

CHAPTER 1

Categories of Procurement

Assessment criterion and indicative content

1.1 Describe the categories of spend that an organisation may purchase

- Definitions of procurement and purchasing and supply
- Typical breakdown of organisational costs represented by procurement of goods, services or constructional works
- Stock and non-stock procurements
- Direct and indirect procurements
- Capital purchases and operational expenditures
- Services procurements

Section headings

- 1 Procurement and purchasing and supply
- 2 The scale and scope of procurement
- 3 Direct and indirect procurements
- 4 Stock and non-stock procurements
- 5 Capital procurements
- 6 Services procurements
- 7 Segmenting external expenditure

Introduction

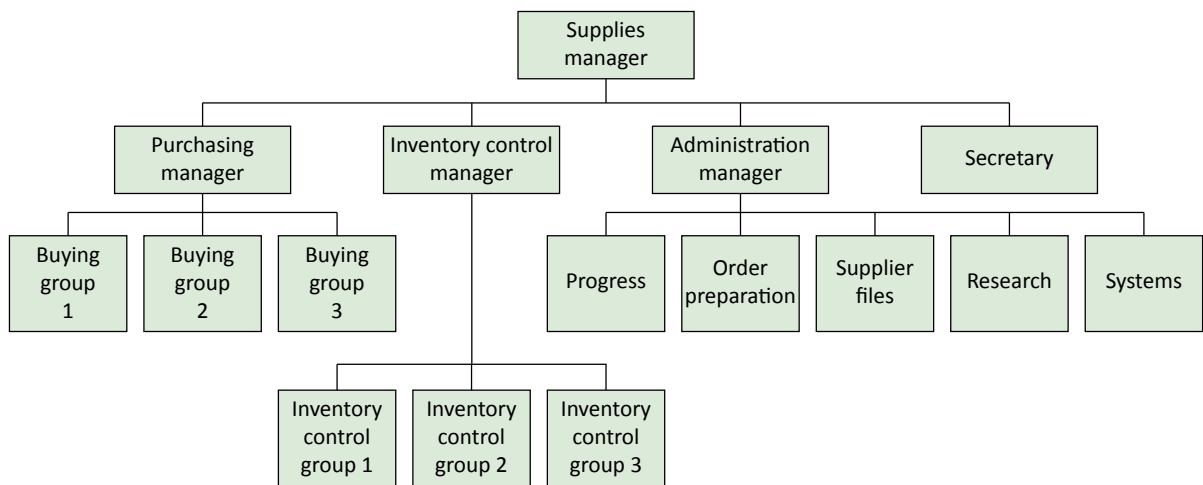
The first section of the syllabus is designed to give you a broad introduction to the roles of procurement and supply chain management in a variety of organisations. We start by defining 'procurement' (the term used in the syllabus title) and distinguishing it from 'purchasing and supply'. We highlight the importance of procurement's role, in a business environment in which an increasing proportion of organisational costs is accounted for by external spend: that is, expenditure on goods, services and works 'bought in' from external suppliers.

We then go on to explore the various categories of procurements that organisations make, and some of the distinctive features of procurement in each context. We include the procurement of production materials; maintenance, repair and operating (MRO) supplies; capital assets (such as plant and machinery); and services.

Finally, we look briefly at another way of 'categorising' procurements: segmenting the procurement portfolio in order to prioritise and support procurement decisions.

In a large department (Figure 8.3), the problems of communication and control are likely to be much greater, and must be addressed carefully if optimum performance is to be obtained.

Figure 9.3 Organisation of a large procurement department



2.7 Hybrid structures

Lysons suggests that a mix of centralised and devolved procurement is common in practice, with both central and ‘local’ (devolved) procurement functions dividing tasks between them: Table 9.1.

Table 9.1 Typical division of roles between local and central procurement functions

LOCAL PROCUREMENT FUNCTION	CENTRALISED PROCUREMENT FUNCTION
Small order items	Determination of major procurement and supply chain policies
Items used only by the local division	Preparation of standard specifications
Emergency procurements (to avoid disruption to production)	Negotiation of bulk contracts for a number of divisions
Items sourced from local suppliers	Stationery and office equipment (generic, shared supplies, which can be bought most economically in bulk)
Local procurement undertaken for social sustainability reasons	Procurement research
	Procurement of capital assets
	Procurement capability development eg training and development

Lysons and Farrington further elaborate on this model, by showing that procurement may be ‘centralised’ across a spectrum from highly centralised to highly devolved.

