- A good rule of thumb for case study questions is make sure you reference the case study once per paragraph.
- Value for Money is a really broad topic and you can pretty much argue anything that procurement does is helping to achieve value for money. There's a large table of stuff that's considered VFM on p.38 but that table isn't exhaustive. So feel free to come up with your own ideas for this type of essay.

Some additional tidbits of information on VFM:

- The 'academic' definition of Value for Money is 'the optimum combination of whole life cost and the quality necessary to meet the customer's requirement'
- Value for Money is an important strategic objective for most organisations but particularly in the public sector. This is because the public sector is financed by public money (taxes), so they must demonstrate that the organisation is using this money wisely. This might be an interesting fact to put into an essay on VFM.
- Value can often be hard to quantify, particularly in the service industry. E.g. in customer service it can be difficult to quantify the value of having knowledgeable and polite employees delivering the service.

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