

Trends in procurement scm



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TRENDS IN PROCURENENT AND SUPPLY CHAIN MANAGEMENT 1. Introduction

Procurement and Supply Chain Management (PSCM) presents the new paradigm in strategic and operational business management for the 21st century. By offering a cooperative and integrated model of the value-creation process in a cross-organizational perspective, it also places new challenges on business management methods and instruments used, in theory as in practice. In the field of materials management, the new PSCM perspective led to major changes in the methods used and in the emphasis of the different process steps.

Presented here is the classical as well as supply-chain-based Procurement methods which compares them and draws conclusion on their use in theory and practice. Procurement was long neglected by business management and economic theory. The role of Procurement & Supply chain was always seen as a secondary activity in the organization and its supportive role to production were encouraged in classical materials management. In the recent years SCM has been re-evaluated in the value chain of whole industries and therefore reemphasized the strategic role of Procurement for the supply chain.

Procurement & supply chain management is divided into 5 steps or activity fields: supporting activities, sourcing, distribution, storage and disposal. PSCM changed the methods used in each separate step. In supporting activities for example PSCM requires multi-dimensional, long-term and dynamic instruments to guide decision-making in materials management, using cross-organizational cooperation to succeed, such as advanced purchasing.

In sourcing the strategic role of sourcing was reemphasized by SCM and new tools such as the use of procurement E-AUCTION methods, SCR, green sourcing, TCO, Ethical sourcing, PCB, strategic alliances and TPB were introduced, due to the new cooperative paradigm in SCM. In distribution and storage too, cooperative instruments are used to keep up competitiveness, such as VMI and integrated logistics. In disposal, however, SCM provides a totally new philosophy, reducing the focus on waste and enhancing material cycles, environmental programs and new recycling programs, such as reverse logistics.

Overall in SCM, the main focus was relocated from scheduling and storage planning that was the main activity of Procurement in the classical perspective to strategic sourcing and disposal as the two main processes of materials management. Concluding, the comparison of classical and supply-chain-based Procurement showed, that SCM emphasizes on the strategic role of Procurement by offering an integrated and process-oriented perspective on the value-creation process.

Furthermore supply-chain-based Procurement bases on communication, mutual interdependence and decreasing short-term competition to stay competitive in the long run as an entity, represented by the supply-chain. The long-term, complex and dynamic perspective of PSCM and the pursuing of multiple and conflicting goals in PSCM are mirrored in the methods used in supply-chain-based procurement function. Capitulatory, PSCM reemphasized the strategic role of Procurement as a cooperative, process-oriented primary activity within the supply-chain that has major potential for the competitiveness of the supply chain in the long-run. . Increased Intergration

and collaboration - Collaboration Between Stakeholders in the Extended Supply Chain(ESC) During the past 5-10 years, there has been an increased focus on procurement and SCM as a competitive weapon due to the significant effects that supply chain activities have on all elements of an organizations financial performance, including operating costs, revenue growth, and asset management. This recognition of the importance of SCM has given rise to an abundance of recent research on SCM practices flowing from business schools, industry consortia, SCM software providers, and consultancies.

One of the key issues which continues to be explored and developed is how SCM integrates with other operational performance initiatives, such as lean manufacturing, total quality management, and new product development. Early buyers were responsible for ensuring a reasonable purchase price and maintaining operations (avoiding shutdowns due to stockouts). Both World Wars brought more attention to the profession due to the shortage of materials and the alterations in the market. Still, up until the 1960s, purchasing agents were basically order-placing clerical personnel serving in a staff-support position.

In the late 1960s and early 1970s, purchasing personnel became more integrated with a materials system. As materials became a part of strategic planning, the importance of the purchasing department increased. Some experts relate that the purchasing function is responsible for determining the organization's requirements, selecting an optimal source of supply, ensuring a fair and reasonable price (for both the purchasing organization and the

supplier), and establishing and maintaining mutually beneficial relationships with the most desirable suppliers.

