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PURCHASING & RESOURCING MANAGEMENT

STUDY GUIDE FOR MODULE ONE

(A full 'Study & Training Guide' will accompany the Study or Training Manual(s) you will receive soon by airmail post.)

This Study Guide - like all our Training Materials - has been written by professionals; experts in the Training of well over three million ambitious men and women in countries all over the world. It is therefore essential that you:-

- * Read this **Study Guide carefully** and **thoroughly** BEFORE you start to read and study Module One, which is the first '**Study Section**' of a CIC Study or Training Manual you will receive for the Program for which you have been enrolled.
- * Follow the **Study Guide exactly**, stage by stage and step by step - if you fail to do so, you might not succeed in your Training or pass the Examination for the CIC Diploma.

*** STAGE ONE**

Learning how to **really STUDY** the College's Study or Training Manual(s) provided - including THOROUGHLY READING this **Study Guide**, and the full '**Study & Training Guide**' which you will soon receive by airmail post.

*** STAGE TWO**

Studying in accordance with the professional advice and instructions given.

*** STAGE THREE**

Answering Self-Assessment Test Questions/Exercises.

*** STAGE FOUR**

Assessing - or having someone assess for you - the standard of your answers to the Self-Assessment Test/Exercises.

*** STAGE FIVE**

Preparing for your Final Examination.

*** STAGE SIX**

Sitting the Final Examination.

Remember: your CIC Program has been **planned** by experts. To be certain of gaining the greatest benefit from the Program, it is **essential** that you follow precisely each one of the **SIX stages** in the Program, as described above.

STAGE ONE is your thorough reading of this 'Study Guide'

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ABOUT CIC STUDY and TRAINING MANUALS

A CIC Study or Training Manual (which comprises 4 or 6 Modules - the first Module of which follows) supplied by the College as part of your Course or Program is **NOT** simply a text book. It must therefore **not** be read simply from cover to cover like a text book or another publication. It **MUST** be **studied**, Module by Module, exactly as explained in the following pages. Each CIC Study or Training Manual has been designed and written by specialists, with wide experience of teaching people in countries all over the world to become managers, administrators, supervisors, sales and accounting personnel, business-people, and professionals in many other fields.

Therefore, it is in **your own best interests** that you use the Study or Training Manuals in the way CIC's experts recommend. By doing so, you should be able to learn easily and enjoyably, and master the contents of the Manuals in a relatively short period of time - and then sit the Final Examination with confidence. Every Study Manual and Training Manual is written in clear and easy to understand English, and the meanings of any "uncommon" words, with which you might not be familiar, are fully explained; so you should not encounter any problems in your Studies and Training.

But should you fail to fully grasp anything - after making a thorough and genuine attempt to understand the text - you will be welcome to write to the College for assistance. You must state the **exact** page number(s) in the Study or Training Manual, the paragraph(s) and line(s) which you do not understand. If you do not give full details of a problem, our Tutors will be unable to assist you, and your Training will be delayed unnecessarily.

Start now by reading **carefully** the following pages about Stages Two, Three and Four. Do **NOT**, however, start studying the first Study or Training Manual until you are **certain** you understand **how** you are to do so.

STAGE TWO - STUDYING A CIC MODULE

STEP 1

Once you have read page 1 of this document fully and carefully, turn to the first **study section** - called **Module One** - of **Study or Training Manual One**. (Note: In some Manuals the term "Chapter" is used instead of "Module").

Read the whole of Module One at your normal reading pace, without trying to memorise every topic covered or fact stated, but trying to get "the feel" of what is dealt with in the Module as a whole.

STEP 2

Start reading the Module again from the beginning, this time reading more slowly, paragraph by paragraph and section by section. Make brief notes of any points, sentences, paragraphs or sections which you feel need your further study, consideration or thought. Try to absorb and memorise all the important topics covered in the Module.

STEP 3

Start reading the Module again from its start, this time paying particular attention to - and if necessary studying more thoroughly - those parts which were the subject of your earlier notes. It is best that you do **not** pass on to other parts or topics until you are **certain** you fully understand and remember those parts you earlier noted as requiring your special attention. Try to fix everything taught firmly in your mind.

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Note: You may not wish to, or be able to, carry out Steps 1, 2 and 3 one after the other. You could, for instance, carry out Steps 1 and 2 and then take Step 3 after a break.

STAGE THREE - ANSWERING SELF-ASSESSMENT TESTS

STEP 4

When you feel that you have **fully understood and learned everything** taught in the whole Module (and if necessary after a further careful read through it) turn to the Self-Assessment Test set at the end of it, and read the Questions/Exercises in it carefully. You do not have to attempt to answer any or all of the Questions/Exercises in the Test, but it is **best** that you do so, to the best of your abilities. The reasons for this are:-

- ❁ By comparing your answers with the Recommended Answers printed in the Appendix at the end of the Module, you will be able to assess whether you **really have** mastered everything taught in the Module, or whether you need to study again any part or parts of it.
- ❁ By answering Questions/Exercises and then comparing your attempts with the Recommended Answers, you will gain experience - and confidence - in attempting Test and Final Examination Questions/Exercises in the future. Treat the Self-Assessment Tests as being “*Past Examination Papers*”.

Professional Advice on Answering Self-Assessment Test (and Examination) Questions and Exercises

1. You may answer the Questions/Exercises in a Self-Assessment Test in any order you like, but it is best that you attempt **all** of them.
2. Read very carefully the first Question/Exercise you select, to be quite **certain** that you really **understand** it and what it requires **you to do**, because:
 - ★ some Questions/Exercises might require you to give full “written” answers;
 - ★ some Questions/Exercises (e.g. in English) might require you to fill in blank spaces in sentences;
 - ★ some Questions/Exercises (e.g. in bookkeeping) might require you to provide “worked” solutions;
 - ★ some Questions/Exercises (called “multiple-choice questions”) might require you only to place ticks in boxes against correct/incorrect statements.

In your Final Examination you could **lose marks** if you attempt a Question/Exercise in the wrong way, or if you misread and/or misunderstand a Question/Exercise and write about something which is not relevant or required.
3. Try to answer the Question/Exercise under ‘**true Test or Examination conditions**’, that is, **WITHOUT** referring back to the relevant section or pages of the Module or to any notes you have made - and certainly **WITHOUT** referring to the Recommended Answers. Try to limit to about two hours the time you spend on answering a set of Questions/Exercises; in your Final Examination you will have **only two hours**.
4. Although you are going to check your Self-Assessment Test answers yourself (or have a friend, relative or colleague assess them for you) practise writing “written” answers:-

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★ in clear, easy-to-read handwriting;

and

★ in good, grammatical language.

The Examiner who assesses your Final Examination answers will take into account that English might not be your national or main language. Nevertheless, to be able to assess whether you really **have** learned what we have taught you, he or she will need to be able to read and understand what you have written. You could lose marks if the Examiner cannot read or understand easily what you have written.

5. Pay particular attention to neatness and to layout, to spelling and to punctuation.
6. When “written” answers are required, make sure what you write is **relevant** to the Question/Exercise, and concentrate on **quality** - demonstrating your knowledge and understanding of facts, techniques, theories, etc. - rather than on quantity alone. Write fully and clearly, but **to the point**. If you write long, rambling Final Examination answers, you will waste time, and the Examiner will deduct marks; so practise the **right** way!
7. When you have finished writing your answer, read through what you have written to see whether you have left out anything, and whether you can spot - and correct - any errors or omissions you might have made.
Warning: some Questions/Exercises comprise two or more parts; make **certain** you have answered **all** parts.
8. Attempt the next Question/Exercise in the Self-Assessment Test in the same manner as we have explained in 1 to 7 above, and so on until all the Questions/Exercises in the Test have been attempted.

Note: There is no limit on how much time you spend on studying a Module before answering the Self-Assessment Test set on it, and some Modules are, of course, longer than others. You will, however, normally need to spend between twelve and fifteen hours on the thorough study of each Module - and that time may be spread over a number of days if necessary - plus approximately two hours on answering the Self-Assessment Test on each Module.

