PassQueen
a.k.a dumpsqueen.com

Commercial Negotiation

CIPS L4M5

Version Demo

Total Demo Questions: 50

Total Premium Questions: 506

Buy Premium PDF

Topic Break Down

Topic	No. of Questions
Topic 1, Understand key approaches and strategies in the negotiation process	157
Topic 2, Understand how to prepare for negotiations	160
Topic 3, Understand how to manage negotiations	140
Topic 4, Understand how to develop commercial agreements	35
Topic 5, Mix Questions	14
Total	506

QUESTION NO: 1

Which of the following are most likely to be fixed costs of an airline? Select TWO that apply.

A. Purchase of aircraft

B. Catering services

C. Advertising and promotion

D. Flight crew training

E. Fuel

ANSWER: A D

Explanation:

Purchase of aircraft and **Flight crew training** are the most likely fixed costs in this airline scenario. An aircraft purchase is primarily a capital investment rather than a routine operating expense; however, once the aircraft is acquired, the associated committed cost base—such as depreciation, financing commitments, insurance, and ownership-related charges—does not change directly with the number of passengers carried or flights operated in the short term. It is therefore treated as fixed for cost-behaviour and pricing analysis.

Flight crew training is also generally a committed, capacity-supporting cost. Airlines must train and certify pilots and relevant crew before they can operate particular aircraft types and meet safety and regulatory requirements. This expenditure is normally incurred to establish or maintain operational capability over a period, rather than being driven directly by the number of individual passenger journeys sold. In negotiation and commercial cost analysis, identifying these committed costs helps distinguish the supplier's short-run cost base from costs that move directly with output or activity. Cost behaviour is commonly assessed according to whether total cost changes as the relevant activity level changes; see OpenStax's explanation of fixed and variable costs and the UK Civil Aviation Authority's airline regulatory guidance.

QUESTION NO: 2

Which of the following are appropriate responses when a supplier uses an extreme opening price as an anchor? Select TWO that apply.

A. Accept the figure immediately to demonstrate goodwill

B. Request evidence supporting the proposed price

C. Restate the buyer's position using relevant market or cost information

D. Make a substantial unplanned concession

E. Ignore all cost and market information

ANSWER: B C

Explanation:

Request evidence supporting the proposed price and **restate the buyer's position using relevant market or cost information** are appropriate responses. An extreme opening offer may influence subsequent discussion if it becomes the reference point for bargaining. The buyer should avoid accepting the anchor uncritically and instead assess it against objective evidence such as benchmarks, cost drivers, demand forecasts and alternative supply options.

Requesting supporting evidence tests whether the supplier's figure is commercially justified. Providing a well-prepared counter-position, supported by relevant data, helps establish a more realistic reference point. Immediate acceptance or making an unplanned large concession would strengthen the supplier's anchor and may undermine the buyer's negotiating position. Anchoring is a recognised negotiation technique that needs careful preparation and response. See the Harvard Program on Negotiation: Anchoring in Negotiations.

QUESTION NO: 3

When planning an international negotiation, which divergent positions may create potential conflict? Select TWO.

A. Team size

B. Team make-up

C. Cultural differences

D. Timing and location

E. How the negotiation is closed out

ANSWER: C D

Explanation:

Cultural differences and **Timing and location** are the key divergent positions that can create conflict in an international negotiation. Culture shapes expectations about communication, hierarchy, relationship-building, authority, acceptable concessions, and the pace at which decisions are made. For example, parties may differ in whether they expect direct discussion, consensus before commitment, or detailed relationship development before commercial issues are addressed. Identifying these differences during planning enables the negotiating team to adapt its approach, use appropriate communication support, and avoid interpreting culturally different behaviour as a lack of commitment.

Timing and location can also affect both the practical conduct of the negotiation and the perceived balance of power. Time-zone differences influence availability and response times, while the meeting venue may affect travel burden, access to decision-makers, local customs, and which party has greater familiarity and support. Scheduling must also account for national holidays, working-week patterns, and the time required for internal approvals. Careful advance planning of these cultural and logistical factors helps establish a fair, workable process and reduces avoidable tension. CIPS highlights the importance of considering cultural factors in global procurement practice; see CIPS global sourcing guidance. Useful international commercial context is also available from the International Chamber of Commerce.

QUESTION NO: 4

Which of the following will positively affect reputational strength of an organisation? Select

TWO that apply.

A. Adopting out-of-date technology

B. Weak internal coordination

C. Great gap between reputation and reality

D. High ethical standards

E. Strong customer focus

ANSWER: D E

Explanation:

High ethical standards and strong customer focus positively affect an organisation’s reputational strength. Ethical conduct builds confidence among customers, suppliers, employees, investors, regulators and the wider public. In commercial negotiations and procurement, this includes acting transparently, treating parties fairly, meeting commitments, preventing conflicts of interest and maintaining appropriate social and environmental standards. Such behaviour supports trust, which is a core element of a durable corporate reputation.

A strong customer focus also strengthens reputation because it demonstrates that the organisation understands customer needs and consistently aims to deliver value, service quality and responsive support. Organisations that listen to feedback, resolve issues effectively and design products or services around customer requirements are more likely to generate satisfaction, repeat business and positive recommendations. These outcomes reinforce how dependable and valuable the organisation is perceived to be in its market.

CIPS identifies organisational reputation as an important source of bargaining power and notes that reputation may be founded on characteristics including high ethical standards and strong customer focus. These characteristics make counterparties more willing to engage and sustain constructive commercial relationships. See CIPS guidance on ethical procurement and the ISO 26000 guidance on social responsibility.

QUESTION NO: 5

John Browne, a junior buyer for a corporation, is analysing the global supply market before undertaking negotiations and is wondering whether foreign exchange rates are important to factor into his research. Should John consider the foreign exchange rates?

A. No, exchange rates only apply to the national economy

B. No, as they only affect the bank's interest rates for loans

C. Yes, as they can affect profit and turnover

D. Yes, only if the organisation can handle foreign currencies in their accounts

ANSWER: C

Explanation:

Yes, as they can affect profit and turnover. Foreign exchange rates are a material macroeconomic consideration when a buyer is researching international supply markets and preparing for negotiation. Where a purchase, supplier input, freight charge, or other element of the supply chain is denominated in a foreign currency, a movement in the exchange rate changes the home-currency cost of supply. This can alter the buyer's total cost, the supplier's realised revenue and margin, and the affordability or profitability of the resulting sale. Currency exposure may also be present where the contract is priced in the buyer's local currency, because a supplier whose costs are incurred in another currency may include an allowance for exchange-rate risk in its quoted price. Assessing relevant currencies and likely volatility therefore helps the buyer evaluate quotations on a comparable basis, understand potential pricing movements, and consider suitable contractual protections during negotiations. The Bank of England explains how exchange rates affect the relative prices of imports and exports: What is an exchange rate?. For a practical overview of identifying and managing currency risk in international trade, see the UK government guidance at How to manage currency risk when exporting.

QUESTION NO: 6

Representatives from South African Department of Health is negotiating the price of hospital drugs with US pharmaceutical companies. Which of the following are most likely to be macro factors that influence the outcomes of the negotiation? Select TWO that apply.

A. Forward integration

B. Digitalisation of medicine

C. Order quantity

D. Regulations on health and safety
Switching costs of buyer

ANSWER: B D

Explanation:

Digitalisation of medicine is a macro-level technological influence. Developments such as electronic prescribing, digital health platforms, data-enabled treatment pathways and advanced manufacturing can affect pharmaceutical firms' cost structures, product differentiation, market access and the information available to a public-sector buyer. These wider technology trends can therefore alter relative bargaining power and the commercially realistic price or contractual terms that may be agreed.

Regulations on health and safety are also macro factors because the pharmaceutical sector operates within a highly regulated legal and political environment. Requirements concerning product approval, clinical safety, pharmacovigilance, manufacturing standards, labelling and distribution affect whether medicines can be supplied, the cost and time required to bring them to market, and the supplier's compliance obligations. For a national health department, applicable regulation can substantially shape both the available supply market and the limits within which a price negotiation occurs. CIPS's commercial-negotiation learning outcomes recognise the importance of analysing the wider business environment and external forces affecting negotiation. The World Health Organization also identifies regulation as central to assuring the quality, safety and efficacy of medical products. See CIPS Level 4 Diploma and WHO regulation and safety.

