

**Principles of Purchasing**  
**Lecture 12**  
**Emerging Issues in Purchasing**  
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**Lecture Learning outcomes**

At the end of the lecture, you will be able to:

1. Identify and explain key emerging trends in procurement management
2. Describe the role of strategic procurement practices
3. Understand how procurement teams should adapt to dynamic supply chain environments.

**Introduction**

- Increasingly, procurement management is becoming a strategic priority of firms and states for their sustainable competitive advantage in turbulent times.
- Procurement is positioned as a critical integrative business process in today's dynamic market environment. Its focus has been extended from short term cost minimization to long term value creation and delivery.
- There is a need for more changes in how procurement of goods, works, or services is carried out. A procurement system needs to be very agile and quick to adapt to customers' everchanging needs.

**Emerging Issues and Trends in procurement Management**

The following are the emerging issues and trends in the procurement of goods, services and works.

❖ **Outsourcing**

Outsourcing enables companies to concentrate on their core business and to get expertise in particular areas such as security, logistics, cleaning, and manufacturing while saving on costs. It enables companies to produce best quality on their core business.

There are various reasons why an organisation may outsource:

- a) To get access to world-class products or services
- b) To concentrate on company's core business
- c) Reduce operational costs
- d) To share risks with external partnership

- e) To save on time for time consuming functions
- f) Maximize the use of external resources

❖ **Supplier Relationship Management (SRM):**

- *-Trend:* There's an increased focus on building strong and collaborative relationships with key suppliers. This involves not only selecting suppliers based on cost but also considering factors like innovation, sustainability, and reliability.
- *Issue:* Developing and maintaining effective SRM programs requires a cultural shift within organizations, as well as the ability to measure and demonstrate the value of these relationships.
- *Response Mechanism:* Establish robust SRM programs, focusing on collaboration and long-term partnerships. Regularly assess supplier performance, and communicate clearly defined expectations regarding sustainability, innovation, and reliability.

❖ **Strategic sourcing and supplier management**

- All procuring organizations need some methodology for assessing supplier performance.
- Many firms have formal supplier-evaluation programs that effectively monitor supplier performance in quality, quantity delivery, on-time delivery, early delivery (just-in-time users do not like early deliveries), cost, and intangibles.
- The buyer is also responsible for maintaining a cordial relationship with the its suppliers. If the buyer is an unreasonable negotiator, and does not allow the supplier to make an adequate profit, future dealings may be endangered.

❖ **Demand-driven planning**

- Organizations are slowly changing from planning based on production and distribution capabilities to adapting more customer-focused procurement.
- This enables entities to keep costs low without affecting the efficiency in operations, and it needs careful prediction of consumer demands and well calculated lead-times.

❖ **Sustainability and ESG (Environmental, Social, and Governance) Considerations:**

- *Trend:* Organizations are placing a greater emphasis on sustainability and ESG factors when managing categories. This includes evaluating suppliers based on their environmental and social practices.

- *Issue:* Balancing sustainability goals with cost considerations and ensuring that suppliers meet ethical standards can be challenging. It requires robust assessment frameworks and transparent supply chain practices.
- *Response Mechanism:* Develop and communicate clear sustainability guidelines to suppliers. Actively seek eco-friendly alternatives in sourcing products and materials. Regularly assess and audit suppliers for compliance with sustainability standards.

#### ❖ **Global sourcing**

- Globalization is the integration of international trade, people, culture, and investment worldwide.
- People are now increasingly adopting globalization as there is a growing need to export, outsource or import from other countries to get the best of quality, better prices, more variety, better technology, etc.
- Therefore, global sourcing is sourcing products and (sometimes services) irrespective of national boundaries. Purchasing companies seek low labour and production costs that are not countered by high delivery costs. Many improving countries also offer attractive tax and tariffs to encourage exports.

#### ❖ **Digitalization and E-Procurement:**

- *Trend:* The adoption of digital tools for procurement processes, such as e-procurement platforms, is on the rise. These tools streamline sourcing, purchasing, and payment processes.
- *Issue:* Implementing digital solutions requires investment, training, and integration with existing systems. Resistance to change and ensuring data security are common challenges.
- *Response Mechanism:* Embrace digital solutions for procurement processes. Invest in user-friendly e-procurement platforms. Provide training to employees to ensure smooth adoption of digital tools.

