Thesis Report On: Procurement process of MAX GROUP

Submitted by:

Name: Muhammad Anowar Hoosain
ID: MSCM-2003021004
Program: Masters in Supply Chain Management
Semester: Fall-2021

Submitted to:

Sonargaon University
Department of Business Administration

Supervised by:

Amir Husen
Assistant Professor
Department of Business Administration
Submitted for the partial fulfillment of the degree of
Masters in Supply Chain Management

Sonargaon University (SU)
Dhaka- 1215

Date of Submission: January 15, 2022

LETTER OF TRANSMITTAL

January 15, 2022

Teacher Name: Amir Husen
Designation: Assistant Professor
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of thesis report.

Dear Sir,

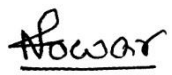
With humble honor and respect, I am submitting my thesis report on "**Procurement process of MAX GROUP**". As per partial accomplishment of the requirements for the MSCM degree, this thesis has been carried out under the supervision of you.

This report is an integral part of our academic courses in completion of the MSCM program which has given me the opportunity to have an insight into the procurement. I hope this report reflects on the contemporary issues on the SCM that are being Practiced by organizations in our country.

In completing the report I tried my best to blend all my knowledge and imparted every available detail and also attempted to avoid unnecessary amplification of the report.

I humbly request you to accept this report for your kind evaluation.

Sincerely,



Student's Name: Muhammad Anowar Hossain
ID: MSCM-2003021004
Department of Business Administration
Sonargaon University (SU)

LETTER OF AUTHORIZATION

Certified that this thesis report titled "**Procurement process of MAX GROUP**" is the bona-fide work of **Muhammad Anowar Hossain**, who carried out the research under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other thesis report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

……

Amir Husen
Assistant Professor
Department of Business Administration
Sonargaon University (SU)

ABSTRACT

The purpose of this study was to describe the contribution of Procurement Management Information system (PMIS) on the performance of Procurement in selected nongovernmental organizations in Kigali, Rwanda and validating theory regarding the topic under investigation. Four research objectives have been formulated to guide the study, namely to establish the profile of the respondents; to determine the extent of Procurement Management Information system usage, to determine the level of the procurement performance, and determine the significant relationship between Procurement Management Information System usage and Procurement performance. The study was based primarily on descriptive and co relational design as well as quantitative methodology. The population was 152 employees for 3 selected organizations. A sample has been taken from each category using Slovene's formula. The sample of 110 employees was drawn and purposive sampling has been used and questionnaires and observations have been used as research instruments. The data were presented, analyzed and interpreted using Statistical Package for Social Science (SPSS). The findings indicated that male respondents outnumbered female respondents; the prevailing class age is between 31-40 years, the procurement working experience is between 3 and 4 years. The study found out that level of PMIS usage is in the selected organizations was high. The selected organizations have not a problem of poor performance of procurement which appears in many others organizations which do not use PMIS as per the related studies show. By conclusion, the Pearson's correlation coefficient indicates that there is a significant and positive relationship between PMIS usage and procurement performance. The null hypothesis was rejected. As recommendation, organizations especially those who spend a huge budget in procurement related transactions should establish a Procurement Management information system in order to measure performance of their procurement function as they play an ever increasingly important role in the supply chain in an economic downturn and be able to delivery on time with best value for money. The researcher suggests investigating further the challenges encountered in the establishment of Information system in Procurement and benefits of having Procurement Management information system.

ACKNOWLEDGEMENT

The thesis thanks the Almighty Allah for protecting and granting grace to stay healthy to the completion of this study report. The thesis wish to recognize the effort of the entire staff of Sonaggaon University of Department of Business Administration, especially lecturers for their support throughout this course. Special thanks to Mr. Amir Husen sir and Mr. Saif Sir and Mr. Kalam Sir Dean MSCM, Management of Sonargaon University (SU), Management staff of Sonargaon University (SU), and Management staff of Sonargaon University (SU), for their instructions and support which allowed me to finally have a Masters degree; The thesis sincere thanks go to his supervisor, Mr Amir Husen Sir, for his assistance, his time, guidance and encouragement throughout the study. Thank you for the time that you dedicated to this thesis, for helping me to achieve my best. Your support is greatly appreciated, may the Almighty bless you. The thesis also is very very grateful to the members of the viva voce panel, Mr Amir Husen Sir and Mr. Kalam Sir Dean MSCM whose comments and advices have been of a great importance towards the completion of this work. My wife for being supportive of everything I do and for always being patient with me while I was working on this thesis may the Almighty continues to bless and strengthen him. The researcher thanks Mr Aminul, Mr.Faruk, Mr.Tapas, and all my friends for all their immeasurable support to have this study done. My Father, brothers and sisters for their love, interest and emotional support. There are no words goods enough to express my appreciation.

