

## Get 100% Authentic CIPS L4M5 Dumps with Correct Answers [Q54-Q71]



### Get 100% Authentic CIPS L4M5 Dumps with Correct Answers New Training Course L4M5 Tutorial Preparation Guide

#### CIPS L4M5 Exam Syllabus Topics:

TopicDetailsTopic 1- Identify the different types of relationships that impact on commercial negotiations- Pragmatic and principled styles of negotiationTopic 2- How purchasers can improve leverage with suppliers- The importance of power in commercial negotiationsTopic 3- Costing methods such as absorption, marginal or variable and activity based costing- Know how to prepare for negotiations with external organisationsTopic 4- Team management and the influence of stakeholders in negotiations- Definitions of commercial negotiationTopic 5- Analyse the application of commercial negotiations in the work of procurement and supply- Negotiation in relation to the stages of the sourcing processTopic 6- Setting objectives and defining the variables for a commercial negotiation- Use of telephone, teleconferencing or web based meetingsTopic 7- Building relationships based on reputation, and trust- Repairing a relationship- The relationship spectrum

**NO.54** When is the best time in procurement process in which procurement should get involved so that the cost-saving opportunities are the greatest?

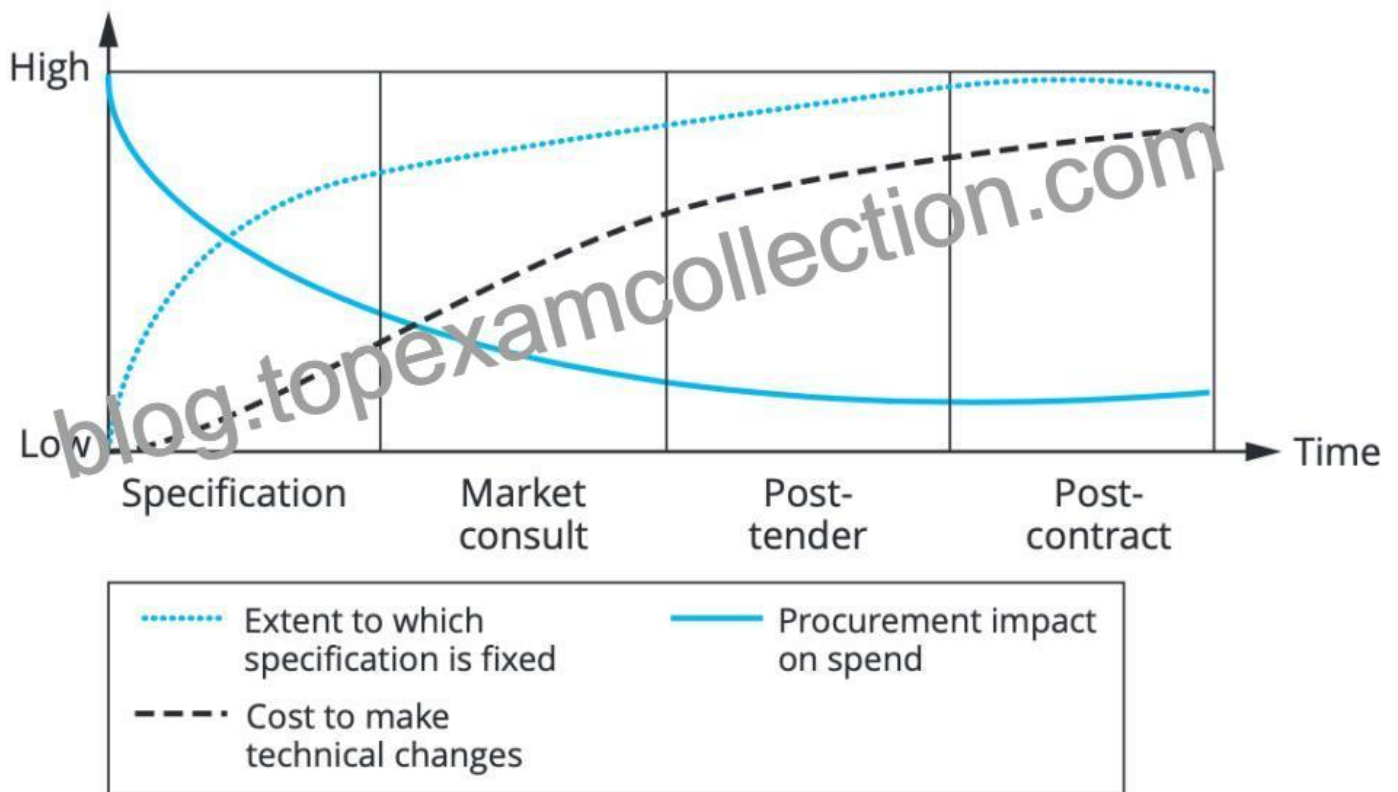
- \* Market consult stage
- \* Post-contract stage

