



STRATEGEGIC SOURCING MANAGEMENT

MNP3701

Senior Management



Right Quantity—Right Time—Right Place



**Short
overview**

Study unit one

- **Strategic purchasing** : is the process of planning implementing evaluating and controlling strategic and operating decisions for directing all activities of the purchasing function towards opportunities consistent with the firms capabilities to achieve its long term goals
- **Supply management**: is like a management function...is the identification, acquisition, access, positioning and management of resources and related capabilities and organization needs or potentially needs in the attainment of its strategic objectives.
- **Supply chain management**: encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. It includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party services providers and customers.

Purchasing: is the systematic process of deciding what, when and how much to purchase, the act of purchasing it and the process ensuring that what is required is received on time in the quantity and quality specified.

Value chain: Interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage. A value chain typically consists of inbound distribution or logistics, manufacturing operations, outbound distribution or logistics, marketing and selling and after-sales services. These activities are supported by purchasing or procurement, research and development, human resource development and corporate infrastructure.

Reasons for the increasing importance of the purchasing function

Please note the following bullet points is not in your prescribed book. This serves as background for you to understand the importance of purchasing function.

- The globalisation of world trade and its impact on competitive advantage
- The adjustments of organisational structures to become more internationally oriented
- Rapid developments in information technology
- Increased supply risks
- The shortened life span of products
- Increasingly stringent quality specifications and control
- The recycling of material and the conservation of the environment
- Constant rises in inventory costs especially interest and transport costs

The importance of effective purchasing in an organization

- Increasing value and savings**
- Building relationships and driving innovation**
- Improving Quality and reputation**
- Reducing time to market**
- Generating Economic Impact**
- Contributing to competitive advantage**

Activities: supply chain management

- Inbound transportation
 - Quality control
 - Demand and supply planning
 - Receiving, materials handling and storage
 - Order processing
 - Production planning, scheduling and control
 - Warehousing/distribution
 - Shipping
 - Outbound transportation
 - Customer service
- Please make sure you understand the theory so that you can be able to apply it to a case study.**

DISCUSS THE ENABLERS (PILLARS) OF PURCHASING AND SUPPLY CHAIN MANAGEMENT.

- **Capable human resources**
- **Proper organizational design**
- **Real-time and shared information technology capabilities**
- **Right measures and measurement systems**
- Please note: make sure you understand the theory so that you are able to apply your knowledge of the pillars.

Objectives of purchasing

Purchasing and supply responsibilities

Improving the procure to-pay-process

Approval, contract and purchase order preparation

Types of purchases

Purchasing objectives

- **Supply continuity**
- **Manage the purchasing process efficiently and effectively**
- **Develop supply base management**
- **Develop aligned goals with internal functional stakeholders**
- **Support organizational goals and objectives**
- **Develop integrated purchasing strategies that support organizational strategies**
- **Address broad-based black economic empowerment.**

- **Make sure you understand the objectives to be able to apply it in a case study.**

• Approval, contract and purchase order preparation

After the supplier is selected there are certain steps to follow to conclude the purchasing process

- Purchase order, blanket order, material purchase release
- Receipt and inspection, material packing slip, bill of lading
- Receiving discrepancy report, invoice settlement and payment
- Record maintenance
- Manage and measure supplier performance
- Reengineer the procure to pay process

Distinguish between the various types of purchases or can asked discuss the buying of industrial products

- **Consumer products:** are goods purchased by individuals and households for personal consumption
- **Industrial products:** are purchased by organization for used in the manufacture of other products to make profits or achieve other objectives
- **Resale products:** are those purchased by organizations in order to resell them at a profit
- **Services:** include performing duties or providing space and equipment helpful to others.