#### ❖ **Resilience and Risk Management:**

- *Trend:* The COVID-19 pandemic highlighted the need for resilient supply chains. Category management is increasingly focused on identifying and mitigating risks, including geopolitical, economic, and health-related factors.

- *Issue:* Building resilient supply chains requires a deep understanding of potential risks, developing contingency plans, and sometimes diversifying sources, which may impact cost structures.
- *Response Mechanism:* Conduct regular risk assessments and develop contingency plans. Diversify suppliers and sources to mitigate potential disruptions. Stay informed about geopolitical and economic developments that may impact the supply chain.

### ❖ **Changing roles of procurement professionals**

The procurement role has changed and will continue to change. It has shifted from being technical to more managerial. There is increased pressure to adopt global procurement practice and licensing for procurement professionals. There is also increased training of procurement professionals to enhance their efficiency and productivity.

### ❖ **Just-In-Time purchasing**

- JIT companies maintain only enough inventory to manufacture the products they need very soon. Parts are ordered on a near-continuous basis and often go directly from the loading dock to the assembly line.
- The benefits of this system include reduced inventory, improved quality, reduced lead-time, reduced scrap and rework, and reduced equipment downtime.
- However, when a company shifts to JIT manufacturing, it must also shift to JIT purchasing. JIT purchasing requires a nearly 180-degree change in purchasing philosophy.
- Traditional purchasing meant building a supplier list over time by constantly adding new suppliers, spreading purchases around, and maintaining higher inventory levels in case demand for a product soared or quality from a supplier dipped suddenly.
- JIT purchasing demands that buyers narrow their supplier list to chosen few who can deliver high-quality products on demand and timely.

### ❖ **Supply chains partnerships**

- In recent years, management experts have touted the benefits businesses can realize by establishing "partnerships" with their suppliers.
- Under such a plan, distribution channels are set up across organizations so that all the members of the channel, from suppliers to endusers, coordinate their business activities and processes to minimize their total costs and maximize their effectiveness in the marketplace.

### ❖ Information Technology

- There has been an increase of use of information technology in the supply chain. Adoption of IT in communication and information sharing like e-procurement systems for procurement management, Electronic Data Interchange for information sharing, Material Requirement Planning for inventory management.

### ❖ Lean manufacturing/JIT

- Lean manufacturing encompasses several things. It essentially is a version of JIT and Japanese kaizen, or continuous improvement.
- Lean manufacturing is a process for measuring and reducing inventory and streamlining production, and it is a means for changing the way a company measures plant performance.
- A knowledge-based system, lean manufacturing takes years of hard work, preparation, and support from upper management.

### Challenges and Opportunities Posed by Emerging Issues and Trends in Procurement

- a. Increased collaboration with supply chain partnership :** There is increased collaboration with suppliers to develop innovative solutions to fully satisfy customer demand. Supplier collaboration can be achieved through joint problem solving, having shared quality or customer service goals, having shared profit goals, etc.
- b. Risk reduction:** Procurement is undergoing a major shift by adopting a strategy that includes risk exposure, risk mitigation and risk transferring. Also, with improved demand-driven planning in the procurement function, there is less risk to take than when production was done based on different schedules.
- c. Globalization-**Companies can now source globally for whatever need they may have. Procurement managers need to have expertise on how to ship globally. The internet has made globalization easy as all procurement transactions can be made electronically.
- d. Cost reduction-**Good procurement governance will allow upfront saving by procuring items, services and contracts at the best available prices. They will take advantage of warranties or discounts that are often neglected, leading to major savings. E-procurement also eliminates paperwork and errors.

