

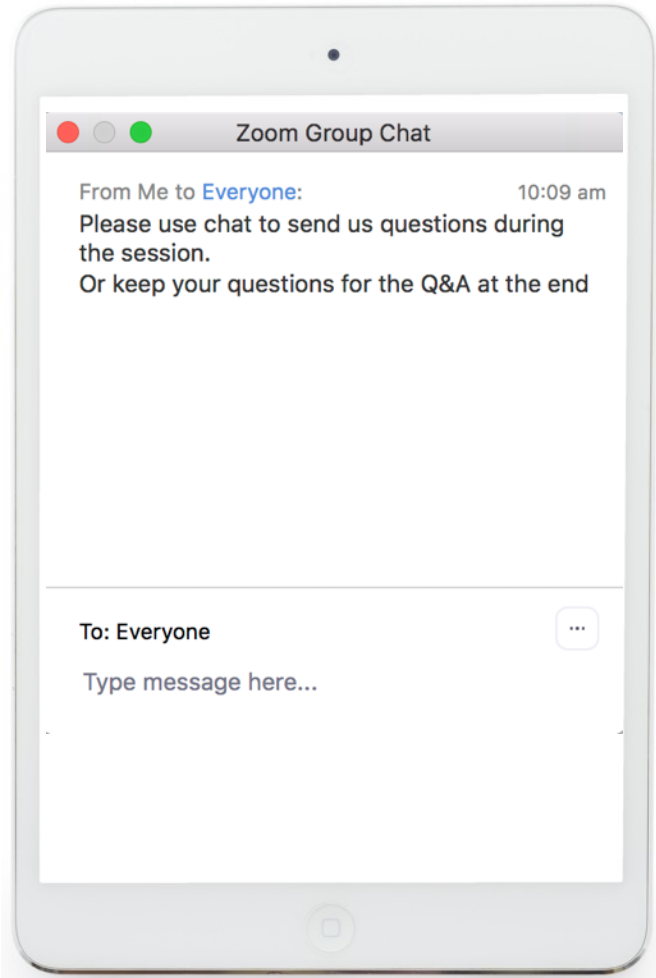


# *CIPS Practitioner Programme*

Sourcing Essentials in Procurement & Supply

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# Admin



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# Module Aim



## Sourcing Essentials in Procurement and Supply

### Aim

This module consists of two units:

- ① The Sourcing Process and Effective Tendering
- ② Supplier Appraisal

This module covers the process management of sourcing, supplier pre-qualification / appraisal, tendering and other approaches to the selection of suppliers. Key aspects of the unit are the financial analysis of organisations as well as the development of systems to enable improved sourcing processes to help the organisation achieve effective contracts for the supplies of goods, services or works.

# Assignment Question

We will come back to this at the end of the training



## Module: Sourcing Essentials in Procurement & Supply

### Task

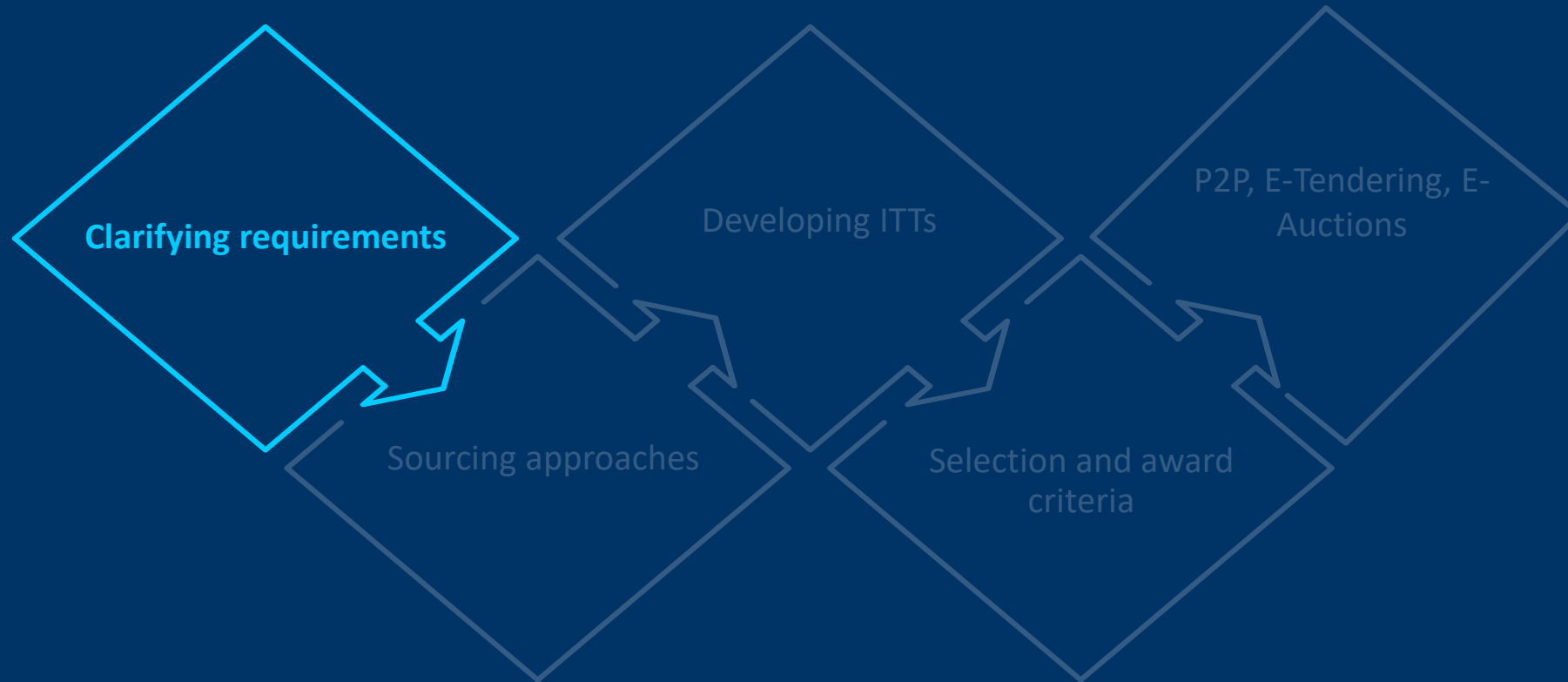
Identify four sourcing approaches, and for each one, identify and explain how you apply them to a category of spend within your organisation.

Choose one of these categories and develop a supplier appraisal checklist.

# *Managing Expenditures with Suppliers*

## *The Sourcing Process and Effective Tendering*

In this Unit, we will focus on:





# *Clarifying Requirements*

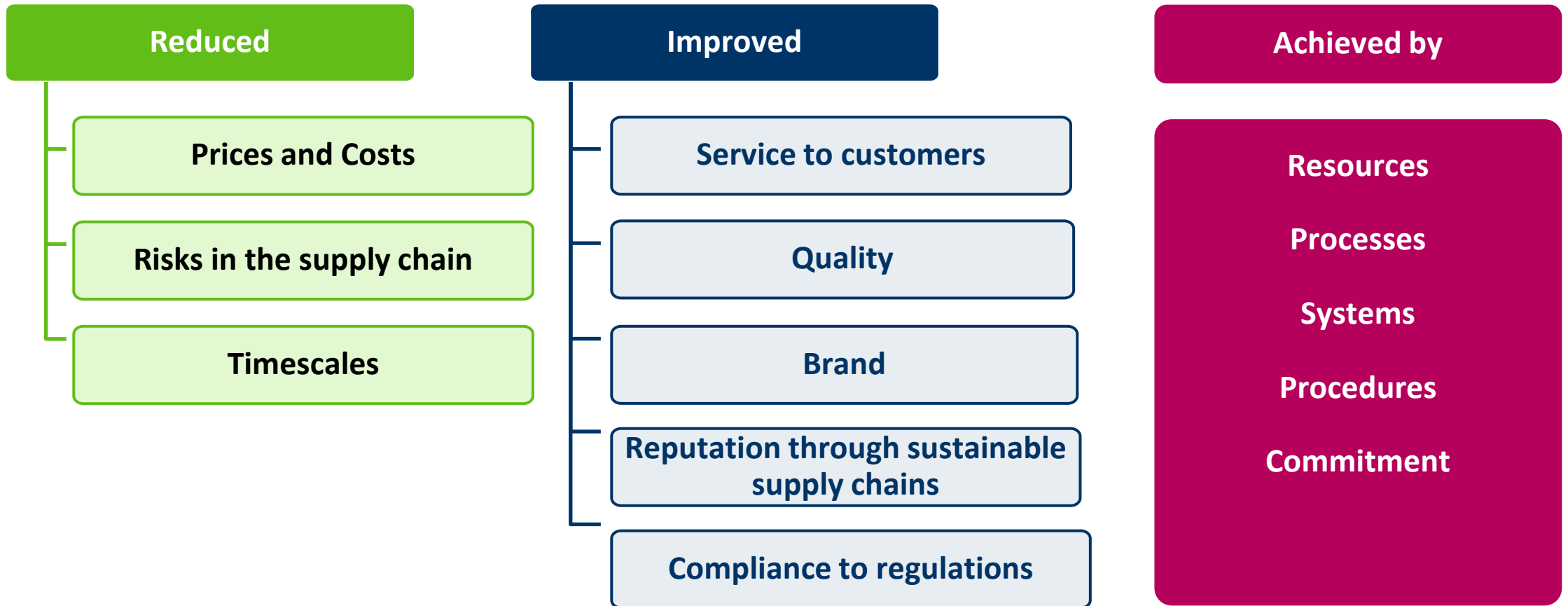
**We will start with a review of key principles covered previously in the Driving Value module and how they can help drive the sourcing process**

- The added value that Purchasing and Supply can help achieve
- The 5 rights
- How internal stakeholders can have conflicting priorities
- Managing stakeholders expectations
- Procedures that regulate the sourcing process



# *The Roles and Benefits of Purchasing & Supply Chain Management*

The benefits can be achieved by:



# *The 5 Rights as Business Priorities*

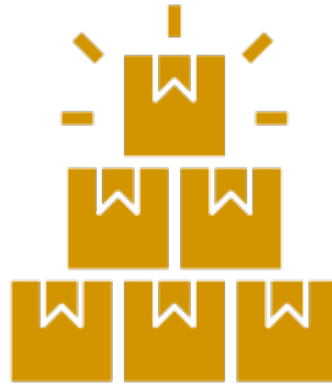
The roles and benefits link back to the 5 rights of procurement:



Price



Quality



Quantity



Time



Place



# *Internal Stakeholders*

## **Stakeholder:**

- Directors/managers
- Staff/team members or other organisation members
- Technical/design function
- Manufacture/production/operations function
- Sales and marketing function
- Finance/admin function
- Storage and distribution (or logistics)



