

Essay on elements of purchasing management

[Business](#), [Company](#)



Procurement means an acquisition of goods, works or services from the external sources. It is necessary that the goods, works or services are suitable and that they have a best price to satisfy the requirements of the buyer regarding the quality and quantity, location and time. And this is the basic task of the purchasing management.

Evolution of the Supply Management in the Recent Years

As any other branch of management, supply management is a constantly developing process. “ During the last 90 years, political, economic, technological and social evolutions have influenced operating models, leadership styles and technical skills necessary for supply management colleagues to succeed.

Before 1914, supply management, that was then called procurement, was just a clerical job. The first evolution of the importance of this profession was recognized in the academic institutions in 1917, when Harvard University began offering a supply management course. And later in 1933, Howard T. Lewis wrote the first textbook on this course. World Wars I and II introduced the function with an imperative to get raw materials, services and supplies for factories’ operation. It changed supply management’s function within the company and also drove a necessity for good skills in sourcing, supply management and logistics.

The process of evolution continued after the war, regulated by the increasing supply chain professions’ involvement and tactical operations support. The advent of purchasing techniques in the 1980s, the emphasis on supplier quality and inventory control, quantity, dependability and timing influenced the involvement of supply management into the organization’s corporate

strategy. This development required a profound competency in strategic sourcing, supplier relationship management and competitive tendering. However, this evolution was restricted to those organizations that manufactured a product. Supply management had not become a service discipline by that time.

The 1990s brought a globalization of supply market on a completely new level. As China and India began to strengthen their economic force, global competition for resources increased and raw material prices changed violently. The options of transportation became more complex, because of the extension of supply chains.

Companies searched for competitive low cost suppliers. The new focus of the supply management changed the profile of the profession, not just in the production sector, but in the sector of services as well.

The next step in the supply management evolution started when the paper-based supply chain company began giving way to e-based possibilities. An important driver of this transition in data storage and document exchange was the emergence of the following e-commerce platforms: Freemarkets, Ariba, eBreviate and CommerceOne.

The next step of evolution was the involvement of supply management's growing into outsourcing. During the 1990s, most companies were challenged to get gradual cost reductions. This goal made them consider a variety of outsourcing opportunities of the functions such as accounting, data processing, human resources, security, internal mail distribution and plant maintenance as a tool of "good housekeeping".

Involvement of the supply management into evaluating and identifying

outsourcing options demanded the occupation to become proficient in complex third party services' management. Moreover, it brought the function from the traditional purchasing of products to the complex services sourcing.

The necessity to incorporate the corporate responsibility and sustainability elements into a company's business operations along with the holding the line on costs is the next step in the supply management evolution that continues to challenge the professionals till now.

Supply management professionals nowadays find themselves in the driver's seat, trying to not only find, but also to integrate the innovation into the supply chains of their companies with the help of the performance and supplier relationship management.

Supplier relationship and supplier performance programs (SRM/SPM) are typical for leading organizations now, with the help of which supply management can check compliance to contractual commitments and purchasing policies, and also bring innovation to the company through its strategic suppliers" (Ericson & Rycraft, 2011).

During the last two decades, supply management, as a function, " has undergone a lot of changes. The changes mean that in some industries procurement has grown from a smaller function within operations or finance, to become one of the most significant components of contemporary corporate management. Procurement has changed from obscurity to mainstream business. Earlier known more as a back office function, now it is an important business management activity for most companies. It is now a

method to gain a competitive edge in the present business globalization” (Batra, 2014).

The Role of Purchasing Management for an Organization

Procurement strategy is very important for the organization, and it critically influences the quality of manufactured goods or provided services, the customers’ trust and revenues. There are a lot of sellers of different goods and services all over the world. Therefore, it is very difficult and important to choose the suitable one with whom it will be easy to work effectively. Modern conditions demand reviewing the list of the company’s suppliers systematically in order to leave only the most competitive ones. The procurement deals, usually, cost much for the company, so the work on the suppliers’ selection and verification is very important.

Supply chain management means “ the sharing of some risk with suppliers. This may involve shifting the risk up the supply chains to the suppliers that can best manage it. The devolution of risk will result at a cost and so it is an economic decision to that extent. A company should determine the correct approach to meet its objectives and therefore evaluate the drivers to create an appropriate level of sophistication regarding its supply chains that may involve deciding to take most risks internally. For example, companies must ensure that the products and services that are extremely important to them have security from the supply chain management and that the supply chain is managed accordingly. The supply chain management is not only about risk sharing, it is also about benefits sharing, which is an aspect which not all companies would be comfortable with.

