Purchasing and Supply Management

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**Definition of Purchasing and Supply Management and its Importance to the Business World**

Purchasing and supply management is a critical process in the implementation of projects or production of goods and services. No project or production process can take place without proper supply of the necessary resources. Since purchase and supply management involve procurement and store keeping, it can be defined as the process of procurement, storage and monitoring of goods for sale in retail outlets, raw material for project development or raw materials, machineries and other supplies for industrial production of finished goods. The critical role purchasing and supply management plays in the accomplishment of organizational goals makes most organizations allocate it a whole department. The organizations employ purchasing and supply officers to lead these departments (Johnson, Leenders, & Flynn, 2010). Purchasing and supply officers coordinate the other staff the organization allocates to the department. Retail stores, particularly, find this department critical for monitoring the behaviors of their buyers, making sure that the store adequately stocks the goods the consumers buy frequently.

In most cases, purchasing and supply managements involve a range of activities that require efficient and effective skills (Johnson, Leenders, & Flynn, 2010). These include negotiating skill to negotiate with suppliers, manufacturers and wholesalers during the buying process. The purchase and supplies team should be able to work with market professionals and cost analysts when deciding what to buy and what not to buy. For project implementation, this may minimize wastes and by ensuring that only what is necessary is purchased. On the other hand, retail stores are able to avoid stocking goods that will just sit on the shelves soaking in dust.
According to Johnson, Leenders, & Flynn (2010) inventory is yet another important component of purchasing and supply management. Inventory involves taking stock of what is available and what needs restocking. Inventory must be taken at regular intervals at the store or warehouse, and the recorded numbers compared with initial purchases and what needs to be purchased. This helps to avoid wastage when making a new purchase of supplies. The people in charge must always research consumer behaviors to detect changes in their preference. They must also stay up to date with developments in the market. This ensures that the business offers the goods that consumers want to buy.

As stated earlier, purchasing and supply management team comprises of several people who are critical to its success. These include market researchers, pricing analysts and marketing staff. All these must be informed about the consumer needs, and market trends to add value to the team. The team must strike agreements with suppliers and manufactures on various issues, including returning goods when they fail to sale.

**Creation of a Project Supply, Service, and Material Budget**

Creating a project supply, service and material budge is one of the critical tasks handled by Purchasing and supply management team. It requires an intensive planning process that ensures that there is a steady supply of materials and other in puts for project implementations. The first step in this procedure is identifying what is necessary form the project. Projects plans always give details of what is necessary to accomplish specific tasks within the project, and the total amount of inputs necessary to complete the entire project. Therefore, the project plan is the guideline for determining what to purchase. This is the equivalent of determining exactly what customers want in the retail store.
Next, the team should distinguish between what will add value to the project and will only increase costs. Value comes from both goods/materials and actions. This means that the team should first decide on what material to purchase based on the project requirements. Third, the team should take the most efficient way of supplying the materials at the project site. An example of this is visible in Toyota’s just in time approach (Chenoweth et al. 2012; Jones, & Cheshunt, 2002). Toyota only purchases the materials that are necessary for creation of its cars. Toyota only orders and delivers materials to assembling plants exactly when they are needed. Choosing the appropriate mean of delivery of material and service facilitates minimization of unnecessary costs such as warehousing.

Next, the team should align purchase and delivery processes to ensure that materials get delivered without interruptions. This is a critical element of supply chain management. Warehousing can be used, but only to ensure a steady supply not to add costs. Therefore, the team should make plans to secure storage close to the project site to ensure materials are available when needed. Since service can not be stored like materials in warehouses, the team should identify service providers at various stages of the project, contact them and inform them when they will be required. This is much cheaper than hiring a service provider to be available from the start to the completion of the project, even when their service has minimal impact or are is only necessary at a specific stage during the service implementation. Outsourcing can be helpful in securing this kind of services.

Once all the above processes are done, the team should find appropriate suppliers who proved the best quality raw materials and the best prices. Other consideration that should be made include whether the supplier provide transportation and warehousing or not. If the chosen
suppliers do not provide transportation and warehousing services, the team should find a transport and a warehousing provider that will fit into the designed supply chain.

Finally, the team should create an inventory system to continually take stock of the available materials to ensure the continued minimization of wastage in the subsequent purchases. Future purchases should also be made to deliver materials and services when they are needed.

**Selecting the Most Qualified Suppliers and Strategies for Negotiating Prices**

Supplier selection is a critical part of supplier management. According to Moser (2006), it is important to select specific suppliers for the basic material needed for the project. An agreement can be struck with such suppliers either to supply the material on short-term or long-term basis. When deciding a supplier, it is necessary to conduct supplier’s analysis and take those who score highly. The analysis includes examination of critical components of suppliers.