- \* Specification stage
- \* Post-tender stage

Explanation

The earlier procurement get involved in the procurement processes, the better. If procurement are involved in design at the specification stage they can feed in prices and costs to designer so they know the likely budget implication of choices made. Sending in a procurement team to negotiate at or close to the end of the procurement process effectively ties their hands and limits their negotiation leverage. This is illustrated in the graph below:

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LO 2, AC 2.1

**NO.55** One difference between perfect competition and monopolistic competition is that&#8230;?

- \* In perfect competition, firms produce slightly differentiated products
- \* A perfectly competitive industry has fewer firms.
- \* Monopolistic competition has no barriers to entry
- \* Firms in monopolistic competition face a downward-sloping demand curve

Explanation

Monopolistic competition exists in market where there are many competing producers but they will try to use product differentiation. Although their products may be very similar, their ability to differentiate means that they can act as monopolies in short run, irrespective of the actions of their competitors.

In perfect competition, there are no barriers to entry to the market or exit from the market. In monopolistic competition, there tend to

be fewer barriers to entry or exit in these markets than in oligopolistic markets, but it doesn't mean that there are absolutely no barriers to entry in monopolistic competition.

In perfect competition, the demand curve is perfectly elastic, which means that it will be horizontal.

Otherwise, in monopolistic competition market, the demand curve will have normal downward slope.

