

Strategic Sourcing in Manufacturing Sector: A Case of an Indian Company

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Abstract

Strategic sourcing, stands out to be not only costs savings mechanism but it also helps the organization to realize its long-term objectives. It is therefore essential for all organizations to go for a strategic sourcing now a day. Manufacturing organizations might be the most evident candidates, however the positive effect of strategic sourcing can be enormous for organizations as diverse as manufacturing organizations, service organizations, real estate firms and non-profit associations. The target of the strategic sourcing in manufacturing organizations is to guarantee that procurement activities accomplish best value for money and to provide best services to satisfy its clients. This paper examines and talks about the strategic acquisition elements in manufacturing organizations and suggests the techniques for further improvement in the framework dependent on certain perceptions in the present framework being practiced.

Key Words: Strategic Sourcing, Manufacturing Organizations, Service Organizations, Procurement Activities.

1.0. Introduction

Strategic sourcing is about more than the buying organization and how they interface with the business sectors and vendors they purchase from. Strategic sourcing requires certain arrangements and operational changes in the way the acquirement and supply management functions are overseen. Inside in an organization, the status of obtaining within the organization and the idea of internal coordination required experiences noteworthy changes. Further there is a more noteworthy requirement for data offering to the suppliers (Kocabasoglu and Suresh, 2006).

The best strategic sourcing endeavors include an inward part that instructs the all-out organization in approaches to communicate with and get optimum value from the supply chain. This requires something beyond a skillful purchase. To genuinely grasp strategic sourcing requires a culture within the organization that connects with the entire exertion in the push to join ideal incentive from the supply chain. Purchasing must worry about whether the materials utilized by the firm are promptly accessible in a focused market or whether some are purchased in unpredictable markets that are liable to shortages and price instability. On the off chance that the later condition wins, innovative investigation by top-level purchasing experts is required. On the off chance that a firm spends a huge level of its accessible capital on materials, the sheer size of cost implies that proficient purchasing can create a huge investment funds. Indeed, even little unit investment funds add up quickly when acquired in huge volumes. At the point when a company's materials expenses are about 40 to 50 percent or a greater amount of its item cost (or its complete working spending plan), little decreases in material expenses can expand overall revenues fundamentally. In this situation, effective purchasing and purchasing management again can represent the moment of truth a business. This paper investigates and examines the strategic sourcing elements of a manufacturing organization and prescribes the methodologies for further improvement in the framework dependent on certain perceptions in the present arrangement of strategic sourcing being rehearsed.

2.0. Literature Review

Strategically overseen long haul associations with key suppliers positively affect the organization's financial performance and intensify the purchaser-vendor coordination (Carr and Pearson 1999; De Toni and Nassimbeni 1999). Those involved in framing policies are slowly understanding that purchasing can re-try corporate capacity execution along environment measurement (Handfield et al. 2002).

Strategic sourcing proved to be a crucial aspect of strategic management centered around basic leadership with respect to an organization's procurement exercises (Rafati and Poels, 2015, p. 1; Weele, 2010). A change in outlook in strategic sourcing decision making from a strategic perspective concentrated on cost savings towards a strategic perspective concentrated on worth is distinguished in the scholastic zone. The strategic perspective can't bolster the organization's push to understand its long haul objectives, for example, value creation. It centre's around "minimizing costs, competition with suppliers, and both sourcing" division and generally speaking organization each attempting to accomplish their very own objectives freely. Strategic sourcing choices are for instance make-or buy the least expensive way and finding the least expensive supplier. The strategic perspective spotlights on the organization's capacities and abilities, associations with supplier, and arrangement of organization's and sourcing objectives (Axelsson, Rozemeijer and Wynstra, 2005; Cox, 2014; 2015). Sourcing adds to the upper hand of the organization through arrangement of "VRIN" resources and abilities within a changing situation (Hill & Jones, 2012). Also, value driven management is likewise ready to help an organization in upgrading value creation, expanding quality, alleviating hazard, driving advancement and encouraging long haul associations (Rafati and Poels, 2016, p. 7). "Value driven sourcing" choices are for instance strategic settle on or-purchase choices, and supplier and purchaser cooperating in the long haul and co-making value for one another. For instance, Just-In-Time (JIT) generation is executed in an ever increasing number of organizations and as an outcome they experience high strain to remain competitive. JIT is achievable with v joint-creation partnerships and close co-ordination with their supplier and thusly the obligation of the buying managers picks up significance. Managers have changed their approach in such a way

that they think intra organizational sourcing and recognize openings in sourcing that can be a wellspring of upper hand (Kotabe and Murray, 2004.)

