

The benefits that effective purchasing business essay

[Business](#)



[Type the document subtitle][Type the abstract of the document here. The abstract is typically a short summary of the contents of the document. Type the abstract of the document here. The abstract is typically a short summary of the contents of the document.][Year]Neo Reconia Sys - 2011[Pick the date]QUESTION: Using the case study, relevant B203 A course materials, and E-library sources, discuss the importance of sustainable purchasing and supply for organizations in gaining competitive advantage. In your essay, make sure to discuss: The concept of procurement. The benefits that effective purchasing and supply brings to a business. The importance of a good purchaser and supplier relationshipThe concept of competitive advantageHow the selection of a reliable supplier is such an important issue in creating advantage. Support your answers with examples.

INTRODUCTION:

The importance of sustainable purchasing and supply:

Sustainable procurement has risen to become a top priority among companies for several reasons, one of which is the more intense attention being paid to brand reputations. Although there might be a short-term gain to be had by cutting corners from a social or environmental perspective, markets and consumers may punish companies whose brands let them down. With problems ranging from tainted milk supplies to toxic materials that end up in children's toys, many companies in recent years have been penalized for failing to enforce sustainable principles at the heart of what they produce and how they produce it. The sustainability is affecting the role of the procurement function. The initial section looks at the ongoing evolution of sustainable procurement. A second highlights the increased role

of procurement as a tool for social and economic development. Finally, we look at the growing importance of cross-country collaboration as a means to drive a new generation of innovative procurement strategies. This focus on sustainable procurement is extending into a diverse range of areas from developing a deeper understanding of how existing materials can be recycled and reused, to reducing sourcing requirements, to pursuing deeper supplier partnerships that drive innovation. Sustainable development can raise numerous implementation challenges for procurement. For example, dealing with smaller supplies that often use less formal practices can add administrative burdens and increase the need for better training and oversight.

THE CONCEPT OF PROCUREMENT:

Procurement is the process of obtaining products and services from suppliers. It includes decisions about how much and when to purchase goods and services, the actual purchasing of goods and services, and the process of receiving the requested goods or services. The purchasing cycle ensures that the appropriate quantity and quality of equipment, materials, supplies or services are acquired at the best price and from the most appropriate source. Procurement involves and affects more departments than just the purchasing department. An integrated procurement system provides the purchasing professional with links to information across all of an organization's functions and departments. Some of the links to include activities and information, including receiving transactions, order version data, supplier profiles, accounts payable status, special order processing and the tracking of incoming purchases through receipt routing. Most purchasing

<https://assignbuster.com/the-benefits-that-effective-purchasing-business-essay/>

organizations use these methods: InventoryNon-InventorySubcontractingPurchasing for inventory includes items intended for resale, raw materials and manufacturing items. These items require full integration between the JD Edwards Enterprise one Procurement system and the JD Edwards Enterprise one Procurement system. This kind of system integration validates that the items exists in inventory. Information included about the inventory item might include cost, description, supplier and units of measure. An example of an inventory item for a manufacturer of computer hardware would be printed circuit boards. Purchasing for non-inventory includes goods, materials and services that are used internally or are subsequently charged to outside parties. Typically, these items and service are recorded in general ledger accounts. Examples of non-inventory items include office supplies, maintenance, repair and operating supplies (MRO) and building services. Subcontract purchasing is associated with outside operation performed by suppliers or internal projects requiring a number of supplies to charge their services to a common job number. One example would be a plating operation performed by an outside supplier on a steel part that was produced by the organization.

THE BENEFITS THAT EFFECTIVE PURCHASING AND SUPPLY BRINGS TO A BUSINESS.

Professionally trained Purchasing and Supply Chain specialists do more than simply buy and supply items, commodities or services for the companies and organizations that employ them. Intelligent specialists know that there's more value to be realized in reviewing the entire supply chain process than simply focusing solely on the " best price" or " best buy." Purchasers can and

should be, involved in all the intricate steps within the supply chain cycle from initial planning and specification development, to determining material requirements, to raw material acquisition, usage and its ultimate disposal. Companies cannot simply raise prices these days to cover unforeseen supply or manufacturing problems or vendor increases. The successful control and management of all costs has a direct effect on bottom line profitability and competitiveness within the global marketplace. Accountants are responsible for accurately identifying and reporting what you have spent after you have already spent it. Buyers are responsible for intelligently identifying, evaluating, sourcing, negotiating and ultimately reporting on goods and services before acquire them. Today's qualities supply practitioners, depending on their job function may assist in: Examining products and services Assessing a supplier's production and distribution capabilities Fostering vendor development and partnership Contract writing and negotiations Tracking market conditions, price trends and future markets. Identifying cost saving opportunities and implementing savings plans. Work process mapping and development Coaching and mentoring purchasing and supply chain staff. Developing internal controls for purchasing procedures. Designing strategic directions for the procurement department Project management Mergers and acquisition consolidation Outsourcing planning and execution Examples are the adjustment of quantities to conform to economical lot sizes, quantity discount brackets or standard packaging and shipping units, and the deferring or anticipating of purchases to take advantage of expected market fluctuations when possible.

