3
A Strategic Role for Purchasing and Supply

‘You will not get money out of a job by beating the table with the supplier and saying: I want 30 per cent out of the cost. All you get is two, three, four, five per cent at best. We can remove 70 per cent in cost by working closely with some suppliers, and that is to their benefit as well.’

Supply chain development manager, military electronics company

Following the review of environmental issues concerning industrial activity, this chapter will introduce the subject area of the study – purchasing and supply chain management in manufacturing companies. Charting the evolution of supply chain management from a largely clerical to a function of increasingly strategic importance, its main contributions to increasing manufacturing efficiency and profitability are discussed. Supply chain management can achieve cost reduction and quality improvements by tapping into supply chain capabilities, and hence can largely influence the success of a manufacturing company. Because of its boundary-spanning role, purchasing and supply also acts as an early warning system to detect changes in the corporate environment.

A strategic approach to purchasing and supply requires not only the co-ordination of supply base activities but also collaboration with other internal functions, such as engineering or marketing. Strategic supply also necessitates new forms of relationship, such as alliances and partnerships. Supply increasingly takes on a global outlook and utilises information and communication technology. A strategic approach to supply, furthermore, has implications in terms of power and trust in supply base relationships. Some forms of power may strengthen supplier commitment to co-operation, while others will induce the supplier to develop its
own power base. Equally, a high level of trust in the supply relationship can have benefits and disadvantages for the buying company.

**From organisational buying to managing supply**

The idea of a supply chain is not a new one. It has been perceived traditionally as a linear sequence of organisations ranging from the extraction of raw materials through various processing and assembly stages to the distribution of the finished product to the user. Supporting organisations provide transportation, communication and other specialised services. In this view, the supply chain is essentially a series of independent companies connected through their individual buying and selling activities (Schary and Skjott-Larsen, 2001). Such an initial model of a supply chain can be expanded in a horizontal direction into a supply network, as it usually is a number of companies that perform the individual transformation stages. In recent years, the supply chain or network has also expanded beyond the traditional end-point, the user or consumer, to take into account product take-back and recycling initiatives.

The supply chain is increasingly becoming an important concept in modern manufacturing. Since technology and customer requirements are changing ever more rapidly, companies struggle to master all the individual steps involved in manufacturing their products. Competition increasingly takes place not between individual companies but rather between networks of companies. The challenge is thus to co-ordinate the activities of one’s own supply chain in a better way than those of competing chains. Supply chain management needs to move from providing an interface to creating integration along the whole chain and connecting upstream and downstream activities. The management of these often complex systems can be defined as encompassing three elements; (i) all the activities associated with the flow and transformation of goods from the raw materials stages to the final user; (ii) the associated information flows up and down the supply chain, and (iii) the management of supply chain relationships with the aim of achieving a sustainable competitive advantage (Handfield and Nichols, 1999, p. 2). Supply chain management is thus perceived as the management activities that link together all the stages of manufacturing within a supply chain or network. It is understood here as a function, as opposed to a designated person or department, and includes companies, often smaller ones, where buying may be undertaken by employees who are not dedicated exclusively to managing supply.