

## ECONOMIC ASPECTS OF PURCHASING LOGISTICS

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The article deals with economic aspects of purchasing logistics. Purchasing department in the company must manage and reduce costs if it is possible. The purchaser can use a number of methods to reduce administrative costs, purchase prices and inventory carrying costs. From a point of view of economics is the main aim of purchase to reduce costs related to purchasing activities. Purchasing focused on getting the right product or service to the right place at the right time, in the right quantity, in the required condition or quality, and from the right supplier at the right price. The management of purchasing activities can lead to increased profitability.

**Key words:** purchasing, logistics, costs, inventory

### 1 Introduction

Organizations around the globe are turning to purchasing for new strategic initiatives and additional competitive advantages that can be available through the supply chain, purchasing's ability to respond will depend not only on the vision and expertise within the purchasing organization, but also on the tools in place to support strategic purchasing activities.

### 2 Purchasing

Purchasing generally refers to the actual buying of materials and those activities associated with the buying process. Purchasing can be depicted as a sequential chain of events leading to the acquisition of supplies in Fig.1.

The link in the purchasing process chain is information. Each sub-process in the chain is responsible for capturing or otherwise processing information that enables us to answer the questions (for example: What are we required to purchase?, Where and how can the required supplies be obtained?). A process chain relationship can therefore also be considered a message chain relationship. Previously messages, both internal (such as requisitions) and external (such as order and payments), were transmitted on paper documents via the mail. Nowadays is used common electronic transmission (EDI – electronic data interchange, e-mail). The electronic transmission has revolutionised the cost and speed of purchasing processes.

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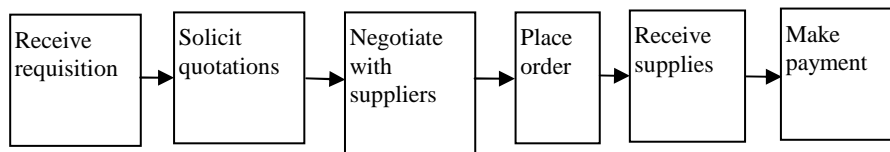


Fig.1: The purchasing process chain

Giunipero's and Percy's study identified the following ten subjects as the most important to purchasers:

- Total cost analysis
- Negotiation strategies and techniques
- Supplier/partner management
- Ethical conduct
- Supplier evaluation
- Quality techniques
- Purchasing strategy and planning
- Price/cost analysis
- Electronic data interchange
- Interpersonal communication

