

procurement

by Youxin Lin

Submission date: 02-Apr-2019 02:39PM (UTC+0100)

Submission ID: 103883707

File name: 12836_Youxin_Lin_procurement_170041_409784092.docx (86.09K)

Word count: 2887

Character count: 17319

Procurement

Youxin Lin 1805162

1. Executive summary

This paper selects Tesco as an example to study its procurement strategy. First, it starts with supply chain analysis and then extend to the procurement strategy. Secondly, through in-depth analysis of Tesco's strategy through different perspectives such as outsourcing strategy, product quality management, and inventory management. Among them, the Kraljic Matrix model was adopted to study its different approaches to leverage projects, strategic projects, bottleneck projects, and non-critical projects. Finally, through the study of the case "horse meat case", the shortage of Tesco in procurement and the countermeasures taken by the company were obtained.

2. Introduction

According to (R.Smeltzer, 1997), strategic Procurement is the process of "planning, implementing, evaluating and controlling strategic as well as operational procurement decisions to guide all activities of the procurement function to achieve opportunities consistent with the company's ability to achieve its long-term goals"

Overall, long-term and systematic are the three terms that best describe strategic sourcing. The procurement approach focuses on the company's current and future needs (Lysons, 2006). One of the main focuses of strategic sourcing is the low Good point cost of ownership and the lowest supply line risk. An important part of strategic sourcing is by creating closed-loop links. Since this cycle exists between the supplier and the customer, elements such as delivery can be continuously improved.

The basic business process of Tesco is supply-buy-distribute-market-sell. (Robert Mason, 2015)Tesco is not only a successful retailer, but also a major logistics and supply chain executor. So this article selects Tesco as the research object to study its procurement strategy. As we all know, Tesco sells hundreds of different types of products. Therefore, it is especially important to analyze how it works and the roles played by various departments.

Good Intro.

3. The background of Tesco

Founded in 1919, Tesco was founded by Jack Cohen. Since its establishment, its business field has gradually expanded from food to automobiles, clothing, furniture and many other fields. In addition to having many stores in the UK, the company has a number of stores in Asia, Europe and other countries. After 1995, the company responded to the general trend of Internet shopping, and it turns from only physical stores to online shopping. As of 2016, his market value is about 190 pounds, becoming the world's third largest retailer. (Ryle, 2013)

4. supply chain overview

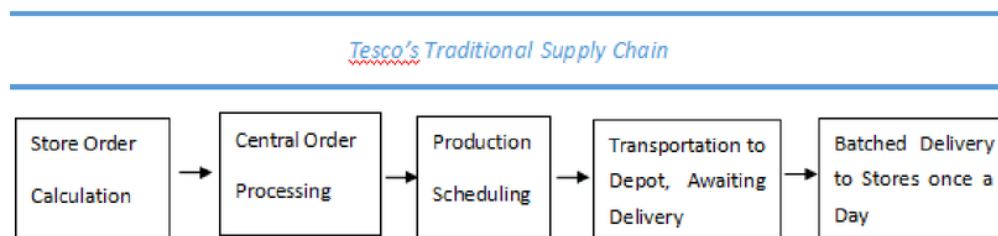


Figure 1: supply chain of Tesco

Source: (UKEssays, November 2018)

Tesco takes an environmentally friendly supply chain from end to end. In general, it has the following points:

1. Purchasing locally grown or produced goods as much as possible, the most simplified packaging
2. Reduce carbon implantation during the construction of the logistics center, and save energy in design
3. Transportation optimization and use of fuel-efficient vehicles
4. Investment in the construction of distribution centers
5. Large-scale delivery to the logistics center saves transportation costs compared to sending it to each store separately
6. Use palletized transport to speed up loading and unloading
7. Integrated delivery instead of multiple shipments in small batches
8. Fast vehicle turnover improves vehicle utilization
9. Return to bring goods

Development process of Tesco's procurement strategy development process

Currently, Tesco operates local and global sourcing. Tesco's procurement and operations strategies are constantly evolving and can mainly be divided into four stages. The first is the time to deliver directly from the supplier to the store, and the second step is to adopt a centralized regional distribution system model in the late 1970s. The third step is the integrated distribution strategy of the late 1980s. In the 1990s, the fourth step was vertical cooperation in the supply chain. Carefully using sharing information and technology across the supply chain was the key to simplifying the supply chain process. The Internet-based secure data exchange system triggered information sharing with vendors in 1998. The primary purpose is to provide suppliers with information about contemporary inventory assets. These strategies streamline logistics to generate further cost-effective capabilities. This has led to negotiations for a more competitive distribution rate. Continued changes and improvements have resulted in significantly shorter lead times for stores and suppliers. (UKEssays., November 2018.)

