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CIPS L4M1 - Question & Answer Past exam questions

O1. Outline FIVE differences between purchasing goods and purchasing services. - correct answer 1. Goods are tangible, services are intangible:

2. Services cannot be separated from their supplier:

3. Heterogeneity: goods are usually uniform in nature while services are unique at each delivery

4. Services 'perish' immediately on delivery whereas goods can be stored until required

5. Products are easier to specify, being tangible

O2. Explain THREE circumstances in which a competitive tendering exercise might not be the best approach to making a purchase. - correct answer 1. Urgency

2. Commercial confidentiality or national security (e.g. military organisations):

3. Value of the purchase:

4. Production costs cannot be measured accurately:

5. Price is not the only criterion for supplier selection and contract award

6. Intellectual Property Rights and monopoly

O2. Describe TWO e-sourcing tools and their use in procurement and supply. - correct answer 1. E-Catalogues

2. E-Tendering

3. E. Auction

4. Reverse Auctions

5. Online suppleir evaluation data

O3. Explain the role of a shared services unit (SSU). - correct answer SSUs reflect a desire to centralise and share services

The shared service provider becomes a dedicated provider of services such as; finance, HR, IT and procurement which continue to be provided internally

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CIPS L6M2 Exam Syllabus Topics:

Topic	Details
Topic 1	• Understand and apply tools and techniques to address the challenges of global supply chains: This section targets Supply Chain Analysts and covers methods for analyzing global supply chains, such as STEEPLED analysis, benchmarking, and performance metrics. It also evaluates regulatory influences, including import • export controls, tariffs, and employment regulations like equality, health, and safety. A critical skill assessed is applying STEEPLED analysis to supply chain challenges.

Topic 2	• Understand financial aspects that affect procurement and supply: This section measures the skills of Financial Analysts in assessing how costs, funding, and economic objectives impact supply chains. It includes managing currency volatility through exchange rate instruments like forwards or derivatives and addressing commodity price fluctuations using futures or hedging. A critical skill assessed is managing financial risks in global supply chains effectively.
Topic 3	• Understand strategy formulation and implementation: This section evaluates the skills of Strategic Planners in understanding how corporate and business strategies impact supply chains. It covers strategic directions, diversification, portfolio matrices, and methods for pursuing strategies like mergers or alliances. It also examines aligning supply chains with organizational structures and managing resources like people, technology, and finance. A key skill measured is implementing strategies under uncertain conditions.
Topic 4	• Understand and apply the concept of commercial global strategy in organizations: This section measures the skills of Global Strategy Analysts and focuses on evaluating the characteristics of strategic decisions in organizations. It includes understanding strategic versus operational management, strategic choices, and the vocabulary of strategy. A key skill measured is effectively differentiating between strategic and operational management.

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CIPS Global Commercial Strategy Sample Questions (Q33-Q38):

NEW QUESTION # 33
SIMULATION
Explain the characteristics of strategic decisions. At what level of a business are strategic decisions made and why?

Answer:

Explanation:
Characteristics of Strategic Decisions
Strategic decisions are long-term, high-impact choices that shape a company's future direction. These decisions differ from operational and tactical decisions in several key ways:
Long-Term Focus - Strategic decisions determine the future direction of a business, often spanning several years.
Example: A company deciding to expand into international markets.
Significant Impact - They affect the entire organization, influencing growth, profitability, and market positioning.
Example: A shift from a brick-and-mortar retail model to an e-commerce-based approach.
Resource Intensive - They require large financial, human, and technological resources to implement.
Example: Investing in AI-driven supply chain automation.
High Risk and Uncertainty - These decisions involve considerable risks due to market changes, competition, and external factors.
Example: Entering an emerging market with regulatory and political risks.
Difficult to Reverse - Strategic decisions are not easily changed without significant costs or consequences.
Example: Mergers and acquisitions require extensive planning and are challenging to undo.
Cross-Functional Involvement - They require input from multiple departments (finance, marketing, operations, IT).
Example: A new product launch involves R&D, marketing, supply chain, and finance teams.
Aimed at Gaining Competitive Advantage - The goal is to improve the company's market position and long-term success.
Example: Tesla's focus on electric vehicle technology and charging infrastructure.
At What Level Are Strategic Decisions Made?
Strategic decisions are made at the corporate and business levels, typically by senior management and executives. The three levels of decision-making in a company are:
1. Corporate-Level Decisions (Top Management)

