

Improving Purchasing Activities with a Hybrid Purchasing Structure

A case company of Grand Tourane Hotel

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<p>Abstract</p> <p>Purchasing or procurement is undoubtedly one of the most vital function in any business because it secures a smooth flow of needed materials or services at the right quality, right place and price for the operation. There are plenty of problems with purchasing functions depends on the nature of the company and its operating market. Choosing the right purchasing structure is one of the trickiest problems that organization often face, and the hotel industry is not an exception. Unlike the big and international franchised hotel companies which have established fixed purchasing systems and structures, small and local hotel businesses still struggle with figuring out a suitable and efficient purchasing structure for them.</p> <p>The objective of the study was to study the purchasing function at the case company to identify the existing problems and how to overcome them by the choosing the most suitable purchasing structure. It was expected that the analysis and the solution generated from the observation and interviews would provide the case company the overall picture of their current purchasing efficiency and the direction of how to enhance it.</p> <p>The qualitative & quantitative combined research method was chosen to achieve the targeted objectives. Interviews with the purchasing staff and other related departments were conducted, which were then transcribed and analyzed. According to the result, the centralized purchasing structure is proved to cause the inefficiency of the function. The recommended structure with the suggested implementation plan will transform the operation and enable the business to leverage its competitiveness.</p>		
Keywords: purchasing structure, hotel industry, centralized and decentralized purchasing structure.		
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TERMINOLOGY

E-procurement: B2B e-commerce application with the aid of web-based functions and services that enables procurement staff of the business to purchase the products or services; and facilitates an efficient communication as well as commitment between suppliers and buyers. (Rayport & Jaworski, 2002)

E-cataloging: the electronic presentation of products or services that a business offers. (Van Weele, 2010)

E-market: an interconnected platform system which allow buyers and suppliers to interact and exchange information about products offered. (Sounderpandian & Sinha, 2007)

Financial Controller (FA): the person who is responsible for the expenditure of the business, meaning that he or she will authorize or permit the purchases of materials or services in accordance with the company's policy.

General Manager (GM): the person who monitors and manages different functioning groups, from engineering, manufacturing to quality and information system, within the business. (DuBrin, 2010)

Purchase Request (PR): the document that is created by the purchasing department or the involving department to the purchasing department upon the demand identification phase. This document will be sent to the Financial Controller for approval.

Purchase Order (PO): once the PR is approved by the Purchasing Department or by the Financial Controller, the purchase can be conducted by sending the Purchasing Order to the chosen supplier.

RFI: Request for Information – the purchaser invites the seller to answer and provide information regarding his company and products or services. (Van Weele, 2010)

RFQ: Request for Quotation – the purchaser invites the chosen supplier to quote on the product or services based on requirements and quantity. (Van Weele, 2010)

Marriott & Hyatt: two of the largest American multinational hospitality enterprises that manage and franchise luxury hotels, resorts and vacation properties.

Front Office: the division of a company that has direct contact with customers such as reception.

1 INTRODUCTION

1.1 Preface

To many people, purchasing used to be an added function to their other duties at work. Gradually, it was them who realized that purchasing was so much more than the name it implies. In fact, purchasing is one of the most vital activities of the business. The successful of a business relies upon having an efficient purchasing procedure which encompasses all activities related to obtaining materials and services with the purpose of purchasing the right product at the right time with the right quality and right price.

With the rising importance of purchasing, almost every business sector is striving to fine-tune their purchasing functions to reduce the costs and increase the transparency as well as accountability.

However, one successful purchasing model or structure of this company does not apply for the others and vice versa. Different industries and different companies aim for different goals with different operations and different management. In order to reach the best efficiency in purchasing, one must look into the natures of the company and figure out their priority and needs. From there, they can readjust or restructure the most appropriate purchasing structure for their business.

1.2 Introduction to case company

Grand Tourane is a qualified 5-star hotel situated by the beach in Da Nang founded in 2016. With almost 200 rooms and suites, a fine dining restaurant, a bar-bistro, a spa as well as gym facilities, swimming pools and children's playground, Grand Tourane Hotel promises relaxing yet unique experiences. The hotel also provides banquet and convention services for businesses with 3 different size of ballrooms.



Figure 1. Grand Tourane Hotel

The study was completed with the cooperation with Grand Tourane Hotel which is situated in Da Nang, Vietnam. The hotel in general has not realized the opportunities in improving the purchasing function and thus, any new finding is warmly welcomed. The hosting hotel accommodated the author to work within the purchasing department from January to June 2019. By observing and interviewing the purchasing staff, the author was able to evaluate the purchasing efficiency and analyze the underlying problems of the procurement process at the hotel, which are mainly caused by the centralizing structure. Grand Tourane Hotel's procurement structure is roughly depicted in Figure 1.

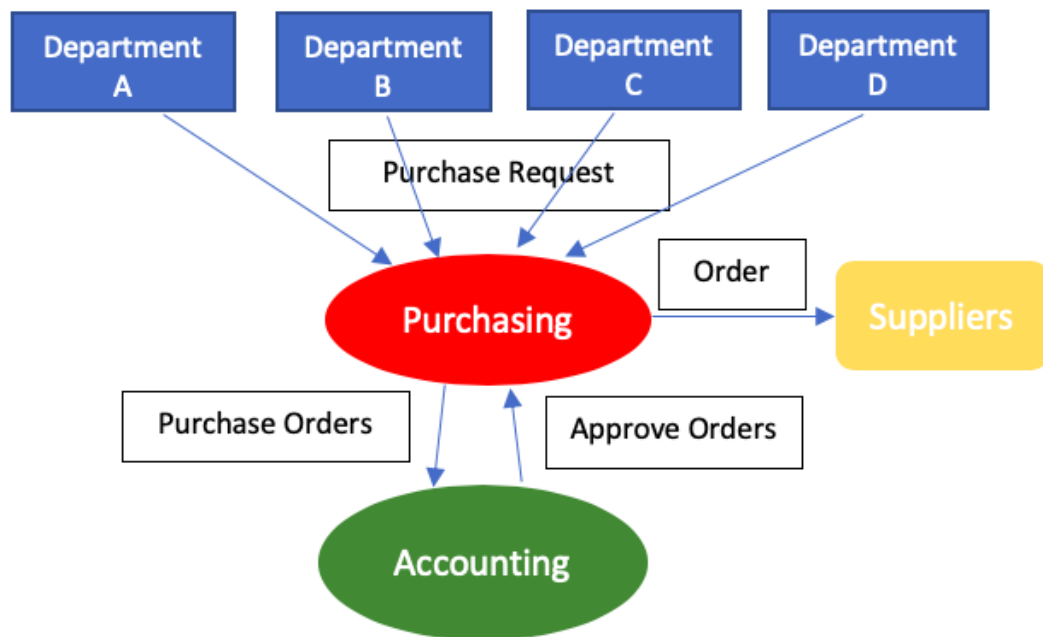


Figure 2. Grand Tourane's Hotel Purchasing Structure

1.3 Objectives

The objective of this study is to evaluate the purchasing function by identifying and then analyzing the hidden problems within the purchasing department of Grand Tourane Hotel. A suitable purchasing structure together with the appropriate steps will be presented to help strengthen the competitive edges of the case company.

The research questions of this study were as follow

- What products or services Grand Tourane Hotel is purchasing? What is their importance to the business?
- What are the most significant problems existing in the Purchasing in Grand Tourane Hotel?
- What kind of purchasing organization will support and improve purchasing in Grand Tourane Hotel?

1.4 Scope of study

The scope of the study is limited to the case company of Grand Tourane Hotel only. To be more precisely, the case company does not represent the whole hotel industry or the hotel industry in Vietnam. It is important to note that even though the interviews and observations were conducted with the experienced Purchasing Staff and Purchasing Manager who have worked in different hotels brands with more standardized purchasing process, the opinions are still more appropriate for the case company only. However, should the outcome of this study be considered for other hotel businesses that has the same problems, due to the difference in management, scope of operation and the perspective towards the purchasing activity, the desired results are not guaranteed in any case.

As a result, this thesis acts as a consultant tool which helps the business look into the underlying problems and how to commence the development plan.

1.5 Research Method

The target of the thesis is to design the most effective purchasing structure at Grand Tourane Hotel. Considering that the research is only conducted with the interview with the related departments and only one set of data was given, qualitative case study combined with quantitative methodology is opted for this thesis.

Qualitative case study method

The qualitative case study is suited for this research because of the following reasons:

- the focus of the research is to answer "why" and "how"
- the behavior of those involved in the study cannot be manipulated
- the target is to cover the contextual conditions because of the relevance to the phenomenon under study

- the boundaries are unclear between the phenomenon and context. (Yin, 2003)

There are several types of qualitative case study approaches: exploratory, descriptive, multi-case study, intrinsic, instrumental and collective. Intrinsic case study approach is chosen for this research because it is suitable for researchers who have genuine interest in the particular case; who want to gain a better insight of a case not because the case represents others or because it illustrates any common trait or problems but because of the case itself. The goal is not to understand any generic phenomenon or to build any theory. (Stake, 1995)

In qualitative case study methodology, researcher must also decide whether the case is single or multiple case. A single case is chosen when the researcher decided to study the uniqueness and the extreme of one particular situation. Therefore, in this case of Grand Tourane Hotel, the single case type is chosen.

Descriptive Quantitative research method

According to Leedy (1993), quantitative method is a type of research that deals with numbers, data, figures or anything measurable in a systematical way. The goal of quantitative research method is to gain a better insight or understanding of an event or situation. There are two main types of quantitative research method which are experimental and non-experimental research designs.

With experimental research, researchers are able to interfere or manipulate the population or samples, then study the effects or results from such manipulation. Thus, experimental studies are considered the most comprehensive type of research. There are four general categories in this type of research method: pre-experimental research design, quasi-experimental research designs, true experimental research designs, and single-subject research design. (Mertler, 2016)

On the other hand, Mertler (2016) states that, the non-experimental research method does not manipulate or interfere with any data or variable of the study. In other words, samples and variables are collected and measured naturally as they are. The reason for this is because the variables were already “interfered” before the researchers study them or because it is impossible for the researchers to make any changes to them. Descriptive Research (which includes observational research and survey research), correlational research, and causal-comparative research are the three main types of non-experimental research method.

- Descriptive research means that the current state of the studied individuals, events or conditions will be described and interpreted without any interference from the researchers.
- Correlational research is utilized to discover, measure and compare the relationships of at least two different variables.
- Causal-comparative research is quite similar to correlational research since it enables researchers to understand the relationship between different variables. However, this research demands a wider range of statistical techniques to identify the problems, review the literature and choose the suitable participants.

Since the data obtained from the company cannot be used in any other purpose rather than simple spend analysis, the most suitable type of quantitative research method is descriptive method.

2 LITERATURE REVIEW

2.1 Hotel Industry Overview

There is no official definition for what is 'a hotel' or what does it consist of. According to the online English Oxford Dictionary, a hotel is "an establishment providing accommodation, meals, and other services for travelers and tourists." In general, in order to be called a hotel, an establishment must

contain at least 6 letting bedrooms, three of which must attach to private bathrooms. (The Global Hotel Report, 2017)

Hotels are usually categorized into different 'stars' (from one to five-star). However, there is no universal official standards for rating the hotels and following the requirements are voluntary. Furthermore, hotel star-rating systems vary from country to country. A four-star hotel in Europe may look very the same as a five-star hotel in Asia in terms of quality of services, ranges of facilities and level of amenities. (The Global Hotel Report, 2017)

Hotel Industry is categorized as the commercial segment of the Hospitality Industry. In recent year, Vietnam's Hospitality Industry has witnessed an enormous growth in international visitors, over 10 million in 2016 and an expected 20 million in 2020, every year thanks to the new visa exemption policy, new direct flights and great marketing efforts. The growing tourism and thriving economy in Vietnam have attracted foreign investments to the hotel and resorts segment, especially the Central of Vietnam with the famous destinations such as Da Nang, Hoi An or Nha Trang. (JLL's Hotels & Hospitality Group, 2017)

Da Nang has been long known for its beautiful beach and its proximity to 3 UNESCO World Heritage namely Hoi An, My Son Valley and the Imperial City of Hue. Da Nang's economic strength is tourism. Together with its adjacent cities Hoi An and Hue, it has been actively promoting popular tourist sites natural and historical attractions. Moreover, the recently-built international airport terminal with new improving connecting flights to and from famous tourist hubs around the world have enabled more people to visit the city. The accommodation sector, therefore, is particularly booming in this city with several famous Hotel brands which are under fast construction including Hilton Da Nang, Sheraton Da Nang and Hoi An Marriott Resort & Spa. (JLL's Hotels & Hospitality Group, 2017)

2.2 Overview of Purchasing and its role in the Hotel Industry

The terms such as "purchasing", "purchasing management", "procurement" and "sourcing" are often used interchangeably when we talk about the activities of acquiring needed goods or services of an organization (Bakar et al., 2016). According to Van Weele (2010), purchasing is considered a vital operational activity in a company as all of the business's external resources is managed in a way that the supplies of all products, materials, services and information which are crucial for operating and maintaining the company's main and support activities must be secured at the best conditions.

