Learning Objectives

- Understand the role and nature of purchasing, procurement, and strategic sourcing in a supply chain context.
- Consider the importance of legal and ethical issues in the selection and assessment process.
- Understand the essential inputs in organizational requirements for the effective management of sourcing and procurement activities.

Appraise the importance of managing effective relationships with suppliers and evaluate the value of supplier organizations having certain certifications and qualifications.

Evaluate the case of procurement price and the relevance of total cost of ownership (TCO) in the context of business case sourcing and procurement.

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Learning Objectives

Understand the role and nature of purchasing, procurement, and strategic sourcing in a supply chain context.
Consider the importance of types and of items and services purchased to the sourcing and procurement processes.
Understand the strategic sourcing process.
Recognize principles and approaches for the effective management of sourcing and procurement activities.

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Appreciate the importance of companies having effective relationships with suppliers and understand the value of supplier organizations having certain certifications and registrations.
Examine the issue of procurement price and the relevance of total cost of ownership (TCO).
Be aware of contemporary advances in the areas of e-sourcing and e-procurement.
Introduction (pg 551)

Producing the human machine offering product and service. In a manufacturing process to produce the final product, one must consider the following factors:

1. Quality
2. Cost
3. Delivery

Figure 13.2

The Sourcing Process

Types and Importance of Items and Service Purchased (pg 555)

Generated at low risk, low value items and services that typically are not the final product. 

Common examples include:

- Transportation services
- Maintenance services
- Service purchased from other companies
- Other items and services that fall outside the core product offering

Decision making is key, and value items and services such as engineering items, particularly are available from multiple vendors. A vendor can be a long-term partner for a vendor.
Introduction (pg 551)

Purchasing: The transactional function of buying products and services. In a business setting, this commonly involves the placement and processing of a purchase order.

Procurement: The process of managing a broad range of processes associated with a firm’s need to acquire goods and services required to manufacture a product (direct) or to operate the organization (indirect).

Strategic sourcing: The strategic sourcing process takes the procurement process further by focusing more on supply chain impacts of procurement and purchasing decisions, and works cross-functionally within the business firm to help achieve the organization’s overall business goals.

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Unique Aspects of Strategic Sourcing

1. **Consolidation and Leveraging of Purchasing Power**: If every department or division in an organization were to make independent purchasing decisions, the end result would be more costly than if the purchases were coordinated. Looking broadly at everything purchased by an organization, significant savings may be achieved through the consolidation of purchasing power and leveraging larger volumes of purchases with fewer total suppliers.

2. **Emphasis on Value**: Far too frequently, organizations place the highest priority on trying to procure needed items at the lowest possible cost. In so doing, opportunities may be missed to achieve greater value, for example, through reduced costs over the life cycle of the product. Buying a copier/fax/scan machine on the basis of acquisition cost alone would effectively neglect the long-term costs that may be associated with toner, repairs, etc.

3. **More Meaningful Supplier Relationships**: Strategic sourcing benefits from developing sound business relationships with many types of suppliers. Depending on the type of purchase being considered, the development of truly collaborative relationships can be very effective.

4. **Attention Directed to Process Improvement**: Strategic sourcing looks beyond the need for effective purchasing practices and focuses attention on the business processes that are related to the particular purchase being considered. Additionally, reformulation and streamlining of purchasing processes are key elements of strategic sourcing.

5. **Enhanced Teamwork and Professionalism**: The concept of teamwork is essential to the success of strategic sourcing. Through the use of cross-functional teams that may include representatives of supplier and customer organizations, the benefits of strategic sourcing may be realized.

Source: C. John Langley Jr., Ph.D.
Figure 13.2
The Sourcing Process

Traditional Sourcing
- Tactical sourcing
- Functional purchasing
- Limited, known supply base
- Multiple quotes
- Search for best price

Strategic Sourcing
- Supplier relationships
- Expanded, nontraditional supply base
- Total cost or total cost of ownership

E-enabled Procurement
- E-sourcing
- E-procurement
- E-commerce

Integrated Sourcing/Supply Chain
- Sourcing a strategic supply chain process
- Supply chain visibility of sourcing decisions
- Seamless integration of sourcing and supply chain activity

Source: C. John Langley Jr., Ph.D.