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Commercial Negotiation

CIPS L4M5

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QUESTION NO: 1

A public agency opens a tendering process for a road building project that lasts approximately 1 year. They post their requirements on public journal and receive some interests. After conducting due diligence process and selecting the lowest bidder, the project commences. However, the supplier complains that price of material increases because of a shortage of supply, then they demands an 5% uptick in contract value. The agency investigates the increment and sees that there is indeed a fluctuation in prices of supplier's input. They are likely to accept the proposal, but they are also concerned that supplier may demand more. To avoid making another concession with the supplier, which of the following should be a priority action of the agency?

- A. Disapprove supplier's demands until they finish the project
- B. Seek approval from higher authority
- C. Document a contract variation that only allows another concession if some specific conditions arise
- D. Postpone the decision making until the budget is ready

ANSWER: C

Explanation:

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The agency (buyer) has made a concession about the price. Possibly the supplier will request another concession (the salami tactics). To avoid this to be happened, the agency should only allow a concession as an exception, make sure that the concession is documented and only permitted against some exceptional circumstances, and seek agreement to this from the supplier.

LO 3, AC 3.2

QUESTION NO: 2

Professional buyer is planning for the next negotiation of a simple one-off contract. This negotiation is typified by which of the following? Select TWO that apply.

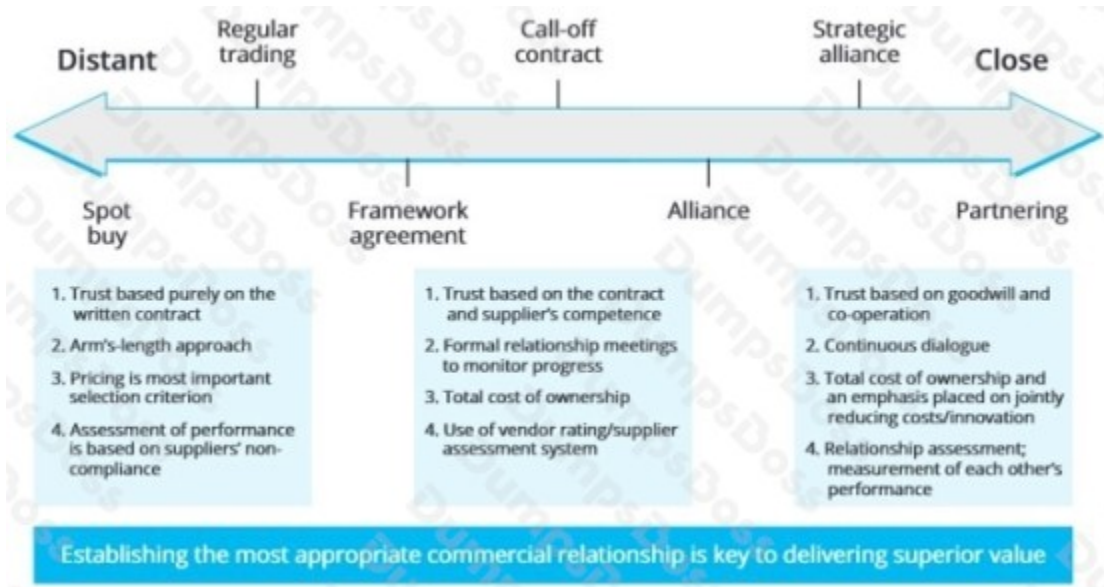
- A. Continuous dialogue with supplier
- B. Total cost of ownership is the most important criterion
- C. Vendor ratings will be used
- D. Arm's-length approach
- E. Pricing is the most important criterion

ANSWER: D E

Explanation:

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Professional buyers, when planning or engaging in negotiation with suppliers, should always be aware of where the intended and actual relationship with this supplier is positioned on the 'spectrum' or 'continuum' of commercial relationships. The relationship spectrum describes the range of commercial relationships between a buyer and supplier based on richness of communication, longevity and mutual dependence.



Timeline

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In the question, the contract is simple one-off (or spot buy), which means the relationship will likely to be more transactional. In such relationship, price is the most important criteria and buyer may adopt arm's-length approach.

QUESTION NO: 3

There are no commitments in hypothetical questions. Is this statement true?

- A. No, because the party who makes hypothetical questions cannot withdraw their proposals
- B. No, because hypothetical questions are made explicitly to the other party
- C. Yes, because hypothetical questions generate a specific response
- D. Yes, because hypothetical questions only mention possible situations

ANSWER: D

Explanation:

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There are four types of questions that can be used in a commercial negotiation:

Hypothetical questions, where you ask about a possible situation or abstract concept, are very useful at the testing and proposal phases. Hypothetical question does not state any commitment as it is only about 'if something happens, then ...'. This type of question can be useful at giving suggestion.

Questioning style	When to use
Open questions What do you think about?	<ul style="list-style-type: none">• To start a conversation• To build rapport• To get the negotiation started and get TOP to start first
Closed questions Can you offer 24hr?	<ul style="list-style-type: none">• To generate a specific response• To receive affirmation on statement – often single word, yes or no• To seek specific information• To bring discussion to an end
Probing questions Tell me more about feature X on product Y.	<ul style="list-style-type: none">• To seek further information when the first answer to the question is insufficient• To seek answers when TOP is being evasive• To gain more information and get to the bottom of the issue
Hypothetical questions If we wanted to buy globally could you supply?	<ul style="list-style-type: none">• To try to get TOP to see things in a different way• To condition TOP into expecting something• To encourage creative thinking/facilitate identification of alternatives

Text

Description automatically generated

LO 3, AC 3.3

QUESTION NO: 4

Which of the following are rules of attentive listening? Select TWO that apply.

