

CIPS L4M1 Valid Test Format & Practice L4M1 Test Online

L4M1 - CIPS: Scope and Influence of Procurement and Supply

Artificial Intelligence (AI) - answerMachines that display human-like intelligence

Assets - answerThe value of everything an organisation owns

Audit - answerA systematic inspection of a process or procedure to assess compliance with requirements or regulations

Batch Quantity - answerAmount of products produced at a time

Benchmark - answerCompare an element of one business, such as price, quality or service, against another

Bid - answerOffer of a price, may be a response to an invitation to tender

Brand - answerThe image of an organisation. The name, logo, slogan, colours, etc., that differentiate it from the competition

Budget - answerFinancial plan for a set period of time on how much can be spent

Buffer Stock - answerThe amount of stock held as inventory at any time in addition to immediate requirements

Capital Asset - answerTangible, non-current (or fixed) assets

Carriage Deals - answerNegotiations to achieve the best possible cost

Centralised Structure - answerActivities carried out at one central location

Charity - answerA not-for-profit organisation with the objective of raising awareness or helping its chosen cause

Cloud Computing - answerThe delivery of IT services such as storage and networking which are hosted by a third party and accessed over the internet

Co-Operative - answerA people-centred enterprise owned and run by and for its members, which either reinvests any profits or returns them to its members

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CIPS L4M1 Exam Overview:

Certification Vendor:	CIPS
Exam Name:	Scope and Influence of Procurement and Supply
Exam Number:	L4M1
Exam Price:	Approx. £180 - £220 / \$230 - \$280 USD
Certificate Validity Period:	3 years
Related Certifications:	Level 6 Professional Diploma in Procurement and Supply Level 4 Diploma in Procurement and Supply Level 5 Advanced Diploma in Procurement and Supply

Exam Duration:	90 minutes
Available Languages:	English
Exam Format:	Multiple Choice Questions
Passing Score:	75%
Real Exam Qty:	60
Recommended Training:	CIPS Official Study Materials
Exam Registration:	CIPS Official Registration
Sample Questions:	CIPS L4M1 Sample Questions
Exam Way:	Online remote proctored or onsite at approved exam centres
Pre Condition:	No formal prerequisites; recommended for those new to procurement or seeking formal qualification
Official Syllabus URL:	https://www.cips.org/students/level-4-diploma

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CIPS L4M1 Exam Syllabus Topics:

Topic	Details
Topic 1	Public, private, charity, not-for-profit, manufacturing, retail, construction, financial, agriculture, and service sectors. It also covers analyzing the impact of the public sector on procurement and supply chain activities public sector objectives, regulations, competition, accountability, and value for money. It finally covers the impact of the private sector on procurement or supply chain activities.
Topic 2	Understand and analyse aspects of organisational infrastructure that shape the scope of procurement and supply chain functions: This section measures that skill of supply chain strategists and organizational analysts in understanding corporate governance, documented policies, accountability, and ethics. It also covers the impact of organisational policies and procedures on procurement and supply
Topic 3	Understand and analyse the need for compliance: This section measures skills of compliance officers and sector-specific procurement managers in understanding different economic and industrial sectors such as
Topic 4	Understand and analyse the added value through procurement and supply chain management: This section of the exam measures skills of supply chain managers related to identifying added value outcomes in procurement and supply and evaluating cost savings, service improvements, and innovationsu contributions. It also measures procurement and supply processes that contribute to added value.

CIPS Scope and Influence of Procurement and Supply Sample Questions (Q31-Q36):

NEW QUESTION # 31

Bob is a procurement manager at ABC Ltd. He has been asked to ensure all future purchases achieve 'value for money' for the organisation. What is meant by 'value for money'? (5 points). Describe 4 techniques that Bob could use to achieve this (20 points)

Answer:

Explanation:

See the solution in Explanation part below

Explanation:

1) A definition of Value for Money: ensuring a purchase is cost effective. This may be that the purchase achieves the 5 Rights of Procurement or that the purchase achieves the 4Es: Economy, Efficiency, Effectiveness and Equity. - this is only worth 5 points, so don't spend too long on this

2) 4 techniques Bob can use to achieve VFM: this is the bulk of your essay. Each of the 4 will be worth 5 points, so remember to give a thorough and example. Pick 4 from the list below: complete a value analysis to eliminate non-essential features, minimise variety/ consolidate demand, avoid over specification, pro-active sourcing, whole life costing methodologies, eliminate / reduce inventory, use electronic systems, international sourcing, sustainability / environmental policies, currency/ exchange rate considerations, negotiating good payment terms, packaging, warranties.

