

Procurement and
inventory
management at
green chilly
management essay



**ASSIGN
BUSTER**

The Company “ GREEN CHILLY” is a restaurant chain operating in the UK. It runs several restaurants for takeaway meals and for people that will stop and sit down for lunch or during any other time of the day. The special approach of that restaurant chain is that to a high extend they source healthy food from local suppliers – so pointing out their environmental responsibility. On the other hand they use a lot of other products that will be sourced by the central procurement organization.

The company has 53 restaurants all over the UK. Altogether they serve around 16. 000 meals every day. In addition they have around 23. 000 customers stopping for smaller snacks.

The restaurant chain is facing certain seasonality due to holiday seasons and weather conditions influencing customer preferences.

“ Green Chilly” faces some issues due to their successful growth in recent years:

There is no structured procurement process in place.

Quality issues with some fresh products (e. g. salads, vegetables) due to different local supplier performance have been identified.

Prices for raw materials are assumed to be significant above the average.

Shortages of some promotion meals have been identified.

1. Procurement Process

Develop a structure for the sourcing process that the company will define for the procurement process. Which processes are especially relevant for ‘

production' material (e. g. supplier selection, volume forecasting). Give examples. Discuss which processes of the strategic procurement process would be very relevant for either for food or for non-food (e. g. MRO, restaurant equipment, facility management) supply categories.

2. Supplier Selection

Develop a decision making example of the selection of a supplier for one supply category. Discuss the differences between monetary and non-monetary criteria and include this in your decision problem. Describe the steps of your calculation and discuss, how sensitive is your solution against changing supplier performance. Set up the data for potential suppliers.

3. Supplier Qualification

How could the company improve supplier co-operation and what would you consider as a program for supplier relationship management. Thinking of the food business what could be done by the restaurant chain to qualify suppliers and create closer relations. Try to investigate and illustrate best practices e. g. from fast food chains.

Table of Contents

Procurement and Inventory Management 2

COMPLETION DATE 2

PLEASE NOTE 2

CASE " GREEN CHILLY" 3

The key facts are: 3

“ Green Chilly” faces some issues due to their successful growth in recent years: 3

1. Procurement Process 4

Develop a structure for the sourcing process that the company will define for the procurement process. Which processes are especially relevant for ‘ production’ material (e. g. supplier selection, volume forecasting). Give examples. Discuss which processes of the strategic procurement process would be very relevant for either for food or for non-food (e. g. MRO, restaurant equipment, facility management) supply categories. 4

2. Supplier Selection 4

Develop a decision making example of the selection of a supplier for one supply category. Discuss the differences between monetary and non-monetary criteria and include this in your decision problem. Describe the steps of your calculation and discuss, how sensitive is your solution against changing supplier performance. Set up the data for potential suppliers. 4

3. Supplier Qualification 4

How could the company improve supplier co-operation and what would you consider as a program for supplier relationship management. Thinking of the food business what could be done by the restaurant chain to qualify suppliers and create closer relations. Try to investigate and illustrate best practices e. g. from fast food chains. 4

Table of Contents 5

Question 1 6

Introduction 6

1 Procurement/ Sourcing Process 7

Kasavana (2004) stated, that the procurement process is a demanding, elaborate process, which requires knowledge buyers, capable sellers and thorough set of inventory and audit procedures. This is especially true in restaurants where the procurement function should ensure JIT (just in time) deliveries and high quality standards since its primary product (raw materials) have a short life cycle. 7

2 Strategic Procurement Process and Production Material Processes 9

2. 1 Procurement Strategy and Organizational Development 9

2. 2 Make or Buy, Segmentation of Supply Categories and Strategic Planning of the Procurement Volume 10

Figure 3. Pareto Analysis 11

2. 3 Supplier Selection Process 12

2. 4 Strategic Alliances/Closing Contracts 13

2. 5 Strategic Supplier Relationship Management 13

2. 5 Supplier Qualification and Development 14

The sub processes include identification of strategic suppliers, gap analysis of requirements expected by suppliers, a program for training and improving suppliers and monitoring the performance of the suppliers. 14

2. 6 Procurement Policies and Guidelines Definition, Organizational Effectiveness/Efficiency Improvement 15

3 Strategic Procurement Processes that are relevant for either food or non food supply categories 16

Conclusion 17

References 18

Bibliography 19

Question 3 19

Introduction 19

1 Improvement of Supplier Cooperation and Supplier Relationship Management Program 20

2 Supplier Qualification and Creation of Closer Relationships 26

Conclusion 27

References 28

Bibliography 29

Question 1

Introduction

Purchasing has evolved in the past years from a passive buyer of goods and services to an active contributor that is essential to an organizations competitive advantage (Cavinato 1999).

