PROCUREMENT IN THE SUPPLY CHAIN: AN ELEMENT OF HOTEL PRODUCT COMPETITIVENESS

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Summary

Background: Only recently has the supply chain in tourism, the hotel industry included, started to be explored. The reason for is the knowledge that the supply chain can contribute to enhancing the quality, and lowering the cost, of a hotel product. Driven by strong competition, hotel companies continuously seek to improve the organization of their business processes. Input that depends on procurement determines the features of the final product. The question is, do hotel companies apply the principles of a supply chain when organizing procurement and, if so, to what extent? To which degree, if any, is it possible to define a universal concept of logistics procurement, or does a specific hotel company represent the dominant criterion in the application of the supply-chain principle? Due to the complexity of hotel business processes and because of the role of procurement in the entire production process, research will be limited to the aforementioned segment. The study, the results of which are reported in this paper, has a preliminary character and, therefore, covers a small number of hotels, each with different characteristics and located in different destinations. The aim was to learn whether essentially different hotel enterprises have a common basis for the procurement supply process, as this would indicate the possibility of designing a common model.

Methods: The methods of definition, induction, and deduction were used in defining the concept and basic features of the supply chain of hotels. Hotel business processes were studied by the methods of analysis and synthesis. The interview method was used to study the business procurement process from the perspective of hotel management.

Results: The study showed that hotels use certain principles of supply chain in organizing their procurement processes. It also indicated the inseparability of the principles of the supply chain, procurement and the organization of a company: the appropriate organization is essential for the application of the supply-chain principles, but it can also have the opposite effect. The principles of supply chain organization and management are present in all investigated hotels, but to varying degrees. While obtaining the lowest price is singled out as the primary goal of procurement, the need to take into account other elements, such as the quality of procurement, products and

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services, is also emphasized because this makes it possible to create a hotel product that guests will be satisfied with.

**Conclusion:** The presence of supply-chain elements in hotel procurement correlates with the size of the hotel enterprise, but not with the type of hotel or its location (type of tourist destination). The organizational basis of stand-alone hotels is better suited for the development of supply chains. Their less-formal business organization and decentralized procurement provide a suitable environment for focusing on and effectively managing the business process to enhance product quality. In contrast, centralized procurement embedded in the more rigid organization of hotel enterprises contains a number of barriers that go against the supply chain concept. Partly for this reason, the primary goal of hotel enterprises is price, while quality is only a secondary goal. Networked supply-chain structures are present in both cases, and high on the list of procurement goals is the importance of building sound relationships with prominent suppliers. Also important is that procurement organized in this way focuses on the long term; the supplier market and procurement terms are analyzed periodically and, if necessary, changes are made regarding suppliers and supplier relationships.

**Key words:** procurement, supply chain, logistics, organization, hospitality

### Introduction

Dynamic changes in the hotel industry market are driving the continuous search for new approaches and ways to enhance product quality while cutting product prices. The procurement department of a hotel enterprise plays an important role in such efforts because it has been proven that a final product depends upon the attributes of input components in the production process. The supply chain concept in procurement opens up opportunities for further rationalization in all economic activities in which it is implemented. It was assumed that the same would apply to the hotel business as well. Hence, research was conducted to determine the extent, if any, to which supply-chain elements are present in the hotel industry, explore the factors that affect this, and find out whether it is possible to define a universal model of the supply chain of procurement in the hotel industry.

### 1. Theoretical Background

#### 1.1. Supply Chain Management and the Hospitality Industry

Enterprises seek to integrate functions into customer-focused logistics systems. (Gourdin, 2006). By doing so, they are able to cut costs and improve their competitive ability while providing consumers with enhanced product quality. Supply chain refers to the activities and organizations involved in flows moving from suppliers to consumers. Still today, the most comprehensive definition of a supply chain is that of Christopher stating that "a supply chain can be defined as a network of organizations that are involved in different processes and activities that produce value in the form of products and services provided for the ultimate consumer" (Christopher, 1992). The supply chain in tourism is affected by the nature of tourism – tourism is a service industry, and the tourism product shares the same characteristics. Song (2012) defines a supply chain in tourism as “a network of enterprises which are engaged in different functions ranging from the supply of raw materials through to the production and delivery of the end products to the target customers.”