LIST OF ACRONYMS

SCM	Supply Chain Management
PR	Purchase Requisition
MBA	Masters of Business Administration
ERP	Enterprise Resource Planning
SU	Sonargoan University
PO	Purchase Order
WO	Work Order
SO	Service Order
MSCM	Masters of Supply Chain Management

EXECUTIVE SUMMARY

The core objective of the internship is to fulfill the requirement of the MSCM program as prescribed by the SU. An intern has to prepare thesis report at the end of the internship period but the main objective of the thesis is to get the hands-on experience of the real world organization. The thesis was completed with the objective of getting practical knowledge in the SCM department of MAX GROUP.

I was assigned on this eight week of thesis period was to assist the trainer for the planning procurement planning. Secondly, I was allotted the work of record keeping on Data Sheet Update and ERP was the last task I was assigned during my thesis program. The SCM department of MAX GROUP offered me ample space and opportunities, not only to learn but also to exhibit my skills as a SCM team member. I could use my theoretical knowledge of SCM in real practice while participating in many discussions. I was actively involved in the department meetings where I shared my knowledge and views regarding the performance in SCM of MAX GROUP.

I successfully completed all the assigned duties and handed them over to the senior supervisor at the end of the internship. I thoroughly enjoyed the challenges that came along every single day. I could also bring some minor improvisations during my internship which were able to leave their marks. These lessons that I have learned will be a valuable one for my future endeavors as well.

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Chapter -1

1. Introduction

This thesis is done on the topic of procurement planning for a small sized Construction business which is still in its planning stage. Emphasis of the topic is on studying the ways how current Finnish exotic restaurant owners do the procurement in their businesses, and applying this, and the information gained from literature sources, to the procurement plan suggested for the company. The business in question will require some rather specific Construction business from a few East Asian countries, and finding the way for an efficient procurement of these supplies is the key issue of this study.

1.1 Background to the thesis topic

One of the main attractions of the planned Construction business is its offering of specific Construction business from MAX GROUP in Bangladesh. These company is such that we have already visited, proven suitable, and some even regulated on our past travels with my brother, with whom this business would be started.

These replicated dishes are one of the quite a few key ideas and attractions planned for this business, but the others are irrelevant to the topic of this thesis.

In our opinion, the restaurants and food served in the original countries are on a different level compared to the dishes currently offered by many of the exotic restaurants in Finland. To counter this, our restaurant would be replicating dishes of the chosen restaurants by using the exact same key ingredients and methods, and also the same necessary equipment, in the preparation of the dishes as the originals do. The key ingredients in question are either semi- or non-perishables. Quicker perishing products would be acquired from local Finnish suppliers, as transporting perishable products overseas would be clearly unwise, and as the chosen dishes will be ones that use the same core perishable products which can be found locally.

1.2 Research Objective

The objective of this study is to plan how the procurement of the Construction business acquired from countries of the original replicated construction should be done, based on the insight gained from the interviewed Finnish companies and literature sources. For me to gain more information on the subject, the research will first go through the decisions and processes of sourcing, supplier evaluation and the channels for finding potential suppliers, as well as the advantages and difficulties of international purchasing. After this, I will study the data gained from the current construction owners, and then will apply all this to the suggestions on how our planned business should start looking to build its "exotic supply".

1.3 Demarcation

This research will mainly focus on sourcing processes and decisions, supplier evaluation, channels for finding suppliers, international procurement, and on the study of the information gathered from the similar construction companies. Other related areas such as quality control, supply stability, product logistics and Incoterms will only be briefly discussed, if at all.

1.4 Educational requirements

Both the international and supply chain management aspects required by MAX Group for an International Business SCM student are evidently fulfilled in this thesis. The topic is centered around the planning of the overseas procurement of the business, thus both the requirements for the supply chain side and the internationality side should be well covered.

1.5 Anticipated benefits

This study is important, because the establishment of this international supply chain is currently one of the least familiar areas to us in the planning of this business, and thus needs to be carefully researched. In the end, this thesis should have given us clarity on

how to proceed with the building of the supply chain, if, and hopefully when, this business plan becomes reality.

1.6 Key concepts

International Purchasing: Commercial buying where the buyer and the supplier are located in different countries. (Handfield, Monczka, Giunipero & Patterson 2009, 347.)

Global sourcing: "Global sourcing, which differs from international purchasing in scope and complexity, involves proactively integrating and coordinating common items and materials, processes, designs, technologies, and suppliers across worldwide purchasing, engineering, and operating locations." (Handfield & al. 2009, 347.)

Total cost of ownership: "A calculation of all the costs involved in buying and using a product over time." (Cambridge Dictionaries 2012.)

Strategic sourcing: A complicated, essential activity in purchasing that aims to fulfil the needs of a business through planned and proactive analysis of markets and selection of suppliers. (Chartered Institute of Procurement & Supply 2013, 1.)

Supply chain: "A supply chain is a network of partners who collectively convert a basic commodity (upstream) into a finished product (downstream) that is valued by end-customers, and who manage returns at each stage." (Harrison & Hoek 2011, 7.)

Logistics costs: The logistics costs come from all the logistics related activities. These are transportation, warehousing, inventory and materials handling, distribution and recycling etc. (Waters 2007.)

