

Procurement

by Elliot William Allsop

Submission date: 26-Mar-2019 12:32PM (UTC+0000)

Submission ID: 103275565

File name: 4937_Elliot_William_Allsop_Procurement_170041_346165668.docx (64.73K)

Word count: 3398

Character count: 19456



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Procurement

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1.0 Introduction to Procurement

Let's start with the basics, what is procurement? According to Lysons and Gillingham (2003). It is "the acquisition of goods or services in return for a monetary or equivalent payment". So, to the everyday consumer, buying habits are essentially an element of procurement. Since as general customers we obtain goods daily via providing sufficient money for them as payment. However, in a business setting procurement is so much more significant than the simplistic purchasing of goods for money, there are other forms of payment as such in which Lysons and Gillingham continue to express. This is because procurement can consist of the following types of payment for goods and services: borrowing, leasing and force of pillage. Although force of pillage would be used at great discretion as this would be hopefully the last resort especially in a business setting due to its sensitivity in drastic events.

2.0 Six Elements to Procurement

Fundamentally procurement is a rather simplistic topic to understand in the business world and has generically six elements associated, these of which can impact your procurement profile overall or basically increase and refine your buying skills as well as the deals you can obtain with suppliers etc. These six elements are the following and can impact your procurement power essentially Citation Needed and will make or break your business: Identify customer need, explore outside Markets, prioritise relationships, collect spend data, communication and know your Power.

2.1 Identify customer needs

The basic understanding of this term is to identify what the customer needs rather than their desires. Get this right and as a procurer you're off to a great start. This is because the customer will always desire the great and wonderful, however if they take a step back and allow the procurement to analyse then more suitable and effective products can be implemented with the potential of savings on cost and time. Likewise, in the example from CIPS who explain that Heathrow terminal five, originally wanted lots of check in desks. Despite this it was identified by procurement that what they really needed was maximise the efficiency of volumes of footfall through the terminal (Supply Management, 2019). So, they compromised and insisted the change needed and so incorporated more "supermarket like checkouts" which increased the efficiency overall. So as in this example it is rather crucial to identify the needs first. Good source

2.2 Explore external markets

Essentially by looking outside your comfort zone, especially ^{spelling} into new markets. It allows your procurement to gain ideas that may be more ground-breaking in terms of being more ethical, sustainable or even innovative which can enable your business to develop greater or even diversify a little. By doing this you will always be increasing market share as there will always be different segments within the market filled with potential customers with individual and specific need ^{explanation required}. Development is also one of the four segments of the Ansoff matrix which looks to aid businesses by analysing the risks and opportunities exposed by either adopting up to four strategies within your business. These are developing markets like in this element. Diversification ¹ market penetration and product development (Oxford College of Marketing, 2019).

2.3 Prioritise relationships

By keeping up with your continuous or already existing supplier to whom you have many contracts with, basically checking they are meeting their incorporated obligations within the contract as well yourself doing so too. By doing so your business will essentially illustrate a great example of contract management which is another crucial element within procurement due to the nature of the job as there will be a lot of contracts involved with regulation, clauses and warranties attached. Additionally, by consistently reviewing the contracts within the relationship your business will essentially grow with your suppliers too (Supply Management, 2019), so long as this is the desired direction and business approach initially which with many will be, however there are some businesses out there or some contracts which are only required as a short-term solution. For example, if a current supplier is out of stock of a product and your business goes to another for a short period of time to account for this deficit and until the usual supplier restocks. Additionally, as the supply management points out quite logically, is that if a supplier does not favour your business then they will cease to produce contracts and perform alongside your business. So, this really highlight the importance of sufficiently and overwhelmingly managing your business associates essentially, especially when procuring. ^{Good point}

2.4 Collect spend data

Let's face it, this is a massive element which most business have "cottoned on to" since it poses great significance to the business in terms of sales patterns and trends likewise outlined within this article (BBC News, 2019). This is because it allows suppliers to analyse customers spending habits and act accordingly, whether this be by increasing stock levels of specific products due to seasonality or even producing vouchers for high selling products or even promotional offers which will result in increased sales and market share overall. A great example of this is Tesco with their Clubcard scheme which has been active since 1995 and it could be argued that it is essentially one of their most valued tools within their business network. Due to how large their customer base is as well as how many Clubcard users there are too. Additionally, to put into perspective Tesco's procurement power and how they can make things work drastically because of this, it is reported that there are "16 million active Clubcard members" (Campaignlive.co.uk, 2019), additionally it also evidences how Tesco treat their existing contract with their everyday customers by incentivising them by points from every purchase they make that equates to a pound or more.

