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# Question 1

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**Question Type:** MultipleChoice

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Which of the following are likely to be disadvantages of using outcome-based specifications? Select THREE that apply

## Options:

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- A- Time consuming to produce
- B- Stifling innovation
- C- Difficulty to measure performance
- D- Long time delay between action and result
- E- Responsibility for product failure falling to buyer
- F- Ambiguity of outcome

## Answer:

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C, D, F

## Explanation:

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An Outcome Based Specification (OBS) focuses on the desired outcome of a service in business terms, rather than a detailed technical specification of how the service is to be provided; this allows providers scope to propose innovative solutions that might not have occurred to the procurement team. Outcome should be distinguished from output, which is the measurable results of a set of inputs. The example of difference between outcome and output is written at the bottom of page 123 in the study guide.

Outcomes should be the starting point in making new specification. However, using outcome-based specification has some setbacks:

- First, it is not easy to measure the outcomes. Usually, outcome of a project is a statement like 'increase customer satisfaction', 'maintain ambient temperature' or 'provide a convenient way to do something'. They are not easy to measure as output.
- Second, sometimes the desired outcomes require time to be materialised
- Third, outcomes can be ambiguous

LO3, AC 3.1

## Question 2

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**Question Type: MultipleChoice**

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What will be the result of retaliation between business rivals in an industry?

**Options:**

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- A- Higher exit barrier
- B- More new entrants
- C- Lower profit
- D- Greater bargaining power of suppliers

**Answer:**

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C

**Explanation:**

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Industry rivalry---or rivalry among existing firms---is one of Porter's five forces used to determine the intensity of competition in an industry. Other factors in this competitive analysis are:

- Barriers to entry
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitutes

Industry rivalry usually takes the form of jockeying for position using various tactics (for example, price competition, advertising battles, product introductions). This rivalry tends to increase in intensity when companies either feel competitive pressure or see an opportunity to improve their position.

In most industries, one company's competitive moves will have a noticeable impact on the competition, who will then retaliate to counter those efforts. Companies are mutually dependent, so the pattern of action and reaction may harm all companies and the industry.

Some types of competition (for example, price competition) are very unstable and negatively influence industry profitability. Other tactics (for example, advertising battles) may positively influence the industry, as they increase demand or enhance product differentiation.

#### References

Porter, M. (1998). *Competitive Strategy*. New York: Free Press. pp. 17-23.

CIPS study guide page 86-87

LO 2, AC 2.2

## Question 3

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**Question Type:** MultipleChoice

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Which of the following is an assumption of Kano model?

### Options:

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- A- The relationship between product functionality and customer satisfaction is always linear
- B- Different types of customer requirements have different impact on customer satisfaction
- C- All types of customer requirements have the same impact on customer satisfaction
- D- All customer requirements are basic requirements

### Answer:

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B

### Explanation:

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Kano model of excitement and basic quality (Kano et al, 1984; Berger et al, 1993; Matzler et al, 1996) brings a different perspective for the analysis of improvement opportunities in products and services because it takes in consideration the asymmetrical and non-linear relationship between performance and satisfaction. The Kano model classifies customers requirements in three categories (figure 3):

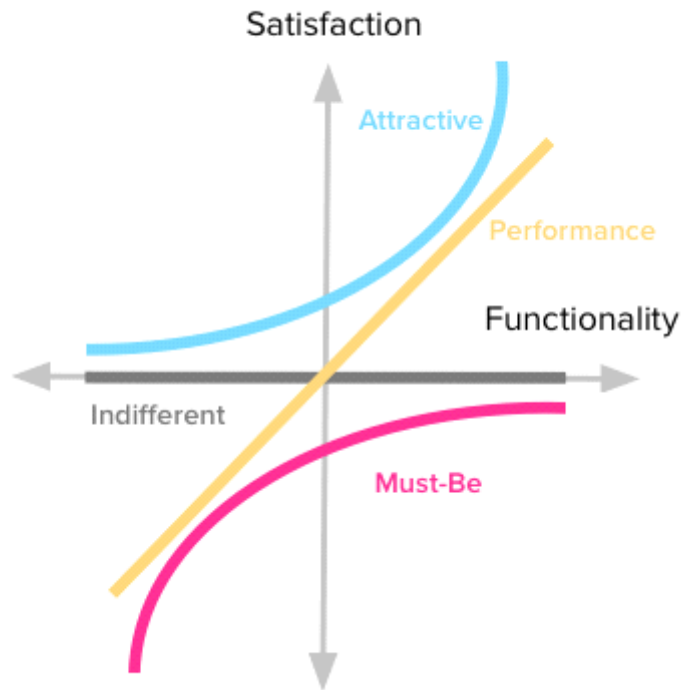
a) Basic Requirements. The basic requirements fulfill the basic functions of a product. If they are not present or their performance is insufficient, customers will be extremely dissatisfied. On the other hand, if they are present or have sufficient performance, they don't bring satisfaction. Customers see them as prerequisites. For instance, for luxury automobiles, 'air bags' are considered basic. A customer won't feel satisfied if the automobile has 'air bag', however he/she will not buy it if "air bag" is not present.

b) Performance Requirements. As for these requirements, satisfaction is proportional to the performance level -- the higher the performance, the higher the customer's satisfaction will be and vice-versa. Gas consumption in automobiles is an example of these

requirements. Usually customers explicitly demand performance requirements.

c) Excitement Requirements. These requirements are key to customer satisfaction. If they are pre-sent or have sufficient performance, they will bring superior satisfaction. On the other hand, if they are not present or their performance is insufficient, customers will not get dissatisfied. For instance, a surprise gift at the end of a dinner in a restaurant will certainly bring satisfaction, but it will not cause dissatisfaction if not offered. These requirements are not demanded nor expected by customers.

