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Defining Business Needs

CIPS L4M2

Version Demo

Total Demo Questions: 34

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Topic Break Down

Topic	No. of Questions
Topic 1, Understand how to devise a business case for requirements to be fulfilled from external suppliers	89
Topic 2, Understand market management	96
Topic 3, Understand the use of specifications in procurement and supply	120
Topic 4, Understand the procurement of goods and services for internal and external customers	35
Total	340

QUESTION NO: 1

A buying organisation may not have technical capability to produce a highly complex specification. Which of the following are sources of information that can be used to create the specification? Select TWO that apply

A. Standard terms and conditions

B. Name cards

C. Industry standards

D. Suppliers' know-how

E. Constitution

ANSWER: C D

Explanation:

Industry standards are an appropriate source because they provide established, objective requirements for quality, performance, safety, interoperability, testing, or materials. Using a recognised standard helps the buying organisation describe its need clearly where it lacks specialist in-house expertise, while giving potential suppliers a common and consistent basis for preparing compliant offers. Specifications can cite an applicable standard and identify the required edition or level of performance, provided this does not unnecessarily restrict competition.

Suppliers' know-how is also a valuable source when the requirement is complex or the market holds more technical knowledge than the buying organisation. Early market engagement, supplier discussions, requests for information, demonstrations, or technical consultations can help a buyer understand feasible solutions, relevant innovations, delivery constraints, and suitable performance measures. This information can then be used to create a robust, outcome-focused specification. The buyer should engage the market fairly and use the learning to define requirements rather than allowing a supplier to shape the procurement in a way that creates an unjustified advantage. CIPS guidance on specifications highlights the use of standards and supplier/market expertise, while UK procurement guidance supports preliminary market engagement: CIPS: Specification; UK Government: Preliminary market engagement guide.

QUESTION NO: 2

Which of the following areas is specified by ISO/IEC 27001 family?

A. The dimensions and associated tolerances for a series of housings for piston seals

B. The requirements for an information security management system

C. Evaluation and assessment of mutual agreed customer food safety requirements

D. The requirements for an environmental management system

ANSWER: B

Explanation:

The requirements for an information security management system is correct because ISO/IEC 27001 is the principal requirements standard in the ISO/IEC 27000 family for establishing, implementing, maintaining, and continually improving an information security management system (ISMS). An ISMS provides a structured, risk-based management framework through which an organisation identifies information-security risks and applies appropriate controls to protect the confidentiality, integrity, and availability of information. It is applicable to organisations of any size and sector, including procurement functions that handle commercially sensitive supplier information, contracts, pricing, personal data, and intellectual property. ISO/IEC 27001 does not merely prescribe technical cybersecurity measures; it requires leadership commitment, risk assessment and treatment, documented processes, performance evaluation, internal audit, and continual improvement. This means the standard supports governance of information security across people, processes, and technology, as well as relationships with external providers. ISO describes ISO/IEC 27001 as specifying the requirements for an ISMS and notes that it helps organisations manage risks to information assets systematically. The ISO/IEC 27000 family also contains supporting guidance and related standards, but ISO/IEC 27001 is the standard against which an ISMS may be independently certified. See ISO/IEC 27001:2022 and ISO's overview of information security management.

QUESTION NO: 3

Buyers can ascertain the prices by examining information provided by primary and secondary sources of market data. Which of the following is a secondary source of market data?

A. Supplier prices provided on price comparison websites

B. Historical records of supplier prices on the buyer's database

C. Price brochures provided by the supplier's sales team

D. Suppliers' prices provided on the buyer's request for quotation

ANSWER: A

Explanation:

Supplier prices provided on price comparison websites is a secondary source of market data because the website compiles, organises and presents pricing information that has already been made available by suppliers or other market participants. The buyer is therefore using information collected and republished by an intermediary, rather than obtaining the data directly from a supplier for the immediate research exercise. This makes price-comparison information useful for quickly establishing an indicative market-price range, identifying suppliers, and supporting an early estimate of value before a sourcing exercise proceeds. Buyers should still consider the date, market coverage, specification comparability, location, tax treatment and any delivery or service assumptions behind displayed prices, since these affect whether an advertised price is directly comparable with the requirement. Used carefully, such external published information supports evidence-based market analysis and helps a buyer understand prevailing market conditions. CIPS describes market analysis as a core part of procurement and supply practice: CIPS Intelligence Hub. Guidance on evaluating online information and its provenance is also available from the UK Government.

QUESTION NO: 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:

No, because higher specification may incur additional costs for the buyer is correct. A conformance specification sets mandatory characteristics and standards that the supplied item must meet. While ISO standards can provide a sound, recognised baseline for quality, safety, compatibility, or performance, specifying requirements above the level genuinely needed creates a risk of over-specification. For a non-core component, requirements should be proportionate to the item's business criticality and intended use. Unnecessarily demanding technical or quality requirements can require suppliers to use more costly materials, processes, inspection, certification, or testing. Those additional costs will normally be reflected in the quoted price and may also reduce the number of capable suppliers, limiting competitive tension. Cost savings are therefore more likely to result from specifying the fit-for-purpose outcome and minimum necessary level of conformance, rather than automatically exceeding an established standard. CIPS guidance on specifications emphasises that requirements should be clear, relevant and not unnecessarily restrictive, so suppliers can offer the most economically advantageous solution that meets the actual need. ISO similarly explains that its standards provide internationally agreed requirements and guidance that support consistent quality and effective procurement. See CIPS: Specification and ISO: Standards.

QUESTION NO: 5

Ymira is asked to develop the specification for water purifier which will be used at the company headquarter. She believes that the specification can be drafted based on the information available on the Internet, such as blog posts, comparison websites, how-to websites, life hacks, etc. Which of the following traits will make the information more useful?