Example Essay:

"Value for money" (VFM) is a concept that refers to obtaining the best possible return on investment or benefits relative to the cost incurred. It involves assessing whether the goods, services, or activities provided offer an optimal balance between their cost and the quality, benefits, or outcomes they deliver. Value for money is not solely about choosing the cheapest option; instead, it considers the overall efficiency, effectiveness, and long-term value derived from an expenditure. For Bob, the Procurement Manager at ABC Ltd there are four key ways that he can achieve this for all future purchases.

Value Engineering

This is looking at the components of a product and evaluating the value of each component individually. You can then eliminate any components that do not add value to the end product. To do this Bob would choose a product to review and determine whether any parts of this can be omitted (thus saving the company money) or could be replaced by components that are of a higher quality at the same price (thus providing added value to the customer). For example, Bob could complete a Value Engineering exercise on the new mobile phone prototype ABC plan to release next year. His findings may discover a way to provide a higher quality camera at no additional cost or that some components don't add value and can be eliminated.

Consolidate demand

Bob can achieve value for money by consolidating demand at ABC Ltd. This would mean rather than each individual person/ department ordering what they want when they need it, Bob creates a centralised process for ordering items in bulk for the departments to share. For example, if each department require stationary to be ordered, Bob can consolidate this demand and create one big order each quarter. This will likely result in cost savings for ABC as suppliers often offer discounts for large orders. Moreover, consolidating demand will allow for saving in time (one person does the task once, rather than lots of people doing the same task and duplicating work).

International sourcing

Bob may find there is value for money in changing suppliers and looking at international sourcing. Often other countries outside of the UK can offer the same products at a lower cost. An example of this is manufactured goods from China. By looking at international supply chains, Bob may be able to make cost-savings for ABC. He should be sure that when using this technique there is no compromise on quality.

Whole Life Costing methodology

This is a technique Bob can use for procuring capital expenditure items for ABC. This involves looking at the costs of the item throughout its lifecycle and not just the initial purchase price. For example, if Bob needs to buy a new delivery truck he should consider not only the price of the truck, but also the costs of insurance for the truck, how expensive it is to buy replacement parts such as tyres and the cost of disposing of the truck once it reaches the end of its life. By considering these factors Bob will ensure that he buys the truck that represents the best value for money long term.

In conclusion Bob should ensure he uses these four techniques for all items he and his team procures in the future. This will ensure ABC Ltd are always achieving value for money, and thus remain competitive in the marketplace.

Tutor Notes

- This case study is really short, and the ones you'll receive in the exam are often longer and give you more guidance on what they're expecting you to write. With case study questions, you have to make your entire answer about Bob. So don't bring in examples from your own experience, rather, focus on giving examples for Bob.

- A good rule of thumb for case study questions is make sure you reference the case study once per paragraph.

- Value for Money is a really broad topic and you can pretty much argue anything that procurement does is helping to achieve value for money. There's a large table of stuff that's considered VFM on p.38 but that table isn't exhaustive. So feel free to come up with your own ideas for this type of essay.

Some additional tidbits of information on VFM:

- The 'academic' definition of Value for Money is 'the optimum combination of whole life cost and the quality necessary to meet the customer's requirement'

- Value for Money is an important strategic objective for most organisations but particularly in the public sector. This is because the public sector is financed by public money (taxes), so they must demonstrate that the organisation is using this money wisely. This might be an interesting fact to put into an essay on VFM.

- Value can often be hard to quantify, particularly in the service industry. E.g. in customer service it can be difficult to quantify the value of having knowledgeable and polite employees delivering the service.

