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Exam : **L4M5**

Title : Commercial Negotiation

Version : DEMO

1.An oil refinery plant imports much of its crude oil from overseas. A procurement manager in the refinery suggests that fixing the crude oil contract price for 36 months would be beneficial for the company. Would this be a right thing to do?

A. Yes, financial budgeting task would be a lot easier with fixed pricing arrangement

B. No, fixed price should be only applied to contracts that last 60 months or longer

C. No, the refinery would not be able to reap the benefits from falling commodity price and currency rates

D. Yes, the supplier would bear the risk when the material price increased

Answer: C

Explanation:

Fixed price contract is the contract in which the price is static throughout the contract period. A fixed-price contract may give certainty to budget and simplify contract management. However, it may lead to other problems since it requires bidders to estimate and bear the financial risks associated with price escalations. If the estimates are too high or events do not materialize, the buyer will pay a steep price that may affect the economy and efficiency of the contract. In the worst case, it may mean that the bid price is then above budget and may lead to a reduction in the requirements or rebidding. If the estimates are too low, it may appear as an abnormally low bid and disrupt contract execution.

On the other hand, price adjustment provisions include formulas designed to address problems, and can protect both the borrower and contractors from price fluctuations. Price adjustment formulas allow contractors to offer more realistic prices at the time of bidding. Despite concerns that they may lead to budget uncertainties, price adjustment formulas will estimate the actual cost implications that will be encountered. They use indexes that can be used for cost projection.

According to Asia Development Bank (ADB), any contract with a delivery or completion period beyond 18 months should contain an appropriate price adjustment clause.

In the scenario, the crude oil contract is planned to last 36 months. This period is pretty long with a fluctuating commodity. Therefore, the company should use price adjustment agreement.

Reference:

- CIPS study guide page 113-117
- GuidanceNote on Procurement: Price Adjustment (adb.org) LO 2, AC 2.2

2.Jane is planning for a forthcoming negotiation with a key supplier. She has learned what are important to the supplier and what are important to her company from previous contracts between them. In order to avoid negotiation deadlocks, she has set up several concession plans. But Jane has little experience in dealing with suppliers and doesn't know when to trade these concessions.

When is the best time in a negotiation to trade concessions?

A. In the testing phase

B. In the proposing phase

C. At bargaining stage

D. At opening stage

Answer: C

Explanation:

The question asks about the point in time when Jane should make concessions with the supplier. These concessions should be traded after preliminary stages such as opening, testing and proposing are over and proposals move from being tentative and general to being more definite and specific. This stage is called bargaining phase. The bargaining phase is the 'meat' of the negotiation meeting. LO 3, AC 3.1

3.Which of the following are examples of push techniques in commercial negotiations? Select TWO that apply.

A. Threat of punishment, costs and damage

B. Listening to, involving andsupporting others

C. Argument based on information, logic and reason

D. Working together to define the problem, the goals and the best solution

E. Using language and imagery to ‘paint a picture others can see’

Answer: A,C

Explanation:

There are two major persuasion methods: 'push' and 'pull'.

Persuasion can be defined as encouraging someone to do something that you want them to do for you. Persuasion is reasoning with someone so that they will believe or do something they might not otherwise do. Persuasion can be considered as 'pushing' on TOP so that they can accept the change in attitude or behaviour as a result of your actions. Influence is the ability to affect the manner of thinking of another. Influence can be considered as pulling on TOP so that you achieve the same result, but TOP feels they have changed their attitude or behaviour as a result of their reflection and thinking, and not your direct actions.

There are 5 options in this question:

'Threat of punishment, costs and damage': The influencertries to 'push' the other party to act as he/she wants by using force. This method is effective but short-lived. The influencer also risks to developing reputation for being heavy handed and dictatorial.

'Argument based on information, logic and reason’: The influencer uses logic and reasons to persuade the other party. This is also known as 'Persuasive Reasoning' (Push) 'Using language and imagery to ‘paint a picture others can see’': The influencer seeks to influence another by understanding the other’s emotions, and stimulating that party's imagination to visualise the desired future goal of the influencer. This is also known as 'visionary (pull)'

'Working together to define the problem, the goals and the best solution': In this technique, the person seeking to influence another involves the other party in the decision making process. This is known as 'collaborative (pull)'

'Listening to, involving and supporting others': In this technique, the person seeking to influence another tries to discover the other party's emotion and aims at mutual understanding. This is also a collaborative approach.

4.Which of the following is the internal factor that is taken intoprice of a product?

A. Risk management

B. Customer tastes

C. Elasticity

D. Exchange rate

Answer: A

Explanation:

In order to answer this question, you should better consider each option:

'Exchange rate' is the value of one nation's currency versus the currency of another nation or economic zone. This is a macroeconomic factor.

'Elasticity' refers to the degree to which individuals, consumers or producers change their demand or the amount supplied in response to price or income changes. This is a microeconomic factor Consumer tastes refer to the products and services that consumers consciously choose over others. Consumer tastes are so powerful that they can change how businesses
conduct their activity. Like elasticity, this is also a microeconomic factor.
Among 4 options, only risk management is the internal factor. Risk pricing is a strategy applied by many companies in the world. To learn how to price the risk, you can read an article from McKinsey:
https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/how-to-price-risk-to-win-and-profit
This is a question that a student met in her actual exam. The knowledge section is unknown.
LO: Unknown, AC: Unknown

5.A procurement professional is negotiating with a supplier on cleaning service. She realises that there are huge cost-saving opportunities if the supplier agrees to reduce its mark-up and unnecessary employee benefits. Supplier's mark-up and employee benefits are examples of which of the following?
A. Spend waterfall
B. Spend cube
C. Spend tree
D. Addressable spend
Answer: D
Explanation:
A key consideration when seeking to negotiate prices is to establish what proportion of the spend is addressable by procurement action such as negotiation. Addressability of spend is influenceable through negotiations or application of other saving effort or leverage with suppliers. LO 2, AC 2.1