Industrial products

- Raw materials
- Semi finished products and components
- Finished products
- Maintenance, repair and operating items
- Production support items
- Services
- Capital equipments
- Transportation and third-party purchasing

Improving the purchasing process

- **Online requisitioning systems from users to purchasing**
- **Procurement cards issued to users**
- **Electronic purchasing commerce through the Internet**
- **Longer-term purchase agreements**
- **Online ordering systems to suppliers**
- **Purchasing process redesign electronic data interchange**
- **Online ordering through electronic catalogues**
- **Allowing users to contact suppliers directly**
- **Make sure you understand the theory to apply your knowledge**

Integration (from the Latin *integer*, meaning whole or entire) generally means **combining parts so that they work together** or form a whole. In information technology, there are several common usages:

- 1) Integration during product development is a process in which separately produced components or subsystems are combined and problems in their interactions are addressed.
- 2) Integration is an activity by companies that specialize in bringing different manufacturers' products together into a smoothly working system.
- 3) In marketing usage, products or components said to be integrated appear to meet one or more of the following conditions:

Study unit 3
Supply management integration for
competitive advantage

- Operations
- Quality assurance
- Engineering
- Accounting and finance
- Marketing/sales
- Legal
- Environmental management, health and safety



Internal integration

External integration

Suppliers

Government

Local communities

Through collaborations

- **Collaborative buyer-seller relationships**
- Transactional
- Collaborative
- Alliance

Cross-functional sourcing teams

- Group of people with different functional specialties or multidisciplinary skills, responsible for carrying out all phases of a program or project from start to finish
- **Advantages: reduce time to complete a tasks; increased innovation; enhanced communication; better problem solving etc**
- **Disadvantages: poor decision making; negative effects on individuals members.**



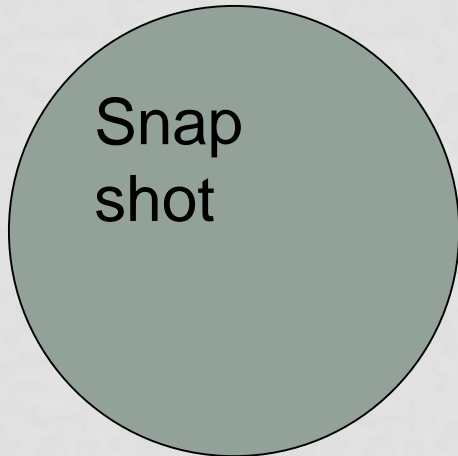
**Study unit 4
Supply
Management and
commodity
strategy
Development**

**Supply policies and strategies
(where, whom do we buy from
under which circumstances)**

Strategic sourcing matrix

With this matrix the total spending is divided into different categories according to the risks involved in the supply of the commodity based on the complexity of the commodity, the number of suppliers in the market and the amount spent on the commodity.

Total spending can be divided into four categories such as: Routine, leverage, bottleneck and critical. Important here is that in each of the categories the right supplier(s) must be found and the right relationship.



THE KRALJIC PORTFOLIO PURCHASING MODEL

HIGH	
Bottleneck products Low profit impact High supply risk High sourcing difficulty	Strategic products High profit impact High supply risk High sourcing difficulty Long-term contracts Executive visibility
Routine products Low profit impact Low supply risk Low sourcing difficulty Low level visibility Transactional focus	Leverage products High profit impact Low supply risk Medium level visibility Focus on price competitiveness
LOW	HIGH
Profit impact	

Category strategy development (strategic sourcing)

Definition:

A method of managing procurement processes for an organization in which the procedures, methods and sources are constantly re-evaluated . Strategic sourcing, which is considered a key aspect of supply chain management, involves elements such as examination of purchasing budgets, the landscape of the supply market, negotiation with suppliers, and periodic assessments of supply transactions.

The process of strategic sourcing starts with the establishment of cross-functional teams.

THE PROCESS OF STRATEGIC SOURCING STARTS WITH THE ESTABLISHMENT OF CROSS-FUNCTIONAL TEAMS.

- **5 steps:**
- **Build the team and the project contract**
- **perform market research on suppliers**
- **Strategy development**
- **Contract negotiation**
- **Supplier relationship management**

Supply management strategies (A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem. The art and science of planning and marshalling resources for their most efficient and effective use.

