

LITERATURE REVIEW OF PURCHASING MANAGEMENT IN SERVICE INDUSTRY

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Abstract: It's necessary for every organization in service industry to purchase goods and services in order to carry out its missions and goals. The objectives of this paper are to review the knowledge and develop the argument of existing research findings about purchasing management especially in service industry. There are three phases in the purchasing management that have been discussed in the section of literature review in this paper, including objectives of purchasing management; global sourcing and partnership relationships with suppliers.

Key words: literature review, purchasing management, global sourcing, partnership relationships; supply chain

1. INTRODUCTION

Every organization needs to purchase goods and services in order to carry out its mission and goals (Zsidisin & Ellram, 2003). The objectives of this paper are to review the knowledge and develop the argument of existing research findings about purchasing management especially in service industry. Two reasons explain why this paper mainly focuses on purchasing management rather than other issues of supply chain management. Firstly, recent studies have shown that firms especially in the service industry in western countries such as America will be challenged ever more intensely in reducing the transaction costs of purchasing and obtaining the competitive advantages in next 20 years (Carr & Pearson, 2002). Additionally, despite extensive conceptual based supply chain literature, Malon and Benton (2002) argued that not many researchers have attempted a more rigorous analytical approach to purchasing issues. There are three phases in the purchasing management that have been discussed in the section of literature review in this paper, including objectives of purchasing management; global sourcing and partnership relationships with suppliers.

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2. INTRODUCTION OF PURCHASING MANAGEMENT AND SUPPLY CHAIN MANAGEMENT

Before the literature review of those three phrases of purchasing management, it is necessary to briefly introduce what terms of purchasing management and supply chain management mean. The term of Supply Chain Management was originally introduced by consultants in the early 1980s and has subsequently gained much attention(La Londe,1998).Besides, as demonstrated by Slack, Chambers and Johnston(2004),from the perspective of a single operation in the chain, supply chain management can be seen as managing the operations that form its demand side management(physical distribution management)and supply side management (purchasing management).Consequently, purchasing management is accepted as a term for the supply side of operations that deals with the operation's interface with its supply within the supply chain(Slack, Chambers and Johnston,2004).

3. LITERATURE REVIEW

This section reviews the relevant literature of objectives of purchasing management, global sourcing and partnership relationships with suppliers within the purchasing management field.

3.1 Purchasing management Objectives

Objectives of purchasing management are traditionally recognized as purchasing at the right quality with the right price at the right delivery time and in full, and purchasing to retain flexibility(Slack, Chambers, & Johnston,2004).Additionally, according to the research by Kannan and Tan(2002),the firm's purchasing management objective is to consistently obtain the good qualities and delivery performance from its suppliers. For example, a supermarket will obtain a relatively larger value margin when it provides products for the customers if the organization can buy the qualified goods at a lower price or at a shorter delivery time from the suppliers. However, the analysis of the objectives of purchasing by other researchers is much more developed based on the following perspectives. In the research by Stanley and Wisner(2001),purchasing management is upgraded into the higher level of part of important business strategies that provide added value for it's immediately or ended customers.

Similarly, according to Smeltzer, et al.(2003),purchasing functions are not just the matter of price and delivery time, but they are aligned with the organization's long-term goals. Furthermore, Smeltzer, et al.(2003)also argue that in order to complete firm's strategic goals, selecting the right suppliers to ensure their dependable and flexible supply is one of purchasing management objectives also.

Based on the discussion above, evidences have identified that the objectives of purchasing has been upgraded from the traditionally functional levels which only focuses on purchasing at lower price or within shorter delivery time up to the strategic decision levels which is aligned with the organization's long-term goals. In the research by Stanley and Wisner (2001)again, they pointed out that purchasing function has changed significantly in the last 15 years from pure transactions-oriented order processors to supply managers with an emphasis on supply chain management strategy for adding value for customers and meeting the company's long-term goals. Besides, Carr and Pearson(2002)addressed that since the demand of his customers will probably change at will, one of the important firm's objectives of purchasing management is to make sure that it can obtain the dependable and flexible supplies from its suppliers.