- A. Prepare for whatto say next
- B. React to the person who is speaking
- C. Listen deliberately
- D. Only focus on verbal cues
- E. Do not interrupt when the other party is speaking

ANSWER: C E

Explanation:

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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

QUESTION NO: 5

Which of the following is the internal factor that is taken into price of a product?

- A. Risk management
- B. Customer tastes
- C. Elasticity
- D. Exchange rate

ANSWER: A

Explanation:

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In order to answer this question, you should better consider each option:

'Exchange rate' is the value of one nation's currency versus the currency of another nation or economic zone. This is a macroeconomic factor.

'Elasticity' refers to the degree to which individuals, consumers or producers change their demand or the amount supplied in response to price or income changes. This is a microeconomic factor

Consumer tastes refer to the products and services that consumers consciously choose over others. Consumer tastes are so powerful that they can change how businesses conduct their activity. Like elasticity, this is also a microeconomic factor.

Among 4 options, only risk management is the internal factor. Risk pricing is a strategy applied by many companies in the world. To learn how to price the risk, you can read an article from McKinsey: <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/how-to-price-risk-to-win-and-profit>

This is a question that a student met in her actual exam. The knowledge section is unknown.

LO: Unknown, AC: Unknown

QUESTION NO: 6

Buying organisation may increase its leverage with suppliers by concentrating spend. Which of the following are most likely to be forms of supplier spend consolidation? Select

THREE that apply.

- A. Forming purchasing consortia
- B. Volume consolidation across categories
- C. Volume separation
- D. Paying supplier on time
- E. Volume redistribution
- F. Simplify procurement process

ANSWER: A B E

Explanation:

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Buying organisation may increase its leverage with suppliers by concentrating spend.

Supplier spend consolidation can take many forms as outlined below:

Vendor base reduction: straightforward reduction of number of suppliers in any category
Volume pooling: pooling cross organisational requirement until your order volume is high enough to attract new bidders/additional discounts

Volume redistribution: making recommendations following spend analysis to move from one supplier to another

Volume consolidation across categories: certain purchase requirements may be common across a number of categories

Standardisation and harmonisation of specifications: analysis of specifications and standards for a high spend purchased input, may show that there is a little difference between them and that the specification can be standardised or at least harmonised across the group or across national, regional or global operations.

Forming purchasing consortia: buyers may decide to come together and combine their purchase volumes to attract better deals.

QUESTION NO: 7

According to Dr. Mari Sako, which of the following is potentially the weakest trust to be built?

- A. Competence trust
- B. Goodwill trust
- C. Charitable trust
- D. Contractual trust

ANSWER: D

Explanation:

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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.

QUESTION NO: 8

Which of the following are most likely to be the potential cultural differences that can make transactions with an international supplier more problematic than with local suppliers?

Select TWO that apply.

- A. Incoterms and logistics difficulties
- B. The use and interpretation of body language
- C. Currency exchange fluctuation
- D. The importance of timescales
- E. Payment mechanism

ANSWER: B D

Explanation:

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The question requires student to detect factors of cultural differences. Problems may occur on the international scene with such things as the importance of extending courtesy between cultures, the importance of timescales, the use of negotiating ploys, the sense of 'fair play', the use and interpretation of body language, the role of women in negotiations (or indeed, in business in general), the importance of status, the role of conflict, standards of dress and deportment and the readiness to ignore or uphold contract terms and conditions. LO 3, AC 3.3

QUESTION NO: 9

If the value of the British Pound in other currencies is strong, which of the following is most likely to occur?

- A. The price of UK products in the UK will rise
- B. The price of UK products in the UK will fall
- C. The price of UK products abroad in foreign currency will fall
- D. The price of UK products abroad in foreign currency will rise

ANSWER: D**Explanation:**

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Currency exchange rates are determined by macroeconomic factors and demand and supply. In general, countries with stable political and economic systems, a growing economy and a strong rule of law will have stronger and more stable currency than those without these characteristics. In this question, the British Pound is stronger than other currency, which means that buyers who import goods from the UK have to pay higher in their own currencies.

LO 2, AC 2.2

QUESTION NO: 10

Which of the following can help both parties to break the vicious cycle of blame when a relationship needs repairing? Select TWO that apply.

- A. Both parties understand each other's goals
- B. Focusing on positions
- C. Conflict management skills
- D. Constant shadowing and oversights
- E. Emotional-based assessment

ANSWER: A C

Explanation:

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In order to break vicious cycle of blame, procurement will need to use their negotiation and conflict management skills, adopting a collaborative and integrative approach. Your first action should be to establish the facts that led to the situation where the relationship broke down. Most day-to-day relationship between buying organisations and suppliers do not of course involve procurement staff, so you will need to consult with your business partners internally to establish their point of view of where the issue and sources of conflict are. You should also contact the supplier and get their side of the story - this is particularly to when you have previously identified the supplier as critical or otherwise important to your operations. Ideally you will be able to apply principled negotiation here, separating the people from the issue, focusing on interests and not positions, and then looking for options of mutual benefits.