7 types of supply management strategies

Insourcing/outsourcing

Supply base optimisation

Supply risk management

Global sourcing

Long-term supplier relationship

Early supplier design involvement

Supplier development

Total cost of ownership



**Study unit 5
Evaluation
and
selection of
suppliers**

SUPPLIER EVALUATION AND SELECTION

- Supplier evaluation and selection is one of the most important processes performed in any organisation.
- To have the right supplier who an organisation can trust and rely on is important, because this will enable an organisation to have the product ready on time for the customer.
- **Therefore the 3 most critical factors that may have a major impact on the final supplier selection process are:**
 - Cost of price
 - Quality
 - Delivery

Supplier selection criteria

Management capability

cost structure

Employee capabilities

Total quality performance, systems and philosophy

Process and technological capability

Financial status

Systems: e commerce

Supplier's sourcing strategies, policies, and techniques

Longer-term relationship potential

Environmental issues, ethics and social responsibility

Broad-based black economic empowerment (BBBEE)

The supplier evaluation and selection process

- Recognize the need for supplier selection
- Identify key sourcing requirements
- Determine sourcing strategy
- Identify potential supply sources
- Sourcing alternatives
- Limit suppliers in selection pool
- Determine the method of supplier evaluation and selection
- Select supplier and reach agreement

Sourcing alternatives

- **Manufacturer vs distributor**
- **Local or national or international suppliers**
- **Large or small suppliers**
- **Multiple or single sourcing**

Reducing supplier evaluation and selection cycle time

- **Mapping the current supplier evaluation and selection process**
- **Integrating with internal customers**
- **Data warehouse with supplier information**
- **Third-party support**
- **New organizational design features**
- **Preferred supplier list**
- **Electronic tools**
- **Predefined contract language and shorter contracts**

Study unit 6 Supplier quality management



Confidence in a supplier's ability to deliver a good or service that will satisfy the customer's needs. Achievable through interactive relationship between the customer and the supplier, it aims at ensuring the product's 'fit' to the customer's requirements with little or no adjustment or inspection.



Factors affecting supply management's role in managing supplier quality

- The ability of a supplier to affect a buyer's total quality
- The resources available to support supplier quality management and improvement
- The ability of a buying firm to practice world-class quality
- A supplier's willingness to work jointly to improve quality
- A supplier's current quality levels
- A buyer's ability to collect and analyse quality-related data

Study unit 7

Supplier management and development: creating a world-class supply base

- **Decisions to make regarding world-class supply base**
- Reduce it
- Increase it
- Maintain it
- Keep the size, change the mix
- Expand then reduce



Supplier performance measurement

Measurement decisions: what to measure, (delivery, costs)

measurement and reporting frequency and use of measurement data

Types of supplier measurement techniques

Categorical system; weighted-point system; cost-based system

- **Advantages of a rationalized and optimized supply base**

Buying from world-class suppliers

Use of full-service suppliers

Reduction of supply base risk

Lower supply base administrative costs

Lower total product cost

Ability to pursue complex supply management strategies

RISK OF FEWER SUPPLIERS

- **Supplier dependency**
- **Absence of competition**
- **Supply disruption**
- **Overaggressive supply reduction**

Formal
approaches to
supply base
rationalization



Twenty/eighty rule
Improve or else
approach
Triage approach

Supplier development : a strategy for improvement

- Identify critical commodities for development
- Identify critical suppliers for development
- Form cross-functional development team
- Meet with supplier's top management team
- Identify opportunities and probability for improvement
- Define key metrics and cost-sharing mechanics
- Reach agreement on key projects and joint resource requirements
- Monitor status of projects' and modify strategies as appropriate.

MANAGING SUPPLY BASE RISK

- **General Categories of Risk**

- Political
- Market
- Sourcing
- Financial
- Supplier company risk

- **To overcome the above mention risks: common contingency management tools**

- Inventory
- Multiple sourcing
- Use of 3rd party intermediaries
- Scenario analysis
- Currency hedging
- Insurance
- Automated visibility and early warning systems

MANAGING SUSTAINABILITY IN THE SUPPLY BASE

- Sustainability includes : economic, social and environmental responsibilities.
- Social responsibilities – ISO 26000:2010;
 - Diversity;
 - health and safety etc.
- Environmental responsibilities – ISO 14000
 - reduce carbon footprint
 - recycling
 - environmental- friendly products, materials etc.

Study unit 8
Strategic cost
management

We will waive
the purchase price...



FREE iPad?

STRATEGIC COST MANAGEMENT

is the overall recognition of the cost relationships among the activities in the value chain, and the process of managing those cost relationships to a firm's advantage.

