

TOPIC THREE

PURCHASING ORGANIZATION

Purchasing organization implies to gathering necessary resources and structuring the format in which the required items will be bought

Purchasing Tasks and Responsibilities

There are three (3) levels at which tasks are executed in a firm – strategic, tactical and operational.

- Strategic tasks are executed at a higher management level and have a long – term impact,
- operation tasks are executed at the middle management level and have medium term impact while;
- Tactical ones are performed at lower level management and have short term impact.

Operation tasks are performed to enable the day – to – day running of the organisation. Strategic tasks enable the attainment of the long term goal of the company (vision).

Strategic tasks

These include:

1. Purchase planning
2. Development and issuing operational guidelines and procedures
3. Developing purchasing task descriptions
4. Establishing long term contracts with preferred suppliers
5. Decisions on which sourcing strategies should be adopted
6. Portfolio management – deciding on which product categories to buy.
7. Designing, installing and maintaining infrastructure that is the set of elements that facilitate the execution of the purchasing function. E.g. methods, procedure and personnel.
8. Governance model – decisions on the diagram of the purchasing function, including the position and structure of the purchasing department, its position in the overall organisational model, and all reporting related to the purchasing function.

Tactical tasks

These include:

1. Agreement on corporate and/or annual supplier agreements
2. Preparing and developing value analysis programs
3. Adopting and conducting quality certification programs for suppliers
4. Selection and contracting of suppliers in general
5. Programs aimed at supply-base reduction
6. Handling and coordinating specifications
7. Supplier rating and supplier performance evaluation
8. Contract management
9. Implementing infrastructure.

Operational tasks

These include:

1. Ordering process
2. Expediting activities related to released orders
3. Invoice verification and payment
4. Monitoring deliveries and inspection of deliveries

5. Daily supplier management
6. Maintaining infrastructure
7. Controlling of data gathering.

Firms employ people to perform the above tasks. Titles may vary from firm to firm but they may include purchasing officer, stores manager, buyers, etc.

Basic Purchasing Models

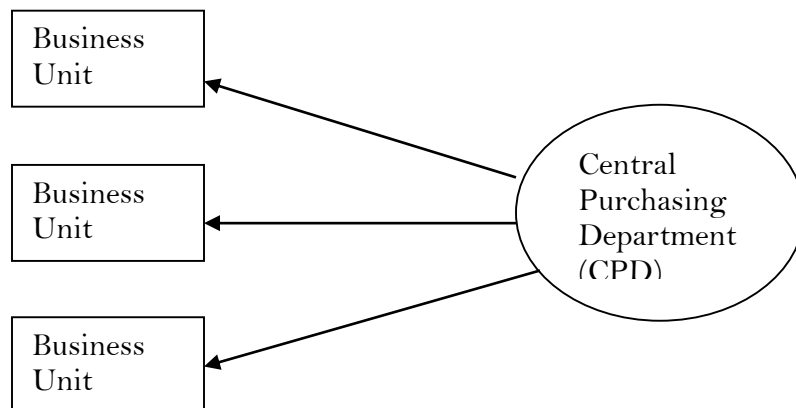
There are three basic purchasing models in organisations based on the choice of whether to perform a task at central or decentralised level. There three alternatives are centralised, decentralised and co-ordinated purchasing (A combination of these two types)

(a) Centralised Purchasing

All purchasing tasks and activities are done at central by one unit: it could be known as the Central Purchasing Department, (CPD) in some firms. All decisions relating to purchasing activities are made at this central place.

Purchasing will tend to be centralised where items needed at each unit are largely homogenous. For example, a large firm like Mukwano Group of Companies with several subsidiaries, each using a lot of stationery and large amounts of fuel. In this case, orders will be placed centrally and deliveries made against the contract as required by each subsidiaries.

Figure: Centralised Purchasing



Advantages

- Economies of scale obtained by combining volumes of purchases from all units in the organisation. This increases the bargaining power of the firm in negotiations and facilitates relationships with the suppliers.
- Avoidance of price variances between units. This helps in protecting the reputation of the firm.
- Avoidance of competition between units for materials in short supply

- Better overall stock management and material utilisation because of the fact that it is easier to exercise control and monitoring of purchasing activities
- Economies of staffing and clerical effort together
- Uniformity in procedures, forms, standards and specifications
- Less administrative costs. It is cheaper to place and process an order of 1 million shillings than ten each for Shs. 100,000
- Combining quantities is possible and this makes it possible to bargain for quantity discounts
- Suppliers dealing with a centralised purchasing department have an incentive to compete for the whole or substantial proportion of firms' requirements. In an effort to do this, suppliers will offer better prices, terms and conditions
- Cheaper prices by enabling suppliers to spread overheads/fixed costs over large quantities of supplies ordered