Strategic partnership with suppliers (SPS) is alluded as the long-extend association with organizations and their suppliers (Li et al., 2006). Monczka et al., 1998; Noble, 1997; Stuart, 1997 clarify that SPS is intended to use the operational as well as strategic abilities of employee participating corporations to encourage them in achieving huge onward advantages. Likewise, conscious association features immediate, long-extend relationship and advances shared planning and efforts with respect to “problem-solving” (Gunasekaran et al., 2001). SPS helps organizations to work all the more proficiently with progressively huge suppliers that are prepared to share responsibility regarding product success (Li et al., 2006). Strategic association with suppliers positively affects technology (Maalouf, 2018). Some of the researches uncovered that SPS impacted organizational performance (OP) (Li et al., 2006; Wijetunge, 2017).

Numerous researchers have portrayed different criteria and assessment techniques for choosing strategic suppliers. Ho et al. (2010) and Wang et al. (2009) indicate that vendor assessment is a “multi-criterion decision-making” (MCDM) issue. Scholars like Ho et al. (2010) reported that the criteria regularly utilized are quality, cost and delivery time. The quest for suitable criteria was first announced by Dickson (1966), who secured 23 criteria of vendor assessment. In this sequence, a further report by Weber et al. (1991) inferred that for vendor management “quality, delivery, price, location, and production-capacity” were common among other criteria. Likewise, Ellram (1990) upheld four groups for “criteria- financial issues, organizational culture and procedure, technological abilities, and a group of various components” including risks management. Bhutta and Huq (2002) portrayed criteria like quality, fabricating costs, innovation and services for vendor assessments. A survey-based study on vendor managed inventory practices by Borade and Bansod (2010) throws the light on criteria’s and issues for small and large ventures is different and vendor management should be investigated more. Further, an investigation by Verma and Pullman (1998) clarifies the trade-off between on-time delivery, quality & cost and presumes that managers gives importance to quality as the most critical vendor attribute, followed by delivery and cost. Kant and Dalvi (2017) likewise records around 129 vendor management criteria(s) and distinguishes that the most significant of them are “quality, on-time delivery, cost, execution, specialized ability, and adaptability”.

3.0 Objective of the Study

The primary objective of this paper is to examine and talk about the Strategic Sourcing Management in manufacturing organizations and to help organizations to make appropriate and informed buying decisions that guarantee best value for money and to give best services to satisfy its institutional clients. The study talks about and critically analyzes the practices being pursued with reference to organizational goals, and proposes procedures to improve the framework dependent on the perceptions.

4. Design/methodology/approach

In this paper, a case of a manufacturing organization was taken up for study. Field visits, individual and telephonic interactions were conducted to assemble the information/data. Likewise, the books and journals were alluded to realize the most recent work done in strategic sourcing field.

5.0 Overview of Strategic Sourcing Management at Manufacturing Company

Under the organizational study industry follows four purchasing methods for obtaining product and services listed as (1) “Limited Tender Enquiry (LTE)”, (2) “Single Tender Enquiry (STE)”, (3) “Open Tender Enquiry (OTE)” and (4) “Global Tender Enquiry (GTE)”.

In support of the centralized idea of the organization's procurement procedure, most purchases are made by Material Management Division (MMD) centrally. Users are relied upon to settle on moral and sound buying choices that will guarantee the proficient and powerful activity of the organization.

(a) The Manufacturing Company has the following Supplier Management Practices in Place

- **Supplier Database**

The Purchase Division Service Center is responsible of dealing with the organization's supply chain network, which incorporates the endorsed supplier database in the SAP System. In order to make a buy request for a specific vendor, the vendor must be accessible in the SAP supplier database. Solicitations to include another supplier must be submitted by means of the online solicitation structure and approved by the Purchase Division Service Center. The Purchase Division Service Center may deny a solicitation to include another provider if doing so is in the interest of the organization.

