Procurement and Supply Chain Management 8th edition Weele Solutions Manual

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Chapter 2 The procurement process

2.1 *To what extent is the procurement process model complete in your opinion? What would you like to add or change?*

A model is always a simplified representation of the complex world. This means that not all variances that exist in reality can be captured. For example, the start of the purchasing process in the model is the definition of the specification, this should be preceeded by an assessment and prioritization of business needs. There should also be a question of whether this need can be insourced or whether it should be outsourced. Therefore, some critics argue that make-or-buy should be included in the model.
Next, some critics argue that the model should follow a circular model as supplier performance should be used to qualify and select suppliers for future needs. Finally, critics argue that the repetitive character of most buying activities is not sufficiently reflected in the model. The model seems to illustrate only a one-time, new task buying situation.

2.2 *What is meant by 'procurement governance' and what is required for a company to put a proper 'procurement governance' in place?*

To prevent problems in the purchasing process, like poor administrative processes, personal relation or preferences, companies need clear rules and guidelines with regard to procurement governance. A professional administrative organization should be in place that ensures that no invoice is paid without a purchase order number. Another principle could be that, from a certain financial value, the organization commits itself to issuing three competitive bids before awarding a contract to a supplier. A third principle could be that the organization decides that a formal contract is needed before engaging in a formal relationship with a supplier and making any purchase order.

These rules and guidelines should be communicated to the supplier community with the names of the persons who will have procurement authority. Procurement authority needs to be differentiated from budget authority.

2.3 *How might a procurement manager of a manufacturer of consumer electronics, based upon the procurement process model, arrive at zero defects deliveries from the supplier to the factory*

The procurement manager should focus on clear and complete specifications as these are important inputs for any supplier. Next, the procurement manager should select suppliers who have quality as an important priority in their company policy and who have professional quality procedures in place (often evidenced by quality certificates like ISO 9000 series that they have obtained). In the contract the expectation of zero defects deliveries should be clearly stated and penalties or rewards for excellent service should be taken into account. In addition, it is important to develop and monitor KPIs in line with your business needs matched against the supplier selection criteria. These KPIs should be regularly monitored to allow for corrective action to take place in time for proactive solutions.

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2.4 *As a buyer for a do-it-yourself chain you import hand-tooling equipment from China. You desperately want to have these tools before the spring in your supermarkets. What Incoterms would you choose for your purchasing contract with the Chinese supplier and why?*

Inco terms are short for international commerce terms. They relate to several important standard conditions concerning the delivery and transportation of, and risks attached to, goods.

Depending on your own experience DDP or DDU are the preferred forms as the transport is likely to go by sea. This will mean that the supplier would organize and be liable for the entire transport. When you have little experience with arranging transport yourself this will be the preferred form.

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Instructor's Manual

Chapter 1 Introducing Procurement

Teaching Notes

Learning Objectives

The role and importance of procurement in the value chain.
The difference between concepts such as ordering, buying, purchasing, procurement, sourcing, supply chain management and value chain management, and how these are interrelated.
New developments in procurement and supply practices of organizations.

Content

- Introduction
- Case study
- The role of procurement in the value chain
- Definition of concepts
- Importance of procurement to business
- Classification of purchased goods
- Challenges and changes in procurement context
- Summary
- Assignments

Case Study

Procurement and supply chain management at Damen shipyards.

The role of procurement in the value chain

The value chain can be divided into primary activities and support activities. Primary activities are those which are directed at the physical transformation and handling of the final products, which the company delivers to its customers. Support activities enable and support the primary activities. Porter differentiates between five generic categories of primary activities: Inbound logistics, Operations, Outbound logistics, Marketing and sales, and Services. Support activities are grouped into four categories: Procurement, Technology development, Humans resources management, and Firm infrastructure.

Porter regards procurement as a support activity that should provide support to primary activities (e.g. buying materials and equipment, often referred to a production buying) and support activities (e.g. buying of office supplies and computer hardware, often referred to as non-production buying).