Between 1983 and 1996, Tesco's procurement strategy developed the fastest, introducing a variety of methods such as centralized ordering, centralized distribution, point-of-sale scanning, automated warehouse control and electronic data exchange. Graham Booth, who served as Tesco's Supply Chain Director from 1985 to 2002, mentioned the need to unify suppliers and cross-site distribution centers. (Gupta & Perepu, 2016)

5. Analysis and Application of Tesco's Purchasing Mode Strategy

1. E-procurement process - global procurement

The process of Tesco global procurement is divided into two types: new product procurement and repeated procurement. These two kinds of procurements reduce the procurement cost of the e-shop, and provide new products to the global procurement network through the manufacturers, so that the procurement information of the new products is updated in a timely manner, and the corresponding products are matched, so that the e-shops are easy to purchase. The stock quantity is rationalized, and the goods are delivered in a timely and reasonable manner, which improves the efficiency and accuracy of the operation of the easy-to-buy business, reduces the risk, reduces the backlog of the goods, and ensures the high-speed operation of the funds.

2. Tesco's low-cost procurement model strategy

The reason tesco can stand out among many companies is its low price and reliable quality. It reduces the cost of goods by means of centralized procurement. This means that tesco has set up a separate organization to communicate with suppliers. Each affiliated store can make recommendations to the headquarters. Among them, tesco can bring the following advantages: 1. Large-volume procurement can reduce prices more efficiently. 2. Purchasing behavior can be standardized and unified. 3. One-time large-volume purchase can reduce logistics costs and reduce the number of delivery times. Good point

3. Buy out the product and settle the payment to the supplier on time.

Due to the risk of retail goods, many merchants take the agency sales method in order to transfer the risk of goods being sold, that is, the goods that cannot be sold can be returned to the manufacturer. However, Tesco has adopted a policy of buying out the purchase and has settled the account at a fixed time without delay. For example, the US's third-largest zero-selling Kmart has settled an average of 45 days for suppliers, and Tesco has settled on average for 30 days, which promoted cooperation between suppliers and Tesco, which also guarantees Tesco purchase. Get the best price when you get the best price 3. Sharing with supplier information through computer networking In the late 1980s, through electronic data exchange systems and computer networking, Tesco began to share information with suppliers, allowing suppliers to understand the sales and inventory of their products at Tesco in the first place, so as to arrange production and transportation in a timely manner. This increases the efficiency of the supplier's operation and reduces the cost of the supplier, which is one of the reasons why suppliers are willing to offer low-priced products to Tesco. Good point

4. Supplier partnership

By directly signing agreements, Tesco has established a long-term procurement relationship with suppliers, eliminating the need for previous agency links, and effectively reducing costs, thereby benefiting consumers. From then on, Tesco takes the "buy-out sales, regular settlement" approach to benefit suppliers, rather than adopting a sales-based model to completely transfer operational risks to suppliers. Not only that, but Tesco is also actively helping suppliers improve management and continuously improve their own management level, so that Tesco's entire supply chain management is in a virtuous circle. Citation Needed

6. Key procurement issues

1. Outsourcing management

Although Tesco has many advantages such as strong retail brand, customer loyalty, financial power, etc., it also lacks experience and expertise in many fields, so Tesco has adopted ICT outsourcing. Information and Communication Technology (ICT) includes all-tech means for processing information and assisted communications, including computers, networks, hardware and software. This technology gives organizations some ways to acquire experts, services and personnel or teams. Outsourcing partners focus on this specific business process and provide technical support. By improving costs, quality, service and speed, they reduce operating costs (marketing, development, and research) and improve the benefits of tesco. (UKEssays, November 2018)

2. TQM (Total Quality Management)

TQM is a key part of Tesco management. It involves not only ensuring the quality of products and services, but also the way in which the business is conducted in order to achieve customer satisfaction. When Tesco buys food from a supplier, it is the customer, which manages its overall quality by: Prevention: Avoid manufacturing defective products. Zero Defects is to produce products which have no defects and minimize defect levels as much as possible. Do things well beforehand: This means it would rather not produce products than produce defective products. Quality involves everyone: this concept is applied to the operations departments and production, as well as other business units of the organization, such as finance, human resources and marketing. Continuous improvement: lean management concepts is applied to seek product and process improvements. Employee involvement: - Employees involved in production and operations processes to get their feedback.

