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CIPS L4M1 - Question & Answer 2024 with complete solutions

Q1. 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

Q2. 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

Q3. 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

Q4. 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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This format enables you to assess your L4M1 test preparation with a L4M1 practice exam. You can also customize your time and the kinds of questions of the CIPS L4M1 Practice Test. This Scope and Influence of Procurement and Supply L4M1 practice test imitates the CIPS L4M1 real exam pattern. Thus, it helps you kill Scope and Influence of Procurement and Supply exam anxiety.

CIPS L4M1 Exam Syllabus Topics:

Topic	Details
Topic 1	<ul style="list-style-type: none">• 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 2	<ul style="list-style-type: none">• 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 3	<ul style="list-style-type: none">• 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.

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CIPS Scope and Influence of Procurement and Supply Sample Questions (Q41-Q46):

NEW QUESTION # 41

In the supplier selection part of the Procurement Cycle, what criteria can a Procurement Manager use to ensure they award to the best supplier? (25 points)

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

How to approach this question:

- This is quite an open question and there are many different things you could mention. One way to approach it would be to use Carter's 10 Cs- discuss a couple of these. OR just give a couple of criteria in different paragraphs. Some ideas include: Supplier financial status, Reputation / References, Quality, Availability, CSR Policies / Ethics / Environmental considerations, Accreditations, Added Value. This list is not exhaustive.
- If you're going for Carter's 10 Cs you could name a couple of these: competency, consistency, capability, control, cost, cash, clean, communication, culture, commitment
- I don't think either approach is better or worse. Choose the criteria you know the most about and write about those.
- The question doesn't tell you how many criteria to name, so you have to make a judgement call here. I would aim for 5-6. But if you can only remember 4 that's fine. The main thing they're looking for is that you explain for each one 1) what it is 2) how procurement can check 3) why procurement would look at that criteria 4) an example. If you do too many you risk not going into enough detail on each. It's a balance. 5 is always a good number to aim for if the question doesn't state.

Example Essay

In the procurement cycle, the supplier selection phase is a critical juncture that demands consideration.

Procurement Managers shoulder the responsibility of identifying and awarding contracts to suppliers who not only meet immediate needs, but contribute to the long-term success of the organization. This essay explores various criteria a Procurement Manager can employ to ensure the selection of the best supplier: financial stability, reputation, quality, availability, CSR policies, and added value. Financial stability is a foundational criterion in supplier selection. Assessing a supplier's financial status involves a multifaceted evaluation, with liquidity and gearing ratio taking center stage. The acid test, comparing short-term assets to liabilities, offers insights into a supplier's ability to settle debts promptly, with a ratio exceeding 1 indicating financial health. Meanwhile, the gearing ratio, reflecting the proportion of capital funded by loans, aids in gauging financial risk, with a ratio below 50% considered low-risk.

Relying on published Profit and Loss statements and income statements, along with financial credit checks from platforms like Dun and Bradstreet, empowers Procurement Managers to make informed decisions. This financial scrutiny is imperative to avoid entering contracts with suppliers facing imminent financial struggles, safeguarding against potential disruptions to the supply chain.

Reputation and references are another pivotal criterion. Seeking references from previous contracts allows Procurement Managers to gauge a supplier's track record in successfully delivering on similar commitments.

Independent reviews and informal market inquiries supplement this information, providing a holistic understanding of a supplier's performance. However, caution is advised in overreliance on past performance, as variables like personnel changes or contract scale differences may impact outcomes. Recognizing that past shortcomings may have been addressed internally further emphasizes the need for a balanced approach to reference evaluation.

Thirdly, Quality. Beyond the product itself, considerations extend to the supplier's technological capabilities, manufacturing processes, and relevant accreditations such as ISO 9001. Physical visits to supplier sites may be warranted, especially for products like raw materials where samples can be requested. Adhering to recognized safety standards and assessing factors like fire retardancy ensures that the quality of manufactured goods aligns with established benchmarks.

Next, Availability is another important criteria to consider. Procurement Managers must evaluate a supplier's capacity and capability

to meet specific requirements. Inquiries about existing contracts and flexibility in response to demand fluctuations provide insights into a supplier's commitment and responsiveness. Assessing the supplier's workload and the significance of the buyer in their client portfolio helps determine the level of attention and service the buyer can expect. A buyer may wish to avoid working for a supplier who is already stretched very thinly with other contracts.

Corporate Social Responsibility (CSR) policies and ethical considerations have gained prominence in supplier selection. Beyond legal compliance, Procurement Managers may scrutinize a supplier's history for convictions or negative press related to corruption, bribery, or fraud. The presence of a Modern Slavery Policy and Environmental Policy, along with relevant accreditations like ISO14001 or Fair Trade certification, attests to a supplier's commitment to ethical and sustainable practices. Procurement would likely seek to appoint a supplier whose CSR vision aligns with their own company's.

