A Study on Procurement Strategy of Chinese Small and Medium-sized Enterprises

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Abstract: With the establishing and developing of market economy, the corporation pay more and more attention to procurement, Purchasing management has become an important part of operational strategy of enterprises. However, according to the present situation and environment of procurement in china, people are more concerned about procurement for a number of large enterprises and government departments, and procurement for small and medium-sized enterprises is very little strategic analysis. The main purpose of this thesis is to find out those questions of procurement management of SMEs by investigating into procurement process. At the same time to find the answer of to solving the practical problems. And analyses some key points of procurement for SMEs, such as Small number of procurement goods, The low level of procurement method and lack of procurement experience, which are the main parts of SMEs procurement. We want to explore the inferiority about SMEs procurement by studying these issues and find some improvement method to provide business opportunities, and expand the influence of small and medium enterprises. This has very high practical value.

Keywords: Procurement Strategy, Small and Medium Enterprises, Joint Procurement, E-Business, Third-party Purchase

1 Introduction

Procurement is a part of business operations, is an important source of profits, and plays a very important role in the process of product development, quality assurance, supply chain management and other operations management. More and more enterprises are now starting to focus on strategies. Business strategy can be described from multiple perspectives. But essentially, it is an organization of the future "strategy", that is the purpose and direction.

With the development of market economy, technological advances, intensified competition, procurement of goods by the mere sale of development into a functional, status of procurement increased from the tactical point of view to the strategic level. Under the current procurement environment in China, people paid more attention to some large enterprises and government procurement, the analysis of procurement strategy for small and medium enterprises is very small. SMEs in the procurement and even the entire supply chain are at a relatively low level. In fact, in many small and medium enterprises, their procurement costs account for much of corporate costs, which seriously hindered the development of SMEs. If SMEs to enable themselves in the face of suppliers with its own voice and some control over, their development will drive the domestic economy as a whole, the domestic economy will be further improved. If SMEs can solve the practical procurement problems, in the face of suppliers with its own voice and some control over, their development will be able to drive the domestic economy as a whole, the domestic economy will be further improved.

2 Analysis of the Domestic Procurement Problems of SMEs

In the procurement process for SMEs, the implementation effect is bound to encounter many problems being SMEs own constraints. If these problems are not resolved, it is difficult for SMEs to become bigger and stronger. In the current economic environment, the level of procurement cost more and more obvious impact on the business. SMEs are mainly encountered in procurement of the following questions:
2.1 Small number of procurement goods
In large enterprises, the most common way is through centralized procurement to reduce procurement costs. Size of enterprise determines its position in the supply chain. The greater the number of SMEs procurement, the stronger the bargaining power with suppliers. SMEs are more likely to be price-cutting opportunities. But for the majority of SMEs, Their output is much smaller than the large enterprises and their sales are also much smaller than the large enterprises. For SMEs, the purchases less is obvious weaknesses for themselves.

2.2 The Low Level of Procurement Method
In the procurement area, there are many small and medium enterprises in China are still using the traditional manual way, not with information, or only implemented a limited information. In business administration there are many problems in some SMEs, such as low levels of information. As the low level of information, resulting in lacking of communication between the procurement department and production department and sales department, procurement departments often do not know the progress of the production sector, stocks of raw materials, production of the portfolio stock. For these reasons led to the purchasing department are often blind to the procurement, only according to its own procurement plan to purchase, rather than the actual situation of enterprises. This saved hardware and software investment costs outwardly, but actually resulted in inefficient for vendor selection, time-consuming manual operation orders, long procurement cycle, managing complex and procurement costs were higher.

