

**CIPS Level 6 – Professional Diploma in Procurement and Supply**

# **Global Strategic Supply Chain Management [L6M3]**

**Sample answer guide**

---

## (Q1) – Magnox Instruments (MI)

Magnox Instruments supplies instruments which are used in vehicles to measure wear and tear of car tyres and brakes. MI supplies the instruments for 10 different car models. Linford makes similar instruments for 4 car models which represents 77% of the market. Linford is MI's only competitor and within a short period of 4 years Linford has captured 68% of the market due to competitive pricing. MI offers 2-year warranty on its products compared to 1 year offered by Linford.

MI outsources the manufacture of their instruments to Compco Ltd. MI's current contract with Compco does not include any KPIs about maximum number of defects allowed per batch or delivery lead time. MI has had a long-term contract with Compco for last 10 years and as per the terms of the contract, Compco has increased the price by 5% every year.

Both MI and Linford coat the exterior of the products with rust proof paint. However, MI also paints the internal parts of the instruments with similar rust proof coating.

### Question one

The scenario includes data suggesting that Magnox Instruments (MI) are being overtaken in the market by Linford.

Illustrate the 3 steps MI can take to reduce its supply chain costs and create cost advantage.

[25 marks]

LO: 1

AC: 1.2

### 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 '**illustrate** the 3 steps MI can take to reduce its supply chain costs and create cost advantage'

The Command word in this question is **illustrate** 'Clarify or explain something by using examples or diagrams'

### Answering the question

A good approach to answering this question would be to have a short introduction relating to the operational and strategic importance of a company such as MI reducing its supply chain costs and creating a cost advantage e.g. Reducing supply chain costs will have a major impact on the profitability of MI as any cost savings accrued can go straight to the bottom line. I.e. we can increase profits without increasing sales. Also having a cost advantage and thereby cost leadership can provide a major competitive advantage in the market as already seen by their major competitor Linford; who have captured 68% of the market through being able to maintain and sustain competitive pricing for their end customers.

And then following on from the introduction perhaps have a short sub-heading such as ‘steps MI can take to reduce its supply chain costs and create cost advantages include:’

This approach helps to ensure that you understand the question, recognise the command word and illustrate steps MI can take to reduce its supply chain costs and create cost advantage.

**The following is suggested answer content rather than a model answer and can include but is not limited to:**

Answers may explain a five step approach to reducing supply chain costs and contextualise their responses by giving relevant examples:

1. **Understanding the drivers for reducing costs:** To secure buy-in from stakeholders the MI team can justify the business case for reducing the costs on the following grounds:
  - Gaining cost advantage in the market
  - Improve profitability
  - Reduce the threat from competitors
2. **Understanding reasons for excess costs in supply chain:** Some of the reasons could be:
  - Over specification
  - Over processing
  - Supplier collusion/ Supply cartels inflating prices
  - Adversarial supply chain relationships
  - Suppliers passing on costs instead of absorbing
3. **Identify focus areas and prioritise initiatives for cost reduction:** MI can use tools like spend analytics, benchmarking, Pareto Analysis to identify target areas for cost reduction. It can also prioritise the initiatives which offer the maximum scope for cost reduction.
4. **Develop appropriate strategies and tactics:** MI may use one or more of the following tactics to reduce costs:
  - Supply chain rationalisation
  - Supplier development through training and investment
  - Incentivising suppliers for cost reduction e.g. gain share
  - Waste reduction and value addition through implementation of lean/ agile approach
  - Reduce processing costs through e-procurement, e-auction and demand aggregation
  - Leverage relationship with suppliers to negotiate discounts and price reduction
5. **Performance Management for Continuous Improvement:**

The approach for measuring supplier performance and identifying opportunities for cost reduction should be agile and adapted to changing business environment and needs. Cascading this approach across the supply chain will substantially improve the success rate of cost reduction initiatives and add to MI's financial bottom line. MI can use some of the following criteria for measuring performance:

- Lead time – working days between placing order and delivery
- Defects – units unsold or returned due to defects
- Down time – Working days / hours lost due to strike, defective machinery etc.

**There are many opportunities and areas for MI to reduce supply chain costs and create cost advantage. These can include but are not limited to:**

1. Reducing input costs: MI can take the following steps to reduce input costs:
  - Renegotiate a fixed price or incentive contract with the supplier or award a contract to a new supplier
  - Reduce overheads by reducing the warranty period to 1 year
  - Stop rust coating internal parts of the instrument to reduce cost per unit
2. Economies of Scale: MI can reduce the number of car models for which it is making the instrument and place bigger orders for the remaindering. This could enable MI to negotiate a lower price per unit contract with the supplier.
3. Experience and Expertise: If MI decides to switch the supplier then it should utilise its experience to identify a supplier who has experience of manufacturing niche appliances. To gain cost advantage MI could enter into a fixed price or performance-based contract which will ensure that the supplier is constantly innovating to identify new initiatives for reducing costs.
4. Product and Process Redesign: MI should consider all options which will enable it to reduce the total cost of production. As part of this initiative, if necessary, MI should consider switching to a supplier who can redesign processes to improve efficiency and deliver cost savings.
5. Review sourcing and outsourcing strategy. A dual source strategy would increase competition for Compco who may have become complacent, fat and happy.
6. Increase Contract and Supplier Relationship Management. As with five above the supplier is not contributing. With excellent CM & SRM we can drive from compliance to competitive advantage through continuous improvement.

