PURCHASING MANAGEMENT AS A COMPETITIVE ADVANTAGE

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Summary

Effective purchasing management is a one of the main component to achieve competitive advantage. The conditions of high competition in the modern global market force organizations to actively seek new ways to create and deliver value to customers. The theory and practice of logistics and the management of the supply chain have become extremely important in recent decades.

Procurement is a large part of the overall management of any corporation. In financial and value terms, purchasing activity is usually measured in terms of the company's revenue. Usually purchases amount to 30-40% of sales.

Competitive advantage is achieved on the basis of how the organization organizes and carries out certain types of activities through which it creates certain values for its customers. The ultimate value created by the company is determined by how many customers are willing to pay for the goods or services offered by the company. The competitive advantage of the company is either in low costs, or in the ability to differentiate their products, each state is achieved by structured purchasing procedures.

Keywords: Purchasing, competitive advantage, purchasing advantage, value chain, logistics, purchasing management.

Effective procurement management can be an important source for achieving competitive advantage. The conditions of high competition, formed at the modern 21-st century on the global market are forcing organizations to actively seek new ways to create and deliver value to customers. Customer service is becoming a key factor in the individualization of goods, as their exactingness and competence are constantly increasing. At the same time, the market's attainment of a state of maturity along with the emergence of new sources of global competition led to the emergence of surplus capacity in many industries, which inevitably began to affect prices, which have always been the main factor of competitiveness in many markets.

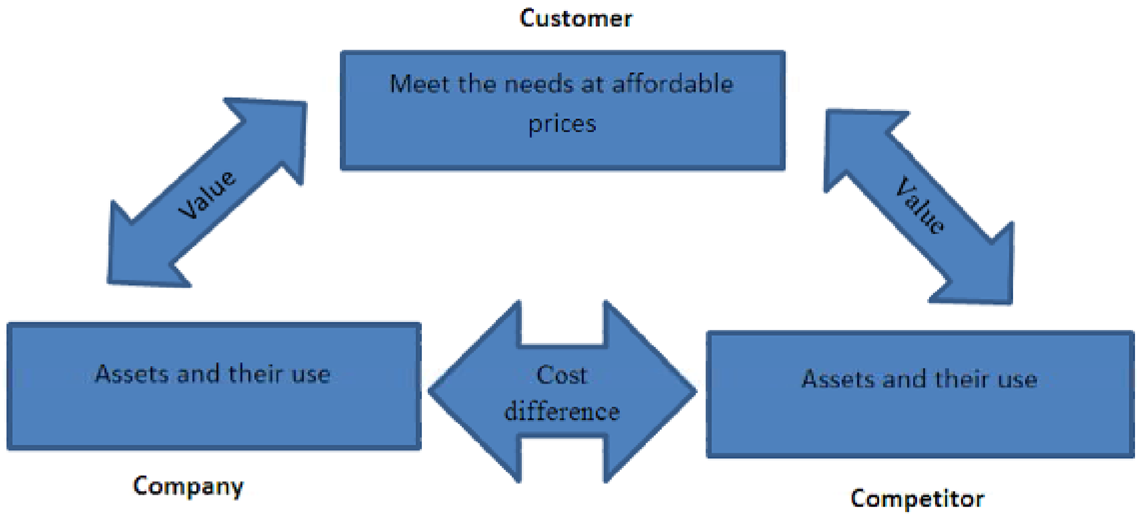
Considering the background of the situation, theory and practice of logistics and supply chain management has become extremely important in the latest years. With their help, companies manage to achieve two goals of reducing costs and improving service.

There are several ways to define logistics, but the underlying concept can be expressed as follows: (Christopher, 2011) Logistics is a process of strategic management of procurement, movement and storage of materials, components and finished goods (and correspondingly information flows) of the organization and its marketing channels, allowing to maximize current and future profitability due to implementation orders and directions with the minimum possible costs.

Procurement management process is an important logistics mechanism, strategic goal of which is to increase the profitability of the enterprise, including by reducing logistics costs. There are many models that describe the success of the market. One such model is the so-called strategic triangle (3C) model (Ohmae, 1991), based on the use of tripartite communication system between the company, its customers and competition.

