

Exam L4M1 Simulations - Valid L4M1 Test Answers

CIPS L4M1 - Question & Answer Past exam questions latest 2023/2023

Q1. Outline FIVE differences between purchasing goods and purchasing services.
Answer - 1. Goods are tangible, services are intangible;
2. Services cannot be separated from their supplier;
3. Heterogeneity; goods are usually uniform in nature while services are unique at each delivery
4. Services 'perish' immediately on delivery whereas goods can be stored until required
5. Products are easier to specify, being tangible

Q2. Explain THREE circumstances in which a competitive tendering exercise might not be the best approach to making a purchase. Answer - 1. Urgency
2. Commercial confidentiality or national security (e.g. military organisations);
3. Value of the purchase;
4. Production costs cannot be measured accurately;
5. Price is not the only criterion for supplier selection and contract award
6. Intellectual Property Rights and monopoly

Q2. Describe TWO e-sourcing tools and their use in procurement and supply.
Answer - 1. E-Catalogues
2. E-Tendering
3. E- Auction
4. Reverse Auctions
5. Online supplier evaluation data

Q3. Explain the role of a shared services unit (SSU). Answer - SSUs reflect a desire to centralise and share services
The shared service provider becomes a dedicated provider of services such as; finance, HR, IT and procurement which continue to be provided internally
An SSU manages costs and quality SLAs to demonstrate value for money.
An SSU's benefits may be summarised as:

- cost effective internal service;
- liaison with its customers;
- anticipating future demand;
- employing resources and providing higher levels of service more cost effectively than if they were provided by a department or an external provider.

Q3. A manufacturer of electrically powered tools for the engineering industry consists of four separate business units, each of which undertakes its own purchasing activities.

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CIPS L4M1 Exam Overview:

Certification Vendor:	CIPS
Exam Name:	Scope and Influence of Procurement and Supply
Exam Number:	L4M1
Certificate Validity Period:	No Expiry
Related Certifications:	CIPS Level 4 Diploma in Procurement and Supply
Available Languages:	English
Real Exam Qty:	4-6 constructed response questions
Exam Price:	\$116 USD
Exam Format:	Constructed Response, Scenario-based Questions

Passing Score:	50%
Exam Duration:	90 minutes
Sample Questions:	CIPS L4M1 Sample Questions
Exam Way:	Computer-based online exam or authorised test centre exam.
Pre Condition:	No formal prerequisites, but CIPS recommends relevant business or procurement knowledge.
Official Syllabus URL:	https://www.cips.org/qualifications/diploma-in-procurement-supply/scope-and-influence-of-procurement-and-supply

>> Exam L4M1 Simulations <<

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CIPS L4M1 Exam Syllabus Topics:

Topic	Details
Topic 1	Procedures, strategies, manuals, and internal function involvement.
Topic 2	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 innovations contributions. It also measures procurement and supply processes that contribute to added value.
Topic 3	Understand and analyse the key steps when procuring goods or services: This section measures that skills of purchasing managers and procurement officers in identifying and evaluating stages in the sourcing process, planning, supplier selection, and contract management.
Topic 4	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 5	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

CIPS Scope and Influence of Procurement and Supply Sample Questions (Q48-Q53):

NEW QUESTION # 48

Explain, with examples, the three different ways one can categorise procurement spend: direct vs indirect, capital expenditure vs operational expenditure and stock vs non-stock items. (25 points)

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

The knowledge to remember:

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Direct	Indirect
Incorporated into goods; raw materials, components and WIP	ancillary item; MRO supplies
effects customer satisfaction and reputation	no effect on customer satisfaction
relationship with supplier is collaborative and long-term	relationship is one off, transactional
objective = continuity of supply	objective = take advantage of promotions
carried out by procurement - high risk	may be carried out by end user- low risk
In Accounting included as 'cost of goods sold'	considered an overhead
Part of Porter's Value Chain	Support Activities of the business

