Trade Operations in Planning and Managing Purchasing Process

➢ Explaining the purchasing process background in terms of trade operations

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International Trade Operations

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Content of the presentation

1. The specification and explanation of organizational purchasing goals
2. Trade operations of organizational purchasing decision process
3. The specification and explanation of organizational purchasing forms
4. Explanation of the supplier relationship management
5. The role of legislation in purchasing process
6. The Specification of contracts types

SCHEDULE OF VERBAL DEFENCE OF SEMESTER PROJECT

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On May 16, the ITO class **is cancelled** due to the inauguration of the Rector and Dean.

Deadline for submission of the seminar project: until **5 May by 23:00**

Dates of verbal defence:

9.5. 13:05 – 13:15: Bartek Lukáš
9.5. 13:17 – 13:27: Breksa Rudolf
9.5. 13:29 – 13:39: Jendryščíková Nikola
9.5. 13:41 – 13:51: Maršálková Natálie
9.5. 13:53 – 14:03: Mrázková Veronika
9.5. 14:05 – 14:15: Palkovičová Sabina
9.5. 14:17 – 14:27: Podwiková Erika
9.5. 14:29 – 14:39: Sasínová Klára
9.5. 14:41 – 14:51: Sládeček Vojtěch
9.5. 14:53 – 15:03: Sochová Kateřina
9.5. 15:05 – 15:15: Škutová Nela
9.5. 15:17 – 15:27: Nemcová Marie

THE SPECIFICATION AND EXPLANATION OF ORGANIZATIONAL PURCHASING GOALS

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In today´s international marketplace, companies often practise **global sourcing**. Global sourcing involves **contracting to purchase goods and services from suppliers worldwide**. Global sourcing requires companies to adopt a new mind-set, some must even reorganize their operations. Among other considerations, business sourcing from multiple multinational locations should streamline the purchase process and minimize price differences due to labour costs, tariffs, taxes, and currency fluctuations. (Kurtz et al., 2009)

The **output** of organizational buying process is **an organization´s purchase of goods and services to support company operations or the production of other products**. Buyer-seller relationship between companies involve working together to provide advantages that benefit both parties. These advantages might include (Boone and Kurtz, 2014):

- Lower prices for supplies.
- Quicker delivery of inventory.
- Improved quality and reliability.
- Customized product features.
- More favourable financing terms.

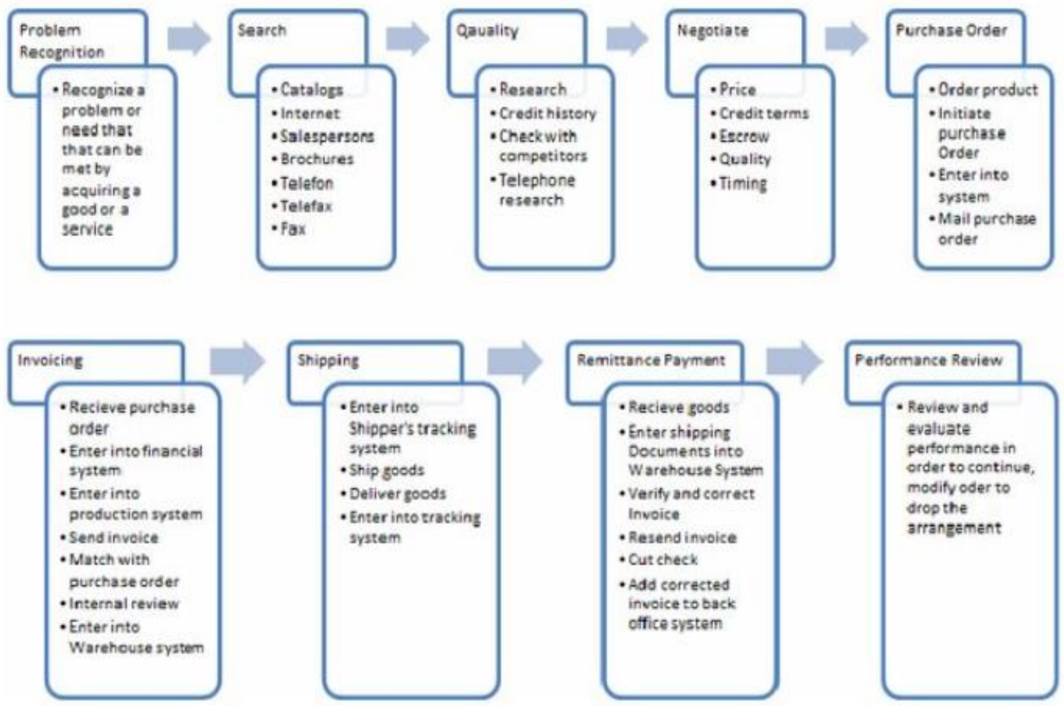
Understanding the dynamics of organizational buying behaviour is crucial for **identifying profitable market segments**, **locating buying influences within these segments**, and rea**ching organizational buyers efficiently** and **effectively** with an offering that responds to their needs (Hutt and Speh, 2017).