2.5 Communication

Some view communication as the key, as without communication elements don't flow as smoothly especially in the business world. Again, this also relates to managing your procurement relationships, this is logically due to that if no communication is being made continuously with contract holders then how can relationships become advanced or grow prospectively. Additionally, when producing contract for procurement relationships it needs to be clearly communicated what your terms and conditions are. If you sit in silence this will not benefit your position, you need to lay out your terms too. Ideally you need to make potential stakeholders interested in your business idea and mission. Do this and you have succeeded. By ensuring your contractual partners are on the same page, the whole purchasing process will go a lot smoother and flow just how you need it to. Additionally, in another (Supply Management, 2019) article, it too backs up the necessity for communication in procurement relationships, due to if any problems arise then the two parties can work together by communication and resolve the problem sooner and ensure it does not reoccur.

2.6 Procurement Power

This element is rather controversial as it needs the individual business to assess its own reputation essentially and understand where sit in the procurement chain. This is because it will allow them to make reasonable deals when procuring based on their business's superiority. Also, as CIPS highlights, it also allows you to become one with your stakeholders in terms of negotiating your deals and knowing when to stop and not the cross the line. By being aware of your position on the bargaining table it will id the process and ensure the meeting goes smoothly. Likewise (Meulen, 2019) backs up the fact that when in a meeting of negotiating procurement contracts it is vital that you are aware of everyone's needs, as they will want to hear your adherence as some sort of satisfaction. A great example of which was with Tesco and Unilever, when Tescos stopped supplying Unilever products due to a price dispute (BBC News, 2019). This caused major uproar in terms of inconvenience for the customers and Unilever who were not tremendously happy with the move. However, it illustrates a great example of how strong Tesco's procurement power is and they could take the hit basically and inevitably challenge Unilever on their own terms to gain a better deal. However, this is not viewed as very ethical as in reality if Unilever were a small business then it could impact their financial cash flow drastically. In addition to this it also evidences bad management of contract relationships, also not a great trait to adopt.

3.0 Tesco Procurement case study

So as most procurement specialists will know Tesco will have a lot of power especially in terms of bargaining due to the fact they have a massive flow of customers in and out of their stores daily. In fact, it is stated that there around “80 million shopping trips” within Tescos per week and expectedly this is no surprise when they also have “over 6,800 stores” worldwide, so it can be put into perspective how many customers they have. Therefore, they have a lot of bargaining power since they have millions of customers, so most if not, all suppliers are trying to integrate their products within their stores. However, if Tesco do not favour the terms within the contracts then they simply reject until their consensus is reached. Also, to not some would argue that Tesco could be biased with these figures due to being off their own website, but a company as big as themselves would be exploited to check this. Additionally (www.statista.com, 2019) backs up Tesco’s figures when they state how much Tesco is worth which totals to “9.08 billion USD”.

3.1 Tesco’s Strategies

The club card scheme (Campaignlive.co.uk, 2019), the card that gives loyal customers points as incentivisation for shopping at Tesco which then can be exchanged for various vouchers, this little no vast promotion has revolutionised shopping as we know it today. Since the data from it can be analysed and used gratefully used to enable Tesco’s procurement team as well ass others to forecast their future sales and this allows them to forecast what stock is need and how much on average. Although they cannot predict it down to the nearest sale it is a very close figure and can sometimes be prone to be out of stock of some. In which it allows them to be quicker and efficient with their stock whilst remain relatively agile with most products (Cips.org, 2019). This is because they can prompt respond to market changes and customers buying habits and so will have a lot of stock relatively available as well as different alternatives of the exact same product for different classes of customers essentially. In addition to their procurement status when launching the Club card loyalty scheme, it was essentially a new exploitation of the current market and was developed to review customer sales data and identify patterns to act upon later and basically take advantage off. This would then be used to offer bespoke vouchers to specifically to

customers to increase buying habits of frequently bought items or even offer promotions on these specific items. explanation required

3.2 Supplier power

Again, the document touches back upon supplier power, one of the elements of Procurement. Which as most know in terms of procurement Tesco's will have a lot of, additionally they also know this too well and use it quite abrasively. The following example are a series of cases where Tesco's avoided paying its supplier for long terms all in a bid to boost profits it is stated (Butler, 2019). Although some may state that is a strategic approach from Tesco's perspective whilst paying the supplier afterwards it is also considered unethical and bad professional practice especially in terms of the complying with the government backed grocery supplier code (Butler, 2019). Good point which this article thoroughly reviews in terms of how unethical and scandalous it is especially on Tesco's behalf considering they are a well known successful business (Ltd, 2019). Obviously highlighting the contradictory elements since this massive company is affecting small and medium size suppliers by delaying payments. This is because they are more reliant on the payment for an inflow of cash and could become bankrupt because of it. Despite this it is also not fair to be left on hold for your goods especially after the latest legal payment date. By doing this Tesco are essentially destroying future relations with this supplier and affecting potential other suppliers whom are aware of this scandal.