Operational Expenditure	Capital Expenditure
day-to-day costs - consider 5 Rights	one off cost- consider TCO and buy vs lease
Spec more conformance	Spec more performance
regular purchasing	one off purchase
supplier relationships more important- bulk buying, collaborative	supplier relationships not important as one off - transactional
item could fall anywhere on Kraljic matrix	item is strategic- high value and high risk (Kraljic)
Supply chain risks are great	less supply chain risk
may have preferred supplier list	use full tender to procure
doesn't require justification to purchase as core requirement for business to function	may require justification for purchasing; feasibility study, business case, work out payback period etc

Stock	Non-Stock
Buy to put in inventory	Buy to use straight away
Retail	Lean Manufacturing / JIT
Stock to forecasting - order sunglasses in Feb to sell in Summer	Stock to order - ordered when required e.g., in Construction - items incorporated straight away
Has stock holding costs	Use economic Order Quantities to minimise stock holding costs
Risks if item becomes obsolete (perishable)	Risks if order quantity isn't correct or issues with supply chain

Essay Plan :

Remember to include examples for each of the six categories of spend. This is specifically asked for in the question so it's important to include as many examples as you can. To do this you could take an example organisation such as a cake manufacturer and explain which of their purchases would fall into each category and why.

Introduction - explain why procurement categorises spend

- Direct - these are items that are incorporated into the final goods (the cakes) so would include raw materials such as flour, eggs, sugar etc

- Indirect - these are items that the company needs, but don't go into the end product. For example, cleaning products and MRO supplies for the machines

- Capital Expenditure- these are large one-off purchases, such as buying a new piece of equipment such as a giant oven to cook the cakes.

- Operational Expenditure - these are purchases that are required to ensure the business can function day-to-day. They may include

PPE for the workers in the factory and cleaning equipment

- Stock items - these are items procured in advance and held in inventory until they are needed. In a cake manufacturing factory this could be PPE for staff such as hairnets and gloves. The organisation will buy these in bulk and keep them in a stock cupboard, using these as and when they are required

- Non- stock items - items that are not stored and used right away. An example would be eggs- these will need to be put directly into the cakes as they would go off if bought in advance.

Conclusion - the categories are not mutually exclusive - an item can be direct and operational, or indirect and stock. Different companies may use different systems to classify items of spend.

Example Introduction and Conclusion

Introduction

Procurement categorizes spend to efficiently manage resources and make strategic decisions. Three primary ways of categorizing procurement spend include distinguishing between direct and indirect spend, classifying expenditures as capital or operational, and categorizing items as stock or non-stock. These distinctions aid organizations in optimizing their procurement strategies for better resource allocation.

Conclusion:

In conclusion, categorizing procurement spend into direct vs. indirect, capital vs. operational, and stock vs.

non-stock items is essential for strategic resource management. While these categories provide a structured framework, they are not mutually exclusive, as an item can fall into multiple categories. For example, an item may be both direct and operational or indirect and stock. The flexibility of these categories allows organizations to tailor their procurement strategies based on their specific needs, ensuring efficient resource allocation and effective supply chain management. Different companies may adopt varying categorization approaches depending on their industry, size, and operational requirements.

Tutor notes:

- Because you've got 6 categories of spend to talk about you're only going to need 3-4 sentences for each.

Providing you've said the category, explained what it is and given one example, you'll absolutely fly through this type of question

- You could also mention that it is useful to use categories of spend as this helps with budgeting. Different categories may also have different processes to follow for procuring the item (this could form part of your introduction or conclusion).

- This subject is LO 1.3.2 it's quite spread out in the text book but the main info is on p.49

- Note- different companies/ industries classify items of spend differently. Particularly packaging and salaries.

Some say they're direct costs and some say they're indirect costs. Honestly, it's a hotly debated subject and I don't think there is a right or wrong. I'd just avoid those two examples if you can and stick to ones that aren't as contentious like eggs and PPE.

NEW QUESTION # 49

What is meant by the term 'centralised procurement'? (10 points) Explain 2 forms of Hybrid Procurement Structures (15 points).

Answer:

Explanation:

See the solution in Explanation part below

Explanation:

- This is essentially two mini essays, so you can do them completely separately if you like.