On a scale of 1 to 10, Pooler et al (2004) rates the components as follows:

- Quality of product: 9.7
- Competitive prices: 9.4
- Delivery dependability: 9.0
- Service offered: technical and other: 8.0
- Total cost reduction assistance: 7.7
- New product and R&D ideas: 6.2

Other information which, however, has little significance to most buyers include:

- Financial strength: 5.2
- Geographical location: 4.3
- Reputation: 4.2
- Others: 2.0
Using an appropriate supplier management system, the Purchasing and supply management team can compare the score of all probable suppliers based on the project preferences.

Negotiation is a crucial process of communication between the parties regarding the terms of engagement and so on. The best strategy for negotiation price is bargaining. Before embarking on bargaining the best price, the purchases team should first compare prices to determine the highest price and the lowest price in the market. After that, one should aim at buying materials at a lower price and contact a supplier with the chosen price. The team should not take “NO” for an answer but should be ready to walk away when it fails to get a fair price. The team should counter all the reasons a supplier gives for not being able to lower prices. Just because a supplier rejects the initial offer, it does not mean that they cannot reduce the prices. If the supplier, however, keeps the price high, the team should move on and try another supplier, unless they must buy from the first supplier. The team should also negotiate for price reductions on subsequent purchases to ensure they get a fair and consistent price. Some suppliers may be reluctant to reduce price, but may be willing to lower them on subsequent purchases. The supply and management team can also use bidding. The use of bids allows suppliers to offer price and the team takes the supplier who offers the best price, service package and quality.

**The Benefits and Costs of Outsourcing, and the Growth Pattern of Outsourcing**

When organizations decide to focus on their core competency, most of their attention gets focused on what generates competitive advantages over competitors. The organizations focus on what directly serves their customers. As a result, they start to buy services that were initially provided internally by their employees. These are outsources. Costs are critical and the firm
must consider whether it is more effective to outsource a service to develop the service internally. The cost analysis of these two alternatives is critical.

According to Pooler (2004), outsourcing can yield huge savings through both employment and benefit costs reduction and economies of scale. Companies give their permanent employees almost equal benefits. Getting an outside provider reduces the benefits cost a company can incur, and also the outsourced service is not permanent, thus, the company only pays when using it. In this case, the only actual labor needed is paid for when a company purchases a service. This generates great flexibility during low and high demand periods and minimizes service cost. The fact that suppliers or service provider are likely to be specialists in a specific field increases the efficiency with which a company can improve its performance through outsourcing.

Outsourcing is on the increase. Many firms and companies are adopting it due to its cost efficiency. Outsourcing is expanding, since most companies are assigning labor intensive task to service providers and concentrating on their main line of operations. For instance, most companies are increasingly outsourcing tasks, such as creation of software codes in India. This trend is not likely to change, since companies continue to minimize costs through seeking inexpensive material and labor and preferably utilize them at the source to minimize costs of transportation.

**Benchmark Organizations in Purchasing and Supply Management**

There are several companies and organizations that are exemplary in purchasing and supply management. Toyota identified suppliers and developed long term relationships with suppliers. After identifying suppliers, the company focused on supplier development. This enhanced supplier competences and performance. The main competence of this approach is the
ability to manage business with individual suppliers, ability to evaluate and influence the performance of suppliers, involvement of suppliers in product design, recruitment of highly skilled personnel, development of personnel to have a thorough knowledge of suppliers and facilitation of dialogue with suppliers. Toyota also employed the total quality management and a lean system of supply chain. The balance and efficiency were achieved through realizing operational efficiency, ensuring steady movement through the supply chain, managing inconsistencies to minimize costs and continuously improve quality, and ensuring transparency and continuous learning.

Tesco too, having learnt from Toyota, came up with an impressive supply chain management approach (Jones & Cheshunt, 2002). The retail store introduced POS scanning, centralized distribution, centralized automated ordering automated control of warehouses and EDI with its major suppliers. This increased its efficiency and capacity. According to Jones & Cheshunt (2002) Tesco borrowed the following Toyota values:

- Identification of what the customers want
- Differentiation between the action about value and those that only increase costs
- Align value creation steps to ensure the product movement is uninterrupted
- Only transported what is needed, so that nothing stays on the shelves for long and gets spoiled
- Consistently reconfigure the value stream to eliminate interruptions and increase responsiveness

Tesco mapped its traditional value streams, developed new value streams that flow and forged close relationships with suppliers.

Conclusion
Purchasing and supply management is an important factor in success of businesses and projects. It involves a number of activities such as inventory management, negotiating with suppliers and manufactures. Due to the critical nature of purchasing and supply management, it is wise to dedicate the whole process to specific department or team. The team creates the buying procedure to buy the material and service. Outsource can also be employed to buy material and services. Outsourcing helps to minimize costs and increase efficiency. Companies like Toyota and Tesco have the best example of Purchasing and supply management systems developed according to their needs.
References