NEW QUESTION # 32

Explain what is meant by the term Inventory Management System? Describe MRP and ERP systems explaining when they are used and the advantages and disadvantages of using them (25 points)

Answer:

Explanation:

See the solution in Explanation part below

Explanation:

How to approach this question:

- Definition of Inventory Management System - a system, usually a piece of digital software, that helps an organisation manage their inventory. It oversees the process of ordering stock, receiving it, storing it and converting it into finished goods. Used predominantly in manufacturing organisations. MRP and ERP are types of IMS.
- MRP - Material Requirements Planning- this is a planning, scheduling, and inventory control system used to manage manufacturing processes. Most MRP systems are software-based. The aim is to automate and improve the efficiency of ordering and processing raw materials.
- ERP - Enterprise Resource Planning - this system uses MRP but also includes other operations such as finance, so allows for budgeting and forecasting, and customer relations. ERP gives an organisation a more holistic overview compared to MRP which just focuses on manufacturing.
- When they are used - predominantly in the manufacturing industry for the ordering of goods. Not used for services. Used when there is a lot of maths involved in figuring out how much of something to order and when e.g. a chocolate manufacturer who needs to produce 50,000 chocolate bars a day. MRP / ERP helps the organisation know what to order, how much and when. It helps achieve the 5 Rights of Procurement.
- Advantages - the advantages of MRP and ERP are very similar and in most cases the same: more accurate than manual processes, quicker response times, automated process frees up people to complete more added value tasks, flexibility, has real time information to inform on decision making, improved responsiveness to customers, improved supply chain management, reduction in costs.
- Disadvantages - expensive, complicated, can break down or be hacked (as they're digital systems), only as good as the information put into them. training required to use.

Example Essay:

IMS

An Inventory Management System (IMS) is a software application or set of tools designed to oversee and optimize the management of a company's inventory. The primary goal of an inventory management system is to maintain an accurate record of stock levels, streamline the procurement process, and ensure efficient order fulfilment. This system plays a crucial role in supporting businesses by helping them avoid stockouts, reduce excess inventory, and enhance overall supply chain efficiency.

Inventory Management Systems have the following functions: demand management (which assists with forecasting, and helps the avoidance of overstocking), helps to control stock levels (by stating minimum and maximum levels), replenishment of stock in line with policies, allows automatic reordering when stock levels get low, tracks stock movements (e.g. around a warehouse), allows communication with suppliers and end users, and helps increase safety by ensuring stock isn't damaged or deteriorating.

MRP

MRP stands for Material Requirements Planning, and it is a computer-based inventory management and production planning system used by businesses to optimize the management of materials, components, and finished products in the manufacturing process. MRP is a key component of Enterprise Resource Planning (ERP) systems, focusing specifically on the planning and control of materials and production resources.

MRP systems uses 3 main modules: 1. Master Production Schedule- information on customer orders, forecast orders, customer requirements and stock orders 2. Bill of Materials - the recipe / breakdown of components of the finished product and 3. Inventory Status File - tells you the current stock levels.

How MRP works- For example, a customer wants to order a new sofa

1. input the customer order into MRP
2. Check finished stock and if there's a sofa, give the customer that sofa. If there isn't a sofa in stock, the MRP system will look at the Bill of Materials- looking at individual materials needed to make the sofa and will order these, factoring in lead times
3. confirm to customer what the lead time is on getting their new sofa, based on delivery time of materials and time to make it.

MRP is a simple system - it doesn't take into account other business processes and can go wrong due to inaccurate or outdated information.

Advantages of the MRP process include the assurance that materials and components will be available when needed, minimised inventory levels, reduced customer lead times, optimised inventory management, and improved overall customer satisfaction.

Disadvantages to the MRP process include a heavy reliance on input data accuracy (garbage in, garbage out), the high cost to implement, and a lack of flexibility when it comes to the production schedule.

ERP

This is business management software which is used to collect, store, manage, and interpret data from many business activities. It uses MRP but also includes other operations such as finance, HR and customer services. Therefore it's more powerful than MRP. Where MRP can tell you how much of something to order and what the lead times are, ERP can also consider how many staff are

available each day (by looking at holidays and sickness) and factor this into the manufacturing process. It can also produce accurate financial data, manage customer and supplier relationships.

