

procurement

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Procurement

Carl Singleton

1.0 Introduction

Firstly, the report defined procurement as Caerphilly.gov.uk (2019) will explain. Rushton, Croucher and Baker (1989) will also explain why procurement is important to an organisation, with Diploma in procurement and supply (2012) explaining that when a company is procuring it should follow the five R's. Ft.com (2019) discovers that not so long ago procurement was seen as not a core process of a company, which soon changed with strategic procurement, as ThyssenKrupp discovered through the implementation of digital software.

The next section focus on category management, Category management in procurement and supply (2012) explains that by categorizing procurement help control the function, and companies can then place a value on each section depending on importance. Caniels and Gelderman (2005) and (Diploma in procurement and supply (2012) explains that a company strategic procurement plan should be designed around two factors, profit impact and supply risk. One such method of category management is the Kraljic Matrix, which Category management in procurement and supply (2012) explains what categories are included, and the importance placed on them. Category management in procurement and supply (2012) explains that through management the procurement process helps manage any associated risk, there are five areas that should be assessed.

The report will discuss public procurement, and what solutions are being put in place to help local business, such a digital portal which helps local business procure services, which as shown by Sell2wales.gov.wales (2019) the program has many benefits. On contrast to the positive actions of the welsh Government Good Intro. □ of the UK Government in regards to Carillion. Finally, the report will conclude.

2.0 What is procurement?

“the process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment” (Caerphilly.gov.uk, Good point 2019).

According to Rushton, Croucher and Baker (1989) the procurement process has a vital part to play if an organisation is to be successful. The process ensures that an organisation has adequate supplies for daily operations to proceed without any delay in production. With such importance being placed saving money through procurement large organizations will have a designated department to handle the large quantities of transactions. Procurement-academy.com (2019) explains that the process of procurement is not easily handled by organizations, and when it comes to procurement for the company it is important that a procurement team is essential. Diploma in Procurement and Supply (2012) explains that procurement can be explained through the five rights, or the 5 R's which are;

2.1 Right Quality- it is vitally important that all goods that are purchased are to a desired quality so that internal and the external customers' needs are met. If quality cannot be met there can be many detrimental effects on the organisation, such as products being rejected, or even damaging expensive machinery leading to the organisation incurring high production costs.

2.2 Right quantity- obtaining the correct level of materials so that demand can be met, without holding too much excess stock, which can be done by taking advantage of an inventory management system, and or demand forecasting. Without having enough materials for production a bottleneck could happen or even a complete shutdown of production, which could result in losing credibility with customers.

2.3 Right place- after an order is successfully placed it is expected that all delivery's aim for the date set, and the correct location, which is very important if the organisation is operating using the process of just in time to reduce inventory, and waste. Another issue is packaging, all goods should have adequate packaging to ensure the organisation receives an undamaged product. If the goods are damaged this can have an unnecessary environmental impact due to the replenishment of the damaged material.

2.4 Right time- when receiving a delivery, it is important that it is scheduled so that production can meet demand. If the delivery happens too early there may be undue risk, and inventory issues which could result in financial cost, and if the goods are too late production could stop all together. To help reduce the risk it is important to communicate with suppliers.

2.5 Right price- if an organisation can achieve all of the above for price, which is competitive and fair they will be able to minimize procurement cost, and maximize profits. If not some suppliers may change the cost of products without checking, which could lead to shareholders not investing as much into the company, because of the small return due to prices increasing.

3.0 Strategic procurement

Not so long ago procurement was seen as a drain on company resources and not as a resource that when better utilized could have many benefits. Ft.com (2019) Good point that there is a shift in the way procurement is being used to drive cost reductions, as industrial engineering and steel production company ThyssenKrupp discovered, but not only for cost reduction. Many companies are now looking for a sustainable and ethically sourced materials. Strategic procurement is thought of as a holistic approach, which will secure the future need of the company, with the lowest cost of ownership. explanation required The process helps both the customers and suppliers in many areas such as quality, cost and service. When a company is practicing strategic procurement they will follow three criteria; spend analysis, market research and how organizations choose and manage their suppliers. ThyssenKrupp were a company that were struggling financially spending 65% of revenue on procurement accounting for 25 billion euros each year. This was before the development of digital platform, which handles the companies spending. Since the introduction in 2012 the company has saved five billion in fixed costs, with half of those saving being in procurement. Their chief executive admitted that before the software he did not know how much was being spent, but now thanks to digitalized system he has better control. Good point

4.0 Category management

Category management in procurement and supply (2012) explains that this approach helps a company organize the procurement function. By doing this the company can place suppliers of similar importance into the same category, which can also help the company in regards to dedicating staff. A company may choose to give a senior member of the procurement team the most important suppliers. An option of category management can be seen with the Kraljic Matrix.