TRADE OPERATIONS OF ORGANIZATIONAL PURCHASING DECISION PROCESS

The essential characteristic of B2B purchasing process is the importance of building and maintaining close and long-term relationships. In these relationships, trust and commitment are built over time, and these factors make **decision-making processes** easier and purchasing more efficient. Organizational buying involves **several stages**, each of which yields a decision. (Hutt and Speh, 2009; Koporcic et al., 2018)

Procurement process can be described as the way firms purchase goods or services they need for resale or to produce their own products, which will be sold to end-customers. As illustrated in Figure 1, business buying process consists of **several trade operations that involve not only sellers, buyers and intermediaries, but also different organisational levels and departments in a series of connected and interdependent transactions.** That is obvious, that during each phase of the purchasing process the **transactional costs** occur. The first four steps concentrate on decision **where to buy and what to pay for a product.** The next steps involve **carrying out the purchase formalities.** At the end the analysis of the process may be done. This process is described for a one-to-one relationship between buyers and sellers. In B2B market there are many of such relationships and sets of connected processes. (Fauska, Kryvinska and Strauss, 2013)

Figure 1: Trade operations and steps in organizational purchasing decision process



Source: Fauska, Kryvinska and Strauss, 2013

B2B FORMS OF BUYING

THE SPECIFICATION AND EXPLANATION OF ORGANIZATIONAL PURCHASING FORMS

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Organizations with significant experience in purchasing a particular product approach the decision quite differently from fist-time buyers. Therefore, attention must centre on buying situations rather than on products. (Hutt and Speh, 2017)

Business buying can take different forms depending on a number of factors, which can include the internal and external influences (Hall, 2017).

The main forms of buying situations are the following (Hutt and Speh, 2017; Hall, 2017):

- **New task**

-new purchase can come in the form of spot purchase (products are bought as a one-off). This type of purchase may occur online if the product in question is easily understood and the purchase process is straightforward. Alternatively, new purchases can be a range or portfolio of products; the buyer may expect phone contract or a face-to-face meeting to better understand the product or portfolio of products under consideration.

- **Modified rebuy**

-modified re-purchase is where the buyer amends the previous purchase; the modification can be to include new products or services, to account for new prices or used to renegotiate new prices, new packaging or other customization.

- **Straight rebuy**

-repeat purchases of the same product or set of products may, if straightforward, occur without any engagement.

New Task

When confronting a new-task buying situation, organizational buyers operate in a stage of decision making referred to as extensive problem solving. The buying influential and decision makers lack well-defined criteria for comparing alternative products and suppliers, but they also lack strong predispositions toward a particular solution.

Buying-Decision Approaches

Two distinct buying-decision approaches are used in new task situation as follows (Hutt and Speh, 2017):

- **Judgmental new task** – the greatest level of uncertainty confronts firms in judgmental new-task situations because the product may be technically complex, evaluating alternatives is difficult, and dealing with a new supplier has unpredictable aspects. For such purchases, buying activities include a **moderate amount of information search and a moderate use of formal tools in evaluating key aspects of the buying decisions.**
- **Strategic new task** – these purchasing decisions are of extreme importance to the firm strategically and financially. If the buyer perceives that a rapid pace of technological change surrounds the decision, search effort is increased but concentrated in a shorter time period.

The business marketer confronting a new-task buying situation can gain a differential advantage by participating actively in the initial stages of the procurement process. The marketer should gather information on the problems facing the buying organization, isolate specific requirements, and offer proposals to meet the requirements. Ideas that lead to new products often originate not with the marketer but with **the customer**.

Straight Rebuy

Routine problem solving is the decision process organizational buyers employ in the straight rebuy. Organizational buyers apply well-developed choice criteria to the purchase decision. The criteria have been refined over time as the buyers have developed predispositions toward the offerings of one or a few carefully screened suppliers. Many organizations of all types are continually buying operating resources – the goods and services needed to such the business, such as computer and office supplies, maintenance and repair items, and travel services.

Buying-Decision Approaches

Organizational buyers employ two buying-decision approaches as follows (Hutt and Speh, 2017):

- **Causal** – involve no information search or analysis, and the product or service is of minor importance. The focus is simply on transmitting the order.
- **Routine low priority** – routine low priority decisions are somewhat more important to the firm than causal approaches and involve a moderate amount of analysis. **For example** to describing the purchase of cable, a buyer aptly describes this decision-process approach as follows: on repeat buys, we may look at other sources or alternate methods of manufacturing, to make sure no new technical advancements are available in the marketplace. But, generally, a repeat buy is repurchased from the supplier originally selected, especially for low dollar items.

The purchasing department handles straight rebuy situations by routinely selecting a supplier from a list of approved vendors and then placing an order.

Modified Rebuy

In the modified rebuy situation, organizational decision makers feel they can derive significant benefits by re-evaluating alternatives. The buyers have experience in satisfying the continuing or recurring requirement, but they believe it is worthwhile to seek additional information and perhaps to consider alternative solutions. Several factors may trigger such as reassessment. Internal forces include the search for quality improvements or cost reductions. The modified rebuy situation is most likely to occur when the firm is displeased with the performance of present suppliers (for example, poor delivery service). Limited problem solving best describes the decision-making process for the modified rebuy. Decision makers have well-defined criteria but are uncertain about which suppliers can best fit their needs.

Buying-Decision Approaches

Organizational buyers can use two buying-decision approaches typify this buying-class category. Both strongly emphasize the firm´s strategic objectives and long-term needs. These approaches are as follows (Hutt and Speh, 2017):

- **The simple modified rebuy** – involves a narrow set of choice alternatives and a moderate amount of both information search and analysis. Buyers concentrate on the long-term-relationship potential of suppliers.
- **The complex modified rebuy** – involves a large set of choice alternatives and poses little uncertainty. The range of choice enhances the buyer´s negotiating strength. The importance of the decision motivates buyers to actively search for information, apply sophisticated analysis techniques, and carefully consider long-term needs. The decision situation is particularly well suited to a competitive bidding process.