(UKEssays., November 2018.)

3. Inventory management

Tesco introduced cross-dock operations and applied collaborative planning, forecasting and replenishment (CPFR) to support its inventory management (Gupta & Perepu, 2016). Tesco analyzes demand patterns and shares data over the CPFR system to reduce Good point inventory costs, ensuring product availability and forecasting Income inventory. In other words, Tesco can control inventory with low inventory levels to meet demand and customer needs. As a retail industry, inventory management is very important. Too much inventory will

increase the cost of inventory, while too little inventory will result in a temporary out of stock situation. However, a perfect and timely inventory model has always been the ideal choice (Witt, 2008). Tesco follows the principle of just-in-time. Through the network companies can make scientific and reasonable forecasts when product demand is uncertain to ensure the right amount of inventory.

4. Sourcing management

This paper takes the citrus product as an example to introduce some of Tesco's purchasing strategies.

Citrus usually grows in water-scarce countries such as Spain and South Africa, and Tesco works with growers in these places to reduce the pressure and monitor farm water use on the local environment for the cultivation of these products. In addition, citrus production also has great challenges in terms of farms and packaging facilities, so Tesco, in partnership with other countries, is vigorously pursuing sustainable agriculture to improve environmental and pollution impacts. Besides, a full-time responsible procurement manager who works with suppliers was employed in South Africa to support the strengthening of industry standards and ensure good working conditions.

And below is a brief introduction to some other foods and their sources.

Types of food	Sourcing	Attractive Point
Bananas	Alliance Certified farms (like Colombia, <u>Costa Rica</u> , Ecuador and West Africa)	The 5-year partnership with the manufacturer can better ensure an effective link between the two companies.
Berries	the <u>Huelva</u> region and other European food companies	In the face of water stress, <u>Tesco</u> has chosen to work with WWF to ensure that water use is reduced while the product is fresh
soy	South America is one of the world's biggest producers	As part of the Consumer Goods Forum (CGF), <u>Tesco</u> is currently implementing the UK Zero Deforestation Soy Transition Plan to reduce damage to the forest.
cocoa	From Rainforest Alliance Certified sources.	Already launched the cocoa programmes – Rainforest Alliance, UTZ, Cocoa Horizons and <u>Fairtrade</u> .
salads	Some of suppliers are industry leaders in terms of the use of innovative anaerobic digestion and energy efficiency	Working with the Sustainable Agriculture Platform to reduce the risk of workers being exploited
Palm oil	certified by the <u>Roundtable on Sustainable Palm Oil</u> (RSPO)	collaborating with the Consumer Goods Forum and the RSPO to achieve zero-net deforestation in our sourcing of palm oil by 2020
Tea	certified by the Ethical Tea Partnership	Collaborating with the <u>Oxfam</u> , the Malawian tea association and leading tea brands in order to improve productivity and empower workers.

Table 1: Main food sources

Source: (tesco, 2019)

In general, Tesco will purchase raw materials from the UK and set up purchasing points in areas such as Scotland, Wales and Northern Ireland, which will enable Tesco to get closer to suppliers. Not only that, but it also has an international vision and has different sites in various countries around the world, such as sourcing garments from India and purchasing fabrics from China, Bangladesh.

7. Analyse with Kraljic Matrix

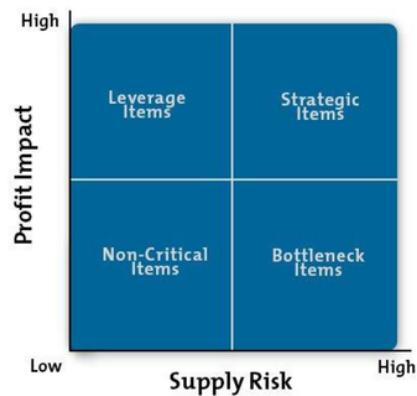


Figure 1 – Product Purchasing Classification Matrix

Source: (Kraljic, September 1983)

The first category is Leverage Items, which is a procurement project with more suppliers and higher profits for buyers. It is easier to replace a supplier.