This refers to a network of stakeholders providing different elements of the tourism product such as transport, accommodation and attractions, for the purpose of distributing and marketing the final tourism product in a given destination. As stakeholders come from both the
private and public sectors and have very different business goals, the need for coordination and efficient information sharing is emphasized. Supply chain activities focus on product development, sourcing, production, and logistics, as well as on the information systems needed to coordinate these activities. Coordination is a vital element of the supply chain of a hotel. Unlike in conventional procurement, in this concept it refers to “information gathering, supplier contact, background review, negotiation, fulfilment, consumption, maintenance, and disposal and renewal” (Kothari et al., 2005, p.24, 373, after Archer and Yuan, 2000). This suggests that efforts are taken to reduce to a minimum any improvisation resulting from an unpredictable state. The role of information flows in a supply chain is particularly highlighted in e-procurement (Kothari et al., 2007, p.26, 888) as it can help to additionally reduce supply costs. (Handfield, 2011). A supply chain needs to be managed. The Council of Supply Chain Management Professionals (CSCMP, 2011) defines supply chain management in the following way: “Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies”. As a result of the dynamics and unpredictability of tourism demand, focus has shifted to the tourism product and its distribution and marketing, while the supply side has been largely ignored in tourism as well as in all other industries (Song, 2012, after Smith, 1994). In defining the relationship between a supply chain and a value chain, Christopher (2011) argues that „a firm gains competitive advantage by performing strategically important activities more cheaply and better than its competitors”.

Although what strategic activity this will be varies from one enterprise to another, supply, production and distribution are always involved. The research and results presented in this paper focus on procurement because procurement is the part of the business process in which both the price and the quality of the final product begin to take shape and in which preconditions are created to designing a product of higher quality relative to the competition. Waters (2003) also reported on the importance of procurement. In addition to procurement being „responsible for acquiring all the materials needed by an organisation“, it also „consists of all the related activities needed to get goods, services and any other materials from suppliers into an organisation“. According to Waters, procurement provides mechanisms for initiating and controlling flows within the supply chain. The service supply chain differs to a certain extent because a quality product requires the careful coordination of all activities, in particular, order execution time, service capacity and service distribution. A hospitality product is complex and heterogeneous, consisting of services (accommodation, animation, wellness…) and tangible products (food, beverages…) (Mrnjavac, 2010). The procurement function is particularly important because it must provide everything that is needed for the production of such an intricate product. Procurement is tasked with the organisation of some exceptionally important logistics activities such as stock and stock management, warehousing, and transporting agreed upon quantities of material and products. A close tie with other procurement activities, as well as integration with other business functions, is required. Connecting all these elements into a whole to ensure the uninterrupted flow of materials, services and products is essential in cutting costs and generating greater value for both consumers and enterprises; this is the meaning of a supply chain. The role of procurement in the hotel supply chain is confirmed by studies that speak in favour of strategic procurement in hospitality (Fantazy et al., 2010, p.29, 685) because of its crucial role in the management of a firm's resources, developing from a buyer role to a strategic partner in a supply chain.
1.2. Hotel Procurement

Hotel enterprises operate in a changing and turbulent environment to which they must adapt their businesses. To ensure uninterrupted and continuous operation, hotel enterprises must create certain conditions, among which is the need to ensure the consistent supply of required goods of a specific quality.

Increasingly, procurement is seen as a key strategic function used to gain competitive advantage. Procurement is a business function concerned with the supply of materials, equipment, services and the energy needed to achieve the goals of a business system. (Ferišak, 2006.) Procurement as opposed to selection can be defined as an orderly, systematic exchange between a seller and a buyer. It is the process of obtaining goods and services, including all of the activities associated with determining the types of products needed, making purchases, receiving and strong shipments, and administering purchase contracts. (Feinsgtein and Stefanelli, 2011). In operating terms, procurement involves organising acquisitions; surveying the supply market; planning the acquisition of materials, goods and equipment; determining the optimum quantities of goods required; placing orders; monitoring order execution; transporting and receiving materials, goods and equipment and conducting qualitative and quantitative controls; and logging, supervising and analysing acquisitions. (Pavia, Ivanović, 2007, p.637).

The most important objective of procurement is to generate continuous concrete profit. Economic value is created for the entire organization, management and organizational business units with the help of successful sector management (Žilbert, 2007).

The aim of a hotel enterprise is to provide a well-designed and competitive offering, that is, service. To ensure its continuous operation, the hotel enterprise must meet certain conditions. One of these conditions is the need to ensure the uninterrupted supply of required goods of specific quality. The procurement function aims to reduce the value of input goods, that is, to reduce costs, and is reflected in ensuring timely supply while using as little of employed assets as possible and increasing the turnover coefficient by engaging as little of financial resources as possible. (Cerović, 2003).