It must be recognised that potential cost savings cannot be viewed in isolation and need to be assessed within the overall supply chain including, of course, the end customer. For example reducing warranty to one year may have an adverse effect on customer expectations and may actually be a competitive advantage. This would be the same as with the rust coating of the components and reducing the number of car models.

**Other valid responses and answers will be accepted.**

## **(Q2) – Zoom Alpha (ZA)**

Zoom Alpha (ZA) Inc. is one of the largest global online retailers and operates in the Americas, Brazil, Europe and South East Asia including India and China. It offers a wide range of merchandise, including books, apparel, electronics and other general household items through its US and international websites. Much of ZAs success is the result of its customer-centric supply chain which has enabled it to gain competitive advantage by focussing on four key aspects:

**Warehousing:** To ensure easy accessibility and reduce delivery times ZA has adopted the approach of placing warehouses near major population hubs and spreading inventory to ensure orders are delivered the next day. In addition to its 150,000 employees worldwide, ZA also relies heavily on pick and pack robots to improve efficiency in warehouse operations.

**Delivery:** ZA offers multiple delivery options to its customers including an annual subscription-based approach which enables the members to get free next day delivery. In addition to its own logistics infrastructure, the company also uses cycle couriers, postal department and major logistics suppliers to

ensure timely delivery. These wide-ranging strategies allow the company to serve customers not served by the traditional retailers. To further reduce the timescales, ZA is now trialling drones for making deliveries in metro areas.

**Technology:** ZA extensively depends on technology to effectively and efficiently manage its supply chain operations. It utilises automation, data and robotic solutions to understand customer preferences, pick and pack orders and storing inventory. These tools enable the company to keep its warehouse and staffing costs low.

**Manufacturing:** ZA now also offers its own branded items in everything from household products to pet food to baby products. This has enabled the company to increase its profits significantly by managing the end to end lifecycle of its products – from manufacturing to marketing to storage to shipment.

ZA has been able to further increase its profitability by negotiating tax breaks with local governments in turn for opening new warehouses and increasing local employment opportunities. It has also used tax planning rules to minimise corporation tax liabilities by opening registered office's in tax friendly countries.

## Question Two

Evaluate the factors that may have influenced the design of Zoom Alpha (ZA) distribution systems.

[25 marks]

LO: 2

AC: 2.3

## 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: **Evaluate** the factors that may have influenced the design of Zoom Alpha (ZA) distribution systems.

The main Command word in this question is **Evaluate** 'Calculate or judge the value of something; include your personal opinion in your evaluation. Often includes an assessment of strengths and weakness.'

## Answering the question

A good approach to answering this question would be to have a short introduction relating to the role of Distribution Systems. In simple terms distribution is concerned with the movement of the product or products from one location to another. Historically distribution was concerned primarily with transport and warehousing of products. Today, in global strategic supply chain management, successful distribution systems are focused more on demand management with processes that are optimised to anticipate and fulfil customer orders delivering not only products but high levels of customer satisfaction.

And then following on from the introduction perhaps have a short sub-heading 'Factors that may have influenced the design of ZA's Distribution Systems include:'

We need to recognise here that the question is worth 25 marks and we could look to evaluate five factors, accruing five marks for each factor.

This approach helps to ensure that you understand the question, recognise the main command word and **Evaluate** factors that may have influenced the design of Zoom Alpha (ZA) distribution systems.

**The following is suggested answer content rather than a model answer and can include but is not limited to:**

Some generic factors for questions of this nature will include:

- The inventory policy of Zoom Alpha – where goods are to be held in the supply chain
- The number of products to be moved from point of origin to the customer
- The nature of the products that are passing through the distribution system
- The geographical footprint of the customer base
- The type of customer – business to business, business to consumer
- The speed of delivery required by the final customer
- The availability of relevant transport networks
- The expectations of the end users
- The shelf life and durability of the products in the distribution system

There are a wide range of other factors that will influence the design of a distribution system.

Answers may demonstrate linkage to the scenario by applying any of the items above such as the nature of the products which are varied with a mixed shelf life and storage requirements.