Furthermore, Van Weele (2010) also emphasizes how important the purchasing function is to a business by showing an analysis of cost structure of manufacturing company. Generally, the largest amount of cost is taken up by the purchased goods and services. Besides, it also illustrated an impressive 50% purchasing value is in relation to the costs of goods sold.

The main goal of procurement is to obtain the right products at the right time, right place with the right quality and right price which will ultimately help the whole purchasing process to be effective and efficient (Akdillou, J & Mahdilou, H., 2014)

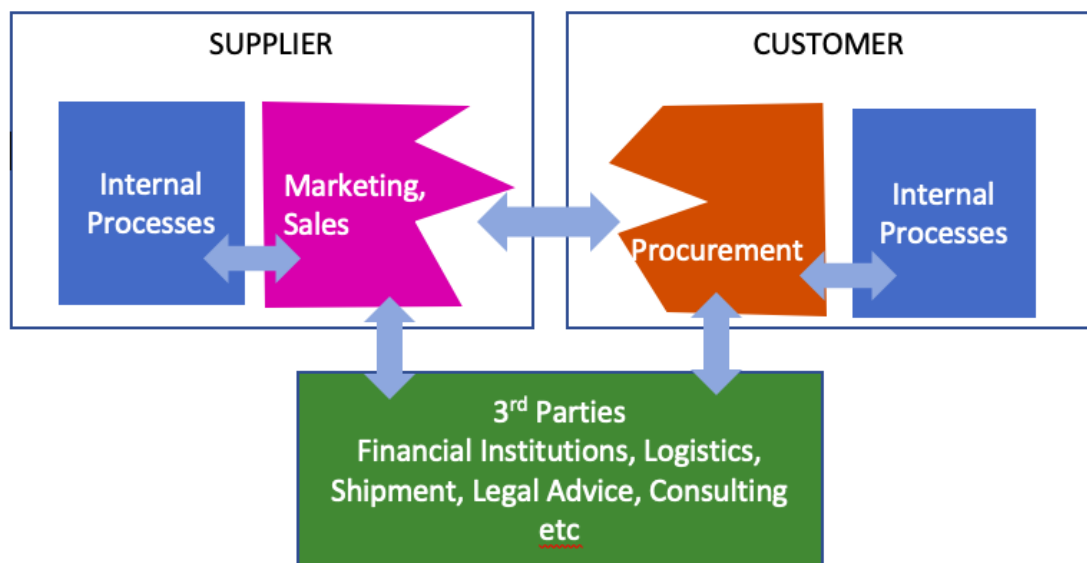


Figure 3. Procurement: Spanning Multiple Boundaries (adapted from Gebauer 1998)

Gebauer, Beam and Segev (1998) categorized procurement into three main types:

- Procurement of raw materials and production goods which is usually existing under large quantities, high frequency and crucial, exclusive requirements, often executed with JIT (just in time) delivery.
- Procurement of maintenance, repair and operation (MRO) supplies which is described by low volume, low unit cost but rather high frequency.
- Procurement of capital goods and maverick goods refers to purchase of goods of high value but low frequency or buying products outside of the purchase routine because of convenience or speed requirements.

Van Weele (2010) also adds more purchasing categories as followed

- Purchases of supplementary materials which are not added physically into the products but consumed throughout the process, such as lubricant, cooling water, industrial gases or polishing materials.
- Purchases of semi-finished products which have been processed and will be processed once more before being added physically to the final products. Examples for this category can be plastic foils, steel plate or rolled wire.
- Purchases of finished products or trade items which are bought to be sold later, either by themselves or with other finished products. For example, a car manufacturer company will procure accessories such as wheels, tyres or navigation system to go with their cars.
- Purchases of components which are referred to those that do not go through further changes but rather, will be built into an end product and create a functional relationship with other components.

It can be concluded that the right purchasing policies and strategies will contribute to the success of a business in many ways. First and foremost, purchasing policies can greatly improve the sales margins and bring more profit. Secondly, with better logistics and quality management with suppliers, purchasing also contributes to a significance savings in the working capital and thus, the organization's cash flow. Last but not least, with better relationship and commitment from the suppliers, a company's innovation capability will also be strengthened.

2.3 Purchasing in the Hotel Industry

Undoubtedly, a hotel's performance depends mostly on the efficiency of its purchasing department. In a hotel, the purchasing department is responsible for the hotel's production capacities being systematically and fully supplied to avoid any disruptions or delays in sales and services. According to Ivanovic (2007), the involved activities include:

- organizing acquisition
- surveying the supply market
- planning the acquisition of materials, goods and equipment
- optimizing the quantities of needed goods
- placing and monitoring orders
- delivering and receiving materials and goods
- implementing quantitative and qualitative controls
- supervising and analyzing acquisitions

When talking about the Hotel Industry, one usually relates to the wonderful physical and mental experiences that they hope the hotel would offer. One hardly imagines what or who, "behind the scene", is bringing the wishes into reality. The purchasing department in a hotel has a very blurring, if not, mediocre impression to anyone's mind despite the fact that it carries the most difficult tasks which enable a hotel to be competitive in the market. Sethu H.S. (2007) states that the hotel industry is a very unique business with its focus on

customer. Guests or customers are treated as "Gods". Customer's satisfaction is the dominating factor which makes it difficult for a business to have an acute standardization. All of the activities that relate directly to customers such as food and beverage, front office management and housekeeping are given ultimate priority whereas accounting, supply chain management, revenue recordings or procurement are, typically, underestimated. Consequently, this creates a great contradict and difficulty on the supply chain of the hotel in which procurement plays a major role. Procurement staff receives orders from, for instance, food and beverage manager or front office manager who interact directly with the guests and therefore, the demands they create upon the procurement department are often unplanned and unexpected. As a result, procurement staff are always under pressure of fulfilling the needs in time, in place, at the right price and most importantly, the right quality. At the same time, they also have to deal with high buffer stock because they do not want to fail the orders. (Sethu, 2007).

To summarize, purchasing plays a fundamental role in the Hotel Industry and is becoming more widely recognized for its significance.

2.4 Supply Management

Securing a long-term efficient availability of supplies at a competitive cost is not merely from the monitor of the current development. The business owners or leaders must be able to acknowledge the risks within the complex supply chain that the business is a part of, especially if it is sourcing at an international level. As a result, the purchasing activity must be perceived as supply management. (Kraljic, 1983)

a) The need to conduct supply management

According to Kraljic (1983), to initiate the supply management strategy, any company must acknowledge two fundamental factors: (1) the complexity of the current supply chain, in terms of supplies scarcity, logistics costs or/and material substitution; and (2) the magnificence of purchasing in terms of

added-value by the products or the materials/services' proportion in total costs and their impact on the profitability. Companies' management and purchasing executives can assess their business's situation with the following suggestive questions:

- Is the company able to avoid or minimize products bottlenecks and interruptions? – Not all companies are able to realize the scarce of certain materials or the suppliers they are sourcing from. As a result, these products always find themselves in the “bottleneck” which is a constant problem for the company.
- What is the limit of risks can the company take? – When the importance of the materials and their suppliers will put the company at greater risk should anything happen, it is essentially for the company to conduct risks management. Big companies like KONE created their risks assessment on suppliers regularly to ensure the sustainability of the supply chain. (KONE, 2017)
- Is the company making full use of the supply's opportunities among its department? – An international garment manufacturing company might source from 50 different suppliers due to whereas they could consolidate the suppliers down to 50 percent to reduce the overhead costs.
- Which make-or-buy decisions will yield the best profitability? – Sometimes purchasing certain components will result in greater results, both in quality and finance, than producing.
- To what degree the collaboration with the suppliers or even rivals will promote a strategic relationship which, ultimately, result in benefits for both parties? – Big enterprises, such as IKEA and KONE, have started involving suppliers in early stages once the benefits of this realized such as: stronger commitment and better end results.

b) Supply Management Strategy

To minimize the vulnerabilities as well to develop an efficient supply management strategy, many organizations have adopted a four-staged process to categorize the materials, products as well services they are purchasing.

Phase 1: Classification

The profit impact factor of a purchased item or service is measured by the total purchased volume, percentage of total purchase cost or impact on business growth; whereas, the supply risk factor can be measured by the availability and number of suppliers as well as competitive demands and substitution opportunities. By using these criteria, a company can sort its purchased products or services into the following categories: routine (low profit impact/low supply risk), leverage (low profit impact/high supply risk), bottleneck (low profit impact/high supply risk), strategic (low profit impact/high supply risk).

Based on its complexity in terms of profit impact and supply risk, each of the categories requires a different purchasing approach.

- Routine or non-critical items, which are usually standardized and ordered in big quantity, only needs simple inventory optimization and market analysis with short term demand forecast. Hence, this category needs the least attention from the management board.
- Leverage items enables company to fully exploit its purchasing power because of the variety of suppliers. Companies are often able to select suppliers that offer the most competitive price. Vendor and value analysis often take place when a company procure this type of category.
- Bottleneck items often require intensive market and vendors analysis which helps business to better forecast and secure the supply and inventories. Decisions on bottleneck items often involve higher purchasing authority in the company such as Purchasing Manager or Department Head.

- Strategic items are the most complicated purchased items that need the involvement of top-level management. They need intensive analysis in terms of risks, market as well as computer simulations, optimization models, price forecasting and other micro-economic analysis to ensure the output will be the best. Suppliers in this category are always long-term partner with the business.

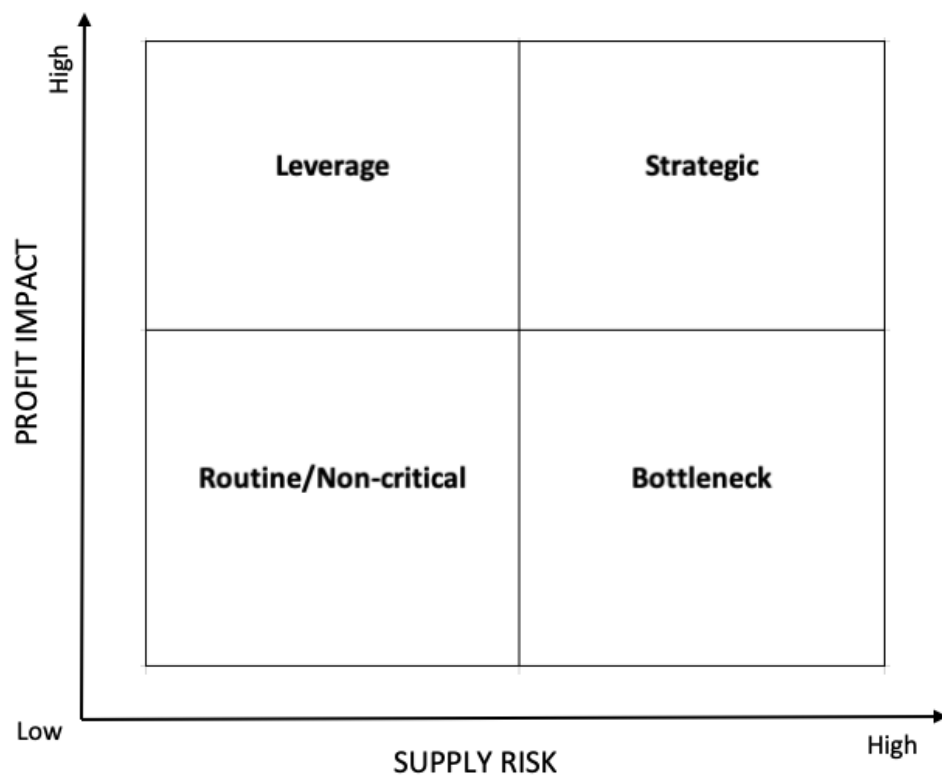


Figure 4. Purchasing Portfolio Matrix

Phase 2: Market Analysis

In this step, the company must compare its power of bargaining to that of its suppliers. To do this, the company must conduct a thorough analysis on the supply market, the availability of its strategic materials or services, in terms of quantity and quality, and the competitive edges of the existing suppliers. There are certain questions to which a business must find the answers to obtain the best analysis.

