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Question 1: Correct  
Distributive approach in negotiation is typified by which of the following?

- ☐ Both parties share 50:50 of the 'pie'
- ☐ Distributive approaches are inherently inferior to integrative approaches in commercial negotiation
- ☒ Each party attempts to maximise the value obtained at other's expense
- ☐ Both parties understand each other's goals

**Explanation**  
Distributive approach to negotiation used when the interested parties are attempting to divide something up or distribute something of value, also known as zero-sum approach or win-lose. Commercial situations often demand a distributive bargaining approach, if the 'pie' is inherently of a fixed size. In this case, any conflicts must be resolved by sharing it.

In win-lose approach, a negotiator wants to maximise the value obtained in a single deal, the relationship with the other party is not important. Therefore, a strong party may win more than 50% of the metaphorical 'pie'.

It should not be assumed that win-win can be applied to all commercial negotiations, or that win-lose approaches are inherently inferior.

LO 1, AC 1.2

Question 2: Correct  
Which of the following is the first step in the development of negotiation strategies?

- ☐ Developing scenarios around possible options
- ☐ Determining your BATNA
- ☐ Recognising TOP's needs and wants
- ☒ Defining overarching objectives

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CIPS L4M5: Commercial Negotiation exam is designed to prepare candidates for effective negotiation practices in the purchasing industry. L4M5 Exam assesses a candidate's ability to identify key factors in a negotiation process, interpret and apply negotiation theories, and employ negotiation strategies. Candidates will be required to showcase their understanding of informed decision-making, developing and maintaining relationships, and the management of the negotiation process.

## CIPS Commercial Negotiation Sample Questions (Q23-Q28):

### NEW QUESTION # 23

When is the best time for buyer to propose the negotiation agenda to potential supplier?

- A. At conclusion stage
- **B. At preparation stage**
- C. At testing stage
- D. At opening stage

**Answer: B**

Explanation:

A business negotiation agenda is a formal agreed upon list of goals to be achieved or items to be discussed in a particular order during a meeting or negotiation. Agendas can be formal and obvious, or informal and subtle in negotiations.

The agenda is one of the main structural elements of negotiation, in addition to such questions as site, identification of participants, and elements of timing. Together, they answer the who, what, when, and where questions. As with other aspects of negotiation, the agenda can be used either manipulatively to enhance leverage or to improve the prospects for agreement and the possibilities for mutual gain. In most cases, it will be used both ways, reflecting the nature of negotiation as a "mixed-motive" situation.

Although it can be instrumental to [research] volunteer as a sole source to write the agenda, in most cases it becomes a joint activity to construct a consensual basis for subsequent negotiation. In these situations, agenda-building becomes one of the pre-negotiation activities that set the tone for the relationship (Saunders, 1985). In other situations, the parties may engage in actual negotiation without a formal or written agenda. When this occurs, the risks and uncertainties may be high but the party who appreciates the importance of the informal agenda has a tremendous advantage. Whether one plans it or not, during the course of negotiation the parties will discuss a finite set of issues in some sequence and from a particular perceptual framework. Consciousness of the universality and centrality of the agenda is prerequisite to guiding negotiation to a successful conclusion.

### NEW QUESTION # 24

XYZ Ltd needs to purchase a bundle of IT products from suppliers. The procurement manager requests details of costs regarding designing and managing those products. After receiving reports from suppliers, she realises that they have charged up to a 1,095% mark-up on IT products. In order to ensure value for money, which of the following should be a priority pricing arrangement of the procurement manager in the negotiation with these IT suppliers?

- A. Market skimming
- B. Market penetration pricing
- **C. Cost plus arrangement**
- D. Premium pricing

**Answer: C**

Explanation:

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In the scenario, the main cost driver is suppliers' mark-up. The priority should be limit the margin to be added.

XYZ Ltd can agree "cost plus" contracts with their suppliers to ensure no IT product purchased exceeds an agreed maximum margin level. Procurement teams can use their benchmarking tools to police these contracts.

Cost plus contracts are agreements where the contractor's pricing is based on itemising allowable costs and then adding an agreed margin.

Market penetration pricing - pricing low to win a large share of the market Market skimming - pricing a new product high in order to make a large profit from the purchases by initial customers. This is an effective strategy only in the absence of competition. When competition appears, market skimmers usually drop their prices Premium pricing - usually pricing high because the market is

prepared to pay extra for the kudos associated with the product, thanks to, say, a reputation for quality, or a highly fashionable brand name, and so on

#### NEW QUESTION # 25

Which of the following should be done when undertaking a reflection activity on negotiation? Select TWO that apply.

- A. Gloss over areas where you need to improve your skills or performance
- **B. Identify areas in your skill set where you need to improve**
- C. Use generalised or ambiguous language when describing your strengths and development areas
- **D. Be honest and objective about your skills**
- E. Be overly modest about your contribution to the outcomes of negotiation

**Answer: B,D**

Explanation:

Giving positive group and individual feedback is easy, as is self-congratulation and, in many cases, it is hoped, this will be an accurate reflection on actual performance. When it comes to developmental or difficult feedback, it is only natural to want to move on and not reflect on the negative or developmental points, or why a negotiation did not achieve its objectives. But this is a mistake. The best learning opportunities come from reflection on what could be done better, and this can be achieved without blame, threat or condemnation.

Everyone and every team will make mistakes and/or have areas where they could have improved. Clearly, if every reflection session concludes that an individual or team keeps making the same mistake, then there is a case to change roles or consider alternative approaches.

About Dos and Don'ts of reflection, you can refer here:

<https://offices.depaul.edu/human-resources/employee-relations/Documents/Self%20Assesment.pdf>

#### NEW QUESTION # 26

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

- A. Buyers purchase in small volumes
- **B. JCB's switching costs are low**
- C. Eruption of epidemic in supply market
- D. Suppliers are more concentrated than buyer
- **E. These components are highly standardised**

**Answer: B,E**

Explanation:

Explanation

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:



Diagram Description automatically generated

- 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

### NEW QUESTION # 27

All of the following shift the supply of watches to the right except...?

- A. Manufacturers' expectation of higher watch prices in the future
- B. A decrease in the wage of workers employed to manufacture watches
- C. An increase in the price of watches
- D. An advance in the technology used to manufacture watches

**Answer: C**

Explanation:

A supply curve will slope upward from left to right showing more supply at higher prices, as illustrated in the graph below:

A movement along the supply curve will be brought about by a change in price, but a shift of the whole curve will be caused by a determinant other than price:

- The physical feasibility and time and energy required to produce the products
- Technology and innovation
- The objectives of the producers and their future expectations
- Prices of other goods and services
- Government's policies

LO 2, AC 2.2

### NEW QUESTION # 28

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