A. Trustworthy sources

B. Objectivity

C. Subjectivity

D. Written by inexperienced author

E. Promotional information

ANSWER: A B

Explanation:

Trustworthy sources and **Objectivity** make internet-based information more useful when developing a specification. A specification needs to translate a genuine business need into clear, evidence-based requirements, so the underlying information must be dependable. Trustworthy sources provide a sound basis for identifying relevant product capabilities, performance standards, maintenance requirements, operating costs, safety considerations and supplier-market information. In practice, Ymira should give greater weight to information from identifiable and authoritative publishers, such as manufacturers' technical documentation, independent test organisations, recognised standards bodies, water-quality authorities and credible professional publications.

Objectivity is equally important because information used to define requirements should represent evidence fairly rather than promote a particular brand, product feature or commercial outcome. Objective content is more likely to state the method, assumptions, limitations and evidence supporting its conclusions. This enables Ymira to distinguish essential requirements for the headquarters from optional or promotional claims. These checks reflect the CIPS approach to evaluating information through the SAMOA criteria, which considers the source, intended audience, methodology, objectivity and accuracy. Reviewing information against these factors helps ensure that the eventual specification is defensible, proportionate and aligned to the organisation's actual need. See CIPS' Level 4 Diploma information and Purdue OWL's criteria for evaluating sources.

QUESTION NO: 6

At which stage of through-life contract management, procurement team needs to identify sources of risk and the ways to mitigate them?

A. Specification stage

B. Supplier relationship stage

C. Tendering stage

D. Contracting stage

ANSWER: A

Explanation:

Specification stage is correct because risk identification starts while the business need and requirement are being defined, before the requirement is issued to the market or incorporated into contractual terms. At this point, the procurement team works with users and other stakeholders to establish what could prevent the required outcome from being achieved. This includes risks associated with the scope, technical or service requirements, demand assumptions, implementation, supply-market capability, compliance, continuity of supply, and whole-life cost.

Identifying these sources early allows proportionate controls to be designed into the requirement itself. For example, mitigation may involve setting clear and measurable performance requirements, specifying quality or security controls, building resilience or contingency requirements into the service design, and deciding what evidence suppliers must provide. Early analysis also informs the eventual procurement and contract-management approach, including which risks should be retained by the organisation and which can appropriately be allocated to a supplier. This follows the risk-management principle that risks should be identified, analysed and treated as part of planning and decision-making, as described in ISO 31000 risk management guidance. CIPS also places defining requirements and planning procurement activity at the start of the procurement cycle: CIPS procurement process resources.

QUESTION NO: 7

Which of the following activities are considered as primary activities of an organization according to Porter's value chain? Select TWO that apply:

A. Maintenance

B. Picking and delivery components

C. Sourcing transportation services

D. Trainees recruitment

E. Assembly design

ANSWER: A B

Explanation:

Porter’s value-chain model separates the activities that directly create, deliver and support a product or service from the support activities that enable them. **Picking and delivery components** belongs to inbound logistics because it concerns receiving, handling, storing and moving inputs needed for production or service delivery. Inbound logistics is one of the five primary value-chain activity groups.

Maintenance is treated here as an operations activity: maintaining production equipment, facilities or operational capability helps transform inputs into the finished goods or services supplied by the organisation. Operations is likewise a primary activity because it is directly involved in creating the organisation’s output. The exact operational tasks will vary by sector, but maintenance of the assets and processes used to perform work is appropriately classified within operations for this question.

This classification follows Porter’s framework, in which inbound logistics and operations are primary activities. The original presentation of the value-chain concept is available from Harvard Business School. A useful overview of the primary and support activity categories is also provided by Mind Tools.

QUESTION NO: 8

Total cost of ownership of a solar panel is $5,000 and it is expected that the panel will make a sav-ing of $1,000 each year. So it would take 5 years for the benefits to repay the investment. Therefore, the firm plans to keep the solar panel for at least 5 years. Is payback period calculation right for making the business decision?

A. Yes, because it takes everything into account

B. No, because payback period can be only used to calculate the depreciation of a fixed asset

C. No, because payback period doesn’t take into account price fluctuations

D. Yes, because payback period shows how long the firm recovers the investment

ANSWER: D

Explanation:

Yes, because payback period shows how long the firm recovers the investment. Payback is a straightforward capital-investment appraisal technique that calculates the time required for cumulative net cash benefits to equal the initial outlay.

On the stated assumptions, dividing the $5,000 total cost of ownership by annual savings of $1,000 gives a five-year payback period. This means that, provided the expected annual savings are achieved, the investment will have recovered its initial cost at the end of year five. It is therefore reasonable to use this calculation as part of the decision to retain and operate the solar panel for at least that period.

In procurement and business-needs analysis, whole-life cost and benefits information supports decisions by making the financial commitment and expected recovery period visible. Payback is particularly useful where decision-makers need a clear indication of liquidity exposure and how quickly funds committed to an asset can be recovered. The calculation should be based on realistic forecasts of operating costs, maintenance, energy savings, and the asset's expected service life. Further guidance on investment appraisal and payback is available from ACCA's investment-appraisal guidance and the CIPS procurement topics and skills resources.

QUESTION NO: 9

Which of the following always impact negatively on a company's cash flow? Select TWO that ap-ply

A. Increasing revenue

B. More inventory

C. Depreciation of fixed asset

D. Supplier shortens their payment period

E. Customers agree to pay immediately

ANSWER: B D

Explanation:

"More inventory" negatively affects cash flow because cash is committed to buying, producing, storing, and handling goods before those goods are sold and converted back into cash. In working-capital terms, an increase in inventories is a use of cash: the organisation has more money tied up in stock and less immediately available for operational payments, investment, or debt servicing. Effective procurement therefore seeks to balance continuity of supply against the cash cost of holding excessive inventory.

