

# ***Introduction to Purchasing and Supply Chain Management***

## **Chapter 1**



**CENGAGE LEARNING**  
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# *A case for today's lecture*

In 2020, Apple delayed the launch of the **iPhone 12** by several weeks. The reason?

A shortage of semiconductor components from their suppliers in Asia. This single purchasing and sourcing problem cost Apple a millions in lost revenue and damaged customer excitement.

Today, we will learn how purchasing decisions—and supplier management—can make or break a company. This is not <sub>2</sub>a back-office function. This is a strategy.

# *Chapter Overview*

- A new competitive environment
- Why purchasing is important
- Understanding the language of purchasing and supply chain management
- The supply chain umbrella

# *Learning outcomes*

- Four enablers of purchasing and supply chain management
- The evolution of purchasing and supply chain management
- Looking ahead

# *A New Competitive Environment*

- Increasing numbers of world-class competitors
- Sophisticated customer base
  - More performance at a lower cost
- Widely available information sources
- Balance of power between buyers and suppliers
- Greater outsourcing

# *Factors Driving SCM*

- Low cost and wide availability of **information** more closely links the members of a supply chain
- **Competition** in domestic and international markets requires quickness, agility, and flexibility

# *Factors Driving SCM*

- **Customer** expectations and requirements are more demanding
- Major **disruptions** require the ability of a supply chain to react rapidly
- Competition between supply chains, not just companies

# *Why Purchasing Is Important*

- Purchased content is a significant part of the cost of goods sold ( $\geq 55\%$ )-APQC
- Move from traditional, adversarial buyer-supplier relations to improve supply chain performance
- Purchased content's impact on product and service quality



# ***Why Purchasing Is Important***

- Participation in product and process design
- Use of cross-functional teams
- Early supplier involvement
- The supply chain's impact on competitive advantage

# *Language of Purchasing and SCM*

- Are supply chains and value chains the same?
- What is supply chain management?
- What is an extended enterprise?

# *Purchasing*

- A functional group (i.e., a formal entity on the organization chart) as well as a functional activity (i.e., buying goods and services)
- Aka as procurement

# *Open Discussion Question*

"Let's Discuss: What Can Go Wrong in Purchasing?"

"You are a procurement manager at a Saudi manufacturing company. You must source a critical component from suppliers. What are the top 3 risks you face if you manage purchasing poorly?"

*Instructions:* "Take 5 minutes. Work in pairs. Think about real risks: cost, quality, delivery, supplier reliability, geopolitical issues, currency risk, anything. Write them down. After 5 minutes, we will hear from each group."

# *Expected Answers*

- Overpaying for materials → profit margins shrink
- Poor supplier quality → defective products → customer complaints
- Late deliveries → production stops → missed deadlines
- Single supplier dependency → blackmail or failure = business stops
- Unethical suppliers → legal and reputational damage
- Currency fluctuations → unexpected cost increases
- Geopolitical disruptions → supply interrupted