- What is the uniqueness of the supplier' products?

This can be the material or technological aspect of a product. If a product is unique, the possibility of substitutions is scarcer, and the buyer will have less power in purchasing. (Kraljic,1983)

- What could be the cost for delay in delivery or inadequate quality?

When evaluating a purchase of goods, company must calculate the costs incurred if a shipment is delayed or faulty. Safety stock, inventory level and overhead costs will be heavily affected if such situations happen.

- What is the supplier's utilization capacity?

This question will reveal whether a certain item will fall into the bottleneck category.

Phase 3: Strategic Positioning

Next, the company will place the items in the purchasing portfolio matrix which is a tool to plot out the way it will correspondence to certain supplies by assessing the company and the suppliers' advantages.

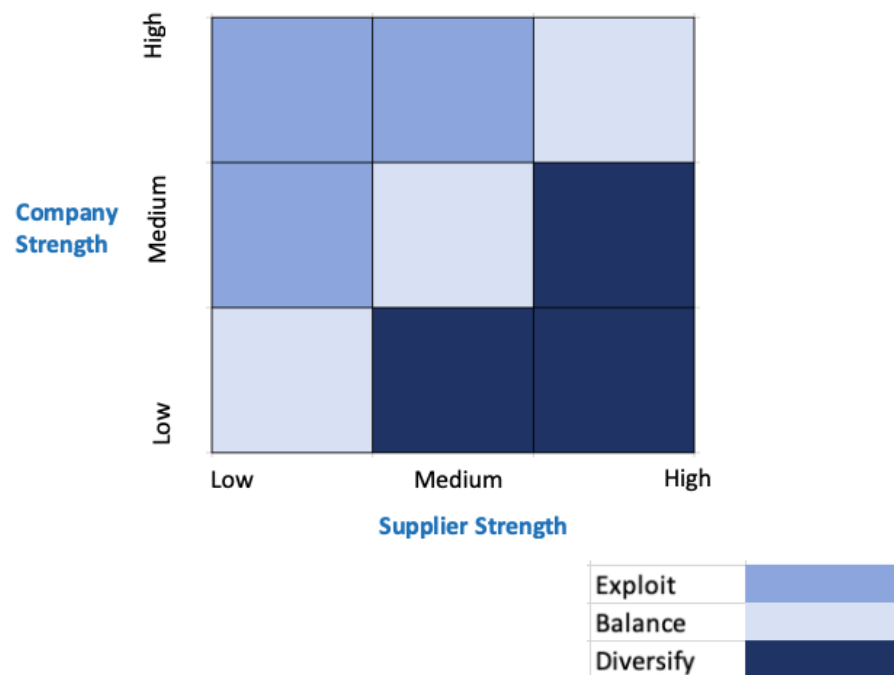


Figure 5. Strategic Positioning (adapted from Kraljic, 1983)

Kraljic (1983) suggests that the cells represent three basic risk categories, each involves a particular strategic approach for the items.

- Items in the “exploit” cells indicates the dominant role of the company and the rather low to medium state of the suppliers. Thanks to the low risks of supplies, companies can achieve the best price which will contribute to a higher profit.
- Items that are in the “balance” cell indicate neither risks from suppliers nor company and therefore, company must learn to balance the strategy so that the relationship will last long and strong.
- For items in the “diversify” cells, companies must have back-up plans by looking for new substitutes or vendors since the power now falls into the suppliers’ hands.

Phase 4: Actions plan

Each of the three abovementioned cells indicate its own procurement strategy approach to the suppliers in terms of price, volume or inventory policy. In this phase, business should explore the supply situation in which it can secure a sustainable supply source or exploit the short-term opportunities; clearly define the costs, risks, other related implications and develop a detailed plan with objectives, steps, responsibilities and contingency options for top management to approve. (Kraljic, 1983)

2.5 Purchasing Organization Structure

The structure of a company's purchasing can vary depend on the characteristics and other situational factors. There are three types of purchasing organization structures which are centralized, decentralized, hybrid and cross-functional sourcing team. A survey conducted by Johnson and Lenders in the US (2004) revealed that, among 284 multinational companies, 66% of the respondents used the hybrid approach. Nevertheless, 67% of the respondents were leaning towards the 'centralization' method which includes centralization and hybrid-centralization approaches; whereas only 24% favored decentralization method. The study also showed that the respondents from the services sector preferred the centralization structure more frequently than those from the manufacturing sector. (Van Weele, 2010)

Decentralized Purchasing Structure

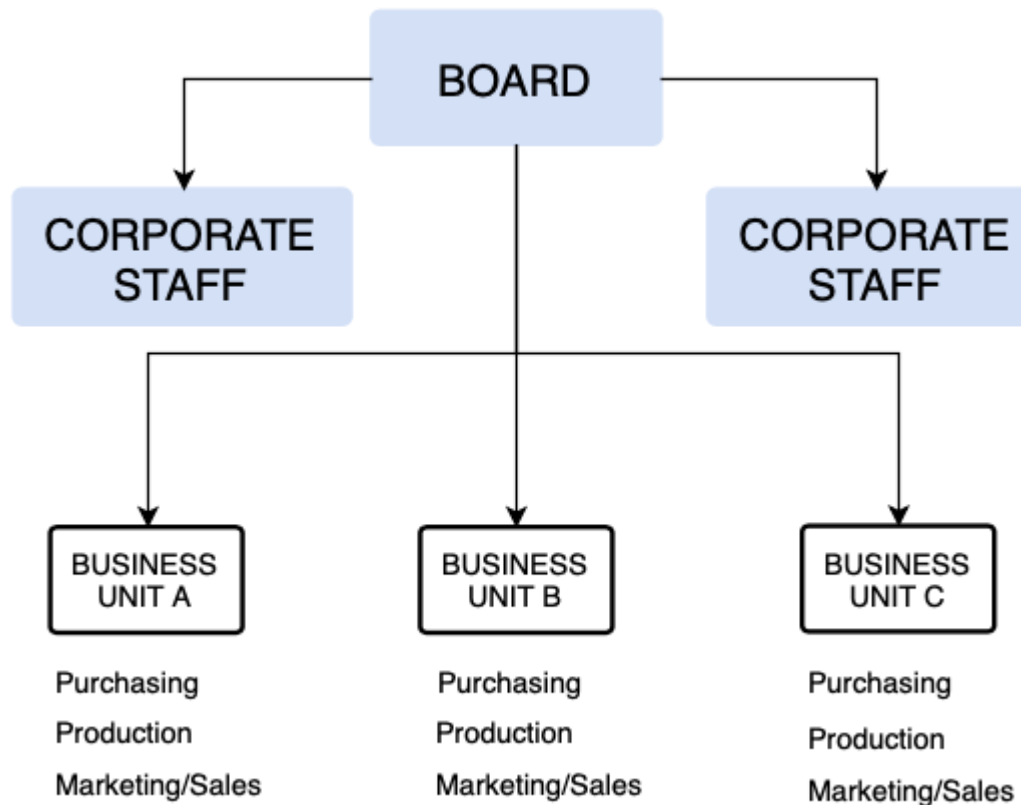


Figure 6. Decentralized Purchasing Structure (adapted from Van Weele 2010)

This structure is found at companies that have a business-units structure.

Every business unit manager is responsible for his or her own business unit's financial status.

According to Chunawalla (2008), this type of structure is suitable for business that has the following traits:

- Business units produce completely different products from one another.
- Some unimportant non-technical or low-valued products that can be obtained easily from the local shops.
- Certain single raw material whose price fluctuates from different suppliers that is available at the local market.

Centralized Purchasing Structure

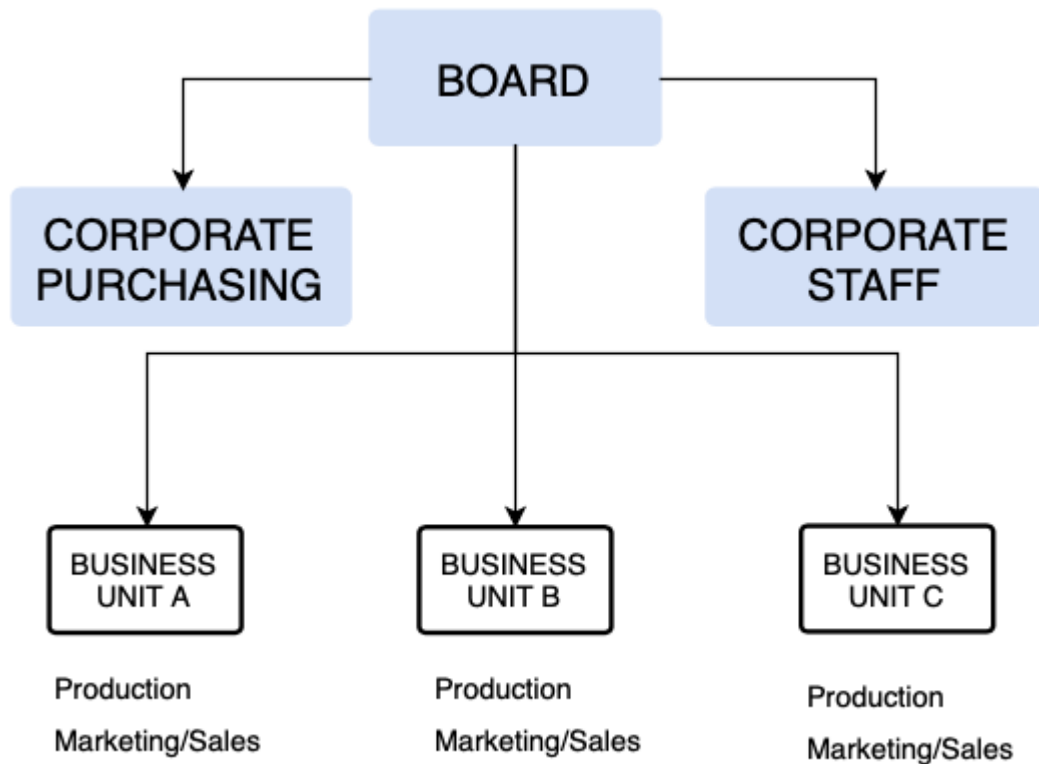


Figure 7. Centralized Purchasing Structure (adapted from Van Weele 2010)

In this purchasing structure, a central purchasing department is created in which all of the contracting specialists operate at the corporate level. All of the decisions made centrally, usually in collaboration with the R&D department or the chief engineers, ranging from products specification to suppliers tendering and contract negotiations.

According to Karjalainen (2011), when at least two departments or locations have common requisites and standardization possibilities, centralizing purchasing should be utilized. Especially, this approach is best suited for pooling products or products that have low site specificity such as MRO goods or indirect materials. In other words, one can conclude that items that belong to the routine or leverage categories, from the purchasing portfolio, are most applicable for a centralization structure.

