The Role of Procurement in Effective Supply Chain Management

Antara Sarker

Abstract

In most organizations, procurement was being regarded as a support activity that was silent in the background. It was typically linked with purchase orders, price negotiation, supplier follow-ups and routine paper work. That opinion is no longer applicable to the modern business reality. The procurement has been one of the most impactful functions of the supply chain management as this directly influences cost, continuity, quality, compliance, risks, and long-term competitiveness. It is no longer confined to purchasing products and services at the most reasonable cost.

Rather, it is a key driver in determining the efficiency of the business operation, it is also a key determinant of disruption response, and it is also a key determinant of the creation of durable value.

This is simply because of the strategic position procurement has taken. The supply chains have also become intricate, interconnected and susceptible to external shocks. One country slowing down, a supply shortage, a shift in the trade conditions, or a financial issue in one supplier can have a ripple effect in production, distribution, customer service, and revenue in a very short time. Procurement, under such an environment, can never be transactional. It should be dynamic, critical and closely connected with business strategy. Those companies that have got this are the ones who are able to develop stronger supply chains, guard margins and react quicker as the surroundings vary.

Fundamentally, procurement contributes to the efficacy of the supply chain by guaranteeing that correct materials, products and services are in place at the appropriate time, quantity, quality and at the appropriate cost. That old rule is not so insignificant, yet the sense of it has increased. The term right cost no longer has the same meaning as lowest cost today. The lowest priced supplier can cause hidden costs when he or she experiences delays, defects, ineffective communication or compliance practices. A supplier with a slightly higher price can in fact be more valuable because it can be more reliable, have shorter lead times, be more

technologically supportive, and risk a lot less. Good procurement is one, which looks beyond the invoice to the overall value of the entire supply chain.

That is why the choice of suppliers has become one of the crucial procurement tasks. Selecting a supplier is no longer a matter of a comparison of quotes. It entails assessing the performance in terms of delivery, consistency of the products, financial stability, production capacity, location, implementation of the technology, ethical practices, and scalability. An unsuitable supplier may ruin the work although the purchase price appears to be favourable. The resilience of a business can be enhanced, waste minimized, and business boosted by a supplier with a lot of power. Procurement therefore acts as a gatekeeper. It determines the people that would join the supply network and, in the process, it determines the overall strength of the supply chain.

Another major contribution of procurement is cost management. The idea of procurement as the generator of savings is still taken by most companies and rightfully so. The procurement decisions have a direct impact on the prices of raw materials, components, packaging, logistics services and outsourced activities. Minor advances in buying effectiveness can generate significant financial advantages since procurement is involved in a significant portion of corporate expenditure. Nevertheless, the current procurement is value-adding that goes beyond reduction of prices, to total cost of ownership control. This consists of transportation expenses, storage expenses, defect expenses, maintenance expenses, administration expenses and financial impact of delays or disruptions. Proper procurement teams understand that low unit price does not necessarily translate into a deal. They dwell on the overall economic consequences of a sourcing decision.

The procurement also enhances the performance of the supply chain by having better supplier relations. Previously, the buyer supplier relationships have been characterized by the pressure, short term bargaining, and one-sided contracts. Such a strategy can bring about some short-term savings, yet it can ruin trust and undermine teamwork in many cases. Conversely, successful procurement considers major suppliers as partners. The suppliers feel respected, informed and involved earlier; they will be more willing to share ideas, enhance quality, commit to capacity and will give priority to orders in constrained market conditions. A company that has good relationships with its suppliers is usually better cushioned in times of shortages since its suppliers will tend to favor it in the event of difficulties.

Such relations are even more important in the case of uncertainty in the supply chains. Procurement is important in risk management as it is the one that can actually see the dependency on suppliers, the concentration of sourcing and the external exposure. When a company depends on a single supplier, individual country or a single mode of transport, the risk level will soar. The risk can be mitigated by effective procurement, which involves diversification, dual sourcing, contingency planning and continuous monitoring of the suppliers. It seeks warning signs before they get to be big issues. In case the supplier

starts to demonstrate the signs of deteriorating performance, financial instability, or compliance problems, procurement can respond promptly by identifying alternative suppliers, renegotiating and or modifying sourcing strategies. Such a preventive measure shields the broader supply chain against expensive disruptions.

Efficiency in the absence of resiliency is the one of the largest lessons of the modern supply chain management. On paper, lean systems and low inventories might appear effective, but when supply is broken, they do not take long before collapsing. Procurement assists the businesses in identifying the appropriate tradeoff between efficiency and resiliency. It determines global / regional sourcing, backup supplier building, safety stock of important items, whether to emphasize speed, flexibility or cost in supplier contracts. These are not daily business decisions. They are tactical choices that influence the existence of the business when the market situations become unpredictable.

The procurement has also become more important due to technology. Procurement teams are now able to work faster, more visibly and intelligently than ever before using digital tools. Data analytics can assist them in knowing how they spend their money, identifying wastage, predicting demand, reviewing the performance of their suppliers and tracking the market trends. Automation minimizes human activities like invoice matching, approving of orders and tracking of contracts. They link procurement with the inventory, finance, production, and logistics, which enhances coordination of supply chain. The procurement will be in a position to make improved and quicker decisions when the procurement is able to access real time data. It is able to react to shortages faster, prevent overpurchases, minimize delays, and facilitate the process of smoother interdepartmental operations.

