

Procurement Assignment

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Procurement & Contract Law

Conor Loughlin

P150184

M6X01292

Produce a report that identifies and evaluates procurement strategies within a company or organisation of your choice.

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1.0 Introduction

1.1 The report's main learning outcome is to help in Evaluating the procurement policies and approaches to the management of suppliers. The company that I have chosen to evaluate and analyze it's procurement policies and approaches is the automotive company called Toyota. The report will help to identify what Toyota's approaches to procurement are and to judge how good and the importance of the Procurement strategies are to Toyota. The report will look at different procuremet strategies that Toyota impliment to help with their productivity, sustainability and quality. Toyota is one of the major car manufacturers in the world, meaning that procurement will be very important. Toyota have a history of involving procurement strategies to gain benefits before any other company did and now virtually all car manufacturers are using procurement strategies that Toyota used long before. The purpose of this report is too:

1.1.1 Describe procurement in the automotive industry

1.1.2 Evaluating the different procurement strategies Toyota uses to this day

1.1.3 To give a meaningful conclusion to the importance of the procurement stratagies for Toyota

2.0 Procurement in the Automotive Industry

2.1 In the automotive industry, strategic procurement is usually used instead of tactical procurement. The automotive industry uses strategic procurement to gain a competitive advantage over the other, this including either commercializing product or the design process of the product (Scayevitz.A, 2018). Strategic procurement brings a lot of benefits to the automotive industries such as:

Advantages

- This adds profits to the company, looks for savings and also provides the companies with a competitive advantage
- Isn't a one time activity, this allows for continous improvement within the automotive companies
- Helps to improve efficiency, supplier management and adds greater value because strategic procurement allows for better decision making
- Using Risk management, helps with analyzing different variations such as spending and the suppliers and can identify measures to avoid the risks as much as possible.
(Gupta.A, 2017)

Strategic procurement includes using the Kralic ^{spelling} The Kralic Matrix especially is very important to the automotive industry because this matrix is mapped up by two different dimensions, risk and profitability (Webb.J, 2017). Risk is the likelihood of an unexpected event happening and profitability describes the impact of an supply item. (Webb.J, 2017). The Kralic Matrix includes ^{Good point}

- Leverage – high financial risk and low supply risk, an example is exploitation of full purchasing power
- Strategic – High financial and supply risk, Developing long term relationships
- Non-critical/ Routine – financial risk and supply risk low, Abundant supply
- Bottleneck – High supply risk, low financial risk, low control of suppliers (Koliousis.I, 2006). ^{Good point}

Toyota use strategic for there suppliers. Toyota's own strategic procurement includes negotiating with suppliers and assess criteria to see if they are good enough for a contract and implementing any transitional plans and contractual supply chain improvements (Rojas.C.B, 2017). Toyota's strategic procurment has helped in there cost reduction as been a massive success, Toyota said that the income had increased by 12 months to 20.3% (Green.W, 20 ^{Good source}

3.0 Procurement strategies in Toyota

There are a few procurement strategies that Toyota use to help improve the quality of products and services they offer.

Green Procurement and Total Quality Production

Green Procurement is seen as one of the most important parts for a business that wants to improve it's environmental impact and financial performances (Dubey et al, 2013, p.g. 197). Toyota is well known for it's lean manufacturing and continous improvement to it's products and services (Minahan.T, 2010). The Toyota Production System is probably one of the most successful stories, the system is a philosophy which organizes Manufacturing and Logisitcs (Harris.L, 2007). It was created by Sakichi Toyoda, Kiichiro Toyoda and Taiicho Toyoda. This production system, better known as lean manufacturing, is designed to eliminate as much waste as possible to help reduce costs whilst improving customer service and experiences (Hill.G, 2009). The main seven wastes in automotive manufacturing that lean manufacturing is designed to reduce are:

1. Overproduction
2. Waiting
3. Transporting
4. Inappropriate processing

5. Unnesscary Inventory
 6. Unnesscary motion
 7. Defects
- (Laquita Harris, 2007).

Lean manufacturing shares a lot of the ideas that Dr Edwards Deming had with his ideas. These similarities include the importance of treating the employees well and focusing on customer satisfaction and customer value (Hunter.J 2013). Scoichiro Toyoda called Deming the 'core of our Management' (Hunter.J, 2013). Demings idealogies were that if the Japanese focused on quality, it will reduce waste and improve the market share due to higher customer satisfaction (Godfield.M, 2013). Toyota used Deming's ideas to produce the Toyota Production system. Along with reducing waste, the Toyota production system also looks at continous improvement and encouraging investment to the training of the employees, just like Edward Deming put in his ideas. (Hunter.J, 2013). Toyota encourages continous improvement by engaging the brains of the people who work on the products and services together. Toyota encourage employee training by creating more sustainable systems through standardization (Hunter.J 2013). Lean Manufacturing and Deming both focused on creating a sustainable and innovative way of allowing the employees to think and drive improvements (Hunter.J 2013). Toyota uses different tools in its business and its lean manufacturing to help improve their productivity and finance. These tools include:

- The Just in Time system
- The Kanban system
- The Kaizan system explanation required
- Jidoka

3.1 Just in Time System

The Just in Time system is a inventory system that is designed to only order the materials only at the time when needed. Just in Time relies on the accuracy of Toyota forecasting the demand for their goods and services for the Just in Time system to be effective (Hunt.J, 2019). This system helps Toyota to avoid situations such as unbalanced inventory. This system helps Toyota to control it's quality, more well known as quality control and allows Toyota to also cut down on the waste from the production line by having small sized batch sizes. For example, according to Mahajan Sahil (2017), Toyota's production is only conveyed to produce no more than one piece of unit for the assembly line and the other piece is only there as stock. By having a reduction of the lot sizes, this will shorten up the set up time, leading to improvements in their Production methods (Sahil.M, 2017). Toyota consider unwanted stock and over producing as the worst waste of the Toyota Production System, anfd this could lead to unbalance between the workers in different processes of the assembly line, excessive labor and insufficient maintenance (Sahil.M, 2017). The Just In Time system was designed by Toyota to elinate this as much as possible. The Just in time system has proved to be one of the most efficent strategies for the automotive production management operations (Amasaka, 2014). explanation required

3.2 Kanban system

A Kanban system is a pull system that helps to regulate the flow of goods both with the customers and suppliers (Vorne, 2019). The Kanban system is also linked with the Just in Time system because the Kanban system refers to efficiency and the where the product meets the demand of the customer and doesn't exceed it (Muspratt.A, 2018). The benefits for Toyota of using the Kanban system include having more capital, increased market dynamism and improved environmental production (Muspratt.A, 2018). For the Kanban system to be a success, Toyota need to manage and map their workflow, manage any bottlenecks and progression in the work and only work if there is enough demand to (Muspratt.A, 2018). Toyota's managers believe in using the Kanban system because it continuously gives the facts on different things such as man power, production capacity and the operation rating (Sahil.M, 2017). Toyota even have their own rules about how their Kanban system will work for their production system. For example, one of the rules Toyota made was producing only the exact quantity needed to be withdrawn by the process, meaning produce no more than the number of Kanban cards and only produce in the order of the Kanban cards, otherwise there will lead to confusion in the production line (Sahil.M, 2017). Kanbans are always attached to boxes and there are two types of Kanban that Toyota use, these are production and conveyance. Conveyance is used by Toyota to go from one process to the preceding process and production is only used in the production line (Sahil.M, 2017).

3.3 Kaizen system

The Kaizen system is a vitally important part of Toyota's lean manufacturing process. The Kaizen system helps Toyota with their continuous improvement in the company's work for eliminating waste from the manufacturing process (Vorne, 2019). The system also helps to bring good improvements. These improvements include:

- The improvement of production by proactivity, which helps in improving quality in its cars and other products
- Reducing the amount of manufacturing waste produced
- Increasing involvement of Toyota's employees
- Increasing Toyota's customer satisfaction and reviews

Toyota in the late 1990s were suffering from labor shortages because of the emergence of high wage jobs and the shortage of young workers in Japan at the time (Thomas.B.K, 2019). An example of the problem was that in 1990, 25% of Toyota's young workers left within the first year (Thomas.B.K, 2019). Toyota believes that everyone can contribute their knowledge and skills by using the thinking people system (Kiger.D, 2016). This system helps Toyota's Kaizen system by making their staff feel valued and wanted and to make the workers aware of the importance of their activities (Kiger.D, 2016). Another way that Toyota use the Kaizen methodology is by using the five whys. This allows Toyota to find continuous improvement and assessments of what will be done, meaning every test that is planned for their products is always questioned as why. However, an issue with the 5 why system is that it can only seem to find one root to a possible issue, leaving any other possible factors that could be just as important (Kiger.D, 2016). explanation required