Comparison between Centralized and Decentralized Structures

	Advantages	Disadvantages
Centralized Structure	<ul style="list-style-type: none"> - Economies of scales: savings through bigger volumes and less orders. - Enhancing the purchasing's power of bargaining. - Enhancing the expertise of the purchasing department. - Improving the collaboration between buyers and suppliers which result in better quality supplies and supplier standardization. (Van Weele, 2010) - Ensuring the quality of the supplies. (Islam, 2014) - Enhancing the uniform of purchasing procedures which makes it easier to control them and train the new-comers before they start the purchasing jobs. (Pooler & Pooler, - Decreasing repetitive purchases. (Van Weele, 2010) 	<ul style="list-style-type: none"> - More time consuming due to communication between all departments and purchasing department. (Van Weele, 2010) - Risk of orders being unfulfilled: suppliers might not be able to provide the agreed volumes. (Karjalainen, 2011) - The corporate purchasing department has the total control over the purchasing decisions and thus, can risk undermining the purchases due to the lack of expertise and the belief that they can get the best deals on their own. (Van Weele, 2010) - Longer lead time. (Islam, 2014)
De-centralized Structure	<ul style="list-style-type: none"> - Allowing each business unit to make decisions faster and changes accordingly 	<ul style="list-style-type: none"> - Decreased contact between suppliers and the actual users of the

	<p>based on their own needs. (Bedey et al., 2008)</p> <ul style="list-style-type: none"> - Allowing more efficient collaboration between purchasing officer and engineers/specialists which results in better understanding on their business unit's demands. (Bedey et al., 2008) - Enabling a more solid customer orientation within internal users. (Van Weele, 2010) - Enhancing partnership between business unit and the local suppliers. (Bedey et al., 2008) - Reducing the bureaucratic purchasing procedures. (Van Weele, 2010) 	<p>products/services. (Bedey et al., 2008)</p> <ul style="list-style-type: none"> - Less or no control over the total inbound material flow. - Weakened power of bargaining due to smaller orders. (Bedey et al., 2008) - Risks of conflicts or competitions between business units over certain supplies when the budget is tight, or the supplies are running short. (Van Weele, 2010) - Limiting the expertise advancing opportunities in the purchasing of materials. (Van Weele, 2010) - No systematic or standard attitude towards suppliers. (Van Weele, 2010)
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Table 1. Centralizing Structure versus Decentralizing Structure

Hybrid Structure

As the name suggests, a hybrid purchasing structure is the combination of decentralized and centralized structures. Van Weele (2010) describes this structure in three main characteristics

- Voluntary coordination - information flows freely between different purchasing departments. Based on this information, any department

can decide whether to join the corporate contract or create a contract on their own. Contracts are prepared by the purchasing coordination committee which represent the biggest users.

- Lead buyership - the business unit demanding the greatest volume of a specific commodity will be responsible for a corporate supplier negotiation. All of the data from the other involved business units will be collected by this 'lead' business unit. After that, each business unit must send the orders directly to the suppliers together with the contract conditions.
- Lead design concept - the operating unit that is responsible for the product design is also responsible for the supplier tendering and supplier contracting. For instance, once the product design is approved, it will be sent to other departments and could be used in other models if suitable. However, supplies and materials must be procured from the approved and contracted suppliers by the 'lead design' department.

2.6 Purchasing process

Purchasing activities are continuous and recurring which vary in different businesses. Generally, a purchasing procedure consists of the 8 steps as in Figure 7.

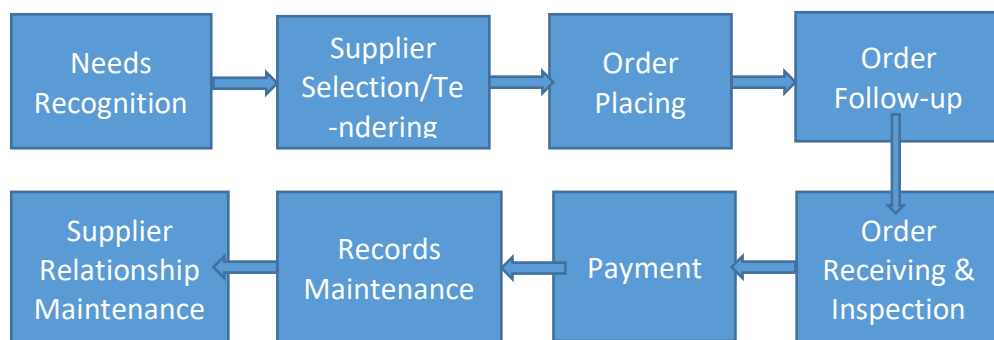


Figure 8. Purchasing Process

Needs Recognition

The beginning of a purchasing procedure starts when the demands for certain supplies are recognized. It can come from any department in the company, for

example the manufacturing department or store department. The needs are lodged with the purchasing department under a Purchase Request (PR) form. The PR should clarify the details of the demands such as material type, quantity, quality or preferred supplier. (Chunawalla, 2008)

Supplier Selection

This step composes of two sub steps: searching for all potential suppliers from all possible sources and short-listing.

A complete set of potential suppliers is constantly updated and maintained. The sources from which the information come from can be advertisement in trade journals, e-catalogue, direct mailing from the suppliers, suggestion from business associates, trade fair visits, industry convention, trade directories, e-market, etc.

After the tendering step, buyer will start evaluating to select the suitable supplier. The evaluation can be based on the past performance, quoted price, quality, delivery and other condition terms of the suppliers. Depends on the company, the criterion and criteria's weight can be different. According to Li (2007), some businesses prefer the qualitative criteria, such as communication or innovation capability, over quantitative ones. But in general, the supplier selection authority rests solely in the hand of the purchasing department. (Chunawalla, 2008)

Place the Purchase Order (PO)

Once the supplier is selected, the contract, together with the official purchase orders will be sent to them. Generally, a purchase order, in printed form or electronic form, will include materials specifications, volume or quantity, quality, price, mode of delivery, payment terms and other related conditions. (Chunawalla, 2008)

Order Follow-up

The duty of purchasing is to get the good at the right time, right place with the right quantity and quality and thus, this order follow-up step is inevitable. It should be noted that this step is not necessary for all commodity. The principle to employ this step is when the risks and costs resulting from the delay in delivery or order errors are greater than the costs of conducting follow-up. (Chunawalla, 2008)

The follow-up activity alters in different companies. It is usually done by monitoring the terms on the purchase orders/contract together with the actual progress from the supplier. The timeline of follow-up can be from the beginning of order being placed or one week before delivery. (Chunawalla, 2008)

Order Receiving and Inspection

The receiving department is responsible for receiving the goods delivered by the supplier. Quantity is verified in accordance with the purchase orders/contract. The quality of the goods can also be tested if needed by the inspection department. The inspection may involve mechanical, technical and chemical tests. Buyer serves the right to accept or reject should the orders fail based on those tests. The inspection can be done in-house or at the supplier's venue.

Usually, the inspection does not involve the purchasing department. Nevertheless, in some cases, it is advisable to involve the receiving department as a subordinate function for purchasing department because of the following reasons:

- The Purchasing Department is responsible for the original POs and thus, must be the one to verify the shipment with the help of the receiving department.
- Should the products arrived in damaged status, the Purchasing Department must be the first to acknowledge so it can initiate the legal action against either the shipper or the supplier. (Chunawalla, 2008)

Invoice Payment

After the products successfully pass the inspection stage, the invoice will be checked before it is approved for the payment. Normally, the buyer side will check if the price is listed as agreed, the goods are duly authorized to procure or the calculation is correct, etc.

Records Maintenance

This step is an essential part especially when a business is making repetitive purchases. Records of old purchases can act as a guiding tool for unexpected situations in the future. They are also useful when purchasing staff decide on the time to order or select new potential suppliers. (Chunawalla, 2008)

Supplier Relationship

Chunawalla (2008) emphasizes that the frequency and amount of purchases with the same suppliers allow business to establish a strategic relationship which will yield in mutual confidence and trust between both parties. Hence, it is important for business to invest time and effort to strengthen the relations with its vendors post-contract.

2.7 Typical purchasing challenges in small organization

Most businesses procure materials and services through purchase orders (PO). With frequently-used items, they often purchase periodically in advanced and stock them in the warehouse; whereas items with less frequency are purchased when needed. Large companies with a centralized purchasing structure will collect the requisitions from different departments and issue a bid-and-order procedure which suppliers will submit their quotations together with price. Based on the requirement criteria, companies will select the best supplier and make the contract. (Parikh & Joshi, 2005)

According to Parikh and Joshi (2005) this type of purchasing is preferred by lots of organizations because it allows the company's management to have total control over the cash flow and inventory and also increase transparency

to avoid fraud. However, this type of purchasing works well with large company with large purchases. For smaller and non-periodical purchases, this purchasing type is sub-optimal because of the following reason:

- Purchase orders always creates a high overhead cost. This means that for a purchase worth of \$100,000 or \$10,000, the overhead cost is the same for both cases. As a result, small companies that have a high proportion of small purchases will be affected heavily because of the overhead cost.
- The bid-and-order requires a large lead time which will result in unnecessary inefficiency and delays for small purchases, especially if the purchases are urgent.
- Moreover, since the main purpose of bid-and-order procedures is to select the supplier with the lowest cost, business will often change the suppliers. Consequently, this generates high transaction cost, uncertainty and the lack of commitment in the partnership with the suppliers.
- Sometimes, company wants to pick the best quality supplier, they must conduct the evaluation for each of the potential candidate. Hence, the process often involves intensive analysis using, for example, analytic hierarchy process-based supplier selection system or an evaluation matrix of information acquisition mode and information domain. Those evaluations always ask for a large amount of time, effort and especially money, which cannot be justified for small purchases.

Thus, using the same structure and process of purchasing for both large and small business will generate inefficiencies and increase the overall head costs. Companies must develop or transform the structure and process that will benefit them the most. (Parikh & Joshi, 2005)

3 CURRENT STATE OF CASE COMPANY'S PURCHASING

3.1 Grand Tourane Hotel's Procurement process

The procurement process in Grand Tourane commences with the initiation of demand lists by the involved departments and is completed once the goods are received at the Hotel. The demand lists are made on the daily basis and thus, not valid for the following months. The demand lists are to be approved and signed by the General Manager and Chief Accountant and should be allocated within the target budget. The Purchasing Department must always proceed with the bid-to-order procedure to pick the best supplier. This means that the purchasing staff must find at least 3 suppliers to compare and make the decision.

