



Free Questions for L4M2

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# Question 1

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Question Type: MultipleChoice

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A CPO is analyzing whole life cycle costing of a machinery. He realises that cost elements are not specific but come from a range of values. Which whole-life costing model should the CPO use to get the most accurate total cost of ownership?

Options:

- A- Simulation models
- B- Optimisation models
- C- Decision support models
- C- Kraljic's preferencing model



Answer:

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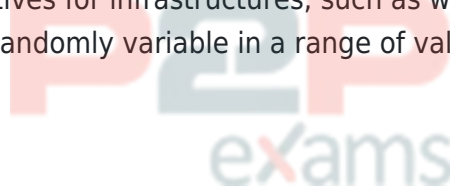
A

Explanation:

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There are three basic groups of WLC (whole life-cycle costing) models:

- Decision support models
- Simulation models: Life cycle cost is an essential approach to decide on alternative rehabilitation strategies for infrastructure systems. Monte Carlo simulation approach is used to develop a stochastic life cycle cost (SLCC) model and methodology in order to compare different rehabilitation scenarios/alternatives for infrastructures, such as water mains. This method assumes that some inputs are randomly variable in a range of values.
- Optimisation models



LO 1, AC 1.2

# Question 2

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Question Type: MultipleChoice

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Which of the following is the disadvantage of embedding standards in a specification?

Options:

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- A- Standards do not improving buyer's bargaining power
- B- Embedding standards into specification requires enormous time and effort
- C- Standards are too static and discourage innovation
- D- Standards are too flexible and may cause ambiguity in the specification

Answer:

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C

Explanation:

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'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.'

LO 3, AC 3.1

## Question 3

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Question Type: MultipleChoice

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Which of the following statements is the best definition of 'value engineering?'

Options:

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- A- Analysing perceived value after the product is available for sale
- B- Building value into a new product from design stage onwards
- C- Producing good value products right first time.
- D- Value achieved by an engineering department

Answer:

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B

Explanation:

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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 understandable 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.

LO 3, AC 3.4

## Question 4

Question Type: MultipleChoice

Product development consists of various stages, including planning and analysis, design development, pre-production, production and maintenance. At which stages the opportunities for cost reduction will be the greatest?

1. Planning stage
2. Pre-design stage
3. Detail design stage
4. Production stage
5. Logistics support stage

Options:

- A- 2 and 3 only
- B- 2 and 5 only
- C- 1 and 2 only
- D- 1 and 4 only

Answer:

C

Explanation:

Writing a specification and then procuring and using the product or service has a number of

stages. The further on in the process you are, the less potential there is for cost reductions. Therefore, opportunities for cost reduction will be greatest in the two first stages: planning stage and pre-design stage.

LO 3, AC 3.1

## Question 5

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Question Type: MultipleChoice

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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

Options:

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- A- 1 and 4 only
- B- 3 and 4 only
- C- 1 and 2 only
- D- 2 and 4 only

Answer:

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D

Explanation:

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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 advantage 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 competitive 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.

LO 2, AC 2.2

## Question 6

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**Question Type:** MultipleChoice

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At which stage of product life cycle, price competition between sellers will be the most intense?

Options:

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- A- Growth stage
- B- Introductory stage
- C- Maturity stage
- D- Decline stage

Answer:

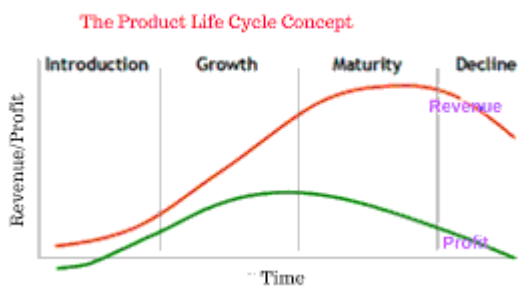
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D

Explanation:

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The term product life cycle refers to the length of time a product is introduced to consumers into the market until it's removed from the shelves. The life cycle of a product is broken into four stages---introduction, growth, maturity, and decline.



Source: <https://blueoceanoutsource.co.ke/the-product-life-cycle-concept/>

At maturity stage, price competition sets in as more and more supply capacity has been added by new entrants, then the competition will be the most intense.

LO 2, AC 2.2

## Question 7

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Question Type: MultipleChoice

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Why should the buying organisation require the supplier to carry out acceptance testing?

