The Strategic Role of Purchasing for Competitive Advantage

A case study of YTO Group in China

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Preface

This Masters thesis has been my last assignment to reach my degree in MSc in Logistics and Innovation Management under the department of Industrial Engineering at University of Gävle. The thesis was done during the Autumn semester, 2010. I would like to take this opportunity to thank my supervisor Prof. Lars Bengtsson at university of Gävle.

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Abstract
The purpose of this thesis is to identify the strategic role of purchasing in providing competitive advantages. Previous studies have shown the significance of purchasing in general while fewer have deeply analyzed the role of purchasing for getting competitive business advantages. In order to minimize this difference the main motive of my research paper is to analyze the strategic role of purchasing for obtaining competitive business advantages.

The study is based on literature on purchasing strategy and how this is related to business strategy. The empirical research is based on a case study on YTO Group’s purchasing department.

The management of this department is focusing the strategic role of purchasing for competitive business advantages. This is illustrated by the chosen purchasing strategy when entering a new market. By this approach, the firm has enhanced their business competitiveness in terms of new market achievement and international business collaboration. In order to get the competitive advantages, the study underlines the significance of consistency between purchasing strategy and corporate strategy.

The case furthermore indicates the importance of choosing the right strategic partner for achieving business competitiveness. A question for further research is thus: “How can strategic partners create business value”.
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1. Introduction

1.1 Background

Purchasing of goods and services is an everyday subject for getting advantage for business companies. The supplier market and the sourcing activities shall reflect the overall competitive posture of the company and be tailored to meet the changes placed upon. A high purchase value has made suppliers a most valuable source of cost reduction and innovation (Seth Jonsson, 2005). For building a competitive capability for the strategic role of purchasing, it is important to achieve the relational rents. Build up a strategic purchasing is getting supported by supply management practices. For example, formal socialization processes, supplier integration and supply base flexibility (Cousins. at. el, 2005). When company faces any competitive pressures it forced to organization to re-examine their process for managing suppliers and their supply base activities. And also company has to increase their focus on their core competencies such as outsourcing of components and services. This also has great emphasis on supplier management. In addition, much of the traditional in-house development activities have been pushed onto suppliers. Purchasing is thus increasingly regarded as a strategic weapon, centered on its ability to create collaborative relationships for firm advantage (Paul Cousins. at. el, 2005). Also alliances with supplier can make a strong positive impact on firm’s performance through the development of joint resources and the exchange of valuable knowledge with these alliances. And this may influence the strategic role of purchasing that is the alignment of purchasing function with overall business strategy. Close interactions and successful process integration between purchasing strategy and business strategy are creating an effective role of purchasing coordinate for competitive advantage.
1.2 Problem discussion

Many companies in charge do not focus on the relation between their business strategy and sourcing strategy and also underestimate the critical link between these two. That’s why most of the time it’s very hard to compete the global competition. The misalignment between this two is caused by low information flow, inadequate planning and therefore a lack of customer understanding. That’s indicate that many companies have not yet put sufficient emphasis on explicitly focusing on the connection between customer requirements, strategic priorities and the way companies are managing their sourcing (Weissman RG. 2004). Tamas(2000) could show in his study that there is neither a strong nor a moderate correlation of purchasing supply management with corporate strategy. He further claims that top management doesn’t focus on the role of purchasing too much by which they can get some competitive advantage. Also there are lots of research papers and articles have been shown to partially lack of theory-based concept and empirical knowledge of this field. Lots of researcher research on hypothetically on this field but they did not illustrate that strategic role of purchasing can make an impact on overall business performance and competitive advantages. That’s why here I try to solve this gap by illustrating a real world case to prove that strategic purchasing can helps to achieve the competitive advantages.

1.3 Purpose and Research questions

The purpose of this study is to illustrate the role of strategic purchasing for obtaining competitive advantages. The main idea is to show how the role of purchasing may enforce change in product strategy and how this can make impact on overall business performance. In order to meet the purpose two research questions are addressed:

- What is the relationship between business strategy and purchasing strategy?
- How important is the role of purchasing for getting competitive advantage?
1.4 Focus
This thesis is built from reports, articles, and papers and also from other external and internal sources which present to identify the strategic role of purchasing for getting competitive advantage. And it also focuses why purchasing strategy also important for overall corporate strategy. The thesis also focuses the relevancy of overall business strategy and purchasing strategy. So here my target point is to find out the value and how can any organization get more facility by using strategic purchasing and why they need to manage their supply management.

1.5 Limitations
Though some researcher was working on it but that was very few so the theory and literature part is not so highly informatics. And it’s very hard to find a company which has purchasing or procurement department and student can get information easily. Also here I used my case company from china that is regulated by strict terms and condition for sharing its information. However it was very tough to get any documented and direct information from any Chinese company and also it was forbidden for that company to share any internal information with outside of the organization. That’s why it also very hard to get any concrete information from them. Here I used some information that I got from conversation with Mr A., who is responsible for this field in the case company. And here, I can’t tell that I am using some concrete information which is one of the limitations of my thesis. Moreover it was an informal conversational interview that’s why there were no formal questions or structure for interview process.

The work is based on the one case company so that is another limitation. But I sated before that it was tough to find a case company so it was tougher to find one more company. So it has lack of argument which could be based on comparison.

