
Strategic Procurement Management
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Strategic procurement management is the process of planning, implementing, evaluating, and controlling strategic and operating purchasing decisions for directing all activities of the purchasing function toward opportunities consistent with the firm's capabilities to achieve its long-term goals.

Strategic procurement is a methodology used in many organizations to realize the greatest amount of benefit to the company while still effectively managing the costs associated with the acquisition of raw materials and operational components. As opposed to tactical purchasing, which tends to see the purchasing process as somewhat distanced from other functions within the corporate structure, strategic purchasing attempts to promote the most efficient use of all materials throughout the company. The goal of strategic purchasing is to increase the bottom line of the company through the most judicious use of purchasing approaches and strategies.

One of the ways that strategic procurement takes place is through the analyzing how money is spent for purchases currently. The idea is to determine if there is any way to enhance the purchasing process through adjusting the guidelines associated with requisitioning materials or placing orders with suppliers. Often, this type of spend analysis will reveal one or two small ways to make the process more efficient and possibly save the company time and money.

Strategic procurement management also involves building rapport between purchasers and suppliers. Working together, it may be possible to streamline the advance time needed to process an order with the supplier, thus reducing the need to maintain a larger inventory. Depending on the volume of business done by the company with the supplier, it may also be possible to find ways to expedite delivery as well.

The use of strategic planning also means automating as much of the planning process as possible. Tasks that are routine can often be set up for completion by software or other automatic means. This frees purchasing agents to focus on other aspects of the purchasing process and thus increase the chances of using available resources with more efficiency.

In the end, strategic purchasing is all about redefining buying habits, processes, and behaviors so that the company enjoys the most benefit. From this perspective, strategic procurement management is not an event, but an ongoing process that involves the interaction of purchasing professionals with suppliers, and the management arm of the organization.

Strategic procurement can be approached from three main dimensions namely: Development and management of key suppliers, internal operation of procurement function and coordination of purchasing with other functions within the firm, and efforts to meet or exceed customer expectations.

It is seen as one of the critical function of an organization with the potential to; save cost, improve operational efficiency, access to trusted suppliers, and improve in quality of product or service, sharing of best practices among others (Magnus, B. 2006). The representation of the strategic procurement can be described in terms of its environment and structure, and what activities take place in the supply link. General performance indicators of the supply link in terms of time, quality, flexibility and cost are used to measure efficiency and effectiveness. The efficiency in the supply link explains how well the resources are utilized. Since resources are scarce, it is in everyone's interest in the organization to maximize the utilization of the resources. The effectiveness of the supply link explains how well the objectives are achieved (Arun, K. and Linet, O. 2005).

Tactical Procurement Management

Tactical procurement is typically a subset of activities and processes within the strategic procurement management approach. It focuses on operational purchasing requirements based on information from a limited environmental scan (Lysons and Farrington, 2006)

Tactical procurement management relates to the management of procurement activities such as drafting specification (of goods, works and services); selecting and contracting of suppliers (Obanda, 2010). It is majorly constituted of pre-procurement and actual procurement activities. The pre-procurement or pre-bidding activities are those activities performed by organizations in preparation for a given procurement. These include, needs assessment, procurement planning, drafting solicitation documents, budgeting; confirmation of funds, determining procurement method and conducting market research, among others

While actual procurement relates to those activities involving the actual contracting of a bidder. They include; conducting preliminary evaluations, financial evaluations, technical evaluation, negotiations, award of contract and debriefing unsuccessful bidders. In Uganda, the tactical procurement function is clearly documented under the PPDA Act (2003) in order for each and every public entity to follow as a mechanism of promoting compliance and effective service provision.

According to KPMG International (2012) and Hunja (2001) procurement in most public sectors organizations is largely tactical in nature, whereby the focus is normally on supplier selection and contract award (New Zealand Government, 2010). This is because the tactical procurement level is the most sensitive in the procurement process, since it is what determines the quality of a

bidder to be contracted. If the tactical procurement process is poorly managed for example, there is a high possibility of having poor services delivered and the reverse is true.