Options:

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- A- To get the approval from the senior management

- B- To check whether the product matches the specification
- C- To compare between the account payables and account receivables
- D- To see whether the supplier engages in unethical business practice

Answer:

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B

Explanation:

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Acceptance testing, in the context of the engineering and software industries, is a functional trial performed on a product or prototype before it is put on the market or delivered, to decide whether the specifications or contract have been met. It also makes sure the quality and design of the product meet both contractual and regulatory obligations in terms of functionality, usability, durability, and safety.

If a product is found to be unacceptable at this stage, it can be sent back for modification, debugging, repair, or re-design before it can become a costly undertaking for the producer, as would be the case in a product recall.

- CIPS study guide page 134-135

- Acceptance Testing (investopedia.com)

LO 3, AC 3.2

## Question 8

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Question Type: MultipleChoice

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When procuring a machinery, at which stage buyer must check whether it is working to the standards set out in the design specification?

Options:

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- A- Installation
- B- Maintenance and repair activities
- C- Customer support
- D- Manufacture

Answer:

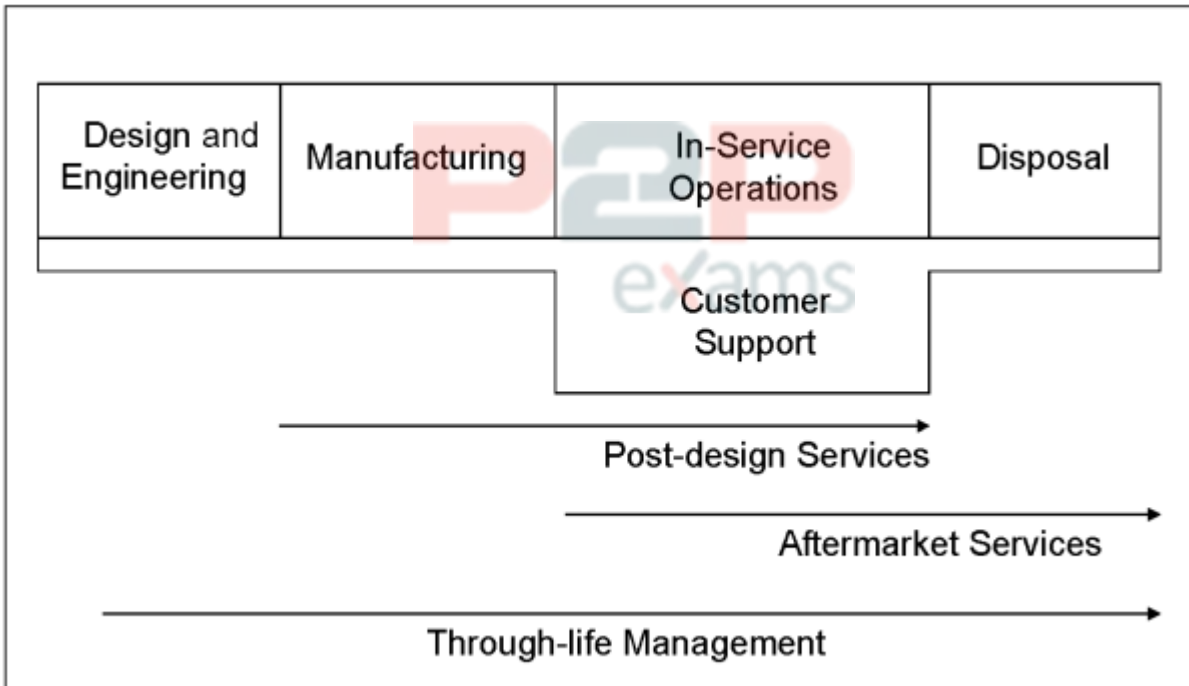
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A

**Explanation:**

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.



Source: Andrew Graves

The installation stage occurs in In-Service Operations. At this stage, the machinery is shipped and installed on the buyer's premises and checked to ensure that it is working to the standards set out in the design specification.

LO 3, AC 3.2

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**Question 9**

**Question Type:** MultipleChoice

Which of the following problems may be identified as open-ended problems? Select TWO that apply:

**Options:**

- A- Shortage of key medicines in healthcare industry
- B- A cyber attack takes down whole company's IT system
- C- Engine failures cause flight cancellations.
- D- Logistics costs incur a large portion in wholesale prices
- E- The suppliers don't comply with the company's policy on underage labour.

Answer:

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D, E

Explanation:

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Open-ended problem is something stopping the achievement of an objective or blocking progress. To solve this type of problems, procurement professional should find a way to unblock the block-age. In the above question, high logistics cost is an obstacle to cost cutting objective while supplier's non-compliance prevents the company to achieve its sustainable objective.

LO 1, AC 1.1

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