- Centralised procurement:** procurement strategy, policy, systems and standards are controlled centrally and all procurement activities are also carried out centrally. (This may be suitable where the items required by each strategic business unit or plant are largely the same.)

Chapter summary

- Private sector organisations include sole traders, partnerships and limited companies (both public and private). Many enterprises are now classed as small medium enterprises (SMEs), which face particular challenges and receive public sector support.
- Objectives of private sector organisations typically include maximisation of profits and shareholder wealth, and increase in market share. Increasingly, such organisations recognise objectives of corporate social responsibility.
- There are increasing legal and political constraints on the activities of private sector organisations.
- Private sector organisations frequently adopt a supply chain approach in which the interests of buyers and suppliers are aligned for mutual advantage.
- The third (not-for-profit) sector includes charities, churches, political parties, interest and pressure groups, clubs and associations. They may have a range of purposes and activities. The main challenges for purchasing will be limited funds and accountability in the use of those funds.



Self-test questions

Numbers in brackets refer to the sections, tables or figures where you can check your answers.

- 1 In what ways may private sector firms be constituted? (1.1)
- 2 List advantages and disadvantages of incorporating a private sector firm. (1.4, Table 13.3)
- 3 What factors account for the resurgence in importance of the small-firm sector? (1.5)
- 4 Why is the lowest-cost option not always optimal even for a buyer pursuing profit maximisation? (2.1)
- 5 How does CSR serve the interests of private sector firms? (2.4)
- 6 How do governments influence private sector organisations? (3.1)
- 7 How are privatised firms regulated? (3.3)
- 8 Account for the growth in collaborative buyer-supplier relationships in recent years. (4.2)
- 9 Distinguish between the voluntary sector and the subscription paid sector. (5.1)
- 10 List key characteristics of the third sector in terms of objectives and expectations. (Table 13.4)
- 11 What are the objectives of the Charity Commission? (6.2)

Solution 9

- (a) A conflict of interest is a situation where someone within an organisation has opposing loyalties. A useful approach to such issues is the 4Ds: disclose, distance, delegate and disassociate.

Disclose

Suki would be doing the right thing by disclosing the potential conflict of interest. If the potential risk was not disclosed, someone could find out much further down the line. If this was the case, and the contract had been awarded to that particular supplier, then people might perceive unethical behaviour.

Whilst disclosing the potential conflict will not remedy the problem, it is a first important step.

Distance

Suki has direct input into this new contract and has a high level of authority as purchasing manager. There may be a way to maintain distance by allocating the responsibility to another person who could work with that particular supplier.

As it is a new contact and a new supplier a fresh relationship could be started with another procurement team member. As it is a high-value contract, Suki would still need to be kept informed.

These first two sections give lots of detail and have a great use of examples which relate back to the scenario in the question. The first two sections would attract 4 out of 4 possible marks for each section.

Delegate

Suki might be unable to distance herself due to the high-value contract, but there is the option to delegate tasks to a colleague who has no conflicts of interest.

Again, good but needs more detail to attract 4 marks. What sort of tasks could Suki delegate? 2 marks

Disassociate

If the conflict of interest is seen as certain, and the business views this as critical, the risk may be too high and Suki may have to disassociate herself entirely. This is to ensure complete objectivity is maintained throughout the process.

However, in this case, Suki hasn't seen this person since school and many years have passed. In addition, it is a new supplier and would still have to go through the same objective evaluation as all other bidders, as well as providing the correct documentation to ensure they are a well qualified and sustainable supplier.

Again good: this section is very well related to the context of the question. 4 marks

Examiner feedback: 14/16 marks.

- (b) A code of ethics can help procurement operate in an acceptable way and also develops the knowledge and awareness in their teams and the wider organisation.

Values

Values define an organisation's behaviour, morals and beliefs. It explains that the organisation intends to work transparently. Common aspects include the promotion of honesty, respect, fairness and integrity.