PURCHASING AND SUPPLY STRATEGY (PSS)

TOPIC ONE: INTRODUCTION TO STRATEGIC MANAGEMENT

Purchasing- Refers to the buying of materials of the right quality, in the right quantity, from the right source, at the right price, delivered to the right place at the right time. It's commonly what we call 6R's of purchasing or Principles of purchasing.

Supply- Refers to the total amount of a product i.e. good or service that is available for purchase at any specified price.

Strategy- Refers as a game plan management has for positioning the company or organization in its chosen market arena, competing successfully, pleasing customers and achieving good business performance targets. In nutshell, it means putting down plans which are going to enable an organization to be able to compete in a competitive market.

Strategy can also be defined as a plan of action used to achieve an end goal or objective.

Goal and objective are both tools of accomplishment where a goal is considered to be long term while an objective is considered to be short term.

Strategy is all about defining the goals and objectives then from there u provide a means of achieving them. Strategy should be industry specific, functional, flexible and technically superior to maximize ROI.

Strategic Management- Refers to the process directed by the top management, to determine the fundamental goals or aims of the organization and ensure a range of decisions which will allow for the achievement of those goals or aims in the long-term, while providing for adoptive responses in the short term.

The top management should accomplish the following tasks:

- ✓ Analyze the opportunities and threats or constraints in the external market
- ✓ Establish the organization's mission and develop its goals.
- ✓ Analyze the organizations internal strengths and weaknesses.
- ✓ Formulate strategies at (corporate level, business level, and functional or operational level) that would match the organizational strengths and weaknesses with the environment opportunities and threats.
- ✓ Implement the strategies
- ✓ Engage in strategic control activities to ensure that the organization's goals are attained.

N/B **Strategic control-** refers to the process of monitoring as to whether various strategies adopted by the organization are helping its internal environment to be matched with the external environment.

Attributes or characteristics of an effective strategic management:

- ✓ Clear direction and purpose
- ✓ Objectives, goals, and strategic consistency
- ✓ Continuous monitoring of internal and external (environment)
- ✓ Integration of operating budget and profit plans with strategic plan
- ✓ Continuous monitoring of progress with revision of plan and programs as appropriate
- ✓ Creation of strategic atmosphere that foresters a team spirit
- ✓ Commitment of necessary resources and the development of system to provide necessary management information.

The benefits of strategic management /The Relevance of strategic Management

- ✓ Organizations that engage in strategic management generally outperform those that do not hence strategic management is critical to any organization in a working business environment.
- ✓ Strategic management helps top leadership to pursue long term revenue-generating ideas.
- ✓ It helps to tell whether the organization is achieving its profitability through the maximum use of limited resources.
- ✓ It helps to tell whether the organization's productivity is improving that's for instance the productivity of employees.
- ✓ It helps the organization to understand the competitor's strategies so that to come up with those strategies that can outperform the competitor.
- ✓ Strategic management helps create an occupational environment that allows senior management to constantly review the operating processes and making the necessary changes where appropriate.
- ✓ Shows the right direction to the organization
- ✓ Helps companies or organizations to be proactive rather than reactive
- ✓ Guides the companies to prepare and face the challenges which may occur in future
- ✓ Plays an important factor in decision making
- ✓ Make sure to fight the competitions and have long term survival assurance
- ✓ Have a competitive edge over the market
- ✓ Helps in business development and success