Lastly, added value is an important criteria to consider. This is particularly so for Public Sector Organizations governed by the Social Value Act. In addition to meeting contractual requirements, suppliers may offer knowledge sharing, training, improved processes, or contribute to social value by employing local community members or providing apprenticeships. This criterion aligns procurement decisions with broader organizational goals, enhancing the overall impact of supplier relationships and benefitting the local community.

In conclusion, a careful combination of financial scrutiny, reputation assessment, quality evaluation, availability considerations, CSR policies, and added value analysis forms the bedrock of effective supplier selection in the procurement cycle. Procurement Managers, armed with a holistic understanding of these criteria, should seek not only to fulfil immediate needs, but also consider the long-term impact of supplier appointments.

Tutor Notes

- A 'good' scoring answer (50-70%) will explain the criteria well and give examples. If you're looking for a distinction level answer (70%+) you could also mention advantages, disadvantages and risks associated with each of the criteria. For example, when looking at references and reputation it's important to know that a supplier would only ever provide a good reference to you, they would never tell you of a contract that failed.

Another example is that financial data may be skewed- a supplier may have a low score if they are just starting up or have recently remortgaged a property. It's therefore important to get a commentary as well as the figures / scores.

- You could also mention that criteria could be weighted e.g. more importance given to quality than financial status and also consider how easy or difficult it would be to get the information e.g. a supplier may say they have lots of availability to deliver the service you require, but they may just be saying this to win business.

How do you know for sure?

- Social Value Act isn't in this syllabus. If you work in Public Sector procurement it's something you'll be very familiar with. If you don't or you're outside of the UK do not worry about this. I've just included it to show how you can bring in your own knowledge to questions like this. You could think of particular criteria that's important to your industry and write about that. The Social Value Act: What is it, and why is it important? (samtaler.co.uk)

- Study guide p.77

NEW QUESTION # 42

Provide a definition of a stakeholder (5 points) and describe 3 categories of stakeholders (20 points).

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

Essay Plan:

Definition of Stakeholder- someone who has a 'stake' or interest in the company. A person or organisation who influences and can be influenced by the company.

Categories of stakeholders:

- 1) Internal Stakeholders- these people work inside the company e.g. employees, managers etc

- 2) Connected- these people work with the company e.g. suppliers, mortgage lenders

- 3) External Stakeholders - these people are outside of the company e.g. the government, professional bodies, the local community.

Example Essay:

A stakeholder is an individual, group, or entity that has a vested interest or concern in the activities, decisions, or outcomes of an organization or project. Stakeholders are those who can be affected by or can affect the organization, and they play a crucial role in influencing its success, sustainability, and reputation.

Understanding and managing stakeholder relationships is a fundamental aspect of effective organizational governance and decision-making and there are several different types of stakeholders.

Firstly, internal stakeholders are those individuals or groups directly connected to the daily operations and management of the organization. Internal stakeholders are key to success and are arguably more vested in the company succeeding. They may depend on the company for their income / livelihood. Anyone who contributes to the company's internal functions can be considered an internal stakeholder for example:

This category includes

- 1) Employees: With a direct influence on the organization's success, employees are critical internal stakeholders. Their engagement, satisfaction, and productivity impact the overall performance.
- 2) Management and Executives: The leadership team has a significant influence on the organization's strategic direction and decision-making. Their decisions can shape the company's future.

Secondly, connected stakeholders are those individuals or groups whose interests are tied to the organization but may not be directly involved in its day-to-day operations. Connected stakeholders work alongside the organisation and often have a contractual relationship with the organisation. For example, banks, mortgage lenders, and suppliers. These stakeholders have an interest in the business succeeding, but not as much as internal stakeholders. It is important to keep these stakeholders satisfied as the organisation does depend on them to some extent. For example, it is important that the organisation has a good relationship with their bank / mortgage provider/ supplier as failing to pay what they owe may result in the stakeholders taking legal action against the organisation. This category includes:

- 1) Shareholders/Investors: Holding financial stakes in the organization, shareholders seek a return on their investment and have a vested interest in the company's financial performance.
- 2) Suppliers and Partners: External entities providing goods, services, or collaboration. Their relationship with the organization impacts the quality and efficiency of its operations.

Lastly external stakeholders are entities outside the organization that can influence or be influenced by its actions. This category includes anyone who is affected by the company but who does not contribute to internal operations. They have less power to influence decisions than internal and connected stakeholders. External stakeholders include the government, professional bodies, pressure groups and the local community. They have quite diverse objectives and have varying ability to influence the organisation. For example, the government may be able to influence the organisation by passing legislation that regulates the industry but they do not have the power to get involved in the day-to-day affairs of the company. Pressure groups may have varying degrees of success in influencing the organisation depending on the subject matter. This category includes:

- 1) Customers: With a direct impact on the organization's revenue, customers are vital external stakeholders. Their satisfaction and loyalty are crucial for the company's success.
- 2) Government and Regulatory Bodies: External entities overseeing industry regulations. Compliance with these regulations is crucial for the organization's reputation and legal standing.