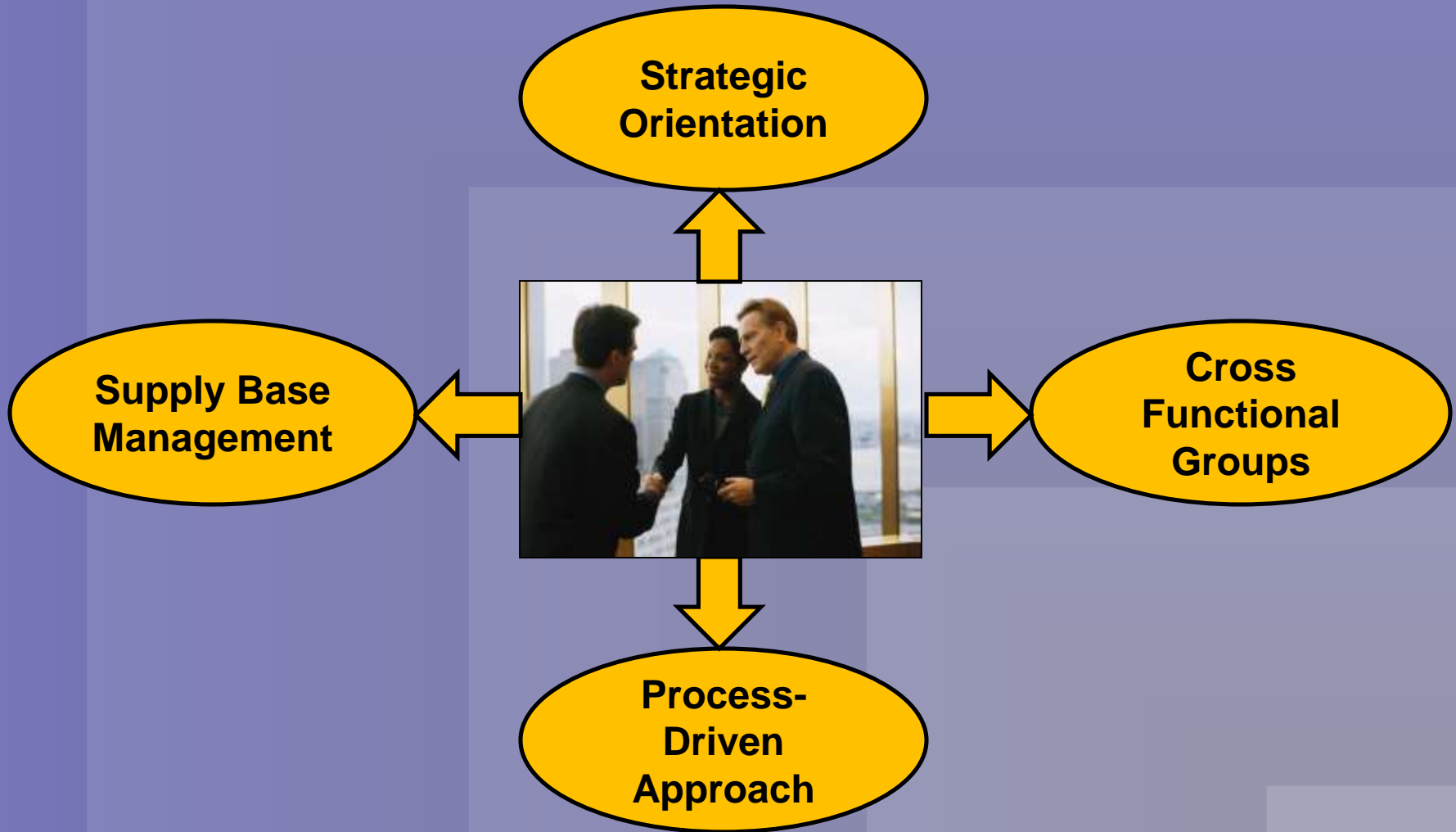
# *Supply Management*

- A strategic approach to planning for and acquiring the organization's current and future needs through effectively managing the supply base, utilizing a process orientation in conjunction with cross-functional teams to achieve the organizational mission

# *ISM's Definition*

- The identification, acquisition, access, positioning, and management of resources and related capabilities an organization needs or potentially needs in the attainment of its strategic objectives

