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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 Defining Business Needs Sample Questions (Q246-Q251):

### NEW QUESTION # 246

Warwickshire Ambulance Service (WAS) is an NHS Trust. It operates throughout Warwickshire and the neighbouring areas. It has three core areas of activity, namely the provision of Emergency Ambulance Services, routine Patient Transport Services, and Logistic Medical Services. The agency is working towards higher service level through benchmarking. Which of the following is the benefit of benchmarking to WAS?

- A. Benchmarking is a panacea for all WAS's problems
- B. It will help WAS analyse the competitors in the industry
- C. It helps WAS identify better ways to deliver service through a cookbook process
- D. **It will help WAS create performance standards derived from an analysis of the best in business**

**Answer: D**

Explanation:

Benchmarking is 'the pursuit by organisations of enhanced performance by learning from the successful practices of others. Benchmarking is a continuous activity; key internal processes are adjusted, performance is monitored, new comparisons are made with the current best performers and further changes are explored.

Where information about these key processes is obtained through a co-operative partnership with specific organisations (rather than via a third party such as an independently-maintained database), there is an expectation of mutual benefit over a period of time.

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### NEW QUESTION # 247

Which of the following is the disadvantage of embedding standards in a specification?

- A. Standards do not improving buyer's bargaining power
- B. Embedding standards into specification requires enormous time and effort
- C. **Standards are too static and discourage innovation**
- D. Standards are too flexible and may cause ambiguity in the specification

**Answer: C**

Explanation:

"Standards are often produced by professional bodies (maybe national or international bodies). Standards tend to be stable for a period of time, therefore, they are likely to be static and discourage innovation." Reference: CIPS L4M3 study guide page 125 LO 3, AC 3.1

### NEW QUESTION # 248

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. Activity-based budget
- B. Value preposition 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 activities.

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 unnecessary 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 assumption 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](http://corporatefinanceinstitute.com)) LO 1, AC 1.4

### NEW QUESTION # 249

Which of the following is the best definition of target costing?

- A. The total of all costs in acquiring goods or services from the inception of the demand for them until their safe and satisfactory delivery at the point required.
- B. The cost of a product after analysing its components step by step
- **C. A product cost estimate derived from a competitive market price.**
- D. The net present cost of the purchase or project and all future revenues flowing from it discounted back to the present time.

#### Answer: C

#### Explanation:

Target costing is an activity aimed at reducing the life-cycle costs of new products, while ensuring quality, reliability, and other consumer requirements by examining all possible ideas for cost reduction at the product planning, research and development and prototyping phases of production. But it is not just a cost reduction technique; it is part of a comprehensive strategic profit management system.

#### Reference:

LO 3, AC 3.4

### NEW QUESTION # 250

Buyers in the same industry with the same understanding of relative value and price may still make different decisions about whether to switch. Which of the following factors may prompt a buying organization to incline toward substitute products?

1. There is potential for backward integration
2. Access to financial resources
3. The switching cost is high
4. The substitute fits organisation's strategy

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

#### Answer: D

## Explanation:

The threat of substitution is a function of three factors:

- \* The relative value/ price of a substitute compared to an industry's product
- \* The cost of switching to the substitute
- \* The buyer's propensity to switch

Buyers with different circumstances and in different industries do not all have equal propensities to substitute when faced with a comparable economic motivation. Differences in their circumstances lead buyers to respond to a given relative value to price (RVP) and switching cost differently. While such differences might be treated as factors that modify RVP or switching costs, it is more helpful in practice to isolate them.

Resources. Substitution often involves up-front investments of capital and other resources. Access to such resources will differ from one buyer to another.

Risk Profile. Buyers often have very different risk profiles, the result of such things as their past history, age and income, ownership structure, background and orientation of management, and nature of competition in their industry. Buyers prone to risk taking are more likely to substitute than buyers that are risk-averse.

Technological Orientation. Buyers experienced with technological change may be less concerned with some kinds of substitution risks, while extremely aware of others that a less technologically sophisticated buyer would be oblivious to.

Previous Substitutions. The second substitution may be easier for a buyer than the first, unless the first substitution has been a failure. The buyer's uncertainties over undertaking a substitution may have diminished if a past substitution has been successful, or risen if a past substitution has led to difficulties. In the soft drink industry, this seems to have worked to the benefit of aspartame.

Intensity of Rivalry. Buyers under intense competitive pressure and searching for competitive advantage will tend to substitute more quickly to gain a given advantage than those that are not.

Generic Strategy. The RVP of a substitute will have different significance depending on the competitive advantage that industrial, commercial, or institutional buyers are seeking or the value of time and particular performance needs of the household buyer. A substitute that offers a cost saving will tend to be of more interest to a cost leader than a differentiator, for example.

Many of these factors that shape the buyer's propensity to substitute will be a function of the particular decision maker who is involved in the purchase decision.

Porter, Michael E.. Competitive Advantage: Creating and Sustaining Superior Performance (p. 278-289). Free Press. Kindle Edition.

Reference:

LO 2, AC 2.2

## NEW QUESTION # 251

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