Procurement is a complex process, involving numerous activities. The most important activities are identifying the need for materials, identifying procurement sources and suppliers, sending inquiries to suppliers and receiving their offers, comparing offers received and selecting the most favourable ones, carrying out negotiations to conclude a contract, concluding a sales contract and placing an order, monitoring contract and order execution, and taking over the goods delivered (Pavia, 2009). The continuity of business operations is ensured by carrying out the above phases of the procurement cycle. The procurement processes determine the organizational solution. Essentially, the way a procurement department is organized is based on the tasks that it carries out, just like in any other department. The organization of a procurement department will also depend on the organization, volume and value of procured goods and, importantly, on the division of tasks, skills and qualifications of procurement workers (Sikavica and Novak, 1999).

Procurement can be centralized, when only one organizational unit is responsible for procurement activities, or decentralized, when various organizational units carry out procurement activities. A system can also be applied that combines centralized and decentralized procurement. The decision to centralize or decentralize procurement will depend on the size of an enterprise, its line of business, the number and activities of its facilities, the spatial distances of its facilities, the level of overlapping of activities of its facilities, and the required types and quantities of working stock (Žilbert, 2007).

Axelsson et al. distinguish between three hybrid organizational structures of procurement (Žilbert 2007 after Axelsson et al. 2005):

- Co-ordinated procurement. Decentralized procurement units report to their business units/division managers in combination with a group in the corporate centre. The central
group is concerned with issues of general interest to the group, but such issues can also be identified by the business units.

– Centre-led procurement. Procurement units are decentralized and empowered to carry out procurement activities, while the centre manages responsibilities and excellence.

– Federal procurement. Decentralized procurement units report to their business unit managers. There is a professional relationship between business units and the central office, with the latter supporting and coordinating the former.

The aim of this paper is to explore the presence of supply chain elements in hotel procurement and to examine the possibility of defining the rules of a potential universal hotel procurement supply chain. A hypothesis is set as follows: Despite the absence of a specifically organized supply chain, many of its elements are regularly present in hotel procurement. As the procurement supply chain in a hotel correlates with certain organizational and process solutions, it is possible to establish universal determinants of the supply chain of hotel procurement.

2. Materials and Methods

Research was based on gathering data about the way the procurement function is organized and operates in hotels in order to establish the extent to which the supply chain concept is present in the procurement functions of the selected hotels. Hotel managers and procurement managers were interviewed. The study involved different organizational forms in the hotel industry: hotel enterprises comprising several hotels or only one, regardless of capacity, categorization, business orientation or type of destination (large, small, island, coastal, inland destination, etc.). Such an approach was chosen in order to:

– gain insight into the procurement process of hotels having different business orientations

– identify the regularities in the organization of procurement in hotels

– establish the level to which logistics is present

– confirm or refute the assumption that procurement is, indeed, the part of the supply chain that has a decisive effect on hotel service quality.

The ultimate aim was to determine whether it is possible, based on the supply-chain elements identified in hotel procurement, to define the determinants of a universal model of the supply chain of hotel procurement.

The following issues were explored: Who is the person responsible for procurement? What is the extent of cooperation with other departments? How is procurement optimized? How are procured goods handled? What criteria are important in selecting the most favourable supplier? Is procurement market research carried out systematically? In which phases and in what way are procurement activities systematically controlled? What are the key factors that are essential to successful procurement? Respondents were also asked to suggest ways of making procurement organization and management more successful.

Descriptive responses were obtained to questions. This model of field research was chosen to allow managers to give more-detailed, free-response answers which could provide greater insight into the existence of supply chains in procurement and, based on this, to determine whether the research subject has any relevance and whether the research objective is real and attainable.

The first part of study involved desk research. The methods of analysis and deduction were applied to explore the theoretical dimension of supply chains, hotels and hotel procurement, and procurement organization. The result was an overview of previous knowledge, on which this study builds. The research objective was defined and the scientific hypothesis, formulated.

The second part of the study involved field research. The interview method mentioned earlier was applied to hotel managers and procurement managers at various hotels that differed in size, organizational structure and business orientation and were located in different
destinations. Such a heterogeneous sample was chosen for the purpose of either confirming or refuting the research objective. The results gathered by the study were correlated to theoretical knowledge about supply chains and hotel procurement.

3. Results

Hotel managers are reluctant to disclose information pertaining to any aspect of business, claiming they must protect their own solutions from fierce market competition. Hence, research results should be taken with reservations, although it can be established empirically that the majority of hotel enterprises can be classified into one of the categories involved in the study. In hotel enterprises procurement is organized within a Procurement Department or Procurement Service at the enterprise level.

