

TOPIC THREE: PURCHASING AND SUPPLY STRATEGIES

Purchasing strategy refers to the actions that the purchasing department may take to achieve its objective. Purchasing strategies are aligned with corporate-level strategies (strategic alignment).

Strategic purchasing is the process of planning, implementing, evaluating, and controlling strategic and operating purchasing decisions for directing all activities of the purchasing function toward opportunities consistent with the firm's capabilities to achieve its long term goals.

Purchasing Objectives include:

- ✓ To maintain the continuous and regular flow of materials to an organization to ensure operations go uninterrupted.
- ✓ Developing of internal relations with users that leads to understanding and harmony
- ✓ To buy optimum inventories to avoid high carrying costs and ordering costs
- ✓ To pay reasonably low prices for the best value obtainable through negotiation
- ✓ To keep the departments expenses as low as possible
- ✓ Development of good relationship with the existing and new suppliers
- ✓ To maintain proper and up to date records of all transactions

Companies implement Purchasing strategies in order to make cost effective purchasing decisions from a group of efficient vendors who will deliver quality goods on time and at mutually agreeable terms.

These purchasing strategies may include such choices as making procurement savings by using centralized purchasing which is concentrating the entire procurement activities within one principal location.

Other companies may decide to undertake a single source procurement strategy that involves obtaining excellent dedicated service from a single vendor.

Relationship between Purchasing and supply strategy and Corporate Strategy

Corporate strategy

Corporate strategy entails a clearly defined, long term vision that organizations sets, seeking to create corporate value and motivate the workforce to implement the proper actions to achieve customer satisfaction.

It refers the overall scope and direction of a corporation and the way in which its various business operations work together to achieve particular goals.

- ✓ Co-ordination- the purchasing department should have to integrate the purchasing strategies to fit with those of the corporate strategy.
- ✓ Monitoring and getting feedback- the top management will be checking closely to establish whether the purchasing department is fully committed to implement the strategies of the organization

- ✓ Planning- i.e. the purchasing plan must be established to suit or fit the overall corporate plan and within the set budget
- ✓ The purchasing department should have to align their strategies with the corporate strategy so as to achieve the organization objective.
- ✓ Communication- i.e. decision made at the corporate level should be cascaded down or communicated effectively to the purchasing department.

The contribution of purchasing and supply strategy to corporate strategy

- ✓ Provision of information about customers
- ✓ Provision of information about the availability of materials
- ✓ Allocation of purchasing requirements to the qualified suppliers
- ✓ Ensuring competition among the competitors
- ✓ Cost reduction within the department
- ✓ Continuous production enhancement by ensuring that materials and other requirements are readily available

Purchasing and supply strategies

- ✓ **Supplier development-** Is the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organization. Therefore, purchasing entities have to develop her suppliers so as to get substantial benefits in the long-run. They should work hand in hand with their suppliers by developing processes that assist them.
- ✓ **Supplier optimization-**i.e. the purchasing organization should choose an optimum mix of suppliers who can provide the best prices and terms. This means that the less able suppliers who cannot provide a quality service at the terms and prices required are discarded.
- ✓ **Total quality management-**i.e. the purchasing entities should choose those suppliers who embraces best practices i.e. suppliers who focus on product improvement. In this way they require suppliers or vendors to provide an ever increasing quality service with zero errors.
- ✓ **Green Purchasing-** this strategy champions the need for recycling and purchasing products that are environmentally friendly i.e. products that cannot affect the environment negatively. An entity can choose purchasing strategies that promote their procurement best practices of minimizing costs, maximizing quality and ensuring that quality products are delivered on time.
- ✓ **Supply chain management information system-** i.e. having robust and up to date information system will help the entity to get real time information from both customers and suppliers. This means that customer's orders could be filled on time to avoid any delay.
- ✓ **Partnership or collaborative relationship-** this is the commitment by both the buyer and the supplier to a long term relationship based on clear and mutually agreed objectives. In

this way the purchasing entity should develop a collaborative win-win long-term relationship rather than an arm's length or adversarial relationship

- ✓ **Cost reduction**-i.e. the purchasing function should have to ensure that the department's cost is maintained as low as possible by for instance consolidating all the orders and giving the order to a single supplier so as to enjoy economies of scale. Also they should purchase materials of the right quality, in the right quantity at the right price from the credible supplier who has a reduced lead time.
- ✓ **Lean strategy**- it refers to a systematic approach to enhancing value to the customers by identifying and eliminating waste through continuous improvement. Lean emphasizes on: utilization of resources, less space, less inventory, less money to produce products etc.
- ✓ **Agile strategy**- it aims to respond quickly to changes in demand or supply and ensure that the entity handles external disruptions. In this way it means that the entity should have to always stay a head of the competitor by responding to the customer demands on time.
- ✓ **Outsourcing**- it is a strategy in which non-core functions/activities are transferred to specialized and efficient external service providers. In this way the entity can decide to transfer non-core functions to external service providers who have specialists to perform on behalf of them so as they concentrate on their core functions.
- ✓ **Consortium or group buying**-It is an agreement in which two or more buyers agree to buy jointly. Here entities come together to buy similar products so as to leverage on negotiation and arrive at the best price through volume purchasing. It is important because when two or more entities jointly work together they will obtain substantial benefits than working independently.