# Clarifying Requirements

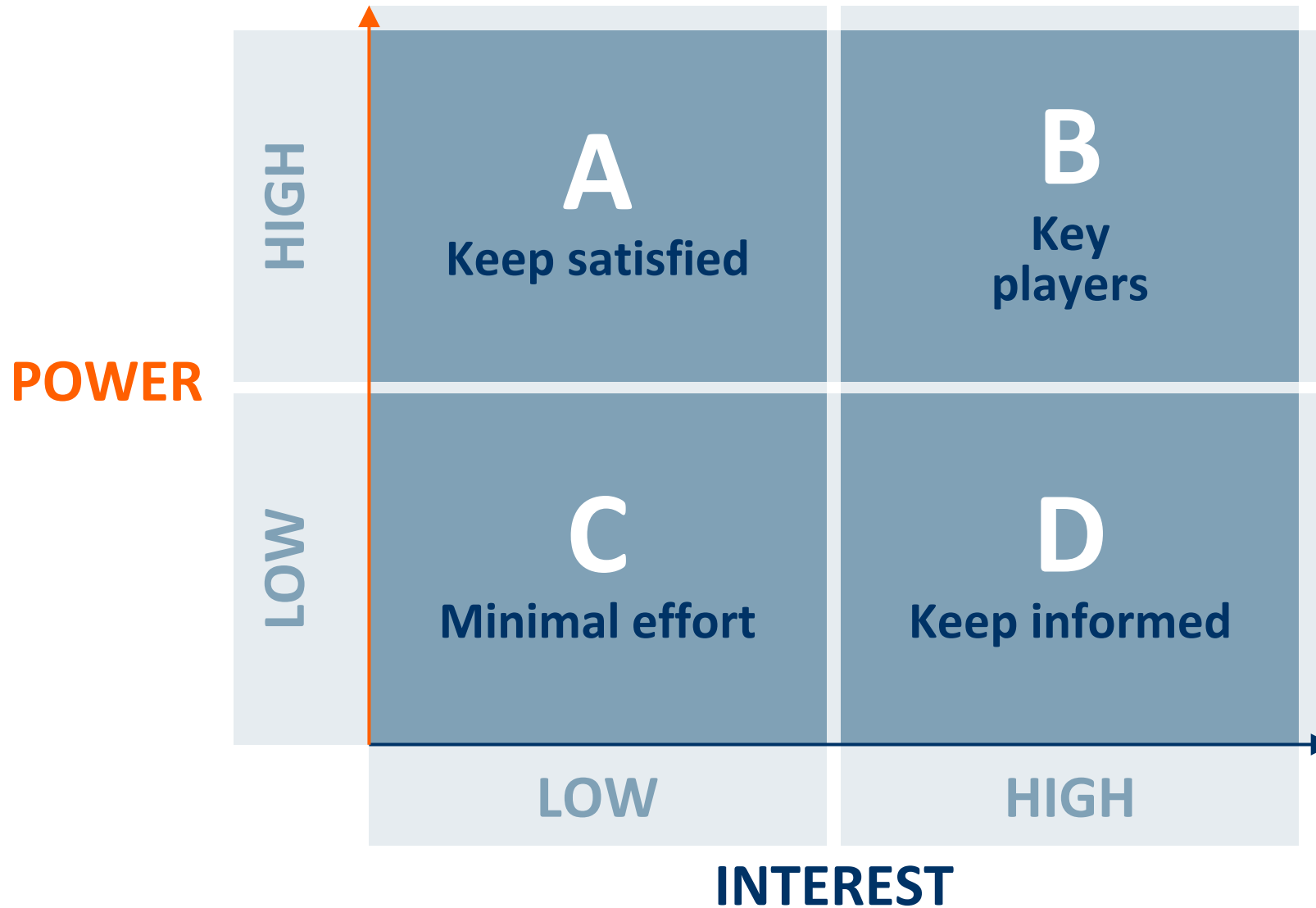
Identify your key internal stakeholders and assess their business priorities in terms of the 5 rights:

Stakeholder	Priority

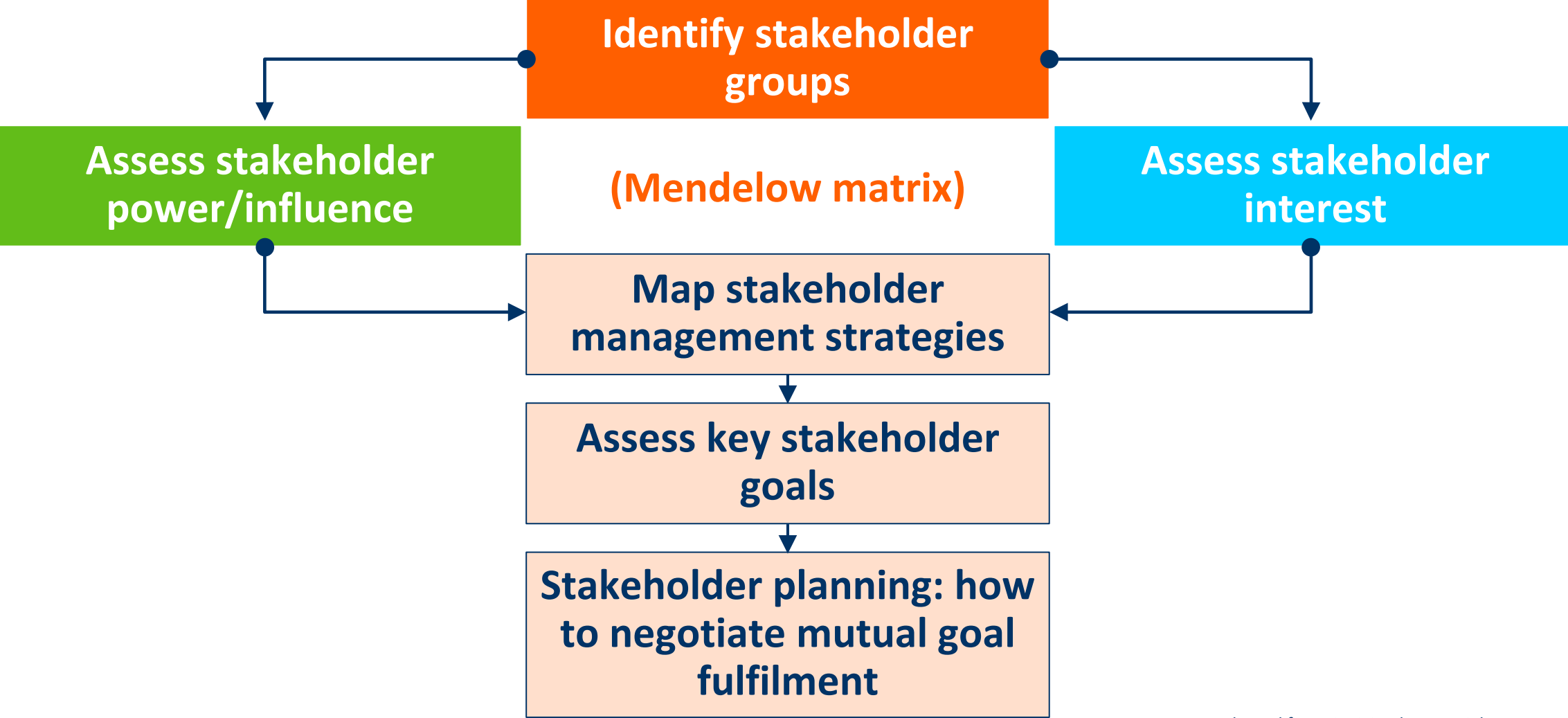
These results should help us understand that different customers will pull the procurement function in different directions. How can these conflicts best be resolved?



# Mendelow's Matrix (1991)



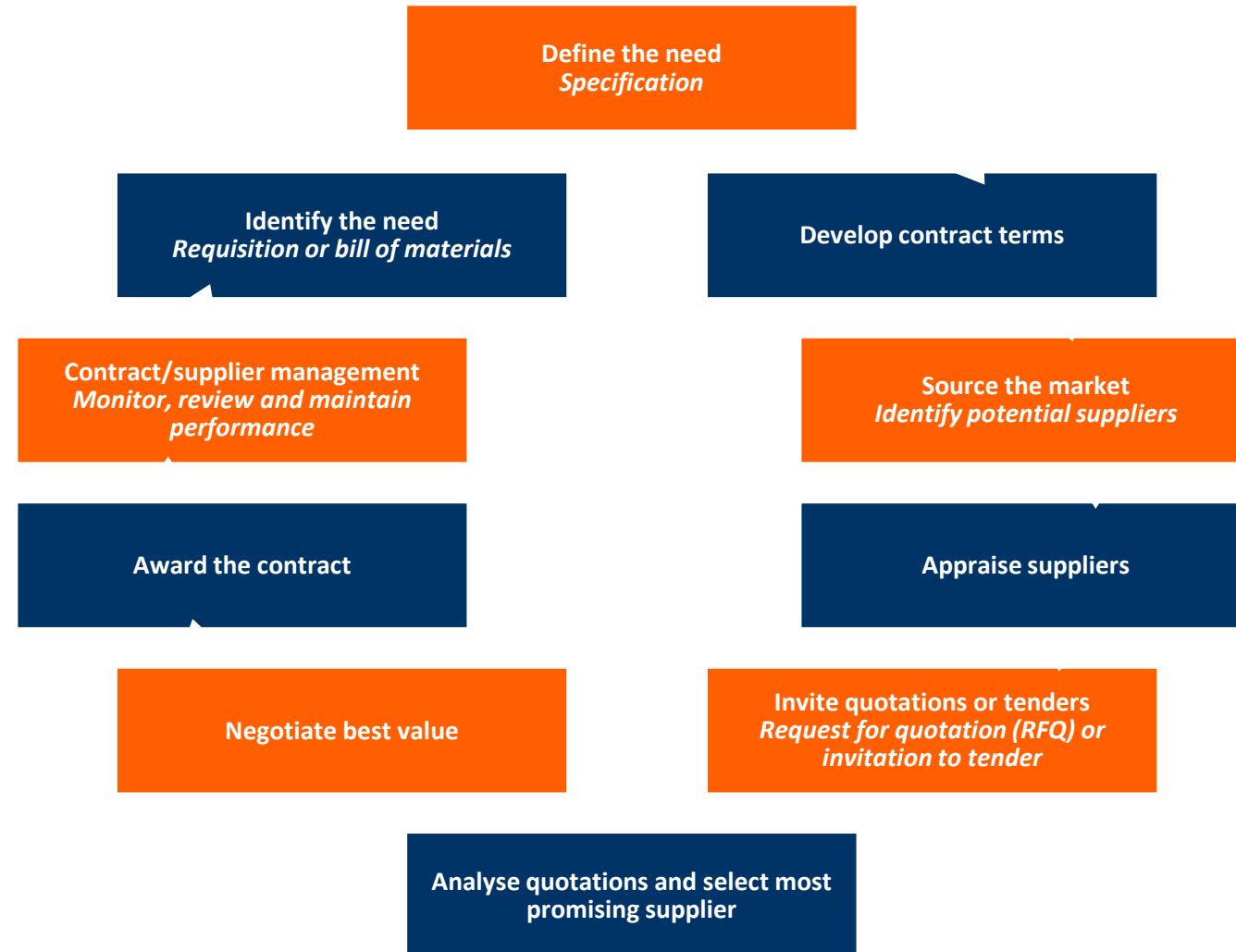
# Stakeholder Management



Adapted from CIPS Study Materials

# The Procurement Process

A simple representation  
of the process is:



Organisations typically  
have procedures and  
policies that regulate the  
process



# *Organisational Procedures*

These can impact on the sourcing process, in varying ways. Consider the following areas:

