

Purchasing Strategies



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Introduction

Sourcing strategies can deliver different types and levels of value. At one extreme, they can take a form of 'make or buy' decision and at the other they can refer to outsourcing (CIPS: Purchasing policy and procedures). The most common purchasing strategies are aggregation, standardisation, category management, outsourcing and relationship management (CIPS: Procurement's role in the generation and capture of value in supply chains).

Aggregation is the most basic strategy. It connects individual requirements across departments and sites and presents these to potential suppliers as total requirements. Based on the volume suppliers often respond by offering varying levels of discounts. Standardisation offers a greater potential value. The strategy entails that cross-functional teams agree on requirements for specific cases and choose a restricted number of suppliers to meet future needs.

Standardisation strategy reduces the number of suppliers. Category management is a proactive strategy that generates new knowledge about the marketplace and can add value through supplier innovation activities. Outsourcing allows for capture of value through specification, experience and expert knowledge of the outsourcing company. Relationship management strategies allow the purchasing department to add value and enhance the exchange of information and knowledge through relationships with internal customers and suppliers (CIPS: Procurement's role in the generation and capture of value in supply chains).

Definition

Purchasing strategies are "actions that [a] purchasing department may take to achieve its objectives" (Lysons and Farrington, 2016: 44). Purchasing strategies are aligned with corporate-level business strategies (strategic alignment) and with purchasing capabilities (purchasing efficacy) (Lysons and Farrington, 2016; Baier, 2008).

Successful Application

Purchasing strategy implementation can require the completion of a number of tasks. For example, it is important to communicate strategic plans to those who were not involved in its formulation and to secure their commitment. Strategy implementation also requires careful framing of policies and procedures, establishment of operational targets/objectives and relating these to corporate objectives, and assigning responsibilities and authority to individuals and teams. Other implementation activities include modifying organisational structures, allocating resources and budgets and employee training. When implemented, strategies require continuous monitoring and revision (Lysons and Farrington, 2016).

Steps to Successful Application

- Undertake portfolio and supplier-customer preference analysis to identify key spending areas and key suppliers.
- Establish procurement as a specific element in corporate and departmental planning processes by establishing the procurement strategy/plan for each department as part of the annual service plans.
- Adopt a commercial approach by following best value practice principles for all procurement decisions: construct a procurement manual and best practice toolkit containing a process guide, including standard documentation and procedures to help staff.
- Develop scope for e-procurement, e-tendering and e-auctions.
- Commit to principles of sustainability and ethical procurement where possible within the terms of best value principles.

- Simplify business processes. For example, establish framework agreements for high volume/low-volume goods and services.
- Improve communications with markets by publishing annual procurement plan of forthcoming contracts.
- Ensure availability of appropriate training and guidance for all staff involved in procurement.
- Commit to continuous improvement of all procurement practices and procedures. For example, regularly review contract regulations and procurement manuals, establish procurement benchmarking reviews and develop and monitor key performance indicators for procurement.

Lysons and Farrington (2016)

Hints and Tips

- Contingency plans to manage and, in most cases, avoid unnecessary risks should be regularly updated. This could involve re-specification of a component to allow a wider supply base, re-sourcing to more stable or geographically closer countries or creating inventory buffers (CIPS: Purchasing policy and procedures).
- Risk analysis to assess potential impacts on the supply chain is crucial. Among other factors they can include political instability in the supplier country, transport disruptions, regulatory impacts, the financial stability of suppliers and sector consolidation leading to a narrowing of the supply base (CIPS: Purchasing policy and procedures).
- To be successful purchasing strategies require flexible supply chain strategy able to deliver sales at low risk and avoid significant investment in materials or finished product (Niezen and Weller, 2006).
- The strategic sourcing team need to operate well at a strategic level. To do this requires three elements: a thorough understanding of the business; alignment with the company's vision and longer-term objectives; and a forward-looking, deep understanding of what the customer requirements really are. CIPS(2011)
- Effective communication is critical to the success of a purchasing strategy (CIPS: Linking strategy and purchasing).
- The following are critical success factors to strategic sourcing based around the three key areas of people, processes and technology:
 - Know your market and suppliers
 - Use technology to support the execution of your strategy
 - Obtain executive-level support
 - Establish a credible team
 - Adopt a company-wide supply chain focus
 - Enforce compliance
 - Engage stakeholders
 - Encourage supplier innovation
 - Set up adequate reporting metrics to demonstrate success
 - Carry out continuous improvement. (Khan, A., 2016)

Potential Advantages

- Purchasing strategies help to shift material and packaging inventories, as well as noncore R&D, to capable suppliers, thus freeing up resources to invest in sales, marketing, distribution and higher margin products (Niezen and Weller, 2006).
- In standardisation strategy, cross-functional fora offer an opportunity for the purchasing function to explore aspects of product functions and support services that end-users and internal customers most value (CIPS: Procurement's role in the generation and capture of value in supply chains).
- In category management, carefully selected categories can leverage substitution and innovation opportunities and reduce waste and losses (CIPS: Procurement's role in the generation and capture of value in supply chains).

Potential Disadvantages

- In category management there is a risk of placing too much emphasis on the 'category' aspect of strategy, where some buyers merely facilitate routine transactions falling into the category, thus neglecting the management aspect of the job (CIPS: Procurement's role in the generation and capture of value in supply chains).
- When outsourcing suppliers bear only some financial risk (proxy value), the real risk is transferred to the buyer who must ensure real value is derived from the supplier (CIPS: Procurement's role in the generation and capture of value in supply chains).
- Outsourcing strategy should be carefully implemented as there is a risk that knowledge will reside predominantly with the outsourced service supplier, or that control over processes will be lost (CIPS: Procurement's role in the generation and capture of value in supply chains; Belcourt, 2006; Cooke et al., 2005; Grimshaw and Miozzo, 2009).