Made by the CEO, Board of Directors, and Senior Executives.
Concerned with the overall direction of the company.
Focuses on long-term objectives, market expansion, mergers & acquisitions.
Example: Amazon's decision to acquire Whole Foods to expand into the grocery industry.
2. Business-Level Decisions (Middle Management)
Made by Divisional Heads, Business Unit Managers, and Senior Functional Leaders.
Focuses on how to compete effectively within a specific industry or market.
Covers areas such as pricing, product differentiation, and operational efficiency.
Example: Netflix shifting from a DVD rental business to a streaming service.
3. Functional-Level Decisions (Operational Managers)
Made by Department Heads, Operational Managers, and Team Leaders.
Concerned with day-to-day implementation of strategic and business-level plans.
Focuses on efficiency, productivity, and execution of company strategy.
Example: A supply chain manager optimizing inventory levels to reduce costs.
Why Are Strategic Decisions Made at the Corporate and Business Levels?
Require Vision and Expertise - Senior executives have the big-picture perspective needed for long-term planning.
Affect the Entire Organization - These decisions impact multiple departments, requiring cross-functional coordination.
High-Risk and Costly - Strategic choices involve financial investments, brand reputation, and market positioning.
Long-Term Focus - Corporate-level leaders ensure that decisions align with the company's mission, vision, and goals.
Conclusion
Strategic decisions shape the company's future, requiring careful planning, significant investment, and risk assessment. They are made at the corporate and business levels because they impact the entire organization, require expert leadership, and have long-term consequences.

NEW QUESTION # 34
SIMULATION
XYZ is a construction firm which builds houses in Birmingham. Discuss a tool that it can use to assess the remote environment and discuss a tool it can use to evaluate the operating environment.

Answer:

Explanation:
Environmental Analysis Tools for XYZ Construction Firm
To make strategic decisions, XYZ Construction needs to assess both the remote environment (external macro factors) and the operating environment (industry-specific and competitive factors). Two widely used tools for these assessments are:
PESTLE Analysis - for analyzing the remote environment
Porter's Five Forces - for evaluating the operating environment
1. Assessing the Remote Environment: PESTLE Analysis
Tool: PESTLE Analysis helps organizations evaluate macro-environmental factors that impact long-term business strategy.
Why use PESTLE?
It identifies external influences (political, economic, social, technological, legal, and environmental) that XYZ cannot control but must respond to.
PESTLE Analysis for XYZ Construction:

Factor	Impact on XYZ Construction
Political	Government policies on housing, Brexit trade agreements, infrastructure spending
Economic	Interest rates affecting mortgage demand, inflation increasing material costs
Social	Population growth, housing demand, urbanization trends
Technological	Smart home innovations, AI-driven construction management
Legal	Building regulations, safety laws, labor laws
Environmental	Sustainability requirements, climate change effects on construction

Example: If the UK government introduces new housing grants, XYZ may expand operations to capitalize on increased demand.
2. Evaluating the Operating Environment: Porter's Five Forces
Tool: Porter's Five Forces helps XYZ analyze industry-specific competition and market dynamics.
Why use Porter's Five Forces?
It helps assess competitive pressures that impact XYZ's profitability and positioning.
Porter's Five Forces Analysis for XYZ Construction:

Force	Impact on XYZ Construction
Threat of New Entrants	Medium – High capital investment required, but new firms can still enter with funding
Bargaining Power of Suppliers	High – Limited supply of skilled labor and fluctuating material costs (e.g., steel, timber)
Bargaining Power of Buyers	Medium – Homebuyers have alternatives but government schemes influence demand
Threat of Substitutes	Low – Limited substitutes for housing, but prefabricated homes are growing
Industry Rivalry	High – Many construction firms compete for contracts and government projects

Example: If supplier power is high due to rising material costs, XYZ must negotiate better contracts or explore alternative suppliers.
Conclusion
- PESTLE Analysis helps XYZ understand the external environment affecting the construction industry.
- Porter's Five Forces enables XYZ to evaluate industry competition and make informed strategic choices.