5.0 Kraljic Matrix

Caniëls and Gelderman (2005), and (Dierckx, 2012) discovered that Kraljic believed that a company long term plan usually three to five years should be structured around two factors.

Improper Citation

Good point

5.1 Profit impact- how important is the item or service to the organisation, and factors including how much the company spends should be included in any decision made, also how much the company is predicted to profit from the finished goods.

5.2 Supply risk- this factor will show where any future problem may accrue in relation to supply. Issues such as having difficulty sourcing an alternative supplier can leave an organisation in a weak position leading to the supplier having all the power, as Cole (2011) explains a company can look at the porter's five forces framework to gain a better understanding to where any opportunity or threats may accrue.

(Figure 1)

Kraljic Matrix



(Forbes.com, 2019)

As shown in figure 1 above this how an organisation would approach the Kraljic Matrix. The matrix is made up of four section each holding different importance. Category management in procurement and supply (2012) explains that even though all of the categories are key, more importance is placed on strategic items and bottleneck items. Pett and Wright (2005) explain that even though it is helpful to categorizing procurement it does not resolve the risk involved, and

that is often the problem with public sector procurement, because there is often no much competition from suppliers.

strategic items- Which are seen as items that a company is highly reliant on, and they will have a large profit impact, so it's vital that the company manages their relationships with these suppliers with the future in mind, this can be shown with both organizations committing to a mutual cost reduction, continuous improvement and sustainability. Emmett and Wright, (2011) explains that the organisation would conduct a Pareto, so that they are able to direct more effort into reducing costs. explanation required

Bottleneck items- Diploma in procurement and supply (2012) explains that this may include spare parts for production, and without them could cause a delay in production. That is why it is important to gain control over the supply. Methods may include offering short to long term contract, which may include incentives and penalties to help ensure delivery on time, or even keep a higher level of safety stock. Good point could hold its own costs.

6.0 Risk management

The process of risk management is an important one, because it helps the company manage any uncertainty that may accrue. Category management in procurement and supply (2012) explains that there are five types of risks;

6.1 Process risk- this relates to any process the company delivers, which adds value, and the risk accrue when the process is not managed adequately. The process can be delivered in house or out-sourced, but the risk stays the same no matter who makes it. Publications.parliament.uk (2019) explains that the public sector can outsource services, but cannot outsource the responsibility. Good point

6.2 Control risk- control risk are assumptions, rules or procedures, which needs to be followed. Problems happens when the rules have been applied wrongly.

6.3 Supply risk- this risk looks at suppliers, and how they operate, some might use the process of just in time, others may be more flexible. Location may also be an issue.

6.4 Demand risk- this occurs when a company has an unexpected demand on their product or service, and they are unable to meet demand, which could have a negative effect of reputation. Having a stock out is a risk, but also the company could face a period of unexpectedly low demand, leading to increased inventory.

6.5 Environmental risk- with this risk companies often see them as unpredictable, and difficult to plan for, but as discovered if it can be imagined it can have a plan in place to help mitigate the risk.

Emmett and Wright (2011) explained that the risk in procurement can rarely be fully eliminated, but it can be managed, or transferred over to another party who has the ability to do so, furthermore a company should never burden a supplier by dumping the risk at their door, this will almost certainly lead to problems in the future, and their company will be effected. As discussed in strategic procurement building relationships is important so that both entities can benefit fully.

Good analysis

Good point

7.0 public sector procurement

Emmett and Wright (2011) discusses that this sector of procurement in the United Kingdom is mainly focused on gaining value for the tax payer, and ensuring that any contract that given are done so in a process which is fair for all companies across the UK, and the European union without corruption. This is done through the European Directive on public procurement (2004/18/EC). The directive objective is to facilitate competition within the union, and promotes the European free movement of goods and services. It should also be remembered that all companies bidding must first be aware of the contract, and be allowed a reasonable amount of time to respond. The directive is subject to the value of contract, which are shown below in figure 2.