Also this field is still under research so it was not easy to find necessary tools. With these all limitations I was trying to find my objective by overcoming those limitations.
2. Methodology

In this chapter the research strategy, collection of data is described. Also last of this chapter the Qualitative and Quantitative of research also stated.

2.1: research strategy

Research strategy is the general plan to meet the purpose and find the answer. There are four main strategy: experiment, survey, case study and action research. (saunders et.al,2000) .

This masters thesis consider on case study. Because-

- It can help to explore the real situation.
- It is well-suited to gain the knowledge of practitioners and developing theories.
- Help to find qualitative information that can help to find the answers.
- Case study is important to find “why” and “How” answer.

Case illustration is particularly appropriate for those fields which are in early stage or formative stages. It is important to note of the fact that it is a research strategy not a method. But using the interview, questionnaires, reference books, journal, and other sources are treated as method.

2.2: Collection of Data

Data can be categories by depending on how it was collected. These are Primary data and secondary data. Primary data has been collected from observation, interview, survey, questionnaires and secondary data has been collected from another context. In order to reach the purpose of this thesis primary and secondary data are jointly used here.

The person whom I took the interviewee has responsibility for his department and three times I took an informal interviewee to him. And the each time it was around 45 minutes long approximately.

By making an interview with responsible person of YTO group, here I got some primary data. And for the secondary data I used the organization’s web site, references book, journal, article and some other internet sources.
2.3: Validity and Reliability

According to Sapsford & Jupp (1996) the definition of validity is - the design of a research effort with the purpose of giving trustworthy conclusion and that the results and evidences that a research leads to will form a strong support for the interpretation being made.

A pre study was performed in order to find a research objective and aim that made easier to design valid question and help to find the answer on truck.

The reliability of this paper is assured by selecting the right interviewee with a right place who can give the right information with right knowledge. The reliability is depends here on interviewee with a right person who can help to show the way for achieving the purpose. Even though I have to acknowledge the weak point that the thesis is prepare by only one person and the capability of one person is limited. Also it has one case company with one interviewee.
3. Literature review

3.1 Introduction of purchasing

3.1.1 Background:
Globalization of trade, the fast development of information technology and ever increasing consumer demands are changing the international competitive landscape. As a result companies are changing their business process. Positioning the company at the right place within the value chain has become a prime concern for top managers. For these reason companies needs to rethink about their core activities. And this has put purchasing in the spotlight. Also purchasing has developed one of the key business drivers. Its main purpose is to develop a competitive one class supply base for the company. In order to be able to do so companies need to adopt a process orientation rather than functional orientation towards purchasing issue. As business is becoming more and more competitive, purchasing is increasingly recognized by top managers as one of the key business drivers. Lots of companies today spend more than half of their sales turnover on purchased parts and services. Efficient and effective purchasing process is considered as a long term competitive power for any business organization.

3.1.2 Concepts of purchasing

   Origin and History: when we think that purchasing is new field of strategy that we should gain but history says different that it was used before 11th Century but we could not recognize this strategically term perfectly yet. So, here I include the concepts from which it comes and how can it changed the meaning over the time. Purchasing is a word came from “Purchasen. (Dictionary of etymology, online version)

   - 13th Century: “Obtain”, “Bring Out”.
   - 14th century : Use this word as a sense of “Buy”
   - 15th Century : concept was used as something that is “which is bought”
• 16th Century: Concept expanded to mean “combination of persons or companies to carry out commercial undertake”/ “to get by conquest in war, obtain booty”
• 17th Century: hold or position for advantageously applying
• 18th Century: “to haul or draw” (specially for mechanical power)
• 19th Century: obtain goods and service by payment for profit earning.

So if we consider the meaning that is changing over time but concept is almost same that something buying but it’s different from general buying. One is used for strategically and another is general which has no further work.

**Definition of Purchasing/ Purchasing Management:** in a growing world business era purchasing and its management is evaluate as an important one. Usually purchasing is something that is need to buy and purchasing management is the supportive activities that are helping for buying or acquiring goods, service or materials.

Here I enclosed some general definition which are-

“to obtain materials, goods or services of the right quality in the right quantity from the right source, delivered to the right place at the right price”

(Kenneth Lysons & Michael Gillingham, 2003)

“Purchasing is the management of the company’s external resources in such a way that the supply of all goods, services capabilities and knowledge which are necessary for running, maintaining and managing the company’s primary and supportive activities is secured under the most favorable condition”

(Arjan J. van Weele, 2005)

Here the writer refers to all activities that are aligned with the company’s overall business strategies and interest. He also refers that purchasing is related with supply chain management but it has its own field and strategy.
3.2 Different Perspective on Purchasing

Purchasing has a strategic role to play from different perspective. That’s why organization keeps it centre too. Purchasing may play for cost reduction, product and process innovation and so on as one of the key function. So here I want to introduce some perspective that make purchasing as a valuable weapon.

3.2.1 Purchasing as a supply or value chain

Purchasing, along with such activities as production, warehousing and transportation, is one of the links in the sequence of process by which design and resources are converted into finished goods that satisfy the needs of customers or consumers.

