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L4M5 Study Set 2024/2025 Exam Questions with Detailed Verified Answers (100% Correct Answers) | Already Graded A+

What is a commercial negotiation? - (ANSWER) A negotiation is the process whereby two or more parties decide what each will give and take in an exchange between them. A commercial negotiation generally is between organisations and can involve negotiating contracts and managing projects for the maximum return, as well identifying and developing new business opportunities

With examples explain where negotiation can occur in the procurement cycle? - (ANSWER) 1. Identification of need - internal negotiations with stakeholders

2. Market commodity options - informs the negotiation process and evaluation of bargaining power between buyer and supplier can start at this stage.

3. Develop plan/strategy - the decision regarding whether to negotiate or not, as well as plan objectives, plans, resources and the approach to achieve what you want.

4. Pre-procurement market test & engagement - supplier conditioning can occur when meeting key players

5. Develop documentation - setting out requirements in documentation form that will help support your negotiations

6. Supplier selection - may be limited, but there may be internal negotiation in relation to short-listing or down-selection and evaluation of expressions of interest

7. Issue invitation to tender - this stage may have limited opportunity for negotiation

8. Bid/tender evaluation - internal negotiation may occur in relation to assessment and evaluation of bids received, alternatively this may be the start of

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CIPS Commercial Negotiation Sample Questions (Q88-Q93):

NEW QUESTION # 88

Which of the following are examples of variable costs?

Building and site rent
Annual insurance premium
Raw materials expenditure
Delivery costs for materials

- A. 2 and 3
- **B. 3 and 4**
- C. 1 and 4
- D. 1 and 3

Answer: B

Explanation:

Raw materials expenditure (3) and delivery costs for materials (4) are variable costs as they fluctuate with production levels. Variable costs vary directly with the volume of production, unlike fixed costs such as rent or insurance, in line with CIPS's classifications of cost types in procurement.

NEW QUESTION # 89

A procurement professional is negotiating with a supplier on cleaning service. She realises that there are huge cost-saving opportunities if the supplier agrees to reduce its mark-up and unnecessary employee benefits.

Supplier's mark-up and employee benefits are examples of which of the following?

- A. Spend waterfall
- B. Spend cube
- **C. Addressable spend**
- D. Spend tree

Answer: C

Explanation:

A key consideration when seeking to negotiate prices is to establish what proportion of the spend is addressable by procurement action such as negotiation. Addressability of spend is influenceable through negotiations or application of other saving effort or leverage with suppliers.

LO 2, AC 2.1

NEW QUESTION # 90

An automotive company purchases high quality steel to produce components. The steel is an important raw material and the contract value is enormous. They source the steel from overseas and contact some potential suppliers. One of the potential suppliers invites the procurement team to their premise for a new business opportunity. Should the procurement team accept the invitation?

- **A. Yes, because this is an opportunity to assess the supplier's capacity**
- B. No, because the travel would incur unnecessary costs
- C. Yes, because the visit would increase the buyer's bargaining power
- D. No, because negotiating over telephone is enough to collect information on supplier's capability

Answer: A

Explanation:

In the scenario, the value of contract as well as the importance of purchased item justify the procurement's travel. Visiting a supplier at their HQ or operational facility may facilitate the procurement team in assessing, albeit briefly, the culture of the organisation, how

busy they seem and how staff engage with each other. A visit is a good opportunity to assess supplier's capacity.
LO 2, AC 2.2

NEW QUESTION # 91

What are the potential sources of conflict between the buyer and supplier? Select TWO that apply.

- A. Unequal sharing of gains, risks and costs with the supplier
- B. Planning scheduled visits to the supplier site
- C. Requesting early supplier involvement
- D. Persistent late payment of the supplier's invoices
- E. Scheduling agreed supplier delivery dates

Answer: A,D

Explanation:

Late payments damage trust and strain supplier cash flow, becoming a direct source of conflict. Similarly, when gains, risks, or costs are not equitably shared, perceptions of unfairness can destabilize the relationship.

"Persistent late payments not only threaten supplier cash flows but can significantly erode trust. Additionally, disproportionate sharing of risks or benefits can create resentment and hinder collaboration." (L4M5 Commercial Negotiation, 2nd edition, Section 1.3 - Causes and Management of Conflict in Procurement)

NEW QUESTION # 92

Which of the following are most likely to be sources of conflict that can emerge from the content of commercial negotiations? Select TWO that apply.

- A. Requisition
- B. Framework arrangement
- C. Payment terms
- D. Contract governing law
- E. Cultural differences

Answer: C,D

Explanation:

There are multiple sources of divergent positions that can arise in situations where money is exchanged for goods and services. There are 2 different types of sources. Those that arise from the content or subject matter of the negotiation (what is being negotiated) and those that arise from the process of negotiation (how it is being negotiated).

Sources of divergent position - the content of negotiation:

Table Description automatically generated

Cultural differences are the source of conflict in the process of negotiation.

Requisition is an internal document raised by user or store to communicate to procurement the need to buy the product or service specified. This is merely an internal document.

Framework arrangement is a rather loose set-up, without any legal standing. It usually occurs when an organisation has decided for itself to limit the number of suppliers it is willing to work with and, through a purely internal process, sets up an approved list of such suppliers.

LO 1, AC 1.1

NEW QUESTION # 93

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