"Supplier shortens their payment period" also has a negative cash-flow impact. A shorter agreed credit period means the buyer must settle invoices sooner. This accelerates the timing of cash outflows and reduces the amount of trade credit available from suppliers. Trade payables are an important component of the cash-conversion cycle; reducing the days payable outstanding generally means cash leaves the business earlier. These effects arise directly from the timing of working-capital movements, regardless of the accounting profit reported for the period. The IFRS explanation of cash-flow reporting identifies changes in inventories and trade payables as operating cash-flow movements, while the UK government's working-capital guidance discusses stock and supplier credit as key cash-management levers. See IAS 7 Statement of Cash Flows and UK government cash-flow guidance.

QUESTION NO: 10

Which of the following problems may be identified as closed problems? Select TWO that apply:

A. A cyber attack takes down whole company's IT system

B. Shortage of key medicines in healthcare industry

C. There are not enough data for procurement analytics

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: A B

Explanation:

A closed problem is a specific, already-occurring situation in which the immediate need is to restore an expected condition, contain disruption, or adapt operations to a clearly defined event. “A cyber attack takes down whole company’s IT system” is closed because it describes a discrete operational failure. Procurement and supply teams may need to activate contingency arrangements, engage recovery or alternative technology providers, and secure continuity of supply while the business restores its systems. The problem has a tangible current state and an identifiable recovery need.

“Shortage of key medicines in healthcare industry” is also a closed problem because it is an immediate supply disruption involving an essential, defined requirement. The procurement response is focused on mitigating the shortage, such as locating approved substitute products, reallocating available inventory, expediting supply, or working with stakeholders to prioritise patient need. In each case, the event has happened and action is required to correct or manage its consequences, rather than merely explore a broad improvement opportunity. This distinction supports the L4M2 focus on defining business needs accurately before selecting an appropriate procurement response. See the CIPS Level 4 Diploma in Procurement and Supply overview and CIPS’s procurement topics and skills resources.

QUESTION NO: 11

Which of the following are typical examples of secondary sources of market data? Select TWO that apply.

A. Communication with suppliers

B. Published market analysis

C. Trade fairs and exhibitions

D. Price comparison websites

E. Supplier marketing publications

ANSWER: B D

Explanation:

Secondary market data is information that has already been collected, analysed, or published for a purpose other than the buyer’s immediate research requirement. It enables procurement professionals to build an initial understanding of market size, trends, pricing, suppliers, risks, and competitive conditions without conducting direct field research themselves. **Published market analysis** is a clear secondary source because research organisations, analysts, trade bodies, and consultancies compile and distribute reports using data gathered previously. Such material can provide useful market intelligence and benchmarks for developing a specification or sourcing strategy.

Price comparison websites are also secondary sources because they aggregate existing advertised prices and product or service information from multiple providers. A buyer can use this information to gain an indicative view of prevailing market prices, available offerings, and relative supplier positioning. The information should be assessed for relevance, date, coverage, and comparability before being used in a procurement decision. CIPS identifies market intelligence as an important input to informed procurement and supply decisions; see the CIPS Knowledge hub. For a practical overview of using existing published information as secondary research, see the UK government guidance on market research and competitive analysis.

QUESTION NO: 12

Buyer power may make a supply market more competitive. Which of the following are examples of buyer power? Select TWO that apply.

A. Ability to easily switch suppliers

B. Collusion between competitor suppliers

C. Suppliers are limited m number

D. High barriers of entry exist for new suppliers

E. Availability of substitutes

ANSWER: A E

Explanation:

Buyer power describes the ability of customers to influence suppliers' prices, quality, service levels, and contractual terms. **Ability to easily switch suppliers** is an important source of this power because low switching costs reduce buyer dependence on any one supplier. A buyer can credibly move its spend if value, performance, or commercial terms are unsatisfactory. This creates a strong incentive for suppliers to remain competitive and responsive.

Availability of substitutes also increases buyer power. Where alternative products, services, technologies, or supply solutions can meet the same underlying need, buyers have credible options beyond the incumbent supplier. Procurement professionals can use this choice in market engagement, specification development, negotiation, and sourcing strategy to challenge pricing and secure better overall value.

These factors align with Porter's Five Forces framework: buyers gain influence when they have alternatives and face few practical obstacles to changing their source of supply. The framework is useful in CIPS market analysis because it helps a buyer assess the balance of power before selecting an appropriate sourcing and negotiation approach. See Harvard Business School's overview of Porter's Five Forces and the original Harvard Business Review article.

QUESTION NO: 13

The bargaining strength of suppliers is likely to be high in which of the following situations? Select TWO that apply:

A. The buyer is educated on supply markets

B. There is a limited number of suppliers in relation to buyers

C. The buyer is large in size relative to the supplier

D. The buyer spend is a high proportion of a supplier's revenue

E. The buyer requirement is urgent

ANSWER: B E

Explanation:

Supplier bargaining strength is high when suppliers have scarcity-based leverage or when the buyer's ability to delay, switch, or negotiate is constrained. "There is a limited number of suppliers in relation to buyers" creates a concentrated supply market: buyers have fewer credible alternative sources, so each available supplier has greater influence over price, terms, capacity allocation, and service conditions. This aligns with Porter's supplier-power concept, under which supplier concentration relative to the buying industry increases supplier power.

