CIPS

L4M5 Exam

Commercial Negotiation

Questions & Answers
Demo

Version: 4.0

Question: 1

Which of the following are tools that help procurement visualise cost breakdowns of products and services purchased from supplier?
1. Spend candlesticks
2. Spend tree
3. Aggregate expenditure model
4. Spend waterfall

A. 2 and 4 only
B. 3 and 4 only
C. 1 and 2 only
D. 1 and 3 only

Answer: A

Explanation:
Understanding where and with whom your supplier spends their money, or understanding the 'cost breakdowns' or 'price build-up' of the goods and services you purchase from the supplier, will help you know

where and when they can offer price concessions.
Cost information can be expressed with more impact through graphs that can be created using Excel and PowerPoint or other softwares. There are two commonly used models known as 'spend waterfall'

and 'spend tree'. Spend waterfall shows the build-up of costs, while the spend tree shows all the spends that an organisation makes.
There is no graph known as 'spend candlesticks'. Candlestick chart is a style of financial chart used to describe price movements of a security, derivative, or currency.
The aggregate expenditure model is a method of calculating GDP. The aggregate expenditure model focuses on the relationships between production (GDP) and planned spending: GDP = planned

spending = consumption + investment + government purchases + net exports.

Question: 2

Premium pricing strategies used by suppliers are characterised by which of the following? Select TWO that apply.

A. Products are charged at a price based on supplier's reputation
B. This strategy is often used when supplier attempts to enter new market
C. Price is based on cost structures
D. Typically found in the early part of the product life cycle
E. Premium price is determined by variable costs only

Answer: A, D

Explanation:
There are several pricing strategies used by suppliers:
Cost-plus pricing – Total variable + Fixed cost + profit
Premium pricing – based on branding. Supplier determines to charge a very high price, not connected with cost structures, usually based on its reputation and/or the perception that the product/service is of

a superior quality. This strategy typically found in the early part of the product life cycle/when demand exceeds supply.
Penetration pricing - Supplier attempts to enter a new market or extend its share in an established one. It is characterised by price reductions to increase volume, followed by steady price increases; may

even be loss leading at start (no profit made)
Marginal cost pricing – covers only variable cost
Market pricing – suppliers prices in line with what the market is willing to pay

Question: 3

A purchasing manager is having a negotiation with a supplier to extend the duration of the contract. In order to persuade the supplier to cut the cost by 10%, she promises to shorten the payment period from

45 days to 30 days for each delivery. The supplier's representative does not agree the offer and clearly states that his proposed price is already lower than the market price. The purchasing manager has

used which type of power?

A. Reward
B. Expertise
C. Coercive
D. Informational

Answer: A

Explanation:
In the scenario, to exchange cost cutting, the purchasing manager promises to 'reward' supplier shorter payment period. This is an example of reward power, which results from one person's ability to

compensate or reward another for compliance.
The reward does not need to be money, but could be introduction to other buyers in the group, positive references, agreement to trial new product, quicker payment or indeed any other variable that the buyer

knows is attractive and valued by the supplier.

Question: 4

According to Professor Gavin Kennedy, in which of the following forms of dispute resolution, both parties will voluntarily exchange their ideas and beliefs?

A. Litigation
B. Persuasion
C. Negotiation
D. Gambling

Answer: C

Explanation:
Professor Gavin Kennedy highlights that we need to distinguish negotiation from other forms of decision-making by focusing on what is unique about it (the voluntary exchange) and not shared by other

techniques such as persuasion, gambling (e.g., coin tossing), command decision, instruction, litigation and coercion.

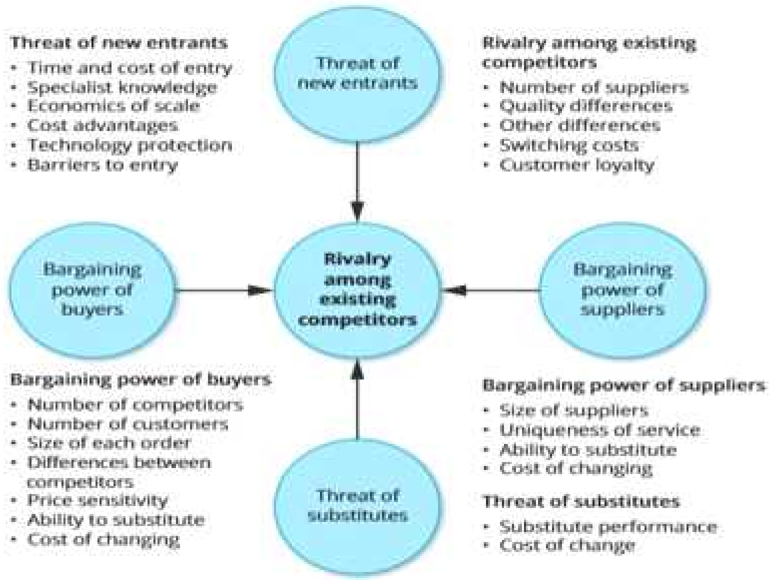
Question: 5

Sumitomo Rubber Industries (SRI) is a Japan-based tyre manufacturer. In order to increase production, SRI is sourcing rubber from Southeast Asian firms. Which of the following micro factors are most likely to shift the balance of power to supplier? Select TWO that apply

A. SRI's purchase amount makes significant proportion of supplier revenue
B. Costs of changing suppliers are high
C. Rubber from different suppliers is virtually similar
D. SRI sets up its own rubber plantation
E. There are no close substitutes for rubber

Answer: B, E

Explanation:
There are many factors that can influence the balance of power in a negotiation. These factors are classified into 3 levels:
Macro level: STEEPLE framework: social, technological, economic, environment, political, legal and ethical
Micro level: Porter's five forces:



One-to-one buyer-supplier dynamics.

The question asks about the micro factors that increases supplier's bargaining power. Among 5 answers, only 2 are likely to increase buyer's power:

There are no close substitutes for rubber: the buyer has to buy rubber, not any other material.

Costs of changing suppliers are high: buyer entails a large barrier if they want to switch supplier.

Other answers cannot be correct because:

SRI sets up its own rubber plantation: Buyer secures its own supply

SRI's purchase amount makes significant proportion of supplier revenue: Suppliers are reliant on buyer. If the buyer stops buying from them, they can face serious cash flow problems

Rubber from different suppliers is virtually similar: undifferentiated product would shift the power balance towards buyer.