

Achieving Competitive Advantage Through the Supply Chain

CIPS L5M7

Version Demo

Total Demo Questions: 11

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Topic Break Down

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QUESTION NO: 1

To analyse the **value of inventory held**, which data points must be collected? Select TWO.

- A. Number of items sold
- B. Number of items held in storage
- C. Purchase price
- D. Expiry date

ANSWER: B C

Explanation:

Number of items held in storage and **Purchase price** are the essential data points for establishing the value of inventory currently held. The physical quantity represents the stock balance at the point of measurement. Purchase price provides the unit cost basis to be assigned to each item. Multiplying the verified quantity held by the applicable unit purchase cost produces the gross inventory value for that stock line; values can then be aggregated across all lines to give the organisation's total inventory investment.

In practice, the purchase price used should be the cost recognised under the organisation's inventory-costing policy, so that the calculation is consistent over time and suitable for management reporting. For inventories acquired at differing prices, that policy may apply an accepted cost formula, such as first-in, first-out or weighted average, to determine the relevant unit cost. This supports visibility of working capital tied up in stock and enables informed supply-chain decisions about inventory levels, replenishment, and cash use.

The underlying accounting principle is reflected in [IAS 2 Inventories](#), which addresses inventory measurement and cost. It is also aligned with the inventory and competitive-advantage focus of the [CIPS Level 5 Advanced Diploma](#).

QUESTION NO: 2

Open-Book Costing relies on which of the following? Select TWO.

- A. Finding the lowest cost
- B. Splitting profit 50:50
- C. Good communication
- D. Transparency of costs and justifications

ANSWER: C D

Explanation:

Open-book costing is a collaborative cost-management approach in which a supplier makes relevant cost information visible to the buying organisation. It therefore depends on **Good communication**, because the parties need to discuss cost drivers, assumptions, operational changes, forecasts, and opportunities to improve efficiency. Communication enables the cost data to be understood in context and supports joint decision-making throughout the relationship.

It also relies on **Transparency of costs and justifications**. The supplier must be able to disclose and explain the components underlying its price, such as materials, labour, overheads, and agreed margins where applicable. The buyer can then understand how charges arise, validate information at an appropriate level of detail, and work with the supplier to identify sustainable savings or value improvements. This transparency is not merely disclosure of figures; it includes sufficient supporting rationale for both parties to develop confidence in the information and in each other. CIPS treats open-book arrangements as relationship-based practices requiring trust, information sharing, and effective supplier collaboration. See CIPS' discussion of supplier relationship management at [CIPS Intelligence Hub: Supplier Relationships](#) and the UK government guidance on open-book contractual management at [Open Book Contract Management Guidance](#).

QUESTION NO: 3

Which industry is most likely to use **supplier tiering**?

- A. Automotive
- B. Agriculture
- C. Services
- D. Finance

ANSWER: A

Explanation:

Automotive is correct because its supply base is characteristically organised into formal supply tiers. Vehicle manufacturers (original equipment manufacturers, or OEMs) typically source major systems and modules—such as braking systems, seating, electronics, or powertrain assemblies—from Tier 1 suppliers. Those suppliers, in turn, procure components, materials, and specialised subassemblies from Tier 2 and Tier 3 suppliers. This creates a structured, multi-layer supply network in which suppliers' responsibilities, technical integration, quality assurance, commercial relationships, and visibility differ according to their tier.

Supplier tiering is particularly valuable in automotive because vehicle production requires the coordination of thousands of parts, rigorous safety and quality controls, traceability, engineering change management, and long-term collaboration across complex global supply chains. Procurement teams can use tiers to segment supplier relationships, manage supply-chain risk beyond direct suppliers, and improve collaboration on innovation, continuity, sustainability, and compliance. The automotive industry's established OEM–Tier 1–Tier 2 model is widely recognised in industry supply-chain practice. See the [Automotive Industry Action Group](#) for automotive supply-chain standards and collaboration, and the [U.S. International Trade Administration's automotive industry overview](#) for sector context.

QUESTION NO: 4

When analysing a series of data, the number which occurs most frequently is known as what?

- A. Median
- B. Mode
- C. Mean
- D. Average

ANSWER: B

Explanation:

Mode is correct because it is the statistical measure that identifies the observation, number, or category occurring with the greatest frequency in a data set. For example, in the series 3, 5, 5, 7, and 9, the mode is 5 because it appears twice, more often than any other value. This measure is particularly useful in supply-chain analysis where procurement professionals may need to identify the most common delivery lead time, defect type, order quantity, or supplier response category. Unlike measures that require numerical calculation or ordering of all observations, the mode directly represents the most frequently occurring result and can also be applied to categorical data, such as the most commonly used transport method. A data set may have one mode, more than one mode where values tie for the highest frequency, or no mode if every value occurs equally often. Understanding frequency-based measures supports sound interpretation of operational data and helps identify recurring patterns requiring attention. See the [Encyclopaedia Britannica definition of mode](#) and the [NIST Engineering Statistics Handbook](#).

