

D3/November 2014

Diploma in procurement and supply

Sourcing in procurement and supply

Date	Wednesday 19 November 2014
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Time	Start 14:00	End 17:00	Duration 3 hours
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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.

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

GOVERNMENT SOURCING

Petra Hughes had spent the last few years in charge of procurement at a leading private sector company, where she led a major transformation of the function. She has now been appointed as the national central government's Chief Purchasing Officer (CPO). She is responsible for \$8bn of external expenditure with a target to save a total of \$700m over three years. Petra's reason for taking on the role is the challenge of making a significant contribution in terms of how tax-payers' money is spent.

Petra's major objective is to save money. There are also other objectives: improving the operation of procurement, providing a better, more consistent service to internal stakeholders, and reducing risk. Petra recognises that public sector procurement is a complex environment and is bound by regulations and legislation. For Petra, it represents a different challenge from her previous role in the private sector.

Five departments (health, defence, justice, education, and local government) account for almost 90% of the government's procurement spend. The level of centralised spend is very low with the majority of spend being fragmented and decentralised. Petra aims to develop a common sourcing process for all spend which includes everything from professional services, legal spend, banking services and consultancies to cleaning, catering, and stationery.

With responsibility for such a large spend, Petra realises that she needs to prioritise. She aims to analyse the spend data that is available and consult with existing procurement teams across the organisation. She also aims to investigate the high value items in a structured way. The sourcing programme is to be carried out over a three year period. In the first instance, Petra will be looking into the categories of energy, waste management, facilities management, and professional services.

She will be focusing on facilities management initially and has already gathered the following financial data on three potential suppliers:

	Current ratio	Acid test ratio	Return on Capital Employed
Simpson FM Ltd	0.8:1	0.5:1	22.6%
Cartwright FM PLC	1.0:1	0.7:1	17.4%
Morgan FM Ltd	1.7:1	1.3:1	12.9%

There are approximately 500 people involved in procurement across the government departments. Some are very well informed, engaged, capable people, whilst others require further development. Petra recognises that there is a need to develop, train and inform people better, and improve the specialist knowledge and capability of the procurement staff.

Petra recently met with some of the major stakeholders, and she was able to listen to their concerns. Electronic sourcing tools are under-utilised within the government, but some stakeholders are sceptical about the benefits of this and are concerned with the impact on supplier relationships. Another area for improvement is the financial appraisal of suppliers. A supplier that had been awarded a cleaning contract recently went out of business in the first year of the contract. Petra knows that she needs to improve these aspects of sourcing, while also taking into account stakeholder views.

PLEASE TURN OVER

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** (a) Describe the potential interests of **TWO** stakeholder groups of the national government's procurement function. (4 marks)
- (b) Describe **FOUR** possible approaches to involving stakeholders in the national government's sourcing process. (16 marks)
- Q2** Petra aims to develop a standard sourcing process. One element of this will be to use selection criteria to identify appropriate external suppliers.
- Explain **FIVE** selection criteria that Petra might use to identify appropriate external suppliers. (20 marks)
- Q3** (a) In the context of financial accounts, explain how the following ratios are calculated and how they are interpreted.
- (i) The current ratio.
- (ii) The acid test ratio. (8 marks)
- (b) Based on the financial data in the case, evaluate the three potential facilities management suppliers and explain which of the three should be selected for the contract. (12 marks)
- Q4** Describe **FIVE** benefits for procurement if Petra developed the use of electronic systems to help the sourcing process. (20 marks)
- Q5** Explain **FIVE** differences in either legislative, regulatory or organisational requirements that Petra may encounter in her new role in public sector procurement, compared to her previous role in private sector procurement. (20 marks)

END OF QUESTION PAPER

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