QUESTION NO: 7

Which of the following are most likely to turn buying organisation into an unattractive customer in supplier's perspective? Select TWO that apply.

A. Demands for kickback

B. Reduced paperwork in procurement processes

C. Adopting clear and concise CSR policies

D. Unclear tender award criteria

E. Using SRM technology

ANSWER: A D

Explanation:

“Demands for kickback” makes a buying organisation highly unattractive because it signals bribery, improper influence and a serious compliance risk. A supplier may face legal exposure, reputational damage, internal disciplinary consequences and exclusion from future business if it participates in such conduct. Professional procurement relationships depend on integrity, fair dealing and decisions based on legitimate commercial criteria. CIPS places ethical practice at the centre of procurement and supply activity, including avoiding corruption and maintaining transparent, responsible relationships.

“Unclear tender award criteria” also deters suppliers because they cannot assess what a successful bid requires or have confidence that evaluation will be objective and consistent. Suppliers invest significant time and cost in preparing tenders; transparent criteria enable them to make an informed bid/no-bid decision and compete on a fair basis. Clear criteria, communicated in advance and applied consistently, support equal treatment, auditability and trust in the buyer's process. These principles are reflected in international guidance on public procurement integrity and transparency. See the CIPS Global Standard for Procurement and Supply and the OECD Recommendation on Public Procurement.

QUESTION NO: 8

Which of the following are sources of legitimate (personal) power? Select THREE.

A. Position power

B. Referent power

C. Coercive power

D. Direct power

E. Assumed power

F. Influenced power

ANSWER: A B C

Explanation:

“Position power”, “Referent power”, and “Coercive power” are recognised sources of power that can affect a negotiator’s ability to influence the other party. Position power arises from the formal authority attached to an organisational role. A procurement manager, for example, may be authorised to approve a contract, commit organisational resources, or make decisions within an agreed delegation; this authority gives their negotiating position legitimacy.

Referent power is personal influence based on credibility, respect, identification, relationships, or charisma. In commercial negotiation, it can help establish trust, encourage cooperation, and make proposals more persuasive because the other party values the relationship with the negotiator.

Coercive power is influence arising from the ability to apply sanctions or impose adverse consequences, such as withdrawing business, escalating a dispute, enforcing contractual remedies, or restricting access to an opportunity. Used responsibly and within contractual, legal, and ethical limits, it can affect bargaining behaviour. These categories align with the well-established French and Raven framework of social power, discussed by OpenStax Organizational Behavior and summarised by Simply Psychology.

QUESTION NO: 9

From the principled point of view about negotiation environment, which of the following is a true statement?

A. Advantage gained from uncomfortable negotiation environment is likely to last long after the negotiation

B. The room layout can be seen as a source of tactical advantage

C. Home advantage should not be exploited to win a temporary advantage

D. There is no ideal negotiation environment in real life

ANSWER: C

Explanation:

Home advantage should not be exploited to win a temporary advantage is correct because a principled approach to commercial negotiation concentrates on resolving the substantive issue fairly, rather than manipulating the setting to pressure or improperly influence the other party. In this approach, practical arrangements such as the venue, room layout, seating, temperature, refreshments and access to facilities should support constructive dialogue and informed agreement. They should not be deliberately designed to create discomfort, imbalance or a psychological advantage for the host.

This reflects the core Fisher and Ury principled-negotiation concept of separating the people from the problem. Negotiators should deal respectfully with the individuals involved while focusing discussion on interests, objective criteria and mutually workable solutions. Using home territory as a means of securing a short-term concession risks damaging trust and the wider supplier relationship, particularly where the parties expect to negotiate or work together again. A professional host may need to make practical compromises about the environment, but should communicate these openly and seek arrangements that allow both teams to participate effectively. Further guidance on principled negotiation is available from Harvard Program on Negotiation and the CIPS qualifications framework.

QUESTION NO: 10

Which of the following are microeconomic factors? Select THREE that apply.

A. Rates of taxation

B. Availability of investors

C. Unemployment levels

D. Distribution channels

E. Rates of inflation

F. Levels of competition

ANSWER: B D F

Explanation:

Microeconomic factors operate at the level of individual firms, industries, and particular markets. **Availability of investors** is a microeconomic influence because the availability of finance affects a particular organisation's capacity to invest, expand, develop capability, or enter into commercial arrangements. It is therefore relevant to the commercial position and negotiating strength of the businesses concerned.

Distribution channels are also microeconomic because they concern the routes and intermediaries used to move goods or services to customers. Channel availability, performance, cost, and control can directly affect a supplier's route to market, service proposition, and the practical terms that can be negotiated with buyers or partners.

Levels of competition affect the number and relative strength of firms operating in a defined market. This directly shapes market power, pricing pressure, supplier choice, and the leverage available to parties in a negotiation. In procurement and supply, analysing competitive conditions helps an organisation understand its market environment and select an appropriate commercial approach.

These factors are appropriately assessed as part of the immediate market and business environment, consistent with CIPS Level 4's focus on analysing supply markets and commercial influences. See the CIPS Level 4 Diploma overview and the OECD's discussion of competition.

QUESTION NO: 11

Which of the following are factors that might shift the demand curve for a consumer good to the right?

1. Prices of complementary goods decrease

2. Price of the consumer good decreases

3. Customers' expectation of higher prices in the future

4. Consumer tastes shift toward substitute products

A. 3 and 4 only

B. 4 and 2 only

C. 1 and 3 only

D. 1 and 2 only

ANSWER: C

Explanation:

"1 and 3 only" is correct because both circumstances increase demand at every possible current price, producing a rightward shift of the demand curve. Complementary goods are consumed or used jointly, so a fall in the price of a complement makes the combined purchase less costly. For example, if printer-ink prices fall, consumers may be more willing to buy printers; demand for printers therefore rises independently of any change in the printer's own price. This is a recognised determinant of demand: the prices of related goods can alter demand for a product. The OpenStax discussion of demand explains the relationship between complementary products and demand shifts: Shifts in Demand and Supply for Goods and Services.

Customers expecting higher future prices may also buy sooner rather than delay their purchases. This increases present demand at each current price and shifts the current demand curve to the right. Expectations are therefore a non-price determinant of demand, alongside preferences, income and prices of related products. This distinction matters in commercial analysis: a change in the product's own price changes the quantity demanded along the existing curve, whereas a change in expectations or complementary-good prices changes underlying demand. The Bank of England provides an accessible overview of demand and the factors influencing spending: What is demand?.

QUESTION NO: 12

It may be more difficult to buy on a credit from supplier who locates in a country with a hyperinflation? Is this assumption true?

A. No, because supplier's bank will take risks from currency fluctuation

B. Yes, because thesupplier's currency will lose its value overtime

C. Yes, because buyer has more advantage if they make payment in their own currency

D. No, because the higher the inflation rate, the stronger the supplier's currency

ANSWER: B

Explanation:

“Yes, because thesupplier's currency will lose its value overtime” is correct. Hyperinflation causes money to lose purchasing power exceptionally quickly. Where a supplier grants trade credit, it delivers goods now but receives payment later. If the agreed price is denominated in the supplier’s domestic currency, the amount collected at the end of the credit period may buy substantially fewer inputs, wages, or replacement goods than it would have bought when the goods were supplied. The supplier therefore faces a material erosion in the real value of its receivable.

Consequently, suppliers operating in a hyperinflationary environment commonly seek to reduce that exposure by requiring advance payment, shortening payment terms, charging a higher price or finance charge, indexing the price, or agreeing settlement in a more stable currency. These measures protect working capital and preserve the real economic value of the sale, but they make credit purchasing less accessible or more costly for the buyer. For a negotiator, the key issue is not simply the invoice’s nominal amount: it is the purchasing power of the eventual payment and the allocation of inflation and currency risk between the parties. The IMF describes inflation as a sustained rise in overall prices that reduces purchasing power; hyperinflation makes this effect especially acute. See the IMF’s explanation of inflation and the IMF’s overview of hyperinflation.

QUESTION NO: 13

Apart from negotiation, which other approaches are available to a buyer to “reach an agreement”? Select THREE approaches that apply.

A. Accommodating

B. Persuasion

C. Team management

D. Problem solving

E. Psychodynamic management

F. Validation of reporting

ANSWER: A B D

Explanation:

“Accommodating”, “Persuasion”, and “Problem solving” are valid approaches a buyer can use to reach agreement without conducting a formal negotiation. Accommodating means making concessions or accepting the other party’s preferred outcome where preserving the relationship, ensuring continuity, or making timely progress is more valuable than pursuing every individual objective. It is therefore an intentional commercial choice, rather than simply giving in.