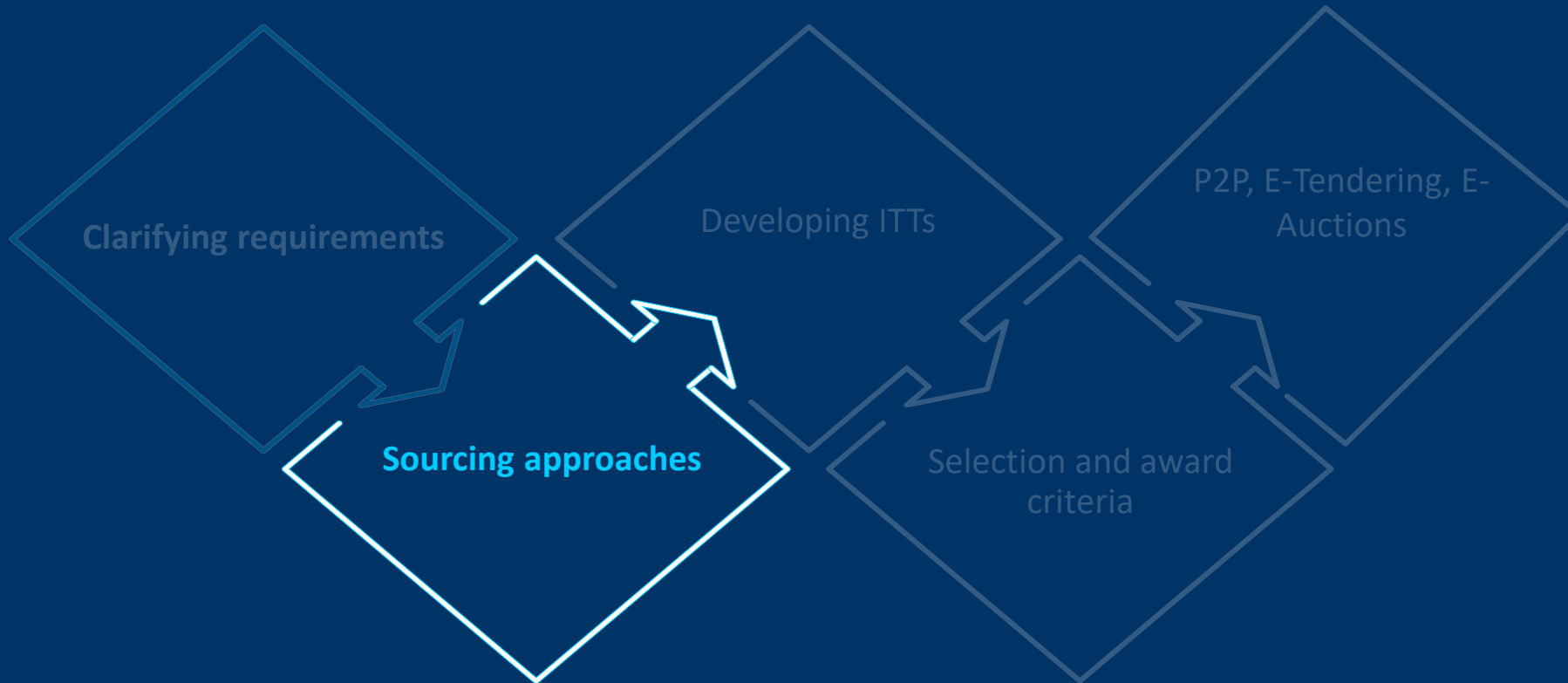
- The responsibilities for procurement
  - Regulations affecting competition
  - Levels of delegated authority
  - Responsibilities for the stages of the sourcing process
  - Invoice clearance and payment
- 
- Are your procedures clear?
  - Are they clear communicated?
  - Are they understood by stakeholders?



# Managing Expenditures with Suppliers

## The Sourcing Process and Effective Tendering

In this Unit, we will focus on:





## ***The Sourcing Plan – A non -exhaustive list of elements***

Sourcing Plan/Sourcing Strategy/Category Strategy/Category Plan (Interchangeable)

- An analysis of the current situation e.g. PESTLE, SWOT, Portfolio Analysis, Supplier Preferencing, expenditure and volumes
- An analysis of the supply market e.g. Monopoly or Perfect Competition, Product Life Cycle, Porter's 5 Forces
- A stakeholder analysis - Mendelow
- Potential sourcing approach also known as your sourcing policy i.e. Single or Multi Source, based on feasibility, capability, maturity and capacity
- Contracting method e.g. Tendering or direct negotiation
- Selection and award criteria
- Recommendations on planning requirements





## *Sourcing Approaches*

- Single supplier
  - Sole supplier
  - Dual supplier
  - Multiple supplier
- 
- Note: partnership is not a sourcing approach but a relationship approach, which could for example underpin single supplier approach or a sole supplier approach

# *Sourcing Approaches*

Assess the advantages and disadvantages of each sourcing approach:

- Single supplier
- Sole supplier
- Dual supplier
- Multiple supplier

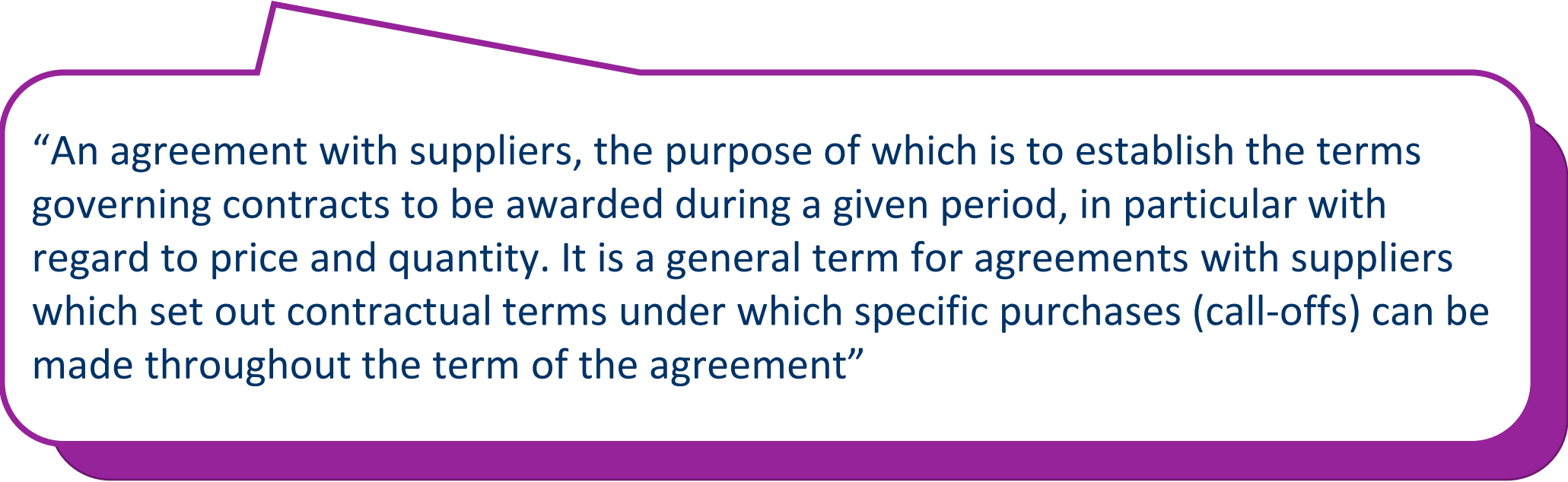




# *Sourcing Approaches*

## **Use of framework agreements**

It is common for customers to satisfy their business requirement by utilising the contracting option of framework agreement, for specific categories of products or services

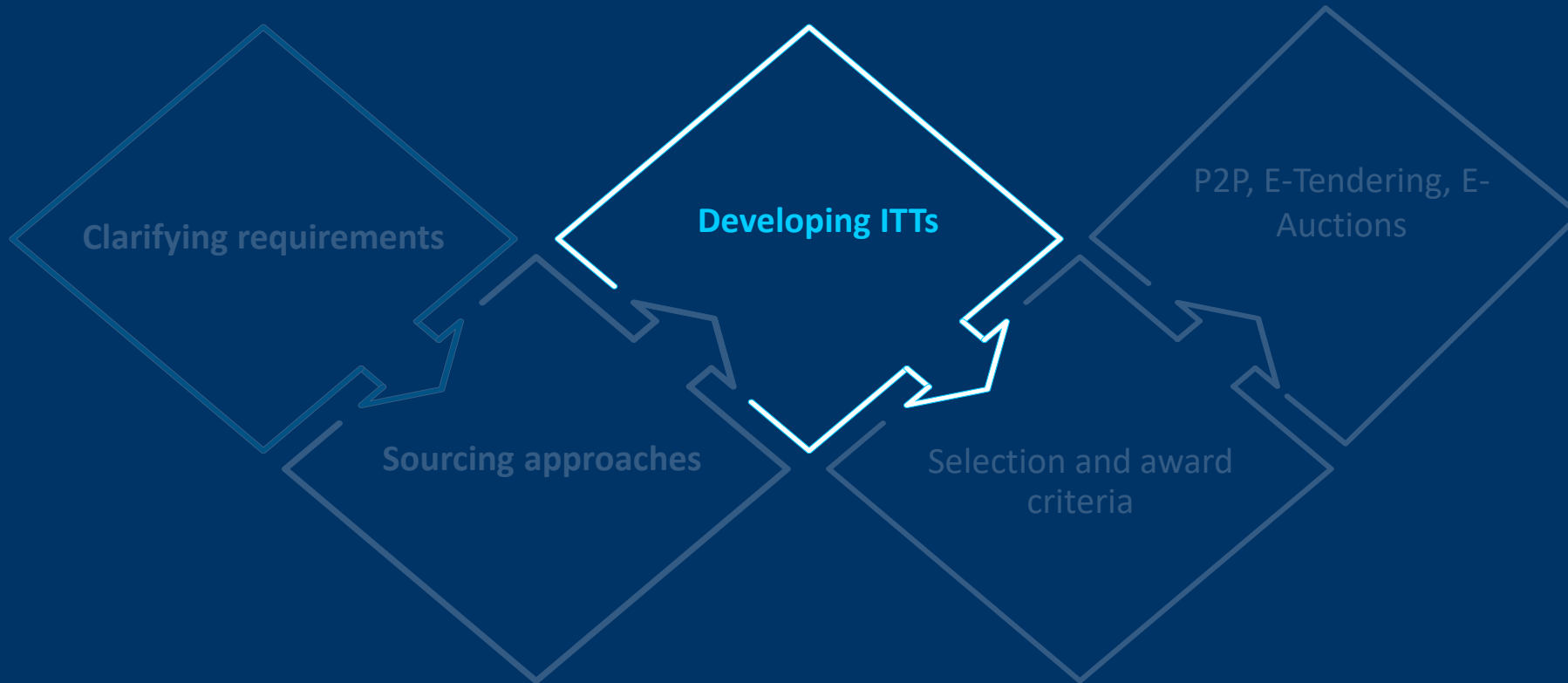


“An agreement with suppliers, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and quantity. It is a general term for agreements with suppliers which set out contractual terms under which specific purchases (call-offs) can be made throughout the term of the agreement”

# Managing Expenditures with Suppliers

## The Sourcing Process and Effective Tendering

In this Unit, we will focus on:



# *Developing ITTs*

A survey by CIPS (2012) found that over 50% of firms used tendering and although this survey is old the reasons are still valid:

- All tenderers receive the same information
- All tenderers work to the same timescale – fixed despatch/closing/opening dates
- Properly controlled opening procedures to guarantee confidentiality
- Contract Terms which protect the Purchaser are included; and
- Like for like assessments are facilitated and made



# *Developing ITTs*

ITTs will generally contain:

- Instructions to tenderers
- The Specification
- The Form of Tender and Certificate of Non Collusion
- Reply Forms e.g. Pricing Schedule, Health and Safety Records, KPI's
- The Contractual Terms chosen
- Appendices (as applicable e.g. customer and site information, plans, drawings etc)



# Managing Expenditures with Suppliers

## The Sourcing Process and Effective Tendering

In this Unit, we will focus on:





# *Selection and Award Criteria*

**We need to distinguish between Selection and Award criteria**

## **Selection:**

Tend to emphasise  
pass/fail criteria

Tend to be historical  
assessing processes/  
standards in place



## **Award:**

Tend to emphasise criteria  
that will achieve outcomes

Tend to be forward looking -  
how they will achieve desired  
outcomes

# *Selection Criteria*

- Use of selection questionnaires
- Examples of selection criteria:
  - Environmental system
  - QA system
  - Track record
  - Employment policies

15%

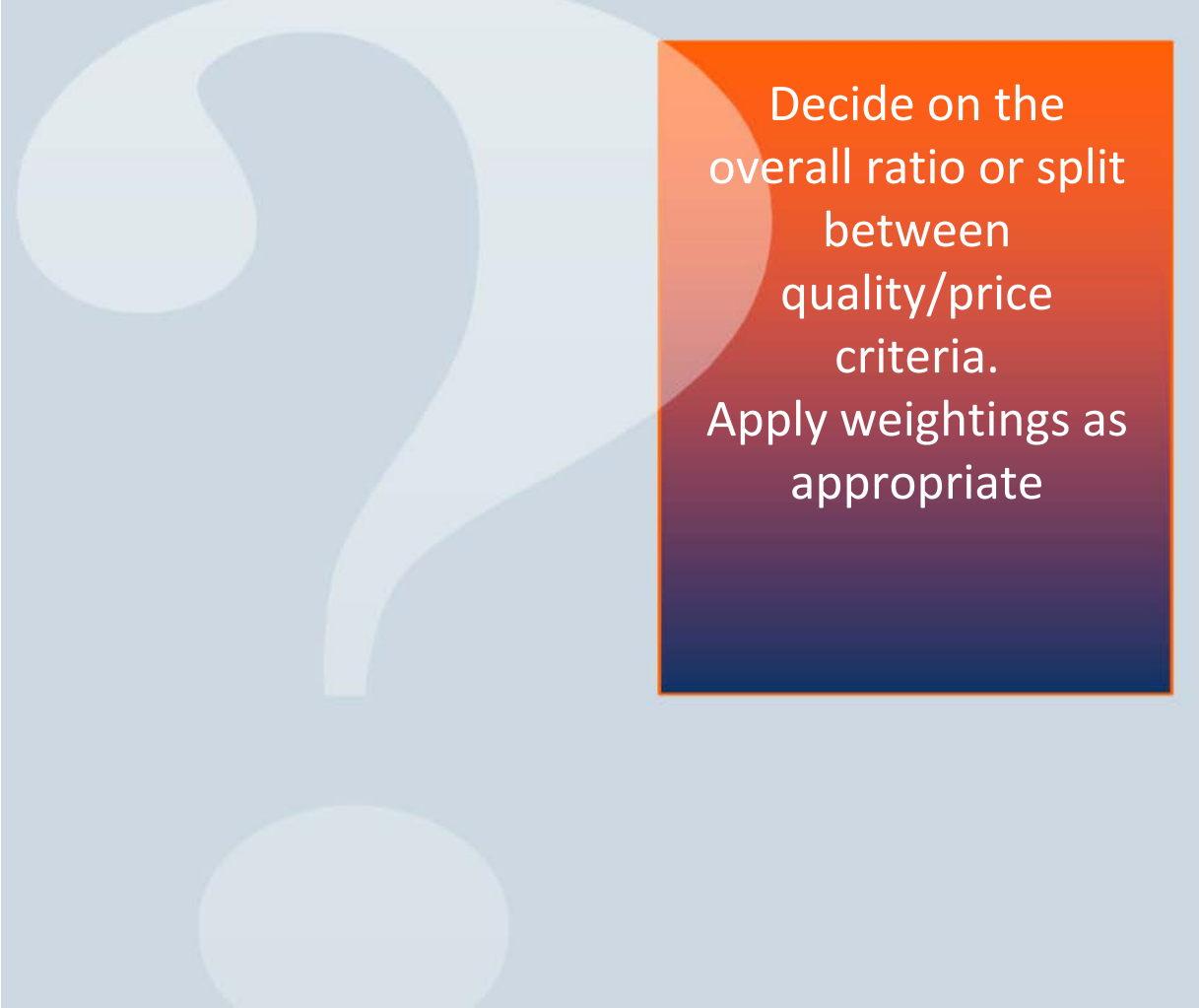
10%

Weightings  
change  
according to the  
category  
that is being  
purchased

# Award Criteria

Some examples of tender award criteria are:

- Quality/Technical merits
  - Design, functional characteristics
  - Sustainability
  - Innovation
  - Maintenance support
- Price



Decide on the overall ratio or split between quality/price criteria.  
Apply weightings as appropriate

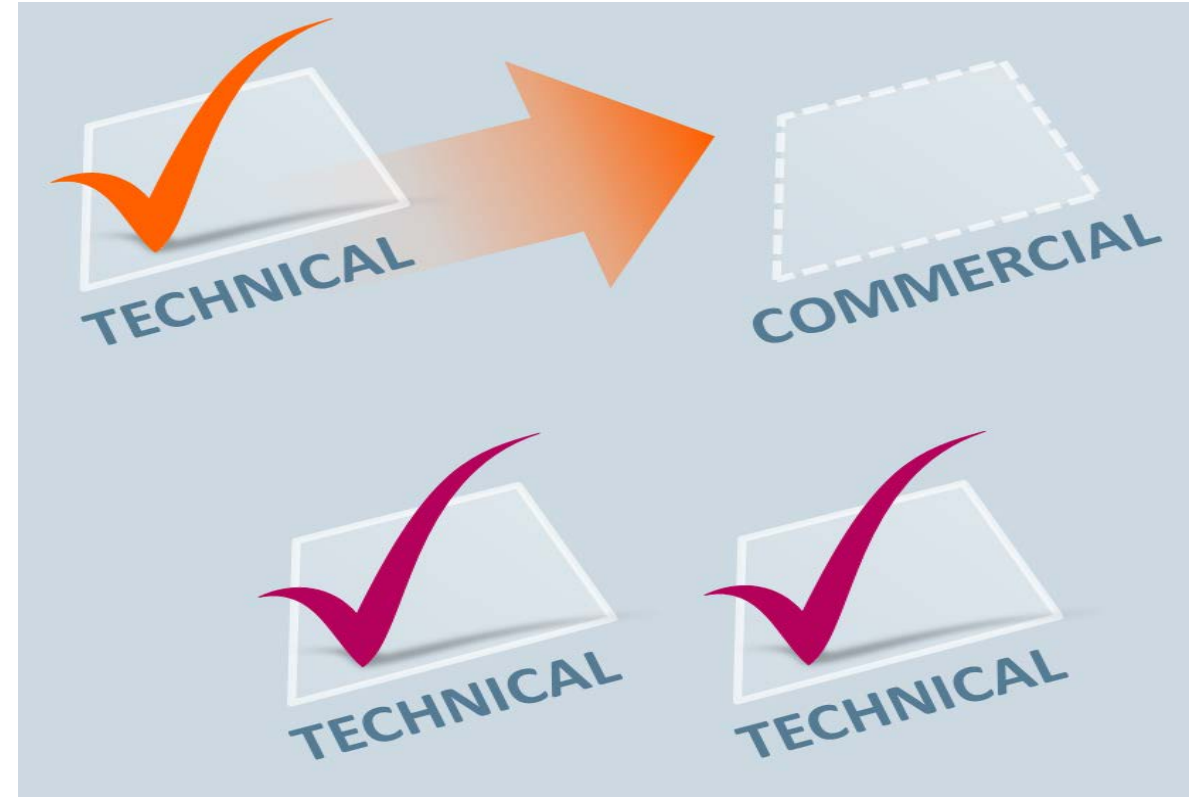
# Award Criteria

## Evaluating tenders

Various options are available

### Technical evaluation versus Commercial evaluation

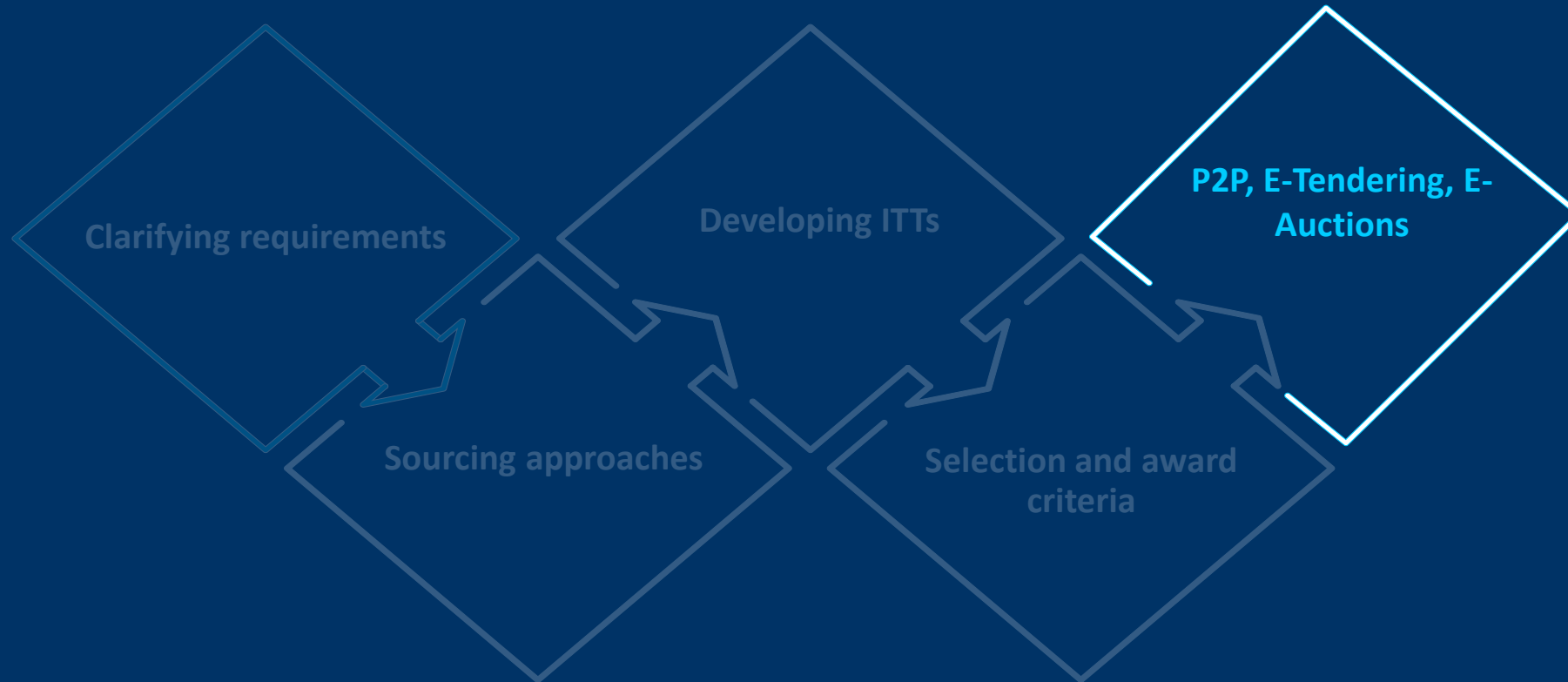
- **Option 1: Separate actions** - so that the 2 evaluations are carried out by separate teams and only those that pass the technical evaluation are then commercially evaluated
- **Option 2: Joint action** - Commercial and Technical evaluations occur simultaneously reaching consensus on awarded scores



