

INTERNATIONAL PROCUREMENT MANAGEMENT

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INTRODUCTION

International procurement is buying outside the firm's country of manufacture in such a way that does coordinate requirements among worldwide business units of a single firm. It is a very high profile international business driven by elements like technology, marketing, cyberspace opportunities, logistics, finance, culture, social – economic well being and wealth creation.

WHY ENGAGE IN INTERNATIONAL PROCUREMENT.

The decision to buy overseas does require a strategic vision to be adopted within the company to ensure that the goods bought are in line with the company's business plan. There are a number of reasons to explain why firms carryout international purchasing.

Lower prices. This may be due to low labor costs, quality control and more efficient production technology. There is need for firms to obtain goods from the cheapest available source.

To obtain raw materials, components or finished goods which are not available in the buyer's country, maybe because the buyer needs them for the business or has identified a market for a particular overseas product?

Intense international competition which is mainly a result of globalization and liberalization of state economies. Companies will have to find products which can compete favorably to stay in business.

Stringent quality standards: This occurs in situations where the local suppliers cannot meet the required standards to operate thus forcing them out of business and leaving room for only international suppliers.

Ever changing technology, firms in Laces have to cope with the dynamic changes in technology by buying from foreign suppliers whose countries can afford to invest in science and technology research.

It enables a wider choice of supplier's products to be considered and bears the cost and risk of transfers: all the research and development costs and associated capital investment risks are borne by the exporter. It may be developed jointly with the seller taking the investment risks.

Domestic non availability, countries have been endowed with different resources, therefore firms in countries without resources are force to buy from international suppliers.

Insufficient domestic capacity to meet the demand, this occurs where the domestic suppliers are incapable of meeting the demand either due to size of operation or out of lack of capital for production on a large scale. Firms will therefore identify and buy from capable international suppliers.

Outsourcing products permits immediate availability and no lead time in product development and production. It also enables the buyer to keep ahead of the market and not be constrained by domestic design and production delays.

The startup capital for a new business is much reduced for a company relying on imported products rather than committing heavy investment to manufacturing plants.

Flexibility, adaptability and responding to market opportunities are key factors in business strategy today. The international entrepreneur must adapt a proactive rather than a reactive strategy. Hence, the product range can be quickly changed by switching suppliers and keeping up with fashion trends. Unlike the supplier, the buyer has no development costs to write off.

Logistics as a driver in globalization of markets is shortening the supply chain through continuously improving transit times. This has reduced the capital and goods tied up in transit making the cost reduction benefit inherent in buying overseas even more attractive.

ROLE OF PROCUREMENT FUNCTION IN INTERNATIONAL PROCUREMENT.

The purchasing function traditionally encompasses the process of buying. It involves determining the need, selecting the supplier, arriving at the proper price, specifying terms and conditions, issuing the contract or order, and following up to ensure proper delivery. In the old days, it was argued that the purchasing function should obtain the proper equipment, material, supplies and services of the right quality, in the right quantity, at the right price and from the right source. In this description, the purchasing function is regarded predominantly as an operational activity whose role in international purchasing includes:

- a) Determining the specification of the goods and services that need to be ordered or bought.
- b) Selecting the most suitable supplier and developing procedures and routines to select the best supplier.
- c) Preparing and conducting negotiations with the supplier in order to establish an agreement and to write up the contract.
- d) Placing the order with the selected supplier and or to develop efficient purchase order and handling systems.
- e) Monitoring and control of the order to secure supply (expediting).
- f) Follow up and evaluation which includes; settling claims, keeping product and supplier files up to date, and to write up the contract, supplier files up to date, supplier rating and ranking etc.

A number of research studies into why companies buy overseas are mainly to benefit from lower prices from foreign suppliers and availability of products that are not obtainable domestically.

Costs Associated with International Procurement

- Transportation and Logistics Costs – This includes freight, shipping, handling, and storage fees etc.

- Tariffs, Duties & Taxes.
- Currency Exchange and Financial Costs.
- Inventory Carrying Costs.
- Quality Control and Compliance Costs.
- Supplier Management & Hidden Costs

CHALLENGES OF INTERNATIONAL PROCUREMENT .

Many buyers are reluctant to buy from overseas because of difficulties encountered in the process.

- Just in time sourcing requirements: these make it difficult for firms to buy abroad because of the distance and the requirements of ordering which take a lot of time.
- Culture and language differences that complicate communication in the international purchasing process.
- Finding qualified foreign suppliers: Many buyers have fallen prey to fraudulent suppliers especially on internet purchasing making it difficult for them to build trust.
- Logistics support for longer supply links. Logistics is the process of managing both the movement and storage of goods and materials from their source to the point of ultimate consumption and the associated information flow.
- Duty and customs regulations in the different countries with which international purchasing is carried out.
- Fluctuations in currency exchange rates.
- Knowledge of foreign business practices.
- Nationalistic attitudes and behavior.
- Understanding the political language.

HOW TO MANAGE CHALLENGES IN INTERNATIONAL PROCUREMENT

Measurement and monitoring global supply chain. Keep monitoring the activities to know if the pre-set objectives are being achieved and if they are not take corrective action

Integration, there should be coordination amongst players in the supply chain so that activities and any other risks can be handled together with ease, this is especially through sharing information within the supply chain

Top management support, the top managers of the players should be willing to continuously invest in global supply chain with its various aspects like technology which is a major facilitator of global supply chains

Change management initiatives, the globe is dynamic , changes like in demand and supply, climate that affect the supply chain in different ways are always occurring thus strategies should be put in place to help the chain keep in business or recover after these changes.

Innovations, this includes investments in new markets, products and adoption of new and efficient technology, this makes the supply chain compete favorably with the others.

Capacity building, this can be done by putting in place training programs to keep the skills of the players updated to produce standard work

Putting up efficient information systems, putting up information systems to capture information and used for communication among players facilitates buying and selling in the chains since communication is paramount in the chains.

Optimize the size of the supplier base thus determine the best number of suppliers to optimize cost and performance, this enhances visibility into the global chain in that it will be easy to identify where the performance is low, why and be able to take corrective action.

Use strategic supplier alliances for effective collaboration with these alliances your supplier will be able to consider your company first in case of any deliveries thus eliminating situations of delivery delays and failures.

Search globally for potential suppliers, take a wide coverage for global sourcing so that the best suppliers globally can be reached restricting global sourcing may enable access to a few suppliers who may not even be the best.

Use suppliers that practice total quality management in order to be supplied with quality products or materials, because quality from can only be acquired from a supplier practicing quality management.

Continuous measurement of performance, develop metrics to measure performance to determine if the objectives are being met, this helps keep track of the different activities and their benefits and constantly finding ways to improve them to be able to out compete the competitors.

Provide suppliers with accurate forecasts of demand, this will make sure that they provide the required supply at the times required and at the lowest cost, inaccurate forecasts lead to dissatisfaction of customers in case of stock outs and yet the need the item , delayed or less quantity deliveries which makes them turn to competitors

Minimize inventory costs by using inventory management techniques like just in time, or supplier managed inventories, keeping lots of inventory comes with many costs of maintenance, safety and so on which in the long run reduce profits therefore with the use of such techniques one will be able to prevent these costs in the global supply chains.