In many business strategies the concept of “value chain management “plays a central role. And when many industrial companies describe the value chain than the role of purchasing and supply are taken as important key term (Porter 1985). Porter’s value chain is still useful concept for explaining the role of purchasing strategy. Poter’s opinion emphasized the strategic importance of purchasing to organizations which he shows in his value chain model. Generally known as Porter’s value chain model.

Figure 1: Porter’s value chain model (1985)
Porter distinguishes between primary activities and support activities. Primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these primary activities is linked to support activities which help to improve their effectiveness or efficiency. There are four main areas of support activities: procurement, technology development (including R&D), human resource management, and infrastructure (systems for planning, finance, quality, information management etc.). The term ‘Margin’ implies that organizations realize a profit margin that depends on their ability to manage the linkages between all activities in the value chain. In other words, the organization is able to deliver a product / service for which the customer is willing to pay more than the sum of the costs of all activities in the value chain. The linkages are flows of information, goods and services, as well as systems and processes for adjusting activities. Their importance is best illustrated with some simple examples:

Only if the Marketing & Sales function delivers sales forecasts for the next period to all other departments in time and in reliable accuracy, procurement will be able to order the necessary material for the correct date. And only if procurement does a good job and forwards order information to inbound logistics, only than operations will be able to schedule production in a way that guarantees the delivery of products in a timely and effective manner – as pre-determined by marketing (Dagmar, 2001).

So there is close relation among all functions which make a perfect value chain. If anyone is denied than others could not serve completely.

Porter’s regards procurement as a supportive activity. He uses the term procurement rather than purchasing since, as he argues the usual connotation of purchasing is too narrow among manager (Porter, 1985). Although this statement was made many years ago but still it is true for many organizations. This is actually a lack of entire corporate strategy if any organization does not realize the contribution of purchasing in the value chain.

Symbol is enough for wise people. So this is time to realize the symbol.
3.2.2 Purchasing as a process

Traditionally purchasing is a process of buying. It involves determining the purchasing needs, selecting the supplier, arriving at a proper price, specifying terms and condition, issuing the contract or order and following up to ensure proper delivery and payment. The purchasing function is regarded predominantly as an operational activity.

Van Weele (2005) define the purchasing as a process by some activities aimed at (Van weele,2000)-

- Determining the specification of goods and services that need to be bought.
- Selecting the best possible supplier and developing procedures and routines to select the best supplier.
- Conducting negotiation in order to establish an agreement and legal contract.
- Placing order to select the supplier/to develop efficient and effective purchase order.
- For secure supply, control and monitoring the order(expediting)
- Follow up and evaluation.

Here the writer illustrated the main activities within the purchasing function that imply it as a process and the steps are closely interrelated. In order to be effective purchasing operation it should be closely linked to other operational activities. In author’s opinion purchasing function should support these six activities that mentioned below-
This purchasing process model illustrated the main activities of purchasing department that imply purchasing as a process.

These two wider perspectives keep purchasing in the spotlight of operation management. While it was used as sub area of other discipline now it is used as one of the core activity.

When core and non core activities were gaining attention for achieving competitive global business advantage then strategic purchasing also come out in spot light. The idea of strategic purchasing was emerged in 1980. From 1980 purchasing began to involve with corporate strategy for achieving competitive advantages. And also an empirical definition for strategic purchasing was developed by Carr and Smeltzer(1997).

Three factors to be indicators of strategic purchasing:

- The purchasing function has a formally written long range plan,
- Purchasing long-range plan is reviewed and adjusted to match changes in the company’s strategic plans on a regular basis
- Purchasing’s long-range plan includes the kinds of materials or services to be purchased.

From this definition it can be said that the purpose of strategic purchasing is to achieve the long term goal for the organization. So in present business area it is one of the most concerning point to make a strategic purchasing.
One of the biggest food company Nestlé Ltd they also focus the importance of purchasing that bring out purchasing in top line among the industries. The vice president of Nestlé Ltd gave a speech on it and that define the purchasing as -

“Purchasing is the strategic sourcing of materials, goods and services most appropriate for the purpose for which they are intended at the lowest total cost of ownership.”

(Gordon S. Gillett, 2005)

Here the company fined this approach as one of the profit making equipment (cost reduction) that engaged with entire corporate strategy for achieving the company’s long term goal.

3.3: Factors to obtain the Strategic role of purchasing
When purchasing is really acted as strategic role, researchers have identified some factor that make purchasing effective. And Joseph R. (1996) found seven factors after his long term research (Joseph R. & Narasimhan R. 1996). Here the seven strategic factors and their key components are outlined below:

- **Factor 1: Importance of the purchasing function.**

  1. Degree of top management emphasis on the purchasing function
  2. The existence and the importance of the planning process in the procurement function
  3. Purchasing emphasis on total quality management and customer satisfaction in defining its mission.
  4. Purchasing’s role in the corporate business planning process

- **Factor 2: Interaction with suppliers**

  1. Whether or not the company employs formal reward/ recognition programs for its suppliers
2. The number, or lack, of organizational layers in the purchasing function
3. The level and quality of purchasing interaction with suppliers
4. The degree of supplier training
5. The degree of formal evaluation of purchasing personnel (based on their involvement with suppliers)

- **Factor 3: Level of interaction with other functional areas**

1. The degree of implementation of quality improvement programs
2. Years of experience with such programs
3. The overall relationship of the purchasing function with the other functional areas within the firm
4. The degree of active interaction with other functions