In conclusion, stakeholders are diverse entities with a vested interest in an organization's activities. The three categories-internal, connected and external -encompass various groups that significantly influence and are influenced by the organization. Recognizing and addressing the needs and concerns of stakeholders are vital for sustainable and responsible business practices.

Tutor Notes

- The above essay is pretty short and to the point and would pass. If you want to beef out the essay you can include some of the following information for a higher score:
- Stakeholders can be harmed by, or benefit from the organisation (can affect and be affected by the organisation). For example a stakeholder can be harmed if the organisation becomes involved in illegal or immoral practices- e.g. the local community can suffer if the organisation begins to pollute the local rivers.
- The local community can also benefit from the organisation through increased employment levels.
- CSR argues organisations should respect the rights of stakeholder groups
- Stakeholders are important because they may have direct or indirect influence on decisions
- The public sector has a wider and more complex range of stakeholders as they're managed on behalf of society as a whole. They're more likely to take a range of stakeholder views into account when making decisions. However, these stakeholders are less powerful - i.e. they can't threaten market sanctions, to withdraw funding, or to quit the business etc.
- The essay doesn't specifically ask you to Map Stakeholders, but you could throw in a cheeky mention of Mendelow's Stakeholder Matrix, perhaps in the conclusion. Don't spend time describing it though- you won't get more than 1 point for mentioning it. You'd be better off spending your time giving lots and lots of examples of different types of stakeholders.
- Study guide p. 58

NEW QUESTION # 43

What is meant by a structured procurement process? (10 marks) Why is this important? (15 marks).

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

- Definition of 'structured procurement process' - when an organisation provides a sequence of actions / steps to take to get the outcome (the procurement of an item). This involves an organisation providing guidelines and instructions of how things should be done. Basically following a step-by-step process.
- Why this is important - Ensures all tasks that need to be done are done, maintains consistency, prevents conflict and suboptimal

behaviour, improves efficiency, better managerial control, compliance (with laws and standards), assists with continuous improvement, may result in time/ cost savings, reduces risks such as fraudulent spending.

Example essay:

The first part of the question is worth 10 points, so you could include a few of the following points. It would also be good to include examples:

- Structured procurement involves creating rules on how procurement should be done
- This is in contrast to reactive / maverick spending
- May come about due to company policy, external regulations or through trying to achieve Competitive Advantage
- Examples include an organisation having set procedures for ordering items of different spend- e.g. Procurement Assistants can purchase items up to £500. Items between £500-£1000 require a manager's approval and anything over £1000 requires a written Business Case in order to procure

Structures Procurement Processes will usually also include the use of a designated e-procurement tool. E.g. an organisation may insist that all tenders use a certain online system and that invoices are sent via X system within 30 days.

The second part of the question is worth slightly more points, so spend more time on this. You could put each of the reasons why it is important in a separate paragraph. Also use examples where you can;

- Ensures all tasks that need to be done are done- having structured processes means having a step-by-step guide to how to procure. This means activities are well co-ordinated and there are no gaps, no duplications of effort and no conflicting efforts. It may involve assigning different people in the team different roles e.g. someone makes the requisition and someone else approves it. It also means that nothing is forgotten.
- Maintains consistency- having standardised processes means each procurement exercise follows the same process. This may include using a standard template for a requisition or ITT. Where there is consistency, this results in time being saved and less mistakes being made as everyone (including supply partners) is familiar with the processes.
- Prevents conflict and suboptimal behaviour- in organisations that use structured procurement processes everyone does the same. This means there is no conflict (e.g. one person doing things one way and another person does it differently and arguing which way is best). It also means no one can do procurement 'wrong' - there are written guides and procedures to follow. This is particularly helpful for new starters.
- Efficiency - time and money can be saved where there are standard procedures as people don't have to plan each procurement activity individually. Structured Procurement Processes may also involve completing bulk orders and co-ordinating activity within the organisation which means less orders are placed over the year and efficiency savings can be made. For example, a factory may create an order of cleaning products once a quarter, compared to ordering products just as and when they are required. This will save time of the procurement department overall throughout the year and allows them to focus on other more value-adding tasks.
- Better managerial control - Managers have more oversight when using structured procurement. There are clear rules as to when managers need to be involved and provide sign-off. This visibility makes it easier for managers to make decisions and allows for early intervention where someone needs assistance. It will reduce maverick spending and fraudulent spending. For example, it is much harder to provide kick-backs to suppliers when there are clear processes and audit trails and managers have visibility over all processes.
- Compliance (with laws and standards) - particularly in the Public Sector there are rules and regulations regarding procurement practices. Using standardised processes allows organisations to demonstrate compliance with appropriate legislation. It also protects them from 'challenge'. This is when a bidder who is unsuccessful challenges the decision to award a contract to someone else. Using a structured procurement process allows the organisation to demonstrate that they procured the item correctly and the challenge is unfounded.