NEW QUESTION # 35
SIMULATION
Evaluate the following approaches to strategy formation: intended strategy and emergent strategy

Answer:

Explanation:
Evaluation of Intended Strategy vs. Emergent Strategy
Introduction
Strategy formation is a critical process that determines how businesses achieve their objectives. Two contrasting approaches exist:
Intended Strategy - A deliberate, planned approach, where management defines a clear course of action.
Emergent Strategy - A flexible, adaptive approach, where strategy evolves in response to external changes.
Both approaches have advantages and constraints, and organizations often combine both to maintain strategic direction while adapting to market uncertainties.
1. Intended Strategy(Planned Approach to Strategy Formation)
Definition
An intended strategy is a structured, pre-planned approach where an organization sets long-term goals and develops a roadmap to achieve them.
- Key Characteristics:
Clearly defined mission, vision, and objectives.
Top-down decision-making with structured implementation plans.
Focus on forecasting, market research, and competitor analysis.
Example:
McDonald's follows an intended strategy by expanding its franchise model using structured business plans and operational guidelines.
Advantages of Intended Strategy
✔ Provides a clear vision and direction - Ensures all departments align with corporate goals.
✔ Supports long-term resource allocation - Helps in budgeting and investment planning.
✔ Enhances risk management - Allows organizations to prepare for potential challenges.
✔ Ensures consistency - Ideal for stable industries with predictable market conditions.
Constraints of Intended Strategy
- Inflexible in dynamic markets - Struggles with unforeseen changes (e.g., economic crises, technology shifts).
- Can lead to missed opportunities - Focuses on execution rather than adaptation.
- Slow response time - Delays decision-making in fast-changing industries.
Key Takeaway: Intended strategy works best in stable environments where long-term planning can be executed without major disruptions.
2. Emergent Strategy(Flexible & Adaptive Approach to Strategy Formation) Definition An emergent strategy is a responsive, flexible approach where businesses adapt their strategies based on real-time changes in the market.
- Key Characteristics:

Strategy emerges from trial and error, experimentation, and learning.
Encourages bottom-up decision-making, allowing employees to contribute.
Focuses on short-term flexibility and continuous adjustments.
Example:
Amazon's move into cloud computing (AWS) was an emergent strategy, as it originally started as an online bookstore but adapted to market opportunities.
Advantages of Emergent Strategy
✔ Highly adaptable - Allows businesses to pivot in response to market shifts.
✔ Encourages innovation and experimentation - Promotes new ideas and flexible problem-solving.
✔ Reduces risk of failure - Companies can adjust strategies before fully committing to large-scale investments.
✔ Works well in unpredictable environments - Essential for industries like technology, fashion, and e-commerce.
Constraints of Emergent Strategy
□ Lack of clear direction - Can create confusion in organizations with no defined strategic goals.
□ Resource inefficiency - Constant adjustments may lead to wasted time and investment.
□ Difficult to scale - Unstructured decision-making can cause inconsistencies.
Key Takeaway: Emergent strategy is ideal for fast-changing industries where adaptability is more valuable than rigid planning.
3. Comparison: Intended Strategy vs. Emergent Strategy

Factor	Intended Strategy	Emergent Strategy
Approach	Pre-planned, structured strategy.	Flexible, evolving strategy.
Decision-Making	Top-down (executives decide).	Bottom-up (employees & market forces influence).
Response to Change	Slow & rigid – Focuses on execution.	Fast & adaptive – Adjusts to market conditions.
Best Used In	Stable environments with predictable trends.	Dynamic markets where uncertainty is high.
Example	Coca-Cola's long-term global expansion plan.	Netflix's shift from DVD rentals to streaming.

Key Takeaway: Most successful organizations blend both approaches, using intended strategy for stability and emergent strategy for adaptability.
4. Conclusion
Both intended and emergent strategies have strengths and weaknesses.
□ Intended strategy is best for structured, long-term growth in stable industries.
□ Emergent strategy allows for rapid adaptation in volatile markets.
□ Most businesses use a combination of both approaches, balancing planning with flexibility.
By integrating intended and emergent strategies, organizations can maintain stability while responding effectively to market changes.

NEW QUESTION # 36
SIMULATION
Discuss the following strategic decisions, explaining the advantages and constraints of each: Market Penetration, Product Development and Market Development.

Answer:

Explanation:
Evaluation of Strategic Decisions: Market Penetration, Product Development, and Market Development Introduction Strategic decisions in business involve selecting the best approach to grow market share, increase revenue, and sustain competitive advantage.
According to Ansoff's Growth Matrix, businesses can pursue four strategic directions:
Market Penetration (expanding sales in existing markets with existing products) Product Development (introducing new products to existing markets) Market Development (expanding into new markets with existing products) Diversification (introducing new products to new markets) This answer focuses on Market Penetration, Product Development, and Market Development, discussing their advantages and constraints.
1. Market Penetration (Increasing sales of existing products in existing markets) Explanation:
Market penetration involves increasing market share by:
□ Encouraging existing customers to buy more.
□ Attracting competitors' customers.
□ Increasing promotional efforts.
□ Improving pricing strategies.
Example: Coca-Cola uses aggressive marketing, promotions, and pricing strategies to increase sales in existing markets.