# Managing Expenditures with Suppliers

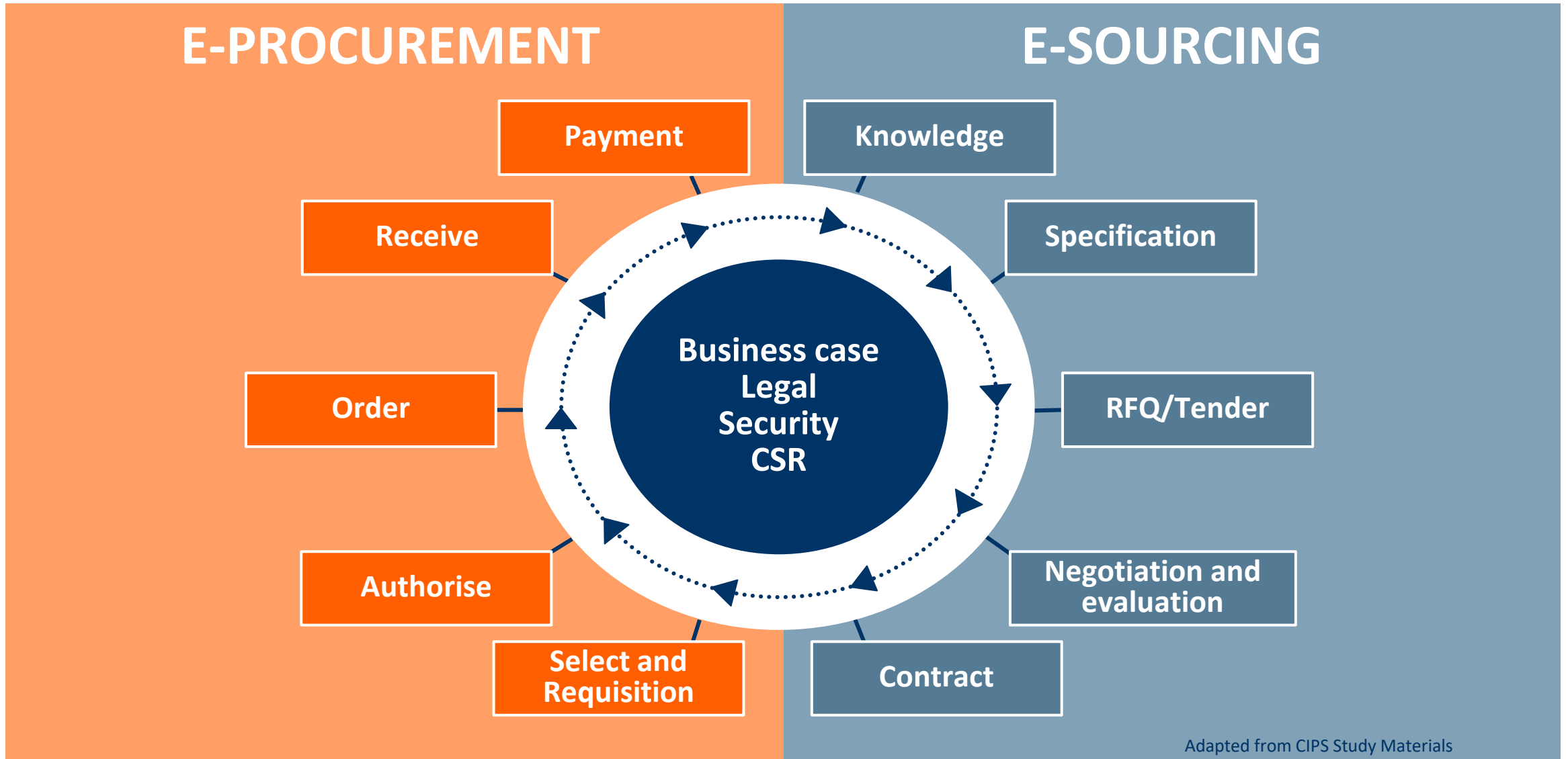
## The Sourcing Process and Effective Tendering

In this Unit, we will focus on:





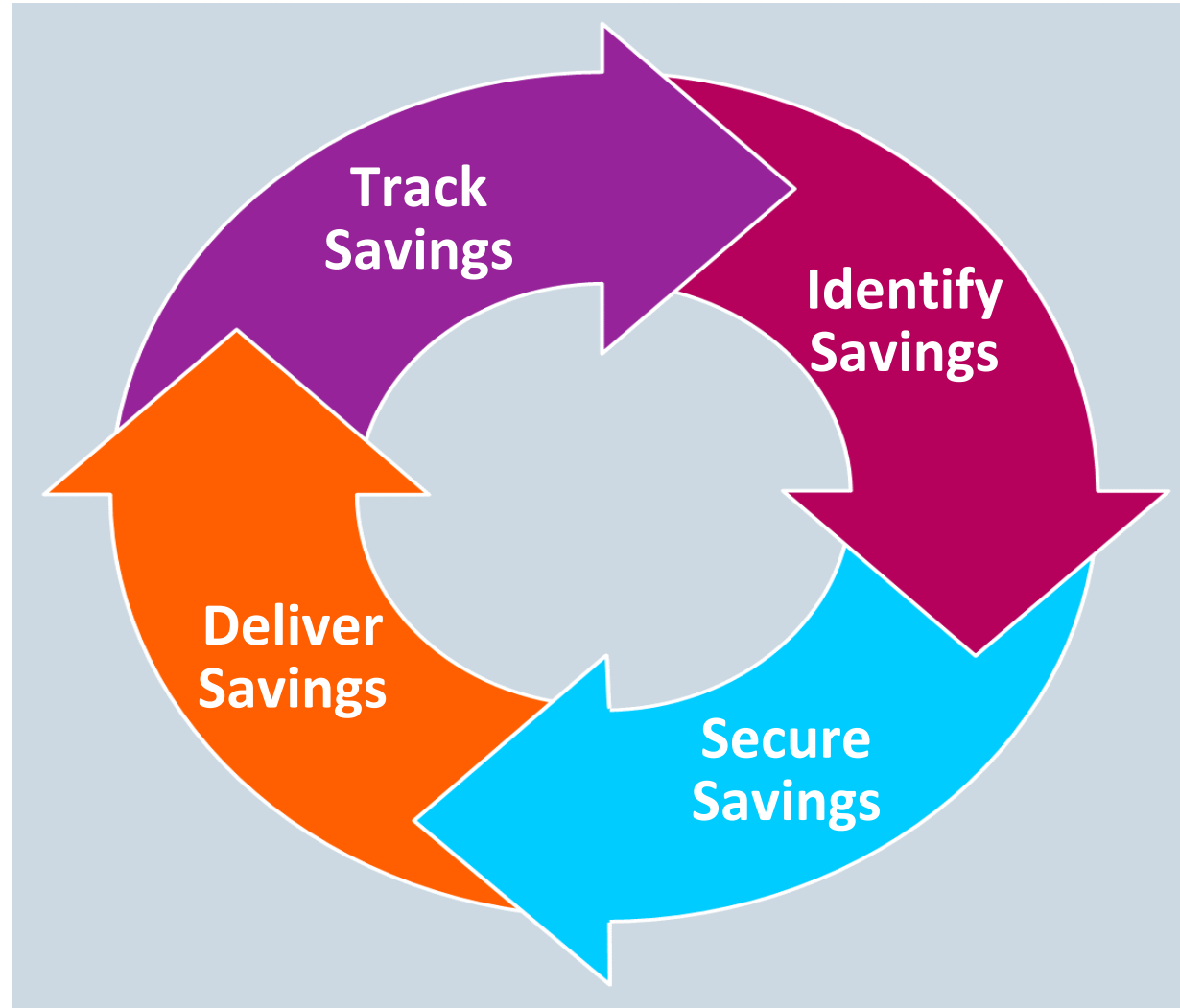
# *Purchase to Pay (P2P)*



Adapted from CIPS Study Materials

# *Purchase to Pay (P2P)*

- Information provided by eProcurement
- Enables Benefits Management and on-going Strategic Sourcing
- Improved Supplier Management
- E-Procurement enables compliance to contracts
- Content Management
- Purchase 2 Pay Process
- Reduces Maverick Spend



- Spend Analysis and Aggregation
- Standardises Specifications
- Supplier Rationalisation
- Strategic Sourcing
- E-Auctions and E-Tendering

Adapted from CIPS Study Materials

# *E-Sourcing*

## E-Catalogues

- Suppliers exhibit their products in electronic catalogues, which can be viewed online or downloaded by potential purchasers

## Supplier portals and market exchanges

- Sites where multiple buyers and sellers access and share information about requirements and offerings

## Online supplier evaluation data

- Third party reports, customer feedback, approved or accredited supplier registers and directories, benchmarking reports, market intelligence tools



# *E-Sourcing*

## E-Auctions

- Conducted online using the buyer's or seller's website, or third party auction sites

## E-Tendering

- Using E-RFQs (electronic requests for quotation) and specifications posted online or emailed to potential suppliers





# *E-Auctions*

## Tasks

- Identify the categories of procurement that Reverse Auctions might be appropriate for?
- Thinking about E-Auctions identify some potential benefits of this type of approach.
- Conversely the approach of E-Auctions may have drawbacks and may attract criticism. Identify what some of these may be?





## *E-Tendering*

- The invitation to tender (ITT) is published on the buyer's E-Tender web portal, for potential suppliers to view
- Suppliers respond to the ITT by sending their bids using secure email to the E-Tendering system's 'electronic vault', and are registered as bidders
- Buyers can often observe and manage the tendering process through a 'front end' web function
- In-built security features prohibit access to any of the tender responses until a specified time
- The system may include an automatic scoring particularly for PQQs and pricing details included in the tenders
- Successful and unsuccessful bidders can be automatically notified of debrief/award



# *E-Catalogues*

- Product content and catalogue management is the process of suppliers enabling electronic product content to be made available to buying organisations in order for them to procure goods electronically.
- Product content can be hosted by the buyer or supplier.
- Information should be reliable and readily available



*Source: Buy IT E-Procurement Guidelines*

# E-Catalogues

Model	Advantages	Disadvantages
<b>Buyer Hosted</b>	<ul style="list-style-type: none"><li>+ Buying organisation maintains a high degree of control over content and pricing</li><li>+ Can help to ensure that only contracted items and process are available to the requisitioner</li><li>+ Minimal integration effort required, hence quickest model to deploy</li><li>+ Can be linked to custom forms within the e-Procurement application</li></ul>	<ul style="list-style-type: none"><li>- Supplier has to provide data in multiple formats to different buying organisations (unless and until standards can be widely adopted)</li><li>- Can become expensive when large numbers of products and catalogues are involved</li></ul>
<b>Supplier Hosted</b>	<ul style="list-style-type: none"><li>+ Can be used to support all catalogue types from simple lines through to complex, configurable items</li><li>+ Supplier maintains control over how product data is presented</li><li>+ Suppliers can integrate directly into their supply chain and financial systems</li></ul>	<ul style="list-style-type: none"><li>- Suppliers are responsible for providing buyer-specific content</li><li>- Can be complex for suppliers to implement</li><li>- Buying organisation will need to implement controls around managing content changes</li><li>- i.e. price or specification</li></ul>