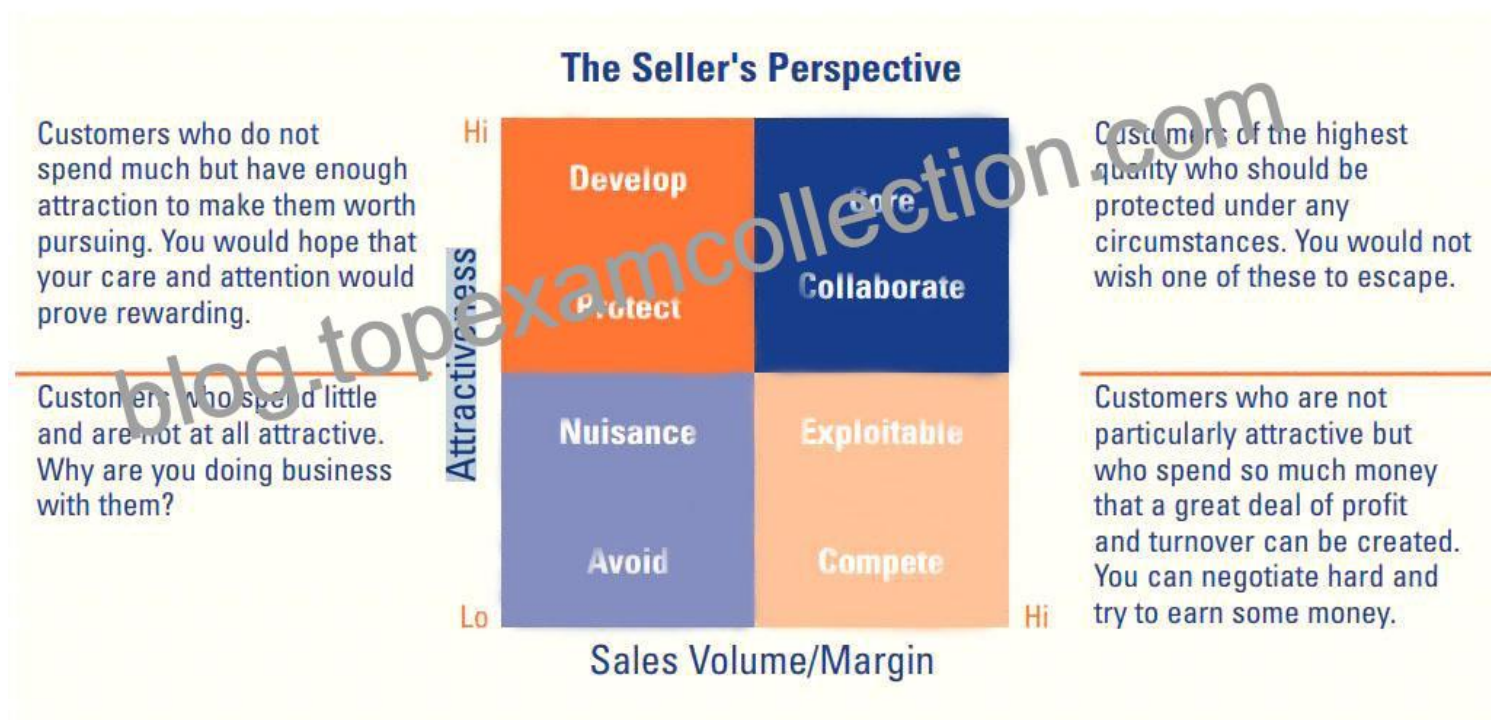
LO 2, AC 2.2

**NO.56** A buying organisation with a low spend and the reputation for paying late might be viewed by a supplier as which of the following?

- \* Develop
- \* Nuisance
- \* Core
- \* Exploit

To answer this question, you should know The seller's perspective as in 'How to Negotiate Professionally'.

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In the scenario, the buyer's spend is low, while they seem unattractive to seller (as they tend to pay late). So the buyer is classified as Nuisance in seller's perspective.

**NO.57** Representatives from South African Department of Health is negotiating the price of hospital drugs with US pharmaceutical companies. Which of the following are most likely to be macro factors that influence the outcomes of the negotiation? Select TWO that apply.

- \* Forward integration
- \* Digitalisation of medicine

- \* Order quantity
- \* Regulations on health and safety

Switching costs of buyer

Explanation

All one-to-one commercial negotiations between a specific purchaser and a specific supplier take place within an industrial market and a larger business environment characterised by multiple forces which both parties typically have little control over. STEEPLE framework highlights the 6 main external influences on a business:

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Factors	Risks
Socio-cultural	How changes affect demands or expectations of customers, suppliers or other stakeholders
Technological	Are there opportunities for development – or risks of obsolescence
Economic	How changes affect product demand and/or supply and cost of inputs?
Environmental (or 'ecological')	Which factors may cause supply problems, compliance issues, market pressure or risk to reputation
Political	What are the likely implications of policies or changes in policy
Legal	How organisation need to adapt policies and practices in order to comply
Ethical	Which issues may cause market pressure or reputational risk

Particularly, pharmaceutical industry is a heavily regulated sector, therefore, legal and regulatory matters in the industry is highly important. Otherwise, technological trends also permeate into pharmaceutical companies, technologies like digitalisation may transform the balance of power in such negotiation.

LO 1, AC 1.3

**NO.58** Understanding supplier's mark-up and margin can provide procurement professional a comprehensive insight into supplier's net profits. Is this statement true?

- \* Yes, because supplier's mark-up and margin are two most valuable sources of information to procurement
- \* No, because mark-up and margin inform little about supplier's net profit
- \* No, because margin is enough to tell procurement about supplier's profitability
- \* Yes, because these are two indicators of supplier's future prospect

Explanation

Mark-up and margin allow supplier to make gross profit. Remember that every supplier operates under different cost structures and some are set up to be most profitable at a particular level of volume, so it is dangerous to assume all suppliers can survive on a lower margin if their volume increases. Intelligent buyers understand that mark-up and margin may define gross profits, but they tell you very little about a supplier's net profits.