**Other valid answers will be accepted.**

## Q3

### Question 3

Propose an approach that an organisation might adopt to implement a major change with its stakeholders. Use a structured approach to support your answer.

**[25 marks]**

LO: 3  
AC: 3.2

## 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 '**Propose** an approach that an organisation might adopt to implement a major change with its stakeholders. Use a structured approach to support your answer.'

The main Command word in this question is **Propose** 'Put forward (for example, a point of view, idea, argument, suggestion) for consideration or action.'

## Answering the question

A good approach to answering this question would be to have a short introduction relating to Change Management. e.g. It is a fact of life that people often resist change and that managing organisational change requires effective management of people. Successful change programmes develop a readiness for change; identifying those stakeholders who need to be managed and helping to create a sense of shared ownership among those stakeholders affected by the change process.

And then following on from the introduction perhaps have a short sub-heading 'An approach that an organisation might adopt to implement a major change with stakeholders'

This approach helps to ensure that you understand the question, recognise the main command word and propose a structured approach to support your answer.

**The following is suggested answer content rather than a model answer.**

**Change Management** can be approached in a number of different ways. One approach could be as follows:-

1. **First identify the stakeholders** who may be impacted by the proposed change(s). One tool for doing this is to use the RACI model.
  - Who should be responsible? Identified stakeholders who have responsibility within the change process
  - Who should be accountable? Here we have stakeholders that are accountable for ensuring change tasks and activities are completed
  - Who should be consulted? These are stakeholders with specialist knowledge or important information that is pertinent to the change process
  - Who should be informed? This relates to stakeholders who are affected by the change programme and need to be kept informed about what is happening and why

Code	RACI	Summary	Details
<b>R</b>	Responsible	"The doer"	The individual who actually completed the task. This person is responsible for action / implementation of the deliverable.
<b>A</b>	Accountable	"The buck stops here"	The individual who is ultimately accountable for the correct and thorough completion of the deliverable. Includes "yes" or "no" authority and veto power. Only one "A" can be assigned for a deliverable, often the Project Manager / Approver Authority
<b>C</b>	Consult	"In the loop"	The individual to be consulted prior to a final decision or action – this incorporates two-way communication. Often the end user or client.
<b>I</b>	Inform	"Keep in the picture"	The individual who needs to be informed after a decision or action is taken. This incorporates one-way communication. Could be wider project team.

---

## 2. Develop a Change Communication Plan

Communication will shape the reaction of stakeholders to the change process and drive the energy expended by people, and this can be positive or negative. Barret (2002) identified 5 specific goals of change communication.

- Deliver a clear consistent message aimed at education stakeholders
- Motivation support for direction change
- Encourage high performance and discretionary effort
- Limit misunderstanding and damage to change
- Align stakeholders behind the organisation's goals

## 3. Employ Change Agents

This can be an individual or group of people who facilitate the change management process and help to avoid or overcome resistance to change. They can be both internal and external to the organisation and need to be well versed in change management techniques.

## 4. Gauge The Acceptance of Change

**There are three considerations when gauging acceptance**

- Reaction. What has been the reaction to change
- Behaviour. How has people's behaviour changed or been influenced by change
- Learning. How are stakeholders apply strategic change to their tasks and activities

These can be measured by individual interviews, group interviews, feedback and surveys and other assessment tools.

Other answers may include various sources of potential theory related to implementing and managing change. These could include Lewin's unfreeze, change, and re-freeze model, answers would need to consider what kind of change will be required and if there is enough time to use the unfreeze model.

Another approach could be the use of Kotter's eight stage model comprising:

- establish a sense of urgency
- form coalitions
- create a vision
- communicate the vision
- empower people/ removing barriers
- plan for short term wins
- consolidate improvements
- embed improvements

Answers may also be based on the six approaches proposed by Kotter and Schlesinger on overcoming resistance to change:

- education and communication
- participation and involvement



- facilitation and support
- negotiation and agreement
- manipulation and co-optation
- explicit or implicit coercion

**Other valid answers will be accepted**

## Q4

### Question 4

Evaluate the application and use of the 'Balanced Scorecard' approach for the measurement and assessment of supply chain performance.

**[25 marks]**

LO: 4

AC: 4.2

### 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 **'Evaluate'** the application and use of the 'Balanced Scorecard' approach for the measurement and assessment of supply chain performance.'

The main Command word in this question is Evaluate "Calculate or judge the value of something; include your personal opinion in your evaluation. Often includes an assessment of strengths and weakness."

