K. GRZYBOWSKA, B. GAJDZIK

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LOGISTIC STRATEGIES IN PURCHASING PROCESS OF METALLURGICAL COMPANIES

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This article presents some selected logistic strategies concerning purchasing process in production companies. Costs referring to realizing and organizing purchasing process are a substantial part of total costs of a company. In order to make a company's purchasing and supply processes efficient, it is necessary to take some steps to prepare purchasing strategy. This operation was the reason for presenting the subject in this study.

Key words: metallurgy, companies, industry, purchasing strategies, logistic strategies, metallurgical industry

INTRODUCTION

Purchasing influences the process of realising company targets. It increases the value of a company constantly, and therefore it also plays a strategic role in the company's operation [1]. Purchasing process is particularly important when [2, 3]: purchasing costs are a significant part of total costs, market and prices are unstable, the company is innovation-driven, there is severe competition on final goods market.

Purchasing is also quite important in setting company tactics. It is referred to as the process improving business cost-effectiveness. All the business activities concerning recovery, adaptation and prevention in this field allow the company to cut not only purchasing and supply costs, but production and customer service expense as well. And finally purchasing plays an operational role through its reactive activity. An external customer order (production or sales) activates the process of material good purchasing. The research on the role and importance of purchasing indicates that managers mostly identify purchasing on the operational level. Firstly, they think of it as of realizing placed orders [3], and secondly, they point out its strategic role (Figure 1).

PURCHASING DEPARTMENT IN PRO-DUCTION COMPANIES

Decentralised purchasing - it is applied in separate companies or products groups and also in businesses with diversified structure of material requirement for each of their subsidiaries. This form allows meeting material needs of the parent company. Unfortunately, some of the purchasing process double and the company is obliged to cover higher operating costs. It also loses advantages connected with economies of scale of the placed orders. Centralised purcha-sing – it is a solution that allows to meet mate-rial requirements of the parent purchasing unit. This option enables to take advantage of eco-nomies of scale because of the volume of the order. Mixed purchasing – this is the solu-tion that uses the elements of both centralised and decentralised purchasing. The only nece-ssery condition to make this form feasible is an efficient information flow system.

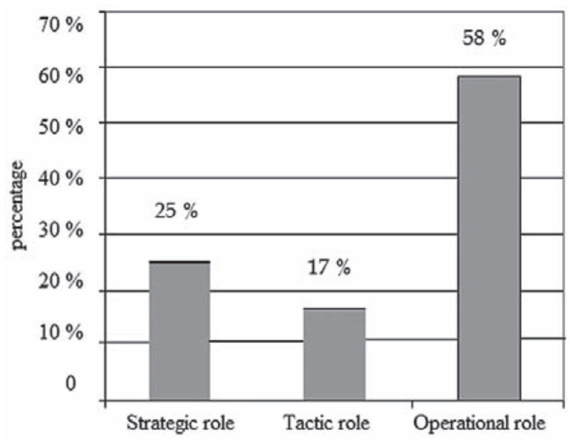

Figure 1 The role of purchasing [3]

USING PURCHASING STRATEGIES DEPENDING ON THE SITUATION IN THE MARKET

The competition in the market includes all the activities of companies competing against one another in order to make business contacts with buyers and carry out transactions. The competition process means presenting more favourable offer than other companies in

K. Grzybowska, Poznan University of Technology, Faculty of Engineering Management, Poznan, Poland
B. Gajdzik, The Silesian University of Technology, Faculty of Materials Science and Metallurgy, Katowice, Poland

