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THE PROCUREMENT PROCESS IN THE HOTEL INDUSTRY*

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Abstract: Procurement has a vital role in the hotel industry, with hotel performance depending largely upon how well it operates. This role consists of ensuring the continuous supply of a hotel and its departments with the materials and equipment required to operate a hotel, enable its warehousing and transportation divisions to function properly and ensure the sales of the prepared services. The organisational structure of a hotel and its procurement department needs to be designed in such a way that will enable the hotel's objectives and tasks (which involve creating a well-designed hotel offering) to be accomplished as best as possible.

Key words: procurement, organisation, hotel, procurement logistics.

INTRODUCTION

Procurement is a basic business function of any company, including a hotel. Hotel performance largely depends upon procurement. In operating terms, procurement involves organising acquisitions; surveying the supply market; planning the acquisition of materials, goods and equipment; determining the optimum quantities of goods required; placing orders; monitoring order execution; transporting and receiving materials, goods and equipment and conducting qualitative and quantitative controls; and logging, supervising and analysing acquisitions.

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In a hotel, procurement activities are managed by the Procurement Department. This department is concerned with ensuring that a hotel's production capacities are systematically supplied so as to avoid delays or disruptions in sales and production.

The primary task of the Procurement Department is to secure the coordinated flow of the production process through the timely and cost-efficient procurement of production materials, raw materials and others. The tasks of procurement are not easily carried out, because they depend not only upon internal conditions and the hotel staff, but also upon external factors, in particular, market conditions.

1. PROCUREMENT LOGISTICS

Logistics is an activity that encompasses all efforts required in preparing and realising, in terms of space and time, the transformation of goods, materials, services, energy and information to ensure that products and services required by tourists are provided and rendered in a timely manner. Logistics is an "ambiguous term", with even the origin of the word being varied, if not ambiguous: "logic", "calculation" and "quartering".²

Logistics applies the rules of planning, organising, managing and controlling the flow of goods, material, energy, people, knowledge and information. It is closely linked to management and organisation. In the hotel industry, logistics needs to unify the creation of an appropriate infrastructure, which would enable the entire procurement system to be in the service of hotel management. This means that in addition to procurement, transportation, warehousing, selling and providing services, logistics also involves financial and accounting operations, control and auditing, research and development, planning and analysis, and managing human resources and information flows.

A hotel should be organised in the form of a flexible and adaptable system based on logistics elements. Because the hotel operates in a turbulent environment, it is necessary to establish and optimise strategic goals, transportation technology, organisational culture, human potentials and an information and communication system. However, without the external elements that represent the environment, a hotel will not be able to adapt to its surroundings.

Procurement logistics deals with coordinating all movements and states of materials and goods from the supply market, across the preparation of a hotel offering, to sales to hotel guests. The target of procurement logistics is to supply a hotel with the appropriate goods, materials and foodstuffs, in the right quantity and in the most cost-effective way.

² Segetlija, Z., *Uvod u poslovnu logistiku*, Ekonomski fakultet, Sveucilista Josipa Jurja Strossmayera u Osijeku, Osijek, 2002, p. 9.

The task of procurement logistics is to manage the flow of goods, materials, foodstuffs and others by selecting an appropriate procurement system. This entails selecting a type of storage, a location where the goods will be stored and the manner in which they will be delivered to the hotel. A vital task is controlling the quality of the goods procured. For tasks to be fully completed, it is necessary to control the quality of the goods and materials procured.

It is important for the hotel management to select the right logistics channel of procurement that will meet the requirements of cost-effectiveness, security and control. The features of each product vary with regard to perishability, standardisation, prices, and usage. The characteristics of materials impact greatly on the selection of procurement channels. The supply market also influences the choice of a procurement channel. The hotel management will select the market that has a variety of different participants in goods traffic and that provides a greater number of services. The attributes of the hotel will also effect the selection of a procurement channel.

2. ORGANISING PROCUREMENT IN A HOTEL

Organising is “the process of arranging people and physical resources into a structured grouping to carry out plans and accomplish organisation objectives”³. Organising is a management function that defines in detail the role and executive tasks of individuals and, in turn, of the group to which the individuals belong. The group responsible for carrying out procurement tasks in a hotel is called the Procurement Division, Procurement Service, Procurement Department, etc.

How procurement will be organised is determined by the totality of links and relationships between the execution of procurement tasks and the overall task of the hotel. Also, the degree of material intensity, the structure of the product, the location of the hotel, and the complexity of the hotel will impact on the way procurement is organised.

