

# TU-A1100 Tuotantotalous 1

Lecture 5.9.

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# Supply chain processes

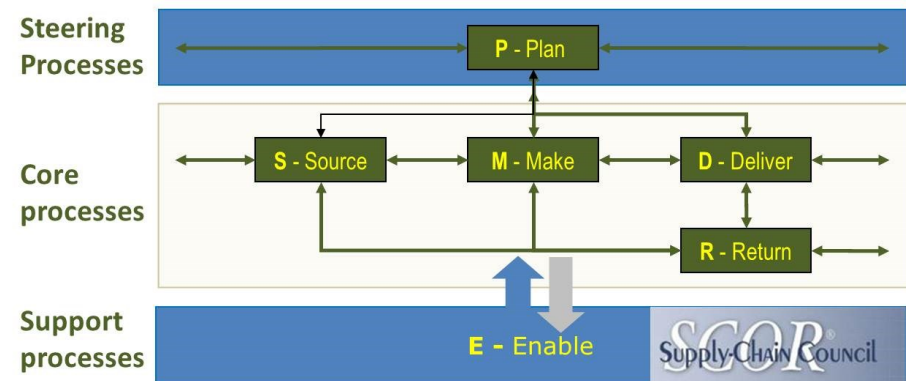
## SCOR model - Supply Chain Operations Reference model

### Sourcing

- One of the core supply chain processes

### Tasks in sourcing and purchasing

- What is needed, where it can be sourced and on what terms can it be obtained
- Orders, recalls, replenishments



# Some terms

- The terminology is not well-established
- Other relevant terms
  - Supply base
  - Supplier base
  - Supply market
  - Supplier relationship management (SRM)

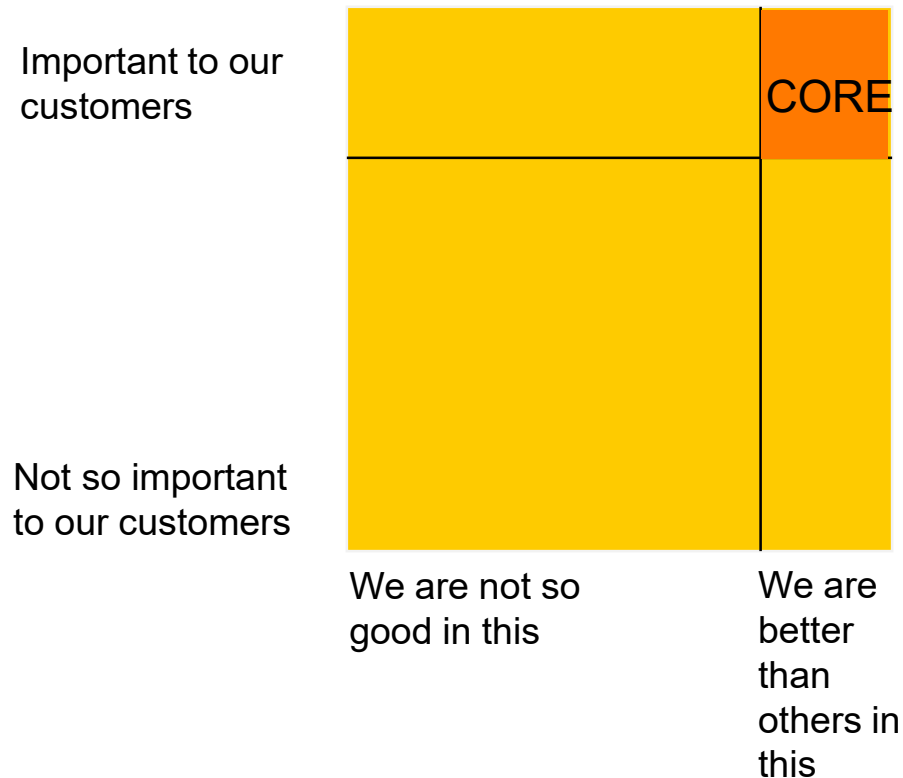


Adapted from A. Van Weele

# In which kind of world do we live now?

- Supply markets are global and rich, anything is available
  - ICT-technology enables fast search of suppliers and other partners and efficient communication
  - Logistics infrastructure and services are developed and effective
  - Competition is tense pushing the prices down
  - There is a rapid market change in many industries
- **In these conditions firms focus on core competencies and outsource everything else**