the market. The rivalry may be based on a better price and terms of payment, or a range and quality of services or some other conditions. The competition in the market is the process of rivalling between independent companies for exchange of goods in the market. Economics defines it as a market structure and the final stage of competition process. Intensity of competition results from economic structure of the sector. It also goes beyond behaviour and response of present competitors. Intensity of competition depends on five basic competitive forces presented by Michael E. Porter. When we think of rivalry among companies in an in-dustry, we should take into consideration the following factors: (1) A number of competing companies in the market, (2) A diversity of competing companies in the market, (3) Barriers to entry the market, (4) Rate of industry growth, (5) Fixed costs, (6) Storage costs, (7) Supplier or subcontractor switching costs, (8) Diversity of products available in the market, (9) Intermittent overcapacity, (10) Strategic stakes which the companies in the market. Strategic attitude to the purchasing process is very often the result of crisis or a restructuring process in a company (it is an attempt to increase the company's profitability). Generally when the business is profitable or at least its situation is stable very few managers care about purchasing processes and strategies. In many organisations purchasing and supply de-partments play only a support role for production and sales departments. In these kinds of si-tuations the purchasing department's task is just reduced to mere purchasing at the request of seemingly "superior" departments. And its main responsibility is to reach a better price or prepare specifications and plans. The company's activity and creating its purchasing strategies depend not only on its competitiveness, but also on where the product is in the product life cycle [2]. It is presented in the Figure 2.

Slow sales growth is typical for the introduction stage of a newly launched product in the market. This stage is dominated by a seller. It involves high costs of promotional and marketing activities of the seller and is also connected with relatively high costs of the business. And the price of the product is also set at a relatively high level. It is usually set by the seller at a higher level than it should be – it ensures high profits for the

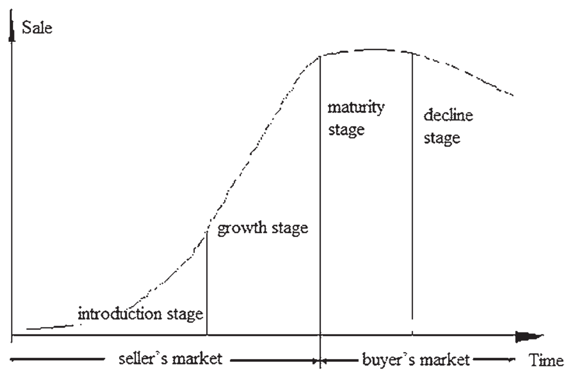

Figure 2 Product life cycle and seller and buyer dominance [1].

business selling the product. The company which buys the product in this stage of life cycle should try to establish long-term and stable relationship with the supplier [2]. The growth stage is characterised by rapid sales growth of the product. At this moment other competitive companies, called copycats, start to produce the product. In this situation the buyer has more possibilities of choosing a supplier. This is the stage where the buyer starts to dominate. But the company which entered the market as the first one has established much better supply network, more efficient production system and it is able to keep the price at the similar level. It still results in maintaining very high profits from product sales. In the maturity stage the market is characterised by buyer dominance. The sales of the product is stable. The market saturation for the product is high. Therefore the sellers must reduce the price and standarise cooperation procedures with the buyers. In order to increase their market share the suppliers diversify the range of available products and increase their competitiveness. The most basic way to gain competitive advantage by sellers is the price. The decline stage is characterised by decrease of the product sales in the market. It is caused by customers' tastes and changes of expectations, technological changes and constant technical development. The decline of sales brings on withdrawal from cooperation with suppliers. And the suppliers in order to "get rid of" ready-made products considerably reduce their price. The company starts to withdraw the product from the market, reduces the network and distribution channels. The way we perceive the purchasing strategies results not only from the general situation in the market. The purchasing strategy depends as well on the balance of power in the market it is in. The bargaining power of the company allows it to wait and adapt to requirements and conditions of the cooperation. As we make the bargaining power bigger we can achieve better and more competitive conditions of cooperation and they will increase profitability of the company. The bargaining power refers to both a seller (supplier) and a buyer (recipient, customer). The sellers bargaining power increases when the supplier market is cornered by few companies. The limited number of suppliers reduces the competition among them and it gives them greater bargaining power. The suppliers bargaining power can be strengthened when the supplier market is more concentrated than the buyers market. The bargaining power also increases when the supplier is a key or strategic partner (important for the buyer's activity) and their industrial goods are crucial for the buyer's production process. The more the production and production costs of buyer's finished goods depend on one industrial good, the greater bargaining power of the supplier is. In this kind of situation the buyer has not, or has very limited, possibilities of purchasing goods from other suppliers. There is very similar situation when the buyer is not attractive enough for the seller or when the seller-supplier has many others more serious or more prestigious and profitable buyers, then the buyers bargaining power increases accordingly. In these circumstances suppliers take advantage of their bargaining power and the position in the market. They very often choose more profitable buyers, who have greater share in the company sales. The suppliers bargaining and negotiating powers increase when the company does not have to compete against other products in the market, for example, there are available substitutes as a replacement for the proper product. They are different in the way they were manufactured, but have a similar role or use. The suppliers also dominate the market in the situation when there is forward vertical integration. The forward vertical integration means establishing close relationship between companies. It means that the buyer's company is joined to the supplier's company which is the parent business. Therefore this process is called vertical integration towards the buyers. In this case the buyer becomes "dependent" upon the dominant supplier. We can also speak of the merger through forward vertical integration in the situation where there is an acquisition of a company (forward vertical acquisition). The diagram in the Figure 3 presents forward vertical integration- towards the final buyer. In this case the supplier (indirect production) included assembly into the main activity, which is an extra operation for the company. The forward vertical integration lets the business gain access to new distribution channels, which were not available before. The suppliers are also able to strengthen their bargaining power if they decide to skip over the buyers and try to sell the products directly on the final market. But this situation more concerns consumer goods, which are targeted at a final customer – the consumer. The supplier bargaining power is also greater when the buyer switching costs to alternative supplier are higher than supplier switching costs to alternative buyer. For the buyer it is difficult to take a decision about changing the supplier because it is connected with high costs. So in this case again we can notice supplier's considerable advantage and the buyer's dependence on the supplier. It is increasingly difficult for buyers to influence the cooperation with suppliers who have strong bargaining power. It is also more and more di-fficult for them to control the costs and be able to react to changes in the market which are very often the result of suppliers' activities.