3.3 Regular Occurrence

There have been a few incidents of Tesco's not complying with the government Grocers code. However, a spokesperson has stated that factors behind these unprofessional acts are due to "senior executives being pushed out of the business" and because of this Tesco experienced a "culture change". This may indicate absurdity of delayed payments from their procurement sector within their very poorly managed supplier relationships (Supplychain247.com, 2019). It may become apparent that when under this new leadership that Tesco's did not even consider their professional profile and failed to essentially establish the art of managing supplier relationships within their procurement actions. Although keeping your suppliers happy by managing the relationship greatly as well as knowing where your business stands on the bargaining table are procurement skills, Tesco seems to have only refined their bargaining, however under scandalous terms and poor mistreating of suppliers.

3.4 Mismanaging Supplier contracts

There are also two other cases where supplier relationships between Tesco were mismanaged within their procurement actions, one being a dispute over a payment from L'Oréal and the popular Unilever case. It is clear to see that the procurement team are somewhat insensitive when it comes to legal practices of procurement. Especially when it comes down to falsifying profits because of non-payment to a supplier that had been delayed for "12 months" and some "repaid after 2 years" (BBC News, 2019). Inevitably it was also proven to be regretful for the company due to the fines incurred from falsifying their profit takings as well as avoiding supplier payment (Supply Management, 2019). Although the Unilever case was a little different, Tesco proved successful here and restocked the supplier's products once their terms were met. Again, this similarly represent how much power they have in procurement, and additionally how it would have affected Unilever due to the volume of stock they would have held up and not potentially sold. Additionally, there also found to be emails sent on behalf of Tesco's procurement team to "seek agreement from suppliers" to payments to help their profit margins. Which really hit

the nail on the head for Tesco, essentially falsifying their accounts and impacting on smaller businesses negatively as such. Although it may have seemed a strategy at the time, overall it was a non-effective idea which cost them millions as well as all the court proceedings and negative media, which will not be forgotten (BBC News, 2019).

4.0 Kraljic Matrix

So, it is clear to see that in terms of procurement Tesco is an all-rounder and despite the regretful negative elements of their payment terms. They manage touch upon a few strategies especially when comparing to the Kraljic matrix. Maybe Tesco's don't have many bottleneck or strategic item suppliers hence why they aren't concerned as much and don't mind essentially degrading their suppliers until preferred contractual terms and will persevere to take the hit on sales etc (BBC News, 2019). This evidently would be back up by the fact that they have numerous brands labels to offer including their own which may be considered a strategic item as it enables them to alter it however they want and change the price accordingly. So essentially unless there was a massive catastrophe then there won't be a supply risk for them. Additionally, they wouldn't be worried about low profit items either since they accumulate so much income anyhow it could also be argued by the fact that they were happy enough to make a mess of not paying its suppliers hence becoming fined and appearing at court which can be seen in the following article.

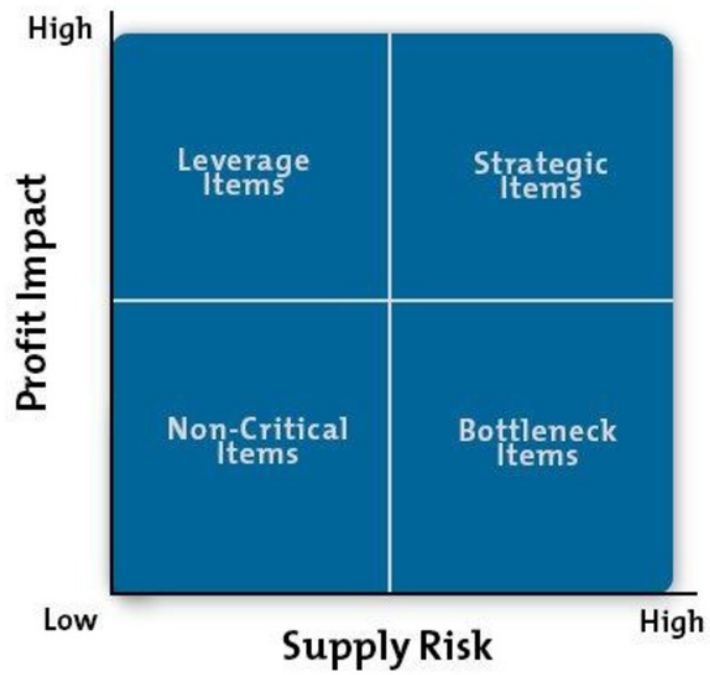


Figure one

(Expert Program Management, 2019)