# *Defining Supply Management*





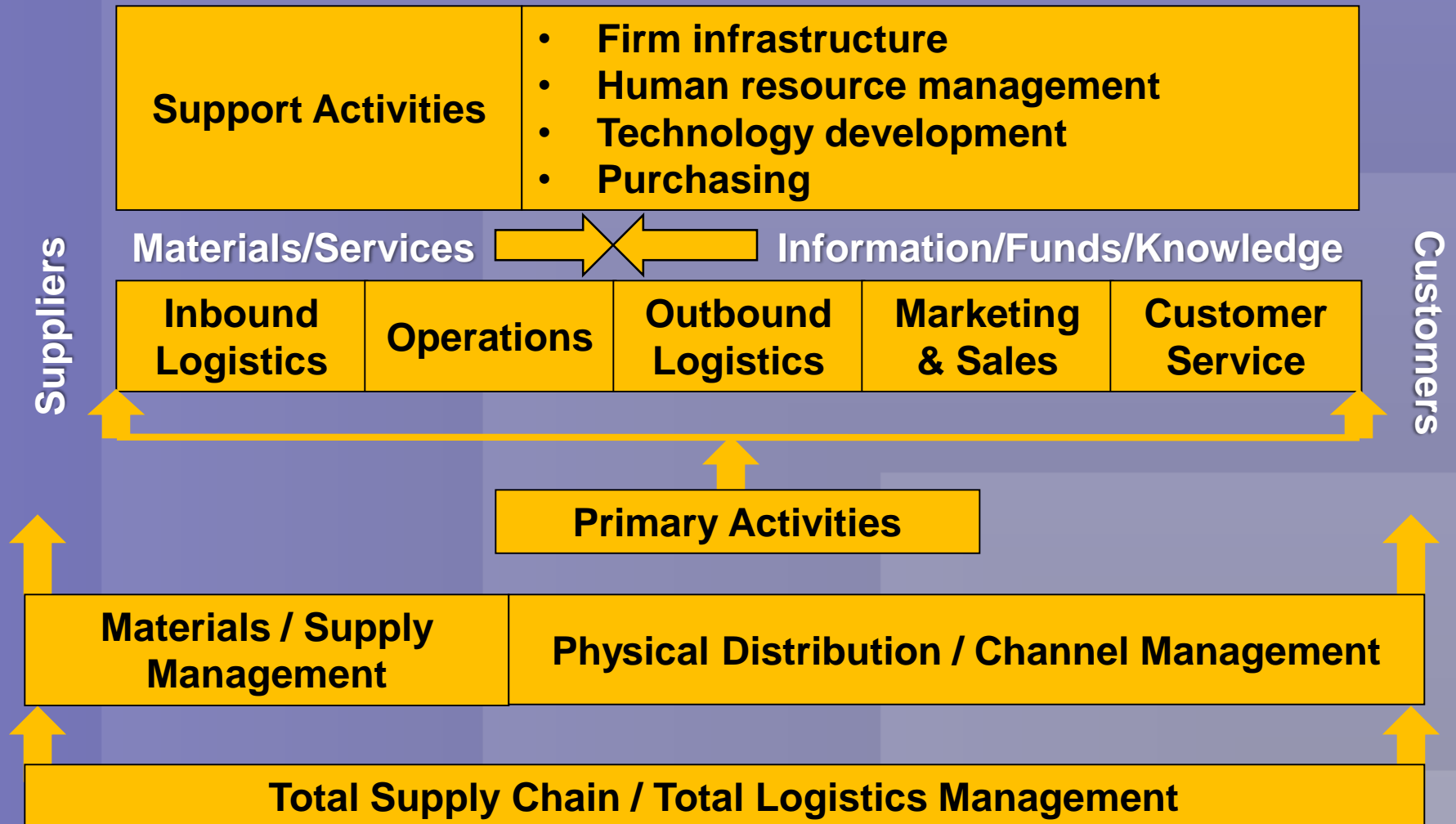
# *Supply Chains and Value Chains*

- **Supply chain orientation** – a higher level recognition of the strategic value of managing operational activities and flows within and across a supply chain

# *Supply Chains and Value Chains*

- Value chain – primary and secondary support activities that can lead to competitive advantage
- Supply chain – a set of 3 or more organizations linked directly by 1 or more of the upstream or downstream flows of products, services, finances, and information from a source to a customer (subset of a value chain)

