

## PROCUREMENT PROCESS

The managements of Cheko, Juha Chokambaya and Maembe are in discussion on supply, production and demand of goods in relation to procurement. They discussed on pull processes based on the plan of the level of available capacity and inventory regarding to forecast of what customer demand will be. Cheko argues on the use of smoothing constant that is no longer than 0.2 and the initial level of 2785 components to forecasting demand up to 2709 components. But the proposal was refused by Juha Chokambaya arguing that the proposal is not realistic and uncontrollable since it lacks some foundations. Remember that buying many items can lead to price reductions for larger orders offered. Identifying an optimal stocking level could help to easiest visualization when demand is uniform which is similar to balancing a seesaw.

Juha Chokambaya goes on arguing that once suppliers have been selected, contracts are in place and the product has been designed, the buyer and suppliers engage in procurement transactions that begin with the buyer placing the order and end with the buyer receiving and paying for the order. Juha Chokambaya postulates that in designing the procurement process, it is important to consider goods that the process will be used to purchase. There are two main categories of purchase goods: direct and indirect materials. Direct materials are components used to make finished goods. For example, memory, hard drives and CD drives are direct materials for a PC manufacturer. Indirect materials are goods used to support the operations of a firm. PCs are examples of indirect materials for an automotive manufacturer. All the procurement processes within a company relate to the purchase of direct and indirect materials.

The important differences between direct and indirect materials that affect procurement includes that, direct materials are used for production while indirect materials are used for Maintenance, repair and support operations. Direct materials have impact on production since any delay in procurement will delay production which is compared to less direct impact on indirect materials. Processing cost relative to value of transaction is low in direct materials while it is high for indirect materials.

Given the direct link to production, the procurement process for direct materials should be designed to ensure that components are available in appropriate dimensions (the right place, in the right quantity, and at right time). The primary goal of the procurement process for direct materials is to coordinate the entire supply chain and ensure matching of supply and demand. The procurement process should be designed to make production plan and current level of inventory at the manufacturer visible to the supplier.

Furthermore each company decided to follow its plan. Cheko designed a procurement process that is of eHub initiative. eHub is designed to provide synchronized planning and end-to-end supply chain visibility. The relationship between Juha Chokambaya and Maembe for the 2002 Bajajo Mshindi was another side of argument. Juha Chokambaya integrated components from 35 suppliers and delivered the assembly to Maembe as a cockpit module.

As soon as Maembe notified it of an order for a Bajajo, Juha Chokambaya had 204 minutes in which to build and deliver the module. This was done 900 times every day for about 200 color and interior combinations. The focus of the procurement process was completely synchronized production at Maembe and Juha Chokambaya for economic advantage.