

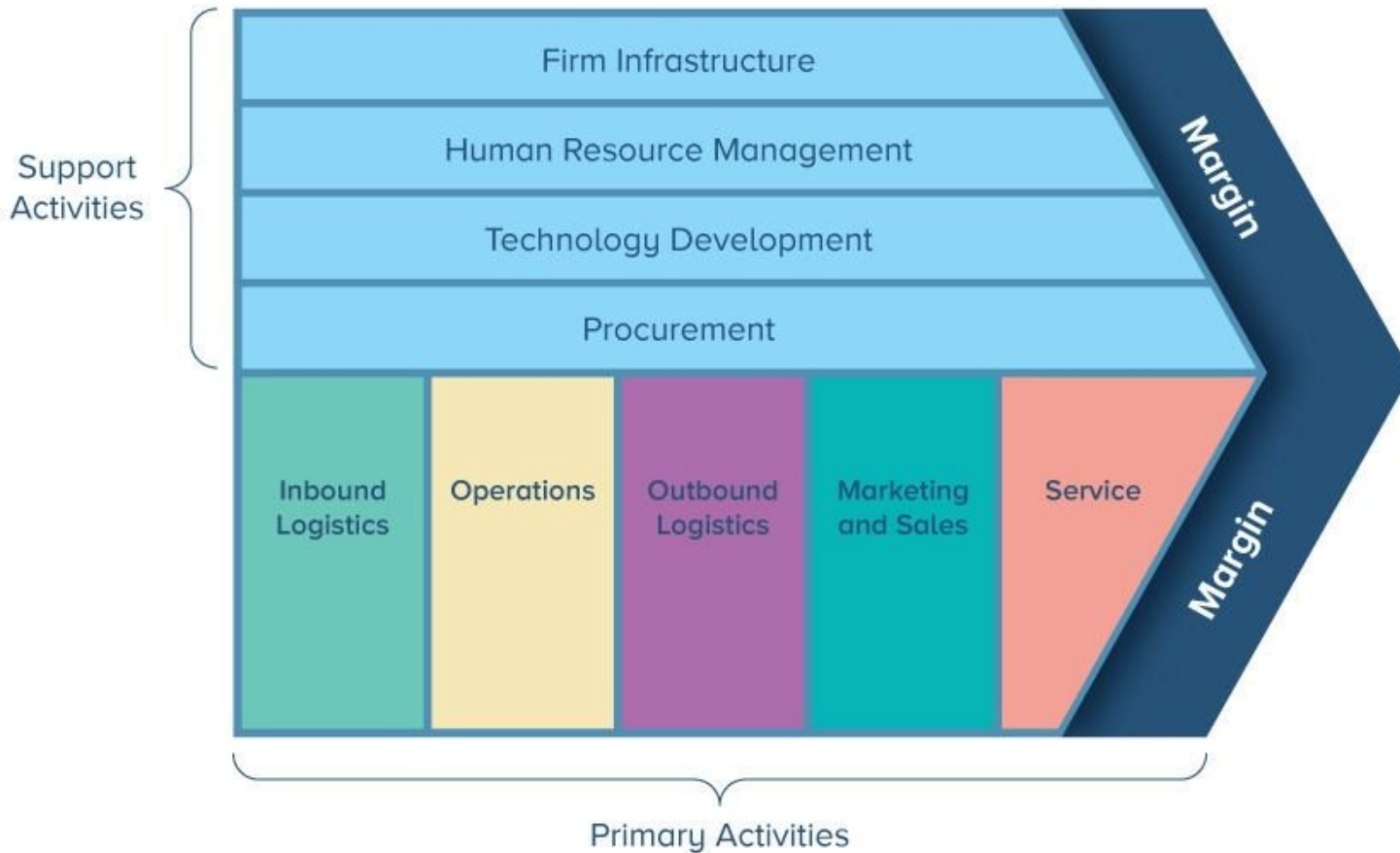
# TUTA 1

Production as a part of the value chain

Part 1: Purchasing, Kari Tanskanen

Part 2: Supply chains, Lauri Saarinen

# Value chain concept



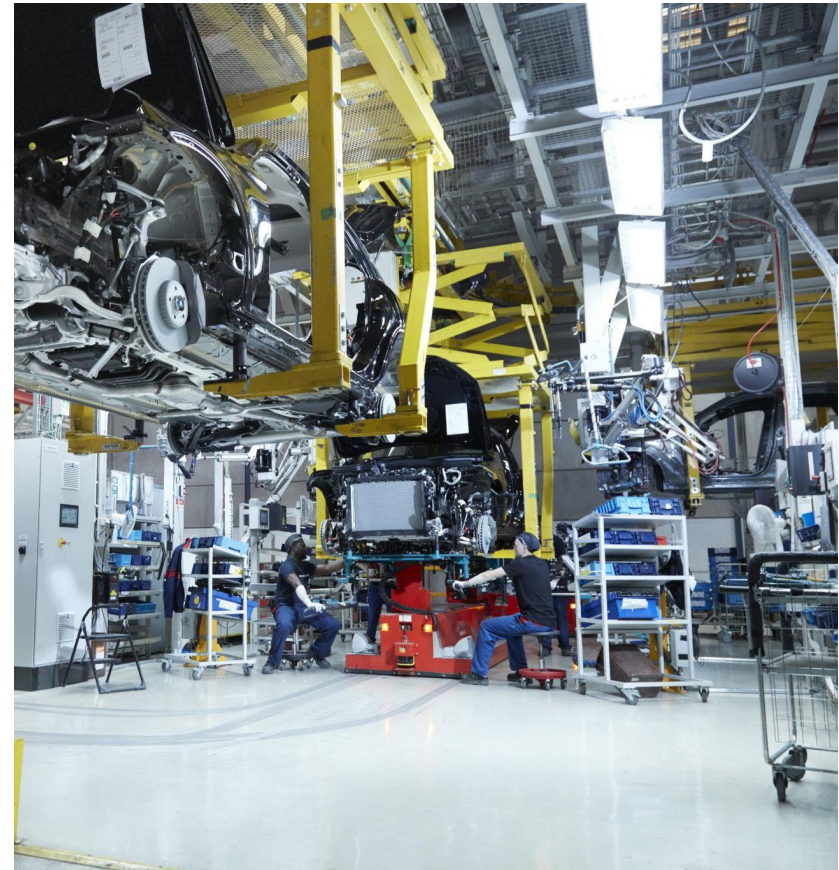
# In the early days of industrialization, firms did almost everything self

- For example, Ford manufactured T-model cars in the 1920's in the revolutionary moving assembly line at Highland Park Plant, where everything needed in the car was made in a huge plant area. The plant had even own foundry and power plant



# Today, firms have complex supply networks

- For example, Valmet Automotive manufacturing plant in Uusikaupunki, Finland focus on assembling cars
- The parts and components come from thousands of suppliers
- Some suppliers deliver systems and subassemblies, and use many suppliers, which have suppliers



# Most of the resources that firms use are external

## External spend in Finnish companies 2019 (% of turnover)

	Materials	External services*	Other costs**	TOTAL ***
Industry	56,7 %	7,3 %	17,8 %	<b>81,8 %</b>
Construction	28,2 %	31,1 %	12,3 %	<b>71,6 %</b>
Retail	75,1 %	2,3 %	10,3 %	<b>87,7 %</b>

\*\*) Other expenses include e.g. rents leasing payments, advertising and marketing expenses, administrative service charges, and telecommunications and banking services. This category may include also some expenses that are not external spend (e.g. bad debt)