When the buyer's bargaining power is stronger it also means that they can dominate negotiations concerning conditions of cooperation with the supplier. This bargaining power indicates how much the supplier is dependent on the buyer and how much the buyer must try to win the supplier's favour. When there are many independent suppliers in the market we can speak of buyers bargaining power. The market is not concentrated; therefore suppliers must compete for the favour of buyers. In order to establish and maintain the cooperation with the buyer, the suppliers, facing strong competition, are forced to many concessions. And severe com-

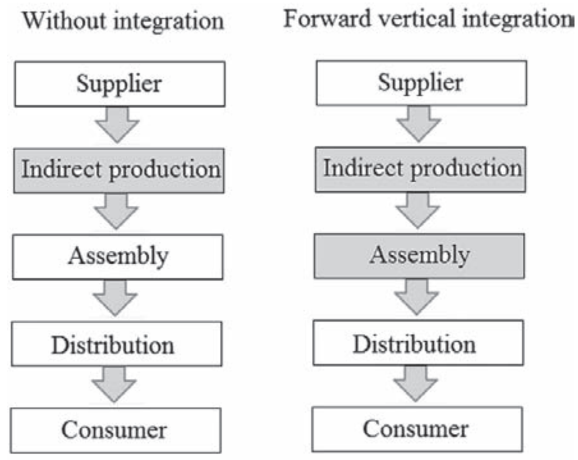

Figure 3 Forward vertical integration - towards the buyer [1]

petition among the suppliers always influences stronger bargaining power of buyers. The buyers bargaining power also increases when suppliers offer products of the same technical parameters, price and quality. The purchased goods are standardized and undifferentiated. It is very difficult to draw buyer's attention to the product which is offered by other producers in the same form, quality and at the same price. Homogeneous products let the buyer change suppliers constantly, therefore the suppliers must search for other ways of drawing the buyer interest. The suppliers offer extra services to compete, thus. In this situation the buyer is the winner who increases the bargaining power and position in the market [5]. A buyer gains large purchasing and bargaining power when they buy a large amount of goods in comparison with the size of supply. At this moment they become very important and preferred customer for the supplier. The buyers bargaining power is also strong when they strive for backward vertical integration. This kind of integration ensures the parent company control over dependent companies which produce some of the components necessary for the production of parent company own final products. It is presented in Figure 4 where the intermediate production company incorpo-