The cost reduction plan adopted by Tesco has a method of centralized procurement. At present, as the number of purchases increases, Tesco is developing towards centralized and regionalized procurement. In 2003 and 2004, Tesco established some large distribution centers in Hungary, the Czech Republic and Poland to reduce costs and improve procurement efficiency through a coordinated approach.

The second category is Strategic Items, which are critical to the buyer's production process or product. These projects often have high supply risks due to transportation difficulties or scarcity of supply.

The cost reduction plan adopted by Tesco is to establish long-term partnership with suppliers. On the basis of mutual trust and mutual support, the two parties should take long-term mutually beneficial cooperation to share risks and share benefits in order to achieve common value objectives.

The third category is the Bottleneck Items, which are procurement items that can only be provided by a particular supplier.

The cost reduction plan adopted by Tesco is to optimize the products in the early stage of design and try to choose alternative products. For new products, research on the functions of products or services, at the lowest life cycle cost,

through the methods of elimination, simplification, change, substitution, etc., to achieve cost reduction.

The fourth category is Non-Critical Items, which refers to those which are easy to purchase, rich in supply, and have low financial impact.

The cost reduction program adopted by Tesco is non-core procurement outsourcing, which increases the value of procurement by transferring inefficient assets or processes to third parties that provide greater economies of scale, process efficiency and expertise. Realize resource sharing through internal and external resource integration, help enterprises improve supply chain management efficiency, and build core competitiveness of enterprises.

(Bhasin, 2018)

8. Case study of Tesco's Weakness

The Irish Food Safety Authority (FSAI) recently detected through DNA that Tesco's Everyday Value series of spaghetti bolognese has a horse meat content of more than 60% and beef burgers contain 29% horse meat. Among them, Liffey Meats and Silvercrest were the suppliers which produced hamburger food containing horse meat DNA.

Tesco believes that mutual benefit and mutual trust were the keys to their relationship with suppliers. While they control the quality of suppliers' products, suppliers themselves are also diligent in self-inspection. However, this incident is obviously that the supplier has not reached the quality control standard of Tesco. The outbreak of the incident has hit consumers' trust in the quality of Tesco foods, resulting in the evaporation of Tesco's market value of nearly 300 million pounds. The stock exchange price fell by about 1%, closing at 3.496 pounds. (Hodge, 2013)

Tim Smith, head of Tesco's technology department, said in a statement that Tesco will conduct in-depth tracking of pollution sources and inspect 15 other product lines in the same factory before informing suppliers to continue to supply.

Philip Clarke, president of British supermarket chain Tesco, said that in future production and purchases, Tesco will source raw materials from the UK, reduce meat imports, and sign contracts with local farmers to make the supply chain more pure. At the same time, since July, all chicken products sold at Tesco will be sourced from UK farms.

9. Conclusion

Tesco's ability to achieve today's success is largely due to the proper use of its cost leadership strategy. Tesco established a cost-leading competitive strategy and implemented it correctly. Secondly, Tesco vigorously develops modern logistics and reduces circulation costs. It regards logistics as the key to optimizing production processes and strengthening market operations, and unifies logistics activities such as warehousing, transportation, loading and unloading, procurement, packaging, and distribution in one department. Planning and unified operations and management. In addition, Tesco increased its investment in technology and improved information management technology. Actively introduce and use various advanced information technologies such as network technology, EDI, artificial intelligence, barcode and POS, so as to truly realize the commodification of logistics information, database and computerization of logistics information collection, and provide information for the realization of integrated logistics. Technical Support. All of the above are key factors in the success of the procurement strategy.