Procurement is viewed by organizations as the activity of purchasing goods/materials and services at minimum cost, transporting them and moving them towards the production process. Procurement also covers a

<https://assignbuster.com/procurement-and-inventory-management-at-green-chilly-management-essay/>

wider area, and may include activities such as material supervision and management as inventory control, traffic receiving, incoming inspection, and salvage operations (Laakmann and Köhler 2010).

Procurement in organizations has evolved from its traditional transactional function towards a role that incorporates strategic partnerships, cooperative alliances and supply network planning. Therefore procurement strategies can be seen as means in achieving comparative advantage and long-term strategic goals (Tassabehji and Moorehouse 2008).

The procurement process incorporates both primary and a support activity, such as the procurement of direct and indirect material and at the present time also involves strategic planning (Simchi-Levi and Kaminsky 2003). Consequently, procurement processes have developed in to strategic procurement process that aids the organization to achieve strategic and operational objectives.

In the next section Green Chilly's structure of its sourcing process that will be used by the organization as its procurement processes will be developed and elaborated as which processes of the strategic procurement process are relevant for either food or non food supply categories.

1 Procurement/ Sourcing Process

Kasavana (2004) stated, that the procurement process is a demanding, elaborate process, which requires knowledge buyers, capable sellers and thorough set of inventory and audit procedures. This is especially true in restaurants where the procurement function should ensure JIT (just in time)

deliveries and high quality standards since its primary product (raw materials) have a short life cycle.

In order to maintain costs and increase productivity, purchasing practises in restaurants need to be controlled. An inefficient purchasing order could lead to inflated costs of goods that could have a negative effect on the organizations bottom line (Kim and Shunk 2003) For these reasons, Green Chilly should structure a procurement process that may result in the improvement of effectiveness and efficiency and also cost savings.

Activities that are usually involved in the procurement function and could be incorporated by Green Chilly include (Monczka, Trent and Handfield 1998):

Commodity analysis

Market research

Purchase order tracking and follow up

Determination of needs and specification for inter -firm customer

Transmitting forecast of future needs to suppliers

Supplier performance measurement

Management of suppliers quality

Contract management and negotiation

Management of inbound/outbound transportation

Price cost analysis

Employing best practices in procurement certifies that Green Chilly shall make the correct decisions. In order to do so Green Chilly should align the procurement process with the organizations strategic goals and objectives. These objectives if suitable, can be achieved by sourcing strategies that rely on a clear set of tactical procedures to ensure implementation (Sollish and Semanik 1999).

The focus of the organizations sourcing strategies is to integrate supplier capabilities with the organizations process in order to achieve comparative advantage. The activities that are associated with sourcing strategies include (Monczka, Trent and Handfield 1998):

Supplier identification

Supplier evaluation and selection

Supplier management

Supplier development and improvement

Supplier integration to ongoing processes

Consequently, the procurement function covers both the operational procurement of materials and services and the administration management of sources of supply.

Therefore, Green Chilly should take into consideration the critical importance of the links between the strategic and operational tasks of the procurement process, as indicated in figure 1 (Laakmann and Köhler 2010).

Figure 1. Strategic and Operational Procurement

The strategic procurement system is based on two main pillars that are the sourcing system and the strategic partnerships. These pillars are the framework for the operational sourcing process that shall be based in developing the sourcing process which will later be expanded in Green Chilly's procurement process, as indicated in figure 2 (Laakmann and Köhler 2010).