STAGE FOUR - ASSESSING YOUR ANSWERS

STEP 5

When you have answered all the Questions/Exercises set in Self-Assessment Test One to the best of your ability, compare them (or ask a friend, relative or a colleague/senior at work to compare them) with the Recommended Answers to that Test, printed in the Appendix at the end of the Module. In any case, you should thoroughly study the Recommended Answers because:-

★ As already explained, they will help you to assess whether you have really understood everything taught in the Module;

and

★ They will teach you how the Questions/Exercises in subsequent Self-Assessment Tests and in your Final Examination **should** be answered: clearly, accurately and factually (with suitable examples when necessary), and how they should be laid out for maximum effect and marks.

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MARKS AND AWARDS

To assist in the assessment and grading of your answers, the **maximum number of marks** which can be earned for each answer to a Self-Assessment Test Question/Exercise is stated, either in brackets at the **end of each one**.

The maximum number of marks for any one Test is 100.

Your answers should be assessed fairly and critically. Marks should be awarded for **facts** included in your answer to a Question/Exercise, for presentation and for neatness. It is **not**, of course, to be expected that your answers will be identical to all those in the Appendix. However, your answers should contain the **same facts**, although they might be given in a different order or sequence - and any examples you give should be as appropriate to the Questions/Exercises as those given in the relevant "Recommended" Answers.

Add together the marks awarded for all your answers to the Questions/Exercises in a Self-Assessment Test, and enter the total (out of 100) in the "Award" column in the **Progress Chart** in the middle of the full '**Study & Training Guide**' when you receive it. Also enter in the "Matters Requiring Further Study" column the number(s) of any Question(s)/Exercise(s) for which you did not achieve high marks.

GRADES

Here is a guide to the grade your Self-Assessment Test Work has achieved, based on the number of marks awarded for it:

50% to 59%	PASS	60% to 64%	HIGH PASS
65% to 74%	MERIT	75% to 84%	HIGH MERIT
85% to 94%	DISTINCTION	95% to 100%	HIGH DISTINCTION

STEP 6

Study again **thoroughly** the section(s) of the Module relating to the Question(s)/Exercise(s) to which your answers did not merit high marks. It is important that you understand where or why you went wrong, so that you will not make the same mistake(s) again.

STEP 7

When you receive the complete Study or Training Manual One** from the College by airmail post, '**revise**' - study again - Module One printed in it, and then turn to **Module Two** and proceed to **study it thoroughly** in exactly the same way as explained in Steps 1, 2 and 3 in this '**Study Guide**'.

When you have completed your **thorough study**, follow steps 4, 5 and 6 for the **Self-Assessment Test on Module 2**.

Continue in the **same way with each of Modules 3, 4, 5 and 6** until you have attempted and assessed your work to Self-Assessment Test 6, and have completed the study of Study or Training Manual One. But - and this is **important** - study the Modules **one by one**; complete Steps 1 to 6 on **each** Module **before** you proceed to the next one (unless during the course of your reading you are referred to another Module).

****Note:** When you receive Study or Training Manual One by airmail post, it will be accompanied by a 20-page '**Study & Training Guide**' (containing a '**Progress Chart**') which you **MUST read very carefully** before starting your study of Module Two.

TRAINING ON

PURCHASING & RESOURCING MANAGEMENT

Module One

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INTRODUCTION TO PURCHASING AND RESOURCING MANAGEMENT

General and Introduction

Module One provides an overview of purchasing and resourcing management, in order to create a learning “perspective” for you. We start by exploring the “fundamentals” of purchasing, and explain how the “barter” system of ancient times has evolved into the sophisticated buying and selling processes of today. We then discuss the use of money as an alternative to barter, and how money has enabled the development of the profession of purchasing. We discuss “traditional” concepts of the role of purchasing, and the impact purchasing can have on business “profitability”, particularly through the contribution purchasing can make to “added value”.

We then explore the manner in which purchasing has developed as a **‘professional’ managerial activity**. We discuss the level of seniority purchasing should have in the management “hierarchy”, and explore alternative positions for the purchasing function within manufacturing business structures. We then introduce the topic of a **‘modern’** or **‘contemporary’** purchasing function, and the concept of “organizational buyers”. We also discuss the essential differences between buying materials or products and buying services. We then review the differences between “industrial” and “institutional” buyers, and outlines the manner in which “distribution channels” operate.

We go on to look at the scope and objectives of purchasing, and the modern concept of buying the *“right quality, at right times, in right quantities, from right sources, at right prices.”* We demonstrate the importance of purchasing in maintaining supplies for manufacture and the need for “economic” buying. In addition, we consider the interdependence between purchasing and other functions, particularly “inventory management”. We then discuss the “interface” between purchasing and the “logistics” function within a business.

A typical purchasing organization structure is considered next, as well as the role of management within a purchasing department. Organizational objectives are then discussed, including the importance of formulating policies to achieve those objectives. The need for effective planning, organising, co-ordinating, motivating and controlling by management is also emphasised. Finally, we discuss the importance of maintaining appropriate standards for purchasing and resourcing, and also how effective purchasing contributes to the performance of other departments within a business or organization.

The Background

The process of **‘purchasing’** - which is the **acquisition** of a desired object or commodity **in exchange** for something else accepted as being of equal value - is certainly not a “modern phenomenon”.

Thousands of years ago human beings **exchanged** - or **‘bartered’** - products which were the results of their hunting, fishing or agricultural activities, for the products of other people who were skilled, for instance, in the curing of skins, in weapon making, in making pottery, in weaving, and in many other activities. Indeed, the advent and evolution of **‘trading’** - which involves the **purchasing** or **buying** and the **selling** - of products, as opposed to their acquisition by conquest, plunder or confiscation, marked significant stages in the development of civilisation and the “commercial world” as we know it today.

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Barter

A man who hunted and killed animals might have had too much meat or too many skins for himself and his family alone. He might, therefore, have wanted or needed **to exchange** some of the meat or skins he had obtained from his **own** activities, for clothes, cooking pots, weapons and crops which **other people** had produced. Those other people - for example farmers, potters, and weavers - would have had to be prepared to accept the hunter's meat or skins **in exchange for** the articles - such as maize, cooking pots or arrowheads - which they had produced, and which were excess or "surplus" to their own requirements.

So of necessity there arose a system of **barter**, by which it could be **agreed by bargaining** that, say, one antelope skin was worth, say, four cooking vessels, or two bags of corn, or six arrowheads.

But barter had great **disadvantages**. For instance, if there was a shortage of meat or animal skins, the man who had some to barter would probably have wanted more than the "usual" four cooking pots or two bags of corn or six arrowheads. Also, there would have been times when no more meat or skins were required, and the seller would then have had to accept less in exchange for them than the "usual" quantity of pots or corn or arrowheads.

Barter requires a '**coinciding of wants**' by two parties; for example, a hunter must want corn at the same time that a farmer wants skins. Also, the two parties must agree on how much corn is worth one skin. If the farmer has less corn to spare than the agreed value, the hunter might not wish to spoil a skin by cutting - dividing - it into parts. It was realised long ago that what was required to overcome such problems in practical situations was something that could be used as '**a medium of exchange**'.

The Development of Money

The "medium of exchange" which developed over the centuries is what today we call **money**. In itself, money has **no** value; it is what money **can be exchanged for** which has the value. To function properly, money:

- ★ must be generally recognised as having a **fixed value**;
- and
- ★ must be generally **acceptable** throughout society.

Any article or material might be used as money, provided that it is so recognised and acceptable; although some materials are more suitable for the purpose than are others. In the past, in some parts of the world certain seashells were used as money, whilst in other parts of the world certain fish were so used. Such items can, of course, be satisfactory only in relatively small, isolated communities. The forerunners of money, as we know it today, included a **commodity** which was in general demand, such as cattle, and some **precious metals** by weight.

Today, we are all familiar with **bank notes** or **currency notes**, which are issued by a central authority such as a government, printed on paper. Bank notes (and coins) retain their capacity to act as money only so long as the public has confidence in them. The notes (and coins) have **no** inherent value, as do precious metals or cattle, for example; in practice, bank notes (and coins) have "value" ONLY:

- ★ as a means of exchange
- or
- ★ as a means of purchasing goods or services.

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A bank note is an acknowledgement by the bank concerned that **it owes** the “bearer” - the person in whose possession it is - a certain sum of money; a bank note can be passed from one person to another, and the bank’s debt is similarly transferred. So long as money can be used for the **exchange or purchase** of what we require, it fulfils its main function. Whilst people have confidence in a medium and as long as it is generally acceptable, that medium can be regarded as being money.

