CIPS Purchasing & Supply Management (P&SM) Model

This illustrates the generic P&SM processes and how they contribute to any organisation.

EXTERNAL FACTORS & IMPACTS
- Economic Environment
- Technology Changes
- Social Environment/“Green” Environment
- Political Environment (Domestic and Wider)
- Legislation & Regulations
- Competitive Environment

RESOURCES
- Human Competences & skills
- Knowledge/experience (org. level)
- Physical assets
- Finance
- Relationships & reputation
- Technology & Management Information

STAKEHOLDERS
- Owners & shareholders
- Employees
- Partners
- Customers
- Suppliers
Management of the organisation’s external resources, maximisation of value and minimisation of risk including:

- Identification of business needs from P&SM function
- Positioning e.g. remit with support of CEO
- Governance structure e.g. procurement board
- Objectives & activities e.g. strategic sourcing strategy
- Capacity/capability management, i.e., competencies & structure (e.g. centralised/devolved, CLAN, co-ordinated)
- Management of P&SM’s customers/users/buyers needs including training, support, authorities and delegation
- Policies e.g. rationalisation, standardisation, value mgmt, supplier development and CSR.
- Key processes supporting legislative framework, e.g. standing orders and procedures
- Technology for E, mgmt information, knowledge mgmt & systems e.g. purchase order processing systems
- Good practice e.g. tools, templates t’s and c’s
- Performance monitoring/benchmarking/continuous improvement
- Management of supply market

Customer relationship management
- Service Levels
- Fulfilment
- Delivery
- Disposal

Financial structures e.g. budget allocation
- Forecasting, modelling and monitoring financial standing
- Credit and debit
- Currency movements and other global financial issues
- Provision of support to budget holders

Recruitment (including internet), induction and retention of people
- Provision of induction, CPD
- Provision of support and guidance
- Change management
- Motivation, morale recognition and rewards
- Compliance with legal obliations

An Organisation’s Overall Strategy

P&SM Strategy

Operations Strategy

Distribution/Dissemination Strategy

Supply Chain Strategy

Human Resources Strategy

R&D Strategy

Marketing Strategy

Technical/ICT Strategy

Finance Strategy

ICT provision management, and maintenance
- Training and support in ICT
- E commerce
- Innovation implementation
- Technical training
- Technical aspects of process transformation
- Strategy for obsolescence

Developing and monitoring innovation
- Identifying product improvements
- Experimenting and testing
- Intellectual property rights

Marketing mix e.g. product, price place, promotion people processes and physical evidence
- Integrated communications e.g. advertising, direct marketing, personal selling and PR – to external and internal segmented targets
- Marketing routes
- Managing channels including internet
Process/Competence Analysis
- Identify budget holders/end customers – “constituency mapping”
- Evaluate competencies of people involved in P&SM
- Undertake activity-based costing
- Evaluate systems & procedures, extent of management information, controls
- Identify extent of bounded rationality
- Identify extent of opportunism
- Identify waste

Supply Base Analysis
- Evaluate suppliers’ performance
- History of market trends
- Pareto/ABC analysis
- Supply positioning/portfolio analysis
- Supplier/customer preferencing
- Market analysis
- Identify supplier information asymmetry
- Identify and evaluate key suppliers’ isolating mechanisms

Spend Analysis (Historical & Future)
- Who is buying what?
- From which suppliers?
- When/how often?
- On what terms?
- Identify and evaluate contracts in place
- Extent of post contract moral hazard
- Extent of asset specificity
- Critical asset analysis
- Forward expected usage of goods and services
- Trends in the market place
- Determine funding eg PPP/PFI

“Political” Analysis
- Risk management inc CSR
- International relations
- Local politics
- Regulatory effects

Strategic Sourcing Analysis

Supply/Value Stream Mapping
- Map current supply/value streams – both primary and secondary
- Vulnerability analysis
- Analysis of power dependency in supply/value streams
- Identify profit and gross margins in supply/value streams
- Map demand through supply system i.e. demand amplification mapping

Generate Options
- Use of brainstorming, SWOT, Porter’s 5 forces etc
- Business cases
- Sourcing options including Make/Buy, Outsourcing/Insourcing etc
Proactive Demand Management

Managing Indirect Spend
(e.g. capital, services and supplies for running the organisation)
- Identify categories of spend i.e. groupings of goods and services purchased
- Specify exact needs/working in cross functional teams
- Determine sourcing policies for categories of spend
- Make/buy decisions i.e. outsourcing
- Determine key suppliers for partnering as appropriate
- Determine who is responsible for categories and train and support them
- Determine appropriate methods, procedures, processes and policies for managing categories to minimise transaction costs, optimise value, minimise risk
- Generate charter i.e. infrastructure identifying roles and targets
- Agree sourcing plans
- Implement e.g. plan, do, check, & act

Managing Direct Spend
(e.g. the goods and services etc. that can be linked to production or service delivery)
NB The points below are more common, but not exclusive, to Direct Spend.
- Work with Operations to set policy on inventory
- Evaluate mapped supply chains
- Determine use of lean & agile as appropriate SCM e.g. pull systems, JIT.
- Plan requirements e.g. inventory control, master scheduling, master planning, production activity control
- Plan for value analysis and value engineering
- Contingency Plans for demand exceeding supply
- Now follow the same steps as listed in the right-hand “Managing Indirect Spend” box
1. **Identification of Need**
   - Liaise with user/requisitioner
   - Determine requirements i.e. produce specification
   - Technical analysis e.g. generation of alternative solutions
   - Demand Challenge i.e. deferred, diminish or delete
   - Complexity reduction e.g. standardisation etc.
   - Determine the budget
   - Project set-up (including teams)

2. **Procurement Plan**
   - Pull together cross functional team as appropriate
   - Determine make or buy
   - Develop project plan

3. **Marketplace Solicitation/Development**
   - Soft market testing
   - Produce appropriate bid documentation e.g. ITT or RFQ RFI
   - Advertise (eg OJEC etc)
   - Identify suppliers
   - Condition suppliers to accept requests
   - Increase suppliers’ focus on buyer
   - Create markets/reverse marketing if appropriate
   - Contact suppliers
   - Invite offers e.g. e tendering
   - Encouragement of suppliers to enter new markets

4. **Evaluate/Select Suppliers**
   - Check company profile
   - Evaluate financial standing
   - Determine capacity
   - Assess quality procedures
   - Evaluate track record and references
   - Evaluate risk
   - Evaluate their policies and attitude

5. **Receive/Evaluate Offers**
   - Evaluation teams
   - Use of weighted and ranked criteria
   - Cost analysis/modelling
   - Risk analysis
   - Clarification and PTN (as appropriate)
   - BFO, e auctions
   - Whole life costing

6. **Create the Contract/Relationship**
   - Negotiate terms and conditions of contract
   - Agree service levels, descriptions and schedules
   - Let contract, including exit clauses
   - Debrief unsuccessful suppliers
   - Retain records
**Contract/Relationship/Project Management**
- Communicate the contract
- Provide feedback from users
- Obtain feedback from suppliers
- Rate suppliers performance
- Aim for continual improvement
- Provide incentives as appropriate
- Monitor the performance of suppliers
- Develop suppliers and the relationship as appropriate
- Aim for continual improvement

**Receipt of Product/Service**
- Check it meets the requirement
- Compliance with service level agreements
- Authorise payment

**Asset Management**
- Maintenance
- Disposal and recycling

**Key stages of strategic P&SM processes**

**Key stages of tactical P&SM processes**

**Key actions at each P&SM stage**

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