

Procurement and Contract Law —
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Critically analyse and discuss the procurement strategies within a company of your choice

Human Resource Management (M6X01291)

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Introduction

Through this report I will focus myself on procurement within an organization, and most especially on Samsung Electronics, the subsidiaries of Samsung which produce all the electronics products and components of the brand such as the smartphones, televisions, printer, cameras, tablets, and many others.

Procurements have evolved a lot during years with the supply chain and logistics development, many factors have impacted this progress such as the arrival of intermodal transport, the digitalization of logistics with interconnected tools and collaboration within the supply chain.

Electronics sector has also experienced a lot of change, with technical progress and innovation, development of e-commerce, which has made consumers more demanding, and therefore has a diversification of products.

So the electronics sector and procurement have evolved together over the years and continue to evolve today, people are always searching for ways to improve their operation and make their businesses more productive and efficient.

Nowadays, new issues are emerging, most of which are environmental, companies are increasingly monitored and subject to environmental restrictions, which may lead to sanctions in the event of infringement. Electronics and procurement sectors are both concerned by these restrictions, and organizations have to deal with this law to keep their businesses as competitive as possible.

During this report I will first present the procurement terms, his definition, history and his future with the actual sustainable stakes. Then I will introduce the company Samsung and most especially the subsidiaries Samsung Electronics, which is one of the most influential and important organizations in the world. And Finally, I'm going to study the procurement method of Samsung Electronics, to observe its operation, its particularity and even the benefit and the limits of their procurement method. The objective of this report is to understand how one of the biggest industry of the world works in terms of procurement, what is working and brings benefit and what could be improve.

1 Procurement

1.1 Defintion

Procurement is essential in every organization, it often ranges between 60% and 80% of an organization's revenues. Procurement refers to raw material, component parts and supplies bought from outside organizations to support the company's operations. Stakes on procurement operations are very important for companies, it can bring benefit and advantage rather than a competitor if everything works as expected, but if is not well managed it can be a source of problem and deficit. The procurement manager must reduce cycle times, generate additional revenues through his collaboration with the marketing department, he also plays an integral role in product development, most globally his mission is to manage the procurement operations in the best possible way to achieve a competitive advantage.

1.2 History and development

Procurement has existed for thousands of years, it's evolved from a subordinate function to one that has been elevated to management level. Today, organizations dedicate whole departments and executive management to procurement, which is important for the operation of any organization (B. Whitmore,2015).

Procurement has existed since 3000 BC in Egypt with the foundation of the pyramid, using papyrus to record the amount of labor and material needed for construction. In Great Britain, procurement's history dates to William the Conqueror who wanted a concise way to record tax collections. The practice evolved to incorporate goods and services with the rise of the British Empire and its colonial pursuits (B. Whitmore, 2015).

During the 20thcentury, procurement jobs were seen as a lowly function. However, by the 1960s, with the economic upswing, the businesses world started to recognize procurement as a management function, especially with it came to competitive bidding for supplies. The generalization of studies has made it possible to have qualified professionals in this field, and develop this sector (B. Whitmore, 2015)..

According to B. Whitmore "With the creation of the Internet, procurement took on (and continues to take on) an even more dynamic role in the late 20th century, engaging in B2B e-

commerce transactions. The pace of activity became even faster with improvements in software that have continued to make the practice of procurement more thorough and accurate.”

Procurement has evolved a lot during the years and century, thanks to innovation and technical progress but also thanks to digitalization of the economy, today every is faster, more connected and more accessible, procurement will be brought to evolve again in the coming years with the economy and the society.

1.3 Future

1.3.1 Growth of E-commerce

The growth of e-commerce has had the impact of raising it in consumer demand and the possibility of buying everything, anywhere and anytime. E-commerce continues to be developed today, especially with the COVID-19 situation, people prefer to buy what they need on the internet rather than going into stores, which can be closed.

To meet these demands companies are multiplying, and therefore the procurement rate is also increasing. Procurement will always exist because it is necessary for the functioning of the economy of the society, however some issues are now emerging as sustainability stakes and environmental issues.

1.3.2 Sustainability stakes

Environmental issues became really important since the beginning of 21th century, companies are now regulated in terms of carbon emissions. It is therefore a new challenge for companies and at the same time a way to differentiate, however procurement often requires transfers of materials or products that can be polluting and difficult to avoid.

2 Samsung Electronics

2.1 Presentation

2.1.1 Samsung global group

The Samsung group is South Korea-based, which includes several subsidiaries. It is one of the major businesses in Korea, the company produces nearly one-fifth of the country's total exports with a primary focus on electronics, heavy industry, construction, and defense. Other major subsidiaries of Samsung include insurance, advertising, and entertainment (M. Burris, 2020). The company is directed by 3 managing directors Kim Hyun Suk, Koh Dong and Jin Kim Ki Nam (Samsung).

