

# International purchasing



ESCA Ecole de Management By : Hadj messaoud KHABTOU © 2013 Session 3  
: February 12th, 2013 Last Session Reminder Last Session Reminder © 2013

2 Strategic decision vs Operational decisions • Strategic decisions are long-term decisions that have major consequences throughout an organisation; • Tactical decisions are medium-term decisions that have less serious consequences for parts of the organisation; • Operational decisions are short-term decisions that have relatively minor consequences for specific activities. © 2013 3 The Strategic alignment Purchasing strategy supports the Business Strategy • And higher strategies • And other Functional Strategies • Strategic alignment occurs when all the strategies in an organisation support each other and work coherently together to achieve the overall mission. © 2013 4 Translating Objectives to Goals • Be a low cost operator – Reduce purchasing costs • Reduce material costs by 15% next year – Reduce administrative overheads by 20% next year • Supply high technology products – Produce a stream of new products • Outsource non-core activities – Qualify two new suppliers this year 5 © 2013

Steps to Purchasing strategy Design 1. 2. 3. 4. 5. Analyse the purpose of the business Analyse the purchasing function Analyse the purchasing environment Design the supply strategy Implement the results © 2013 6 Portfolio Analysis : Kraljic's Supply Matrix Kraljic's Supply Matrix © 2013 7 Portfolio Analysis : Kraljic's Supply Matrix Supply Profit Maximize cost advantage Concentrate needs Active Sourcing Auctions ( E ) Make or Buy ? International sourcing Heavy Negotiation Substitute Products Qualify new suppliers Co design The Less is the More Minimize purchasing administrative costs Minimize purchasing efforts

Ensure Supply Continuity Stock holding VMI Insourcing More process automation Delegated, De centralized purchasing Supply Risk 8 © 2013 Portfolio Analysis : Kraljic's Supply Matrix Internal Constraints Internal Challenges Specifications Value Analysis New products Difficult Task Make or Buy ? Relationship Easy External Challenges The Less is the More Substitute products Make decision International sourcing External Constraints 9 © 2013 Purchasing Strategy Case : Pharmaceutical Industrie Aspegic production was stabilized to 12 millions units per year.

In the last year, new needs has raised, specially after growing into some emerging markets, this had as impact demand fluctuation and urgent orders of big quantities ( 1 to 2 millions units ) do deliver into 2 months delay. From purchasing perspective, you will have to deal with this new situation and adjust strategy, teams and process to provide competitive advantage to your company in those new markets From information gathered for you in the following table, you will have to present your situation analyze, and strategy proposition to your company board in the next board meeting. © 2013 10

#### Strategy Case

Item Bottle ( Flacon ) Supplier VERLIPACK Comments -Standard AFNOR - Quality issues ( defaut sur la bague des flacons ) - 30% of Purchasing TO - Economic downturn for VERLIPACK Label (Etiquette) ROTANOTICE - One source but great quality and relationship, 20% of Purchasing TO - Challenging delays - 20 mm std, but specific color -Supplier recommended by quality assurance -15 % of Purchasing TO -Capsule 20 mm std - Economic downturn for REMY - 5% of Purchasing TO -48 h delivery agreement - Good

partnership, 10% of Purchasing TO -Delivery agreement every 4 weeks – 5% of Purchasing TO RAS 15% of Purchasing TO 11

Plug (Bouchons) STELMI Capsule EMA ETS PHARMAPOST LEGUAY

CARTOLABOR PILOT AVERY Notice Case (Etui pliant) Vignette © 2013 The

Way Forward : Risk and Value Analysis Constraints Internal Non technical

Recommended Supplier Resist to change Procurement security Short delays

Quality Assurance Flacon Etiquette Bouchon Capsule Notice Etui Vignette

Internal technical Specifications Product security Process stand time One

source supply Compatibility with company machines External Non technical

Supplier agreement Lack of competition Min qty Copyrights , Brevet Demand

features External Technical High cost of production tools Technological

monopole Fabrication delays New technologies Qty Min for production ©

2013 12 Constraints scoring Specification document 0 : No problem to find

suppliers 1 : purchasing have to select suppliers 2 : Narrow down choice to

specialized suppliers 3 : very few suppliers can respond to our specifications

4 : We struggle finding this product 5 : No product found

Recommended supplier 0 : it is the one that purchasing would have

recommended 1 : after negos we got market conditions from supplier 2 :

negotiations are difficult with the supplier 3 : negotiation are difficult

because supplier know its situation 4 : Supplier accept only some min

conditions 5 : No negotiation, we have to accept all customer conditions

Critere X 0 : sans impact pour les Achats 1 : Une faible gene pour les Achats

2 : Une gene dans certains cas 3 : Une gene pour les Achats dans tous les



introduce 2nd source Concentrate needs to leverage prices Plugs & Caps  
( Bouchons )

Co design, work on internal specifications Substitute products Improve forecasting with sales Win Win relationship with actual supplier ( midterm contract ) Labels ( Etiquettes ) Others Less is more © 2013 18 Case Study 2 : ALFA FILTERS You just have been hired by ALFA FILTERS, a manufacturing company specialized in developing and manufacturing liquid and air filtration systems. With nearly 100 millions Mad as annual revenue. You managed to have a junior Buyer position, in charge of Overhead expenses, With a monthly Net Wage of : 8, 000 Mad.

