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Q&A

Exam : **L4M2**

Title : Defining Business Needs

Version : DEMO

1.A company uses eight different floor cleaning products at different premises and has decided to standardise on just one. This product is available from a large number of suppliers.
What benefits
should the company expect to achieve?
A. Lower costs
B. Fewer staff
C. Increased stock levels
D. Increased costs
Answer: A
Explanation:
Comprehensive and Detailed Explanation (paraphrased from CIPS L4M2 content)
Standardising from many similar products to one common product is a classic variety reduction / standardisation decision.
In CIPS L4M2, when standardisation is discussed, the benefits highlighted include:
Economies of scale – buying larger quantities of a single product allows for better prices and volume discounts.
Reduced administration and handling costs – only one product code to manage, fewer invoices and orders, simpler stock control.
Simplified quality control – one specification and one performance profile to monitor.
Because the product is available from many suppliers, competition remains strong. This supports lower prices, not higher.
Option A (Lower costs) – correct, due to economies of scale and reduced process/handling complexity.
Option B (Fewer staff) – staff numbers are driven by overall workload, not just the number of product variants; standardising doesn't automatically cut headcount.
Option C (Increased stock levels) – if anything, standardisation often reduces safety stock (you can pool demand into one line).
Option D (Increased costs) – contradicts the expected benefits of standardisation and competition between many suppliers.
Relevant CIPS L4M2 areas:
Standardisation and variety reduction in specifications
Economies of scale and cost drivers in sourcing decisions
Managing supply markets with multiple potential suppliers

2.A procurement manager decided to use a conformance specification in a request for quotation (RFQ) for the manufacturing of a specialist item designed by their company. The company does not have the capability to manufacture the item in-house, but requires the item to be made to their detailed specification.
Was this the correct thing to do?
A. Yes, as it means that the company will be able to get the most cost-effective price for the item from the chosen supplier
B. No, as the item will be of non-standard construction and will not be able to be used by other competitors
C. No, as it means that the chosen supplier will not be able to use their expertise and knowledge to manufacture the item

D. Yes, as it means that the company will get exactly what it has specified and that the item meets its specific requirements

Answer: D

Explanation:

Comprehensive and Detailed Explanation (paraphrased from CIPS L4M2 content)

CIPS L4M2 clearly distinguishes between conformance and performance specifications.

A conformance specification describes exactly what the item must be like – dimensions, materials, design drawings, tolerances, etc.

It is appropriate when the buyer already has a detailed design and simply wants the supplier to manufacture to that design.

In this scenario:

The buyer's organisation has designed the specialist item and has a detailed specification.

They cannot manufacture it in-house, but they need the item exactly as designed.

This is precisely when CIPS says a conformance specification is appropriate: the purpose is to ensure the supplier delivers exactly what has been specified and that the item meets all the buyer's technical and functional requirements.

Option D matches this principle exactly.

Option A mentions cost-effectiveness, which might happen, but it is not the main reason for using conformance specifications.

Options B and C describe issues that are either irrelevant or are more associated with over-specification or missed innovation opportunities, not with the basic correctness of using conformance specifications in this situation.

Relevant CIPS L4M2 areas:

Types of specification: conformance vs performance vs outcome

When to use buyer-designed (conformance) specifications

Risks and benefits of restricting supplier design freedom

3.Which of the following would be an example of direct costs for a decorating contractor?

A. Paint

B. Ladder

C. Van

D. Electricity

Answer: A

Explanation:

Comprehensive and Detailed Explanation (paraphrased from CIPS L4M2 content)

CIPS L4M2 explains that direct costs are those that can be directly traced to a specific product, job, or project.

For a decorating contractor:

Paint (A) is clearly a direct cost – it is consumed on specific jobs, and the quantity and cost can be directly allocated to each project.

Items such as:

Ladder (B) – a piece of equipment used across many jobs. Its cost is typically spread over multiple projects; this makes it an indirect (overhead) cost.

Van (C) – used for transport across many contracts, again an indirect or overhead cost.

Electricity (D) – usually treated as an indirect or overhead cost, not allocated to a single job unless specially metered.
Understanding the difference between direct and indirect costs is important for whole-life costing and building a business case, because misclassifying them can distort unit costs and profitability. Relevant CIPS L4M2 areas:
Cost classification: direct vs indirect, fixed vs variable
Costing and pricing in business cases
Whole-life cost and cost build-up analysis

4.Ranjit is purchasing a large piece of laboratory equipment which is brand new to the market. Can this be classified as a straight re-buy?
A. Yes, as the equipment is available from a supplier used in the past
B. Yes, as there is an existing specification
C. No, as a standing purchase agreement exists
D. No, as this has not been specified or sourced before
Answer: D
Explanation:
Comprehensive and Detailed Explanation (paraphrased from CIPS L4M2 content)
CIPS uses the classic buying situation model:
New buy – first time the item is purchased; high information need and perceived risk.
Straight re-buy – routine repurchase of a product that has been bought before and is well-known.
Modified re-buy – a repeat purchase with some changes (e.g. spec, price, supplier).
Here, the equipment is brand new to market, meaning:
It has not been purchased before by the organisation.
There is no previous sourcing history for this specific product, so it cannot be a straight re-buy.
Thus:
Option D is correct – it is not a straight re-buy because it has not been specified or sourced before.
Option A is incorrect – even if the supplier has been used before, the product is new.
Option B – there cannot be an “existing specification” for something new to the market; if there is, it would be a modified or straight re-buy, not a new product situation.
Option C – a standing purchase agreement would imply established purchasing arrangements: that contradicts “brand new to market”.
Relevant CIPS L4M2 areas:
Buying situations: new buy, straight re-buy, modified re-buy
Implications for information gathering, evaluation and risk
How new products affect sourcing and market management

5.What are the typical purposes of specifications in procurement and supply? Select TWO that apply.
A. To define the requirements
B. To provide supplier appraisal and selection
C. To define the bargaining strength of the buyer
D. To provide a means of evaluating the quality or conformance
E. To minimise the bargaining strength of the supplier
Answer: A,D

Explanation:

Comprehensive and Detailed Explanation (paraphrased from CIPS L4M2 content)

CIPS L4M2 explains that specifications in procurement serve several fundamental purposes, including:

Defining the requirement clearly – so that all stakeholders (user, buyer, supplier) have a shared understanding of what is needed.

Forming the technical basis for contracts and orders – what is being purchased.

Providing measurable criteria to assess quality and conformance – what will be inspected and tested.

Therefore:

A. To define the requirements – correct. This is one of the primary roles of a specification.

D. To provide a means of evaluating the quality or conformance – correct. Specifications set the criteria against which delivered goods/services are checked. The other options do not reflect the core role of specifications:

B. Supplier appraisal and selection – this uses specifications indirectly but supplier appraisal is a separate process (using financial, capability, and performance criteria).

C. Define the bargaining strength of the buyer – bargaining strength is shaped by market structure and spend, not by the specification itself.

E. Minimise the bargaining strength of the supplier – not an explicit purpose of specification, and could actually backfire (e.g. over-specification reducing competition). Relevant CIPS L4M2 areas:

Purpose and role of specifications in the procurement cycle

Specification as a basis for quality assurance and contract management

Links between specification and supplier evaluation