1) Definition of centralised procurement - when an organisation has a designated procurement function which makes purchases on behalf of other teams. When departments need to make a purchase, they would do this by approaching the procurement department who would purchase the item they need. This is in contrast to devolved procurement where departments can make purchases themselves.

2) of 2 forms of hybrid structures- there's a couple in the study guide you can pick from - consortium, shared services, lead buyer and outsourced. In the old syllabus they used to discuss SCAN - Strategically Controlled Action Network and CLAN = Centre Led Action Network. This has been removed from the new syllabus, but I don't think it would be wrong to use SCAN and CLAN in this essay if you wanted to. However they are more complicated than the others and if you can talk about other models instead I'd definitely go for that.

Example Essay:

Centralized procurement refers to a procurement strategy where an organization consolidates its purchasing activities into a single, central department or unit. Instead of allowing individual departments or divisions within the organization to independently manage their procurement processes, centralized procurement involves the concentration of these activities under a unified structure.

Key features of centralized procurement include:

1) Single Procurement Authority: In a centralized procurement system, there is a designated procurement authority or department responsible for handling all purchasing decisions. This central entity has the authority to negotiate contracts, select suppliers, and make procurement-related decisions on behalf of the entire organization.

2) Streamlined Processes: Centralized procurement aims to standardize and streamline procurement processes across the organization. This can include the establishment of uniform procurement policies, procedures, and documentation to ensure consistency and efficiency.

3) Economies of Scale: By consolidating purchasing power, centralized procurement allows organizations to leverage economies of scale. Bulk purchases, standardized contracts, and negotiations with suppliers on a larger scale can lead to cost savings and more favourable terms.

4) Improved Coordination and Communication: Centralized procurement enhances coordination and communication within the organization. With a centralized structure, there is better visibility into overall procurement activities, allowing for improved collaboration, information sharing, and strategic planning. Moreover, this centralized control helps manage risks, ensure transparency, and monitor adherence to ethical and legal standards.

5) Consolidated Supplier Relationships: Centralized procurement enables the organization to consolidate its relationships with suppliers. This can lead to stronger partnerships, better negotiation positions, and improved collaboration with a select group of suppliers that meet the organization's needs.

6) Strategic Decision-Making: Centralized procurement allows organizations to make strategic decisions at a higher level. This includes aligning procurement strategies with overall organizational goals, optimizing the supply chain, and contributing to broader business objectives.

An example of centralised procurement would be in a hotel chain with several hotels across the UK. In a centralised procurement function there would be one team responsible for ordering everything for all of the hotels, rather than allowing the individual hotels to buy things themselves. Premier Inn is an example of a company that uses this structure- it allows them to buy stock in bulk and ensures that all hotels have the same equipment so customers expectations are always met.

Centralized procurement is often contrasted with decentralized procurement, where individual departments or business units manage their procurement independently (i.e. each hotel would buy their own supplies). The choice between centralized and decentralized procurement depends on various factors, including the size and structure of the organization, the nature of its operations, and the specific goals it aims to achieve through its procurement processes.

Consortium Procurement Model:

The consortium procurement model is characterized by the collaboration of multiple organizations forming a joint group (the consortium) to engage in collective buying activities. Typically composed of entities from the same industry or sector, these organizations unite their resources, expertise, and purchasing power to pursue shared procurement objectives. The consortium leverages this collective strength to negotiate contracts, conduct bulk purchases, and benefit from economies of scale, resulting in cost savings and increased operational efficiency. The UK University sector is an example of Consortium activities- many universities come together to 'group buy' items as this brings about many benefits.

The main benefit of this form of hybrid procurement model is the increased negotiating power and leverage derived from combining the purchasing volumes of participating entities. This often results in more favourable terms, competitive prices (through bulk purchases), and improved conditions with suppliers. Additionally, consortium buying allows organizations to share resources, knowledge, and expertise, fostering a collaborative environment that enhances overall procurement capabilities. By working together, consortium members can collectively address challenges, negotiate strategically, and navigate the procurement landscape more effectively.