(figure 2)

EU procurement thresholds

	Type of contract		
	Supplies	Services	Works
Central Government departments and offices	£111,676 (€134,000)	£111,676 (€134,000)	£4,322,012 (€5,186,000)
Local and regional authorities and other sub-central authorities	£172,514 (€207,000)	£172,514 (€207,000)	£4,322,012 (€5,186,000)
Small lots exception*	£66,672 (€80,000)	£66,672 (€80,000)	£833,400 (€1,000,000)

(Gov.scot, 2019)

Emmett and Wright (2011) also explains this directive also damages any possibility of government giving local companies contract without offering it to Europe directive.

Good point

8.o Sell 2 Wales

Sell2Wales as discussed by Sell2wales.gov.wales (2019) is an online procurement portal set up by the welsh government, which gives local business the opportunity to win, and also provides explanation required to potential customers. The portal has proved popular not only with small business, but also large

organisations, such as the NHS and colleges & universities. It should also be remembered that all contract under bidding will fall outside of any EU directive threshold. Sellzwales.gov.wales (2019) describes that the portal has many benefits, one such advantage is with local authorities, and hospitals working together they have a greater purchasing power, which has led to a saving of 500 million pounds. Citation Needed Sellzwales.gov.wales (2019) describes how local companies have benefited from the portal, as seen with Mike Wilkes & Son Ltd, which has been established over 25 years carry out all types of building work and roofing. The company joined sell to wales over 6 years ago, and have not looked back. They gained 5 major contract, and are in the process of gaining a further two. With the increases of projects undertaken the company's had the ability to increase its work force, furthermore over the last two years they have seen an increase of 45% in turnover. As Businesswales.gov.wales (2019) discusses The welsh government has stated in their corporate social responsibility report that they are working with employees, Good analysis communities, customers and suppliers, so that every member of society is working together to make wales thrive in the present and future. Good point

9.0 Carillion

In 2017 Carillion where the sixth largest contractor to the UK, which had 420 active contracts public contracts, which includes; ministry of defense, HS2, and no less than 220 schools. This was before they entered liquidation in January 2018. The UK government spent 251.5 billion pounds 13.7 GDP. With this being the case what mistakes were made with the collapses of Carillion. As discussed in risk management the organisation that outsource any services cannot outsource the responsibility that lies with the organisation. Publications.parliament.uk (2019) admits that the government need to adjust how they govern their large contractors in regards to risk transfers to ensure that it is realistic, and its economic impact.

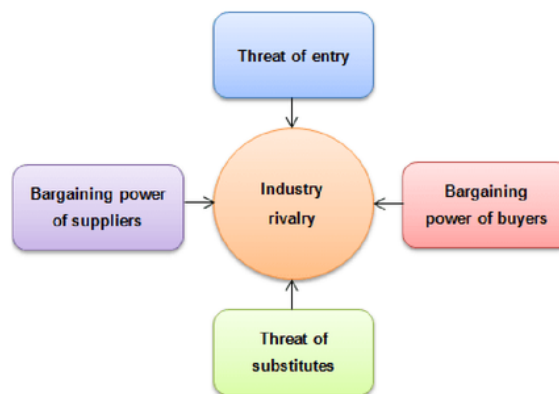
The Independent (2019) discusses that there were many warning signs that Carillion were in financial trouble, but the government ignored any warning. And to make things worse after the company received its second profit warning they were still able to bid for high value contracts. Strategic Finance (2019) explains that the company used methods to show an artificial revenue, such as including revenue that it was unsure it was going to receive from its clients, which accounted for 10% of its 294 million revenue.

Good point

Another unethical and unsustainable method they used was to deny small medium enterprises the money agreed in contracts so that the money could be shown in its account as profit a process called reverse factoring. Nao.org.uk (2019) discovered that the company have pledged to abide by a payment code, which would allow its supply chain partners to receive payment within 30 days, which in 2017 they admitted that this was not be done, and it was in fact taking 45 days with one third of sub-contractors having to wait longer than 60 days. It could be said the companies they chose to pay late would be suppliers placed within the leverage and non-critical within the Kraljic Matrix, because it not have much effects on the day to day operation of the company. Ukconstructionmedia.co.uk (2019) carried out research to discover what happens when payments are late. They discovered of 400 construction companies credited the demise of carillion with their financial difficulties, and created issues in their own supply chain. Of the 400 companies 74% have been close to bankruptcy due to late payments, but more importantly the ethical implications as seen in the research are the health problems of the decision makers of those companies. 48% said that their physical and mental health was effected, with some having suicidal thoughts. Not only are they feeling the stress of late payments, but 62% admitted to not paying themselves, and paying employees late, which could majorly impact their lives. To make things worse while Carillion was not paying sub-contractors directors of the company were still receiving large bonus payments approved by auditors.

