

DUMPS ARENA

Commercial Negotiation

CIPS L4M5

Version Demo

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QUESTION NO: 1

In a negotiation for a new contract, the supplier suggests the buyer to shorten payment period from 45 days to 15 days because they are investing in new facilities to expand the supply capacity. The buyer replies that she can only sign off the deal if the payment period is 30 days or more since it often takes at least 30 days for her company to collect the payment from customers. A permission from senior management is required for this suggestion. In order to ensure that supplier understands the matter, she reiterates it throughout the meeting. Which tactics is she using?

1. Outrageous initial demand
 2. Salami slicing
 3. Lack of authority
 4. Broken record
- A.** 1 and 3 only
B. 2 and 4 only
C. 3 and 4 only
D. 1 and 2 only

ANSWER: C**Explanation:**

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In the scenario, the buyer states that permission from senior management is required to shorten payment period and she only has authority to sign off a deal in which the payment period lasts at least 30 days. The buyer is using lack of authority. The buyer also repeats the matter again throughout the negotiation. This is a common tactic known as broken record.

QUESTION NO: 2

Which of the following are most likely to help buyer become preferred customer in supplier's perspective? Select TWO that apply.

- A.** Onerous supplier terms and conditions
- B.** Compliance with agreed repair lead time
- C.** Shorter payment period
- D.** Reduction in delivery errors

E. Ensuring an increased number of repeat orders

ANSWER: C E

Explanation:

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Becoming a preferred customer to supplier's perspective can increase the purchaser's leverage in negotiation. Beside the size of buying organisation or its spend, the following may be sufficient to differentiate the buyer from other buying organisations:

- Simple procurement processes
- Simple contracting processes
- Clear and concise documentation
- Absence of onerous supplier terms and conditions (onerous supplier terms and conditions mean that obligations imposed on suppliers are greater than their gains)
- On-time payment: The reduction in hassle for both supplier and the buyer, if bills are paid on time, is significant. From the customer's perspective it could also be the opener to agreeing preferential payment terms. A supplier may weigh up that payment on time at 60 days is worth taking, over the current 30-day terms that slip to 90 days and beyond.
- Transparent processes
- Ethical behavior

LO 1, AC 1.3

QUESTION NO: 3

Sumitomo Rubber Industries (SRI) is a Japan-based tyre manufacturer. In order to increase production, SRI is sourcing rubber from Southeast Asian firms. Which of the following micro factors are most likely to shift the balance of power to supplier? Select

TWO that apply

- A. SRI's purchase amount makes significant proportion of supplier revenue
- B. Costs of changing suppliers are high
- C. Rubber from different suppliers is virtually similar
- D. SRI sets up its own rubber plantation
- E. There are no close substitutes for rubber

ANSWER: B E

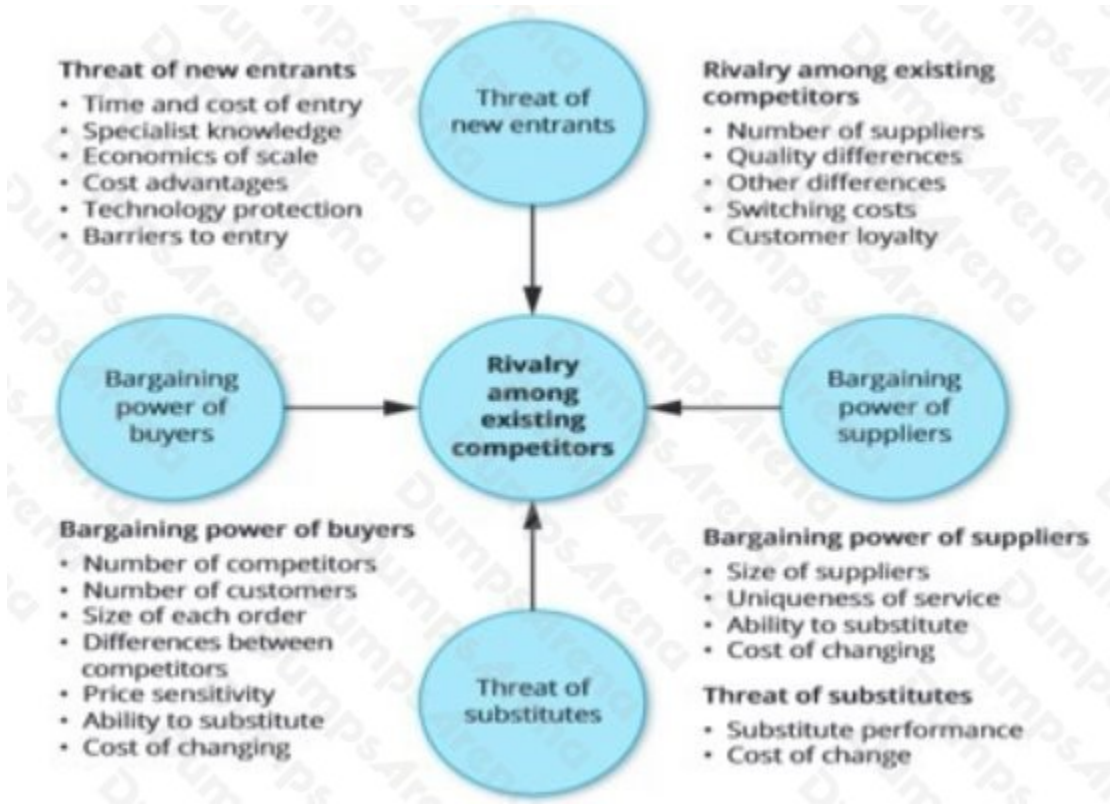
Explanation:

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There are many factors that can influence the balance of power in a negotiation. These factors are classified into 3 levels:

Macro level: STEEPLE framework: social, technological, economic, environment, political, legal and ethical

Micro level: Porter's five forces:



Diagram

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One-to-one buyer-supplier dynamics.

The question asks about the micro factors that increases supplier's bargaining power.

Among 5 answers, only 2 are likely to increase buyer's power:

There are no close substitutes for rubber: the buyer has to buy rubber, not any other material.

Costs of changing suppliers are high: buyer entails a large barrier if they want to switch supplier.

Other answers cannot be correct because:

SRI sets up its own rubber plantation: Buyer secures its own supply

SRI's purchase amount makes significant proportion of supplier revenue: Suppliers are reliant on buyer. If the buyer stops buying from them, they can face serious cash flow problems

Rubber from different suppliers is virtually similar: undifferentiated product would shift the power balance towards buyer.

QUESTION NO: 4

There are no commitments in hypothetical questions. Is this statement true?

- A. No, because the party who makes hypothetical questions cannot withdraw their proposals
- B. No, because hypothetical questions are made explicitly to the other party
- C. Yes, because hypothetical questions generate a specific response
- D. Yes, because hypothetical questions only mention possible situations

ANSWER: D

Explanation:

There are four types of questions that can be used in a commercial negotiation:

Hypothetical questions, where you ask about a possible situation or abstract concept, are very useful at the testing and proposal phases. Hypothetical question does not state any commitment as it is only about 'if something happens, then ...'. This type of question can be useful at giving suggestion.

Questioning style	When to use
Open questions What do you think about?	<ul style="list-style-type: none"> • To start a conversation • To build rapport • To get the negotiation started and get TOP to start first
Closed questions Can you offer 24hr?	<ul style="list-style-type: none"> • To generate a specific response • To receive affirmation on statement – often single word, yes or no • To seek specific information • To bring discussion to an end
Probing questions Tell me more about feature X on product Y.	<ul style="list-style-type: none"> • To seek further information when the first answer to the question is insufficient • To seek answers when TOP is being evasive • To gain more information and get to the bottom of the issue
Hypothetical questions If we wanted to buy globally could you supply?	<ul style="list-style-type: none"> • To try to get TOP to see things in a different way • To condition TOP into expecting something • To encourage creative thinking/facilitate identification of alternatives

Text

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LO 3, AC 3.3

QUESTION NO: 5

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

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

ANSWER: A D**Explanation:**

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Giving positive group and individual feedback is easy, as is self-congratulation and, in many cases, it is hoped, this will be an accurate reflection on actual performance. When it comes to developmental or difficult feedback, it is only natural to want to move on and not reflect on the negative or developmental points, or why a negotiation did not achieve its objectives. But this is a mistake. The best learning opportunities come from reflection on what could be done better, and this can be achieved without blame, threat or condemnation. Everyone and every team will make mistakes and/or have areas where they could have improved. Clearly, if every reflection session concludes that an individual or team keeps making the same mistake, then there is a case to change roles or consider alternative approaches.

About Dos and Don'ts of reflection, you can refer here: <https://offices.depaul.edu/humanresources/employee-relations/Documents/Self%20Assesement.pdf>

QUESTION NO: 6

When is the best time in procurement process in which procurement should get involved so that the cost-saving opportunities are the greatest?