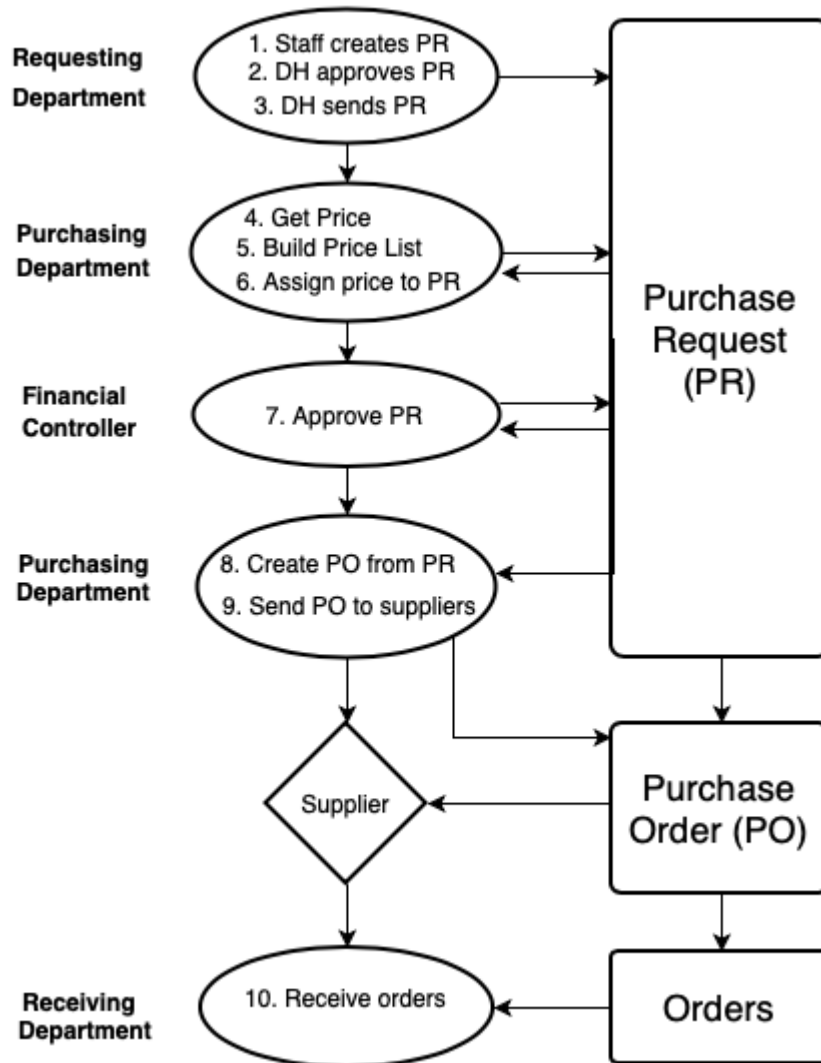


Figure 9. Grand Tourane Hotel's Purchasing Process

Storekeeper will initiate the demand for general store items (items in inventory) with information on the minimum and maximum par stock of each item. Items with takes a long time to be received since ordering such as printing, or manufacturing will need extra support from the Purchasing Department

For items other than stores, the concerning Department is responsible for initiating the demand. These demand lists should also reach the Purchasing Department by the 3rd of every month duly signed by Chief Accountant (who will verify it with allocated budgets). To regulate this procedure, Department Head

is responsible to compile the lists in a file and present it to the Purchasing Department. The format for presenting the demand lists is as follows:

Department should seek assistance from Purchasing Department regarding the unit price to be mentioned in the demand lists. This should be done before the start of the month and lists should be presented to the Purchasing Department duly signed by FC by the 3rd of every month. The information regarding the exact quality and specification of the items should also be passed on the Purchasing Department.

List of demands for store items based on the closing stock must reach the Purchasing Department by the 3rd of every month duly signed by FC.

Purchasing Manager is responsible for compiling the demand lists as soon as possible and have these approved by the FC/GM.

3.2 Categories of purchases

General purchases

This type of category refers to the goods that are utilized in the purpose of serving the daily, monthly and annually activities at the Hotel. General purchases ranging from guest supplies, cleaning supplies, decoration to stationary and printing for the offices. Store Keeper/ Inventory Keeper is responsible for maintaining the minimum stock and deciding the new required items in coordination with the concerned Departments.

Engineering purchases

This type of category refers to all of the purchase of technical equipment, goods or materials needed for the operation of the Hotel. Chief Engineer is solely responsible for monitoring the demand for engineering goods. Demand for engineering items will be initiated by the Engineering Storekeeper in coordination with Repair & Maintenance (R&M) Engineer.

Food, beverage & grocery purchases

This type of category represents the demands from the Hotel's restaurant and catering services. Food & Beverage Department will create the demand list of food and grocery, according to the Executive Chef's recommendation, which are divided as follows:

- Meat & Fish
- Fruits & Vegetables
- Dairy Products
- Spices & Cereals
- Tin packed products

With items 1, 2 and 3 being perishable items, Executive Chef will have to list the amount of food and grocery that match with the predicted demand on the daily basis. The other items will be kept in general store and their par stock must be monitored closely by Executive Chef and Store. Daily market list must reach the Purchasing Department before 3 PM.

Operation Department's purchase

This type of category refers to the purchase of equipment and goods required in Hotel's functions such as laundry, housekeeping and stewarding.

Miscellaneous purchases

Any purchase that does not belong to the inventory or operation or being requested from the following functions: Front Office, Recreation - Spa, Accounts, Purchase, Security, Human Resources, Computer Maintenance, is categorized as miscellaneous purchase.

Fuel & maintenance of vehicles, generator

Demand of fuel for vehicles, generator is on and when required basis but should remain within the allocated quantity for each vehicle. Demand list based on the allocated budget should be made on monthly basis and approved by Financial Controller, General Manager.

Promotional and Advertising

Sales & Marketing Manager initiates the demand for promotional and advertising. Any developing of a new promotional material will be achieved by the Sales Manager, together with the Purchasing Department, based on the allocated budget which is made on a monthly basis and approved by General Manager.

Capital Purchases

Capital purchases includes replacement and procurement of furniture and fixtures, machinery, equipment, machine parts and some new projects for improvement of facilities and items and projects not considered as part of Hotel's normal operations. Capital purchases will be regulated by Owning Company. The concerned Department heads are responsible for initiating capital demands as per delegation or request.

4 METHODOLOGY

The objective of the study is to build an improvement plan for the case company's purchasing process by detecting the underlying problems and realize the improvement opportunity. As mentioned above, due to the difficulty in quantifying the opinions in this study, a qualitative case study approach is chosen.

Qualitative & quantitative combined case study methodology is conducted in 4 steps:



Figure 10. Thesis's methodology

Current Purchasing State Description

In the first part, Grand Tourane Hotel's purchasing structure, which was derived and collected from the hotel's procurement policy and from the purchasing staff. The total spend of Grand Tourane Hotel in purchasing activities in 2018 was provided by the Financial Controller. The model of the hotel's purchasing structure will be created for better visual comparison with the theoretical one. Similarities and differences are noted down for further analysis.

Interviews and Observations

Interviews are made three times with the Purchasing Manager throughout the whole duration of the thesis: at the beginning, in the middle and in the end. Each interview lasts around 30 minutes with different themes.

a) The first interview

The first interview was about the structure of the purchasing at the hotel and the current problems that the purchasing department face daily as well as annually. The questions posed were as following

- How long have you been working in Grand Tourane Hotel? In what position?
- Please describe the purchasing process and structure at Grand Tourane Hotel?
- How many purchasing categories are there in Grand Tourane Hotel?
- What are the most common problems you often face as a Purchasing Manager in Grand Tourane Hotel? Could you solve all of them easily?

b) The second interview

The second interview, which was made around 1.5 month since the first one, was about the differences between Grand Tourane Hotel and the one that the Purchasing Manager previously worked at which is Hyatt. The questions were as followed:

- Before Grand Tourane Hotel, where did you work? Were they hospitality related? What was your position and was it related to Purchasing?
- What were your main duties as a purchasing staff there?
- Could you describe the purchasing process and structure at your previous work place? What is the biggest difference between them and Grand Tourane Hotel?

c) The last interview

The last interview was made after the spend data was given to the author, around 4 months since the first interview. The questions about the prioritization of the existing categories which was made clear to the Purchasing Manager when she started her job. The interviewee was also asked to estimate the time spent on different categories. The questions were as followed:

- Could you describe the prioritization of purchasing categories in Grand Tourane Hotel and the reason for this rank?
- Could you roughly estimate the time spent for each category? Why do you they take that much amount of time?

d) Other interviews and observations

Interviews with 4 purchasing staff and 4 other related department's staff were also conducted once throughout the period to serve the purpose of the thesis.

- Four purchasing staff share the same position called "Purchasing Office". Each one of them is in charge of one or two specific categories and all report back to the Purchasing Manager.
- Four other staff are from Engineering Department, Front Office Department, Restaurant and Bar and Sales Department. The positions of the interviewees are Chief Engineering Officer, Front Office Manager, Chef and Sales Staff.

The abovementioned staff were selected for the interview since they are involved directly with purchasing activities and they understand the process as well as the typical problems that occur often. The similar questions were made for the staff as follow:

- How often do you need to make purchase order/involve in purchasing activities?
- What is the most common commodity that you make purchase of?
- What are the most common problems/issues when conducting purchasing activities? What is the frequency of these problems?

Besides interviews, observations on the daily purchasing activities were also inquired. Thanks to this, certain underlying problems were identified by the author and later confirmed by the purchasing staff.

Purchasing Efficiency Analysis

The purpose of this analysis part is to illustrate the current efficiency of the purchasing procedure at the Grand Tourane Hotel. There are two main parts in this analysis step.

Presenting the information

Based on the interviews and observation, certain information that support the efficiency evaluation for the purchasing procedure improvement will be analyzed as follow

- The existing problems at the hotel ranking from the most vital to the least vital.
- The prioritization of the purchasing categories.
- The estimated time spent in each category.
- The differences in the purchasing process between Grand Tourane Hotel and other famous hotel brands such as Mariott or Hyatt.

The existing categories will be analyzed and put into the purchasing portfolio matrix to identify the actual prioritization that the case company should focus on.

Presenting the Purchasing Efficiency Evaluation

From the above information, a grading system for the purchasing efficiency will be introduced to evaluate the current state of Grand Tourane Hotel's purchasing function. The grading system will be based on the values, prioritization and actual time spent of each category. The choice of these criteria was taken from the analyzed information. Then, the author will be able to highlight the areas in the purchasing function that need improvement the most.

Solution

There are 2 solutions, together with the supporting points, for the most essential issue will be suggested by the author. Advantages and disadvantages for the solutions will also be discussed. After that, author will choose the most suitable option and present the implementation plan.

5 RESULTS & FINDINGS

Grand Tourane Hotel's Purchasing Structure

Below is the flow chart showing the purchasing structure at Grand Tourane Hotel. Compared to the theoretical structure of Van Weele that was introduced in chapter 2.5, the structure at Grand Tourane Hotel differs slightly with the Financial Controller's (FC) control over the Purchasing Department, and also the Accounting Department instead of the Board. In reality, all of the payment must be approved by the FC and also the General Manager (GM) in certain situations. After that, the Accounting Department can make the payment based on the approved PO from the Purchasing Department. Nonetheless, the purchasing structure is still a centralized one since the Purchasing

Department is the only one responsible for the purchasing activities at the hotel.

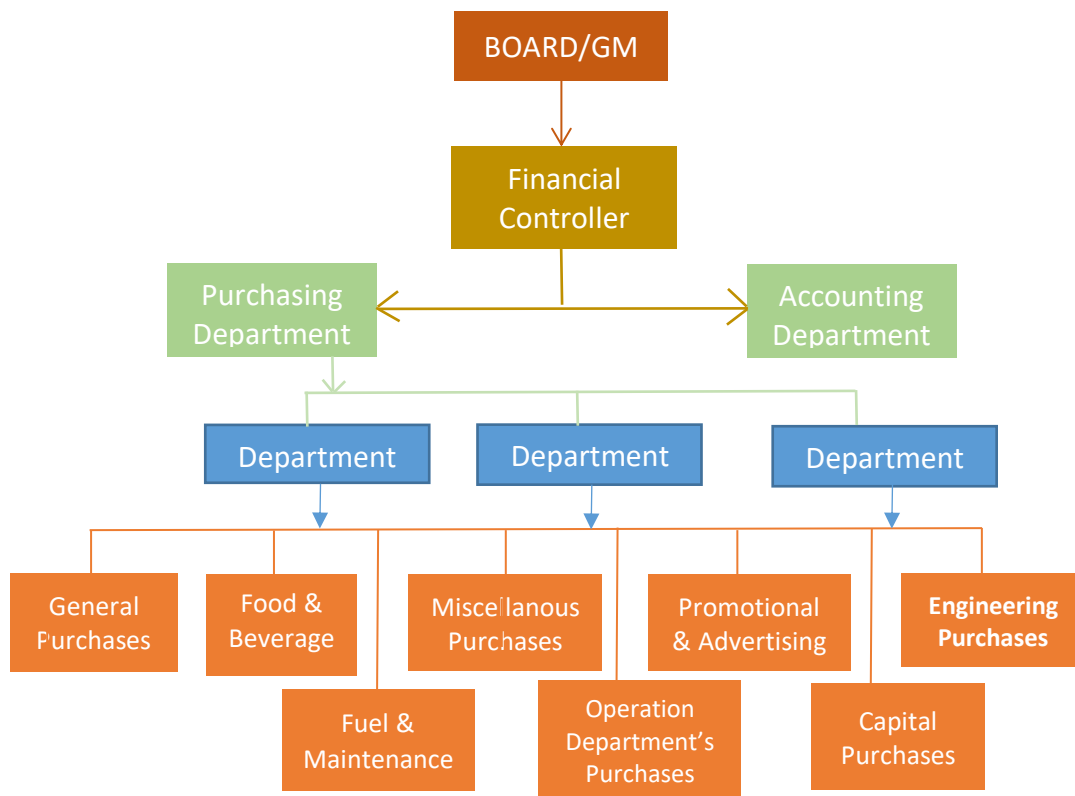


Figure 11. Grand Tourane Hotel's Purchasing Structure

Grand Tourane Hotel's Total Spend

Below are the charts illustrating the spending of Grand Tourane Hotel in 2018 in different categories (the currency is Vietnamese Dong).