ERP facilitates information flow between all business functions and manages connections to outside stakeholders. SAP and Oracle are examples of ERP systems. There is also ERP II - this extends the system to include links with suppliers and supply chain stakeholders. One of the primary advantages of implementing an ERP system is the integration of information across various departments. By providing a unified view of an organization's operations, an ERP system ensures that different functions work with synchronized and consistent data, fostering improved decision-making and collaboration.

Operational efficiency is another significant benefit of ERP systems. Through the automation of routine tasks and streamlined processes, organizations can achieve greater efficiency, reduce manual errors, and enhance overall productivity.

However, one of the primary disadvantages is the high initial implementation costs. Organizations must invest in software licenses, training programs, and customization to align the ERP system with their specific needs. The complexity of ERP systems and potential customization challenges can pose difficulties, requiring expertise and resources for successful implementation.

Resistance to change among employees is a common hurdle when introducing ERP systems. Employees may be hesitant to adopt new processes and technologies, leading to a slower transition period and potential inefficiencies during the learning curve.

Organizations also become dependent on ERP vendors for updates, support, and maintenance, and switching vendors can be disruptive and costly.

In conclusion, while MRP and ERP systems offer numerous advantages in terms of operational efficiency, data integration, and strategic planning, organizations must carefully weigh these benefits against the associated challenges. A well-planned and effectively implemented system can contribute significantly to an organization's success, but the decision to adopt such a system should be approached with a thorough understanding of both its advantages and potential drawbacks.

Tutor Notes

- This is a really hard topic if you don't have a manufacturing background. The way I think about it is this- imagine you're Cadbury's and you're coming up to Easter. How much sugar do you need to buy and when do you need to buy it in order to make all your Easter Eggs? Hard question right? Well MRP / ERP is the clever software that figures that all out for you. It will tell you how much sugar needs to be bought on what day, in order for the delivery time to be right for manufacturing. It will consider storage costs and how quickly Easter Eggs get made in the factory. It's honestly so clever. Feel free to use that example in your essay. Examples like that show the examiner you understand the topic.

- Although they're fabulous systems, using MRP and ERP systems doesn't guarantee success- at the end of the day they're just software- the key to success is in the accuracy of the data that's inputted into the systems and how the systems are used. That would make a strong conclusion.

- This is a good simple video that explains the topic: What is Materials Requirement Planning (MRP)? (youtube.com) I also like watching How Its Made - a documentary series about factory life. You can find it on BBC Iplayer. If you don't have a manufacturing background it helps give context to some of these dry subjects like MRP and Just-in-Time manufacturing.

- LO 3.4 p. 175

NEW QUESTION # 33

What is 'supply chain management'? Outline the drivers, advantages and disadvantages of using this approach within the Procurement Department of an organisation (25 points)

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

How to approach the question

- There are 4 main components to this question that you will have to answer, so my advice is to first write down subheadings for your essay so you don't miss any out: definition of supply chain management, drivers, advantages and disadvantages

- The question also brings up 2 concepts - supply chain management and tiered supply chains, it would be good to include a definition of both of these.

- Because of the number of things you'll have to write, you don't need to go into lots of detail - one paragraph per section will be enough.

Proposed Essay Structure

Intro - what is supply chain management and what is a tiered supply chain P1 - drivers P2 - advantages P3 - disadvantages

Conclusion - supply chains are complex due to globalisation Essay Ideas:

- Definition of supply chain management = Making something available in response to a buyer's requirements. The transformation of goods from raw material into an end product (input > conversion

> output)

- Drivers = Cost, Time/ Speed, Reliability, Responsiveness, Transparency, Globalisation

- Advantages = reduced costs by elimination of waste, improved responsiveness to customer requirements, joint-ventures with supply partners leading to innovations, tech sharing, improved communication leads to faster lead times for product development