Disadvantages

- Bureaucratic procedures. These waste time and resources.
- Dissatisfaction within staff in the organisation as they feel someone is making decisions for them
- Needs assessment may not be well done since many units have to be considered. (Some needs may be ignored when they seem minimal yet to that particular department, it is very vital)

(b) Decentralised Purchasing

All purchasing tasks are performed at a decentralised level. Each unit is independent and handles its own purchasing, that is, they source their own suppliers and place their orders independent of each other.

Advantages

- Each unit has better knowledge of what its needs are and will therefore be able to order to meet these needs
- Flexibility - it is easier to respond to emergency requirements because of shorter communication lines and greater awareness of the local circumstances
- There are less bureaucratic tendencies. This saves time and resources

Disadvantages

1. Co-ordination and controlling the purchasing activities of the different department is not easy.
2. The firm misses out on the advantages associated with bulk purchases
3. There is lack of uniformity in the prices requested for by the units from the suppliers. This does affect the image of the organisation negatively
4. High administrative costs
5. Conflicts between departments may result from decentralised purchasing
6. User departments will resort to informal procedures if formal purchasing procedures are too slow, unreliable or otherwise unsatisfactory
7. Decentralisation can result in many activities that involve expenditure and time without adding value, i.e. duplication of activities.

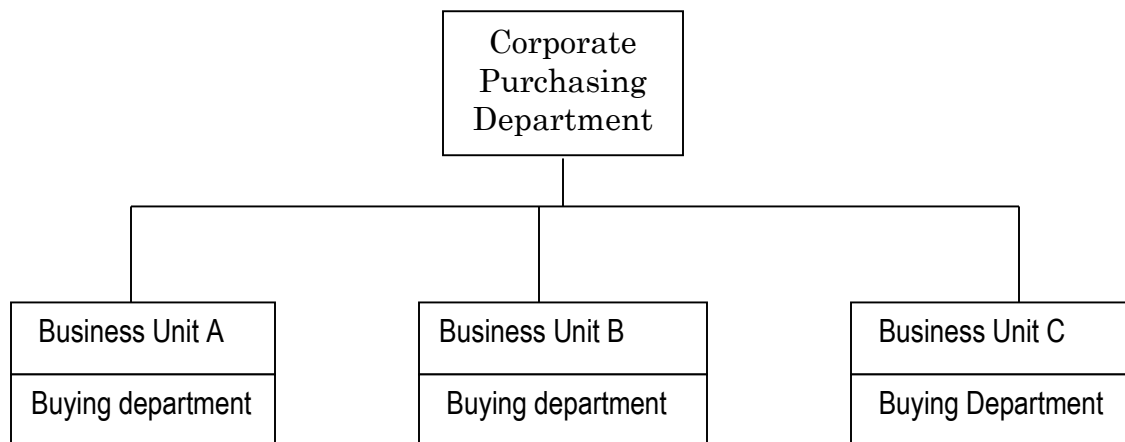
(c) Coordinated Purchasing

Generally speaking, the advantages of one approach are the disadvantages of the other and vice versa. Thus a combination of both is often used to obtain the benefit from the best features of each while avoiding the disadvantages of both approaches.

Co-ordinated purchasing therefore combines the benefits of centralised with those of decentralised purchasing. It involves a lot of managerial involvement to make sure it really works and that the decentralised model is not taking over. It requires commitment of parties and this is often the hardest part to achieve.

There is need for some kind of decision-making unit that has power over the centralised units. This is known as the Corporate Purchasing Department and is headed by a Purchasing Co-ordinator who handles only strategic tasks.

This department does not do buying (tactical tasks) but works on the strategic and supports tactical buyers working in the entire organisation. It is vital where the end responsibility of purchasing is placed – at the central level but with back up of the decentralised managers.



FACTORS INFLUENCING THE CHOICE OF A PURCHASING MODEL

- Organization policy /culture
- Nature of the requirement (homogenous)
- Volume of the requirements
- Need to exercise control
- Quality control
- Urgency of the requirements
- Human resource available
- Type of organization (single unit vs Multiple units)

FACTORS AFFECTING PURCHASING POSITION IN THE ORGANIZATIONAL STRUCTURE????