

Definition of purchasing and procurement



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Purchasing is defined as to buy materials of the right quality, in the right quantity from the right source delivered to the right place at the right time at the right price. Procurement is the process of obtaining good or service in any way, including borrowing, leasing and even force or pillage (Lysons et al, 2006).

According to John, Chandra, Tim (2008) defined that, procurement includes sourcing and purchasing and covers all of the activities involved in the product/ service sourcing, purchasing and delivery from supplier to the customer. It is a very important activity in manufacturing supply chain as purchased parts and materials account for over 60% of the cost of finished goods (John, Chandra, Tim 2008). For retail companies within the supply chain this percentage can be as high as 90% (John, Chandra, Tim 2008).

Gerald, Sam (2007) state that purchase there exists a general tendency of pushing added value towards outsourcing. Although in the majority of companies this tendency causes the share of material costs and external services to increase, purchasing departments are still largely operations as traditional mid-size order department and not as modern procurement management units (Gerald, Sam, 2007). Therefore the potential of optimizing the purchasing system and hence improving the profit margins is often neglected (Gerald, Sam, 2007). Now many companies are precisely in procurement via in the internet that there is still quite deal of potential (Gerald, Sam, 2007).

Therefore, as a purchasing or procurement manager should understand than in order to be able to judge the efficiency of industry flow of materials, it is

necessary to describe whether the manufacture made-to-order or make-to-stock (Gerald, Sam, 2007). Afterwards manager should plan on industry material requirements. In order to have minimum stocks on hand at maximum disposition, a material requirements planning has to be carried out (Gerald, Sam, 2007).

Reason for choice of topic

Academic Objectives of the Project

This aim of this research is going to discuss, the reason of choosing this title is to determine the career match in module on logistics and supply chain management. For this purpose, this study of purchasing can be approached from several perspectives, such as the process, functions, relationship and link in the supply chain process.

2. 0 (c) Purchasing and Sourcing Knowledge Management

2. 1 Organizing for Supply Research

Purchasing market research has been increasing in recent years many large companies, like IBM, Honda of America, Lucent Technologies and Philips Electronics have introduced corporate commodity teams which are responsible for the worldwide sourcing of strategic parts and materials (Arjan 2005). Supply research is the systematic collection, classification, and analysis of data as the basis for better supplier decisions, so that will influence the procurement of goods and services for the purpose of meeting present and future company requirements in such a way that they contribute to an optimal return . Figure 1 shows that of the data (information) that might be required for effective buying decisions.

Ingredients of Effective Buying

The studies conducted in supply research include projects under the major research headings of: (1) purchased materials, products, or services (value analysis), (2) commodities, (3) suppliers, and (4) supply processes. Supply research, if approached in an organized manner, also has the potential for generating major improvements in supply decision making. A firm could conduct supply research in one of three ways: (1) full-time research positions, (2) inclusion of research as a part-time responsibility of supply personnel, or (3) cross-functional teams to bring an expanded knowledge base to the research process (Leenders et al, 2006).

According to Purchasing's [Purchasing Magazine (www.purchasing.com)] recent Internet-usage survey researching potential suppliers is the number-one reason buyer log on to the Internet. Chris Golec, vice president of marketing at Supply Base, noticed a similar trend. ' Manufacturing was looking for reliable third-party information to differentiate supplier based on performance, risk and other business factors,' says Golec. According to Arjan (2009) state that, once the buyers has identified a prospective supplier, detailed D&B reports, including the supplier evaluation report (SER) and the supplier performance review (SPR). Therefore SER measures the financial stability of a supplier and quantifies the risk of doing business with them (Arjan, 2009). The SPR determine how well a supplier performs in key areas, like quality, tech support and delivery, relative to the industry average (Arjan, 2009).

3. 0 (d) World Wide Sourcing

3. 1 World Wide Sourcing Defined

According to Martin (2007) note that, world-wide purchasing of supplier is response to the globalization process that has had tremendous impact on international business. In order to understand the concept of low-cost country sourcing, the aim of this section is to examine development in purchasing and supply chain management in an international business environment (Martin, 2007).