3.4 Jidoka

Jidoka is the automation of the design equipment for the manufacturing process, meaning that workers will be able to monitor different stations to find quality issues can be detected more easily (Vorne 2019). By doing this, Toyota have have less chances of having their equipment going wrong, increasing the amount of quality in their products and improving the amount and level of Toyota's customer satisfaction (Olofsson.O, 2018). The Jidoka is a problem-solving tool that Toyota use, to help with a continuous flow of work in the company. Along with eliminating waste, Jidoka also considers the safety of the workers. (Sahil.M, 2017). Toyota makes sure there is no unwanted extra work because this may bring more accidents in the workplace. (Sahil.M, 2017). Toyota also make sure that the workers don't have to wait around and aren't ideling in the production system. To do this, Toyota introduced the following changes to avoid the scenarios. These include:

- Keeping the workers occupied on multiple machinery instead of just attaching the worker to a single piece of machinery or equipment
- The concentration of the workers is also tested. The workers need to be concentrated to do certain parts of using the equipment for producing acceptable products without any faults or issues
- Creating all the lines in the production system will require the minimal of supervisory, to make sure there are little to no mistakes made at the assembly line (Sahil.M, 2017).

Despite all this, Toyota don't mention that they have had problems with overworked or underpaid staff in the past. According to a study made by the workers rights organisation in 2008, people who worked at Toyota's supply chain were forced to work 97 hour week shifts (Supply management, 2008). The workers received lower benefit payments than the full time workers and have fewer rights at the business. Toyota do claim on there website that it's workforce and suppliers are there highest priorities, but they are a little bias as well. One employee at Toyota even died in 2008 after working 155 hours of overtime and Toyota were forced to pay a pension to his family (supply management, 2008). Despite explanation required ☐ y can fall short in certain areas of their procurement strategy.

4.0 Suppliers (Strategic)

This is an example of Toyota's strategic long term planning. Toyota always considers the environmental and social performance when either reviewing or selecting the suppliers and also expect them to give and repeat business opportunities (Toyota, 2017). Toyota always want to establish good supplier relations and try to use local suppliers in there aim to cut down on environmental impact. Good point ☐ For example, Toyota UK use firms in Derbyshire and North Wales and use different ranges of communications to enhance the business relationship (Toyota UK, 2017). Communications are always two way communications between toyota and it's suppliers. There are usually local and Japanese engineering groups evaluate the existing suppliers and technologies to make sure Toyota have a suitable infastructure in it's supplier coun Good point ☐ Motor Europe, 2013). Suppliers are expected to have to fulfill Toyota's expectations of having environmental and social responsibilities to Toyota's supplier chains. For example, suppliers are expected to pay attention to societ spelling ☐ s in the community in order to help benefit there development (Good point ☐ 2). The supply chain responsibilities of the suppliers include making there own Environmental Management System, for there own benefit (Toyota, 2017). Another consideration is the rights of the workforce, which include the health and safety, equality of oppo explanation required ☐ hours (Toyota, 2017). Along with Toyota promising to make sustainable solutions, to grove equal opportunities to it's

employees and making a safe environment at the supply chain for the workers, the suppliers have to do the same in order to achieve being a long term partner with Toyota. Any principles that Toyota has for its supplier chain and product management, Toyota expects its suppliers to follow in the similar aims and objectives to achieve. This is Toyota's Corporate Social Responsibilities outlined. The Corporate Social Responsibility that the suppliers must have include using the Kaizen system and the two way communication for exchanging ideas and according to Toyota, to make them and the suppliers to work together as 'a single company' (Toyota, 2012). If one or more key suppliers to Toyota fail, this can shut down the entire supply chain at Toyota and its suppliers (Supply Management, 2009).