In Ugandan public procurement, the tactical procurement level is usually given high considerable attention and involvement of key stakeholders or actors as early as possible in order to ensure joint planning and implementation of required tasks. This helps minimize risks of delay, and procurement of substandard items thus effective service delivery management.

Strategic procurement management involves countering the negative effect that bar procurement operations from achieving efficiency and effectiveness in service delivery management. Such interventions majorly take a form of; collaborative business management, supplier development and market analysis (Online) forecasting in order to promote visibility and accuracy in supply chain management, hence effective service delivery and organization performance (Pay Stream Advisors, 2013).

In the private sector, because of the high desire to obtain competitiveness, strategic procurement is more rigorous in nature than the public sector. For this matter, a combination of approaches or strategies have been devised, which include, supplier development approaches, and collaborative business but also incorporating of modern business management practices such as e-Procurement. This has increased efficiency in the operations of many firms leading to improved service delivery management.

CHARACTERISTICS OF STRATEGIC PROCUREMENT MANAGEMENT

- i) **Spend Analysis:** procurement officers examine the amount of money they spend in each category of goods and services and use this analysis to identify opportunities for improvement.
- ii) **Supplier Relationship Management:** procurement officers measure supplier performance and regularly spend time meeting with their most important suppliers to implement improvements.
- iii) **Technology Implementation:** procurement officers frequently update and add technologies that measurably reduce costs, decrease cycle time, and make the purchasing process more efficient.
- iv) **Developing Project Plans:** procurement officers use project management practices to map out both recurring activities and one-time projects.
- v) **Enterprise-wide Contracts:** procurement officers consolidate spends across all parts of their organizations and enter into contracts with a limited supply base to serve the needs of the entire organization.
- vi) **Forecasting:** procurement officers regularly document changes that they foresee in price levels, availability, and markets to ensure a competitive advantage for their organizations.

- vii) **Involvement in Specification Development:** procurement officers involve themselves in the early stages of specification development, lending specialized knowledge in material availability, cost drivers, standard parts, and reliability of supply.
- viii) **Development of Productivity Tools:** procurement officers develop tools (e.g., RFP templates) so repetitive tasks can be done more quickly and error-free.
- ix) **Supplier Development:** procurement officers don't blindly accept the suppliers and products that are currently available. They work with suppliers to develop new capabilities or products that will improve cost or quality.
- x) **Work Responsibility Refinement:** procurement officers constantly identify ways to automate, delegate, or eliminate tactical, non-value-added work.

STRATEGIC PROCUREMENT MANAGEMENT TOOLS

Uganda spends over 55% of her budget on public procurement (PPDA 2012). Procurement is therefore central to achieving efficiency in public expenditure and service delivery. It is therefore imperative for procurement officers to adopt strategic procurement management tools in order to achieve the strategic outcomes (accountability of the government to public). Below are the strategic procurement management tools which can aid PDEs in decision-making

- i) **Spend analysis;** when used at a strategic level this is a powerful and invaluable tool for identifying and manipulating detailed spend data by, for example, category, provider, cost unit and time period and combinations/permutations of these. This information is the key foundation for other strategic procurement decisions such as category management, and supplier relationship management. It forms an important part of resource mapping and planning as it allows PDEs and their funding partners to identify where financial resources are being allocated currently, and commitments in the future. Spend analysis will be particularly useful if carried out regularly and the information is kept up-to-date at a management level.

Spend analysis allows PDEs to identify, for example, their key providers, key spend areas, how many providers may be delivering the same goods/services, and peaks and troughs in demand. It provides management with information on opportunities for improving value for money and potential quick wins. It is also a building block for forecasting need and spend

- ii) **Collaborative procurement;** PDEs should seek opportunities to collaborate on procurement activities at the widest possible level, internally and externally, sub-regionally, regionally or even nationally. Collaboration in this sense means working together to procure similar requirements for multiple user departments or PDEs at the same time. This will usually mean setting up a framework from which requirements can be called-off as and when necessary by any partner division/organisation.

