



The Importance of a Supply Chain Perspective in Procurement Decisions

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Key Challenges in Today's Environment

The concept of procurement, the acquisition of goods or services, has been around for thousands of years. While the objectives in procurement have not changed dramatically, the ability to acquire a product or service at the lowest possible costs while meeting the buyer's needs in terms of quality, quantity and time, has become increasingly complex. This is often due to a variety of issues that are intrinsically related to the supply chain. These include:

Sustainability

Transport is the fastest growing source of greenhouse emissions and is estimated to be responsible for >20% of carbon dioxide emissions in the future. With the introduction of the carbon tax the costs to supply could change dramatically.

Globalization

Products are being sourced globally to take advantage of such elements such as labor rates and specialised manufacturing, impacting lead times and inventory requirements. (see exhibit 1)

How many countries does it take to make a jacket?

To make this jacket for the UK market, Hong Kong market garment producer Li & Fung ordered materials from factories in five countries and had delivered to Thailand, where the jacket was stitched together. Using a network of web-sites, Li & Fung stays in touch with its worldwide suppliers and can compress the time it takes to get items into stores.

China, the world's largest producer of cotton made the liner

Japan, the globe's biggest producer of stainless steel for zippers, put its teeth in this zipper

Germany, which gave the world snap fastener in the 1880s, sent the snaps



Thailand, a leading exporter of imitation fur, ringed the hood

Taiwan, which specializes in making material for outdoor clothing, produced the shell and fleece

Source: Martin Christopher (2007)

Figure 1: Globalisation of Supply Chain

- **Vulnerability:** Business decisions to dramatically reduce working capital, consolidate the supply base, and outsource operations, reduce 'buffers' to react to unplanned changes. This is in a time where the risk of environmental issues (e.g. natural disasters) appears to also be increasing.
- **Product Proliferation and Reduction in Life-Cycles:** The variety of products offered often increases the number of inputs and suppliers (see exhibit 2), while the typical life cycle of a product has decreased causing increased product (and material) write-offs / downs.



Brand



Variants and Package types

For example, the brand Coca-Cola has many variants — Vanilla Coke, Diet Coke, Coca-Cola Classic, Coca-Cola Zero, to name a few. Each of these brand variants have their own unique packaging, which may require different suppliers.

Figure 2: Product Proliferation

- **Business Alignment:** Customer requirements (e.g. multi-channel, many variants) often conflict with internal objectives (e.g. lean) and supplier capabilities requiring procurement to play a balancing act with stakeholders.

How Can this Risk and Complexity be Addressed?

For these risks to be properly managed, Procurement needs to first gain a better understanding of the supply chains for the various products and services it is acquiring. This includes:

1. Understanding the demand and supply characteristics of the product. *Is demand highly variable? Is supply reliable?*
2. Mapping out all the steps to get the product from the supplier to customer, identifying areas of potential waste, and risk.
3. Determining strategies that could be utilised to mitigate risk or reduce waste for discussion with key stakeholders.
4. Utilising (or developing) metrics to measure and communicate areas of performance (and risk) to the broader business.

Once this knowledge has been acquired, Procurement can work more closely with Supply Chain in determining the total cost of ownership and managing the inherent risks that various options provide.

The table below outlines how Supply Chain and Procurement can effectively work together across various activities:

Activities	Procurement's Role		
	Lead	Support	Informed
Sales Forecasts			●
Demand Plans			●
Supply Plans		●	
Sales & Operations Planning		●	
Manufacturing Scheduling			●
Sourcing	●		
Ordering		●	
Customer Collaboration			●
Supplier Collaboration	●		
Category Management		●	

Table 1: The role of Procurement

Keys to Success

For this to be successful Procurement needs to take the initiative in a number of areas, including:

- Take a lead role on sustainability for products and services procured and understand the implications of various supply scenarios
- Train the procurement team (and the rest of the business) in total cost of ownership
- Raise hand to assist in off-shoring / outsourcing activities to ensure a comprehensive view is established
- Conduct workshops identifying vulnerabilities / volatility in inbound supply chain and action them (this could include the supplier)
- Develop contingency plans and strategies based on potential outcomes
- Engage key stakeholders across businesses in pursuit of goals. Timely, cross-functional meetings need to become part of the culture.



Conclusion

These challenges will only intensify in the future and it is important that your organisation's Procurement function understands the diverse product and service supply chains that exist and work closely with key stakeholders to address and manage the various risks involved. Those that do it well are less likely to be impacted by the various challenges of today's operating environment and quicker to react when unforeseen events occur.

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