

L4M2 Summarised Note

1. Understand how to devise a business case for requirements to be sourced from external suppliers:

1.1 Analyse how business needs influence procurement decisions:

a. Different types of purchase:

- Straight re-buy:
 - When to use straight re-buy
 - Typical scenarios that straight re-buy is adopted
- Modified re-buy:
 - When to use modified re-buy
 - Typical scenarios that modified re-buy is adopted
- New purchase
 - When to use new purchase
 - Typical scenarios that new purchase is adopted

b. Ways to identify business needs: RASQCI

c. Problem solving skills for procurement professionals:

- Types of problems:
 - Closed problems
 - Open ended problems
- Problem solving processes: 5 why,

d. Typical sessions of a business case: Executive summary; Long-term strategy consideration; Business requirements; Price and cost analysis; Market analysis; Supply analysis; Technical developments, Vulnerability analysis; Sourcing objectives; Implementation plan; Competitive advantages...

1.2 Identify how costs and prices can be estimated for procurement activities

a. Types of market data:

- Primary data (field research): examples of these sources

- Secondary data (desk research): examples of these sources

b. Types of costs

- Direct and indirect costs: examples in real life
- Fixed and variable costs: examples from real life
- Primary and secondary activities (Porter value chain): the relationships between Porter's value chain and direct, indirect costs

c. Break-even analysis: how to calculate break-even point

d. Purchase cost analysis: different methods of purchase cost analysis

e. Price analysis: how to carry out price analysis

- History price
- Published price
- Pricing formula

f. Whole-life cycle costing models:

- Decision support model
- Simulation model
- Optimisation model

1.3 Criteria that can be applied in the creation of a business case:

a. Objectives

b. Options

c. Cost and Benefit

d. Risk assessment

e. Implementation plan

f. Advantages and Disadvantages of benchmarking may be also included:

- Internal benchmarking
- Competitive benchmarking
- Functional benchmarking
- Generic benchmarking

1.4 Budget and cash flow

a. Purposes of budget

b. The cash flow cycle: which can affect positively or negatively cash flow of a business

c. Timing of cash flow:

- From revenue
- From direct and indirect expense
- From depreciation
- From bank loans and interests
- From dividends and other investment activities

d. How to calculate cash flow

e. Budget variance and how to deal with variances:

- Price variance: how to detect
- Quantity variance: how to detect
- Labour variance: factors that influence this variance
- Overhead variance: factors that influence this variance

f. Methods of budgeting: zero-based budgeting

2. Understand market management in procurement and supply

2.1 Different types of market:

a. Segment market

- Product
- Buyer

b. Manufacturing

- Characteristics
- Disruptive technologies in this market

c. Construction

- Characteristics
- Disruptive technologies in this market

d. Retails

- Characteristics
- Disruptive technologies in this market

e. Financial

- Characteristics
- Disruptive technologies in this market

f. Agriculture

- Characteristics
- Disruptive technologies in this market

g. Services

- Characteristics
- Disruptive technologies in this market

2.2 Michael Porter's five forces of competition: questions may state some description of a market and ask students to detect which force influence the market the most.

- Rivalry among competitors
- Bargaining power of suppliers: factors that increase or decrease the power of suppliers.
- Bargaining power of buyers: factors that increase or decrease the power of buyers
- Threat of substitute
- Threat of new entrants

2.3 How to collate sources of information

- Sources of information: company annual reports, market data, technical data, RFI, plan visits, discount lists.
- Prepare purchasing budget
- Research skills: OWN-IT process:
 - Outline the area to be researched
 - Wide search
 - Narrow search
 - Increase your body of knowledge by clipping and stockpiling
 - Transform the collected information into new insights
 - Purchase price cost analysis
 - Negotiation

3. Understand the use of specifications in procurement and supply

3.1 Different types of specifications:

- Technical specification
- Conformance specification
- Performance specification
 - Output-based specifications
 - Outcome-based specifications

d. Most common forms of questions: scenario then ask which type of specification would be the most appropriate. You must know the advantages, disadvantages of each types and typical situations where they should be used.

e. Advantages, disadvantages of each type of specifications are possible questions

3.2 Through-life contract specification

a. Typical sessions: Design, Manufacturing, Installation, In-service support; Decommission; Customer support

b. Testing and acceptance

c. Social and environmental criteria

3.3 Identify risks from over-, under-specified specification and mitigation approach

a. Over-specified specification

b. Under-specified specification

c. Misinterpreted specification

d. Risk management process

e. Monitor specification written by cross functional team: PID

3.4 Identify opportunities to regulate short- and long-term specification

a. Standardisation

- Process standardisation: Lean principles and types of waste
- Product standardisation: reducing product varieties
- Parts standardisation

b. Value analysis:

- Definitions
- Target costing
- Process

c. Value engineering

- Definition
- Kano model

d. Roles of other stakeholders in writing specifications:

- The process:

– Identify the stakeholders

- Understand and prioritise stakeholders
- Prepare a stakeholder engagement plan
- Implement the plan
- The stakeholder matrix
- Communication plan

If you need to check your skills, use my practice tests as your reference:

1. **L4M1:** <https://en.evocurement.edu.vn/product-category/evocurement/l4m1-practice-tests/>
2. **L4M2:** <https://www.udemy.com/course/cips-diploma-l4m2-practice-test/?referralCode=D6857E569E583169D7E6>
3. **L4M3:** <https://www.udemy.com/course/cips-diploma-practice-test-commercial-contracting/?referralCode=A5F71CD5C684538996EB>
4. **L4M4:** <https://www.udemy.com/course/cips-diploma-practice-test-ethical-responsible-sourcing/?referralCode=00CB8A48071CD88E9BE8>
5. **L4M5:** <https://www.udemy.com/course/cips-practice-test-commercial-negotiation/?referralCode=919D1BDB285AFA4CB55A>
6. **L4M6:** <https://www.udemy.com/course/cips-diploma-practice-test-supplier-relationships/?referralCode=76AF6ECB83302BBF245F>
7. **L4M7:** <https://www.udemy.com/course/level-4-diploma-whole-life-asset-management-l4m7/?referralCode=C95CAF196D8460C1A86F>
8. **L4M8:** <https://en.evocurement.edu.vn/product-category/evocurement/l4m8-practice-tests/>