Supply management essay sample

Business, Marketing

Supply management requires that suppliers have a basic knowledge of all its facets which include costing, pricing, negotiation, distribution and after sales service. Supplier costing and pricing are foremost among these because it will dictate the profit and growth of a supplier. There are several methods which a supplier can use in setting its prices. The first model is the cost markup pricing model. In this method the supplier computes its cost and adds a certain markup percentage. The markup decided upon must cover the profit and all the direct costs of the product, and depending on the supplier, it may choose to add the indirect costs . A similar pricing model that may be adopted by a supplier is the margin pricing model. In this method, the supplier decides on a price by adding a predetermined profit margin to the costs. The rate-of-return pricing model is another cost-based model which a supplier may use. In this method, the pricing is based on the desired return on the financial investment.

Aside from the cost-based pricing models, suppliers may adopt the market-based models. These are the price volume model, market-share model, market skimming model, current-revenue pricing model, the promotional pricing model, market segment pricing model and the competition pricing model. In the supplier price volume model, the supplier looks for a combination of the price per unit and the quantity of sales which maximizes the profit. The supplier assumes that when they lower their price, more products will be sold. In the market share model, the supplier chooses a price that will result in an increase in their market share. The supplier is sometimes even willing to have losses in the short run as long as profits are realized later on. On the other hand, in the market skimming model, the price is high to ensure a high profit. In the current-revenue pricing model, the supplier is willing to sacrifice profit just so that the price is just enough to cover the operating costs . In this model, the suppliers are more concerned with the maximum utilization of their capacity, and that their fixed costs are paid, and their employees are retained even though there is a slowdown in the market. Some suppliers adopt the promotional pricing model to increase the sales of their product line even if it means lower profits. For products which are sold in different market segments, suppliers price their products differently depending on the segment it is offered. Lastly, in the competition pricing model, the suppliers determine their price based on the pricing of their competitors.

Suppliers often enter into long-term contracts in the view that it is more beneficial to them. There are however several advantages and disadvantages in adopting this strategy. One advantage of committing to a long-term contract is that the supplier is assured of a market. Even if the demand for the product goes down, the buyer does not have an option but to honor its commitment with the supplier. Since the price for the product is pegged at a certain price, the problem with a long-term contract is when the cost of producing the good being supplied considerably increases. Long-term contracts give the supplier a steady stream of revenues even when market forces are not favorable to their industry. Long-term contracts provide the supplier a hedge against the volatility of prices. However, it is a disadvantage to the supplier when there is an increase in their direct materials or labor costs because they cannot change the agreed price with the buyer. Another disadvantage of entering into long-term contracts is it offers very little flexibility for the supplier in case of changes in the product. Another disadvantage of long-term supply contracts is that it may result in lost potential business because the supplier is forced to focus in a specific niche in the market. The supplier tends to be too dependent on a specific customer for their sales. Given the pros and cons of long-term contracts, one believes that it is still more advantageous for the supplier to enter into one. To minimize the risks attached to long-term contracts, the supplier can opt to include renegotiation clauses in the contract.

Aside from pricing and contract negotiations, procurement professionals must also be knowledgeable about Purchasing/Procurement Laws. Purchasing/procurement laws are important for suppliers because they need to know the procedures in bidding or getting a supply contract. This is especially relevant for international contracts. Countries have different laws with regards to its procurement policies. The legal and administrative barriers in cross-border supply contracts can be identified if the procurement professional is aware of the Procurement laws in a specific country. An example of this is the bidding process for public contracts. For some countries or companies the bidding process may vary with regards to the time frame. Some even takes 180 days to complete the bidding process.

One recent trend in supply management is outsourcing. This trend is important because core competencies of companies are further developed. But with outsourcing, there is a need for greater control mechanisms to effectively monitor the various supply chain components.

Another trend that is relevant in purchasing and supply management is in the field of technology. Innovations in the areas of network and inventory optimization, logistics optimization, product lifecycle management, radio frequency identification (RFID), sales and operations planning, procurement, manufacturing optimization and business intelligence have paved the way to a more efficient supply management performance.

Supply management will never be the same with the introduction of the internet. Most companies now are purchasing online because of the cost savings that they realize. Even large corporations which spend over $100 million are switching to online purchasing as this gives them more control of their costs and they get more suppliers to participate. If suppliers want to survive in this modern era of the internet, they must make sure that their products can be purchased online; otherwise, they will lose a great chunk of the market.

One other relevant trend that is worth mentioning is the so-called " green procurement". Corporations today are becoming more conscious of the environment and are seeking out eco-friendly products. Companies are more interested in purchasing products that do not pollute the environment and those that reduce the greenhouse gas emissions.

Supply management has evolved through the years. New innovations have been introduced as advances in technology and customer preferences have changed. Procurement professionals and suppliers should realize that cost is no longer the only valuable consideration in supply management; rather, there are other significant areas that must be looked into to guarantee the company's profitability.

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