

# L4M1 Testantworten - L4M1 Vorbereitungsfragen

## CIPS L4M1 - Question & Answer 2024 with complete solutions

O1. Outline FIVE differences between purchasing goods and purchasing services. - ANSWERS1. 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

O2. Explain THREE circumstances in which a competitive tendering exercise might not be the best approach to making a purchase. - ANSWERS1. 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

O2. Describe TWO e-sourcing tools and their use in procurement and supply. - ANSWERS1. E-Catalogues

2. E-Tendering
3. E. Auction
4. Reverse Auctions
5. Online supplier evaluation data

O3. Explain the role of a shared services unit (SSU). - ANSWERS1. 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.

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## CIPS L4M1 Prüfungsplan:

Thema	Einzelheiten
Thema 1	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
Thema 2	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

Thema 3	<ul style="list-style-type: none"> <li>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</li> </ul>
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>> L4M1 Testantworten <<

## L4M1 Übungstest: Scope and Influence of Procurement and Supply & L4M1 Braindumps Prüfung

Wir können mit Stolz sagen, dass wir DeutschPrüfung professionell ist! Denn die Bestehensquote der Prüflingen, die unsere CIPS L4M1 Software benutzt haben, ist unglaublich hoch. Denn unsere Tech-Gruppe ist unglaublich kompetent. Der Kundendienst ist ein sehr wichtiger Standard für eine Firma. Um den hohen Standard zu entsprechen, bieten wir 24/7 online Kundendienst, einjähriger kostenloser CIPS L4M1 Aktualisierungsdienst nach dem Kauf und die Erstattungspolitik beim Durchfall. Wenn Sie wirklich CIPS L4M1 bestehen möchten, wählen Sie unsere Produkte!

### CIPS Scope and Influence of Procurement and Supply L4M1 Prüfungsfragen mit Lösungen (Q26-Q31):

#### 26. Frage

Discuss 3 areas of regulation relating to competition that a procurement professional should be aware of (25 points)

#### Antwort:

##### Begründung:

See the solution in Explanation part below

##### Explanation:

How to approach this question

- This question is very vague. Sometimes CIPS do this. It allows for you to be a bit more free in your response, but can also be quite stressful because you don't 100% know what they're after.
- For this question we're looking at competitions, so full tenders where lots of suppliers are invited to bid for an opportunity. This means the type of things we could be discussing include; IP, cartels, merger controls and monopolies.

##### Example Essay

Procurement professionals operate within a legal framework that regulates competition, aiming to ensure fair business practices and prevent anti-competitive behaviour. Three critical areas of regulation related to competition that procurement professionals should be aware of include intellectual property, cartels, and merger controls.

##### Intellectual Property (IP):

Intellectual property encompasses creations of the mind, such as inventions, designs, and brand names, protected by law. In the context of procurement, understanding intellectual property is essential when dealing with suppliers' products, technologies, or services that may involve intellectual property rights.

Procurement professionals must be aware of the intellectual property rights associated with the goods or services they are procuring. This includes respecting patents, trademarks, copyrights, and trade secrets owned by suppliers. Due diligence is crucial to ensure that the products or services being procured do not infringe on the intellectual property rights of others, requiring verification of legal ownership and legitimacy. An example of something procurement should look out for include ensuring goods are authentic and not counterfeit.

##### Cartels:

Cartels involve agreements between competitors to control prices, manipulate markets, or restrict competition. For procurement professionals, it is imperative to be vigilant and avoid engaging in or unintentionally supporting cartel activities. Procurement professionals should refrain from participating in anti-competitive behaviour, such as bid-rigging or price-fixing, which are common cartel activities. This involves not colluding with suppliers or competitors to manipulate procurement processes. Maintaining open and fair competition is essential, ensuring that procurement processes remain transparent, competitive, and free from attempts to distort market dynamics, thereby preventing the formation of cartels and promoting a level playing field.