"The buyer requirement is urgent" also gives the supplier stronger negotiating leverage. Urgency reduces the buyer's time to conduct a sourcing exercise, qualify substitutes, develop alternative suppliers, or negotiate competitively. Where a requirement is time-critical, continuity and immediate availability can become more important than securing the most favourable commercial terms. A supplier able to meet that urgent need may therefore command concessions or a premium. In procurement practice, these conditions should prompt early market analysis, contingency planning, and supplier development so that avoidable time pressure does not weaken the buying organisation's negotiating position. See Harvard Business School's overview of Porter's Five Forces and CIPS guidance on market analysis.

QUESTION NO: 14

James Hunter has received a price increase request from a supplier with its justification. The supplier has requested the price increase because there has been an increase in staff sickness absence. James has reviewed the original contract and found a buyer provision for 'risk for additional resource.' This is the first year the supplier has experienced a resource issue. What should James do?

A. Review the request in three months

B. Request additional budget

C. Reject the price increase

D. Accept the price increase

ANSWER: C

Explanation:

Reject the price increase is correct because the contract expressly places the risk of requiring additional resource with the supplier. Staff sickness absence is a resourcing and operational-continuity matter that a supplier is normally expected to plan and price for, including through workforce management, contingency cover, cross-training, or temporary labour arrangements. The fact that this is the first year in which the supplier has encountered the issue does not alter the contractual allocation of that risk.

Effective contract management requires James to assess a request against the agreed terms, scope, pricing mechanism, and risk allocation before considering any change. Where a risk has been allocated to a party, that party bears the associated financial consequences unless the contract provides a specific route for relief or adjustment, or the parties later agree a formal variation. James should therefore rely on the existing provision, communicate the decision clearly, and retain an audit trail of the supplier's request and the contractual basis for the response. This approach preserves the agreed commercial position and supports disciplined management of supplier performance and contract changes. See the UK Government's Outsourcing Playbook and its Contract Management Professional Standard.

QUESTION NO: 15

Which of these are variable costs?

Staff overtime

Premises costs

Insurance costs

Material costs

A. 1 and 4

B. 2 and 3

C. 1 and 2

D. 3 and 4

ANSWER: A

Explanation:

1 and 4 is correct because staff overtime and material costs generally vary with the level of business activity, output, or demand. A variable cost is one that rises or falls in total as the volume of goods produced, services delivered, or work undertaken changes. When additional output is required, more materials are consumed, so total material expenditure increases directly with the quantity being made. Similarly, overtime payments are typically incurred when workload exceeds normal contracted capacity. If demand reduces and less additional work is needed, overtime expenditure can reduce accordingly.

For procurement and business-needs analysis, identifying these costs is important when estimating the financial effect of changing demand, specifying requirements, and comparing sourcing alternatives. A forecast increase in production or service volume should therefore include allowance for the additional materials and likely overtime needed to support it. Cost behaviour is assessed in relation to a relevant activity range: individual rates or unit prices may remain stable, while the total cost changes as volume changes. This treatment is consistent with standard managerial-accounting definitions of variable costs. See OpenStax, Principles of Managerial Accounting and AccountingCoach's explanation of cost behaviour.

QUESTION NO: 16

Which of the following are typically included in a conformance specification? Select TWO that apply.

A. Product functions

B. Product dimensions

C. Brand name

D. List of outcome

E. Packaging requirements

ANSWER: B E

Explanation:

Product dimensions and packaging requirements are typically included in a conformance specification because this form of specification states the precise characteristics with which a supplied product must comply. Product dimensions provide objective, measurable requirements such as length, width, height, tolerances, weight, or fit with existing equipment. Stating these details enables suppliers to manufacture or source an item that is physically compatible with the buyer's stated need and enables inspection on delivery against defined criteria.

Packaging requirements are also conformance requirements when the buyer needs a prescribed packaging format, material, size, labelling arrangement, protective standard, or unit quantity. Packaging can be essential to protecting goods during transport and storage, maintaining product condition, supporting safe handling, and ensuring compatibility with warehouse or distribution processes. Including these requirements in the specification makes them contractual and measurable, so compliance can be assessed consistently during receipt and quality assurance.

This approach supports the CIPS emphasis on defining clear, unambiguous requirements that suppliers can understand, cost, and meet. See CIPS Level 4 Diploma in Procurement and Supply and the UK Government's guidance on The Sourcing Playbook.

QUESTION NO: 17

Which of the following specific markets engage in creation, liquidation and change of ownership of stock?

A. Financial

B. Manufacturing

C. Construction

D. Agriculture

E. Retail

ANSWER: A

Explanation:

Financial is correct because financial markets provide the mechanisms through which financial assets, including company shares or stock, are issued, bought, sold and transferred between participants. Creation occurs in the primary market, where an organisation raises capital by issuing new shares to investors. A change of ownership occurs in the secondary market, where existing shares are traded between investors, usually through an exchange or other organised trading venue. Liquidation is also supported by these markets because holders can convert shares into cash by selling them, subject to market demand and the applicable trading arrangements.

These functions are fundamental to the financial system: they connect organisations seeking finance with investors wishing to allocate capital, establish market prices for securities, and enable investors to adjust or exit their holdings. In procurement and business-needs analysis, understanding the financial market as a distinct market category is useful because its outputs are financial instruments and services rather than physical goods. The Bank of England explains the role of financial markets in allocating funds and transferring risk, while the UK Financial Conduct Authority describes how markets support the trading of securities. See [Bank of England: What are financial markets?] and [Financial Conduct Authority: Primary markets].

QUESTION NO: 18

When purchasing routine items such as common stationery supplies. how can the business need for

efficiency be met?