Persuasion reaches agreement through credible communication and influence. A buyer may use facts, business benefits, logical reasoning, evidence of risk, or a clear explanation of mutual value to encourage the other party to accept a proposed course of action. This is especially relevant when agreement depends on changing perceptions rather than trading concessions.

Problem solving is a collaborative approach in which the parties identify the underlying issue, explore interests and constraints, and develop a workable solution together. It supports outcomes that can meet both parties’ needs and can strengthen longer-term supplier relationships. These approaches align with the relationship, communication, and commercial-agreement capabilities developed in the CIPS Level 4 Diploma, including Commercial Negotiation. See the CIPS Level 4 Diploma and CIPS' procurement topics and skills resources.

QUESTION NO: 14

In what circumstances is the bargaining power of suppliers likely to be high, in relation to buyer power? Select THREE that apply.

A. The number of suppliers is limited

B. The demand is not urgent

C. The product the buyer requires is undifferentiated

D. The volume required is low

E. The supplier has highly specialized machinery

F. The buying firm is large in comparison to the supplier

ANSWER: A D E

Explanation:

Supplier bargaining power is high when the number of suppliers is limited, because buyers have fewer credible sources available and reduced ability to use competition, tendering, or the threat of switching to obtain concessions. A limited supply market can therefore give the available suppliers greater influence over price, delivery terms, capacity allocation, and contractual conditions.

The volume required is low also strengthens the supplier's relative position. Where a buyer represents only a small proportion of a supplier's sales or production capacity, the supplier has less commercial incentive to offer preferential pricing or invest in bespoke service. The buyer's spend is less strategically important to the supplier.

The supplier has highly specialized machinery is another source of power because specialist assets commonly support distinctive capabilities, technical know-how, and products that are difficult to replicate. Changing source may require lengthy qualification, redesign, approval, or validation work, increasing switching costs and making the buyer more dependent on the supplier. These factors align with Porter's supplier-power assessment, which considers supplier concentration, differentiation, and switching costs. See Harvard Business School's overview of the Five Forces and CIPS guidance on Porter's Five Forces.

QUESTION NO: 15

Cost and price analysis is very important for buyers when they are preparing for a negotiation with supplier. Which of the following is a benefit of knowing supplier's fixed costs?

A. The buyer would be able to know the right volume to reach break-even point

B. The buyer would be able to know the point at which the supplier would reject the offer.

C. The buyer would be able to get a comprehensive picture of supplier's efficiency

ANSWER: A

Explanation:

The buyer would be able to know the right volume to reach break-even point is correct. Fixed costs are costs that do not vary directly with output over the relevant period, such as premises, salaried labour, or depreciation. In cost and price analysis, understanding the supplier's fixed-cost commitment is an important input to estimating the volume needed for sales revenue and contribution to cover total costs. The break-even point is reached when total revenue equals total cost; therefore, once fixed costs are considered alongside expected selling price and variable cost per unit, the buyer can assess the order volume at which the supplier begins to recover its full cost base.

This insight is useful when preparing a negotiation because volume can be a source of value. A buyer considering a larger, longer-term, or consolidated requirement can identify when additional units may be produced and sold beyond the break-even threshold. At that stage, the supplier may have greater scope to offer a lower unit price while still making a contribution toward profit. The analysis supports fact-based discussion of volume commitments, price breaks, and the commercial rationale for economies of scale. CIPS identifies commercial negotiation as involving preparation and the use of relevant information; see [CIPS Level 4 Diploma in Procurement and Supply]. For the underlying break-even relationship, see [OpenStax Principles of Managerial Accounting].

QUESTION NO: 16

Which of the following are common forms of collaborating approach in Thomas-Kilmann conflict resolution model? Select THREE that apply.

A. Exploring a disagreement to learn from each other's insights

B. Yielding to another's point of view

C. Resolving some conditions that would otherwise have them competing for resources

D. Trying to win at any cost

E. Trying to find a creative solution to current problem

F. Seeking a quick middle-ground position

ANSWER: A C E

Explanation:

The collaborating approach is characterised by high assertiveness combined with high cooperativeness. Its purpose is to address the underlying interests of all parties and develop an outcome that fully satisfies their concerns, rather than simply splitting the difference or accepting one party's preferred result. "Exploring a disagreement to learn from each other's insights" is a collaborative practice because it uses open dialogue to understand the perspectives, needs, and knowledge that sit beneath stated positions. "Resolving some conditions that would otherwise have them competing for resources" is also collaboration: the parties jointly redesign the situation or identify alternatives that remove the source of competition. "Trying to find a creative solution to current problem" reflects the problem-solving aspect of collaboration, in which negotiators seek an integrative, mutually beneficial solution. These forms are especially useful where the issue is important, the relationship needs to be maintained, and sufficient time and information are available to explore interests in depth. The Thomas-Kilmann model describes collaborating as working with another person to find a solution that fully addresses both sets of concerns. See the [Thomas-Kilmann Instrument overview] and [CIPS Level 4 qualifications].

QUESTION NO: 17

Neville is a senior procurement specialist in a automaker. He has good relationship with his team mates and other departments because of his amazing purchasing skills and kindness.

Which of the following sources of power is Neville likely to possess?

A. Reward

B. Referent

C. Legitimate

D. Coercive

ANSWER: B

Explanation:

Referent power is the most appropriate source of power in this situation. It arises when people respect, admire, identify with, or want to maintain a positive relationship with an individual. Neville's kindness and the positive relationships he has developed across his team and other departments indicate that colleagues are likely to respond positively to him because of his personal qualities and reputation. This gives him influence even where he may not have direct authority over others.

In commercial negotiation and procurement, referent power can be particularly valuable because many outcomes depend on cooperation between stakeholders with different priorities. A buyer who is trusted, well regarded and approachable can secure engagement, encourage information-sharing and build commitment to an agreed course of action. Neville's purchasing capability supports his credibility, but the key cue in the scenario is that his relationships are linked to how others perceive and relate to him personally. This is the defining basis of referent power in the French and Raven framework of social power. See French and Raven's foundational work, The Bases of Social Power, and an overview of the framework from Mind Tools.

QUESTION NO: 18

Jessica Taylor, a senior buyer, is reflecting on her most recent negotiation. She has been asked by her manager to create a written record of performance.

Which of the following should Jessica include in this negotiation performance report? Select THREE that apply.

A. Evaluation of the negotiator ' s performance

B. Other suppliers that could have been used

C. A checklist of points learned for the future

D. Travel expenses to attend the meeting

E. A detailed pricing structure

F. A comparison of actual versus set objectives

ANSWER: A C F

Explanation:

A negotiation performance report should capture evidence of how effectively the negotiation was planned and conducted, what was achieved, and how future negotiations can be improved. **Evaluation of the negotiator ' s performance** provides a structured assessment of the individual's preparation, communication, use of tactics, stakeholder management, and adherence to the agreed mandate. This supports professional development and identifies capability needs. **A checklist of points learned for the future** converts experience into usable organisational learning. Recording successful approaches, unexpected issues, and actions to improve helps the buyer and wider procurement team prepare more effectively for similar negotiations. **A comparison of actual versus set objectives** is essential because it measures the negotiated outcome against the original targets and priorities, including commercial and non-commercial objectives. It creates a clear basis for judging overall success, reporting to management, and refining future negotiation strategies. Together, these records support the post-negotiation review and continuous-improvement approach expected in professional procurement practice. CIPS Level 4 develops practical capability in commercial negotiation and supplier management; see the CIPS Level 4 Diploma. For broader guidance on systematic performance evaluation and improvement, see ISO's quality-management overview.

QUESTION NO: 19

It may be more difficult to buy on a credit from supplier who locates in a country with a hyperinflation? Is this assumption true?

A. No, because supplier ' s bank will take risks from currency fluctuation

B. Yes, because the supplier ' s currency will lose its value overtime

C. Yes, because buyer has more advantage if they make payment in their own currency

D. No, because the higher the inflation rate, the stronger the supplier ' s currency

ANSWER: B

Explanation:

“Yes, because the supplier ' s currency will lose its value overtime” is correct. Hyperinflation causes a rapid and often highly unpredictable decline in a currency’s purchasing power. When a supplier grants trade credit, it delivers goods or services now but receives payment later. If payment is agreed in the supplier’s local currency, the amount received at the end of the credit period may purchase substantially less than it would have at the date of supply. The supplier therefore bears a real value-loss risk in addition to normal customer default risk.