*Cont../*

# E-Catalogues

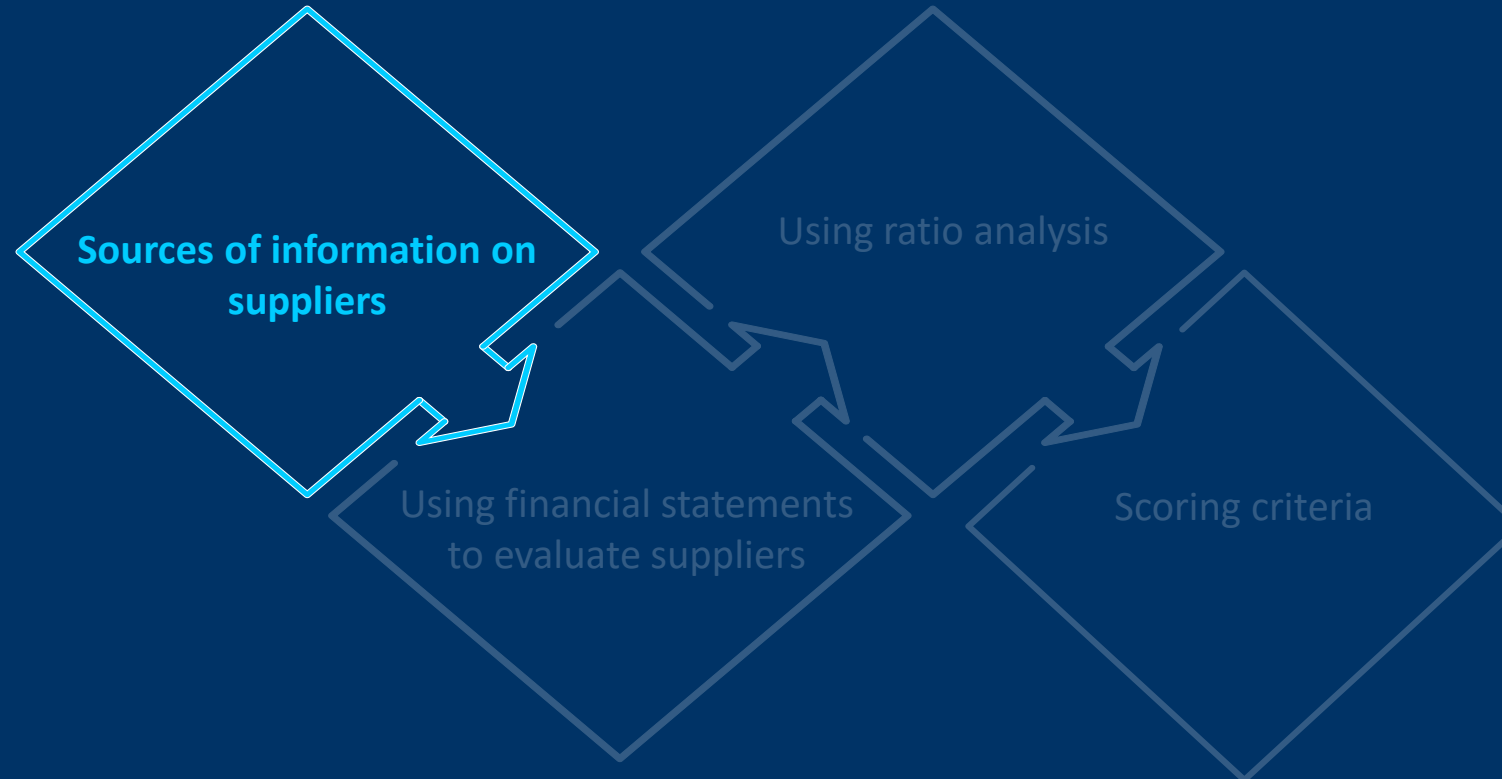
Model	Advantages	Disadvantages
<b>Third Party Aggregator</b>	<ul style="list-style-type: none"><li>+ Suitable for very large catalogues</li><li>+ Can contain a list of e-Procurement enabled suppliers and provide a central repository for supplier catalogues</li></ul>	<ul style="list-style-type: none"><li>- Does not typically contain organisation specific pricing so not ideal for contracted spend</li><li>- Will require custom integration between catalogue and e-Procurement application</li></ul>
<b>e-Marketplace</b>	<ul style="list-style-type: none"><li>+ Suitable for producing buyer-specific catalogue views</li><li>+ Eases burden on suppliers as they only need to provide one instance of the catalogue supported by buyer-specific pricing</li><li>+ Allows suppliers to gain access to many buyers</li></ul>	<ul style="list-style-type: none"><li>- Possible issues around data security and how to restrict buyer-specific views</li></ul>

*Source: Buy IT E-Procurement Guidelines*

# Managing Expenditures with Suppliers

## Supplier Appraisal

In this Unit, we will focus on:



# Supplier Appraisal

**Definition** - “Assessment of a potential supplier’s capability of controlling quality, delivery, quantity, price and all other factors to be embodied in a contract” [CIPS Knowledge 2019 How to appraise](#)

- Why appraise?
- When to appraise?
- What should be appraised?
- Carters 10C’s





# *Supplier Appraisal*

## Sources of Information

Published annual reports of companies, as well as their financial statements, often have a wealth of information about:

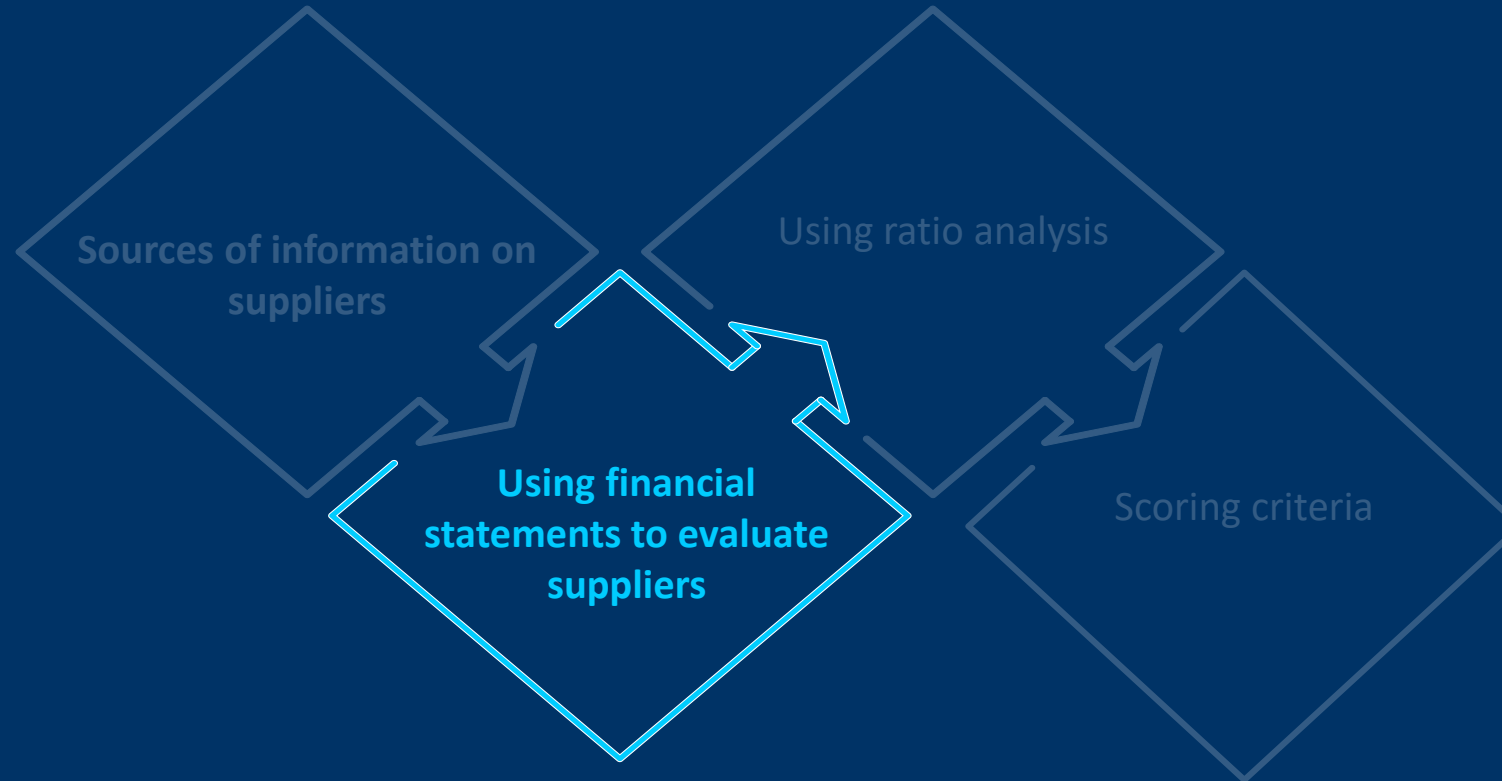
- Profitability
- Markets and market shares
- Performance of different business units/subsidiaries
- Ownership
- Risks
- Approaches to ethics/CSR



# Managing Expenditures with Suppliers

## Supplier Appraisal

In this Unit, we will focus on:



# Using financial statements

## The Balance Sheet (also known as the 'Statement of financial position')

- Reflects the assets and liabilities of a business as at a particular date.
- It is like a photograph of the assets and liabilities of a business, is always, 'as at' a particular date eg 31 March
- Assets are items that the organisation **owns** and these can be 'current' or 'fixed'
  - **Current** = items acquired or produced for sale and conversion into cash, and cash itself.  
*What examples can you think of?*
  - **Fixed** = items of a permanent or semi-permanent nature, necessary for carrying out the organisation's activities and therefore not normally changed in day-to-day trading.  
*What examples can you think of?*



# *Using financial statements*

## The Balance Sheet (also known as the 'Statement of financial position')

- Liabilities are items that are **owed** by the organisation
  - **Capital (or shareholder's equity)** = money provided by shareholders in return for a share of the business
  - **Long term debt (loans or bonds)** = money provided by outsiders in return for interest
  - **Short term debt (current liabilities)** = money owed to outsiders such as suppliers or banks in the short term



# Balance sheet / statement of financial position

– simple layout

Statement as at 31 March	Assets	Liabilities
Cash	5,000	
Inventory	20,000	
Accounts receivable (current debtors)	20,000	
<b>Total current assets:</b>	<b>45,000</b>	
Buildings	250,000	
Vehicles	50,000	
<b>Total fixed assets:</b>	<b>300,000</b>	
<b>Total assets:</b>	<b>345,000</b>	
Accounts payable		40,000
Credit card		5,000
<b>Total current liabilities:</b>		<b>45,000</b>
Loan		200,000
Share capital (shareholder's equity)		100,000
<b>Total liabilities:</b>		<b>345,000</b>



# The Balance Sheet – Example

Balance Sheet WSL Ltd	2018/19 (£k)	2019/20 (£k)	2020/21 (£k)
<b>Fixed Assets:</b>			
Land and Buildings	2576	2576	2576
Plant and Equipment	788	796	1020
<b>Current Assets:</b>			
Stock	795	1068	1453
Debtors	858	921	701
Cash	321	289	303
<b>Total Assets</b>	<b>5,338</b>	<b>5,650</b>	<b>6,053</b>
<b>Current Liabilities:</b>			
Creditors	812	834	637
Tax Owing	150	132	411
Dividends Owing	212	332	7
Overdraft	578	363	472
<b>Net Assets</b>	<b>3,586</b>	<b>3,989</b>	<b>4,526</b>
<b>Financed by:</b>			
Long Term Loans	1402	1683	1712
Share Capital	2020	2020	2505
Reserves	164	286	309
<b>Capital Employed</b>	<b>3,586</b>	<b>3,989</b>	<b>4,526</b>



## ***The Profit and Loss Account (Statement of comprehensive income)***

- The purpose of this statement is to show whether a company has made a **PROFIT** or **LOSS** over a financial year
- It demonstrates how the profit or loss arose categorising costs between **cost of sales** and **operating costs**
- A profit and loss account starts with the **Trading Account** that shows the income generated by sales and the direct costs incurred in making these sales. All other expenses associated with the company are then deducted

# *The Profit and Loss Account*

Simple format

Sales Turnover	
Less: Cost of Sales	
= Gross Profit/(Loss)	
Less: Selling ,Distribution and Administration Costs	
= Net Operating Profit/(Loss) before interest and tax	
Interest Payable on Loan Capital	
Net Profit /(Loss) Before Tax	
Tax on Operational Activities	
Net Profit After Interest and Tax	
Dividends	
Retained Profit	

## *Profit and Loss - Example*

Profit and Loss Statement WSL Ltd	2018/19 (£k)	2019/20 (£k)	2020/21 (£k)
Turnover	6,052	6,352	6,405
Cost of Sales	4,022	4,263	4,453
Gross Profit	2,030	2,089	1,952
Selling, Distribution and Administration Expenses	1,121	1,212	1,564
Profit Before Interest and Taxation	909	877	388
Interest Payable	203	225	313
Taxation Payable	212	186	52
Profit After Interest and Taxation	494	466	23
Dividends	303	344	-
Reserves	191	122	23

# *The Profit and Loss Account*

## Key Aspects

- Gross profit is the profit achieved on trading (i.e. on buying and selling the goods of your business).