One notable example involved the construction industry in the UK. In 2019, the Competition and Markets Authority (CMA) fined three major suppliers to the construction industry for participating in a cartel. The companies, which supplied concrete drainage products, were found to have coordinated their behaviour to share markets, fix prices, and rig bids. The investigation revealed that these companies had breached competition law by engaging in anti-competitive practices that limited competition and negatively impacted customers. The fines imposed were part of the CMA's efforts to deter and penalize such cartel behaviour, emphasizing the

importance of fair competition in procurement. The Directors of the companies have also been banned from undertaking the role of Director of any company for 12 years.

Merger Controls:

Merger controls are regulations overseeing the consolidation of companies, mergers, and acquisitions to prevent monopolistic practices and protect fair competition. Procurement professionals need to be aware of these regulations, especially when dealing with suppliers undergoing mergers or acquisitions.

Staying informed about mergers and acquisitions within the supplier base is crucial. If a key supplier undergoes such changes, it may impact the stability of the supply chain or alter market dynamics. Procurement professionals need to be aware of potential changes in supplier relationships, pricing structures, or product/service availability resulting from mergers. Engaging in proactive risk management and contingency planning is necessary to mitigate any negative impacts on procurement operations.

Mergers are actively watched in the UK by the Competition and Markets Authority, and where rules are broken, the CMA can intervene and even prevent mergers from happening. A notable example of this was the attempted merger between JD Sports and Footasylum - the companies were fined millions of pounds for exchanging information and attempting to collude and distort the marketplace.

In conclusion, procurement professionals play a crucial role in navigating these regulatory landscapes effectively. Understanding intellectual property, avoiding cartel activities, and staying informed about merger controls contribute to fostering fair and transparent competition within the marketplace.

Tutor Notes

- The construction example of a cartel can be found here Supply of precast concrete drainage products: civil investigation - GOV.UK ([www.gov.uk](http://www.gov.uk)) but feel free to use your own!

- The JD/ Footasylum one is here: JD Sports and Footasylum fined £4.7m for competition breach - BBC News. Basically, the CMA got involved because the two firms were sharing private information and having secret meetings, with the intention that they could combine. The CMA thought it was super dodgy and that it would distort the trainer / footwear market in the UK so they fined the companies and told them to stop it.

- The study guide is a bit light on this topic, so I would do a bit of extra research and have an example in your back pocket for if you need it. P. 142 If you want an example of IP issues- Shein is a great company to look at- 'They took my world': fashion giant Shein accused of art theft | Art and design | The Guardian

## 27. Frage

Describe the CIPS Code of Conduct providing examples of how an organisation can ensure compliance with the standard (25 points)

**Antwort:**

Begründung:

See the solution in Explanation part below

Explanation:

How to approach this question:

- This is the type of question you either know or you don't. You can't really guess it. So do memorise it. There's not really a shortcut here.

- The CIPS Code of Conduct is an ethical standard and framework which is used profession-wide. The purpose is to standardise ethics across the profession.

- There are 5 aspects to the Code of Conduct: enhance and protect the standing of the profession, promote the eradication of unethical business practices, maintain integrity in all business relationships, enhance proficiency and stature of the profession and ensure full compliance with law and regulations.

Example Essay:

The Chartered Institute of Procurement & Supply (CIPS) Code of Conduct is a comprehensive set of principles and standards that guide the ethical conduct of procurement and supply professionals. Adhering to this code is crucial for maintaining integrity, transparency, and responsible behaviour within the procurement profession. Here's an overview of the CIPS Code of Conduct along with examples of how organizations can ensure compliance with these standards:

1 - Enhance and protect the standing of the profession.

This means don't bring the profession into disrepute by your actions, don't accept gifts or offers of hospitality and to be aware that behaviour outside work reflects one's reputation as a professional. An organisation can implement training programs to educate procurement professionals about the importance of maintaining high standards of professionalism and integrity in their interactions with suppliers and stakeholders.

2 - Promote the eradication of unethical business practices.

This means fostering awareness of human rights, fraud and corruption issues in business relationships, responsibly managing business relationships if unethical practices come to light, undertaking due diligence (in respect to forced labour, fraud, corruption) and continually develop one's own personal knowledge of ethical issues. Promoting the eradication of unethical business practices requires a comprehensive and proactive approach from organizations. This involves having a strong CSR policy, having

whistleblowing protection and reporting mechanisms, and conducting due diligence on the supply chain.

