

## CONTEMPORARY APPROACH TO THE ANALYSIS OF THE PURCHASING FUNCTION IN THE PRODUCTION COMPANY

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**Abstract:** *The aim of the paper is to highlight the strategic value of the purchase function, its orientation to the goals and the position in the entire value chain, in order to try to create an adequate theoretical and methodological concept for analyzing the procurement function. The traditional approach to the procurement analysis is oriented to the prices of the procurement facilities, which does not correspond to the real needs of the company. The modern approach emphasizes the necessity of developing a procurement analysis model based on the analysis of financial and non-financial information in order to improve the efficiency and competitiveness of manufacturing enterprises in the Republic of Serbia.*

**Key words:** *purchasing function, performance, business analysis, enterprise.*

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### 1. INTRODUCTION

Procurement costs in the business account for more than 65% of all costs, which gives the procurement function a special importance and responsibility. Without procurement, companies cannot function, or realize the set goals. Although the decisive role of procurement in trade and manufacturing enterprises can be highlighted, procurement is significant because it is responsible for supplying inputs that are designed to successfully carry out the production process. In modern conditions, the development of the market and production is taking place, and the products become more complex, the assortment is expanding and demand is generated. Changes in the development of business have led to affirmation of the strategic, while the operational dimension of procurement is not neglected. By introducing new products, expanding cooperation with international suppliers, partnership as a measure of relations with strategic suppliers and introducing long-term contracts, involving suppliers in developing new products and accessing information, has contributed to savings in business and quality improvement, as well as positioning of procurement as strategic business functions.

### 2. THE GENESIS OF DEVELOPMENT OF THE PROCUREMENT AS A STATE BUSINESS FUNCTION

It is relevant to the procurement function, as the primary objective from the internal sphere, to collect and summarize the procurement requirements, and from the external sphere of communication and the choice of suppliers. In our theory, procurement issues have not been sufficiently explored, as opposed to foreign ones, where the role of procurement in increasing

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the competitiveness of the company is largely explored. The approach of Reck and Long [1] through the design of the four stages of the analysis of procurement development is focused on the involvement of the acquisition in the management of the company, and for a decade later, Stannack and Jones [2] developed a substantially correlating concept with four stages of the analysis of procurement development, on the efficiency of procurement in the function of managing the company. In the table view (Table 1), as authors, we tried to integrate the essence of the approach of these authors in order to provide an adequate and clearer understanding of the developmental genesis of companies.

Table 1 Access to procurement development<sup>160</sup>

| PHASE   | THE ROLE OF THE PROCUREMENT FUNCTION IN THE COMPANY   |
|---|---|
| Procurement as a passive product-oriented function          | Procurement is an operational function that routinely responds to the requirements of other business functions. The focus on purchasing physically tangible products that is needed at the right price, in the right quality, in the right quantity in the right place at the right time.   |
| Procurement as an independent process-oriented function     | Procurement defines profitability and aims to reduce costs, whereby, independently of other business functions, it determines and applies a methodology adapted to a predetermined strategic plan. Aim to improve the efficiency of the procurement process.                                |
| Procurement as a function of support-oriented relationships | Procurement improves the company's competitiveness and participates in strategic sales / production planning. Orientation on the development of the relationship with suppliers.  |
| Procurement as an integrative performance-oriented function | Procurement is fully involved in strategic planning and a significant factor of strategic management. Orientation to the strategic position that the company has in relation to direct and indirect customers and suppliers in order to increase the efficiency of the entire supply chain. |

Based on an analysis of Reck and Long's approach, Stannack and Jones distinguished four stages of procurement development, which are not exclusive, but intertwined and complemented. Summarizing the essence of the approach of these authors, we can point out that earlier procurement was treated as a passive operational business function, which is oriented towards cost reduction, while today it is increasingly becoming a strategic business function aimed at creating value.