LO 2, AC 2.1

**NO.59** Which of the following is the true statement?

- \* External stakeholders such as suppliers can largely influence an organisation's procurement negotiations
- \* Internal stakeholder support will be important for both negotiation and contract performance
- \* All connected stakeholders have a low level of impact on procurement negotiations
- \* Commercial negotiation objectives should be driven by just the instincts of procurement

Internal stakeholder support will be important not just at the initial negotiation of the contract, but potentially throughout the life of the contract right through to exit.

As a general rule, connected stakeholders (with the exception of suppliers) have a low level of influence on procurement negotiations.

Suppliers are connected stakeholders who have contractual relationships with the organisation.

Commercial negotiation objective should be driven by the business needs of the organisation, and not just the instinct of procurement.

**NO.60** Jasmine and the IHL sales team have a negotiation scheduled with one of AB's lead buyers, Samuel, at AB's premises. This is one of the biggest negotiations that Jasmine has been involved in and is eager not to make any mistakes. Jasmine has heard from a colleague that Samuel tends to adopt an integrative negotiation style.

IHL senior management decides to send a team of three members to the negotiation. Jasmine is among the team and she is assigned to check body language, reactions, feeds insight to her leader and to record important comments and information from the meeting for minutes. Which of the following are roles of Jasmine in the forthcoming negotiation? Select TWO that apply.

- \* Secretary

(Correct)

- \* Commercial expert
- \* Technical expert
- \* Chief negotiator
- \* Observer

A negotiating team can be as few as two people, and one person can play one or more of these roles:

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Team roles	Responsibilities
Team leader	<ul style="list-style-type: none"><li>• Negotiation decision maker</li><li>• Responsible for outcomes</li></ul>
Chief negotiator	<ul style="list-style-type: none"><li>• Spokesperson; leads negotiation meetings</li><li>• Agrees changes to negotiation plan with the leader</li></ul>
Commercial lead	<ul style="list-style-type: none"><li>• Provision of commercial/financial subject matter expertise relevant to the negotiations</li><li>• Feeds insight and suggestions through to leader</li></ul>
Technical lead	<ul style="list-style-type: none"><li>• Provision of specialist technical subject matter expertise</li><li>• Feeds insight and suggestions through to leader</li></ul>
Observer	<ul style="list-style-type: none"><li>• Observes TOP</li><li>• Checks body language, reactions and feeds insight to the leaders</li></ul>
Scribe	<ul style="list-style-type: none"><li>• Records important comments and information from the meetings for minutes and analysis</li></ul>

As from the scenario, Jasmine will act as an observer and a scribe (or secretary).

**NO.61** After studying Thomas-Kilmann conflict resolution model and considering different approaches carefully, the procurement team of XYZ Ltd. decides to adopt an avoiding approach to the upcoming negotiation with one of their suppliers. Which of the following will be the objective of XYZ procurement team in this negotiation?

- \* Yielding the supplier's point of view
- \* Postponing the issue
- \* Seeking a quick middle-ground position
- \* Confronting and trying to find a creative solution immediately

Explanation

Avoiding is unassertive and uncooperative. When avoiding, an individual does not immediately pursue his or her own concerns or those of the other person. He or she does not address the conflict. Avoiding might take the form of diplomatically sidestepping an issue, postponing an issue until a better time, or simply withdrawing from a threatening situation.

LO 1, AC 1.1

**NO.62** According to Dr. Mari Sako, which of the following is potentially the weakest trust to be built?

- \* Competence trust
- \* Goodwill trust
- \* Charitable trust
- \* Contractual trust

Trust is the expectation that the other party will behave in a predictable and mutually acceptable way. In inter-firm relationships, the presence and absence of trust can affect the level of cost in a relationship. The existence of trust is taught to lower the transaction cost in a relationship. Dr. Mari Sako identified taxonomy of

3 types of trust in commercial relationship, which is very useful from the perspective of procurement.