Bank deposits can be transferred from one person to another by **currency notes** or by **cheque** (spelt “check” in some countries) or by **electronic means**. As we have explained, a bank note is an acknowledgement by the bank concerned that it owes the bearer a certain sum of money, and in effect the bank’s debt can be passed from one person to another as the bank note “changes hands”.

In the same way, money deposited with a bank can be transferred from one person to another - or from one business to another - by giving “written instructions” to the bank holding the deposit. The issue of a cheque is no more than such a “written instruction” to transfer money, and although this is probably still the most common method used, the wide use of credit cards, and developments in communications (especially via the Internet) are rapidly increasing the use of other methods of money transfer.

The Traditional ‘Subordination’ of the Purchasing Function

Despite the long history and development of the ‘**twin**’ - and inseparable - trading activities of **purchasing** and **selling**, the greatest proportion of management attention has traditionally been concentrated on the selling activity. The reason for that is not far to seek; it is because selling can clearly be seen as being the activity which **brings** money - that is, income or revenue - **into** the business. It is the money which **flows into** a business which enables it to meet its expenses, to pay its staff, and which provides “returns” - **profits** - for its owners.

In contrast, purchasing has invariably been looked upon as being an activity which **spends** money; that is because it involves money **flowing out** of the business.

Even today there are still some businesses in which the activity of purchasing is looked upon as being merely a “routine” clerical activity, concerned mainly with “spending money”.

However, within the last 50 to 60 years the great importance of **efficient purchasing** has increasingly been recognised by the managements of businesses of all sizes and activities: such as industrial, trading, or institutional/service-providing. That recognition has both come about by and led to - even forced - an appreciation of the matters to which we now turn our attention.

The Contribution to Profits Made by Efficient Purchasing

Efficient purchasing can contribute greatly to the overall profitability and prosperity of an organization in two major areas:

- ★ Through **reductions in operating costs** - for example by buying materials at lower prices, as the result of research into sources of supply, comparisons of prices and other financial “terms” (e.g. discounts and periods of credit offered) and negotiations with new and existing suppliers. In theory, every “unit” (in monetary terms) which is saved through wise purchasing should - all other factors involved being equal - result in the organization’s profit increasing by that same monetary unit.
- ★ Through **‘added value’** - for example by buying-out materials of better quality and/or reliability without a corresponding increase in costs. This might not at first sight appear to have the same

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“direct” and evident effect on profits as the first area we have described. But increased quality and reliability can result in fewer defects in products and rejects after processing, and so there will be fewer complaints by customers (e.g. about breakdowns). Increased quality and reliability lead to increased “customer satisfaction”; which in turn leads to increased sales, which - without a corresponding increase in costs - result in higher profits being made.

Reductions in costs - which might be “passed on” to customers in the form of lower prices - and the increased quality/reliability of its products, give an organization an “edge” over competitors, resulting in increased sales.

Purchasing has Evolved into a ‘Professional’ Managerial Activity

It is clear that to be able to understand the “real” needs of an organization, and to be able to contribute to its profitability and prosperity, an involvement in its management by the person or persons charged with responsibility for purchasing on its behalf is desirable. The managerial “level” at which the purchasing function is involved varies from organization to organization - depending largely on the comparative importance to a particular organization of what are often called ‘**bought-out**’ materials.

For example, an organization which is involved in manufacturing products is likely to depend heavily on a range of raw materials and/or components (parts) which have to be acquired from **outside** the organization itself. On the other hand, an organization which is “office-oriented”, such as an insurance company, will not be dependent on bought-out materials in order to operate; its purchases might be restricted to printed literature and stationery, and much of that might even be produced internally. The purchasing function will, therefore, generally assume greater importance (and responsibilities) in a manufacturing concern than in a service-providing concern.

The modern commercial world is highly competitive; no organization can today risk “hit or miss” purchasing tactics, which could easily result in the procurement of the wrong materials, or substandard materials, deliveries at the wrong times, and unnecessarily high prices being paid for materials; all of which would be damaging to the organization’s competitiveness and profitability. Today, if an organization’s activities depend on bought-out materials, the purchasing function needs to be performed on behalf of an organization by trained, skilled, knowledgeable and experienced personnel; in other words, by ‘**professionals**’.

The Strategic Importance of Purchasing to Profitability

The top managements of many organizations today have an increased awareness of the strategic importance of the purchasing function to business profitability and prosperity. In today’s competitive and constantly changing business world, it is no longer feasible to simply buy for the “needs of the moment”. Today, both long-term, strategic forecasting and planning are vital - and the identification of the current and the probable future needs of an organization, and the potential suppliers of those needs - is essential. The fulfilment of those goals requires the purchasing function to work effectively within and as part of the management “team” of the organization.

The Purchasing Function within the Management ‘Hierarchy’

As we have explained above, the purchasing function has greater “relative” importance - or “status” - in some organizations than it might have in other organizations. In practical terms it often comes down to a “perceived” importance - and its status might be determined arbitrarily by a variety of factors and priorities or managerial attitudes - as in reality efficient purchasing is beneficial to **any** organization.

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In some organizations the purchasing function is a section or department in its own right; in other organizations purchasing falls within the responsibility of the production department or of the stores/inventory department - whilst in other organizations purchasing exercises some control over the stores/inventory function.

Similarly, whilst in some organizations purchasing might be looked upon as being merely a clerical activity, in other organizations at least some purchasing decisions might be made at “board” (of directors) - top management - level.

Fig.1/2. Possible organization of a manufacturing/engineering concern

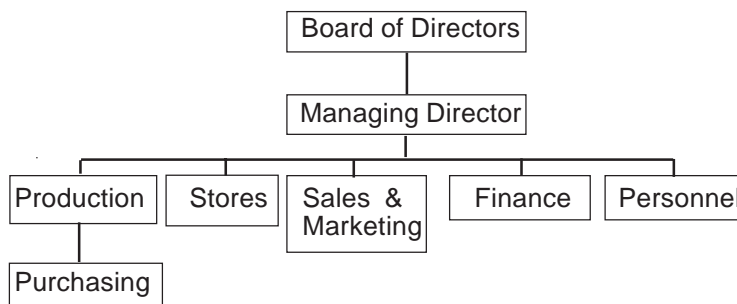


Fig.1/3. Possible organization of a manufacturing/engineering concern

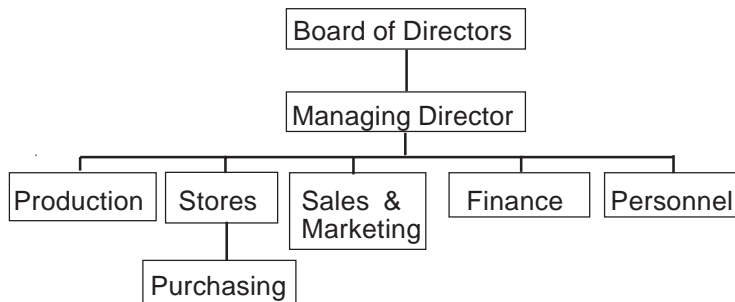
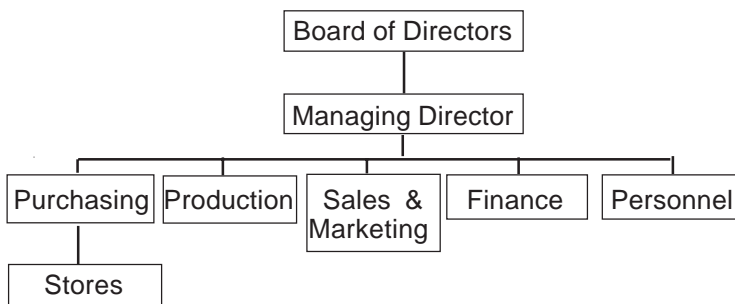


Fig.1/4. Possible organization of a manufacturing/engineering concern



Figures 1 to 4 are what are called ‘**organization charts**’, because they depict the make-up of organizations. In Fig.1/1 you can see that the organization consists of six separate “departments”, which are responsible for purchasing, sales & marketing, finance, production, stores, and personnel (although in practice all six might well not be of equal size or importance). In Fig.1/2 there are only five departments, with purchasing being a “section” of the production department, whereas in Fig.1/3, purchasing is a “section” of the stores department. However, in Fig.1/4, purchasing is not only a department in its own right, but it also has responsibility for stores.