### Answering the question

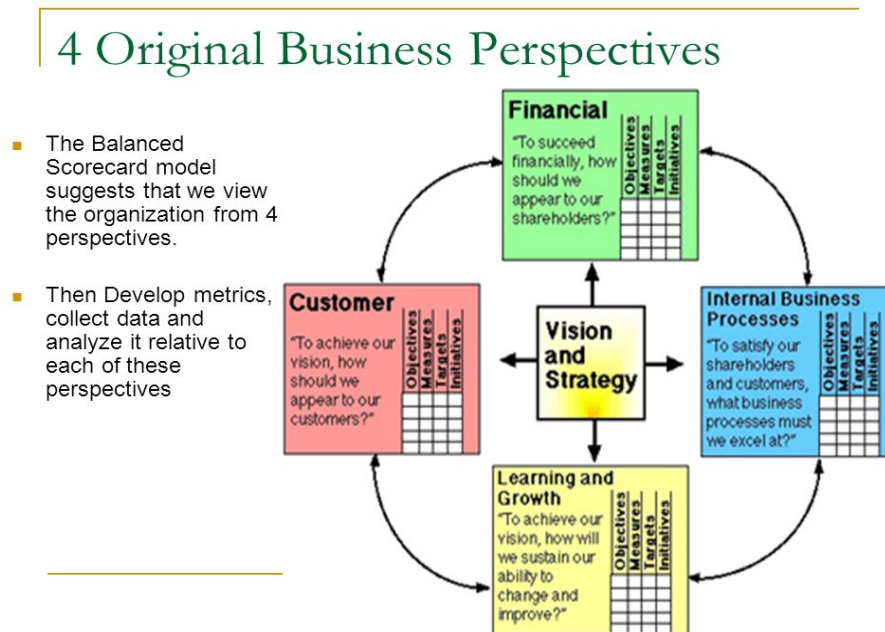
A good approach to answering this question would be to have a short introduction relating to what the Balance Scorecard is. e.g. "developed by Kaplan and Norton (1992) the balanced scorecard is a comprehensive framework that can be used to evaluate performance, set goals and develop operational priorities. Traditional organisational measurement systems tended to focus only or mainly on financial metrics however, the Balanced Scorecard was developed to allow a range of performance measures both financial and non-financial, to give a more 'balanced' view and insight into a broader range of an organisation's performance in key and critical business areas.

And then following on from the introduction perhaps have a short sub-heading along the lines of 'the Balanced Scorecard model can be used to measure and assess key areas of supply chain performance as follows:'

This approach helps to ensure that you understand the question, recognise the main command word and **evaluate** the application and use of the 'Balanced Scorecard' approach for the measurement and assessment of supply chain performance.

**The following is suggested answer content rather than a model answer:**

The balanced score card developed by Kaplan & Norton which comprised 5 inter-linked sections. These sections are reflected as below.



Procurement professionals can apply the scorecard in areas that underpin the company's overall vision and strategy, supporting both internal and external customers and contributing to the overall financial performance of the corporation. These need to be related to the critical success factors of the business and monitored and measured through appropriate use and selection of key performance indicators.

Examples can include but are not limited to:

- External Customer support could be through superior time to market and new product realisation through working closely with our supply chain partners. A KPI could be the number of innovations per year per key supplier, the reduction of overall lead-time and the investment in new technologies such as 3D printing that support lead-time reduction and time to market (TTM).
- Internal Business Processes. This could be the support of just in time (JIT) manufacturing by employing more local sourcing strategies. This could be measured through both product volume and value of spend.
- Learning and Growth. This could be the number of personnel trained and certified by CIPS and other key business areas whose knowledge and expertise can contribute overall value to the company, and of course the employees themselves.
- Financial Perspectives. Given that products and services spend in support of the company or corporation's business goals and objectives will be high there are a myriad of measures that can be monitored. In the Public Sector this may be budgeted spend v actual. In the private sector could be

---

related to cost and profit improvement activities. Certainly inventory turns could be a significant measure.

- **Vision and Strategy.** Certainly Corporate Social Responsibility can be supported by Ethical Sourcing Policies which can be measured in a myriad of ways, waste reduction, supporting a living wage and local sourcing to reduce carbon footprint.

So, regardless of industry procurement professionals can usefully employ a balanced scorecard that underpins company and corporate strategy and supports continuous improvement in key areas of the business in a more balanced fashion.

It is important that procurement professionals engage with stakeholders throughout the business including key suppliers, to ensure that the developed 'Scorecard' is both useful and representative of the business needs, operationally and strategically, short and long term.

### **Balanced Scorecard Perspectives**

**Financial** – financial performance and the creation of shareholder value

**Customers** – how effectively the organisation delivers value to the customer

**Internal Business Processes** – this measures how effectively and efficiently value adding processes are carried out through the supply chain

**Innovation and Learning** – the skills and knowledge required to develop distinctive competencies for the future growth of the organisation

**Vision and Strategy** – this sits at the centre of the balanced score card and provides linkage between all of the other elements

Answers may provide a diagram to support this theoretical framework. Answers may refer to knowledge of organisations to provide examples of application.

**Other valid answers will be accepted.**