### 3. ESSENCE OF OPERATIONAL AND STRATEGIC DIMENSION OF PUBLIC MANAGEMENT

In economic theory, the understanding of procurement appears in a narrower and broader sense [3]. Procurement in the narrower sense (operational) is oriented to the analysis of the efficiency of doing business in the process of obtaining operational procurement objects. Procurement in a broader sense (strategic) is oriented to the creation of value and profit for the company, and procurement objects in the broader sense are: the procurement of services, rights, energy and means of work. Contemporary Procurement is a market function that must be integrated into

<sup>160</sup> Modified by: Reck, R.F., Long, B.G. (1988). Purchasing: a competitive weapon, *International Journal of Purchasing and Materials Management*, 24 (3), str. 2-8; Stannack, P., Jones, M.E. (1996). „The death of Purchasing“, *IPSERAConference Papers*, April, Eindhoven University of Technology.

value creation processes for other business entities and combine the results of work with the needs of your own organization process, including the establishment of methods, instruments and procedures for their implementation [4]. Monczka et al. [5] suggest that the change from a traditional to a value-oriented procurement manifests itself in three directions: changing the way of doing business in the supply market, changing the materials that are acquired and changing business with suppliers. As a matter of urgency, we emphasize that the procurement strategy needs to ensure in the long run the success of the company's operations through efficiency in the operational and strategic dimension.

Operational management of the procurement function is focused, on the one hand, on lowering the cost of procurement facilities, and on the other hand, reducing the costs of the organization and executing the procurement process. The strategic dimension of procurement management was authored by A.T. Kearney [6] points out that on the side of the competitive strategy the factors are deteriorating: connecting the quantity, the best price, the internationalized procurement, and that the long-term strategy is deteriorating by factors of change: a new definition of technical changes, optimization of the overall supply chain, restructuring of relations with suppliers. It is precisely the necessity of a strategic understanding of procurement factors that is an essential prerequisite for improving the efficiency of business decisions and reducing risk in procurement, and with the application of creating a comprehensive analytical procurement management model.

#### **4. CRYSTALIZATION OF A MODEL FOR A MODERN CONCEPT FOR ANALYSIS OF THE PROCUREMENT FUNCTION IN THE PRODUCTION ENTERPRISE**

The qualitative unity of economic parameters in the strategic and operational dimension, in the analysis of the internal and external fields, presupposes maintaining the identity unification of the methodology, analysts and the company [7]. The basic principle of approach is the dynamic and comprehensive view of the procurement function in the company, and the procurement analysis model is based on the internal and external field of the procurement function in the company.

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was born on January 28,  
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*He completed his basic studies in the field of accounting and finance at the Faculty of Economics in Subotica, University of Novi Sad in 1995, where he completed both postgraduate and master's studies in the direction of: Finance and Trade Finance Management - Finance and Accounting with a total average grade of 8.66 and 2004, he defended master's thesis.*

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*He was engaged at the Faculty of Economics in Subotica and several other higher education institutions in the Republic of Serbia, and in 2009 he was elected Assistant Professor at the Faculty of Economics and Engineering Management in Novi Sad, where he also founded a working relationship. He was elected as associate professor in 2015 at the faculty of the same name.*

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*He speaks English.*

The subject of strategic procurement analysis starts from the analysis of a wider and narrower procurement environment that corresponds to an integral analysis of the company and its strengths and weaknesses.

The analysis of the wider environment encompasses general-social, socio-cultural, political, legal, economic, technical-technological, ecological development. The analysis of the more environment is related to the analysis of the branch, the area of activity of the company and its competitors, and depending on the power and position of the company, it can influence the changes in the business more or less. The further development of the strategic procurement analysis starts from determining the following factors:

The analysis of the purchasing category profile gives a special emphasis on the analysis of the prosperity of the so-called. homogeneous purchasing groups (HGNs) [8] generated by the criterion of similarity of costs, services or suppliers and analysis of key purchasing categories.

The analysis of the relationship management with suppliers gives a special emphasis on the analysis of the strategy of partner, competitive, supply security, supply of routine products in relations with suppliers, ie analysis of types of suppliers: strategic, collaborative and transactional.

The analysis of the source of supply is oriented to the analysis of information management on the procurement market and the analysis of the source of supply in the function of advanced cost management, innovation and growth, and risk management and continuous supply. In the analysis it is necessary to examine and objectively assess the effects of supply from sources from the local and global markets. The analysis is complemented by the assessment of the effects of insourcing and outsourcing, in order to improve competitive advantages in the market.