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There are many other possible permutations, depending on the needs and make-up of different organizations. And that is one reason why we often refer to the **'purchasing function'** - as being an **'activity'**, or rather a **group of related activities** - rather than referring to the "purchasing department" or to the "purchasing section", either of which terms imply a tangible "structure".

The Modern Purchasing Function

A widely accepted definition of the modern purchasing function for organizations - and which is often referred to as **'organizational purchasing'** - is as follows:

*"The function responsible for **procuring** (obtaining) by purchase, lease or other legally acceptable means, those **products** - materials, supplies, services and equipment - which are required by an organization for use in **'production'** to ensure its smooth functioning and its continuous and uninterrupted operations, and to achieve the purposes for which it was established."*

The word "production" has been highlighted above, because in the definition the term is used in the way in which Economists view "production"; they consider the aim of production as being **to satisfy a 'want' - a 'need' or a requirement**.

The **ability** of any particular product **to satisfy wants** is called its **'utility'**. Utility expresses the **relationship** between a possible purchaser and a product. If a product has utility, then we understand that the purchaser **requires** that product in order **to satisfy a want or a need**.

With regard to individuals - the majority of whom are "consumers" - examples of wants or needs are food to appease hunger, drinks to quench thirst, medicines to alleviate illness or pain, and clothes to provide protection against the weather or other environmental conditions. The products which individuals buy to satisfy their wants or needs from time to time are commonly used up - or **'consumed'** - during their normal, everyday lives; hence the description **'consumers'**.

However, the "wants" or "needs" of organizations are somewhat different. So called **'organizational buyers'** are people who buy products **on behalf of** organizations, as opposed to people who buy products for personal or family use or consumption. Organizational buyers are buyers of goods and services specifically for use in industrial or agricultural **production** - which involves the creation of utility - or for use in the operations or conduct of plants, businesses, institutions, professional bodies, administration, or in the provision of services.

Products - Goods and Services

To those involved in business and management, a **'product'** is essentially something which can legally be bought and sold.

In everyday speech, the word **'production'** is often used as if it always means the creation of something **tangible**, that is, a physical object or product which can be seen and felt. There are many thousands of such objects, ranging from paperclips to satellites, from onions to oil rigs, from tiny computer microchips to huge ships and aeroplanes - in fact the list is endless. Many of the objects in this "physical" group of products - which actually exist or which can be made to exist - are referred to as being **goods**. Raw and processed materials, and all manufactured articles are **tangible** items, that is, they can be seen and touched and often tasted and/or smelt and are all therefore **goods** in this context.

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However, there is another - and no less important - type of product. What are called '**services**', are **intangible**, that is, they cannot usually be seen, touched, tasted or smelt; they generally consist of some work performed, only the **results** of which might be seen or felt. Services might be provided by individuals, by groups and/or by organizations. For example, a hospital is a "service provider"; its services are provided by doctors, surgeons, nurses, and many other people. Schools, colleges and universities are service providers; their services are provided by teachers, lecturers and others.

There are services provided by banks, insurance companies, travel agencies, estate agencies, and many other people, including mechanics and engineers, artisans and tradesmen. Some services are referred to as being "utilities", which term includes the provision of water supplies, electricity supplies, sewerage and waste disposal, and so on.

Services of one kind or another are important - indeed essential - to most organizations; for example, few businesses can operate without electricity supplies, banking facilities or communications. However, although (in some countries) negotiations might be necessary between competitive service-providers, in general the professional activity of purchasing is concerned with the acquisition of tangible products. An important difference between goods and services is that most services cannot be "stored" for future use.

There is a huge range of products of different types available on the market today. Some types - especially of "physical" products - might be referred to as being produce, or materials, or components, or commodities, and so on. For simplicity, in these Modules we confine ourselves mainly to the use of the terms "goods" and "materials".

The purchasing function within an organization deals with the procurement of products on behalf of that organization; as we have seen, in the main it is responsible for the procurement of materials and goods. However, it must be remembered always that the purchasing function is itself essentially a **service function**; it must provide an **efficient service** to many - if not all - of the sections/ departments of the organization of which it is part.

Categories of Organizational Buyers

The activities and objectives of different organizational buyers will dictate - at least in general terms - their purchasing needs and behavioural patterns with regard to purchases. Organizations which have similar "objectives" (which we consider later in this Module) and which are involved in similar activities tend to have similar buying needs and behaviours.

We can consider organizational buyers as falling very broadly into three major categories:

Industrial Buyers

These are organizations **on behalf of which** goods and services are purchased specifically to be used in the **production of other products**. During the course of production, the forms of the "bought-out" products will be converted into products with greater utility, that is, which satisfy wider needs.

Organizations in this category include those which are involved in extractive activities (e.g. mining, quarrying, oil drilling); those involved in agriculture, horticulture, forestry and fishing; and those involved in manufacture (whether of "finished" goods or of products - e.g. components - for sale to and use by other manufacturers).

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Some materials purchased by industrial buyers might be “raw materials”, other products might be components. What are the “finished products” of one industrial organization might be the raw materials of another. For example, a forestry plantation business grows trees, which are eventually felled; its finished products - logs - might be purchased by a timber/saw mill, where they will be considered its raw materials. The finished products of the mill might be cut and planed planks and sheets of wood. Some of that wood might be purchased by a furniture manufacturing business, in whose factory the wood will be considered one of the raw materials on which it depends; the furniture manufacturer is likely also to have to purchase components from other manufacturers, such as those who produce nails, screws, foam, fabrics, and so on, all of which products are needed to produce the factory’s “finished products” - furniture in this case.

In most - if not all - instances industrial buyers aim to make profits from their activities, and therefore the efficient and professional purchasing of products at the right prices, of the right qualities, in the right quantities, and at the right times is essential to their endeavours. The products they purchased are considered to be “commercially significant” to their operations.

Institutional Buyers

These are organizations **on behalf of which** goods and services are purchased in order for those organizations to be able to provide efficient and effective services of their own. Examples of such organizations include schools, hospitals, hotels, central and local government departments, police and armed forces, and “professional” firms (such as firms of lawyers, accountants and auditors).

For example, a school or a college will not be able to provide efficient and effective teaching services to its students if it does not purchase text books and other learning aids, stationery, classroom equipment (desks, blackboards, even small items like chalk).

In some - but by no means not all - cases, the services provided by institutional buyers might not be “commercially significant” in the sense of making profits. However, most such organizations do make charges - in one form or another, sometimes directly, sometimes indirectly - to those who make use of their services.

Trading or Intermediate Buyers

These are organizations **on behalf of which** goods and services are purchased with the “commercial” intention of **reselling** them (or facilitating the sale of other products) and making profits from those activities. Almost invariably products purchased by this category of buyer are resold in the same forms as they are purchased; in other words, there is no alteration to the utility of the products they handle.

Types of businesses in this category include wholesalers and retailers (see descriptions in the next Section) and distributors. Products purchased by trading buyers might be resold to industrial or institutional buyers, to other trading buyers (for example a wholesale business sells to retail businesses) or direct to consumers.

You will appreciate that the objectives of, for example, schools, hotels and manufacturing companies are all very different; it follows, therefore, that their buying needs and behaviours will also differ, which is a significant factor for those involved in the purchasing function.

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Channels of Distribution

The term “channels of distribution” refers to the ways in which products reach those will make use of them (whether they are individual consumers, or whether they are organizational buyers) from the producers or manufacturers of the products.

There are many different channels of distribution; some channels are suitable for certain types of products, whilst other channels might be suitable for quite different types of products. The purchasing function for an organization must select the most effective channel or channels for the various products needed by the organization.

The “traditional” channel of distribution is:

producer/manufacturer —> wholesaler —> retailer —> consumer

Wholesale businesses (often called simply “wholesalers”) buy products in large quantities - in “bulk” - direct from the producers or manufacturers of the products. They then resell the products in smaller quantities to retail businesses (often called simply “retailers”), who also resell the products, usually in even smaller quantities (perhaps singly) to their own customers, who are mainly consumers. You can see why wholesalers and retailers are often called “intermediate buyers”.

