Category Management

CIPS L5M6

Version Demo

Total Demo Questions: 11

Total Premium Questions: 117

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Topic Break Down

Topic	No. of Questions
Topic 1, Understand the role of category management in the procurement and supply function	35
Topic 2, Understand the development of category strategies	68
Topic 3, Understand the implementation of category strategies	7
Topic 4, Understand the maintenance and improvement of category strategies	7
Total	117

QUESTION NO: 1

Barb is a Category Manager at XYZ Logistics. She is putting together a Category Plan. Which of the following sections should she include? Select THRE

E.

A. HR information on the team

B. Supply market analysis

C. Category objectives

D. Category risks

E. History of the category

ANSWER: B C D

Explanation:

A category plan translates an organisation’s procurement and business priorities into an evidence-based strategy for a defined group of goods or services. **Supply market analysis** is essential because it establishes the external context for the strategy: market structure, supply and demand conditions, supplier capability, cost drivers, innovation, and relevant constraints. This intelligence enables the category manager to select an appropriate sourcing and supplier-management approach.

Category objectives should be stated clearly so the plan has measurable outcomes aligned to organisational needs. Objectives may cover value, service, quality, resilience, sustainability, compliance, or innovation, and provide the basis for prioritising actions and measuring performance.

Category risks are also a core plan component. Identifying risks affecting continuity, cost, quality, supplier dependency, regulation, and reputation allows the manager to define proportionate mitigations, ownership, and contingency actions. Together, supply market analysis, objectives, and risks make the plan strategic, actionable, and suitable for stakeholder approval and ongoing governance. This reflects CIPS’ emphasis on using market intelligence, aligning procurement activity to organisational objectives, and managing supply-chain risk. See CIPS: Category management and CIPS: Supply chain risk management.

QUESTION NO: 2

BikeFace is a leading manufacturer of bicycles. Which of the following would be considered direct costs for this organisation? Select TWO.

A. Rubber

B. Labour

C. TV advert

D. IT system for ordering materials

ANSWER: A B

Explanation:

Direct costs are costs that can be specifically and economically traced to a particular cost object, such as a bicycle produced by BikeFace. Rubber is a direct material cost where it is incorporated into, and used to manufacture, a bicycle—for example, in tyres, grips, seals or other rubber components. Its consumption can normally be measured through bills of materials, production records and purchase data. Labour is also a direct cost when employees’ time is spent directly making, assembling or finishing bicycles. For example, hours worked by assembly-line operatives can be attributed to individual production runs or units and included in the cost of manufacture. Identifying these costs accurately supports category management: direct-material and direct-labour categories affect product cost, supply continuity, quality and production capacity, so they require appropriate sourcing, supplier-management and cost-analysis strategies. CIPS describes direct procurement as the acquisition of goods and services used in an organisation's production process or incorporated into the final product. Accounting guidance similarly distinguishes costs directly attributable to bringing inventory to its present location and condition. See CIPS: What is procurement? and IFRS IAS 2 Inventories.

QUESTION NO: 3

A manufacturer relies on a low-value specialist seal for a production line. The seal is available from only one approved supplier, and a supply interruption would stop production. Which sourcing approach is most appropriate?

A. Run an e-auction to reduce the unit price

B. Secure continuity of supply and develop alternatives where feasible

C. Reduce supplier-management effort because the spend is low

D. Consolidate spend with the supplier without reviewing the dependency

ANSWER: B

Explanation:

Secure continuity of supply and develop alternatives where feasible is correct because the item has low financial impact but high supply risk. This is characteristic of a bottleneck item in the Kraljic Portfolio Purchasing Model. The immediate priority is preventing disruption rather than achieving the lowest unit price.

The category manager should investigate options such as holding an appropriate safety stock, working with the supplier to assure capacity, identifying technically viable alternatives, and reducing dependency through design or qualification activity. An e-auction or aggressive competitive negotiation would be unsuitable while only one approved source exists and the operational consequence of supply failure is severe.

QUESTION NO: 4

A category manager is undertaking supply market analysis before sourcing a critical transport service. Which information should be gathered to assess the attractiveness and risk of the supply market? Select THREE.

A. Supplier capacity and capability

B. The main cost drivers in the market

C. Internal salary levels for the buying organisation

D. The number and strength of credible competitors

E. Individual suppliers' preferred marketing channels

ANSWER: A B D

Explanation:

Supplier capacity and capability, **the main cost drivers in the market**, and **the number and strength of credible competitors** are all essential supply-market analysis inputs. Capacity and capability indicate whether suppliers can meet the required scale, geographic coverage, service levels, and resilience requirements. Cost-driver analysis helps the category manager understand factors such as fuel, labour, equipment, regulation, and utilisation that may affect pricing and future cost movements.

Reviewing credible competitors establishes the level of choice available to the buyer and the likely bargaining power of suppliers. Internal salary data and a supplier's marketing preferences may have limited relevance to the sourcing approach, but they do not provide the core evidence required to assess the structure and risk of the external supply market.

