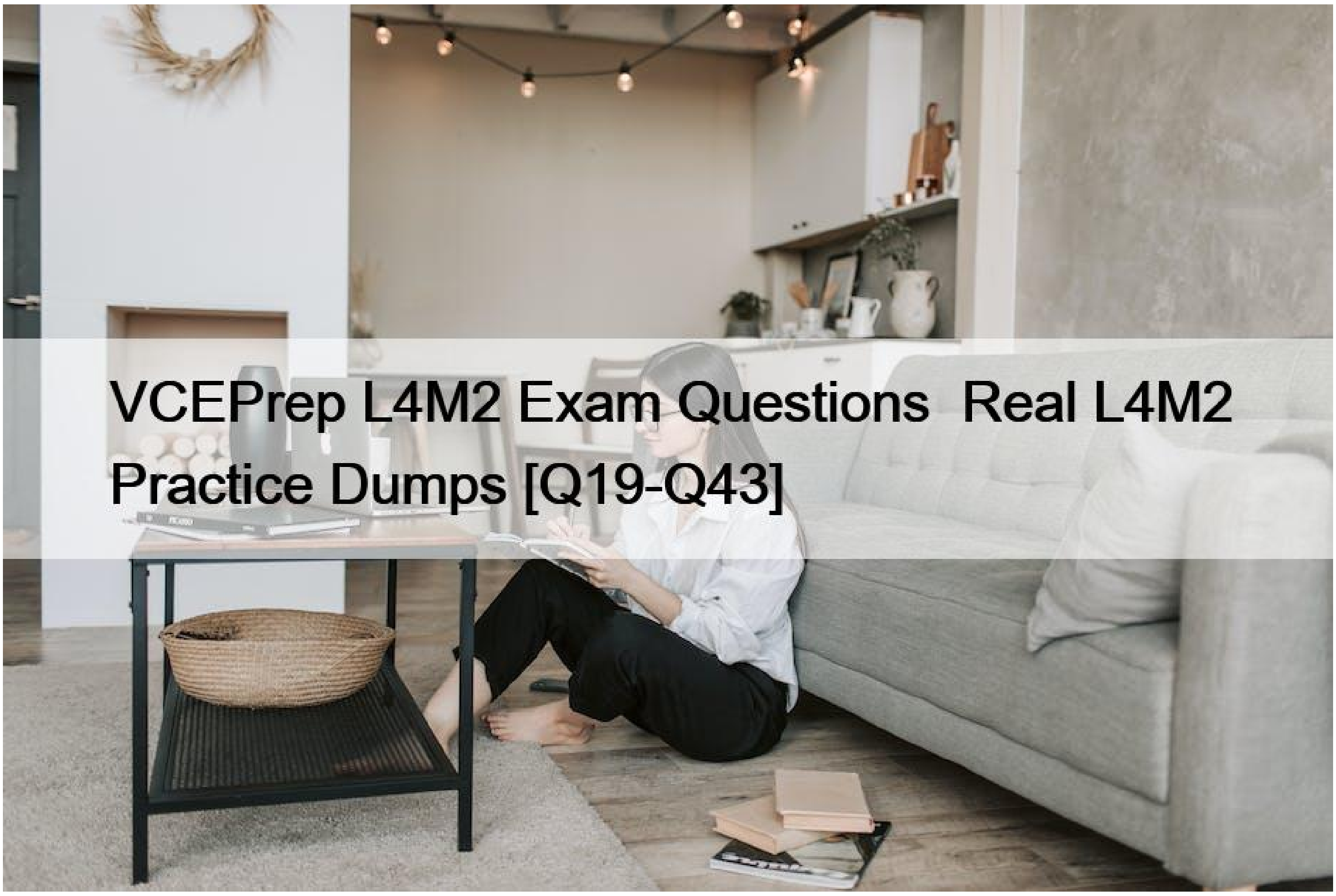
VCEPrep L4M2 Exam Questions Real L4M2 Practice Dumps [Q19-Q43



