CIPS Level 4 – Diploma in Procurement and Supply

Commercial Negotiation [L4M5]

Sample Exam Questions (Objective Response)

The correct answer will be listed below each question
Q1. A truly collaborative negotiation is typified by which of the following?

   a. All parties must have exactly the same goals.
   b. Both parties understand each other’s goals.
   c. One party is prepared to accommodate the other.
   d. The parties will always find a compromise solution.

LO: 1
AC: 1.2
Correct answer: B

Q2. Which of the following is the best example of a BATNA (best alternative to a negotiated agreement)?

   a. A concession is made.
   b. A contingency supplier.
   c. A marker is placed.
   d. A walk-away point.

LO: 1
AC: 1.2
Correct answer: B

Q3. Distributive negotiations are most typically associated with which type of items?

   a. Routine.
   b. Bottleneck.
   c. Leverage.
   d. Strategic.

LO: 1
AC: 1.2
Correct answer: A
Q4. A category manager is having an unsuccessful negotiation with a supplier. A recess is called during which the category manager has decided to adopt a different approach when the negotiation reconvenes. As the meeting restarts the category manager reminds the supplier of its contractual obligations and says ‘if we cannot reach agreement here today do not forget that I can serve notice to terminate the contract’. This is an example of which type of power?

a. Expertise.
b. Coercive.
c. Reward.
d. Reciprocity.

LO: 1
AC: 1.3
Correct answer: B

Q5. A procurement manager has been negotiating with a supplier for half an hour and is frustrated with the lack of progress. They are seeking a price reduction. After a short recess the procurement manager says to the supplier ‘How about if we agree to increase the guaranteed volume for the first twelve months - by how much will you reduce the price?’. This is an example of which of the following?

a. Threat.
b. Emotion.
c. Logic.
d. Bargaining.

LO: 3
AC: 3.2
Correct answer: D
Q6. A supplier has provided a breakdown of its costs, which comprise $250,000 fixed costs and $75 per unit variable costs. Its total costs for Product X amount to $800,000. It determines its pricing based on applying a fixed profit percentage of 25% of these costs, so the price is $1 million. The 25% profit is known as ...

a. Mark-up.
b. Margin.
c. Absorption.
d. Costed.

LO: 2
AC: 2.2
Correct answer: A

Q7. The supplier's break-even point is reached when its revenues exceed which of the following?
1. Opportunity costs
2. Total fixed costs
3. Equity costs
4. Variable production costs

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

LO: 2
AC: 2.1
Correct answer: B
Q8. Can closed questions be useful in a negotiation?

a. Yes, because they are good to check understanding.

b. Yes, because they can encourage detailed responses.

c. No, because open questions should always be asked.

d. No, because closed questions only gather opinions.

LO: 3
AC: 3.3
Correct answer: A

Q9. Which of the following are most likely to be fixed costs for a manufacturing business? Select the THREE that apply

a. Factory rent.

b. Full-time staff salaries.

c. Insurance premiums.

d. Components.

e. Casual Labour.

f. Marketing.

LO: 2
AC: 2.1
Correct answer: A, B & C
Q10. Which of the following are recognised forms of 'nonverbal communication'? Select **THREE** that apply.

   a. Hand gestures.
   b. Body posture.
   c. Informal communications.
   d. Complex messaging.
   e. Short Presentations.
   f. Facial expressions.

**LO:** 3  
**AC:** 3.3  
**Correct answer:** A, B & F

Q11. The generally agreed definition of a commercial negotiation is that it is aimed at achieving which of the following?

   a. Savings.
   b. Agreement.
   c. Concessions.
   d. Compromise.

**LO:** 1  
**AC:** 1.1  
**Correct answer:** B

Q12. In a collaborative negotiation the ideal outcome is ...

   b. Lose-lose.
   c. Win-lose.
   d. Win-win.

**LO:** 1  
**AC:** 2.1  
**Correct answer:** D
Q13. A logistics company has a preferred supplier for the replacement of its vehicle fleet. The preferred supplier knows it is the only organisation which can meet the logistics company's needs, in terms of the type of vehicle, the volume and the timescales. Which of the following would be the most plausible BATNA for the logistics company to use as leverage in the negotiation?

a. To threaten to reduce the number of vehicles it wants to buy from the supplier.

b. To cancel the order altogether and carry our more regular maintenance on the ageing vehicle fleet.

c. To buy one year old vehicles from a competitor which has just gone into liquidation.

d. To specify smaller vehicles from another supplier and recruit more drivers.

LO: 1
AC: 2.4
Correct answer: C

Q14. An experienced procurement professional has identified negotiation skills as an area of development need. They recognise they must have a high level of these skills as they aspire to a leadership position in the future. They negotiate with suppliers on a regular basis. What action should they take?

a. Undertake reflective practice after each negotiation meeting.

b. Ask suppliers for feedback at the end of every negotiation meeting.

c. Publish the outcome of their negotiations on the company's intranet site.

d. Engage with all stakeholders for suggestions on best practice.

LO: 3
AC: 4.1
Correct answer: A
Q15. A procurement professional is able to influence the outcome of a negotiation due to their superior knowledge and because they have threatened to cancel the contract if they are unhappy with the outcome. Which of the following sources of personal power are being used?
1. Coercive power.
2. Reward power.
3. Expert power.
4. Referent power.

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

LO: 1
AC: 3.2
Correct answer: D

Q16. A buyer always makes a point of acknowledging every concession they are offered by a supplier and will attempt to gain a little extra at the very end of the negotiation meeting when the deal is being concluded. Which tactics are they using?
1. Good cop-bad cop.
2. Thanks and bank.
3. Add-on.
4. Broken record.

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

LO 3
AC: 2.2
Correct answer: B
Q17. Understanding the supplier's mark-up in a negotiation is useful as it identifies the profitability of the contract in relation to the supplier's costs. Is this correct?

a. No, the profit margin relates to the supplier’s general overheads.

b. Yes, it expresses profit as a percentage of costs.

c. No, it relates to the amount of profit made in relation to the price.

d. Yes, a positive profit margin means the supplier is breaking even as a company.

LO: 2
AC: 2.1
Correct answer: B

Q18. The procurement organisation will generally have more power in a negotiation with a supplier which is in a monopolistic position in the market. Is this correct?

a. No, such a supplier is in a market dominant position.

b. Yes, the buyer will have several suppliers to choose from.

c. No, because the supplier might not have enough capacity.

d. Yes, as long as buyer has run a competitive tender.

LO: 2
AC: 2.1
Correct answer: A

Q19. Which of the following are types of questions that are useful to obtain detailed answers from the other party that will include their own opinions and thoughts? Select the TWO that apply.

a. Leading.

b. Narrow.

c. Open.

d. Probing.

e. Closed.

LO: 2
AC: 2.1
Correct answer: C & D
Q20. Which of the following are required pieces of information to calculate the break-even point of a product? Select the THREE that apply.

a. Pricing.
b. Product type.
c. Variable costs.
d. Level of competition.
e. Fixed costs.
f. Elasticity.

LO: 2
AC: 1.2
Correct answer: A, C & E