Disadvantages of strategic management

- **Time –** Managers sometimes so busy fire –fighting (solving short term difficulties) that there is really no time for strategic management.
- **Unrealistic expectations from managers and employees**– Even though the process of strategic management should include as many participants as possible, this is not always practically achievable.
- **The uncertain chain of implementation**– Strategic plans are formulated at higher managerial levels of the organization. This means that it usually someone else who has to implement them. It is important that there is a clear chain of implementation down to the lower levels. This can be done by identifying clear responsibility areas and outcomes.
- **Negative perception of strategic management**– Everyone in the organization should support the use and importance of strategic management especially every individual in top management. If this does not take place the organization risks a possible negative attitude from top management which would directly flow down to employees – implementation team.
- **No specific objectives and measurable outcomes**– There are no frequent measurement tools to see whether the organization is better off or not after the implementing strategies. Well formulated long term objectives and the balanced scorecard can help overcome this risk.
- **Culture of change**– Strategic management and organizational change go hand in hand. A positive culture would increase the positive acceptance of new ideas and strategies while the opposite is even more true.
- The cause for the failure of many strategies is the implementation failure.
- Company may face serious issues if there is lack of involvement of the internal people in the strategy formulation and when they are not equally taken into confidence.
- Strategic Management is an expensive process.
- Major drawback of Strategic Management is that it sometimes makes the organization over determined and resultant failure to reach the goals cause disturbance.
- Impractical strategies may lead to serious problems.
- SM is based on certain premises and if the premises do not hold valid the strategy or plans based on them would not be realistic or effective.
- SWOT analysis is an important exercise in SM, which requires lot of exercise and information. When these two are lacking the utility of the SWOT analysis is questionable and it could even lead to formulation of wrong or effective strategies.
- In SM effective implementation is vital that demands many things – resource allocation, leadership implementation, right structure and effective evaluation and control. The reason for the failure of many strategies is the implementation failure.

- ✓ A serious problem generally rising in a company if there is lack of involvement of the internal people in the strategy formulation and when they are not equally taken into confidence.
- ✓ Strategic Planning is a complex and difficult task which requires people with vision, expertise and commitment and an appropriate system
- ✓ SM is a costly exercise
- ✓ One of the most important criticisms against Strategic Management is that it sometimes makes the organization over ambitious and resultant failure to reach the goals cause frustration. Unrealistic strategies may land companies in severe problems.

The Five Stages of the Strategic Management Process

The strategic management process is more than just a set of rules to follow. It is a philosophical approach to business. Top management must think strategically first, then apply that thought to a process. The strategic management process is best implemented when everyone within the business understands the strategy.

1. ***Clarify Your Vision***

The purpose of goal-setting is to clarify the vision for your business. This stage consists of identifying three key facets: First, define both short- and long-term objectives. Second, identify the process of how to accomplish your objective. Finally, customize the process for your staff, give each person a task with which he can succeed. Keep in mind during this process your goals to be detailed, realistic and match the values of your vision. Typically, the final step in this stage is to write a mission statement that briefly communicates your goals to both your shareholders and your staff.

2. ***Gather and Analyze Information***

Analysis is a key stage because the information gained in this stage will shape the next two stages. In this stage, gather as much information and data relevant to accomplishing your vision. The focus of the analysis should be on understanding the needs of the business as a sustainable entity, its strategic direction and identifying initiatives that will help your business grow. Examine any external or internal issues that can affect your goals and objectives. Make sure to identify both the strengths and weaknesses of your organization as well as any threats and opportunities that may arise along the path.

3. ***Formulate a Strategy***

The first step in forming a strategy is to review the information gathered from completing the analysis. Determine what resources the business currently has that can help reach the defined goals and objectives. Identify any areas of which the business must seek external resources. The issues facing the company should be prioritized by their importance to your success. Once prioritized, begin formulating the strategy. Because business and economic situations are fluid, it is critical in this stage to develop alternative approaches that target each step of the plan.

4. ***Implement Your Strategy***

Successful strategy implementation is critical to the success of the business venture. This is the action stage of the strategic management process. If the overall strategy does not work with the business' current structure, a new structure should be installed at the beginning of this stage. Everyone within the organization must be made clear of their responsibilities and duties, and how that fits in with the overall goal. Additionally, any resources or funding for the venture must be secured at this point. Once the funding is in place and the employees are ready, execute the plan.

5. ***Evaluate and Control***

Strategy evaluation and control actions include performance measurements, consistent review of internal and external issues and making corrective actions when necessary. Any successful evaluation of the strategy begins with defining the parameters to be measured. These parameters should mirror the goals set in Stage 1. Determine your progress by measuring the actual results versus the plan.

Monitoring internal and external issues will also enable you to react to any substantial change in your business environment. If you determine that the strategy is not moving the company toward its goal, take corrective actions. If those actions are not successful, then repeat the strategic management process. Because internal and external issues are constantly evolving, any data gained in this stage should be retained to help with any future strategies.

NATURE OF STRATEGIC SUPPLY CHAIN MANAGEMENT

Supply Chain Strategy or Strategic Supply Chain Management is defined as: "A strategy for how the supply chain will function in its environment to meet the goals of the organization's business and organization strategies".

