

# CIPS

*L4M2  
Defining Business Needs*



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# Latest Version: 6.0

## Question: 1

The position of a product in its life cycle can affect the price that suppliers set. Is this statement correct?

- A. No, in market economy, the state decides the price of all goods and services
- B. Yes, each stage in product life cycle requires different levels of investment in promotion and distribution
- C. No, customer's perception of value is the ultimate determinant of the suppliers' price
- D. Yes, it is always the only factor determining the price

**Answer: B**

Explanation:

A firm also has to look at a myriad of other factors before setting its prices. Those factors include the offering's costs, the demand, the customers whose needs it is designed to meet, the external environment—such as the competition, the economy, and government regulations—and other aspects of the marketing mix, such as the nature of the offering, the current stage of its product life cycle, and its promotion and distribution. If a company plans to sell its products or services in international markets, research on the factors for each market must be analyzed before setting prices. Organizations must understand buyers, competitors, the economic conditions, and political regulations in other markets before they can compete successfully.

[...]

The costs of the product—its inputs—including the amount spent on product development, testing, and packaging required have to be taken into account when a pricing decision is made. So do the costs related to promotion and distribution. For example, when a new offering is launched, its promotion costs can be very high because people need to be made aware that it exists. Thus, the offering's stage in the product life cycle can affect its price.

Reference:

- CIPS study guide page 90-91

- 15.2 Factors That Affect Pricing Decisions – Principles of Marketing (umn.edu)

LO 2, AC 2.2

## Question: 2

A CPO is making a business case for acquiring a new computer system. He has set out objective, generated options, cost and benefit of each option and implementation plan. Which of the following elements should be included in the business case?

- A. Risk assessment
- B. Operation management
- C. Invitation to tender

#### D. Contract management

**Answer: A**

##### Explanation:

Before a project commences (either capital purchase or switching to a new supplier), a business case should be developed. The business case outlines the why, what, how, and who necessary to decide if it is worthwhile continuing a project.

Basically, the following criteria can be applied to the assessment of a business case:

##### 1. Objectives

This part describes why you are doing the project. The business objective answers the following questions:

- What is your goal?
- What is needed to overcome the problem?
- How will the project support the business strategy?

##### 2. Option identification and selection

Identify the potential solutions to the problem and describe them in enough detail for the reader to understand.

For instance, if the business case and proposed solution makes use of technology, make sure to explain how the technology is used and define the terms used in a glossary. Since most problems have multiple solutions an option appraisal is often needed. This will explore the potential solutions and recommend the best option.

When writing the initial business case the option appraisal is likely to contain a long list of options and will cover many possibilities. As the project continues a number of options will be rejected. The final business case may contain three to five options — the short list — that includes a do nothing or benchmark option.

##### 3. Benefits and limitations

The benefits and limitations section describes the financial and non-financial benefits in turn. The purpose is to explain why you need a project.

For instance, to:

- Improve quality
- Save costs through efficiencies
- Reduce working capital
- Generate revenue
- Remain competitive
- Improve customer service
- Align to corporate strategy

The business case should also include any limitations since these present potential risk to the project.

##### 4. Risk management

The risk assessment summarizes the significant project risks and opportunities and how they are managed. The risks included should cover those that could arise from your project or the organization's ability to deliver change.

This section answers the following questions:

- What risks are involved?
- What are the consequences of a risk happening?
- What opportunities may emerge?
- What plans are in place to deal with the risks?

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- Every project should include a risk log.

When writing a business case, make sure this is included as it explains how risk and opportunity are managed.

#### 5. Implementation plan

The outline plan provides a summary of the main activities and overall timescale — project schedule — for the project.

Ideally, the project should be divided into stages with key decisions preceding each stage. Use this section to answer the following questions:

- What is required?
- How is it done?
- Who does what?
- When will things happen?

This outline plan lists the major deliverables and includes a brief project description plus accountabilities for each activity.

In the scenario, the CPO has set out objective, generated options, cost and benefit of each option and implementation plan. In order to make the business case more compelling, he should reinforce it with risk management.

Reference: CIPS study guide page 41-48

LO 1, AC 1.3

### Question: 3

What is the document that defines the activities, deliverables and timelines a supplier must carry out during contract performance?

- A. Statement of work
- B. Project initial document
- C. Framework agreement
- D. Work instruction

**Answer: A**

Explanation:

Statement of Work (SoW) is the document that captures and defines all aspects of your project. You'll note the activities, deliverables and the timetable for the project. It's an extremely detailed document as it will lay the groundwork for the project plan.

Project Initial Document is an important document and should precede any specification writing project. It sets out the scope of the project and it is the team's mandate from senior management

Work instructions are also called work guides, Standard Operating Procedures (SOPs), job aids or user manuals, depending on the situation. In any case, the purpose of work instructions is to clearly explain how a particular work task is performed.

Framework agreements are arrangements between one or more buyers and one or more suppliers that provide the terms governing contracts to be established for a certain period of time, in particular with regard to price and, where necessary, the quantity envisaged.

