CIPS L5M6 Practice Questions

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Question 1

Question Type: MultipleChoice

In a Sourcing Business Model, stakeholders must answer key questions to determine the right model. Which are the most important? [Select TWO]

Options:

A- How much risk does the company wish to take?
B- What factors form part of the total cost of ownership?
C- What is the most appropriate contractual relationship?
D- What is the most appropriate economic model?

Answer:

C, D

Explanation:

In deciding the correct Sourcing Business Model, stakeholders must clarify two fundamental issues:

The most appropriate contractual relationship [C]: This could be transactional [short-term, cost-focused], relational [long-term collaboration], or investment-based [joint ventures, alliances]. The choice defines how risks and rewards are shared with suppliers.

The most appropriate economic model [D]: This determines the pricing and performance framework, e.g., transactional [pay-per-unit], output-based, or outcome-based [pay-for-results].

Options A and B are important but secondary considerations. Risk appetite and TCO factors are inputs to decision-making, but the contractual and economic models define the overall sourcing structure.

This reflects the study guide's emphasis that sourcing models should be tailored to category complexity and business objectives. Using the wrong model can undermine supplier relationships and value delivery.

[Ref: CIPS L5M6 Study Guide, p.32 -- Key questions in Sourcing Business Models]

Question 2

Question Type: MultipleChoice

Jonah is a Procurement Specialist responsible for a sub-category of work which includes procuring skilled labour for construction. Sub-categories can also be known as what within a Category?

Options:

A- Sets
B- Commodities
C- Lots
D- Divisions

Answer:

B

Explanation:

Within Category Management, sub-categories are often referred to as commodities. These are narrower groupings within a category that focus on specific goods or services. For example, within the Construction category, commodities might include raw materials, subcontracted labour, or specialist equipment hire. Recognising commodities helps procurement apply tailored strategies that address their specific market dynamics and risk profiles. It also provides clarity when developing category plans, as different commodities may require different sourcing and supplier management approaches. By managing at both category and commodity levels, organisations can strike a balance between broad strategic alignment and detailed tactical execution.

Question 3

Question Type: MultipleChoice

Caleb is completing a risk assessment on his supply chain using a matrix categorising risks on a scale of 1--5. He identifies one risk with a score of 2. Which category of risk would this fall into?

Options:

A- Major
B- Main
C- Moderate

D- Minor

Answer:

D

Explanation:

Risk assessments in procurement often use a likelihood severity matrix. Risks are scored on scales from 1--5, and the scores are multiplied. A score of 2 indicates a minor risk with low impact and/or low probability. For comparison, risks with scores in the upper range (e.g., 20--25) are considered major risks that demand immediate mitigation. Minor risks, although not ignored, are often monitored rather than heavily resourced. This structured approach ensures procurement teams focus resources on the most significant threats while still maintaining oversight of low-level risks. By categorising risks this way, category managers create clarity for decision-makers and align procurement risk management with enterprise-wide frameworks.

Question 4

Question Type: MultipleChoice

According to Porter's Five Forces, supplier power is strong in industries where Which option best is true? [Select THREE]

Options:

A- No substitutes are available
B- Supplier's customers are fragmented
C- Switching costs are low
D- Forward integration is possible
E- The product is undifferentiated

Answer:

A, B, D

Explanation:

Supplier power is strong when buyers have fewer choices and suppliers have leverage. This occurs where:

No substitutes are available [A]: Buyers are locked into what suppliers provide, increasing supplier power.

Supplier's customers are fragmented [B]: When customers are fragmented [many small buyers], they cannot collectively negotiate, so suppliers hold more power.

Forward integration is possible [D]: Suppliers can bypass buyers and sell directly to the end customer, which gives them negotiating strength.

Options C and E relate more to buyer power:

Switching costs are low [C]: This reduces supplier power as buyers can easily move.

Undifferentiated products [E]: This strengthens buyer power since products are interchangeable.

[Ref: CIPS L5M6 Study Guide, p.116 -- Porter's Five Forces model]

Question 5

Question Type: MultipleChoice

At which stage in the Procurement Cycle can most value be added?

Options:

A- Specify requirements
B- Supplier selection
C- Negotiate and award contract
D- Review

Answer:

D

Explanation:

CIPS highlights that the review stage of the Procurement Cycle offers the greatest opportunity to add value. This is because it involves assessing whether objectives have been met, identifying lessons learned, and capturing continuous improvement opportunities. While specifying requirements and supplier selection are critical, the review stage ensures that outcomes are measured against expectations and future strategies are refined. For example, reviewing contract performance may reveal contract leakage or highlight areas where better supplier engagement could drive innovation. This feedback loop transforms procurement from a transactional process into a learning system. By institutionalising review mechanisms, organisations improve their resilience and ensure that procurement strategies evolve with business needs and market changes.

Question 6

Question Type: MultipleChoice

A 'should cost' analysis and value analysis can be completed on items procured by a buyer. Which of the following categories of spend are these tools most applicable for?

Options:

A- Strategic
B- Bottleneck
C- Leverage
D- Non-critical

Answer:

C

Explanation:

These tools are most applicable for leverage items, which typically have high spend but low supply risk. Buyers can use cost breakdowns and value analysis to reduce prices and improve cost-efficiency.

Question 7

Question Type: MultipleChoice

Under what circumstances should forecast data be amended? Select THREE.

Options:

A- A key customer is lost
B- A key supplier ceases trading
C- Operations move to a new location
D- There is significant price inflation
E- Health and safety legislation changes

Answer:

A, B, D

Explanation:

Forecasts must be dynamic and updated when major internal or external changes occur. Losing a key customer significantly reduces demand, meaning forecasts must be lowered accordingly. Similarly, if a key supplier ceases trading, supply constraints may alter procurement strategies, requiring adjustment to supply and spend forecasts. Likewise, significant price inflation impacts both demand planning and budgeting, as organisations must reassess affordability and potentially seek alternatives. On the other hand, relocating operations or new health and safety legislation may change processes, but they do not directly influence demand, supply, or pricing forecasts. For category managers, regularly reviewing and amending forecasts ensures procurement strategies remain relevant and aligned with market realities. Without this adaptability, organisations risk supply disruptions, overestimation of needs, or financial misalignment.