

## Module 1 Purchasing and Supply Chain Management

### Session 1 Lecture - Introduction to Purchasing and Supply Chain Management



#### Purchasing and Materials Management

ASCM 626

#### Learning Objectives:

After completing this lecture module, you should be able to:

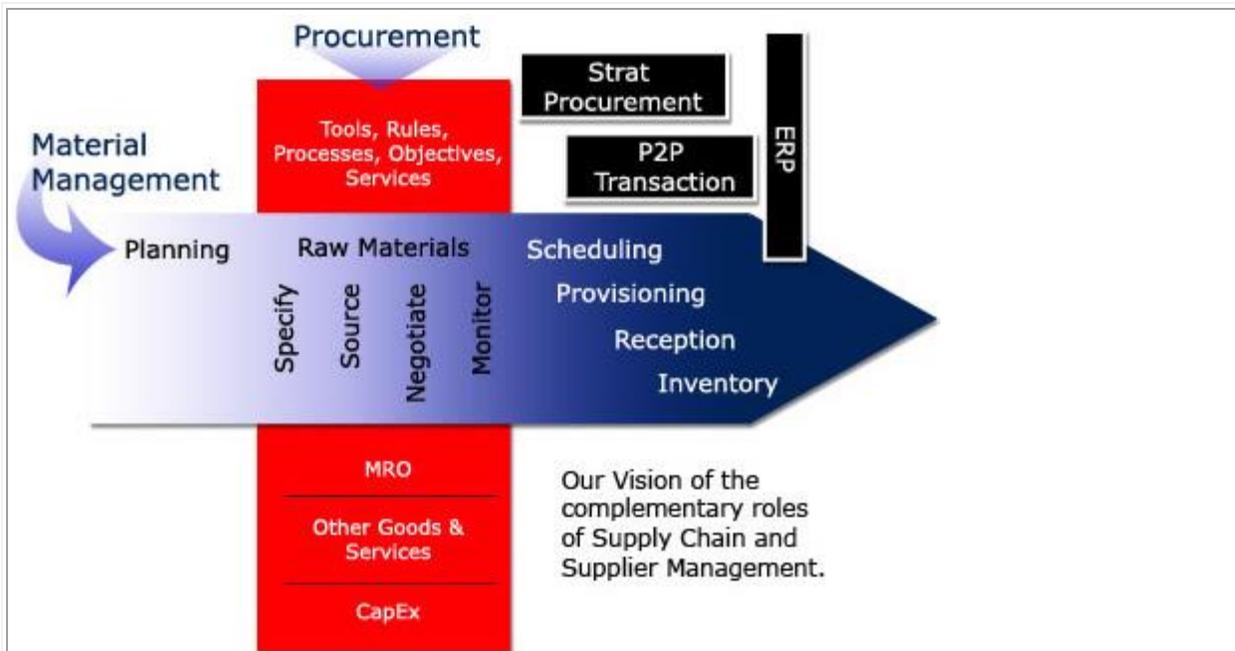
- Understand the differences between purchasing and supply management
- Understand the differences between supply chains and value chains
- Identify the activities that are part of supply chain management
- Appreciate the importance of supply chain enablers
- Identify the historical stages of purchasing's evolution

#### Readings:

- Session 1 Lecture - Introduction to Purchasing and Supply Chain
- Session 1 Lecture – Purchase of Services
- The Week 1 Reading List is a separate file that is posted in the Session 1 Content along with the Week 1 Lecture files.

#### Review:

- Select video clips to add ideas. (See last section of this web page. The title of the section is **“More Web links with research and ideas”**)
- Week 1 Discussion Topics



## Purchasing and Supply Management

Supply chain management has the ability to impact an organization by impacting its strategic goals and objectives. Traditionally, firms regarded the purchasing function as transactional clerical duties, but purchasing and supply has the ability to contribute to the success of the organization. Every organization relies heavily on these two groups to survive. Purchasing and supply are responsible for the suppliers. Marketing is responsible for the customer. An efficient and effective supply unit can provide an organization a competitive advantage and contribute to customer satisfaction while increasing an organization's bottom line and long term shareholder value. Supply will continue to evolve through technology and global competition. Over the new few weeks we will explore the following:

Sourcing

Supplier development

Negotiation and competitive bidding strategies

E-commerce to implement a faster, low cost supply solution

Transportation and logistics strategies

Strategies to increase value and customer satisfaction (quality, quantity, delivery, price, service, and continuous improvement)

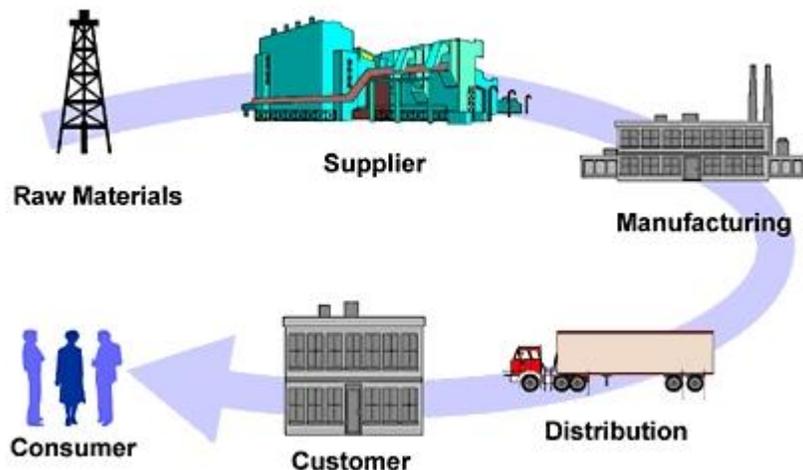
The acquisition of materials, services and equipment; and

Environmental, security, and financial regulations that complicate the competitive advantage.

The ability to obtain from suppliers the raw materials, supplies, and services necessary to keep the organization operational was traditionally a key determinant of success.

**Purchasing and supply management** – purchasing and supply management are concerned with the process of buying. Purchasing is responsible for materials handling, scheduling, inbound and outbound traffic, disposal, and customer service. Supply chain management's emphasis is on minimizing cost and minimizing time from cradle to grave.

**Integrated logistics**– fully integrated supply system



### Supply & Logistics

- Supply influences logistics activities (how much to buy and inbound transportation).
- Emphasis on controlling material flow (combined purchasing and logistics function).
- Supply chain mgmt. is a cradle to grave approach to supply that involves systematically managing the flow of all information, materials, and service from raw materials suppliers through factories and warehouse to end customer.

- The Institute for Supply Management defines supply chain mgmt. as “The design and management of seamless, value added processes across organizational boundaries to meet the real needs of the end customer.
- The development and integration of people and technological resources are critical to successful supply chain integration”.
- Value chain refers to the progression of products or services through its various stages and transformations, identifying the costs added at each successive stage.

### The Size of an Organization’s Spend and Financial Significance

- Private and public organizations in North America spend approximately 18 trillion U.S. Dollars with suppliers and supply represents the largest area of spend in most manufacturing organizations.
- The percentage paid to suppliers varies by industry and the increased reliance on outsourcing over the past few years has increased the percentage of spend.

### Supply Contribution

Supply’s financial impact is significant and contributes to the organizations goals and strategies

3 major perspectives on supply’s contribution:

#### 1. Operational and Strategic

##### a. **Operational** - Trouble avoidance

- People within the organization are inconvenienced when supply does not meet minimum expectations
- Improper quality, wrong quantities, and late delivery
- Operations are transaction based, day to day functions
- Supply here can be designed to be routine and automated

##### b. **Strategic** – opportunistic

- Future oriented
- Search for opportunities to provide a competitive advantage

- Focus is on new and better solutions to organizational and supply challenges

## 2. Direct and Indirect

### a. **Direct Impact**(bottom line impact – both measurable and tangible)

- Purchase savings
- Profit leverage
- ROA

### b. **Indirect Impact** (difficult to measure – soft or intangible contributions that are difficult to quantify). Indirect contributions enhance the performance of other individuals in the organization

- Better quality (reduce rework)
- Lower warranty costs
- Increase customer satisfaction
- Increased ability to sell more
- Increased ability to sell at a higher price
- Ideas from suppliers to improve design and cycle times
- Improved competitiveness
- Supply as an informational resources – supply's unique position in the market place

***Effects on Efficiency***– focus on improving internal customer service.

***Effect on competitive position / customer satisfaction***– Focus on providing better quality, faster, at a better price than the competitor to improve competitive positioning and customer satisfaction

***Effects on organizational Risk***– minimize operational risk by mitigating supply disruptions that impact the ability of the organization to operate as planned and as expected by its customers. Do away with unethical or questionable supply practices that may expose the organization to reputational risk.

