

Purchasing and Supply Management

There is a long list of definitions on supply management and procurement management . But the most common definition of supply management is as follows:

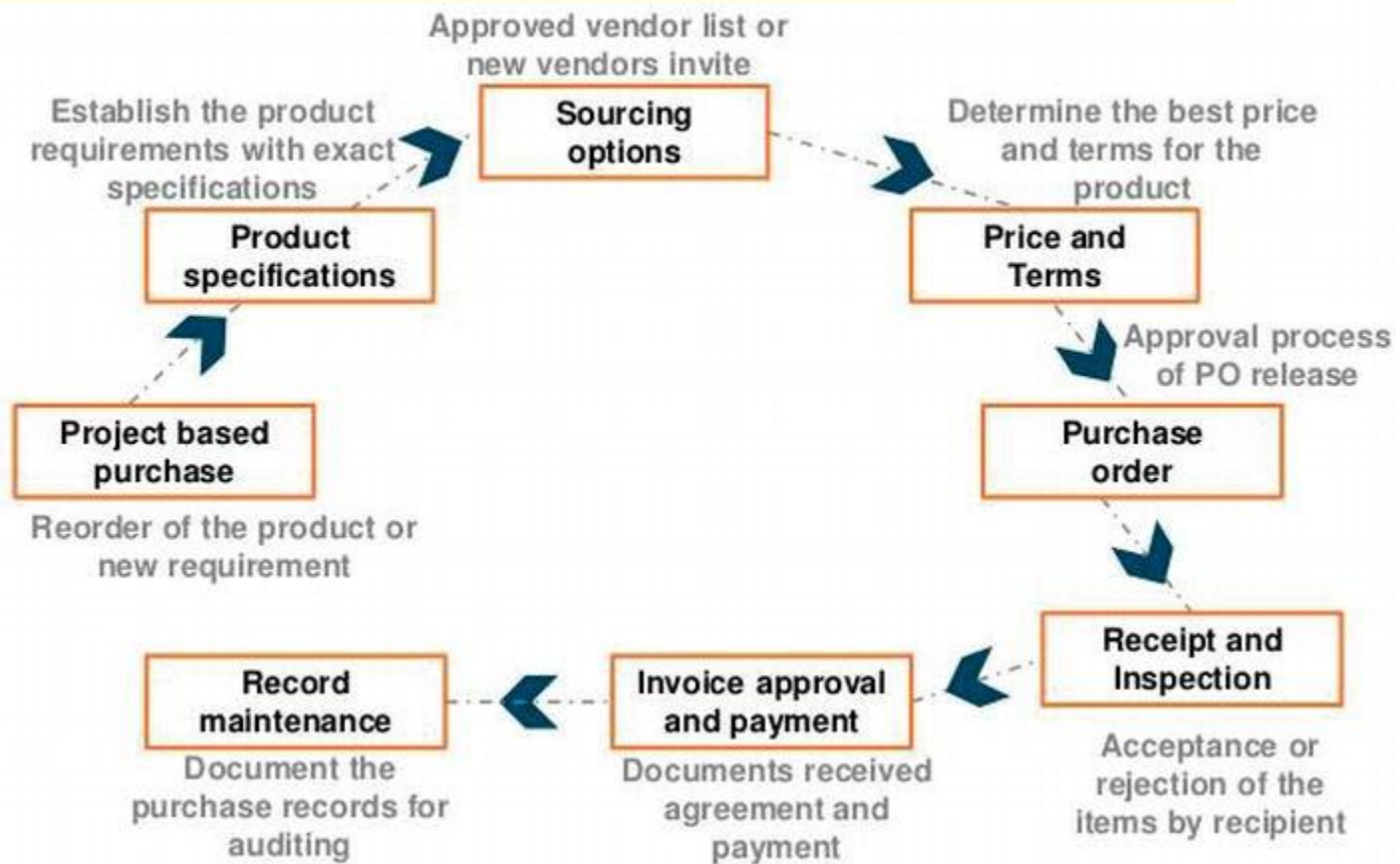


Figure: The complex procurement process.

Following are the basic responsibilities of an effective purchasing and supply management team.

1) Reducing cost

Purchasing has a direct impact on firms' profitability and expenditure. The procurement professional task is to reduce the cost of product, material or service through supplier relationship development and negotiations. In addition, procurement professionals have a responsibility to create value for the firm in terms of cost reduction and improving the quality of the item. Generally, the material cost is two and a half times the payroll costs. It is the key reason firms see great value in procurement professionals who are able to increase the quality of products and savings.

2. Negotiation

Negotiation plays a vital role in the reduction of cost and enhancing the quality of the item. Procurement professionals are tasked with negotiating terms with suppliers that benefit to the firm in terms of delivery time, quality of materials, and reduction in price/cost of material. Undeniably, this not only affects the sales and revenue of firms but also create a competitive advantage. The successful supply management professionals' team is relying on the ability to foresee long-term business relationship and strong negotiation skills.

3. Developing supplier relationships

Usually firms require suppliers on an ongoing basis due to one-off purchases are very costly and as a result, it is crucial to building a long-term relationship with suppliers. A supplier-buyer good relationship can create flexibility in the supply chain. In addition, by working with the supplier on a long-term basis, firms may increase competitive edge, higher cost savings, and fine-tune schedules.

Further, buyer-supplier relationships benefit both and build trust and collaboration, which allowing both parties to succeed [

4. Mitigating risk

Purchasing and management have a responsibility to understand the potential risks and develop innovative strategies to manage them. An effective risk mitigation strategy may protect firms from a big loss. Potential risks contain transparency and fraud, counterfeit materials and intellectual property. Further, supply management professionals need to have a plan B in place if supplies are delayed from the suppliers' side or due to changes in schedule.