1. Including incentives and penalties in contracts

2. Introducing e-procurement solutions

3. Introducing competitive bidding

4. Vendor Managed Inventory

A. 1 and 2 only

B. 2 and 3 only

C. 2 and 4 only

D. 3 and 4 only

ANSWER: C

Explanation:

2 and 4 only is correct because routine stationery is typically a low-value, frequently purchased, standardised requirement. In this context, efficiency means reducing the time, administrative effort and transaction cost involved in ordering and replenishing items, while maintaining reliable availability for users. E-procurement solutions achieve this by providing approved electronic catalogues, guided buying, automated purchase-order workflows and electronic invoicing. These controls reduce manual processing and make it easier for staff to order contracted products from approved suppliers. Vendor Managed Inventory also supports efficiency because the supplier monitors agreed stock levels and replenishes items when necessary. This reduces the buyer's effort in forecasting, raising frequent orders and managing stock, while helping to prevent stock-outs of regularly used consumables. Together, these approaches create a streamlined procure-to-pay and replenishment process that is proportionate to the routine nature of the purchase. This reflects CIPS practice of selecting an approach appropriate to the value, risk and characteristics of the requirement, rather than applying unnecessarily resource-intensive processes. Further guidance on digitising public procurement processes is available from the OECD e-procurement toolbox, and CIPS resources are available through the CIPS Knowledge hub.

QUESTION NO: 19

Which of the following are typical environmental considerations throughout the contract life cycle? Select the TWO that apply.

A. Modern slavery

B. Health and safety

C. Inequality

D. Waste management

E. Pollution control

ANSWER: D E

Explanation:

Waste management and pollution control are environmental considerations because they address direct effects that a product, service, supplier operation, or contract-delivery activity can have on ecosystems and natural resources throughout its life cycle. Waste management covers preventing waste at source, reducing material use, enabling reuse and recycling, selecting appropriate packaging, and ensuring lawful, responsible treatment or disposal at end of life. These requirements can be built into specifications, supplier-selection criteria, contract performance measures, and disposal arrangements.

Pollution control addresses emissions and releases that may occur during manufacture, transport, use, maintenance, or disposal. Relevant controls may include reducing greenhouse-gas emissions, avoiding hazardous substances, managing effluent, preventing air and water contamination, and requiring suppliers to demonstrate environmental-management practices. Considering both areas across the life cycle helps procurement teams evaluate environmental impacts beyond the purchase price and manage them through the contract. This reflects sustainable-procurement practice, which considers environmental impacts in purchasing decisions and contract management. The UK Government's Government Buying Standards include environmental requirements, while the ISO 20400 sustainable procurement guidance supports life-cycle-based procurement decisions.

QUESTION NO: 20

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:

"No, as this has not been specified or sourced before" is correct because a straight re-buy applies to a routine repeat purchase in which the buying organisation reorders a familiar requirement using an established specification and usually an existing supplier arrangement. Here, the laboratory equipment is new to the market and has not previously been specified or sourced by the organisation. The procurement team must therefore establish the functional need, develop and validate specifications, research the supply market, assess potential suppliers and risks, and select an appropriate sourcing route. These activities make the requirement a new-task purchase rather than a routine reorder. The fact that a supplier may have been used previously, or that an agreement exists for other requirements, would not by itself turn an unfamiliar and unprocured item into a straight re-buy. CIPS describes specification development as a central activity for clearly defining requirements and enabling appropriate supplier engagement, particularly where the need is not already established. Further background on organisational buying situations, including straight re-buys and new-task buying, is available from OpenStax Principles of Marketing. CIPS resources on defining requirements and specifications can be found at CIPS: Specification.

QUESTION NO: 21

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

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: C D F

Explanation:

Outcome-based specifications describe the business result or service outcome required, rather than prescribing the precise method, design, inputs, or process a supplier must use. This can make **Difficulty to measure performance** a genuine challenge: outcomes such as improved user experience, comfort, or satisfaction may require carefully defined indicators, baselines, and evidence before achievement can be assessed consistently.

Long time delay between action and result is also a disadvantage because the intended benefit may only become visible after implementation, adoption, or changes in user behaviour. This can delay performance evaluation and make it harder to establish a clear connection between the supplier's activity and the eventual result.

Ambiguity of outcome is a further risk where the desired business result is not expressed in sufficiently clear, measurable, and mutually understood terms. Procurers should therefore translate outcomes into unambiguous performance measures, service levels, governance arrangements, and review points while retaining scope for suppliers to develop their own solutions. This approach is consistent with CIPS' focus on defining business needs and specifications before sourcing, and with UK public-procurement guidance on specifying requirements through outcomes and performance measures. See CIPS Level 4 qualifications and UK National Procurement Policy Statement.

QUESTION NO: 22

Which of the following factors would mean a buyer had high bargaining power in a competitive market? Select TWO that apply.

A. Many substitute products are available

B. Buyers are procuring a low volume of products

C. High switching costs for the buyer

D. Buyers are demanding large volumes

E. Products are highly differentiated

ANSWER: A D

Explanation:

"Many substitute products are available" gives the buyer strong leverage because supply sources can be readily compared and substituted. When alternatives can meet the same requirement, a supplier has less ability to insist on its preferred price, service terms, specifications, or contract conditions. The buyer can credibly use alternative sources or products if negotiations do not produce an acceptable outcome. "Buyers are demanding large volumes" also increases buyer power. A large order can be commercially significant to a supplier, especially where suppliers compete for the buyer's spend. This allows the buyer to negotiate from a stronger position, potentially seeking improved unit pricing, service levels, delivery arrangements, quality commitments, or other value-added terms. These factors align with Porter's buyer-power analysis: buyer power is strengthened where buyers have alternatives and where purchases are substantial relative to a supplier's business. In procurement practice, the buyer should validate that substitutes are genuinely acceptable and that the anticipated volume is credible before using these factors as negotiation leverage. See Harvard Business School's overview of the Five Forces and CIPS guidance on Porter's Five Forces.

