

Contributer's Name

Unknown

Notes Overview

Chapter 14 – Purchasing and Supply Management

Email

info@gimmenotes.co.z

a

School

University of South
Africa (UNISA)

MNB1601 Summary

Chapter 14 – Purchasing and Supply Management

Introduction

Consumers make purchases on a daily basis to satisfy their long-term needs, in the same way businesses need to make purchases to meet daily and long-term needs.

Buyers in a manufacturing business buy a variety of materials but are also involved in the purchase of capital goods. Buyers are expected to keep abreast of better substitute materials, new developments and technology in the market. A buyers expertise can improve the progressiveness, productivity and profitability of a business.

Organisations make different kinds of purchases, for example Eskom purchases coal, water, copper cable, poles, etc etc to produce their service. Another example would be Woolworths who would purchase merchandising and materials-handling equipment (eg shelves, trolleys, baskets, etc) .

The purpose of the purchasing and supply function is not only to provide the right materials, services and equipment, but also to ensure that they are purchased as a reasonable price and satisfy quality requirements.

The purchasing and supply should:

- Select suppliers
- Purchase and arrange for transport of materials to the business
- Decide what prices to accept
- Determine the quantity and quality of materials or services
- Expedite and receive materials
- Control warehousing and inventory-holding
- Determine the timing of purchases

The importance of the purchasing and supply function to the business

- Differs from business to business
- But in most businesses, purchasing has a influence on profit

Greatest expenditure for the business

- Purchasing costs are a business's biggest expense

Inventory-Holding

- Stock is held to prevent disruptions in the transformation process
- Aim of inventory management is to keep inventory levels as low as possible without risking an interruption in the operational process
- The reason for this is that large sums of operating capital is tied up in inventory
- If too much capital is tied-up then a business could encounter cash-flow problems
- Besides cash-flow, warehousing costs are a big cost element
- The more reliable the provision or purchase of materials is, the smaller the amount of inventory that needs to be stored

Profit leverage

- The profit-leverage effect means that if purchasing costs constitute a major portion of the total cost of a business, a saving in purchasing costs has a greater profit potential
- Effective purchasing normally has a greater profit potential in a commercial organization than in a manufacturing business
- Purchasing as a factor in profitability is also more critical when a business frequently changes its suppliers
- If the price of materials fluctuates continually, where fashion is concerned and where markets for the final product are highly competitive

Contributions to the marketing of products

- By purchasing materials of the right quality and price at the right time, a manufacturer can make final products available in the right quantities at a competitive price at the right time to its consumers
- Effective purchasing can therefore facilitate the marketing of a business's products and contribute indirectly to profit through the marketing function

The management task of the purchasing and supply manager

Purchasing and supply planning

- Means "managing the purchasing and supply function for the future"
- It entails formulating purchasing and supply objectives, which the function should strive to reach by a particular future period
- These plans should also include the optimal application of resources (people, physical facilities, funds)
- The function has the following levels:

	<u>Tactical Management Level</u>	<u>Operational Level</u>
--	----------------------------------	--------------------------

Supplier Analyses Supplier Development Supply-Chain Integration Long-Term Planning Availability Forecasting Policy Formulation In-Outsourcing Decisions	Systems Integration Negotiation Interface Development Human-Resources Development Total quality Management Contracting Cost-Reduction Techniques	Communication with suppliers Operational Staff Expediting File and System Maintenance Enquiries and Quotations Pricing Returns and Recycling
---	--	---

Organising the Purchasing and supply planning

- Four main issues that need to be addressed:
 - 1-the place of the purchasing and supply function
Affected by two elements: centralization and decentralisation
 - 2-the internal organization of the purchasing and supply function
 - 3-co-ordination with other functional management areas
 - 4-cross-functional teams

Control in the purchasing and supply function

- The management task in the purchasing and supply function, and the performance of purchasing and supply activities need to be evaluated.
 - **The Assessment of Purchasing and Supply Management**
 Evaluation may include aspects such as:
 - The leadership shown in the introduction of new ideas, systems, strategies
 - The number or percentage of purchasing contracts established
 - The knowledge and skills to lead the purchasing and supply function
 - The relationships established with strategic suppliers
 - The adequacy of performance appraisal and control systems
 - The contribution to cross-functional teams
 - The role in the establishment and management of supply chains
 - The effectiveness of the use of the total purchasing leverage of the firm
 - **The Assessment of Purchasing and Supply Activities**
 The following control points and criteria can be used to gauge the effectiveness:
 - **Price Proficiency** – *comparing actual prices with planned or market prices*
 - **Supplier Performance** – *noting rejected orders, orders received late, etc*
 - **Timeliness** – *noting the number of orders indicated as urgent*
 - **Cost-Saving** – *comparing costs with those of previous periods*
 - **Workload** – *looking at the number of orders and requisitions*
 - **Purchasing Costs** – *by expressing costs as percentages*
 - **Inventory-Holding** – *by calculating inventory turnover*
 - **Relationship Performance with Suppliers**
 - **Relationship with other functional-management areas**

Price and quality, price and time, price and choice of suppliers, and time and quantity are separately intertwined in this section.