Figure 2. Main Pillars of Strategic Procurement

2 Strategic Procurement Process and Production Material Processes

The strategic procurement process is adapted from Laakmann and Köhler (2010) for the use of this report and the steps of the process that is proposed for Green Chilly to incorporate for its procurement process are further expanded in the following sections. All of the below processes are relevant for the production of materials as each of the processes such as supplier selection, evaluation, procurement strategy and so on, as shall be indicated, play a critical role in the decision making and execution of producing materials.

2. 1 Procurement Strategy and Organizational Development

The first step in the development of Green Chilly's procurement process is the establishment of a procurement strategy. In order for Green Chilly's procurement strategy to be successful it has to incorporate the needs of the organization and to be in consistency with their internal capabilities as well as the competitive advantage that is to be achieved through the overall business strategy (Monczka, Trent and Handfield 1998). Therefore Green Chilly's procurement/purchasing activities need to be consistent with the business strategy and make a proactive contribution the creation of corporate values and plans.

The sub processes that fall under this category are the identification of needs, the definition of the procurement task, and the purchasing business system.

As already established, procurement arises when the organization recognizes the need for materials/services and so on. When the need is recognised the organization should then release a material requirement to its supplier. The organization should make sure that inventory is always restocked. An issue has already been identified, where Green Chilly is experiencing some shortages in its promotional meals. In order to solve this issue a more accurate forecast of demand could be embedded based on historical trends.

Various procurement strategies are employed by organizations to deal with different situations. In the case of Green Chilly, based on the information given by the case study, where quality issues with some fresh products and above average prices on raw materials are experienced, the organization

could take under consideration two types of procurement strategies: long term supplier relationships and the total cost of ownership.

In accordance to the first strategy (which shall be further expanded in the following sections) Green Chilly could establish long-term relationships with selected suppliers following a supply base optimization process. The outcome of this strategy is that it could enable Green Chilly to increase volumes of raw materials to reduce product cost, improve quality (by cooperating with suppliers) increase delivery performance etc. (Monczka, Trent and Handfield 1998). In accordance to the second strategy, total cost measurement could lead to better decision making as it identifies all the cost associated with purchasing decision and with supplier non performance. Cost variances can be analyzed such as in the case of Green Chilly, increase in prices and quality issues and try to find solutions (Monczka, Trent and Handfield 1998).

The output of this process is the functional procurement strategic objectives, definition of the procurement tasks and policies, where procurement tasks can involve supplier selection and negotiation of contracts, specifications of the quality and delivery arrangements and price for inventory for a given volume or period time etc (Bradbury et. al. 2010), supplier cooperation model, and the decision requests for the general management.

2. 2 Make or Buy, Segmentation of Supply Categories and Strategic Planning of the Procurement Volume

In this category the sub processes include analysis of products, value chain and sourced volumes, make or buy strategy and strategic forecast of purchasing demand.

Make or buy can apply to Green Chilly on the grounds that if the company would prefer to buy for example ready made packages of raw materials (salad package of various greens) or make it, based on whether it is financially profitable.

Green Chilly's forecasting demand can be based on historical volume trends and quantity as well as taking under consideration the seasonality that the restaurants operates, forecasts can additionally be made in accordance to last years sales to establish a pattern, when possible, of seasonality.

As already established, Green Chilly is experiencing an issue with higher prices of raw materials and quality issues. In order to solve this issue, higher volumes of raw materials can be ordered (or based on the long term suppliers relationships better prices can be negotiated and quality standards) to decrease the unit cost. Since Green Chilly's primary product are raw materials that have a short life expectancy the cost of carrying inventory is not advisable. Green Chilly could use the central procurement organization to negotiate better prices for such products. In regards the environmental responsibility the company wishes to maintain, it could attempt to source from local suppliers where economically affordable.

In this category Green Chilly should take into account supply categories, demand forecasts, make or buy strategy, sales plan and product portfolio.

The organization could use the Pareto analysis (figure 3) (Bradbury et. al. 2010) to aid them prioritise procurement activities and create a product portfolio by classifying products into A B C categories, and also decide which products can be sourced from the central procurement and which from the locals suppliers.

Figure 3. Pareto Analysis

Class A products are one-for-one basis, class C items can be ordered in large batches and class B products are somewhere in between. Green Chilly could for example, purchase class A products directly from local suppliers in order to ensure delivery and negotiate prices and let the central procurement organization purchase class C products to ensure better prices and vice versa. By using the Pareto analysis the organization can classify all its products and create a product portfolio that will aid Green Chilly in its decision making.