Chapter -2

2. Organizational Background:

MAX GROUP has been an outstanding example of continuous development and persistent progression in the industrial realm of Bangladesh since 1983. Starting off as a small leaf spring manufacturing company, MAX is now one of the largest industrial conglomerates of Bangladesh contributing significantly in the industrial, infrastructural and development sectors of the country.

MAX has been a reliable and trusted partner of the Government of Bangladesh for 35+ years in the development of infrastructure in key sectors such as Railway, Power Generation, Power Transmission, Flyovers, Elevated Expressways, Bridges, Water Control and Supply Structures, Overhead Water Reservoirs, Embankment and Shore Protection, Dredging, High-rise Residential and Commercial Buildings, etc. With state of the art equipment division of its own having more than 1200+ modern construction equipment, MAX is the largest railroad construction company of the country. Presently, MAX is the only local company who are manufacturing most of the railway track fittings (except the rail itself) in its own factory for meeting the demand of its rail projects. MAX has completed many critical and large railway projects and currently implementing both the 1st and 2nd largest single contracts in the history of Bangladesh Railway. Apart from Railway, MAX has a notable presence in the Flyover and Bridge construction arena of Bangladesh. MAX has constructed the largest flyover of the port city, Chattagram. Furthermore, MAX is also constructing the largest Elevated Expressway of the same city starting from Lalkhan Bazar to Sha-Amanat Airport. Besides, MAX has completed different Bridge Projects across the country. Some of them are: Dhaleswari Bridge 1 & 2 (combined length 923 m), PC Girder Bridge over Bhairab River, Jessore (696.75 m), PC Girder Bridge over Madhumati River, Magura (600.70 m) etc.

2.1 Company Chairman:

Engr. Ghulam Mohammed Alomgir, a mechanical engineer from Bangladesh University of Engineering and Technology (BUET) and veteran entrepreneur, is considered as one of the most successful and versatile businessmen of current time having significant contributions to country's overall economy. With a brilliant track record of collateral development in various industrial and infrastructural segments of Bangladesh, the founder of MAX GROUP presently accounts for the employment of 8000+ people ranging from top-notch engineers to semi-skilled labors. He has always been a pioneer in bringing cutting edge technologies in his projects and factories to keep pace with international standards. Not only that he has also established country's largest fleet of construction equipment within his company that includes 1200+ state of the art heavy machineries intending to ensure the quality and timeliness of his mega projects.

Apart from establishing Max Infrastructure Limited which is by far the largest EPCM solution providing company of Bangladesh, he owns two power plants with a combined capacity of 242MW. Over the years, MAX has established manufacturing facilities for automobile leaf springs, stainless steel crockeries and pipes, lubricating oil blending, most of the railway track fittings including pre-stressed concrete sleeper etc. under his dynamic leadership.

2.2 Client list of Max Group:

BPDB
BR
LGED
CDA
BD ARMY
DESCO
DPDC
B-R Powergen
KWASA
PWD

RHD

RAJUK

2.3 Vision of MAX GROUP:

Thriving as the advanced business leader in quality Mega-Project Delivery, reinforced by its innovative strategic project management methodologies, MAX intends to become the EPC Service Provider of FIRST choice in the country. MAX targets to attain in-house EPCM capability by 2021, shall generate high value 15,000 direct employment by 2025.

2.4 Mission of MAX GROUP:

MAX is a company that shall not be owned by the owners only, but also to be owned by its employees. MAX values its people as its true stakeholders in achieving its vision, mission, by implementing requisite strategies.

2.5 TOP MANAGEMENT:

Engr. Ghulam Mohammed Alomgir Chairman of Max Group

Kaniz Fatema Director, HR & Admin

Azrin Alom Director

Mohammed Zulkernine Director, Strategic Planning & Accounts

Mohammed Zayedur Rahman Izel Senior Executive Director

Kazi Yaminur Rashid (Turjo) Executive Director & CEO, Industrial Units

Zubaidur Rahman Icon Executive Director

Samiul Islam Executive Director

M E Chowdhury Shameem Executive Director, Business Development

Gilles Alexandre Goepfert Chief Executive Officer (CEO)

Azadul Haq Chief Executive Officer (CEO), Power Division

Kazi Golam Mortuja Chief Operating Officer (COO), Power Division

Md. Shahidul Islam Khan Chief Revenue Officer (CRO)

Mohammed Shariful Islam Consultant (Governance & Strategy)

Chapter -3

3. Theoretical Framework

3.1 Sourcing and procurement

The definitions and understanding of the term “sourcing” seems to vary a lot regarding on the person. To some, sourcing is the main process of acquiring products, and the term procurement just a sub process inside it. To others, it is the other way around.

Chopra and Meindl explain sourcing as the business processes that are needed for the purchase of either goods or services. To them, sourcing is the main activity, and procurement the component of sourcing that mainly includes the process where the supplier sends the products based on the customer’s order. (Chopra & Meindl 2007, 58-59.)