Leontiades (1985) notes that, ‘ one of the most important phenomena of the 20th century has been the international expansion of industry. Today, virtually all major firms have a significant and growing presence in business outside their country of origin.’ According to Leenders et al (2006), in attempting to seize opportunities in the global marketplace, companies are deploying their organizations on global scale. The reasons for sourcing abroad are many and vary with the specific requirement (Leenders et al, 2006). However, the underlying, summary reason for using an international supplier that better value is perceived to be available from that source than from a domestic supplier (Leenders et al, 2006).

The first stage, “ domestic purchasing only”, as the name implies, the company on purchases from domestic supplier (Robert J. Trent & Robert M. Monczka, 2002). Although the company might have international operation, such as, marketing or sales, the purchasing activities do not encompass country borders (Martin, 2007). The reasons to pure domestic sourcing to pure domestic sourcing are many, but could include lack of scale economics, lack of need resources or lack of competencies need to internationalize

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purchasing activities (Martin, 2007). Reasons for internationalizing purchasing is a primarily to lowest cost, but could also be due to a lack of domestic suppliers (Trent & Monczka, 2003). Marci- economic such as tax rates, increased price levels in the home country market and exchange rates all are play a role.

The second stage, “ international purchasing as needed”, is usually reactive rather a proactive initiative in order to cope with market forces (Robert J. Trent & Robert M. Monczka, 2002). Therefore this mean that international purchasing is only done sporadically, without any long-term objective. Thus, international purchasing as such is not yet institutionalized (Martin 2007).

The third step, “ international purchasing as part of sourcing strategy”, the company is starting to realize the advantages of international purchasing, and is thus recognizing the need for more long-term strategies (Robert J. Trent & Robert M. Monczka, 2002).

In the four steps, “ integration and coordination of global sourcing strategies “, implies that the company is starting to integrate and coordinate global procurement needs the company worldwide (Robert J. Trent & Robert M. Monczka, 2002). In order hand to realize this, the company needs to have implemented enterprise-wide IT systems such as ERPs, and have hired qualified staff with a global mindset, and an organization that enables central coordination (Trent & Monczka, 2003).

3. 2 Benefits of International Sourcing

The benefits of international sourcing are clearly shown on Table 2. 0.

Benefits of International Sourcing

4.0 Supplier Management and Development

According to Kenneth and Brian (2006) note that, supplier development has been to defined as, any activities that a buyer undertakes to improve a supplier's performance or /and capabilities to meet the buyer's short or long-term supply needs. This applies not within organizations but between organization as in the purchaser-supplier business relationship and the especially in the area of supplier development (Krause and Ellram, 1997). Effective communication is a critical aspect of successful purchaser-supplier relationship (Carter and Miller, 1989) however Krause and Ellram (1997) also suggest that the performance of supplier can be significantly raised by the buying firm communicating their expectations to supplier in an effective manner. However, achieving transparency can be challenging, especially in a product development context a customer-supplier relationship (Bob, Myfanwy, Roger, 1998).

The supplier relationship management from a supply perspective is to bring both sides into an effective working relationship (Leenders et al, 2006) . This will require substantial coordination work inside the purchaser's organization to ensure that the people most vitally concerned with a particular supplier's performance are fully involved in the planning and execution of a program leading to the desired long-term relationship (Leenders et al, 2006). Next, supplier development also been defined as any business activity that a buyer undertakes to improve a supplier's performance and/or capabilities to meet the buyer's short or long term supply needs (Lysons et al, 2006). There are nine steps in a supplier development programme (refer to Appendix 2). The <https://assignbuster.com/definition-of-purchasing-and-procurement/>

actual process may differ according to the organization and whether the development is primarily results or process orientated (Lysons et al, 2006).

The development function has a Supplier Development Department who are responsible for ensuring that each supplier's co-development performance is assessed accurately, reliably and consistently (Bob, Myfanwy, Roger, 1998).