To protect its cash flow and margins, a supplier operating in that environment is likely to shorten payment terms, demand advance payment, require payment in a more stable foreign currency, or charge a higher price or financing cost for deferred settlement. This makes credit more difficult or more costly for the buyer to obtain. In commercial negotiation, the buyer should recognise inflation and currency depreciation as material external factors when discussing payment terms, prices, and currency clauses. The International Monetary Fund explains inflation and its effects on purchasing power at IMF: Inflation—Back to Basics. CIPS identifies commercial negotiation as a core Level 4 capability at CIPS Level 4 Diploma.

QUESTION NO: 20

A buying organisation with a low spend but the reputation for paying on-time. In order to increase buyer's leverage in negotiation with suppliers, which of the following should be a priority of this buyer?

A. Unclear tender award criteria

B. Volume separation

C. Spend concentration

D. Unavailable technical support

ANSWER: C

Explanation:

Spend concentration is the appropriate priority because it directly increases the commercial value and potential importance of the buyer’s business to suppliers. Paying invoices on time already gives the organisation a positive reputation and makes it a comparatively attractive customer. However, where its expenditure is low and fragmented, individual suppliers may see limited revenue potential and the buyer’s negotiating position remains constrained.

By concentrating spend, the buyer can aggregate requirements that might otherwise be placed across several suppliers, business units, sites, or purchasing periods. This creates a larger, more visible opportunity for a supplier and can support negotiation of improved pricing, service levels, capacity commitments, innovation, or more favourable contractual terms. Practical routes include consolidating volumes, reducing the supply base where appropriate, standardising specifications, coordinating demand across internal stakeholders, or using collaborative purchasing arrangements. The priority is therefore to turn low individual spend into a more substantial and strategically valuable proposition, while retaining the advantage created by reliable payment behaviour.

This reflects the commercial-negotiation focus of the CIPS Level 4 Commercial Negotiation syllabus: CIPS Level 4 Diploma in Procurement and Supply. It also aligns with established public-procurement guidance on aggregating demand and using collaborative procurement to realise buying power: UK public procurement policy guidance.

QUESTION NO: 21

Which of the following is a disadvantage of absorption costing method?

A. Fixedcost allocated to products on the basis of the cost of activities used in producing them

B. Variable costs are not taken into product final costs

C. Using marginal cost of producing addition units

D. Limited understanding of true costs incurred

ANSWER: D

Explanation:

"Limited understanding of true costs incurred" is a disadvantage of absorption costing because the method assigns indirect production overheads to products using a predetermined absorption basis, such as labour hours, machine hours, or units produced. This produces a full production cost for inventory valuation and reporting, but the allocated figure may not faithfully reflect the resources that each individual product, contract, or supplier-related activity actually consumes.

In a business with varied products, differing order volumes, complex specifications, or substantial indirect costs, a broad allocation rate can mask the underlying cost drivers. Managers may consequently see an averaged cost rather than a sufficiently precise view of the costs attributable to a particular output. This can reduce the usefulness of the information for commercial decisions such as pricing, bid evaluation, make-or-buy analysis, product rationalisation, and negotiation preparation. CIPS Level 4 commercial negotiation work requires practitioners to understand cost structures and use reliable cost information when developing negotiation objectives and evaluating proposals. Absorption costing remains important for allocating production overhead and valuing inventory, but its allocation assumptions can limit insight into the true economic cost of individual activities or outputs. See CIPS' Level 4 Diploma information and ACCA's overview of absorption costing.

QUESTION NO: 22

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

A. Scheduling agreed supplier delivery dates

B. Persistent late payment of the supplier's invoices

C. Unequal sharing of gains, risks and costs with the supplier

D. Requesting early supplier involvement

E. Planning scheduled visits to the supplier site

ANSWER: B C

Explanation:

Persistent late payment of the supplier's invoices is a direct and significant source of buyer–supplier conflict. Suppliers rely on prompt payment to maintain cash flow, meet payroll and material commitments, and fund delivery of the buyer's requirements. When payment is repeatedly delayed, it damages confidence in the buyer's reliability and can quickly undermine the trust required for constructive commercial collaboration. Unequal sharing of gains, risks and costs with the supplier can also cause conflict because each party assesses whether the commercial arrangement is fair and proportionate. A supplier that carries excessive risk or cost while receiving an insufficient share of benefits may feel exploited, while a buyer may resist arrangements that allocate unreasonable value to the supplier. Effective negotiation therefore seeks an equitable allocation that reflects the parties' relative responsibilities, capabilities and exposure. CIPS identifies fairness, trust, payment practices and the allocation of commercial risks as important influences on supplier relationships and on avoiding conflict. Further guidance on managing supplier relationships and sustainable payment practices is available from CIPS' procurement and supply relationships resources and the UK government's Prompt Payment Code.

QUESTION NO: 23

A new manager has been appointed with responsibility for an organisation's category which has major impact on organisational cost base and there are little competitions in the supply market. They have an objective to improve supplier cost structures over time. Which of the following should they carry out first?

A. Purchase price cost analysis

B. Competitive rivalry analysis

C. Volume concentration

D. STEEPLE analysis

ANSWER: A

Explanation:

Purchase price cost analysis is the appropriate first action because the manager's objective is to improve supplier cost structures over time. This requires a clear, fact-based understanding of the elements that make up the supplier's current price: for example, direct materials, labour, overheads, logistics, margins, and the principal cost drivers affecting each element. Analysing these components gives the buying organisation a baseline from which to identify realistic improvement opportunities, challenge unjustified cost increases, and work collaboratively with suppliers on efficiency, specification, process, or demand-management initiatives.

This is particularly important where there is limited competition in the supply market. Rather than relying solely on competitive pressure to obtain lower prices, the manager can use cost information to develop informed negotiation objectives and pursue sustainable value improvements. Purchase price cost analysis supports an evidence-led discussion of whether prices are reasonable and where costs can be reduced without damaging supplier capability, quality, or continuity of supply. CIPS describes commercial negotiation as preparation based on relevant information, objectives, and an understanding of the other party's position; robust cost analysis is therefore a key foundation for this category strategy and subsequent supplier engagement. See CIPS: Cost and price analysis and CIPS Level 4 Diploma.

QUESTION NO: 24

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

A. Differences in conflict management style

B. Differences in culture

C. Types of purchase

D. Standard terms and conditions

E. Line of the best fits

ANSWER: A B

Explanation:

"Differences in conflict management style" and "Differences in culture" are sources of conflict arising from the *process* of commercial negotiation: the way the parties communicate, interact, make decisions, and seek to resolve disagreement. Negotiators may have contrasting approaches to conflict, such as openly challenging a proposal, accommodating the other party, avoiding confrontation, or pursuing a collaborative solution. If these approaches are not recognised and managed, the parties can misinterpret behaviours and lose trust even where their commercial objectives are capable of alignment.

Cultural differences can similarly affect the negotiation process. They may influence expectations about directness of communication, formality, hierarchy and authority, pace of decision-making, acceptable silence, relationship-building, and whether commitments are made by individuals or groups. Effective preparation therefore includes assessing the other party's likely approach, adapting communication appropriately, and agreeing practical ways of working during the negotiation. This supports the CIPS emphasis on building constructive supplier relationships and applying appropriate negotiation behaviours, as reflected in the CIPS Global Standard and CIPS's knowledge resources.

QUESTION NO: 25

A procurement manager has decided to bring in a junior member of their team to a negotiation meeting. Which of the following would be suitable roles for this junior member of the team?

A. 1 and 2 (Note taker and Expert)

B. 1 and 3 (Note taker and Observer)

C. 2 and 3 (Expert and Observer)

D. 3 and 4 (Observer and an unspecified fourth option - assumed error)

ANSWER: B

Explanation:

1 and 3 (Note taker and Observer) is correct because these are appropriate developmental and support roles for a junior colleague attending a negotiation. A note taker creates an accurate contemporaneous record of offers, concessions, actions, questions, and points requiring follow-up. This helps the lead negotiator remain focused on communication, decision-making, and the agreed negotiating strategy, while ensuring that the organisation has a reliable record after the meeting.

