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Exam : **L5M6**

Title : Category Management

Version : DEMO

1.According to Porter’s Five Forces, supplier power is strong in industries where which of the following is true? [Select THREE]
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]

2.Which of the following approaches to cost is the least transparent?
A. Price management
B. Price acceptance
C. Cost down
D. Cost out
Answer: B
Explanation:
Price acceptance is the least transparent approach because the buyer simply accepts the supplier’s quoted price without investigating its basis or fairness. There is no visibility into the supplier’s cost structure, margins, or pricing methodology.
By contrast:
Price management involves actively managing pricing discussions.
Cost down involves collaborative efforts to reduce costs after production.
Cost out involves eliminating costs before production through design.
[Ref: CIPS L5M6 Study Guide, p.81 – Costing methods]

3.SIC codes are sets of four-digit codes used to classify what?
A. Business departments
B. Spend categories
C. Countries
D. Industries
Answer: D

Explanation:
SIC [Standard Industrial Classification] codes are numerical codes used to classify industries. For example, 1000 = mining, 1500 = construction. These codes help in categorising spend, benchmarking, and market analysis but are not intended for memorisation.
[Ref: CIPS L5M6 Study Guide, p.82 – SIC codes]

4.A list of direct costs within a manufacturing organisation could be found on which of the following?
A. Profit and Loss Account
B. SWOT Analysis
C. Bill of Materials
D. Specification
Answer: C
Explanation:
A Bill of Materials [BoM] lists the components, raw materials, and parts required to produce a product. These represent direct costs as they directly contribute to the finished item. While labour and overheads may also be direct costs, they are not usually in the BoM.
[Ref: CIPS L5M6 Study Guide, p.83 – Direct vs Indirect Costs]

5.Which of the following industries is the only one that does not have a specific SIC code?
A. Agriculture
B. Finance
C. Retail
D. Services
Answer: D
Explanation:
The services industry does not have a specific SIC code because it is highly diverse, spanning multiple activities that do not fit neatly into a single classification.
[Ref: CIPS L5M6 Study Guide, p.88 – SIC classification limitations]