The department uses a performance measurement system as means of ensuring that the relevant data is collected, analysed and recorded and later presented to the supplier (Bob, Myfanwy, Roger, 1998). This is a highly structured attempt to provide clear information to suppliers, and unusual in being applied in development (Bob, Myfanwy, Roger, 1998).

5. 0 (b) Supplier Evaluation and Selection

5. 1 Evaluating Supplier Performance and the Supplier Selection Decision

Perhaps the most powerful risk prevention approach is the development of a rigorous supplier evaluation and selection decision (Robert et al, 2009).

Select a set of world class supplier and watch how much the easier life become (Robert et al, 2009). Select a set of poor performers and be prepared to dust off the risk contingency plans (Robert et al, 2009).

Nest, the key performance indicators (KPIs) is use to evaluation of supplier performance have been quality, delivery and price. While these are still basic to supplier evaluation, such as e-procurement, JIT (Just-in-Time) and lean manufacturing, integrated supply chains have made the evaluation of supplier relationships and important consideration. The number of KPIs that may be used is almost limitless. The ten supplier evaluation factors are

shown in Appendix 3 (Lysons et al, 2006). This decision to place a certain volume of business with a supplier should always be based on a reasonable set of criteria (Leenders et al, 2006). Besides that, Some of the more important supplier attributes related to those prime criteria mentioned above may include past history, organization and management, technical strength and, financial status, communications, reputation, labour relations, systems, procedural compliance, and location (Leenders et al, 2006).. Obviously, the nature and amount of the purchase will influence the weighting attached to each objective and hence the evidence needed to support the decision (Leenders et al, 2006).

5. 2 Buyer-Supplier Relationship

Narasimhan and Das (2001) explored that the relationship between purchasing integration and supplier management practices (buyer-supplier relationship development, supply base leveraging, and supplier performance evaluation). From the comparison of alternative statistical models, they concluded that purchasing integration has a moderator effect on the impact of supplier management practices on manufacturing performance (Michael, 2008). This study suggested that only a combination of externally and internally focused on purchasing initiatives may be able “ to elevate purchasing into a strategic function.” (Narasimhan and Das 2001, P. 607). Purchasing integration, summarizing practices such as purchasing strategy alignment with corporate strategy, involvement in the new product design and process improvement, and focus on corporate value creation, seems to be a prerequisite to capture the value from strategic supplier management and cooperative supplier relationship (Michael, 2008).

According to Ian (2005), the relationship between buyer and the supplier changes with the type of contract or commercial arrangement. Assuming the supplier able to deliver the same activities as the buyer but at a lowest cost, the difference in costs translates to a profit margin for the supplier (Ian, 2005). In the outsourcing model the discussed in previous sections, the supplier is no longer required to follow the processes previously owned by the buyer (Ian, 2005). Therefore, the supplier is now free to make modifications to the original process, motivated by profitability. In the governance of the outsourcing, both the supplier and buyer work in an agency environment (Ian, 2005). So the “ potential contract” relationship model addresses the organizational needs of control and flexible (Ian, 2005). Here, the commercial arrangements including joint ventures, multiple supplier, individual and joint-venture spin-offs, consortia and shared service structures re-emphasize the importance of the quality of supplier-buyer relationship (Ian, 2005).

6. 0 (a) Supplier Quality Management

6. 1 Quality System and Quality Dimensions

Robert et al (2008) note that, supplier quality represents the ability to meet or exceed current and future customer (i. e. buyer and eventually end to customer) expectations or requirements within critical performance areas on a consistent basis. There are three parts to this definition:

Ability to meet or exceed is means that suppliers satisfy or exceed buyer expectations or requirement each and every time (Robert et al 2008).

Inconsistent supplier performance, whether in physical product quality or on-

time delivery, is not a characteristic of the quality supplier (Robert et al 2008).

Current and future customer expectations or a requirement is meaning that, suppliers must meet or exceed today's demanding requirements while also possessing the ability to anticipate and satisfy future customer requirements (Robert et al 2008). A supplier than can satisfy today's requirement but cannot keep pace with future requirement is not a quality supplier (Robert et al 2008).