However, consortium buying is not without its challenges. A potential disadvantage lies in the complexity of managing a collaborative procurement structure, involving coordination among diverse entities. Achieving consensus on procurement strategies, vendor selection, and contract terms may require considerable effort and compromise. Additionally, individual organizational needs and preferences within the consortium may differ, posing challenges in aligning priorities. It is essential to strike a balance between centralized decision-making and accommodating the specific requirements of each consortium member. Furthermore, the success of consortium buying relies heavily on effective communication and trust among participants. Any breakdown in communication or lack of trust could hinder the collaborative process, impacting the overall efficiency and success of the consortium's procurement endeavours.

Overall, while consortium buying offers notable advantages, its effectiveness is contingent on careful management of collaborative dynamics and effective communication strategies.

Shared Services Procurement Model:

In the shared services procurement model, various departments or business units within a single organization converge under a centralized procurement function. Rather than individual units managing their procurement independently, a dedicated shared services centre is established to provide procurement-related services across the organization. This model facilitates streamlined processes, ensures consistency through standardized procedures, and capitalizes on economies of scale.

One key benefit is the potential for cost savings through economies of scale. By centralizing procurement, the organization can negotiate bulk purchases and standardized contracts, leading to better terms and prices. This consolidation of purchasing power enables the organization to optimize its resources and achieve overall cost efficiency. Additionally, centralized procurement allows for streamlined processes, standardized procedures, and better control over procurement activities. It promotes consistency, reduces redundancy, and ensures adherence to organizational policies and compliance requirements.

However, there are also potential disadvantages to centralized procurement. One notable challenge is the potential for reduced flexibility in meeting the unique needs of individual departments or business units within the organization. Centralization may lead to standardized approaches that might not be well-suited for all units, potentially impacting their specific requirements. Furthermore, the centralization of decision-making can result in increased bureaucracy and longer decision-making processes, potentially slowing down procurement activities. Additionally, there may be resistance from decentralized units that are accustomed to managing their procurement independently. Striking a balance between centralized control and accommodating the diverse needs of various units is crucial for the success of centralized procurement.

In conclusion, both the consortium and shared services procurement models represent strategies to enhance efficiency, realize cost savings, and optimize procurement processes. While the consortium model involves collaboration with external entities, the shared services model centralizes procurement functions within a single organization. The choice between these models depends on the unique goals, structure, and requirements of the organizations involved, each offering distinct advantages in the pursuit of effective procurement management.

Tutor Notes:

- This is from LO 3.3 p.161 onwards. There's quite a bit of information on these hybrid models so there's many ways it can come up as a question. There are different types of consortium, which I didn't go into in the above essay because it wasn't asked for as part of the question, but I'd familiarise yourself with this. Also with the pros and cons of each model, and think about when an organisation may choose this type of model.

NEW QUESTION # 50

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 explanations: 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 # 51

Explain how the new procurement department can use the CIPS Procurement Cycle to influence the spend on raw materials, deliver cost reductions and enable other value benefits.

(25 marks)

Answer:

Explanation:

See the solution in Explanation part below

Explanation:

Electronica Manufacturing

Jane Henderson has been brought in to set up and lead a new procurement department at Electronica Manufacturing. It manufactures a range of electronic products, components and sub-assemblies for clients in the Information technology sector.

Jane has carried out an initial analysis of procurement practices and has discovered that the company has never focused on how procurement tools and techniques can be used to reduce costs. She is also keen to improve procurement added value, increase quality and increase end-user satisfaction.

Jane wishes to introduce a more robust approach to procurement and is considering implementing new processes and procedures in the procurement of raw materials and sub-assemblies.

Using the CIPS Procurement Cycle to Influence Spend on Raw Materials, Deliver Cost Reductions, and Enable Value Benefits

Electronica Manufacturing has historically not focused on procurement's role in cost reduction or added value. By implementing the CIPS Procurement Cycle, Jane Henderson can establish a structured and strategic procurement process to optimize spend on raw materials, achieve cost reductions, and generate other value benefits. Below is a detailed analysis of how each stage of the CIPS Procurement Cycle can support these goals:

1. Understanding Needs and Developing Specifications

How it Helps:

Jane must assess raw material requirements based on product designs, production needs, and customer expectations.

Avoiding over-specification ensures that materials are fit for purpose rather than unnecessarily costly.