In other words, purchasing departments determine what to buy, where to buy it, how much to pay, and ensure its availability by managing the contract and maintaining strong relationships with suppliers. In more specific terms, today's purchasing departments are responsible for: * coordinating purchase needs with user departments * identifying potential suppliers * conducting market studies for material purchases * proposal analysis * supplier selection * issuing purchase orders * meeting with sales representatives * negotiating * contract administration * resolving purchasing-related problems maintenance of purchasing records These functions obviously entail no insignificant amount of responsibility. As the role of purchasing grows in importance, purchasing departments are being charged with even more responsibilities. Newer responsibilities for purchasing personnel, in addition to all purchasing functions, include participation in the development of material and service requirements and related specifications, conducting material and value-analysis studies, inbound transportation, and even management of recovery activities such as surplus and scrap salvage, as well as its implications for environmental management.

In the 1970s and 1980s purchasing fell under the rubric of " materials management. " Many corporations and individual facilities employed executives who held the title " materials manager," responsible for purchasing and supply management, inventory management, receiving, stores, warehousing, materials handling, production planning, scheduling and control, and traffic/transportation. Today, the term materials

management has expanded to include all activities from raw material procurement to final delivery to the customer, to management of returns; hence, the newer title procurement and supply chain management. As purchasing personnel became even more central to the firm's operations they became known as "supply managers." As supply managers, they are active in the strategic-planning process, including such activities as securing partnering arrangements and strategic alliances with suppliers; identification of threats and opportunities in the supply environment; strategic, long-term acquisition plans; and monitoring continuous improvement in the supply chain.

Studies have found that strategic purchasing enables firms to foster close working relationships with a limited number of suppliers, promotes open communication among supply chain partners, and develops a long-term strategic relationship orientation for achievement of mutual goals. This implies that strategic purchasing plays a synergistic role in fostering value-enhancing relationships and knowledge exchange between the firm and its suppliers, thereby creating value.

In addition, supply managers are heavily involved in cross-functional teams charged with determining supplier qualification and selection, as well as ensuring early supplier involvement in product design and specification development. A comprehensive list of objectives for purchasing and supply management personnel would include: * to support the firm's operations with an uninterrupted flow of materials and services; * to buy competitively and wisely (achieve the best combination of price, quality and service); * to minimize inventory investment and loss; to develop reliable and effective

supply sources; * to develop and maintain healthy relations with active suppliers and the supplier community; * to achieve maximum integration with other departments, while achieving and maintaining effective working relationships with them; * to take advantage of standardization and simplification; * to keep up with market trends; * to train, develop and motivate professionally competent personnel; * to avoid duplication, waste, and obsolescence; to analyze and report on long-range availability and costs of major purchased items; * to continually search for new and alternative ideas, products, and materials to improve efficiency and profitability; and * to administer the purchasing and supply management

Competing in supply chains requires some non-traditional thinking in terms of the relationships between an organization and its suppliers. In the extended enterprise model, suppliers and distribution customers become the arms and legs of the product or service provider. As we move outside the traditional four walls of our own operation it becomes clear that we need the same (or better) levels of planning and communications with key suppliers as we have enjoyed inside the organization, in order to meet or exceed end-customer expectations for cost, lead times, quality, and demand flexibility. * The traditional arms-length, win-lose approach that many companies take with their suppliers will simply not deliver the required results. A more integrated, win-win relationship may be called for.

The net effect is that companies will need to take a more sophisticated, and segmented approach to suppliers. * Certainly, there will remain some suppliers with whom a traditional buyer-seller relationship will suffice. However, for more critical commodities and services, higher-level

relationships will be required. These could range from conventional preferred supplier agreements to sophisticated, multi-year partnering arrangements with value-added activities included, such as inventory management systems, technical support, and even technology co-development programs. These special supplier relationships must be built on the basis of shared business goals and mutual trust and respect. They are more complex to put in place and they require proactive management, but they hold the potential for significant competitive advantage if they are managed properly. Equally important is Operational Integration. * The extended enterprise model requires better operational integration of the value chain than traditional business models normally provide. Information flow is especially critical to the success of the supply chain in order to meet demand flexibility requirements while keeping inventory costs down. Consequently, a well-planned, integrated information system strategy is a critical element. The SCM software industry has gone aggressively after this market requirement and there are two primary types of software products attempting to achieve SCM integration. * Large enterprise resource management providers have seen this market as an opportunity to offer supply chain solutions as part of their enterprise package.

