

PROCUREMENT PRINCIPLES AND PRACTICE



PCM 102

LECTURE 2:

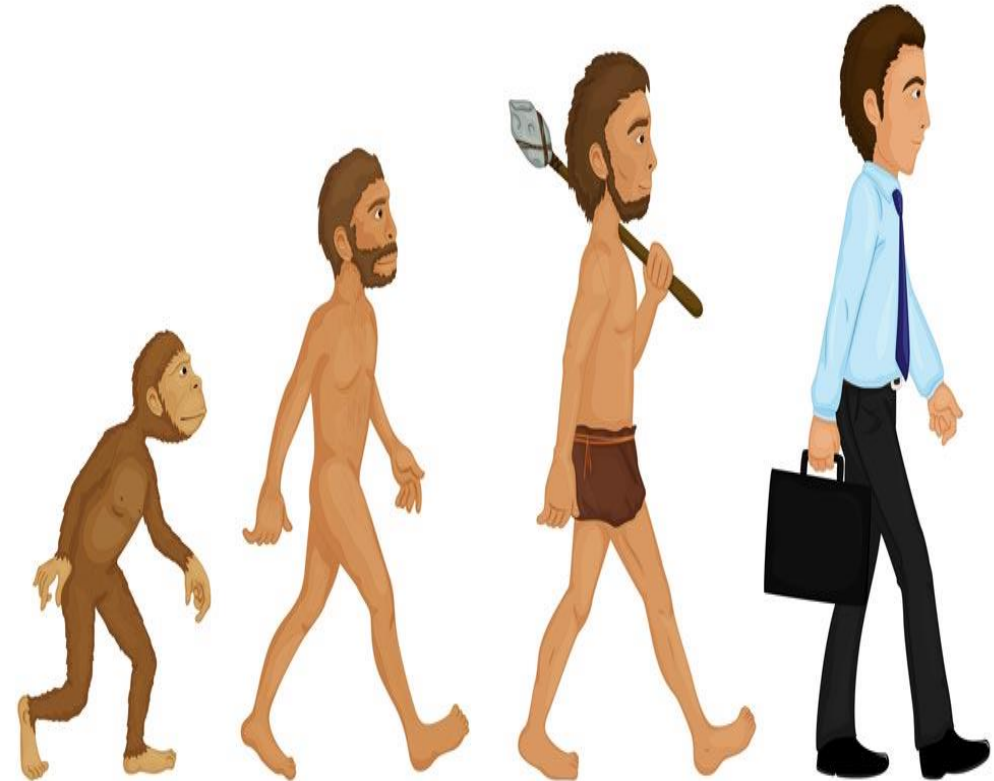
Evolution Procurement and
Supply Management

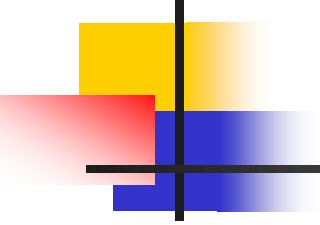
Introduction



Evolution of purchasing

- Period 1: The Early Years (1850–1900)
- Period 2: Growth of Purchasing Fundamentals (1900–1939)
- Period 3: The War Years (1940–1946)
- Period 4: The Quiet Years (1947–Mid-1960s)
- Period 5: Materials Management Comes of Age (Mid-1960s– Late 1970s)



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- Over the years, purchasing has become more strategy-oriented, rather than transactional.
 - Purchasing professionals have evolved from the processing of traditional purchase orders and similar responsibilities to involvement in higher value and higher impact



Period 1: The Early Years (1850–1900)

- The greatest interest in and development of purchasing during the early years occurred after the 1850s. During this period, the growth of American rail sector made them one of the major forces in the economy
- Major contributions to purchasing history during this period consisted of early recognition of the purchasing process and its contribution to overall company profitability.



Period 2: **Growth of Purchasing Fundamentals** **(1900–1939)**

- The second period of purchasing evolution began around the turn of the twentieth century and lasted until the beginning of World War II
- This era also witnessed the development of basic purchasing procedures and ideas
- Purchasing gained importance during World War I because of its role in obtaining vital war materials.