3 - Maintain integrity in all business relationships.

An organisation can show compliance with this by; rejecting improper business practices, never using authority for personal gain, declaring conflicts of interest, giving accurate information, not breaching confidentiality, striving for genuine, fair and transparent competition and being truthful about skills and experience. An example of this is for an organisation to sever ties with unethical businesses. One notable example of a retailer terminating a relationship with a supplier due to ethical reasons is the case of H&M and its decision to cut ties with a Chinese yarn producer in Xinjiang province. H&M, a global fashion retailer, announced in early 2021 that it would no longer source cotton from Xinjiang due to concerns over forced labour and human rights abuses associated with cotton production in the region.

4 - Enhance proficiency and stature of the profession.

Activities which would demonstrate compliance with this includes: Continual development of knowledge and skills, fostering the highest standards of competence in staff members at the organisation and optimising the responsible use of resources. For procurement staff, this could involve becoming MCIPS qualified, and even once qualified, completing routine CPD (Continued Professional Development) to ensure their knowledge and skills remain updated and relevant. They should also strive to share their knowledge with the wider organisation.

5 - Ensure full compliance with law and regulations.

An organisation can demonstrate compliance with the standard by proving they: follow the law in all countries they do business in, fulfilling all contractual obligations and following the CIPS guidance on professional practice. Compliance can include aspects of fiduciary responsibility such as paying the correct level of tax and filing returns on time, as well as compliance to legislation such as the Health and Safety at Work Act 1974 and the Equalities Act 2000.

In conclusion, the CIPS Code of Conduct is a voluntary standard for organisations to follow but it sets a high standard for the industry. By following the CIPS Code of Conduct organisations can enhance their reputation and levels of trust among stakeholders, as well as being reassured that following these clear ethical guidelines contribute to a positive workplace culture, boosting employee morale and commitment by fostering a sense of shared values.

Tutor Notes:

- Under the previous syllabus CIPS asked this question a lot. If you memorise one thing from the study guide I'd recommend it be this. Even if it doesn't come up as a stand-alone question, you can work it into more general essays about ethics- so it is useful to know.

- For a top score, try to give deep examples. So where you have said 'responsibly managing business relationships' you could explain what this means in practice- by ensuring fair contract terms are put in place, holding suppliers to account when they do something wrong and not exploiting smaller suppliers. Where you have said 'complete Due Diligence' you could mention that this would be completed before awarding a contract to a supplier and would involve looking at a supplier's history and supply chain to ensure that they have not been involved in any crimes (fraud etc) or unethical behaviour (such as polluting the environment). The more in depth you go, the more you show the examiner your understanding, and the higher you'll score.

- p. 137 or here: Cips Code of Conduct | CIPS Note the study guide talks on p. 132 about the CIPS Code of Ethics, which is slightly different. The Code of Conduct is the main one to learn.

## 28. Frage

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)

**Antwort:**

Begründung:

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

a. 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

## 29. Frage

Describe regulation that govern the Public Sectors and explain how this may impact upon procurement activities (25 marks).

### Antwort:

Begründung:

See the solution in Explanation part below.

Explanation:

How to approach this question

- You do need to know some legislation for public sector here. This may be difficult if you don't work in the Public Sector. If you're struggling with this, you could also talk about general legislation that governs all types of organisations such as the Equalities Act and Modern Slavery Act.

- This is also a tough question if you're not British. CIPS is a UK based organisation and the syllabus therefore only talks about British legislation. If you're in a different country you could talk about the legislation in your own country, providing the question doesn't specifically mention UK Law.

- Either way I would recommend knowing a couple of pieces of British Legislation. You don't need to be an expert but just state what they are and what the purpose is should be enough to get you a pass.