QUESTION NO: 5

In a typical **Supply Chain Quality Framework (SCQF)**, which of the following characteristics is likely to feature?

Select THREE

E.

- A. Sustainability
- B. Information
- C. Continuous Improvement
- D. Procurement
- E. Marketing

ANSWER: A B C

Explanation:

Sustainability, Information, and Continuous Improvement are core characteristics expected in a Supply Chain Quality Framework. Sustainability ensures that quality is considered over the full supply-chain lifecycle, including responsible sourcing, environmental impacts, ethical conduct, resilience, and long-term value rather than simply short-term conformance or cost. This reflects the strategic focus of CIPS Level 5 supply-chain practice, where competitive advantage depends on sustainable performance across connected organisations.

Information is essential because quality management across a supply network requires reliable, timely and shared data. This includes supplier performance measures, specifications, traceability records, defect and corrective-action data, demand information, and customer feedback. Sound information governance allows partners to monitor performance consistently and make evidence-based decisions.

Continuous Improvement embeds the expectation that processes and outcomes are routinely measured, reviewed and improved collaboratively. It supports learning from performance data, reducing variation and waste, preventing recurring quality failures, and raising capability throughout the supply chain. This aligns with ISO quality-management principles, which identify improvement and evidence-based decision-making as central to effective quality management. CIPS frames the Level 5 qualification around achieving competitive advantage through strategic supply-chain practice: [CIPS Level 5 Advanced Diploma](#). Further quality-management guidance is available from [ISO Quality Management](#).

QUESTION NO: 6

The **80/20 rule** is also commonly referred to as what?

- A. Kraljic Matrix
- B. Pareto Principle
- C. Supplier Positioning
- D. SWOT Analysis

ANSWER: B

Explanation:

Pareto Principle is the accepted name for the 80/20 rule. It originates from the observations of Italian economist Vilfredo Pareto and expresses the idea that a relatively small proportion of inputs, causes, or activities frequently accounts for a disproportionately large proportion of results. In procurement and supply-chain practice, it is commonly used in spend, inventory, supplier, defect, and customer analysis. For example, an organisation may find that roughly 20% of suppliers account for around 80% of total expenditure, or that a small group of stock items represents most inventory value. The analysis helps procurement professionals focus limited management effort and improvement activity on the areas likely to have the greatest commercial impact. It is a practical prioritisation principle rather than a fixed mathematical law: the exact proportions can differ, but the concentration of impact remains the important insight. CIPS learning materials use Pareto analysis as a tool for identifying the relatively few high-value or high-impact contributors that warrant close attention in

achieving competitive advantage through the supply chain. See [CIPS: Pareto analysis](#) and [Encyclopaedia Britannica: Pareto principle](#).

QUESTION NO: 7

Trust is a dynamic concept required in partnership relationships. Which of the following are part of the **five trust components** important in supply chains?

- A. Integrity
- B. Competence
- C. Loyalty
- D. Power
- E. Charm

ANSWER: A B C

Explanation:

Integrity, Competence, and Loyalty are all recognised components of trust in a supply-chain partnership. Integrity means that a party behaves honestly, keeps commitments, and acts consistently with agreed principles. This gives trading partners confidence that promises, confidential information, and contractual obligations will be treated responsibly. Competence concerns the ability to perform: a trusted supplier or buyer needs the skills, resources, processes, and operational capability to deliver the expected result reliably. Loyalty reflects a commitment to the relationship and a willingness to support the partner's legitimate interests rather than acting opportunistically. Together, these features encourage information sharing, joint problem-solving, and longer-term collaboration, which are central to achieving competitive advantage through supply relationships. The full five-component framework also includes openness and fairness, reinforcing that trust is built through both dependable conduct and constructive relationship behaviours. This treatment of collaborative supply relationships aligns with the Level 5 Advanced Diploma's focus on strategic supply-chain value and relationship management; see [CIPS Level 5 Advanced Diploma](#). For wider evidence on the role of trust in inter-organisational relationships, see [Morgan and Hunt's commitment-trust theory](#).

QUESTION NO: 8

What is the name of the phenomenon in which a small change in consumer demand can have an amplified effect throughout the supply chain?