On the other hand, we have the perspective shared by Harrison, Skipworth and van Hoek, to whom procurement is one of the main essential functional domains of the entire supply chain with the purpose of ensuring that supply for required products and services happens as intended. In this view, sourcing is a subprocess of procurement that handles the selection of suppliers and includes the research required on the relevant areas of e.g. supplier markets, supply spending, and figuring out the need for the acquisition of the products in question. (Harrison & al. 2014, 354-356.) This is the way I see sourcing and procurement as well, and thus this thesis is conducted with mainly this view in mind.

There are different types of sourcing depending on the type of product or service being purchased. These can include for example the purchasing of consumables, materials and components, software, licenses or other intellectual property, capital purchases (production plants, machinery etc.), or services. Sourcing approaches and factors to note vary depending on the type, and some factors are more relevant to one type of sourcing than on the other. As a simple example, the logistical factors in the procurement of software don’t hold nearly as high importance as when procuring for instance materials or consumables. (Baily, Crocker, Farmer, Jessop & Jones 2008, 200.)

Sourcing is an especially crucial part of business for an oriental restaurant operating in Finland. Restaurant business itself is a tough and extremely highly competed business area for operation, and to succeed specifically with oriental products, sourcing begins to play even a more crucial role. Luckily in my experience, many of such businesses in Finland are not using and sourcing the best original oriental products possible, and thus I feel that sourcing is one of the ways to gain a significant competitive advantage.

3.2 Sourcing process

The sourcing process is a wide area to study, and so I will only be covering it here quite lightly with focus on the areas most relevant to our planned business. Sourcing consists of many processes, problems, and decisions that need to be done and tackled for the procurement of products or services. The following visualization shows the major steps of the sourcing process, and in this chapter I will go through them in more detail.

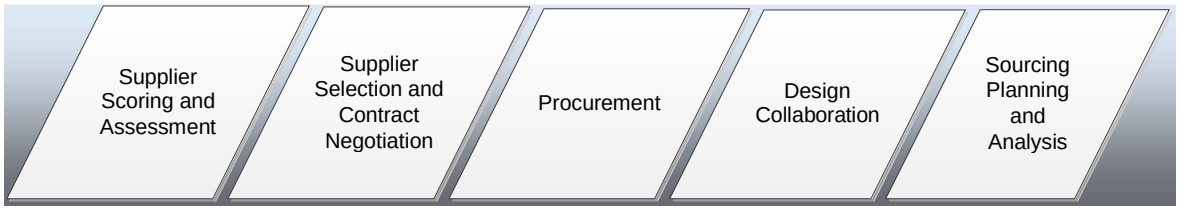


Figure 2. Key sourcing-related processes. (Chopra & Meindl 2007, 418)

Naturally the sourcing process starts from a requisition to the purchasing team that a product or service needs to be acquired (Baily & al. 2008, 203). The whole process then continues with the decision of whether to do the specific task inside the company, or to outsource it to another party. Outsourcing always comes with a risk, so it should be carefully researched if in each particular case the gained value for the supply chain is worth the risk about to be taken. (Chopra & Meindl 2007, 58-59, 420-421.)

If the supply of the product or service required was already under a long-term contract with a supplier, the order can often be placed without further evaluation. But when there is no such contract in place, as is the case in our study, the sourcing person or team needs to find out if an existing supplier of the company can supply the product, or if they have to find an entirely new one. More often than not the buyers tend to stay with existing

suppliers if possible, but there are times when a re-evaluation of the supplier's performance is required, for instance when the supplier fails to meet the specifications for the product or service, prices have changed, other vendors appear to have better performance, or simply because a long time has passed since the last evaluation. (Baily & al. 2008, 203.)

It is important to identify and realize the key sourcing requirements for each procured item and to keep these in mind during the whole supplier selection and evaluation process. The key requirements are usually item specific, and are set by both the internal and external customers. These key requirements may include areas from product specifications, to categories such as supplier quality and delivery performance. (Handfield & al. 2009, 237.)

Next in line is the decision on which locations are potential for the supply of the said prod- ucts or services. The reasons why only some locations are often suitable include techno- logical, specialisation or concentrative reasons. Technological reasons are such when the customer requires more advanced products that are not available from suppliers from some regions. Specialisation reasons mean that the companies in that specific area of the industry are all also outsourcing their similar needs, and so the supply is only available from a different location. And finally, concentrative reasons are such where the suppliers of the industry have concentrated in such a way that there are only a few large players in the location, therefore with a more limited variety in offering. (Baily & al. 2008, 204.)

3.3 Sources for information on suppliers

There are plenty of sources for finding suppliers and information on them in today's business world. First of all, there are the internet sources, which can range from online catalogues of firms to trade press publications and trade directories. These allow for an easy access to lists of potential companies and on information about their products. The catalogues often contain even quite detailed specifications about offered items, whereas the trade directories include information and website links of companies that operate within the industry. Trade press publications can be a good place for search, as many

suppliers use them for their own advertisement. Furthermore, the regular internet search engines can be very effective for finding potential suppliers, as they are used commonly for marketing by the sellers themselves. (Baily & al. 2008, 204; Handfield & al. 2009, 240-241.)

