Q1. Explain various types of purchases with appropriate examples. **(10 marks)**

Answer:

An organization's final output is the result of numerous inputs, some of which are produced on-site and the rest of which are obtained from outside sources. No company can produce all the components needed to make a product in-house. The following are some significant purchasing categories that the procurement department manages:

Raw materials: Basic components utilized in the production of finished goods, such as steel, are referred to as raw materials. Since these items are often mined (or cultivated) rather than manufactured by any vendors, the term "raw material" is used. Depending on the finished goods they produce, various organisations require various sorts of raw resources.

Example: Let's say a bakery is looking to purchase flour to make bread. In this case, flour would be considered a raw material. The bakery would need to purchase a sufficient quantity of flour to produce the amount of bread they plan to sell. They would likely purchase the flour in bulk from a supplier that specializes in selling raw materials to bakeries. The bakery would need to ensure that the flour meets their specific requirements in terms of quality, type, and price. The purchase of raw material like flour is essential to the bakery's operation, as it is a key ingredient in their product and impacts the taste, texture, and quality of their bread.

Semi-finished items: In addition to raw materials, the production of finished goods also requires a number of other components. Despite the fact that technically all of these components might be produced in-house by purchasing the necessary raw materials and capital equipment, it could not be very economical due to the absence of economies of scale and specialisation. As a result, businesses get these parts from specialised outside providers. Components like carburetors, assemblies like steering systems, sub-systems like gear boxes, etc., might all fall under this category. Semi-finished goods are often produced in accordance with the specifications provided by the purchasing organisation and are not marketed to the public as finished goods.

Some of these items might fall under the more general definition of "subcontracting," where a long-term partnership with a supplier is envisioned, with the supplier possibly devoting plants and production systems to the purchasing organisation.

Example: Furniture manufacturer is looking to purchase wooden boards to make a dining table. In this case, the wooden boards would be considered semi-finished items. The furniture manufacturer would need to purchase a sufficient quantity of wooden boards to produce the number of dining tables they plan to sell. They would likely purchase the wooden boards from a supplier that specializes in selling semi-finished items to furniture manufacturers. The wooden boards may require additional processing, such as cutting, sanding, or finishing, before they can be used to make the dining table. The furniture manufacturer would need to ensure that the wooden boards meet their specific requirements in terms of quality, size, shape, and price. The purchase of semi-finished items like wooden boards is essential to the furniture manufacturer's operation, as it is a key component in their product and impacts the overall quality and aesthetics of their dining table.

Finished goods: Included in this category are the actual finished goods intended for resale under the brand name of the purchasing organisation. 'Outsourcing contracts' are used when purchasing the final finished goods from outside vendors. In order to manufacture final goods, the vendor must receive all specifications and technologies from the procurement department. A finished product purchase would include, for instance, the purchase of heating, ventilation, and air conditioning (HvAC) equipment to provide heating and/or cooling for residential, commercial, or industrial buildings.

Example : Retailer is looking to purchase smartphones to sell in their store. In this case, the smartphones would be considered finished goods. The retailer would need to purchase a sufficient quantity of smartphones to meet the demand of their customers. They would likely purchase the smartphones from a supplier that specializes in selling finished goods to retailers. The smartphones would be ready to sell as soon as they are received by the retailer, as they have already gone through the manufacturing and assembly process. The retailer would need to ensure that the smartphones meet their specific requirements in terms of quality, brand, model, and price. The purchase of finished goods like smartphones is essential to the retailer's operation, as it is the final product that they sell to their customers and generates revenue for their business.

Maintenance, repair and Operating (MrO) items: Items that the organization needs but are not part of the finished product are referred to as maintenance, repair, and operating (MrO) items. These could be office supplies, spare machine parts for capital equipment, etc. The company may require a variety of MRO product categories. It may be difficult for the procurement department to manage the acquisition of these things in a cost-effective manner given that they are low-cost commodities that are needed in large quantities throughout the firm.

Example: manufacturing plant is looking to purchase replacement parts for their production equipment. In this case, the replacement parts would be considered MRO items. The manufacturing plant would need to purchase a sufficient quantity of replacement parts to keep their production equipment running smoothly and avoid any potential downtime. They would likely purchase the replacement parts from a supplier that specializes in selling MRO items to manufacturing plants. The replacement parts may include items such as bearings, belts, filters, and other components that wear out over time and need to be replaced. The manufacturing plant would need to ensure that the replacement parts meet their specific requirements in terms of quality, compatibility, and price. The purchase of MRO items like replacement parts is essential to the manufacturing plant's operation, as it helps to ensure that their production equipment is maintained in good working order and minimizes the risk of equipment failure or breakdown.

Q2. Discuss the process of strategic sourcing with suitable examples. **(10 marks)**

Answer:

A procurement strategy known as "strategic sourcing" entails determining the most important spend categories and creating a sourcing plan to streamline the procurement procedure. Strategic sourcing aims to reduce costs and boost supplier performance while maintaining or raising standards for quality and service.

Spend Analysis: The first step in strategic sourcing is to conduct a spend analysis to identify the total spend on steel, including the different types of steel used, the suppliers used, and the cost per unit.

