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Defining Business Needs

CIPS L4M2

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QUESTION NO: 1

A procurement manager is writing a conformance specification for a non-core component. She thinks that if the requirements in specification are higher than ISO standards, her company can achieve greater cost-savings. Is the procurement manager's opinion correct?

A. No, because higher specification may incur additional costs for the buyer

B. No, because higher requirements in specification, the greater bargaining power of buying organisation

C. Yes, because optimising the specification is the only method to achieve value for money

D. Yes, because higher requirements will help buying organisation find the best supplier

ANSWER: A

Explanation:

Explanation

The specification that is produced too detailed will incur unnecessary cost because it does not allow suppliers to use their expertise in finding the most efficient way to produce it.

'No, because higher requirements in specification, the greater bargaining power of buying organi-sation': more detailed specifications could tighten the supplier base and potentially leave buying organisation with fewer potential supplier. This may reduce buyer's bargaining power in negotia-tion.

'Yes, because higher requirements will help buying organisation find the best supplier': in some circumstances, higher requirements will lead to smaller supplier base. In the worst scenario, there is no supplier who has capability to carry out those requirements

'Yes, because optimising the specification is the only method to achieve value for money': There are other methods to achieve cost saving and value for money, inter alia, volume concentration, relationship restructuring, etc.

Reference: CIPS study guide page 118-119

LO 3, AC 3.1

QUESTION NO: 2

Which of the following are typical benefits of through-life asset management to buying organisa-tion? Select the TWO that apply.

A. Shorter specifications

B. Lower risks as there are many suppliers accountable for costs and service over the life of the asset

C. Lower total cost of ownership

D. Greater supplier's bargaining power

E. Better capability of supplier over time

ANSWER: C E

Explanation:

Explanation

According to Andrew Graves, “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.”

Benefits of through-life asset management can be:

- Lower total life-cycle costs

- Better match between the asset and end-user's needs

- Better supplier capabilities over time because it gains experience of buying organisation's needs.

Reference: CIPS study guide page 131

LO 3, AC 3.2

QUESTION NO: 3

Which of the following sources of information are considered as primary data? Select TWO that apply.

A. The information about specific market sectors from trade associations

B. Commercial publishers of market reports

C. The collection of data from surveying customers

D. RFI

E. Reports in business magazines

ANSWER: C D

Explanation:

Explanation

The aim of this question is to check students' understanding of different types of data. There are 2 types of data:

- Primary data is the collection of original or raw data which are generated from field research. In this case, only RFI and surveys from customers are considered as primary data.

- On the other hand, secondary data is public information that has been collected by others. It is typically free or inexpensive to obtain and can act as a strong foundation to any research project — provided you know where to find it and how to judge its worth and relevance. Examples of secondary data are government statistics, industry associations, trade publications, published market reports, etc.

Reference: CIPS study guide page 22-24

LO 1, AC 1.2

QUESTION NO: 4

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

A. Increasing revenue

B. More inventory

C. Depreciation of fixed asset

D. Supplier shortens their payment period

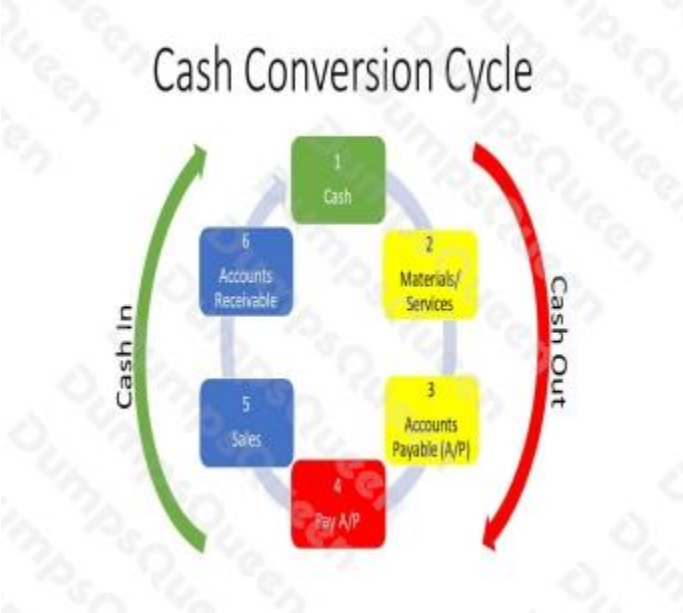
E. Customers agree to pay immediately

ANSWER: B D

Explanation:

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.



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 be-cause 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

QUESTION NO: 5

Which of the following can directly affect labour variance? Select TWO that apply:

A. Wage rate per hour

B. Inflation

C. Company's budget

D. Overhead expenditure

E. Overtime

ANSWER: A E

Explanation:

Explanation

Labour variance refers to a situation in which actual costs of labor differ from projected or budgeted labor costs. This concept is most commonly applied in manufacturing environments.

Labour variance either results from efficiency or rate discrepancies. Efficiency variance results when actual time worked is more or less than budgeted time for a project. Rate variance means you paid more per hour worked than expected. This may occur with overtime pay or when you have higher paid employees on a project than projected. Labour variance is fairly typical, but modest variance is usually not a big factor in manufacturing, because materials and other production costs are often much higher.

