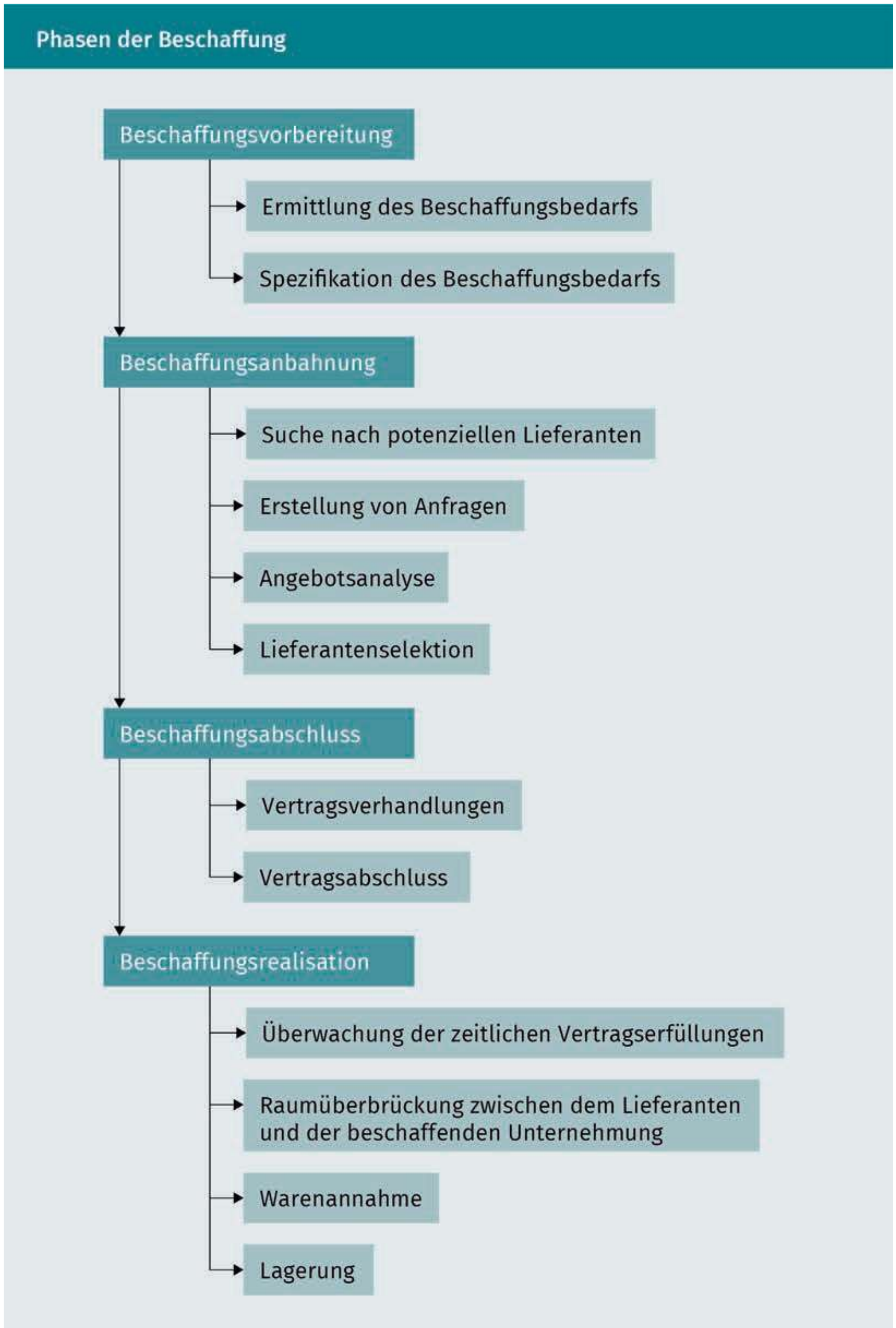
1.1 Definition of “procurement” and “procurement processes”

Procurement is concerned with controlling and maintaining the company’s **supply** of consumables, raw materials and supplies in line with the principles of profitability.

Supply
The function of purchasing and procurement is supply.