- **Factor 4: Human resource management**

1. The degree of empowerment provided to purchasing personnel
2. The extent to which purchasing personnel are recognized and rewarded
3. The degree of emphasis on training purchasing personnel
4. The level of job security perceived by purchasing personnel
5. The degree to which purchasing personnel are encouraged to take risks without fear of punishment

- **Factor 5: Influence over suppliers**

1. The ability of purchasing to exert power and influence over suppliers
2. The degree of supplier involvement
3. The degree to which purchasing can access internal and external supplier information

- **Factor 6: Competitive focus**
1. The degree of single sourcing as a percentage of total purchases
2. The use of Just-in-Time purchasing concepts
3. The degree of understanding of internal and external customer needs

- **Factor 7: Purchasing organization and structure**

1. The degree of decentralization of the purchasing function
2. The degree of purchasing involvement in and interaction with the manufacturing function
3. The degree of assigned responsibility for total quality management and customer satisfaction to purchasing
4. The degree of risk sharing (e.g., cost, information) with suppliers

3.4: Why Purchasing is important

3.4.1: The strategic role of purchasing

Purchasing can contribute to improve a company’s return of net assets in two ways:

- Reduction of all direct material cost
- Reduction of the net capital employed by the company.

The direct material cost reduced by measures such as introducing new supplier and competitive tendering. And net capital employed reduced by for en example of longer payment terms and just in time agreements (Van Weele-2005)

Purchasing materials and services typically represent the largest single element of cost in a company which emphasis the importance of purchasing (pooler & Franey, 2004).

The purchasing department may also contribute to a company’s competitive position in more indirect ways. The contribution are-

- Reduction of quality cost.
• Production standardization.
• Stock reduction.
• Increasing flexibility and fostering the purchasing synergy.

The indirect contributions do often in practice save more money than the indirect savings on purchasing price. (Van Weele-2005)

Also Gonzales-Benito (2007) shows his research that purchasing may act as a strategic role for business efficiency. Purchasing has a capability for making a positive impact on business performance. Also integration of purchasing function and business function leads the competitive advantages. So purchasing can act as an important strategic role for making impact on business performances.

It is widely agreed that the involvement of purchasing in a strategic context (Carr and Pearson, 2002) can enhance a company’s financial performance and improve the firm’s overall competitive position (Speckman, 1989). Also the integration of strategic purchasing can impact on manufacturing performance and added value to its customer (Paul D. Cousin, 2005). That is imply the purchasing is related with overall business strategy to achieve the competitive business advantage. Also it was a question from 1970 that why purchasing strategy is not linked with corporate strategy of firm (Paul D. cousins, 2005). Because if organization can minimize its production, manufacturing or assembly cost than in the same time it can increase its profit. As well as Van Weele shows in his “Purchasing and Supply chain Management” that purchasing/sourcing is one of the important issue to integrate with overall business strategy for getting ultimate competitive position in the market. Also he shows strategic triangle in which one of the triangle contains purchasing/sourcing. Integration purchasing decision with overall business strategy focus on cost reduction and differentiation that’s brings positive business outcomes. in another literature Cousins describe one of his hypothesized model where writer stated purchasing strategy collaboration with other strategy actually shows the operation collaboration, marketing collaboration and strategic collaboration from where firm’s can get long term business profit by developing the business, maximizing the market and developing the business relationship.
3.4.2: Strategic Role of purchasing for getting competitive advantages:

The true fact that purchasing decision has an impact on firm performance has been recognized. Research has shown that firms operating in the same market while follow the same strategies can have dramatically levels of performance. If we analysis that how can this difference exist than result will be come from various strategic level. Another research suggests that such varying levels of firm performance result from differences in fictional level capabilities and strategies. In a group of manufacturing firms there are significant differences in capabilities and resource allocations between individual companies pursuing the same strategies, with a significant correlation between functional level capabilities and corporate performance. Simply put, “poor” purchasing decisions might lead to inferior corporate performance, and “good” purchasing decisions might lead to superior corporate performance. Specific recognition of purchasing potentially positive role in corporate strategy is relatively new. Research published in 1978 has questioned the contribution to be made by purchasing to corporate performance. This research showed that during a time of critical material shortages in 1973, the purchasing function did not move to improve either its role in or its impact on corporate strategy. Throughout the 1970s, role of purchasing in the company was viewed by many as much more administrative and strategic. Research published during this period showed that top management viewed purchasing as playing a relatively passive role in the business organization. The status accorded the purchasing function in a company frequently is determined by the image the function projects to personnel outside purchasing. Support throughout the firm will determine the status of purchasing and the role purchasing plays in the firm. Unfortunately, most nonpurchasing personnel have a very simplistic view of the purchasing function, and they understandably demonstrate little regard for internal purchasing performance measures which they view as mainly tactical. So by emphasizing on it during the 1980s, the linkage between purchasing strategy and firm performance began to be established. Firms began to realize the impact the purchasing function can have on their competitive position, and they gradually shifted the role of purchasing from tactical to strategic. Clearly, if purchasing is to sustain this move
from a tactical to a strategic role, there must be a shift in focus by purchasing personnel from efficiency to effectiveness. Purchasing department must think in terms of the potential strategic implications of their actions and routinely interact with other functional managers to develop coherent and integrated strategies. Also it need to be stated that watts(1992) was one of them who emphasized the link between corporate and purchasing strategy :

“The purchasing department strategy can be considered as the set of decisions aimed at Procurement of materials and services necessary to support operational activities those are consistent with the corporate strategy. Production and purchasing strategy must be aligned in order to support corporate strategy”.

