

<p>Purchasing Operational and Strategic Contributions</p>	<ul style="list-style-type: none"> • Operational: right supplies, right place, right time • Strategic: maximize opportunity to meet end customers' needs
<p>Direct and indirect purchasing contributions</p>	<ul style="list-style-type: none"> • Direct: <ul style="list-style-type: none"> - Profit leverage effect, Additional discounts mean more profit - Return on assets, Increases ROA because reduces purchasing costs and inventory size • Indirect <ul style="list-style-type: none"> - Improved performance of others - Improved competitive position
<p>Characteristics of Integrated Strategic Procurement and Sourcing</p>	<ul style="list-style-type: none"> - Customer focused - Supplier development and evaluation - Use of technology - Benchmarking - Cross-functional and global - Highest quality and lowest cost of ownership - Leadership and strategic positioning

<p>Corporate Supply Trends</p>	<ul style="list-style-type: none"> • Unit cost control (ABC) • Reduction of total cost of acquisition • More influence and reliance on suppliers • Fewer suppliers and longer term contracts • Socially responsible purchasing • B2B E-Commerce
<p>Goals or Objectives of purchasing</p>	<p><u>Stocking</u></p> <ul style="list-style-type: none"> • Uninterrupted flow of materials, supplies and services • Low investment on inventory. • Standardize, where possible, the items bought <p><u>Better and cheaper</u></p> <ul style="list-style-type: none"> • Purchase at lowest • Low administrative costs • Maintain and improve quality <p><u>Suppliers</u></p> <ul style="list-style-type: none"> • Find or develop competent suppliers <p><u>Organization</u></p> <ul style="list-style-type: none"> • Achieve harmonious working relationships • Improve the organization's competitive position
<p>Authorities that purchasing should have</p>	<ul style="list-style-type: none"> • Supplier selection • Pricing method selection • Specifications questioning • Monitoring of contacts with potential suppliers

<p>Potential “Purchasing” Activities</p>	<ul style="list-style-type: none"> • Purchasing/buying • Purchasing research • Inventory control • Transportation • Environmental and investment recovery/disposal • Forecasting and planning • Supply chain management • Currently low purchasing involvement <ul style="list-style-type: none"> – Outsourcing and subcontracting – Nonproduction/nontraditional purchases
<p>Explain the relationship of purchasing to other areas of the organization</p>	<p>It has to fit the philosophy of the whole organization, Its status depends on type and costs of material purchased. Formal relationships must be set up throughout the organization. In larger organizations it will require more specialization</p>
<p>Features of a centralized purchasing organization</p>	<ul style="list-style-type: none"> • Specialization • Coordinated Strategy • Low cost • Critical mass

<p>Features of a Decentralized purchasing organization</p>	<ul style="list-style-type: none">• Local coordination improved• Faster response• Service customization
<p>Features of a Hybrid purchasing organization</p>	<ul style="list-style-type: none">• Best of both worlds?• Centralize cross-unit or strategic functions• Decentralize local supply
<p>Describe the types of teams found in purchasing</p>	<ul style="list-style-type: none">• Cross-functional teams• Teams with suppliers• Teams with customers• Supplier councils - key suppliers• Purchasing councils - purchasing personnel only• Consortiums

<p>What is a purchasing consortium</p>	<p>Several organizations joining for the purchase of goods and services</p>
<p>Traditional Steps in the Purchasing Process</p>	<ol style="list-style-type: none"> 1. Recognize and describe need 2. Find and evaluate suppliers 3. Determine price and terms 4. Prepare and place purchase order 5. Follow-up and/or expedite the order 6. Receive and inspect goods 7. Clear the invoice and pay the supplier 8. Maintain records and relationships 9. Identify opportunities for improvement
<p>How the purchasing approach may vary</p>	<p>Once the purchase need is identified:</p> <ul style="list-style-type: none"> - Small-Dollar Small-dollar processes is used - Value Items Approved supplier lists or Bidding Processes - Strategic Items Mid-Range Items High-level, cross-functional team may negotiate and manage purchase

<p>Purchasing Related Documents</p>	<ul style="list-style-type: none"> • Purchase Request • Request for Quotation (RFQ) <ul style="list-style-type: none"> – Small dollar items, 3 quotes (“3 bids & a buy”) • Request for Proposal (RFP) <ul style="list-style-type: none"> – Large \$ negotiable items • Invitation for Bid (IFB) <ul style="list-style-type: none"> – Large \$ bid items • Purchase Order • Packing Slip • Invoice <p>(These may or may not be on paper)</p>
<p>Minimum Information Needed for Requisitions</p>	<ul style="list-style-type: none"> • Date • Number (identification) • Originating department • Account number • Complete description of material or service and quantity • Date material or service needed • Any special shipping or service-delivery instructions • Signature of requisitioner
<p>Features of a Purchase Order</p>	<ul style="list-style-type: none"> • Written request • May have terms and conditions • Has to be accepted by vendor for contract to be valid • Vendor may provide counter offer by way of a sales order • Copies needed by purchasing, receiving, accounting etc.