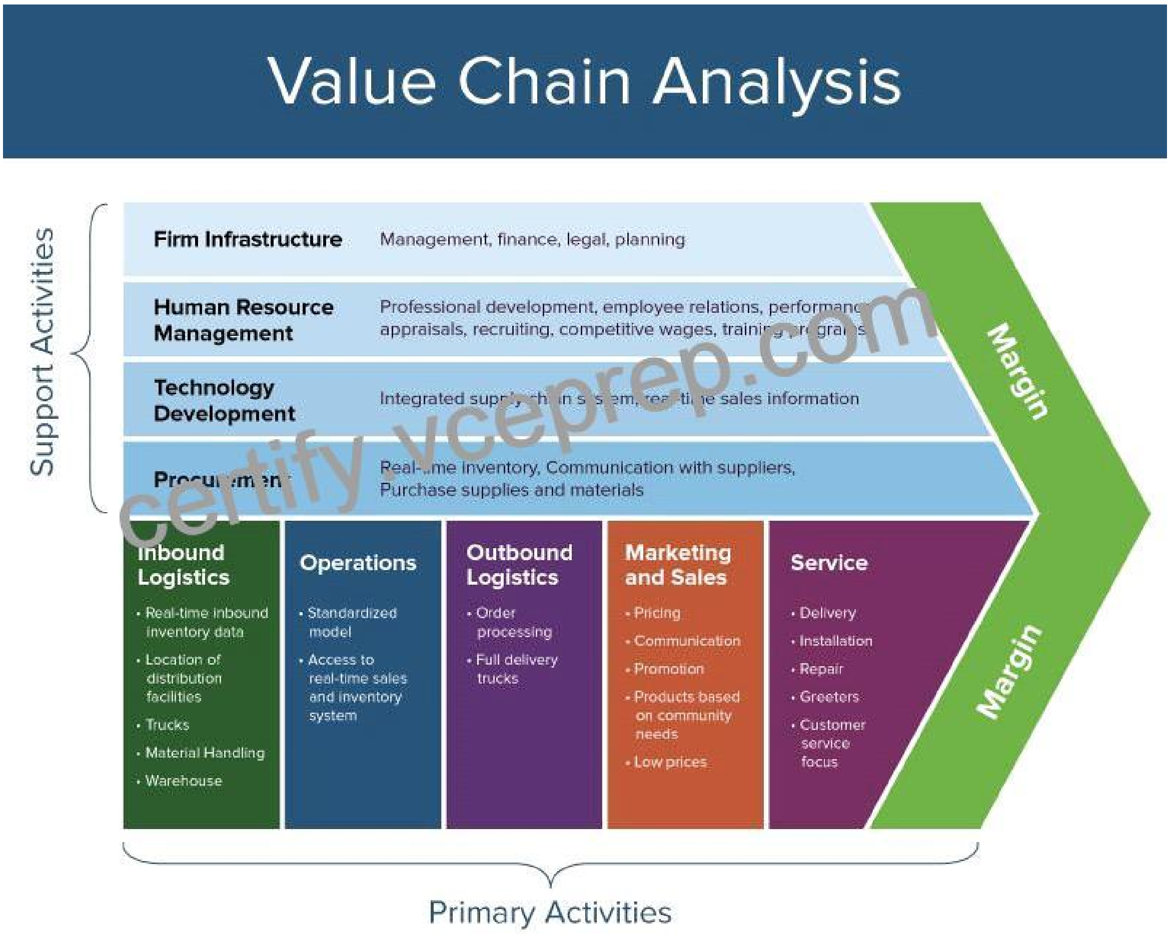
VCEPrep L4M2 Exam Questions | Real L4M2 Practice Dumps
Verified L4M2 Exam Dumps Q&As - Provide L4M2 with Correct Answers

To prepare for the CIPS L4M2 exam, candidates are advised to review the official exam syllabus, which outlines the key topics and concepts that will be covered in the test. They can also take advantage of various study materials, such as textbooks, online courses, and practice exams, to help them prepare for the exam.

QUESTION 19

According to Porter’s value chain, which of the following activities is categorised as support activity?
* Product warranties and special services
* Storage of raw materials
* Distribution of products from factory to retailer
* Supervising the production line
* Develop digital SRM technology to manage suppliers better
Primary activities consist of inbound logistics, operations, outbound logistics, sales & marketing, service.

Second activities consist of firm infrastructure, human resource management, technology development and procurement



Support activities (also known as secondary activities) include Firm infrastructure, Human resource management, Technology development and Procurement. Developing digital SRM technology to manage suppliers better is Technology development.

LO 1, AC 1.2

QUESTION 20

A hospital extensively spends on medical and implantable devices, medical, surgical and pharma-ceutical supplies, costs of supplies related to buildings and maintenance operations. Hospital’s procurement manager suggests that the hospital has an opportunity to reduce operational costs by reducing variation of medical devices and pharmaceutical supplies. Which of the following best describe the procurement manager’s suggestion?
* Process standardisation
* Product standardisation
* Value engineering
* Process re-engineering
The hospital is buying too many product variants. This may cause bottleneck in its operation and increase operational expense. So procurement manager suggests to standardise products.