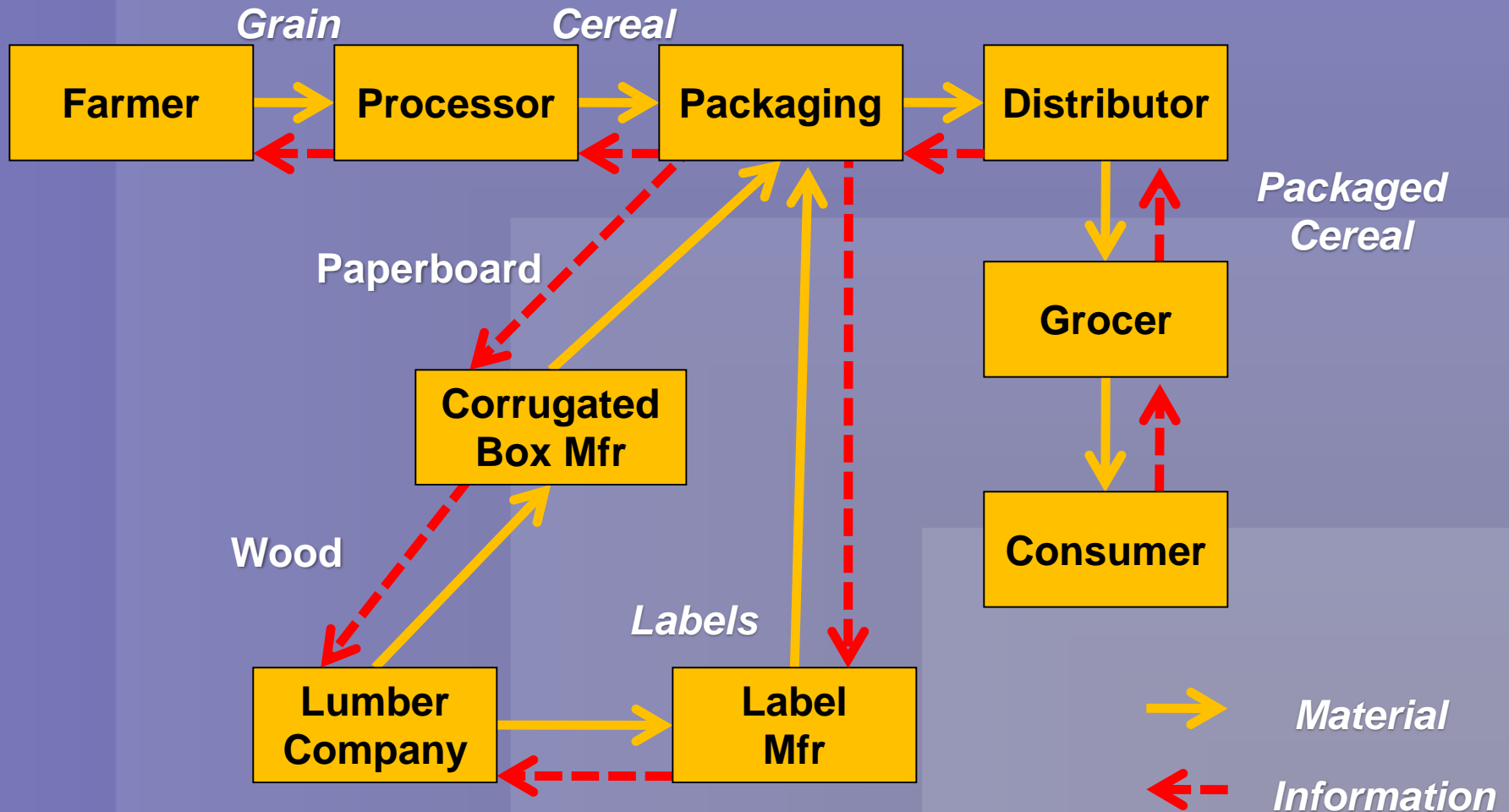
# *The Extended Value Chain*



# *Supply Chain vs. Value Chain*

- **Supply chain management – endorses a supply chain orientation and involves proactive management of the 2-way movement and coordination of goods , services, information, and funds from raw material through end user**

# *Cereal Value Chain Example*



# *Critical SCM Processes*

- **New product development**
- **Customer-order fulfillment**
- **Supplier evaluation and selection**
- **Demand and supply planning**

# *The Supply Chain Umbrella*

- Purchasing
- Inbound transportation
- Quality control
- Demand and supply planning
- Receiving, materials handling, and storage
- Material or inventory control

# *The Supply Chain Umbrella*

- Order processing
- Production planning, scheduling, and control
- Warehousing/distribution
- Shipping
- Outbound transportation
- Customer service



# *Enablers of Purchasing and SCM*

## Human Resources

View the supply chain holistically

Manage critical relationships

Understand the business model

Engage in fact-based decision making

Practice advanced cost management

Understand electronic business systems

## Organizational Design

Centrally-led supply teams

Executive responsibility for coordination purchasing and supply chain activities

Collocation of supply personnel with internal customers

Cross-functional teams to manage supply chain processes

Supply strategy coordination and review sessions between business units

Executive buyer-supplier council to coordinate with suppliers

## Information Technology

Demand planning

Order commitment, scheduling, and production management

Distribution and transportation planning

Material replenishment

Reverse auctions

Electronic data interchange

## Measurement

Use data from visible sources

Quantify what creates value

Use goals that change over time

Rely on benchmarking to establish performance targets

Link to business goals and objectives

Feature efficiency and effectiveness measures

Assign ownership and accountability

# *Capable Human Resources*

- **Supplier relationship management**
- **Total cost analysis**
- **Purchasing strategies**
- **Supplier analysis**
- **Competitive market analysis**

# *Proper Organizational Design*

- **Assessing and selecting the structure and formal system of communication**
- **Division of labor**
- **Coordination**
- **Control**
- **Authority**
- **Responsibility**

# ***Real-Time and Shared IT Capabilities***

- **Supply chain planning**
  - **Forecast accuracy**
  - **Optimized production scheduling**
  - **Reduced working capital costs**
  - **Shortened life cycles**
  - **Reduced transportation costs**
  - **Improved customer service**

# ***Real-Time and Shared IT Capabilities***

- **Supply chain execution**
  - Obtaining materials
  - Managing physical flows

# *Emerging SCM Technologies*

- Global positioning systems
- Internet-based systems
- Bar codes
- Radio frequency identification devices
- Wireless devices

# ***Roadblocks to Measurement Systems***

- **Too many metrics**
- **Debate over the correct metrics**
- **Constantly changing metrics**
- **Old data**

# ***Why Is Measurement Important?***

- **Supports fact-based decision making**
- **Communicates requirements through the supply chain**
- **Improves future supplier performance**
- **Recognizes outstanding performance**
- **Links critical measures to desired outcomes**
- **Determines if initiatives are working**



# *Closing Remarks*

*Remember: In most manufacturing companies, more than 55 percent of the cost of goods sold comes from suppliers. That means every dollar saved in purchasing goes directly to profit. Every quality improvement in a supplier improves your product. Every delay in delivery damages your customers. This is why strategic purchasing is so critical.*