References

- Bhasin, H., 2018. *What is The Kraljic Matrix – Portfolio Purchasing Model?*. [Online]
Available at: <https://www.marketing91.com/the-kraljic-matrix/#1-Strategic-Product-Items>
[Accessed 24 3 2019].
- Gupta, V. & Perepu, I., 2016. Tesco's Supply Chain Management Practices. *IBS Center for Management Research*, p. 19 .
- Hodge, K., 2013. *Horsemeat scandal: Tesco drops burger meat supplier after 'breach of trust*. [Online]
Available at: <https://www.independent.co.uk/news/uk/home-news/horsemeat-scandal-tesco-drops-burger-meat-supplier-after-breach-of-trust-8472183.html>
[Accessed 7 3 2019].
- Kraljic, P., September 1983. Purchasing Must Become Supply Management. *Harvard Business Review*, 61(5), pp. 109-117.
- Lysons, K. a. F. B., 2006. *Purchasing and Supply Chain Management*. London: Pearson Education Limited.
- R.Smeltzer, A. S., 1997. An empirically based operational definition of strategic purchasing. *European Journal of Purchasing & Supply Management*, 3(4), pp. 199-207.
- Robert Mason, B. E., 2015. *The Lean Supply Chain: Managing the Challenge at Tesco*. Great Britain, the United States: Kogan Page Limited.
- Ryle, S., 2013. *The Making of Tesco: A Story of British Shopping*. Great Britain: The Making of Tesco:

A Story of British Shopping Bantam Press Great Britain Ryle, Sarah.

Ryle, S., 2013. *The Making of Tesco: A Story of British Shopping*. Great Britain: Bantam Press.

tesco, 2019. *Addressing the sustainability challenges in our top 20 products and ingredients*.

[Online]

Available at: <https://sustainability.tescopl.com/sustainability/sourcing/top-20/>

[Accessed 22 3 2019].

UKEssays., November 2018.. *Tesco and Sainsbury Logistics Operations [online]*.. [Online]

Available at: <http://www.ukessays.com/essays/management/management-of-logistics-operations-tesco-vs-sainsbury-management-essay.php#citethis>

[Accessed 17 3 2019].

UKEssays., November 2018.. *Approach To Quality Management At Tesco*.. [Online]

Available at: <https://www.ukessays.com/essays/marketing/approach-to-quality-management-at-tesco.php>

[Accessed 18 3 2019].

UKEssays, November 2018. *Tesco Case Study*.. [Online]

Available at: <https://www.ukessays.com/essays/business/analyzing-the-case-study-of-tesco-supply-chain-logistics-business-essay.php#citethis>

[Accessed 14 3 2019].

UKEssays, November 2018. *The outsourcing of ICT by Tesco*. [Online]

Available at: <https://www.ukessays.com/essays/information-technology/the-outsourcing-of-ict-by-tesco-information-technology-essay.php#citethis>

[Accessed 16 3 2019].

Witt, C., 2008. *Redefining Just Time*. [Online]

Available at: <https://www.mhlnews.com/facilities-management/redefining-just-time>

[Accessed 22 3 2019].

Zhao, S., November 26, 2014 . Analyzing and Evaluating Critically Tesco's Current Operations Management. *Journal of Management and Sustainability*, 4(4).

procurement

GRADEMARK REPORT

FINAL GRADE

53/100

GENERAL COMMENTS

Instructor

Good research from a wide range of sources including core procurement texts. However, a number of sources have questionable reliability such as UKEssays.

A fair knowledge and understanding demonstrated but lacks depth for higher marks.

Good attempt at critical analysis but fails to link the activities of the chosen example to established strategic procurement concepts effectively.

Well structured and good presentation.

PAGE 1

QM

Good point

Good point

QM

Good Intro.

Good introduction

PAGE 2

PAGE 3

QM

Good point

Good point

PAGE 4



Good point

Good point



Good point

Good point



Citation Needed

Cite Source:

Please use the link below to find links to information regarding specific citation styles:
http://www.plagiarism.org/plag_article_citation_styles.html

PAGE 5



Good point

Good point

PAGE 6

PAGE 7

PAGE 8

PAGE 9



Comment 1

Recently? This was nearly 10 years ago

PAGE 10

PAGE 11



Unreliable source

Whilst this is quite useful for a general knowledge of the subject, it's not a credible source to reference.



Unreliable source

Whilst this is quite useful for a general knowledge of the subject, it's not a credible source to reference.



Unreliable source

Whilst this is quite useful for a general knowledge of the subject, it's not a credible source to reference.



Unreliable source

Whilst this is quite useful for a general knowledge of the subject, it's not a credible source to reference.