This is an example of the benefits of product standardisation:

Saint Thomas Health, a system of 5 hospitals, needed to find a way to reduce costs. They were purchasing different SKUs for products that were very similar, in this case, labels. They bought label rolls for $3 and a very similar product for $1. This oversight in product purchases impacted the overall costs of the system. After partnering with a sole source vendor it was able to save $200,000 over a four year span. They accomplished this simply by standardizing label products. These savings, however, only account for the immediate savings from standardizing products. The saving that are not factored into that number are the savings from soft or hidden costs.

On a national scale, hospitals lose millions of dollars per year in hidden expenses due to missed opportunities for cost containment and incorporation. Some of the hidden elements that increase overall costs for a healthcare provider include the following:

– Redundant purchasing

– Freight

– Excessive purchase orders

– Multiple vendor relations

– Low efficiency

– Joint commission fines

– HAI

By implementing product standardization, hospitals and health systems reduce vendors, are able to reduce SKUs, purchase orders, inefficiency, freight costs, fines, and off-contract spending. All of this adds up to large savings for the organization as a whole.

96% of the respondents in the survey agree that consolidating suppliers and standardizing product purchases across organization would reduce hidden costs.

Reference:

– CIPS study guide page 157-159

– 3 Ways Product Standardization Can Help You Get a Bonus – ConnectID (pdchealthcare.com) LO 3, AC 3.4

QUESTION 21

Which of the following is the process for improving the value of a new product or service?
* Value engineering
* Porter’s Five Forces
* Planning and design
* Value analysis
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:

LO 3, AC 3.4

QUESTION 22

Which of the following is the disadvantage of embedding standards in a specification?
* Standards do not improving buyer’s bargaining power
* Embedding standards into specification requires enormous time and effort
* Standards are too static and discourage innovation
* Standards are too flexible and may cause ambiguity in the specification

“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:

LO 3, AC 3.1

QUESTION 23

Which of the following activities are considered as secondary activities of an organization? Select TWO that apply
* Component fabrication
* Training
* Information system development
* Shipping
* Service response

According to Porter’s value chain, secondary activities consist of firm infrastructure, human re-source management, technology development and procurement.

Training is an example of human resource development, while information system is a part of firm infrastructure.

LO 2, AC 2.1

QUESTION 24

Robert is a senior buyer at MMC Construction Ltd. His company is doing multiple development projects in the country, which increases procurement workload significantly. Meanwhile, most of the tasks are handled manually, which causes bottlenecks in the workflows. The procurement team is overwhelmed by the workload and complains from other departments. From previous experience, Robert knows that electronic system may help his procurement team. He writes a business case to submit to the senior management, in which he insists on the possible productivity improvement by adopting e-system in procurement. Is Robert’s action reasonable?
* No, there’s no need to make a business case for new purchase
* Yes, productivity improvement is a mandatory element in every business case
* No, adopting e-system may make procurement department jobless
* Yes, his reason may appeal the senior management

Composing a compelling business case requires the proposer to write in the language of the approvers. Generally, approvers are business executives or important shareholders whose major interest is the profitability of the firm. Business case proposer may embed the following contents:

– Return on investment: according to Investopedia, Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of return on a particular investment, relative to the investment’s cost. A business case would seem more attractive if the proposal is expected to have high ROI.

– Time to market: Time-to-market (TTM) refers to the time from which a company initially con-ceives a product or service idea to the point when the actual product or service is accessible to buyers in the market (Afonso et al., 2008). The speed at which companies can introduce products into the market is critical for sustaining competitive advantage, and the reduction of product development cycle time has become a strategic objective for many technology-driven firms.

– Customer satisfaction: Keeping existing customer to stay in the business can affect greatly on the profit margin of a firm. A new proposal that finds the way to innovate while keeping the current customers satisfied may gain the interest of senior management.

– Improving productivity: Productivity is the measure of how efficient and effective a firm is. Im-proving the productivity means that with the same or lesser input, better output is generated. In-creasing productivity also improves the profitability of a company.

– Risk management: Any business activity contains inherent risks. For example, for a mining company to be truly responsible, it must keep all of its workers safe, healthy and motivated, meet the expectations of the local community and government for the region in which it is operating, ensure it impacts on the environment positively if at all, as well as achieve the financial objectives set by its investors for both the short and long term. Managing risks well improves the production throughput and maintains customer satisfaction.

