

# L4M4 Summarised Note

## 1. Understand options for sourcing requirements from suppliers

### 1.1. Identify the sourcing process in relation to procurement

- a. Definition of sourcing and outsourcing
  - Definition of sourcing
  - Sourcing process
    - Novak and Simco's 11 stages
    - CIPS Procurement cycle
  - Differentiate tactical sourcing and strategic sourcing
  - Definition of outsourcing
- b. Make or buy decisions
  - Factors to consider making or buying
  - Advantages and disadvantages of make decision
  - Advantages and disadvantages of buy decision
- c. Sourcing costs and benefits of outsourcing
  - Kraljic's matrix: categorise products and services
  - Costs of sourcing
- d. Outsourcing non-core/core work and services
  - Barnes outsourcing matrix
  - Typical functions being outsourced
  - Definition of insourcing
- e. Supplier pre-qualification, supplier appraisal
  - Definition of pre-qualification & supplier appraisal
  - Pre-qualification questionnaire:
    - Typical criteria
    - Carter's 10 Cs
  - Supplier appraisal
    - Typical activities
    - When to undertake
    - Risks of unqualified supplier
- f. Vendor or supplier performance management
  - KPI
  - SLA
- g. Risks in outsourcing
- h. Market development and growth of outsourcing

i. Regulations affecting employees' terms of employment: Transfer of Undertaking (Protection of Employment) Act

1.2. Differentiate between approaches to the sourcing of requirements from suppliers

a. Single, dual, and multiple sourcing arrangements

- Definitions
- Advantages and disadvantages of each arrangement

b. Tendering processes

- Stages of a typical tendering process
- Open tendering process
  - When to use
  - Steps of open tendering processes
- Restricted tendering process
  - When to use
  - Steps of restricted tendering processes
- Negotiated tendering
  - When to use
  - Steps of negotiated tendering processes

c. Negotiations with suppliers

- Conflict management styles
- Stages of negotiation with supplier

d. Intra-company trading and transfer pricing arrangement

- Centralised and decentralised (devolved) procurement
- Definition of intra-company trading
- Transfer pricing:
  - Purposes
  - Advantages
  - Disadvantages

e. Implications of international sourcing

- Benefits
- Risks

1.3. Define selection criteria that can be commonly applied when sourcing requirements from external suppliers

a. Typical criteria in pre-qualification questionnaire

- Quality assurance
- Environmental and social responsibility

- Technical capabilities
- Systems capabilities
- Labour standards
- Financial capabilities
- Credit point

b. The importance of supplier financial stability and due diligence checks

- Risks of selecting financially unstable supplier

c. Ratio analysis

- How financial information is shown in supplier's financial statements:

- Income and loss statement
- Cash flow statement
- Balance sheet

- Profitability ratios:

- Typical ratios: gross profit margin, operating profit margin, net profit margin, EBITDA, etc.
- Formulae of those ratios
- Implications of profitability ratios

- Liquidity ratios:

- Typical ratios: current ratio, quick ratio, cash flow ratio, etc.
- Formulae of those ratios
- Implications of liquidity ratios

- Gearing ratio

- Formulae of gearing
- Implications of gearing

- ROI ratio:

- Formulae of gearing
- Implications of gearing

- Limitations of ratio analysis

1.4. Define award criteria that be commonly applied when sourcing requirements from external suppliers

a. Typical award criteria

- Price
- Total life-cycle cost

- Technical merit
  - Added value solutions
  - System and resources
- b. Balancing commercial and technical criteria
- Classification criteria into commercial and technical group
  - Method of assessment: weighted evaluation matrix

## **2. Understand the key processes that can be applied to the analysis of potential external suppliers**

2.1. Analyse commonly used sources of information on market data that can affect the sourcing of requirements from external suppliers

- a. Pareto analysis/ABC analysis
- b. Economic indices
- c. Primary data
- d. Secondary data
- e. Commodity pricing
- f. Analysing potential sales
- g. Financial reports
- h. Credit rating information

2.2. Identify the key processes used for obtaining quotations and tenders

- a. Advertising requirements
- b. Request for information or quotations
- c. The operations of tendering
- d. Formalised arrangements for tendering
- e. Decision criteria for tendering