(Figure 3)

porter's 5 forces



(Jurevicius, 2019)

As shown above in figure 3 when the company choose not to pay its own suppliers they done so knowing that they had all the power in the relationship, and Carillion did not worry about the implications that may have on others, or they were unaware due to the poor management of this level of supplier, after all there are an abundant amount of non-critical, and leverage category's suppliers. In regards to government and carillions relationship it could be said that the power was with Carillion, as there was not much competition, also Carillion had no threat of a substitute, and if they did it would have been extremely expensive for the tax payer. Another factor was complacency, being one of the biggest construction contractors for the government they did not consider any threat, after all they were they produce profit warning, and [explanation required](#) large monetary contracts.

10.0 Conclusion

As discussed by Caerphilly.gov.uk (2019) procurement is a process which can meet the needs of the organisation and archive value for money, however not only to benefit the company, but also the wider community and environment. Procurement-academy.com (2019) explained that the process of procurement is now one that demands dedicated departments especially for large companies. [Diploma in procurement and supply](#) (2012) go on to describe that the process can be split into five sections call the 5 R's. if followed it can help with reducing procurement costs.

As discovered procurement was seen as a process, which was not thought of as important as others. As Ft.com (2019) that soon changed as with the ability to procure digitally as ThyssenKrupp discovered. They then had the ability to monitor spend, and suppliers more efficiently giving them a 2.5 billion saving all credited to the new software.

As shown in the report many companies use the Kraljic Matric as method of categorizing suppliers in terms of importance as shown by Forbes.com (2019) in figure 1, with the most importance being placed on strategic and bottleneck items. With the matrix the company has the ability to manage any uncertainty, as [Category management in procurement and supply](#) (2012) there are five types of risk and if a company can understand them they will be more successful.

Sell2wales.gov.wales (2019) discovered that the welsh government set up a digital portal so that welsh business tender for work, or offer work up for tender. The portal has given small medium enterprises the ability to gain contract, which would not be otherwise, as shown with Mike Wilkes & Son Ltd. The benefits for the company included the ability to employ more staff, and an increase of 45% in turnover.

As discussed Carillion were a vital contractor for the UK government before its liquidation in 2018, and as discovered after two profit warning they still continued to win multi million pound contracts from the government.

Publications.parliament.uk (2019) went on to explain that they were any risk that was involved was not understood, and the government cannot pass the buck. Outsourcing the service is understandable, because it's not their key competence, but they cannot out-source the responsibility, with this being said the government understood that changes need to be made to better understand the risk involved with contractors.

Good conclusion

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FINAL GRADE

70/100

GENERAL COMMENTS

Instructor

Excellent research and use of good quality, credible sources.

A very good knowledge and understanding of Procurement demonstrated with reference to some very useful examples.

Good analysis but quite descriptive and lacking detail in some areas for higher marks. For example, there are some very good points raised about the Carillion scandal but it could have been concluded more comprehensively by identifying the failings of public procurement in this case and recommending improvements with reference to relevant models.

Well laid out and structured.

A very good piece of work. Well done.

PAGE 1

PAGE 2

QM

Good Intro.

Good introduction

Additional Comment Very good introduction

QM

Good point

Good point

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Improper Citation

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Additional Comment This is a textbook and therefore the author is CIPS

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Good point

Good point

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Additional Comment cost of ownership needs explaining here

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PAGE 7

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Additional Comment Explanation of pareto analysis

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PAGE 8

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Good analysis

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PAGE 9

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Additional Comment

How does this support the local economy?

PAGE 10

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Good analysis

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Good point

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PAGE 11

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Good point

Good point

PAGE 12

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explanation required

explanation required

Additional Comment

This needs to be concluded here. What can the UK Government do to ensure this doesn;t happen again with major contractors? Kraljic, partnering, closer relationships? Carter's 10 C's???

PAGE 13

PAGE 14

QM

Good conclusion

Well concluded

PAGE 15

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