From those above statement it can be clarified that the linkage between purchasing strategy and corporate strategy has strong relationship. By strategic purchasing organization can able to get competitive advantage.

3.4.3: Objective and task of purchasing strategy

Although in present days the purchasing wings is expanding more and more but still there are some core task and responsibilities of purchasing that helps an organization to make business running smoothly. Poller and Franeys(2004) mentioned two objectives that establish in purchasing process

1. Assure economic supply through the procurement of goods, services, supplies to keep the company in operation.
2. Contribute to profit by efficiently controlling the total cost of the operation.

They also mentioned some more specific objectives and task-

- To get the best buy- suitable quality at minimum cost.
- To pay reasonable low price, negotiation and executing all company commitment.
• To develop satisfactory sources and supply and maintain good relationship with them.
• To secure optimal supplier performance, sometimes by seeking process improvements across boundaries between trading partners.
• To locate new and better materials and product.
• To keep inventories throughout the supply chain as low as its consistence with company needs.
• To carry out programs to continually reduce total cost of purchases.
• To develop effective control and procedure.
• To keep acquisition cost at minimum compatible with optimal performance.

Also Van Weele(2005) shows the strategic role of purchasing in any organization.

❖ **Contributing to the continuity of the company’s primary activities**

The purchasing department shall provide the internal customers with the product and services needed. The primary task is to secure supply from reliable supplier at consistent at quality and reasonable total cost.

❖ **Control and reduction of all purchase related cost**

The product and service shall be supplied to lowest total cost of ownership. Total cost of ownership included direct material cost and all indirect cost related to handling. A major task is to ensure that product and services are bought to competitive price from the best suppliers that can be found.

❖ **Reduction of the company’s risk exposure in relation to its supply markets**

The company should avoid becoming too dependent on just a few suppliers. In order to minimize the risk in the long term purchasing requirements should be spread among different suppliers.

❖ **Contribution for product and process innovation**
Suppliers are often a source of new products and production technology. In some cases partnership with suppliers in the research and developments field is appropriate.

The value of the company is partly determined by what its objective and task for evaluate core competencies. It is therefore important that purchasing according to a minimum set of purchasing procedures which describes how orders are placed, who is authorized to make purchasing decision and how to structure the strategic purchasing process.

4. Research Analysis Model

4.1: Model by Gonzales – Benito

Figure: Analysis Model for relationship between purchasing strategy and business strategy (Gonzales-Benito, 2007).
This model shows the relationship between purchasing and business strategy that can make a positive impact on overall business performance. This model suggests that:

- Purchasing efficacy has positive effect on business performance.
- Strategic integration of purchasing and business strategy makes a positive performance of business.

So it imply that purchasing strategy and business has strategy has a relation that can make an impact on overall business.

4.1: Model for purchasing collaboration and business development

Here I show the hypothetical model that implies the necessity of purchasing strategy to integrate with overall business strategy (cousins, 2005):

![Diagram](image)

Figure: cousin’s hypothetical model for purchasing collaboration and business development

This hypothetical model suggests, there are three phase of collaboration:
• Operations
• Marketing
• Strategic collaborations.

Operational collaborations are consists with the management of the operational systems, for example sharing planning and sales information, linking order management systems. Marketing collaboration is concerned for managing the customer interface and focus on issues such as co-branding, managing marketing channels and joint selling; and finally strategic collaborations, focus on the development of joint risk and reward sharing agreements, shared product engineering, technology sharing, etc which linked to three kinds of business outcomes:
• Business development
• Market share and
• Relationship development outcomes.

This literature concerned about purchasing and its impact on overall business strategy. So which question was raised in 1970 that why purchasing strategy is not linked with overall corporate strategy here we find the importance of integration between purchasing strategy and business strategy that makes it effective purchasing strategy which can bring a benefited future for firm.

5. The case of YTO

This chapter introduces the viewers and readers to YTO and the Purchasing strategies of this automobile company which is my base of this thesis-

5.1: YTO the Company

YTO Group Corporation which is known as China Yituo Group Corporation Limited, formerly known as China First Tractor and Constructional Machinery in 1955, based in Luoyang in China, through its subsidiaries, manufactures and sells agricultural machinery, construction machinery, power machinery, vehicles, and spare parts. Mainly this giant group offer agricultural machinery, including wheeled tractors, harvesting machinery, crawler tractors and farming equipment and. Its also provide equipment for plowing, seeding, and field management. As well as
the company also offers construction machinery and related equipment. This company has its own factories, plants, field offices, and sales and service agencies in Asia, Europe, Africa, North America, South America, and Australia. Also company has its additional offices in the United Kingdom, Egypt, Algeria, Ukraine, Dubai, Azerbaijan, Kyrgyzstan, Pakistan, Iran, and Kobe, as well as in Shanghai, Shenzhen, Xinjiang, and Beijing, China. In 2008, February 20, YTO Group Corporation operates as a subsidiary of national Machine Industry of China.