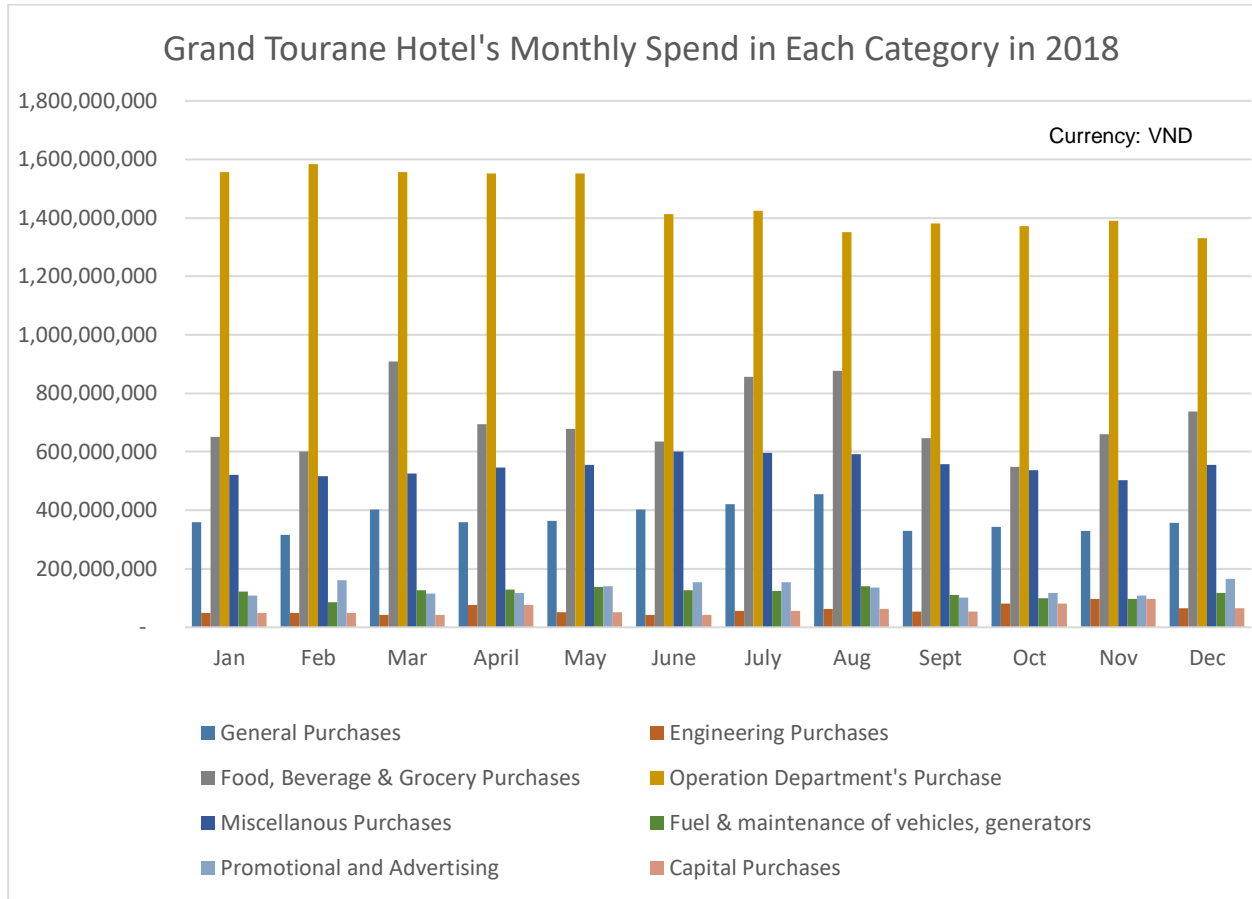


Figure 12. Grand Tourane Hotel's Total Spend in 2018

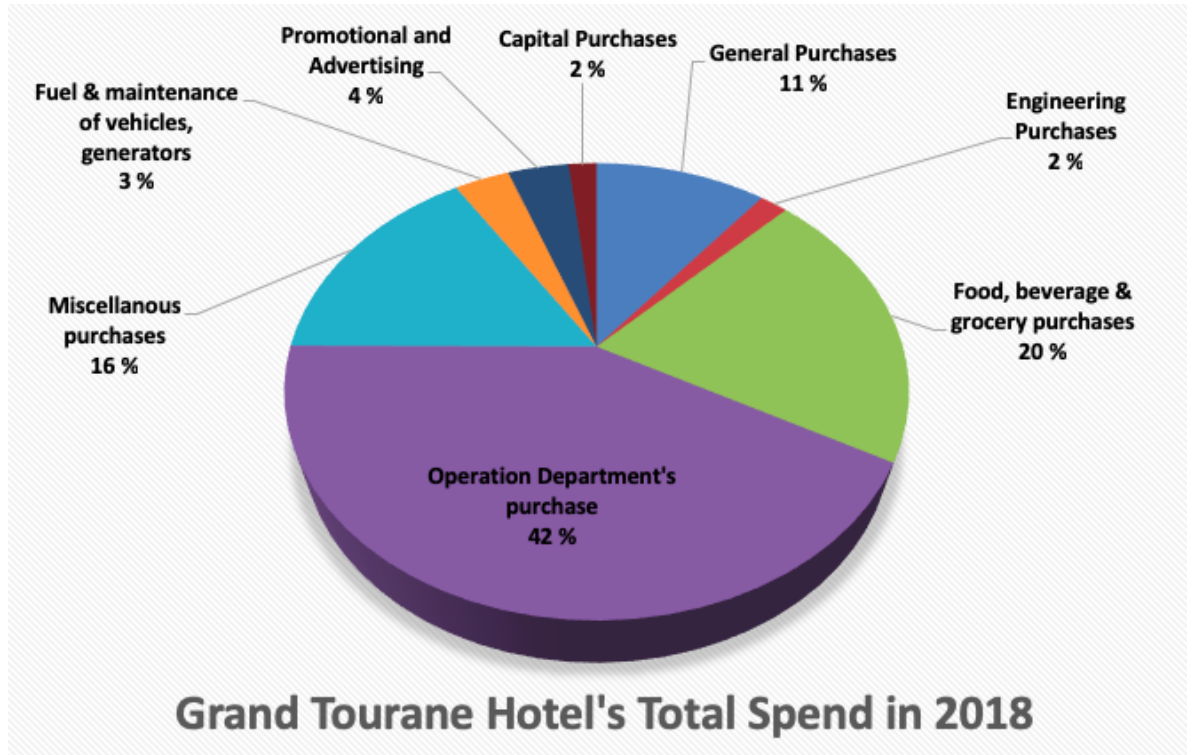


Figure 13. Grand Tourane Hotel's Total Spend in 2018

From the charts, it can be seen that Operation Department's Purchases category accounts the biggest proportion (42%) of the Grand Tourane Hotel's total spend. Coming in second place is the Food, Beverage & Grocery Purchases with 20%. This is no surprise since these two categories serve the services offered at the hotel.

6 PURCHASING EFFICIENCY ANALYSIS

6.1 Purchasing problems

Based on the interviews with the purchasing staff and the observations made by working within the purchasing department at Grand Tourane Hotel, the author was able to identify the following issues (the order is from the most significant to the least significant)

a) The centralized procurement system in the hotel makes it difficult to have fast and effective transactions with the local suppliers.

As mentioned above in the procurement policy in the hotel, all of the involved department must issue the PR to the Purchasing department, and then, have the PR approved by the FC or GM. Finally, the purchase can be made. Unlike other big and franchised hotels who have fixed orders with big fixed suppliers, Grand Tourane Hotel mostly procure goods with rather small amount from small local suppliers in Da Nang, who are not familiar with the big amount of paperwork they have to finish. Furthermore, some of the suppliers cannot fulfill the paperwork that Grand Tourane demands such as bills, invoices or request to pay. As a result, it can take longer than expected to have the demand fulfilled at the hotel. For instance, the hotel contracted a bicycle shop owner to fix the bikes for rent. However, the shop owner has never created any bill or invoices for any of the service he offers; all of the transactions are done by words of mouth and cash.

b) Communication with suppliers is time-consuming and not so effective.

Since most of the suppliers Grand Tourane Hotel is working with are rather small and local businesses who do not possess an effective means of electronic communication. All of the communication is done via phone calls. Thus, instead of having RFI and RFQ ready on their computer, suppliers must be constantly called to be reminded of the contract.

Some of the suppliers do not understand fully the purchasing procedure in big hotels such as Grand Tourane because they are not big retailers and not used to working with such bureaucracy. The hotel needs all paperwork, such as bills and invoices, sent from suppliers and approved by the FC/GM to pay for the services or products. Issuing the bills and invoices are the stages that most suppliers neglect or delay which causes delay in fulfilling the demands at the hotel.

Moreover, some suppliers do not have or do not provide an electronic catalogue because of risks of information leaking. For example, one ceramic supplier refused to send any physical or electronic catalogue of their designs and models since they do not want to risk having their design leaked and

copied by any rival. As a result, the purchasing manager must go to the supplier's local showroom many times to browse the designs.

c) Being a centralized procurement system demands purchasing department to always be involved directly in assessing any of the products or services.

The advantages of a centralized procurement system are undeniable in terms of reducing costs, labor work, better inventory control and enhanced partnership with suppliers. However, that system works best in a big company who purchase a huge and almost fixed amount of materials and services within a fixed amount of time. Grand Tourane Hotel, though providing multiple services, however, still procures rather small yet diverse products and services based on unpredicted demands. Most of the time, the purchasing department is found struggling with small or new miscellaneous purchases. Therefore, they cannot utilize the benefits of a centralized system. Rather, it creates more burden for the purchasing department. For every purchasing request from the concerned department, the purchasing officers, together with the head of the concerned department, must meet with the suppliers to check the products. This can range from purchasing food for the kitchen to purchasing jackets for the security team. Even though the concerned department understands their request best, it is still up to the purchasing department to communicate with the suppliers in terms of requirements, quality, price and delivery. Some purchases do not need special scrutiny as much as the rest but they all, theoretically, deserve the same attention because of the centralized sourcing system. Consequently, instead of focusing on leveraging the hotel's competitive edges, the purchasing department spend most of their time running after suppliers and the paperwork or constantly looking for new suppliers that can fulfill the needs.

6.2 Purchasing Categories Prioritization

According to the Purchasing Manager, Grand Tourane Hotel ranks the prioritization as followed

1. Food, Beverage & Grocery Purchases.
2. Engineering Purchases.
3. General Purchases, Operation Department's Purchases
4. Capital Purchases.
5. Fuel and Maintenance of Vehicles, Generators.
6. Miscellaneous.
7. Advertising and Promotional.

Food, Beverage & Grocery Purchases is the first in the prioritization order since the hotel focuses strongly in the quality and diversity of cuisine that they promise the guests. The supply in this category must not only meet with the standards that the Kitchen requires for the daily servings but also must satisfy the spontaneous orders from the guests or any unexpected situation.

Engineering Purchases comes second in the list because of its importance in the operation. Hotel conducts daily, monthly and annually checks on all of the available equipment in the hotel to avoid any risks in undermining the services they have to offer.

6.3 Time spent in each category

The following order, from largest to smallest, was roughly estimated by the Purchasing Manager and other purchasing staff in the department. The time spent in each of the categories scattered along the weeks or months meaning the purchasing staff did not finish the purchasing activity in one time but had to come back to it from time to time until the products or services were successfully delivered to the hotel.