2.3. Identify the criteria that can commonly apply to the assessment of quotations or tenders

- a. Assessment of suppliers' proposals
- b. The use of weighted point systems for assessment
- c. Recommending sources of supply: single, dual, or multiple
- d. Financial statements
  - Profit and loss account
  - Balance sheet
  - Cash flow statement
- e. Profitability ratios, liquidity ratios, gearing and investment
  - Profitability ratios:
    - Typical ratios
    - How to calculate

- Implications
- Liquidity ratios
  - Typical ratios
  - How to calculate
  - Implications
- Gearing
  - How to calculate
  - Implications
- Investment ratios:
  - Typical ratios
  - How to calculate
  - Implications
- f. Limitations of ratio analysis
- g. Added value

2.4. Analyse how electronic systems can be used to help the sourcing of requirements from external suppliers

- a. E-requisition
- b. E-catalogue
- c. E-auction
- d. E-tender

### **3. Understand compliance issues when sourcing from suppliers**

3.1. Compare the key legislative, regulatory, and organisational requirements when sourcing in the not-for-profit, private, and public sectors

- a. Competitive tendering in each sector
- b. Key regulations in every sector:
  - Data protection
  - Ethical practice
  - Health, safety and environment and worker's right
  - Marketplace competition
  - Product safety standard
- c. Public sector sourcing
  - Objectives and challenges
  - Key regulations in UK and EU
  - Timescale of tendering processes
- d. Private sector sourcing

- Objectives and challenges
  - e. Not-for-profit sector sourcing
    - Objectives and challenges
    - Other regulations regarding non-for-profit sector
- 3.2. Compare the key legislative, regulatory, and organisational requirements when sourcing from international suppliers
- a. Trade blocs and economic integrations
    - Types of trade blocs
      - Free trade areas
      - Custom unions
      - Common market (or single market)
    - Examples of trade blocs around the world
    - Advantages and disadvantages of international trade
  - b. Introductions on the World Trade Organisation (WTO)
  - c. Import documentation in EU
    - T1 document
    - Import/Export license
    - Single Administrative Document
    - Computerized Transit System
    - Customers Declaration service
  - d. Duties, tariff, quotas, and other barriers to international trade
  - e. Incoterms (CIPS questions about Incoterms 2010)
    - Definitions
    - Benefits of using Incoterms
    - Classifications of Incoterms:
      - E, F, C, D terms
      - Incoterms applied to all mode of transportation and Incoterms applied to transport over water
    - Descriptions of each Incoterms: EXW, FCA, CPT, CIP, DAP, DAT, DDP, FAS, FOB, CFR, CIF
  - f. Payment mechanism
    - Open account
    - Term draft
    - Sight draft
    - Letter of credit
    - Cash in advance

- g. Impact of currency in sourcing
  - Currency fluctuation
  - Mitigate against currency fluctuation

#### **4. Understand ethical and responsible sourcing**

4.1. Describe the impact of international ethical standards on procurement and supply

- a. Corruption and bribery
  - Definitions of corruption and bribery
  - Corruption perception index
  - Consequences of bribery and corruption
  - How to mitigate the risks of corruption and bribery in procurement
- b. Fraud
  - Definition
  - Types of fraud
  - How to mitigate the risks of fraud in procurement
- c. Human rights
  - Definition
  - Typical human rights
  - Typical human right conventions/statute
  - Implications of human rights on procurement
- d. Modern slavery
  - Definition
  - Signs of modern slavery in supply chain
  - Implications of modern slavery in procurement and supply

4.2. Identify practices that support ethical procurement

- a. CIPS Code of Conduct
- b. Other ethical codes of practice
  - Professional level
  - Sector level
  - Company level
- c. Pre-qualification questionnaire and assessment criteria
  - Embedding ethical and environmental standards into PQQ and assessment criteria
- d. Due diligence

- e. Using KPI and contractual clauses to monitor supplier's ethical performance
- 4.3. Compare the use of audits and other feedback mechanisms to evaluate ethical standards in the workplace
- a. Typical processes that promote commitment to ethical practice
  - b. How to carry out an audit
    - Definition of auditing
    - Audit preparation
    - Audit planning
    - Notify supplier before conducting audit?
    - Audit execution
  - c. Post-audit dialogue with supplier
  - d. Remedial actions
  - e. Conflict of interests
    - Definition
    - Typical situation
- 4.4. Contrast processes and practices that the organisation could adopt to meet the requirements of Corporate Social Responsibility (CSR)
- a. The triple bottom lines
  - b. Sustainable procurement
  - c. Level of social impacts of an organization

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/>