SUPPLY CHAIN MANAGEMENT

SCM refers to the management of activities within an organization's upstream and downstream. The objective of supply chain is to enhance value addition as well as increasing customer satisfaction.

Supply chain management operates at three levels: strategic, tactical, and operational.

- ✓ **Strategic level-** Here, company management makes high-level strategic supply chain decisions that are relevant to whole organizations. The decisions that are made with regards to the supply chain should reflect the overall corporate strategy that the organization is following.
- ✓ **Tactical level** involves a shorter planning cycle. It is more concerned demand planning, inventory planning, and supply planning.
- ✓ **Operational level** is current planning activities measured on a daily or weekly basis. It includes demand fulfillment, scheduling, production, transport, and monitoring.

The primary and overriding goal of any supply chain is to make sure a company is delivering the orders its customers want when its customers want those orders and accomplish this by spending as little money as possible. Only by lowering costs and improving performance can a supply chain be truly optimized.

When a supply chain is managed at the operational, tactical and strategic levels it has the best chance of helping its company reach its goals.

When the strategic supply chain is optimized, a company is delivering what its customers want, when its customers want it and spending as little money as possible getting that done.

Importance or Benefits of supply chain management

- ✓ Reduces inventory costs
- ✓ Provides better medium for information sharing between supply chain partners.
- ✓ Improves customer satisfaction as well as customer service
- ✓ Maintains better trust between partners
- ✓ Provides efficient manufacturing strategy

- ✓ Improves process integration
- ✓ Increases profitability as a result of increased sales.
- ✓ Improves quality

THE LEVELS OF STRATEGY

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level or operational level.

1. *Corporate Level*

At the corporate level, strategy is formulated for an organization as a whole. Corporate level strategy defines the business areas in which your firm will operate. In other words this level addresses the entire scope of the enterprise. It is the 'big picture' view of the organization and includes deciding in which product or service markets to compete and in which geographic regions to operate. Market definition is also in the domain of corporate level strategists, the responsibility for diversification, or the addition of new products or services to the existing product or service line up, also falls within corporate level strategy. Similarly whether to compete directly with other firms or to selectively establish strategic alliances falls within corporate level strategy. Corporate strategies represent the long term direction for the organization. The top management has the primary decision making responsibility in developing corporate strategies and this managers are directly responsible to shareholders.

2. ***Business Level***

At the business unit level, strategy is formulated to convert the corporate vision into reality. At the business level, the strategy formulation phase deals with positioning the business against rivals, anticipating changes in demand and technologies and adjusting the strategy to accommodate them, influencing the nature of competition through strategic actions such as vertical integration and developing and sustaining a competitive advantage for the goods and services that are produced. Control should be taken when implementing strategies at this level so as to ensure that the organization reaps maximum benefits from the strategic plan. According Michael Porter three generic strategies – cost leadership, differentiation, and focus can be implemented and controlled at the business unit level to create a competitive advantage.

3. ***Functional Level or Operational Level***

The functional level of the organization is the level of the operating divisions and departments. Functional level always relies on what corporate and business level as come up with so as to translate into action. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish in its operation in order to achieve the set targets. Functional level or operational level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, procurement and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

Summary:

Corporate Level Strategy:

- ✓ Defines the business areas in which your firm will operate.
- ✓ Involves integrating and managing the diverse businesses and realizing synergy at the corporate level.
- ✓ Top management team is responsible.

Business Level Strategy:

- ✓ Involves defining the competitive position of a strategic business unit.
- ✓ Decided upon by the heads of strategic business units and their teams.

Functional Level Strategy:

- ✓ Formulated by the functional heads along with their teams.
- ✓ Involve setting up short-term functional objectives.

The nature of strategic management

The nature of strategic management is different from other aspects of management as it demands attention to the big picture and rational assessment of the future options. It provides the following:

- ✓ A strategic direction endorsed by the team and stakeholders
- ✓ A clear business strategy and vision for the future
- ✓ A mechanism for accountability
- ✓ A framework for governance of various levels
- ✓ A framework for managing risk for ensuring business continuity
- ✓ The ability to exploit opportunity and to respond to external change of taking ongoing strategic decisions