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## CIPS Defining Business Needs Sample Questions (Q110-Q115):

### NEW QUESTION # 110

A UK engineering company imports more than 75% of its products from the USA. The finance manager is creating the budget for next year and has told the procurement manager that, to do this, finance simply add a published inflation index to prices paid last year. Is this a way for a business to precisely predict prices for next year?

- A. Yes, an inflation index is a quick way to check how prices are increasing
- B. No, an inflation index is less accurate than a price adjustment formula
- C. Yes, an inflation index is a realistic way to see if industrial prices are increasing
- **D. No, an inflation index may include retail products and services which are not relevant**

**Answer: D**

Explanation:

Comprehensive and Detailed Explanation (paraphrased from CIPS L4M2 content) CIPS L4M2 explains that general inflation indices (like consumer or retail price indices) are based on a basket of goods and services for the whole economy, not tailored to a specific company's imports or input mix.

For an engineering business importing from the USA, its price changes will depend on:

- \* Specific industrial input price indices (e.g. metals, components, specialist goods),
- \* Exchange rate movements GBP/USD,
- \* Sector-specific factors (technology, capacity, freight, tariffs).

Therefore, simply "adding a published inflation index" to last year's prices cannot precisely predict next year's prices, particularly when:

- \* The index may include irrelevant items like food, clothing, local services, etc.
- \* It may not reflect the specific mix of industrial inputs or the effects of exchange rates.

Thus:

- \* Option A correctly explains the limitation: the inflation index may include products and services that are not relevant to the company's purchases.
- \* Option B mentions price adjustment formulas (which can be more precise if designed well), but the question emphasises whether using a general index alone is precise - option A goes straight to the core reason.
- \* Options C and D describe partial truths (indices can show general trends and give a quick check) but they do not support precise forecasting.

Relevant CIPS L4M2 areas:

- \* Use and limitations of inflation indices in cost forecasting
- \* Factors influencing prices in international procurement (currency, indices, market conditions)
- \* Building realistic cost assumptions in a business case

### NEW QUESTION # 111

John has been asked to develop a business case before obtaining approval to purchase a large piece of capital equipment for a glove manufacturing unit. Is this the right thing to do?

- A. No, because this can lead to business-focused thinking
- B. Yes, because this will assist the purchase order
- **C. Yes, because this will help compare alternatives and options**
- D. No, because risk consideration is not John's responsibility

**Answer: C**

Explanation:

Detailed Explanation: A business case allows for the evaluation of alternatives and ensures alignment with strategic goals. It also assesses risks, benefits, and financial impact, providing a comprehensive basis for decision-making. Reference: CIPS Level 4, Capital Expenditure and Business Case Development.

### NEW QUESTION # 112

Which of the following factors are likely to be direct barriers to a new entrant in a supply market?

- A. Brand identity
- B. Value to price
- C. Cost advantages
- D. Threat of forward integration
- E. Availability of substitutes

**Answer: A,C**

Explanation:

There are many types of barriers to entry into a market. Some of these include:

- Economies of Scale: When manufacturing or selling at a large scale, companies are able to avail cost advantages because per unit costs of the product fall. So the more the company produces in quantity the more the benefit. When existing companies have this advantage, it can act as a barrier to entry because a new entrant will have to try to match the scale to achieve the same cost advantage as the existing company. This may not be possible at the initial stage.
- A Differentiated Product: If the product being sold by the existing company or companies is highly differentiated or enjoys strong brand loyalty, then this can act as a strong barrier to entry. The new entrant will have to invest in creating a product with newer and unique features and benefits that surpass those offered by the old company. In addition, there will need to be strong efforts to break existing brand loyalties and shift them to a new untested company.
- High Capital Costs: If an industry requires huge capital investments at the onset, then this will act as a barrier to entry for many of the potential entrants. Only those will attempt to enter the competitive fray who have the resources to make this high initial investment.
- Other Cost Advantages: Apart from those cost benefits that come from economies of scale, there are other advantages that an existing firm may enjoy. These include access to the best suppliers, an understanding of existing materials and knowledge of their quality, possession of any necessary and important patents, and proprietary information and technological knowledge. There are also learning advantages, achieved over years of business and experience.
- Cost of Switching: The cost associated with a consumer's move from one company or product or another is called the switching cost. If there are significant switching costs, then a new entrant may not be able to create means of removing these. Or, they may have to offer significant advantage to counter these switching costs at their own expense.
- Distribution Network: Often, distribution relationships are well established and may prove to be a strong barrier to entry for a new company. A new entrant will obviously need access to these distribution channels but will need to invest extra in order to engage distributors who have established relations with existing competitors.
- Suppliers: As with distributors, suppliers may be vital to the operations of a new business. Existing suppliers may have contracts or loyalties with existing companies and may prove to be difficult to form relationships with.
- Legal and Government Created Barriers: Government and regulatory requirements such as permits and licenses may be a strong barrier to entry. There may also be laws governing ways to conduct business that may conflict with a company's practices in other countries.
- Barriers to Exit: Interestingly, barriers to exit may act as a deterrent to entry by new companies. If a company is unable to easily leave a competitive environment in case business does not work out, then it will have to stay and compete even if that is a detrimental business practice. In this case, the company may choose to not enter the market in the first place.

Reference:

LO 2, AC 2.2

### NEW QUESTION # 113

When analyzing direct and indirect costs of potential suppliers for negotiations and planning purchasing budget, the procurement manager collects reports from specialist organisations like Mintel, Gartner and Forrester. Which kind of information source is used by the procurement manager?

- A. RFI
- B. Market data
- C. Company annual report
- D. Technical data

**Answer: B**

Explanation:

Using Porter's value chain helps procurement professionals know what are direct and indirect costs of supplier. Information on direct and indirect costs will have been collected as part of the market analysis.

Information sources that may help include the following:

- Company annual reports
- Market data
- Technical data
- Request for information
- Plan visits
- Discount lists

Market data is the information that is collected and analysed by specialist organisations like Mintel, Gartner, Forrester,...

#### NEW QUESTION # 114

When preparing through-life specification, which of the following requirements should procurement team define besides the physical asset? Select TWO that apply.

- A. Market analysis
- B. Available substitute
- C. Logistics and installation
- D. Customer service
- E. Objectives

**Answer: C,D**

Explanation:

Through-life Management involves the life-cycle management of the products, services and activities required to deliver a fully integrated capability to the customer, while reducing the cost of ownership for the customer.

Diagram, table Description automatically generated

Source: Andrew Graves

With through-life management, buyer not only cares about the physical asset but also other factors like customer services and maintenance.

#### NEW QUESTION # 115

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