LO 1, AC 1.4

QUESTION NO: 6

Which of the following might be the consequences of under-specification? Select TWO that apply:

A. Few suppliers can supply the full range of features

B. Additional cost to rework

C. Unfit products or services

D. Poor competition between suppliers

E. Higher cost due to inessential features

ANSWER: B C

Explanation:

Explanation

Main risks involved in an under-specified requirement

• The product or service is not fit for use since it does not match the actual needs

• Higher cost due to corrections or reworks (proposal evaluations, scope or work monitoring, change in insulation materials or systems, reduced productivity, etc.).

• Higher operating cost on many fronts: process control, energy consumption, maintenance, etc.

• Other problems like corrosion under insulation, mold development, safety-related concerns, etc.

LO 3, AC 3.3

QUESTION NO: 7

Which of the following is the process for improving the value of a new product or service?

A. Value engineering

B. Porter's Five Forces

C. Planning and design

D. Value analysis

ANSWER: A

Explanation:

Explanation

Value Engineering (VE) 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.

This is very significant, because according to many reports, up to 80% of a product's costs (throughout the rest of its life-cycle), are locked in at the design development stage. This is under-standable when you consider the design of any product determines many factors, such as tooling, plant and equipment, labour and skills, training costs, materials, shipping, installation, maintenance, as well as decommissioning and recycle costs.

Reference: CIPS study guide page 171-172

LO 3, AC 3.4

QUESTION NO: 8

What is the purpose of sending value engineering analysis to external suppliers?

A. To improve early supplier involvement

B. To improve the existing products

C. To analyse the supply market

D. To standardise production processed

ANSWER: A

Explanation:

Explanation

Value engineering is often applied to new products or services. Early supplier involvement (ESI) is the involvement of a supplier in the product development process from a very stage in order to use the supplier's experience and expertise. ESI can bring cost reduction opportunities, process improvements, supply chain improvements and reduce supply risk. Both processes focus on development of new product or service. They tend to work the best if they are used together.

LO 3, AC 3.1 & AC 3.4

QUESTION NO: 9

A buyer in Housing Authority is considering using performance specification in upcoming social housing project. What should buyer be aware when using this type of specification?

A. In performance specification, specific brands and preferred suppliers must be appointed to avoid the competition

B. Using performance specification means that the buyer will bear all the risks regarding the fitness for purpose of the facility.

C. The buyer must be able to clearly define the performance metrics to ensure that the of-fered solution will achieve the desired outcome

D. The buyer must be able to define the materials to be used, the execution and installation methods required and the specific design of the building

ANSWER: C

Explanation:

Explanation

In construction, specifications are written documents that describe the materials and workmanship required for a development. They do not include cost, quantity or drawn information but need to be read alongside other contract documentation such as quantities, schedules and drawings.

Specifications vary considerably depending on the stage to which the design has been developed, ranging from performance (open) specifications that require further design by a contractor or sup-plier, to prescriptive (closed) specifications where the design is already complete when the project is tendered.

Prescriptive specifications give the client more certainty about the end product when they make their final investment decision (i.e. when they appoint the contractor), whereas a performance specification gives the contractor and suppliers more scope to innovate and adopt cost effective methods of work, potentially offering better value for money.

Typically, performance specifications are written on projects that are straight-forward, standard building types, whereas prescriptive specifications are written for more complex buildings, or buildings where the client has requirements that might not be familiar to contractors and where certainty regarding the exact nature of the completed development is more important to the client.

Performance specification has some disadvantages:

- Well-defined performance metrics are needed to ensure that the specified performance will achieve the desired outcome

- Require reliable, practical, economical tests of performance

- Evaluations are subjective and require additional time and effort to complete

Therefore, if a performance specification is used, the buying organisation will have to ensure that they are able to define and conduct tests on whether supplier's solution can deliver the desired out-come.

Reference:

- CIPS study guide page 118-121

- Performance specification - Designing Buildings Wiki

- Partnership for Public Procurement (cips.org)

LO 3, AC 3.1

QUESTION NO: 10

When devising a business case for purchasing a new copier, Maria analyses its whole-life costs as following:

Cost generating activities	Value
Purchase	$2,500.00
Installation	$75.00
Ink Cartridges and paper	$1,000.00
Electricity consumed	$300.00
Removing the copier	$150.00
Maintenance	$450.00
Financing	$87.50

Though cost generating activities are identified, she has not categorised the costs. What is the total value of copier's end of life costs?

A. $450

B. $75

C. $150

D. $300

ANSWER: C

Explanation:

Explanation

Life cycle costing is a key asset management tool that takes into account the whole of life implications of planning, acquiring, operating, maintaining and disposing of an asset.

The process is an evaluation method that considers all ownership and management costs. These include;

- Concept and definition;

- Design and development;

- Manufacturing and installation;

- Maintenance;

- Support services; and

- Retirement, remediation and disposal costs.

End of life costs often comprise of decommissioning, removing and disposal costs. In the copier scenario, the end of life costs equal to removal cost, which is $150.

Reference:

- Life Cycle Cost Guidelines (dlgsc.wa.gov.au)

- CIPS study guide page 36-40

LO 1, AC 1.2