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Question 1

Question Type: MultipleChoice

Datong is a defence and law enforcement equipment supplier. They are developing new product but largely concerns about the detailed specifications of components and the capability of supply market. Which of the following approach should Datong adopt in order to optimise the specification and shorten time to market?

Options:

A- Request for quotation from potential suppliers

B- Invite the supplier to tendering process

C- Early supplier involvement

D- Control the budget tightly

Answer:

C

Explanation:

To improve production process and reduce supply risk, Datong should collaborate with suppliers early in procurement cycle. Collaborating with suppliers in this way is often referred as Early Supplier Involvement (ESI)

'Request for quotation from potential suppliers': Quotations should only be requested if the buyer know exactly what they need. In this scenario, Datong is not yet sure about the specifications of product's components, request for quotation is not a good idea.

'Mapping out business plan': A business plan, as defined by Entrepreneur, is a ''written document describing the nature of the business, the sales and marketing strategy, and the financial back-ground, and containing a projected profit and loss statement.'' A business plan is not appropriate with improving production process and reducing supply risk.

'Budget controlling': Budget controlling largely concerns with dealing with budget variances. Tighter budget alone cannot lead to improved processes and fewer risks.

LO 3, AC 3.1

Question 2

Question Type: MultipleChoice

Buyers are more powerful than the supplier when they are purchasing from monopoly market. Is this statement true?

Options:

A- False, the buyer will be unable to track and manage supplier's performance

B- False, buyer will lack negotiating power on cost if the supplier has a monopoly in the market

C- True, suppliers in monopoly market produce homogenous products

D- True, in monopoly market, buyer's switching costs from the incumbent supplier to an-other are relatively low

Answer:

B

Explanation:

A monopoly is a market with a single seller (called the monopolist) but with many buyers. In this market, the bargaining power of supplier is higher than of buyer since the supplier is the only seller.

- CIPS study guide page 88-92

- Bargaining Power of Suppliers - Factors that Give Suppliers Power (corporatefinanceinsti-tute.com)

- Monopoly - Understanding How Monopolies Impact Markets (corporatefinanceinstitute.com)

LO 2, AC 2.2

Question 3

Question Type: MultipleChoice

Despite of better improvement rates than other types of benchmarking, functional benchmarking still has downsides. Which of the following is most likely to be a disadvantage of functional benchmarking?

Options:

A- Legal issues regarding intellectual property

B- Unfair competition

C- Difference of corporate cultures across companies

D- Benchmarking can only be undertaken within an industry

Answer:

C

Explanation:

Functional benchmarking is a comparison to similar or identical practices (e.g., the picking process for assembling customer orders, maintaining inventory controls of spare computer parts, logistics to move operational forces, etc.) within the same or similar functions outside the immediate industry. Functional benchmarking might identify practices that are superior in your functional areas in whatever industry they may exist. Functional benchmarking would be accomplished at the federal level by comparing the IRS collections process against those of American Express. Comparing copper mining techniques to coal mining techniques is an example in the private sector.

Benefits

- Provides industry trend information

- Quantitative comparisons

- Better improvement rate

Challenges

- Diverse corporate cultures

- Great need for specificity

- Not invented here. syndrome

- Common functions can be difficult to find

- Takes more time than internal or percent

- Must be able to visualize how to adapt the best practices

Source: USN Benchmarking Handbook

LO 1, AC 1.3

Question 4

Question Type: MultipleChoice

One of the disadvantages of using standards in specification is that...

Options:

A- Standards lengthen the time to produce a specification

B- Standards tend to be rigid and they often don't encourage innovation

C- Standards don't allow the buyers to add health and safety requirements into the specification

D- Standards tend to be inaccurate and ambiguous, causing confusion among suppliers

Answer:

B

Explanation:

Using standards in specification is very convenient. They reduce the time and effort to produce. They tend to be very accurate with correct technical terminologies. They are well recognised and accepted by a wide range of suppliers and buyers. However, since a standard is very specific, complex and lengthy, it requires a lot of time to be drafted and approved. Therefore, standard tends to be static and don't encourage innovation. It may also not accommodate latest technology and trends.