- A. Market consult stage
- B. Post-contract stage
- C. Specification stage
- D. Post-tender stage

ANSWER: C**Explanation:**

The earlier procurement get involved in the procurement processes, the better. If procurement are involved in design at the specification stage they can feed in prices and costs to designer so they know the likely budget implication of choices made. Sending in a procurement team to negotiate at or close to the end of the procurement process effectively ties their hands and limits their negotiation leverage. This is illustrated in the graph below:

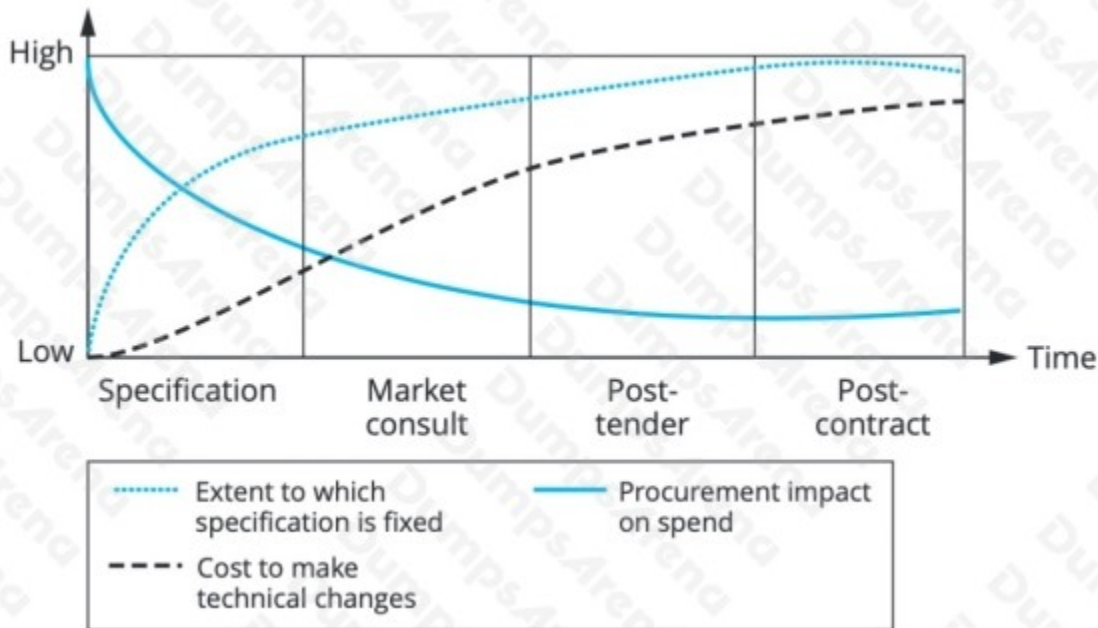


Chart
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 LO 2, AC 2.1

QUESTION NO: 7

When is the best time to adopt accommodating style according to Thomas-Kilmann conflict mode instrument?

- A. When both buyer and supplier want to find an integrative solution as their concerns are too important to be compromised
- B. When buyer needs to gather more information to gain more advantages in later negotiations
- C. When preserving harmony and avoiding disruption with supplier are especially important
- D. When buyer and supplier have equal power but are strongly committed to mutually exclusive goals

ANSWER: C

Explanation:

According to Thomas-Kilmann conflict model instrument, there are 5 conflict management styles:

Accommodating is an unassertive and cooperative approach to resolving the conflict. Accommodating means conceding to the other party with little debate or fight, not challenging or strongly putting forward your own point of view and generally giving and yielding to the other party's point of view. Accommodating is best used when:

1. When others can resolve the conflict more effectively
2. When the issue is much more important to the other person than to yourself - to satisfy the needs of others and to show you are reasonable
3. To build up social credit for later issues which are important to you
4. When continued competition would only damage your cause
5. When preserving harmony and avoiding disruption are especially important
6. To aid in the managerial development of subordinates by allowing them to experiment and learn from their own mistakes

LO 1, AC 1.1

QUESTION NO: 8

Which of the following are the most typical characteristics of integrative approach to negotiation? Select TWO that apply.

- A. Positional-based
- B. Claiming value
- C. Interest-based
- D. Short-term wins
- E. Creating more value

ANSWER: C E

Explanation:

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Integrative approach to negotiation used when the interested parties are attempting to create more of something of value to share, also known as collaborative approach or win-win. Integrative, interest-based negotiation can facilitate constructive, positive relationship and establishes contracts between parties on a foundation of goodwill. In integrative bargaining, both parties seek to 'expand the pie' by creating more value for both the buyer and the seller. Integrative negotiation 'shares the pie' and is interest rather than positional based.

In distributive bargaining, the focus is on claiming value and getting as much of the pie as parties can.