- iii) **Procurement strategy and plan;** under this PDEs should have a corporate procurement strategy and plan produced by the Procurement Disposal Unit (PDU). This should take account of the procurement activities across the organisation and should be linked to work within needs of the user departments. The strategy would include elements such as:

- Overall aims of developing the strategy and how these will be met in broad terms
- Forecasts and priorities
- Resources and skills – what is required and how will it be made available
- Key providers and how these will be managed
- The use of e-Procurement and how this will be extended
- How developments in the market will be monitored and acted upon

The plan would support the strategy and provide timescales for significant procurements as well as detailed targets with owners and timescales. The targets should drive continuous improvement.

- iv) **Category Management;** Category Management is a process of identifying categories of goods or services and managing these as business units so that value for money is maximised. It comprises a wide number of tools and techniques. This should be carried out at a strategic level and should be repeated regularly to take account of changing priorities, demand and markets.

Categorisation will also be impacted by, for example, opportunities for collaborating with other PDEs, future business requirements, market forces and the resources available. Once the categorisation has been agreed, a wide range of tools exist to identify and deliver the best strategy for dealing with a particular category. The level of resource applied will be in line with the possible benefits that can be achieved. Challenging and managing procurement activities in this way will ensure that resources are focused where they will achieve the greatest value for money.

- v) **Supplier Relationship Management (SRM);** Supplier Relationship Management is an important element of Category Management but is worth highlighting in its own right. It should be an on-going activity applied to all current, significant suppliers

SRM recognises that different relationships will be required with different suppliers/providers. The type of relationship will depend largely on the criticality and/or value of the goods or services they supply, and factors such as the number of suppliers in the market, and the global availability of a requirement.

SRM allows procurement officers to develop strategies for dealing with suppliers to achieve on-going value for money, and reduce the risk of poor performance or non-delivery or non-availability. It allows the organisation to focus effort on the right suppliers and ensures they are not being managed by their supplier.

- vi) **Supply/Value Chain Analysis;** supply/Value Chain analysis of the parties (internal and external) i.e. the dolphin choir involved in delivering the inputs, outputs and/or outcomes associated with procurement. It is an important element of Category Management and Supplier Relationship Management. It should largely be undertaken as a one-off activity once the priority categories have been identified using Category Management. On-going reviews of progress internally and among suppliers/providers, and action plans will also be required.

Supply/Value Chain Analysis allows identification of linkages which provide value and those that pose a risk. Identifying the supply chain and working with the parties to identify areas of wasted activity, avoidable delays or unnecessary costs, as part of a wider Supplier Relationship Management approach, can greatly increase value for money by reducing costs and/or improving performance.

vii) **Competition;** competition is the process of inviting more than one potential provider to put forward a proposal and then evaluating the proposals in a fair and equitable manner. It is the opposite of single tender action where only one proposal is considered. Single tender actions should be kept to a minimum, and are usually only used for very low value procurements.

Competition provides buyers with comparative quality and cost information which allows them to make value for money decisions, and incentivises providers to put forward a more attractive proposal than if they knew that they alone were being considered.

A threat to the effectiveness of competition as a tool is the possible collusion of providers. Inviting a wider number to put forward proposals, encouraging innovative proposals and checking for any unusual trends in pricing should reduce the risk of collusion.

viii) **E-Procurement;** Electronic procurement is decreasingly being used to streamline the procurement process. Procurement officers should consider how their organisation might benefit. Developments include:

- Systems to manage the process for receiving and evaluating quotations and tenders (e-tendering)
- Systems to assist with the management of contracts
- The use of e-Auctions to identify the best price offered by suppliers¹
- Online e-Marketplaces which allow buyers and sellers to interface and do business – an example is the OPEN marketplace for use by schools.

ix) **Standard Terms and Conditions of Contract;** Most PDEs have developed standard Terms and Conditions of Contract for Goods, and for Services, which should be attached to invitations to tender. Standard Terms and Conditions of Contract greatly reduce the risk of procurement officers omitting important, core conditions, such as Intellectual Property Rights, Default, Termination, Liquidated Damages, from the final contract

x) **Framework agreements;** framework agreements are pre-tendered arrangements with a provider, or providers, by which they must deliver goods and services as and when required over a specified period. They are a very useful tool for aggregating demand and achieving economies of scale where there is a repeat requirement for a good or service, particularly where these are high value and would be above the PPDA threshold.