Wholesalers are often called “middlemen” as they are positioned “between” producers/manufacturers and the retailers who actually deal with the “buying public”. However, increasingly large-scale organizational buyers (such as large retailers like supermarket chains) tend to “bypass” wholesalers and instead purchase directly from the producers and manufacturers of the products which they need or in which they deal. By doing so, they can take advantage of large “quantity discounts”, and other advantageous terms, and so be able to buy more cheaply than they could buy from wholesalers. The savings are often “passed on” to their own customers in the form of lower prices, which tend to increase sales - and profits.

The Scope and Objectives of Purchasing Today

Although it is sometimes criticised as being somewhat superficial and overly simplistic, a commonly used statement of the objectives of purchasing is:

*“To purchase the right quality of materials, at the right times,
in the right quantities, from the right sources, at the right prices.”*

To be valid, the achievement or otherwise of an objective set should be measurable or verifiable in some way; but who is to say at a later date what, for example, the “right price” was at some point in the past? Nevertheless, despite the criticism, the statement we have given does provide a good practical framework and starting point, and we can consider the scope and objectives of the “modern” purchasing function as set out in the following sections.

Catering for Continuous Operations

The purchasing function must ensure that the organization of which it is part is supplied with a steady and continuous flow of materials and services to meet its operational needs. It must **not** be thought that those “operational needs” will necessarily remain constant - that is, will always be the same. On the contrary, any organization experiences “peaks and troughs”, busy periods and slacker periods; seasonal factors might play their part, as might changes in consumer demand, in market trends, in technological developments, in the economy of the country, in government policies and

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actions, and so on.

The purchasing function must be ready and able to adapt quickly to changed circumstances, and to any changes in the operational needs of the organization; a flexible attitude is essential. In that way, the development of new products and/or markets will be fostered.

Continuity of Supply

The purchasing function must ensure that there is “continuity of supply”; interruptions in the smooth “inwards” flow of materials can result in loss of production, in loss of sales, in loss of customers - and in loss of profits.

It is therefore essential for the purchasing function to maintain effective relationships with existing **‘sources of supply’** - or “suppliers” - and, if necessary, also to develop other sources of supply - either as alternatives to existing sources, or to meet the organization’s emerging or planned future operational needs. Frequently research must be carried out, and the “supply market” trends must be monitored, to locate potential suppliers; the “best” suppliers - in terms of product quality, prices, terms, reliability of delivery, etc. - must then be selected.

Forecasting - which we consider later in this Module - the probable **future** purchasing requirements of the organization is also very important

Economy

It is incumbent on the purchasing function to buy efficiently and wisely, and to obtain by ethical means the “best value” for all monies which are spent on procurements on behalf of the organization. We have already explained the ways in which efficient and wise purchasing can contribute to the profitability and prosperity of an organization: by reductions in costs, and by added value. However, quality and reliability must not be sacrificed in the quest to cut costs; a “balance” between quality/reliability and cost must be maintained.

Stock and Inventory Control

The purchasing function - whether it is under the control of the stores/inventory function, or whether it controls the stores/inventory function - must act to ensure, as far as is practicable, that the quantity of each required material “held in stock” at any one time is neither too low nor too high.

Too low a stock or inventory of an item can result in **‘shortages’** or - even worse - to **‘stock-outs’** leading to interruptions in and loss of production, to loss of sales, to loss of customers - and to loss of profits. On the other hand, **‘excess’** (too high) stock or inventory of items results in money being “tied up” unnecessarily; when that money might be required to purchase other needed goods and/or materials, or for other purposes. Excess stock/inventory can also lead to problems in the storage of materials, particularly as “storage space” - in storehouses and/or stock yards - is generally limited.

Co-operation and Co-ordination

An organization’s purchasing function **cannot** operate in “isolation”; its purpose is to provide an efficient service to **other** sections/departments of the organization. In order to be able to provide that service, the purchasing function must receive information **from** other sections/departments - on their needs, for example - and equally it must provide information **to** other sections or departments - on what is available or will be available, for example. Often the purchasing function will be called upon to give **advice** to other departments; for example, on alternative materials available, on feasible delivery dates, and so on.

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It clearly follows that those who are responsible for the purchasing function must maintain regular and co-operative relationships with the executives and staff of other sections/departments of the organization, to assist in the effective co-ordination of the efforts of the organization as a whole towards achieving its goals.

Structure

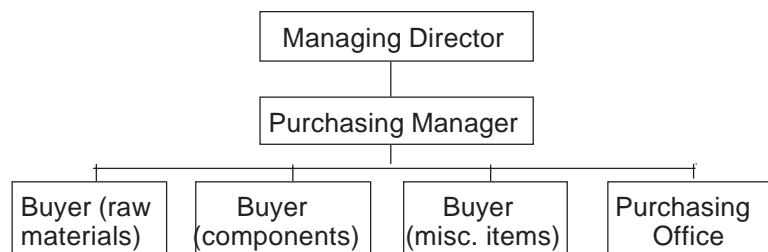
To achieve its objectives - as set out above - a suitable “structure” for the purchasing function needs to be developed; it must be staffed with trained and efficient personnel, and suitable policies and procedures must be established.

Depending on the size and activities of an organization, its purchasing function might be an “independent” section or department, but that is not always the case in all organizations. In some organizations the purchasing function might be part of the production department, whilst in other organizations the purchasing department might encompass the stores/inventory control function, or alternatively it might be a section of the stores/inventory department. Of necessity, in practice each organization needs to develop the structure of its purchasing function best suited to its particular requirements.

In some organizations purchasing might be relatively routine, and might be handled by one or two (maybe relatively junior, even clerical) staff. Where purchasing is more complex and demanding - for example in manufacturing and engineering organizations - a “full” section or department will be established or developed over a period of time. Whether there is a “purchasing section” or a “purchasing department”, skilled, knowledgeable and experienced staff must be recruited and trained, their work must be organised and co-ordinated, supervised and controlled.

Where a full department exists, the executive in charge of it might be called the “purchasing manager”, the “head buyer” or the “chief buyer” or the “chief purchasing officer”. The larger the purchasing department, the more likely it is to comprise a number of sections. The purchasing department of the manufacturing business illustrated for you in Fig.1/5 (which follows on from Fig.1/1) comprises a raw materials purchasing section, a components purchasing section, a miscellaneous purchasing section (e.g. for consumables, equipment and stationery), and a clerical or office section (for record keeping/filing and to provide secretarial services). This is a fairly typical structure of the purchasing department of a manufacturing or engineering business, but it is by no means the only one.

Fig.1/5. Possible structure of a purchasing department of a manufacturing business



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Purchasing & Logistics

A recognised definition for the '**logistics function**' is:

"The management of key operational functions or processes in the supply chain of a business, including procurement, production and distribution".

'**Procurement**' includes both product development and purchasing.

'**Production**' includes the control of manufacturing and assembly processes.

'**Distribution**' involves stock management, transport and delivery.

Clearly, purchasing is a "key" element within the procurement phase of logistics. Purchasing is also in a "key" early position in the '**supply chain**', which begins with the sourcing of raw materials, parts, components, and consumables for manufacture, and finishes with the delivery of finished goods to customers.

THE PRINCIPLES OF MANAGEMENT

The duties of **any** manager or supervisor comprise two quite different aspects:-

★ **The technical or functional aspect** - which is concerned with **the work to be performed** by his organization or the department or section of it under his control;
and

★ **The managerial or human aspect** - which is concerned with **the people who are to perform that work** in his organization or the department or section of it under his control.

In the following Modules of this Program we shall be examining in detail the technical or functional work of an organization's purchasing section or department and the duties and responsibilities of the person(s) in charge of it. But however skilled and experienced in purchasing work a person might be, if his or her duties involve the supervision or management of **other people** - subordinates - his or her knowledge and skills must **extend beyond** the technical or functional work alone. He or she must understand the principles of modern management, and skilfully deal with the managerial or human aspect of the job.

Modern management is an art, which involves:

"Ensuring that a group of people work together in the most effective and efficient manner to achieve a stated goal in the best and most economical way".

Basically management involves providing **leadership** for a group of people, but much more is involved, because:

- ★ the people in the group require **training**;
- ★ they require **advice** and **guidance** and **assistance**;
- ★ they need to be **motivated** to work well and willingly;
- ★ their efforts needs to be **supervised** and they need to be **controlled**; **and** if the stated goal or objective of the enterprise is to be achieved:

★ their work must be so **organised** and **co-ordinated** that they work together as a **team**.