- Disadvantages = needs considerable investment and internal support, closer relationships may be risky (IP, loss of control), issues in fairly distributing gains and risks (you don't need to talk about all of these- pick 1 or 2 you feel you know the best and focus on that) Example Essay Supply Chain Management (SCM) is the arrangement of processes involved in the production and distribution of goods / services - from the origin to the end consumer. In simple terms, it's taking a raw product and transforming it into an end product that a consumer would purchase. For example taking a potato from a farmer, giving it to a manufacturer to make into chips and sending these to retailers to be sold. SCM relies on close relationships between the parties in the supply chain and adds value to the product at every stage. A Tiered Supply Chain is a specific configuration within SCM that involves multiple levels of suppliers and sub-suppliers. A buyer will work with a small amount of Tier 1 suppliers who will in turn work with their own suppliers. In a tiered system there can be many, many layers of suppliers who all ultimately work towards creating the same product. This essay aims to delve into the drivers, advantages, and disadvantages associated with implementing a complex supply chain, such as the Tiered Supply Chain model.

The main drivers of using a tiered supply chain are often rooted in the pursuit of efficiency, cost-effectiveness, and flexibility. By consolidating suppliers into distinct tiers, organizations can streamline their management processes, reduce complexity, and enhance overall supply chain performance. Additionally, tiered supply chains are often employed in response to the global nature of modern business, accommodating the need to source materials and components from various regions while maintaining a manageable and responsive supply network.

One of the advantages of a Tiered Supply Chain is the streamlined management of suppliers. In this model, there are fewer direct suppliers to oversee, simplifying the coordination and communication processes. This can lead to increased efficiency and responsiveness as organizations deal with a smaller, more manageable pool of suppliers. The consolidation of suppliers in a tiered system may also result in potential cost savings and improved collaboration with a select group of trusted partners.

However, the complexity of a Tiered Supply Chain brings disadvantages. One significant drawback is reduced visibility. As the supply chain extends across multiple tiers, organizations may struggle to have a comprehensive view of the entire process. This lack of visibility can lead to challenges in tracking and responding to potential disruptions. Moreover, ethical risks emerge when companies have limited oversight over lower-tier suppliers, potentially exposing organizations to issues such as labour exploitation, environmental concerns, or violations of ethical standards.

In conclusion, supply chain management has evolved into a complex discipline due to the forces of globalization and consumer demands for speed and quality. The Tiered Supply Chain model, driven by these factors, presents both advantages and disadvantages. While managing fewer suppliers can enhance efficiency, the trade-off includes diminished visibility and increased ethical risks. Organizations must carefully evaluate the specific needs of their operations and weigh the benefits against the challenges when deciding whether to adopt a Tiered Supply Chain. In this intricate landscape, the ability to balance complexity and efficiency becomes paramount for sustained success in the global marketplace.

Tutor Notes

- Definition of supply chain management is from p.5

- Drivers, advantages and disadvantages p.9

- This topic used to be much more in depth in the old syllabus and has been drastically simplified in the new study guide. The guide is actually quite light on this topic stating simply that "globalisation and localisation are both drivers of using supply chain tiering". If you don't work in manufacturing, or an industry that uses supply chain tiering, this concept may be a bit alien to you and I'd recommend doing a little extra research. The best example of supply chain tiering is in car manufacturing- and that would be a good example to use in an essay. Some additional links for research:

- Supplier Tiers: What's The Difference Between Tier 1, Tier 2, and Tier 3 | PLANERGY Software

- Sustainable Sourcing - Definition, Examples, Benefits & Best Practices (brightest.io)

- <https://youtu.be/fs1rDgBQy1M>

NEW QUESTION # 34

Describe the main differences between the three economic sectors: public, private and third. Your answer may make reference to the following: funding, ownership, shares, objectives and administration (25 marks)

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

How to approach this question

- Sometimes CIPS give you a steer on how to answer the question. My advice is to follow it. The question says you MAY make reference to the following, but I'd use those hints as a guide for content- a paragraph on each and you're done!