THE RETAILER BUYER

The Retail Buyer

The buyers play a critical role in the product management process of all retail companies. It is their responsibility to make the retailer´s brand identity a reality through the product assortments they develop, create and buy. To undertake the role of buyer, various skills and competences are required, but arguably the most important is **the ability to understand and predict the needs and wants of consumers**, then to assemble a product range that responds to consumer´s requirements. Within every market, the process of **forecasting trends and predicting consumer demand** requires a mix of creative and analytical skills. It requires that buyers have a close affinity with and understanding of market trends, the developments in consumers´ taste preferences, as well as a firm grasp of the activities of competitors. (Fernie et al., 2015, s. 176)

While it is certainly the case that the retailer buyer´s role is both comprehensive and extensive, it is possible to identify three significant responsibilities that encapsulate the buyer´s contribution to the product management team. These responsibilities are as follows (Fernie et al., 2015, s. 176) :

- **Product range assembly**
- **Selection of the supply base**
- **Off-shore sourcing**

Product Range Assembly

A product range must do three specific things. These are considerations of customer requirements, profitability and differential advantage. The buyer will then develop a buying plan which combines clear guidance on the types of products and brands that are to be bought with information about the level of margin that must be achieved. These factors then serve to direct and inform supplier selection decisions. (Fernie et al., 2015)

1. Considerations of customer requirements

A product range must satisfy the needs of customers while at the same time offering them choice in the form of variations in product, brand, price, product quality and performance characteristics. Within the context of a specific customer segment and a precise product category, the buyer seeks to meet every eventuality by assembling a product range that will provide sufficient choice for customers. (Fernie et al., 2015)

2. Profitability

A product range is constructed to provide maximum profit opportunities for the retailer. The achievement of profitability targets can be a complex undertaking. Typically, the buyer will work closely with their merchandiser partner, who is specifically tasked with monitoring, controlling and securing the financial performance of a product range. In collaboration, the buyer and merchandiser will establish margin targets that determine both the maximum price that the retailer can pay a supplier and the price/volume of goods that the retailer must sell to customers. (Fernie et al., 2015)

Product Range Assembly

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2. Profitability

On the basis of the margin targets that the merchandiser/finance team require, the buyer must then construct a product range that satisfies the following considerations (Fernie et al., 2015) :

- **On price**: an entry and exit price that meets customers´ expectations and budgets; as well as sufficient choice variation between the two price extremes.
- **On brand**: where applicable, a coherent mix of supplier and own-brand options that will satisfy both consumer expectations and demand, but also deliver sufficient profit contribution levels.
- **On promotion ad mark-down**: most retailers offer some form of promotional discount or end-of-season price reduction. These price reductions serve to satisfy customers´ desire to obtain a "bargain" and a "good deal." Promotions and mark-downs can have a detrimental impact on margin targets if these are not managed carefully. It is very important for buyers to plan, as much as possible, for mark-downs at the beginning of the buying cycle so that these can be built into the financial forecast.
- **On availability**: there is no point in developing an excellent product that is impossible to produce in sufficient quantities to meet consumer demand. A buyer must consider not only the likely level of demand for a product, but also whether their suppliers can fully meet the availability targets that the product must meet in order to deliver required profit levels.

Product Range Assembly

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3. Differential advantage

A product range must give the retailer some form of good competitive advantage. There is no benefit in a buyer assembling a product range that merely replicates that which is already available from other retailers.

They must ensure that the product range offers **adequate levels of differentiation, distinction and benefit to the company.**

There are two main ways in which a buyer can secure a compelling differential advantage for their company (Fernie et al., 2015) :

- **To provide something that is exclusive and unique within the market.**

  One way of doing that is through the provision of exclusive products, such as through the development of a collaboration with a leading manufacturer brand. The fact that a manufacturer´s unique product is only available through a specific retailer is a powerful means of securing loyalty for that retailer.

- **To achieve differentiation, and at the same time delivering a superior profit margin.**

  It is possible to achieve this through the development of limited edition products. These products are available in limited quantities and for limited time periods. Their short “shelf life” serves to maintain customer engagement and so secures a level of loyalty.

Selection of the Supply Base

It is principally the responsibility of the buyer to lead on the **identification, selection and formation of relationships with a supply base.** The selection of a supply base is a complex undertaking. Only a very few retail companies own their supply base. Those that do tend to be manufacturers that have forward integrated to include retailing and distribution as part of their core business model. The integration of production and retailing is most commonly found in the luxury retailing sector (Louis Vuitton, Hermès), manufacturers of luxury goods which then forward integrated in order to take direct control of the retailing of their brands. Other luxury brands such as Giorgio Armani started off as a design company and used third-party suppliers and third-party stockists to make and sell its goods. However, the company soon developed a global network of retail stores and thereafter began to acquire ownership of important suppliers. (Fernie et al., 2015)

Global network of retail stores

Today, the companies develops a **global network of retail stores** and thereafter began to **acquire ownership of important suppliers**. This is done for gain control over product quality standards and to stabilize availability, direct ownership provided an opportunity to maintain exclusivity and prevent competitor access, and it improved flexibility in responding to market opportunity which would then lead to improved margins.