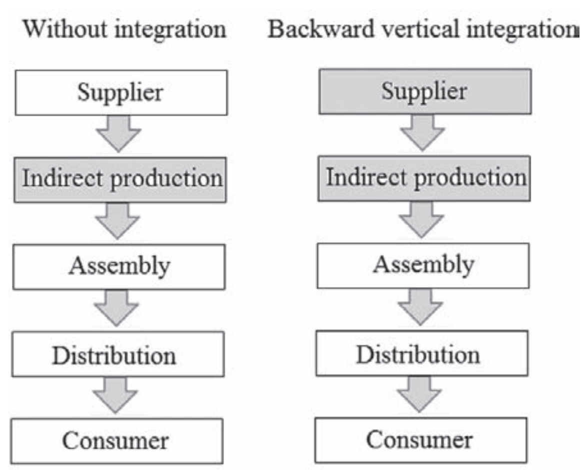

Figure 4 Backward vertical integration [1]

rates its supplier- the producer of components. vertical acquisition allows a new business to improve its market position by taking advantage of planning and coordination its activities and movement of goods, i.e. implementing just-in-time system.

It also enables total control over activities which were so far part of outside supplier's responsibilities, for example it makes possible exact supply planning which helps to improve coordination of production and operation of all the other links in the organisation. Existing buyers take over their suppliers in order to gain control over the processes taking place in earlier stages of the production, particularly it refers to technology and pricing. It gives the company better bargaining power in negotiation with other suppliers. This approach involves partial integration because the acquired company has not an actual buyer, but it becomes a danger to competitive suppliers.

INTEGRATION ACTIVITIES CONCER-NING PURCHASING IN METALLURGICAL INDUSTRY

In the last few years supply processes and distribution network of metallurgical products in Poland have undergone a transformation. The purchasing process of biggest capital groups for example ArcelorMittal, mainly concerned raw materials such as ore and coal. ArcelorMittal Poland is the owner of "Zdzieszownice" coke plant, the biggest one in the Polish market. Large steel concerns i.e. ArcelorMittal also were able to save some capital in the distribution field [6]. In this way the company managed to create logistics and service centre called ArcelorMittal Distribution Solutions Poland specialised in the distribution of steel products and services, precision cutting and pressing. In 2011 ArcelorMittal Distribution Solutions took over Cognora Group part of Złomrex and created its own distribution network of steel products. ArcelorMittal Distribution Solutions distributes their steel products using the network of distribution stocks based in [6]: Białystok, Brzeg, Częstochowa, Dąbrowa Górnicza, Gliwice, Gdańsk, Katowice, Kielce, Konin, Krakow, Lublin, Olsztyn, Opole, Piła, Słupsk, Suwałki, Warsaw, Wroc-ław. After taking over of Cognora Group ArcelorMittal Distribution Solutions Poland acquired eleven additional stocks and leased two more. The company established trade centers using regional subsidiaries (local trade points) in consolidation with capital from other distribution companies [7]. After carrying out an up-to-date analysis of customers needs in particular market segments the trade centers specialised in services for local markets. It is estimated that in Western European countries trade centers sell about 60 % of steel products, and in Poland it amounts to about 40 %. Steel Service Centre is abbreviated as SSC, for example ArcelorMittal Poland. Specific market segments of steel products buyers (both national and foreign) are serviced by few parallel channels. These are both own channels of steel products producers and independent distribution channels in the market. The channels were built as a result of recovery restructuring in state-owned companies or as completely new businesses created in market economy. They are companies with both national and foreign capital. Strong capital groups specialised in servicing specific markets. For example Gonvarri Polska started operating in Poland in 2004 as service centre for automobile industry (Spanish capital); Corus (Great Britain) created thick steel plates stock in Gliwice in 2005, Thyssen Krupp Stahl (German capital) built service centre in Dąbrowa Górnicza in May 2006, Francisco Roso Casares an independent Spanish steel produced entered Polish market in 2007; Posco – a Korean group- began its operation in Poland in 2008 and established service centre in Konie-rzyce near Wrocław [6].

CONCLUSIONS

The article presents concepts which are introduction to analysis of changes concerning companies purchasing strategies. The idea of purchasing and distribution integration is implemented constantly in business. Strong companies take over the processes which both follow and precede the integration.

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