

Tactical vs. Strategic Purchasing



Based on the evidence from leading companies like Toyota, IBM, or GE ... no practitioner or researcher would doubt that it makes sense for any company to think about implementing strategic purchasing practices (Stolle, 2008)



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Introduction

A few decades ago purchasing was still seen as 'operational' and companies focused largely on inputs such as materials and services (Slack et al., 2009). Purchasing mostly provided a supporting role to acquire goods and services at a competitive price, at the right quantity and quality. However, a number of environmental factors, such as the oil crisis of 1973, highlighted the importance of supply inputs and the consequences that could arise from underestimating their importance to company processes and activities (CIPS: High-performance purchasing).

Furthermore, the Japanese purchasing and supply model highlighted the shortcomings of the arms-length relationship model employed in the West (Hoyt and Huq, 2000). Other significant triggers of strategic purchasing relate to increased instances of outsourcing (rather than making everything in-house) and to changing organisational forms and structures (Burnes and Anastasiadis, 2003; Elango, 2008; Kam et al., 2011). Although some of the old functional and administrative purchasing activities still exist today, they are usually carried out within a much broader and varied purchasing system which strives to be strategic and value-adding.

Purchasing strategies at the corporate/strategy level focus on purchasing effectiveness and are based on broad environmental scanning. Strategic purchasing is communicated downwards and it focuses on issues that impact future long-term procurement requirements and problems. Operational/tactical level, on the other hand, is efficiency information. It is based on a more limited environmental scanning and communicated upwards to the strategic level.

Tactical level strategies are integrated with corporate strategies and concentrate on narrower issues impacting immediate procurement issues and problems (Lysons and Farrington, 2006).

Definition

Strategic purchasing 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" (Carr and Smeltzer, 1997). Tactical purchasing is typically a subset of activities and processes within the strategic purchasing approach. It focuses on operational purchasing requirements based on information from a limited environmental scan (Lysons and Farrington, 2006).

Successful application

The extent to which strategic and tactical approaches to purchasing are adopted and integrated is often determined by the degree to which top management perceive purchasing as a factor in achieving competitive advantage. While organisations should invest considerable time in devising strategic approaches to purchasing, tactical/functional strategies should not be overlooked. Tactical strategies should align consistently with corporate level strategies, focusing on such issues as functional skill and competency development, integrating activities within functional areas (e.g. purchasing and marketing) and providing important information from the bottom up to guide corporate strategy (Lysons and Farrington, 2006).

Steps to successful application

1. Identify company needs or re-evaluate those that have changed.
 2. Define or evaluate user requirements.
 3. Decide to make or buy the products or services.
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4. Identify the type of purchase: straight rebuy or routine purchase, modified rebuy necessitating changing existing suppliers or inputs, or a new buy resulting from new user requirements.
5. Conduct market analysis: supply sources operate in competitive markets (many suppliers), oligopolistic markets (a handful of large suppliers), as well as monopolistic markets (a single supplier).
6. Identify potential suppliers: this might be suppliers that the purchaser has not previously engaged with before.
7. Pre-screen potential suppliers: reduce the number of suppliers to a quantity that meets the purchaser's needs.
8. Evaluate the remaining supply base: this will probably require competitive bidding.
9. Choose a supplier: this stage determines the relationship that will be formed between the purchaser and supplier, and how the relationship will be structured and maintained.
10. Deliver product/perform service: this generates performance data to be used in the next stage.
11. Post-purchase: evaluate supplier performance to assess whether the purchaser's needs have been met.

Novack and Simco (1991)

Hints and tips

Although some of the shortcomings of purely tactical approaches to purchasing are evident, the decision on which approach applies best in a given situation depends on the nature of the purchase and the business environment where the purchase is carried out (Lysons and Farrington, 2006).

It is important to think 'supply networks', not 'chains'. Chain assumes a linear process from end-to-end, but in reality many purchasing activities may not be quite so straightforward. A good example is the construction industry where firms might engage in simultaneous projects, as a supplier, sub-contractor or contractor (CIPS, Knowledge Works).