**Contractual trust:** Trust based on the contract with TOP. This is potentially the weakest source of trust if there is nothing else to base the trust on, but it is the quickest to establish.

**Competence trust:** Trust based on TOP's professional qualifications or proven or certified technical capability or experience.

**Goodwill trust:** Trust based on knowing TOP has your interest at heart and will not behave opportunistically.

This is potentially the strongest type of trust, but it takes the longest time to build.

Otherwise, trust also has legal meaning. A trust is a legal document that can be created during a person's lifetime and survive the person's death. A trust can also be created by a will and formed after death. Charitable trusts are trusts which benefit a particular charity or the public in general.

**NO.63** 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

- \* SRI's purchase amount makes significant proportion of supplier revenue
- \* Costs of changing suppliers are high
- \* Rubber from different suppliers is virtually similar
- \* SRI sets up its own rubber plantation

\* There are no close substitutes for rubber

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:

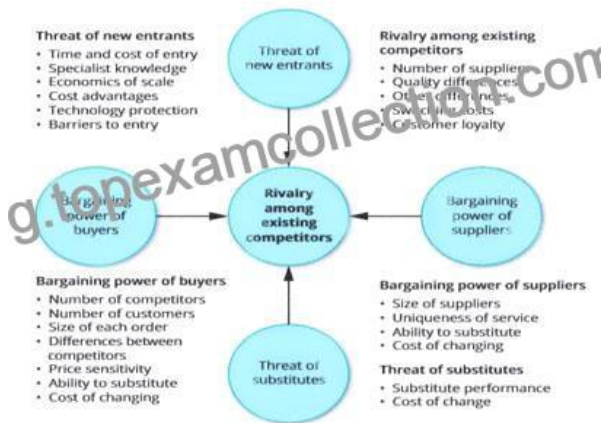


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One-to-one buyer-supplier dynamics.

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.

**NO.64** Which of the following are rules of attentive listening? Select TWO that apply.

- \* Prepare for what to say next
- \* React to the person who is speaking
- \* Listen deliberately
- \* Only focus on verbal cues
- \* Do not interrupt when the other party is speaking

Explanation

Hearing is passive but listening is active, and some people need to learn to be a good, attentive listener. The following rules of attentive listening will help you to become a successful negotiator:

- \* Be motivated to listen
- \* Be alert to non-verbal cues
- \* Do not interrupt the other party when they are speaking
- \* Fight off distractions
- \* Write everything down
- \* Listen with a goal in mind
- \* Give the other party your undivided attention
- \* React to the message, not the person

LO 3, AC 3.3

**NO.65** Which of the following is most likely a consequence of falling interest rate?

- \* Increase savings
- \* Increase aggregate demand
- \* Decrease consumption
- \* Decrease investment

If interest rate are too low and credit is too, cheap rates can fund a spending boom with consumers and businesses buying (investment) more than they can afford to pay back.

**NO.66** An oil refinery plant imports much of its crude oil from overseas. A procurement manager in the refinery suggests that fixing the crude oil contract price for 36 months would be beneficial for the company. Would this be a right thing to do?

- \* Yes, financial budgeting task would be a lot easier with fixed pricing arrangement
- \* No, fixed price should be only applied to contracts that last 60 months or longer
- \* No, the refinery would not be able to reap the benefits from falling commodity price and currency rates
- \* Yes, the supplier would bear the risk when the material price increased

Explanation

Fixed price contract is the contract in which the price is static throughout the contract period. A fixed-price contract may give certainty to budget and simplify contract management. However, it may lead to other problems since it requires bidders to estimate and bear the financial risks associated with price escalations. If the estimates are too high or events do not materialize, the buyer will pay a steep price that may affect the economy and efficiency of the contract. In the worst case, it may mean that the bid price is then above budget and may lead to a reduction in the requirements or rebidding. If the estimates are too low, it may appear as an abnormally low bid and disrupt contract execution.

On the other hand, price adjustment provisions include formulas designed to address problems, and can protect both the borrower and contractors from price fluctuations. Price adjustment formulas allow contractors to offer more realistic prices at the time of bidding. Despite concerns that they may lead to budget uncertainties, price adjustment formulas will estimate the actual cost implications that will be encountered. They use indexes that can be used for cost projection.

