

**CIPS Level 4 – Diploma in Procurement and Supply**

# **Commercial Negotiation**

## **[L4M5]**

**Sample Exam Questions (Objective Response)**

**The correct answer will be listed below each question**

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Q1. Which **ONE** of the following conditions is typical of a collaborative negotiation?

- a. All parties must have exactly the same goals
- b. Both parties understand each other's goals
- c. One party is prepared to accommodate the other
- d. The supplier must allow the buyer to achieve their goals

LO: 1

AC: 1.2

Correct answer: B

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Q2. Which **ONE** of the following is the best example of a BATNA (best alternative to a negotiated agreement) for a buyer?

- a. A concession is made by the buyer
- b. An alternate supplier is available
- c. An unachievable marker is placed by the supplier
- d. A walk-away point is reached by the buyer

LO: 1

AC: 1.2

Correct answer: B

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Q3. Distributive negotiations are most typically associated with which **ONE** of the following conditions?

- a. Purchasing a limited source of items through an auction against other buyers
- b. Purchasing items from a strategic long-term supplier
- c. Purchasing innovative items where both parties share the risk equally
- d. Purchasing items where both parties gainshare the rewards equally

LO: 1

AC: 1.2

Correct answer: A

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Q4. A category manager is having an unsuccessful negotiation with a supplier, and has decided to adopt a different approach to the negotiation. The category manager reminds the supplier of its contractual obligations and says 'if we cannot reach agreement here today, do not forget that I can serve notice to terminate the contract'. This is an example of which type of power?

- a. Expertise
- b. Coercive
- c. Reward
- d. Reciprocity

LO: 1

AC: 1.3

Correct answer: B

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Q5. A procurement manager has been negotiating with a supplier for half an hour and is frustrated with the lack of progress. They are seeking a price reduction. After a short break the procurement manager says to the supplier 'how about if we agree to increase the guaranteed volume for the first twelve months - by how much will you reduce the price?' This is an example of which **ONE** of the following?

- a. Threat
- b. Emotion
- c. Logic
- d. Bargaining

LO: 3

AC: 3.2

Correct answer: D

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Q6. A supplier has provided a breakdown of its costs, which comprise of \$250,000 fixed costs and \$75 per unit variable costs. Its total costs for Product X amount to \$800,000. It determines its pricing based on applying a fixed profit percentage of 25% of these costs, so the price is \$1 million. The 25% profit is known as ...

- a. mark-up
- b. margin
- c. absorption
- d. costed

LO: 2

AC: 2.1

Correct answer: A

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Q7. The supplier's break-even point is reached when its revenues exceed which of the following?

- 1. Opportunity costs
- 2. Total fixed costs
- 3. Equity costs
- 4. Variable production costs

- a. 1 and 2 only
- b. 2 and 4 only
- c. 1 and 3 only
- d. 3 and 4 only

LO: 2

AC: 2.1

Correct answer: B

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Q8. Can closed questions be useful in a negotiation?

- a. Yes, because they are good to check understanding
- b. Yes, because they can encourage detailed responses
- c. No, because open questions should always be asked
- d. No, because closed questions only gather opinions

LO: 3

AC: 3.3

Correct answer: A

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Q9. Which of the following are most likely to be fixed costs for a manufacturing business? Select the **THREE** that apply.

- a. Factory rent
- b. Full-time staff salaries
- c. Insurance premiums
- d. Components
- e. Casual Labour
- f. Spares for production machines

LO: 2

AC: 2.1

Correct answer: A, B & C

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Q10. Which of the following are recognised forms of nonverbal communication? Select the **THREE** that apply.

- a. Hand gestures
- b. Body posture
- c. Informal communications
- d. Complex messaging
- e. Short Presentations
- f. Facial expressions

LO: 3

AC: 3.3

Correct answer: A, B & F

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Q11. A definition of a commercial negotiation is that it is aimed at achieving which **ONE** of the following?