The other group of software providers offers dedicated SCM packages that perform functions such as demand forecasting & balancing, inventory management, logistics planning, supply chain optimization, and other features. It is also clear that SCM and lean manufacturing concepts are closely related. In fact, it could be said that SCM is akin to lean manufacturing applied beyond the four walls of our own factory. * Fully

integrated suppliers can support a variety of lean manufacturing activities, such as kanban and automatic replenishment systems, vendor-managed inventory systems, and outsourced subassembly operations.

A further, logical development of these concepts is the recent rise of third-party logistics (3PL) or lead logistics providers (LLPs) who offer a fully integrated logistics outsourcing approach that can include inventory management, warehousing, freight & transportation, cross-docking, kitting & kanban, and outbound distribution services on an optimized basis. * Supply chain partners are also frequently engaged in technology co-development and new product development activities.

In this context, integration of supplier reliability, maintainability, and supportability capabilities into the new product development process becomes a key enabler and should occur in the earliest phases of the product development program. * Key suppliers should be members of the cross-functional product development team in order to best leverage their organizations capabilities to reduce costs and cycle times. In most cases these key suppliers can contribute effective ideas and capabilities for reducing materials costs, design fabrication costs, logistics costs, and manufacturing cycle times. Recent examples of collaboration have emerged in the expansion of Sales and Operations Planning (S&OP) processes that include upstream and downstream value chain partners as regular participants. S&OP processes help maintain a well-coordinated and valid, current operating plan in support of customer demand, a business plan and a strategy. The improved resulting operating plan provides the management of each partner with a complete picture of forecasted demand, supply capacity,

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corresponding financial information with financial implications and allows them to make informed, critical decisions. Companies that expand the usage of Sales and Operations Planning have greater visibility across their entire enterprise and respective value chain, gain the agility necessary to improve the Product Lifecycle Management (PLM) process, improve promotional planning, minimize unnecessary buildups of inventory, increase revenue predictability and execute customer service expectations.

The S&OP activity enables information systems to connect the value chain participants around key demand information, such as customer forecasts, and around key supply information, such as supplier inventories and capacities. Another recent example of collaboration is seen in the increased focus around RFID (Radio Frequency Identification). Value chain leaders are looking at functional areas to better integrate the supply chains of their partners with themselves.

RFID can serve as a means to quickly and efficiently ensure that critical product information is communicated as products flow through the value chain and ultimately to the consumer. Recent estimates show that major retailers can lose 3-4 percent of revenue per year due to shelf stock outs, while inventory is available somewhere in the value chain. Better coordination of store-level product availability would have a significant impact to the entire value chain for these retailers. Additionally, better visibility of retailer product availability can reduce overall logistics costs as products move through the value chain to fulfill safe stock levels and ultimately consumer demand. As supply chain networks have become more complex, the need for greater and improved supply chain technology

solutions has become critical. Enterprise Resource Planning (ERP) and best-of-breed Supply Chain Management (SCM) solution providers have made significant investments in developing solutions to address the needs of manufacturing and distribution companies in areas, such as:

- Network and Inventory Optimization
- Logistics Optimization
- Product Lifecycle Management (PLM)
- Radio Frequency Identification (RFID)
- Sales and Operations Planning (S&OP)
- Procurement
- Manufacturing Optimization
- Business Intelligence

The Role of Technology in Supporting these Trends. These technologies have helped enable the supply chain “information worker” innovate, drive cost reductions, improve service and meet customer expectations better than ever. In order to have sustainable improvement in supply chain performance, a business must have the right balance of investments in organization, processes and technology.

Lack of investment and focus in any one of these areas will reduce your ability to achieve fundamental, sustainable improvement. Developing, manufacturing and selling a product can challenge the best organizations in the best of times. As a company’s business drivers change, business processes, SCM technology investment and the overall approach to supply chain management must change and keep pace. An inefficient and poorly functioning supply chain can negatively impact every aspect of an organization, jeopardizing the long-term performance and success of a business.