2.1.2 Samsung Electronics

Samsung Electronic is owned by the Samsung Group. It is the pinnacle of the Samsung Group, with 70% of the group's revenue in 2012. In 2020 it's the eighth most important brand in the world according to Forbes rankings (Forbes, 2020).



Figure 1 : Jean Chung, Stringer, Getty Images (M. Burris, 2020)

Samsung Electronics is the biggest mobile phone seller in 2019, with 296, 5 Millions of products sold in the world. (Melly, 2020). If Samsung Electronics has succeeded in establishing itself as a world leader in the high-tech industry, it is in particular thanks to its extensive product catalog.

In 2019, Samsung Electronics was the biggest seller of smartphones in the world with 76.6 Millions of products sold in (Marketing étudiant).

2.2 History

2.2.1 Beginnings

Lee Byung-chun, founder of Samsung, started as a trading company based in Taegu in 1938. Samsung company started as a grocery store, by trading and exporting goods produced around the city with 40 employees. It sold Korean fish and vegetables, as well as its own noodles (M. Burris, 2020).

The company moved to Seoul in 1947 but left when the Korean War broke out. At the end of the war, Lee started a sugar refinery in Busan before expanding into textiles and building, at the time, the biggest woolen mill in Korea.

The diversification of the Samsung group became a successful growth strategy for the company, which rapidly expanded into other fields of activity such as the insurance, securities, and retail businesses. After the war, Samsung focused on the redevelopment of Korea (M. Burris, 2020).

2.2.2 1960 to present

In the 1960s, Samsung came in the electronics sector with the formation of the Samsung Electronics subsidiaries. These new subsidiaries came with a new partnership Samsung-Sanyo, in the 1970s Samsung-Sanyo produced its first black and white TVs. During the next decade, Samsung also produced transistors, black and white TVs, color TVs, refrigerators and more (M. Burris, 2020).

In the 1980 Samsung started to produce telephone and mobile phones, at the same time the company expanded to Germany, Portugal and New York. The following year, the company started producing personal computers and later in the decade Samsung expanded to Tokyo and the United Kingdom, which allowed the company to establish itself as a leader in semiconductor manufacturing with massive production of 256K DRAM (M. Burris, 2020).

The next decade brought growth and achievement for the company, which soon became a world leader in chip production, and began producing digital TVs. During the 2000s, Samsung entered the phone market with the SPH-1300, following with the prototype of touch-screen phone in 2001. Later in the year 2000 and 2010 Samsung will develop phones

that will become real success, as the Galaxy S II and the Galaxy S III, one of the world's most popular smartphones. In 2012 Samsung became the world's largest mobile phone maker, since this time Samsung continues to develop new products and technology to keep their place of leader on the phone and electronics market.

2.3 Nature of products

Through the years Samsung has diversified its product ranges, however they mainly produce electronic products or components, so the company offers smartphones, tablets, wearables, virtual reality (VR), accessories, televisions (TVs), home theatre, headphones, wireless speakers, stereo shelf systems, laptops, desktops, printers, monitors, memory and storage devices, refrigerators, wall ovens, cooktops and hoods, microwaves, dishwashers, washers, dryers, and vacuums, among others. The company operates in Asia, the Americas, Europe, Middle East and Africa (MarketLine Company Profile, 2020).

Samsung Electronics sells mid-range. The average price of a smartphone Samsung is around 187£ in 2019 (Phonandroid, 2020), against a minimum of 730£ for iPhone 11, which went out in 2019 (Journal du net, 2020).

Samsung's line-up is actually quite robust with a variety of phones covering prices as low as under \$200 or as high as \$1,300 or more. (Android authority, 2020)

Samsung Electronics has different product lines, with some cheaper and some higher quality, so the cost of a Samsung phone or TV can vary widely. They try to attract always more customers with variety and quality products.

3 Samsung Electronics procurment

3.1 Procurment method

3.1.1 Economic

Samsung Electronics ensure that they have an overall competitive advantage in terms of cost, delivery, quality, technology and human resources, in order to maximize synergies, the speed and efficiency of suppliers and create a business ecosystem to achieve sustainable growth (Samsung). More globally Samsung seeks to develop a competitive advantage thanks to the

collaboration of the different actors within its supply chain and in particular thanks to their rigor, responsiveness and their precision.

3.1.2 Social

On the social aspect Samsung Electronics requires that standards and regulations on human rights, the working environment, ethics and minerals from conflict zones be respected, with a view to building an open and transparent management accountability system, involving all stakeholders in the supply chain (Samsung).

