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Supply Network Design

CIPS L6M9

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Topic Break Down

Topic	No. of Questions
Topic 1, Understand the role of supply network design in the achievement of organisational objectives	6
Topic 2, Understand the impact of supply network design on business performance	19
Topic 3, Understand the key elements of supply network design	40
Topic 4, Be able to develop a supply network design strategy	8
Topic 5, Mix Questions	1
Total	74

QUESTION NO: 1 - (SIMULATION)

Scenario:

Five manufacturing organisations use **different order prioritisation methods** and **workflow patterns** . Each company follows a unique **strategy for order processing** and **workflow structure** .

For each **organisation** , select the **correct Prioritisation Method** and **Pattern of Workflow** .

Organisation	Prioritisation Method (Drag & Drop Options)	Pattern of Workflow (Drag & Drop Options)
Organisation 1	(Drop here)	(Drop here)
Organisation 2	(Drop here)	(Drop here)
Organisation 3	(Drop here)	(Drop here)
Organisation 4	(Drop here)	(Drop here)
Organisation 5	(Drop here)	(Drop here)

Prioritisation Method	Pattern of Workflow
Earliest Due Date	Make to Order
Similar Process	Configure to Order
Longest Processing Time	Engineer to Order
First In-First Out	Batch Production
HR Skill Requirement	Make to Stock

ANSWER: See the explanation for the answer

Explanation:

Drag the options to produce the following allocation:

Reasoning: Make-to-order work is customer-date driven, so due dates govern priority. Configure-to-order jobs can vary in duration, making processing time a useful sequencing basis. Engineer-to-order work requires specialist capability, so it is prioritised according to required skills. Batch production groups work with similar processes, while standard make-to-stock production can be sequenced in arrival order using FIFO.

QUESTION NO: 2

White Moon Ltd, a **manufacturing organisation** , is considering **outsourcing transportation** . What would be a **reason for doing this** ?

- A. To gain better access to emerging markets
- B. To decrease fixed costs
- C. To please shareholders
- D. To avoid the inefficiency trap

ANSWER: B

Explanation:

“To decrease fixed costs” is a valid strategic reason for a manufacturing organisation to outsource transportation. Operating an in-house transport function commonly requires investment in vehicles, depots, maintenance facilities, transport-

management systems and permanently employed drivers or logistics personnel. Many of these commitments remain payable even when shipment volumes fall, making them fixed or largely fixed costs. By engaging a specialist third-party logistics provider, White Moon Ltd can avoid owning and maintaining much of this transport capacity. Instead, it can purchase distribution services in line with actual delivery requirements, converting a substantial proportion of transport expenditure into variable, volume-related cost.

This can improve cost flexibility, particularly where demand is seasonal or uncertain, and enables management to focus internal capital and capability on the organisation's manufacturing activities. The outsourced provider may also spread fleet, technology and network costs across numerous customers, allowing the buyer to access transportation capacity without carrying the full asset burden itself. CIPS' Global Standard identifies cost and value management as central procurement capabilities: [CIPS Global Standard](#). Further context on the distinction between fixed and variable costs is available from [Investopedia's fixed-cost overview](#).

QUESTION NO: 3

What is the purpose of **supplier development** ?

- A. To lower prices, which will increase the profit margin
- B. To reduce the number of suppliers upon which a business would become dependent
- C. To add value to the supply chain
- D. To ensure that there are no logistics or delivery issues within the supply chain

ANSWER: C

Explanation:

Supplier development is correctly described as a means "to add value to the supply chain." It is a deliberate, collaborative process in which a buying organisation works with selected suppliers to improve their capability and performance in areas that matter to the supply network. This can include improving quality, delivery reliability, process efficiency, innovation, technical capability, sustainability performance and information sharing. The intended outcome is not a narrow transactional gain, but improved overall supply-chain performance and a stronger supplier relationship that supports the buying organisation's strategic objectives. Supplier development may involve activities such as joint improvement projects, training, sharing forecasts and performance data, investing in supplier capability, or helping a supplier implement better processes. These actions can create value through lower total cost, reduced disruption, improved customer service and enhanced long-term competitiveness. CIPS characterises effective supplier relationship management as a strategic approach for obtaining value from supplier relationships, while development activities build the supplier capability needed to deliver that value consistently. The Chartered Institute of Procurement & Supply's guidance on supplier relationship management is available at [CIPS: Supplier Relationship Management](#). Further supply-chain capability and collaboration context is provided by [CIPS Intelligence Hub: Supply Chain Management](#).

QUESTION NO: 4

In a **Resource-Based View (RBV)** of strategic management, which characteristics make a **resource strategically valuable** to an organisation? Select **ALL** that apply.

- A. Scarcity
- B. Originality
- C. Immovability
- D. Replicable
- E. Optimisable

ANSWER: A B C

Explanation:

Scarcity, originality and immovability identify resources that can provide a defensible basis for strategic advantage under the Resource-Based View. Scarcity matters because an asset, capability or source of knowledge that is not widely held by competitors can differentiate the organisation and support performance that rivals cannot readily match. Originality captures the requirement that the resource is distinctive and difficult to imitate. This may arise from accumulated experience, tacit know-how, complex routines, embedded supplier relationships, reputation or a unique combination of assets; these features make straightforward copying difficult. Immovability means that the resource cannot easily be bought, transferred or redeployed by a competitor. For example, a capability developed through long-term collaboration across a particular supply network is often rooted in that organisation's people, processes and relationships rather than being obtainable on an open market. Together, these characteristics support sustained advantage because competitors cannot simply acquire or reproduce the same source of value. This is consistent with the RBV emphasis on resources that are valuable, rare and costly to imitate, and on the importance of resource immobility. See Barney's foundational RBV article at [Strategic Management Journal](#) and the [CIPS Level 6 Professional Diploma](#) overview.