- When you've got a 'may make reference to' hint - this means you can completely ignore it and do your own thing and bring in your own ideas. May means it's optional, so you wouldn't be penalised for this. However, you have to consider the examiner's mark scheme- it will detail options of stuff you can write for funding, ownership etc. Then there will be a line at the bottom saying something like 'accept other options such as x and y'. This leaves it up to the examiner to decide whether what you've said is

relevant. I'd personally not leave it up to chance you get a lenient examiner. If you write what's definitely going to be on their mark scheme, you're more likely to get more points.

Example Essay

The modern economy is a complex tapestry of various sectors, each with its own distinct characteristics and functions. The three prominent sectors are the public sector, the private sector, and the third sector. These sectors differ significantly in terms of their funding mechanisms, ownership structures, objectives, the concept of shares, and their administration.

Firstly, the public sector is predominantly funded by the government through taxation, grants, and other forms of public revenue. Its very existence hinges on the provision of essential services and the fulfilment of societal needs. These organizations are owned by the government, be it at the federal, state, or local level. Unlike the private sector, the concept of shares doesn't apply in the public sector. Instead, the government allocates budgets to various departments and agencies for public services and projects. The primary objectives of the public sector revolve around the welfare of the citizens, including the provision of education, healthcare, defence, and infrastructure. It is characterized by bureaucratic administration, with decision-making processes subject to governmental regulations and oversight. A prime example is public schools and healthcare systems, which are funded and operated by the government with the primary objective of ensuring universal access to education and healthcare services.

In contrast, the private sector operates on a starkly different paradigm. It is primarily funded by private capital, investment, and profit-seeking activities. Private individuals and corporations own these entities, with ownership shares often represented by stocks. Shareholders invest capital in exchange for ownership stakes and the potential for dividends. The central objective in the private sector is profit maximization, driven by competition in the market. Companies in the private sector are administered by management teams and boards of directors, with decisions guided by market forces. Apple and ExxonMobil are examples of private sector entities, privately owned and publicly traded, with profit motives at their core. Shareholders invest in these companies with the expectation of financial returns.

Lastly, the third sector, often referred to as the nonprofit or voluntary sector, represents a unique economic sphere. It relies on a combination of funding sources, including donations, grants, and earned income, but not taxation. Third sector organizations are not owned by individuals or shareholders; instead, they are governed by boards of directors or trustees. Unlike the private sectors, shares are not applicable in the third sector.

These organizations do not seek to distribute profits to owners. The primary objective of the third sector is to serve a social or community purpose, such as addressing societal issues, promoting social change, and providing services that benefit the public. Administration in this sector is overseen by non-profit boards, and it heavily relies on volunteers, philanthropy, and community engagement. For example, the Red Cross operates with the objective of providing humanitarian aid and disaster relief, relying on donations and volunteers to fulfil its mission. Any profits that are made are reinvested into the organisation to further its mission. In conclusion, the public, private, and third sectors represent diverse economic domains, each with its own funding mechanisms, ownership structures, objectives, and administrative models. These sectors play essential and complementary roles in society, contributing to economic development, public welfare, and social progress. Together, they form the foundation of a balanced and dynamic economic landscape.

Tutor Notes

- I've structured this essay with a paragraph on each sector, but you could have done a paragraph on each theme, thus having 5 paragraphs instead of 3. Either approach works.
- You've got 5 things and 3 sectors, that equals 15 marks. If you give an example of each and a strong intro and conclusion, that's full marks.
- See LO 4.1 p. 203 - there's a cute table with this information on.

NEW QUESTION # 35

Explain what is meant by added value (5 points). Describe 4 ways the Procurement Department can add value for their organisation (20 points)

Answer:

Explanation:

See the solution in Explanation part below

Explanation:

What to include in the essay:

- Definition of added value: the economic enhancement given to products or services before offering them to customers. Examples may include a product which has additional features at no additional cost to the customer or the provision of an extended warranty.
- Description of four of the following with examples and s: providing better customer service levels, risk management, cost control and reduction, relationship management, reputation management, innovation, use of technology, streamlining processes, improving specifications, increasing sustainability, improving quality, ordering processes such as bulk ordering, inventory management, improving the product from the customer's perspective (e.g. packaging, exclusivity), sustainability, convenience, market development.