In the scenario, Robert is trying to convince the senior management to adopt e-procurement system by insisting on potential productivity improvement. This is the right approach. A business plan should engage and please senior management and directors. An appealing business case tells them how important things to the business (such as productivity, return on investment, customer satisfaction or costs) are affected by the plan.

Reference:

LO 1, AC 1.1

QUESTION 25

Which of the following is the technology that disrupts traditional retail?
* Self-Driving Cars
* Blockchain
* E-commerce
* Robotics

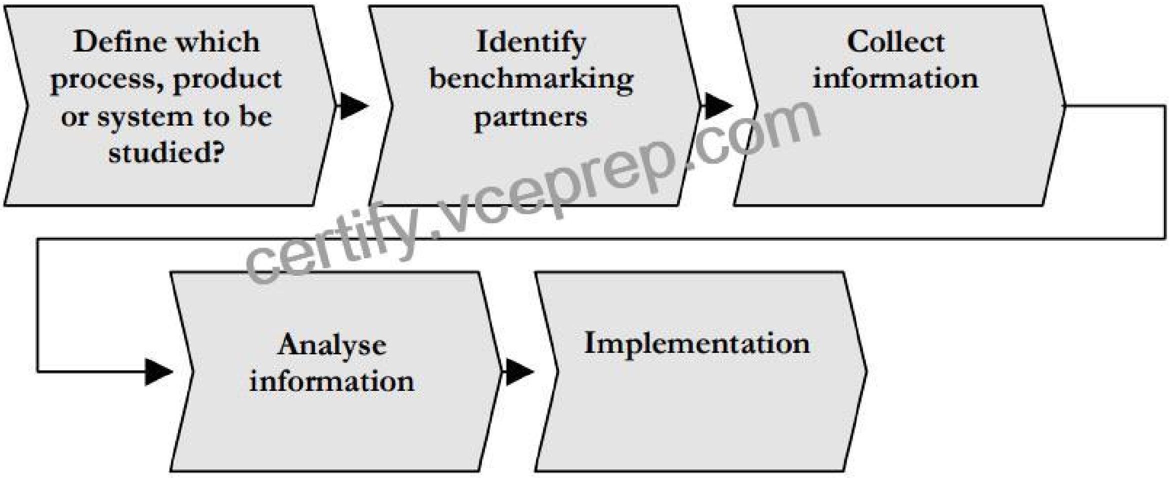
One of the biggest disruptors in retail has been e-commerce. According to a report by IDC, in the month of December 2018, which is also the holiday season in the west, the e-commerce sector globally, has grown by 20 percent.

LO 2, AC 2.2

QUESTION 26

Facing fiercer competition at home and abroad, IKEA, the leading furniture retailer, needs to im-prove its competitiveness. In order to do this, IKEA must decrease operating costs and improve quality of current and new retail stores. The company establishes a

project team. The job of the team is to collect data on performance from multiple stores in several countries, then select the best performing one. The team will work closely with best performing store and study its processes. After the research, the team will recommend best practices to other retail stores. IKEA management can also apply these practices to new stores in the future. Which of the following correctly describe the process undertaken by IKEA project team?
* Internal benchmarking
* Competitive benchmarking
* Internal audit
* Site visit
Basically, IKEA project team is undertaking the following process:



This is a typical benchmarking process. Benchmarking is defined as the process of measuring products, services, and processes against those of organizations known to be leaders in one or more aspects of their operations. Benchmarking provides necessary insights to help you understand how your organization compares with similar organizations, even if they are in a different business or have a different group of customers.

In the scenario, benchmarking process is undertaken within subsidiaries of IKEA, thus it is internal.

Reference:

– CIPS study guide page 49-51

– What is Benchmarking? Technical & Competitive Benchmarking Process | ASQ

– Internal Benchmarking at IKEA

LO 1, AC 1.3

QUESTION 27

What is the contribution of marketing function to the development of specification?
* Marketing ensures that conformance specification will never be used
* Marketing ensures that procurement function doesn’t involve in developing specification
* Marketing provides ideas on customer’s taste and market trends

* Marketing consults on technical requirements of the product
Marketing plays a critical role in sales. The marketing department introduces products to the con-sumer, and creates strategic messaging that elevates appeal and ultimately drives sales. The feed-back and response from consumers is measured by the marketing team on a variety of levels. Ad-vertising is one means of seeing what performs and what does not perform. Marketers will note trends and demand in their specific markets. This plays into new product development, because the marketing team can work with product developers to create products based on that demand.

In development of specification, the role of marketing is largely the same. They provide the market insight so that right specification is developed and it matches the demands from customers.

