
CIPS Level 5 – Advanced Diploma in Procurement and Supply

Category Management [L5M6]

Sample Exam Questions (Objective Response)

The correct answer will be listed below each question

Q1. Which of the following plays a fundamental role in establishing categories when developing a category management strategy?

- a. Macro environmental audit
- b. Portfolio analysis
- c. Relationship continuum
- d. Stakeholder mapping

LO: 3

AC: 3.2

Correct answer: B

Q2. Dave, a category manager, has been tasked with analysing the direct costs for his car manufacturing organisation. Dave is analysing the costs of steel components, plastic sub-assemblies and tyres. Is Dave analysing the correct types of costs?

- a. No, because these types of costs cannot be directly identified with a specific output
- b. No, because these types of costs vary according to market trends
- c. Yes, because these types of costs can be directly identified with a specific product or output
- d. Yes, because these types of costs have both fixed and variable elements

LO: 2

AC: 2.1

Correct answer: C

Q3. Which of the following are steps of AT Kearney's 7 step model for the adoption of category management?

1. Profile the category
 2. Select the implementation path
 3. Reducing the organisation's supply chain
 4. Consolidating the category's international suppliers
-
- a. 1 and 2 only
 - b. 1 and 3 only
 - c. 2 and 3 only
 - d. 2 and 4 only

LO: 1

AC: 1.2

Correct answer: A

Q4. Which of the following are key behavioural skills required to implement category management?

1. Financial analysis
 2. Team working
 3. Effective communication
 4. Risk management
-
- a. 1 and 2 only
 - b. 3 and 4 only
 - c. 2 and 3 only
 - d. 1 and 4 only

LO: 1

AC: 1.3

Correct answer: C

Q5. Strategic sourcing is concerned with the alignment of long-term organisation-wide goals and objectives. Strategic procurement's key tools include which of the following?

1. Individual assessment of supplier quotations
 2. Aggregation and assessment of demand patterns
 3. Outsourcing v manufacturing in-house decisions
 4. Internal process benchmarking
-
- a. 1 and 2 only
 - b. 1 and 3 only
 - c. 2 and 3 only
 - d. 3 and 4 only

LO: 1

AC: 1.1

Correct answer: C

Q6. A category manager has identified a number of 'bottleneck' suppliers on which the organisation has a high level of critical dependency. They plan to identify alternative sources of supply as a contingency. Is this the right course of action?

- a. No, these should be retained as single source only
- b. No, these contracts should be regularly put to e-auction
- c. Yes, because of their high-value, savings can be exploited
- d. Yes, there should be a back-up for high-risk supplies

LO: 3

AC: 3.2

Correct answer: D

Q7. Customers who are perceived as 'exploitable' by suppliers will receive poor quality service. Is this true?

- a. No, because these customers generate high revenues
- b. Yes, because these customers have low value overall
- c. Yes, because suppliers will only focus on customers they wish to nurture
- d. No, because low value customers are still attractive

LO: 3

AC: 3.3

Correct answer: A

Q8. Supply chain mapping is a useful tool for category managers to identify which of the following? Select **THREE** that apply.

- a. Cost savings
- b. New products
- c. Risk reduction
- d. Stakeholder culture
- e. Value-add potential
- f. Changing demographics

LO: 2

AC: 2.2

Correct answer: A, C, E

Q9. A new category head (CH) has recently joined Health Care International (HCI), a large private healthcare organisation. The category management concept is new to the organisation and a number of important stakeholders have yet to fully embrace it.

The CH has identified the stakeholders and has analysed their involvements and needs. They have so far had meetings with the two most important stakeholders. They first introduced themselves and immediately said to the CH "I'm interested in what you're going to tell me, but just so you know, I am the budget holder and ultimately I decide what happens". The second stakeholder was less forceful saying "It's good to meet you. I'm interested in hearing all about it and discovering what we can do to help each other".

These two stakeholders used different influencing techniques. Identify the two techniques.

1. Reciprocity
 2. Scarcity
 3. Consistency
 4. Authority
-
- a. 1 and 2 only
 - b. 2 and 3 only
 - c. 3 and 4 only
 - d. 1 and 4 only

LO: 1

AC: 1.3

Correct answer: D

Q10. The CPO of ZYX Technology Group (ZYXTG) has commissioned a study into the organisation’s major categories of expenditure. Most of these are different components used in the manufacturing process and are sourced from different suppliers around the world.