# What are core competencies?



- Skill or knowledge set, not products or functions
- Flexible, long-term platforms – capable of adaptation or evolution
- Limited in number
- Unique sources of leverage in the value chain
- Embedded in the organization's systems

Source: Quinn & Hilmer, 1994

# Today, most of the company costs are purchases

External spend in Finnish companies 2016 (% of turnover)

	Materials	Exernal services*	Other expenses**	Total ***
Industry	57,9%	7,0%	16,3%	81,2%
Construction	29,0%	28,2%	13,2%	70,4%
Trade	76,2%	2,0%	10,2%	88,3%

\*) External services are directly related to firm's production or sales (e.g. subcontracting, consulting, maintenance)

\*\*) Other expenses include e.g. rents, leasing payments, advertising and marketing expenses, administrative service charges, and telecommunications and banking services. This category may include also some expenses that are not external spend (e.g. bad debt)

\*\*\*) Excluding investments

# Critical issues in managing purchasing and supply

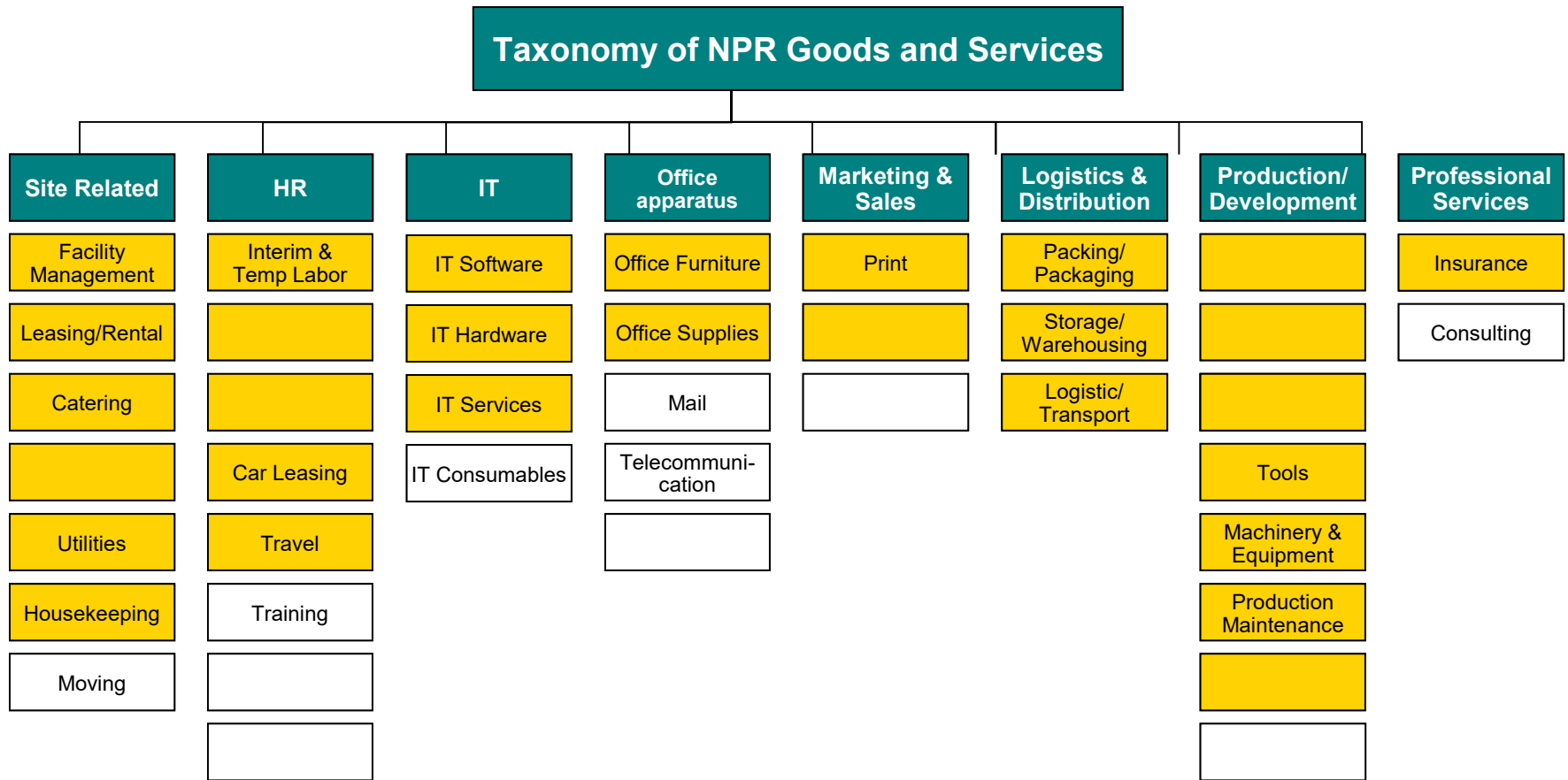
- Categorization of external spend
- Developing differentiated category strategies
- Systematic sourcing process
- Total cost thinking

