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Purchasing in small firms

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Abstract

This article explores the awareness of effective purchasing and the priority that purchasing is given within small and medium size enterprises (SMEs). Results of a survey of 400 small firms are used to identify the challenges and responses faced by SMEs. Finally, the author suggests paths which might be followed by such firms in seeking to achieve best in class performance in purchasing activities. © 2002 Elsevier Science Ltd. All rights reserved.

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1. Context

Local economies in UK contain a significant percentage of small and medium size enterprises (SMEs)–in many cases as much as 80% or 90% (CBI, 2000). While these SMEs are viewed with interest as suppliers, by customer firms who have coherent supplier development programmes, purchasing within the smaller firms receives little attention. There is a limited amount of analysis of purchasing in SMEs although there is a broad anecdotal agreement on a number of points. In particular, there appears to be a scope for improving purchasing and a need to improve and develop credible methodologies for purchasing.

Over the past three decades, managers in major industrial customers have clearly tried to improve their purchasing image. This has progressed from a clerical function in the 1960s, through a commercial activity of the 1980s, to a strategic activity in the 1990s (Spekman et al., 1994; Kraljic, 1993). Some purchasers have clearly made significant progress resulting in the competitive advantage of an organisation. Heller (1999) and Carr et al. (2000) suggest that others have not made such moves; they quote examples of Marks and Spencer, J. Sainsburys, ICI, Nissan, Shell, Rover, BMW and Daewoo. It is important however to ascertain whether small firms have kept pace or been helped to advance (in terms of purchasing expertise) by major purchasers as the drive for competitive advantage continues.

There are some fundamental issues associated with pursuit of competitive advantage. These include instability through changes of ownership (Ennis, 1999), changes in strategic direction (Gunasekaren et al., 2000), the speed of technological change (Curkovic et al., 2000) and globalisation of sources of supply for state-of-the-art products (Quayle, 1998). This constant drive for product/service improvement results in a tension between incremental approaches and radical innovation (Perrings and Ansuategi, 2000). Similarly, a desire for instant achievement of cost reduction, results in risk exposure being pushed down the supply chain (Lummus and Vokurka, 1999). This leads to an increase in contractual liabilities and can intimidate the small firm against supplying to a major purchaser (see, for example, Ringwald and Brookes, 1999; Alderman and Thomson, 1998).

The fundamental issues as well as critical factors emerge from the pursuit of competitive advantage. Tikkanen (1998) suggests that there is a need for a Board level priority to be given to purchasing and, indeed, the whole supply chain. Effective purchasing needs resources and capital—a growing concern particularly for small firms as it can lead to risky adverse behaviour (Wrennall, 2000). The emphasis placed on specification purchasing (particularly those that are over precise) may stifle innovation where suppliers are not offered early participation in the design process (Tanner, 1998). Critically, smaller firms are often the minority

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partner within the supply chain. To counter this, both purchasers and suppliers (whatever their size) may need to focus on a fair and reasonable relationship—a non-"cheating" relationship (see, for example, McIvor et al., 1997; Harland et al., 1999). Globalisation and mobile markets introduce new logistics challenges—the benefits of local sourcing need to be considered, and perhaps offset, by the risks of losing control of product knowledge. For these reasons, the creation of future sources of supply may establish sources of competition. Another critical factor is the need for basic benchmarks for measuring purchasing (and supply chain) performance. The final critical factor in the context of this research is training. Surveys reveal that Purchasing specialists are in short supply and perhaps there is a need for a cross-functional orientation to ease the shortage (Humphreys et al., 1998).

The research reported below provides evidence of the effectiveness of purchasing in SMEs and the subsequent challenges which must be faced in overcoming the credibility gap and achieving the competences needed *en route* to world class status. Finally, some responses to these challenges are proposed for purchasing in small firms and a future research agenda is suggested.

2. Research aim

Small and medium enterprises contribute approximately 50% to the UK gross domestic product and nearly 70% to employment (CBI, 2000). The need for national, and in some cases global, competitive advantage has led customers of all sizes to develop corporate strategies, entailing integration and development of their supplier bases. This holistic approach might founder if both the internal and external elements of purchasing were not working alongside each other.

The purpose of this research therefore is

- to explore the degree to which SMEs are aware of the principles of effective purchasing,
- to understand the priority that currently accorded purchasing within SMEs,
- to identify potential developmental paths for SMEs to achieve the best in class and improve their purchasing activity.

3. The Suffolk study

Research was carried out, deploying a questionnaire survey, using small and medium size enterprises in Suffolk (UK). The perception of Suffolk as a largely rural and agricultural county is unfounded when considered in the context of the county's industrial sectors.

Suffolk has 46 different sectors of which 8 (agriculture & fishing, energy & water, manufacturing, construction, distribution, transport, finance, public administration) are significant. Suffolk is remarkably representative of many UK regions with some 49 Training & Enterprise Council regional labour market surveys (there are circa 70 UK TEC areas) revealing the same 8 significant sectors. For the purposes of this research, manufacturing, engineering and high technology companies have been separated (Suffolk TEC, 1997).

4. Questionnaire piloting

The piloting of the questionnaire was in two phases. The first phase was to send the questionnaire to 20 individuals identified as potentially receptive to the subject areas. The reason for using these respondents in particular was a need so as not to overburden those respondents who would be asked to complete the final version of the questionnaire as well as the pilot. It was thought that those most likely to respond to the questionnaire and provide the most feedback on the pilot questionnaire would be those who had enthusiasm for the subjects. There was, therefore, some degree of commitment and the pilot respondents were as similar as possible to the target respondents. In addition to the standard administration of the questionnaires, a debriefing telephone interview was conducted. Respondents were asked to explain their answers and comments. The second pilot stage, involved consultation with various experts in the field. Neither of these pilots resulted in any changes to the questionnaire. The questionnaire is shown in Appendix A; it seeks responses covering organisation profile, customers, suppliers, purchasing activity and general views on business support services.

5. The sample distribution

Questionnaires were mailed to the chief executives of 400 organisations with a turnover of less than £20M, employing fewer than 200 people, ensuring a wide geographical and industrial spread. With a 58% response rate, the findings may be considered a substantive indication of the current trends.

6. Breakdown of the survey by industry

Table 1 gives the percentage and number of companies included in the survey by a sector where $n = 400$.

Table 2 gives the percentage breakdown of those companies that responded by a sector where $n = 232$ or 58%