- e. **Increased visibility spending-** A good procurement system will give good visibility to an entity's spendings and budget. Eprocurement allows centralized tracking of procurement transactions allowing an informed report of requisitions, order processing and even payments. This allows the company to spend its money in an informed manner.
- f. **Easy information sharing-**Software such as electronic data interchange, material requirement planning assist in information sharing in the procurement process. Standard procurement documentation like erequest for proposal or e-request for quotation allow procurement transactions.
- g. **International trade-**Globalization has opened up a new window for international trade. Organisations can source for products and services from countries they wish to. The internet has opened up new markets. Its however expensive for companies to acquire all infrastructure to support eprocurement which is very basic for international sourcing.
- h. **Increased innovation -**Organizations are constantly competing with their competitors on price, quality, services, and even convenience. Any new aspect to competition can be the difference between a won sale and a lost one. Procurement does all sourcing for the organization. A progressive procurement will ensure it sources innovative products and services, giving the organization a competitive edge. Due to increased competition, procurement has been entrusted with sourcing for innovative goods, services and works so that the organization can remain in competition.
- i. **Fraud -**When doing international sourcing, a company is at risk of being defrauded as some of the online suppliers might be importers. A company has to do a lot of due diligence before engaging an international supplier to determine whether they are legit and reliable. It is better to deal with a supplier referred to you by a company that has dealt with him before to avoid losing money.
- j. **Foreign exchange risk -**Procuring goods from overseas adds an extra dimension to a basket of risks in procurement. It is the risk that a company may lose money due to fluctuation of foreign exchange. Before engaging in international sourcing, proper forecasting on foreign exchange fluctuations must be done so that money is not lost.

### **How to adapt to the emerging issues in Procurement of Goods, services and works**

Companies in the world both small and large, must rapidly adopt to the changing environment in procurement and supply chain which has been greatly attributed by shift in consumer behaviour and technological developments.

- **Adopting more agile supply chain-** Combining visibility with the right level of control will result in the type of agile supply chain that companies need to adjust to changing trends and circumstances in the supply chain for them to retain customers and be ahead of the competition.
- **Adopting strategic cost-saving initiatives-**For organisations to save on cost, they should go beyond just reducing the cost of logistics or warehousing. There is now more focus on getting more discounts, negotiating for best rates, optimizing inventory cost, and managing the working capital. Good procurement practice dictates that inventory should be reduced to an optimum level that will not allow overstocking or accommodate increased demand.
- **Giving more focus to specific customer segments-** More focus is now being given to a specific niche of customers rather than serving a large crowd of people without a specific focus. Procurement should focus more on the niche since niche products are more unique and higher profits. Even in a low tide in the economy, customers are willing to pay more for their unique product.
- **Aligning organizational supply chain objectives with organizational objectives-**In an organization, various departments will be involved in the supply chain or procurement activities. If these departments can work together, will lead to a successful procurement function. Outsourcing non-core activities will enable a retailer to focus on his strength. Implementing this part of a strategy requires finding the right partners and working closely with them.
- **Achieving quality and compliance-** Due to globalization and increased competition has compelled firms to create or sell high quality goods, works and services consistently. Quality has to be addressed at every level from the raw materials, production, packaging, logistics, and product handling stages.
- **Data management and supply chain integration**  
Organisations are increasing overcoming supply chain challenges by properly managing their data and integrating their supply chains. Due to increased globalization, companies may be overwhelmed by massive data coming from their supplies and customers in different regions, which they need to manage. Information in the supply chain may differ from material prices, demand forecasting, freight bills, compliance documents, contracts with suppliers,

## **Conclusion**

In conclusion, procurement management has evolved into a strategic function essential for achieving sustainable competitive advantage. Organizations must navigate emerging trends like digitalization, sustainability, and risk management while adapting agile and customer-centric approaches. The shift in procurement from a cost-focused function to a value-driven process underscores the importance of strategic partnerships, resilience, and global perspectives. By prioritizing efficient procurement practices, organizations can enhance operational efficiency, reduce costs, and ensure sustainable growth

### **Revision questions**

1. What are the primary reasons organizations choose to outsource certain functions, and how does it contribute to their core business?
2. How does Supplier Relationship Management (SRM) enhance procurement processes, and what challenges may arise in its implementation?
3. Describe the role of digitalization in modern procurement management and outline the potential challenges of adopting e-procurement systems.
4. Discuss the significance of sustainability and ESG considerations in procurement decisions, and how organizations can balance these with cost-effectiveness.
5. How do global sourcing and Just-In-Time (JIT) purchasing contribute to lean supply chain operations, and what risks are associated with these practices?