3.2 Global sourcing

In order to understand how to complete purchasing objectives more successfully, global sourcing is analysed in this part of section. Global sourcing as one of trends of purchasing is a powerful factor in developing a global competitive advantage(Samli, Browning & Busbia,1998),According to another research by Cho and Kang(2001),in the last several decades, firms in the USA have faced increased competition from all around the world and the competitive pressure from markets and consumers has forced many firms to improve the quality of their products and to lower the cost of bringing them into the market. Additionally, Lazowski(2004)address that with the development of global economy, sourcing around the whole world may find the cheaper product materials, labour cost, overhead expenses and exchange rates result in savings delivered directly and immediately to the company's bottom line. According to this global sourcing strategy,a critical issue is to focus on the right countries from which to select the supplier because there is a great variation in the infrastructure, local laws, customs and attitudes toward business from country to country and it is important to assess all costs and risks carefully since wide regional variety also exists within many countries.

According to the discussion of existing literatures of global sourcing, it is can be concluded that one of the biggest benefits of global sourcing is to help firms to complete purchasing objectives at relatively lower costs. For firms selling in mature markets where there is little or no product differentiation, providing the same quality products at lower prices has been especially critical for consumer products and cost reduction provides a competitive advantage in the market(Shippen,1999).However, n the research by Lazowski(2004)above again, another truth should not be denied that global sourcing might meet risks such as customs, local laws and so on, in different countries or areas around the world.

3.3 Partnership relationships with suppliers

After analyzing relative issues of the objectives of purchasing management and global sourcing, this part of section studies the partnership relationships with suppliers.Partnership in a supply chain is a relationship formed between two independent entities in supply channels to achieve specific objectives and benefits(Malon and Benton,2002).According to the theory of Slack, Chambers and Johnston(2004),because a traditional purchasing activity is just to purchase goods and services from outside and often seek the best supplier every time, each transaction between buyer and seller effectively becomes a separate decision and traditional market relationships between them is very short term. On the contrary, the very opposite of performing a traditional relationship with suppliers, within a supply chain system, firms are generally interested in partnerships rather than adversarial relationships because the believe that the former can provide a number of advantages over the latter(Olorunniwo & Hartfield,2001).Tan et al.(1999)hold the similar opinion that in the face of a competitive global market, organizations have downsized, focused on core competencies, and attempted to achieve competitive advantage by more effectively managing purchasing activities and partnership relationships with suppliers. Trent(2004)presented another reason why firms want to develop partnership relationships rather than simply traditional relationships with supplies that is because of the variability or uncertainty during the process of purchasing within the supply chain those results from many scenarios such as the bad communication among the supplier and buyer.

From the analysis of partnership relationships with supplier, it is found that big firms prefer to establish and develop the partnership relationships rather than just traditional relationships with their suppliers when purchasing. They have reduced their supply base so they can more effectively manage partnership relationships with strategic suppliers. Compared with the traditional relationship with supplier, partnership relationship usually is a long-term expectation. This kind of long-term relationship reduces the variability or risks during the process of purchasing. The theory from Shin, Collier and Wilson(2000)also supported the ideas that within partnership relationships suppliers and customers always share the information, for the supplier, the advantages include reduced uncertainty from the side

of his partner-purchaser, and on the other side, the purchaser also hopes to achieve improved supply continuity.

4. CONCLUSION

Through comparing and analyzing the existing literatures about the objectives, global sourcing and partnership relationships with supplier within the topic of purchasing management, results are summarized as follows. Firstly, as discussed above, traditional purchasing objectives have been upgraded to the strategic objectives which are much more aligned with the firm's long-term goals: besides, with the development of global economy, large companies usually adopted global sourcing plan to purchase the high-quality products with relatively lower purchasing costs; finally, in order to decrease the risks when dealing with the suppliers, long-term partnership with supplier is often developed by the companies, which benefits both buyers and suppliers.

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