Advantages of Market Penetration
✔ Low Risk - No need for new product development.
✔ Cost-Effective - Uses existing infrastructure and supply chain.
✔ Builds Market Leadership - Strengthens brand loyalty and customer retention.
✔ Quick Revenue Growth - Increased sales generate higher profits.
Constraints of Market Penetration
 Market Saturation - Limited growth potential if the market is already saturated.
 Intense Competition - Competitors may retaliate with price cuts and promotions.
 Diminishing Returns - Lowering prices to attract customers can reduce profitability.
Strategic Consideration: Businesses should assess customer demand and competitive intensity before implementing a market penetration strategy.
2. Product Development (Introducing new products to existing markets)
Explanation:
Product development involves launching new or improved products to meet evolving customer needs. This can include:
 Innovation - Developing new features or technology.
 Product Line Extensions - Introducing variations (e.g., new flavors, models, packaging).
 Customization - Tailoring products to specific customer preferences.
Example: Apple frequently launches new iPhone models to attract existing customers.
Advantages of Product Development
✔ Higher Customer Retention - Keeps existing customers engaged with new offerings.
✔ Brand Differentiation - Strengthens competitive advantage through innovation.
✔ Increases Revenue Streams - Expands product portfolio and market opportunities.
Constraints of Product Development
 High R&D Costs - Requires investment in innovation and testing.
 Market Uncertainty - New products may fail if not aligned with customer needs.
 Risk of Cannibalization - New products may reduce sales of existing products.
Strategic Consideration: Businesses should conduct market research, prototyping, and feasibility analysis before launching new products.
3. Market Development (Expanding into new markets with existing products) Explanation:
Market development involves selling existing products in new geographical areas or customer segments. Strategies include:
 Expanding into international markets.
 Targeting new demographics (e.g., different age groups or industries).
 Entering new distribution channels (e.g., e-commerce, retail stores).
Example: McDonald's expands into new countries, adapting its menu to local preferences.
Advantages of Market Development
✔ Access to New Revenue Streams - Increases customer base and sales.
✔ Diversifies Market Risk - Reduces dependency on a single region.
✔ Leverages Existing Products - No need for costly product innovation.
Constraints of Market Development
 Cultural and Regulatory Barriers - Differences in consumer behavior, legal requirements, and competition.
 High Entry Costs - Requires investment in marketing, distribution, and local partnerships.
 Operational Challenges - Managing supply chains and logistics in new markets.
Strategic Consideration: Businesses should conduct market analysis and risk assessments before expanding internationally.
Conclusion
Each strategic decision has unique benefits and challenges:
 Market Penetration is low-risk but limited by market saturation.
 Product Development drives innovation but requires high investment.
 Market Development expands revenue streams but involves cultural and regulatory challenges.
The best approach depends on a company's competitive position, financial resources, and long-term growth objectives.

NEW QUESTION # 37
SIMULATION
Organisations in the private sector often need to make decisions regarding financing, investment and dividends. Discuss factors that affect these decisions.

Answer:

Explanation:
Factors Affecting Financing, Investment, and Dividend Decisions in Private Sector Organizations Introduction Private sector organizations must carefully balance financing, investment, and dividend decisions to ensure financial stability, profitability, and