An observer can watch the process without carrying primary responsibility for conducting the discussion. This gives the junior team member a valuable opportunity to learn how preparation is applied in practice, including the use of questioning, listening, non-verbal communication, agenda control, and management of concessions. The observer may also identify issues or behaviours that the lead negotiator did not notice and can contribute to the post-negotiation review. These roles allow participation and learning while keeping accountability for negotiation authority, commitments, and specialist judgement with suitably experienced team members. CIPS describes Level 4 as developing the practical knowledge and skills needed for procurement and supply responsibilities; negotiation planning includes selecting a team with defined roles that fit individuals' competence and authority. See CIPS Level 4 Diploma in Procurement and Supply and CIPS negotiation resources.

QUESTION NO: 26

Lina Rawlins, a senior buyer for a medical equipment company, is in charge of the company ' s largest supplier account. Recently, the supplier ' s performance has declined, leading to more rejected items. Lina has asked the supplier for an urgent meeting. In the meeting, she asks: "Can you tell me exactly what you are doing to ensure quality?"

What type of question is Lina asking?

A. Hypothetical

B. Leading

C. Reflective

D. Probing

ANSWER: D

Explanation:

Probing is correct because Lina is seeking specific, detailed information about the supplier's quality-control actions. Her use of "exactly what" invites the supplier to go beyond a broad assurance and describe the processes, checks, responsibilities, or corrective measures being applied. In a commercial negotiation or supplier-performance discussion, probing questions are used to explore an issue in greater depth, test the basis of a statement, and obtain facts needed to understand a problem before agreeing remedial action. This is especially appropriate where rejected items have increased, as the buyer needs evidence of how quality is being controlled and restored rather than a simple yes-or-no commitment. Effective questioning is a core negotiation communication skill: it helps the buyer gather relevant information, clarify the supplier's position, and establish a sound basis for subsequent discussion of performance improvements. CIPS identifies communication and relationship-management capability as central to effective procurement practice; see CIPS procurement topics and skills. For a practical overview of probing questions as questions intended to obtain further detail, see SkillsYouNeed: Questioning Techniques.

QUESTION NO: 27

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

A. Scheduling agreed supplier delivery dates

B. Unequal sharing of gains, risks and costs with the supplier

C. Persistent late payment of the supplier's invoices

D. Planning scheduled visits to the supplier site

E. Requesting early supplier involvement

ANSWER: B C

Explanation:

Unequal sharing of gains, risks and costs with the supplier is a significant source of buyer–supplier conflict because it creates a perception that one party is benefiting at the other's expense. In a commercial negotiation, both parties need to see a viable return and an acceptable allocation of responsibilities. If a buyer transfers disproportionate operational, financial or contractual risk to a supplier, the supplier may respond through resistance, reduced commitment, claims, defensive pricing or a deterioration in relationship quality. A sustainable agreement therefore seeks a fair balance between value, risk ownership and reward.

Persistent late payment of the supplier's invoices is also a direct cause of conflict. Timely payment is fundamental to trust and to a supplier's cash-flow management, particularly where the supplier has already incurred labour, material and delivery costs. Repeated late payment can cause escalation, interrupt supply continuity and reduce the supplier's willingness to collaborate or offer preferential service. The UK Prompt Payment Code identifies prompt payment and clear payment practices as important to responsible supply-chain relationships: UK Prompt Payment Code. This reflects the CIPS commercial-negotiation emphasis on maintaining constructive supplier relationships while managing legitimate differences of interest.

QUESTION NO: 28

A procurement officer for a manufacturing organisation is negotiating with a supplier over the provision of components. The supplier has indicated that they have to raise their prices due to their fixed costs increasing. Which TWO of the following are types of fixed costs?

A. Staff salaries

B. Building rents

C. Raw materials

D. Temporary labour

E. Warehouse logistics

ANSWER: A B

Explanation:

Fixed costs are incurred to maintain an organisation's operating capacity and, within a relevant range of activity, do not change directly as the number of units produced changes. **Staff salaries** are normally fixed costs because permanent employees receive an agreed salary for a period of time rather than payment that rises or falls with each additional component manufactured. The total salary cost may change following a pay award, recruitment, restructuring, or a change in staffing levels, but it remains fixed in relation to short-term output volume.

Building rents are also fixed costs. A manufacturer generally commits to a contractual rent for premises over a specified period, and that payment is ordinarily due whether production volume is high, low, or temporarily nil. Rent can increase at a lease review or when premises are changed, which can provide a legitimate basis for a supplier to discuss an increase in its cost base during negotiation. For procurement analysis, distinguishing these capacity-related costs from output-driven costs helps the buyer test a supplier's price-increase rationale, establish the relevant cost period, and evaluate whether the claimed increase should affect the unit price. See The Open University: fixed and variable costs and AccountingCoach: fixed costs.

QUESTION NO: 29

Which one of these key approaches could be pursued for a successful negotiation of a commercial agreement?

A. A distributed approach

B. An agency approach

C. A collaborative win-win approach

D. An integrated spend analysis

ANSWER: C

Explanation:

A collaborative win-win approach is a key approach for negotiating a successful commercial agreement because it seeks outcomes that meet important interests on both sides. Rather than treating value as fixed and focusing only on concessions, the parties share relevant information, identify common and differing interests, and work jointly to generate solutions. This supports an agreement that is practical, durable, and more likely to be implemented positively after the negotiation has concluded.

In commercial relationships, particularly those involving ongoing supply, strategic importance, or mutual dependency, collaboration can create value through improved specifications, service arrangements, risk allocation, innovation, and cost-reduction opportunities. The approach also promotes trust and constructive communication, which are valuable where performance issues or changing requirements must be addressed over the life of the agreement. CIPS describes negotiation as a process for reaching agreement while recognising the importance of relationships and preparation; collaborative negotiation is aligned with achieving mutual benefit rather than simply claiming value from the other party. See the CIPS qualifications overview and the CIPS procurement topics and skills resources.

QUESTION NO: 30

Absorption costing is when the total cost per each unit of output:

A. Includes an allocation towards the activity cost of its creation

B. Includes an allocation towards indirect costs used in its creation

C. Includes an allocation for a proportion of total production costs

D. Includes an allocation of producing an additional unit

ANSWER: B

Explanation:

Includes an allocation towards indirect costs used in its creation is correct because absorption costing determines the full production cost of each unit. Direct materials and direct labour can usually be traced directly to a particular product or output. Production overheads, however, support production generally and cannot usually be traced economically to one individual unit. Examples include factory rent, production supervision, equipment depreciation, utilities and maintenance. Absorption costing therefore allocates or apportions these indirect production costs to cost centres and then absorbs them into units of output using a suitable absorption basis, such as machine hours, labour hours or units produced.

The resulting unit cost includes both directly attributable production costs and a fair share of indirect production overhead. This is particularly important in procurement and commercial decisions because it provides a fuller view of the resources consumed in making an item, supporting pricing, profitability and make-or-buy analysis. The absorption rate should reflect the relationship between the overhead cost and the activity that drives it, so that costs are assigned consistently and meaningfully across outputs. See the ACCA overview of absorption costing and the CIMA management accounting glossary for related costing terminology.

QUESTION NO: 31

Two firms negotiating a contract have an adversarial relationship. What type of negotiation would you expect?

A. Win–win negotiations

B. Win–lose negotiations

C. Lose–lose negotiations

D. Collaborative negotiations

ANSWER: B

Explanation:

Win–lose negotiations are the expected pattern where the parties have an adversarial relationship. This is commonly termed distributive negotiation: each side seeks to secure the greatest possible share of a limited pool of value, with a gain by one party generally perceived as a loss to the other. The focus is therefore on protecting one's position, making carefully controlled concessions, and achieving the most favourable immediate commercial outcome.

An adversarial relationship is usually characterised by low trust, limited openness and a concern that information disclosed to the other party may be exploited. These conditions make it difficult to identify shared interests or jointly develop value-creating solutions. Consequently, the interaction is likely to be positional and competitive, matching the win–lose approach. CIPS's negotiation guidance distinguishes competitive bargaining from collaborative approaches and stresses that the relationship and negotiation context influence the appropriate style. The CIPS topic overview is available at CIPS Level 4 Diploma in Procurement and Supply. For a concise explanation of distributive bargaining as a fixed-pie, value-claiming process, see the Harvard Program on Negotiation overview.

QUESTION NO: 32

Which of the following are most likely to be macro factors that may influence the balance of power in commercial negotiation? Select THREE that apply.