Definition of concepts

Procurement traditionally encompasses the operational process of buying.
However, it has evolved to a more strategic role over the past decade.
Throughout the book the definition of procurement is:

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"The management of the company's external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining andmanaging the company's primary and support activities is secured at the mostfavorable conditions covering the materials, information and money flows up tothe point of consumption."

From this definition it may be derived that the procurement function covers the following core activities:

- Assessing whether to use make Vs buy
- Determining the procurement specification
- Selecting the best possible supplier
- Preparing and conducting negotiations with suppliers in order to establish an agreement
- Placing orders with selected suppliers
- Monitoring and controlling the orders (i.e. expediting)
- Follow up and evaluation (i.e. settling claims, vendor rating, etc.).

A procurement manager should support all of these six activities. However, this does not necessarily imply that all these activities should be conducted by the procurement department. For example, the ordering activity can easily be delegated to the internal users, once there is a good contract and an automated ordering process.

In practice, as well as in the literature, many terms and concepts are used in the area of procurement: ordering, buying, purchasing, procurement, sourcing, supplier resource management, supply-chain management and value chain management.

Importance of procurement to business

On average, approximately 50% of the costs of goods sold (COGS) appear to be taken up by purchased materials and services. If the other business costs (e.g. services, office supplies, lease cars, insurances) are added, the average procurement value amounts to 60 – 80%. Through the DuPont chart the effects of purchasing savings on the company's return on investment (ROI) can be illustrated. Often a small reduction of the procurement costs result in a significant increase in the ROI. Apart from cost reductions, procurement can also improve the ROI through reducing the net capital employed (e.g. longer payment terms, inventory reduction, leasing instead of buying).

Classification of purchased goods

The procurement process may concern a large variety of goods and services. In general, purchased materials and services can be grouped into the following categories:

- Raw materials (e.g. palm oil, soya, coal, copper, coffee)
- Supplementary materials (e.g. cooling water, welding electrodes)

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- Semi-manufactured products (e.g. plastic foils, steel plate)
- Components (e.g. lamp units, batteries, engine parts, electronic parts)
- Finished products or trade items (e.g. car stereo systems, car accessories)
- Investment goods or capital equipment (e.g. machines, computers)
- Maintenance, repair and operating materials (MRO)
- Services (e.g. hiring temporary labour, cleaning, security, maintenance).

Challenges and changes in the procurement context

As a result of developments in the business context, the sourcing strategies and structures of industrial companies have undergone major changes. Several examples are presented below:

- Global sourcing: components are increasingly sourced from foreign, low-cost countries (e.g. China, Eastern Europe).
- Leveraged procurement and supply strategies: In companies with several manufacturing plants, important savings can can be realized by combining common material requirements.
- Sustainable sourcing: Corporate social responsibility and business integrity and environmental and climate related challenges are becoming more and more prevalent.National governments have become stricter in their regulations for environmentally friendly products (e.g. packaging). Procurement professionals should ensure that the products and services they buy come from sources of high integrity.
- Resource scarcity: An increase in the world population will lead to an unprecedented demand for basic resources e.g. water, agricultural land, food products, oil, gas and energy. This poses new challenges to develop a more forward outlook on how to secure the company's future requirements for critical materials and products.
- Digitalization: Linking up suppliers to the buyer's manufacturing and planning systems in order to enable for quality control, quick response logistics and just-in-time scheduling.
- Early supplier involvement in new product development aimed at speeding up innovation and reduces innovation costs.
- Cross-functional sourcing: Being able to work in cross-functional teams and having a sound technical background also become important prerequisites.

Summary

Globalization of trade, the fast development of information technology and ever-increasing consumer demands are changing the international competitive landscape. In short, procurement represents a business area which is being confronted with many changes and challenges. Without doubt these challenges will put procurement and supply chain management more in the spotlight in many organizations.

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