5.0 Conclusion

So, in terms of bargaining within procurement Tesco seem to have that covered, however as for following and adhering to grocer standards not so much (Butler, 2019). It may be due to the size of the company as to why they proceed with supplier contracts in the way they do and optimise economies of scale when purchasing products. However, this is and practice and can be highlighted by the fact that it goes against some of the fundamental procurement principles mentioned at the beginning of the document (Supply Management, 2019). This being the fact that although there was lack of communication regarding payment as well as managing the supplier relationship in the worst possible way and that is by not repaying suppliers when stated or even after the maximum deadline. However not an ideal strategy for the procurement industry it may well be Tesco's strategy due to their purchasing power.

However, this personal strategy of Tesco's was flawed when it was uncovered to be due to boosting profit margins (Butler, 2019). Which may be regarded as unethical since they're disadvantaging smaller businesses who are more reliant on the payments. It is very evident to see from the Unilever case (BBC News, 2019) and the delayed supplier payments that Tesco has essentially acquired a lot of procurement power and evidentially exploits this when negotiating supplier contracts. Good point is because during the dispute with Unilever as such as some may say it was with good intentions and in this case, it was, as Unilever could not afford to take the loss from Tesco's removing all their products from the shelves. By doing so it allowed Tesco to negotiate an optimum price for the product which in turn benefitted their customers. This is clear example of the purchasing power Tesco holds and strategically used it to leverage products against its supplier until optimum conditions were met to pursue future supplier contracts.

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FINAL GRADE

55/100

GENERAL COMMENTS

Instructor

Good use of mostly credible and reliable sources.

A fair knowledge and understanding demonstrated but with some areas which required deeper understanding such as: The exploring supply markets and analysing spend data elements are confused with sales orientated areas. Also, the Tesco Clubcard example explains how it influences sales strategy but not how it influences supply strategy. Understanding of the Kraljic matrix and how it should be used is not accurate. However, other elements such as buyer power are explained very well.

A good attempt at some analysis but mostly descriptive work with some arguments not supported with relevant citations such as the 6 elements of procurement.

A good structure and layout.

PAGE 1

PAGE 2

PAGE 3

QM

Stylistics

Stylistics. Academic reports should be written in 3rd person not 1st person

QM

Stylistics

Additional Comment

Questions should not be posed in academic writing

QM

Good source

Good, reliable source

QM

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Delete

QM

Good Intro.

Good introduction

PAGE 4

QM

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

Additional Comment

The six elements of procurement is a model and should be cited

QM

spelling

spelling

Additional Comment

you're

QM

Good source

Good, reliable source

PAGE 5

QM

spelling

spelling

QM

explanation required

explanation required



Comment 1

Ansoff refers to exploring customer markets not supplier markets so this is not relevant here

QM

Good point

Good point

PAGE 6

QM

Stylistics

Stylistics. Academic reports should be written in 3rd person not 1st person



Comment 2

Spend data is being confused with Sales data here. They are similar but the Tesco Clubcard tracks Sales data. This can be linked to spend data but this needs to be explained

QM

Good point

Good point

PAGE 7



Comment 3

position not necessarily reputation

QM

explanation required

explanation required

Additional Comment

what happened eventually? this needs to be explored more deeply

PAGE 8

QM

Good point

Good point

PAGE 9

QM

explanation required

explanation required

Additional Comment

It needs to be explained how the Clubcard influences Tesco's supply strategy

QM

Good point

Good point

PAGE 10

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spelling

spelling

PAGE 11

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explanation required

explanation required

Additional Comment

What about Unilever? It was evident that they are a strategic supplier as profit risk was high and supply risk was high when they stopped supplying Tesco, even though Tesco was not treating them as such. Tesco backed down in the dispute because they couldn't source Unilever products such as Marmite or equivalents from anywhere else.

It's an assumption based on very little foundation to suggest that Tesco doesn't have strategic suppliers. If Tesco used the Kraljic matrix effectively, the dispute with Unilever and also the poor treatment of small suppliers would have been avoided

PAGE 12

PAGE 13

QM

Good point

Good point

PAGE 14

PAGE 15

PAGE 16