- **Affirmed Supplier**

To facilitate users for placing Small Value Orders (SVO), the Purchase Division Service Center reviews and approves a supplier. This supplier is called Affirmed or Approved Supplier. These suppliers after approval, added to the SAP system supplier database. To add a vendor to the SAP system approved supplier database, the users can request using an online request form.

- **Strategic Contract Supplier**

A Strategic Contract Supplier is an organization affirmed supplier that has been selected for participating in the Strategic Contract Supplier Program. Strategic Contract Suppliers ensure to furnish the users with competitive pricing, extraordinary client service, and a readiness to work to direct business as proficiently and adequately as could be expected under any circumstances. Competitive offers are not required for buys from Strategic Contract Suppliers regardless of the total value of the purchase. The Strategic Contract Supplier Program is centered around gathering the long haul needs of the organization. Only a set number of very able and qualified suppliers will be granted this designation. Suppliers must therefore, contend to win and keep up this distinction at all time.

- **Decent Variety Supplier**

A Decent Variety Supplier or a Diversity Supplier is an endorsed supplier in the organization's Supplier Diversity Program that is ensured as a small or minority claimed business.

- **Inactive Supplier**

As a result of supplier consolidation, new supplier contract(s), or supplier actions, a supplier is deactivated in the SAP supplier database. A prescribed endorsed substitution supplier is recorded by each deactivated supplier name in the list of deactivated supplier.

- **Shared objective methodologies with supplier**

The firm and its suppliers collaborate to make relating systems and targets and agree to accomplish these objectives with a run of the mill procedure and set of characteristics. The new accomplices agree on-target execution evaluates that will ensure legitimate responsibility. The firm rewards and gives incentives on meeting the objectives by supplier. As a rule, this shared objective is reflected in worth based compensation structures

- **Innovation Programme Support to suppliers**

The organization under study was found giving innovative training to their suppliers to drive quality, competitive rates and on time delivery. Such type of trainings empowers the organizations to take out waste and eventually upgrade the viability and nature of their products, realizing higher buyer fulfillment and potential expense reductions. Innovation programme training ensures that each basic gathering in the worth chain comprehend the organization’s standard of significant worth—around price, quality measures and sufficiency and what it needs to achieve with its product commitments.

Following table shows year-wise data of firms participated in Innovation Programme from year 2015 to 2018 at the organization under study.

Table 1: Firms in Innovation trade support

<i>Sl.no.</i>	<i>Year</i>	<i>No .of firms</i>	<i>No. of participating officials</i>
1.	2015	11	28
2.	2016	26	50
3.	2017	42	83
4.	2018	39	81