- a. Savings
- b. Agreement
- c. Concessions
- d. Compromise

LO: 1

AC: 1.1

Correct answer: B

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Q12. In a collaborative negotiation the ideal outcome is ...

- a. Perceived win-win
- b. Lose-lose
- c. Win-lose
- d. Win-win

LO: 1

AC: 1.2

Correct answer: D

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Q13. A logistics company has a preferred supplier for the replacement of its vehicle fleet. The preferred supplier knows it is the only organisation that can meet the logistics company's needs, in terms of the type of vehicle required, the volume of vehicles required and in the timescales required. Which **ONE** of the following would be a BATNA (best alternative to a negotiated agreement) for the logistics company to use as leverage in the negotiation?

- a. To threaten to reduce the number of vehicles it wants to buy from the supplier
- b. To cancel the order altogether and carry out more regular maintenance on the ageing vehicle fleet
- c. To buy one year old vehicles from a competitor which has just gone into liquidation
- d. To specify smaller vehicles from another supplier and recruit more drivers

LO: 1

AC: 1.2

Correct answer: C

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Q14. An experienced procurement professional has identified advanced negotiation skills as an area for personal development. They recognise that they will require competency in these skills in order to have a more senior leadership position in the future. What action should they take to achieve this?

- a. Undertake reflective practice after each negotiation meeting
- b. Give suppliers feedback on their performance at the end of every negotiation meeting
- c. Publish the outcome of their negotiations on the company's intranet site
- d. Dictate to team members what their roles are in a negotiation

LO: 3

AC: 3.4

Correct answer: A

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Q15. A procurement professional is able to influence the outcome of a negotiation due to their superior knowledge and because they have threatened to cancel the contract if they are unhappy with the outcome. Which of the following sources of personal power are being used?

1. Coercive power
  2. Reward power
  3. Expert power
  4. Referent power
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- a. 1 and 2 only
  - b. 2 and 3 only
  - c. 3 and 4 only
  - d. 1 and 3 only

LO: 1

AC: 1.3

Correct answer: D

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Q16. In negotiation meeting, a buyer always makes a point of acknowledging every concession they are offered by a supplier and will attempt to gain a little extra at the very end of the meeting when the deal is being concluded. Which tactics are they using?

1. Good cop-bad cop
  2. Thanks and bank
  3. Add-on
  4. Broken record
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- a. 1 and 2 only
  - b. 2 and 3 only
  - c. 3 and 4 only
  - d. 1 and 3 only

LO 3

AC: 3.2

Correct answer: B



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Q17. Understanding the supplier's profit margins in a negotiation is a useful piece of information as it identifies the profitability of the contract in relation to the supplier's costs. Is this statement **TRUE**?

- a. No, the profit margin relates to the supplier's general overheads
- b. Yes, it expresses profit as a percentage of costs
- c. No, it relates to the amount of profit made in relation to the price
- d. Yes, a positive profit margin means the supplier is breaking even as a company

LO: 2

AC: 2.1

Correct answer: B

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Q18. In a negotiation a procurement organisation will generally have more power with a supplier that is in a monopolistic position in the market. Is this statement **TRUE**?

- a. No, the supplier is in a market dominant position
- b. Yes, the buyer will have several suppliers to choose from
- c. No, because the supplier might not have enough capacity
- d. Yes, as long as buyer has run a competitive tender

LO: 2

AC: 2.2

Correct answer: A

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Q19. Which of the following are types of questions that are useful to obtain comprehensive detailed answers from the other party that will also include their own opinions and thoughts? Select the **TWO** that apply.

- a. Leading
- b. Narrow
- c. Open
- d. Probing
- e. Closed

LO: 3

AC: 3.3

Correct answer: C & D

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Q20. Which of the following are required pieces of information to calculate the break-even point of a product? Select the **THREE** that apply.

- a. Item price
- b. Product type
- c. Variable costs
- d. Level of competition
- e. Fixed costs
- f. Elasticity

LO: 2

AC: 2.1

Correct answer: A, C & E

SAMPLE QUESTIONS