Reference:

– CIPS study guide page 173-175

– Role of Marketing Management in New Product Development (chron.com)

LO 3, AC 3.4

QUESTION 28

Due to the growth of consumer electronics market, semiconductor industry develops exponentially. However, the industry is dominated by a dozens of manufacturer. Chipset need to be built in factories with highly controlled environments. New chip factories cost billions of dollars and can take two years to build. Right now, factories are running at full capacity, which produce almost perfect yields, meaning basic chipset can be made for less than a dollar and more advanced versions for not much more. What are the barriers to new entrants in the semiconductor industry?

1. Poor industry growth

2. High set-up costs

3. Economies of scale

4. Low switching costs
* 2 and 4 only
* 3 and 4 only
* 2 and 3 only
* 1 and 4 only
Barriers to entry is an economics and business term describing factors that can prevent or impede newcomers into a market or industry sector, and so limit competition. The most obvious barriers to entry are high start-up costs and regulatory hurdles which include the need for new companies to obtain licenses or regulatory clearance before operation. Also, industries heavily regulated by the government are usually the most difficult to penetrate. Other forms of barrier to entry that prevent new competitors from easily entering a business sector include special tax benefits to existing firms, patent protections, strong brand identity, customer loyalty, and high customer switching costs.

In the scenario, the new factory for chipset manufacturing costs billions of dollars, which indicates high set-up costs. Also, the incumbent manufacturers have reached economies of scale, allowing them to produce the components at optimal price.

The above descriptions are compiled from recent reports on current chip shortage (2021).

Reference:

– Barriers to Entry Definition (investopedia.com)

– CIPS study guide page 96-97

LO 2, AC 2.2

QUESTION 29

XYZ Ltd is a large supermarket chain which operates mainly in the UK and Europe. Their custom-ers are increasingly concerned about sustainability. Therefore, procurement manager is required to source the products from suppliers who have good environmental performance. Which of the fol-lowing can be an assurance that the supplier has procedures and policies to enhance its environmental performance?
* ISO 14001:2015 certificate
* ISO 13485:2016 certificate
* ISO 22716:2007 certificate
* ISO 9001:2015 certificate

ISO 9001:2015 specifies requirements for a quality management system.

ISO 14001:2015 specifies the requirements for an environmental management system that an or-ganization can use to enhance its environmental performance. ISO 14001:2015 is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability.

ISO 22716:2007 gives guidelines for the production, control, storage and shipment of cosmetic products. These guidelines cover the quality aspects of the product, but as a whole do not cover safety aspects for the personnel engaged in the plant, nor do they cover aspects of protection of the environment.

ISO 13485:2016 specifies requirements for a quality management system where an organization needs to demonstrate its ability to provide medical devices and related services that consistently meet customer and applicable regulatory requirements.

Reference:

LO 3, AC 3.1

QUESTION 30

Andrew is responsible for procurement of capital assets at Lumber Ltd. He is devising new business case for the purchase of a new band saw. The purchase price of the saw is $50,000. Andrew estimates that the machine will generate $10,000 per year of net cash flow. What is the payback period of this band saw?
* 10 years
* 5 years
* 3 years
* 4 years

Payback period is the time in which the initial outlay of an investment is expected to be recovered through the cash inflows generated by the investment. It is one of the simplest investment apprais-al techniques.

Since cash flow estimates are quite accurate for periods in the near future and relatively inaccurate for periods in distant future due to economic and operational uncertainties, payback period is an indicator of risk inherent in a project because it takes initial inflows into account and ignores the cash flows after the point at which the initial investment is recovered.

The formula to calculate the payback period of an investment depends on whether the periodic cash inflows from the project are even or uneven.

If the cash inflows are even (such as for investments in annuities), the formula to calculate payback period is:

Payback Period = Initial Investment / Net Cash Flow per Period

When cash inflows are uneven, we need to calculate the cumulative net cash flow for each period and then use the following formula:

Payback Period =A + (B/C)

Where,

A is the last period number with a negative cumulative cash flow;

B is the absolute value (i.e. value without negative sign) of cumulative net cash flow at the end of the period A; and C is the total cash inflow during the period following period A Cumulative net cash flow is the sum of inflows to date, minus the initial outflow.