**Sales – cost of goods sold = gross profit**



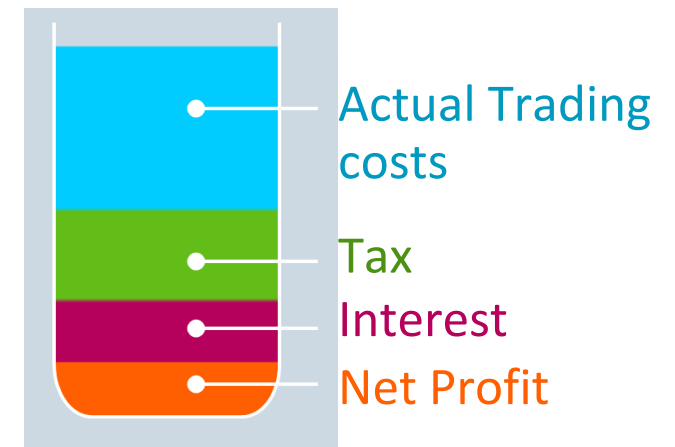
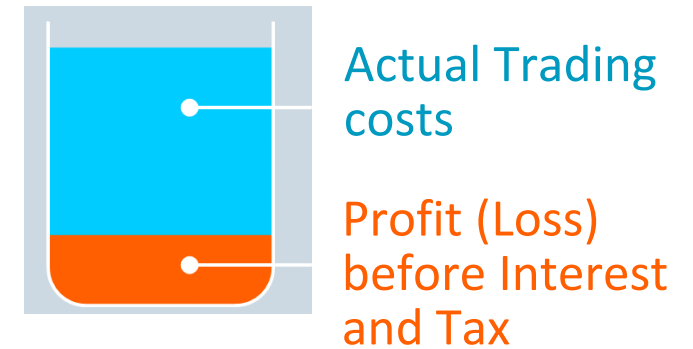
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# The Profit and Loss Account

## Key Aspects cont../

- **Profit Before Tax and Interest (often referred to as net profit):**  
 $\text{Sales} - \text{cost of goods sold} - \text{other expenses} = \text{net profit}$
- **Profit After Tax and Interest:**  
 $\text{Sales} - \text{cost of goods sold} - \text{other expenses} - \text{tax and interest}$



# *Financial Statements*

Categorise each entry such as Asset, Liability, Overhead etc. identifying which Financial Statement to find the entry (the Balance Sheet or Profit and Loss account)

- Plant and machinery
- Wages already paid to employees
- Cash held in the bank
- Brand name
- Reserves
- The cost of telephone calls made over the last year
- The salaries paid to directors of the firm over the last year
- Money owed on suppliers invoices
- Dividends still to be paid to shareholders
- Sales and marketing costs already paid for
- Raw materials or stocks
- Dividends paid to shareholders
- A debt owed to the company
- Long term loans
- Interest received from bonds



Profit and cash  
may be different –  
why?



# *Cash flow statement*

- A Cash Flow Statement is:
  - a statement of the *cash* that flowed into and out of the business over the *last* year.
- To aid understanding it is normally presented under three headings:
  - **Net Cash flow (in – out) from Operating Activities**
  - **Net Cash flow from Investing Activities**
  - **Net Cash flow from Financing**
- The addition of these three will then balance to the **Increase/Decrease in the Bank/Cash** balances over the year

# *The Relationship between the Statement of Financial Position and the Cash Flow Statement*

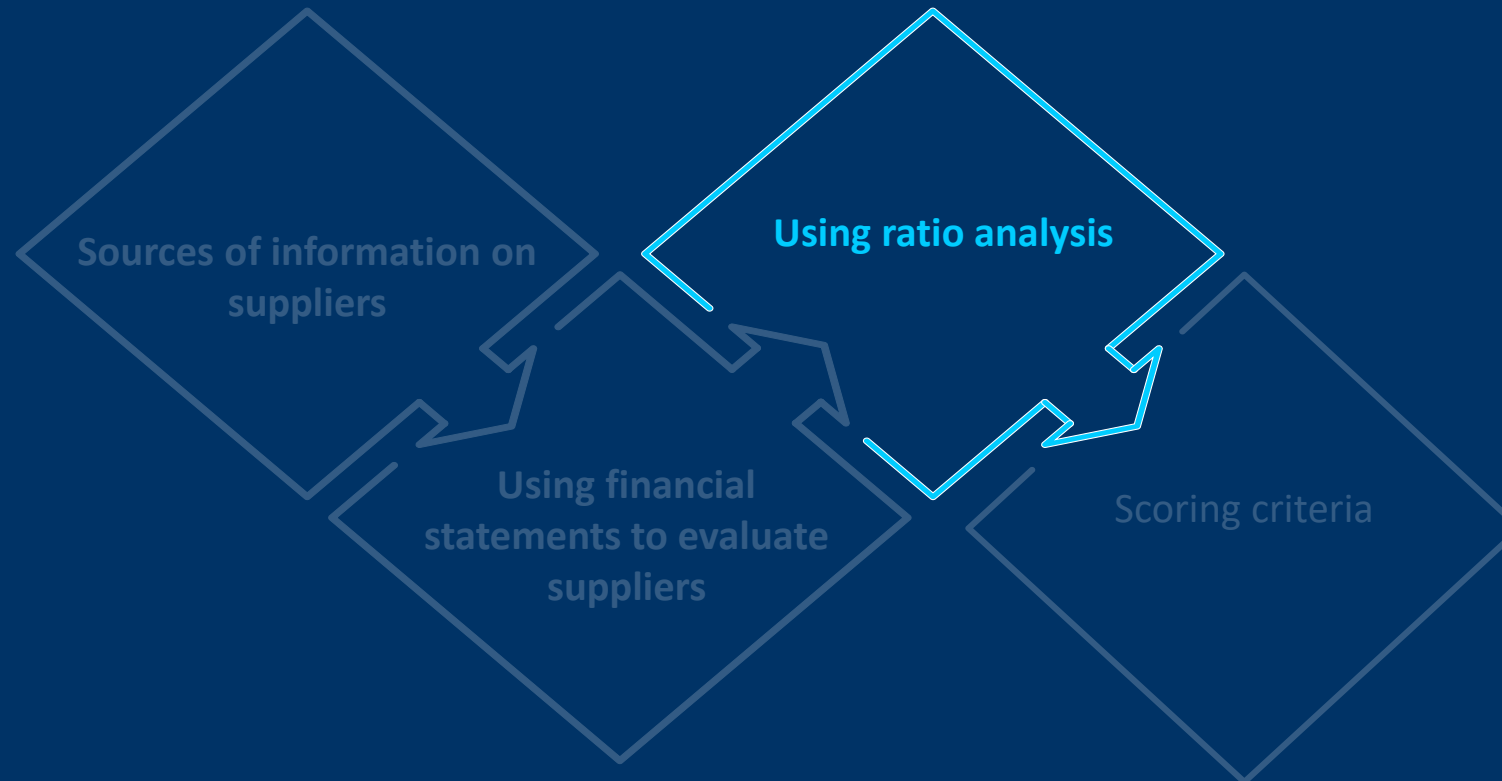
The relationship between the Balance Sheet and the Cash Flow Statement, usually reveals:

- the **Investment Cycle** representing the purchase of Non Current Assets
- the **Operating Cashflow**, financing Working Capital (purchase of Current Assets and payment of Current Liabilities)
- **Cashflow from Financing** (Equity and/or Debt) to finance the investment in Non Current Assets

# Managing Expenditures with Suppliers

## Supplier Appraisal

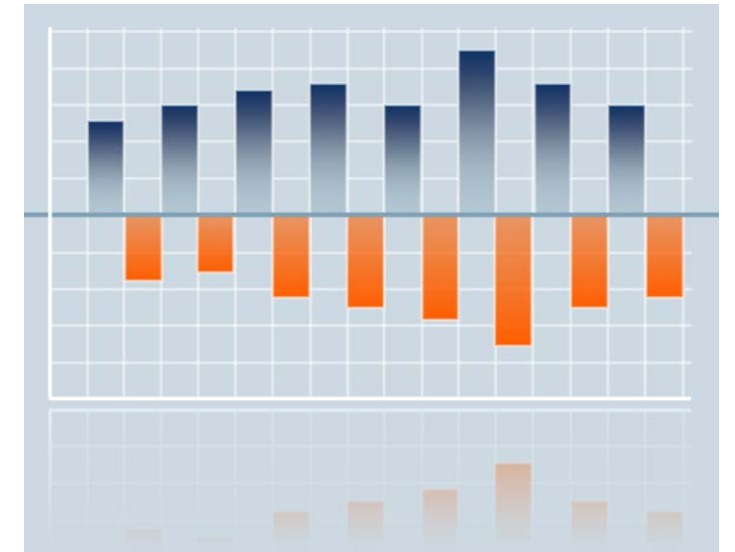
In this Unit, we will focus on:





# *Ratio Analysis*

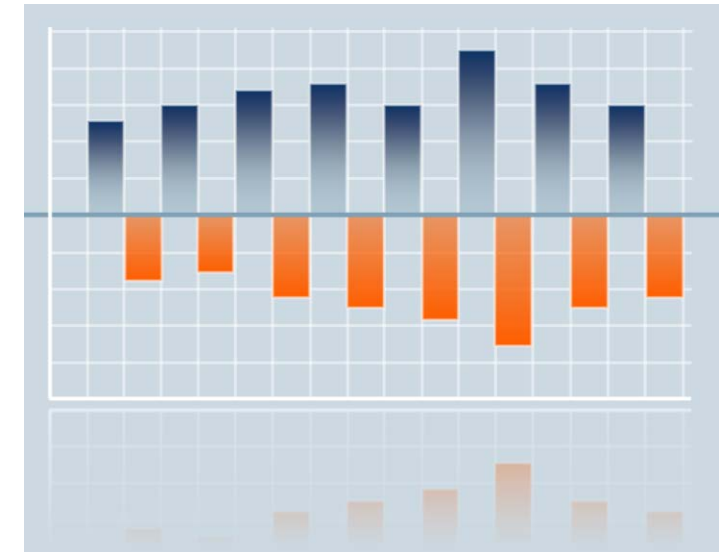
- How can ratio analysis be used to evaluate potential suppliers?



