

# Aspects of Procurement and Supply

## Assessment criterion

1.1 Identify the common terms that describe aspects of procurement and supply

## 1 Procurement, purchasing and buying

### 1.1 Introduction to purchasing and procurement

The people who carry out purchasing activities must spend their organisations' funds carefully and wisely. To do this, they should study the principles and practice underlying the purchasing profession.

### 1.2 The meaning of purchasing

Purchasing for organisations is clearly different from the kind of purchasing we do for our own personal purposes. The people who actually use the items and services obtained by buyers are often referred to as **users** or **user departments**. For example, purchasing may obtain computer hardware for use by the finance department; in this case, the finance department is the user.

The principal flows in a very simple supply chain are shown in Figure 1.2. We can think of the basic ‘stream’ as flowing from a first supplier (perhaps a raw material extractor) to a final consumer. In relation to the firm we are focusing on (the ‘focal firm’):

- Suppliers (the firms from which it *buys* the *inputs* to its activities) are said to be **upstream**; and
- Customers (the firms or individuals to whom it *sells* the *outputs* of its activities) are said to be **downstream**.

**Figure 1.2** Principal flows in a simple supply chain



A focal firm is both a purchasing organisation (dealing with suppliers to acquire inputs to its activities) and a selling organisation (dealing with customers to sell the outputs of its activities).

### 3 Materials management, distribution and logistics

#### 3.1 Introduction

Procurement specialists now commonly take responsibility for many matters which go beyond the traditional activities of buying and contract administration. In particular, a more holistic view of the supply chain has emphasised the need to *break down* functional boundaries and barriers, so that materials-related activities can be *integrated* within a single management framework.

The terms ‘function’, ‘functional’, ‘cross-functional’ etc often confuse newcomers to the subject. ‘Function’ can mean a department (so the procurement function can mean the staff who carry out procurement activities). Equally, it can mean the activities carried out within a department (so the procurement function may refer to all the activities performed by procurement staff). ‘Cross-functional’ refers to situations when more than one department may be involved in an activity or project.

#### 3.2 Materials management

Materials management (MM) has been defined as ‘the total of all those tasks, functions, activities and routines which concern the transfer of external materials and services into the organisation and the administration of the same until they are consumed or used in the process of production, operations or sales’.

So materials management involves activities in the *input phase* of the supply chain process: that is, the flow of goods into production, through sourcing and purchasing, inbound transport, storage of materials and delivery to their point of use.

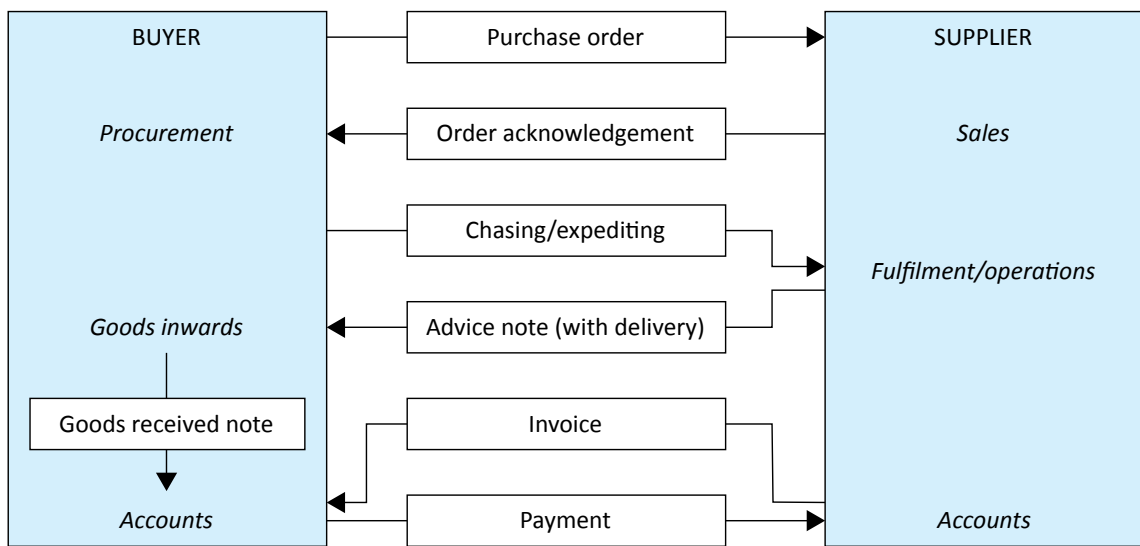
4.6 Contract documentation

Typically, the components for the actual contract will be the specification and/or invitation to tender, the supplier’s written proposal, plus any terms or modifications which may have been agreed in negotiation. The contract should be issued in duplicate and signed by both parties, with each party retaining an original copy.

4.7 The post-award phase

Once a purchase is under way, a new ‘sub-cycle’ of activity is required to follow it through to completion. This is often called the **purchase-to-pay** or **P2P** cycle, and can be depicted as a two-way flow of transactions as seen in Figure 8.4.

Figure 8.4 Purchase-to-pay activities



Now attempt Questions 22–24 from Chapter 13.

## Questions

**1** The whole set of activities associated with acquiring products or services are known as:

- A supply
- B purchasing
- C logistics
- D procurement.

LO 1  
AC 1.1

**2** Which one of the following is an upstream participant for a company in a supply chain?

- A A supplier of goods to the company
- B A direct customer of the company
- C A distributor of the company's finished products
- D An ultimate consumer of the company's finished products

LO 1  
AC 1.1

**3** Which one of the following terms describes 'the total of all those tasks, functions, activities and routines which concern the transfer of external materials and services into the organisation and the administration of the same until they are consumed or used in the process of production, operations or sales' (CIPS)?

- A Materials management
- B Physical distribution
- C Procurement
- D Logistics

LO 1  
AC 1.1

**4** Contract administration is concerned with:

- A establishing service level agreements (SLA) between buyer and supplier
- B the implementation of procedures, by buyers and suppliers, to ensure that contract obligations are fulfilled
- C maintaining communications between buyer and supplier
- D drawing up the detailed formal contract of supply between a buyer and supplier.

LO 1  
AC 1.1

**5** A company manufactures windscreens for cars and supplies them to a car manufacturer. Which one of the following is/are upstream of the windscreen manufacturer in its supply chain?

- A Buyers of cars
- B Car manufacturer
- C Producer of tyres for the same cars
- D Producer of glass for the windscreens

LO 1  
AC 1.1