Impact on Electronica Manufacturing:

Prevents unnecessary spending on premium materials that don't add value.

Ensures cost-effective sourcing without compromising quality.

2. Market Analysis and Supplier Identification

How it Helps:

Conducting supplier market research helps identify competitive suppliers offering better pricing and quality.

Analyzing market trends (e.g., commodity price fluctuations) allows for timely purchasing to mitigate cost increases.

Impact on Electronica Manufacturing:

Reduces costs by sourcing from cost-effective and reliable suppliers.

Identifies potential new suppliers that offer better value and innovation.

3. Developing a Sourcing Strategy

How it Helps:

Jane can implement strategic sourcing, using techniques like long-term contracts, supplier partnerships, and competitive bidding. A well-defined strategy ensures that procurement aligns with business goals.

Impact on Electronica Manufacturing:

Reduces supply chain risks by diversifying suppliers.

Maximizes cost savings through bulk purchasing and supplier negotiations.

4. Supplier Evaluation and Selection

How it Helps:

A structured evaluation process ensures selection based on cost, quality, reliability, and sustainability.

Supplier benchmarking and total cost analysis ensure best-value sourcing.

Impact on Electronica Manufacturing:

Reduces waste and costs by selecting suppliers that provide consistent quality.

Helps mitigate supply chain risks, ensuring reliable raw material availability.

5. Contract Management and Negotiation

How it Helps:

Jane can introduce structured contracts with cost-control mechanisms, such as fixed pricing, volume discounts, and service-level agreements (SLAs).

Contract negotiation can lock in competitive pricing and ensure supplier accountability.

Impact on Electronica Manufacturing:

Improves cost predictability and budget control.

Strengthens supplier relationships, leading to better terms and cost efficiencies.

6. Purchase Order Processing and Expediting

How it Helps:

Implementing an efficient purchase order (PO) system reduces administrative inefficiencies and speeds up raw material procurement.

Use of automated procurement systems (e.g., ERP systems) ensures cost-effective order processing.

Impact on Electronica Manufacturing:

Reduces administrative overheads and human errors.

Ensures faster lead times and better inventory control, reducing stock shortages and excess inventory costs.

7. Supplier Relationship Management (SRM)

How it Helps:

Establishing collaborative relationships with key suppliers can drive joint cost-saving initiatives.

Long-term supplier partnerships can lead to better pricing, innovation, and risk-sharing.

Impact on Electronica Manufacturing:

Reduces costs through supplier-led efficiency improvements.

Encourages supplier innovation, leading to better materials and higher-quality products.

8. Performance Review and Supplier Development

How it Helps:

Regular supplier performance reviews ensure that quality, cost, and delivery expectations are met.

Supplier development programs can help underperforming suppliers improve efficiency, reducing procurement risks.

Impact on Electronica Manufacturing:

Improves product quality and consistency, reducing defects and waste-related costs.

Enhances supplier accountability, leading to more cost-effective procurement.

9. Risk Management and Compliance

How it Helps:

Jane can introduce risk management strategies such as dual sourcing, inventory buffers, and price hedging to mitigate supply chain disruptions.

Ensuring compliance with ethical, legal, and sustainability standards reduces long-term operational risks.

Impact on Electronica Manufacturing:

Reduces financial and operational risks, improving business continuity.

Strengthens brand reputation by ensuring ethical sourcing.

10. Procurement and Supply Strategy Review

How it Helps:

Continuous evaluation of procurement strategies ensures alignment with changing market conditions and company goals.

Data-driven decision-making through spend analysis and procurement reporting allows for ongoing cost optimizations.

Impact on Electronica Manufacturing:

Enhances procurement efficiency and sustains cost reductions.

Ensures procurement remains a value-adding function rather than a cost center.

Conclusion

By applying the CIPS Procurement Cycle, Jane Henderson can transform Electronica Manufacturing's procurement function from an ad-hoc, cost-inefficient process into a strategic, value-driven function. This structured approach will enable smarter spending on raw

materials, continuous cost reductions, and broader business benefits, such as improved quality, efficiency, and stakeholder satisfaction.