Analysis of network management needs is oriented to the analysis of the commodity, information and financial flow coordination between affiliated companies, ie logistics network comprised of suppliers, manufacturers, warehouses, distribution centers and retail facilities in the function of cost optimization. The analysis gives special emphasis on the evaluation of the following relations: change in the number of products - reliability; demand planning - change in inventory volume, productivity and economy; cost change - change in customer service level

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- productivity, economy, inventory; change in the duration of the production cycle and delivery deadlines - stocks and angled capital - level of service to the customer.

Analysis of knowledge management in procurement is oriented to the analysis of the system of support of technology, people, relationships, organization, talent, skills, innovation, or their contribution to productivity, operational efficiency, profitability and customer experience.

The subject of the analysis of operational procurement starts from the procurement estimation from the aspect:

- analysis of company procurement in comparison with related companies or competition,
- analysis of the procurement plan (by quantity and value),
- analysis of procurement dynamics.

Further development of procurement analysis starts from the examination and evaluation of the quality (structure) of the following purchasing categories:

- Quantity analysis is aimed at assessing the requirements of security and cost-effectiveness of procurement, ie the optimal quantity of procurement, inventories, the relationship between the quantities of own production and procurement, the ratio of investments and leases, or leasing, and horizontal and vertical cooperation in procurement.
- The stock analysis is aimed at assessing the continuous progression of the process of reproduction and economy, ie, optimum quantity of procurement. Special focus is on the analysis of disproportions on the relation: the norms of the stock (minimum, standard, signal, maximum, optimal) according to the consumption / sale of materials / goods, procurement conditions (purchase period, prices and procurement costs), transport conditions, storage.
- Quality analysis focuses on assessing the quality of purchased goods and services according to user requirements and the conditions of the use of goods, with a particular focus on analyzing the possibility of suppliers for standardization, complaints and deviations in product quality, quality control costs and operating costs with materials of poor / inadequate quality.

**Pavle Počuč** was born on June 29, 1969. in Bačka Palanka. He finished elementary and high school in Bačka Palanka, graduated from the Technical Faculty "Mihajlo Pupin" in Zrenjanin, and received his master's degree in 2013 at the International University of Brcko.



After ten years of work in education as a professor (Technical School "9 May") in Bačka Palanka, since 2012, dedicates to the affirmation and promotion of the social economy as a socially responsible and economically efficient business model.

A large number of local governments and NGOs throughout APV are engaged as lecturers and educators on the subject of social economy and social entrepreneurship. In the meantime, he published three professional publications from the social economy, which, in the absence of literature, have found their wide application. Since 2016 he has been appointed deputy of the Provincial Secretary for Economy APV with special responsibility in the position of program coordinator and measures of support to APV's social entrepreneurs by the provincial secretariat and the government of APV. He actively works on creating lines of support for social enterprises, he is lecturer at numerous expert meetings organized by the Provincial Secretariat and NGOs, participates in the preparation of provincial strategic documents in the field of social entrepreneurship, as well as in the drafting of the draft-working version on social entrepreneurship at the national level.

- Analysis of purchasing prices is aimed at assessing the contribution of prices to the objectives of material business and ensuring the competitiveness of its own products on the market. A special focus is on the analysis of the dynamics of prices, the effects and the way of changing the purchase prices during the period of purchase (fixed or slip price), the upper and lower price limits, the economic effects of purchase prices and discounts: quantity, special, fidelity, producer, bonus, super discount.
- The supplier selection analysis focuses on the evaluation of the supplier management system prior to contracting, but also during the performance of each individual transaction, and upon completion of the contract. Key factors for the supplier selection are: direct (price, quality, quantity, delivery time, payment terms, supplier's references, etc.), indirect (procurement level, cooperation with research and development, outsourcing, reciprocity..) immaterial (transfer of knowledge, openness in relationships, ..) and risk factor ("bottleneck" of the procurement market, the only sources, the effect of technological development).

A special segment and focus is on analyzing the contribution of advertising policy and public relations in the function of realizing specific procurement tasks, as well as the analysis of concluded procurement contracts.

According to concluded procurement contracts, we examine the share of the so-called. contracted procurement in total purchases - according to contracts for the purchase / purchase and sale of goods, services, works, cooperation, procurement of rights and alliances. In analyzing the realization of the procurement contract, the effects of the contracting risk and the contract execution risk should be considered.