Supplier Evaluation: The manufacturer will evaluate their current steel suppliers and identify potential new suppliers based on their ability to meet the manufacturer's quality standards, delivery timelines, and pricing. They may also evaluate the suppliers based on factors such as their environmental and social responsibility practices.

Request for Proposal (RFP): The manufacturer will develop an RFP that outlines their requirements for steel and invites suppliers to bid on the contract. The RFP may include specifications such as the type of steel required, the quantity needed, the delivery schedule, and any other relevant information.

Negotiation: Once the bids are received, the manufacturer will negotiate with the suppliers to determine the best price and terms for the steel. This may involve negotiating discounts for large orders, establishing minimum order quantities, or setting up a long-term contract.

Award of Contract: The manufacturer will award the contract to the supplier that offers the best value for money and meets their quality and service level requirements.

Supplier management: The manufacturer will work closely with the supplier to monitor their performance and ensure that they are meeting their contractual obligations. This includes regular performance reviews, communication on delivery timelines, and resolving any issues that may arise.

Conclusion: Through strategic sourcing, the manufacturer can achieve cost savings by leveraging their purchasing power and negotiating favorable terms with suppliers. They can also improve supplier performance by selecting suppliers that meet their quality standards and service level requirements. Additionally, they can ensure that their procurement process aligns with their environmental and social responsibility goals. In this way, strategic sourcing helps the manufacturer optimize their procurement process and achieve their business objectives.

3. Consider PQR Inc. is procuring various products for their consumption. While procuring these products they want to go with the e-sourcing process.

a. Explain various online catalogs of e-marketplaces. **(5 marks)**

Answer: Different type of catalogs in marketplaces as below

Supplier Catalogs: Many e-marketplaces offer supplier catalogs that provide information on the products and services offered by different suppliers. These catalogs can include product descriptions, pricing information, and other details that help buyers make informed purchasing decisions. For example, a buyer at PQR Inc. could browse supplier catalogs to find the best supplier for a particular product.

Marketplace Catalogs: E-marketplaces often maintain their own catalogs of products and services that are available for purchase. These catalogs can include a wide range of products from different suppliers and may be organized by category or industry. For example, a buyer at PQR Inc. could browse the marketplace catalog to find products that meet their specific needs.

Buyer-Specific Catalogs: Some e-marketplaces allow buyers to create their own catalogs of preferred suppliers and products. These catalogs can help streamline the procurement process by providing easy access to approved suppliers and products. For example, a buyer at PQR Inc. could create a catalog of approved suppliers for a specific product category, such as office supplies.

Contract Catalogs: E-marketplaces can also maintain catalogs of products and services that are covered by existing contracts. These catalogs can help ensure that buyers are purchasing products at the negotiated contract price and from approved suppliers. For example, a buyer at PQR Inc. could use a contract catalog to ensure that they are purchasing products at the contracted price.

Dynamic Catalogs: Some e-marketplaces use dynamic catalogs that update in real-time based on changes in inventory or pricing. These catalogs can help buyers find the most up-to-date information on product availability and pricing. For example, a buyer at PQR Inc. could use a dynamic catalog to find products that are currently in stock and available for immediate purchase.

Overall, online catalogs in e-marketplaces can provide buyers with a wide range of information on products and suppliers, helping them make informed purchasing decisions and streamline their procurement process.

b. Explain the process of online auctions. **(5 marks)**
Ans:

Online auctions are one kind of e-sourcing method that lets buyers request quotes from possible suppliers for a certain good or service. The stages involved in conducting an online auction are as follows:

Planning: The buyer chooses the item or service to be put up for auction and establishes the item or service's parameters, such as the amount, quality, and delivery date. The auction's guidelines, such as the beginning bid and the increment between bids, are also decided by the buyer.

Invitation to Bid: Through an online platform, the buyer extends an invitation to prospective suppliers to take part in the auction. The invitation might contain information about the auction's start and end timings, its terms and conditions, and its participation criteria.

Pre-Auction Preparation: Pre-auction planning involves reviewing the terms and conditions for the good or service to prepare potential suppliers' bids. To ascertain competitive pricing and evaluate their own cost structures, suppliers may perform market research.

Bidding: Suppliers use the internet platform to place bids during the auction. Other providers may be able to see bids, or they may be kept secret until the auction is over. The rules established by the buyer may cause the bidding price to rise or fall as the auction proceeds.

Evaluation and Award: The buyer assesses the bids at the conclusion of the auction and chooses the winning bid in accordance with the parameters established for the auction. The provider with the lowest bid may receive the contract, or the supplier who meets the other requirements, such as quality and delivery date, may also receive the contract.

Post-Auction Follow-Up: Following the auction, the buyer and supplier agree on the specifics of the contract, such as the cost, the due date, and the standards of quality. The provider may request feedback from the buyer regarding how well they performed during the auction.

Overall, online auctions can be a useful tool for buyers to solicit bids from multiple suppliers and secure the best value for a product or service. They provide a transparent and competitive bidding process and can help streamline the procurement process by reducing the time and effort required to negotiate with suppliers.