Reference:

– Payback Period | Formulas, Calculation & Examples (xplaind.com)

– CIPS study guide page 44-47

LO 1, AC 1.3

QUESTION 31

Sealines Inc is developing its fleet of cargo ships. The company is planning to build a new ship powered by natural gas. Brian, the procurement manager at Sealines, suggests the project team to develop a through-life specification before engaging with the supplier. Is this a correct approach?
* Yes, decommissioning and disposal costs will not be accounted in this approach
* Yes, this approach will lower the total cost of ownership
* No, a ship is used only once, through-life management is unnecessary
* No, the company just needs to select the lowest bidder

Through-life management is a approach applied to capital asset. According to Ward and 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. According to CIPS study guide, through-life management comprises of 6 parts:

1. Design

2. Manufacture

3. Installation

4. In-service support

5. Decommission and disposal

6. Customer support

In this scenario, the company is planning to procure a ship, which is a capital asset. Through life management is a good approach. Sealines can start with developing through-life specification. This approach may have several benefits:

– It lowers the costs over the whole life of the asset

– It lowers the risks as there is a single company accountable for costs and service over the life of the asset

– A closer match between the asset delivered and the users’ needs

– Development of capability over the life of the asset as the supplier continues to get experience of the users’ needs and can adapt services to meet them.

Reference:

– CIPS study guide page 130-131;

– Through-life management: The provision of total customer solutions in the aerospace industry, by Yvonne Ward and Andrew Graves LO 3, AC 3.2

QUESTION 32

A consulting firm in London had previously had static budgets. They were set once and locked in for the year. This resulted in departments meeting their budgets early and doing virtually nothing the rest of the accounting period. To address this imbalance, the company tossed out the static budget and developed a new one for each department of the next 18 months. And each month, real sales figures are analyzed against the plan and the budget is adjusted accordingly. Then the company adds another month into the budgeting plan. What type of budget this company is using?
* Activity-based budget
* Rolling budget
* Incremental budget
* Zero-based budget
A rolling budget is continually updated to add a new budget period as the most recent budget period is completed. Thus, the rolling budget involves the incremental extension of the existing budget model. By doing so, a business always has a budget that extends one year into the future.

Think of continuous (rolling) budgets as waves rolling ashore on the beach. A new wave comes in each time, replacing the one that was there before. From a financial perspective, the wave is your budget, and the time between waves is longer! These reporting time frames can be monthly, quar-terly, yearly, etc.

An incremental budget is a budget prepared using a previous period’s budget or actual performance as a basis with incremental amounts added for the new budget period.

Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a “zero base,” and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one.

Activity-based budgeting (ABB) is a system that records, researches, and analyzes activities that lead to costs for a company. Every activity in an organization that incurs a cost is scrutinized for potential ways to create efficiencies. Budgets are then developed based on these results.

Reference:

LO 1, AC 1.4

QUESTION 33

A buying organisation may not have technical capability to produce a highly complex specification. Which of the following are sources of information that can be used to create the specification? Select TWO that apply
* Standard terms and conditions
* Name cards
* Industry standards
* Suppliers’ know-how
* Constitution
If an organisation doesn’t have capability to produce a technical specification, they can draft one based on standards or consulting the suppliers.

Reference:

LO 3, AC 3.1

QUESTION 34

Which of the following is the purpose of benchmarking?
* To identify and adapt the best practices to improve organisation’s performance
* To copy other organisation’s intellectual properties, processes and practices
* To coerce all suppliers to sacrifice their profit
* To resist continuous improvement
According to US Department of the Navy, Benchmarking is a strategic and analytic process of continuously measuring an organisation’s products, services, and practices against a recognised leader in the studied area.

Successful benchmarking will help you:

– Find who does the process best and close the gap

– Recognise the leading organisations in a process or activity

– Create performance standards derived from an analysis of the best in business

– Ensure that comparisons are relevant

– Measure your performance, your processes, and your strategies against best in business

– Measure business processes

– Assess performance over time

– Accelerate continuous process improvement (CPI)

– Establish more credible goals for CPI

– Establish actionable objectives

– Discover and clarify new goals

– Establish customer expectations of business standards set by the best suppliers in industry

– Help your organisation achieve breakthrough improvements

– Create a sense of urgency for change

– Increase customer satisfaction

– Become direction setting

– Provide a positive, proactive structured process

Benchmarking does not:

– Copy the other’s processes

– Steal other business confidentiality

– Stop. Benchmarking is a continuous process.

Reference:

– CIPS study guide page 49-51

– The Department of the Navy Benchmarking Handbook

LO 1, AC 1.3

QUESTION 35

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?
* Benchmarking is a panacea for all WAS’s problems
* It will help WAS create performance standards derived from an analysis of the best in business
* It helps WAS identify better ways to deliver service through a cookbook process
* It will help WAS analyse the competitors in the industry
Benchmarking is ‘the pursuit by organisations of enhanced performance by learning from the suc-cessful 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.