QUESTION NO: 23

Which of these purchases by a furniture manufacturing company are direct costs to the company? Select.

TWO that apply.

A. Salary of the office accountant

B. Purchase of the wood for furniture production

C. Utility bill from the electricity provider

D. Wages paid to the production line employees

E. Advertising in a home interiors magazine

ANSWER: B D

Explanation:

“Purchase of the wood for furniture production” is a direct cost because wood is a raw material that becomes an identifiable physical part of each item of furniture. Its consumption can be traced to specific products, production orders, or batches using bills of materials, stock records, and production specifications. The cost of the wood can therefore be assigned directly to the furniture being made, supporting accurate product costing and pricing decisions.

“Wages paid to the production line employees” are also direct costs where those employees work directly on making, assembling, or finishing furniture. This is direct labour: the time spent on production can be recorded through timesheets, job cards, or labour-routing records and attributed to the relevant products or batches. Direct materials and direct labour are the principal cost elements used to establish the cost of manufactured goods. This distinction is important in procurement and financial management because it enables an organisation to understand the cost drivers of a product, assess supplier and make-or-buy decisions, and calculate reliable margins. OpenStax explains that direct materials are traceable inputs to a product and direct labour is work directly involved in its manufacture: OpenStax, Principles of Managerial Accounting. Further manufacturing-cost terminology is available from the AccountingCoach cost accounting overview.

QUESTION NO: 24

Honda of America Manufacturing is a well established automobile manufacturer. It purchases tens of thousands of materials and parts from suppliers, however, only few of them are strategic. To these suppliers, Honda's procurement manager requires them to send details of labour, materials, overhead cost and profit. However, the suppliers are reluctant to submit such confidential infor-mation. Is the procurement manager’s action appropriate?

A. Yes, because the procurement manager can get a good insight from the market

B. No, because no suppliers are willing to show sensitive information on their costs and profit.

C. Yes, because strategies can be introduced for reducing cost and improving the supplier relationships.

D. No, because procurement manager should conduct life-cycle analysis

ANSWER: C

Explanation:

Yes, because strategies can be introduced for reducing cost and improving the supplier relationships. For strategic suppliers, requesting a transparent breakdown of labour, materials, overheads and profit can form part of an open-book costing approach. This is appropriate when it is used collaboratively rather than simply as a mechanism to pressure the supplier on price. The buyer and supplier can use the information to identify cost drivers, remove waste, improve specifications or processes, and develop realistic target costs that create value for both parties over the longer term.

Because this information is commercially sensitive, the procurement manager should first establish trust, clearly define the purpose and permitted use of the data, limit access to those who need it, and put suitable confidentiality arrangements in place, such as a non-disclosure agreement. Open-book arrangements therefore support relationship management and joint continuous improvement with the relatively small group of suppliers whose performance and capability are strategically important to the manufacturer. This reflects the Level 4 focus on defining needs and using supplier relationships to obtain value rather than treating every purchase as a transactional price exercise. CIPS outlines the scope of its Level 4 Diploma at CIPS Level 4 Diploma in Procurement and Supply. Further guidance on open-book cost management is available from NEC Contracts.

QUESTION NO: 25

Which of the following can directly affect labour variance? Select TWO that apply:

A. Wage rate per hour

B. Inflation

C. Company's budget

D. Overhead expenditure

E. Overtime

ANSWER: A E

Explanation:

Labour variance measures the difference between the planned or standard labour cost and the actual labour cost incurred. It is commonly analysed through labour rate variance and labour efficiency variance. **Wage rate per hour** directly affects the rate element: where employees are paid an hourly rate different from the rate assumed in the cost standard, actual labour cost changes even if the same number of hours is worked. This can arise, for example, where staff with a different pay grade perform the work or where agreed pay rates change.

Overtime also directly affects labour variance because overtime is frequently paid at a premium above the normal hourly wage. Those premium payments increase the actual rate paid for labour and therefore create an adverse labour rate variance when they were not included in the planned labour cost. Procurement and operations teams should monitor such variances because they can indicate scheduling pressures, capacity constraints, or an unplanned need for labour. The Chartered Institute of Management Accountants describes standard costing and variance analysis as tools for comparing actual performance with planned standards: AICPA & CIMA—Standard costing. Further practical guidance on analysing labour cost variances is available from AccountingCoach—Labour variances.

QUESTION NO: 26

Which of the following is an advantage of competitive benchmarking over other types of bench-marking?

A. Limited access to competitor's data

B. Similarity among processes

C. Different corporate culture

D. Cost effectiveness

ANSWER: B

Explanation:

Similarity among processes is an advantage of competitive benchmarking because the organisations being compared operate in the same market and commonly provide closely comparable products, services, supply chains, and customer propositions. This makes performance measures more meaningful: for example, a buyer can compare indicators such as lead time, service level, cost structure, inventory availability, or order accuracy against businesses facing similar customer expectations and industry conditions. The resulting comparison provides a realistic view of relative competitive position and helps an organisation establish credible improvement priorities and performance targets.

In procurement and supply practice, benchmarking is valuable when it turns external information into evidence for planning, target setting, and process improvement. Comparing similar processes can reduce the need to make extensive adjustments for fundamentally different operating models, making findings easier to interpret and communicate to stakeholders. It can also reveal where a competitor has achieved a better outcome in an activity that is directly relevant to the organisation's own business needs. This aligns with the L4M2 focus on using analysis to define requirements and develop informed procurement approaches. CIPS identifies benchmarking as a relevant concept within its Level 4 procurement and supply learning pathway: CIPS Level 4 Diploma in Procurement and Supply. Further practical context on benchmarking approaches is available from APQC's benchmarking overview.

