

WWJMRD 2016; 2(7): 48-50
www.wwjmr.com
Impact Factor MJIF: 4.25
e-ISSN: 2454-6615

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Procurement as a competitive advantage tool in hotel industry (A Case of Itibo Resort- Kisii County, Kenya)

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Abstract

Organizations now continually seek new ways to acquire, retain and increase business, because the cost of losing customers is rising. Competitive advantage is the advantage of a firm over its rivals, this advantage allows the firm to generate higher sales and also retain more customers than its rivals. Most firms would agree that the purchasing function should be an integral part of the operation of the enterprise. This study sought to determine the contribution of procurement function as a competitive tool in hotel industry; a case of Itibo Resort. The researcher adopted a descriptive case research design with an accessible population of 37 staff. The study took a census where all the units were considered in research. Data was collected using questionnaires. Data was analysed using descriptive statistical techniques. The research found out that: Purchasing can provide an advantage to the organization with the ability to negotiate lower prices for purchased goods and services. Materials are a source of process variation with a direct impact on the quality of the product. The research further found out that the potential of procurement as a competitive advantage has little been tapped. Based on these findings, this research recommends that Itibo resort adopts strategic sourcing approach to ensure quality materials at the least possible cost to produce products that meet and exceed customer expectations.

Keywords: Procurement, Hotel Industry, Itibo Resorts Kisii, Organizations, Kenya

Introduction

Competitiveness becomes a very current theme for each economic actor, varying from regions to organizations (Tuclea & Padurean 2008). Businesses are always looking for a competitive advantage, a way to stand taller from the masses and to offer something that's just right for a specific target audience. Competitive advantage requires identifying a specific target audience with a clearly defined need, developing and delivering a high-quality and appropriately priced product or service and doing it better than anybody else (Richards, 2007).

A competitive advantage allows a company to produce or sell goods more effectively than another business. Several types of strategies are available in the business environment (Vitez, 2014). It is not enough just to have an advantage over your competitors. For your business to be great, it needs to weather competitive and environmental storms. Why? Because most advantages can be duplicated within a period of time (Olse, 2010).

Porter (1985) defines competitive advantage as the ability of a company to make products that provide more value to the customer than rival products, leading to higher sales and higher profits for that company. Many firms strive for a competitive advantage, but few truly understand what it is or how to achieve and keep it. (Business Case Studies, 2010)

The significance of the role of purchasing in organizations today is based on the size of expenditures for goods and services, as reflected in the organization's balance sheet and cost of manufacturing or service operations. Purchasing manages the entire supply management process for the organization and the way that it organizes its resources and how the department engages the involvement of other functions will greatly determine effectiveness and efficiency. Overall, the purchasing department adds value to the organization in many value-added ways including reducing operating and administrative costs, improving the quality of its products and, services to the marketplace, and enhancing the organization's reputation through the achievement of high supplier quality.

Statement of the Problem

To remain competitive in an intensely competitive business environment, many companies

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have resorted to cost-cutting, lay-offs, restructuring, and increased productivity measures to manage expenses and to increase profits. Executives in organizations have realized that on average, 50% or more of an organization's operating budget is spent on purchased goods and services. Therefore, the decisions made by purchasing professionals can help to determine the financial viability of the organization (Ball, 2005). Firms can increase the so-called "bottom line" by either increasing revenues or by decreasing costs. Under economic conditions of strong competition and uncertainty, it is often difficult to increase revenues. Conversely, the competitive environment can provide an advantage to the organization which has the ability to negotiate lower prices for purchased goods and services. Procurement offers the opportunity to increase income without relying on raising revenues is the essence of strategic sourcing initiatives. This research therefore was out to determine the contribution of procurement to the competitive advantage of hotel industry; a case of Itibo Resort

Literature Review

Cost Reduction

The procurement function in terms of gaining profit is greatly increasing and there are more companies that are studying this as they realize how large cost reductions can be made from this area. In order to keep up with financial stability there are things to be considered in the procurement marketplace environment and the changes it undergoes so that they can implement measures that are not the same with what was used previously. Cost reduction strategies should be unique, straight to the point and effective (Nigel, 2014). Procurement offers an opportunity to increase income without relying on raising revenues is the essence of strategic sourcing initiatives. Porter argued that a company could achieve superior performance by producing similar quality products or services but at lower costs (Barney, 1995). A good purchasing department will minimize costs of purchased goods, screen vendors for quality and track orders from initiation to reception.