<p>Some Possible Methods of Reducing Small Order Transaction Costs</p>	<ul style="list-style-type: none"> • Stockless buy and systems contracts (Personnel issue PO using special catalogs; No volume specified; suppliers maintain a inventory sometimes at the customers premises.) • Blanket P.O. (Users buy against it; suppliers provide summary billing. Open-end orders allows for addition of items and/or extension of time.) • Corporate Credit Card. (Internal customers use it to buy directly from suppliers) • On-line systems (By using EDI or Internet based electronic procurement system. Ordering and reordering occurs automatically) • Changing authority levels and bidding practices (Telephone and Fax are used for ordering) • Single sourcing • Outsourcing to a third party • Standardization. (Of items requested by each department. • Invoiceless payments (SPPO, Blank Cheque) (Blank Cheque. No backorders are allowed, the supplier writes down the amount.) • Users place orders and pay directly
<p>Methods utilized to describe a product or service needed</p>	<ul style="list-style-type: none"> • By brand • “Or Equal” • By specification <ul style="list-style-type: none"> – Physical or chemical characteristics – Material or method of manufacture – Performance or Function** • By engineering drawing • By miscellaneous methods <ul style="list-style-type: none"> – Market grades or other standards – Sample • By a combination of two or more methods
<p>Mention the four major cost categories for quality</p>	<ul style="list-style-type: none"> • Prevention costs (supplier certif.. programs) • Appraisal costs (measuring conformance) • Internal failure costs (eg: scrap, rework) • External failure costs (eg: warrantee, image)

<p>How a company can get better buying opportunities?</p>	<p>Through Standardization of products and simplification in its composition:</p>
<p>Approaches companies use to ensure supplier quality</p>	<p>Traditional approach. Competition and replacement fear among suppliers Supply chain approaches. Fewer suppliers with long term relationships. Information sharing to lower transaction costs.</p>
<p>What measures should purchasing implement to ensure supplier quality</p>	<p>Help suppliers develop Communicate needs clearly, provide feedback Measure Supplier Performance Create Improvement Targets Reward high-end performance and improvement Certify Suppliers</p>

<p>Measurement areas of purchasing performance</p>	<ul style="list-style-type: none">- Price performance- Cost effectiveness- Workload & Efficiency- End-user and supplier satisfaction- Strategic support measures
<p>Reasons to classify purchases and inventory</p>	<ul style="list-style-type: none">- Strategic importance- Financial Value- Time and Effort
<p>Classification methods for inventory</p>	<ul style="list-style-type: none">- Type, Frequency, Stock, Physical Characteristics- Monetary value (ABC Analysis)- Forms and Functions

<p>Classification of inventories by function</p>	<ul style="list-style-type: none">• Transit or pipeline inventories• Cycle inventories• Buffer or uncertainty inventories or safety stock• Anticipation or certainty inventories• Decoupling inventories
<p>Classification of inventories by its form</p>	<ul style="list-style-type: none">• Raw materials, purchased parts and packaging• Work-in-progress• Finished goods• MRO items• Resale items
<p>Inventory management approaches</p>	<p>Traditional approach using the EOQ model JIT model</p>

<p>What is JIT and are its required capabilities</p>	<ul style="list-style-type: none"> • JIT is characterized by providing the exact quantity needed at the precise moment it is required • However, to be able to support JIT firms require certain capabilities <ul style="list-style-type: none"> – short production lead times – economical small batch production – flexible resources (labour, material and equipment) – exacting quality
<p>What are the supply Managers' JIT Expectations</p>	<ul style="list-style-type: none"> • Reduction in number of suppliers • Reduction in supplier lead time • Improvement in supplier quality • Improvement in supplier delivery • Increased inventory turnover • Inventory reduction in total dollars
<p>What activities JIT imposes on suppliers</p>	<ul style="list-style-type: none"> • Frequent deliveries • Small lot sizes • Exacting quality • Long-term relationships/contracts • Reduced number of suppliers

<p>Describe the supply risk categorization</p>	<p>Non-critical - Risk: LOW Value: LOW Leverage - Risk: LOW Value: HIGH Bottleneck - Risk: LOW Value: HIGH Strategic - Risk: HIGH Value: HIGH</p>
<p>Describe the supplier evaluation process</p>	<ol style="list-style-type: none"> 1. Suppliers are obtained from directories, catalogues, internet, Prof. Contacts, sales visits. 2. An initial informal evaluation is performed 3. Executive roundtable discussions 4. Formal evaluation and rating systems (Quality, Price, Delivery, Service) 5. A supplier short list is produced.
<p>Key questions for the evaluation of potential suppliers</p>	<ol style="list-style-type: none"> 1. Can the supplier provide in the short and long term. 2. Is the supplier motivated in the short and long term

<p>What types of background evaluations are performed on potential suppliers</p>	<ol style="list-style-type: none"> 1. Technical, engineering, and operations 2. Management and financial
<p>Describe how a supplier weighted point evaluation system is implemented</p>	<ul style="list-style-type: none"> • Determine the number of suppliers you wish to evaluate • Identify factors or criteria for evaluation <ul style="list-style-type: none"> – Use both foreground and background categories • Determine the importance of each factor and provide a numerical weight • Rate each supplier on each factor and calculate total points for each supplier • Caution: use judgment, don't rely solely on the numbers
<p>Mention Arguments in Favor of Single Sourcing</p>	<ul style="list-style-type: none"> • Exclusivity, patent protection • Outstanding quality or service • Order too small to split, cost of duplication high • Discount opportunities • More attention from supplier • Easier to schedule deliveries • JIT, stockless buying or EDI arrangements • Focus on one, not many suppliers • Prerequisite to partnering

Mention Arguments in Favor of Multiple Sourcing

- Traditional practice
- Keep suppliers “on their toes”
- Assurance of supply, volatile markets
- Skill in dealing with multiple suppliers
- Avoid supplier dependence on one customer
- Flexibility, testing new suppliers
- Strategic considerations
- Government regulations
- Limited supplier capacity