3. Supply sourcing

Part of the sourcing decision involves determining whether to purchase a part from an outside supplier or produce the part internally. This is typically known as a make-or-buy decision. If the buyer chooses to purchase the part

externally, then he must find qualified suppliers who are willing to make and sell the product to his or her firm under the specified conditions. The nature of work in manufacturing industries competing and operating in global markets is changing. The expertise, world-view, and motivation of procurement specialists, together with strategically differentiated processes, remain the prerequisites to success.

The decomposition of the corporate core has meant that two trends dominate manufacturing, and especially the high-tech industry: Vertical integration and increased specialization within companies. The first trend, vertical integration, tries to recoup the “do it all in-house” approach of the past. HP, for example, used to manufacture all the required plastic enclosures, silicon chips, metal parts, and even screws for their measurement equipment. The second trend, increased specialization, is reflected in the continued outsourcing of noncore functions, eventually turning in-house overhead functions into stand-alone industries.

Examples are software development, 1 chip design and manufacturing, final assembly, electronic circuit board assembly, commercial real estate, and logistics. Based on the premise that it's tough to be good at everything, at the same time, and that smaller, focused organizations will typically outperform larger firms, each of these internal activities has become its own industry. In effect, the high-tech industry personifies this horizontal division of labor, in which well-known brands working on separate aspects of a single value proposition capture revenue from the same customer sale.

Outsourcing Is Inevitably On the Rise The principal driver of manufacturing outsourcing is asset management. An outsourcing strategy removes manufacturing assets, like equipment and tools, from the corporate balance sheet. Moreover, it allows cost-cutting companies to shrink payroll. This has created a new industry, contract manufacturing (CM). The CM industry bases its value proposition upon providing increased flexibility in manufacturing capacity. Stand-alone manufacturing companies could produce for less by leveraging their fixed costs over multiple customers.

The reuse of resources lowers capacity risk and achieves larger efficiencies of scale. The same dynamic moves company-owned property, including specialized facilities (like factories and warehouses), off the books. The real value of outsourcing is clearly the ability to combine the power of several highly specialized contributions into a single, flexible, value proposition. Information technology and a global logistics infrastructure enable a separation into specialized industries.

In this business environment, competitiveness is determined by the ability to maintain visibility and allocate activities to the players that are in the best position to execute. In order to be successful, each partner must achieve a favorable tradeoff between cost and responsiveness to customer needs. However, at this level of complexity, operational excellence is not easily attained. Challenges As companies focus on their core competencies by outsourcing, increased attention is demanded by the “ extended enterprise” — the network of specialized partners, which contribute to a company’s value proposition.

Communication between the nodes in this network not only provides visibility of the end-to-end supply chain but, more subtly, creates a common understanding of how local events must relate to the needs of the market. Coordination is thus a prerequisite for successful outsourcing. To summarize, the first and most critical challenge is the creation of a common language, together with a focus on exception processes. The second challenge is how to transfer the pertinent information between players. In this point, it is worth mentioning that although technology plays an obvious role in information-processing, it is merely an enabler.

Experience has made abundantly clear that success is only possible when processes and people are in the driver's seat. A third challenge is to build meaningfully upon existing investments in the network. In this day and age of lockstep, proprietary IT systems, one should not overlook the agony of a smaller supplier struggling to work with multiple, incompatible transaction protocols. The demands of proliferating data formats can be overwhelming and a drain on the local return. A fourth challenge is to expand the existing infrastructure in order to create a flexible and responsive logistics and distribution network.

The latter requires proven processes built by the network itself that leverage — instead of being dictated by the functionality of — common, off-the-shelf platforms. Typically, system adaptation can only be accomplished incrementally. A final challenge to the entire network is to continuously adapt to changing business situations. With their short lifecycles the supply chains of high-tech parts like hard-disk drives are being constantly reconfigured, as are the exceptions that occur in the extended enterprise.

Coupled with the highly dynamic, almost fashion-like market preferences of many high-tech products, the challenges to successful outsourcing can be daunting. What Does This Mean For Procurement? As dramatic as the evolution has been, companies such as HP have faced the challenges of outsourcing for years. One of the consequences any outsourced company will see is that an ever-higher proportion of procurement dollars are now part of the game. Because companies are now buying more complex items and services, procurement has been transformed into an increasingly critical function.