Period 3: The War Years (1940–1946)

- World War II introduced a new period in purchasing history.
- The emphasis on obtaining required (and scarce) materials during the war influenced a growth in purchasing interest



Period 4: The Quiet Years (1947–Mid-1960s)

- The heightened awareness of purchasing that existed during World War II did not carry over to the postwar years
- For many firms, purchases were simply an inescapable cost of doing business which no one could do much about..... John A. Hill
- “Procurement is regarded as a negative function—it can handicap the company if not done well but can make little positive contribution” - Bruce D. Henderson



Period 5: Materials Management Comes of Age (Mid-1960s– Late 1970s)


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- There was widespread agreement about the primary objective of the materials concept and the functions that might fall under the materials umbrella.
- The overall objective of materials management was to make available materials for the entire organization
- The behavior of purchasing during this period was notable. Purchasing managers emphasized multiple sourcing through competitive bid pricing and rarely viewed the supplier as a value-added partner



Period 6: The Global Era (Late 1970s–1999)

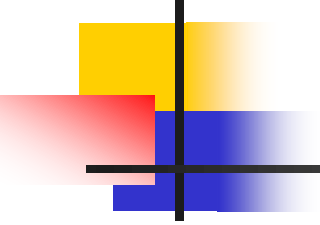
- Competition became so intense so quickly.
- Global firms increasingly captured world market share and emphasized different strategies, organizational structures, and management techniques compared with their American counterparts.
- The spread and rate of technology change during this period was unprecedented, with product life cycles becoming shorter.
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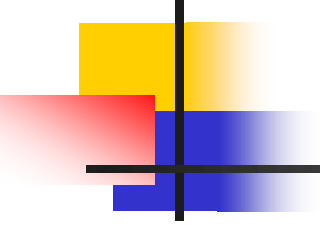
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- The ability to coordinate worldwide purchasing activity by using ICT tools emerged.
 - This intensely competitive period witnessed the growth of supply chain management.
 - Now, more than ever, firms began to take a more coordinated view of managing the flow of goods, services, funds, and information from suppliers through end customers
 - Managers began to view supply chain management as a way to satisfy intense cost and other improvement pressures



Period 7: Integrated Supply Chain Management (The Twenty- First Century)

- Purchasing and supply chain management today reflects a growing emphasis concerning the importance of suppliers.
- Supplier relationships are shifting from an adversarial approach to a more cooperative approach with selected suppliers.
- The activities that the twenty-first century purchasing organization must put in place are quite different from those of just a few years ago.

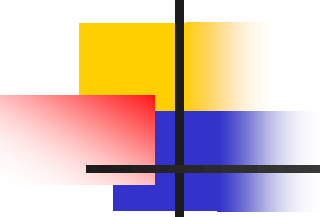
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- Supplier development, supplier design involvement, the use of full-service suppliers, total cost supplier selection, long-term supplier relationships
 - The history and evolution of purchasing and supply chain management provides an appreciation for the growth, development, and increased stature of the profession over the last 150 years.

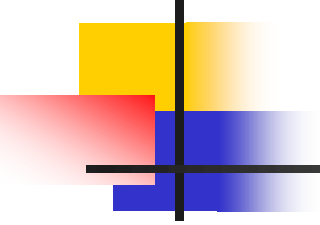
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- Each historical period has contributed something unique to the development of purchasing, including the events that have shaped today's emphasis on integrated supply chain management

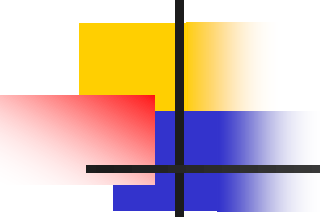


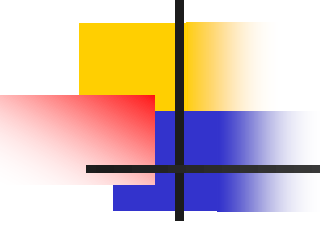
Procurement and Change

- There are a number of drivers influencing and demanding changes in procurement, including those detailed in the following sections
- **The challenge to manage escalating costs in purchasing goods and services:**
- Public procurement makes up between 50 and 70 percent of Ghana's national budget, contributing some 14 percent to the country's GDP

