

CIPS L4M2

Defining Business Needs

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Question: 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

Question: 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

Question: 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

Question: 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

Question: 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

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