- xi) Preferred supplier lists;** where repeat requirements for median or low value supplies or services are expected, it may be useful to set up a list of preferred providers for use across the organisation. The list would set out potential suppliers suitable for inclusion in the competitive process. Suppliers should be assessed against open and transparent criteria before being included on the entity's list of providers. To ensure equality, a system for choosing which suppliers to compete for requirements as they arise should be set out. Also to ensure equality the organisation should not close the list to new suppliers who meet the criteria. Criteria for removing suppliers from the list should also be open and transparent.
- xii) Sustainable procurement;** this is a process whereby PDEs meet their need for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation but also to society and the economy while minimising damage to the environment. PDEs should however set out a policy on how they intend to implement sustainable procurement.

STRATEGIC PURCHASING MODELS

Purchasing portfolio models have received much attention in the recent literature about professional purchasing. One of the most famous portfolio models was introduced by Kraljic (1983). He advised managers to guard their firms against damaging supply interruptions and to deal with continuous technological change and economics growth. In his seminal paper he called attention to the need for companies to attain more effective supply management. He proclaimed that “purchasing must become supply management (Kraljic 1983, p. 109)

In his article he presents a figure in matrix format that classifies the ‘stages of purchasing sophistication’ within companies. The matrix identifies four stages:

- purchasing management;
- materials management;
- sourcing management; and
- Supply management.

Kraljic (1983, p. 111) argues that supply management is particularly relevant in the case that the supply market is complex and the importance of purchasing is high.

In the second part of his article Kraljic (1983) proposes a four-stage approach as a framework for developing supply strategies for single products or product groups. In the first stage, a company classifies all its purchased products in terms of profit impact and supply risk. Subsequently, the company weighs the bargaining power of its suppliers against its own power.

Then, the company positions the products that were identified in the first stage as strategic (high profit impact and high supply risk) in a portfolio matrix. Finally, it develops purchasing strategies and action plans for these strategic products, depending on its own strength and the strength of the supply market

Three general purchasing strategies are recommended: exploit (in case of buyer dominance), balance (in case of a balanced relationship), and diversify (in case of supplier dominance). It