5.2: Product of YTO

This company has some different kinds of product, that I mentioned by categories-

- **Agricultural machinery:** this is one of the first generation companies who produce the agricultural machineries. Basically it produces power machine, tractor as well as various kinds of harvest machinery. It also provided complete set of equipments which are used for agricultural work. The marketing and services network of this company covers china with other Asian country, Europe, Africa, north America, south America and Australia where it has factories, plants, field offices, sales and services offices.

- **Construction machinery:** Manufacturing of construction machinery and its related equipment are also produces under YTO Group Corporation. Also it was the birth place of Chinese first road roller. It keeps its dominance in the field of compaction machinery technology. Also for industrial bulldozers, road surface spreaders, mixing machinery, loaders, forklift trucks, towed concrete pumps, excavators, laser land levelers, etc this company lead the country.

- **Vehicles:** from 1960, this company developed china’s first load carrying off road vehicle. Recently this company also entered the heavy duty vehicles production process with the YTO motor truck series. Vehicles product also an important part of YTO Group.

- **Power machinery:** this company always concern about energy problems and have their own research and development department to solve these problem. Its developed low public nuisance engine and energy
saving mobile electricity general system. The power generation machinery of this company are widely applied in such trades of tractors automobile, forklift trucks, harvesting machinery, loaders, ships and electric generating sets as well as in the trade of conducting operations in field powerless environment.

**OEM:** OEM is original equipment manufacturer that means the company makes devices from component parts bought from other organization. This company has its own manufacturing base of specialization tools and equipment that it can able to supply various kinds of parts and components for production and manufacturing of agricultural machineries, automobile constructions machineries and power machineries. It has customer that co operated with it from Japan, United Kingdom, United States, Canada and Germany. Without these products YTO group also produces firm produces process equipment, bicycle, beach chair, supermarket salves, and complete sets of beverage equipment.

**5.3: YTO World wide**

Today YTO group produce more than 80% of Chinese agricultural products. The annual production of this company is about 6000 wheeled tractors and 25000 crawler tractors. This company also manufacturer between 150000 to 200000 small and medium sized tractors each year. Not only the Chinese market but it also captures some other market like Japan, Canada, Australia, United States, United Kingdom, Thailand, India, Bangladesh, Pakistan, Korea, Vietnam, Middle East, and Africa. Recently it already entered the European market that was a big challenge for it. But it makes a good position on European market.

Now this company has more than six million Yuan with 25000 employees with 20 subsidiary and 50 factories over the world. And company export it’s product over the 70 countries through its subsidiary YTO international.

**5.4: international certificate for YTO**

YTO group also concern about environment and climate. So they want to produce the environmental friendly product that does not harmful for earth. And that’s why
this company developed low public nuisance engine and energy savings mobile electricity general system. And these are one of the identities of this company that’s why it was easy for this company to enter the European market. Also this group got its credit to take contribution on quality and earth.

- This company successfully passed the ISO 9000 quality management system.
- Also got the environmental management system certification ISO 18000.
- Passed the occupational safety and health management system certificate ISO 14000.
- Also got the ISO/TS16949 quality management system management.

5.5: Purchasing department of YTO group

like the other department YTO group also has it separated purchasing department. And this department also has it own chain of command which is extremely related with the overall corporate chain of comm Because by using this strategic purchasing YTO group is entered a new market with a new product that enhance their business competitiveness. That means for the decision making organization also focus on their purchasing department and include it one of the key weapon to get competitive advantages. Here I show the purchasing department of YTO group:

![Purchasing department of YTO Group](image)

5.6: Purchasing Process of YTO: though the purchasing process of YTO group is almost similar like other organizations. But it has one differentiation that occurs in the 3\(^{rd}\) step of its process. In the third step of it’s purchasing process, company focus on their strategy (Purchasing strategy + Business Strategy). If it
does fulfill with these two strategies than it is going for step four that means final negotiation. Here I show the purchasing process of this company that makes easy to understand its strategic purchasing process:

![Diagram of purchasing process]

Figure: purchasing process by YTO Group

5.7: Purchasing strategy of YTO

When YTO group is becoming one of the growing giant group who can able to cover maximum market share that times it was found that it has a very good relation between its purchasing department with other department. Also it has strategic purchasing that brings fruitful result for it. Company makes a mutual strategy between its purchasing and corporate strategy. Also YTO group focus on its purchasing strategy to entered the new market. And company believes without this role of strategic purchasing maybe it was difficult to enter the new market.

5.7.1: Entering the European Market: In the time of entering the European market this company concern the purchasing as a strategy. YTO group has a good relation with its one of the supplier “Perkins Engine” whom supplies products and equipments that are not harmful for environment, also low public nuisance equipment and power savings products. There is very few company whom can produce such as power savings product so these products are treated as special product which is not harmful for the environment. Also YTO group and Perkins Engine have long term relationship that implies the reliability relation between these two organizations. When European market is concerned about the environmental issue that time it was tough to enter that market from any Asian developing country because of product cost, market share etc. But YTO group makes it true by having a trust worthy relationship with its supplier and providing
the suitable equipment that was needed for the European market. Manager also stated that they have around 20 year’s business relation which gave a new look to their purchasing strategy. Supplier also knows what exactly they need to supply because of their parallel relationship between the supplier and YTO, the manager stated. This strategy makes new twist for the company. Though they have general strategy for purchasing but here they took the people’s concerns on the environmental issue by their strategic purchasing for achieving the market and it was related with their overall corporate strategy. And for these reasons, at the same time they are entering a new market, achieving the market share with the facility of economic of scale.

