

The strategic importance of the role of purchasing and procurement



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For many decades, many industrialists have undermined the strategic importance of the role of purchasing and procurement. Textbooks in the area claim that the role has been overlooked, neglected and underestimated to favour other such functions within as such areas as marketing, accounting and engineering. Such functions are often regarded as "white collar" functions. However, in recent years, organisations both public and private, are coming to realize that purchasing and procurement holds potentially more strategic benefits than that of functions such as those already mentioned.

Traditionally, the Purchasing function was a somewhat, primitive and simple. Erridge (1995) describes the traditional purchasing process as a system of stages:

- > Requisition
- > Checking the requisition
- > Selecting a supplier
- > Obtain a Quote
- > Ordering
- > Expediting the order

Traditionally, the purchasing role was seen as a means of increasing profitability via the acquisition of lowest cost goods therefore increasing the mark-up on finished goods selling price. In manufacturing organisations, the purchasing expenditure represented a significant part of the total cost of

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manufacturing, therefore it was believed that purchasing and procurement could only improve profitability while neglecting quality and service.

The significant change in the scope of purchasing and procurement management according to Peter Baily et al (1990, p. 3) is as a result of a number of factors, mainly economic pressures that resulted in "refocusing attention upon the functions of purchasing, the management of materials and upon logistics functions of different kinds".

Such factors which initially progressed from the 1980's were due to customers demanding:

1. Better service
2. Better quality and
3. Better Products

To increase such pressures, customers were not willing to pay better prices while production costs rose as a result of inflation.

Within the Purchasing functions, to overcome the increasing pressures, there have been many innovations that have developed over the years. Peter Baily et al (1990) has documented such pioneers who developed practices that reflect the practices that are in use today within the purchasing function.

One such procurement innovator was Duke, a cigarette manufacturer.

Around the beginning of the 20th century, after buying the first automatic cigarette-making machine, Duke found that the traditional means of purchasing the inputs (cigarette leaf) did not satisfy the capacity of the

machine. To alleviate this problem, Duke developed a strategy whereby he bought the total output of the farmers (his suppliers) requiring them to grow a specified leaf and to deliver them in the quantity and quality which met his needs. Such a strategy is still evident today in the tobacco industry.

Lord Nuffield a car manufacturer was another innovator in Purchasing and procurement. He decided to become an assembler of parts as opposed to manufacturing himself, which his competitors were engaged in. Nuffield did not wait for car orders to determine when to buy components for assembly, but instead helped suppliers to plan their production while demanding it be done in meeting his own assembly schedules with respect to both time and quality. Nuffield's philosophy on procurement was based on working closely with suppliers in developing components from production and final-assembly aspects as well as procurement being a function.

These early purchasing and procurement initiatives although present in today's practices have been improved on.

Quality

Excellence in purchasing and procurement is difficult to define, however, Saunders (1997, pp. 185) has stated that Quality can be a key to achieving excellence. " Quality implies the possession of features of excellence in the product and can be used as a standard of comparison with other apparently inferior products". How excellence can be applied to Purchasing and Procurement is that, to provide a quality product or service, the best, possibly the most expensive materials and the highest standards of accuracy

with regard to their dimensions and compositions must be selected and procured.

Saunders states that quality determines if the product:

1. Conforms to specifications
2. Has a feature of excellence
3. Is fit for purpose/use
4. Conforms to Customer requirements

According to Knanji (2002), Total Quality Management is a concept that can be used to achieve Business Excellence.

Wheatley (2001, p27) also realizes purchasing and procurement excellence's relation to Quality by identifying certain quality award schemes as certain measurable "Yardsticks" that can be used to identify companies engaged in quality deployment activities. Such award schemes are:

- > Kelly's Awards for excellence in purchasing and supply
- > The Malcolm Baldrige Award
- > The European Quality Award
- > ISO 9000

Quality does not assume that a product or service is superior to that of its competitors. Everybody has different tastes and requirements, so therefore,

Quality, according to Oakland (1993) " is simply meeting the customers requirements."