Procurement is centralized in enterprises comprising several hotels but is usually decentralized in one-hotel enterprises. The Procurement Department cooperates with other departments to establish what they require and then brings all their requirements together. The managers of the various departments are also partly responsible for the procurement schedule and the size of stock.

The Procurement Department optimizes the procurement process by seeking to achieve the best terms and prices in negotiations with suppliers and to ensure that all unused goods can be returned to the suppliers. Department managers are responsible for keeping track of the inventory status and the use of stocks of materials and products. To this end:

- orders for foodstuffs are placed on a daily basis,
- orders for beverages are placed in accordance with the usage rates,
- orders for operating supplies and office supplies are placed once or twice monthly as required,
- special attention is paid to best-before dates.

In a centralized procurement system, most of the goods are stocked in a central warehouse and the rest, in hotel storage rooms. In a decentralized procurement system, goods are stocked in the warehouses of the departments. Food products are kept in special storage rooms in which conditions are adjusted to the individual types of products, in accordance with the standards of HACCP, ISO and so on.

Enterprises comprising several hotels choose suppliers based on the criterion of most favourable price, while one-hotel enterprises tend to focus more on quality. Price is important when comparing products of the same quality and same characteristics. Previous cooperation and experience with suppliers is also important when procuring goods. Criteria used in selecting suppliers include payment terms, time of delivery, response to emergencies, etc.

The Procurement Department monitors the procurement market, and analyses prices, quality and new products. It investigates new markets and new suppliers in accordance with their business references. To additionally check prices and procurement terms, the Procurement Department carries out price and market research through invitations to tender, inviting new suppliers to submit bids.

The activities of the Procurement Department are systematically controlled across all operational levels. This system of control comprises product quality control, various HACCP controls and product price control. When taking over goods, the material controller issues a goods receipt note, and all data on the delivery note must match the data in the order (quantities and prices). Once the Accounts Payable Department receives the invoice for the goods, it checks it against the other terms (for example, delivery times) as per the contract with the supplier. The work of the Procurement Department is annually audited or is inspected according to a quality management system (ISO standard).
In today’s era of high technology, ordering can be done in a crucially shorter time frame (by electronic mail, e-commerce) and order management software is of enhanced quality, offering numerous possibilities for analysis and comparison based on different criteria.

The following factors of procurement were singled out: cutting costs, continuous procurement-market research (prices, new products, etc.), developing procurement plants, effective budgeting, and effective monitoring of constant changes, in particular, unpredictable changes. Among the suggestions to improve the performance of hotel procurement, good work organization stands out, together with good interpersonal relations with colleagues on the job as well as with external associates. These are the preconditions to ensuring that procurement is efficiently organized and managed. It was also emphasized that costs can be better monitored when procurement is centralized.

Daily, the Procurement Department should monitor prices and changes on the labour market and react immediately. More attention should be paid to the rational use of acquired goods. A precondition to successful procurement is that those involved in the procurement process execute their tasks properly and in a timely manner (in compliance with prescribed regulations and quality standards). Also important are good relations with suppliers, regular deliveries, good-quality materials and prices which correspond to those agreed upon, and regularly settling payment obligations.

4. Discussion

The study involved a relatively small number of hotels, which was considered adequate in this phase of the research for reaching conclusions regarding the relevance and justification of the research. It was also possible to make certain conclusions regarding the elements of the supply chain of hotel procurement. In-depth research involving a larger sample would be likely to result in the definition of a universal model of the supply chain of hotel procurement.

An analysis of the data obtained suggests that the level of centralization of procurement is high in hotel enterprises and low in independent hotels, leading to differences in the responsibility of the procurement department. Contrary to the large responsibilities that procurement departments have in hotel chains, delegating responsibility, as a way of organizing the procurement process, is present in independent hotels, that is, the managers of various departments within the hotel have a much greater responsibility.

Because independent hotels are able to devise operational plans of daily spending with greater precision, some of their departments implement the JIT procurement model, a typical logistics concept of procurement that cuts costs to the fullest. All risks associated with regular deliveries of contracted goods are transferred to the supplier. Conversely, hotel enterprises with centralized procurement take on most of the risks involved in the regular supply of needed goods. To ensure regular supply, the hotel enterprises possess substantial warehousing capacities which also have a distribution function, delivering goods to hotel storages in accordance with consumption rates. While there is no denying that centralized procurement enables enterprises to effectively control the costs of procuring goods, enterprises must reckon with substantial – primarily, fixed – costs associated with maintaining a central warehouse.

