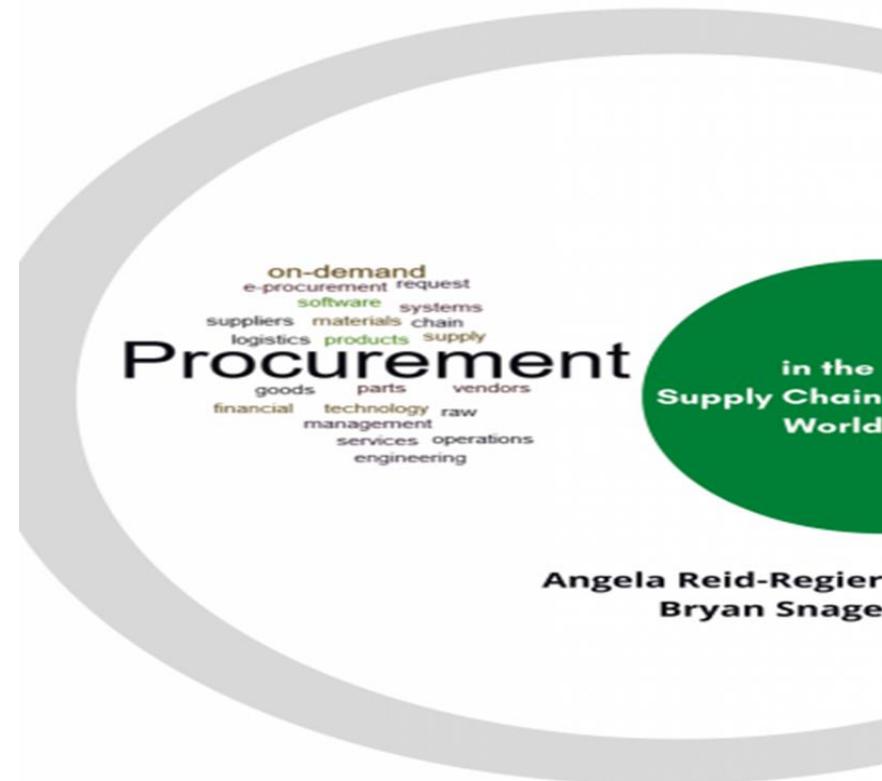


Procurement in a Supply Chain World

Chapter 1: Introduction to Procurement



Accessibility Statement

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Chapter 1 Learning Objectives

Learning Objectives:

- Define procurement and its purpose.
- Understand key procurement objectives.
- Explain procurement roles and activities.
- Analyze the key procurement procedures and processes.
- Evaluate the key steps carried out in managing the procurement process.

Introduction

The effective implementation of procurement activities is a critical function in the supply chain process.

- In this chapter you will:
 - Describe the identification of requirements
 - Identification
 - Qualification of suppliers
 - Supplier bidding and negotiation
 - Approval for purchases
 - Supplier performance monitoring and measurement

Purchasing and Procurement

The following terms are often used interchangeably but they are different.

- Procurement
 - Management of all processes in obtaining goods and services
 - Focus on sourcing, negotiation, and strategic selection
- Purchasing
 - Function within the procurement process
 - Receiving and processing purchase requisitions
 - Converting purchase requisitions into purchase orders

The Importance of Procurement

Procurement function is critical to supporting the ongoing functioning of a firm.

- Key inputs include:
- Raw materials and intermediate goods and services
- Finish good and services
- Capital goods

Major Benefits of effectively managing procurement

- Cost Reduction
- Quality Improvement
- Product Enhancement

The 5 Procurement Functions

The main objective of the procurement function is purchasing materials and services at the lowest total cost possible while ensuring the required quality levels and meeting the needs of internal and external customers.

- Five Key objectives are:
 - Supporting operational requirements
 - Working with other functional groups
 - Partnering with Suppliers
 - Supporting Organizational Goals and Objectives
 - Developing Sourcing Strategies

Procurement Roles and Activities

Procurement functions must analyze the cost of sourcing products and services to ensure they are obtained at the lowest possible cost. Procurement roles and activities consist of the following functions:

- Assists internal departments
- Estimates future supply needs
- Goods and services meet minimum quality standards
- Report on material lead times
- Draws contracts and negotiates terms
- Finds and develops suppliers
- Ensures uninterrupted flow of materials

Types of Buying Organizations

Organizations procure goods and services for different purposes. According to Fill and Fill (2005), the primary forms of organization that procure goods and services:

- Commercial organizations
- Governments
- Institutions
- Public organizations

Types of Product and Services Purchased

Procurement personnel are responsible for purchasing many different products and services, depending on the nature of their industry and the nature of their organization. These are examples of different goods and services procurement is responsible for procuring:

- Raw materials
- Semi-finished goods
- Capital equipment
- Original Equipment Manufacture (OEMs') component parts
- Maintenance, repair, operating materials
- Finished goods
- Accessory equipment
- Services
- Major subcontracted items

Procurement Process Overview

The procurement process contains steps ranging from working to understanding firms' needs through ongoing evaluations of supplier performances. These steps are:

- Identifying the need
- Describing the product or service needed
- Searching potential suppliers
- Evaluating and selecting suppliers
- Request for price and request for quote processes
- Order Placement
- Evaluating Performance

Key Takeaways

Procurement is:

- Management of all processes involved in obtaining goods and services for manufacturing products and providing customer service.
- Focus is on sourcing activities, negotiations with suppliers and strategic selection of goods and services
- Functions must have close working relationships with other functions
- Organizations of different types are involved in procurement
- There are multiple stages in the procurement process.

References

Fill, C., & Fill, K. E. (2005). *Business-to-business marketing: Relationships, systems and communications*. Harlow, UK: Pearson Education Limited.