Organizational Objectives

Basically, objectives are the '**goals**' which an organization aims to achieve; in fact the attainment of the set objectives is the principal reason for the very existence of that organization.

Organizational Policies

The first step in meeting the objectives of an organization, is the necessity to decide in broad terms **how** and **where** those objectives are to be achieved, that is, to lay down the basic **policies** of the organization. Policies need to be flexible in order to meet and deal successfully with the changing conditions in which an organization operates.

The managerial aspect of any manager's job are all concerned with achieving **objectives** within the scope of the policies laid down. The "managerial" aspect of any manager's job, can be divided broadly into five types of activities. They are:-

Planning: This entails deciding how the predetermined objectives of the enterprise, or the department or section of it, should be achieved - in the most efficient and economical way - in accordance with policy.

Organising: This involves putting the "theory" (the plans) into "practice", so arranging the work to be performed that the objectives will be achieved as laid down in the plans.

Co-ordinating: This is closely related to organising, and must ensure that although different staff might perform different work, all their efforts mesh smoothly together and are directed towards achieving the common objectives.

Motivating: This involves providing leadership for subordinates, and also requires the ability to inspire them to give of their best in achieving the objectives, by creating a good morale or working spirit amongst all employed by the enterprise.

Controlling: This comprises supervising the people employed, checking their work and the machinery and equipment used, to ensure that the end products are the desired objectives; it also includes the recording of performances to provide a guide for further similar activities in the future.

Planning and Plans

Planning is the activity concerned with making or formulating **plans**. Plans should be looked upon as being '**routes to objectives**'. Once the objectives of an enterprise have been set, planning is necessary to **work out how to achieve** those objectives within the framework of the policies formulated.

In business, "top management", e.g. the board of directors of a company, is involved mainly with "long-term planning" which is often called '**strategic planning**'. That is concerned primarily with deciding what the objectives of the business should be in two, four, five or even ten years ahead, and the future policies of the business. Such planning is concerned mainly with the enterprise as a whole rather than with its individual departments or sections.

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Senior management will be involved in **'tactical planning'**, that is, planning how the overall strategies are to be achieved. This often entails devising and operating short-term plans, for up to a year ahead.

Other levels of management, including supervisors and/or foremen, are involved mainly in very short-term **'activities planning'** - sometimes called **'operational planning'**. That involves planning the day to day running of departments or sections and individual assignments, for example planning how to meet a particular month's production quota, or deciding what each member of staff should be doing at any given time.

A good deal of the planning which managers are called upon to perform involves making **routine decisions**, and is concerned with everyday matters; for example planning the work of a team of office staff, which will be similar week after week. However, plans must be **flexible** so that they can quickly and easily be modified in the light of events. For example, a purchasing manager might have decided how his staff will cope whilst another member is on holiday, and has planned the rearrangement of the work. But the day after the implementation of the new plan, another member of staff falls ill so he must modify his plans, and determine how the work can be rescheduled with two staff away.

Much of such **routine planning** is an automatic process, requiring little conscious thought on the part of the manager, as his or her plans and decisions will be based largely on past experience with similar, or even with identical, problems. Other planning, of perhaps a business trip or a training course, for example, might require far more conscious thought, investigation and research before decisions are reached.

Forecasting

As we have already explained, plans are the predetermined routes to the achievement of objectives, that is, they are the results of decisions taken on how the objectives are to be achieved. Planning is concerned primarily with activities in the **future**. Unless there is some guidance as to what may occur in the future, both short-term and long-term planning would be no more than mere guesswork. What is called **forecasting** is therefore essential if management is to be able to carry out effectively its planning function.

The action of forecasting is intended to determine - as accurately as is possible - the **probable course of future events** which might AFFECT a particular enterprise and its activities. In management, a **forecast** is an assessment of the **expected pattern of future events** and the way(s) in which they **might** have **effects** on the operations of the enterprise, or sections of it. It is not possible to anticipate or to foresee the future exactly; but the more accurate the forecasting: (a) the lower will be the degree of uncertainty about future events, and (b) the greater will be the possibilities of formulating reliable plans. In consequence, the greater will be the chances of achieving the enterprise's objectives.

Organising

Once the plans - the "theory" - have been formulated, a manager is involved in organising the physical resources at his disposal - the men and/or women, materials, machines and even the premises - to ensure that the objectives are achieved as planned.

Organising involves **much more** than simply instructing a given number of people to start work:-

- ★ There must be an adequate and competent staff to perform all the work necessary.
- ★ Each person employed must know exactly what he or she is to do (and if necessary must be taught

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or trained to perform that work), how the work is to be done, when it is to be done, and so on.

- ★ All the materials to be used must be readily available when and where they are needed.
- ★ All services and utilities necessary: electricity, water, fuel, etc., must be provided.
- ★ The best machinery and equipment, within the financial resources of the enterprise, should be available for use, regularly maintained and in perfect working order, and - if necessary - training must be given to those who will operate it.
- ★ The premises, whether factory, shop or office, must be so laid out to provide the maximum efficiency and convenience, and to allow a smooth flow of work. For example, shelves, counters and cash desks (in a shop), desks, filing cabinets and office equipment (in an office), machinery and tools (in a factory or workshop) must be positioned to utilise the available amount of space in the most effective layout, to avoid wasted effort, duplication and unnecessary movement.

Co-ordinating

Organising and co-ordinating are very closely linked, and very frequently co-ordinating is an essential continuation of organising. Co-ordinating involves:

Ensuring that all efforts move smoothly together in the same direction, that is, towards the common objectives.

Co-ordination is as essential at top management level as it is at junior management and supervisory levels. For example, the managing director or general manager must ensure that the efforts and activities of all the various departments of an enterprise are in harmony, and in co-operation. There would be no point, for example, in the purchasing department arranging to procure supplies of products which the sales department cannot sell or which the production department cannot use! Good relations and communications between departmental managers need to be developed and fostered so that they all work together in harmony.

At the other end of the scale, a junior manager, supervisor or foreman must co-ordinate the work of his subordinates so that although different people may be performing different tasks, work will, when necessary, flow smoothly and continuously from one person to the next.

Motivation of Subordinates

Motivation is directly concerned with the people who work for a particular organization, and involves:

Encouraging them to work well and willingly in the most economical manner in the best interests of the organization, as well as in their own best interests.

The objectives of an organization can be achieved ONLY through the efforts of people; and people need to be **motivated** - induced, persuaded, prevailed upon (but **not** forced) - in a humane and understanding way to give of their best. However, what motivates one person or group of people may not motivate another, and therefore for the best results a manager, supervisor or foreman should, as far as is feasible, get to know something about each of his (or her) subordinates.

The range of motivations can be great and, of course, more than one - different - motivation may stimulate a particular person or group of people. However, a manager, supervisor or foreman must endeavour to get the best from **each** individual member of his or her team, and that may require

motivating different members in different ways, whilst still motivating **the team as a whole**.

Subordinates want to know that they are looked upon **not** as mere “working units” or “production units” but as **human beings**, and that their manager(s) are genuinely interested in them as such. They require - and expect - an evenhanded, fair, unbiased approach from their managers, in addition to that essential quality called “leadership”.

It is important for all those involved in management and supervision to appreciate that successful motivation by a good manager produces a measure of self-discipline in his staff; they will have sufficient self-respect, and loyalty to their manager, to work well and willingly. So proper motivation instils a good mental attitude towards work, which mere financial incentives cannot buy.

Control

Controlling is the function of management which checks whether what was planned to happen actually **does** happen and, if necessary, ensures that corrective action is taken.

Within this framework it can be seen that the work of all staff must be **supervised** and **checked** (and further instruction, guidance or training given when required). In addition, all operations or processes must be **checked** or **inspected**, and **performance measured** against the targets set in the plans and against set standards.

Standards

In management, standards are a measure of the performance of a process or of a routine or of equipment, and they are used as a **comparison** to check that one item or process matches - in quantity or quality - that which is set as the standard. The standards set might not represent perfection, but might represent the best method or item or material that can be purchased or produced at a given time within limits imposed by such factors as cost - or what consumers are prepared to pay - equipment available, quality and availability of materials, etc.