LO 3, AC 3.1

Question 5

Question Type: MultipleChoice

Which of the following activities are considered as secondary activities of an organization? Select TWO that apply

Options:

A- Component fabrication

B- Training

C- Information system development

D- Shipping

E- Service response

Answer:

B, C

Explanation:

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 6

Question Type: MultipleChoice

GSC Ltd is a manufacturer of car parts. To accommodate growing demands of electric cars, the company is developing a new component which requires different type of steel. The project team estimates that the component will be ready for production in 1.5 years. Until then, they need to keep the production busy.

After checking the inventory records, the production team sees that the company has 3 months of stock. The lead time for each batch is two months. Which of the following should be a priority ac-tion of the company?

Options:

A- Create new specification to new supplier

B- Standardise the specification

C- Create new specification to current supplier

D- Make a call-off order to current supplier

Answer:

D

Explanation:

The scenario is very long with many distracting data. Students need to read carefully and use their experience to solve this problem.

The company is developing a new component which requires different type of material. But this component will not be available for mass production in 1.5 years. This means the company still needs to produce the current components with current materials until the development is finished. They must continue purchase the materials from current supplier through call-off orders. This situation is an example of straight re-buy.

LO 1, AC 1.1

Question 7

Question Type: MultipleChoice

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:

A- 1 and 4 only

B- 3 and 4 only

C- 1 and 2 only

D- 2 and 4 only

Answer:

D

Explanation:

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.

LO 2, AC 2.2

Question 8

Question Type: MultipleChoice

Company A sells a product for $100. The total unit variable costs are $60. Fixed costs as in its ac-count are $20,000. How many products does the company have to sell to achieve break-even point?

Options:

A- 600

B- 550

C- 400

D- 500

Answer:

D

Explanation:

Break even point = Fixed costs/(Price-variable cost). In this case, break even point = 20,000/(100-60) = 500

LO 1, AC 1.2

Question 9

Question Type: **MultipleChoice**

Which of the following is an useful tool for value engineering?

Options:

A- SAMOA

B- Kraljic Portfolio Matrix

C- Star-burst method

D- Kano model

Answer:

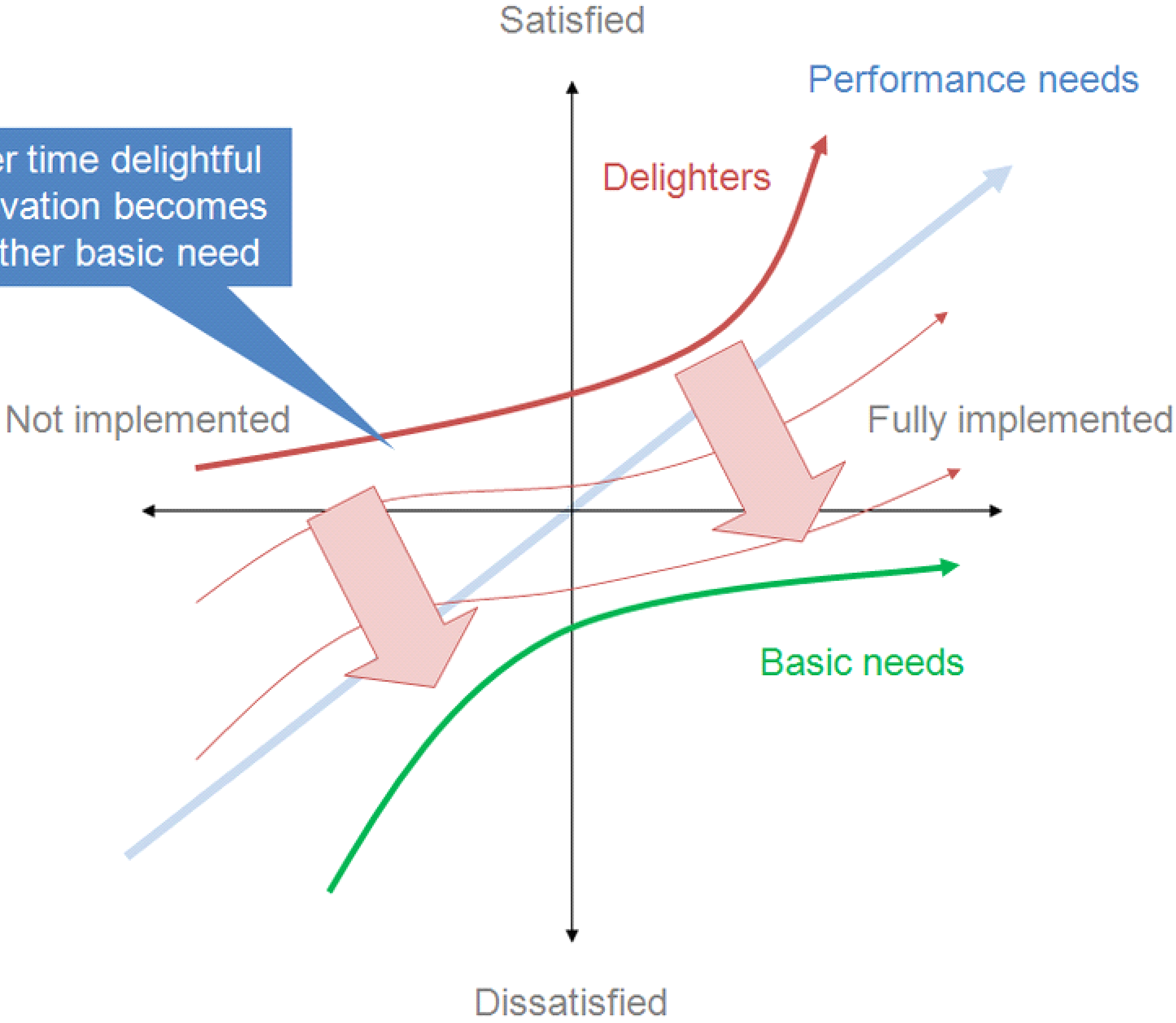
D

Explanation:

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.

The Kano model is a theory for product development and customer satisfaction developed in the 1980s by Professor Noriaki Kano, which classifies customer preferences into five categories. Both Kano model and Value Engineering aims at optimising new product, so they can be combined to-gether. CIPS L4M2 study guide consider Kano model is a tool of Value Engineering


Satisfied
Performance needs
Over time delightful innovation becomes another basic need
Delighters
Not implemented
Fully implemented
Basic needs
Dissatisfied

Example of Kano model (source: Wikipedia)

LO 3, AC 3.4

Question 10

Question Type: MultipleChoice

A procurement manager is discussing with other stakeholders about the scope and the implementation of the upcoming construction project. A stakeholder argues that the construction projects are often risky as the overall scope of the work can't be accurately estimated from the beginning. Furthermore, the project spans over a long period, the costs of materials can fluctuate widely. The procurement manager suggests that the pricing structure should be able to cover the supplier's costs plus 10% markup on total costs. This arrangement is known as...?

Options:

A- Cost-plus fixed-fee

B- Cost-plus award fee

C- Cost-plus incentive fee contracts

D- Cost-plus Fixed percentage

Answer:

D

Explanation:

As you can see from the scenario, the procurement manager is suggesting to use cost plus pricing arrangement.

A cost-plus contract is an agreement to reimburse a company for expenses incurred plus a specific amount of profit, usually stated as a percentage of the contract's full price. These type of contracts are primarily used in construction where the buyer assumes some of the risk but also provides a degree of flexibility to the contractor.

Cost-plus contracts can be separated into four categories. They each allow for the reimbursement of costs as well as an additional amount for profit:

1. Cost-plus award fee contracts allow the contractor to be awarded a fee usually for good per-formance.

2. Cost-plus fixed-fee contracts cover both direct and indirect costs, in addition to a fixed fee.

3. Cost-plus incentive fee contracts happen when the contractor is given a fee if his or her perfor-mance meets or exceeds expectations.