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- **The public sector focus on driving out inefficiencies in public expenditure**
 - The large amounts of spend in central and local government have often been tackled through the **aggregation of requirements**.
While significant improvements in procurement have been made there remain challenges to further improve value for money

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- **The increasing trend to outsource manufacture and services**
 - There has been a rapidly growing trend to outsource a wide range of manufacturing and service delivery.
 - This trend has challenged procurement departments to improve all the key areas of procurement such as the management of tender processes, due diligence, negotiation with different cultures etc

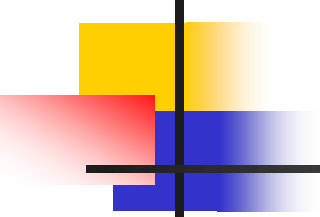
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- **The recognition that procurement is a significant contributor to corporate efficiency**
 - Enlightened organisations have recognised that procurement can contribute to corporate efficiency.
 - An example is long-range business planning which requires input on long-range costs, availability of strategic materials and supplies, supply chain developments and trends in service delivery

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- **The enhanced use of information technology and e-procurement**
 - The IT revolution has impacted on procurement. What developments lie ahead?
 - The drivers for change in procurement must surely include the objective of eradicating paper. In one procurement process each tender document weighed in excess of six kilograms
 - Example is "Ghanaeps"



Centralisation and Decentralisation of procurement

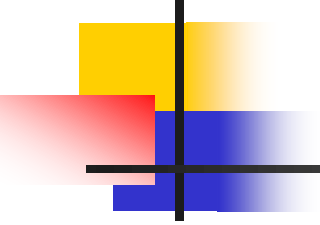
- An important organizational issues is the extent to which purchasing responsibilities should be centralized, i.e. placed in the hands of a single department reporting to a single executives.
- Centralisation: authority and responsibility for procurement decisions rest at a central office.
- Under centralized procurement: procurement decisions are made at one central point for the whole organization and material is issued to respective departments or jobs as and when needed.

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- In decentralized structure, every department makes its purchases. This also calls localized purchasing.
 - Decentralized procurement is quite flexible and can quickly adjust following the requirements of a particular division or locality



Advantages of Centralisation

- 1. A major advantages claimed for centralization of procurement is the greater specialization that is possible among purchasing staff.
- 2. A further advantages is that the requirement of different divisions can be consolidated. This reduces the frequency of very small orders for a particular material and enables buyers to obtain better prices and service.

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- 3. Greater coordination of procurement activities may result from a centralized structure.
 - For example, uniform procurement policies and procedures can be introduced and standardization is facilitated.
 - Centralisation generally enables greater standardization of procedures and specifications, avoiding 'maverick' buying and requirements