Within critical performance areas on a consistent basis. Supplier quality does not apply to the physical of a product (Robert et al 2008). Quality supplier satisfy a buyer's expectation or requirement in many areas, including product or service conformance, current technology and features, product or service delivery, and total cost management (Robert et al 2008).

The multiplicity of customer-designed supplier quality improvement models can confuse many suppliers (Gopal, 1995). A strategic of quality improvement model has to be consistence with the product and process technology (Gopal, 1995). However, as a supplier, who is most knowledgeable about the technology, is in a better position to design the quality improvement model (Gopal, 1995). Therefore most of the customer, have a supplier quality improvement model of their own. The suppliers' valuable resource may end up being spent in continuously rearguing and rewriting their procedures to satisfy may never find time to focus on creating a strategic quality improvement model consistent with product or process technology (Gopal, 1995).

A quality system typically applies to, and interacts with, all activities pertinent to the quality of a service or product (Lysons et al, 2006). Figure 4 is showing involves all phases, from the initial identification to final satisfaction of requirements and customer expectations. The advantages of a properly documented quality management system such as that required by BS EN 9001: 2000, are that it:

Ensures all aspects of quality are controlled.

Provides objective evidence for determining and correcting the causes of poor quality.

Increases customer confidence.

Indicates best practice.

Ensures consistent, efficient work practices.

Gives competitive advantage (Lysons et al, 2006).

Quality Loop

Supplier quality is a complex term, according to Professor David Garvin of the Harvard Business School, defined that least eight dimensions:

Performance. The primary function of the product or service.

Features. The bells and whistles.

Reliability. The probability of failure within a specified time period.

Durability. The life expectancy.

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Conformance. The meeting of specifications.

Serviceability. The maintainability and ease of fixing.

Aesthetics. The look, smell, feel, and sound.

Perceived quality. The image in the eyes of the customer (Lysons et al, 2006).

6.2 The Benefits of TQM

TQM is a practical but strategic approach to running an organization that focuses the need of its client or customers (Edward, 2002). TQM is not a set of slogans, but a deliberate and systematic approach to achieving in appropriate levels of quality in a consistent fashion that meet or exceed the needs and wants of its customer (Edward, 2002). The success of TQM strategic is depends on a genuine commitment to quality to each organizational. The benefits claimed for TQM include:

Improved customer or client satisfaction.

Enhance productivity.

Reduced product led time.

Improved customer service and delivery times.

Reduced work-in-progress.

Reduced waste and inventory with consequential reduced costs.

Improved quality of goods and services.

Increased flexibility in meeting market demands.

Better utilisation of human resources (Lysons et al, 2006).

(g) Contract Management

The contract management and financial control flow largely in chronological order within overall facilities management process (Brian, Adrian,). If earlier procedures have been followed carefully, the management of contract should – in the sense on their administration- relatively straightforward (Brian, Adrian,). Sufficient precedents exist for contract administration, largely in context if the monitoring, control and, where necessary, corrective action (Brian, Adrian,). Contract management has aspects of facilities management that can represent a significant issue for client organization, not least because they are on going to commitments (Brian, Adrian,).

7. 0 (f) Negotiation

7. 1 Negotiation Strategy and Practice

According to Robert et al (2008) note that, not all purchase requirement will require buyers and seller to conduct a thorough and detailed negotiation. For many items, the competitive bidding process will satisfy on a buyer's purchase requirements, as may be this case for items that are low value, are widely available commodities, or have pre-existing standards (Robert et al, 2008). In other hand, according to Richard (2005) also state that, Negotiations are an important part of the purchasing process, because their effective use can help safeguard in the interests of a sports medicine program. Physical trainer should negotiate in the following three categories of purchases.

Capital equipment. This is the expensive, durable equipment that often makes up the bulk of the rehabilitation and therapeutic modality inventory for a sports medicine program (Richard, 2005).

Medium- priced annual re-buys. These are usually purchases of services that require annual renegotiation (Richard, 2005). For instance salaries, physician consulting fees, ambulance services, and athletic insurance.