Tutor Notes

- This topic isn't as well explained in the new study guide as it used to be. It's all pretty obvious stuff but the language is slightly different. The guide now talks about 'compliance with processes' and the benefits this brings. Which is exactly the same as why do you follow a structured process. This is on p. 114.
- If you're feeling clever, you could mention the difference between Public and Private Sector- e.g. a private organisation may use standardised processes for efficiency and cost savings, whereas a public sector organisation may use it more for compliance purposes.

NEW QUESTION # 44

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

Answer:

Explanation:

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

NEW QUESTION # 45

Describe 3 stages of the sourcing cycle that occur in the post-contract award stage (25 marks)

Answer:

Explanation:

See the solution in Explanation part below.

Explanation:

How to approach the question

Your answer should provide details on 3 of the following:

- Contract Award and Implementation
- Warehouse Logistics
- Contract performance and Improvement
- Supplier Relationship Management
- Asset Management

Because the question is only asking for 3 stages, you're going to have to go much more into detail for each stage, giving lots of information about why each stage is important and examples. You could consider thinking of an example procurement you have done recently and explaining the stages for that. Or you could take a hypothetical procurement too. Either will get you the same marks. Pick the three that you can write the most about.

Essay Plan

Introduction - explain that sourcing of goods and the role of Procurement doesn't end once a contract is signed. There is ongoing management and processes which must be carried out to ensure success.

Paragraph 1 - Contract Performance and Improvement

This is about ensuring contract obligations are fulfilled. Contract administration includes P2P procedures, database management, budgeting / costs monitoring, reporting and dispute resolution

Procurement's role may be in managing contract performance through the use of SLAs and / or KPIs. This can be done via reporting, using a Supplier Scorecard and meeting regularly to discuss.

It's important KPIs are measured and that there are consequences for failing to meet them. An example of consequences could be using a Performance Improvement Plan.

Contract Management also includes updating the contract where required - e.g. issuing variations to contract and updating the change control log

Another important aspect of this is ensuring the costs remain within scope of the budget

Contract performance can be compared if you have several suppliers delivering the same goods- could use a Factor Rating Method.

Performance could be measured against several criteria such as on time deliveries, response time of supplier, number of complaints.

Paragraph 2 - Supplier Relationship Management

There is a difference between managing the contract and managing the supplier relationship. It's possible to have excellent contract performance and a terrible relationship. However, the two are generally linked- where there is a good relationship, the contract often performs well.

The supplier management approach depends on where the relationship falls on the relationship spectrum (e.g. transactional or collaborative)

This involves; maintaining regular contact with the supplier, motivating the supplier, working collaboratively with them (e.g. on performance issues or resolving any disputes)

Incentivising the supplier leads to collaboration and mutual support

To assess or rank suppliers you could use a vendor rating method or supplier evaluation forms

Supplier relationship management may involve investing in the supplier- e.g. through training or technology sharing Paragraph 3 - Asset Management

Includes creating a post contract 'lessons-learned'

Assessments should be carried out to determine if business requirements have changed, whether the agreement is still required and fit for purpose, what can be learnt from the process and how improvements can be incorporated next time.

This is the final stage of the Procurement Cycle and takes us back to the start of cycle, which begins again when the item needs to be reprocured

Whole life costing should be considered at this stage: this is the total cost of ownership over the life of an asset. The concept is also known as life-cycle cost (LCC) or lifetime cost, and is commonly referred to as

"cradle to grave" or "womb to tomb" costs.

Generally used on large purchases such as machinery and vehicles. Full Asset Management may not necessary for direct cost items such as raw materials incorporated into final goods.

Considerations may include; costs of running the asset, how long it will perform, insurance, maintenance, opportunity costs, disposing of the asset.

Also consider environmental and social impacts of the procurement.

Conclusion - it is important that procurement are involved at every stage of the cycle, not just in the pre- award stages. Procurement can add value at every stage.

Tutor Notes

- Depending on the examples you choose to use, you could talk about how the type of item procured could impact on the different stages. For example, high risk purchases may require more contract management than low risk purchases, and capital expenditure items such as new machinery may require more attention to the Asset Management stage.

- You could also think about how procurement adds value at each of the stages.

- Study guide p. 79

NEW QUESTION # 46

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