

CIPS

*L4M5
Commercial Negotiation*



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Question: 1

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. Spend tree
- D. Addressable spend

Answer: D

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

Question: 2

According French and Raven's base model, which of the following are sources of personal power that can be used in commercial negotiation? Select THREE that apply.

- A. Purchasing spend power
- B. Expert power
- C. Competitive power
- D. Trademark power
- E. Coercive power
- F. Legitimate power

Answer: B, E, F

Question: 3

When implementing value analysis or value engineering, which of the following acronyms reminds both buyer and supplier of ideas on removal, substitution and design-out of cost elements?

- A. SMART
- B. STOPS WASTE
- C. OWN-IT
- D. SAMOA

Answer: B

Explanation:

Ray Carter coined the mnemonic STOPS WASTE to remind buyers of 10 cost-reduction ideas they can ask for themselves and their suppliers in any situation when considering a key purchase input. Stop Waste by:

Standardisation - is there a standard specification?

Transportation - is the inbound transport classification appropriate Over-engineered - is the specification too tight?

Packaging - can packaging be reduced or eliminated? Substitutes - is there a cheaper substitute material

Weight - is there opportunity to reduce weight of the product?.

Any unnecessary processing - is there any unnecessary design or feature? Supplier's input - are suppliers able to assist with the cost reduction

To make - is it more economical to make or buy? Eliminate - if no one uses the feature, can it be eliminated?

SAMOA is a useful acronym for checking and testing the information gathered from the Internet:

Source

Audience

Methodology

Objectivity

Accuracy

OWN-IT is acronym for 5 steps in the process of collecting and analysing the data and information needed in any field:

Outline

Wide search

Narrow search

Increase your stockpile of information

Transform your stockpile into new knowledge

A SMART goal is used to help guide goal setting. SMART is an acronym that stands for Specific, Measurable, Achievable, Realistic, and Time-bound.

Question: 4

Which of the following is the process enabling the buyer to share with the supplier their purposes and needs to focus on some specific areas such as quality, cost, social and environmental standards, etc in the supplier's bids?

- A. Supplier selection
- B. Supply positioning
- C. Supplier appraisal

D. Supplier conditioning

Answer: D

Explanation:

Supplier conditioning is the process of influencing a supplier or suppliers to behave in a certain way, or to accept certain circumstances. Within a negotiation, the buyer needs to make sure that the supplier has a number of messages in mind, about the outcomes that the buyer needs to achieve and about the shared sense of purpose that buying organisation has in achieving these outcomes.

Supplier appraisal is a process of evaluating a supplier's ability to carry out a contract in term of quality, delivery, price and other contributing factors.

Supplier positioning is the process of classifying spend with a supplier in terms of the profit potential and supply risk and assists in prioritising categories of spend and developing the right strategy.

Supplier selection is the process of selecting a supplier to acquire the necessary materials to support the outputs of organisations. Selection of the best and/or the most suitable suppliers is based on assessing supplier capabilities (Shih et al., 2004).

Question: 5

Which of the following are most likely to harm trust between buyer and supplier in a commercial relationship? Select TWO that apply.

- A. Avoidance of submitting important documentations
- B. Reduced response time during contract performance
- C. Resolving some conditions that would otherwise have them competing for resources
- D. Subjective assessment of performance
- E. Exploring a disagreement to learn from each other's insights

Answer: A, D

Explanation:

Trust-destroying behaviours:

- Rumours of partnership or relationship breaking down
- Emotion-based assessment of performance
- Avoiding accountability, passing the blame to others

General mood – resentment, distrust, frustration, etc LO 1, AC 1.4

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