2.3 Lack of Procurement Experience
As the procurement of a wide variety of products, some SMEs lack the necessary skills, expertise and infrastructure to effectively manage the procurement of all materials and services. The procurement process flawed, resulting in low efficiency, leading to loss of a number of business interests. This phenomenon in the current environment is particularly important. As the information technology and other high-tech development, market competition, price volatility significantly, increased risk procurement. Under such circumstances, many SMEs are at a loss, making it easier to create problems in procurement. These are just small and medium enterprises that exist in the procurement process more obviously, in fact, there are still many small and medium small details, which are all needed to be solved one by one, then how to solve these problems? Here we are to analyze several solutions to the problem. These problems exist in the procurement process more visible for SMEs, in fact, SMEs are facing many other problems, which are all needed to be solved one by one, then how to solve these problems? Here we are to analyze several solutions to the problem.

3 An Analysis for the Domestic SME Procurement Measures
For procurement process problems of domestic SMEs, a number of issues will be discussed below, several procurement patterns to help solve the current problems.

3.1 Based on Joint Procurement of the Purchase Model for SMEs
Joint procurement means combining the procurement actions of two or more contracting authorities. The key defining characteristic is that there should be only one tender published on behalf of all participating authorities. Its purpose is to merge their respective pairs of materials, services and means of production, procurement needs to obtain from the supplier relative to the individual enterprise alone procurement of goods and services more value-added price, service and technology. For the SMEs, through joint procurement, SMEs can significantly reduce procurement costs and transaction costs, improve purchasing efficiency, develop information channels. At the same time, it can be able to get a better relationship with suppliers. Procurement alliance will be in between buyers and suppliers over a joint purchasing alliance, and this organization has a double identity. Compared to SMEs in terms of buyers, purchasing alliances are the
raw material suppliers. However, the SME suppliers through purchasing alliances for procurement, purchasing alliances and as a raw material appeared as buyers. Procurement for SMEs includes production material procurement, MRO (Maintenance, Repair and Operations) procurement, including procurement of services. Through joint procurement, as for the increase, purchasing alliance is in a relatively advantageous position in the process of selecting suppliers. Purchasing alliance can choose suppliers of raw materials, also can choose intermediate traders. That selecting specific type of suppliers is determined by the procurement items.

The problem of arbitrary participating or withdrawing for union members is very serious. Self-organized members of the league are uncertainty, and hence defined as a temporary organization of the Union, and even may be defined as a one-time organization. The mode of information transmission can be seen as the information transfer between providers and SMEs, because the purchasing alliance is made up SMEs, so it received information from suppliers can pass without hindrance to SMEs. Based on the above analysis, Figure 1 can be established joint procurement model for SMEs.

Figure 1  Based on Joint Procurement of the Purchase Model for SMEs

The procurement alliance can only establish for specific procurement items, so it is not long-standing. Therefore, members of purchasing alliances can not form a fixed form of purchasing alliance, which also led to uncertainty in the operation of the procurement alliance. The members of purchasing alliance are partners and competitors. The purchase price of raw materials for enterprises is an important factor for constituting a competitive advantage, it does not exist absolute trust between members of purchasing alliances.

3.2 Based on E-commerce for SME Procurement Model

Electronic commerce, commonly known as e-commerce or eCommerce, or e-business consists of the buying and selling of products or services over electronic systems such as the Internet and other computer networks. The amount of trade conducted electronically has grown extraordinarily with widespread Internet usage. Through e-commerce, on the one hand, SMEs can reorganize the procurement function and processes, arrange the procurement function to the employee's desktop, thereby enhancing the speed and efficiency of indirect procurement, shorten the operating cycle, increase procurement flexibility, reduce manual procurement staff operational errors, reduce procurement costs; the other hand, can make the purchasing process more standardized and transparent, easy to implement procurement sunlight, reducing the cost of procurement regulation. Research shows that application of e-procurement can reduce product cost 5% - 10%, 70% reduced process costs and shorten the procurement cycle 50% - 70%.

Research from the general view of e-commerce, e-commerce enterprises can have three modes, one to many, many to one and the use of third-party platform model. As for SMEs, taking into account
economic strength, technological capabilities, more appropriate model should be using third-party procurement platform. SMEs can use the e-procurement model shown in Figure 2.