According to Asia Development Bank (ADB), any contract with a delivery or completion period beyond 18 months should contain an appropriate price adjustment clause.



In the scenario, the crude oil contract is planned to last 36 months. This period is pretty long with a fluctuating commodity. Therefore, the company should use price adjustment agreement.

**NO.67** A procurement professional is preparing for a negotiation of purchasing non-critical commodity products. He knows that the product can be easily replaced by other substitutes in the market. The negotiation for these products is typified by which of the following?

- \* The buyer should focus on wider costs and risk elements
- \* The approach must be collaborative
- \* There will be only limited negotiation
- \* There will be regular structured negotiations

Explanation

With non-critical commodity products, the relationship will be transactional. Buyer should not spend too much time and effort into the negotiation.

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	Transactional suppliers	Operational suppliers	Strategic suppliers
<b>Procurement activities</b>	<ul style="list-style-type: none"> <li>• No business-critical commodity products/ service</li> <li>• Viable alternatives exist</li> </ul>	<ul style="list-style-type: none"> <li>• Tailored/specific products/ services that may be critical</li> <li>• Alternatives exist</li> <li>• Switching may be more difficult</li> </ul>	<ul style="list-style-type: none"> <li>• Highly customised products/service</li> <li>• Significant impact on business</li> <li>• Minimal alternatives</li> <li>• High switching costs</li> </ul>
<b>Relationship building</b>	<ul style="list-style-type: none"> <li>• Regular sourcing events</li> <li>• Automated purchasing</li> </ul>	<ul style="list-style-type: none"> <li>• Limited sourcing events</li> <li>• Semi-automated purchasing activities</li> </ul>	<ul style="list-style-type: none"> <li>• No sourcing events</li> <li>• Customised purchasing activities</li> </ul>
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Related to purchasing</li> </ul>	<ul style="list-style-type: none"> <li>• Medium-term</li> <li>• Procurement staff and (senior) business stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term strategic business relationship involving senior procurement staff and senior management</li> </ul>
<b>Negotiation</b>	<ul style="list-style-type: none"> <li>• Limited negotiation – may not be worth effort</li> <li>• Focused on price and delivery</li> <li>• Over phone/e-mail/no meetings</li> <li>• Win-lose or win-win</li> </ul>	<ul style="list-style-type: none"> <li>• Discuss performance and financial aspects</li> <li>• Limited information sharing</li> </ul>	<ul style="list-style-type: none"> <li>• Regular structured negotiations</li> <li>• Focused on total cost of ownership</li> <li>• In person with stakeholders</li> <li>• Win-win</li> </ul>

LO 1, AC 1.4

**NO.68** Which of the following are factors that might shift the demand curve for a consumer good to the right?

1. Prices of complementary goods decrease
2. Price of the consumer good decreases
3. Customers' expectation of higher prices in the future
4. Consumer tastes shift toward substitute products

- \* 3 and 4 only
- \* 4 and 2 only
- \* 1 and 3 only
- \* 1 and 2 only

Explanation

A shift in demand occurs when an influencing factor other than price changes. Those factors are:

&#8211; The income of buyers

&#8211; The tastes and preferences of buyers

&#8211; The prices of other goods and services, especially substitutes and complements

&#8211; Expectations of buyer about the future

In this question:

&#8211; &#8216;Prices of complementary goods decrease&#8217; will lead to quantity demanded for that complements rising, then demand for consumer good will increase accordingly.

&#8211; &#8216;Price of the consumer good decreases&#8217; will increase the quantity demanded for that good, but it will not shift the demand curve

&#8211; &#8216;Customers&#8217; expectation of higher prices in the future&#8217;; in this scenario, customers tend to buy more to store in present, which leads to demand curve shifting to the right

&#8211; &#8216;Consumer tastes shift toward substitute products&#8217;; Demand for substitutes will rise, so demand for that consumer good will decrease and the demand curve shifts to the left.

