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Achieving Procurement Cost Efficiencies in a New Zealand Telecommunication Company

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An Exploratory Study

A thesis presented in partial fulfilment of the requirements for the degree of

Master of Applied Science

in

Logistics and Supply Chain Management

at Massey University, Palmerston North

New Zealand.

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2010

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Abstract

The purchasing function in supply chain management contributes directly to the operating results and profitability of an organization. The fact that purchasing spend of an organisation is over half of its revenue highlights its potential.

Supply Chain Management addresses many aspects of a business, and it can be even more complex for a telecommunication organisation where both goods and services play a key role.

This research utilised a single case study to investigate pathways to achieving procurement cost efficiencies. The current supply chain literature was used to assess the supply chain of a telecommunication organisation with a view to quickly identify opportunities for improvement.

The research explored a number of topics as described below.

- The processes in the procurement cycle, namely Forecast, Source, Order, Pay and Review. This was used to assess the procurement process maturity and recommendations for improvement were made.
- Understanding the procurement spend is a key requirement for the development of a procurement strategy. This is typically performed by category. However this is a difficult task for most organisations. This study showed how a spend analysis and category management system can be designed and implemented. It also showed how this can be used in conjunction with a purchasing portfolio matrix to quickly focus on spend categories that would provide maximum benefit.
- Research has shown that Information technology is a key enabler in the supply chain. This study also highlighted how the current SAP ERP system and E-procurement can be leveraged in the current context to obtain process and cost benefits.
- Measurement of procurement performance is an important aspect for any process improvement exercise. The study identified relevant performance measures for supplier as well as payment performance.

- The research also showed how the SCOR model can be used to provide an overview of the supply chain and the importance of calculating some key SCOR metrics to assess opportunities for improvements.

The study revealed that a number of options are available for procurement cost reduction. It also highlights the importance of process compliance and integration with other aspects of the supply chain (especially forecasting) to exploit opportunities for cost reduction.

Acknowledgements

I would like to express my sincere gratitude to Dr. Norman Marr, my supervisor. His guidance, enthusiastic support and the advice throughout this research project has been invaluable.

I would like to thank Peter Guard, Telecom New Zealand for providing me with the opportunity of studying the procurement processes and working on a number of opportunities in the procurement transformation project (Category Management, Spend Analysis, Asset Lifecycle Management) that contributed to this research project. Thanks also to Cynthia Mathonsi, Neil Ritchie, Simon Mason and Sandra Beddis at Telecom for patiently answering my questions.

I would also like to thank Alan Win (Massey University, Auckland) for convincing me to embark on the Masters Programme and Kathy Hamilton (Massey University, Palmerston North) for assisting with the enrolment.

Thanks are also due to my employer Soltius New Zealand for permitting me to spend my downtime on completing this study. In particular, I would like to express appreciation for my colleague Siow Fong Chen with whom I have had endless discussions on procurement systems.

I am extremely grateful to my husband Ravi who has been my mentor, friend and critic and provided me with a lot of insight and guidance in this work. A big thank you to my daughters Shrividya and Vijayanthi, my mother Leela and my parents-in-law Meenakshi & Balasubramanian for putting up with my expositions and supporting me during this long process.

Finally I would like to dedicate this work to my late father, Krishna Iyer who has moulded me into what I am today and motivated me to do my best.

Jayshree

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Glossary

| Term | Description |
|----------------|---|
| APS | Advanced Planning Systems |
| Catalog | A list of items that can be purchased from a supplier. Includes item details and price. |
| COGS | Cost of Goods Sold |
| CPFR | Collaborative Planning, Forecasting and Replenishment |
| GPO | Group Purchasing Officer – The Head of the Procurement function |
| EDI | Electronic Data Interchange. The computer-to-computer exchange of business data in a standardized format. |
| ERP | Enterprise Resource Planning. Large systems like SAP, Oracle |
| ERS | Evaluated Receipt Settlement or buyer-created invoices |
| Material Group | A logical grouping of similar items as defined in the SAP system |
| OCR | Optical Character Recognition |
| RFx | RFI, RFP, RFQ, Request for Information, Proposal, Quotation etc. |
| S&OP | Sales and Operations Planning |
| SAP R/3 | The core SAP ERP transactional system. |
| SAP SRM | Supplier Relationship Management. Part of the SAP suite of applications. |
| SCM | Supply Chain Management |

| Term | Description |
|-------------|--|
| SCOR | Supply Chain Operating Reference - from Supply Chain Council |
| SKU | Stock-keeping Unit. Also known as Material number in SAP |
| TCO | Total Cost of Ownership |
| UFB | Ultra-Fast Broadband |
| VMI | Vendor Managed Inventory |