SOURCING STRATEGIES

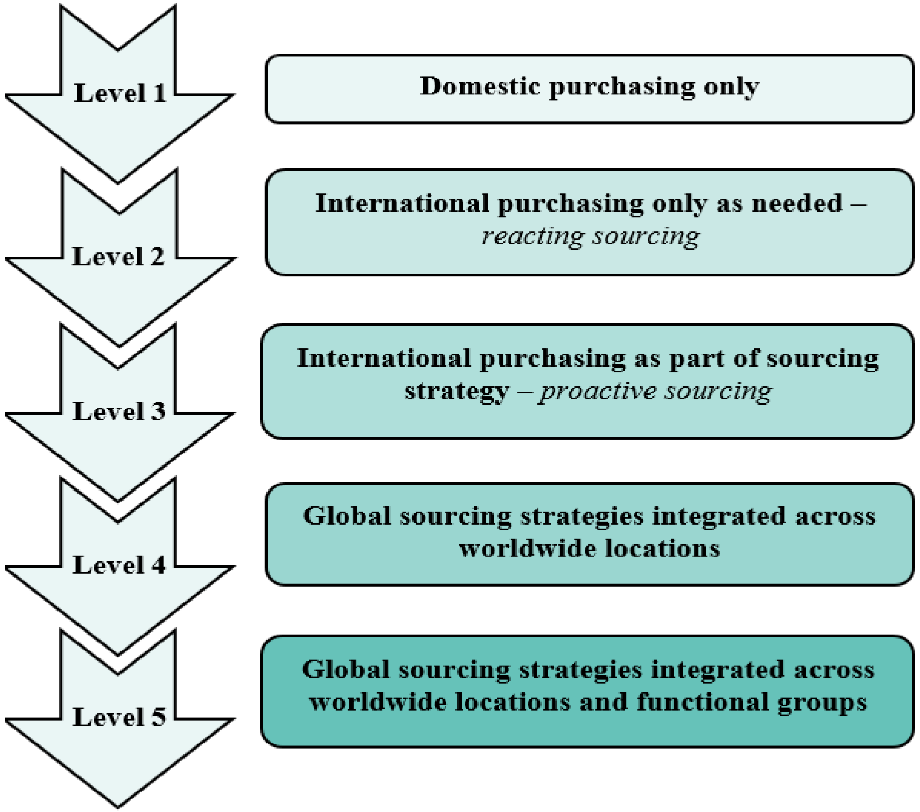
Sourcing strategies

Sourcing is the process of **determining the way, the place and the time of the procurement of finished goods** (Lee et al., 2004). Sourcing is not considered to be just a business function of getting products at desired prices, but an integral part of an organization´s strategy (Zeng, 2000). There are **four dimensions to sourcing strategy**: supply markets (geography of sourcing), supply channels (whether or not to outsource the task of supplying products), organizational (strategic or opportunistic sourcing) and tactical (Fernie et al., 2015).

The **global sourcing** emerged during the early 1970s due to the benefits of purchasing offshore started to be realized related **to low-cost production of less developed foreign countries** (Matthyssens et al., 2006).

Smaller retailers will source domestically **at level one**. **Level two** is the use of **international sourcing only when needed**, i.e. the products cannot be sourced in the domestic market (reactive sourcing). **Level three involves proactive international purchasing** as part of an overall sourcing strategy. **Level four** is **the first of two global sourcing strategies** integrated across worldwide locations. Operating at this level requires executive leadership that endorses the global perspective. It requires highly skilled personnel, advanced information systems and an organizational structure that enables coordination of global operations. **At level five,** global sourcing strategies are integrated not only across worldwide locations but also **across functional groups such as product development or marketing.** (Fernie et al., 2015)

Figure 5: The levels of sourcing



Source: adapted from Fernie et al., 2009

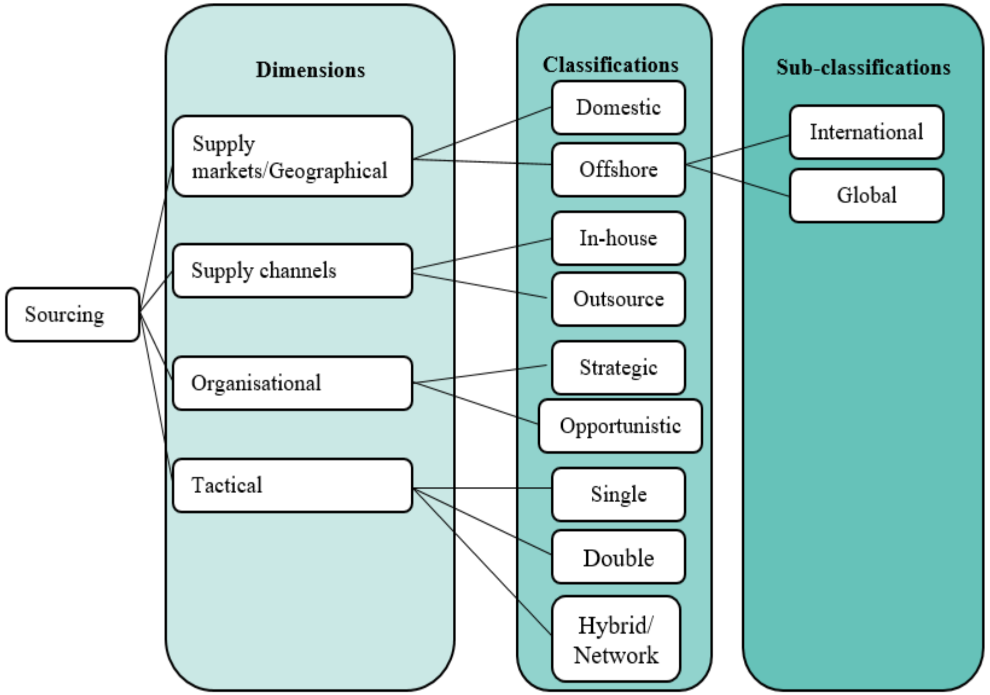
Off-shore Sourcing

There was a significant restructuring of the geography of supply for retailers from the advanced economies in the past. Increases in labour costs, changes in production capability, as well as the change in aspirations of workers, has resulted in a situation whereby most advanced economies rely on other economies for the production and supply of the goods sold in their retail stores. When developing their sourcing strategies, retailers must think about a range of dimensions. These include the following (Fernie et al., 2015) :

- Where they will source from (the geography of a supply base)
- Whether the supply channels will be from in-house or outsourced
- Decisions need to be made as to whether relationships with suppliers will be strategic and long term or opportunistic and short term.
- Important is the tactical decision of whether to use a single supplier, a double supplier, or a hybrid of multiple suppliers for a product range.

