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CIPS L4M2

Re-buy - correct answer It is not necessary to specify a new specification or to source the market. Call-off or framework agreement. A preferred supplier is in place

Modified Buy - correct answer Review of existing contract requirements and making any necessary amendments such as to build additional benefits, streamline the business or to establish new KPIs/SLAs. Where some of the specification or requirements have changed.

New Buy - correct answer A new purchase outlines requirements that have not been specified before. There is a higher risk involved in procuring a new purchase, demand/supplier/market analysis should be conducted, and new specific KPIs should be included in the specification.

Business Needs - correct answer The mission of the organisation determines its requirements and therefore what procurement needs to source.

R - regulatory (any legal requirements)

A - availability (supply of goods/services when required, risk, financial and capacity)

Q - quality (consistency, repeatability, and fit for purpose)

S - service requirements (flexibility, support, availability)

C - cost (target costs, total cost of ownership, continuous improvement)

I - innovation (improving customer experience) - correct answer A model that can be used to identify business needs.

Kraljic Matrix - correct answer A matrix that allows procurement to prioritise spend in line with business needs.

Leverage - Kraljic Matrix - correct answer Business needs met by using purchasing department buying power to gain the best price and terms e.g. competitive tendering.

Example of Leverage item (Kraljic Matrix) - correct answer Company cars or mobile phones.

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CIPS L4M2 Exam is a comprehensive exam that requires candidates to demonstrate their knowledge and skills across a range of areas. L4M2 exam is divided into two parts: a multiple-choice section and a case study section. The multiple-choice section tests the candidate's knowledge of the key concepts and principles related to defining business needs, while the case study section tests their ability to apply these concepts in a practical setting.

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CIPS Defining Business Needs Sample Questions (Q27-Q32):

NEW QUESTION # 27
A procurement manager is helping to improve a specification for an existing product. They list all existing functions, processes, their costs, and the value they add. This exercise aims to support writing an improved specification for future purchasing. Which of the following is this an example of?

- A. Value engineering
- B. Value procurement
- C. Value chain
- D. Value analysis

Answer: A

Explanation:
Comprehensive and Detailed Explanation (from CIPS L4M2 - Specification and Value Management) CIPS L4M2 defines value engineering (VE) as a structured process used to examine functions of a product or service to ensure that each function delivers maximum value for minimum cost.
In this case, analysing functions, costs, and value-add is a textbook example of the value engineering process
- used to improve or redesign specifications for future purchases.
* Value analysis is retrospective, focusing on cost reduction in existing products.
* Value engineering looks forward, improving design/specifications.
Since the goal is to benefit future purchasing, this is VE.
Relevant L4M2 references:
* "Applying value analysis and value engineering"
* "Optimising performance and cost through specification review"

NEW QUESTION # 28
Ethan is the newly appointed CEO of ATT Group. He sees that the company is wasting financial resources on unnecessary spends. To solve this problem, Ethan requires all functional managers to prepare their department budget from scratch. Each spend must have justification or it will not be approved. Which budgeting method is Ethan using?

- A. Value preposition budget
- B. Activity-based budget
- C. Zero-based budget
- D. Incremental budget

Answer: C

Explanation:
There are four common types of budgets that companies use: (1) incremental, (2) activity-based, (3) value proposition, and (4) zero-based.
Incremental budgeting takes last year's actual figures and adds or subtracts a percentage to obtain the current year's budget. It is the most common method of budgeting because it is simple and easy to understand.
Activity-based budgeting is a top-down budgeting approach that determines the amount of inputs required to support the targets or outputs set by the company. For example, a company sets an out-put target of $100 million in revenues. The company will need to first determine the activities that need to be undertaken to meet the sales target, and then find out the costs of carrying out these ac-tivities.
In value proposition budgeting, the budgeter considers the following questions:
- Why is this amount included in the budget?
- Does the item create value for customers, staff, or other stakeholders?
- Does the value of the item outweigh its cost? If not, then is there another reason why the cost is justified?
Value proposition budgeting is really a mindset about making sure that everything that is included in the budget delivers value for the business. Value proposition budgeting aims to avoid unneces-sary expenditures - although it is not as precisely aimed at that goal as our final budgeting option, zero-based budgeting.
As one of the most commonly used budgeting methods, zero-based budgeting starts with the as-sumption that all department budgets are zero and must be rebuilt from scratch. Managers must be able to justify every single expense. No expenditures are

automatically "okayed". Zero-based budgeting is very tight, aiming to avoid any and all expenditures that are not considered absolutely essential to the company's successful (profitable) operation. This kind of bottom-up budgeting can be a highly effective way to "shake things up". This is the method used in the scenario.
Reference:
- CIPS study guide page 58
- Types of Budgets - The Four Most Common Budgeting Methods (corporatefinanceinstitute.com) LO 1, AC 1.4

NEW QUESTION # 29
Which of the following are recognised competitive strategies?
1. Winning new business at all cost
2. Getting more customers' attention
3. Creating stand-out products and brands
4. Focusing on niche market
5. Acquiring competitors

- A. 1 and 2 only
- B. 2 and 5 only
- C. 3 and 4 only
- D. 3 and 5 only

Answer: C

Explanation:
"A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus." (Reference: Porter, Michael E., "Competitive Advantage". 1985, Ch. 1, pp 11-15. The Free Press. New York.) Creating stand-out products and brands is considered as Differentiation. An organisation that is not clear about which of these three strategies to use is described as 'stuck in the middle' LO 2, AC 2.1

NEW QUESTION # 30
What will be the result of retaliation between business rivals in an industry?

- A. Lower profit
- B. More new entrants
- C. Greater bargaining power of suppliers
- D. Higher exit barrier

Answer: A

Explanation:
Industry rivalry-or rivalry among existing firms-is one of Porter's five forces used to deter-mine the intensity of competition in an industry. Other factors in this competitive analysis are:
- Barriers to entry
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitutes
Industry rivalry usually takes the form of jockeying for position using various tactics (for example, price competition, advertising battles, product introductions). This rivalry tends to increase in intensity when companies either feel competitive pressure or see an opportunity to improve their position.
In most industries, one company's competitive moves will have a noticeable impact on the competition, who will then retaliate to counter those efforts. Companies are mutually dependent, so the pattern of action and reaction may harm all companies and the industry.
Some types of competition (for example, price competition) are very unstable and negatively influence industry profitability. Other tactics (for example, advertising battles) may positively influence the industry, as they increase demand or enhance product differentiation.
References
Porter, M. (1998). Competitive Strategy. New York: Free Press. pp. 17-23.

CIPS study guide page 86-87
LO 2, AC 2.2

NEW QUESTION # 31
Which of the following activities are considered as primary activities of an organization according to Porter's value chain? Select TWO that apply:

- A. Trainees recruitment
- B. Picking and delivery components
- C. Sourcing transportation services
- D. Assembly design
- E. Maintenance

Answer: B,E

Explanation:
Primary activities consist of inbound logistics, operations, outbound logistics, sales & marketing, service.
Second activities consist of firm infrastructure, human resource management, technology development and procurement The following graph illustrate the value chain (Source: Smartsheet)
Picking and delivery components is inbound logistics.
Maintenance is an example of operations activity.
Sourcing transportation services is an activity of procurement
Assembly design is an activity in research and development (Technology) Recruiting is an activity of human resource management
Reference:
LO 2, AC 2.1

NEW QUESTION # 32
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