**Effects on Image-** Supply has an influence on public relations and company image. A poor image will adversely affect the purchaser's ability to get new business and to find new and better suppliers

**Training** – supply functions provide supply managers a unique perspective of how the organization works

**Managing Strategy and Social Policy** - The strategic position in the market place may be gained through exploring resources around the globe, technology, innovative management systems, and the imaginative use of corporate resources. Achieving success through the supply chain depends on executive management's awareness of the potential and ability to utilize corporate resources fully.

### 3. Negative, Neutral, and positive

#### Decision Making in the Supply Management Context

- Supply decisions have a major impact on the organization and the final customer.
- Supply decisions are typically made in the context of uncertainty (risk).
- Uncertainty decision impact demand and concerns both price and the organizations ability to supply
- The fact the supply decisions are difficult to quantify reinforces the need to use sound judgment
- The decision maker's perception of risk influences the decision and is a key variable

#### The Differences between Commercial and Consumer Acquisition

Differences Between Commercial and Consumer Acquisition	
<b>Consumer environment</b>	<ul style="list-style-type: none"><li><input type="checkbox"/> Shopping basket mentality</li><li><input type="checkbox"/> Retail marketing environment where suppliers have common items</li><li><input type="checkbox"/> Buys based upon current need</li></ul>

	<ul style="list-style-type: none"> <li><input type="checkbox"/> Is the final customer</li> <li><input type="checkbox"/> Free to choose nature, quantity, and quality of items</li> <li><input type="checkbox"/> Free to choose appropriate supplier</li> <li><input type="checkbox"/> No power to influence price</li> <li><input type="checkbox"/> No influence over marketing method</li> <li><input type="checkbox"/> No influence over manufacturer</li> </ul>
<p><b>Commercial environment</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Organizational needs are specialized</li> <li><input type="checkbox"/> Large volume purchases</li> <li><input type="checkbox"/> Limited number of resources</li> <li><input type="checkbox"/> Few customers in market</li> <li><input type="checkbox"/> Involves large sums of money</li> <li><input type="checkbox"/> Suppliers have large stake in customer</li> <li><input type="checkbox"/> Need to secure business</li> <li><input type="checkbox"/> Real purchasing power</li> <li><input type="checkbox"/> Special supplier expertise may be required</li> <li><input type="checkbox"/> Continued supply performed is required</li> </ul>
<p><b>Supply Managers</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Purchasing strength v. marketing strength</li> <li><input type="checkbox"/> Current and future needs</li> <li><input type="checkbox"/> Must be able to deal with market force</li> <li><input type="checkbox"/> Must not be reactionary</li> <li><input type="checkbox"/> Foresight and planning needed</li> </ul>
<p><b>Source: 13th edition, Purchasing and Supply Management, 2006, McGraw-Hill Irwin, Leenders, Michiel R.; Johnson, P. Frasier; Flynn, Anna E.; Fearon, Harold E.</b></p>	

## Supply Qualifications and Associations

The talent in supply has to match the challenges of the professions. Supply professional have placed greater emphasis has been placed on education, training programs, competitive salaries and the development of professional associations.

