Procurement 101: Meeting Customer Needs and Managing Supply Chain Challenges

Björn Lindgren & Jonatan Andersson, June 2024

Whether you are buying groceries for the family this upcoming week or if you are purchasing metal sheets for production, procurement is complex. Especially since, there are multiple actors who all have different needs. So, how about improving procurement through aligning to your key customers?

Procurement seems simple right? You buy what you need in advance in order for it to be ready for consumption or processing. As one can assume it is harder to operate a procurement department for a subcontractor rather than going to the grocery store for private matters. Simply put, the requirements on procurement are the following:

(1) Having material ready for production
(2) Reducing costs as much as possible
(3) Having sufficient quality

One observation about these requirements one realizes is that some are conflicting. The material with utmost quality are seldom the ones cheapest. Having material ready for production requires reliable suppliers that deliver on time or keeping stock - both driving costs. Now the situation doesn't get easier throwing stressors in the mix such as inflation, lackluster performing suppliers, pullback from customer orders - all ultimately leading to liquidity issues. Now you have a problem on your hands. So you're in a jungle of requirements and stressors, how do you tackle these factors optimally? *You need a strategy.*

The next question then becomes how to formulate that strategy? A good place to start is assessing the company's current situation as no two situations are completely alike. For CEPA, the case company in our thesis their current situation was suboptimal. Their situation included two customers representing 80% of all turnover, liquidity issues and misleading KPI's. Formulating a strategy based on these two customers might seem like a good idea, so what do they look like? Both are enormous companies who have high quality requirements. Where they differ is that only one of them gives CEPA a forecast with high certainty, the other one has no forecast and expects short lead times.

So forming two separate strategies dependent on these two customers seems like a good idea. For the company that does not give a forecast and requires short lead times, CEPA should have stock in raw material so they can produce rapidly and still meet short lead times. They should also pick suppliers who have shorter lead times to better align with their customers' lead time request. For the company giving a forecast, minimum stock should be kept. This is because thanks to the forecast, there is time to procure, manufacture and ship the products to the company. Here, the focus becomes rather to be as efficient as possible, meaning keeping prices to a minimum.

Through employing these separate strategies, the companies' other issues can become alleviated as well. Because if we focus on the liquidity, capital tied up in inventory is one of the major burdens. Having less stock and having shorter lead times for customers does wonders for liquidity. So next time you are at the grocery store guessing for a strategy, begin mapping your target audience and formulate your strategy dependent on them.

This popular scientific article is derived from the master thesis: Strategic Alignment in Procurement for a Swedish OEM: Supply Chain Management for Enhanced Performance, written by Björn Lindgren and Jonatan Andersson (2024) at Division of Engineering Logistics, LTH.