According to concept, the competitive advantage of the company is either in low costs, or in the ability to differentiate their products. Low costs reflect the company's ability to develop, produce and sell a similar product at a lower cost than competitors. By selling goods with lower price comparable to the prices of competitors, the company receives large profit. Competitive advantage gives higher productivity than competitors when: a company with a low cost of production produces product at a lower cost than its competitors and in case of differentiated product: the profit per unit of output is higher than that of competitors. Thus, successful companies have the advantage of either productivity (production efficiency), or in the value of the proposed product or in both of these indicators simultaneously. The advantage in production efficiency provides lower costs, and the advantage in value provides the product, or offers an individualized superiority over the goods and offers of competitors.

No organization can completely avoid logistics costs, the best option in these conditions is to make them as low as possible. In these conditions, the goal of the business is to minimize the overall logistics costs at acceptable level of customer service. This approach is generally known as "lean" logistics. The goal of lean



1. Competitive Advantage and 3C model

logistics is to perform each operation using fewer resources of: people, space, supplies, equipment, time, etc. For achieving this, an effective flow of resources has to be organized to exclude waste, minimize time to complete orders, volume of stocks and total costs. Traditionally, it is believed that the main way to reduce costs is by achieving large sales volumes. However, it should also be recognized that the procurement management process can make a significant contribution to reducing unit costs and therefore provide different ways to increase efficiency and productivity (Waters, 2008)

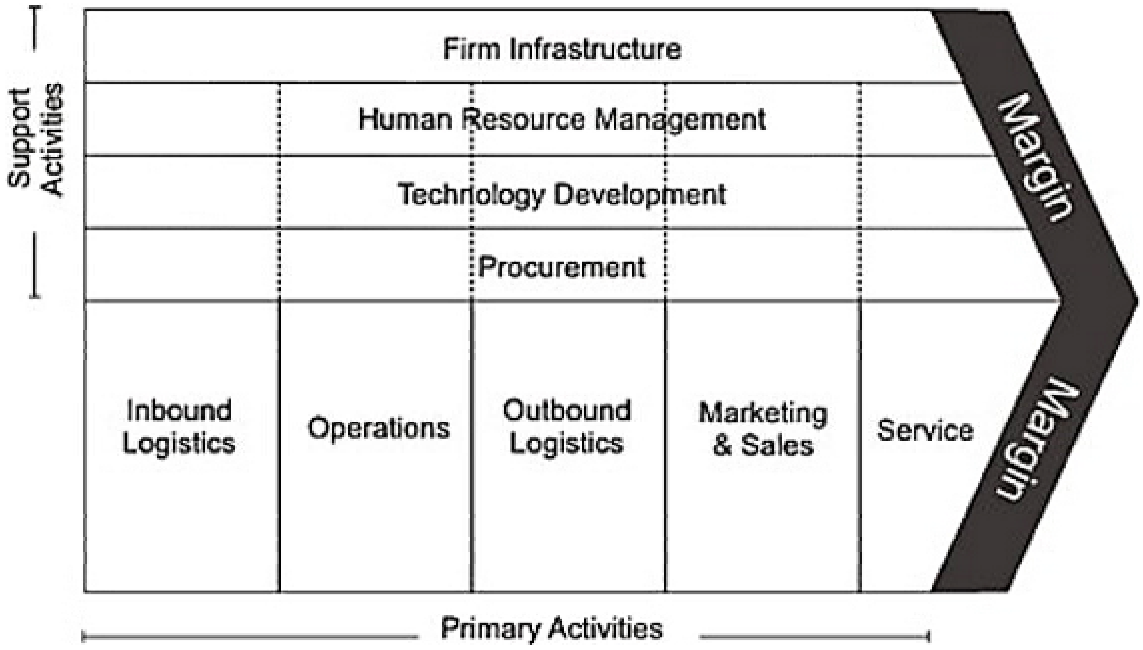
Purchasing management can play a key role in increasing the value of spending time of the buyer by means of increasing the customer's satisfaction and his next hold. Achieving this goal requires the development of a management strategy based on market requirements, and re-defining the objectives of the service. Taking into account the specific requirements of the buyer. The modern market has become more "sensitive to service": buyers are looking for more reliable suppliers with better response; they are interested in shortening the terms of development, just in time and service, creating added value. In its turn the development of better service strategies is not possible without applying the advanced methods of logistics management.

Competitive advantage is achieved on the basis of how the organization organizes and carries out certain types of activities through which it creates certain values for its customers. The ultimate value created by the company is determined by how many customers are willing to pay for the goods or services offered by the company. As a rule, all activities require the use of certain procedures or a certain sequence of actions, human resources, physical assets, relevant technologies, the creation of databases and the use of information.