Not only do enterprises procure more, they also have the opportunity to create better leverage of procured parts, products, and services. Dynamics similar to the horizontal functions mentioned previously suggest that procurement will also become its own industry. Simply stated, the main value proposition of procurement is to leverage the size (buy power) of an enterprise, its access to technology, together with established personal and contractual relationships to capture the value of preferential treatment.

Preferential treatment can be “collected” in the form of lower prices, better availability, or the assignment of more skilled staff. Maintaining the advantage of preferred customer status in a progressively outsourced, and thus fragmented, enterprise is a challenge that HP has met by developing specialized buy-sell services. Buy-sell services allow the company to outsource the physical management and assembly of products, without losing control of financial flows. In this context, suppliers drop-ship their parts to the contract manufacturer or partner, eliminating the need for HP to touch the material flow.

In the meantime, buy-sell services maintain the relationship with suppliers, and ensure that the terms to which the sale was negotiated were actually executed. In particular, in any transaction involving outsourced functions, the procurement specialist ensures that the sale is concluded at the price to which the corporation is entitled. The process is highly automated and sophisticated, to include functions like tax optimization, price-masking, and supplier split management. No doubt this service comes at a cost, but the return in better pricing, terms, conditions, and risk mitigation more than offset the cost for many parts.

Computed on an annual basis, a typical return on investment (including setup costs and IT investments) of over 8-to-1 was achieved. The buy-sell process is applied with a disciplined and differentiated strategy. Because not all parts are equal in their importance, the buy-sell procedure covers about 20 percent of the inbound supply chain parts, which means that these critical parts are proactively managed. The next tier, which comes to approximately 50 percent of inbound parts, is merely audited, comparing the price received from the CM to the price entitlement.

This costed bill of materials — called eBOM — collects funds or withholds a premium, depending on whether the audit discovers a mismatch or not. All other parts do not warrant the cost of audits because HP doesn't believe it can outperform its partners, and so they are acquired through turnkey processes from partners. Effectively, the buy-sell relationship focuses on the most valuable parts, or unique supplier relationships, while audited eBOM parts are typically board-loadable components, leaving the rest to be handled by qualified partners.

Successful execution of this differentiated strategy depends upon the quality of market data, as well as the ability to constantly monitor that data. The fact that sourcing is a truly global activity is a second aspect of how it adds value to the extended enterprise. IT and logistics capabilities allow procurement to create geographically fluid sourcing, where material flows can adapt dynamically to business and legal requirements. This, in turn, creates significant financial flexibility for corporations, derived from the capture of regional tax and duty advantages.

That is, although the parts are sourced globally, by choosing the procurement location shrewdly, companies not only optimize material cost, but also their tax and duty exposure. To cite a third example of how its scope has broadened, HP's sourcing activities now extend to engineering in order to solve supply chain problems. The opportunity to generate revenue by licensing intellectual property — one example being the revenue captured from patents on cooling systems for Itanium chips — arose from routine sourcing work in the extended supply chain.

R; D is another internal function that has not escaped the overall tendency towards increased specialization. Procurement of product design from outside the enterprise, in spite of the rigorous procurement processes it requires, is on the rise. This trend is reflected in a move from working with contract manufacturers (CMs) increasingly toward original design manufacturers (ODMs). While the ODM occupies a kind of middle ground between increased specialization and a fully-integrated solution, the unbundling of design, manufacturing, and logistics intensifies both the involvement and value added by procurement. Sourcing process

management is another expansion of procurement's overall value proposition. Companies believe that increased specialization and unbundling will provide strategic advantage to all partners involved. The sourcing process has been accelerated through Smarter sourcing, accelerated GEP RFX and GEP Auction designed to dramatically streamline and accelerate RFX to award cycles. The process optimization these tools garner actually help identification of the best sourcing deals, based on a company's internal parameters.

