

# 01

# Planning procurement strategy

## LEARNING OBJECTIVES

### Supply chain communication skills

Discussing procurement needs and strategy

Forecasting supply risks

Making contingency plans

### Reading

A quotation from a supplier

### Listening

A procurement strategy meeting

Extracts from telephone conversations

### Language

Materials, components, equipment

Types of products and procurement strategies

Email phrases

Phrases for making forecasts

## Warm up

If procurement is 'a single step', what are the other stages in the 'journey' in your business?

In what ways are the single step and the whole journey changing in your industry?

*A journey of a thousand miles begins with a single step.*

Lao Tzu, Chinese philosopher

## Building a sports car

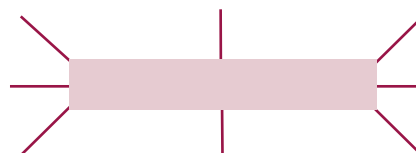
**1** You and a partner have designed a classic sports car using standard parts. Complete the questions with the words in the box, and then answer them with your partner.

components    delivery    just-in-time    projected rate of production  
quality    sales forecast    stock    suppliers

- How many cars can you sell? What's your \_\_\_\_\_?
- How many cars can you make per month/year? What's your \_\_\_\_\_?
- What will be more important for your brand – price or \_\_\_\_\_?
- What raw materials and \_\_\_\_\_ will you need?
- Will you need multiple \_\_\_\_\_ or can you get everything from one place?
- How and where will you take \_\_\_\_\_? Will you need a warehouse?
- What inventory strategy will you use? Will you hold safety \_\_\_\_\_ or adopt a \_\_\_\_\_ strategy?



**2** Write the name of your company's product/service in the centre of the mind map. Think about the different raw materials, components, equipment and services needed, and complete the mind map. Add more lines as necessary.



**3** Use your mind map to tell a partner about your company's procurement strategy.

## Procurement needs


**1** Read about four types of item a cake-making company needs. Label them with the words in the box.

bottleneck item    leverage item    non-critical item    strategic item

- a** \_\_\_\_\_ Sugar and flour: the main ingredients in our cake. There are lots of suppliers so we can negotiate a low price and improve our profit margin.
- b** \_\_\_\_\_ Organic eggs and butter: these items are extremely important for our brand identity, but they are hard to deliver and store; there are not many good suppliers.
- c** \_\_\_\_\_ Vanilla bean: this item is expensive and not always available. We don't need large quantities, but we can't make our cakes without it.
- d** \_\_\_\_\_ Baking powder: this item is inexpensive and easy to store. There are lots of suppliers.

**2** With a partner, decide what components you would need to manufacture an electric bike.


- a** Which do you think are the non-critical components that might offer potential for leverage?
- b** Which parts do you think will be the most difficult to obtain?

**3**  **01** The Dublin Bicycle Company (DBC) is launching a new electric bike. The supply chain manager is having a meeting with two buyers about procurement. Listen and complete the table with the words in the box.

bottleneck    diversify    high-volume orders    just-in-time    leverage  
non-critical    over-order    strategic



Component family	Type of item	Procurement strategy
Frames & wheels		
Electronics		
Electric motors		
Battery packs		

**4**  **01** Listen again and complete the information about risks and risk management. Then answer the question below.

	Risks and how likely they are to happen	Risk management plans
Frames & wheels		
Electronics		
Electric motors		
Battery packs		

What will Jane include in her request for a quotation from Strauss Power?

**5** Read the quotation Jane received from Strauss Power. With a partner, decide what **FOUR** changes are required for it to meet DBC's needs.

**Bicycle battery packs**

Bill to: DBC, 140 Armstrong Road, South Point Business Park, Dublin D16

Ship to: DBC, Unit 11, Millwall Industrial Estate, Cork

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Ref:	Voltage	Quantity	Packing	Price
Iceberg IG356	48V	500	Box of 10, pallet of 50 boxes	€ 54,500
Jersey JY356	36V	100	Box of 10, pallet of 10 boxes	€ 9,780

All prices are quoted net ex warehouse and do not include value added tax and shipping charges. Payment terms are net 30 days from date of invoice.

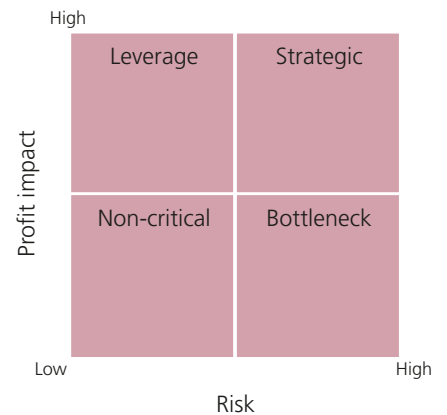
Quotation prepared by: Linda Hu

**Strauss Power**

**6** Write an email to Linda asking for a new quotation with the changes you discussed in 5. Use the phrases in the box to structure your email.