Product 1 – ZYXTG achieves a good price and high levels of service from its supplier of this product. There are numerous suppliers of this product and it would be easy for ZYXTG to switch. The market is highly innovative and has changed considerably over the years. Suppliers have had to invest heavily in new systems and supporting hardware and software to keep pace with these changes.

Product 2 – Is more challenging for ZYXTG. This is a low-value but high-risk item and as such its spend on this product, relative to other organisations, is very low. ZYXTG’s annual spend on the product is so low it often finds it difficult to receive any quotes at all when it issues an RFQ. It is a high-risk product because it plays a vital role in reducing emissions.

Product 3 – The CPO of ZYXTG has been nervous about the product for a while. It is a high-risk market, and the internal client refuses to deal with any company unless it has a five year profitable track record. Set-up costs for any new supplier to the market are very high. Furthermore, the supplier is based overseas, and currency fluctuations can have a significant impact on pricing variations over the life of the contract.

Product 4 – The specification for this product is unique and very technical, input-focused and based on conformance. As a result of there being no viable alternative, ZYXTG has become locked into the relationship with its supplier. The CPO is also concerned because of demographic changes forecast by the sales and marketing team that mean the product requirements will need to be revised soon.

A number of different analytical tools have been used in the process of gathering and assessing data in the completion of the study. Two of these are Porter’s Five Forces and STEEPLD. For each of the products, you are required to identify the most dominant factor relating to each of these two tools.

Choose from these options and drag and drop your answers into the table below. [8]

You can only use each option once.

Bargaining power of buyers - Low	Threat of substitute of products - Low
Economic factor	Technological factor
Social factor	Competitive rivalry - High
Threat of new entrants - Low	Environmental factor

Product	Porter’s Five Forces	STEEPLED factor
1		
2		
3		
4		

Q10 Continued ...

LO: 2

AC: 2.2

Correct answer:

Product	Porter's Five Forces factor	STEEPLED factor
1	Competitive rivalry – High	Technological factor
2	Bargaining power of buyers - Low	Environmental factor
3	Threat of new entrants - Low	Economic factor
4	Threat of substitute of products - Low	Social factor

Q11. From the items listed below which of the following options is the earliest stage in establishing a category management approach?

- a. Monitoring the plan
- b. Allocating internal resources
- c. Conducting spend analysis
- d. Rationalising the supplier base

LO: 1

AC: 1.1

Correct answer: C

Q12. Esther is a procurement manager for Summer & Sons, which is developing its procurement team to be a category management focused team. It has been identified that a key area that needs improving for Summer & Sons is its supplier relationship management process as currently suppliers are only contacted by procurement when new sourcing requirements arise or when internal stakeholders request procurement's support in rectifying a quality issue. Esther is planning to use a Pareto analysis to initially segment Summer & Sons' spend. How will this help her to develop a supplier relationship strategy?

- a. It will identify Summer & Sons' bottleneck suppliers, who will therefore need the most effort and attention given to them in terms of relationship management
- b. It will identify the key suppliers responsible for the majority of spend. A detailed relationship management plan can then be put in place with these suppliers
- c. It will identify the key suppliers responsible for the majority of spend. These suppliers will then be managed by stakeholders alone due to their criticality
- d. It will identify where Summer & Sons is seen as a 'nuisance' customer. A plan can then be developed to improve their position with suppliers if this is the case

LO: 2

AC: 2.1

Correct answer: B

Q13. Which of the following are key activities during the 'kick off' phase when implementing a category management approach from the CIPS category management model?

- 1. Defining the category scope
 - 2. Evaluating potential benefits
 - 3. Identifying the stakeholders
 - 4. Prioritising identified opportunities
-
- a. 1 and 2 only
 - b. 2 and 4 only
 - c. 1 and 3 only
 - d. 3 and 4 only

LO: 1

AC: 1.2

Correct answer: C

Q14. When applying Porter's Five Forces tool, which of the following will have the greatest impact on the likelihood of new entrants to the industry?