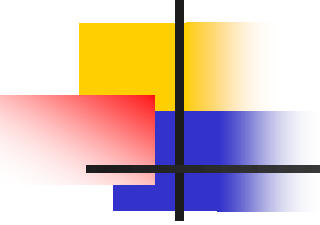
Advantages of Decentralisation

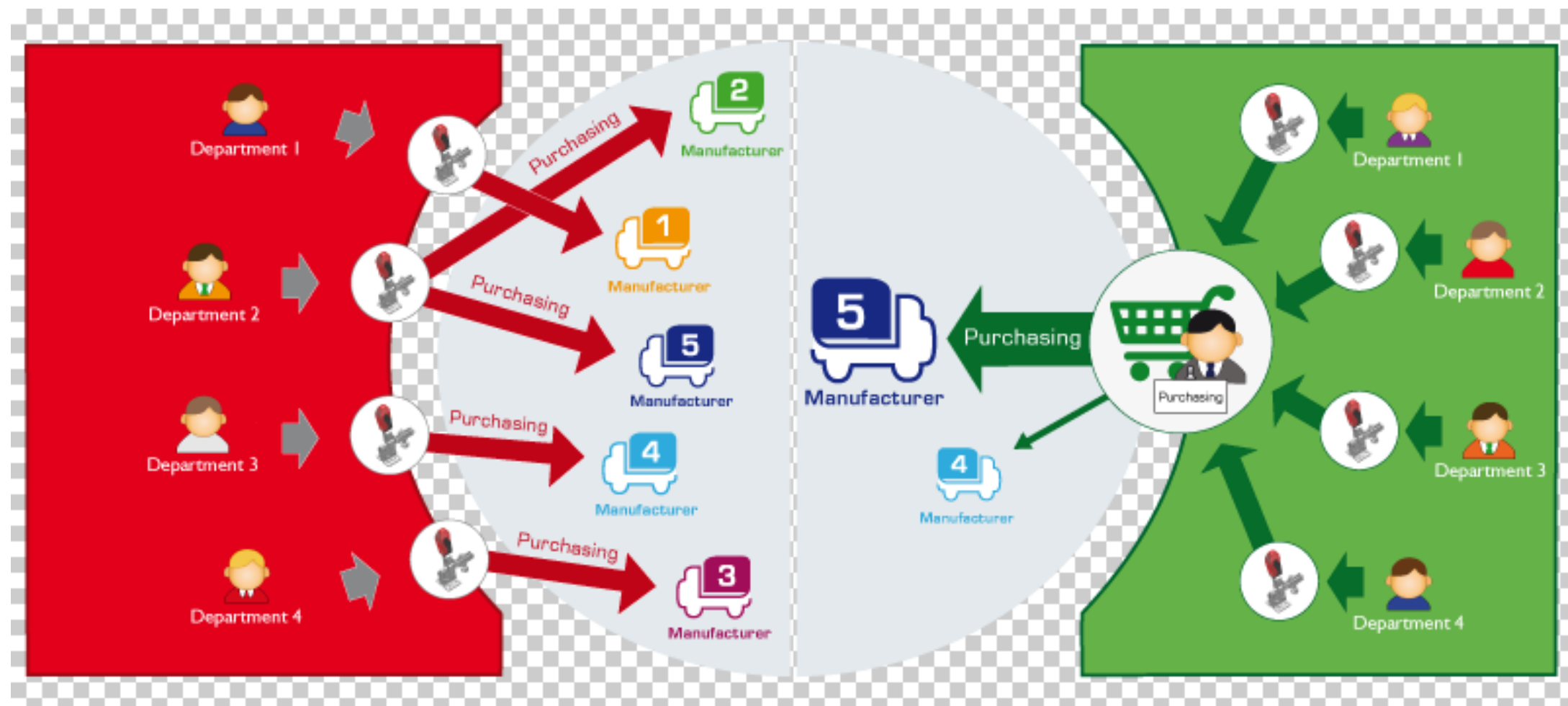
- Decentralisation maximizes coordination between purchasing and operating departments.
- Buyers are close to users and develop a close understanding of their needs and problems.
- 2. Another benefit of decentralization is that local buyers can respond more quickly to user needs
- 3. Locally based buyers also have the advantage of knowing locally based suppliers. There are great advantages, of cost, delivery times etc



Part-Time Purchasers

- The term refers to purchasing activities undertaken by people who are not members of the purchasing function, and whose main activities are nothing to do with purchasing. Reasons why part-time purchasing takes place include:
 - 1. In some organisations, part-time purchasing was a regular occurrence at a time before the introduction of a dedicated purchasing function.

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- Sometimes user departments believe themselves best qualified to make purchasing decisions.
 - This is particularly the case where the items to be purchased are very technical in nature
 - There is the phenomenon of 'maverick spending': users sometimes deliberately keep spending decisions away from the purchasing department.





Advantages of Part-Time Purchasers

- 1. In the case of routine, low-value purchases, it may be sensible to devolve responsibility to user departments. This frees up time for professional purchasers to devote to more difficult tasks.
- 2. It is no bad thing to take advantage of the technical and knowledge available at user departments. Part-time purchasing, if properly controlled, is a way of achieving this.



Disadvantages of Part-Time Purchasers

- 1. There is a high risk of committing company funds unwisely if the people responsible for spending have no professional expertise.
- 2. There is a risk that a part-time purchaser is too preoccupied with his main role to give sufficient attention to his purchasing activities.
- 3. There are serious difficulties in budgeting and controlling spend if responsibilities for purchasing are dispersed throughout the organisation