The analysis of delivery / logistics deadlines is focused on the assessment of disproportions in the realization of basic logistics activities - physical flows of goods through the distribution channel: transport, material handling, giving and receiving information; but also logistical activities of the basic service - customer service flows on all channels of the distribution channel through logistic responses to the service (waiting time, availability and delivery).

Analysis of purchases related to other categories: revenues, expenditures, production, fixed asset ratios, labor productivity.

The subject of procurement analysis in the production company is complemented by an analysis of the rational use and economical wearing of materials [9]. Material costs most often occupy an impressive place: in the tobacco industry, about 35% to 40%, and in ferrous metallurgy, up to 85% in individual companies, and even up to 90% of the total production costs make up the "material costs" position. The content of the analysis of the economics of spending the subject of work, encompassing the material in the broadest sense of the word, the system starts from the following criteria:

- The analysis of material consumption norms is focused on the existence of realistic norms and the estimation of quantitatively/costly consumption in relation to planned expenditures (for the unit of production and the volume of production).
- Internal Reserve Survey is focused on analyzing the consumption of materials by individual items according to the set norms, the norm of material consumption in conjunction with the actual material consumption per unit of product, the quantity of consumed material according to the most suitable variant.
- An analysis of the influence of quantitative and value factors on the cost of materials, on the economy of material use: a more rational construction of the product, the dimensions

of the materials we are procuring, material substitution, scrap, the use of inevitable waste, the time of product bearing between individual operations, tool savings, tools, fuel transportation.

Everything that is learned about the analysis of the economy of wearing materials is predominantly typical for industrial production. Certain differences in this must be borne in mind and respected in the analysis, when it comes to agricultural production and trade.

## 5. CONCLUSION

Procurement is a function that has been historically treated as a passive and operational business function that responds to the demands of other business functions. In the modern business, the company transforms the position and importance of procurement, and research shows that the impact of procurement on the results of the company's overall business will grow in the future and which gives it even greater importance.

The purpose of the procurement is to link and harmonize the needs of its own organization for resources, services and energy, which it does not produce itself, with the interests of the suppliers of these supply facilities. Without neglecting operational, strategic procurement is a very important process for every company and its future on the market.

In this paper, for the purpose of managing the company, a theoretical model for a comprehensive analysis of the procurement function in a production company was designed, whose efficient application requires permanent testing and assessment of potentials in order to inform managers about the created business situation and possibilities for further development of business. An integrated view of the operational and strategic dimension of procurement is an essential prerequisite for job planning, organization of activities and personnel, control and efficient realization of company goals.

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## THE ROLE OF FIXED ASSETS IN THE DEVELOPMENT OF BUSINESS ACTIVITIES OF THE ORGANIZATION

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**Abstract:** *Basic business components: working capital, work items and workforce, are entered into the organization and technological process of the organization as the appropriate use value. Spending these components is a requirement for the creation of a new product or service. In the process of spending the assets and the business process of the organization, their use values are spent or completely lost. Consequently, their value is consumed, and the economic character of that spending is reflected in the transfer of value of assets to a new product or service.*

**Key words:** *Fixed assets, business operations, business cycle, organization, development.*

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### 1. THE ROLE AND METAMORPHOSIS OF THE ASSETS

Each organization must have appropriate assets and assets at its inception. The basic problem in the business and quality of business is the adequate volume and quality of the assets that the organization has at its disposal. Founders - owners, in accordance with legal regulations, provide initial founding assets that become assets of the organization, that are fully available for use. The organization acquires and uses assets as a condition and component of its operation and business.

The function of the organization's assets is in their dedicated use and transformation. It consists of the constant movement and circulation of assets from one stage of business operations in the next, and from one form of assets into another. On this circular path, resources are produced at each stage of the production and business cycle in an altered or partially altered form. [1]

Moving and changing the form of assets at the transition from one phase of the business cycle to another, is called the metamorphosis of assets.

We can differ the assets of the organization according to their role and functions. In this sense, they appear in the form of working capital and work items.

The total amount of assets that an organization has at its disposal is not reproduced in a single cycle of reproduction and business, but in a larger number of cycles whose phases are time-varying and do not match. Therefore, in a given, or at any moment, time interval, the organization's assets exist in all known forms. Thus, total assets do not have a single movement

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