The Figure 2 **identifies that decisions need to be made** with respect to whether suppliers are going to be concentrated in specific international locations or whether the supply base is global in terms of the breadth and diversity of the countries from which products are sourced.

Figure 2: The sourcing classifications



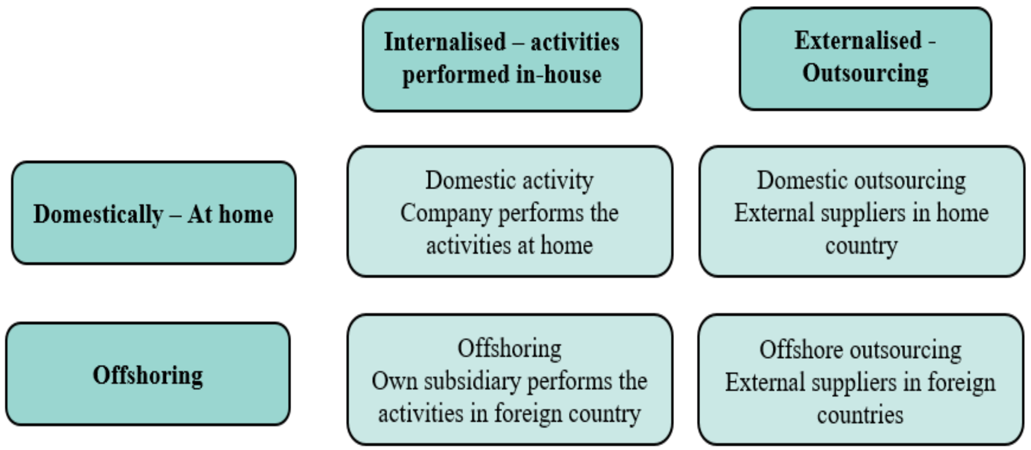
Source: adapted from Fernie et al., 2015, s. 179

Managing offshore sourcing activities

There are two main ways retailers manage offshore sourcing activities. First, they can use **direct sourcing** from a centralized headquarters established in the home country or **establish international hubs**. Sourcing hubs allow direct sourcing from suppliers, thereby retaining control without incurring costs associated with full-package outsourced intermediaries. The role of international hubs includes identification and evaluation of suppliers, obtaining product samples, making site visits, dealing with operational issues and coordinating suppliers. Second they can source via third-party specialists (outsourcing the sourcing to import or export intermediaries such as trading agents, export management companies, foreign trade companies, export merchants and sourcing organisations). (Fernie et al., 2015)

With regard to sourcing from third-party specialists, the primary distinction of these intermediaries is whether they are based in the **country of their customers or their suppliers**. Additionally, there are **multinational trading companies** that have offices in their customers´ or more often suppliers´ countries (or both). These sourcing specialists can cover **all operational pre-retail activities** and deal with the problem of suppliers´ coordination. They simultaneously negotiate with suppliers and customers, in order to finalize orders, reduce inventories and spread risks. The different combination of offshoring and outsourcing is illustrated in Figure 6.

Figure 6: Framework that addresses the different combination of offshoring and outsourcing



Source: adapted from Fernie et al., 2009

EXPLANATION OF THE SUPPLIER RELATIONSHIP MANAGEMENT

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Supplier relationship management is the mirror image of customer relationship management. Some suppliers contribute disproportionately to the firm´s success and with these organizations, it is important to have cross-functional teams interacting. There will be **teams established for each key supplier** and **for each segment of non-key suppliers**. The teams are comprised of managers from several functions, including marketing, finance, research and development, production, purchasing and logistics. At the strategic level, the team is responsible for developing the strategic process, and seeing that it is implemented. Supplier team have the **day-to-day responsibility for managing the process at the operational level**.

Supplier relationship management and customer relationship management are the key processes for linking firms across the supply chain and processes is coordinated through this linkage. If the supplier relationship management and customer relationship management teams decide that there is an opportunity to improve performance by focusing on the demand management process, the demand **management process teams from the two companies are involved**. When the process is improved, product availability is improved. If this is important, **revenue for the customer increases**. In addition, inventories are reduced, thereby **reducing the inventory carrying cost** charged to the customer´ s profitability report. There also may be fewer last minute production changes and less expediting of inbound materials which will impact the costs assigned to each customer. (Lambert, 2008)