The output of this process is that supply categories are defined, a structure is set, a make or buy decision is formulated and purchasing is forecasted as is the sourcing of demand.

2. 3 Supplier Selection Process

The sub processes of this category include supplier identification, supplier pre-selection, supplier selection and supplier contract. Figure 4 shows the

funnel model of supplier identification and selection by Laakmann and Köhler (2010) that Green Chilly could use.

Figure 4. Funnel Model of Supplier Identification and Selection

In this procurement process consideration should be applied to the supply market, the sourcing and procurement strategies/policies, suppliers cooperation models as well as the evaluation and audit of the results.

Firstly, Green Chilly has to evaluate the requirements that are needed and also try to evaluate its sourcing requirements from suppliers that can include supplier quality (Green Chilly's quality issues), cost competitiveness (increase in raw materials cost), potential delivery performances and technological capabilities (Zenz 1994).

Then, Green Chilly has to gather and analyze information about potential suppliers. There are various methods to locate potential suppliers such as business directories, online search engines and many more. With the growing efficiency and increased interactivity provided by the web Green Chilly could establish e-procurement for a more effective product search, rapid data interchange from e-market places and e-hubs (Kasavana 2004).

Once the research focus is established and suppliers are identified, a candidate list is created as well as a database with the information about the supply markets for future reference.

A first cut based on the preliminary evaluation can then be performed to narrow the list of potential suppliers before conducting an in-depth

evaluation. This can be based on criteria such as financial risk analysis, <https://assignbuster.com/procurement-and-inventory-management-at-green-chilly-management-essay/>

evaluation of previous and current supplier performance (Sollish and Semanik 1999). Additionally a further evaluation can be carried out based on criteria such as price, quality, delivery, responsiveness, capability and competitive value and many more (Zenz 1994; Lamming and Cox 1999).

Suppliers ability to respond to specifications or the scope of the work can be investigated by an on site visit to inspect the supplier's facility and establish if the supplier qualifies to meet requirements. Additionally the supplier's operational capacity, technical capability and financial ability should be taken under consideration (Solish and Semanik 1999).

Once the suppliers are selected and audited then negotiations can be conducted and agreements could be executed depending on the success of the negotiations and by providing performance feedback.

2. 4 Strategic Alliances/Closing Contracts

To create strategic alliances Green Chilly has to clarify its supply category and determine the required degree of cooperation. Establishing close ties with suppliers and increasing investment in value chain partners encourages trust, dependability and cooperation amongst the supply chain partners.

Strategic alliances could lead to competitive advantage by revenue gains and cost savings (Chen, Paulraj and Ludo 2004).

Furthermore, once the requirements are determined, agreements should be negotiated and developed and measures of performance should be established.

2. 5 Strategic Supplier Relationship Management

The sub processes of Supplier Relationship Management (SRM) include the types of relationships the organization has to decide, definition of the organizations processes for SRM and establish a communication system and IT solutions for collaboration.

Working closely with a few selected suppliers and establishing collaborative relationships Green Chilly can gain performance advantages. By sharing information with suppliers and communicating knowledge competitive advantage can result. Buyer-seller communication could establish trust for Green Chilly's supply base, which can result in minimizing suppliers costs (raw materials) due to better negotiations of prices because of long-term contracts, an increase in quality standards and better evaluation of performance to increase quality as well as technological insights (Chen, Paulraj and Ludo 2004).

Green Chilly can use IT collaborative solution software to improve communication with suppliers and gain new revenue while reducing operational cost (Kim and Shunk 2003). By automating more SRM functions, Green Chilly could reduce the levels of transactional activities and gain efficiency.

The output of this process is to establish the types of relationships with suppliers, the activities for SRM, availability of sourcing/supplier information and collaborative processes for procurement planning.

2. 5 Supplier Qualification and Development

The sub processes include identification of strategic suppliers, gap analysis of requirements expected by suppliers, a program for training and improving suppliers and monitoring the performance of the suppliers.