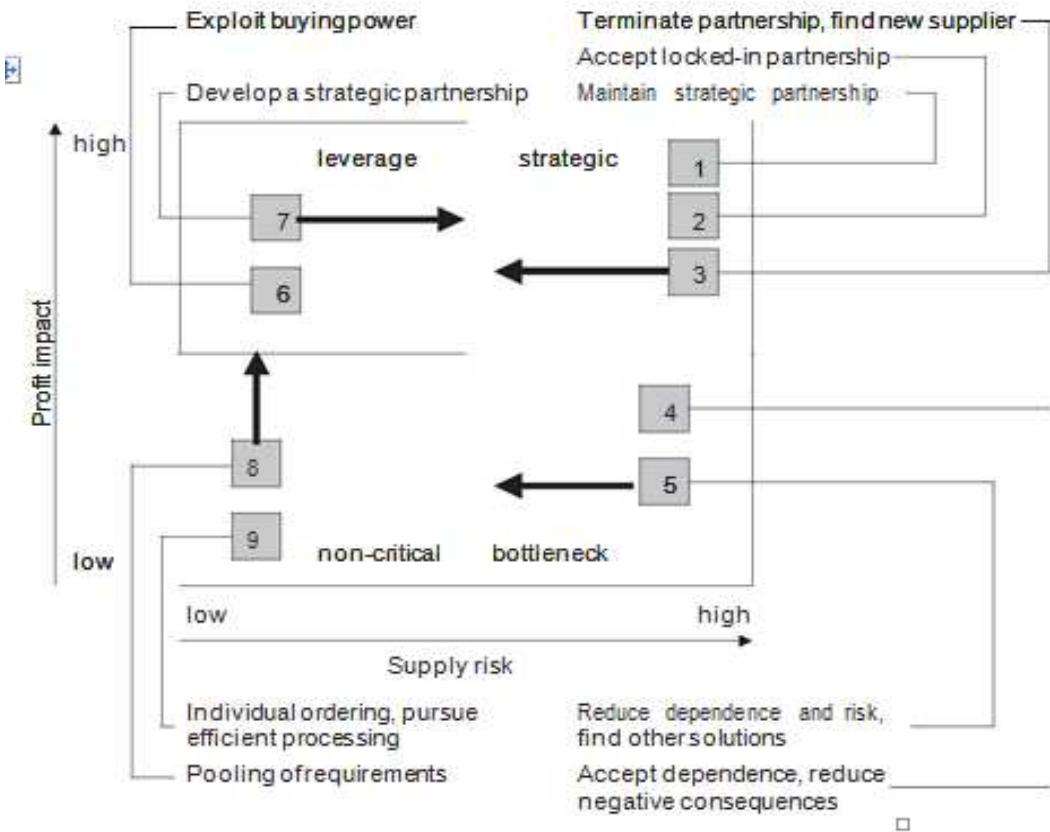
should be noted that Kraljic focuses on strategic products, for the other item categories Kraljic merely formulated a number of ‘main tasks’. Other scholars have filled this gap (e.g. Van Weele, 2000; Syson, 1992; Elliott-Shircore and Steele, 1985). They have refined the ‘matrix’ and elaborated on the ‘main tasks’ for bottleneck, non-critical and leverage items. In addition, they have formulated strategic recommendations, resulting in an overall purchasing strategy recommendation for each portfolio quadrant as shown in the table below;

The Kraljic purchasing portfolio model (modified from Kraljic, 1983, p. 111)

Profit impact	Supply risk	
	Low	High
High	Leverage items Exploit purchasing power	Strategic items Form partnerships
Low	Non-critical items Ensure efficient processing	Bottleneck items Assure supply

This matrix is commonly referred to as Kraljic’s portfolio matrix (e.g. Olsen and Ellram, 1997; Lilliecreutz and Ydreskog, 1999; Van Weele, 2000; Gelderman, 2003). With the help of this matrix, professional purchasers can differentiate between the various supplier relations and choose strategies that are appropriate for each category and thereby effectively manage suppliers (Nellore and Soderquist, 2000).

Overview of purchasing strategies for all portfolio quadrants



STRATEGIC PURCHASING STRATEGIES FOR DIFFERENT PRODUCTS

a) Strategic items

These products represent a considerable value to the organization in terms of a large impact on profit and a high supply risk. Examples are engines and gearboxes for automobile manufacturers, turbines for the chemical industry and bottling equipment for breweries. Often strategic products can only be purchased from one supplier (single source), causing a significant supply risk. The recommended purchasing strategies for strategic items are;

- Maintain strategic partnership;* In order to counter-balance the supply risk, firms will aim at building a partnership relationship with its supplier (Elliott-Shir-core and Steele, 1985). The mutual trust and commitment that is associated with an intensified relationship is likely to reduce the supply risk to a minimum. A close and lasting co-operation with suppliers will lead to improvements in product quality, delivery reliability, lead times, product development, product design, and it will result in cost reduction (Tuten and Urban, 2001; Hadeler and Evans, 1994). This situation can be characterized as one with balanced power. Buyers and suppliers are both heavily involved in the partnership; therefore mutual dependence is expected to be high. Total interdependence is high as well, since the relationship is very intense.