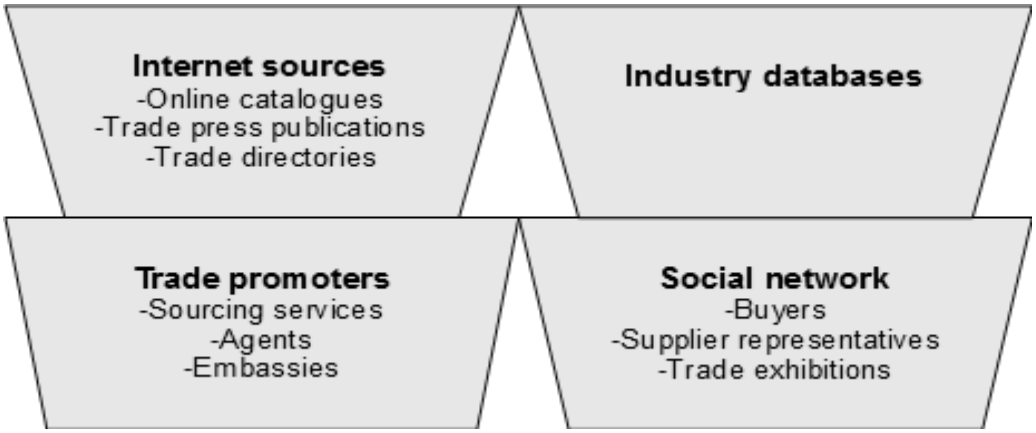


Figure 3. Sources for finding suppliers.

Secondly, there are the companies whose business is (sometimes solely) to hold information databases of suppliers grouped for specific industries, or even product lines. In some cases the supplier lists are such where the company needs to be approved to be added on it, thus requiring some sort of assessment or qualification through for example standards such as ISO 9000. This naturally adds to the trust, and makes the evaluation process slightly easier for the searcher. These information databases can turn out to be especially welcome and useful for a business looking for foreign suppliers. (Baily & al. 2008, 204; Handfield & al. 2009, 239-240.)

Third, there are the agents, sourcing services, and organizations that promote trade. These organizations and persons can be able to share comparative information of different firms when the organization or person works, or has worked, with the companies in question, as might be the case with for instance a distributor. Also organizations such as an embassy might even be very keen on providing information to promote the trade in their representative country. (Baily & al. 2008, 204-205.)

Lastly we have the sources from social networking. Social networking can involve colleagues inside the firm, other buyers, supplier representatives, trade shows and

exhibitions. These can all be surprisingly effective, and in the case of events such as trade shows, can provide an efficient way to discover even multiple different sources at a time. (Baily & al. 2008, 204-205; Handfield & al. 2009, 240.)

The purchasing department's decision on which suppliers to choose for the more in-depth evaluation often depends on the firm's sourcing strategy on the particular case. These preliminary cuts from the supplier evaluation sample can, for example, rely on the more major matters of whether the company wants the supplier to be a manufacturer or a distributor, domestic or international, or on the size of the supplier's business. Other factors firms take into account early can involve such as is the firm looking for multiple or single suppliers for the particular product. Also, they often can consider the results from possible preliminary financial risk analyses or information queries. (Handfield & al. 2009, 236-245.)

Different strategies are often required for different items or services, and thus a single sourcing strategy most likely will not cover all the purchases of the company. Handfield & al. (2009, 238) list the following matters as the crucial strategic decisions on the supplier and supply requirements:

3.4 Supplier evaluation

After the potential suppliers for further evaluation have been selected, the sourcing personnel in the procurement department will have to evaluate the suppliers to find the best possible choice from among them. It's important to also note that supplier evaluation isn't only a one time process, but instead should be done continuously during the whole period of operation with the particular supplier. This, however, is a less demanding process, as with existing suppliers a rather comprehensive evaluation can be made by using the track record acquired from the experience of working with them. (Baily & al. 2008, 205.)

There is quite a large variety of attributes and factors that need to be considered when evaluating a supplier. Chopra and Meindl (2007, 429) have listed the following:

When scoring and assessing suppliers, the following factors other than quoted price must be considered:

- Replenishment lead time
- On-time performance
- Supply flexibility
- Delivery frequency/minimum lot size
- Supply quality
- Inbound transportation cost
- Pricing terms
- Information coordination capability
- Design collaboration capability
- Exchange rates, taxes and duties
- Supplier viability

3.5 Sourcing decisions and supplier evaluation in practice

In practice, the source decision making traditionally starts from the buyer finding out which suppliers supply the product or service, mostly by referring to one or more of the sources mentioned in chapter 2.2.1. After a necessary amount of suppliers for the product or service type have been found, the buyer selects the few most suitable ones for further evaluation. The further evaluation is then made by enquiring these few about the requirements and product specifications, and evaluating the supplier on the factors mentioned in chapter 2.2.2. Then the best alternative is selected by comparing the offers, and finally the purchase order is made that specifies matters from order size, to place of delivery, price and schedule. In addition to this, on-site surveys are sometimes conducted by the focal firm.