QUESTION NO: 5 - (SIMULATION)

Randoxx Ltd is a manufacturing company which has four main categories of expenditure:

Category 1: The market of this category is highly innovative and has rapidly changed over the past five years. There are many suppliers who provide similar products at similar price points.

Category 2: This category of spend is for highly specialised products and it is important to Randoxx that the products are carbon neutral. Because of this, there is a reduced number of suppliers who provide products to this category and Randoxx has little influence over the price that they pay.

Category 3: This category of spend is for natural resources which are only found in very few parts of the world. Because of this Randoxx imports all of these items from one country abroad and currency fluctuations have a huge impact on the profit margin of this category spend.

Category 4: This is a highly technical product which has a patent. It is used in the creation of laptops and phones and it would be impossible to make these with a different product. Due to the growing population Randoxx forecasts that demand for this product will increase.

Task:

Complete the table below by identifying each category's Porter's Force driver and STEEPLE factor challenge. Each response should be used only once.

Randoxx Ltd – Drag & Drop Table

Category	Porter's Force	STEEPLE Factor
Category 1	____	____
Category 2	____	____
Category 3	____	____
Category 4	____	____

Options to Place

Porter's Forces	STEEPLE Factors
Threat of New Entrants - Low	Technological
Threat of Substitutes - Low	Social
Bargaining Power of Buyer - Low	Economic
Competitive Rivalry - High	Environmental

ANSWER: See the explanation for the answer

Explanation:

Complete the table as follows:

Category	Porter's Force	STEEPLE Factor
Category 1	Competitive Rivalry - High	Technological
Category 2	Bargaining Power of Buyer - Low	Environmental
Category 3	Threat of New Entrants - Low	Economic

Category 4 Threat of Substitutes - Low Social

Category 1: many similar suppliers and products create high competitive rivalry; rapid innovation is a technological issue.
Category 2: the limited supply base and Randoxx's inability to influence prices mean buyer power is low; carbon neutrality is an environmental challenge.
Category 3: scarce, location-specific natural resources make market entry difficult, so the threat of new entrants is low; exchange-rate volatility is an economic factor.
Category 4: the patented product cannot be replaced, so the threat of substitutes is low; population growth driving demand is a social factor.

QUESTION NO: 6

In order for Category Management to succeed, is business commitment and stakeholder buy-in essential?

A. Yes â€“ must be endorsed and supported by top management

B. Yes â€“ because it is tactical and requires cross-functional teamwork

C. No â€“ categories work independently of each other

D. No â€“ commitment is only required for high-spend categories

ANSWER: A

Explanation:

Yes – must be endorsed and supported by top management is correct. Category management is a strategic, cross-functional approach to managing a group of related spend areas in a way that delivers value aligned to organisational objectives. It commonly requires changes to specifications, supplier relationships, demand management, governance, processes and stakeholder behaviours. These changes cannot be implemented reliably by procurement acting alone.

Senior-management endorsement gives the category approach organisational legitimacy and helps secure the resources, authority and cross-functional participation needed to develop and execute category strategies. It also supports clear governance, including agreement on priorities, ownership of actions, decision-making routes and management of trade-offs between cost, quality, risk, sustainability and operational requirements. Stakeholder buy-in is particularly important because internal users and budget holders often hold the demand, technical knowledge and implementation control necessary for a strategy's benefits to be realised.

Commitment should therefore be established early and maintained throughout strategy development, sourcing, implementation and benefits tracking. It makes adoption more likely and enables procurement to translate category plans into sustained business outcomes rather than isolated sourcing activity. CIPS describes category management as a strategic methodology for managing spend categories and delivering organisational value; see [CIPS: Category management]. Further context on CIPS' professional procurement standards is available from [CIPS Qualifications].

QUESTION NO: 7

Bill is collecting data on a mobile phone category item. Which of the following can he find from the phone's 'line item' details? [Select TWO]

A. Quantity ordered

B. Price

C. Functionality

D. Components

ANSWER: A B

Explanation:

“Quantity ordered” and “Price” are the relevant data fields because line-item detail is the granular transaction-level information recorded for an individual purchase on documents and systems such as purchase orders, invoices, and accounts-payable records. For a mobile-phone category, this enables Bill to see how many units were bought in each transaction and the unit or extended price paid. These fields are foundational to spend analysis: quantity data supports demand aggregation, consumption analysis, and identification of volume-leverage opportunities, while price data supports comparison of purchase prices across suppliers, business units, contracts, and time periods.

Used together, quantity and price permit a category manager to calculate spend, identify price variation for comparable phones, assess whether committed pricing is being achieved, and develop a sound fact base for sourcing and negotiation. CIPS describes category management as a structured, evidence-based approach that uses spend and supply-market data to develop category strategies and deliver value. Transactional line-item data is therefore particularly valuable because it provides the detailed purchasing evidence needed to analyse how the organisation is actually buying within the category. See the CIPS Level 5 Advanced Diploma and the CIPS category management resources.

