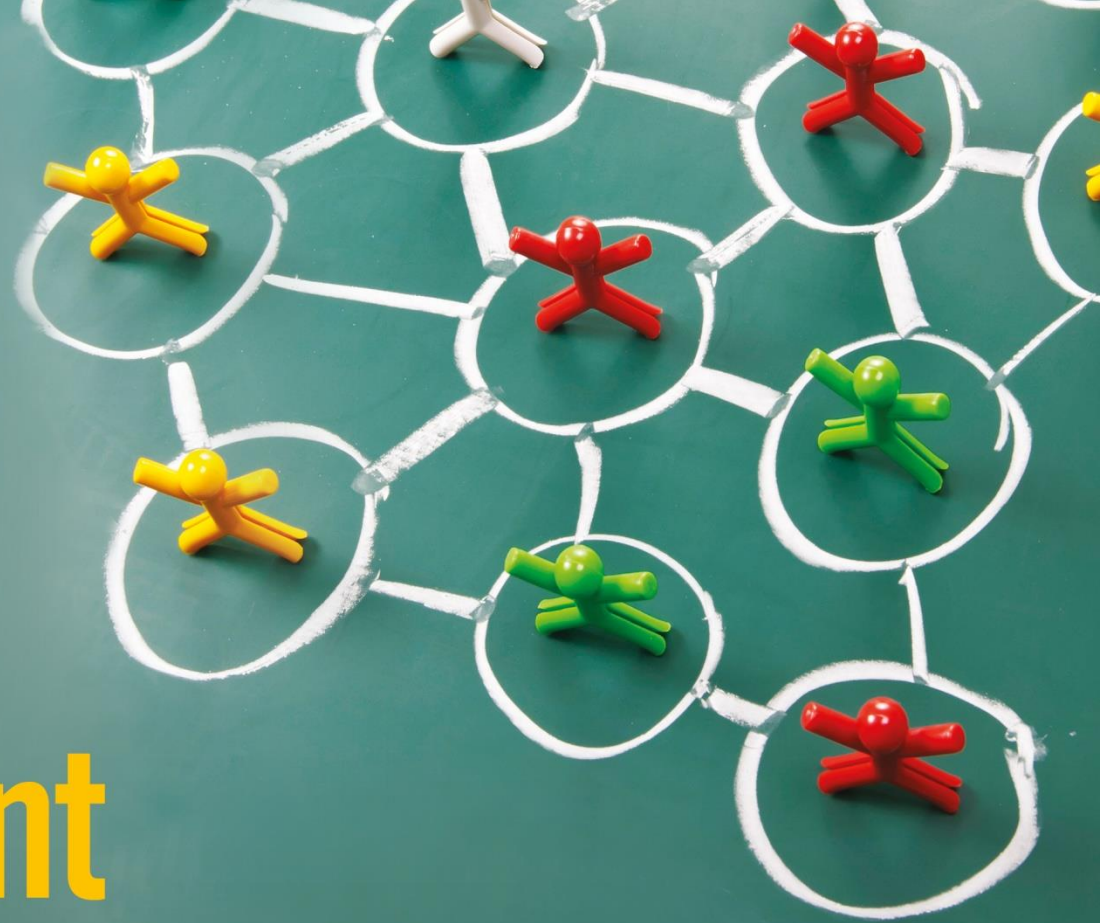


Introduction to  
**Business  
Management**

9<sup>TH</sup> EDITION

CHAPTER 15  
PURCHASING AND SUPPLY  
MANAGEMENT






# Chapter content

- Introduction
- The importance of the purchasing and supply function to the business
- The management task of the purchasing and supply manager
- Purchasing process and activities
- Summary




# Introduction

- Purchasing and supply function often underestimated
- Buyers buy variety of materials
- Expected to keep abreast of better substitute materials, market trends, seasons and state of market
- Buyers' expertise can improve progressiveness, productivity and profitability




# Introduction (continued)

- Need to ensure quality
- Purpose of purchasing and supply function is to provide right materials, services and equipment at reasonable price, to satisfy quality requirements, and to have correct quantity at right time and place



# Purchasing and supply function

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



# Greatest expenditure for the business

- Purchasing costs are business' biggest expense - represent an area where cost savings can make a vital contribution to the business profits
- Stock is held to prevent disruptions when there is interruption in the flow of material to a business – aim to keep inventory levels low without risking an interruption in the operational process



# Greatest expenditure for the business (continued)

- Profit-leverage means that purchasing costs are major portion of total cost and saving on these costs has greater profit potential than similar increase in sales
- Purchasing materials of the right quality and price at the right time can make final products available in the right quantities at a competitive price at the right time to its customers



# Purchasing and supply planning

- Purchasing and supply planning is subject to overall business planning – should be conducted in consultation with other functional areas of the business
- Planning takes place at the following levels:
  - Strategic level
  - Tactical or middle-management level
  - Operations level.
- Formulation of objectives is one of the most important planning tasks



# Levels of purchasing and supply planning

## Strategic level

- Supplier alliances
- Supplier development
- Supply-chain integration
- Long-term planning
- Availability forecasting
- Policy formulation
- In/outsourcing decisions


## Tactical management level

- Systems integration
- Negotiation
- Interface development
- Human resources development
- Total quality management
- Contracting
- Cost-reduction techniques

## Operational level

- Communication with suppliers' operational staff
- Expediting
- File and system maintenance
- Enquiries and quotations
- Pricing
- Returns and recycling

Figure 15.2: Levels of purchasing and supply planning




# Organising the purchasing and supply function

- Four main issues need to be addressed:
  - The place of the purchasing and supply function in the organisational structure
  - The internal organisation of the purchasing department
  - Coordination with other functional management areas
  - Cross-functional sourcing teams.