The Purchasing Process

- A large number of SA businesses have computerized their purchasing and supply process
- Computerization expedites the process considerably and usually reduces the documentation involved
- The nine steps of the Purchasing and Supply cycle:
 - 1 – Development and Description of a need
 - 2 – Choice of Suppliers
 - 3 – Research on Prices and Availability
 - 4 – Issuing the order and concluding a contract
 - 5 – Follow-up and expediting
 - 6 – Receipts, inspection and distribution
 - 7 – Handling errors and discrepancies
 - 8 – Paying for the order
 - 9 – Closing the order

Quality Decisions as a Purchasing and Supply Activity

The Role of Quality in Purchasing

There are four main factors in each decision:

- Quality **(most important of the factors)**
- Supplier Service
- Delivery
- Price

The quality of purchased products and services rest on the following three considerations:

- 1 - Determining the right quality for a given goal
 - A buyer has a different perspective of the concept “the right quality” from the perspective of a technical person
 - From the P&S perspective, the right quality has the following definition:
The right quality is that quality that is purchased at the lowest price, which satisfies a specific need and performs the function for which it was purchased
- 2 – Description of quality
 - Specifications are the most general method of describing quality
 - Standardization is a further aid in describing quality
 - Other forms: *Market Grades
*Brands
*SABS (SA Bureau of Standards)
*Engineering Drawings
*Samples
- 3 – Control of quality

- Inspection is the normal process used to control quality

Deciding on Purchasing and supply quantities

- **Inventory Costs**

- Certain costs increase when large quantities of stock are purchased
- These fall into the following categories:
 - **Inventory-carrying costs**
Costs that involve keeping inventory, (include cost of storage, salaries of warehouse staff, insurance, property tax, etc)
 - **Inventory-ordering costs**
The costs of placing an order, (include salaries of P&S and expediting personnel, stationery, telephone, etc)
 - **Total Inventory Costs**
Consist of inventory-carrying costs and inventory-ordering costs

- **Inventory-Control Systems**

- Inventory should be controlled and managed so that optimal inventory levels can be maintained
 - **The system of fixed-order quantities**
This system is based on the principle that each time ne inventory is required, a fixed quantity (the EOQ) is ordered. **Fig 14.8 Pg 516**
 - **The cyclical-ordering system**
Each item in the inventory is checked or reviewed at fixed intervals and is supplemented by an order to bring the inventory level to its maximum level again **Fig 14.9 Pg 517**
 - **The materials-requirements planning (MRP) system**
MRP is a computer-assisted system where the aim is to maintain inventory levels. The system uses a computer to calculate the total need for materials that may be required by an operational process in a given period
 - **The just-in-time (JIT) system**
This is a production or operations-scheduling system and not an inventory system. It virtually eliminates the holding of inventory. The system works properly only if the supplier is extremely reliable and is integrated into the business's production or operations system
 - **The quick-response (QR) and automatic-replenishment (AR) systems**
QR is defined as a vertical strategy in the supply chain in which the manufacturer strives to provide products and services to its retail customers in exact quantities on a continuous basis with minimal lead times.
AR is an integral part of the QR program.
AR is defined as an exchange relationship in which the supplier replenishes or restocks inventory based upon actual product usage and stock-level information provided by the retail buyer
 - **The efficient consumer response (ECR) system**

ECR was developed for the grocery industry and based on the same principles as QR

ECR calls for the creation of a timely, accurate and paperless flow of information. It relies heavily on electronic data interchange (EDI) members

The Selection and Management of Suppliers

- **The importance of selecting the right suppliers**
 - The selection of suppliers is one of the most vital tasks of the purchasing and supply function
 - Competitive prices, reliable quality, timely deliveries, technical support and good after-sales service are determined primarily by the choice of the right supplier
- **The Selection Process**
 - Existing suppliers have to be constantly reconsidered with each new purchase
 - Past performance obviously counts a great deal
 - The process starts with the compilation of a list of suppliers that may be able to satisfy the need
 - Suppliers on the short list are then requested to give a quote or negotiations are conducted with them
 - The aim is to obtain the best value for the business
 - The final choice is based on considerations such as past performance, quality, price, delivery, technical support, progressiveness and reliability

Developing suppliers

- Suppliers may be developed for BEE or to improve their performance as a result of appraisals

Long-Term Relationships with Suppliers

- An alliance or a partnership is a high-involvement relationship
- Attributes of strategic-supplier alliances are trust and co-operation, interdependence, joint quality-improvement efforts, information sharing, risk and benefit sharing, and joint problem-solving.

SUMMARY

The P&S function is an important one for the following reasons:

- It has a significant influence on the profitability of the business
- It is often the greatest spender of business revenue
- This function makes it possible for the business to see its final products at competitive prices

The P&S function, like all other functions in the business should be planned, organized and controlled to ensure that it helps achieve the objectives of the business.