QUESTION NO: 27

Halfords is a major bicycle and car parts retailer with long history in the market. Its suppliers are plentiful and there is no threat of forward integration. Some other smaller retailers are applying 3D-printing technology to make personalized bicycle parts but their market share is relatively low. 3D-printing technology is an example of which competitive force?

A. Bargaining power of buyer

B. Threat of substitute

C. Rivalry within the industry

D. New entrants may enter the market

ANSWER: B

Explanation:

Threat of substitute is correct because 3D printing enables customers to obtain bicycle parts through an alternative method that can fulfil the same underlying need as conventionally manufactured and retailed parts. In Porter's Five Forces framework, a substitute is not necessarily an identical product or supplied by a direct competitor; it is an alternative solution that a customer may choose instead. Personalised 3D-printed components can be particularly attractive where fit, design, rapid replacement, or customisation matter to the buyer.

The current low market share of smaller retailers does not remove the competitive significance of the technology. The force concerns the availability and attractiveness of alternatives and the extent to which they can constrain an organisation's pricing, volumes, margins, or customer loyalty. As 3D-printing capability becomes more accessible, better quality, or less costly, it may increase customers' willingness to switch away from traditional bicycle-part retail channels. Therefore, the relevant strategic issue is the potential for the alternative production method and its resulting products to meet the same customer requirement.

Porter's original framework explains that substitutes place a ceiling on the returns an industry can achieve: Harvard Business Review: The Five Competitive Forces That Shape Strategy. CIPS also identifies Porter's Five Forces as a tool for analysing supply-market competitiveness: CIPS Knowledge.

QUESTION NO: 28

The procurement team of a global supermarket has created a business case for a corporate social responsibility (CSR) sourcing strategy to meet the corporate objective of sustainability. This would require sourcing only from suppliers who meet ethical standards, a reduction in plastic, and using recycled material where possible. Which of the following business benefits would be mentioned in the business case? Select TWO that apply:

A. Fulfilment of a business objective

B. Increased capacity

C. Leverage of technology

D. Improved brand equity

E. Reduced cost

ANSWER: A D

Explanation:

"Fulfilment of a business objective" is a direct benefit because the proposed sourcing strategy translates the supermarket's stated sustainability objective into procurement requirements. Supplier ethical standards, reduced plastic use, and recycled-content expectations create a practical route for procurement activity to support corporate strategy. A sound business case should show this strategic alignment, including how the proposed approach contributes to organisational objectives and intended outcomes.

“Improved brand equity” is also a material business benefit. Supermarkets operate in a consumer-facing market where customers, investors, employees, and other stakeholders can assess the organisation’s approach to environmental and social issues. Credible responsible-sourcing requirements can strengthen trust, reputation, and customer perception by demonstrating that sustainability commitments are reflected in supply-chain decisions. Brand value is therefore an appropriate non-financial benefit to identify and, where feasible, measure in the business case.

CIPS identifies sustainable procurement as the integration of environmental, social, ethical, and economic considerations into procurement and supply decisions. Its guidance supports using procurement to deliver wider organisational and stakeholder value, not merely transactional purchasing outcomes. The international sustainable-procurement guidance in ISO 20400 likewise emphasises alignment between procurement practices and organisational sustainability objectives. See CIPS: Sustainable procurement and ISO 20400: Sustainable procurement guidance.

QUESTION NO: 29

Which kind of these following costs belong to fixed costs? Select TWO that apply.

A. Energy consumption in manufacturing

B. The annual income tax charged by local authorities

C. The packaging and distribution costs

D. The depreciation of capital inputs

E. The costs of leasing or purchasing capital equipment

ANSWER: D E

Explanation:

Fixed costs are costs that remain unchanged in total over a relevant range of activity in the short term. They are incurred because the organisation has capacity and resources available, rather than because it produces or sells one additional unit. “The depreciation of capital inputs” is therefore a fixed cost: depreciation allocates the cost of a long-term asset across its useful life using a chosen accounting method, and is normally not driven directly by short-term output volume.

“The costs of leasing or purchasing capital equipment” also represents a capacity-related commitment. Periodic lease payments for equipment are commonly budgeted as fixed costs, while the cost of purchased capital equipment is committed in advance and is generally recognised over time through depreciation. Both relate to maintaining productive capability rather than to the materials or handling required for each individual unit. This distinction supports procurement analysis because fixed commitments affect the organisation’s cost base and break-even position even where demand or production levels change. CIPS Level 4 includes the analysis of costs and their effect on procurement decisions; see the CIPS Level 4 Diploma overview. Further accounting context on fixed costs and long-term assets is available from OpenStax Principles of Economics.

QUESTION NO: 30

Which of the following might be consequences of over-specification? Select TWO that apply:

A. Reducing motion waste

B. Higher cost due to inessential features

C. Limiting competition in supply market

D. Lack of essential features

E. Better contract management

ANSWER: B C

Explanation:

Over-specification occurs when a requirement includes features, performance levels, materials, tolerances, or processes beyond what is necessary to meet the genuine business need. "Higher cost due to inessential features" is therefore a direct consequence: suppliers must build, test, assure, and support capabilities that add cost but do not deliver proportionate value to the buying organisation. The resulting price can be higher both at purchase and across the whole life of the contract.