QUESTION NO: 8

ABC Ltd is a manufacturer of hi-tech IT equipment in an industry set to grow substantially over the next 10 years. What type of industry is this?

A. Bull industry

B. Bear industry

C. Dog industry

D. Cow industry

ANSWER: A

Explanation:

Bull industry is the correct classification because the defining feature supplied in the scenario is a substantial expected increase in industry growth over a long future period. In market and economic terminology, “bull” describes conditions marked by confidence, expansion, rising expectations and positive prospects. Applied to an industry, it indicates a growth environment in which demand, investment, technological development and market opportunities are anticipated to increase. The hi-tech IT equipment sector described is therefore a bull industry: its forecast growth creates scope for manufacturers and their procurement teams to develop capacity, secure strategic supply relationships, encourage innovation and plan for future demand. Category managers should recognise this market condition because strong growth can affect sourcing strategy, including supplier availability, investment requirements, competition for constrained components and the need for collaborative, long-term supplier relationships. The term originates from the broader usage of a bull market, which reflects optimism and expectations of rising economic or market value; the relevant characteristic here is the positive forward-looking growth forecast, rather than ABC Ltd’s current profitability or market share. See the U.S. Securities and Exchange Commission’s definition of a bull market and the Encyclopaedia Britannica overview of bull markets.

QUESTION NO: 9

Which of the following approaches to managing cost, common in Category Management, results in the most reduced costs from suppliers and increased value?

A. Price acceptance

B. Price management

C. Cost-down

D. Cost-out

ANSWER: D

Explanation:

Cost-out is the correct approach because it seeks to remove cost structurally from the requirement and the supply process, rather than merely obtaining a lower quoted price. In category management, this typically involves working openly with suppliers and internal stakeholders to analyse cost drivers, specifications, materials, design choices, manufacturing methods, logistics, packaging, demand patterns, and waste. The parties can then redesign the product, service, or process so that unnecessary activities and inputs no longer generate cost in the first place.

This approach can produce the greatest sustainable reduction in suppliers' costs while increasing value because the resulting solution is based on total cost and fit for purpose, not simply a discount against an unchanged requirement. For example, standardising specifications, reducing component count, changing packaging, or improving order patterns may lower supplier effort and resource consumption while maintaining—or improving—the outcome required by the buying organisation. It therefore supports collaborative supplier relationship management, innovation, and whole-life value creation, all of which are central themes in strategic category management. CIPS describes category management as a strategic approach to procurement in its category management guidance, and its Level 5 qualification overview emphasises strategic procurement capability.

QUESTION NO: 10

A new supplier to a marketplace is using break-even pricing to determine the price at which to sell a product. Which of the following does this type of pricing structure not consider? Select TWO.

A. Fixed costs

B. Variable costs

C. Price elasticity

D. Competitorsâ€™ pricing

E. Price elasticity and competitorsâ€™ pricing

ANSWER: E

Explanation:

Price elasticity and competitors' pricing are the factors not incorporated in a pure break-even pricing calculation. Break-even pricing starts by identifying the point at which sales revenue covers total costs: fixed costs plus variable costs at an anticipated sales volume. The resulting calculation establishes the minimum price, or volume required at a particular price, to avoid a loss. It is therefore fundamentally a cost-and-volume approach.

Price elasticity concerns the extent to which customer demand changes when the selling price changes. Competitors' pricing concerns the prices and commercial positioning of rival suppliers in the marketplace. Both are external market considerations rather than inputs to the basic break-even formula. A supplier can calculate an accurate break-even point but still need to assess whether buyers will accept that price and whether it is viable relative to competing offers. In category management, these market factors are important when evaluating a supplier's pricing rationale and likely ability to win and retain demand. The UK Government's guidance describes break-even analysis as comparing costs and revenue to identify the sales level at which costs are covered: GOV.UK cash-flow forecasting guidance. Further background on price elasticity is available from Encyclopaedia Britannica.

QUESTION NO: 11

A buyer and a strategic supplier intend to pursue joint cost reduction and innovation over several years. Which arrangements are most likely to support this relationship? Select THREE.

A. Joint business plans

B. Shared performance measures

C. Short-term price competition as the sole performance measure

D. Senior sponsorship from both organisations

E. Withholding relevant demand information from the supplier

ANSWER: A B D

Explanation:

Joint business plans, **shared performance measures**, and **senior sponsorship from both organisations** are correct. A joint business plan establishes common objectives, priorities, actions, and review arrangements. Shared measures ensure that both parties monitor relevant outcomes such as quality, service, innovation, cost reduction, and sustainability rather than focusing only on price.

Senior sponsorship supports decision-making, commitment of resources, and resolution of escalated issues. A relationship based only on short-term price competition is inconsistent with collaboration, while withholding relevant demand information prevents the supplier from planning capacity, investment, and improvement activity effectively.