Successful benchmarking will help you . . .

- find who does the process best and close the gap.
- recognize the leading organizations in a process or activity.
- create performance standards derived from an analysis of the best in business.
- ensure that comparisons are relevant.
- measure your performance, your processes, and your strategies against best in business.
- measure business processes.
- assess performance over time.
- accelerate continuous process improvements (CPI).
- establish more credible goals for CPI.
- establish actionable objectives.

- establish customer expectations of business standards set by the best suppliers in industry.
- help your organization achieve breakthrough improvements.
- create a sense of urgency for change.
- increase customer satisfaction.
- become direction setting.
- provide a positive, proactive, structured process.

Reference:

– The Department of Navy Benchmarking Handbook: A system view

– CIPS study guide page 49-51

LO 1, AC 1.3

QUESTION 36

Which of the following are considered as direct costs in a construction company? Select TWO op-tions
* Raw materials
* An employee is hired to work on a project, either exclusively or for an assigned number of hours
* The materials and supplies needed for the company’s day-to-day operations.
* Advertising and marketing communication
* Clerical assistants who maintain the office

Direct costs are directly associated with the production of a good or service. In this question, ‘An employee is hired to work on a project, either exclusively or for an assigned number of hours’ and ‘Raw materials’ are directly related to producing the product.

Indirect costs are the general costs of the organisation – these costs cannot easily be attributed to specific products or services (also known as overheads). ‘The materials and supplies needed for the company’s day-to-day operations’ or ‘Clerical assistants who maintain the office’ or ‘Advertising and marketing communication’ is example of indirect cost.

Reference:

LO 1, AC 1.2

QUESTION 37

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
* 1 and 4 only
* 3 and 4 only
* 1 and 2 only
* 2 and 4 only

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 ad-vantage 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 com-petitive 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

QUESTION 38

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?
* $450
* $75
* $150
* $300

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

QUESTION 39

Which of the following are most likely to increase the buyer’s bargaining power?

1. Buyers are price sensitive

2. High set-up cost for new entrants

3. Threat of forward integration is high

4. Threat of backward integration is significant
* 3 and 4 only
* 2 and 3 only
* 1 and 4 only

* 2 and 4 only
Price sensitivity is the degree to which the price of a product affects consumers’ purchasing behaviours. Buyer power will be stronger if buying organisation are price sensitive and vice versa.

Backward integration is a form of vertical integration in which a buying organisation expands its role to fulfil tasks formerly completed by businesses up the supply chain. Buyer power is strong if threat of backward integration is high.

Set-up cost is a determinant of threat of new entry. Some industries require very expensive assets in order to make products. The financial risk of entering the industry and not succeeding can deter many potential new entrants. The fewer new entrants, the fewer available substitutes, then the bar-gaining power of buyer can be negatively affected.

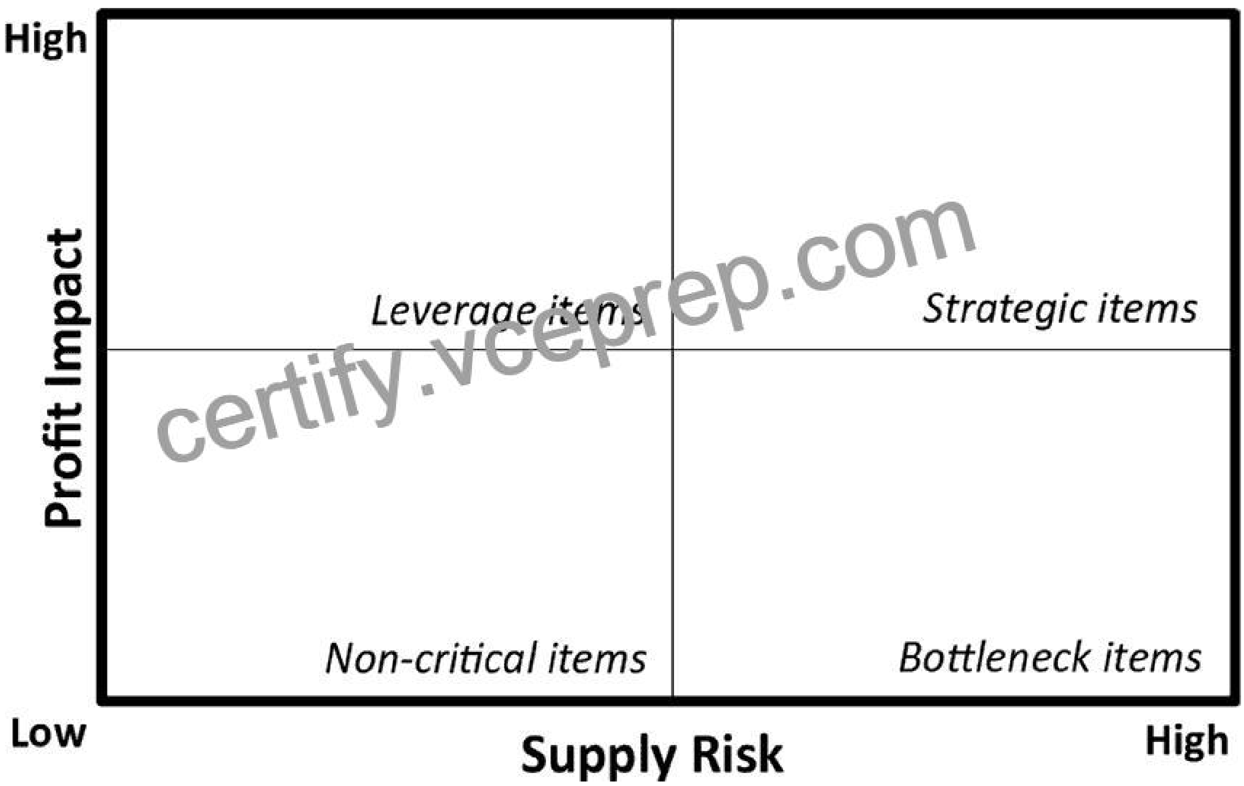
Forward integration is a business strategy that involves a form of vertical integration whereby business activities are expanded to include control of the direct distribution or supply of a compa-ny’s products. Threat of forward integration is a determinant of supplier’s bargaining power.