(b) The Manufacturing Company has the following Procurement Practices in place

- **Procurement Cycle:**

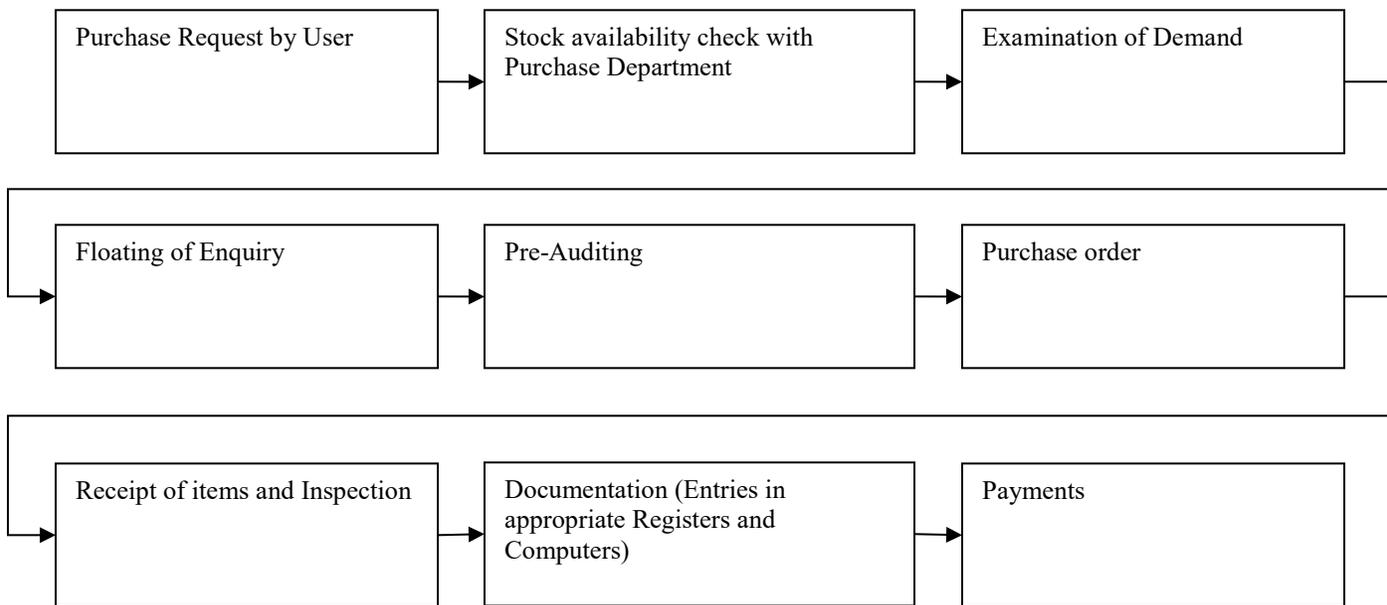


Fig1: procurement cycle.

In above schematic diagram, it is very well may be seen that the client raises the requisition and takes non accessibility accreditation from the stores. The requisition subsequently sent to the inventory control cell where the requisition is examined. The indent is than passed on to the purchase division for acquisition of the material.

Purchase division makes an entry in the register and after that the enquiry is coasted to the suppliers. Four sorts of enquiries are skimmed relying on the nature and estimation of the item. (1) “Limited Tender Enquiry”,(2) “Single Tender Enquiry” , (3) “Advertised Tender Enquiry” and (4) “Global Tender Enquiry” (GTE). Offers are opened on a given date and time by an approved committee comprising of a Purchase officer, an Audit officer and one Technical person having requisite technical knowledge of the item. The suppliers are permitted to be available while opening the enquiries. An evaluation chart is then prepared and sent to the user’s office for specialized suggestions. Usually, lowest offer is favored except if it is in fact not technically suitable. After recommendation, the purchase proposal is sent to the Audit Department for pre-examining and subsequently for Managing Director's endorsement. The purchase order is placed to the firm. On receipt of the material, it is examined and after the freedom for acknowledgment of the material is given and then the same is entered in the records furthermore in e forms. Finally, receipt voucher is sent to the finance department for payment.

- **Rate Contract Policy**

The items that are identified with the security of the specialists like cowhide shoes, cap cells, Explosives, similar to penetrate poles, boring and Automobile spares are secured under rate contract.

- **Non-consolidated Purchases**

In spite of the fact that, there are numerous advantages of having a rate contract approach for most extreme number of items, not many items of non-consumable and consumable nature are acquired under this framework bringing about paying higher cost for the material secured. A great deal of buying is done in piece meal.

- **Cash Purchases for gathering prompt prerequisites**

For gathering the prompt needs of the indenters, they are permitted to go for cash purchases up to Rs. 25000 from a single source which is by all accounts a pitiful sum for gathering a prompt prerequisite of an indenter.

- **Ordering System**

There is a great deal of channels by means of which a draft purchase order experiences for clearance bringing about devouring a ton of time and efforts. It actually adds to the demand–supply gap which at last affects production for want of material on time.

- **Procurement Time**

Procurement time is quite high for buying consumables and spares. For consumable items, the all-out time taken for delivering at consumer’s end is 110 days and for spares, it is 150 days roughly. Material isn't set aside on time to the customers. Shop floor and support individuals appear to feel disappointed.