5.7.2: Entering the Australian market: In the mid 90th decade when Australian market was growing up and become a lucrative place for business and development that time YTO group also entered that market with its purchasing strategy. Company uses their purchasing process as a one of the strategic role. Most of the time modern agricultural equipments are harm full for environment and human life and government & people always seeks which could be helpful form them. That time YTO group was coming with their purchasing strategy that could give the power savings product with minimum price. Because the company has long term relationship with this supplier and the supplier could able to supply the product with minimum cost which seems an extra benefit for the YTO group. As long they can get lower price from their supplier, company can also offer comparatively lower price from their competitor. Though YTO has several supplier but mostly they choose Parkin’s engine because of their price facility, product quality and a long term relationship that could help them to make a better purchasing decision, the manager stated. Furthermore the manager claims that the products from parkin’s are good enough to get the customer’s concern. He claims further that at the same time when they get the standard product company can able to introduce their product within e reasonable price that was the another benefit from the good collaboration with their supplier. So the ultimate customer can get some facility such as- high quality products within a reasonable price. Also all of those products are less power consuming and environment friendly which also help to get customer concern. Though they have after sale service facility but company
believes on purchasing strategy that helps to achieve their product quality and price to meet their customer demand. 

So it could be stated that a good and effective purchasing strategy may help to reach the corporate goal if there is a parallel relation between this two strategies. Both of these ultimately help the company to get the competitive business advantages that competitor got several years later.

6. Analysis

6.1: Relationship between purchasing strategy and business strategy

When I analyze the Cousin’s and Gonzale’s analysis models then it was clear to see the relationship between business strategy and purchasing strategy. Because both of these two models show the integration between these two strategies brings some advantages for business. So here the relationship is situated. And according to my case company they also state in their purchasing strategy that they also try to make a parallel relationship between these two strategies. So theory and real world are same in here. And the relationship between these two strategies is like-

![Diagram](image)

**Figure: Relationship between purchasing and business strategy**

This relationship is came from the Gonzales-Benito’s (2007) hypothetical model where they show that together business strategy and purchasing strategy are making positive impact on business performances. That was also happened in YTO group. They also integrate their business strategy and purchasing strategy. Because to enter a new market strategy is the business strategy and how to enter that market with new product was the purchasing strategy. So when they integrated
these two then they successfully entered a new market that brings some competitive advantages for them.

6.2: Strategic Role of purchasing for getting competitive advantages

6.2.1: Impact on Competitive Advantages

It is over that organization neglect the purchasing department as subsidiary department. But now purchasing can make an important impact in competitive advantages. And that is not any hypothetical thinking but it is executed by some company as well as my case company. Here organization can find that strategic purchasing does not for only short term value (cost reduction) but also able to make long term value (cost + acquisition)( Matthew, Thompson.1996). By analyzing the case company here I come to conclude that YTO group also entered and cover a new market by their strategic purchasing. Now come to the question how? And the answer is- for entering the new market and getting the highest market coverage with a competitive business value YTO group purchase the equipment from Perkins Engine who produce environmental friendly and low public nuisance equipments. To entered the European market and Australian market YTO group needs these strategy. Because European customers are more concern about environment and products that are friendly for earth. Also it was same in Australian market. As developing country’s company it was hard for YTO to manufacturing these kinds of product which takes a lot of cost and time. So by this purchasing decision of YTO group, it reduces the time, cost also improve the product quality as well as helps the company to enter a new market. That means this strategic purchasing makes the long term value for my case company. So, company gets the higher competitive advantages that others company do not have. These make competitive advantages for the company.

Here I show pictorial analysis models that how can this company getting competitive advantages by its strategic role of purchasing:
Figure: competitive advantages by the role of purchasing strategy

From this model it is easy to understand about the competitive advantages that were getting to YTO group by their purchasing strategy. In Cousin’s Hypothetical model he also implies the same advantages that can be got by any organization if they focus on strategic purchasing. And here we find that the result of YTO group and the result of hypothetical model by Cousin are same.

- Market share: entering a new market is showing that they also achieve the market share in that new market. But as a new comer there is a possibility that they couldn’t achieve a high market share but it’s also a remarkable stage for the company that by comparing with the competitor they are first one who can enter a new market.

- New business relation: Also for achieving this new market they have to make collaboration with their supplier Perkin’s Engine. And its make a new business relation between these two companies that is important for getting competitive advantages. When they are succeed in Australian market then they entered the European market that seems the bonding between their relations is strong and trustworthy. For any new business Relation it’s tough to trust each other.

- Business development: Entering a new market by making a collaborative relationship is shows the business development because they are able to make their business in a totally new market.