"Limiting competition in supply market" is also a likely consequence. Excessively detailed or demanding requirements can exclude capable suppliers that could otherwise meet the underlying need through a different, fit-for-purpose solution. A smaller viable supplier pool reduces competitive tension and may lessen innovation, choice, and negotiating leverage. CIPS promotes defining requirements around the actual need and considering specifications that enable appropriate supplier solutions and value, rather than prescribing unnecessary detail. This supports competition while ensuring the required outcome is obtained. See the CIPS Level 4 Diploma in Procurement and Supply and CIPS guidance on procurement topics and skills.

QUESTION NO: 31

At which stage of through-life contract management, procurement team needs to identify sources of risk and the ways to mitigate them?

A. Specification stage

B. Supplier relationship stage

C. Tendering stage
Contracting stage

ANSWER: A

Explanation:

Specification stage is correct because risk identification and mitigation need to be built into the requirement before the procurement process commits the organisation to a particular solution, supplier, or contractual arrangement. In through-life contracting, especially for complex capital equipment or services with long operational lives, the specification establishes what is required, how performance will be measured, who is responsible for testing and assurance, and what controls must apply throughout delivery and support.

Early identification allows the procurement team to define proportionate mitigations in the requirement and supporting contract documentation. These may include clear acceptance and quality procedures, required guarantees and insurance, responsibilities where subcontracting is involved, change-control and approval arrangements, audit trails, project milestones, and appropriate limitations of liability. Addressing these matters at specification stage gives suppliers a clear, consistent basis on which to price and plan for risk management over the contract life cycle.

This reflects the L4M2 learning outcome concerning the management of risks in through-life contracts and is consistent with the risk-management principle that risks should be identified and treated early in decision-making. See CIPS Level 4 Diploma in Procurement and Supply and ISO 31000 risk management guidance.

QUESTION NO: 32

What is the purpose of sending value engineering analysis to external suppliers?

A. To improve early supplier involvement

B. To improve the existing products

C. To analyse the supply market

D. To standardise production processes

ANSWER: A

Explanation:

To improve early supplier involvement is correct because sharing value-engineering analysis with external suppliers brings their specialist technical, manufacturing, material, and process knowledge into the development process at an early stage. Value engineering examines the functions a product or service must perform and seeks ways to deliver those functions at the required quality and performance for the lowest whole-life cost. Suppliers may identify alternative materials, designs, components, production methods, packaging, or logistics arrangements that maintain the required function while improving value.

This collaborative approach is most effective before specifications and designs are fixed, when changes can be evaluated and incorporated without substantial redesign cost or delay. Early supplier involvement therefore supports a more informed specification-development process and allows buying organisations to benefit from supplier innovation and practical market knowledge. It can also help identify feasibility, capacity, continuity, and supply-chain considerations earlier, contributing to an achievable requirement and better total value rather than simply a lower purchase price. This aligns with CIPS's emphasis on engaging supply-market expertise when defining requirements and sourcing solutions. See the CIPS Global Standard for Procurement and Supply and the Chartered Institute of Procurement & Supply's procurement topics and skills resources.

QUESTION NO: 33

A procurement manager is requested to source a major component. She needs information on sup-pliers' direct and indirect cost, fixed and variable costs to prepare for negotiations. Therefore, she collects 17 annual reports from potential suppliers who are competing in the same industry. In order to estimate an approximate value of fixed and variable costs in that industry, which of the following technique should be adopted by the procurement manager?

A. Line of best fit

B. Variance calculation

C. Total cost of ownership

D. Open-book costing

ANSWER: A

Explanation:

Line of best fit is the appropriate technique because the procurement manager has assembled comparable historical data from multiple suppliers and needs to estimate how total cost changes with output or activity. Plotting cost observations against a relevant activity measure and applying a regression line produces an estimated cost equation: total cost = fixed cost + (variable cost per unit × activity). The intercept of the fitted line estimates the fixed-cost element, while its gradient (slope) estimates the variable cost per unit. Using many annual reports makes the estimate more robust than relying on an individual supplier's figures, although the analysis should use consistently defined data and recognise that annual-report disclosures may require normalisation before comparison. This supports fact-based preparation for a cost-focused negotiation by providing an industry-level approximation of the supplier cost structure. Regression and lines of best fit are established quantitative approaches for modelling the relationship between a dependent variable, such as total cost, and an independent activity variable. This application aligns with the L4M2 learning area on financial analysis and cost structures. See CIPS' Level 4 Diploma information and the National Institute of Standards and Technology overview of linear regression.

QUESTION NO: 34

Which of the following are potential advantages of using a product performance specification?

It reduces the need for the buyer to produce a detailed design

It can widen the potential supply base

The buyer can specify the product's actual design in detail

Products are provided using the buyer's methodology

A. 1 and 2

B. 1 and 4

C. 3 and 4

D. 2 and 3

ANSWER: A

Explanation:

1 and 2 is correct because a product performance specification defines the required result, function, output, or measurable performance standard rather than prescribing precisely how a supplier must design and make the product. The buyer can therefore communicate what the product needs to achieve—for example, capacity, reliability, safety, compatibility, quality levels, or service life—without having to create a complete technical design. This reduces design effort for the buying organisation and enables suppliers to apply their own expertise, established solutions, and potentially innovative approaches to meeting the requirement.

Specifying outcomes and performance can also widen the potential supply base. Suppliers with different designs, production techniques, technologies, or operating methods can compete, provided each can demonstrate compliance with the stated performance requirements. This encourages competition and can improve access to supplier innovation and value for money. The specification should still include objective acceptance criteria and appropriate testing or evidence requirements, so that the buyer can verify that the delivered product meets the required performance. This outcome-focused approach is consistent with public procurement guidance on describing needs in functional or performance terms: UK Government Sourcing Playbook and CIPS guidance on specifications.