- ii) *Accept a locked-in partnership:* This strategy often occurs when the buyer is subject to unfavorable conditions of the supplier and is unable to pull out of the situation. The locked in position might be caused by the fact that the supplier holds the patent to a certain product and therefore has monopoly power to some extent. This situation can be characterized as one dominated by the supplier.
- iii) *Terminate a partnership;* this strategy is employed when a supplier's performance has become unacceptable and incorrigible. The buyer will try to reduce his dependence on the supplier. One way of achieving this is to search for alternative suppliers. In this situation the buyer still depends on the supplier, so we expect to find supplier dominance, although to a lesser extent than when the lock-in partnership is accepted. Also the involvement of both parties in the relationship is expected to be the lowest in this situation compared to the ones described above, leading to the lowest total interdependence.

b) **Bottleneck items**

These products have a moderate influence on the financial results of a firm; however, they are vulnerable with regard to their supply. Suppliers have a dominant power position for these products (Kempeners and van Weele, 1997). The purchasing strategy that is commonly recommended for these products is; primarily based on acceptance of the dependence and reduction of the negative effects of the unfavorable position. An alternative strategy suggested by purchasing practitioners is to find other suppliers and move towards the non-critical quad-rant.

- i) *Accept dependence, reduce negative consequences:* The main focus of this strategy is to assure supply, if necessary even at additional cost. Examples of this strategy are keeping extra stocks of the materials concerned or developing consigned stock agreements with suppliers. By performing a risk analysis firms can identify the most important bottleneck products and consider the implications. A possible action for dealing with unexpected bad dependence positions for certain products is to employ contingency planning.
- ii) *Reduce dependence and risk, find other solutions:* This strategy is geared towards reducing the dependence on the supplier. The most common way to achieve this is to broaden the specifications of the product or to search for new suppliers.

c) **Leverage items**

In general, leverage products can be obtained from various suppliers. These products represent a relatively large share of the end product's cost price in combination with a relatively low supply risk. The buyer has many possibilities and incentives for negotiation, since small percentages of cost savings usually involve large sums of money (Olsen and Ellram, 1997). At the same time the supply risk is minimal. These characteristics justify an aggressive approach to the supply market (e.g. Van Weele, 2000). Frequently, a purchasing strategy directed towards exploitation of the buying power is pursued. Practitioners also identify an additional strategy in this quadrant, which is intended to change the current situation: develop a strategic partnership.

- i) *Exploit buying power*: In this strategy the firm pursues competitive bidding. Since suppliers and products are interchangeable, there is no need for long-term supply contracts. In general, a coordinated purchasing approach is adopted that has the form of a centrally negotiated umbrella agreement with preferred suppliers. Call-off orders are then placed as an administrative formality. The buying power is actively used to get better deals with interchangeable suppliers. This scenario is therefore characterized by buyer dominance
- ii) *Develop a strategic partnership*: In a few cases practitioners choose to abandon the leverage position and opt for a strategic partnership with a supplier. This cooperative strategy is only pursued when the supplier is willing and able to contribute to the competitive advantage of the buyer's firm. Hence, this role is only attainable for technologically advanced suppliers. In this scenario we expect to find a balanced power position between the buyer and supplier.

d) **Non-critical items**

These products usually have a small value per unit. In addition, many alternative suppliers can be found. From a purchasing point of view, these items cause only few technical or commercial problems. As a rule of thumb routine products require 80% of the purchasing department's time, while they often represent less than 20% of the purchasing turnover. In general, in this situation purchasers are advised to pool purchasing requirements. In addition Gelderman and Van Weele (2003) identify the strategy of individual ordering and pursue of efficient processing.

- i) *Pool purchasing requirements*; the handling of non-critical products requires a purchasing strategy aimed at reducing the logistic and administrative complexity. A system contracting is generally advised as the way of doing business with suppliers of routine products. The main idea is to enhance purchasing power by standardization and bundling of purchasing requirements.
- ii) *Individual ordering, efficient processing*; whenever it is not possible to pool the purchasing requirements, professional purchasers adopt some kind of individual ordering, for instance by means of a purchase card. This strategy is aimed at reducing the indirect purchasing costs that are associated with administrative activities, such as ordering and invoicing.