## Challenges Facing Purchasing and Supply Chain

	Challenges Facing Purchasing and Supply Chain
1. Technology	<ul style="list-style-type: none"><li><input type="checkbox"/> Electronic business to business (B2B) commerce</li><li><input type="checkbox"/> Exciting opportunities to improve effectiveness and efficiency</li></ul>
2. Supply Chain Management	<ul style="list-style-type: none"><li><input type="checkbox"/> Small firms do not have same opportunities in supply chain as large firms</li><li><input type="checkbox"/> Organizational success is self-evident (sphere of influence)</li><li><input type="checkbox"/> Response to supply chain initiatives of others</li><li><input type="checkbox"/> Opportunities Reduce inventories,</li><li><input type="checkbox"/> Shorten lead times and distances</li><li><input type="checkbox"/> Plan operations better</li><li><input type="checkbox"/> Remove uncertainty</li><li><input type="checkbox"/> Squeeze out waste</li><li><input type="checkbox"/> Search for extra value</li></ul>

### 3. Measurement

- Senior management interest in supply contribution
- Ability to assess the benefits of supply experiments
- Finding appropriate measures is a challenge

### 4. Growth and Influence

- Supply roles and responsibilities in the organization (concern for spend)
  - Concern over spend
  - Where will leadership come from
  - What are and will be supply's involvement and responsibility in the organization
  - How will supply achieve broader strategic integration in the corporation?

### 5. Effective Contribution to Corporate Success

- Success needs to be seen by decision makers
- Must be an effective team member
- Meaningful involvement is attributable to supply recognition to organization

**Source: 13th edition, Purchasing and Supply Management, 2006, McGraw-Hill Irwin, Leenders, Michiel R.; Johnson, P. Frasier; Flynn, Anna E.; Fearon, Harold E.**

#### Next Steps:

Complete your readings and review the videos for Week 1. The Reading List is a separate file that is posted following the Week 1 Lectures. Begin to participate in your conference discussions.



## Curious? Want to Know More?

**Consider the UMUC online Library and use these search words:**

- Supply Chain
- Purchasing
- Supply Managers
- Value Chain
- Differences Between Purchasing And Supply Management
- Differences Between Supply Chains And Value Chains

<http://www.umuc.edu/library/index.cfm> is the Library Link.

**More Web links with research and ideas:**

[http://ocw.mit.edu/courses/sloan-school-of-management/15-778-management-of-supply-networks-for-products-and-services-summer-2004/lecture-notes/lec1\\_july201.pdf](http://ocw.mit.edu/courses/sloan-school-of-management/15-778-management-of-supply-networks-for-products-and-services-summer-2004/lecture-notes/lec1_july201.pdf) – Introduction to supply chains.

<https://www.boundless.com/business/textbooks/boundless-business-textbook/product-distribution-16/logistics-103/supply-chain-management-487-1355/> - Supply chain management.

<https://www.boundless.com/business/textbooks/boundless-business-textbook/operations-management-10/controlling-the-supply-chain-72/> - Controlling the supply chain.

[https://www.academia.edu/8131664/Supply\\_Chain\\_Management\\_Practices\\_and\\_Supply\\_Chain\\_Performance\\_Effectiveness](https://www.academia.edu/8131664/Supply_Chain_Management_Practices_and_Supply_Chain_Performance_Effectiveness) - Supply chain management practices & supply chain performance effectiveness.

[http://ezproxy.umuc.edu/login?url=http://go.galegroup.com.ezproxy.umuc.edu/ps/i.do?id=GALE%7CCX3273100312&v=2.1&u=umd\\_umuc&it=r&p=GURL&sw=w&asid=1bb985b1bcf584d263daaaa7a05809c8](http://ezproxy.umuc.edu/login?url=http://go.galegroup.com.ezproxy.umuc.edu/ps/i.do?id=GALE%7CCX3273100312&v=2.1&u=umd_umuc&it=r&p=GURL&sw=w&asid=1bb985b1bcf584d263daaaa7a05809c8) – Value-chain management.

**Helpful videos related to this week's topics:**

**The following video shares some innovative ways that small businesses can compete in the supply chain global market. Look at how inventory, warehousing, shipping and purchasing is handled with these various businesses.**

[http://www.youtube.com/watch?v=K\\_AtE5hRA98](http://www.youtube.com/watch?v=K_AtE5hRA98)

**The following videos highlight some key steps to the purchasing process. Keep these steps in mind as you continue to learn about them throughout the course.**

<https://www.youtube.com/watch?v=AwemFfdD6VI>

<http://www.youtube.com/watch?v=Mii1QBxVjZAw>

*Developed by ASCM Faculty and Course Developers*