



## THE TIMES 100

### BUSINESS CASE STUDIES

## Supply chain & procurement – OPITO & CIPS

Purchasing and supply – also known as procurement – is a highly strategic role. Procurement covers the full supply chain from contracts (negotiating), procurement (purchasing) and logistics (storage/distribution). All businesses need inputs in order to be able to operate. These might be physical inputs, such as raw materials, like engine components for a car manufacturer. They may also be service based, such as specialist engineering consultancy when trialling new technology or distribution services for a high street retailer. It is vital that inputs not



only meet the required quality and reliability standards, but also that they are competitively priced. Purchasing and supply focuses on sourcing, pricing and buying the right things, at the right price and at the right time in order to deliver a service or product. Effective purchasing can help an organisation to reduce costs, maintain quality and manage the levels of risk to its supply chain. For the oil and gas industry with its high levels of risk, the Chartered Institute of Purchasing & Supply (CIPS) is providing training to improve the efficiency and effectiveness of purchasing and supply. OPITO, the focal point for skills, learning and development in the oil and gas industry, undertook a labour market survey of the industry which identified a sector-wide skills shortage. CIPS and OPITO are therefore working together to promote career opportunities and develop specialised training to meet these needs.

Purchasing may involve the day-to-day necessities like photocopier paper, soap and towels for wash rooms or service support for IT equipment. However, the purchasing role also covers high-tech or large scale equipment for major projects such as the building of an aircraft carrier or the Olympic stadium, as well as the skills required to operate it. Those involved in purchasing and supply are in a position to consider every stage of a business' processes, from raw materials to waste management. This 'helicopter view' can help a procurement manager to spot ways of making efficiencies or opportunities to improve the quality of products or services bought. An example of how vital the role is occurred when BP needed to manage the supply chain of emergency goods following the Deepwater Horizon oil spill in the Gulf of Mexico in 2010. The supply chain team had to source everything from mealworms to feed wounded birds, to booms to prevent the oil spreading further, to dispersant materials to remove the oil. The challenges included finding sufficiently large quantities available quickly as well as trying to keep budgets under control. Procurement managers are also involved in researching suppliers in new markets and developing new and innovative procurement methods to improve effectiveness. They also agree and manage service level agreements (SLAs). An SLA is a contract that specifies standards, timings and payments for the supply along with penalties for missing targets. It sets out the responsibilities and expectations for both the business (the buyer) and its suppliers. A key element of the SLA is ensuring that the price quoted by suppliers will not be subject to change, thus affecting the purchasing budget.

Reliability is a crucial factor in supply, both of quality and timing. If supplies are of poor quality, delivered late or cost more than was agreed, this will affect productivity and profitability. If production is delayed or faulty products need to be scrapped, this can reduce profits. Poor quality inputs could also affect the safety of the process – a major consideration in the oil and gas industry. Well-managed procurement ensures that supplies of the required quality are available at the right time, place and cost. Supply chain managers help to:

- reduce costs and improve profitability – bulk buying can provide economies of scale
- reduce waste by selecting inputs that generate less waste (and also lower costs)
- manage demand, for example, through just-in-time supply
- improve cash flow by securing favourable prices and payment terms
- improve efficiency by making sure suppliers hit deadlines
- improve the competitiveness of the business by seeking out innovative products and services to add value.



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### Questions

1. What is procurement?

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2. Describe the challenges that were faced by BP supply chain managers during the Deepwater Horizon oil spill.

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3. Explain what is meant by a service level agreement.

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4. Analyse why reliability is so important in purchasing and supply.

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### Task

*Service Level Agreements* – carry out some research into Service Level Agreements (SLA). What is included? How are they set out? How much detail is needed? Now draw up an SLA for a business with which you are familiar and one of its suppliers. You may be able to find a template for this on the internet.

### What have you learned?

Ready, steady, GO...write as much as you can about procurement and supply chains in 60 seconds. Share with a partner. Have you written the same things? Has your partner remembered something you hadn't?