

Self-test 2.1

The Procurement decision-maker might be likened to a juggler, attempting to keep several balls in the air at the same time, for he or she must achieve these seven RIGHTS simultaneously:

1. Right materials (meeting quality requirements)
2. Right quantity
3. Right time
4. Right place
5. Right source (a supplier who is reliable and will meet its commitments in a timely fashion)
6. Right service (both before and after the sale)
7. Right price

It is not acceptable to buy at the lowest price if the goods delivered are unsatisfactory from a quality/performance standpoint, or if they arrive two weeks behind schedule. On the other hand, the right price may be higher than normal if the item in question is an emergency requirement where adherence to normal lead-time would result in a higher total cost of ownership. The right price is one aspect of lowest total cost of ownership. The Procurement decision-maker attempts to balance the often-conflicting objectives and makes trade-offs to obtain the optimum mix of these seven rights. Obtaining this balance with an eye to both the short term and the long term requires Procurement managers to have both a tactical and strategic perspective.

A more encompassing statement of the overall goals of Procurement would include the following:

1. *Improve the organisation's competitive position:* As a strategic player, the activities of supply management must be focused on contributing to overall organisational strategy, goals and objectives.

2. *Provide an uninterrupted flow of materials, supplies and services required to operate the organisation:* Stock outs or late deliveries of materials, components and services can be extremely costly in terms of lost production, lower revenues and profits and diminished customer goodwill.
3. *Keep inventory investment and loss at a minimum:* One way to ensure an uninterrupted material flow is to hold large inventories. However, inventory assets require use of capital that cannot be invested elsewhere, and the cost of carrying inventory may be 20% to 50% its value per year.
4. *Maintain and improve quality:* A certain quality level is required for each material and service input; otherwise, the end product or service will not meet expectations or will result in higher-than-acceptable costs. The cost to correct a substandard quality input could be huge.
5. *Find or develop best in class suppliers:* The success of supply depends on its ability to link supply base decisions to organisational strategy and its skills in locating or developing suppliers, analysing supplier capabilities, selecting the appropriate supplier and then working with that supplier to obtain continuous improvement.
6. *Procure required items and services at lowest total cost of ownership:* Necessitates consideration of other factors — such as quality levels, after-sales service, warranty costs, inventory and spare parts requirements, downtime and so forth — that in the long term might have a greater cost impact on the organisation than the original purchase price.
7. *Achieve harmonious productive internal relationship:* Procurement managers cannot effectively accomplish their goals and objectives without effective cooperation with the appropriate individuals in other functions.
8. *Accomplish Procurement objectives at the lowest possible operating cost:* It takes resources to operate procurement: salaries, communications expense, supplies, travel costs, computer costs and accompanying overheads. The objectives of Procurement should be achieved as efficiently and economically as possible. Process inefficiencies represent waste and lead to excessive operating costs and unnecessarily high total cost of ownership.

The objectives of Procurement must ultimately contribute to the attainment of short-and long-term organisational strategy, goals and objectives.

Self-test 2.2

Some of the things that can be done to raise the profile of the Procurement function include:

1. Communicating to management the significance of the cost of procured products and services and emphasise what Procurement function can do to reduce these costs.
2. Identify and make known the impact, which suppliers can have on the organisation and that Procurement function is the link between the organisation and supplier.
3. Demonstrate to management the opportunity costs of poor service or lost sales resulting from inefficiencies in the supply chain.
4. Take advantage of training opportunities and continued training to stay relevant with the trends in procurement management and global events.
5. Recruit qualified staff for the Procurement function.