Lower-cost consumable supplier. These items constituted the bulk of the sport medicine supply budget (Richard, 2005). Although some of the suppliers will have to be reordered throughout the year, careful planning will allow the athletic trainer to place only one major supply orders for entire year (Richard, 2005). This method will strengthen the athletic trainer's negotiating position because of the discount normally of associated with quality purchasing (Richard, 2005).

Although negotiation on the price of a supply, item of equipment, or service is common, athletic should also consider on other areas in which they can realize cost saving through negotiation (Richard, 2005). Furthermore, the athletic trainer also negotiate the way in which the goods will be supplied, their quality, shipping costs, and support after the purchase (Richard, 2005).

The following five elements can be negotiated for purchases in each areas are stated clearly in Table 3. The discussion of some of the elements and considerations that affect the price of an item makes it obvious that negotiation can be a valuable technique to use in reaching an agreement with a supplier on the many variables affecting a specific price (Leenders et al, 2006).

Negotiation Strategy & Practice

Negotiation strategy refers to overall approach used to reach the mutually beneficial agreement with a supplier that holds different points of view from the buyer (Robert et al, 2008). A major part of the strategic planning process involves the application of tactics- the skill or act of employing available means to accomplish to end, objective, or strategy (Robert,). They are included the current set of actions plans and activities adopted to achieve the negotiation objective and strategy (Robert et al, 2008).

Strategic negotiation issues involve the broader question regarding who, what, where and how to negotiate (Robert et al, 2008). The situation is to have a well-developed negotiation strategy with appropriate and ethical tactics that support that strategy (Robert et al, 2008). As an analogy, consider a military battle, the best-development strategy will fail unless a commander has the tactics and the resources to implement that strategy in the field (Robert et al, 2008).

Negotiation is a complex, fascinating subject which, since it involves people, contains many variables (Peter et al, 2005). This list and the related discussion are meant only to indicate the area and other writes have noted as pertaining to successful negotiation. Those who negotiations are successfully:

Plan well

Can deal with pressure

Understand people well

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Observe well

Can handle confrontation

Have sound business judgement

Are skill at dealing with risk and asking questions

Can handle time effectively (Peter et al, 2005)

9. 0 (h) Supply Chain Information Systems for Procurement

9. 1 Definition of Information Systems

Information supply chain within an enterprise are often more complex, difficult and less systematic than those between with enterprises (Joseph L et al, 2006). Besides that, information system is comprised of interconnected components that process, store, and collect data and distribute information to support, control, decision making and coordination within the organization environment (Leenders et al, 2006). However the information system technology allows the organization to connect with partners or supplier in their supply chain network.

According to Joseph L et al, (2006) state that, the intranet is a relatively secure method to move business processes online by providing a common interface and communication environment. Data can be input without concern for where the information resides, thus enabling more complete and timely reporting because organization data is to provide (Joseph L et al, 2006). However manual internal processes, such as sourcing, requisitioning, purchasing, receiving, releasing, and contract management, can be performed online to reduce manual and paper-intensive processes (Joseph L

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et al, 2006). Information systems can be classified to four types, each can consider to serve the requirements and needs of the organization at different levels of management and across functions (refer to Appendix 6) (Leenders et al, 2006).

9. 2 The Benefit of Electronic Data Interchange (EDI)

Electronic data interchange (EDI) technology was gives organizations an opportunity to exchange their information and message electronically, instead of with paper documents, and leads to new way of doing business known as electronic (EC) (Syed et al, 2000). According to James (1998) EDI is the electronic transfer of document from one computer system exchange to another. The purpose of EDI is to provide accurate external information (James, 1998). EDI takes externally produced and transmitted information and allows the information to be electronically received into the host system (James, 1998). Then, the host system is able to electronically send the information or data to another external computer system (James, 1998). Because of the transaction is free from human intervention, so EDI provides a high level of accuracy for the information being received and transmitted (James, 1998).