Procurement can be organised on a centralistic or decentralistic basis, or a combination of both. When a single organisational unit is responsible for carrying out the job of procurement, procurement is said to be centralised. Procurement is decentralised when it is the task of various organisational units. There can also be a combination of centralised and decentralised procurement.

The centralised organisation of procurement seeks to centralise the acquisition of production materials, capital equipment and other hotel needs. The advantage of this type of procurement is that it ensures the implementation of a single procurement policy and supplier-relationship policy. In addition, the costs of procurement are often lower. However, due to reduced elasticity, the supply chain is longer, a fact that should be taken into account in calculating the time needed for procurement.

³ Boone, E. L., Kurtz, L. D., *Management*, McGraw-Hill, Inc. New York, 1992, p. 219.

The decentralised organisation of procurement allows other hotel departments to carry out certain procurement functions. For example, the Purchasing Office can procure office supplies; the Engineering Department, capital equipment, and so on. The advantage of this type of procurement is that it is accomplished in a shorter time and it is usually more effective.

To circumvent the drawbacks in both types of organisation, a combination of the centralised and decentralised method is generally applied in organising procurement.

A distinction can be made between the internal organisation of procurement and its external organisation.

The internal organisation of procurement involves organising a procurement department in which overall acquisitions, according to quantities and the procurement schedule, are allocated either according to a hotel's internal nomenclature, or according to nomenclature elaborated per economic branches. Categories usually include primary production materials, auxiliary materials, small inventory, fuel, etc. Each category can be further decomposed, depending upon the factors stated.

The external organisation of procurement involves organising purchasing stations and surveying the materials market.

3. PROCUREMENT MANAGEMENT

Procurement management is the process of coordinating procurement factors to accomplish specific objectives. The task of procurement management is to focus its activities on achieving objectives through the work of the Procurement Department's staff.

The Procurement Department is vital in supplying a hotel and its departments with the materials and equipment required to operate the hotel, enabling its warehousing and transportation divisions to function properly and ensuring the sales of the prepared services. This department is responsible for securing the acquisition of all needed goods and inventory under the most favourable conditions and ensuring the storage of goods and inventory acquired. The effectiveness of a Procurement Department is a precondition to a hotel's performance, for the simple reason that when this department is properly organised it can yield substantial earnings and enable top-quality service.

A procurement manager heads the Procurement Department. The manager is responsible for the acquisition of the right types and quantities of materials, goods, equipment and services for the planned work operations to be carried out. As this requires the mobilisation of substantial funds, it is essential that procurement is as efficient and effective as possible. Poor quality and expensive materials, goods, equipment and services have a direct impact on the quality and cost of the entire hotel offering. The untimely acquisition of goods needed may lead to delays in the

production process that will be reflected in the existing, as well as the future, hotel offering. Should a procurement manager decide to procure a large quantity of goods to secure the production process, this will result in large stocks that require the mobilisation of funds and cause business costs to grow.

The job of a procurement manager is to survey the supply market, plan procurements, contract the procurement of hotel assets (fixed and current), organise the transportation of goods to the warehouse, organise the storage and conservation of goods, keep records on goods and assets procured, monitor stocks, collect requests for procurement, track the delivery of goods contracted, check the invoices of suppliers and propose measures for improving procurement.

As in other industries, procurement in the hotel industry must be carried out according to the Public Procurement Act and the Regulation on the Procurement of Goods, Work and Services of Small Value. The Public Procurement Act governs the conditions and practices of public procurement that precede a contract for the supply of goods and service or contract awarding.

4. CONCLUSION

The Procurement Department plays a vital role in hotel operations. This role consists of supplying a hotel and its departments with the materials and equipment required to operate a hotel, enable its warehousing and transportation divisions to function properly and ensure the sales of the prepared services. The Procurement Department is also responsible of securing the storage of goods and inventory procured. It must take care not to procure overly large quantities of stock and to ensure the shortest possible storage period.

Procurement is a complex process that must meet the conditions determined by the technology of work processes within a hotel. The procurement process in a hotel involves entering materials into stock according to categories, warehousing materials according to categories, issuing materials from stock according to categories and costing points, and keeping financial records.

The objectives of a well-developed procurement process are to supply sales points with the right goods and materials as required, maintain the quality of services and the overall hotel offering, and cut back on costs. Planning, which is extremely important, is carried out based on analysing the structure of future demand for the hotel's offering and on analysing the market of goods and services.

The procurement manager puts forward to the top management proposals for strategic plans, objectives and tasks, as well as for tactical and operating procurement plans. It is also necessary to draw up a stock balance according to time schedules, quantities and quality, and to select the best possible supplier.

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