Effective supplier development for Green Chilly could begin by determining the appropriate numbers of strategic suppliers; by performing a supply base optimization Green Chilly could identify those suppliers (Monczka, Trent and Handfield 1998). This should be an ongoing process that shall help the organization to evaluate the best suppliers and try to develop strategic alliances with. Additionally, by establishing a supply network Green Chilly could qualify the appropriate suppliers that it wishes to do business with and by setting appropriate performance indicators decide which suppliers are suitable for their development program.

A development program for suppliers that Green Chilly could incorporate is to work directly with suppliers to improve performance since the organization is experiencing quality problems with the performance of suppliers. By working closely with suppliers Green Chilly could assist in quality improvements and measurement techniques on how to identify and eliminate problems. Additionally, performance improvements that could be established are cost reduction (raw materials), delivery and scheduling improvements (shortfalls in promotional meals).

For example Green Chilly could work with suppliers to develop a JIT purchasing and manufacturing system since the primary product of the

organization is raw materials that have a low life expectancy such a development will be beneficial.

The outcomes will be a better understanding from both parties, improved processes and delivery performance.

2. 6 Procurement Policies and Guidelines Definition, Organizational Effectiveness/Efficiency Improvement

In this category the sub processes that Green Chilly should follow are the evaluation of the procurement tasks and processes as well as the corporate policies and the development of a standard for operating procedures by giving a detailed description of the functional duties or steps for a specific task. Additionally a continuing improvement program should be established, a skill matrix for staff should be developed and an internal and external communication.

Significant procurement policies for Green Chilly are for example the quality issues it experiences from local suppliers performance and the above average cost with raw materials. For a restaurant quality issues are critical in maintaining the restaurants credibility and customer loyalty (Zenz 1994). As already mentioned by collaborating with selected suppliers Green Chilly can deal with such issues by development programs or cooperation and selection of new suppliers.

The outcome of this process will be the operational policies and management ethics, training and continuous improvement structures and the established sourcing process.

Figure 5 indicates based on the above already discussed Green Chilly's sourcing process that will be used as its procurement process.

Figure 5. Green Chilly's Procurement Process

3 Strategic Procurement Processes that are relevant for either food or non food supply categories

Green Chillys procurement can be divided into the procurement of direct and indirect products. Indirect products/services are commodity items that are used in the day-to-day operations (MRO, IT equipment, services, capital equipment, facility management etc), direct goods include raw materials that are used to create finished products (<http://www.clarity-consulting.com> Accessed: 01/03/10). In this section the above processes of the strategic procurement process relevant for food and non-food supply categories of Green Chilly will be indicated.

In the procurement strategy process where the organization requirements are identified and policies and tasks of the procurement process are formulated, it does not seem to be very relevant for food and non-food supply category. However the procurement strategy is the base for the purchasing strategy and it is where Green Chilly shall make decisions on sourcing, whether to pursue contracts versus spot buying and suppliers recruitment plan and model. Therefore it can be argued that it is relevant for both the supply categories.

In the make-or-buy and strategic planning of procurement and volume Green Chilly has to decide which materials is going to produce in house or source, and at what volumes by forecasting demand, thereof it is the organizations <https://assignbuster.com/procurement-and-inventory-management-at-green-chilly-management-essay/>

sourcing strategy. This process is the most relevant for both food and non-food categories. Make-or-buy decisions are usually very simple. Most organizations source production equipment, MRO supplies, capital equipment and services because they cannot manufacture them as well as raw materials where in the case of Green Chilly the primary (direct) products is the latter.

Furthermore, the supplier's selection process and the strategic alliances process are considered very relevant for the food supply category. This is due to the fact that in these sub processes Green Chilly has to select the appropriate suppliers based on performance requirements such as quality cost effectiveness, delivery performance etc and establish cooperative relationships and strategic alliances with the selected suppliers. Due to the fact that Green Chilly's primary product is raw materials price, quality and availability are of critical importance and this is dependent on the suppliers.

Moreover, supplier relationship management process and qualification and development of suppliers process where the company has to develop trust relationships where open flow of information should be established in aiding the organization achieve comparative advantage by developing and qualifying suppliers that would provide Green Chilly with quality products and no replenishments based on contingency supply plans, this sub process is considered very relevant for food supply categories.