An enterprise will establish its own standards for the various types of work performed within it, and for its end products. Standards will also be set for the qualities and reliability of materials and goods that are purchased on its behalf and, within limits, for the costs of the materials and goods. The achievements of standards by the purchasing function of an organization is as important as is the achievements of standards by its other constituent parts. But it must never be overlooked that efficient purchasing can contribute greatly to the ability of other departments/sections (e.g. production and sales) to achieve the standards set for **their** performances.

Finally, standards must also be flexible so that they can be amended in the light of circumstances; for instance, changes in supplies, changes in consumer demand, rising costs, better technology, etc.

Purchasing & Resourcing Management - Summary

Module One has created a suitable learning perspective for you of purchasing and resourcing. The foregoing topics and many others, will be examined and evaluated in the other Modules in the Program.

Module Two examines in detail the need to set purchasing objectives and to develop effective strategies for fulfilling these objectives, including the examination of contemporary strategies and the implications for purchasing.

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Module Three demonstrates how purchasing policies are formulated as an interpretation of purchasing strategy, as well as the manner in which policies are implemented, monitored and controlled in practice.

Module Four examines and analyses modern purchasing organizations, responsibilities and job structures, with particular emphasis on organizational forms, strengths, weaknesses, job skill and flexibility needs.

Module Five reviews the control systems records and procedures needed for the effective functioning of a purchasing department, including information input needs and ensuring effective sources of supply.

Module Six demonstrates the benefits of using new technology in purchasing, review the development stages of computerisation and explain the interface between manual and computer based purchasing systems.

Module Seven considers the human resources needs in the supply chain with particular reference to manpower planning, recruitment, induction, training needs analysis, as well as training and development processes.

Module Eight evaluates management and leadership styles in the context of purchasing, with emphasis on contemporary management attitudes and the need for both control and motivation.

Module Nine examines the sourcing process, matching supply sources with manufacturing demands, regulating supplier prices and developing closer relationships with prime suppliers.

Module Ten reviews aspects of specifying and controlling the quality of purchased supplies, setting up quality management processes, and moving towards international quality certification.

Module Eleven examines the whole process of negotiation between buyers and suppliers, with emphasis on achieving “win-win” positions for both parties and maintaining good ethical standards of behaviour.

Module Twelve evaluates the support tools which contribute to purchasing effectiveness, including tendering procedures, maintenance of supplier performance databases, and ongoing purchasing research.

SELF-ASSESSMENT TEST ONE

Recommended Answers to these Questions - against which you may compare your answers are on page 26. The maximum mark which may be awarded for each Question appears in brackets at the end of the Question. Do **NOT** send your answers to these Questions to the College for examination.

No.1. In what areas can an efficient purchasing function contribute to the profitability of the organization on whose behalf it operates? (maximum 30 marks)

No.2. Describe what you consider to be the differences between industrial buyers involved in manufacturing, and trade buyers involved in wholesaling. (maximum 30 marks)

No.3. What do you consider should be the role of efficient purchasing in stock or inventory control? (maximum 30 marks)

No.4. Place a tick in the box against the **one correct** statement in each set.

- (a) *The term "utility" refers to the ability of a product to:*
- 1 be easily recognised by those working in the purchasing department.
 - 2 attract the attention of potential buyers and sellers.
 - 3 satisfy a need or a want of potential buyers.
 - 4 encourage people to want to buy it.
- (b) *An important difference between goods and services is that:*
- 1 goods can be bought and sold but services cannot.
 - 2 services exist or can be made to exist, but goods are intangible.
 - 3 unless otherwise instructed, the purchasing function deals only with the acquisition of services.
 - 4 services cannot be stored for use or sale in the future.
- (c) *A wholesale business:*
- 1 purchases goods in large quantities and resells them in smaller quantities to its own customers, such as retailers.
 - 2 deals only with end products and not with components or parts.
 - 3 does not require the professional expertise of people skilled in purchasing.
 - 4 makes major alterations to products before reselling them.
- (d) *Plans:*
- 1 show clearly the structure and layout of the purchasing department.
 - 2 are particularly important in controlling the activities of personnel working in the purchasing department.
 - 3 are made to decide how predetermined objectives can be achieved in practice.
 - 4 must be inflexible as any deviation from them could prevent the achievement of set objectives.
- (e) *In management the term "forecasting" refers to:*
- 1 deciding how the weather might affect deliveries of goods ordered.
 - 2 determining the probable course of future events which might affect an organization, its activities and its requirements.
 - 3 the length of time before an enterprise requires purchases to be made on its behalf.
 - 4 instructing subordinates in advance what work they are to perform, when and where.

(2 marks for a statement correctly ticked - maximum 10 marks)

RECOMMENDED ANSWERS TO SELF-ASSESSMENT TEST ONE

No.1. The first area in which efficient purchasing can contribute to the overall profitability and prosperity of an organization is in its operating costs. Following research into sources of supply, comparing the prices and other financial terms offered by existing and potential suppliers, and negotiations with them, it might well be found possible to purchase goods and materials at lower prices than were previously paid, resulting in a possibly significant reduction in the organization's costs. Such a reduction should lead to increased profits.

The second area in which efficient purchasing can contribute to the overall profitability and prosperity of an organization is in providing "added value". Due to efficient and professional purchasing, it might prove possible to procure goods and materials of better quality and/or reliability without a corresponding increase in costs. Increased quality and reliability might result in fewer rejects after processing, and/or fewer defective products finding their way onto the market. Enhancements in the quality and reliability of products lead to satisfied customers, with fewer complaints being made by them, resulting in a larger volume of sales. And higher sales without a corresponding increase in costs lead to increased profits.

No.2. Manufacturing businesses purchase a possibly wide range of products: raw materials, components/parts and consumables, and - in factories, plants, workshops or engineering works - put them through a variety of "processes". The resultant "end products" of the processing are **different** products. In effect, the physical make-ups or forms of the products purchased have been **altered** and they have been converted into more useful and/or saleable forms. In other words, the processing has resulted in products with wider utility.

In contrast, wholesale businesses do **not** make any changes to the physical make-up or forms of the products they purchase, generally in bulk. Wholesalers resell products in exactly the same forms as they purchase those products from the manufacturers or producers of them. The only "change" is that wholesale businesses sell products in **smaller quantities** - commonly to retail businesses - than those in which they purchase them.

No.3. No organization can afford to have money "tied up" in stock/inventory which it cannot use or sell. Whether an organization is involved in industrial, trading or institutional/service-providing activities, it must hold adequate stocks of those materials and goods which it needs for its continuous operations. Too much money invested in stocks which are not needed at once, or which are not needed at all, results in shortages of money to pay other operational expenses or to pay for needed goods and materials. On the other hand, inadequate stocks of essential goods and materials will hamper the operations of the organization, leading to losses of production and/or sales.

Efficient purchasing can help to ensure that the correct quantities and qualities of all needed materials are procured and are actually available at the times at which they are required in production or for sale. Whilst the purchasing function has no control over the volume of production or sales, it must be able to react quickly to increases or decreases in those volumes, and so help to ensure that stocks are maintained at optimum levels; neither too high nor too low.