Example essay

The public sector, which encompasses various governmental and state-owned enterprises, plays a pivotal role in the governance and provision of essential services. This sector operates under a strict framework of regulations and policies, ensuring that its operations are fair, transparent, and accountable. Among the most critical aspects of these operations is procurement, the process through which the public sector acquires goods, services, and works. This essay will explain key regulations governing the public sector, focusing on the Public Contracts Regulations (PCR) 2015, Late Payment Regulations 2016, Equalities Act 2010, and Public Services (Social Value) Act 2012, and explores how these regulations impact procurement activities.

The Public Contracts Regulations (PCR) 2015

The PCR 2015 plays a foundational role in public sector procurement in the UK. It sets out the procedures for procuring contracts, aiming to ensure fairness and transparency in the process. The regulations mandate that all procurement processes must be conducted in a manner that prevents discrimination and allows equal access to potential contractors, regardless of their size or location. For example, the open tendering process under PCR

2015 has enabled a more diverse range of companies, including small and medium-sized enterprises, to participate in government contracts, enhancing competition and innovation. The four 'pillars' of the PCR are derived from EU Procurement Directives and are: non-discrimination, free movement of goods, equality of treatment and transparency.

Late Payment Regulations 2013

The Late Payment Regulations 2013 address a critical aspect of procurement: the timely payment for goods and services. This regulation ensures that public sector organizations pay their suppliers within a stipulated time frame, significantly impacting the financial stability of these suppliers. For instance, the regulation has been particularly beneficial for small businesses that rely on prompt payments to maintain cash flow. The introduction of these regulations has improved the trust between public sector entities and their suppliers, leading to more efficient procurement processes.

Equalities Act 2010

The Equalities Act 2010 is another crucial piece of legislation impacting public sector procurement. This Act prohibits discrimination in the workplace and in the provision of services, extending its influence to the procurement process. Public sector entities must ensure that their procurement decisions do not discriminate against any group and that they promote equality. For instance, when a public sector organization issues a tender, it must ensure that the selection criteria do not unfairly disadvantage any potential supplier based on irrelevant characteristics. This approach not only fosters a more inclusive procurement environment but also helps to tap into a wider talent and supplier pool, enhancing the quality and effectiveness of public services.

Public Services (Social Value) Act 2012

The Public Services (Social Value) Act 2012 marks a significant shift in how procurement is approached in the public sector. This

Act requires public sector organizations to consider how the services they procure can improve the economic, social, and environmental well-being of their area. This means that when a public sector entity procures goods or services, it must consider factors beyond just the price and quality. For example, a local government might prioritize suppliers who can demonstrate a commitment to environmental sustainability or who offer employment opportunities to local residents. This approach to procurement encourages a more holistic view of value for money, factoring in the wider impact of procurement decisions on society.

#### Public Accountability and Freedom of Information Requests

In addition to these specific regulations, the concept of public accountability and the mechanism of Freedom of Information requests play a crucial role in the public sector, especially in procurement activities. Public accountability ensures that entities are answerable to the public and their actions are transparent. Freedom of Information requests enable individuals and organizations to access information held by public authorities, which includes details of procurement decisions and contracts. This transparency is critical in ensuring that procurement activities are conducted ethically and responsibly, deterring corruption and mismanagement.

In conclusion, the regulation of the public sector, particularly in the realm of procurement, are complex.

Regulations such as the PCR 2015, Late Payment Regulations 2016, Equalities Act 2010, and the Public Services (Social Value) Act 2012, along with the principles of public accountability and transparency, ensure that procurement activities are conducted in a fair, transparent, and socially responsible manner. These regulations not only safeguard the interests of suppliers, especially smaller businesses, but also ensure that the public sector remains a model of integrity and efficiency and that taxpayers' money is well spent.

#### Tutor Notes

- Okay this is important: The PCR 2015 regulations are being rescinded in 2024. They're based on EU Law and the UK has left the EU. I know we left a while ago now but it's taken us a long time to address the issue and figure out what we want to do about it.

There was also a pandemic that got in the way of people making any decisions in parliament that weren't to do with Covid. The PCR 2015 will be replaced in late 2024 with new 'British' rather than European rules.

- At the time of writing this (December 2023) we don't 100% know what the new rules are going to look like and if you're taking this exam from November 2024 onwards, I recommend doing a bit of research into the new regulations.

