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QUESTION & ANSWER

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Exam : L4M2

Title : Defining Business Needs

Version : DEMO

1. Sealines Inc is developing its fleet of cargo ships. The company is planning to build a new ship powered by natural gas. Brian, the procurement manager at Sealines, suggests the project team to develop a through-life specification before engaging with the supplier.

Is this a correct approach?

- A. Yes, decommissioning and disposal costs will not be accounted in this approach
- B. Yes, this approach will lower the total cost of ownership
- C. No, a ship is used only once, through-life management is unnecessary
- D. No, the company just needs to select the lowest bidder

Answer: B

Explanation:

Through-life management is a approach applied to capital asset. According to Ward and Graves, Through-life Management involves the life-cycle management of the products, services and activities required to deliver a fully integrated capability to the customer, while reducing the cost of ownership for the customer.

According to CIPS study guide, through- life management comprises of 6 parts:

1. Design
2. Manufacture
3. Installation
4. In-service support
5. Decommission and disposal
6. Customer support

In this scenario, the company is planning to procure a ship, which is a capital asset. Through life management is a good approach. Sealines can start with developing through-life specification.

This approach may have several benefits:

- It lowers the costs over the whole life of the asset
- It lowers the risks as there is a single company accountable for costs and service over the life of the asset
- A closer match between the asset delivered and the users' needs
- Development of capability over the life of the asset as the supplier continues to get experience of the users' needs and can adapt services to meet them.

Reference:

- CIPS study guide page 130-131;
- Through-life management: The provision of total customer solutions in the aerospace industry, by Yvonne Ward and Andrew Graves

LO 3, AC 3.2

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

- 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

3.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:

The specification that is produced too detailed will incur unnecessary cost because it does not allow suppliers to use their expertise in finding the most efficient way to produce it. 'No, because higher requirements in specification, the greater bargaining power of buying organisation': more detailed specifications could tighten the supplier base and potentially leave buying organisation with fewer potential supplier. This may reduce buyer's bargaining power in negotiation.

'Yes, because higher requirements will help buying organisation find the best supplier': in some circumstances, higher requirements will lead to smaller supplier base. In the worst scenario, there is no supplier who has capability to carry out those requirements

'Yes, because optimising the specification is the only method to achieve value for money': There are other methods to achieve cost saving and value for money, inter alia, volume concentration, relationship restructuring, etc.

Reference: CIPS study guide page 118-119

LO 3, AC 3.1

4.EV Inc is facing the following challenges:

- 1. The capital investment is enormous.
- 2. Most of company's working capital is in form of inventories, which include raw materials, work-in-progress and finished goods.
- 3. Competitors are increasingly deploying robotics and automation to boost productivity.

Which of the below business sectors does EV Inc belong to?

- A. Construction
- B. Manufacturing
- C. Financial services
- D. Retails

Answer: B

Explanation:

Every sector among the options requires intensive capital investment. However, only manufacturing and

retails bury much of their working capital in form of inventory. Raw materials and WIP only present in manufacturing sector.

The manufacturing industry is undergoing massive change, rivaling the Industrial Revolution that began in England and continued on Detroit's assembly lines. But today's revolution is "smart," thanks to factories using artificial intelligence and robots.

A new trend is the "cobot" — a collaborative robot designed to work with humans. One company called Moduform uses them to make furniture in the U.S. The company credits using cobots for reducing their staffing turnover, since the robots do mundane repetitive tasks that bore humans, while people can now do cognitive tasks requiring judgment and diversified responsibilities. Other innovations include 3D printing, Artificial Intelligence and automation.

Today's artificial intelligence manufacturing revolution improves performance in two key areas of manufacturing: productivity and quality control.

Reference:

- The Key Characteristics of Manufacturing (bizfluent.com)

- CIPS study guide page 74-76

LO 2, AC 2.1

5.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...?

- 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 performance.
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 performance meets or exceeds expectations.
4. Cost-plus percent-of-cost contracts allow the amount of reimbursement to rise if the contractor'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.

Reference:

- Cost-Plus Contract Definition ([investopedia.com](https://www.investopedia.com/terms/c/cost-plus-contract.asp))
- CIPS study guide page 30-36

LO 1, AC 1.2