PURCHASING AND SUPPLY MANAGEMENT

Although some people may view interest in the performance of the supply function as a recent phenomenon, it was recognized as an independent and important function by many of the nation’s railroad organizations well before 1900. Yet, traditionally, most firms regarded the supply function primarily as a clerical activity. However, during World War I and World War II, the success of a firm was not dependent on what it could sell, since the market was almost unlimited. Instead, the ability to obtain from suppliers the raw materials, supplies, and services needed to keep the factories and mines operating was the key determinant of organizational success. Consequently, attention was given to the organization, policies, and procedures of the supply function, and it emerged as a recognized managerial activity. During the 1950s and 1960s, supply management continued to gain stature as the number of people trained and competent to make sound supply decisions increased. Many companies elevated the chief purchasing officer to top management status, with titles such as vice president of purchasing, director of materials, or vice president of purchasing and supply. As the decade of the 1970s opened, organizations faced two vexing problems: an international shortage of almost all the basic raw materials needed to support operations and a rate of price increases far above the norm since the end of World War II. The Middle East oil embargo during the summer of 1973 intensified both the shortages and the price escalation. These developments put the spotlight directly on supply, for their performance in obtaining needed items from suppliers at realistic prices spelled the difference between success and failure. This emphasized again the crucial role played by supply and suppliers. As the decade of the 1990s unfolded, it became clear that organizations must have an efficient and effective supply function if they were to compete successfully in the global marketplace. The early 21st century has brought new challenges in the areas of sustainability, supply chain security, and risk management. In large supply organizations, supply professionals often are divided into two categories: the tacticians who handle day-to-day requirements and the strategic thinkers who possess strong analytical and planning skills and are involved in activities such as strategic sourcing. The extent to which the structure, processes, and people in a specific organization will match these trends varies from organization to organization, and from industry to industry. The future will see a gradual shift from predominantly defensive strategies, resulting from the need to change in order to remain competitive, to aggressive strategies, in which firms take an imaginative approach to achieving supply objectives to satisfy short-term and long-term organizational goals. The focus on strategy now includes an emphasis on process and knowledge management. This text discusses what organizations should do today to remain competitive as well as what strategic, integrated purchasing and supply management will focus on tomorrow. Growing management interest through necessity and improved insight into the opportunities in the supply area has resulted in a variety of organizational concepts. Terms such as purchasing, procurement, materiel, materials management, logistics, sourcing, supply management, and supply chain management are used almost interchangeably. No agreement exists on the definition of each of these terms, and managers in public and private institutions may have identical responsibilities but substantially different titles. The following definitions may be helpful in sorting out the more common understanding of the various terms.