Artificial intelligence has provided an added capability. It can assist procurement teams in forecasting and predicting price fluctuations, potential supply risks, terms of the contracts, and suggest sourcing solutions depending on the variances in the market. This does not eliminate the aspect of human judgment. It strengthens it. Procurement professionals continue to have to negotiate, trade-off, learn the behavior of suppliers, and make decisions that support the business priorities. These tasks are aided by technology and not being substituted with strategic thinking. Actually, the less digitalised procurement is, the more valuable human judgment is in the relationship management, ethical decision-making and long-term planning areas.

Quality management also requires procurement. Only quality inputs of the supply chain make it strong. When the raw materials, components or outsourced services do not conform to standards, the end product can be defective, production can delay, customers can complain, returns can be made or reputation lost. Procurement is one of the ways of avoiding this through specification, supplier screening, compliance documentation and checking consistency in the long run. It also collaborates with quality teams, operations teams and suppliers so that goods and services that are purchased can help in supporting the standards of the organization. This is particularly necessary in an industry where safety, regulation or customer trust is

essential.

In addition to cost, risk and quality, procurement has emerged as a major contributor of sustainability and responsible business practice. It is now the expectation of companies to be privy to what transpires across their supply networks, rather than what transpires behind their walls. Labor practices, environmental impact, emissions, waste, and ethical sourcing are becoming of significant concern to customers, investors, regulators, and business partners. The same expectations are converted into supplier requirements through the procurement function. It determines the supplier with whom the business buys, the standards that the suppliers should possess and the monitoring of compliance. That is why procurement is a key driver towards making sustainability ambitions a reality.

Through the integration of environmental and social standards in sourcing decisions made by procurement, a more responsible supply chain will be created. This can be by choosing less-emitting suppliers, using fewer packaging materials, using recycled materials, endorsing equitable labor guidelines or collaborating with different and smaller suppliers where suitable. These decisions are not only regarding reputation anymore. They are becoming associated with compliance, customer expectations and long-term business resilience. A supply chain constructed on the basis of unethical or environmental impactful practice is reputational and operational risky. Procurement assists in mitigating such a risk by ensuring that responsible sourcing is part of the selection and assessment procedure.

Internal coordination in the business is also enhanced by procurement. It is at the crossroad of finance, operations, production, logistics, legal and supplier management. It is due to this that it has a crucial coordinating role. Procurement has to be aware of production schedules, inventory needs, budget constraints, contract terms, lead times of suppliers and logistic constraints. By having the procurement closely integrated with other departments, the whole supply chain will become more aligned. Orders are made with greater precision, budgets are handled with more efficiency, supplier expectations are made more evident and disruptions handled more effectively. Inadequate inter-departmental communication is the main cause of stockouts, oversupply and orders, and unwarranted expenditures. Good procurement procedures are used to avoid such issues through better planning and coordination.

Another area which procurement has significant influence is the cash flow. Working capital is affected by payment conditions, contract forms, frequency of order, and inventory. Best procurement is able to negotiate the terms that safeguard the cash flow but at the same time, have good relations with suppliers. It is also able to minimize the necessity of emergency purchasing that is normally more costly and ineffective. Procurement assists in avoiding overstocking by matching the purchasing decisions with demand trends and production requirements and minimizing the capital tied up in excess inventory. That not only makes the supply chain operationally more robust, but also financially healthier.

Procurement in a number of ways is the point of contact between strategy and implementation. Growth, efficiency, innovation, resilience, or sustainability is a goal that could be stated by senior leaders, but it is the procurement that transforms these goals into actual sourcing decisions. In case the business is interested in joining a new market, the procurement needs to acquire reliable suppliers. In case the company is interested in lowering the costs, procurement will have to find wiser sourcing alternatives. In case the company is interested in reducing supply risk, the procurement should diversify suppliers. Procurement needs to implement ethical and environmental standards in the company should the company desire greater sustainability. This is the reason why procurement cannot be considered a detached activity. It is to be incorporated in strategic planning since its decisions influence what the business is capable of doing.

Human aspect of procurement is very critical. Strong interpersonal skills are needed in the negotiation, trust-building, conflict resolution, and collaboration. An excellent procurement officer is not simply a purchaser. They are an analyst, negotiator, communicator, risk manager and relationship builder. They must learn to nurture supplier behavior, market conditions, contractual detail and business priorities simultaneously. They have to understand when to negotiate higher terms and when to maintain a good relationship. They should be able to determine when an offer with lower cost should be accepted and when it exposes them too much. These are decisions of judgment and they have direct effect on the outcomes of the supply chains.

The need to procurement will continue to rise as businesses proceed to operate in uncertain and competitive markets. The supply chains require agility, visibility, compliance, reliability, and long-term value-generation. Procurement makes contribution to all these. It ensures continuity through supplier risk management. It helps in profitability through management of total cost. It enhances service by making supply timely. It enhances quality through the choice of good suppliers. It promotes sustainability through the application of responsible sourcing. It enhances resiliency by diversifying supply choices as well as being prepared to be disrupted. That is way beyond a back-office role. It is a strategic ability.

The right supply chain management is based on smart choices that have been made well before a product gets to the customer. The decisions start with procurement. All the materials sourced, the supplier chosen, the contract negotiated and the relationship that is being monitored all determine the performance of the supply chain. With a poor procurement, the supply chain is prone to delays, waste, inconsistency and unnecessary cost. With a strong procurement, supply chain is more stable, efficient, adaptable and competitive. This is why procurement should be considered not as a common purchasing department, but one of the strongest supply chain success drivers. Procurement in the current business does not merely make the supply chain. It assists in determining its power, its capacity to stand up, and its destiny.