4. Cost-plus percent-of-cost contracts allow the amount of reimbursement to rise if the contrac-tor's costs rise.

In the scenario, the procurement manager suggests a pricing structure that covers supplier's costs and adds 10% markup. This is cost-plus fixed-percentage.

- Cost-Plus Contract Definition (investopedia.com)

- CIPS study guide page 30-36

LO 1, AC 1.2

Question 11

Question Type: MultipleChoice

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?

Options:

A- Process standardisation

B- Product standardisation

C- Value engineering

D- Process re-engineering

Answer:

B

Explanation:

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.

- 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 12

Question Type: MultipleChoice

Which of the following statements is true about product life cycle?

Options:

A- The price remains static throughout the product life cycle

B- The price competition will be the fiercest at the declining stage because the inventories are plentiful

C- If price skimming is adopted, the supplier will gradually lower the price when it attracts enough buyers

D- Sale volume will be the highest at the introductory stage

Answer:

C

Explanation:

A product's life cycle portrays the length of time a product is in the market; from the beginning of its introduction to consumers until it is removed from shelves and phased out. This cycle is often divided into four phases: introduction, growth, maturity, and decline. Depending on the relevant stage, companies will set an according strategy to achieve their desired targets. Pricing and promotions play a pivotal role in the design of these product life cycle strategies. Therefore, product life cycle management, the process of strategizing ways to continuously support and maintain a product, is seen more and more at pricing mature players and could bring real value to your company.

Introduction phase: during the introduction phase, the new product is introduced to consumers and a substantial amount of money is invested in advertising and marketing campaigns to bring awareness of the product to the customer. In this phase competition is low, but units sold will also correspondingly be quite low as well still. Consumers need to be convinced of the benefits of the product. Lots of articles never make it beyond this phase: e.g. 3D televisions.

Profits in the introduction stage tend to be low or there may even be a loss. This is because the cost of marketing to establish product awareness plus distribution costs can be far higher than the revenue received from sales. This can be offset to a degree by 'skimming' price in the very early stages. Skimming a price is where a business charges the highest price that it thinks the market will bear initially until product recognition brings in other buyers and then the price drop.

Growth phase: when it's shown there is proven demand for the product and consumers are buying it, the next stage will be its growth phase. This phase is punctuated by increasing demand, increas-ing production and an increase in the competitive landscape. Availability of the product is under-standably paramount during this phase, going out of stock is unthinkable during the growth period.

The electric car is an example of a product that is currently in the midst of the growth phase.

Maturity phase: normally the maturity phase is the phase that is characterized by declining production and marketing costs due to synergies and economies of scale. During this phase the first signs of market saturation occur and most consumers or households already own the product. Sales numbers still grow, but at a slower pace. In the maturity phase, price competition becomes intense, a broader range of distribution channels are deployed and competition is more focused on competitive pricing, marginal product differences or the difference in services or promotions. This period in the PLC is often said to be the 'cash-cow period'.

That being said, the idea of 'Maturity from the start' also exists. This occurs when a brand decides to launch a product extension and directly follows up the maturity phase of an earlier version of the product. For example, the iPhoneX followed up from the 'normal' iPhone-series and therefore the iPhoneX never had to undergo the introduction or growth phase, but immediately started in its maturity phase.

Decline phase: the final phase of the PLC is entered once the product loses market share to other, newer products and the competitive landscape becomes too hard to survive. During this stage, de-mand declines, companies are left with overstock with prices and margins getting depressed. Therefore retailers and brands normally start stunting with promotions during the decline of the PLC to sell their final stock.

A well-known example of a product that has been through the decline phase were the Nokia phones; sales results dramatically decreased after the introduction of the iPhone.

- CIPS study guide page 90

- Adjusting your Pricing Strategy to the Product Life Cycle Stage (omniaretail.com)

- Price Skimming Definition (investopedia.com)

LO 2, AC 2.2

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