Thank you for your ...  
 Unfortunately, there seems to be a misunderstanding about ...  
 Instead of ..., it/there should be ...  
 Please note that ...    Could you please ...  
 We would prefer a quotation including ...  
 As we expect to place regular orders, we hope ...  
 We look forward to ...

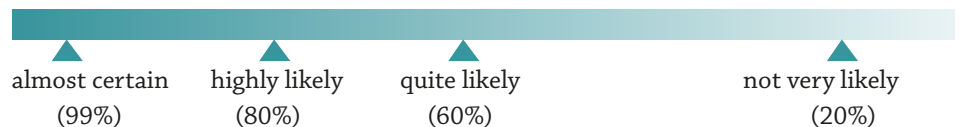
**7** Write the materials and components required to produce your own (or a customer's) product in the appropriate quadrants in the chart. Then explain your chart and your procurement strategy to a partner.




## Forecasting risks and making contingency plans

**1** **02** Listen to four telephone conversations between DBC buyers and their suppliers. Answer the questions for each extract.

- a** What is the risk?
- b** On this scale, how likely is the risk?



- c** What contingency plans are suggested?

**2**  **02 Listen again and tick (✓) the phrases you hear. Which three are not used?**

**Forecasting risks**

- |                                 |                          |                            |                          |
|---------------------------------|--------------------------|----------------------------|--------------------------|
| It's highly likely that ...     | <input type="checkbox"/> | There's bound to be ...    | <input type="checkbox"/> |
| ... is sure to ...              | <input type="checkbox"/> | ... is quite likely to ... | <input type="checkbox"/> |
| ... is unlikely to be a problem | <input type="checkbox"/> | It's almost certain to ... | <input type="checkbox"/> |
| It's most unlikely, unless ...  | <input type="checkbox"/> | ... definitely won't ...   | <input type="checkbox"/> |

**Talking about risk factors**

- |                                |                          |                                   |                          |
|--------------------------------|--------------------------|-----------------------------------|--------------------------|
| We have to consider ...        | <input type="checkbox"/> | You have to take into account ... | <input type="checkbox"/> |
| We shouldn't underestimate ... | <input type="checkbox"/> | We shouldn't rule it out.         | <input type="checkbox"/> |

**Making contingency plans**

- |                    |                          |                                      |                          |                   |                          |
|--------------------|--------------------------|--------------------------------------|--------------------------|-------------------|--------------------------|
| If necessary, ...  | <input type="checkbox"/> | If the worst comes to the worst, ... | <input type="checkbox"/> | If need be, ...   | <input type="checkbox"/> |
| I could always ... | <input type="checkbox"/> | Otherwise ...                        | <input type="checkbox"/> | Failing that, ... | <input type="checkbox"/> |

**3 Use the words in the box to complete the predictions about future risks and opportunities.**

account   bound   likely   may   otherwise  
underestimate   unlikely   worst   worst

- a** Globalization is highly \_\_\_\_\_ to intensify as teleworking develops.
- b** If the \_\_\_\_\_ comes to the \_\_\_\_\_, global warming could make sea levels rise by four metres.
- c** Natural disasters like earthquakes and volcanic eruptions are \_\_\_\_\_ to happen.
- d** All businesses will have to offer an e-commerce option, \_\_\_\_\_ they will not survive.
- e** Regional conflicts \_\_\_\_\_ make lean supply chains very risky.
- f** Firms that fail to take population growth and ageing into \_\_\_\_\_ will be uncompetitive.
- g** Migration and urbanization are \_\_\_\_\_ to decrease.
- h** We shouldn't \_\_\_\_\_ cybercrime: information systems will need better protection.

**4 With a partner, discuss your reactions to the predictions in 3. Which scenarios create the greatest risks to supply chains, and how likely are they? What contingency plans can you suggest?**



**Over to you**

Work with a partner. Your company has targeted a market for cheap housing for homeless people and students, made from shipping containers. Read the statistics in the circle below, then hold a meeting to discuss the agenda and plan a procurement strategy.

**Student A:** Turn to page 46.

**Student B:** Turn to page 48.

100 million homeless worldwide

China makes 6 million containers per year

Used containers cost as little as \$1,500

**Agenda**

**Container homes project**

- 1 Sales forecast
- 2 Production strategy
- 3 Procurement strategy: containers, materials, furniture and equipment
- 4 Contingency plans