LO 2, AC 2.2

**NO.69** Ma Bell was the sole provider of landline telephone service to most of the US in 1980s. This is an example of&#8230;?

- \* Monopsony
- \* Monopoly
- \* Monopolistic competition
- \* Perfect competition

Explanation

A monopoly exists when only one company can supply an essential product or service in a given region because of significant barriers to entry for any competitor. The barriers can be legal, regulatory, economic, or geographic. Ma Bell case is an example of monopoly. The company was broken up in 1982.

A monopsony is a market structure in which a single buyer substantially controls the market as the major purchaser of goods and services offered by many would-be sellers.

Pure or perfect competition is a theoretical market structure in which the following criteria are met:

&#8211; All firms sell an identical product (the product is a &#8220;commodity&#8221; or &#8220;homogeneous&#8221;).

&#8211; All firms are price takers (they cannot influence the market price of their product).

&#8211; Market share has no influence on prices.

&#8211; Buyers have complete or &#8220;perfect&#8221; information-in the past, present and future-about the product being sold and the prices charged by each firm.

&#8211; Resources for such a labor are perfectly mobile.

&#8211; Firms can enter or exit the market without cost.

Monopolistic competition characterizes an industry in which many firms offer products or services that are similar, but not perfect substitutes. Barriers to entry and exit in a monopolistic competitive industry are low, and the decisions of any one firm do not directly affect those of its competitors. Monopolistic competition is closely related to the business strategy of brand differentiation

**NO.70** During a negotiation, a procurement manager suggests that the two companies should split the difference which would benefit both the supplier and buyer. Which persuasion method is she using?

- \* Compromise
- \* Threat
- \* Good cop/bad cop
- \* Logic

In the scenario, the manager propose to &#8216;split the difference&#8217;, which means each party will accept some of their demands and concede some. This is known as &#8216;Compromise&#8217;.

**NO.71** JCB is a large manufacturer of heavy machinery. The CPO is going to a negotiation with a Chinese supplier about procuring some major components. He is wondering about balance of power in the negotiation. Which of the following micro factors are most likely to shift the balance of power towards the buying organisation in this commercial negotiation? Select TWO that apply

- \* Buyers purchase in small volumes
- \* Suppliers are more concentrated than buyer
- \* Eruption of epidemic in supply market
- \* JCB&#8217;s switching costs are low
- \* These components are highly standardised

Explanation

There are many factors that can influence the balance of power in a negotiation. These factors are classified into 3 levels:

&#8211; Macro level: STEEPLE framework: social, technological, economic, environment, political, legal and ethical

Micro level: Porter's five forces:

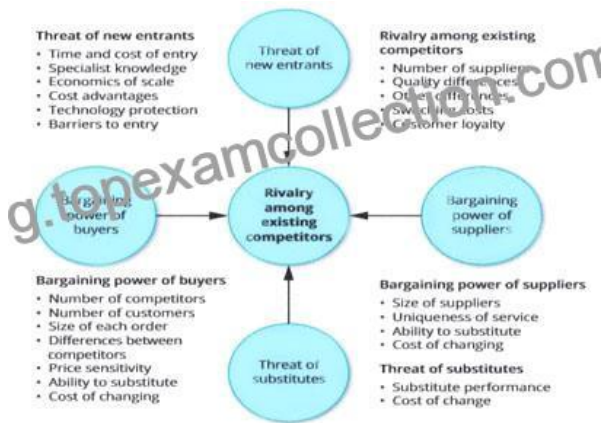


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One-to-one buyer-supplier dynamics.

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

JCB's switching costs are low: Buyer may easily switch its suppliers anytime

These components are highly standardised: The products are not different any more, buyer may choose to buy from any supplier available.

Other answers cannot be correct because:

Suppliers are more concentrated than buyer: Suppliers are forming oligopoly market, their bargaining power tend to be greater.

Eruption of epidemic in supply market: this is a macro factor. Eruption of epidemic may cause factories closed and disruptions on supply chain.

Buyers purchase in small volumes: Buyer will be seen as less potential to suppliers. Buying organisation may have difficulties to deal better price with suppliers.

LO 1, AC 1.3

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