Reference: CIPS study guide page 124

LO 3, AC 3.1

### Question: 4

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:

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 organisation':

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 negotiation.

'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: 5

British Steel needs to source a set of instruments that will improve quality of steel. Without these instruments British Steel will loss control of the temperature. The bucket may freeze up, or if it is too hot it leaks out of the casting process, damaging the machine. There is limited supply on the market and quality varies greatly. Which of the following will be the most appropriate managing approach to procure these items?

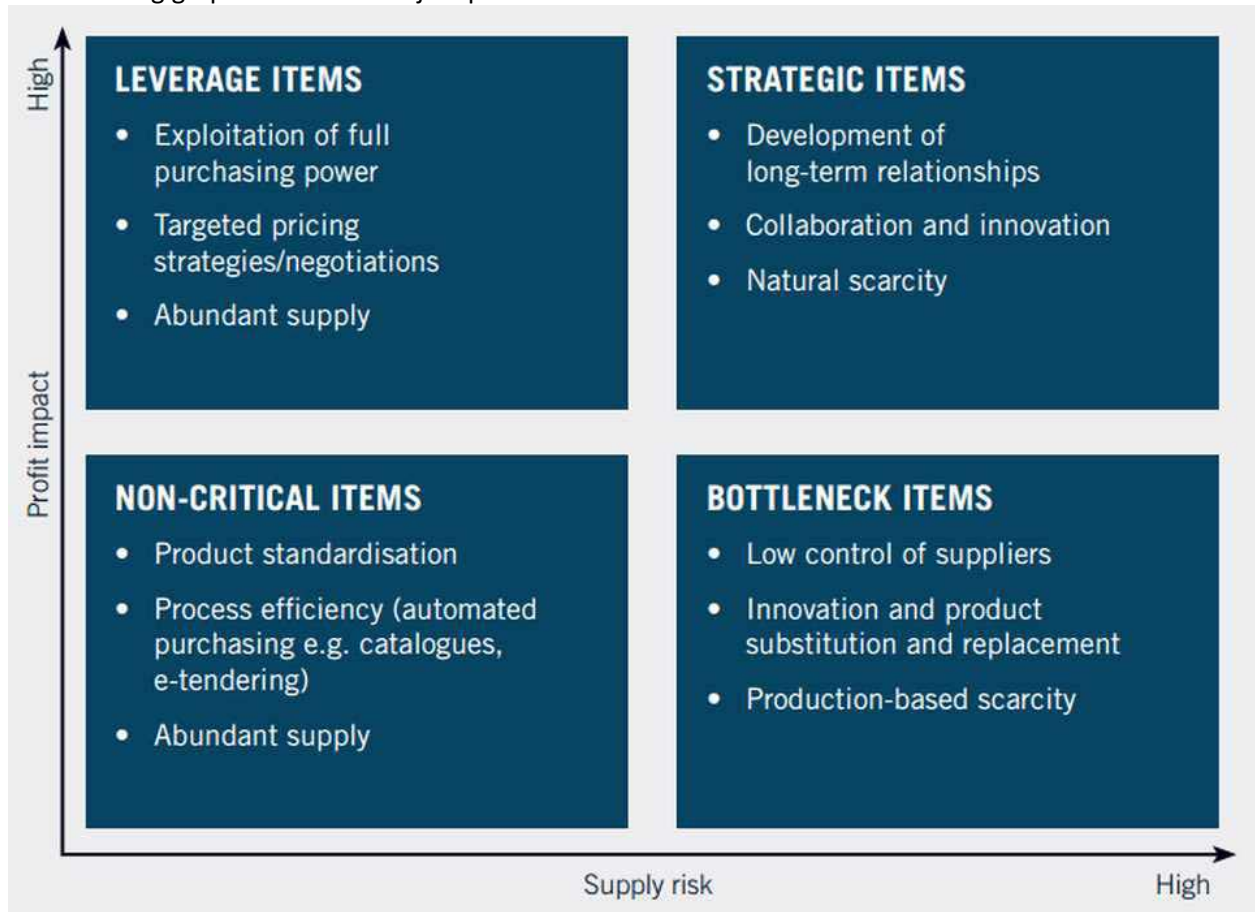
- A. Bundle these instruments into larger contract
- B. Leverage market competition to drive down cost
- C. Seek continuity of supply
- D. Form partnership with supplier

## Answer: D

Explanation:

The instrument plays a crucial role in steel manufacturing because it presents in the majority of products, in which case lacking this instrument would have significant impact on the organisation's output (production lines stop or damaging other machine). Otherwise, the risk of supply is high because there is limitation in supply. Therefore, it is considered as a strategic item in term of Kraljic's portfolio matrix. Procurement manager should form partnership with suppliers to maximise the value.

The following graph illustrates Kraljic's portfolio matrix:



Reference: CIPS Study guide page 84.

LO 2, AC 2.1

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