QUESTION NO: 5

Maxi Ltd is a medium-sized manufacturing organisation in the automotive industry that creates engines for cars. It has traditionally worked well with its suppliers, with strong relationships and regular meetings. There are currently around 15 suppliers who provide parts to Maxi Ltd.

Due to changing customer demands, Maxi Ltd will, from next month, modify the manufacturing of some of its products. Product X is being made more environmentally friendly, with output of CO2 being reduced by 32%. The product will take longer to produce, but there will be no additional cost to customers for this.

Maxi Ltd are considering outsourcing the manufacturing of Product Y as it is not a product which is routinely ordered by customers. This will allow Maxi Ltd to focus on other products which generate higher revenues for the company. The concern within the Board of Directors is that if demand increases for this product, an outsourced company may not be able to cope with higher numbers of orders.

Product Z is an extremely popular item and oftentimes Maxi Ltd does not have the capacity to fulfil all orders. Consideration has been given to increasing the size of the factory, but this has been discarded as risky as demand is not guaranteed. The product has been available on the marketplace for a short amount of time and sales are continuing to increase, but the company believes this will soon plateau. To deal with current demand, the marketing team is working on campaigns to invite customers to make orders for this product at certain times of the year when product X is not being created in the factory. This means resources can be reallocated to the creation of product Z.

What is the **main concern** regarding the option to outsource the manufacturing of product Y?

- A. Cost
- B. Competence
- C. Scalability
- D. Finance

ANSWER: C

Explanation:

Scalability is the main concern because the Board is specifically worried that an outsourced manufacturer may be unable to increase production sufficiently if orders for Product Y rise. In supply network design, scalability is the ability of a supply source or operating model to flex capacity up or down in response to changing demand. Although Product Y is currently ordered infrequently, outsourcing it transfers a key element of capacity planning to a third party. Maxi Ltd therefore needs confidence that the selected provider has adequate available capacity, labour, equipment, materials access and contingency arrangements to accommodate a demand surge without creating unacceptable lead times or service failures.

This concern should be tested during supplier appraisal and incorporated into the outsourcing agreement. Relevant measures include maximum output capacity, committed reserved capacity, ramp-up times, forecast-sharing processes, performance reporting, and business-continuity or alternative-source arrangements. These provisions give Maxi Ltd a practical basis for assessing whether the external provider can support the required responsiveness while Maxi concentrates its internal resources on higher-revenue products. CIPS identifies capacity and supply-market considerations as important

elements of supply network design and sourcing decisions; see the [CIPS Advanced Diploma in Procurement and Supply](#). Further guidance on capacity planning concepts is available from [Supply Chain Dive](#).

QUESTION NO: 6

Which of the following are examples of investment appraisal techniques? Select ALL that apply.

- A. Liquidity
- B. Gearing
- C. Return on investment
- D. Cash flow impact
- E. Payback period

ANSWER: C D E

Explanation:

Investment appraisal provides a structured way to assess the financial consequences and attractiveness of a proposed capital investment before committing funds. "Return on investment" is an appraisal measure because it compares the financial return generated by an investment with its cost, helping decision-makers judge its expected profitability. "Payback period" is also a standard technique: it identifies how long it will take for net cash inflows to recover the initial outlay, which is particularly useful where recovery speed and exposure to longer-term uncertainty matter.

"Cash flow impact" is relevant to investment appraisal because capital projects require an assessment of the timing and scale of cash outflows and anticipated cash inflows. A project may appear profitable overall but still create funding pressure if its cash requirements arise before receipts are realised. Evaluating these projected cash flows supports affordability, funding decisions and, where appropriate, more advanced discounted-cash-flow appraisal. Together, these measures help a procurement or supply-network professional evaluate whether proposed assets, facilities, technology or network changes offer an acceptable financial case. The UK government's [Green Book](#) describes appraisal based on costs, benefits and cash-flow considerations. Further practical coverage of investment-appraisal methods is available from [ACCA](#).

QUESTION NO: 7

A business is assessing alternative locations for a new distribution facility that will serve a national customer base. Which factors should be evaluated directly when comparing the proposed locations? **Select THREE.**

- A. Proximity to customer demand
- B. Access to transport infrastructure
- C. Availability of suitable labour
- D. Number of competitors in the local retail market
- E. Location of the organisation's head office

ANSWER: A B C

Explanation:

Proximity to customer demand, **access to transport infrastructure**, and **availability of suitable labour** are correct because each can materially affect the facility's service capability, operating cost and long-term viability. A location close to demand can reduce delivery lead times and transport distance. Reliable road, rail, port or airport connections affect inbound and outbound flow. Labour availability affects whether the facility can operate effectively and at the required scale.

The number of competitors in the local retail market does not, by itself, determine the suitability of a distribution location. The current head-office location may be relevant to administration but is not normally a primary network-design criterion for locating a warehouse.