# Place of purchasing and supply function in organisational structure

- Place of the purchasing and supply function in the business is affected by two elements:
  - Centralisation or decentralisation
  - The hierarchical level of the purchasing and supply function in the organisational structure.



# Internal organisation of the purchasing and supply function

- Specific activities for activity groups:
  - Purchasing and negotiation
  - Follow-up and expediting
  - Administration
  - Purchasing research
  - Inventory holding



# Coordination with other functional management areas

- Coordination occurs at three levels:
  - Various purchasing and supply activities must be coordinated internally in the purchasing and supply function
  - The purchasing environment must be coordinated with purchasing and supply activities
  - The purchasing and supply function must be coordinated with other functional management areas, as well as the needs of the final consumer.




# Cross-functional sourcing teams

- Tasks of cross-functional sourcing teams include:
  - Supplier selection
  - Negotiating corporate-wide purchasing agreements
  - Developing cost-reduction strategies
  - Developing sourcing strategies
  - Developing suppliers and the evaluation of suppliers' performance.



# Control in the purchasing and supply function

- Control is essential
- Measures need to be put in place to ensure purchasing and supply objectives are pursued within acceptable and accepted standards or norms according to policy
- Specific attention should be given to the management task in the purchasing and supply function, and the performance of purchasing and supply activities



# The assessment of purchasing and supply management

- Essential that management performance be evaluated, just like other activities of the purchasing and supply function
- Management is intangible and difficult to measure quantitatively
- Use of an evaluation sheet or questionnaire can be used to assist in the assessment of management performance





# The assessment of purchasing and supply activities

- Control points used to gauge effectiveness of purchasing and supply activities:
  - Price proficiency
  - Supplier performance
  - Timeliness
  - Cost-saving
  - Workload
  - Purchasing costs
  - Inventory-holding
  - Relationship performance with suppliers
  - Relationship with other functional management areas.



# The purchasing process

- Steps of the purchasing and supply cycle:
  - Development and description of a need
  - Choice of suppliers
  - Research on prices and availability
  - Issuing the order and concluding a contract
  - Follow-up and expediting
  - Receipts, inspection and distribution
  - Handling errors and discrepancies
  - Paying for the order
  - Closing the order.



# Quality decisions - a purchasing and supply activity

- Determining the right quality:
  - Engineers and designers – technical considerations important
  - End user and/or marketing function – commercial considerations.
- Description of quality:
  - Specifications – general method of describing quality
  - Standardisation
  - Other: Market grades, brands, SABS standards, engineering drawings and samples.



# Quality decisions - a purchasing and supply activity (continued)

- Control of quality:
  - Inspection – samples of delivered materials or services are subjected to tests by quality controllers
  - Supplier certificate agreement
  - SABS – ISO 9000 to ISO 9004 and ISO 14000 international standards.



# Deciding on purchasing and supply quantities

- Need for inventory-holding
  - Helps ensure the operations process continues without interruption
  - Allows businesses to utilise cost savings through longer production runs and volume discounts
- Inventory costs
  - Inventory-carrying costs
  - Inventory-ordering costs
  - Total inventory costs



# Deciding on purchasing and supply quantities (continued)

- Inventory-control systems
  - The system of fixed order quantities
  - The cyclical-ordering system
  - The materials requirements planning (MRP) system
  - The just-in-time (JIT) system
  - The quick-response (QR) and automatic-replenishment (AR) systems
  - The efficient consumer response (ECR) system



# The selection and management of suppliers

- The selection process:
  - Compilation of a list of suppliers
  - Reduce list to a short list
  - Short list suppliers requested to give a quote or negotiations with them are started
  - Choose a supplier
  - Evaluation of supplier performance.



# The selection and management of suppliers (continued)

- Developing suppliers
  - Black economic empowerment (BEE) through purchasing
  - Materials or service not available
  - Normal performance appraisals
- Long-term relationships with suppliers





# Pricing decisions

- Price determination
  - Methods depend on nature of materials and the value of the transaction
  - Published price lists
  - Quotations
  - Tenders



# Timing of purchases

- The 'right' time to buy:
  - Ensure business is supplied on an ongoing basis
  - Reduce risk of price fluctuations
  - Keep inventory-holding at an optimal level.
- Factors influencing the scheduling of purchases:
  - Internal factors
  - External factors.



# Summary

- Purchasing and supply function important:
  - Significant influence on profitability of business
  - Greatest spender of business revenue
  - Function makes it possible for business to sell final products at competitive prices
- Should be planned, organised and controlled
- Main purchasing activities are quality, quantity, price, supplier selection and timing
- Different purchasing and supply activities do not occur in isolation, but integrated
- Integration allows system to operate as a whole