- **Relations with Suppliers**

Overseeing sourcing is primarily about setting a system, in view of economic objectives, conveying those objectives within and among firms, overseeing psychological expectations when the high financial stakes cause interactions to break down. Effectively overseeing expectations and keeping up successful correspondences, ensures trust, which, we have seen, produces incredible and quantifiable monetary advantages in strategic sourcing relationships. (Eric K. Clemons, Elizabeth T. Dark, jr. (2000). The organization does not appear to keep up open communication channels with its suppliers that cover all supplier selection criteria, regular face to face meetings, objective dialogues with suppliers that incorporate clearly expressed objectives and two-way communication at each supplier level and expectations. Also, delayed payments by the organization under study to the suppliers have brought about losing many rumored suppliers and poor buyer – seller relationships. As the suppliers are not excitedly reacting to the buy enquiries, the organization was finding it hard to have competitive rates and the material was being secured on higher rates.

6.0. Recommendations for better Strategic Sourcing Management

Contract Management System

Incorporate a framework for guaranteeing suppliers meet the terms, conditions and details in the agreement. Likewise, you should have a procedure for assessing supplier performance that documents whether the supplier met the terms, conditions and specifications of the agreement.

Flow of Business Processes

The processes must be simplified in the manner that they flow freely and consistently between the two organizations. This incorporates business procedures related to product design and development, indenting, delivery, and invoicing. Technology is a key apparatus in getting this going adequately. Just think that suppliers will be chosen or held based on the capacity for information to move seamlessly between the organizations. In one of the manufacturing organization it was found that they have the practice of sharing new product design data with their suppliers to speed items to market and ensure dependability and quality.

Powerful discourse

The buying organization and its suppliers ought to advance communication by creating opportunities, procedures, and well-characterized communication points - from strategic exchanges on the creation of significant worth to strategic contacts focused at taking care of business right.

Multidimensional Alliances

The partnership isn't constrained to innovative work only. In fact, buying organization involves its key suppliers at numerous dimensions and in a wide range of business capacities such as marketing, finance and sales. A special criterion later on might be the reciprocity that will be required for the buying and supplier organizations. It is quite possible that the supplier picked for its strategic worth is additionally held in a similar regard as a client.

A shared objective, joint procedures, powerful discourse, and multidimensional alliances might be the foundation of the most strategic alliances, however this requires some investment for inculcating these characteristics in a supplier. To set these goals, the buying and supply organization must line up with the strategic objectives of the bigger organization. Market position - including cost initiative, client satisfaction, and market infiltration drive choices for purchasing and its suppliers. The purchasing officer can create a procurement methodology around cost initiative and value-creating supplier partnerships

Procedures Analysis

To achieve the summit of supplier management, organizations must start by diagnosing what has turned out badly in the past and identify the issues that may come on their way while going forward. A benchmarking exercise within their organization to look at any KPIs that may need support, for example, the number of suppliers dealt with by every buying professional and the cycle from purchase indent to purchase order could be the ideal solution. Also, they can conduct a study of their procurement professionals on supplier performance and investigate significant supplier performance measurements, like, quality and timely delivery.

Organizations should then seek after a far reaching way to deal with their supplier management procedure such as rationalizing their supplier base, setting up vigorous supplier performance matrix with multiple tiers of suppliers, organizing supplier coordinated effort programs, and digitizing the whole supplier management procedure.

Encourage the right practices

For supplier to be genuinely strategic, organizations must consider that a supplier carries on in a manner which is amenable to the creation of a productive relationship. Opportunistic exercises, late deliveries, Non-compliance of core strategies, reluctant to accommodate changes, slow in meeting major demand requirements and appointing its B team to deal with buying organization may show that the supplier isn't adequately put resources into the relationship.

