Logistics 244

Chapter 5: Sourcing Materials and Services

The topics of purchasing, procurement and strategic sourcing are all receiving considerable attention as organisations try to improve the overall efficiency and effectiveness of their supply chains.

Purchasing is the transactional function of buying products and services.

Procurement refers to the process of managing a broad range of processes that are associated with a company's need to procure goods and services that are required to manufacture a product (direct) or to operate the organisation (indirect).

Strategic sourcing is a significantly broader and more comprehensive process than the procurement process.

These terms are sometimes used interchangeably; however, it is important to consider purchasing simply as an activity, while procurement and strategic sourcing are described as processes.

Procurement Management

Procurement management is the function responsible for the interface with suppliers.

Procurement management needs to ensure that the business acquires the right quantities of goods and services at the right time, the right place, the right quality and right price, all from the right processes. All of these 'rights' are important; however, they can be in conflict with each other.

The five 'rights' of procurement can be identified as follows:

→ Quality
  - Quality refers to obtaining goods which are of satisfactory quality and fit for their purpose.

→ Quantity
  - Quantity refers to obtaining goods in sufficient quantity to meet demand and maintain service levels while minimizing excess stock holding.

→ Place
  - Place refers to having goods delivered to the appropriate delivery point, packaged and transported in such a way as to secure their safe arrival in good condition.

→ Time
  - Time refers to securing delivery of goods at the right time to meet demand, but not so early as to incur necessary inventory costs.

→ Price
  - Price refers to securing all of the above at a price which is reasonable, fair, competitive and affordable.

There are nine objectives of procurement management:

1. Improve the competitive position of the business.

The business must focus on contributing to the business objectives and strategy. This includes exploiting opportunities to enhance revenue, asset utilization, reduce costs, gain access to innovative technologies, etc.

2. Provide an uninterrupted flow of goods and services.

Continuous flow is needed to support business activities. Stock-outs can be very costly due to lost production and can cause unhappy customers.

3. Minimize inventory investment and loss of revenue.

Optimal inventory levels need to be determined and fine-tuned (cost VS stock-out situations need to be balanced).

4. Maintain and improve quality.

A certain level of quality needs to be maintained. Procurement processes are responsible to make sure all products and services that are procured meet the minimum quality requirements.

5. Find and develop the best-in-class suppliers.

The firm must find suppliers that link in with the business strategy and then develop continuous improvement programs with suppliers.

6. Standardize (where appropriate) inputs and processes.

Continuous focus leads to savings in bulk purchases, lower inventory, lower risks and administration costs.

7. Aim for the lowest total cost of ownership (TCO).

Firms must aim not only for the lowest purchase price but also the lowest total cost of ownership (TCO).

8. Achieve cooperative and productive internal relationships.

The firm needs to ensure all business functions work and coordinate with each other in the business.

9. Accomplish procurement objectives efficiently.

The firm must achieve these procurement objectives at the lowest possible operating costs.

Buy-or-Make and Insourcing-or-Outsourcing Decisions

The make/buy decision continues to be one of the key strategic issues and options confronting the supply management function. Outsourcing has become a way to:

- → Increase an organisation's flexibility to meet rapidly changing market conditions.
- → Focus on core competencies.
- → Develop a competitive advantage.

Chapter 12: Aligning Supply Chains

The SCOR reference model is founded on four distinct management processes which link together (the chain in supply-chain) seamlessly from supplier to customer. See https://goo.gl/images/7yXHiL for a visual representation of the model.

A distinguishing characteristic of successful supply chains is the ability to achieve alignment. Alignment refers to a commonality of functionality and purpose that reinforces accomplishment of supply chain goals and objectives.

Three types of alignment in supply chain management are:

→ Supply chain and organisational structures
→ Supply and demand
→ Supply chain and trading partners

Many firms have directed significant attention toward working more closely with supply chain partners, including not only customers and suppliers but also various types of logistics suppliers. A fundamental objective of effective supply chain management is to achieve integration and coordination among participants.

Aligning supply chains focuses on two highly related topics:

→ Supply chain relationships in general
  - Emphasis on the types of relationships, the process for developing and implementing successful relationships, and the need for firms to collaborate to achieve supply chain objectives.

→ Third-party logistics (3PL) industry in general
  - How firms in this industry create value for their commercial clients.

There are two types of relationships in logistics:

→ Vertical – Traditional linkages between firms in the supply chain such as retailers, distributors, manufacturers, and parts and materials suppliers.
→ Horizontal – Includes those business agreements between firms that have "parallel" position. This may also be thought of as a service agreement between two or more independent logistics provider firms.

Intensity of Involvement

The range of relationship types extends from that of a vendor to that of a strategic alliance.

Transactional (Vendor)		Collaborative (Partner)		Strategic Alliance
Little or no integration or collaboration.	→	Results for all parties that are better than would be achieved individually.	→	More strategic and highly relational.

In a more traditional 'vertical' context, a vendor is represented simply by a seller or provider or a product or service, where there is little or no integration or collaboration with the buyer or purchaser. Parties in this scenario are more at "arm's length".