3.6 International procurement

In common terms international procurement is purchasing from another country, basically importing. International procurement is advantageous for a few reasons. It is done in order to gain a comparative advantage, either through supplying from a country that (better) utilizes economies of scale on the given product or service, or simply because that specific good is not available in the domestic markets at all, or with the required features or quality. Also it can be that domestic production cannot satisfy the total demand for a specific product, exchange rates enable cheaper import, or that there are strategic reasons to secure the supply of a critical product that is still partially also available in the domestic markets. (Baily & al. 2008, 313-314.)

Chapter -4

4. Analyzing and finding:

4.1 Analysis of procurement processes

Currently, the intranet offers the Management System, which shows processes in a large flowchart (Figure 4.1). Procurement is present in two places of the flowchart: in the procurement of project related goods and in the procurement of after-sales parts.

According to the Management System, the process for project related goods is as follows. The work-preparation department prepares the purchase request, and sends it to procurement. Work-preparation decides whether the product has to be procured externally or has to be subcontracted. If according to work-preparation the goods have to be acquired externally, the purchase orders are forwarded to the purchasing department. Furthermore, work-preparation is to forward revisions to purchasing. Purchase orders and revisions are sent to the right person, based on his or her commodity. For existing articles, reference contracts are looked up in the contract database. For new articles, a request for quotation is placed. The next step is the creation of a purchase order, which has to be ap- proved by the budget-holder (in case the buyer is not authorized) and the CEO (in case it is a critical component). After authorization, a purchase order is sent. After confirmation from the supplier, the acknowledgment has to be checked and accepted, after which the purchase order has to be updated. The expediting phase follows, and repeats if there is a delivery delay. In this case, the planning has to be adjusted. If no external goods check is needed, or the check is satisfactory, the receive-and-release phase is entered. After receiving and checking of documents and quality, goods are released to the requesting department.

This flowchart is supported by documents. The intranet offers several documents to employees. The majority of these documents has not been updated during the last five to ten years. The purchase procedure has been written in 2004. In 2009 a work-instruction is added to the intranet, which is an executive instruction of how to use the ERP system to create a purchase order.

Human Resources are the foundation of the Kearney House of Purchasing and Sup- ply (Kearney, 2011). At the organization that was researched, commodity buyers are divided into two categories: Procurement Officers and Strategic Buyers. Within these categories there is a difference between respectively B and C, and Medior and Senior. A Procurement Officer has a Higher Vocational Education, preferably in a technical subject, and has completed NEVI-courses level 1 and 2. A Strategic Buyer has the same requirements in terms of education, yet his market, product and procurement knowledge as well as his network in his commodity is important. A Senior needs to have additional knowledge about worldwide trade.

4.2 Analysis of the actual situation

There is no functional strategy or mission that provides a foundation for measurable actions. Due to the absence of a strategy or mission, it is not clear what the (common) goal is. The terms interviewees use most frequently are short-term and ad-hoc, to describe the current way of working. This is also confirmed by interviews, observation and desk- research. These show that there is no common method of working. There is structural deviation from the process as shown in the management system. Considering the growth the organization has experienced since the last update of the documentation, its usability is limited.

During the interviews, the purchasing process as described by (Van Weele, 2oo9) and the process as described in the management system where used to compare and bench- mark. The method of procurement differs for each interviewee. However, some interviewees find this positive, since it gives them a lot of freedom in doing their job. Yet most interviewees emphasize a need for more guidance or uniformity. The positive part of the interview is mostly the emphasis on the fact that the job is getting done either way (“But we always get the job done”).

A comparison of several procurement cases shows deviations from the procurement process in several forms. Purchase orders are sent without approval, and are in some cases approved after the actual delivery has already taken place. In some cases this is due to the approval procedure that often takes long. However, this approval procedure is

necessary for amounts of higher than e5oo. One can imagine that suppliers might tend to be hesitant, because the purchase order has not been formally approved. This in turn might lead to delays. However, this method is risky: one interviewed supplier that on request already started without the approved purchase order was now dealing with cancellation of this purchase order, and uncovered costs. Furthermore, different delivery locations are placed in one purchase orders, which can lead to miscommunication and delivery to the wrong location. The supplier in question confirmed this and complained about un- clarity concerning the delivery address ("Unclear to which location the goods should be shipped"), which lead to significant delays. Finally, in some cases no alternative suppliers were considered and no requests for quotation were sent out. A long relationship with a supplier was used as a reason for not making contracts.

