

Quiz 2026 CIPS - L4M2 - Exam Defining Business Needs Study Guide

CIPS L4M2 - Defining Business Needs
UPDATED ACTUAL Exam Questions and
CORRECT Answers

Give examples of Primary Business Activities - CORRECT ANSWER - Outbound logistics
Inbound logistics
Operations

Tend to be direct costs

Give examples of Secondary Business Activities - CORRECT ANSWER - Human resources (HR)
Procurement
Technology

Tend to be indirect

What is Price Analysis and what are the different methods that might be used? - CORRECT ANSWER - Price analysis is a way of testing whether the price paid is fair or not

Price analysis methods:
Prices paid before
Published prices (catalogues)
Pricing formula
Competitive bidding

What is purchase cost analysis (PCA)? - CORRECT ANSWER - Analysis of the individual materials, components and activities that make up an item

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CIPS Level 4M2 Defining Business Needs module is an essential part of the CIPS Level 4 Diploma in Procurement and Supply. This module equips learners with the skills and knowledge needed to identify and analyze organizational needs, and to develop effective procurement strategies that meet those needs. By taking this module, learners will be able to demonstrate their expertise in procurement and supply chain management, and enhance their career prospects in this field.

CIPS Defining Business Needs Sample Questions (Q194-Q199):

NEW QUESTION # 194

A company is analysing its existing product's components and aims at reducing costs without damaging customer value proposition. They want to check which components are critical and which are unnecessary. Which of the following should be adopted by the company?

- A. Under specification
- B. Value engineering
- **C. Value analysis**
- D. Variety reduction

Answer: C

Explanation:

In marketing, a customer value proposition (CVP) consists of the sum total of benefits which a vendor promises a customer will receive in return for the customer's associated payment (or other value-transfer).

Value analysis is concerned with existing products. It involves a current product being analysed and evaluated by a team, to reduce costs, improve product function or both. Value Analysis exercises use a plan which step-by-step, methodically evaluates the product in a range of areas. These include costs, function, alternative components and design aspects such as ease of manufacture and assembly.

Value engineering is concerned with new products. It is applied during product development. The focus is on reducing costs, improving function or both, by way of teamwork-based product evaluation and analysis. This takes place before any capital is invested in tooling, plant or equipment.

In this scenario, the company's objective is cost reduction, then value analysis or value engineering is more likely to be applied. The products are existing, so value analysis is the best option.

LO 3, AC 3.4

NEW QUESTION # 195

Which of the following always impact negatively on a company's cash flow? Select TWO that apply

- **A. Supplier shortens their payment period**
- B. Customers agree to pay immediately
- C. Increasing revenue
- D. Depreciation of fixed asset
- **E. More inventory**

Answer: A,E

Explanation:

To answer this question, candidates are required to remember the cash flow cycle and cost entries as well as the impact of their timing on a business.

Diagram Description automatically generated

Source: <https://cfoperspective.com/free-your-cash-trapped-in-the-cash-conversion-cycle/> Shorter payment term and more inventory are likely to have negative impact on the cash flow because the buyer has to pay sooner and greater.

"Customers agree to pay immediately" will increase the organisation's bank account sooner.

Depreciation has no impact on cash flow as it is only listed in Profit and Loss statement.

Increasing revenue may have negative or positive impact on cash flow, depending on the real situation.

Reference: CIPS study guide page 54

LO 1, AC 1.4

NEW QUESTION # 196

Which of the following problems may be identified as open-ended problems? Select TWO that apply:

- A. Logistics costs incur a large portion in wholesale prices
- B. Engine failures cause flight cancellations.
- C. A cyber attack takes down whole company's IT system
- D. Shortage of key medicines in healthcare industry
- E. The suppliers don't comply with the company's policy on underage labour.

Answer: A,E

Explanation:

Open-ended problem is something stopping the achievement of an objective or blocking progress. To solve this type of problems, procurement professional should find a way to unblock the block-age. In the above question, high logistics cost is an obstacle to cost cutting objective while supplier's incompliance prevents the company to achieve its sustainable objective.

Reference:

LO 1, AC 1.1

NEW QUESTION # 197

Which of the following are the fair and reasonable comparators in price analysis? Select TWO that apply:

- A. Competitive bidding
- B. Cost driver
- C. Strike price
- D. Pricing formula
- E. Price indices

Answer: D,E

Explanation:

Price Analysis is the process of deciding if the asking price for a product or service is fair and reasonable, without examining the specific cost and profit calculations the vendor used in arriving at the price. It is basically a process of comparing the price with known indicators of reasonableness. When adequate price competition does not exist, some other form of analysis is required. Some reasons that could affect adequate price competition are: specifications are not definitive, tolerances are restrictive, or production capacity limits those eligible to bid.

Examples of other forms of price analysis information include:

- * Analysis of previous prices paid
- * Comparison of vendor's price with the in-house estimate
- * Comparison of quotations or published price lists from multiple vendors
- * Comparisons with government agencies (such as GSA in the US) published prices A strike price is the set price at which a derivative contract can be bought or sold when it is exercised. For call options, the strike price is where the security can be bought by the option holder; for put options, the strike price is the price at which the security can be sold. Strike price is also known as the exercise price.

A cost driver is the direct cause of a cost and its effect is on the total cost incurred. For example, if you are to determine the amount of electricity consumed in a particular period, the number of units consumed determines the total bill for electricity. In such a scenario, the number of units of electricity consumed is a cost driver.

Reference: CIPS study guide page 35

LO 1, AC 1.2

NEW QUESTION # 198

British Steel needs to source a set of instruments that will improve quality of steel. Without these instruments British Steel will loss control of the temperature. The bucket may freeze up, or if it is too hot it leaks out of the casting process, damaging the machine. There is limited supply on the market and quality varies greatly. Which of the following will be the most appropriate managing

approach to procure these items?

- A. Leverage market competition to drive down cost
- B. Seek continuity of supply
- C. Bundle these instruments into larger contract
- D. Form partnership with supplier

Answer: D

Explanation:

The instrument plays a crucial role in steel manufacturing because it presents in the majority of products, in which case lacking this instrument would have significant impact on the organisation's output (production lines stop or damaging other machine). Otherwise, the risk of supply is high because there is limitation in supply. Therefore, it is considered as a strategic item in term of Kraljic's portfolio matrix. Procurement manager should form partnership with suppliers to maximise the value.

The following graph illustrates Kraljic's portfolio matrix:

□ Reference:

Reference:

NEW QUESTION # 199

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