CIPS

L4M6 Exam

Level 4 Diploma in Procurement and Supply

Questions & Answers

(Demo Version - Limited Content)

Version: 4.0

Question: 1

Friends Company manufactures a product which requires a particular type of valves. The company currently purchases the valves from a supplier at a price of $5 per unit. After analysing the market, the procurement team finds that other suppliers would supply with the same price or higher. With current capacity, the company is able to produce the valves internally. Which of the following should be considered if the company decides to in-source the valve production? Select TWO that apply.

A. Cost effectiveness
B. Supplier selection criteria
C. Ability to meet performance standards
D. Type of tendering process
E. Negotiation strategies

Answer: A, C

Explanation:

The scenario deals with make and buy decision. The make-or-buy decision is the act of making a strategic choice between producing an item internally (in-house) or buying it externally (from an outside supplier). The buy side of the decision also is referred to as outsourcing. Make-or-buy decisions usually arise when a firm that has developed a product or part—or significantly modified a product or part—is having trouble with current suppliers, or has diminishing capacity or changing demand.
Make-or-buy analysis is conducted at the strategic and operational level. Obviously, the strategic levelis the more long-range of the two. Variables considered at the strategic level include analysis of the future, as well as the current environment. Issues like government regulation, competing firms, and market trends all have a strategic impact on the make-or-buy decision. Of course, firms should make items that reinforce or are in-line with their core competencies. These are areas in which the firm is strongest and which give the firm a competitive advantage.
The two most important factors to consider in a make-or-buy decision are cost and the availability of production capacity. Burt, Dobler, and Starling warn that "no other factor is subject to more varied interpretation and to greater misunderstanding" Cost considerations should include all relevant costs and be long-term in nature. Obviously, the buying firm will compare production and purchase costs. Burt, Dobler, and Starling provide the major elements included in this comparison. Elements of the "make" analysis include:
- Incremental inventory-carrying costs
- Direct labor costs
- Incremental factory overhead costs
- Delivered purchased material costs
- Incremental managerial costs
- Any follow-on costs stemming from quality and related problems
- Incremental purchasing costs
- Incremental
capital costs
Reference:

- CIPS study guide page 3
MAKE-OR-BUY DECISIONSLO 1, AC 1.1

Question: 2

Which of the following are most likely to be drivers of partnership relationships? Select TWO thatapply.

A. Geographically close proximity
B. Similar management philosophy
C. Ensuring security of supply
D. Compatible corporate cultures
E. Access to the new market

Answer: C, E

Explanation:

Drivers are the benefits that both parties believe they will be able to realise after forming the partnership. Without partnership, it is impossible to achieve these benefits. Lambert et al lists 4groups of drivers:
Asset/Cost Efficiencies: Better collaboration can help to reduce costs in doing business. This reduction must not hamper the quality of the product but give the partners an upper hand in the market. This groups includes:
- Product cost savings
- Distribution cost savings, handling cost savings
- Packaging cost savings, information handling cost savings
- Management efficiency
- Assets utilisation

Customer service improvement: Partnerships are often expected to increase the customer service by reducing inventory level, higher service level, more accurate information. Customer service improvement can be:
- Improved on-time delivery
- Better tracking of movement
- Better order processing
- Improved cycle times
- Better customer satisfaction
- Process improvement

Marketing advantage: By forming the partnership, an organisation may get a foot into new market, or access to technological improvement. This group also includes:
- Promotion opportunities (joint promotion with partners)
- Reduced price
- Joint developed new product
- Extended geographical presence
- Innovation opportunities

Profit stability/growth: This is one of the most common driver for partnership. To a supplier, partnership means that the buyer has a commitment on long-term volumes. Other benefits can be:
- Profit growth

- Market share stability
- Stable sales volume

Assurance of supply

Reference:

- What makes you form partnership with them?
- CIPS study guide page

127-129LO 3, AC 3.1

Question: 3

The high level of commitment to partnering relationship suggests which of the following? Select TWO that apply.

A. Buyer views the supplier as strategic
B. Buyer views the relationship as transactional
C. Both parties use one-off contract
D. Supplier views buyer as core customer
E. One party bears all the financial risks arising from the project

Answer: A, D

Explanation/Reference:

Commitment to a relationship is a willingness to dedicate financial and non-financial resources to the relationship. Buyer is more likely to invest more efforts and resources on suppliers of high-value, high-risk items (strategic according to Kraljic portfolio matrix). Conversely, supplier is more willing to do soif it views the buyer as a development or core customer (supplier preferencing)

Reference: CIPS study guide page

161-162LO 3, AC 3.3

Question: 4

When a private sector organisation procures a product/service through a competitive bidding process and adopts weighted score to evaluate tenders, the price is always the most weighted criterion. Is this statement true?

A. No, because quality is more important than price in some circumstances
B. No, because all criteria should have the equal weightings
C. Yes, because other criteria have been evaluated at pre-qualification stage
D. Yes, because price is the only criterion that is taken into account

Answer: A

Explanation:

At the tendering stage, several pieces of information are required in order for the buyer to be able to make their decision regarding awards, which may include: price, quality, risk assessment, social and environmental concerns, etc.

Awarding criteria used at the tendering stage will generally be made up of a mixture of price and

quality. When buying routine and transactional items such as stationary, price will have a bigger weighting than quality. When buying services that impact people directly, such as adult social care, the weighting of the quality of the service will be higher than the price weighting.
The answer for this question should be "No, because quality is more important than price in some circumstances"
Reference: CIPS study guide page 75-79LO 2, AC 2.1

Question: 5

Which of the following is the mnemonic that describes the criteria of setting joint objectives in a partnership relationship?

A. SMART
B. OWN-IT
C. TUPE
D. STEEPLE

Answer: A

Explanation:

SMART is a mnemonic/acronym, giving criteria to guide in the setting of objectives, for example in project management, employee-performance management and personal development. The letters S and M generally mean specific and measurable. Possibly the most common version has the remaining letters referring to achievable, relevant, and time-bound.
STEEPLE analysis is a strategic planning tool. It can be helpful when planning the strategic positioning. STEEPLE is more advanced as it deals with macro-environmental external factors. STEEPLE offers an overview of various external fields. It is an acronym for Social, Technological, Economic, Environmental, Political, Legal and Ethical.
OWN-IT is the process for collecting and analysing the data and information. This is an acronym for the five steps in the process: Outline, Wide search, Narrow search, Increase your stockpile of information, Transform your stockpile into new knowledge
The Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246) known colloquially as TUPE, are the United Kingdom's implementation of the European Union Transfer of Undertakings Directive. It is an important part of UK labour law, protecting employees whose business is being transferred to another business.
Reference: CIPS study guide page 150-151LO 3, AC 3.2

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