Good point

5.0 Risk management

Risk management is always a major concern because it primarily focuses on suppliers financial status and health and safety practices. There needs to be assurance that the necessary obligations are passed to different subcontractors (Crawshaw.G, 2017). Toyota has had to reinforce and update its own risk management systems due to the quality issues Toyota have had. For example, in 2010, an earthquake in East Japan and the Thailand floods, which affected their production and deliveries (Toyota Global, 2014). Toyota are probably the most vulnerable for having a disruption in their management risk because Just in Time supply chains globally are the most vulnerable to having natural or man made disasters (Tim Mir Good point May 2010). This also leads to having a small margin for errors and more opportunities for disruption in Toyota's supply chain (Minaham.T, 2010). To help with their risk management issues they appointed a Risk Management Council in June 2010. The main actions of the Risk Management Council is to identify the risks that could impede the business activities and take any action required to prevent the potential risks from happening (Toyota Global, 2014). The council have tried to fix the issues by adding a plan to prepare for an eventuality. The plan includes:

1. The recovery for the customer's viewpoints
2. Preparing during the normal times of the day to enable autonomous recovery
3. Involving the entire supply chain including the suppliers

(Toyota Global, 2014).

Another example of Toyota's inefficient supply risk are the Takata supplied air bags shooted steel shards into passengers when deployed (Mitchell.P and Reisman.L, 2016). Toyota are enabling the recovery of the customer's viewpoints by developing production resumption goals for high class vehicle models in order to minimize the impact on their customers. Toyota are enabling the preparation of autonomous recovery during normal times of the day by fortifying the production and supply chain facilities and making them easier to prepare if damaged. Toyota are enabling more involvement in the supply chain by building database that allows visual representation of the situation to allow more assessment on the impact that the suppliers have had because of the natural or human made disasters (Toyota Global, 2014).

Good point

6.0 Conclusion

- 6.1 Toyota's green procurement policies consist of many different achievable areas that help Toyota to achieve their main goals of ensuring that their procurement is the most environmental friendly and successful policy in the

automotive industry. The introduction of total quality management for Toyota has been as massive success in its aims to cut down on waste, improve customer satisfaction and improving the experiences of the work place for its employees. Toyota's lean manufacturing took inspiration from Ian Fleming's ideologies and threw this Toyota created the Toyota Production System, which became one of the most successful production systems in the automotive industry. Toyota are one of the most successful stories of how to manage a procurement strategy properly and successfully, although they have had problems with their risk management. Toyota have had to rethink its attitude to risk management and by doing so have benefited from using it and for the future. The role of Toyota's suppliers is also very important, as Toyota and the suppliers need to have the same goals, principles and ideologies in their supply chain and production management, either it being social or environmental responsibilities.

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Procurement Assignment

GRADEMARK REPORT

FINAL GRADE

52/100

GENERAL COMMENTS

Instructor

Very good research and use of a wide range of mostly credible literature.

Good knowledge and understanding demonstrated.

Satisfactory analysis. Very descriptive with no deep interrogation of some of the points raised. For instance, the policy to use local suppliers raises a number of challenges for any manufacturer operating in Western economies but this was not addressed. Also, the link between Just In Time, Kanban and strategic procurement wasn't made.

Well structured with a few spelling mistakes and grammatical errors. Coherent and well presented.

PAGE 1

PAGE 2

PAGE 3

QM

Good Intro.

Good introduction

QM

spelling

spelling

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Good point

Good point

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spelling

spelling

QM

Good point

Good point

QM

Good point

Good point

QM

Good source

Good, reliable source

QM

explanation required

explanation required

Additional Comment

This needs to be made relevant to procurement and the question.

QM

explanation required

explanation required

Additional Comment This should be made relevant to the question. Why does operating Just In Time have an impact on strategic procurement?

QM

explanation required

explanation required

Additional Comment Why does operating Kanban have an impact on strategic procurement

QM

explanation required

explanation required

Additional Comment this needs to be made relevant to the question and strategic procurement

QM

Good point

Good point

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spelling

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explanation required

explanation required

Additional Comment What challenges does Toyota have when using a local supplier policy? Cost?? This should be explored and analysed more deeply

PAGE 8

QM

Good point

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Good point

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Good point

PAGE 9

QM

spelling

spelling



Comment 1

Edward Deming, not Ian Fleming. Ian Fleming was responsible for James Bond, not Lean

Manufacturing



spelling

spelling

Additional Comment Shayevitz