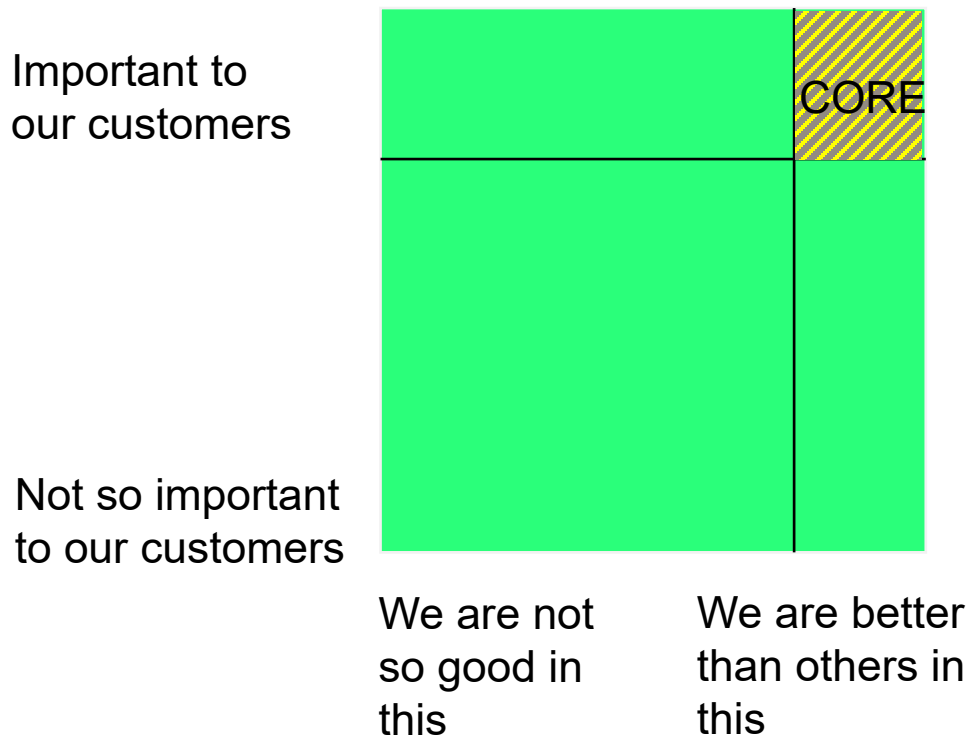
\*\*\*) Excluding investments

Most of the costs, risks, quality and sustainability are incurred outside the firm!

# In which kind of world do we live now?

- Supply markets are global and rich, anything is available
  - ICT-technology enables fast search of suppliers and other partners and efficient communication
  - Logistics infrastructure and services are developed and effective
  - Competition is tense pushing the prices down
  - There is a rapid market change in many industries
- **In these conditions firms focus on core competencies and outsource everything else**

# What are core competencies?

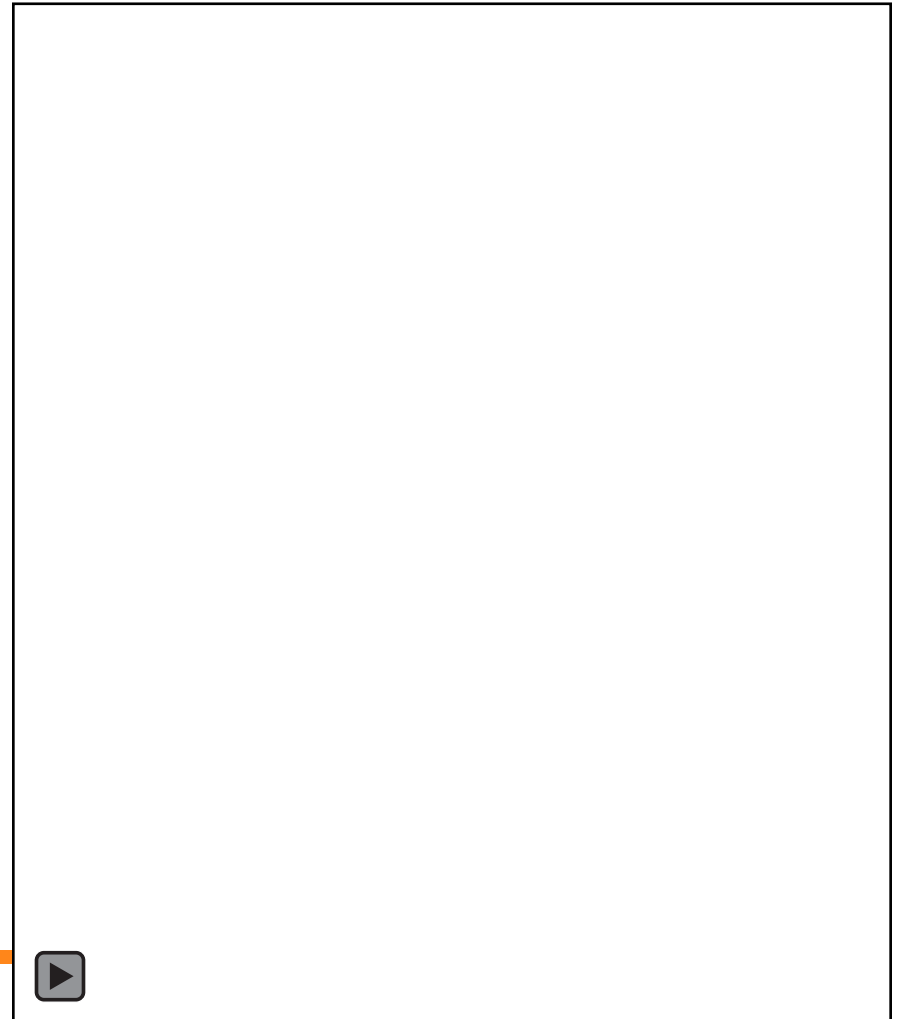


- Skill or knowledge set, not products or functions
- Flexible, long-term platforms – capable of adaptation or evolution
- Limited in number
- Unique sources of leverage in the value chain
- Embedded in the organization's systems

Source: Quinn & Hilmer, 1994

# Task 1: Core competencies

- What do you find could be the core competencies of a wooden furniture provider?
  - Woodworking skills?
  - Marketing skills?
  - Furniture design competence?
  - Competence in the maintenance of woodworking machines
- Go to [www.menti.com](http://www.menti.com) and use the given code
- Discuss the task with students sitting next to you