Purchasing and supply management colleagues should appreciate that

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moving the responsibility on to suppliers in risk terms, or even service outsourcing, demands more, not less, supply chains management on the part of the purchasing organization. Sometimes the outsourcing and reverse, and similar strategies, need very professional supply chain management in order to become successful” ('Supply Chain Management', 2014).

For example, the effective supply chain management is very important for the supermarket chains. The professionals from the purchasing department of the supermarket chain need to ensure that the suppliers' prices are suitable for them in order to make products competitive compared to the other retailers. Also colleagues from this department should negotiate the possibility of various discounts and promotions with suppliers to attract customers. Therefore, long-term and mutually beneficial relations are very important for this business.

Skills Required for Purchasing Management Professionals

Large companies, usually, have the procurement departments, where the professionals work on the ensuring the best practices of procurement that is to their organization's benefit.

A purchasing manager must have the following “ sets of skills: negotiation, supervisory, persuasion, active learning and listening, analytical thinking, critical thinking, decision making and judgment, management of material resources, reading comprehension, project management, time management, mathematics, operations analysis and presentation” (<http://www.supplychaincanada.org/>, 2014).

“ Professional procurement / purchasing / supply management colleagues contribute to the company's success as much as other professionals from

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marketing, engineering, finance and accounting, and operations. Specialized knowledge in the principles of technical, commercial, and relationship management is necessary for them. In no other field are the opportunities to contribute more. Intensive learning—both through on-the-job experience and in the classroom—is required. The necessary methods and skills combine the art of maintaining and developing relationships with the scientific principles. Many of the scientific principles, on that supply management is built, are borrowed from economics. The principles of organization's requirements' determining, establishing a fair and reasonable price, selecting the optimal source, and establishing and maintaining partner relationships with the most suitable supplier make the conceptual backbone of the supply management function.

The evolutionary nature of supply chain management is such that self-improvement and continued study are necessary. Profound knowledge of economics is very useful.

The influence of supply management professionals on the cost, quality, and productivity of their companies is one of the critical keys to a country's competitiveness in the global market. And the competitiveness is the value-adding employment basis" ('Purchasing Becomes Supply Management', 2003).

Trends Impacting the Purchasing Function and its Change in the Future

“ While the earlier evolutions have been based on assigning the expanding functions to supply management professionals, the latest evolution is being marked by the increased availability and access to the real-time data.

Investments in technologies, tools and business intelligence capabilities are now starting to bring results and enable the professionals to drive sophisticated and proactive scenario analyses for internal stakeholders and make impact on the decision making. For the supply management colleagues who have the analytical skills to leverage this capability, they will see the moving from the old method of doing business with suppliers to a new business relationship based on real-time, clean, meaningful and insightful data.

The business intelligence tools provide supply management colleagues with the information and dashboards to fully measure the influence and value their function makes to the company. The availability of this information and associated dashboards enable supply management professionals to drive good performance and engagement with their business stakeholders and the chief financial officer communities to present the results achieved.

Although no one can predict the future, it is necessary to pause from time to time to look where we have been to help us realize what lies ahead. During the past century supply management has been transformed from an administrative function to a strategic, proactive function within the organization that brings true competitive advantage. It is understood that the qualities required within the occupation to succeed going further cannot be the same as those that have helped us to achieve what we have today” (Ericson & Rycraft, 2011).

“ Institutions, industry, and government will continue to have a function of supply management, the one that grows in importance. Many of the tasks earlier performed by purchasing personnel have been reassigned or

automated so that supply management professionals can focus on producing high added value, not paperwork. Supply management colleagues are technically skillful so that they can work with suppliers and technical customers. They are becoming managers of the company's outside production.

These people must have a sound grounding in all the supply management commercial aspects. Purchasers of the future will concentrate on activities one and even ten years out. They will understand the supply chain in full, all technology trends, all innovation trends, and global capacity" ('Purchasing Becomes Supply Management', 2003). Supply managements specialists will develop suppliers around the world that will meet their requirements, and they will articulate where their sellers fall within their portfolios. They will start work not as supply managers, but as buyers.

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