- A. Pareto Principle
- B. Bullwhip Effect
- C. Supply and Demand
- D. Amplification Concept

ANSWER: B

Explanation:

Bullwhip Effect is the term for demand variability becoming progressively amplified as demand information and replenishment orders move upstream through a supply chain, from retailers to wholesalers, manufacturers and raw-material suppliers. A relatively small change in actual customer purchases can therefore result in increasingly large changes in orders, inventory levels, production schedules and capacity requirements at earlier supply-chain stages. This can impair competitive advantage by creating excess inventory, stockouts, avoidable expediting costs, poor asset utilisation and unstable supplier operations. Typical causes include forecasting based on incoming orders rather than point-of-sale demand, order batching, price promotions that distort purchasing patterns, and shortages that encourage customers to inflate orders. Supply-chain partners can mitigate the effect through timely sharing of accurate demand data, collaborative planning and

forecasting, shorter replenishment lead times, and ordering policies that reflect genuine consumption. The concept is widely associated with supply-chain coordination and is directly relevant to managing responsive, cost-effective supply networks. See the [INFORMS overview of the bullwhip effect](#) and the [Supply Chain Dive explanation of its supply-chain impacts](#).

QUESTION NO: 9

Normal distribution forms what shape on a graph?

- A. Horizontal line
- B. Vertical line
- C. Bell curve
- D. Circle

ANSWER: C

Explanation:

A normal distribution is represented graphically by a bell curve: a continuous, symmetrical curve with its highest point at the mean (average) value. Values nearest the mean occur most frequently, so the curve peaks at the centre. As values move further away from the mean in either direction, their frequency or probability decreases at the same rate, producing two tapering tails. In a normal distribution, the mean, median and mode coincide at the centre of the curve. This pattern is useful in procurement and supply-chain analysis when interpreting variation in data such as demand, lead times, quality measurements or supplier performance, provided the underlying data reasonably follow a normal distribution. The area beneath the entire bell curve represents all possible observations or a total probability of one. For further background, see the [NIST Engineering Statistics Handbook explanation of the normal distribution](#) and [Encyclopaedia Britannica's overview of normal distribution](#).

QUESTION NO: 10

A manufacturer wants to create competitive advantage by improving the sustainability of its product returns process. Which TWO actions are most consistent with a closed-loop supply-chain approach?

Select TWO.

- A. Designing products so that components can be recovered and reused
- B. Establishing a returns route for repair, refurbishment, or recycling
- C. Disposing of returned items as quickly as possible
- D. Increasing finished-goods inventory to improve availability
- E. Selling all returns to an uncontrolled waste contractor

ANSWER: A B

Explanation:

Designing products so that components can be recovered and reused and **establishing a returns route for repair, refurbishment, or recycling** are correct. A closed-loop supply chain captures products after use and returns them to recovery processes that preserve product, component, or material value. This can reduce waste, lower demand for virgin materials, and support lifecycle value creation.

Disposing of returned items as quickly as possible ends the product flow rather than closing it. Increasing finished-goods inventory does not recover value from used products, and selling returns to an uncontrolled waste contractor provides limited assurance that reuse or recovery will occur.

QUESTION NO: 11

Tom, a Procurement Manager, is initiating a **Supplier Rationalisation** project. What should he complete **first** to direct the project?

- A. Introduce Six Sigma
- B. Implement Total Quality Management
- C. Conduct SWOT Analysis
- D. Perform Spend Analysis

ANSWER: D

Explanation:

Perform Spend Analysis is the appropriate first step because supplier rationalisation must be directed by a reliable fact base. Spend analysis gathers, cleanses, classifies and evaluates purchasing data so that the procurement manager can see total expenditure by supplier, category, business unit and location. It identifies duplicate or fragmented supplier relationships, the degree of spend concentration, opportunities to aggregate demand, and areas where supplier consolidation could improve leverage, reduce transaction costs, standardise specifications or simplify supplier management.

This baseline enables a rationalisation project to set a defensible scope and prioritise suppliers or categories according to value, risk and opportunity. It also provides measures against which the project's outcomes can subsequently be assessed, such as reductions in supplier numbers, savings achieved, compliance with preferred suppliers and continuity-of-supply performance. Supplier reduction should therefore be based on evidence of spend patterns and requirements rather than an assumed target number of suppliers. CIPS describes spend analysis as a means of analysing expenditure data to support procurement decision-making and opportunity identification; see [CIPS Level 5: Achieving Competitive Advantage Through the Supply Chain](#). Further practical guidance on using spend data to identify sourcing opportunities is available from [CIPS Intelligence Hub: Spend Analysis](#).