SUPPLIER SELECTION PROCESS

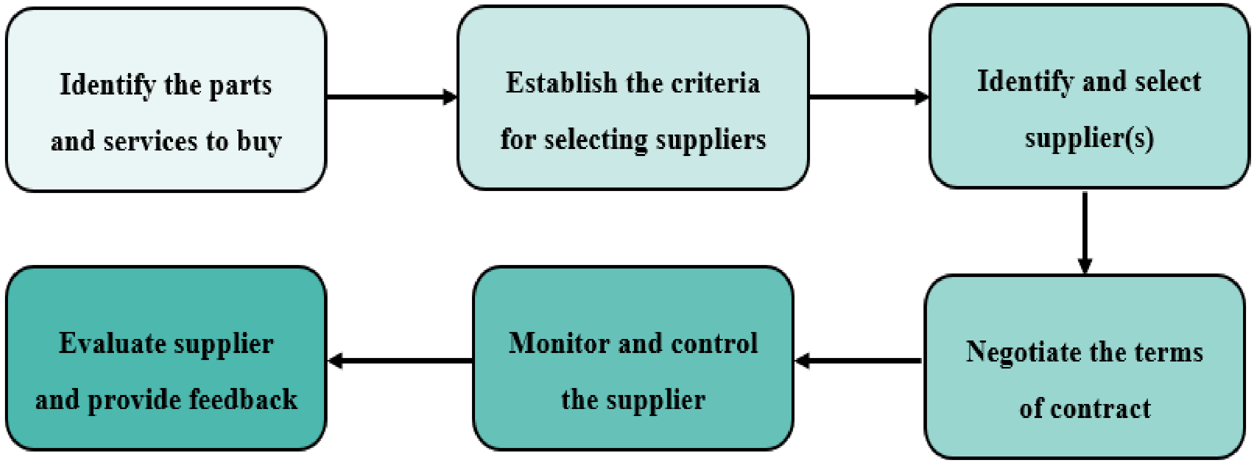
Supplier Selection Process

Supplier selection process contains of **six steps**. The first step is to **determine whether to make or buy the item**. Most organizations buy those parts which are not core to the business or not cost effective if produced in-house. The next step is to d**efine the various criteria** for selecting the suppliers. The criteria for selecting a supplier of critical product may not be the same as a supplier of maintenance, repair, and operating items.

Once a decision to buy the item is taken, the most critical step is **selecting the right supplier**. Once the suppliers are chosen, the organization has to **negotiate terms of contract** and **monitor their performance**. Finally, the suppliers have to be **constantly evaluated** and the **feedback** should be provided to the suppliers. (Ravindran and Warsing, 2016)

The supplier selection process is illustrated in Figure 4.

Figure 4: The supplier selection process



Source: adapted from Ravindran and Warsing, 2016

Procedures for developing new supplier relationships

There is some stages in the process of developing new supplier relationships. The process beginning by **initial investigation to identify possible suppliers, obtained from secondary sources, market recommendations and previous experience.** After that buyers will make **initial approaches,** directly or via their international hubs, to prospective suppliers, with a view to looking at factory facilities and obtaining sample products. Retailers typically develop standard procedures for the evaluation of prospective suppliers.

In recent years, driven initially by the corporate social responsibility (CSR) agenda, retailers now more carefully **consider the ethical and environmental behaviours** of **their suppliers** as part of their supplier selection decision making. (Fernie et al., 2015)

Figure 3: Procedures for new supplier selection

Undertake research in order to identify potential suppliers
This may involve their use of supplier directories, the trade press, specialist agents, trade contracts, as well as their own personal contracts

↓

Make an initial enquiry with prospective suppliers
This typically will involve the buyer, or their agent, making direct contract with a supplier to enquire generally about the suppliers´ capability

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Visit supplier factory to review facilities and if satisfactory/appropriate

↓

Request samples for testing/analysis, possibly based upon the retailer´s own set product specifications

↓

Negotiate and agree terms of trade

↓

Trial the product range and provide performance feedback
The purpose of this stage is to measure customer reaction to the supplier´s products, especially in terms of quality. In addition, the trial stage will also enable the buyer to evaluate and communicate the supplier´s competence in managing their end of the supply chain

↓

Decide to continue or discontinue the relationship
This is based not only upon the success with which the supplier has satisfied a retailer´s requirements first time, but also the extent to which they have been flexible and responsive to retailers´ feedback

Source: adapted from Fernie et al., 2015, s. 180

New supplier selection criteria

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In addition to factors relevant to a prospective supplier´s sustainability performance, the buyer will also assess the supplier in relation to six key areas. These areas are supplier reputation, product portfolio, terms of trade, technology and supply chain competence, marketing support, and supplier performance evaluation. (Fernie et al., 2015)

Supplier reputation

The reputation of a supplier is a crucial consideration for all buyers. Reviews will include consideration of the reputation of the supplier´s senior management and staff, for quality, delivery and margin target record, as well as in areas such as safety and ethical standards. The reputation of a prospective supplier is perhaps best evidenced by a review of the supplier´s current customer portfolio. The number and reputation of their customers, and the extent to which these customers may be significant rivals, will certainly have a powerful impact upon any evaluation of the supplier´s reputation and status in the market. (Fernie et al., 2015)

Product portfolio

Greater scale economies and better margins can be secured if the supplier is able to provide a wider base of products. Therefore, a buyer will be interest to know the types of product a new supplier could provide. Buyers are also interested in the product development capability of a supplier. An evaluation of the quality standards of the supplier will also be essential, while considerations of the extent to which a supplier can provide exclusive ranges is also of interest to retailers who require differentiated product offerings. (Fernie et al., 2015)

New supplier selection criteria

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Term of trade

The core requirement of any buyer selection process is a consideration of the pricing structure that the supplier operates. If the buyer represents a large and powerful retailer, then there is every likelihood that the financial assessment of a prospective supplier will extend beyond considerations of their ability to deliver a competitive cost price. These buyers will assess the extent to which one supplier compared with another can provide financial support for marketing campaigns, promotions, mark-downs and discounts for the meeting of volume sales targets.

Technology and supply chain competence

Buyers will also carefully assess any new supplier´s technological capability. A buyer will want to be satisfied that the supplier has an efficient and effective stock management system so as to ensure that the supplier will be able to provide excellent levels of customer service with respect to stock availability, quality control and payment transfer systems.

Marketing support

Suppliers may be required to pay a listing fee in order to ensure that their product is carried by a retailer, and these payments will be in addition to payments made to fund and support promotional activities. The purpose of these initiatives is to encourage volume sales of the suppliers´ products. The benefit to the supplier is that the more of their products sold, the more efficiently their factories will operate.

Supplier performance evaluation

Buyers continually monitor the efficiency and effectiveness of suppliers. Various dimensions are considered as part of that evaluation, including careful consideration of the quality and service standards that a supplier can provide.