Finally the procurement policies and organizational improvement process is considered very relevant for both food and non food supply categories as it is the stage where the organization evaluates its processes and tries to

determine if good practices were applied or if improvement of the processes is required.

Conclusion

Green Chilly's issues with supplier's quality, above average prices of raw materials and shortfalls in promotional meals could be resolved with the appropriate procurement process as established above. By creating a procurement policy where the sourcing process can establish efficiencies and effectiveness to select, develop and control partnerships with suppliers and thus create strategic alliances and overcome the issues as well as decisions on which is the most appropriate solution for sourcing, either it be form the central procurement organization or directly from local suppliers, shall aid Green Chilly in accomplishing its strategic objectives and goals. Thus, a strategic procurement process is vital to the successful performance of the organization.

Furthermore by clarifying which supply categories, food or non-food, are relevant to the sub processes of the strategic procurement process shall assist Green Chilly to improve operational performance by making procurement tasks more uncomplicated and repeatable.

It is highly advisable that Green Chilly should engage in e-procurement to enjoy online economies such as effective product search process, improved needs matching, rapid data interchange, lower transaction costs, enhance productivity, vendor relations, improved pricing and customer relationship management (Kasavana 2004).

References

Bradbury, K., Hill, J., Whicker, L., and Malins, M. (2010), Logistics and Operation Management, Module Notes, WMG

Cavinato, L. J. (1998), Fitting purchasing to the five stages of strategic management URL: http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VGR-3WRBWC0-2&_user=10&_coverDate=06/30/1999&_rdoc=1&_fmt=high&_orig=search&_sort=d&_docanchor=&view=c&_searchStrId=1238910197&_rerunOrigin=google&_acct=C000050221&_version=1&_urlVersion=0”&HYPERLINK “ http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VGR-3WRBWC0-2&_user=10&_coverDate=06/30/1999&_rdoc=1&_fmt=high&_orig=search&_sort=d&_docanchor=&view=c&_searchStrId=1238910197&_rerunOrigin=google&_acct=C000050221&_version=1&_urlVersion=0” _udi= B6VGR-3WRBWC0-2HYPERLINK “ http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VGR-3WRBWC0-2&_user=10&_coverDate=06/30/1999&_rdoc=1&_fmt=high&_orig=search&_sort=d&_docanchor=&view=c&_searchStrId=1238910197&_rerunOrigin=google&_acct=C000050221&_version=1&_urlVersion=0”&HYPERLINK “ http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VGR-3WRBWC0-2&_user=10&_coverDate=06/30/1999&_rdoc=1&_fmt=high&_orig=search&_sort=d&_docanchor=&view=c&_searchStrId=1238910197&_rerunOrigin=google&_acct=C000050221&_version=1&_urlVersion=0” _user= 10HYPERLINK “ [<https://assignbuster.com/procurement-and-inventory-management-at-green-chilly-management-essay/>](http://www.sciencedirect.com/science?_ob=</p></div><div data-bbox=)

ArticleURL&_udi= B6VGR-3WRBWC0-2&_user= 10&_coverDate= 06/30/1999&_rdoc= 1&_fmt= high&_orig= search&_sort= d&_docanchor=&view= c&_searchStrId= 1238910197&_rerunOrigin= google&_acct= C000050221&_version= 1&_urlVersion= 0&"&HYPERLINK "
http://www. sciencedirect. com/science? _ob= ArticleURL&_udi= B6VGR-3WRBWC0-2&_user= 10&_coverDate= 06/30/1999&_rdoc= 1&_fmt= high&_orig= search&_sort= d&_docanchor=&view= c&_searchStrId= 1238910197&_rerunOrigin= google&_acct= C000050221&_version= 1&_urlVersion= 0&" _coverDate= 06%2F30%2F1999HYPERLINK "
http://www. sciencedirect. com/science? _ob= ArticleURL&_udi= B6VGR-3WRBWC0-2&_user= 10&_coverDate= 06/30/1999&_rdoc= 1&_fmt= high&_orig= search&_sort= d&_docanchor=&view= c&_searchStrId= 1238910197&_rerunOrigin= google&_acct= C000050221&_version= 1&_u