# Critical issues in managing purchasing and supply



Categorization of external spend

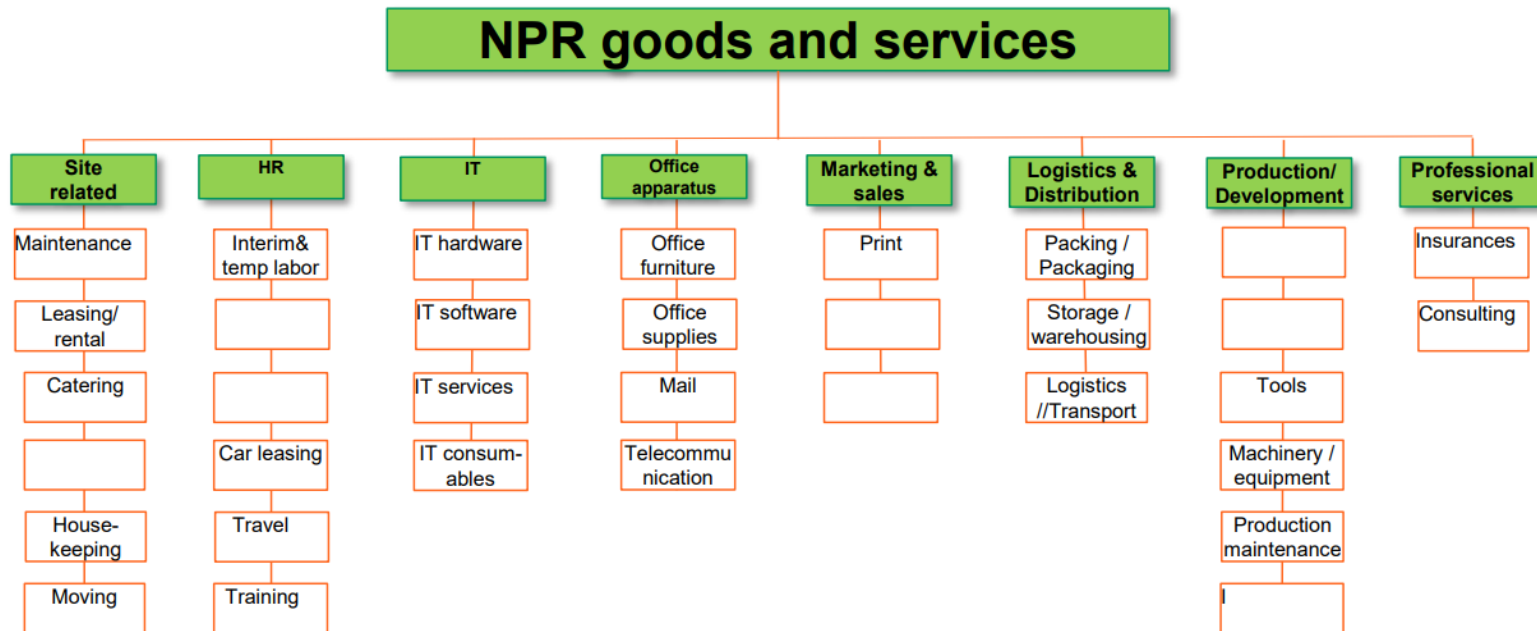


Developing differentiated category strategies

# What are (purchasing) categories?

- *“a set of products and services purchased from the same supply market having similar product or service and spend characteristics”*
- Category is a group of products or services that form a manageable entity on the global business level
- Three principles of forming categories
  - Market efficiency
  - Internal efficiency
  - Supply chain efficiency

# An example indirect purchases' categorization



NPR=non-product related – epäsuorat hankinnat

# The Kraljic matrix is a tool for developing differentiated category strategies

## The matrix dimensions:

- **Internal dimension:** What is each category's importance for the company?
- **External dimension:** How is the supplier market by nature?

The category's profit impact



# Task 2: Kraljic matrix

- As a purchasing manager of a wooden furniture manufacturing firm, how would you position the following categories in the Kraljic matrix?

- Wood raw materials
- Fastening accessories (nuts and bolts)
- Paints
- Marketing services



- Go to [www.menti.com](http://www.menti.com) and use the given code
- Discuss the task with students sitting next to you

# Key take-aways

Procurement is an important activity in the company's value chain

Procurement has a big impact on firm's competitiveness and profit

Firms should focus on their core competencies

External spend need to be categorized to manageable units

Purchasing categories are different and need to be managed differently