CIPS Level 5 – Advanced Diploma in Procurement and Supply

Category Management [L5M6]

Sample Exam Questions (Objective Response)

The correct answer will be listed below each question
Q1. Which of the following plays a fundamental role in establishing categories when developing a category management strategy?

a. Macro environmental audit  
b. Portfolio analysis  
c. Relationship continuum  
d. Stakeholder mapping

LO: 3  
AC: 3.2  
Correct answer: B

Q2. The board of Educational Equipment Group (EEG) is concerned about the organisation's lack of adoption of innovative products. In the future, the board is keen that it considers substitute products and products from new market entrants wherever possible. Considering which of the following would directly help EEG in this respect?

a. Contract management  
b. Performance measures  
c. Pareto analysis  
d. The specification

LO: 2  
AC: 2.2  
Correct answer: D
Q3. A new manager has been appointed with responsibility for an organisation's highest spend category. They have a target to achieve savings and are keen to understand how best to do this without jeopardising product and service quality. Which of the following should they carry out first?

a. Purchase price cost analysis
b. Macro environmental analysis
c. Micro market analysis
d. Open book costing

LO: 3
AC: 3.2
Correct answer: A

Q4. Which of the following are key behavioural skills required to implement category management?

1. Financial analysis
2. Team working
3. Effective communication
4. Risk management

a. 1 and 2 only
b. 3 and 4 only
c. 2 and 3 only
d. 1 and 4 only

LO: 1
AC: 1.3
Correct answer: C
Q5. A CPO has identified their key stakeholders as existing strategic suppliers and banks that have provided debt finance to the organisation? These stakeholders are:
   1. connected
   2. internal
   3. external
   4. secondary

   a. 1 and 2 only
   b. 2 and 4 only
   c. 1 and 3 only
   d. 3 and 4 only

LO: 3
AC: 3.2
Correct answer: C

Q6. A category manager has identified a number of 'bottleneck' suppliers on which the organisation has a high level of critical dependency. They plan to identify alternative sources of supply as a contingency. Is this the right course of action?

   a. No, these must be retained as single source only
   b. No, these contracts should be regularly put to e-auction
   c. Yes, because of their high-value savings can be exploited
   d. Yes, there must always be a back-up for high-risk supplies

LO: 3
AC: 3.2
Correct answer: D
Q7. Clients perceived as 'exploitable' by suppliers will always receive poor quality service. Is this true?

a. No, because these clients generate high revenues
b. Yes, because these clients have low value overall
c. Yes, because suppliers will only focus on clients they wish to nurture
d. No, because all low value clients are still attractive

LO: 3
AC: 3.3
Correct answer: A

Q8. Supply chain mapping is a useful tool for category managers to identify which of the following? Select THREE that apply.

a. Cost savings
b. New suppliers
c. Risk reduction
d. Stakeholder communications
e. Value-add potential
f. Changing demographics

LO: 2
AC: 2.2
Correct answer: E
Q9. A new category head (CH) has recently joined Health Care International (HCI), a large private healthcare organisation. The category management concept is new and a number of important stakeholders, within the organisation, have yet to fully embrace it.

The CH has identified the stakeholders and has analysed their involvements and needs. They have so far had meetings with the two most important stakeholders. They first introduced themselves and immediately said to the CH 'I'm interested in what you’re going to tell me, but just so you know I am the budget holder and ultimately I decide what happens'. The second stakeholder was less forceful saying 'It’s good to meet you. I’m interested in hearing all about it and discovering what we can do to help each other'.

These two stakeholders used different influencing techniques. Identify the two techniques.

1. Reciprocity
2. Scarcity
3. Consistency
4. Authority

a. 1 and 2
b. 2 and 3
c. 3 and 4
d. 1 and 4

LO: 3
AC: 3.2
Correct answer: D
Q10. The CPO of ZYX Technology Group (ZYXTG) has commissioned a study into the organisation’s major categories of expenditure. Most of these are different components used in the manufacturing process and are sourced from different suppliers around the world.

Product 1 – ZYXTG achieves a good price and high levels of service from its supplier of this product. There are numerous suppliers of this product and it would be easy for ZYXTG to switch. The market is highly innovative and has changed considerably over the years. Suppliers have had to invest heavily in new systems and supporting hardware and software to keep pace with these changes.

Product 2 – Is more challenging for ZYXMG. This is a low-value but high-risk item and as such its spend on this product, relative to other organisations, is very low. ZYXMG’s annual spend on the product is so low it often finds it difficult to receive any quotes at all when it issues an RFQ. It is a high risk product because it plays a vital role in reducing emissions.

Product 3 – The CPO of ZYXMG has been nervous about the product for a while. It is a high-risk market, and the internal client refuses to deal with any company unless it has a five year profitable track record. Set-up costs for any new supplier to the market are very high. Furthermore, the supplier is based overseas and currency fluctuations can have a significant impact on pricing variations over the life of the contract.

Product 4 – The specification for this product is unique and very technical, input-focused and based on conformance. As a result of there being no viable alternative, ZYXMG has become locked into the relationship with its supplier. The CPO is also concerned because of demographic changes forecast by the sales and marketing team mean that the product requirements will need to be revised soon.