Acquisition lead-time

Acquisition lead-time is the time that is passed between raising the necessity by the client to getting the material at the user's/client's end. High acquisition lead-time influences the production. Recognize that consistency of lead-time is more important than its real length. Indeed, even with Material Requirements Planning (MRP) and Just In Time (JIT) approach, occasion, for example, stoppage of delivery dates or receipt of inadequate materials require consistent examination to guarantee that suppliers ensure consistency. In dubious conditions it might be important to keep up safety stocks. (Tursine 1988)

A decrease in the order process term results in reduction in the supply chain network response time (Gunasekaran et al., 2001). Diminishing order cycle duration is a basic measure and an extraordinary wellspring of competitive advantage (Bower and Hout, 1988, Christopher, 1992). According to Towill (1997), it explicitly impacts the consumer satisfaction level. Likewise, steadfast quality and consistency of the lead-time is also critical. Because of bottlenecks, inefficient systems and instabilities in the volume of orders dealt with, there will be variations in activity completion times. The general effect of this may incite a liberal decline in delivery reliability unwavering quality and client satisfaction level. To deal with these, for example, "manufacturing cell" can be formed, in which particularly planned exercises are performed in parallel by cross-functional groups to effectively reduce the order lead-time and decrease the redundancies (Schonberger, 1990). To abridge, lead time reduction, will result in timely production, customer satisfaction, à diminished Inventory, less working capital, reduced cost of finance, higher Profit and more funds for speculation and development. To reduce acquisition lead time, the organization should consider simplifying purchase procedures, introduce liberal cash purchase limits, automate all purchase functions and cover more items under Rate Contract

Care for Supplier

For timely delivery of quality material on competitive prices we need good and dependable suppliers When we discover them, treat them as our valued partners. Work as hard on building a decent supplier relationship as we do building a relationship with our clients. Furthermore, be faithful to the suppliers. They are very important to an organization's great health and development.

To improve better relations with suppliers, the organizations should assist their key suppliers through different strategies, for example, co-ordinating production plan with them, discussing ways to deal with reducing overall costs through size or timing of orders/contracts, informing them on key changes or new items at a beginning time so as to empower them to acclimate to meet those changes,

As we would prefer not to lose our key suppliers, in the first place we should pay them on time. Along these lines, we must demonstrate that we are a dependable client and that we are easy to work with. In case we are unable to make the payment on an agreed date due to some unavoidable circumstances, communicate the supplier as quickly as time permits with the date on which they can expect the payment. This will generate a trust.

Immediate Requirements

To optimize the delivery time to meet prompt or urgent needs, cash purchases upto Rs.60, 000 on single quotation may be considered A repeat order approach may likewise be considered as it will encourage quick buys for client's satisfaction and would guarantee timely purchases, which would help maintain a strategic distance from production misfortunes.

Improved Ordering System

To conquer muddled ordering strategies which result in time delays prompting idleness of man and machines, ordering framework should be improved. This may incorporate automation of all purchase functions, which would decrease routine administrative movement by the programmed arrangement of records, e.g. purchase indent, draft purchase orders (DPOs), Purchase orders(POs), acknowledgement and progress letters (Kenneth Lysons, 1996). Solid and gainful relations with the sellers should be created. Cash purchases for low value items may be considered. This will result in shorter delivery time as well as purchases can be made at very short notice

7.0 Conclusion

Essentially, strategic sourcing endeavors include more than the purchasing resources within an organization. To be the most impactful, strategic sourcing endeavors must be empowered by the correct culture, solid administration, and appropriate organization plan.

The advantages here are cooperative. While strengths in these three areas will improve the strategic sourcing endeavors inside an organization, strategic sourcing endeavors will likewise challenge the organization to address every one of these three areas too.

Furthermore, strategic sourcing, by definition, will provoke the organization to assess what it excels internally, what is best performed externally, and how to weave the two together in a manner that maximizes value for the organization.

Engaged effort, appropriately encouraged and sensibly organized are required for a successful strategic planning. It is important that organizations reassess their current system and constantly validate their viability dependent on the present and foreseen future business situations. It is accordingly essential to identifying or updating the buying and supply management's vision and mission statements. Looking forward, Purchasing and supply management strategies will advance much further, both in their content and in the way in which they are developed.

In spite of the fact that the present work creates numerous benefits with regard to managing strategic sourcing and the recommendations made can be incorporated for improving current system in force without any significant investment, some limitations do exist with respect to number and type of organizations included in the current research. The research is essentially limited to manufacturing organization only. Organizations like, service, corporate and defence may be included in future studies. Additionally, the sample size can be expanded by stretching out the scope to more nations for future research

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