Besides that, the benefit of EDI is that it can reduces information lead-times, and thus allows the logistics network to be more responsive to customer needs and changing market conditions (James, 1998). It system also reduces the transportation and order processing lead-times (James, 1998). However Syed et al (2000) also defined that, the benefit of EDI include less delay in data handing and labour saving in the areas of data transcription, controls

and error investigation and correction. As a result implementation of EDI improves the following:

The internal operation of the firm by reducing the process-cycle time,

Trading supplier or partner relationship,

Responsiveness to customer, and

The ability to compete, both domestically and internationally (syed, 2000).

According to Paul et al (2000) note that, realizing enormous competitive advantages of EDI, an increasing number of firm have attempted to formulate a viable implementation of strategy. However, a successful EDI implementation strategy should address the following key issues.

Trading partner agreement: due to the nature of EDI that inherently promotes inter organizational communication and information transfer, the EDI initiating firm (or a “ Hub” company) may not gain the full benefit of EDI without the support of its trading partners (Paul et al, 2000)

Management support: regardless of the potential EDI benefits, unconvinced management would lack of commitment to EDI investment and would be less inclined to provide adequate financial and personnel resources required for company-wide EDI implementation. It was be more difficult to manage system to EDI programs without senior management commitment (Paul et al, 2000).

Performance measurement: to justify EDI investment, a firm should conduct an objective cost-benefit analysis of the proposed EDI program covering its

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in life cycle. EDI can bring numerous operating of benefit along with some intangible benefit along with some intangible benefit such as higher employee morale, increase competitive advantages, improved customer loyalty, and enhanced trading partnerships (Paul et al, 2000).

How the EDI is implemented showing on Figure 5. The sequence is as follows:

Firm A creates a purchase order using EDI internal business software.

EDI software translates the order to supplier.

Firm A sends the 850 purchase order to supplier B over a third-party value added network (VAN) or encrypted in EDIFACT format over the Internet.

Supplier B receives the 850 purchase order document and will translate it from EDI to its proprietary format and, typically, company B will send an acknowledgement to firm A (Lysons et al, 2006).

EDI Implementation

Figure 5: EDI Implementation (Lysons et al, 2006)

By implementing EDI, firm can reduce the lead time in receiving parts from their suppliers because buyers and suppliers work together in real-time environment. Therefore, a firm can reduce the lead time in delivering product or goods to customers; delays of delivery can be reduced.

10. 0 (i) Performance Measurement and Evaluation

As part of a company-focused purchasing and supply chain measurement approach, firms should follow a systematic process to maximize results and achieve vertical and horizontal alignment of the purpose (Robert et al, 2008).

As company objectives drive specific strategies such as being the low-cost producer and technology leader (Robert et al, 2008). These company strategies should then drive appropriate and prioritized purchasing and supply chain objectives and strategies (Robert et al, 2008).

Apart from that, perhaps the best way to summarize the vast number of separate is by developing performance measurement each category, many separate measures relate to each general category (Robert et al, 2008).

Most purchasing and supply chain measures fall into one of the following categories:

Revenue

Quality

Price performance

Cost-effectiveness

Time/ delivery/ responsiveness

Technology or innovation

Supplier performance

Strategic performance (Robert et al, 2008).

However, on compiling the finding into a report with summarised recommendations and supporting reason, the audit should be presented to purchasing senior management (Kenneth et al, 2008). When preparing such report, auditor should highlight policies, procedures and personnel where efficiency and effectiveness can be improved, commend good practice and performance, and think beyond simple quantitative measure of performance and consider the full sequences, side-effects and reactions likely to occur with these recommendations are presented (Kenneth et al, 2006)

10. 1 Approaches to Performance Measurement

Approaches to performance measurement may be grouped under five main headings:

Accounting approaches, namely:

Profit centres

Activity-based costing

Standard costing and budgetary control

Economic value added (EVA)

The purchasing management audit approach

Comparative approaches

Benchmarking and ratio

Integrated benchmarking, such as EFQM and balanced scorecards

Management by objectives (MBO)

Miscellaneous approaches, such as SERVQUAL and six sigma (Lysons et al, 2006).

10. 3 Benefits of Benchmarking

The benchmarking is the continuous measuring of product, services processes, activities, and practices against a firm's best competitors or those companies recognized as functional or industry leaders (Robert et al, 2008).

Formally the benc