In his welcome interview your Purchasing Director explained to you that every buyer should at least have an ROPI equal to 1. 5, buyers under this performance are laid off, but those exceeding the target have incentive of 3 to 12 months Net salary depending on ROPI achieved, and explained that this were a global HR policy for excellence delivery within the hole company. As a good buyer you spent your first month gathering information on your commodities, next team meeting you will have to present to your boss and colleagues your saving targets and strategy. How would you organize your presentation ? © 2013 19

Case Study : ALFA FILTERS © 2013 20 Case Study : ALFA FILTERS © 2013 21  
Agenda ( 24 Hours ) Unit 1 : Purchasing management introduction, 3h Unit 2 : Purchasing Strategy, 3h Unit 3 : Purchasing Operations and Structure, 3h Unit 4 : Inbound Logistics, 3h Unit 5 : IT Systems in the Purchasing management, 3h Unit 6 : Purchasing and sustainable development, 3h Unit 7

: Purchasing and Innovation, 3h © 2013 22 Unit 3 Overview • Organisational structure • Purchasing's position within the organisational structure • Organising the purchasing function • Placement of purchasing authority • Using teams as part of the organisational structure 2013 23 This Unit Objectives • Understand the role of organisational design • Appreciate the way that a good organisational structure can assist purchasing success • Say how purchasing can fit into an organisation and discuss the factors that affect this decision • Describe some specialised activities organised within purchasing • Consider the features and benefits of centralised, decentralised, and hybrid purchasing organisations • Appreciate the use of teams for purchasing © 2013 24 Organizational Design is the process of evaluating options and selecting the structure, formal communications, division of labour, coordination, control, authority, and responsibility that best achieves the organisation's aims. © 2013 25 What to consider • The division of an organisation into separate units • The relationships between these units • Purchasing's position within the overall organisational structure • The internal organisation of the purchasing function • The placement of purchasing authority • Using teams as part of the organisational structure • Evolving views of organisation 2013 26 Purchasing Position affected by : • • • • History Type of industry Total value of materials bought Other factors – Founding philosophy – Type of purchased materials – Ability to influence organisational performance © 2013 27 To Whom does Purchasing Report • Top level function reporting directly to a chief executive • Upper-level function reporting one level below a chief executive • Mid-level function reporting two levels below a chief executive • Lower-level function reporting at least two levels below a chief executive © 2013 28 Purchasing as an

upper level function 2013 29 Purchasing as a second level function © 2013  
30 Purchasing as a lower level Function © 2013 31 How to Organize your  
purchasing Function • Specialization within purchasing – Sourcing and  
negotiating – Purchasing research – Operational support and order follow-up  
– Administration strategy and support © 2013 32 Portfolio Analysis : Kraljic’s  
Supply Matrix Internal Constraints Technician Value analysis Strategic  
Specification analysis Consultant Operational Follow up Guidelines to local  
plants and services Negotiation management profiles External Constraints 33  
2013 Sourcing and Negotiation • Identifies potential suppliers • Negotiates  
with selected suppliers • Performs the buying of goods and services – By  
specific items – By commodity family – By service categories © 2013 34  
Purchasing Researches • • • • Developing long-term material forecasts  
Conducting value analysis programs Assessing supplier capabilities  
Analyzing supplier cost structures © 2013 35 Operational Support and Follow  
up • Supporting day-to-day operations including expediting • Preparation  
and transfer of material releases • Internal coordination © 2013 36  
Administration Strategy • Developing policies and procedures •  
Administering and maintaining the purchasing information system and  
database • Determining required staffing levels • Developing departmental  
plans • Organizing training and development • Developing measurement  
systems © 2013 37 Placement of Purchasing Authority • Centralised  
purchasing has all purchasing done centrally, typically in the corporate  
headquarters. • Centrally led purchasing means that central staff do not  
actually purchase, but limit their activities to designing strategies, policies,  
co-ordination, and so on. Decentralised purchasing devolves all purchasing



decisions to local facilities. © 2013 38 Factors influencing the choice of authority • • • • • Organizational business strategy Similarity of purchases Total purchase value Geographical spread Overall management philosophy © 2013 39 Advantages of Centralization • • • • • • Consolidate purchase volumes Reduced duplication of purchasing effort Standardization Co-ordination of purchasing plans and strategy Co-ordination of purchasing systems Developing expertise Managing companywide change © 2013 40 Advantages of decentralization • • • Speed and responsiveness Understanding local needs Product development support Ownership © 2013 41 Hybrid Purchasing Structure • • • • • Lead buying division Regional buying groups Global buying committees Corporate purchasing councils Corporate steering committees © 2013 42 Elements of Purchasing • • • • • • • © 2013 identifying user requirements describing the products they need searching for suitable suppliers negotiating terms ensuring prompt delivery expediting Payment 43 Objectives of Purchasing 1. Support organisational goals and objectives Congruency of functional goals with organizational goals – Mutually-supportive, not counter-productive – Purchasing’s substantial impact on the organization’s performance – Purchasing as a strategic core competency © 2013 44 Objectives of Purchasing 2. Develop integrated purchasing strategies that support organisational strategies – especially related to market intelligence by: • Monitoring supply markets • Monitoring emerging trends in markets • Identifying critical materials • Developing alternatives for ensuring supplies and contingency plans • Supporting a diverse and globally competitive supply base 45 © 2013 Objectives of Purchasing . Support operational requirements – – – – – Buying materials from the right sources At the right price With specification