# What are (purchasing) categories?

- *“a set of products and services purchased from the same supply market having similar product or service and spend characteristics”*
- Category is a group of products or services that form a manageable entity on the global business level
- Three principles of forming categories
  - Market efficiency
  - Internal efficiency
  - Supply chain efficiency



# An example indirect purchases' categorization



# The Kraljic matrix is a basic tool in category strategy process

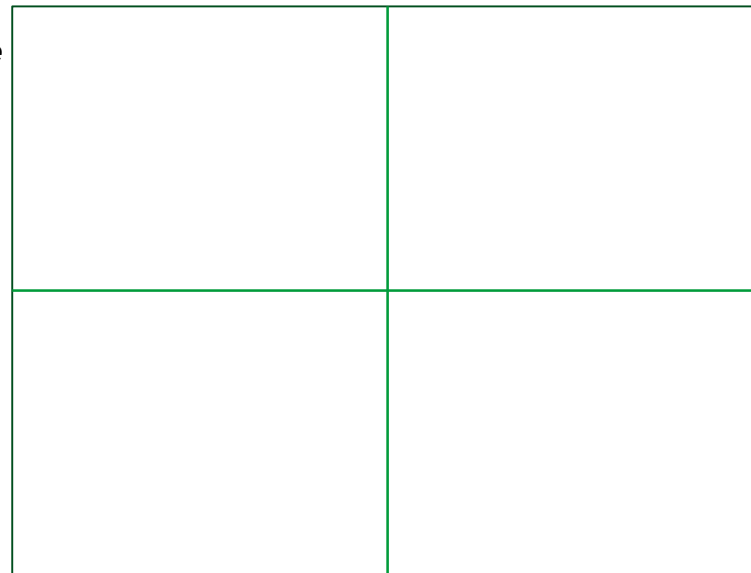
The matrix dimensions:

- What is each category's importance for the company?
- How is the supplier market by nature?