Purchasing is responsible for all input factors entering production as well as for raw materials and supplies. Purchasing and procurement must ensure that the company’s demands for supplies are met in the right quantities, at the right time, in the required quality and at the best price (cf. Krampf 2012, page 5).

The following text uses these two terms interchangeably. The supply function of procurement comprises multiple phases:


Phasen der Beschaffung
Beschaffungsvorbereitung
Ermittlung des Beschaffungsbedarfs
Spezifikation des Beschaffungsbedarfs
Beschaffungsanbahnung
Suche nach potenziellen Lieferanten
Erstellung von Anfragen
Angebotsanalyse
Lieferantenselektion
Beschaffungsabschluss
Vertragsverhandlungen
Vertragsabschluss
Beschaffungsrealisation
Überwachung der zeitlichen Vertragserfüllungen
Raumüberbrückung zwischen dem Lieferanten und der beschaffenden Unternehmung
Warenannahme
Lagerung

As in other departments, the objectives of procurement are derived from the corporate objectives. There are two distinct categories of objectives relating to procurement (cf. Piontek 2016a, page 11):

- The material objective: To safeguard the long-term supplies needed in order to manufacture goods
- The economic objective: To optimise the costs and benefits of material supplies and thereby maximize profits.

The material objective focuses on ensuring the supply and quality of input factors required for production, while the economic objective is defined more broadly and can be subdivided into the following elements: Maximizing performance and cost-cutting potential by optimising procurement costs; safeguarding supply capability and procurement-related liquidity effects; and protecting the company's independence and procurement market positioning. Conflicts can easily arise between these individual objectives, particularly between the two requirements of "maximizing quality" and "optimizing procurement costs" (cf. Kaluza 2007, page 23).

The objectives of procurement may be categorized as either strategic objectives or tactical/operational objectives:

The requirement to “reduce procurement costs” includes minimizing the cost price of individual items as well as reducing the functional costs associated with procurement. Conversely, the requirement to “increase procurement quality” is aimed at minimizing the deviations between demand and supplier performance for maximum congruence.

The requirement to “maximize procurement reliability” implies selecting the alternative with the least (objective or subjective) likelihood of disruption (cf. Piontek 2016a, page 13).

By contrast, the requirement to “maximize procurement flexibility” aims to overcome possible disruptions by selecting the alternative which offers the most options for action in the event of exogenous or endogenous changes (cf. Piontek 2016a, page 13).

When planning procurement objectives and strategies, the first step is to define the principal procurement objective in line with the company's overarching strategic goals. This is followed by the assignment of secondary objectives while ensuring compatibility. Compatibility between the procurement objectives and other functional objectives must then be monitored. Strategy planning can follow a similar approach, i.e first define a principal strategy in line with the procurement objective, then assign secondary strategies.

1.2 Make-or-buy decisions

Make-or-buy is a complex decision whether to generate a product or service in-house or source it externally. A buy decision leads to outsourcing. Companies will often opt for a buy decision if they have limited capacity, do not own the relevant patents, or are likely to face changes in demand levels. Make-or-buy decisions generally entail certain costs or investments fand may lead to reliable long-term cooperation between companies. A buy decision must be based on a detailed cost analysis and quality assessment of the future supplier/service-provider.

There are many different motivations for a buy decision leading to the partial outsourcing of production (including the relevant planning and support processes, where applicable) (cf. Piontek 2002, p. 15-17).

Focus on core competencies

A company's core competencies are usually a resource advantage which, in the longer term, sets it apart from its competitors from a customer perspective. These may include specialist knowledge (knowledge resources) or particular process abilities. Core competencies may be defined as follows (Piontek 2016a, p. 87):

- They provide customers with an additional benefit.
- They help distinguish a company from its competitors.
- They create the basis for a broad spectrum of products.
- They are often difficult to imitate.
- They are advantageous when tapping into new markets.

Companies must identify their core competencies as pivotal value creation processes. Focussing selectively on its core competencies allows a company to concentrate on its primary potential for success. Conversely, this means that all aspects outside of its core competencies should be outsourced to third parties.