In some situations, information at the operational level may necessitate a sudden tactical approach to purchasing. Even when this goes against the overall strategic approach. For example, a company may have decided strategically to buy (not to make a particular component), but then tactically reverse this decision in conditions of manufacturing for stock, work shortage or failure of suppliers (Lysons and Farrington, 2006:367).

Potential advantages

Strategic purchasing is linked to a greater ability to manage risks in the supply chain and adds a layer of resilience against potential threats (Carr and Smeltzer, 1997; Monczka et al., 2009).

Integrating suppliers tightly into the supply chain through close collaboration and joint process design can reduce cycle times, improve quality, and enhance value for end users (CIPS: High-performance purchasing).

Strategic purchasing is perceived as a knowledge-intensive activity "concerned with the total cost of ownership rather than the price paid per item with the optional mix of relationships to provide competitive advantage" (Lysons and Farrington, 2006:367).

Potential disadvantages

In tactical purchasing and sourcing environments, there is usually an open bid process which leaves little room for suppliers to present alternative designs and specifications (Lysons and Farrington, 2006).

A recent survey found that many organisations claiming to use strategic sourcing were failing to realise cost savings because of non-standardised processes, inadequate contract lifecycle management and lack of proper spend analysis (Aberdeen Group, 2010).

It is very hard to develop tactical and strategic purchasing and supply management strategies that are directly linked to overall organisational goals (Institute for Supply Management, 1999).

Performance monitoring

- Establish key performance indicators (KPIs) relevant to the purchasing strategy being pursued. For example, when dealing with suppliers in developing countries, use quantitative measures of supplier performance and gather additional feedback from local companies about workplace/environmental performance at supplier sites (Hughes and Day, 2011).
- Analyse purchasing return on investment (ROI) (savings/operating costs), percentage of total spend under management and undertake a Pareto analysis (i.e. the percentage of suppliers accounting for 80 per cent of spending) (Hughes and Day, 2011).
- The 'balanced scorecard' approach can be employed to measure the value added of a particular strategy (Kaplan and Norton, 1992).
- Undertake a procurement skills gap analysis to evaluate areas where staff need training and could benefit from increased knowledge and awareness (Lysons and Farrington, 2006).

Case studies

- Strategic purchasing entails integrating suppliers into the supply chain. For example, Honda involved suppliers in new product design and in sharing innovations and R&D costs. The company claimed that in designing the 1998 Accord, 20% was saved on the traditional cost of development because of supplier contributions (CIPS: High-performance purchasing).
- Since the 1990s IBM has increasingly strategically sourced a large proportion of its high value items to ensure better leverage from purchasing expenditure. The company achieved significant cost savings from doing so and global buyers now negotiate contracts that are used by the entire organisation (Baily et al., 2005, CIPS: High-performance purchasing).
- Strategic purchasing of Rank Xerox in Holland uses a variety of strategies to ensure success from its JIT approach. The company's corporate level strategies include the following: statistical process control methods, continuous supplier involvement, CAD and EDI and total quality control (Baily et al., 2005, CIPS: High performance purchasing).

Further Resources/Reading

Web

[Harvard Business Review article on procurement as strategy](#)

[Firms in the UAE fall short on purchasing strategies](#)

[Qantas airlines overhaul their approach to procurement](#)

Thornton's purchasing strategy reappraisal

A London borough case study: the benefits of a strategic approach

Books

Strategic Procurement: Organising Suppliers and Supply Chains for Competitive Advantage
ISBN 978-0749460228

Procurement, Principles and Management ISBN 978-0273713791

Purchasing and Supply Chain Management ISBN 978-0273694380

The Procurement and Supply Manager's Desk Reference ISBN 978-0471790433

Strategic Supply Management: Principles, Theories and Practice ISBN 978-0273651000

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Video

The impact of purchasing strategy on responses to supply network disruption

<https://www.youtube.com/watch?v=jgugU8iBKJY>

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