1. Stakeholders' physical locations
 2. Level of regulation and government control
 3. Product packaging and design
 4. Initial set-up costs
-
- a. 1 and 2 only
 - b. 2 and 4 only
 - c. 1 and 3 only
 - d. 3 and 4 only

LO: 2

AC: 2.2

Correct answer: B

Q15. The 'cost of goods sold' within a supplier's financial statements show the supplier's direct costs of producing finished goods. Is this correct?

- a. Yes, direct costs relate to the costs of producing the goods for sale
- b. No, direct costs relate only to the fixed element of the cost base
- c. Yes, when direct costs are deducted from revenues depreciation is calculated
- d. No, cost of goods sold includes both direct and indirect expenditures

LO: 2

AC: 2.1

Correct answer: A

Q16. An effective technology route map will ensure the organisation is protected against cyber-crime and other high-risk events. Is this correct?

- a. No, it will set out how technology has changed within the organisation since it was initially formed
- b. Yes, it will define clear protocols and ways of working to ensure that all technology threats can be avoided
- c. No, it will provide an outline of how the business intends to use technology to pursue its objectives
- d. Yes, it will incorporate an encryption approach and other mechanisms for all staff to improve security

LO: 2

AC: 2.2

Correct answer: C

Q17. When applying total cost of ownership models, which of the following are relevant disposal costs? Select **TWO** that apply.

- a. Servicing costs
- b. Testing costs
- c. Removal costs
- d. Maintenance costs
- e. Decommissioning costs

LO: 3

AC: 3.2

Correct answer: C & E

Q18. Which of the following are economic factors that might have an impact on an organisation's direct and indirect expenditures? Select **THREE** that apply.

- a. Interest rates
- b. Change in taxation
- c. An ageing customer base
- d. Emerging technologies
- e. Exchange rates
- f. Changing weather patterns

LO: 2

AC: 2.2

Correct answer: A, B & E

Q19. A large central government department is adopting a category management approach. Resources have been allocated and a project team has been formed to commence the initial work. Different stakeholders have been identified and their respective roles and importance within the project have been assessed.

Stakeholder A will be making all of the decisions and is ultimately in charge but will not be completing any of the tasks themselves. Stakeholder B will need to be kept updated on how the project is progressing but has no direct input into decision making.

These two stakeholders are best described as which of the following?

- 1. Trustworthy
 - 2. Accountable
 - 3. Informed
 - 4. Consulted
-
- a. 1 and 2 only
 - b. 2 and 3 only
 - c. 3 and 4 only
 - d. 1 and 4 only

LO: 3

AC: 3.2

Correct answer: B

Q20. Four different companies are currently under contract to supply products to an international retail organisation (IRO). The IRO is conducting a detailed assessment of all key suppliers as part of its category management approach. Each company has a major product line and has a specific issue which has been highlighted following analysis of financial statements. Relevant information is as follows:

Company 1 – The product line has high market growth and high relative market share. Whilst its product performance has been good for many years now, the company’s return on investment ratios and margins have been in decline for some time due to a cost base that is seemingly spiralling out of control.

Company 2 – The product line has low market share but is in a fast-growing market. Whilst financial ratio analysis reveals a positive position in terms of current assets and liabilities its long-term health is less encouraging. In recent years its long-term debts have continued to increase steadily year-on-year against a static equity base.

Company 3 – The product line has high market share but in a market that is no longer growing. This is of concern especially as the company’s financial statements reveal a significant deterioration in both its current ratio and acid test ratio. Current liabilities are now four times greater than current assets (including inventories) and this means there is little cash available to pay suppliers.

Company 4 – The product line has low market share in a market that is no longer growing. The company clearly needs to make a decision about the product and needs to focus more on working capital management. On reviewing its financial statements, its debtor days, credit days and stock turnover are all showing a deteriorating trend annually over the last three years.

You are required, for each company, to determine the product category (based on market share/growth) and to identify the main area of financial concern.

You can only use each option once.

Question mark category	Gearing concern
Cash cow category	Liquidity concern
Profitability concern	Star category
Efficiency concern	Dog category

Company	Market share/growth	Financial concern
1		
2		
3		
4		

Q20 Continued ...

LO: 2

AC: 2.2

Correct answer:

Company	Market share/growth category	Financial concern
1	Star category	Profitability concern
2	Question mark category	Gearing concern
3	Cash cow category	Liquidity concern
4	Dog category	Efficiency concern