The category's impact on business

*Remarkable*

*Negligible*



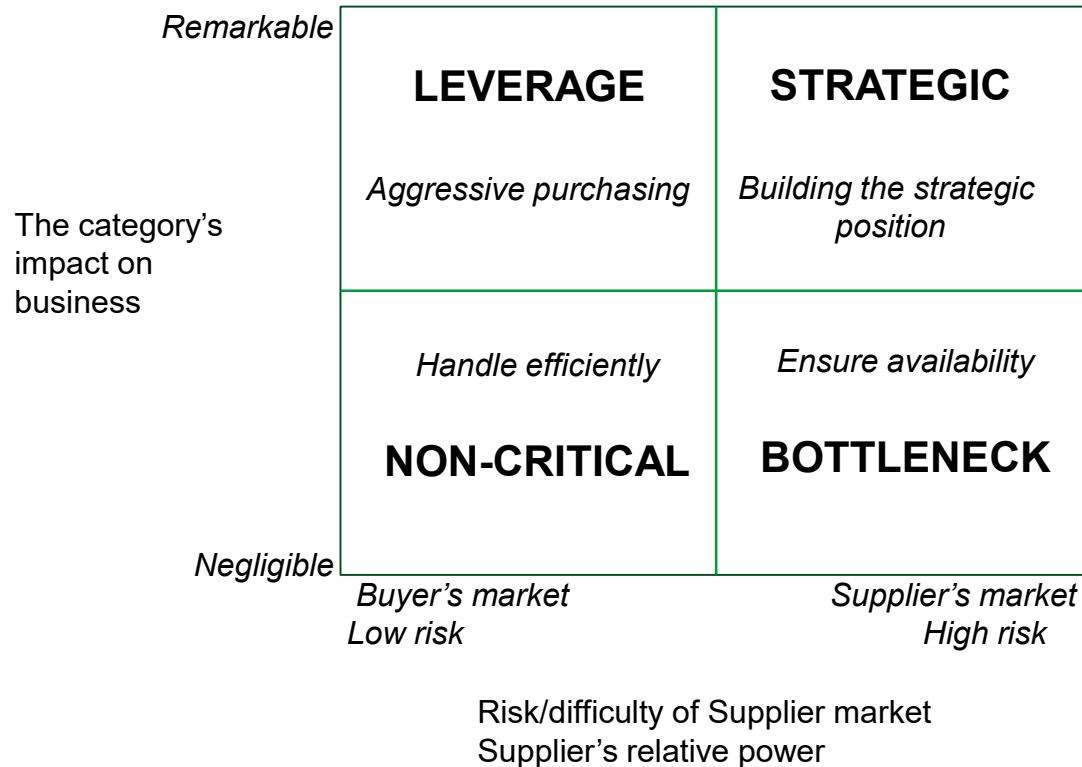
*Buyer's market  
Low risk*

*Supplier's market  
High risk*

Modified from Peter Kraljic

Risk/difficulty of Supplier market  
Supplier's relative power

# The matrix helps to define the basic approach / strategy to individual product/service categories



Modified from Peter Kraljic

# In a systematic sourcing process the suppliers are approached in three phases



## Four main goals

- Deepening knowledge of the supply markets
- Market own company to suppliers
- Develop a competitive solution
- Initiate a well-working relationship with suppliers

<b>Phases of a systematic sourcing process</b>	<b>Request for information (RFI)</b>	<b>Request for proposal (RFP)</b>	<b>Request for quotation (RFQ)</b>
<b>Objectives</b>	<p>To find out suppliers' offering and interest</p> <p>Increase buyer's attractiveness</p>	<p>Find the best solution to the need</p> <p>Increase buyer's attractiveness</p>	<p>Create competition between suppliers</p> <p>Build a basis for future collaboration</p> <p>Increase buyer's attractiveness</p>
<b>Tasks</b>	<p>Potential suppliers are asked to provide basic information about their offering, capabilities and capacity.</p> <p>Possible visits to suppliers sites</p> <p>Asses basic prerequisites for co-operation</p>	<p>Selected suppliers are asked to make proposals for fulfilling the buyers need and solving the buyers problem in the best possible way.</p> <p>Consider changing the specifications based on suppliers' proposals</p> <p>Assess in more details the suppliers' skills and capabilities, and willingness to collaborate</p>	<p>Finalize the requirement specifications for the purchase</p> <p>Invite short-listed suppliers to provide a detailed bid that meets the requirements</p> <p>Comparing the quotations from TCO perspective</p>
<b>Outcome</b>	A short-list (10-20) of qualified and interested suppliers	<p>An improved requirements specification</p> <p>A shortened list (5-8) of the most capable suppliers</p>	Obtain all information that is needed for selecting the best supplier or 2-3 best suppliers for negotiations

# Focus on total cost of ownership

- **Total cost of ownership (TCO)** is an estimate of all direct and indirect costs associated with a product/service along its lifecycle
  - **Before purchase:** costs of the acquisition process e.g. supplier search and evaluation
  - **Purchasing:** purchase price and delivery costs
  - **Use:** Costs during the use of the product or service, e.g. maintenance, energy consumption
  - **After use** → decommissioning costs (e.g. waste disposal fee)/ resale value

# Key take-aways

- Procurement is an important activity in the company's value chain
- Procurement has a big impact on firm's competitiveness and profit
- Firms should focus on their core competencies
- External spend need to be categorized to manageable units
- Purchasing categories are different and need to be managed differently
- Systematic sourcing process has three phases: RFI, RFQ, RFP
- Focus on total cost of ownership instead of just on price