
CIPS Level 5 – Advanced Diploma in Procurement and Supply

Achieving Competitive Advantage Through the Supply Chain [L5M7]

Sample Exam Questions (Objective Response)

The correct answer will be listed below each question

Q1. When entering into cost plus pricing arrangements, agreeing which of the following with the supplier is the most important?

- a. Discount values
- b. Indexation
- c. Mark-up
- d. Rebate levels

LO: 3

AC: 3.2

Correct answer: C

Q2. Value analysis could be undertaken by an organisation to improve performance when which of the following occurs? Select **THREE** that apply.

- a. When there is a reduction in the sales volume of a product
- b. When the operating profit is increasing
- c. When the organisation fails to meet its delivery schedule
- d. When the rate of return on investment for the organisation is reducing
- e. When the rate of return on investment is increasing
- f. When substitute products leave the international market place

LO: 3

AC: 3.3

Correct answer: A C & D

Q3. XTZ Chemicals (XTZ) wants to improve its profit margin on its major product lines. Because of competitive pressures XTZ cannot increase its pricing as this would result in lower sales volumes. It also knows that its suppliers' costs are already very strictly managed. To improve its profit margin XTZ will negotiate with its key supplier and should aim for a reduction in which of the following?

- a. The supplier's mark-up
- b. The supplier's lead times
- c. The supplier's minimum order quantities
- d. The supplier' research and development costs

LO: 3

AC: 3.3

Correct answer: A

Q4. Which of the following are most likely to lead to potential supply chain vulnerability?

1. Lack of visibility of all stages of the chain
 2. Supplier opening a new premises
 3. High dependency on a single supplier
 4. Supplier in the chain appointing a new Account Director
- a. 1 and 2 only
 - b. 1 and 3 only
 - c. 3 and 4 only
 - d. 2 and 4 only

LO: 1

AC: 1.2

Correct answer: B

Q5. Which of the following are most likely to feature within key performance indicators used to encourage supply chain improvements?

1. Supply chain staff selection
 2. Supplier reduction
 3. Process improvements
 4. Quality enhancements
-
- a. 1 and 2 only
 - b. 3 and 4 only
 - c. 1 and 3 only
 - d. 2 and 4 only

LO: 2

AC: 2.2

Correct answer: B

Q6. A category manager has been advised to use benchmarking to help identify areas for improvement to improve competitive advantage. Is this a valid approach?

- a. Yes, benchmarking will identify best practice in the market
- b. Yes, benchmarking will always identify improvement opportunities
- c. No, benchmarking can only ever be used internally
- d. No, competitor information cannot be gathered through benchmarking

LO: 2

AC: 2.4

Correct answer: A

Q7. Adopting a competitive approach with suppliers is a valid approach where the buyer has supply options and the products are routine or leverage. Is this **TRUE**?

- a. No, collaboration is always the best approach
- b. No, buyers should always be competitive to get the best deal
- c. Yes, as long as there genuinely are other supply options available
- d. Yes, even for leverage products where there are no other supply options

LO: 3

AC: 3.3

Correct answer: C

Q8. Effective supply chain management can create added value for the organisation in which of the following ways. Select **THREE** that apply.

- a. Quality improvements
- b. Reduction in profitability
- c. Reduction in total costs
- d. Shorter time to market
- e. Customer resistance
- f. Customer recruitment

LO: 1

AC: 1.2

Correct answer: A, C & D

Q9. ANE Pharmaceuticals Group (ANEPG) has highly efficient operations. It is a very profitable organisation and its products are of very good quality. It prides itself on its organisation-wide focus on continuous improvement and customer focus. It continually seeks and implements improvements with opportunities taken to avoid waste and enhance quality. It introduced a Six Sigma approach some years ago and the philosophy has been adopted across the different functions within ANEPG. In adopting this approach, ANEPG's improvement cycle is most likely to include which of the following stages?

1. Define
2. Measure
3. Reduce
4. Save

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

LO: 2

AC: 2.2

Correct answer: A

SAMPLE QUESTIONS

Q10. A major global corporation has a number of different and autonomous operating units.

Operational Unit 1 – has a management philosophy where all staff focus on achieving a high level of quality at the all points in the process, in other words the overall ethos is ‘right first time’. In adopting this approach its senior management team is proud, as it claims, to have eliminated all waste.

Operational Unit 2 - implements processes designed to provide confidence that the right levels of quality will be achieved and maintained. It also has virtually reduced the need to hold inventories as it works in a highly integrated way with its key suppliers, which deliver stock precisely when required.

Operation Unit 3 – makes use of checks and other measures to ensure that quality standards are being met. This operational unit also works in a highly flexible way and so can respond very quickly to changes in the market.

Operational Unit 4 – uses physical audits and visual checks to ensure compliance to quality standards has been achieved. This unit has the closest supplier relationships, working with some organisations on a joint basis, including risk-sharing.

You are required to match the approach to quality and key area of focus to each operational unit.

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

You can only use each option once.

Quality control	Quality assurance
Total quality management	Agile
Just-In-Time	Quality inspection
Partnering	Lean

Operation Unit	Key area of focus	Approach to quality
1		
2		
3		
4		

LO: 2

AC: 2.1

Correct answer:

Operation Unit	Key area of focus	Approach to quality
1	Lean	Top quality management
2	Just-In-Time	Quality assurance
3	Agile	Quality control
4	Partnering	Quality inspection

Q11. Effective supply chain management has been proven to deliver which of the following direct benefits for the procurement organisation?

- a. Share price reduction
- b. Improved quality
- c. Increased operating costs
- d. Fewer stakeholders

LO: 1

AC: 1.2

Correct answer: B

Q12. Alison has been tasked with developing the relationship with a new IT supplier who is providing key IT services to her company. Alison has assessed the service and has determined that a partnership approach is most appropriate. What is the main advantage of this approach?