that meets user needs In the right quantity Delivered at the right time To the right users © 2013 46 Objectives of Purchasing 4. Using purchasing

resources efficiently and effectively – – – – – Determining appropriate staffing levels Developing and keeping within budgets Providing professional training and opportunities Ensuring high utilisation of facilities Designing operations that give high productivity Monitoring performance and seeking improvements Continuously increasing efficiency and effectiveness. 2013 47

Objectives of Purchasing 5. Supply base management – Ensure current suppliers are competitive – Improve and develop existing suppliers, (particularly those falling behind) – Identify new suppliers who can already join the supply base – Develop new potential suppliers whose performance is not yet good enough to join the supply base © 2013 48 Objectives of

Purchasing 6. Develop strong relationships with other functions – – – – Internal customers as stakeholders Strong two-way communication Cross-functional coordination and collaboration Positive, problem-solving relationships 2013 49 Purchasing Responsibilities • • • • Evaluate and select

suppliers Review specifications for materials Act as primary contact with suppliers Decide how to make a purchase © 2013 50 Enablers of Good

Purchasing © 2013 51 The Purchasing Process 1. 2. 3. 4. 5. 6. Recognise user need for materials Clarify needs Identify and select a supplier Approval, contract and purchase order Receive materials Measure and manage

supplier performance © 2013 52 Purchasing Process © 2013 53 Needs Identified By : • • • • • •

Purchase requisition or statement of work Customer orders Forecasts Reorder level systems Stock checks New product development teams ©

2013 54 How To Clarify Needs • • • • • A detailed description of the materials needed Quantities and date required Delivery details Estimated unit cost Account to be charged for the purchase Date of requisition (to monitor the purchase process) Authorisation to make the purchase © 2013

55 Description • • • • Specification Brand Performance characteristics Market grade or industry standard © 2013 56 Purchase Requisition Flow © 2013 57

Identify and select Suppliers • Internal • Existing supplier – Familiarity and track record – List of preferred suppliers • New supplier – Need to identify potential suppliers – Need to evaluate and qualify – Negotiate or competitive bidding? © 2013 58 Selecting a Supplier • • • • Long list of potential suppliers Short list of preferred suppliers Competitive bidding or negotiation Competitive bidding needs a Request for Quotation (RFQ) © 2013 59

Approval and Purchase Order ( PO ) • A purchase order is the legally binding document that triggers the delivery of materials. It is the contract between a buyer and seller © 2013 60 The Purchase Order States • Quantity • Material specification • Quality requirements • Price • Delivery date • • • • Method of delivery Ship-to address Identifying number Order due date © 2013 61 This Information is required by : • • • • • • • © 2013 The user and requisitioner Purchasing Accounts payable Receiving Transport management Quality management Expediting 62 Blanket Purchase Order • Used for ongoing purchases of an item • Release materials as needed rather than . issuing a new P. O. each time • P.

O. remains open during the time specified © 2013 63 Receipt and inspection • • • • Packing slip Bill of lading Receiving discrepancy report When there

are no problems proceed to payment • Summarise and review transactions  
 © 2013 64 Receiving Process © 2013 65 Monitor Performance • Measure performance • Compare with targets • Look for improvements – Plan – Do – Check – Act © 2013 66 Improving Purchasing Process • 1. Make everyone aware that procurement needs to continually improve • 2. Examine current operations • 3. Use benchmarking and other comparisons 4.

Identify specific areas for improvement • 5. Design better purchasing operations using the knowledge, skills and experience of everyone concerned. • 6. Discuss the proposals widely © 2013 67 Improving Purchasing Process • 7. Design a detailed plan for implementing the improvements, • 8. Make any necessary changes to purchasing's organisation, systems, facilities, etc • 9. At a specific point, implement the changes • 10. Monitor progress and control the results • 11. Remain committed to the new methods improvements. © 2013 68 Specific Types of Improvement • • • • • • • • • • © 2013

Electronic data interchange (EDI) Online requisitioning systems Online ordering systems E-purchasing Electronic catalogues On-line auctions E-marketplaces Longer-term purchase agreements User procurement cards 69 The Fed Ex Exemple 1. Requisition item 2. Select overall approach 3. Conduct in-depth research on potential suppliers 4. Confirm and re-evaluate procedures © 2013 The Fed Ex Exemple 5. Finalize supplier selection and negotiation 6. Integrate supplier with e-procurement tools and other FedEx systems 7. Monitor and benchmark using FedEx Supplier Scorecard system © 2013 FedEx Strategic Sourcing Process © 2013