3.1.3 Environmental

Samsung Electronics works exclusively with Eco Partner certified suppliers, so that we can assess and manage the potential environmental impact of their components, raw materials and manufacturing processes (Samsung). The organizations have understood very well the environmental issues that reside around the procurement and supply chain, which is why they make the choice to work with eco-partners and promote respect for human rights and the environment.

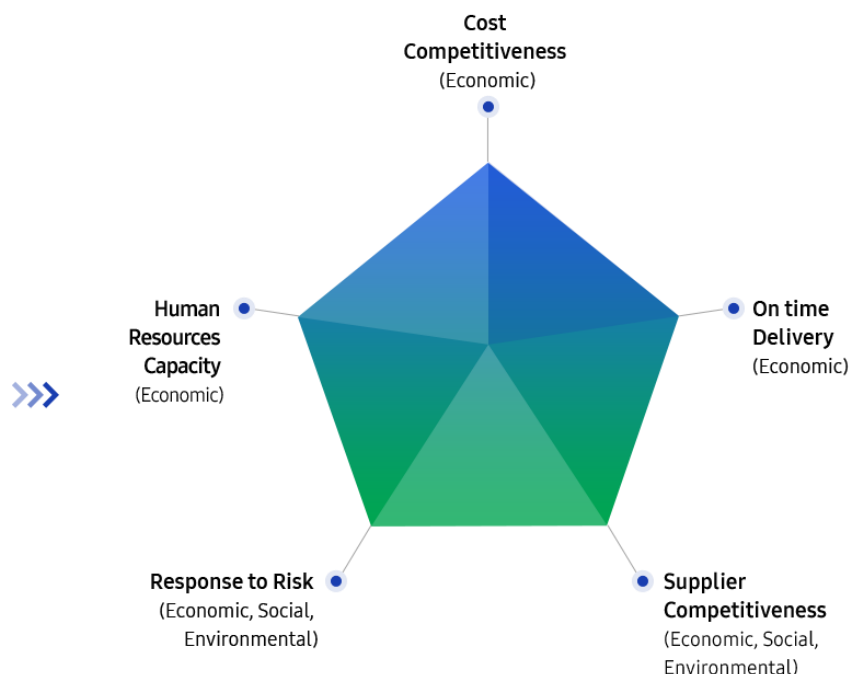


Figure 2 : *Supply Chain Management Strategy and Five Criteria*, Samsung

3.2 Benefits and limits

3.2.1 Benefits

If Samsung is one of the most powerful and important companies in the world, it is also thanks to its procurement and supply chain, everything is put in place to reduce costs, and time to remain competitive and productive compared to its competitors. In addition, it integrates sustainable and environmental issues very well into its procurement through its partnerships with eco-responsible companies, but also through the promotion of values such as respect for human rights and the environment.

Thanks to its supply management Samsung avoids many errors and delays, which contributes to the satisfaction of their customer, to do this the company collaborates with trusted and long-standing partners. Procurement management allows Samsung to be in the place where the company is today, its operation allows an effective cost reduction and accurate flow management.

The accuracy of this flow management is all the more impressive when compared to the volume of flows that the company has to manage. Flows never stop in a company like Samsung, there are always moving materials or products to manage and control.

3.2.2 Limits

The main limitation of this system is the interdependence of the different actors, if an error or a break is committed within the supply chain, it is the rest of the supply chain that is directly impacted, which can lead to dissatisfaction of the end customer.

The other limit is the implementation of the values put forward at the level of the procurement, Samsung says to be involved at the level of environmental and human rights, but the question that can be asked is: This is the value and methods are really being put in place on the ground, especially in conflict zones and very poor, as for example some African countries where the populations have been and still are by large multinational.

Conclusion

In recent years many things have changed in the industry, mainly due to innovations and technical advances. The methods of supply are part of these changes, in particular with the rise of e-commerce and the development of new techniques of transport and logistics, these developments have enabled companies to do new things, especially in order to develop and gain a competitive advantage over its competitors.

Samsung is one of the companies that took advantage of these changes in the industry to develop and stand out from its competitors, today Samsung is one of the most important companies in the world thanks to its subsidiary Samsung Electronics. In order to keep its status Samsung must leave nothing to chance, especially within its own operation and procurement, the supply allows the company a considerable reduction of the costs this function is well managed.

New challenges also lie around procurement and production, especially for multinational like Samsung which produce and use the resources of countries sometimes underdeveloped and very poor. Samsung understood this issue very well, putting the environmental aspect and respect for human rights at the heart of its marketing. This allows the company to differentiate and distinguish itself in a field or certain company it's still in difficulty.

Samsung Electronics therefore makes very good use of the resources in its favor in order to satisfy its customers and remain competitive, the satisfaction of its customers also requires a good management of the supply and the flows of resources, that's why Samsung is currently in the top 10 of most important brand of the world (Forbes, 2020).

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