- a. Alison will have greater access to the suppliers technology and expertise and a dedicated account manager
- b. Alison will be permanently locked in with the supplier allowing her to concentrate on other contracts
- c. If the supplier also supplies one of her main competitors, Alison can access information to help her with innovation
- d. A partnership approach will eliminate the costs of creating and managing the contract with the supplier in the future

LO: 1

AC: 1.4

Correct answer: A

Q13. Which of the following examples illustrate functional benchmarking?

1. A food wholesaler benchmarking its HR processes against a car manufacturing HR process
 2. A local gym benchmarking its brand recognition against other local gyms
 3. A bicycle manufacturer benchmarking its product reliability against another bicycle manufacturer's quality systems
 4. A local shop benchmarking the way the health service uses bar coding of its stocks and inventory
-
- a. 1 and 2 only
 - b. 2 and 4 only
 - c. 1 and 4 only
 - d. 3 and 4 only

LO: 2

AC: 2.4

Correct answer: C

Q14. TQM (total quality management) is a philosophy that emphasises which of the following?

1. Continuous improvement
 2. Customer focus
 3. Lowest cost
 4. Competitive positioning
-
- 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: A

Q15. Six Sigma focuses on using a balanced scorecard approach to improving relationships with key suppliers. Is this correct?

- a. Yes, it is designed to enhance supplier relationships
- b. No, it is an employee reduction philosophy based on technology
- c. Yes, the scorecard approach encourages supplier improvements
- d. No, it is essentially a process improvement methodology

LO: 2

AC: 2.2

Correct answer: D

Q16. A 'cost leadership' strategy can be achieved by maximising savings and efficiencies throughout the supply chain. Is this correct?

- a. No, such a leadership strategy can only be achieved by removing suppliers and producing in-house
- b. Yes, if the supply chain is efficient, then being the lowest cost producer is a realistic goal
- c. No, other organisations will be using the same supply chains so leadership cannot be achieved
- d. Yes, by being efficient, customer quality will also be improved and all supply risks will be eliminated

LO: 3

AC: 3.1

Correct answer: B

Q17. Competitive advantage can be achieved through which of the following? Select **TWO** that apply.

- a. International standards
- b. Stakeholder mapping
- c. Brand image
- d. Replicating competitor products
- e. Unique product features

LO: 3

AC: 3.1

Correct answer: C & E

Q18. In a cost plus arrangement, the price will include which of the following? Select **THREE** that apply.

- a. Agreed direct costs
- b. An agreed discount rate
- c. An agreed allocation of overheads
- d. An agreed mark-up
- e. Agreed cost reduction formula
- f. An agreed rate of return

LO: 3

AC: 3.2

Correct answer: A, C & D

Q19. Property Development Group (PDG) buys land and builds residential housing. Supplier performance has been an issue for PDG in recent years, so it has been considering ways to incentivise improved levels of performance from its suppliers, as they often overrun in terms of costs and timescales. It is piloting an incentivisation scheme for all new suppliers. Some will be paid an additional pre-agreed sum on achieving specific contract milestones. Other suppliers will be incentivised to achieve savings which PDG will share with the supplier on a 50/50 basis. Which incentivisation methods is PDG piloting?

1. Rebate scheme
 2. Bonus payment
 3. Gain share
 4. Prompt payment
-
- 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

SAMPLE QUESTIONS

Q20. ABC Engineering (ABCE) is conducting a review of its supplier base. It has identified four contracts, each has a different type of relationship and involves a different technique to maximise value. Relevant information is as follows:

Supplier 1 – The relationship is quite important to ABCE, but the focus is more short-term, although more than transaction-by-transaction. There is some trust and communication but less than ABCE has with its more important suppliers. This particular supplier is frequently quoting competitively for work. ABCE’s main focus is on minimising price by comparing what it pays with other prices in the market.

Supplier 2 – The relationship is one of ABCE’s most important, with a long-term strategic focus, built on trust and with regular communications. ABCE and the supplier work closely on numerous projects, on which they share common goals. Value is maximised by jointly exploring new ways of working and techniques for mutual benefit. They are currently testing new technology that would transform their supply chain.

Supplier 3 – The relationship with this supplier is very one-sided, driven purely by the needs of ABCE, as they arise. The supplier is only used for ‘routine’ items. There is no communication beyond order placing and conflict often arises. This conflict is driven in part by ABCE’s insistence on determining its costs in advance to help its budgeting and so there is no flexibility for the supplier if its own costs increase.

Supplier 4 – ABCE has a dependant relationship with this supplier, to provide assurance of supply for components which it regards as ‘bottleneck’. The contract is for a medium-term and the relationship with the supplier is good, with some trust and communication as would be expected in a contract where exclusivity exists. Recently, ABCE and the supplier agreed to work on a more open basis in terms of costs. They have agreed which costs will pass on to ABCE and the supplier is prepared to allow ABCE access to its financial data to verify the accuracy of these.

You are required, for each supplier, to determine the nature of each relationship and the technique used.

You can only use each option once.

Innovation	Closer-tactical relationship
Adversarial relationship	Fixed pricing
Benchmarking	Open book
Partnership relationship	Single-source relationship

Supplier	Relationship	Technique
1		
2		
3		
4		

Q20 Continued ...

LO: 1

AC: 1.4

Correct answer:

Supplier	Relationship	Technique
1	Closer-tactical relationship	Benchmarking
2	Partnership relationship	Innovation
3	Adversarial relationship	Fixed pricing
4	Single-source relationship	Open book

SAMPLE QUESTIONS