SUPPLIER SELECTION PROCESS – selection criteria; identification and selection of supplier(s) **- the task**

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The role of the merchandiser

The role of the merchandiser is critical to the product management process. Merchandisers tend to be concerned with the quantitative aspects of buying, and are usually responsible **for estimating sales, planning deliveries and distribution of the goods to stores**. This role sometimes referred to as stock/inventory controller, or stock/inventory planner. (Varley, 2014)

As a merchandise systems used in a buying department have grown in sophistication, so too has the role of the merchandiser, it is now seen as **more strategic**, with greater emphasis on issues like **availability and customer focus** (Ryan, 2009). This can have the effect on punishing the buying role further into the area of design, product development and selection, with less control over range planning and direction (Varley, 2014).

Merchandisers have **four core areas of responsibility** (Fernie et al., 2015) :

- Relating to managing the financial performance of the buying budget and merchandise plan.
- Controlling the flow of goods by managing the critical path.
- Ensuring the availability of products to meet demand through the open to buy.
- By effectively allocating products to match customer demand across the retailer´s distribution channels.

The role of the merchandiser
-controlling the buying budget and merchandise plan

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While it is principally the buyer who decides what is bought and included in a product range, it is the **merchandiser who decides how much of a product is actually bought**. While it may seem that it would be the buyer who would be responsible for managing the buying budget, this is rarely the case. The **financial management of the buying activity** is typically the **responsibility of the merchandiser**. In order to reach the required levels of income and profitability, merchandisers, in collaboration with the financial management within the company, will establish the buying budget for the whole buying function, which is then disaggregated to cover each of the main buying areas.

Core dimensions of merchandising plan are (Fernie et al., 2015):

- **Total buying budget -** the amount that a retailer has available to spend on products, based upon current predictions of income and profitability.
- **The gross buying margin -** the difference between the cost of goods and their retail price. The gross margin is calculated as the selling price of goods minus the cost price of goods divided by the selling price.
- **Input margin -** a term used to indicate the difference between the cost of goods and their retail selling price.
- **Mark-downs** – the price reductions that buyers plan in order to move excess stock at the end of a designated sales period.
- **Sell-through rates** – the percentage of stock of a particular item that will be sold at full price.
- **Output margin** – final profit contribution for a buying category after all costs and markdowns have been calculated.
- **Sales against budget** – the sales achieved against the planned sales levels.
- **Year-on-year comparison** – actual sales performance for a stock item against sales performance the same time the year before.
- **Sales against plan** – compares actual sales performance against the forecast sales plan.
- **Weeks cover** – the availability of stock relative to the current levels of weekly sales.

The role of the merchandiser
-managing the profitability of the buy

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Merchandisers are responsible to advise and cooperate with the buyer on how the buying budget should be allocated and to make clear the margin that must be achieved for each item/product category. Merchandisers must also stipulate the amount of stock required in order to meet customer demand and secure sufficient levels of profitability. They are responsible to ensure that once a product range has been designed, made and bought, that it meets its financial performance targets. These activities is concerned with measuring the performance of the buying process.

If the range bought is underperforming against plan, then the merchandiser may advise (Fernie et al., 2015):

- **Reconfiguration of the product mix** – require the product team to focus upon the reasons for poor performance and this may result in their altering the balance of the buy.
- **Reviewing the product pricing and margin mix** – reduce the retail price of underperforming lines or those lines for which there are high levels of competition among retailers, in order to improve sales, cash flow and profitability.
- **Sales and profit forecast adjustments** – when a product category is unable to achieve its forecasts, then a merchandiser may decide to revise down the forecasts for the line or category and will instead look to identify other products in the portfolio that could compensate for the loss in margin.
- Large and powerful retailer may decide to compensate for gross margin decline by **renegotiating a decrease in the original cost price with their suppliers**. Or they may decide to increase the selling price. In difficult situations, it may be necessary for the merchandiser to countenance both forms of action.

The role of the merchandiser
-managing the critical path and the open to buy

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Managing the critical path

The merchandise will also establish a direct relationship with suppliers. They will monitor supplier performance. Using the buying critical path, the merchandiser is responsible for ensuring, that the flow of goods from supplier to retailer is consistent with the calendar of critical stages that was established and agreed with the suppliers.

Managing the open to buy

For most retailers, the buying year is divided into some periods (spring/summer, autumn/winter, Christmas, etc.). However, it would be wrong to assume that at the start of each buying season the product management team will have spent all of the buying budget upfront. Instead, they will retain a proportion of their budget to buy within the season rather than spending all the budget before the period has commenced. The sums that are left unspent are called “open to buy”. There are two main reasons for operating an open to buy:

- It allows **flexibility to respond immediately to up-to-the-moment trends** in consumer behaviour.
- It affords the op**portunity for the product team to delay committing their total spend on perhaps a new and untested brand or product range** until initial sales trends indicate the nature of market reaction. If the sales are strong, the open to buy budget allows for additional quantities to be bought.

The open to buy is done within a season, the product that would be bought would be needed quickly in with great speed. The consequence of the immediate availability of these products is that the input margin is less when compared with the margin that would have been available had these goods been bought in the forward buy and from far distant suppliers. However, because these are in-trend products, the company can be more certain that demand will be strong (the level of product sell-through at full price is higher)

The role of the merchandiser
-managing the allocation of stock

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It is important that a merchandiser ensures that **stock is made available in locations that will generate both high levels of sales and also the required levels of profitability**. The allocation of stock has own hierarchy in terms of store importance. A retailer´s most important store is likely to be their online store, and it is this store that now commands the “first rights” to the full allocation of stock, as well as subsequent replenishment allocations. The reasons why online stores get priority is as following (Fernie et al., 2015):

- Online stores often attract the largest number of customers and therefore a priority allocation to an online store makes good commercial sense. This is where the products are most likely to be sold.
- Stock availability is not only critical for the success of an online site, but it is also the most visible p lace for external agents, notably customers, to see whether products are available or not. Frequent non-availability of product on a website indicates poor customer service levels and is therefore damaging to a retailer´s reputation.