Implementing procurement best practices will not only reduce costs but also drive long-term business sustainability and competitive advantage.

NEW QUESTION # 52

What is a P2P system (5 points)? Explain the impact that using IT systems can have on the way the Procurement department of an organisation functions (25 points).

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

- Definition of P2P - Purchase to Pay or Procure to Pay is the process an organisation takes from ordering a product to paying for it. The main stages of this process are product ordering, supplier requisition to pay, budget authorisation, receipt of delivery, and invoice processing.

- Impact of using IT Systems - can include the use of these systems: EPOS, barcodes/ RDIF, e-commerce systems such as POs and invoicing, and electronic communications such as email. Impacts can be; increased productivity, quicker processes, higher levels of visibility, increased responsiveness to demands, cost savings, less paper used, supplier relationships are managed virtually rather than in person. Generally the impacts are positive, but you could also discuss some disadvantages or challenges a department might face as the question is quite open.

Example Essay

A Procure-to-Pay system is a comprehensive solution that automates and integrates the procurement process within an organization, covering the entire lifecycle from requisitioning goods or services to making payments to suppliers.

The P2P process includes the following: a buyer requests an item, they put in a requisition, it is accepted by the supplier, the item is delivered and the item is then paid for. The order of the steps may be different depending on the industry / requirement (e.g. sometimes payment is made before delivery), or sometimes there are additional steps such as getting the requisition approved by a manager.

Nowadays the P2P process is mainly digitalised- orders are made online or via a PO system and payment is made via BACS. It is not common to pay for items in cash or by cheque any more. This digitalisation has had many effects on the way the procurement department functions. The P2P system streamlines and standardizes the purchasing process, enhancing efficiency, transparency, and control.

The integration of Information Technology (IT) systems has a profound impact on the functioning of the Procurement department within an organization. This digital transformation brings about significant improvements in efficiency, transparency, collaboration, and decision-making processes. Some of the key impacts include:

- Raised productivity - using IT systems results in quicker processes and they're often more accurate and consistent than humans doing the tasks manually. For example, an electronic requisition system can flag when a requisition isn't completed properly (e.g. part of the requisition is missing or a supplier name has been spelled incorrectly). When doing this manually the errors may not be spotted.

- Innovation - the use of IT means new avenues can be explored in terms of new product markets and new supply chains. Without the use of IT, procurement may be limited to working with local suppliers or those they can find in the phone book. Using IT systems such as e-auctions and even just the internet to complete research, opens up more opportunities to make purchases. This could involve working with international supply chains and result in cost savings for the business.

- Improved business processes - the use of IT means there is more transparency as everything is recorded and it is easier for managers to oversee. This results in less risk exposure for the business, particularly in fraud.

The use of IT also standardises processes which makes it easy for everyone to know what to do.

- When IT is used, there is an increased responsiveness of the procurement function - it allows for 24/7/365 ordering compared to making purchases in person in a shop which may only be open 9-5. Moreover, there are paperless communications when IT is used- this has a positive environmental impact

- Supplier Relationship Management (SRM) - IT systems support Supplier Relationship Management by providing tools to assess and manage supplier performance. This can include logging KPIs and tracking supplier performance. SRM functionalities enhance communication, collaboration, and visibility into supplier relationships.

In summary, the integration of IT systems into the Procurement department transforms traditional practices, making processes more streamlined, data-driven, and strategically focused. The impact is not only on operational efficiency but also on the ability of the procurement function to contribute strategically to the organization's overall objectives.

Tutor Notes

- The word impact is quite vague. I've mainly talked about advantages but you could discuss the impact that the use of IT has had on the department, not just in how it functions, but in how it is perceived. IT has professionalised the procurement industry as a whole- it's no longer seen as 'purchasing' but as a vital function within a business that contributes to added value and strategic goals.

- You could also talk about the impact it's had on ways of working. The use of IT has allowed for innovative procurement and manufacturing techniques such as Just-In-Time. The use of IT also ends silo-working, instead allowing for more collaboration with other business departments and the supply chain as a whole.
- LO 3.4 P. 171

NEW QUESTION # 53

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