No.4. The correct statement from each of the sets selected and ticked:

- (a) 3 (b) 4 (c) 1 (d) 3 (e) 2

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WHAT YOU WILL LEARN IN MODULES 2 TO 12 OF THE CIC TRAINING PROGRAM ON PURCHASING & RESOURCING MANAGEMENT

Module 2 - Purchasing Objectives and Strategy

- General and introduction
- Business planning
- Purchasing objectives
 - General objectives
 - Specific objectives
- Purchasing strategy
 - Manufacturing for stock strategy
 - Manufacturing to order strategy
 - Just-in-time manufacture and purchasing
 - Forward buying strategy
 - Purchasing strategy within service industries
- Formulation of purchasing strategy
- Total quality management implications for purchasing
- Partnership Sourcing in Purchasing
- Customer satisfaction levels and cost of purchases
- Influence of sources of supply on strategy
- Seller's market
- Buyer's market
- Employee motivation in achieving objectives
- Evaluation of purchasing strategy
- Purchasing objectives and strategy - summary

Module 3 - Policy Formulation, Implementation and Control

- General and introduction
- Purchasing policy formulation:
 - typical market profile for a manufacturing business
 - evaluation of purchasing factors
- Complexity of manufacture & production cycle times
- Predictability of demand
- Demand forecasting techniques:
 - average historical usage
 - moving average of demand
 - exponential smoothing of demand
- Economic order quantities
- Purchasing in the right quantities
 - internal influences on purchasing decisions
 - external influences on purchasing decisions
- Forward buying - special materials
- Quality approval of supplies
- Budgetary considerations in purchasing and stocking
- Statistical classification of stocks:
 - A category stocks
 - B category stocks
 - C category stocks

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Risk analysis - cost of stocks vs cost of stock-outs
 stock holding costs
 cost of stock-outs
 Monitoring and control of key costs
 The role of purchasing within logistics management
 Expertise needs in purchasing:
 task needs
 relationships needs
 organisational development
 new technology skills needs
 Implementation of changes in purchasing policy
 Who should implement purchasing policy
 Control of purchasing policy
 Policy formulation, implementation & control - summary

Module 4 - Organization, Responsibilities & Job Structures

General and introduction
 Alternative organizational structures:
 entrepreneurial structure
 bureaucratic structure
 matrix structure
 Purchasing within the management hierarchy:
 top management function
 middle management function
 clerical/administrative function
 Centralisation and decentralisation:
 centralised operation
 decentralised operation
 Organizational strengths and weaknesses:
 vertical organizational structures
 horizontal organizational structures
 Organization and job structures:
 job changes
 job mergers
 job rotation
 vertical job changes
 horizontal job changes
 Job analysis in the purchasing unit
 Job specifications in purchasing
 Person specifications in purchasing
 Primary and secondary roles
 Organization and team working in purchasing:
 benefits of team-oriented purchasing
 contemporary team roles
 Co-ordination with related functions
 Organization, responsibilities and job structures - summary

Module 5 - Control Systems, Procedures and Records

General and introduction
 How purchasing control systems work:
 implementation, control and feedback cycles
 control systems in purchasing
 the basic purchasing process

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Input information needs:

- provisioning for standard products
- provisioning for special products
- sales forecasts and confirmed orders
- master production schedules
- product specifications
- order priority ratings
- current materials stock positions
- current purchase orders
- stock master files
- net materials requirements
- materials requirements planning
- economic order quantities

Selection of preferred suppliers:

- supplier appraisal
- desk research on potential suppliers
- field research on potential suppliers
- schedule of preferred suppliers

Output information needs

Supplementary purchasing systems needs:

- supplier enquiries and quotations
- supplier price comparisons
- consolidation of suppliers

Structure of a purchasing manual:

- purchasing organisation
- purchasing policy
- purchasing processes

Control Systems, procedures and records - summary

Module 6 - Information Technology in Purchasing & Supply

General and introduction

Disadvantages of manual systems

Enhancing performance through new technology:

- performance enhancing opportunities

Characteristics of computers

Hardware:

- parts of a computer:
 - central processing unit
 - VDU keyboard and screen
 - printers

Software:

- the programs:
 - tailor-made programs
 - applications packages
 - database packages

Overcoming the new technology "barrier"

- a perspective on working with computers
- some hints for working with computers

Development stages of computerisation:

- specific applications
- integrated systems
- database systems

Database facilities needed in manufacturing

Aids to process computerisation

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- bar (Gantt) charts
- network analysis charts
- flow process charts
- Computerised information and processing needs
- Examples of computerised logistics applications
 - customer, product and order/enquiry details
 - stock and manufacturing or purchase order status
 - order action and confirmation
- Impact of new technology on purchasing and suppliers
- Information technology in purchasing & supply - summary

Module 7 - Human Resources in the Supply Chain

- General and introduction
- Management of human resources:
 - centralised human resources functions
 - devolved human resources functions
- Relationships with other corporate functions
- Relationships with external contacts
- Manpower planning
- Self-regulating manpower control
- Effective recruitment:
 - recruitment strategy and policy
 - the process of recruitment and selection
 - interview assessment sheets and records
 - use of psychometric evaluation
- Quality assurance in recruitment
- Training and Development
- Assessing training and development needs
- Training and learning priorities
- Training and performance management:
 - performance appraisal
 - performance management
 - linking with training and development action
- Alternative training and development processes:
 - high investment processes
 - medium investment processes
 - low investment processes
- Project centred development
- Human resources in the supply chain - summary

Module 8 - Management Style, Motivation and Control

- General and introduction
- The concept Of management
- Changes In management attitudes:
 - scientific management
 - contemporary attitudes
- Contributors to contemporary attitudes:
 - Mayo -the human relations movement
 - Maslow - hierarchy of human needs
 - Herzberg - motivation hygiene theory
 - McGregor - Theory X and Theory Y
- Appraisal of managerial styles:
 - task-oriented (T/O)

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- relationships oriented (R/O)
- effective managerial styles
- situational managerial style
- Reddin - effective and ineffective forms
- Managerial styles in purchasing
- Setting up a motivational audit
- Dealing with employee grievances:
 - grievance procedure
 - job content grievances
 - pay grievances
- Dealing with employee disputes:
 - disputes procedure
- Handling employee relations problems:
 - disciplinary procedure
- Use of human resources decision models
- Developing appropriate pay structures
 - the job evaluation process
- Management style, motivation and control - summary

Module 9 - Sourcing Processes and Supplier Relationships

- General and introduction
- Principles of sourcing:
 - sourcing objectives
 - attributes of good suppliers
 - different types of sourcing
 - sourcing decisions
- Purchasing and production
- Make or buy decisions:
 - capital decisions
 - direct comparison decisions
- Purchasing and materials management
- Materials requirements planning:
 - MRP applications
 - objectives of MRP
- Pricing considerations:
 - pricing analysis
 - pricing structures
 - the pricing pyramid
 - price-quality strategy
- Supplier relationships:
 - traditional relationships
 - external reciprocity
 - internal reciprocity
 - intra-business trading
 - contemporary relationships
- Supplier relationships in JIT manufacture
- Benefits and disadvantages of JIT
- Special developments within purchasing:
 - partnership sourcing methodology
 - partnership sourcing; for and against
- Sourcing processes and supplier relationships - summary

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Module 10 - Quality Management in the Purchasing Function

- General and introduction
- Importance of quality management in purchasing
- Definition of quality
- Specifications
- Traditional and contemporary quality concepts
- Quality policy in purchasing
- Contribution of purchasing to quality
- Elements of quality management:
 - quality control
 - quality assurance
 - quality approval
- Specification of quality standards:
 - performance specifications
 - conformance specifications
- Total quality management - introduction:
 - TQM processes
 - TQM related concepts
- Barriers to quality competitiveness
- Quality costs
 - implementation costs
 - maintenance costs
- Quality costs versus customer satisfaction
- Setting quality priorities
- Quality auditing procedure
- Quality management in the purchasing function - summary

Module 11 - Negotiating and Bargaining in the Supply Chain

- General and introduction
- Background to negotiation:
 - purpose of negotiation
 - definition of negotiation
- Whether negotiation is necessary
- When negotiation is necessary:
 - resolving disagreement
- Situations which require negotiation
- Scope of negotiations
- Stages of negotiation:
 - conduct of a negotiation
- Strategy and tactics in negotiation:
 - negotiating strategy
 - negotiating tactics
- Poor and good negotiation
- Performance inhibitors in negotiation
- Body language signals
- Win-win philosophy in negotiation:
 - range of potential achievements
- Effective commercial bargaining
- Ranking your negotiating strengths
- Personal effectiveness in negotiations
- Authority and negotiating performance:
 - response difficulties
- Ethical and professional practice
- Negotiating and bargaining in the supply chain - summary

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Module 12 - Further Purchasing Techniques and Practices

- General and introduction
- Support tools and services in purchasing:
 - logistics database support
 - support through just-in-time systems
 - support through team-working
- Supplier tendering procedures:
 - competitive tendering policy
 - tender documentation
 - compulsory competitive tendering
 - evaluation of competitive tenders
- Supplier performance databases:
 - typical fragmented data sources
 - computerised performance databases
 - periodic review of the supply database
- Electronic trading in purchasing
- Purchasing hints and tips:
 - buying power
 - co-ordinated approach to purchasing
 - drafting purchasing specifications
 - finding suitable suppliers
 - negotiations with suppliers
 - supplier relations
- Further purchasing techniques and practices - summary