Example essay:

Added value in procurement refers to the enhancement or improvement in the economic worth, quality, or utility of products or

services before they are offered to customers or end-users. In the context of procurement, the goal is to go beyond simply obtaining goods or services at the lowest cost. Instead, procurement aims to contribute additional value to the organization through various means. This essay explores the concept of added value and outlines four ways the Procurement Department can contribute to organizational improvement.

Improving Specifications

Procurement can add value firstly by ensuring all critical items are procured against a specification, and secondly by improving and regularly updating those specifications. For example, the procurement department might be responsible for procuring light-bulbs for an office. Having an effective specification for this purchase (lightbulbs must meet X safety standard and Y environmental standard) would result in less maverick buying for the organisation and the procurement of a better-quality product. Furthermore, regularly updating specifications ensures that purchases are made against current safety standards and regulations (e.g. the use of low-energy lightbulbs). If procurement don't update specifications, then there is a risk that items are bought that don't meet the correct standards. Added value in this regard could also therefore be considered the removal of risks of procuring the wrong item.

Stream-lining Processes

Procurement can add value by stream-lining processes such as requisitions and POs. This reduces the time it takes to procure an item, thus saving the company money. Another process that could be streamlined is the re-ordering process of regularly bought items. This could be automated when the stock levels reach a certain level. For example if an organisation requires its staff to wear PPE, an automatic request could be made once there are only 50 face masks left.

Managing Supplier Relationships

Having strong, positive relationships with suppliers is a source of added value as it means suppliers value you as a buyer and are therefore more likely to help in situations which are adversely affecting business. For example, if a manufacturer puts an order in for 300 items with their supplier but then realises that they have made an error in the amount, if there is a strong relationship, the supplier may allow the buyer to amend the order after the fact. If there is a poor relationship, the supplier may not be as flexible. The flexibility in the supply chain is therefore a source of added value.

Improving Quality / Innovation

This involves adding value from the customer's perspective. E.g. a customer may choose to purchase a phone that has a longer battery life than others. Procurement's role in this may be in completing a Value Engineering exercise or procuring higher quality components or materials at the same price in order to achieve this additional feature.

In conclusion, the Procurement Department plays a crucial role in organizational success by adding value through improved specifications, streamlined processes, strong supplier relationships, and a focus on quality and innovation. These strategies contribute to enhanced efficiency, reduced risks, and increased customer satisfaction, making procurement an essential function for organizational excellence.

Tutor Notes

- The question asks specifically to name 4 ways of adding value. You therefore won't get any additional points if you talk about 5 or 6, even though it may be tempting. Instead, focus your response on providing more information on the 4 you have chosen and bulking out your answer with examples. This demonstrates to the examiner that you fully understand the topic AND that you can apply the theory to real situations.
- You could use real-life examples from your own organisation/ experience or you could give a hypothetical situation such as a cake manufacturer. You could talk through how the procurement department at the cake manufacturer can add value by doing the four things in your essay: by amending the specification so the cakes are more tasty, by streamlining the process for ordering flour, by managing the relationship with the company that fixes the machines when they break down, and by introducing innovation such as using an e-procurement system to source raw materials and the benefits that these will bring to the organisation.
- Added value is part of the syllabus for Learning Outcome 1.2 starting from p.19 but I'm gonna be honest, I think the new study guide is a bit crap on this part of the syllabus. The section starts talking about the 5 rights of procurement and I think that makes things very confusing for students. The 5 rights and added value are linked subjects, but they're not the same. Getting the rights right, CAN lead to sources of added value, but added value is value that is IN ADDITION to what is expected. So, when you have a question on added value, focus on stuff that's listed under 1.1.4 'other sources of added value' on p.35 rather than talking about the 5 rights of procurement. My list at the top is more exhaustive than the one in the study guide.
- If you're looking to be really clever you can quote Michael Porter on 'what is added value?'. Michael Porter looks at this from a customer perspective - 'added value' refers to the addition of greater value (either by reducing the cost to produce it, or by adding something that customers are willing to pay more for). These could be; marketing / design, customer service, maintenance, delivery etc. This comes up at Level 5 / 6.

NEW QUESTION # 36

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