Price analysis (Market structure; Economic conditions etc)
Cost analysis techniques (break-even analysis)
Total cost of ownership



- Study unit 8 look at cost management

MARKET-DRIVEN PRICING MODELS

- **Price volume model**
- **Market-share model**
- **Market skimming model**
- **Revenue pricing model**
- **Promotional pricing model**
- **Competition pricing model**
- **Cash discounts**

COST ANALYSIS TECHNIQUES

- **Cost-Based Pricing models**
 1. Cost mark-up pricing models
 2. Margin pricing model
 3. Rate-of-Return pricing model

TOTAL COST OF OWNERSHIP (TCO)

- **TCO can be broken into four broad categories**
 1. Purchase price
 2. Acquisition costs
 3. Usage costs
 4. End-of-life costs

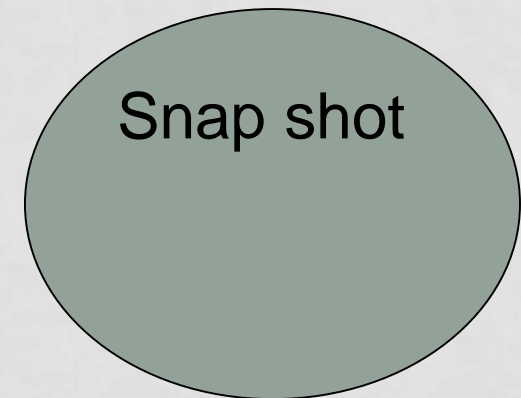
Different market forms and price determination

Pure (perfect competition) – large numbers of buyers (purchasers) and sellers (suppliers). products is homogeneous; no individual buyer or sellers can influence the prices, purchasers has no bargaining powers. Market forces of supply and demand create an optimal price. Standard products, (price lists)

Oligopoly – small numbers of suppliers, offer similar products. Price agreements are common in this market. Suppliers are limited.

Monopoly – one supplier, purchaser can negotiate for better prices. Special products – high prices.

Breakeven analysis – is usually presented graphically as a series between the manufacturing cost and the related quantities of a product manufactured and sold by a supplier.





Study unit 9
Purchasing and
supply chain analysis:
tools and techniques

HAVING THE RIGHT TOOL AND APPLYING THE RIGHT TECHNIQUE IS AN ESSENTIAL PART OF SUPPLY CHAIN MANAGEMENT

Tools

- Project management
- The learning curve
- Value analysis
- Quantity discount analysis
- Process mapping
- Value stream mapping

- Possible questions on the various tools:
- Define; When will it be used; Who will be involved.

PROJECT MANAGEMENT : THE BODY OF KNOWLEDGE CONCERNED WITH PRINCIPLES, TECHNIQUES, AND TOOLS USED IN PLANNING, CONTROL, MONITORY, AND REVIEW OF PROJECTS

- **The learning curve** – can be defined as an empirical relationship between the number of units produced and the number of labour hours required to produce them.

Value analysis: Systematic analysis that identifies and selects the best value alternatives for designs, materials, processes, and systems, It proceeds by repeatedly asking “can the cost of this item or step be reduced or eliminated, without diminishing the effectiveness,

Process mapping is a technique where a business process or workflow is converted into a visual, step-by-step diagram. Process mapping is used to better understand an existing process and to help develop a more effective one. The goal of process mapping is to improve business results.

Study unit 10

Contract management

Elements of a contract

Different types of contracts

Benefits and risks of long term contracts

Ways to settle contractual disputes



ADVANTAGES OF LONG-TERM CONTRACTS

- **Assurance of supply**
- **Access to supplier technology**
- **Access to cost/price information**
- **Volume leveraging**
- **Supplier receives better information for planning**
- **A possible questions can be list the advantages of long-term contracts or Why is it necessary to enter into long-term contractual arrangement or What is the reason behind a decision to enter into long-term contractual arrangement.**

RESOLVE DISPUTES (NON-LEGAL)

- **Negotiation**
- **Arbitration**
- **Mediation**
- **Mini-trials**
- **Rent a judge**
- **Dispute prevention**

NONTRADITIONAL CONTRACTING

- IT Systems Contracts (systems contracting risks; level of service; Price; Performance criteria; procedures; other service outsourcing contracts)
- Minority-and Women-Owned Business enterprise Contracts
- Consulting contracts
- Construction contacts



<http://go.to/funpic>

