



Unit 11

Tools of Trade

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Apply the tools of the procurement trade, from PC-based applications to cloud-based solutions

Unit 11

Tools of the Trade

Digital Systems

The Evolution of Technology

While the reality of procurement and supply chain management has become more complex over time, the development of computer systems to support the logistics necessary has added lots of opportunity for efficiency. A very simple example of this is how computers can replace inventories of repetitively used items and simplify tasks like internal accounting and control.

In the mid-1990's, General Electric developed their Trading Process Network (TPN) to help buyers collaborate with suppliers via digital means. This tool was capable of coordinating with all aspects of the supply chain, and linked the enterprise with the international trading community. Nowadays, it is possible for a very small solopreneur type of operation to operate out of their warehouse using similar technology and to participate in supply acquisition globally.

Debit, Credit, and Virtual Terminals

The use of corporate credit cards by employees for material purchases and small orders is common. It helps to eliminate the need for many purchase orders and can reduce the purchasing cycle time, while improving relations with operating departments. Of course, it also facilitates much faster payment to suppliers and reduces some of the workload for accounts payable tasks.

While some companies shy away from debit cards for employees, this process does come with credit transaction documentation that can be very helpful. This was not always the case in the past, when an accounts receivable clerk was trading petty cash reimbursements for paper receipts that employees would submit. We are also seeing banks advertise that the business debit card is preferred over cash, faster than issuing a check, and simpler to track. Both debit and credit cards offer detailed records as well as built-in authorization levels that allow for control and protection against unauthorized use.

Supplier Stores

If your organization purchases a large volume of materials from a single supplier, the supplier will sometimes open a small store within your location and operate it with their own staff. Users simply visit the store and sign for their purchases. At the end of each month, or the agreed-upon billing period, the company is billed for all purchases. This arrangement is not practical for short-term procurement, so the purchaser must take good care in supplier selection and in negotiating a contract.

Supplier Delivery System

This revolves around the concept of a supplier who gathers up purchase requisitions until a specified date, and on

the required day delivers the materials ordered in that batch of requisitions. This works well with suppliers who are able to make daily or twice weekly deliveries, for example, and for organizations that tend not to require a lot of expedited deliveries.

Electronic Data Interchange (EDI)

Advanced systems now enable the electronic transfer of customer and supplier information through what is called **Electronic Data Interchange** (EDI for short). Early EDI implementations were driven by retail customers to improve the flow of orders, and was the precursor to what are now highly advanced point-of-sale systems that we see frequently in retail marketplaces.

With the move to intranet-based systems, even small businesses can now afford EDI infrastructure. The benefits of EDI are numerous, and it is seen as a stepping stone to many of the more advanced technologies we currently use. EDI saves money and time because of the speed at which transactions can be sent from one information system to another, eliminating the printing and handling of paper and manual data input.

Following the rapid acceptance of EDI came the launch of systems known as **Enterprise Resource Planning** (or ERP). The goal of ERP is to integrate all business planning and processing. These systems take an individualized or siloed business approach for each of the business functions and then deposit data in a centralized database. It makes it much easier to track workflow across various departments, although cost, implementation, time, extensive user training, and difficulty migrating data have been common issues.

Companies that have dominated ERP include Oracle, SAP, JD Edwards, and PeopleSoft. For the purposes of supply chain management, ERP systems often lack a supplier and customer interface. However, e-commerce integration is possible with these systems if they are enhanced to include web-based order tracking and processing.

E-Commerce

SRM and CRM

The power of the Internet has provided a bridge between organizations and suppliers and customers, through ERP systems. This has developed into a concept known as **e-sourcing** and continues to develop today, with increased functionality being developed to better manage both the supply base through Supplier Relationship Management (SRM) and Customer Relationship Management (CRM) processes.

SRM systems have been designed to enforce compliance with procurement guidelines, and to ease the specifics required to undertake contract spending. SRM software helps organizations accelerate the businesses' procurement to payment processes through automation and simplification. SRM automates operational processes that reduce purchasing errors, eliminate manual tasks, and prevent over-buying. SRM is also one way to build collaborative supplier relationships by integrating suppliers into the supply chain.

CRM is a business strategy designed to understand, anticipate, and respond to a customer's needs. A primary objective of a CRM system is to provide a consolidated and holistic view of the customer relationship as it exists throughout the organization. CRM can also help to better manage communication and interactions with customers because it can analyze and understand customer data to predict customer behavior, identify purchasing opportunities, and better serve customers overall.

Now, go through the list and circle or check the tools that are the most effective.

Evaluating Your Department

A leading purchasing department will consistently review their purchasing practices to seek feedback and continued improvement. The last item in your toolkit, then, is a format for creating an annual report.

An annual report is a tool to help stakeholders, management, and internal departments look critically (and helpfully) at the procurement department, and to seek additional opportunities to improve. It is also an effective way to remind your organization about why the purchasing function needs to be integrated with functional areas and management, and to be a part of the decision making process.

Categories can easily be tailored to best work with your organization, although it's a good idea to come up with one template that can be used repeatedly so that you have year-over-year analysis to look back on.

Recommendations for your annual report include:

- Total expenditures, broken down by category and supplier
- Major contracts
- Total calculable savings (with backup documentation, of course)
- Future cost reductions (related to prevention of forecasted price increases)
- Price trends
- Quality ratings compared to goals
- On-time deliveries compared to goals
- Number of visits and meetings with key suppliers
- Inventory levels, including returns and low stock or ran out of stock events
- Training and education activities for procurement team conducted during the evaluation period
- Key personnel profile updates
- Updates to purchasing policy manuals, websites, and supplier information (such as welcome packages)
- Risk management activities
- Highlights of major negotiations
- Analysis of industry trends affecting materials
- Forecasts of price, capacity, regulation changes, and other factors that readers will benefit from
- Forecasts for next year's anticipated projects and activity levels

The report needs to be prepared for anyone within your organization that has a direct relationship with the

Further Reading:

- ✓ Rogers, Stephen C. 2009. *The Supply-Based Advantage: How to Link Suppliers to Your Organization's Corporate Strategy*. AMACOM.
- ✓ Semanik, John, and Fred Sollish. 2012. *The Procurement and Supply Manager's Desk Reference (2nd Edition)*. Wiley.
- ✓ Tate, Wendy L., and Council of Supply Chain Management Professionals. 2014. *The Definitive Guide to Supply Management and Procurement: Principles and Strategies for Establishing Efficient, Effective, and Sustainable Supply Management Operations*. Council of Supply Chain Management Professionals.