Because of differences in purchasing processes, it is difficult to monitor and measure. Research shows that there is no structural monitoring. Data is partially reliable, because it is not processed consequently and correctly. Opinions concerning the point in time after

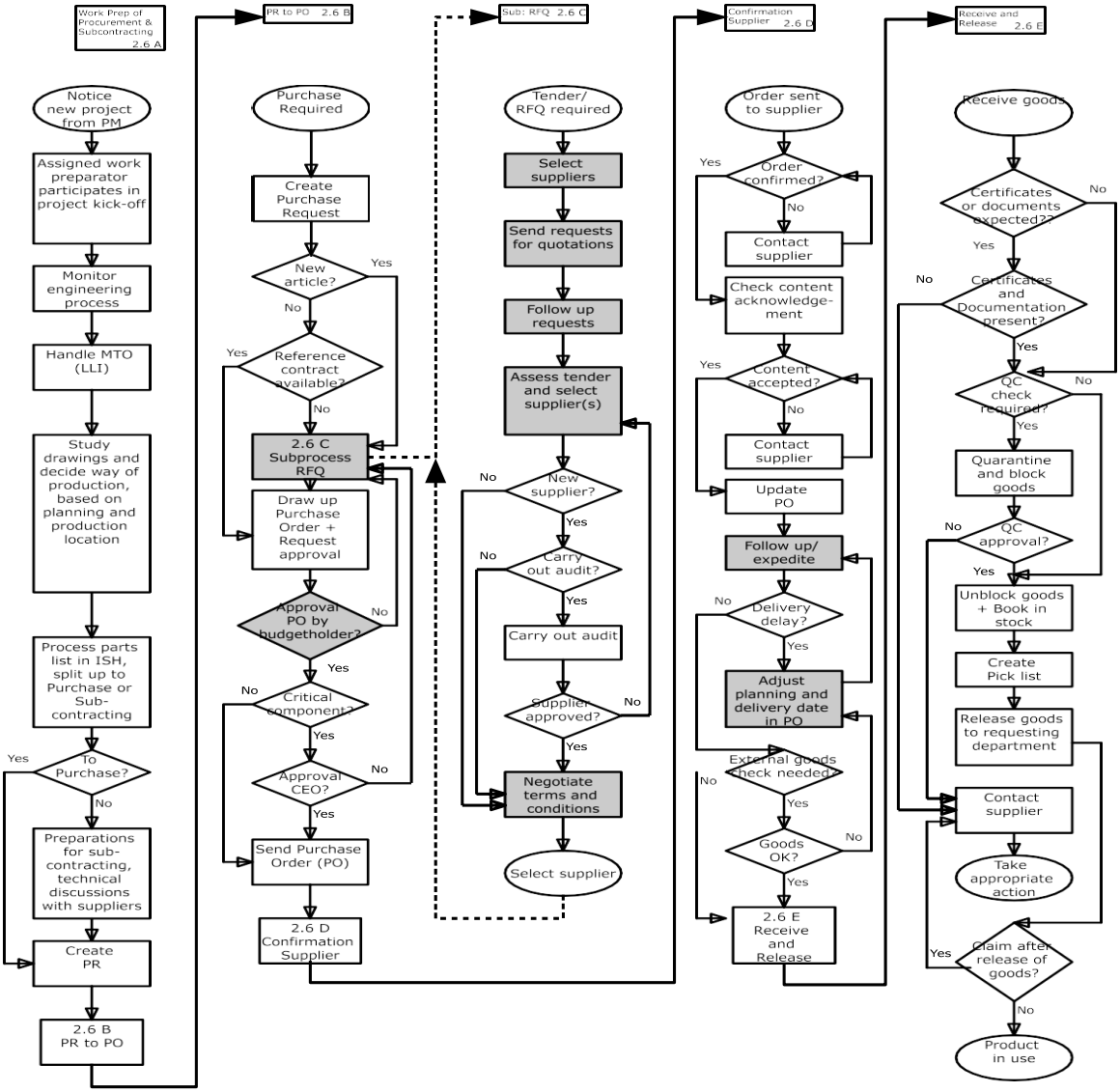


Figure 4.1: Flowchart of the procurement process, issues have been colored grey

Which the data is reliable differ. Generally, data is regarded as reliable after 2011 – 2012. Although there is data and incidental reports are made, it is not being used to monitor in a structural way. However, it is clear that delivery delays are a problem. These are partially caused by incomplete specification or over-specification, which limits the choice of suppliers or results in unnecessary troubles.

Furthermore, observations and interviews show that there is little cooperation between the central procurement department and the after-sales department. Consequently, there is a difference in purchasing maturity and purchasing processes between central procurement and after-sales.

Next to the central procurement department and the after-sales department, the work-preparation is one of the main departments that engage in procurement actions. Work-preparation receives requests from engineering and decides whether the product has to be procured externally or has to be subcontracted. If according to work-preparation the goods have to be acquired externally, the purchase orders are forwarded to the purchasing department. Orders are forwarded to buyers based on commodity. The number of forwarded request partly determines the workload of each buyer, next to the commodity he or she buys. Buyers indicate that the workload differs significantly between them. Work-preparation also forwards revisions to the central procurement department. Often, these are passed on to the supplier without discussing repercussions for delivery times and price. In one of the cases, up until revision H was processed. Suppliers also complain about the number of revisions, and unfinished specifications received. They request to be informed earlier about revisions, and about changes in the process.