Performance Monitoring

- The 'balanced scorecard' approach can be employed to measure the value added by a particular strategy (Kaplan and Norton, 1992).
- Procurement skills gap analysis can be undertaken to evaluate areas where staff need training and could benefit from increased knowledge and awareness (Lysons and Farrington, 2016).
- Key performance indicators (KPIs) relevant to the purchasing strategy being pursued: e.g. quantitative measures of supplier performance, feedback from local companies about workplace and environmental performance at supplier sites (Traidcraft, 2010).
- Other KPIs, which may include purchasing return on investment (savings/operating costs), percentage of total spend under management and Pareto analysis (i.e. the percentage of suppliers accounting for 80% of spending) (Traidcraft, 2010).

Case Studies

- The Government Waste Services Agency, a UK Government body, implemented a revised procurement strategy based on research showing that over five years the demand for waste disposal facilities would outstrip supply (Lysons and Farrington, 2016).
- IBM has increasingly sourced its high value items on a global basis since the 1990s to ensure better leverage from purchasing expenditure. As a result, the company achieved significant cost savings and global buyers now negotiate contracts that are used by the entire organisation (Baily et al., 2015).
- To ensure success from a just-in-time approach Rank Xerox in Holland adopted several new purchasing strategies. For example, the company now relies on measures such as statistical process control, continuous supplier involvement, electronic document interchange (EDI), computer aided dispatch (CAD), and total quality control (Baily et al., 2015).
- BOC Group expects supply management to help the entire organisation create competitive advantage. It can do this in many ways, from identifying and developing sources of supply in emerging markets through to advising on mergers and acquisitions and facilitating new product design. It needs to have a clear understanding of the business strategy and to work closely with other parts of the company in achieving their objectives. (Baily et al., 2015)

Looking forward...

According to the AT Kearney 2011 Assessment of Excellence in Procurement Study, 90 per cent of the 185 global companies surveyed believe the procurement function has taken on a more strategic role, actively participating in developing business strategy. Leading businesses also realize the importance of making sure that purchasing strategy is closely related to the overall business strategy. The report found that leading procurement functions are 85 per cent aligned with the wider business in which they operate, while the rest are just 37 per cent aligned. (Leach, A., 2011)

The Advanced Procurement Trends Report (2018) found just 40% of respondents said cost-cutting was their main objective, compared to 80% three years ago. The report said the emphasis has moved to becoming more strategic, improving contract management and effective spend analysis. Our research shows how procurement is adapting to new challenges and playing a more valuable and vital role in today's increasingly agile and competitive organisations. The report also said the move towards more strategic procurement was accompanied by an increase in the importance of data and technology. It found 96% of organisations planned to maintain or increase their investment in technology. (Churchill, F., 2018)

Competences

Research shows that there are six competencies that drive strategic performance in procurement:

- Functional expert – has knowledge of processes and products
- Influencer – relates to people, builds relationships, effectively presents arguments
- Results seeker – meets deadlines, identifies actions, achieves goals
- Innovator – thinks creatively, anticipates changes, produces solutions
- Adaptor – stays calm under pressure and handles criticism well
- Complier – follows procedures and encourages others to do as well (Srinivasan, A., 2016)

CIPS Source Downloads

- CIPS: Procurement's role in the generation and capture of value in supply chains
- CIPS: Purchasing policy and process design
- CIPS: Linking Strategy and Purchasing
- CIPS Australia: From strategy to practice: Making procurement strategies work in the real world
- Case Study: International Purchasing Project - The Royal Mail Group

Further Reading/References

Web Resources

- Harvard Business Review article on procurement as strategy <http://hbr.org/2006/09/procurement-as-strategy/ar/1>
- Why firms in the UAE lag on strategic purchasing <http://www.supplymanagement.com/news/2010/uae-firms-lag-on-strategic-procurement/?locale=en>
- Qantas airlines overhaul their approach to procurement <http://www.supplymanagement.com/news/2009/qantas-overhauls-procurement-team/?locale=en>
- A London borough case study: the benefits of a strategic approach <http://hbr.org/2006/09/procurement-as-strategy/ar/1>

- Oxfam rethinks procurement strategy <http://www.supplymanagement.com/news/2004/oxfam-targets-better-procurement/?locale=en>

Books

- Strategic Procurement: Organising Suppliers and Supply Chains for Competitive Advantage Caroline Booth, ISBN 978-0749460228
- The Procurement and Supply Manager's Desk Reference, Fred Sollish C.P.M. & John Semanik C.P.M. ISBN 978-0471790433
- Strategic Supply Management: Principles, Theories and Practice, Dr Paul Cousins, Richard Lamming, Dr Benn Lawson, Dr Brian Squire, ISBN 978-0273651000

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- Niezen, C. and Weller, W. (2006) Procurement as Strategy. Harvard Business Review. September.
- Srinivasan, A (2016) The six competencies of a strategic procurement professional Supply Management
- Traidcraft (2010) Win/Win: Achieving Sustainable Procurement with the Developing world. January.

Video

The impact of purchasing strategy on responses to supply network disruption

https://www.youtube.com/watch?feature=player_embedded&v=jgugU8iBKJY