A. Economic growth rates

B. Disruptive technologies

C. Purchasing spend volume

D. Sustainability of natural resources

E. Intensity of competition in a industry

F. Number of substitute products or services

ANSWER: A B D

Explanation:

Economic growth rates, disruptive technologies, and sustainability of natural resources are macro-environmental influences because they arise in the wider external business environment and can affect both parties' relative negotiating strength. Economic growth rates can alter overall demand, investment, inflationary pressure, employment conditions, and the availability of supply capacity. In a growing or constrained market, a supplier with scarce capacity may gain leverage; in a weaker economy, a buyer may have more alternatives and stronger purchasing leverage.

Disruptive technologies can transform markets beyond the control of an individual buyer or supplier. They may change production methods, cost structures, switching possibilities, product life cycles, or the availability of entirely new solutions. This can shift dependency and therefore the balance of power during a negotiation.

Sustainability of natural resources is also an external environmental influence. Resource scarcity, climate impacts, and long-term availability of materials can affect input costs, continuity of supply, regulation, and the feasibility of supply options. These conditions may materially affect negotiating positions. CIPS identifies the external business environment as an important context for commercial and procurement decisions; see CIPS Level 4 Diploma in Procurement and Supply. The broader macro-environmental approach is also reflected in CIPD's PESTLE analysis guidance.

QUESTION NO: 33

Which type of question style is a negotiator using if they ask the other party

â€œCan you deliver our items by Friday 17th?â€

A. Leading

B. Closed

C. Probing

D. Multiple

ANSWER: B

Explanation:

"Closed" is correct because "Can you deliver our items by Friday 17th?" seeks confirmation of one defined commitment: delivery by a specified date. The expected response is constrained and decisive—normally yes, no, or a directly qualified confirmation—rather than an extended exploration of the supplier's views. In a commercial negotiation, this makes the question especially useful when the negotiator needs to establish whether a proposed term is acceptable and capable of being recorded as part of the agreement. Asking about an exact date also reduces uncertainty around a key performance requirement and helps the parties move from broad discussion into clear commitments, dependencies, and next steps. Effective negotiators select questions that match their purpose; where the purpose is to confirm a factual position or secure agreement on a precise term, a closed question is appropriate. This supports the structured preparation, communication, and agreement-building expected in CIPS commercial negotiation practice. CIPS describes its Level 4 Commercial Negotiation learning as covering negotiation approaches and the skills used to reach commercially sound agreements: CIPS Level 4 Diploma in Procurement and Supply. Further practical guidance on using closed questions to obtain specific answers is available from Mind Tools' questioning techniques guide.

QUESTION NO: 34

Listening is a key activity in any negotiation. Which of the following are characteristics of effective listeners?

A. 2 and 4 only (Persuading and Offering immediate solutions)

B. 1 and 2 only (Showing empathy and Persuading)

C. 1 and 3 only (Showing empathy and Paraphrasing)

D. 3 and 4 only (Paraphrasing and Offering immediate solutions)

ANSWER: C

Explanation:

1 and 3 only (Showing empathy and Paraphrasing) is correct because effective listening in a negotiation requires both accurate understanding and constructive interpersonal engagement. Showing empathy means making a genuine effort to understand the other party's perspective, concerns and priorities. This builds rapport and trust, helps uncover underlying interests rather than just stated positions, and supports a more collaborative negotiation climate. Paraphrasing is equally important: restating the speaker's message in the listener's own words checks that meaning has been understood accurately and gives the speaker an opportunity to clarify any misunderstanding. It also demonstrates attention and encourages the other party to provide further useful information. Together, these behaviours make listening active rather than passive. They enable a negotiator to test assumptions, identify areas of common ground and respond to what has actually been communicated. CIPS describes negotiation as a process involving communication and relationship management, for which listening and understanding stakeholder needs are essential capabilities. Further practical guidance on active listening techniques, including reflecting and paraphrasing, is available from Mind Tools: Active Listening and the Acas communication-skills guidance.

QUESTION NO: 35

Which of the following are typical characteristics of activity-based costing (ABC) method? Select TWO that apply.

A. ABC provides the information required to take action and realise improvements

B. Limited understanding of true costs incurred

C. ABC has tended to over cost products on long runs and under cost those on short runs

D. Costs are allocated based on volume

E. Variable and all related overhead expenses are specifically assigned to a business activity

ANSWER: A E

Explanation:

Activity-based costing provides a more detailed view of how costs arise than a simple volume-based allocation approach. It first identifies the activities that consume organisational resources, such as purchasing, receiving, inspection, production scheduling, or order processing. The costs of resources used by those activities are collected into activity cost pools and then assigned to products, services, customers, or other cost objects using cost drivers that reflect consumption of each activity. This makes the information more useful for managerial action: procurement and operational teams can identify costly activities, understand the drivers of demand for them, and target process improvement, waste reduction, supplier rationalisation, or changes in specification and ordering behaviour. Therefore, "ABC provides the information required to take action and realise improvements" is a typical ABC characteristic. "Variable and all related overhead expenses are specifically assigned to a business activity" reflects the central ABC principle that costs associated with performing activities are traced to those activities before being allocated using relevant drivers. This supports more meaningful cost visibility, particularly where indirect costs are significant. Further background on cost allocation and activity-based costing is available from ACCA's activity-based costing guidance and the CIPS Level 4 Diploma overview.

QUESTION NO: 36

A negotiation meeting between a buyer and supplier has taken several hours. Both parties believe the negotiation is starting to reach a close. Before the supplier makes their closing statements, they are most likely to be doing which of the following?

A. Gathering information and data

B. Watching for verbal and visual buying signals

C. Establishing connections and building rapport

D. Raising last-minute objections

ANSWER: B

Explanation:

Watching for verbal and visual buying signals is correct because closing is not simply a prepared speech; it depends on judging whether the other party is ready to make and confirm an agreement. In the final phase, the supplier should listen for statements indicating acceptance or reduced resistance, such as agreement with the proposed value, questions about implementation, or language that assumes the arrangement will proceed. They should also observe non-verbal indicators, including attentive posture, nodding, a relaxed manner, and engagement with final practical details. These signals help the supplier choose an appropriate moment to summarise the agreed terms, seek commitment, and make a clear closing statement without unnecessarily reopening settled points. This reflects the judgement and communication skills expected in commercial negotiation: the negotiator remains attentive to the counterpart's interests and reactions, then uses that information to move the discussion toward a mutually understood commitment. CIPS identifies negotiation as a core capability within its commercial negotiation learning, including the management of the negotiation process and agreement of outcomes. See CIPS Level 4 Diploma in Procurement and Supply and Harvard Program on Negotiation guidance on closing a deal.

QUESTION NO: 37

Jessica Taylor, a senior buyer, is reflecting on her most recent negotiation. She has been asked by her manager to create a written record of performance. Which of the following should Jessica include in this negotiation performance report? Select THREE that apply:

A. Travel expenses to attend the meeting

B. Other suppliers that could have been used

C. A detailed pricing structure

D. A checklist of for future

E. Evaluation of the negotiator's performance

F. A comparison of actual versus set objectives

ANSWER: C E F

Explanation:

A negotiation performance report should provide an auditable record of what was achieved and a structured assessment of the negotiation against its intended outcomes. **A detailed pricing structure** is essential because price is rarely a single figure: the agreed structure may include unit prices, volume breaks, discounts, indexation, payment terms, rebates, or other commercial mechanisms. Recording this accurately allows the buying organisation to manage the agreement and verify that the negotiated value is realised in practice.

Evaluation of the negotiator's performance supports professional learning and continuous improvement. It captures how effectively the negotiation was planned, conducted and controlled, including the application of negotiation skills and the management of the process. This creates useful learning for future negotiations and can inform development needs.

A comparison of actual versus set objectives is the central measure of negotiation performance. Comparing agreed results with the original objectives identifies where objectives were met, exceeded or only partly achieved, and enables the organisation to assess the overall commercial outcome. CIPS learning on commercial negotiation emphasises preparation, objectives and review of outcomes; see the CIPS qualifications overview and CIPS guidance on negotiation.

QUESTION NO: 38

A breakeven analysis uses which of the following aspects as part of the analysis?