shareholder satisfaction. These decisions are influenced by internal financial health, external economic conditions, market competition, and regulatory requirements.
This answer examines the key factors affecting financing, investment, and dividend policies in private sector companies.
1. Factors Affecting Financing Decisions (How Companies Raise Capital?) Financing decisions determine how businesses fund operations, expansion, and debt repayment.
1.1 Cost of Capital (Debt vs. Equity Considerations)
Why It Matters?
Companies choose between debt financing (bank loans, bonds) and equity financing (selling shares) based on the cost of capital.
Higher interest rates make debt financing expensive, while equity financing dilutes ownership.
Example:
A startup may prefer equity financing to avoid immediate debt repayments.
A profitable company may use debt due to tax advantages on interest payments.
Key Takeaway: Companies aim to minimize capital costs while maintaining financial flexibility.
1.2 Company's Creditworthiness & Risk Tolerance
Why It Matters?
Stronger credit ratings allow companies to secure loans at lower interest rates.
Riskier businesses may struggle to secure financing or face high borrowing costs.
Example:
Apple can easily issue corporate bonds due to its strong financial position.
A high-risk startup may have to offer higher interest rates on its debt.
Key Takeaway: Financially stable firms have more funding options at lower costs.
1.3 Economic Conditions (Market Trends & Inflation)
Why It Matters?
In economic downturns, companies avoid excessive borrowing.
Inflation and interest rate hikes increase financing costs.
Example:
During recessions, companies reduce borrowing to avoid high debt risks.
In a booming economy, firms take loans to expand production and capture market share.
Key Takeaway: Businesses adjust financing strategies based on economic stability and interest rates.
2. Factors Affecting Investment Decisions (Where and How Companies Invest Capital?)
2.1 Expected Return on Investment (ROI)
Why It Matters?
Companies evaluate potential profits from investments before committing capital.
High-ROI projects are prioritized, while low-ROI investments are avoided.
Example:
Tesla invests in battery technology due to high future demand.
A retail chain avoids investing in struggling markets with low profitability.
Key Takeaway: Businesses prioritize high-return investments that align with strategic goals.
2.2 Risk Assessment & Diversification
Why It Matters?
Companies assess market, operational, and financial risks before investing.
Diversification reduces reliance on a single revenue source.
Example:
Amazon diversified into cloud computing (AWS) to reduce dependence on e-commerce sales.
Oil companies invest in renewable energy to hedge against declining fossil fuel demand.
Key Takeaway: Investment decisions focus on balancing risk and opportunity.
2.3 Availability of Internal Funds vs. External Borrowing
Why It Matters?
Companies use retained earnings when available to avoid debt costs.
When internal funds are insufficient, they borrow or raise equity capital.
Example:
Google reinvests profits into AI and software development instead of taking loans.
A new airline expansion may require debt financing for aircraft purchases.
Key Takeaway: Investment decisions depend on fund availability and cost considerations.
3. Factors Affecting Dividend Decisions (How Companies Distribute Profits to Shareholders?)
3.1 Profitability & Cash Flow Stability
Why It Matters?
Profitable companies pay higher dividends, while struggling firms reduce payouts.
Strong cash flow ensures consistent dividend payments.
Example:
Microsoft pays regular dividends due to its steady revenue stream.

A startup reinvests all profits into business growth instead of paying dividends.
Key Takeaway: Only profitable, cash-rich companies sustain high dividend payouts.
3.2 Growth vs. Payout Trade-Off
□ Why It Matters?
High-growth firms reinvest profits for expansion instead of paying high dividends.
Mature companies with stable profits focus on rewarding shareholders.
Example:
Amazon reinvests heavily in logistics and AI rather than paying high dividends.
Coca-Cola pays consistent dividends as its industry growth is slower.
Key Takeaway: Companies balance growth investment and shareholder returns.
3.3 Shareholder Expectations & Market Perception
□ Why It Matters?
Investors expect dividends, especially in blue-chip and income-focused stocks.
Sudden dividend cuts can signal financial trouble, affecting share prices.
Example:
Unilever maintains stable dividends to attract income-focused investors.
Tesla does not pay dividends, focusing on long-term growth and innovation.
Key Takeaway: Dividend policies affect investor confidence and stock valuation.
4. Summary: Key Factors Influencing Financial Decisions

Decision Type	Key Factors	Examples
Financing Decisions	Cost of capital, credit rating, economic conditions	Apple issuing bonds, startups using equity funding
Investment Decisions	ROI, risk diversification, internal vs. external funding	Amazon investing in AWS, oil firms moving into renewables
Dividend Decisions	Profitability, growth priorities, investor expectations	Microsoft's regular dividends vs. Tesla's reinvestment

Key Takeaway: Companies balance financing, investment, and dividend decisions based on profitability, risk assessment, and market conditions.
5. Conclusion
Private sector companies make strategic financial decisions by evaluating:
□ Financing Needs: Debt vs. equity, cost of borrowing, and risk management.
□ Investment Priorities: Expected ROI, business growth, and market opportunities.
□ Dividend Strategy: Balancing shareholder returns and reinvestment for growth.
Understanding these factors helps businesses maximize financial performance, shareholder value, and long-term sustainability.

NEW QUESTION # 38
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