THE IMPORTANCE OF A GOOD PURCHASER AND SUPPLIER RELATIONSHIP

A major oil and gas company uses a standard segmentation process to assess the critically of suppliers across five criteria, applying the process at the local level as well as the global level to ensure that it understands the impact of local suppliers. Once the segmentation has been completed and validated, leaders determine the strategies that they will actively pursue to manage key suppliers and maximize value from the relationships. Measure supplier performance at the appropriate level of the organization and create incentives that align with these measures. For many organizations practicing SRM (Supplier Performance Management) has been both the starting point and the foundation. Accenture's 2011 high performance in procurement study are actively undertaking supplier performance management. SRM provides the key to identifying issues and opportunities by developing a meaningful data set that can be used to drive improvements. It is helpful to start with a library of key performance indicators with standard definitions, but ultimately teams need to be able to develop a set of measures that drive value and operational improvement for a given supplier relationship. A major oil and gas company empowers supplier performance management teams to define key performance indicators and customized scorecards that are relevant for specific suppliers and contracts in their area of the business. Sourcing continues to be an important mechanism through which procurement leaders drive value and innovation, but those who excel at SRM have, in many cases, changed the emphasis of their sourcing processes. In appropriate circumstances, they have moved away from low-level specifications and rigid requirements to longer term, value driven, output-

<https://assignbuster.com/the-benefits-that-effective-purchasing-business-essay/>

based arrangements. These leaders see their roles as specifying the outcomes they require and guiding the development and delivery processes. Many leaders reported positive results from this approach, including improved products and services and reduced long run cost by providing suppliers with the incentive to innovate. For example category managers on the buyer side and key account managers on the supplier side. A number of leaders have extended their sourcing category council model with category council members' typically senior leaders drawn from different functions across the business taking accountability for owning key supplier relationships, supported by the category manager.

THE CONCEPT OF COMPETITIVE ADVANTAGE

In the hedgehog concept from Good to Great, Jim Collins calls a company's core competency the " Best in the World at" factor. Whether a company seeks to excel at subsea engineering, well control techniques, or grinding bentonite into drilling mud, the organization must focus on optimizing its core competency to remain competitive. A company's core competency is supported by all the functions in the organization are engineering, human resources, technology and finance. Logically, if the company is to excel at its core competency, then the supporting functions must also excel. Most companies fail to be the " Best in the World at," because one or more of the internal functions are weak. Oil and gas companies, among others, attempt to offset the barriers of being with expensive systems and extravagant human resource strategies. These solutions serve only to patch the sinking ship. New systems are not a guarantee for efficiency and sometimes increase attrition. One of our clients introduced a new hand-held device to its

<https://assignbuster.com/the-benefits-that-effective-purchasing-business-essay/>

field personnel to improve the data collection for headquarters. The result was arduous and time-consuming data entry for project managers, frustrating them and driving them to join the ranks of competitors. Aligning teams of experts into functions is where large organizations can gain competitive advantage over smaller, entrepreneurial competitors who are stealing talent. It is imperative for oil and gas companies to invest the time and resources to support their " Best in the World at" competency. With proper organization alignment, companies will be equipped to innovate, keep costs under control and be more responsive to customers. The continued growth and competitiveness in the oil and gas industry are dependent on the organization's alignment. For example, the headquarters of one of our clients provided financial forecasting guidelines for all business units, yet the actual forecasting process performed in each business segment varied tremendously. Consolidating inconsistent forecasts became a useless exercise. Unfortunately, corporate hired more finance staff to develop forecasts in hopes of improving financial visibility, however, this proved ineffectual. Hiring additional staff to compensate for ineffectiveness within the company wastes both time and money.

HOW THE SELECTION OF A RELIABLE SUPPLIER IS SUCH AN IMPORTANT ISSUE IN CREATING ADVANTAGE.

Organization will realize both tangible and intangible benefits that apply to all facets of the oil and natural gas industry. Benefits such as improved reliability, safety, quality, and environmental performance that will help position organization at the forefront of an ever-changing industry.

Standardization efforts will help assure compliance with government requirements and ensure equipment interchangeability, demonstrating can meet the needs of a global industry. Reliability is a crucial factor in supply, both of quality and timing. If supplies are of poor quality, delivered late or cost more than was agreed, this will affect productivity. If production is delayed or faulty products need to be scrapped, this can reduce profits. Poor quality inputs could also affect the safety of the process a major consideration in the oil and gas industry. For example, to help improve safety and quality of supply, BP is introducing safety performance indicators into contracts of suppliers involved in high risk activities. Suppliers who do not meet these standards may be removed from contracts. As part of this safety focus, BP is also planning to reduce use of agency staff in procurement roles and boost its in house expertise in supply chain management.

CONCLUSION:

Well-managed procurement ensures that supplies of the required quality are available at the right time, place and cost. Supply chain managers help to:

- Reduce costs and improve profitability bulk buying can provide economies of scale
- Reduce waste by selecting inputs that generate less waste and also lower costs.
- Manage demand, through just-in-time supply.
- Improve cash flow by securing favorable prices and payment terms.
- Improve efficiency by making sure suppliers hit deadlines.
- Improve the competitiveness of the business by seeking out innovative products and services to add value.

In the oil and natural gas industry, where safety is a central concern, effective management of purchasing and supply is a vital role. Its procurement

managers need to have good people skills, sound common sense, commercial and business skills and the ability to communicate appropriately at all levels. OPITO and CIPS are working together to ensure that the industry has the relevant training and qualifications programmes to meet the long-term needs of the oil and natural gas industry.