A. Fixed cost

B. Buying cost minus variable cost per unit

C. Variable cost

D. Selling price minus variable cost per unit

ANSWER: A C D

Explanation:

Breakeven analysis identifies the activity or sales volume at which total revenue exactly covers total cost, producing neither profit nor loss. Fixed cost is essential because it represents expenditure that must be recovered regardless of the number of units produced or sold within the relevant range. Variable cost is also required because total variable cost changes with volume and must be deducted from each unit's selling price when calculating the contribution available to recover fixed costs. Accordingly, selling price minus variable cost per unit is a core measure: it is the unit contribution. The standard breakeven calculation is fixed costs divided by contribution per unit. A procurement professional can use this analysis when assessing a supplier's cost structure, considering volume commitments, or evaluating the commercial implications of a proposed price and demand level. It helps distinguish the proportion of costs that varies with output from the amount that must be covered before a transaction or arrangement generates profit. Further guidance on contribution and breakeven calculations is available from AccountingCoach's break-even explanation and the CIPS qualifications overview.

QUESTION NO: 39

Which of the following are most likely to be direct costs of a steel manufacturer? Select THREE that apply.

A. Cleaning services

B. Coal

C. Senior management salary

D. Insurance for production lines

E. Scrap metal

F. Hourly production wages

ANSWER: B E F

Explanation:

Direct costs are costs that can be specifically identified with, and measured against, the manufacture of a particular product, production batch, or cost unit. In steelmaking, **Coal** is a direct material because it is used as an input in processes such as coke production and blast-furnace ironmaking. Its consumption can be measured and assigned to the steel being produced. **Scrap metal** is likewise a direct material: it is a key charge material in electric-arc-furnace steelmaking and may also be used in other steel production routes. The quantity and purchase cost of scrap can be traced to manufacturing activity. **Hourly production wages** are direct labour where employees work directly on converting raw materials into steel, such as operating furnaces, casting equipment, rolling mills, or other production machinery. Their paid hours can be recorded against production operations and attributed to output. Together, these costs represent the standard direct-cost categories of direct materials and direct labour, which are used to establish a product's prime cost and support reliable cost analysis for pricing and commercial decisions. See the ACCA overview of cost classification and CIPS Level 4 qualification information.

QUESTION NO: 40

Win-lose approach is most likely to be associated with which of the following type of relationship?

A. Adversarial

B. Partnership

C. Strategic alliance

D. Outsourcing

ANSWER: A

Explanation:

Adversarial is correct because a win-lose negotiating approach is distributive: each party seeks to secure the greatest possible share of a limited value, with one party's gain generally viewed as the other's loss. This orientation is most likely where the parties have limited mutual dependence, little incentive to invest in future collaboration, and a transactional or potentially one-off buying requirement. An adversarial buyer–supplier relationship is characterised by a primary focus on individual objectives, competitive pressure and limited openness in information exchange. In these circumstances, a negotiator may concentrate on price, contractual risk allocation and immediate commercial advantage rather than identifying joint gains over time.

In CIPS commercial negotiation, the appropriate approach depends on the relationship context and the value that can be created through cooperation. Where a requirement is non-critical, readily sourced and does not justify long-term supplier development, an adversarial/distributive approach may be used, while still requiring professional conduct, clear specifications and compliance with ethical and legal obligations. The CIPS guidance on negotiation describes the distinction between distributive and integrative approaches and the importance of selecting an approach that fits the circumstances. See [CIPS: Negotiation] and [CIPS Knowledge: Procurement topics and skills].

QUESTION NO: 41

Which TWO strategies are recognised for achieving a win–lose outcome?

Making the other party lower its resistance point

Making the other party believe this settlement is the best it can achieve

Employing empathy to gain mutual understanding

Using compromise and creativity tactics

A. 1 and 2 only

B. 3 and 4 only

C. 1 and 3 only

D. 2 and 4 only

ANSWER: A

Explanation:

1 and 2 only is correct because both statements describe distributive, or win–lose, negotiation behaviour. In this approach, the negotiator seeks to claim the greatest possible share of a limited value pool. A resistance point is the least favourable settlement that a party will accept; influencing the other party to reduce that threshold expands the range in which the negotiator can secure a more advantageous agreement. Making the other party believe that a proposed settlement is the best outcome it can achieve similarly strengthens the negotiator's position by shaping the counterpart's assessment of its alternatives and likely outcomes. These methods are consistent with competitive bargaining, where relative advantage is central and any gain obtained by one side may reduce the value available to the other. CIPS L4M5 covers the selection and use of negotiation strategies and tactics according to the commercial context, including the distinction between approaches that claim value and those that seek to create value. See the [CIPS Level 4 Diploma overview] and CIPS' [negotiation resources] for further context on negotiation practice.

QUESTION NO: 42

The purpose of ongoing supplier relationship management following a negotiation and contract award is that it:

A. 1 and 2 (Enables the buyer to monitor supplier performance and persuade the supplier to renegotiate better terms)

B. 1 and 3 (Enables the buyer to monitor supplier performance and work with the supplier to resolve relationship problems)

C. 3 and 4 (Enables the buyer to work with the supplier to resolve relationship problems and evaluate unnecessary concessions)

D. 2 and 3 (Enables the buyer to persuade the supplier to renegotiate better terms and work with the supplier to resolve relationship problems)

ANSWER: B

Explanation:

"1 and 3 (Enables the buyer to monitor supplier performance and work with the supplier to resolve relationship problems)" is correct because supplier relationship management is the structured, continuing management of the supplier after award, rather than a one-off activity ending when the contract is signed. The buyer should use agreed performance measures, service-level requirements, review meetings, reporting, and contract governance to establish whether the supplier is delivering the required quality, cost, delivery, service, risk, and compliance outcomes. This monitoring provides evidence for informed discussions and helps both parties identify emerging issues early.

Relationship management also requires a collaborative approach to resolving problems. Regular communication, escalation routes, joint review of root causes, and mutually agreed corrective actions help preserve continuity of supply and maintain the value anticipated during the negotiation. In more strategic relationships, this can also support improvement and innovation over the life of the contract. This reflects recognised relationship-management practice: ISO 44001 sets out a framework for collaborative business relationship management, including governance and value realisation. See ISO 44001 Collaborative business relationship management systems and CIPS' overview of supplier relationship management.

QUESTION NO: 43

XYZ Ltd decides to go to market for a cleaning contract to service a number of offices. It knows that it will get a price which may, ormay not, be better than the one it is currently paying. To gain leverage in the marketplace, the organisation decides to add other related services to the scope, such as gardening, security and maintenance, which increase the value of the contract. This is an example of which forms of spend consolidation?

A. Purchasing consortia

B. Volume consolidation across categories

C. Volume pooling

D. Volume redistribution

ANSWER: B

Explanation:

Volume consolidation across categories is correct because XYZ Ltd combines requirements that were previously distinct service categories—cleaning, gardening, security and maintenance—into one larger, related facilities-services requirement. Bringing this expenditure together increases the total contract value presented to the market. That larger and more attractive opportunity can improve the buyer's negotiating leverage, encourage capable suppliers to compete, and potentially enable suppliers to offer more favourable commercial terms because they can coordinate delivery, management and overheads across the integrated scope.

This is specifically consolidation *across categories*: the organisation is not merely combining demand for the same service from separate offices, but expanding the procurement scope to include several complementary categories. In commercial negotiation, this approach can strengthen the buyer's position by making the total spend more visible and strategically significant to potential providers. It may also support a more coherent supplier-management arrangement, provided the bundled scope remains commercially sensible and the market contains suppliers able to deliver the combined services effectively. CIPS describes its Level 4 Commercial Negotiation module, including approaches that support effective commercial outcomes, at CIPS Level 4 Diploma in Procurement and Supply. Further practical context on aggregation and collaborative purchasing is available from the UK Crown Commercial Service.

QUESTION NO: 44

Which of the following are behaviours that builds trust between the buyer and the supplier in business relationship? Select TWO that apply.

A. Conducting transparent procurement process

B. Over-inflated contingency funds

C. Allowing supplier to involve in early product development

D. Commercial espionage

E. Tendency to blame other party

ANSWER: A C

Explanation:

“Conducting transparent procurement process” builds trust because it demonstrates that supplier selection, evaluation, and decisions are being made openly, consistently, and according to known criteria. Transparency reduces uncertainty about how decisions are reached and supports confidence that the buyer will act fairly and professionally. In a commercial relationship, this provides a sound basis for candid communication and constructive collaboration.