To understand the basis of competitive advantage and what strategy should be in it is necessary to disassemble into components what the company does in its value chain. M. Porter, who first used this concept, defined the "Value Chain" as follows: "Competitive advantage cannot be understood without consideration of all firms as a whole. It comes from many independent activities that the company performs in the design, production, marketing, delivery and support of the product. Each of these activities can contribute to the value of the firm's costs and the creation of a basis for individualizing the product. The value chain disaggregates the functioning of the firm into strategically relevant activities in order to provide an understanding of the behavior of costs, as well as existing and potential sources of individualization. The firm gets a competitive advantage due to the fact that it carries out these strategically important activities cheaper and better than its competitors".

The types of activity that form the value chain are divided into two categories: Primary activities and supportive ones. Subsidiary activities are integrating functions that intersect with the various primary (primary) activities of the company (Figure 2) (L.Fahey, and R. Rendall, 2000). The emergence of a competitive advantage depends on the way the company performs these discrete activities within the value chain.

It is necessary to note the importance of activity - procurement. The value chain allows you to better understand the sources of gains in the cost level, which is determined by the size of the costs. The cost of materials, fuel, and energy and third-party services is considered to be the main component of costs for the operation of manufacturing enterprises (about 65%); there are always opportunities to reduce costs. The value chain helps to understand the reserves for differentiation. The company creates a special value for the buyer, if it gives



2. Value Chain Activities

customers services or products, which they cannot get by buying goods from a competitor. Accordingly, the production of such goods (works, services) is possible only if there is an effective procurement activity.

Business processes can be seen as the basis for adding value within organization and beyond. Within the chain, the analysis of the absence or creation of (or destruction causes), is the most important determinant of the demand and effectiveness of a particular stage of the process.

Values are characterized by such determinants as time (cycle time, etc.) flexibility (additional features, the ability for the customer to order a personalized kit, etc.), the responsiveness of the reaction (the term for the development of new products, the time of preparation to the output of products, the number of cases when the task is transferred from one for another, etc.), quality (alteration, marriage, output, etc.) and price (direct discounts, discounts on advertising coupons, etc.). It should also be noted that costs are a determinant of value. The cost effectiveness directly depends on the above determinants value - time, flexibility, responsiveness.

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რეზიუმე

შესყიდვების პროცესების ეფექტურად მართვა კონკურენტული უპირატესობის მისაღწევი ერთი-ერთი მთავარი საშუალებაა. თანამედროვე გლობალურ ბაზარზე შექმნილი მაღალი კონკურენციიდან გამომდინარე, ორგანიზაციები ცდილობენ იპოვენ ახალი გზები, რათა მომხმარებლებს შესთვაზონ სხვა ორგანიზაციებთან შედარებით მაღალი ხარისხის სერვისი და პროდუქცია. ლოგისტიკის თეორია და პრაქტიკა მოწოდებათა ჯაჭვის მართვაში ძალიან მნიშვნელოვანი გახდა უკანასკნელი ათწლეულების მანძილზე. შესყიდვები ორგანიზაციის საერთო მენეჯმენტის დიდ ნაწილს მოიცავს. ფინანსური და ღირებულებების კუთხით შესყიდვების საქმიანობა იზომება ორგანიზაციის შემოსავლების მიხედვით. საშუალოდ შესყიდვის საქმიანობა 30-40% პროპორციულია ორგანიზაციის გაყიდვებთან.

კონკურენტული უპირატესობის მიღწევას საფუძვლად ედება ორგანიზაციის ორგანიზების და საჭირო საქმიანობის წარმართვის უნარი, რომლის მეშვეობითაც იგი ქმნის გარკვეულ ღირებულებებს თავისი მომხმარებლებისათვის. ორგანიზაციის მიერ შექმნილი პროდუქციის საბოლოო ღირებულება შეფასდება, მომხმარებლების რაოდენობით რომლებიც მზად არიან გადაიხადონ გარკვეული თანხა შეთავაზებულ პროდუქციაში.

კომპანიების კონკურენტული უპირატესობა ან მის მიერ ნაწარმოები პროდუქციის დაბალი ღირებულებაა ან შესაძლებლობა შესთავაზოს მომხმარებელს განსხვავებული პროდუქცია, ორივე პირობის მიღწევა შესყიდვების პროცედურების სწორად მართვით არის შესაძლებელი.