# *Ratio Analysis*

## Categories

- Profitability
- Liquidity
- Gearing
- Investment



# *Profitability Ratios*



Gross Margin       $\frac{\text{Gross Profit}}{\text{Sales}}$

Net Margin       $\frac{\text{Net Profit before Tax}}{\text{Sales}}$

ROCE       $\frac{\text{Net profit before tax}}{\text{Shareholders Capital Employed}}$

# Liquidity & operational ratios

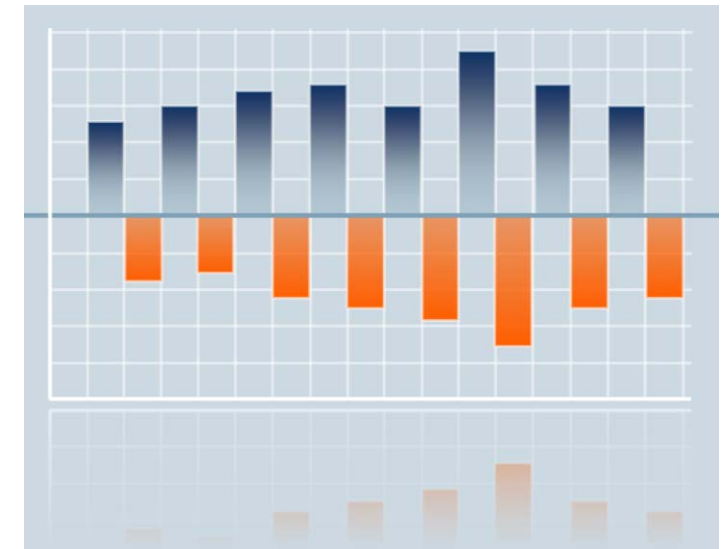
## Summary of key ratios cont../

### **Liquidity:**

- Current Ratio  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- Acid or Quick Ratio  $\frac{\text{Current Assets less Stock}}{\text{Current Liabilities}}$

### **Operational:**

- Stock Turnover  $\frac{\text{Cost of Sales}}{\text{Stock}}$
- Debtor Days  $\frac{\text{Debtors} \times 365 \text{ days}}{\text{Sales Revenue}}$
- Creditor Days  $\frac{\text{Creditors} \times 365 \text{ days}}{\text{Cost of Sales}}$



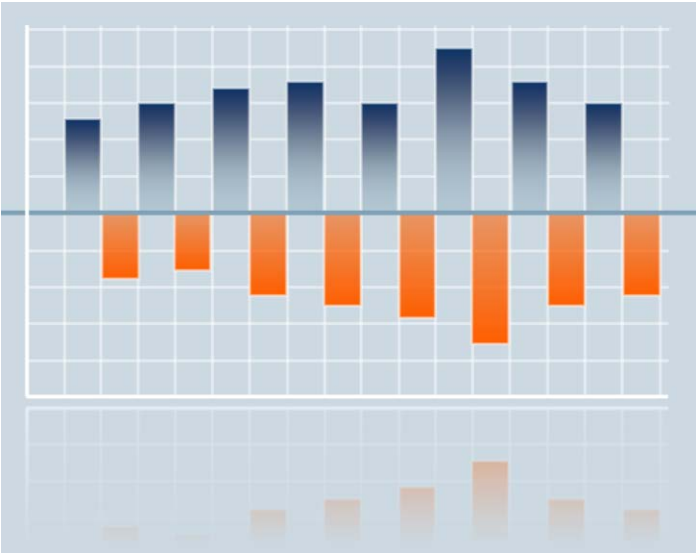
# Gearing

## Summary of key ratios cont../

Gearing:

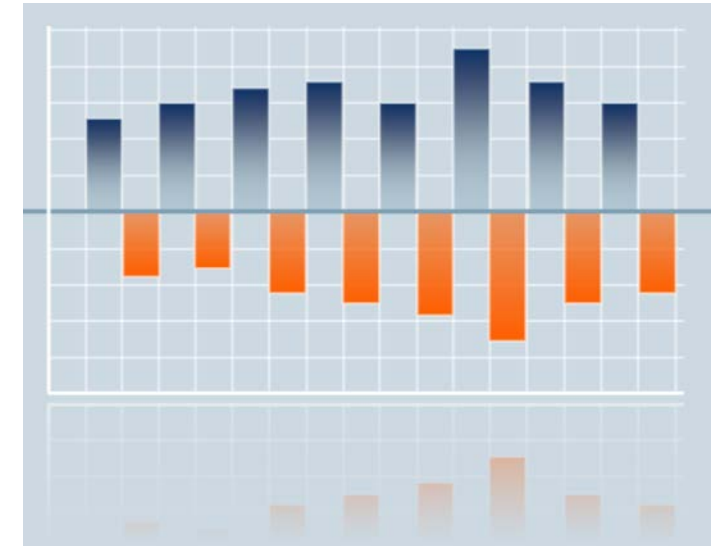
Long Term Debt

Capital Employed



# *Investment*

- **Earnings Per Share** =  $\frac{\text{Net Profit After Tax} - \text{Preference Dividends}}{\text{Number of Equity Shares}}$
- **Price to Earnings Ratio (P/E Ratio)** =  $\frac{\text{Market Price per Share}}{\text{Basic Earnings per Share}}$

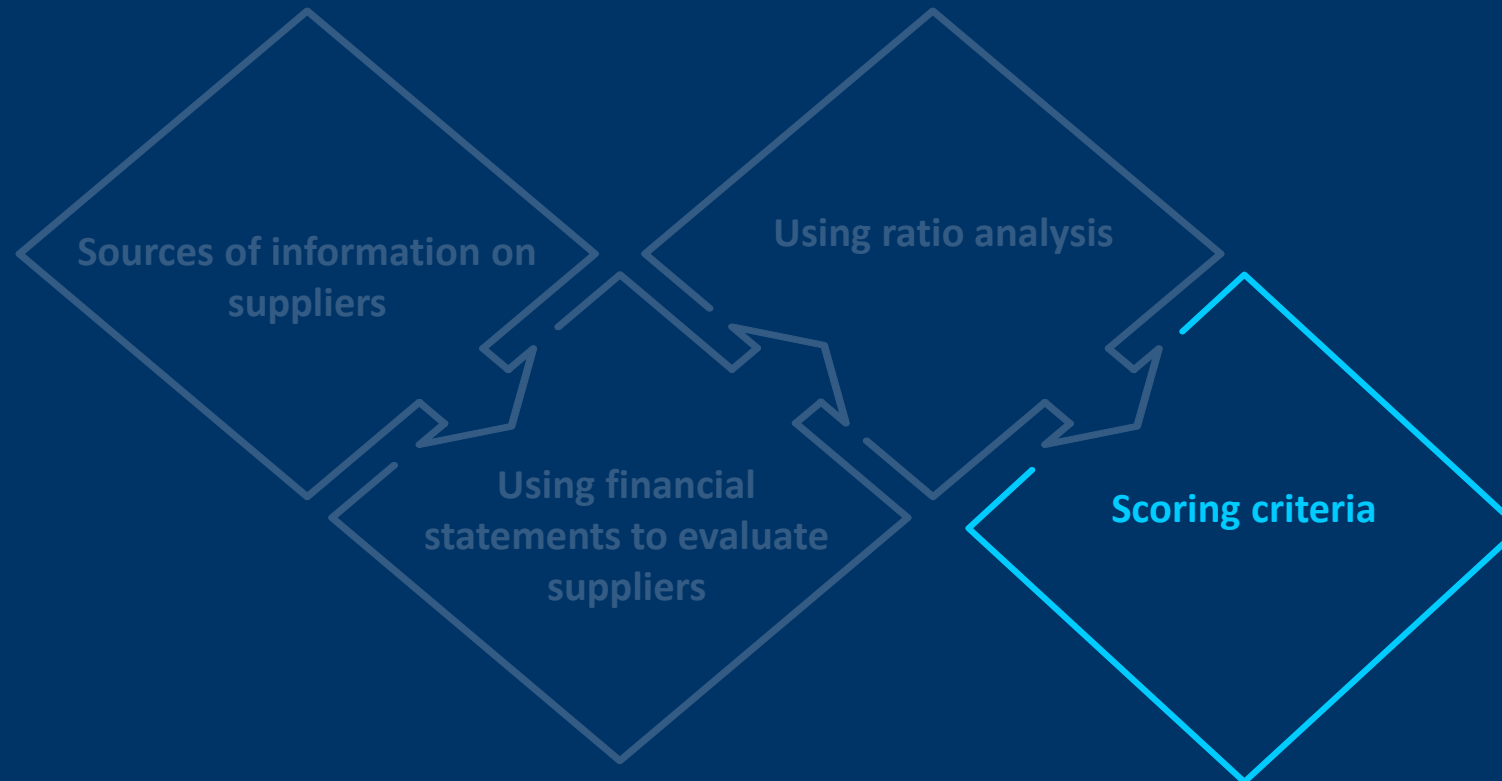




# Managing Expenditures with Suppliers

## Supplier Appraisal

In this Unit, we will focus on:



# Scoring Criteria

Scoring ↓	Meets all requirements in this area and offers some added value	Generally meets all critical requirements with minor issues	Meets some requirements but with a few major gaps or issues	Meets few requirements; serious concerns	Does not meet any requirements or fails to answer
5	✓				
4		✓			
3			✓		
2				✓	
1					✓

# Scoring Criteria

## Using Weightings

### Option 1

Criteria	Weighting as a %	Grade 0 - 5
Financial stability	20%	Max 20 or 100

### Option 2

Criteria	Weighting as a number	Grade 0 - 5
Financial stability	8	Max 8 or 40

# Scoring Criteria

## Evaluating prices/total costs

Supplier	Quality (100)	Cost (£m)
A	54	10
B	84	12
C	96	13
D	66	13

Commercial evaluation:

- (1) % scoring
- (2) Score by rank
- (3) Deviation from lowest

Assume quality and commercial are both weighted 50%

# Scoring Criteria

## (1) By %

- The lowest cost bid as 100. A scores 100. B is 20 per cent more expensive,
- So a score of 80 and C/D is 30 per cent more expensive so they score 70

Supplier	Quality	Weighted	Cost	Cost Score	Weighted	Total
A	54	27	10	100	50	77
B	84	42	12	80	40	82
C	96	48	13	70	35	83
D	66	33	13	70	35	68

# Scoring Criteria

## (2) By rank

The highest-priced supplier 0 and the lowest 100. All others are placed at equal increments between. So if there were 6 suppliers, they would be placed at 0, 20, 40, 60, 80 and 100

Supplier	Quality	Weighted	Cost	Cost Score	Weighted	Total
A	54	27	10	100	50	77
B	84	42	12	50	25	67
C	96	48	13	0	0	48
D	66	33	13	0	0	33



# Scoring Criteria

## (3) Deviation from lowest

Allocate 5 points against the lowest price tenderer. The other tenderers scores are dividing by the lowest price by the tender price, then multiplied by 5

Supplier	Quality	Weighted	Cost	Cost Score	Weighted	Total
A	54	27	10	5	50	77
B	84	42	12	4.16	41.6	83.6
C	96	48	13	3.84	38.4	86.4
D	66	33	13	3.84	38.4	71.4

# Scoring Criteria

## Summary

Supplier	By %	By Rank	By Deviation
A	77	77	77
B	82	67	83.6
C	83	48	86.4
D	68	33	71.4

# *Assignment Question*

We will come back to this at the end of the training



## **Module: Sourcing Essentials in Procurement & Supply**

### **Task**

Identify four sourcing approaches, and for each one, identify and explain how you apply them to a category of spend within your organisation.

Choose one of these categories and develop a supplier appraisal checklist.





*Thank you*



## Questions?

For all enquires please contact your  
CIPS Programme Lead