“Allowing supplier to involve in early product development” is also a trust-building behaviour because early supplier involvement treats the supplier as a valued contributor rather than solely as a source of supply. It enables the parties to share relevant technical and commercial knowledge, identify risks earlier, and collaborate on design, quality, cost, and deliverability. This joint approach encourages openness and reinforces the expectation that both parties will work towards mutual value rather than narrow short-term advantage. CIPS describes commercial negotiation as supporting value creation and effective supplier relationships; collaborative supplier engagement is particularly important where innovation and lifecycle value are sought. Further guidance on transparent, fair procurement principles is available from the CIPS ethical business practices resource and the UK government’s guidance on transparency and competition in procurement.

QUESTION NO: 45

Jessica Taylor, a senior buyer, is asked to create a written performance report after her latest negotiation. Which of the following should she include? Select THREE.

A. A detailed pricing structure

B. A comparison of actual versus set objectives

C. A checklist of points learned for the future

D. Travel expenses to attend the meeting

E. Other suppliers that could have been used

F. Evaluation of the negotiator’s performance

ANSWER: B C F

Explanation:

A comparison of actual versus set objectives is essential because a post-negotiation report must establish whether the agreed outcome delivered the priorities defined in the negotiation plan. This creates an evidence-based record of performance, including the extent to which commercial, service, relationship, risk, or other intended outcomes were achieved. A checklist of points learned for the future is also appropriate because reflective review turns the experience into organisational learning. Capturing useful approaches, information gaps, changes in supplier behaviour, and improvements for preparation helps the buying organisation negotiate more effectively in future engagements. Evaluation of the negotiator’s performance should be included because negotiation capability is developed through structured reflection on preparation, communication, conduct, decision-making, teamwork, and achievement of objectives. The report therefore serves both accountability and continuous improvement: it records results against the original plan and identifies practical actions that strengthen future negotiations. This aligns with the L4M5 Commercial Negotiation syllabus emphasis on planning, conducting, and reviewing negotiations, as outlined by CIPS Advanced Diploma in Procurement and Supply. Reflective practice is likewise recognised as a way to evaluate experience and improve subsequent professional performance by the General Medical Council’s reflective-practice guidance.

QUESTION NO: 46

A procurement professional is dissatisfied with how a recent negotiation was concluded. What could they do to improve their negotiation approach?

Seek feedback from the supplier on their recent performance

Prepare for all negotiations with a WIN/LOSE (distributive) approach

Involve lots of people in future negotiations

Undertake reflective practice after each negotiation

A. 1 and 3

B. 2 and 3

C. 1 and 4

D. 3 and 4

ANSWER: C

Explanation:

1 and 4 is correct because improving negotiation capability requires a deliberate review of both the counterparty's experience and the negotiator's own actions after the event. Seeking feedback from the supplier on their recent performance can provide useful insight into how communication, preparation, behaviour, decision-making and relationship management were perceived by the other party. This feedback can reveal practical opportunities to improve the process and the working relationship in subsequent negotiations.

Undertaking reflective practice after each negotiation is equally important. A structured review enables the procurement professional to compare the outcome with their objectives, assess what worked well, identify where preparation or tactics could be strengthened, and capture lessons for future use. Reflection supports continuous professional development because it converts a disappointing outcome into specific learning actions rather than simply repeating the same approach. CIPS identifies negotiation as a core commercial capability and emphasises the importance of developing skills and applying learning in professional practice. See the CIPS Level 4 Diploma in Procurement and Supply and CIPS's negotiation knowledge resources.

QUESTION NO: 47

Different types of relationships impact negotiations. Which source of leverage would most support the buyer?

A. Legitimate power

B. Personality power

C. Powerful colleagues

D. Friends power

ANSWER: A

Explanation:

Legitimate power is the source of leverage that would most support the buyer because it derives from the buyer's recognised organisational role, delegated authority, and the formal mandate to make or influence purchasing decisions. A buyer acting within an approved procurement process can credibly communicate requirements, approve commitments within defined limits, and escalate decisions through established governance. This gives the supplier confidence that the buyer represents a real commercial opportunity and that agreements reached can be implemented, rather than being informal or dependent on personal influence.

In commercial negotiation, legitimate power is particularly valuable when it is exercised professionally and consistently. It supports clear boundaries around authority, compliance, approval routes, and contractual commitments, while helping the buyer maintain an objective focus on organisational needs. CIPS describes negotiation as a structured process aimed at reaching agreement and highlights the importance of preparation, authority, and stakeholder alignment in achieving effective outcomes. Formal authority also supports accountable decision-making and appropriate controls over procurement commitments. Further guidance on procurement governance and delegated authority can be found in the CIPS Procurement Topics and Skills resource and the UK government's Sourcing Playbook.

QUESTION NO: 48

Which of thefollowing are signs indicating that TOP is using coercive power in commercial negotiation? Select TWO that apply.

A. Demonstrating fairness and respect

B. Withdrawal of benefits

C. Use of guilt

D. Technical expertise

E. Positive references

ANSWER: B C

Explanation:

"Withdrawal of benefits" and "Use of guilt" are signs of coercive power in a commercial negotiation. Coercive power is based on the perceived ability of one party to impose an adverse consequence if the other party does not comply. It can be exercised explicitly, such as by threatening to remove a concession, future business, access, or a favourable contractual arrangement, or more indirectly through psychological pressure. Withdrawal of benefits is coercive because the negotiating party signals that an advantage already available, or expected by the other side, will be taken away unless the desired response is given. Use of guilt is also coercive where it is used to pressure the other party into agreement by making them feel responsible, disloyal, or at fault for resisting a proposal. In negotiation, these tactics seek compliance through fear of loss or emotional discomfort rather than through mutual problem-solving. CIPS learning on commercial negotiation recognises that power can arise from the ability to influence another party's choices and outcomes; negotiators should identify such power dynamics and use them responsibly. Further guidance on principled, interest-based negotiation is available from the Program on Negotiation at Harvard Law School and CIPS' qualifications overview.

QUESTION NO: 49

In which of the following costing methods, overhead costs are applied in proportion to production volume?

A. Absorption costing

B. Mark-up costing

C. Activity-based costing

D. Marginal costing

ANSWER: A

Explanation:

Absorption costing is correct because it assigns both direct production costs and a share of indirect production overheads to units produced. The business first identifies the manufacturing overheads that must be recovered, such as factory supervision, premises costs, equipment depreciation and utilities. It then applies these costs using an absorption rate linked to an appropriate production-volume measure, commonly units produced, direct labour hours, or machine hours. Thus, as production activity increases, more overhead is absorbed into production; each unit receives a proportion of the total overhead cost.

This treatment produces a full production cost per unit, comprising direct materials, direct labour, direct expenses where applicable, and absorbed overhead. It is particularly useful for inventory valuation and for understanding the total cost of making a product, since closing inventory carries its attributable share of production overhead until it is sold. The underlying principle is that manufacturing overhead supports output and should therefore be apportioned to that output on a reasonable volume-related basis. Further explanation of absorption costing and overhead allocation is available from AccountingCoach's cost accounting overview and The Open University's accounting and finance learning materials.

QUESTION NO: 50

Under EU public procurement directives, which of the following are procedures in which there is no commercial negotiation allowed?

A. Innovation Partnerships

B. Open Procedure

C. Restricted Procedure

D. Competitive Dialogue

E. Competitive Procedure with Negotiation

ANSWER: B C

Explanation:

Open Procedure and Restricted Procedure are the public-procurement procedures in which post-tender commercial negotiation is not permitted. In an open procedure, any interested economic operator may submit a tender. In a restricted procedure, any operator may request to participate, but only shortlisted candidates are invited to tender. For both procedures, the contracting authority must evaluate the tenders submitted against the published procurement documents and award criteria, rather than seek to negotiate revisions to tendered prices, specifications, or contractual terms after receipt of final tenders. This protects the core public-procurement principles of equal treatment, transparency, and fair competition: all bidders must compete on the same disclosed basis, and the authority cannot give individual tenderers an opportunity to improve their commercial offer through post-tender discussions. Clarification may be sought where lawful, provided it does not amount to negotiation or allow a material alteration of the tender. The EU procurement framework distinguishes these procedures from routes specifically designed to allow negotiation or dialogue in defined circumstances, including the competitive procedure with negotiation, competitive dialogue, and innovation partnerships. The rules and descriptions of the procedures are set out in Directive 2014/24/EU, particularly Articles 26 to 31. See the consolidated text at EUR-Lex: Directive 2014/24/EU and the European Commission's public procurement legal rules guidance.