Reference:

LO 2, AC 2.2

QUESTION 40

A procurement team is categorising their purchased items into four quadrants of Kraljic’s supply chain portfolio matrix. They realise that there are some low-value items which come from very few suppliers in the market. The organisation is critically dependent on these suppliers. The team plans to reduce the dependence by finding alternative sources. Is this a right course of action?
* Yes, the organisation needs to reduce the supply risks
* No, the organisation should run competitive biddings to exploit the competition
* No, there is no way to escape this dependency
* Yes, this action will dramatically increase the supplier’s bargaining power
According to Kraljic portfolio matrix, the low-value items with high supply risk are bottleneck items.



The purchasing strategy that is commonly recommended for these products is primarily based on acceptance of the dependence and reduction of the negative effects of the unfavourable position. An alternative strategy suggested by purchasing practitioners is to find other suppliers and move towards the non-critical quadrant.

– Accept dependence, reduce negative consequences: The main focus of this strategy is to assure supply, if necessary even at additional cost. Examples of this strategy are keeping extra stocks of the materials concerned or developing consigned stock agreements with suppliers. By performing a risk analysis firms can identify the most important bottleneck products and consider the implications. A possible action for dealing with unexpected bad dependence positions for certain products is to employ contingency planning.

– Reduce dependence and risk, find other solutions: This strategy is geared towards reducing the dependence on the supplier. The most common way to achieve this is to broaden the specifications of the product or to search for new suppliers.

The procurement team in the scenario has selected reducing dependency by finding alternatives. This is a right strategy for bottleneck item.

Reference:

– CIPS study guide page 82-84

– Purchasing strategies in the Kraljic matrix-A power and dependence perspective, Marjolein C.J. Caniels, Cees J. Gelderman LO 2, AC 2.1

QUESTION 41

Which of the following is the best definition of target costing?
* The net present cost of the purchase or project and all future revenues flowing from it discounted back to the present time.
* 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.
* The cost of a product after analysing its components step by step
* A product cost estimate derived from a competitive market price.

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

QUESTION 42

Which of the following can directly affect labour variance? Select TWO that apply:
* Wage rate per hour
* Inflation
* Company’s budget
* Overhead expenditure
* Overtime

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 43

Which type of specification is less time-consuming to develop?
* Outcome-based specification
* Design specification
* Conformance specification
* Technical drawings

There are two major types of specification: conformance and performance specifications. They have the following characteristics:

Performance specification	Conformance specification
· Focus on outputs · Sets out result to be achieved · Supplier produces using its own technology and knowhow · When issue arises, supplier is legally liable	· Focus on inputs · Buyer proves specific methods, processes, material properties, brand etc · Supplier produces strictly according to the specification prescribed by the buyer · When issue arises, buyer is legally liable

Since performance specification is often a list of outputs or outcomes, it usually takes less time to develop than conformance specification.

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