- Capital Purchases & Engineering Purchases

- Operation Department's Purchases.
- General Purchases.
- Food, Beverage & Grocery Purchases.
- Fuel and Maintenance of Vehicles, Generators.
- Miscellaneous.
- Advertising and Promotional.

Capital Purchases and Engineering Purchases are the two categories that equally consume the most time of the Purchasing Department in Grand Tourane Hotel.

Even though Capital Purchases is regulated by the Owning Company according to the Grand Tourane Hotel's procurement policy, the Purchasing Department is still responsible for this category. Capital Purchases mainly refers to the Hotel's facility and equipment which can be air conditioner systems, room renovations, walls waterproofing or sewage system. The reason to the time-consuming purchase for this particular category lies behind the long process it takes for a purchase to be completed by the supplier. Once the problem is identified, for example fixing the molded walls, the Purchasing execute the step of suppliers tendering like usual. At least 2 suppliers must be invited to the site to propose the solutions and the price. The chosen supplier will send the contract and the hotel will pay a certain amount of money in advance. Nevertheless, as mentioned above, Grand Tourane Hotel deals with lots of local suppliers, especially construction or innovation suppliers. These suppliers are unfamiliar to the paperwork and hence, the hotel must spend some more time guiding and fixing the contract accordingly. Moreover, once the contract is sent to the hotel, the Purchasing Department also needs to negotiate and finalize on the best price. When the supplier commences their service, it usually takes approximately one month to finish. Depending on the

urgency of the problem, the Purchasing Department often constantly boost and accelerate the progress which might cause more pressure to the supplier. The whole process must be collaborated closely with the R&M department since they are the responsible party for the facility and amenity at the hotel.

The Engineering Purchases category encompasses a wide variety of products from lamps, irons to refrigerators which come from many suppliers - domestics as well as international. The problem with this category is that the Purchasing Department must receive full product information including product code, product's capacity and supplier, which the concerned department often loses or forgets. As a result, the Purchasing Department often procures the wrong supplies. To avoid this, the Purchasing Department often directly involves the related department to confirm on the right products. Consequently, the process takes longer than it should. Moreover, some of the products and spare parts are rather exclusive which must be bought from some particular suppliers, who are usually from abroad. These suppliers will only send the products once they receive the total amount of money. With the bureaucracy in Grand Tourane Hotel, it takes some time to finalize on the payment to be sent abroad. Besides, even though the origin of these supplies is mostly from China, it still takes approximately 30 to 45 days to reach Da Nang.

Unlike the two mentioned categories which require more time than they should in spite of their low prioritization status, all of the remaining categories take up a rather more acceptable and expected amount of time and effort from the staff. This is no surprise because they are mostly fixed orders from known suppliers with little or low risks of failures.

6.4 The differences in purchasing at Grand Tourane Hotel compared to others

First of all, other international hotel groups such as Marriott or Hyatt, even though operating in Vietnam, contract with mostly foreign suppliers who can provide them with enormous, customized and standardized orders per request

at a good price. As a matter of fact, international hotel brands often produce their own Supplier Code of Conduct, meaning once suppliers meet with the requirements, they are guaranteed to be long term partners. Therefore, all suppliers will be familiar or get familiarized with the procurement procedure of these hotels. Most importantly, the risk of orders failure in terms of quality, quantity and the delivery manners stay rather low for those big hotel brands. Whereas, Grand Tourane Hotel simply contracts with any local suppliers they could find in Da Nang or in Vietnam without any standard guideline or basic requirements for them. Consequently, when a supplier fails them, the hotel rushes to find a new supplier and starts the whole procedure all over again instead of negotiating to fix the problem.

E-procurement is a trending solution within the hotel industry nowadays because of its proven benefits in reducing tendering costs and reducing overhead costs. Big companies like Marriott or Hyatt is using an E-procurement platform called Tejari. However, Grand Tourane Hotel has not yet found an effective ERP system. The current ERP solutions they are utilizing at the moment is from a local provider called SMILE PMS. For Purchasing, the platform they are using is called Smile PUR (Smile Purchasing). Though claimed to be enhancing the way hotels operating, this solution still shows its limitations. In fact, the Purchasing Department in Grand Tourane Hotel rarely uses it. The main reason is that the platform is not very user friendly:

- Old PRs is difficult to trace
- The font is not standardized, the remaining stock/inventory is not shown
- Supplier code can only be created by the Financial Controller and the PO function has several errors that have not been fixed yet which causes the Purchasing Staff to do them manually.

Financial Controller has the total control over the cash flow within the operation. Any purchase that is paid by cash must stay below 5 million

Vietnam Dong. A lot of the transactions are made with cash and thus, by the end of the month, the Purchasing Staff must verify the amount of cash spent with the Accounting Department by presenting all bills, invoices or receipts. In a lot of cases, suppliers cannot provide the invoices as requested and thus, that creates a lot of difficulties for the Purchasing Department in doing their jobs.

6.5 Purchasing Portfolio at Grand Tourane Hotel

Analyzing and classifying the purchasing categories of the case company will enable a better understanding on their procurement prioritization as well as shape a better supply management. By utilizing the given data and the purchasing portfolio framework, the purchased categories of the case company can be put as in the following figure

<p style="text-align: center;">Leverage</p> <ul style="list-style-type: none"> - Operation Purchases - Promotion & Advertising 	<p style="text-align: center;">Strategic</p> <ul style="list-style-type: none"> - Food, beverages & grocery - Capital Purchases
<p style="text-align: center;">Routine/Non-critical</p> <ul style="list-style-type: none"> - Miscellaneous Purchases - Fuel & Maintenance - General Purchases 	<p style="text-align: center;">Bottleneck</p> <ul style="list-style-type: none"> - Engineering Purchases

Figure 14. Grand Tourane Hotel's Purchasing Portfolio

- Routine items: Miscellaneous Purchases, Fuel & Maintenance and General Purchases are the goods that are most easily forecasted with periodic orders. They do not create a competitive edge for the case company but rather, support the departments in their daily routine.

- Leverage items: Operation Purchases and Promotion & Advertising purchases fit in this category because of their huge impact in the operation of Grand Tourane Hotel. In the market, there are a lot of suppliers for these goods, domestics as well as international, and hence, Grand Tourane Hotel can constantly find better supplies for their business.
- Bottleneck items: Engineering Purchases accounts for a rather small proportion of total spend value (2% in 2018) and creates an insignificance advantage for the hotel. However, the right suppliers for the right goods are limited as the hotel often requires a particular product model, or hardly changes the product model. Therefore, the buyer power of Grand Tourane remains low for this category.
- Strategic items: Food, beverage & grocery is the first group of items to be in this category because the hotel is confident in its cuisine quality as it operates two distinctive restaurants, eastern style and western style, with qualified fine-dining chefs to attract more guests. The second group of items is the Capital Purchases because the hotel often updates its facilities to catch up with the trends and satisfy the constantly-changing tastes of consumers. Both of these categories share the characteristics of having limited suppliers that can actually meet the case company's requirements.

6.6 The efficiency of Purchasing at Grand Tourane Hotel

Although the Purchasing staff admitted that there have been a lot of obstacles in procurement at Grand Tourane Hotel, the opinions are still subjective, not able to show the seriousness of the problems. Therefore, based on the interviews and the data collected, a need to visualize the inefficiency of the purchasing activity is realized by the author. To illustrate this, the author created a grading system that evaluate the purchasing activity's efficiency based on the prioritization, the value and the actual time spent for each category.

- The grading scale ranges from 1 to 7 with 7 indicating the highest prioritization/largest time spent/biggest value and 1 indicating the lowest prioritization/smallest time spent/smallest value.
- The value of each category is identified based on the total spend data from year 2018 that was provided by the FC.
- The prioritization order of the categories is given by the Purchasing Department in accordance with the Hotel's operation goals.
- The actual time spent, nevertheless, is not easy to quantify and thus, the grading on this criterion was roughly estimated by the purchasing staff based on the frequency and volume of phone calls, suppliers' visits or meetings, and paperwork activities related to the concerned categories.
- Color coding is also utilized in this grading table to illustrate and compare the value and prioritization to the actual time and effort spent on each category. The color red signifies the most important/valuable category; the color yellow refers to the second most important category; the color blue indicates the categories that have the medium significance and the color green is for the least important categories.

	Prioritization	Value	Actual time spent
Operation Department Purchases	6	7	5
Food, beverage & grocery	7	6	5
Miscellaneous Purchases	3	5	3
General Purchases	4	4	6
Promotion & Advertising	2	3	2
Fuel & Maintenance	1	3	1
Engineering Purchases	5	2	7
Capital Purchases	5	1	7

Table 2. Grand Tourane Hotel's purchasing efficiency evaluation

From the table, we can see that the two bottom categories (engineering & capital purchases) with the lowest value demand the biggest amount of time. Whereas the Operation Department's Purchases category who ranks first in

the total spend only gets a medium level of focus. The same thing happens to the Food, Beverage & Grocery Purchases, which is the priority of the hotel, also receives a medium focus from the purchasing department.

It is obvious that the Purchasing Department in Grand Tourane Hotel is not working efficiently due to the fact that they are spending more time on purchases that are less prioritized or purchases whose value are less significant compared to the rest.

7 SOLUTION

From the analysis section, it can be seen that most of the problems are from the centralized purchasing structure of the case company. Therefore, a different purchasing structure is highly needed. There are decentralized and hybrid structures that are left to choose. However, the decentralized structure will not be suitable for the following reasons:

- The management board will not be able to control the total spend and the quality of the purchases.
- The purchasing expertise will not be fully utilized which will lead to worsened overall performance of the hotel.

Option 1: Hybrid Structure

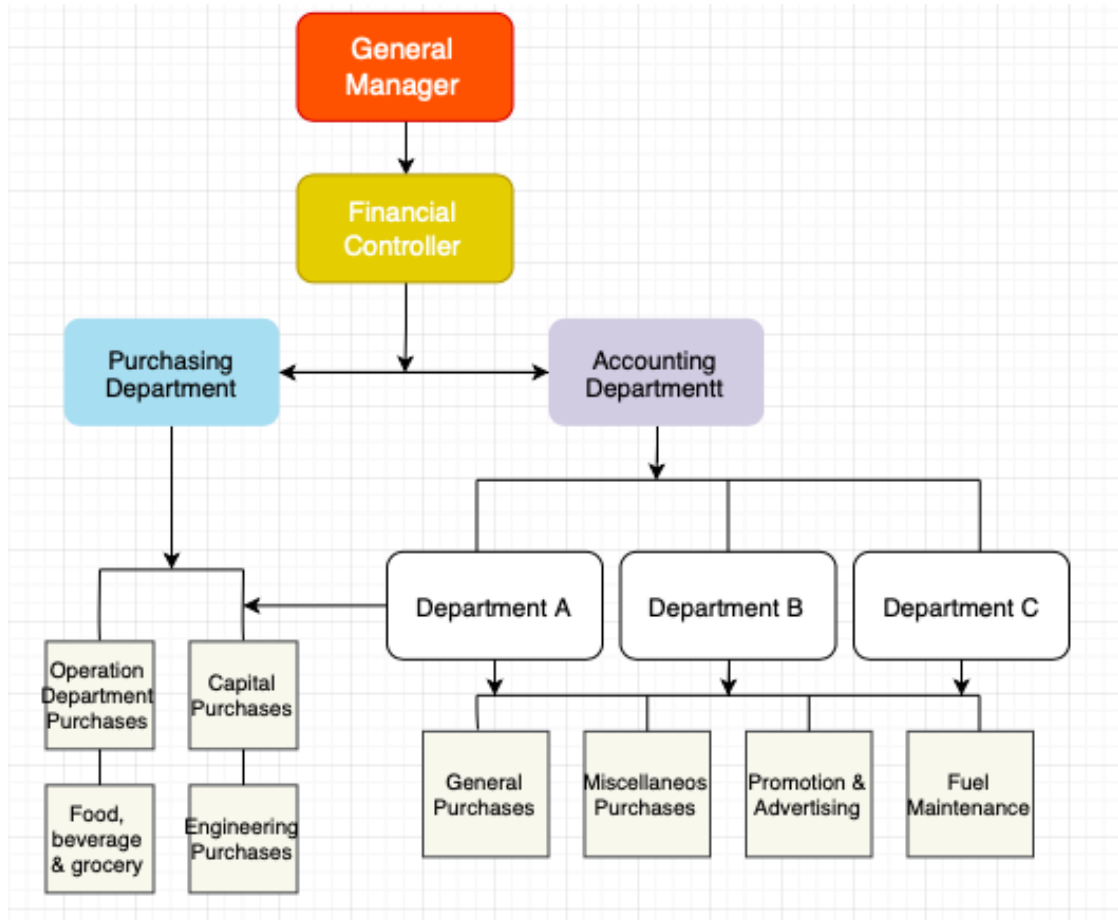


Figure 15. Option 1: Hybrid Structure

As can be seen from the figure, the Purchasing Department will not be responsible for the following categories: Fuel, Miscellaneous, General Purchases and Promotion and Advertising. With low-ranked prioritization, low value and least time consuming, these categories' procurement can be handled by other involved departments. All of the PO and PRs will be sent directly to the Accounting Department who will seek approval from either FC or GM. If these department need help with the purchasing activity in these categories, they can still consult with the Purchasing Department. However, all in all, the authority in buying products from the abovementioned categories belongs completely with other departments.