The Department of Trade and Industry (2000) state that " Total Quality Management is far wider in its application than just assuring product or service quality - it is a way of managing people and business processes to ensure complete customer satisfaction at every stage, internally and externally."

Although, TQM is not primarily concerned with the areas of purchasing and procurement, it is through TQM and other quality models that purchasing and procurement can become world class.

One other excellence model that can be applied to Purchasing and procurement is the European Foundation for Quality Management Excellence Model. As opposed to focusing on quality, the EFQM excellence model recognises that processes are the means by which an organisation harnesses and releases the talents of its people to produce its performance.

(www.efqm.org)

The EFQM website identifies the following fundamental concepts of excellence that are based on the model:

* Results Orientated

Excellence is achieving results that delight all the organisation's stakeholders

* Customer Focus

Excellence is creating sustainable customer value

* Leadership and Constancy of Purpose

Excellence is visionary and inspirational leadership, coupled with constancy of purpose

* Management by Processes and Facts

Excellence is managing the organisation through a set of interdependent and interrelated systems, processes and facts.

* Continuous Learning, innovation and improvement

Excellence is challenging the status quo and effecting change by using learning to create innovation and improvement opportunities.

* Partnership development

Excellence is developing and maintaining value-adding partnerships.

* Corporate Social Responsibility

Excellence is exceeding the minimum regulatory framework in which the organisation operates and to strive to understand and respond to the expectations of their stakeholders in society.

The EFQM Excellence model is based on the concept that :

Excellent results with respect to performance, customers, people and society are achieved through leadership driving policy and strategy, that is delivered through people partnerships and resources, and processes.

With regard to purchasing and procurement, this view of excellence is supported by Wheatley (2001) who believes that strong leadership, which is a major factor of the EFQM model, is the key requisite of purchasing and procurement excellence.

Saunders has identified three typical basic causes of product faults that are perceived by customers to be poor quality:

1. Weaknesses due to poor design
2. Defects due to internal manufacturing errors
3. Defects in parts and components supplied by vendors

Quality costs are generated in a number of ways. For example,

- * the cost of processing of defective products in the first place,
- * the cost of inspecting products,
- * the cost of rectifying the defect product.

These causes highlight the need for supplier selection and to improve supplier performance. If suppliers were given the responsibility of preventing defects and inspecting products costs can be lower for both buy and supplier.

Ford et al (1998) has pointed out three changes to buyer - supplier relationships that have become more apparent in the last 15 years:

1. Outsourcing activities to suppliers

In order to meet the requirements of their customers, companies are now concentrating on their core competencies. By this the companies hope to increase their effectiveness and efficiency. The move to outsourcing can be attributed to the increasing number of different technologies companies need to have to operate in a certain product area. Because of the cost of developing such technologies companies have become increasingly dependent on the technology of their suppliers.

2. Reducing the supplier base

The reduction of suppliers varies between industries, but has occurred most in the automotive industries where it first came about.

3. Developing partnerships with suppliers

The partnership between buyers and suppliers has brought about a change in attitudes between companies and frequently means changes in the roles of those suppliers. Partnerships between buyers and suppliers today are of a collaborative nature.

Saunders (1997) compares the characteristics of such partnerships with that of the characteristics of adversarial relationship model.

The Adversarial Model

- * Arm's length, formal communication approach
- * Adversarial attitudes
- * Lack of trust
- * Aggressive, " win-lose" approach in negotiations - Price Focus
- * Emphasis on individual transactions and short term contracts
- * Little direct contact or involvement in design activities
- * Reluctance to share information
- * Reliance on goods inward inspection and defect rectification

The Partnership Model

- * A high frequency of both formal and informal communications
- * Co-operative attitudes
- * A trusting relationship
- * Problem-solving, " win-win" negotiating styles, with an emphasis on managing total costs
- * Long term Business agreements
- * Open sharing of information by multi-functional teams
- * Vendor certification and defect prevention approaches

Such strategic partnerships are the epitome of purchasing and procurement excellence.

Companies now find assessing and selecting suppliers vital to making the most out of relation whether adversarial or long term. Burt et al (2003) have proposed a plan that is used to select and develop suppliers.