

CIPS Level 4 – Diploma in Procurement and Supply

Module 8 – Procurement and Supply in Practice

SAMPLE EXAM QUESTIONS

CONSTRUCTED RESPONSE QUESTIONS

Q1 Insta Foods

Insta Foods purchased new machinery for a new packing line and used it for a period of 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 in order 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.

Item	Description of Costs	Year 1	Year 2	Year 3
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

Analyse the costs shown in the table. Provide a categorisation for the costs shown and provide examples of actual detailed expenditure that would be in each category.

[25 marks]

LO: 3
AC: 3.1

SAMPLE QUESTIONS

Q2 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 are 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

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

Q3 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

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

Q4 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

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

[25 marks]

LO: 2

AC: 2.1