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CIPS L4M2

Re-buy - correct answer It is not necessary to specify a new specification or to source the market. Call-off or framework agreement. A preferred supplier is in place

Modified Buy - correct answer Review of existing contract requirements and making any necessary amendments such as to build additional benefits, streamline the business or to establish new KPIs/SLAs. Where some of the specification or requirements have changed.

New Buy - correct answer A new purchase outlines requirements that have not been specified before. There is a higher risk involved in procuring a new purchase, demand/supplier/market analysis should be conducted, and new specific KPIs should be included in the specification.

Business Needs - correct answer The mission of the organisation determines its requirements and therefore what procurement needs to source.

R - regulatory (any legal requirements)

A - availability (supply of goods/services when required, risk, financial and capacity)

Q - quality (consistency, repeatability, and fit for purpose)

S - service requirements (flexibility, support, availability)

C - cost (target costs, total cost of ownership, continuous improvement)

I - innovation (improving customer experience) - correct answer A model that can be used to identify business needs.

Kraljic Matrix - correct answer A matrix that allows procurement to prioritise spend in line with business needs.

Leverage - Kraljic Matrix - correct answer Business needs met by using purchasing department buying power to gain the best price and terms e.g. competitive tendering.

Example of Leverage item (Kraljic Matrix) - correct answer Company cars or mobile phones.

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The Certified Institute of Procurement and Supply (CIPS) Level 4 Module 2 (L4M2) certification exam is designed to test the knowledge and skills of procurement professionals in defining business needs. L4M2 exam is a critical part of the CIPS certification program, which is recognized as the global standard for procurement professionals. The L4M2 Exam covers a range of topics related to business needs, including identifying and analyzing business requirements, developing procurement strategies, and managing stakeholder relationships.

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CIPS Defining Business Needs Sample Questions (Q144-Q149):

NEW QUESTION # 144

Datong is a defence and law enforcement equipment supplier. They are developing new product but largely concerns about the detailed specifications of components and the capability of supply market. Which of the following approach should Datong adopt in order to optimise the specification and shorten time to market?

- A. Control the budget tightly
- B. Invite the supplier to tendering process
- C. Early supplier involvement
- D. Request for quotation from potential suppliers

Answer: C

Explanation:

To improve production process and reduce supply risk, Datong should collaborate with suppliers early in procurement cycle. Collaborating with suppliers in this way is often referred as Early Supplier Involvement (ESI)

'Request for quotation from potential suppliers': Quotations should only be requested if the buyer know exactly what they need. In this scenario, Datong is not yet sure about the specifications of product's components, request for quotation is not a good idea.

'Mapping out business plan': A business plan, as defined by Entrepreneur, is a "written document describing the nature of the business, the sales and marketing strategy, and the financial back-ground, and containing a projected profit and loss statement." A business plan is not appropriate with improving production process and reducing supply risk.

'Budget controlling': Budget controlling largely concerns with dealing with budget variances. Tighter budget alone cannot lead to improved processes and fewer risks.

LO 3, AC 3.1

NEW QUESTION # 145

Which of the following are the fair and reasonable comparators in price analysis? Select TWO that apply:

- A. Strike price
- B. Cost driver
- C. Pricing formula
- D. Price indices
- E. Competitive bidding

Answer: C,D

Explanation:

Price Analysis is the process of deciding if the asking price for a product or service is fair and reasonable, without examining the specific cost and profit calculations the vendor used in arriving at the price. It is basically a process of comparing the price with known indicators of reasonableness. When adequate price competition does not exist, some other form of analysis is required. Some reasons that could affect adequate price competition are: specifications are not definitive, tolerances are restrictive, or production capacity limits those eligible to bid.

Examples of other forms of price analysis information include:

- * Analysis of previous prices paid
 - * Comparison of vendor's price with the in-house estimate
 - * Comparison of quotations or published price lists from multiple vendors
 - * Comparisons with government agencies (such as GSA in the US) published prices
- A strike price is the set price at which a derivative contract can be bought or sold when it is exercised. For call options, the strike price is where the security can be bought by the option holder; for put options, the strike price is the price at which the security can be sold. Strike price is also known as the exercise price.

A cost driver is the direct cause of a cost and its effect is on the total cost incurred. For example, if you are to determine the amount of electricity consumed in a particular period, the number of units consumed determines the total bill for electricity. In such a scenario, the number of units of electricity consumed is a cost driver.

Reference: CIPS study guide page 35

NEW QUESTION # 146

Which of the following are the focuses of ISO 14001:2015?

- A. 1. Life cycle2. Process3. Capacity4. Information security2 and 4 only
- B. 3 and 4 only
- C. 1 and 2 only
- D. 2 and 3 only

Answer: C

Explanation:

ISO 14001:2015 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance. ISO 14001:2015 is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability.

ISO 14001:2015 helps an organization achieve the intended outcomes of its environmental management system, which provide value for the environment, the organization itself and interested parties. Consistent with the organization's environmental policy, the intended outcomes of an environmental management system include:

- * enhancement of environmental performance;
- * fulfilment of compliance obligations;
- * achievement of environmental objectives.

ISO 14001:2015 is applicable to any organization, regardless of size, type and nature, and applies to the environmental aspects of its activities, products and services that the organization determines it can either control or influence considering a life cycle perspective. ISO 14001:2015 does not state specific environmental performance criteria.

ISO 14001:2015 can be used in whole or in part to systematically improve environmental management.

Claims of conformity to ISO 14001:2015, however, are not acceptable unless all its requirements are incorporated into an organization's environmental management system and fulfilled without exclusion.

In conclusion, ISO 14001:2015 focuses on: management system (including roles, leadership and processes) and the life cycle of product or service. Life cycle is defined as "consecutive and inter-linked stages of a product (or service) system, from raw material acquisition or generation from natural resources to final disposal. [...] The life cycle stages include acquisition of raw materials, design, production, transportation/ delivery, use, end-of-life treatment and final disposal." The answer is process and life cycle.

Reference:

- ISO 14001:2015 Environmental management systems - Requirements with guidance for use LO 3, AC 3.1

NEW QUESTION # 147

SET Group are a start-up company trying to estimate the direct costs of materials for a project. The organisation has limited procurement records available. Would using general industry averages as a benchmark provide an accurate estimation of the project costs?

- A. No, the organisation will not have access to industry benchmarks as they are a new organisation
- B. Yes, industry benchmarks are always kept up to date to consider real-time market conditions
- C. Yes, cost predictions do not need to be accurate as they are just an initial guess
- D. No, industry benchmarks do not consider specific specifications, quality requirements, or real-time market conditions

Answer: D

NEW QUESTION # 148

A procurement organisation is keen to encourage innovation available within the supply market in the execution of an upcoming significant contract opportunity. A team member suggests that the specification should define the performance indicators so that supplier's solution can be checked against them. Which of the following will enable the organisation to achieve this goal?

- A. Applying a precise performance framework
- B. Using an output focused specification
- C. Using an outcome focused specification
- D. Establishing transparent selection criteria

Answer: B

Explanation:

The buying organisation is keen to encourage innovation so they should use the outcome or output based specification. In an outcome-based specification, umbrella statements like 'good quality', 'ambient temperature', 'convenient way' are often used. This may confuse the suppliers, and it's hard to check the solution that supplier offers. On the other hand, output-based specifications often include measurable requirements. For example, a specification for air conditioning system states that the system should maintain the room temperature at 19-24 degrees Celsius. Therefore, output specification is more appropriate in this case.

Reference:

LO 3, AC 3.1

NEW QUESTION # 149

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