The remaining categories will still fall under the responsibility of the Purchasing Department because of their values and strategic importance.

With the time saved from not having to participate with the four abovementioned categories' purchasing activities, it will allow the purchasing department to focus on more fundamental issues. The reduced amount of paperwork and communication will also enhance the efficiency of the purchasing function.

Pros and cons of option 1

Benefits	Drawbacks
<ul style="list-style-type: none"> - Purchasing Department has more time for the top prioritized products and services. This will also enable the purchasing staff to realized opportunities to improve the purchasing activities such as better communication with suppliers and internal departments, conducting spend analysis - Less paperwork from the concerned department to the Purchasing Department to the Accounting Department. 	<ul style="list-style-type: none"> - Purchasing Department will not have control over 4 categories might result in less inefficient purchasing in those 4 categories. - Risks of overlapping purchasing. - Other departments does not have sufficient knowledge with purchasing activities such as tendering, negotiation or vendor collaboration.

Table 3. Pros and cons of option 1

Option 2: Decentralized Structure

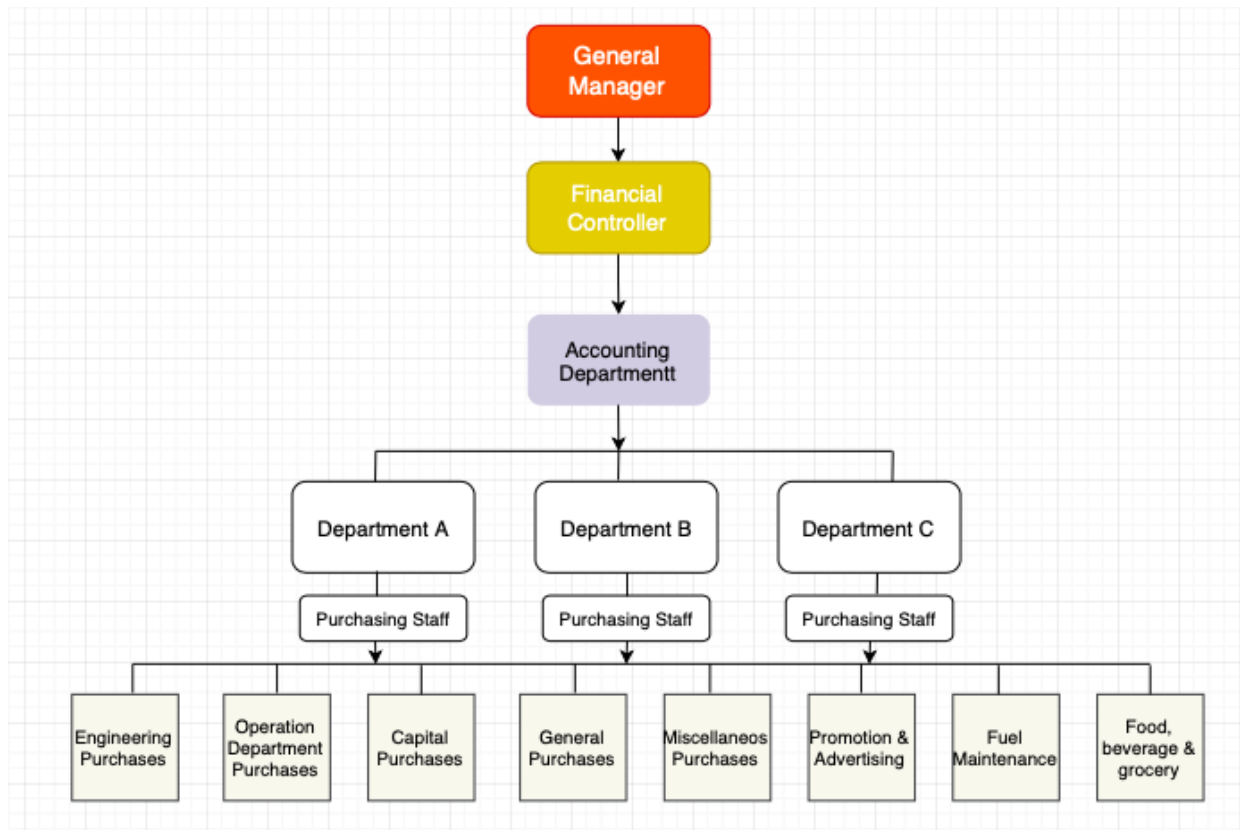


Figure 16. Option 2: Decentralized Structure

In this decentralized structure as in Figure 16, each department can conduct the purchasing activity individually based on their needs. Each department will contain one purchasing staff to help with the function accordingly. All PO will still need to be issued to the Accounting Department, which will be approved by the FC or the GM. All Department have the right to purchase any commodity from any categories if required. This structure will reduce the lead time of acquiring the materials since purchases are made separately by each department.

Pros and cons of option 2

Benefits	Drawbacks
- Each department has better relationship with the suppliers.	- Less power in bargaining and negotiating since the purchased volume will be divided and

<p>- Better understanding on the demanded commodity and the purchasing activities in particular.</p>	<p>decreased significantly with unfixed period of purchase.</p> <ul style="list-style-type: none"> - The company has less control over the total spend. - More paperwork and more overhead cost. - More manpower due to the fact that at least each department must have a purchasing specialized staff. - The purchasing expertise will not be effectively and fully utilized.
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Table 4. Pros and cons of option 2

The Chosen Structure

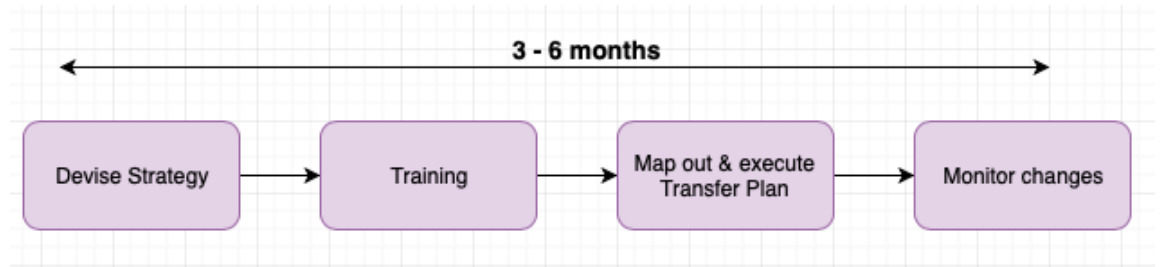
Comparing the pros and cons of the two given options, option 1 – hybrid structure is chosen because not only because it bears less risks but also because of the following reasons:

- The company is operating in a small scale, its own operation is still considered small, and only sourcing from the local businesses. Therefore, using this structure will create more overhead cost and less efficient.
- With the total liberty of purchasing, the department can change the products or suppliers as they prefer without the need of creating a strong commitment to the sources/suppliers. As a result, it will generate the inconsistency in the services and reduce the business' competitive edges.

Hence, the hybrid structure is the best option because it enables the purchasing department to use their full potential but at the same time, relieves them from the non-essential duties which can also be carried out by other departments with greater flexibility.

Implementation plan

In order to successfully apply and execute the new purchasing structure, Grand Tourane Hotel is advised to do the following steps. The expected time for the solution to work effectively should last about 3 to 6 months.



a) Devise Supply Management Strategy

A team of purchasing staff and other Heads of Departments must collaborate to reconsider or redefine the purchasing priorities by following the general framework of Supply Management Strategy and consulting the given purchasing portfolio that the author has generated.

b) Establish trainings about the new structure

It is important that all employees, not just managers, understand fully the new purchasing structure because the responsibilities are now partly shifted away from the purchasing department. Besides, some staff have not really participated in purchasing activities and thus, they need training on the procedures and paperwork needed for the purchases to take place. Two or three training sessions lead by the purchasing staff should be enough to cover the basic principles on how to conduct purchases. Since the items that the other department can purchase belong to the non-critical categories which do not require complicated methods.

c) Map out & Execute the "Transfer plan"

Changing to a new purchasing structure will create lots of confusion and the company must prepare for lots of mistakes will be made at the beginning. The cross-functional team must devise and monitor the following benchmark

- For the first 2 months, the cross-functional team will work together in purchasing activities for the categories: Miscellaneous Purchases, Fuel & Maintenance Purchases and Promotion & Advertisement. Doing this will help smooth out the transition because other department will gradually get to know the purchasing activities that they must do with the help of the purchasing team.
- For the next 2 months, the purchasing team will not support other departments anymore but rather, monitor the purchasing activities of other departments by assessing the paperwork, the purchasing efficiency with the Accounting Department. Gradually, the purchasing department will not get involved with the procurement procedure of the abovementioned categories unless the departments need consults.

However, if there is still confusion about the new responsibilities, the hotel should allow an additional 2-month period for the purchasing department to assist other teams in making purchases.

d) Monitor the changes

After 3 months since the new purchasing structure becoming official, Heads of All Department must write reports on the purchasing activities, in terms of quality of goods and their satisfaction with the purchased goods, of their own department to the management board.

8 CONCLUSION

The importance of Purchasing at Grand Tourane Hotel

The prominent role of purchasing is undeniable at the case company. As a matter of fact, this department is given the ultimate role in any purchasing related activities.

The purchasing problems at the case company

While trying to apply the common model of centralized purchasing structure as in other big hotel business, Grand Tourane Hotel simultaneously causes the purchasing activities to be less effective. As a matter of fact, this structure is most suitable for the big and international companies who operate in a big scale; whereas the case company runs locally

The implementation plan

Even though a time frame of 3 to 6 months was given for a successful plan, it is recommended to keep monitoring the effectiveness of the new structure and make changes if needed.

9 DISCUSSION

Self-Reflection

By working with Grand Tourane Hotel, I gained a more thorough understanding about the purchasing activities in local hotel business in particular as well as the purchasing in hotel industry in general. Although the problems are not difficult to identify, the solutions are not easy to apply. Also, it should be noted that I have not been able to conduct a thorough spend analysis with details on the number of suppliers or the number of commodities in each purchasing category, due to the fact that the case company does not have a comprehensive data of suppliers as well as all commodities. Thus, the purchasing efficiency analysis still shows certain flaws. Last but not least, the focus of hotels is hardly on the purchasing activities but rather on the services that they are running. They mostly avoid changing any internal function since it would risk disturbing the business.

Further Actions

What company can do to further improve the operation after this study is to continue the supply management with a comprehensive spend analysis to reduce the suppliers and strengthen the supplier base. Besides, the case company should also consolidate the purchasing categories – combining the commodity into less categories for better control and management.

As being mentioned above, since this study is conducted within Grand Tourane Hotel's background only, the success is not guaranteed for other business. However, similar hotel business in Da Nang can consult and make changes if needed.

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