

D3/March 2015

## Diploma in procurement and supply

# Sourcing in procurement and supply

Date	Tuesday 10 March 2015		
Time	Start 09:30	End 12:30	Duration 3 hours

## QUESTION PAPER

### INSTRUCTIONS FOR CANDIDATES

This examination has **FIVE** compulsory questions worth 20 marks each.

1. Do not open this question paper until instructed by the invigilator.
2. All answers must be written in the answer booklet provided.
3. All rough work and notes should be written in the answer booklet.



**You are advised to allow 20 minutes to read carefully and analyse the information in the case study before attempting to answer the questions.**

## **CASE STUDY**

Francois Le Creff is a sourcing specialist working in the procurement department of his country's Education Ministry. He has recently been appointed to review the approach to sourcing adopted by the Ministry for the provision of new Information Technology (IT) equipment, and its maintenance, for schools and colleges across the country. This constitutes a spend of \$240m per year, over a three year period.

The Ministry has a policy of providing new IT equipment to all schools and colleges. The previous approach to sourcing for this service had involved many separate contracts with local suppliers. This approach was replaced by a decision to source from only three suppliers, each providing a complete service, for the provision and maintenance of IT equipment, on a regional basis. The Ministry had anticipated that the new sourcing approach would save \$130m over three years due to economies of scale.

Other motivations for changing the approach to sourcing related to quality, capacity, and financial stability issues. Some of the original local suppliers had experienced cash flow problems and were unable to invest in expanding and improving their services. One of the suppliers eventually went out of business, leaving schools and colleges in its area without an ongoing maintenance service. The Ministry believed that, by sourcing from larger companies which are more financially stable, it would be less likely that they would go out of business.

Before awarding contracts to the three new suppliers, the Ministry had undertaken checks on their financial stability. However, the decision to rely on fewer and larger contractors has been criticised by some as being risky and contradicting the government's stated commitment to encourage Small to Medium sized Enterprises (SMEs) to deliver public services. Others have pointed out that the knowledge of experienced specialist local providers has been lost and that there are now fewer alternative options available to the Ministry if any of the suppliers fail.

From his review, Francois believes that the changes to sourcing were poorly planned and badly managed and unlikely to yield the savings intended. Two of the new suppliers had little experience of dealing with schools and colleges. The Ministry had not allowed for a smooth transition between outgoing and incoming contractors. The Ministry had also not communicated clearly with the local authorities. The Ministry had decided to take a hands-off approach and only allowed three months to get the new sourcing arrangements up and running. Very little supply market analysis had been undertaken. Furthermore, the quality of data shared by the Ministry during the tendering process was poor, most notably in terms of the specifications for the new IT equipment. The suppliers had also failed to clarify with the Ministry what the requirements were. This lack of information had contributed to delays, extra cost, disruption and confusion for the schools and colleges.

Francois found that poor data had contributed to flaws in some of the suppliers' key assumptions which had underpinned their bids, such as the amount of time that would be required to maintain the IT equipment. The lack of experience of the suppliers meant that they had failed to challenge the Ministry's assumptions on how quickly the new equipment could be installed in schools and colleges. The Ministry had also failed to share data on the estimated amount of equipment that would be needed by the schools and colleges, information that could have helped contractors better plan their bids. This had hindered the development of the working relationship and trust required between the Ministry and the suppliers, and had led to difficulties once the contracts were operational.

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Francois has made it clear that he would like to develop a collaborative partnership approach to sourcing with each of the three new suppliers, to help overcome the problems that had been encountered and still exist at the present time. This way of working with suppliers had not been considered in the original sourcing process.

Overall Francois concludes that there had been no structured sourcing plan in place and that there were flaws in the sourcing process. For a public-sector organisation, these issues have potentially major compliance implications and leave the Ministry vulnerable to legal challenge.

## QUESTIONS

**These questions relate to the case study and should be answered in the context of the information provided. You are advised to spend 32 minutes on each question.**

**Q1** The case study states that Francois believes that the Ministry should have developed a collaborative partnership approach to sourcing with the three suppliers of the IT equipment.

Outline **FIVE** benefits for the Ministry of developing this type of approach. **(20 marks)**

**Q2** The case study information states that the Ministry's sourcing department does not have a structured sourcing plan.

Discuss **FOUR** elements that Francois might include in a sourcing plan. **(20 marks)**

**Q3 (a)** Describe **FOUR** sources of information that the Ministry might have used when assessing the financial stability of the three new suppliers, before awarding the contracts. **(12 marks)**

**(b)** Explain the term 'gearing', and suggest why it would be important for Francois to establish the financial gearing for each of the new suppliers. **(8 marks)**

**Q4 (a)** The case study states that very little supply market analysis had been undertaken by the Ministry before the three contractors were appointed.

Explain why the Ministry should have undertaken supply market analysis as part of the sourcing process. **(10 marks)**

**(b)** Describe **TWO** tools that the Ministry could have used to analyse its supply market. **(10 marks)**

**Q5** Explain the main legislative and organisational requirements that the Ministry should consider when sourcing as a public sector organisation. **(20 marks)**

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Charters of the United States and Territories, 1789-1890, by John P. Hart, published by the American Historical Association, 1907. The book is a collection of the original charters of the United States and its territories, from 1789 to 1890. It is a valuable resource for students of American history, particularly those interested in the early years of the nation's development. The book is organized chronologically, with each charter presented in its original form, followed by a modern translation. The charters are arranged in two volumes, with the first volume covering the period from 1789 to 1840, and the second volume covering the period from 1840 to 1890. The book is a classic work of American history, and is highly recommended for anyone interested in the early years of the nation's development.