To a certain degree, purchases are being done by other departments, and not by the top three biggest departments that engage in procurement activities. After delivery, the procurement department is asked to create a purchase order. In several cases, there are production-related services and products that are not represented by a purchase order. The management and staff of the procurement department are trying to decrease this “wild buy”. However, interviewees indicate that this is difficult, since the image known to them, which is shared by many, is that procurement is a “necessary evil”.

Furthermore, research shows that the ERP software being used is limited. There are many purchase orders, many suppliers and few framework contracts.

4.3 Analysis of procurement data

Objective procurement data was used to analyze indicators of unsatisfactory procurement and supplier relationships.

Data of external transactions, ranging from January 1st, 2012 to December 31st, 2014, was analyzed. The goal of this analysis was to uncover signs of inefficiency and possibilities for cost reduction.

The ABC-analysis shows for both the new-build department and the after-sales department which suppliers received how much spend in 2014. A-category suppliers received 80% of the spend, B-category suppliers the next 15% and C-category suppliers the final 5%. For the new-build department, these categories were respectively 9%, 14% and 77%. For the after-sales department, these categories were respectively 16%, 22% and 62%. A small part of the suppliers, especially for the new-build department, received a large amount of the total spend.

The new-build department represented 85% of the spend during 2012, 2013 and 2014. The central procurement department spends 84% of these 85%. The remaining spend is represented by the work-preparation department. After-sales (10%) and other departments (5%) represented the remaining total spend.

Of all production-related orders, 97% is represented by a purchase-order. Of all orders, including non-production related, 64% is represented by a purchase-order.

For new-build purchases, the approval procedure is necessary for order values of higher than e500. In the past years, this means that 58% of orders had to be formally approved by the approval procedure.

Of all suppliers that have received production-related purchase orders in 2012, 2013 and 2014, 37% have received a maximum of one purchase order. In 2014, this was 35% of

these suppliers. Of all purchase orders, 55% is lower than e1000, 27% is lower than e200 and 23% lower than e150.

60% of the suppliers receiving production-related orders, is labeled as “approved”. These suppliers receive 88% of the production-related spend in 94% of the production- related purchase orders. The approved suppliers are subdivided into commercial (77%), preferred (17%), critical (6%) and partner suppliers (1%).

5. Recommendation:

As there turns out to be a lot of variety in the supply chains of the Finnish oriental restaurants, there is also room to gain competitive advantage through sourcing. Many of the restaurants were content with the selection Finnish wholesalers and the local oriental markets offered, and thus didn't source from foreign companies. However, in the case of our business, I can quite certainly claim that we need to. Fortunately, there are examples of small sized restaurants that individually do this as well, and show that it can be done and be feasible for such as well.

The option that needs to be studied next in the future of our planned business is the local oriental markets. These are companies specializing in the supply of the kind of products we are looking for, and thus possess more efficient supply chains than a single restaurant can most likely ever have. That is why it is wise to evaluate this option first, and see if there could be a possibility to procure through them some, if not all, of the specific products we need for our business. Also the possibility to attempt to source these products through the Finnish wholesaler companies, such as Metrotukku and Heinon Tukku, rose from the study, and is something that needs to be examined as well. It is probable that all the specific products we need can't be sourced through these markets or wholesalers. In these cases we need to procure them individually or possibly in cooperation with a few of these already operating restaurants, while sharing the expenses and risks.

The literature review I conducted in this study gave me readiness and a lot of the required knowledge for starting the sourcing process, and so the steps on how to start doing this are quite clear. In chapters 2.1. and 2.2. I went through sourcing and its processes, and these are all relevant and need to be used, and paid attention to, when sourcing for our business. Therefore, instead of referring to them here, I advise to see the actual chapters.

6. Conclusion:

The purpose of this thesis was for me to figure out the way how to build the supply chain for our planned oriental restaurant business, which wouldn't suffice with the current products available in Finland's domestic market. The aforementioned was achieved by con- ducting a qualitative survey research on the similar oriental restaurants currently operating in Finland, and by studying the literature on both sourcing and international procurement.

The results were sufficient, and for the most part also positive, as they built trust in the feasibility of establishing the supply chain even if procurement needs to be done directly from Asia. There turned out to be also very potential options before even resorting to the direct supply and these will need to be further examined first hand when moving forward with the business.

The sources used in this thesis were from well-known authors, and the qualitative re- search on the Finnish restaurants was conducted by sending invitation letters directly to the restaurants, and contact information was requested, and acquired, from the respondents. Thus I'd claim the data shown and referenced to be both trustworthy and valid.

This thesis enlightened me about areas of business that are very relevant to my professional specialty (supply chain management), such as sourcing, purchase documents and currency exchange. Additionally, I learned quite a bit about other topics during the literature review process that weren't even directly related to this particular area of study. The whole thesis process also taught me a lot about successful and also less successful re- search practices, conducting larger researches and survey making.

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