With these tools, a company can collaborate across teams on eRFxs, evaluate suppliers and create proposals from scratch. GEP RFX standardizes supplier responses and compiles them for tracking communication and documenting best practices seamlessly. Executive reports are generated automatically or manually, optionally allowing multiple teams to access the quotes. Besides helping determine the best-fit negotiations strategy, results can be sent to the GEP Auction tool to set up a live event within minutes. Savings can be accessed in real time in these events.

In a few clicks, award decisions can be sent to the GEP Contract tool. E-PURCHASING AND E-PROCUREMENT The Internet and e-commerce is drastically changing the way purchasing is done. Internet use in buying has led to the terms " e-purchasing" or " e-procurement. " Certainly, communication needed in competitive bidding, purchase order placement, order tracking, and follow-up are enhanced by the speed and ease afforded by establishing online systems. In addition, negotiation may be enhanced and reverse auctions facilitated.

Reverse auctions allow buying firms to specify a requirement and receive bids from suppliers, with the lowest bid winning. E-procurement is considered one of the characteristics of a world-class purchasing organization. The use of e-procurement technologies in some firms has resulted in reduced prices for goods and services, shortened order-processing and fulfillment cycles, reduced administrative burdens and costs, improved control over off-contract spending, and better inventory control. It allows firms to expand into trading networks and virtual corporations.

Criteria for e-purchasing include:

Supporting complete requirements of production (direct) and non-production (indirect) purchasing through a single, internet-based, self-service system.

Delivering a flexible catalog strategy. Providing tools for extensive reporting and analysis. Supporting strategic sourcing. Enhancing supply-chain

collaboration and coordination with partner 4. Increased Competition and Price Pressures Cost improvements around inventory management, logistics operations, material management and manufacturing costs, including raw

material and component acquisition can be found with:

- Sales and operations planning
- Transportation/distribution management
- Improved product lifecycle management
- Improved strategic sourcing and procurement

Suppliers can differentiate themselves in a number of ways as well as provide value, additional services and capabilities to their customers.

The differentiating factors include:

- Vendor Managed Inventory (VMI)
- RFID
- Labeling and packaging
- Drop shipping
- Collaboration

Companies should not only look to their supply chain to drive cost improvement, but should increase capabilities as a means for staying competitive.

Streamlining processes with better design, better collaboration across networks and new services will help a company stay competitive and strengthen relationships with its customers. As many companies step back and examine their core competencies, some realize that outsourcing parts or all of a supply chain can be advantageous. With marketplace improvements around (1) information media and systems (2) cost and quality of global manufacturing and distribution, and (3) product design capabilities, companies are gaining additional synergies by outsourcing all or parts of their supply chain.

There can be significant economic benefits from outsourcing all or part of your supply chain operation, but without the right systems, processes, or organizational management structure the risk to success can increase to frightening levels. In an outsource-heavy environment companies need to put more controls and systems in place to compensate for the fact that their supply chain capabilities no longer reside onsite. In an outsourced supply chain environment the need for information, controls and excellence from the "information worker" becomes a high priority. 5. The emergence of green supply chains

The green supply chain management (GSCM) is an integrative environmental thinking into supply chain management, including design, material sourcing, selection, manufacturing processes delivery of the final product to the consumers, and end-of-life management of the product after its useful life. This is an area of departure from the traditional supply chain function that had no ethical considerations to management of the supply chain. The supply chain has been traditionally viewed as a one way, integrated

manufacturing process wherein raw materials are converted into final products, then delivered to customers.

Nowadays due to recent changing environmental requirements affecting manufacturing operations, increasing attention is given to developing environmental management(EM) strategies for the supply chain. * The green supply chain management has been sparked up by a number of factors. This include: * Government policy * The increased awareness on the part of the customer on environmental issues. * Market demands and competitor compliance * Company policy. There are a number of benefits associated with the adoption of the GSCM. They include: * By reducing wastes companies reduce handling expenses, fines, and costly inputs. Improved product quality. * Consistent corporate environmental goals. * Improved public image. * Competitive advantage through invention. The GSCM is achieved through a number of ways. * Product packaging. Here a company packs its products in environmental friendly packs. * Design for recyclability. This involves designining products that can be recycled. * Energy efficiency which involves use of energy efficiently. * Green or alternative sources of energy example the use of solar energy. * Environmental cleaning and greening example tree planting.