So there is no doubt that the role of purchasing can able to make impact on getting competitive advantages.
6.2.2: Effects on Business Performance

Purchasing plays a strategic role for increasing profit and shareholder value. Mostly purchasing performance is measured for accounting measurement such as ratio of purchasing operating expenses of total purchase dollar expense and ratio of purchasing operation expense to sales revenue (Seaman et al, 1992). But in 1991 Dumond state that purchasing performance can focus on efficiency, effectiveness or both. Generally efficiency defined the ratio of input and output. That means cost and revenue with minimum time. Effectiveness consists in terms of intangible, like as good supplier relation, having a long term business relation, collaboration with other department. In order to provide a holistic view it need to focus on both efficiency and effectiveness.

Whatever business strategy is developed, but it need to collaboration with the other departments for making a competitive business strategy. So organization needs to integration with purchasing and others department to make an effective overall performance. Moreover, purchasing plays a key liaison role between external suppliers and internal organizational customers in creating and delivering value to external customers (Novack and Simco, 1991).

Even though, purchasing strategy has internal and external effect that makes business organization more dynamic than it’s competitor. But both of these effects are increasing the business value that I got from this case company:
1. **Market achievement:** collaborative strategic purchasing makes an impact on market achievement that ultimately effect to business value. For this case company when they are able to enter their new market (Australian market + European market) and that was possible by their purchasing strategy. But ultimately what they did? They entered and achieve a new market that increases their business wealth.

2. **International collaboration:** also YTO group has a collaborative relation with Perkin’s Engine over 20 years. And they have a long term relation that they can able to achieve mutual goal. Because this collaboration make some dynamic capabilities that help for building business wealth.

3. **Business Value and competitive advantages:** also another important effect of purchasing strategy is to increase the business value and competitive advantages. When the organization increase its market share and getting some international collaboration facility that will of course make some competitive advantages and business value like this company. To enter the European market is very tough when it is a simple Asian automobile company. But by using a little tact this company is able to make a successful entry to European market. Also it is the first Chinese automobile company that entered the European market to sell their agricultural vehicles. That
treated a extra value for this company as well as they also feel the first mover facility.

Purchasing always plays a strategic role for achieving firm’s profit and enhanced shareholder value. Any typical industrial buyers spend more than half of every sales dollar on purchased products. The potentiality of purchasing to impact the bottom line is self evident (Degraeve and Roodhooft, 1999). A one percentage point saving in purchasing cost can improve the margin of sales by half a point. This significance of purchasing makes it relevant for manufacturing firm to understand which purchasing approaches make the business effective and efficiency. Also these purchasing processes can contribute to their overall market success and profitability by cutting hidden cost and wastages, rework, returns. (Swinder et.al, 2001)

7. Conclusion and further research

This is an era of “alliance capitalism” (Gerlach, 1992), ability to build and manage supply-chain relationships concern as a critical organizational asset that can generate durable strategic advantage. Based on this pillar this paper investigates that from which context purchasing strategy foster the management capabilities and achieving the organizational goal. These capabilities can enhance the business performance effectively and efficiently. From my case company, it can conclude that:

- Business strategy has a relation with the purchasing strategy. The YTO group illustrates that when a company is able to align the corporate strategy with strategy of other departments it could reach its goals. This company has set an objective to enter new market and in order to achieve this objective they use their purchasing strategy as a weapon. As an effect they are enjoying new market shares in a new country. So overall business performance does not only depend on one department’s strategy but it depends on how the company designs the relationship between all departments and aligning their strategies.
The case company illustrates how competitive advantages can be obtained by applying a new purchasing strategy. By the chosen purchasing strategy YTO group has entered a new market with a new product that enhances its business competitiveness. By entering a new market, the company obviously enjoys new market shares. A successful market entry in addition improves the relationship between the company and their supplier which in turn forms a good basis for further and joint business development. The study thus underlines the strategic role of purchasing for achieving competitive business advantages in any company.

The main point is that the purchasing strategy is important for achieving competitive advantages. But it is not only about the purchasing strategy, companies also need to focus on the strategic partners to achieve the goal. In order to evaluate how well the suppliers can create business value, further research can investigate “How can strategic partners create business value”.

8. Managerial Implication

This study contributes to implement the strategic role of purchasing process among the corporate strategy and purchasing strategy. Also it analyze that purchasing strategy can create an extra value for the organization. Here I investigate the way that how the role of purchasing strategy make an impact for getting competitive advantages. And also proved that how it can affect on overall performance of the business organization. Specifically from my result findings part, I got -

- Collaborative purchasing strategy
- Long-term buyer supplier relationship
- Operational Integration
- Mutual understanding for goal achievement

These are really important to imply the strategic purchasing which can able to create dynamic capabilities and competitive advantages.

According to the operations management theory, researchers have invented strategic purchasing (Carr and Pearson, 1999):
• Potential links between manufacturing and corporate strategy and firm performance;
• Provide the beneficial of in the entire organizational functions. For example, product development and market achievement.
• Also begets a good “fit” with the firm’s strategic requirements and external environmental contingencies

The result of this study demonstrate that strategic purchasing can play a vital role for getting some competitive business advantages like-

1. Entered a new market.
2. Creating international collaboration.
3. Developing a new business value.
4. Maximize the market share.

Purchasing strategy also has some general contribution to reduce the production cost and time. Moreover this can imply for wealth maximization too. Thus, a focus on building the strategic role of purchasing concept able to integrate with the corporate strategy that can brings benefit for organization.
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