A number of different analytical tools have been used in the process of gathering and assessing data in the completion of the study. Two of these are Porter’s Five Forces and STEEPLED. For each of the products, you are required to identify the most dominant factor relating to each of these two tools.

Choose from these options and drag and drop your answers into the table below. [8]

You can only use each option once.

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<th>STEEPLED factor</th>
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<tr>
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<td>Technological</td>
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Q10 Continued ...

LO: 2  
AC: 2.2  
Correct answer:

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Q11. Which of the following is the earliest stage in establishing a category management approach?

   a. Monitoring the plan.
   b. Allocating internal resources.
   c. Conducting spend analysis.
   d. Rationalising the supplier base.

LO: 1  
AC: 1.4  
Correct answer: C
Q12. ABC is a large organisation within which external spend and the management of suppliers have been fragmented across its various departments. It has been decided that ABC will implement a category management approach. Which of the following will be the most important in achieving successful implementation of category management within ABC?

a. Supplier rationalisation.
b. Management development.
c. Employee recruitment.
d. Cross-functional working.

LO: 1
AC: 3.2
Correct answer: D

Q13. Which of the following are key activities during the ‘kick off’ phase when implementing a category management approach?

1. Defining the category scope.
2. Evaluating potential benefits.
3. Identifying the stakeholders.
4. Prioritising identified opportunities.

a. 1 and 2.
b. 2 and 4.
c. 3 and 1.
d. 3 and 4.

LO: 1
AC: 2.2
Correct answer: C
Q14. When applying Porter’s Five Forces tool, which of the following will have the greatest impact on the likelihood of new entrants?

1. Stakeholder locations.
2. Level of regulation.
3. Product packaging.
4. Set-up costs.

a. 1 and 2.
b. 2 and 4.
c. 3 and 1.
d. 3 and 4.

LO: 2
AC: 2.3
Correct answer: B

Q15. The amount of ‘cost of goods sold’ within a supplier’s financial statements shows the supplier’s direct costs. Is this correct?

a. Yes, direct costs relate to the costs of producing the goods for sale.
b. No, direct costs relate only to the variable element of the cost base.
c. Yes, when direct costs are deducted from revenues net profit is calculated.
d. No, cost of goods sold includes both direct and indirect expenditures.

LO: 2
AC: 1.1
Correct answer: A
Q16. An effective technology route map will ensure the organisation is protected against cyber-crime and other high risk events. Is this correct?

a. No, it will set out how technology has changed within the organisation since it was initially formed.

b. Yes, it will define clear protocols and ways of working to ensure that all technology threats can be avoided.

c. No, it will provide an outline of how the business intends to use technology to pursue its objectives.

d. Yes, it will incorporate an encryption approach and other mechanisms for all staff to improve security.

LO: 2
AC: 2.6
Correct answer: C

Q17. When applying total cost models, which of the following are relevant disposal costs? Select the TWO that apply.

a. Servicing costs.

b. Testing costs.

c. Removal costs.

d. Maintenance costs.

e. Decommissioning costs.

f. Consumables costs.

LO: 3
AC: 2.3
Correct answer: C & E
Q18. Which of the following are economic factors that might have an impact on an organisation’s direct and indirect expenditures? Select the THREE that apply.

   a. Interest rates.
   b. Change in taxation.
   c. Working practices.
   d. Emerging technologies.
   e. Exchange rates.
   f. Changing weather patterns.

LO: 2
AC: 2.5
Correct answer: A, B & E

Q19. A large central government department is adopting a category management approach. Resources have been allocated and a project team has been formed to commence the initial work. Different stakeholders have been identified and their respective roles and importance within the project have been assessed.

Stakeholder A will be making all of the decisions and is ultimately in charge, but will not be completing any of the tasks themselves. Stakeholder B will need to be kept updated on how the project is progressing.

These two stakeholders are best described as which of the following?

1. Responsible.
2. Accountable.
3. Informed.

   a. 1 and 2.
   b. 2 and 3.
   c. 3 and 4.
   d. 4 and 1.

LO: 3
AC: 2.5
Correct answer: B
Q20. Four different companies are currently under contract to supply products to an international retail organisation (IRO). The IRO is conducting a detailed assessment of all key suppliers as part of its category management approach. Each company has a major product line and has a specific issue which has been highlighted following analysis of financial statements. Relevant information is as follows:-

Company 1 – The product line has high market growth and high relative market share. Whilst its product performance has been good for many years now, the company’s return on investment ratios and margins have been in decline for some time due to a cost base that is seemingly spiralling out of control.

Company 2 – The product line has low market share but is in a fast-growing market. Whilst generally financial ratio analysis reveals a positive position in terms of current assets and liabilities its long-term health is less encouraging. In recent years its debts have continued to increase steadily year-on-year against a static equity base.

Company 3 – The product line has high market share but in a market that is no longer growing. This is of concern especially as the company’s financial statements reveal a significant deterioration in both its current ratio and acid test ratio. Current liabilities are now four times greater than current assets (including inventories).

Company 4 – The product line has low market share in a market that is no longer growing. The company clearly needs to make a decision about the product and needs to focus more on working capital management. On reviewing its financial statements its debtor days, credit days and stock turnover are all showing a deteriorating trend annually over the last three years.

You are required, for each company, to determine the product category (based on market share/growth) and to identify the main area of financial concern.

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Q20 Continued ...

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AC: 2.4
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