There is a variety of allocation process that can be used for stock assignment and distribution throughout a store network. **Store grading system** is the most common stock allocation method. It requires that the store network is divided into subsets or clusters. The number of clusters is depend upon the number of stores in the network and the differences that exist between and among these stores. The grading system mean that a store receives directly determines the breadth and the depth of products that are subsequently allocated to it. Store grading can change. It is not uncommon for a retailer, especially within the food sector, to re-grade a store in response to a new market entrant or as the result of a refurbishment of a branch or in response to a competitor´s redevelopment.

THE EFFECTIVE TOOLS FACILITATES THE SUPPLIER RELATIONSHIP MANAGEMENT

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Numerous software companies have developed a wide array of database management ERP tools to facilitate communication in supplier relationship management (SRM). In addition to the numerous SRM software applications available, there are a number of simple cost-effective tools to help manage supply-chain partners.

The effective tools facilitates the supplier relationship management include the following (Garrett, 2005; G2, 2019):

- **IT software –** Oracle Supply Chain Management, SAM Ariba, Tradeshift, SupplyHive, Zycus Supplier Management
- **Principal Supplier Key Actions Matrix** –provides a useful matrix of key actions principal suppliers (prime contractors) should perform to successfully manage outsourced projects involving customers and supply-chain partners (subcontractors) or vendors.
- **Subcontractor Evaluation Form** –provides a simple, but effective, means of evaluating important aspects of a potential supply-chain partner´s capabilities.
- **Subcontracting Plan Outline** – the outline can be used to prepare a comprehensive Subcontracting Plan. The outline include overview, project elements to be subcontracted, identification and selection of subcontractors and subcontract management.

THE ROLE OF LEGISLATION IN PURCHASING PROCESS

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The legislation is the basis for regulating the conflicts of interest between buyers and sellers in the process of purchasing. When trading in different countries it is necessary to be orientate in the legislation of the country and observe it.

In particular, traders should examine the following aspects:

- Customs policy
- Customs code
- Customs tariff
- Necessity to provide certificate of origin
- VAT amount
- Existence of excise tax and its amount
- The need to obtain a certificate of conformity
- The scope of the Double Taxation Treaty
- Environmental policy
- The product must meet the requirements of the country's technical standards

In trade, it is important to analyse **trade agreements** that exist between countries, or an embargo on trading with a particular country (s). For example, the following agreements can be included among the best known worldwide:

- European Free Trade Agreements – EFTA
- Economic Partnership Agreements
- Regional Trade Agreements – for example the Asia-Pacific Region for a Comprehensive and Progressive Trans-Pacific Partnership Agreement
- EU-Canada Agreement (CETA)
- EU-Mercosur trade agreement

THE SPECIFICATION OF CONTRACTS TYPES

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A contract is a legally enforceable agreement in which two or more parties commit to certain obligations in return for certain rights. In a B2B context can be contracts divided into these types (Goodchild et al., 2000):

- A **simple one-page purchase** order for the sale of goods.
- An **extremely complex thousand-page document** for a trade level agreement between multinational businesses.
- **Standardized or unstandardized** contracts.

In general, most B2B scenarios can be generalized to a 5-phase trading process, of which contract formation is one phase:

- **Pre-contractual phase -** customers identify products or services and possible sources of supply.
- **Contractual phase** – creation of a formal relationship between buyer and seller, covering contract negotiation and validation operations.
- **Ordering and Logistics phase** – placing of purchase order, delivery of goods and services.
- **Settlement phase** – invoicing, payment authorization and payment.
- **Post-processing phase** – gathering information for management reports, e.g. trade statistics.

SUMMARY

- The companies on international marketplace often practise global sourcing, which involves **contracting to purchase goods and services from suppliers worldwide.**
- Buyer-seller relationship between companies involve working together to provide advantages that benefit both parties such as **lower prices for suppliers**, **quicker delivery of inventory**, **improved quality** and **reliability**, **customized product features** and **more favourable financing terms**.
- Organizational purchasing decision process of trade operations consists of **problem recognition, search, quality, negotiate, purchase order, invoicing, shipping, remittance payment, performance review.**
- The main forms of buying situations are **new task** (judgmental new task, strategic new task), **modified rebuy** (causal, routine low priority) and **straight rebuy** (the simple modified rebuy, the complex modified rebuy).
- Companies can use five level of sourcing, e.g. domestic purchasing only, international purchasing only as needed, international purchasing as part of sourcing strategy, global sourcing strategies integrated across worldwide locations, global sourcing strategies integrated across worldwide locations and functional groups.
- Supplier relationship management and customer relationship management are the key processes for linking firms across the supply chain and processes.
- Supplier selection process consists of these six steps: **identify the parts and services to buy, establish the criteria for selecting suppliers, identify and select suppliers, negotiate the terms of contract, monitor and control the suppler, evaluate supplier and provide feedback.**
- The effective tools facilitates the supplier relationship management include using of **IT software, principal supplier key actions matrix, subcontractor evaluation form, subcontracting plan outline.**
- The legislation is the basis for regulating the conflicts of interest between buyers and sellers in the process of purchasing. Traders should examine customs policy, custom code, custom tariff, VAT amount, existence of excise tax and its amount, the need to obtain a certificate of conformity and requirements of the country´s technical standards. In B2B context can be contracts divided into these types: **a simple one-page purchase order for the sale of goods, an extremely complex thousand-page document for a trade level agreement between multinational businesses and standardized or unstandardized contracts.**
- Contract formation consist of **pre-contractual phase, contractual phase, ordering and logistic phase, settlement phase and post-processing phase.**

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THANK YOU FOR YOUR ATTENTION

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