Two other types of requirements may be identified in the Kano model: neutral and reverse ones. Neutral requirements do not bring either satisfaction or dissatisfaction. Reverse requirements bring more satisfaction if absent than if present.



- Integrating Kano model and QFD for Designing New Products
- CIPS study guide page 171-172

## Question 4

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**Question Type: MultipleChoice**

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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

**Options:**

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

**Answer:**

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C

**Explanation:**

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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 bargaining 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 company's products. Threat of forward integration is a determinant of supplier's bargaining power.

LO 2, AC 2.2

## Question 5

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**Question Type:** MultipleChoice

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A company is analysing its existing product's components and aims at reducing costs without damaging customer value proposition. They want to check which components are critical and which are unnecessary. Which of the following should be adopted by the company?

### **Options:**

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- A- Under specification
- B- Value engineering
- C- Value analysis
- D- Variety reduction

### **Answer:**

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C

### **Explanation:**

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In marketing, a customer value proposition (CVP) consists of the sum total of benefits which a vendor promises a customer will receive in return for the customer's associated payment (or other value-transfer).

Value analysis is concerned with existing products. It involves a current product being analysed and evaluated by a team, to reduce costs, improve product function or both. Value Analysis exercises use a plan which step-by-step, methodically evaluates the product in a range of areas. These include costs, function, alternative components and design aspects such as ease of manufacture and assembly.

Value engineering 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.

In this scenario, the company's objective is cost reduction, then value analysis or value engineering is more likely to be applied. The products are existing, so value analysis is the best option.

LO 3, AC 3.4

## Question 6

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**Question Type:** MultipleChoice

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Synergy Ltd is a fast-growing tool and hardware retailer. The company's customer services team has been using Excel worksheets to manage customer relationships. When the company is expanding its market presence, this way of working leads to poorer customer services as the database is scattered around in spreadsheet, leading to patchy and inconsistent conversations with customers. The company decides to purchase a CRM system. What requirement should Synergy's procurement team take into account in the specification for CRM system?

### Options:

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- A-** Total number of the supplier's employees
- B-** The ability to import bulk data from Excel spreadsheets

- C- The relative size of the potential suppliers to Synergy
- D- The form and reference number of the purchase order

**Answer:**

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B

**Explanation:**

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The purpose of this Question:

to actionable requirements before communicating with the suppliers. The scenario suggests that Synergy Ltd's customer services team is using Excel spreadsheets, they lack a centralised customer database. This leads to problems in communications with customers.

A CRM system can solve the communication problem. But a Question: 100

will the previous data be imported? If the CRM system can support bulk import from Excel tables, it will save a lot of time.

LO 1, AC 1.1

## Question 7

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**Question Type:** MultipleChoice

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Department for Transport (DfT) needs to buy new locomotives to expand the capacity of trains fleet. In 2009, they were criticized for beginning the procurement "without any clear idea of how many trains would be needed, which routes they would run on and what form of power would be required". What should procurement manager of DfT do first to manage risk in making the specification?

**Options:**

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- A- Identify the possible risks
- B- Monitor the potential risks
- C- Implement mitigating actions
- D- Assess the potential risks

**Answer:**

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A

**Explanation:**

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There are 4 steps to risk managing process:

Step 1: Identify hazards

Step 2: Assess the risk

Once a risk has been identified, a risk assessment should be conducted.

You should carry out a risk assessment for any manual tasks identified as being hazardous, unless the risk is well known and you know how to control it. A risk assessment can help you determine, which postures, movements and forces of the task pose a risk, where during the task they pose a risk, why they are occurring and what needs to be fixed.

Step 3: Control the risk

The ways of controlling risks are ranked from the highest level of protection and reliability to the lowest, which is known as the hierarchy of control. You must always aim to eliminate the hazard, which is the most effective control.

Step 4: Review risk control

Control measures that have been implemented must be reviewed, and, if necessary, revised to make sure they work as planned and to maintain a work environment that is without risks to health and safety.

Source: WorkCover Queensland

LO 3, AC 3.3

## Question 8

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**Question Type:** MultipleChoice

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When devising a business case for purchasing a new copier, Maria analyses its whole-life costs as following:

<b>Cost generating activities</b>	<b>Value</b>
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?

**Options:**

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- A- \$450
- B- \$75
- C- \$150
- D- \$300

**Answer:**

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C



## **Explanation:**

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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.

- Life Cycle Cost Guidelines ([dlgsc.wa.gov.au](http://dlgsc.wa.gov.au))
- CIPS study guide page 36-40

LO 1, AC 1.2



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