In this model, there is no communication between the small and medium enterprises. Through e-commerce platform, SMEs can quickly find suppliers. Because of the third-party e-commerce platform, SMEs can easily conduct a reasonable assessment of the supplier. SMEs can also compare the price difference between multiple vendors, they can get a relatively affordable price. But for the key strategic and bottlenecks sourcing goods and materials, as the limited number of suppliers, the procurement model based on e-commerce do not apply.

![Figure 2 Based on E-commerce for SME Procurement Model](image)

### 3.3 Based on the Third-Party Procurement for SMEs Procurement Model

The decision to outsource (or continue to outsource) your procurement is obviously hugely important, and so is the process of tendering your requirements in a way that invites the very best responses such that you partner with the right companies. For the power shortage, SMEs can use third-party procurement. This end the self-organization procurement model, the non-core procurement outsourcing all or most of the others, outside the enterprise can take full advantage of the best professional resources to reduce procurement costs, increase procurement efficiency and focus on their core business, which strengthen their competitive advantage. Meanwhile, SMEs are mostly low-volume procurement, which affect the status and capacity in the process of procurement negotiations. The third-party purchasing company can combine the procurement needs of enterprises, small into big plot, more effective solution to a small number of SMEs in procurement issues.

The third-party procurement company is completely independent of buyers, but it differs from the general procurement intermediaries. It put itself in customer’s position, specialize in a particular category or categories of materials, has its own warehouse and distribution team, can deliver the material timely and accurate place after receiving customer purchase orders. The third-party procurement company can purchase materials through using a professional and efficient distribution team, instead of customers own procurement. On one hand, the third-party procurement company can expand its business, on other hand, can save costs for customers. The third-party procurement model for SEMs could be used Figure 3.
In the course of the implementation of third-party procurement, on the one hand, third-party procurement enterprises can be as direct purchasers, require suppliers to directly delivery the materials to the door, on the other hand, can also be through information technology, to transfer supply information to logistics companies, and logistics companies supply to the end customer.

### 3.4 Strengthen the Information Construction for SMEs

The analysis results of real model showed in the paper indicated that SME procurement model will be relied on information technology in the implementation process. If they do not strengthen the construction of information, in the process of implementation for mode 1 and mode 3, SMEs with corporate alliances or SMEs with third-party procurement companies could communicate only by phone or fax manner. With the two ways, it can easily cause bush telegraph distortion. Thus it is difficult to guarantee the small and medium-sized enterprises and the alliance, or third-party procurement enterprises information timely and ready to exchange. For Model 2, e-commerce platform, without information technology is simply impossible to implement. And in full communication through the information, reduce the logistics process, it is closely related with the level of SMEs information.

Therefore, domestic SMEs should actively promote information construction. First using ERP systems as soon as possible, so that information can fast delivery between various departments, and the procurement information is accurate flow within the enterprise. Secondly, in the process of information system construction, standard information must be used to expand the company information system. Finally, to further ensure the company and external suppliers, third party sourcing platform, third-party purchasing to interchange smoothly.

As SMEs to complete the construction of the information, you can re-transform the above procurement model, developed a model based on e-commerce for joint procurement or third-party e-commerce-based purchasing model. If in the initial stage of the development of futures market, growth opportunities given the first entrant, but nowadays, opportunities for growth of Chinese enterprises will give companies who have the perspective to make full use of information tools, change management awareness of suppliers would be a part of the vision.

### 4 Conclusion

In the new economy background where the management environment and market, as long as the enterprises over-take the traditional competition and re-establish competition conception, they can conform to new changes and develop continuously and healthily. Despite the existence many
management defects of domestic SMEs, but the advantages of SMEs also have their own, than large enterprises more easily achieve flexible operation, and quickly adapt to be in concordance with market. For procurement management, SMEs should be based on the analysis of their advantages and disadvantages, choose the appropriate procurement model of the enterprise development, so that shift the procurement from a function to the enterprise a competitive advantage strategy. In short, apply appropriate procurement strategy, and continually upgrade their competitiveness, improve the corporate profits, SMEs will be the long-term development, and our economy will steadily.

References