Purchasing and quality

It seems obvious that it is difficult to achieve the required quality standards without the appropriate raw materials. Handfield et al. (2009) Materials are a source of process variation (Sánchez-Rodríguez & Hemsworth, 2005) with a direct impact on the quality of the product. This idea is reinforced by the Crosby's statement. He has estimated that 50% of quality problems in manufacturing are due to defects in the purchased materials (Handfield et al. 2009). Furthermore, the supply of materials with poor quality may have important consequences in terms of complaints (Juran, 1992). In order to achieve total quality, companies need to mobilize all their resources, not only internal (employees) but also external (suppliers), in a continuous process to improve product and service quality. This importance is visible in several studies that face Purchasing-related dimensions as one of the key building blocks of TQM, where it is granted a special emphasis on the role that supplier management plays in quality management (Sánchez-Rodríguez and Martínez-Lorente, 2004).

Research Findings and Discussion

Purchasing and Cost Reduction

The first objective of this study was to establish the

contribution of procurement to cost reduction efforts in Itibo Resort. Findings reveal that, 100% Of the respondents concurred that the organisation cannot do without procurement. 71% agreed that Procurement is in charge of all supplies in the firm. On procurement spend, 58% agreed that Procurement spends the largest share of organisation's funds. As regards procurement's contribution to cost reduction 84% agreed that Procurement can contribute greatly to reducing operational cost. 84% of the respondents concurred that through quality input, procurement can reduce wastage and its related goods. Moreover, 100% granted that through cost reduction, we can offer affordable meals. On procurements' contribution to steady materials supplies, 100% as well granted that Procurement ensures steady supply thus avoiding production stoppage or emergence intervention costs. 25% of the respondents finally agreed that Procurement can offer a competitive advantage to a hospitality industry. These findings concur with Ball (2005) that Firms can increase the so-called "bottom line" by either increasing revenues or by decreasing costs. Under economic conditions of strong competition and uncertainty, it is often difficult to increase revenues. Conversely, the competitive environment can provide an advantage to the organization which has the ability to negotiate lower prices for purchased goods and services. The opportunity to increase income without relying on raising revenues is the essence of strategic sourcing initiatives.

Purchasing and Quality

According to findings of this research, 100% of the customers value quality services and quality dishes. 90% of the respondents agree that Quality output directly results from quality supplies while 10% disagreed that Quality output does not directly results from quality supplies. 100% granted that purchasing function is responsible for ensuring quality supplies. 81% of the research respondents agree that purchasing's sourcing practices ensures availability of quality raw materials. On production process variation, 94% of the respondents assented that Materials are a source of process variation with a direct impact on the quality of the product whereas. The research findings concur with Handfield et al. (2009) that that Purchasing decisions have a potentially great impact on the firm's end product and on the overall business performance. Materials are a source of process variation (Sánchez-Rodríguez & Hemsworth, 2005) with a direct impact on the quality of the product.

Contribution of Procurement to Competitive Advantage

Findings indicate that 100% of the respondents agreed that purchasing is an important function of any organisation. 81% of the respondents also felt that organisation views procurement as a competitive advantage. 55% of the respondents agreed that Itibo resort strategically applies procurement function to gain a competitive advantage. Further, only 48% agreed that Itibo resort has gained competitive advantage through procurement. The responses show that however much there is an appreciation of procurement function in creating and sustaining a competitive advantage it has not been achieved. This agrees with IBM corporation (2006) who noted that the compelling value achieved through effective procurement practices is often much harder to achieve than many companies realize.

Summary, Conclusions and Recommendations

Purchasing and Cost Reduction

Decisions made by purchasing professionals can help to determine the financial viability of the organization especially negotiating lower prices for purchased goods and services by providing an opportunity to increase income without relying on raising revenues is the essence of strategic sourcing initiatives

Purchasing and Quality

Materials are a source of process variation with a direct impact on the quality of the product. The supply of materials with poor quality has important consequences in terms of complaints. Purchasing, therefore, decisions have a potentially great impact on the firm's end product and on the overall business performance

Conclusions

From the findings of the study it, it can be concluded that decisions made by purchasing professionals can help to determine the financial viability of the organization. Purchasing can provide an advantage to the organization with the ability to negotiate lower prices for purchased goods and services.

Purchasing decisions have a potentially great impact on the firm's end product and on the overall business performance. Most of the materials included in manufacturing are purchased from other companies. It seems obvious that it is difficult to achieve the required quality standards without the appropriate raw materials. Materials are a source of process variation with a direct impact on the quality of the product.

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