Fig. 2: Overview of internal information flows from purchasing

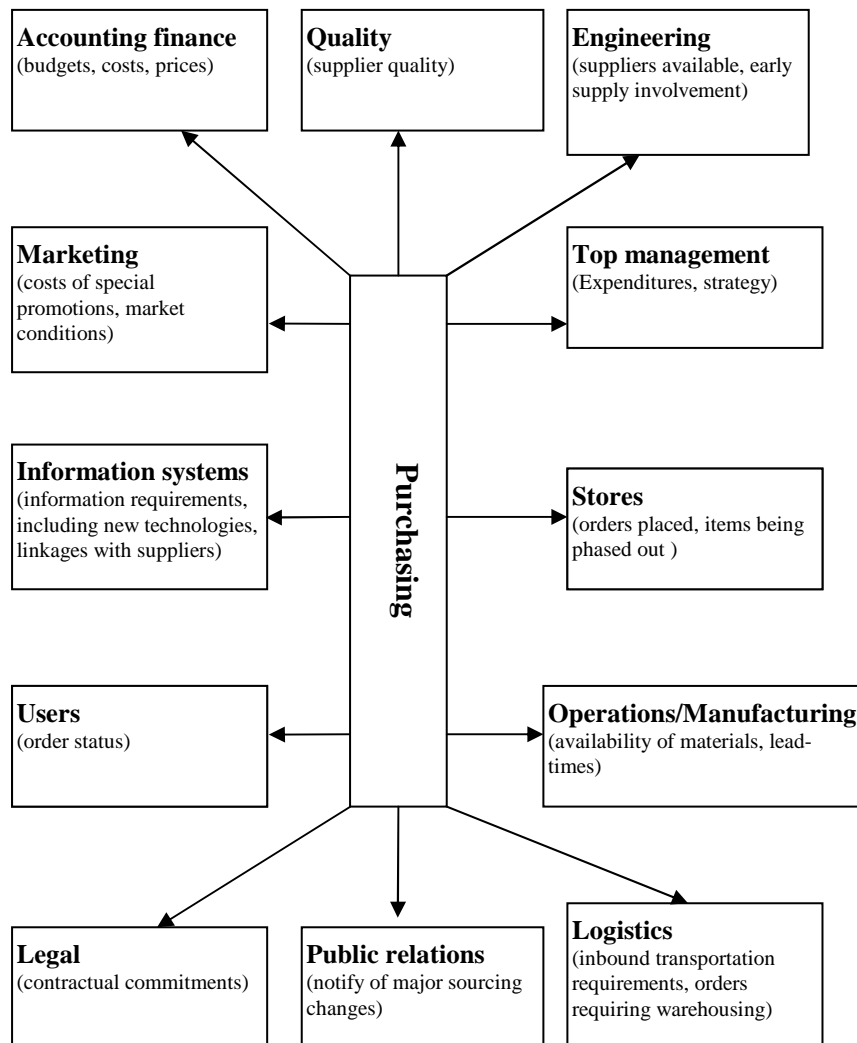


Fig. 2 shows some of the many information flows between purchasing and other internal functions.

Uncertainty in the business environment is making the purchasing decisions for key items more complex and the effects of these decisions more long lasting. Important environmental considerations include uncertainty of supply and dependence on foreign sources for key commodities, price increases on key commodities, extended and variable lead-times, etc.

The changing environment makes it necessary for purchasing management to do a more effective job of researching the supply market. Purchasing needs to provide information about supply conditions (e.g. lead-time, prices, transport costs, terms of payment, etc.) to different groups within the company, including top management, logistics, manufacturing, marketing, etc. This information is important when formulating long-term strategy and short-term decisions. Key materials for which availability, pricing and quality problems may occur should be identified, so that action plans can be developed before problems become critical and costly.

Strategic planning for purchasing involves the identification of critical purchases, supply market analysis, risk assessment.

Risk assessment requires that the purchaser determine the probability of best or worst conditions occurring. Supply strategy questions are shown in Tab.1.

Tab.1: Supply strategy questions

What?	Make or buy Standard versus special
Quality?	Quality versus cost Supplier involvement
How much?	Large versus small quantities (inventory) Centralize or decentralize
Who?	Quality of staff Top management involvement
When?	Now versus later Forward buy Premium Standard
What price?	Lower Cost-based Market-based Lease/make/buy Local, regional Domestic, international
Where?	Single versus multiple source High versus low supplier turnover Negotiations Competitive or fix bids
How?	Group buying Materials requirements planning Long-term contracts Purchasing research

### **3 Cost reduction by purchasing department**

Purchasing department must manage and reduce costs. Purchasers can use a number of methods to reduce administrative costs, purchase prices and inventory carrying costs.

In many companies, a “cost reduction” is defined as a decrease in prior purchase price. This means a cost reduction occurs only when the firm is paying a lower price.

Cost reduction can include any of the following:

- Development of competition
- Requirement of supplier cost reduction
- Supplier development
- Substitution of materials
- Standardization
- Make or buy analysis
- The reduction of scrap
- Improvement of payment terms and conditions
- Process changes

## 4 Conclusion

Purchasing department in the company must manage and reduce costs if it is possible. From a point of view of economics is the main aim of purchase to reduce costs related to purchasing activities. Purchasing focused on getting the right product or service to the right place at the right time, in the right quantity, in the required condition or quality, and from the right supplier at the right price. The management of purchasing activities can lead to increased profitability.

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