- Now the complicated bit- the CIPS syllabus is valid from 2024-2028 and doesn't address that legislation is changing. I therefore don't really know what they're going to expect when students are taking this exam and the study guide information is out of date. If you're not working in the Public Sector, how are you to know the legislation has changed?

- My advice is this- briefly learn PCR 2015- the four pillars in particular, and when the new legislation comes out, have a quick google and see if these pillars are still the same. The regs aren't going to change THAT much - things like transparency and equal treatment are still going to be really important, but there may be some slight language changes. Plus, if you're able to mention in an essay that there's new legislation, it's going to make you sound super clever.

- LO 4.2 p.211

### 30. Frage

Analyse FIVE different sources of added value in procurement and supply.

(25 marks)

#### Antwort:

##### Begründung:

See the solution in Explanation part below

##### Explanation:

In procurement and supply, adding value means going beyond simple cost savings to enhance the overall contribution of procurement to the organization's objectives. Added value can be generated in multiple ways, impacting cost, quality, efficiency, innovation, and sustainability. Below are five key sources of added value in procurement and supply, analysed in detail:

#### 1. Cost Reduction and Cost Avoidance

Definition: Cost reduction involves lowering the actual purchase price of goods or services, while cost avoidance refers to actions that prevent costs from increasing in the future.

Through effective supplier negotiations, competitive tendering, bulk purchasing, and long-term contracts, procurement can achieve significant cost savings. Cost avoidance can come from proactive management of risks, improving contract terms, or optimizing specifications to prevent future price hikes.

Impact: This directly improves the organization's profitability by reducing expenditure without compromising quality or service levels.

Example: Renegotiating supplier contracts to achieve better rates or standardizing materials to reduce complexity and cost.

#### 2. Improved Quality and Performance

Definition: Enhancing the quality of goods and services procured to meet or exceed organizational needs.

Procurement contributes added value by specifying and sourcing higher quality materials or services that reduce defects, returns, and downtime. Better quality improves customer satisfaction and product reliability.

Impact: Higher quality inputs lead to better outputs, reducing internal failures and enhancing brand reputation.

Example: Working with suppliers to implement quality assurance processes or selecting suppliers with robust certification and testing

capabilities.

### 3. Innovation and Supplier Collaboration

Definition: Encouraging suppliers to contribute innovative ideas, technologies, or processes that benefit the organization. Procurement can create value by fostering collaborative relationships with suppliers to drive product innovation, process improvements, and new market opportunities. Early supplier involvement can reduce development times and costs.

Impact: Innovation enhances competitive advantage, supports new product development, and can open up new revenue streams.

Example: Joint development projects with suppliers or using supplier expertise to redesign components for cost efficiency and performance improvement.

### 4. Risk Management and Supply Continuity

Definition: Identifying and mitigating risks in the supply chain to ensure uninterrupted supply.

Procurement adds value by assessing supplier reliability, geopolitical risks, financial stability, and logistical challenges to minimize disruptions. Contingency planning and diversified sourcing reduce vulnerability.

Impact: Reliable supply chains prevent costly production stoppages and reputational damage, contributing to operational resilience.

Example: Developing dual sourcing strategies or monitoring supplier performance and compliance continuously.

### 5. Sustainability and Corporate Social Responsibility (CSR)

Definition: Integrating environmental and social considerations into procurement decisions.

Procurement adds value by selecting suppliers who comply with sustainability standards, ethical labor practices, and environmental regulations. This aligns with organizational CSR goals and reduces negative impacts.

Impact: Enhances brand image, meets regulatory requirements, and can reduce waste and resource consumption.

Example: Choosing suppliers with certified green practices or implementing circular economy principles in supply chains.

Conclusion:

Added value in procurement and supply extends beyond price savings to include quality enhancement, innovation, risk mitigation, and sustainability. By strategically managing supplier relationships and aligning procurement activities with organizational goals, procurement professionals can deliver significant and measurable benefits that improve competitive advantage and organizational performance.

## 31. Frage

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