Characteristics	Distributive view	Integrative view
Goal	Get as much of the pie as you can	Expand the pie so both parties can get more
Guiding principle	Win-lose	Win-win
Negotiation focus	Positions – keep interests confidential as may expose weakness	Interests – move away from positions ASAP to create movement
Information sharing	Low, 'need to know' only	High if helpful to TOP and not damaging to your interests
Dealing with issues	One at a time, 'thank and bank'	Discussion of several issues at a time; 'get all the issues on the table'
Solution sought	Conformance based; binary yes/no; 'you're either with us or against us'	Performance-based; creative solution that satisfies most of both sides' interests
Relationship with TOP	Short-term/once-off	Long term/regular engagement

Table

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LO 1, AC 1.2

QUESTION NO: 9

Professional buyer is planning for the next negotiation of a simple one-off contract. This negotiation is typified by which of the following? Select TWO that apply.

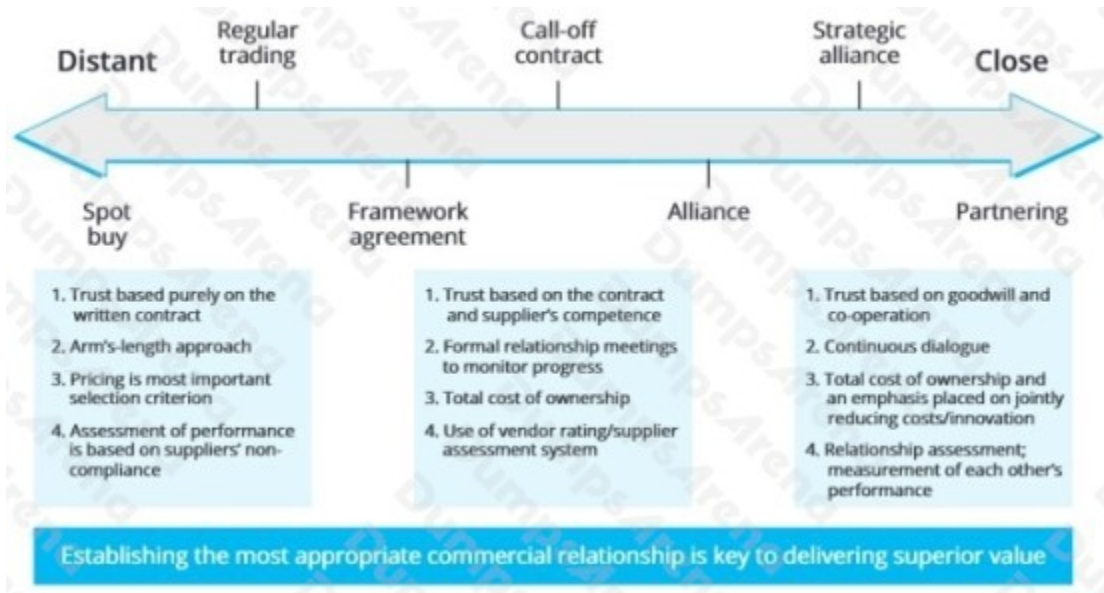
- A. Continuous dialogue with supplier
- B. Total cost of ownership is the most important criterion
- C. Vendor ratings will be used
- D. Arm's-length approach
- E. Pricing is the most important criterion

ANSWER: D E

Explanation:

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Professional buyers, when planning or engaging in negotiation with suppliers, should always be aware of where the intended and actual relationship with this supplier is positioned on the 'spectrum' or 'continuum' of commercial relationships. The relationship spectrum describes the range of commercial relationships between a buyer and supplier based on richness of communication, longevity and mutual dependence.



Timeline

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In the question, the contract is simple one-off (or spot buy), which means the relationship will likely to be more transactional. In such relationship, price is the most important criteria and buyer may adopt arm's-length approach.

QUESTION NO: 10

Which of the following is the most appropriate approach to investors or shareholders who have high level of influence but low interest in the running of business?

- A. Engage and keep them satisfied
- B. Engage and consult with them regularly
- C. Keep these people inform through general communication media
- D. Manage them closely

ANSWER: A

Explanation:

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Investors or shareholders who have high level of influence but low interest belong to 'Keep satisfied' quadrant of Mendelow's Stakeholder Matrix.

You may read 2 versions from L4M1 and L4M5 here:

POWER	Low	A Minimal effort	B Keep informed
	High	C Keep satisfied	D Key players
		Low	High
		INTEREST	

Level of influence	High	Engage Engage and consult on their area of interest. Aim to increase their level of interest so that they become key players.	Involve These are key players so focus your efforts here. Involve these people in governance or decision-making forums. Engage and consult with them regularly.
	Low	Build awareness Keep these people informed through general communication media, e.g., newsletters, the company website, etc.	Inform Make use of their interest through their involvement in low-risk areas. Keep informed and consult on their area of interest. These people are potential supporters or goodwill ambassadors.
		Low	High
		Level of interest	

Table
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 LO 1, AC 1.1