Regarding the optimization of procurement, there are similarities in both cases. Namely, hotel enterprises and independent hotels alike are insistent on holding minimal stock by monitoring the daily consumption of goods and by forecasting the quantities of specific items to be consumed in the next few days. This is done based on the experience of the manager of the Procurement Department as well as the managers of other departments, in combination with accounting methods. The difference is that hotel enterprises procure goods in much larger quantities than independent hotels do and this gives them certain privileges stipulated in
contracts with suppliers, such as the right to return unused goods. Only in exceptional cases do independent hotels enjoy such conveniences.

Both groups of hotels warehouse goods in the same way, in appropriate warehouses, depending on the characteristics, types and use of goods. Typically, there is one larger, central warehouse and other smaller storage rooms belonging to various departments. Small independent hotels usually do not have a central warehouse but rather only storage rooms, which is in line with JIT procurement.

Suppliers are a key factor in the procurement process. Supplier relationships point directly to the fundamental objective of procurement, which in turn indicates the presence of the supply chain concept. Considering the quantities of goods purchased by large hotel chains, it is understandable that price, together with payment terms, is the most important criterion, followed closely by the criterion of quality. Because independent hotels build their competitive advantages on quality and a diversified product, the main criteria in selecting a supplier are quality, payment terms, delivery times and optimal prices. The exception is hotels that are budget users and, as such, are subject to the Public Procurement Act, according to which price is not only the most important criterion but also the sole criterion, with no regard to the quality criterion or partnership relations with suppliers. Product quality and price reflect the fundamental objective of a supply chain and that is to create added value for customers, which will, consequently, result in enhanced customer satisfaction with the hotel product.

People – the employees of hotel enterprises and suppliers – have been singled out among resources. Investments in improving knowledge and the development of sound interpersonal relationships are seen as being especially important. Managing human and material resources within enterprises, as well as in supplier relationships, is also a part of the supply chain concept.

![Figure 1: Organization of a logistics procurement process](source: authors’ research)

From the human-resources perspective, the organization process, budgeting, whole process control and supplier relationships are essential to the organization of a procurement logistics...
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process, while from the material-resource perspective, the presence of a supply chain concept in organizing the procurement process, the technologies used, the flow of procedures and the infrastructure of the procurement department are important. Both perspectives focus on a common goal, which is also the goal of a supply chain, and that is to optimize the costs and time of procurement for the purpose of achieving the optimal price-quality ratio (Figure 1).

Research has shown that procurement focuses on material, information and financial flows. These flows continuously intertwine and proceed each at their own pace but also in a synchronized manner, to ultimately result in the earlier mentioned objective of procurement. Control, a function of supply chain management, has a vital role in realizing these flows. Control is carried out at all levels and encompasses all flows. It is especially important in hotel enterprises as it allows all phases of procurement to be carefully monitored to help rationalize costs, which is a particular issue in large business systems.

![Figure 2: Logistics flows and control processes in hotel procurement](image)

Source: authors’ research

Research has justified the approach taken, which has involved hotel enterprises and independent hotels of various sizes, organizational structure and business orientation, located in different destinations. Research has also demonstrated a strong similarity in how procurement is organized and a considerable presence of supply-chain elements, and has shown that enterprise size is the main reason for differences. Hence, it is justified to continue this research, using a larger sample, for the purpose of defining a model of a hotel procurement supply chain.

REFERENCES


ZAOPATRZENIE W ŁAŃCUCHU DOSTAW – ELEMENT KONKURENCYJNOŚCI USŁUG HOTELOWYCH

Streszczenie


Metody: Metody definiowania, indukcji i dedukcji zostały wykorzystane w formu- lowaniu pojęć i podstawowych cech łańcucha dostaw hoteli. Hotelowe procesy bizneso- we były badane za pomocą metod analizy i syntezy. Metoda wywiadu została użyta do badania procesu zaopatrzenia z perspektywy zarządu hotelu.

Wyniki: Badania wykazały, że hotele wykorzystują pewne zasady łańcucha dostaw w organizacji procesów zaopatrzeniowych. Wskazano również na nierozłączność zasad łańcucha dostaw, zaopatrzenia i organizacji przedsiębiorstw i odpowiednia organizacja jest niezbędna do stosowania zasad łańcucha dostaw, ale może również istnieć relacja odwrotna. Zasady organizacji łańcucha dostaw oraz zarządzania są obecne we wszystkich badanych hotelach, ale w różnym stopniu. Podczas gdy najniższa cena jest wskazywana jako podstawowy cel zaopatrzenia, trzeba wziąć pod uwagę inne elementy, takie jak jakość zaopatrzenia, produktów i usług, ponieważ to sprawia, że z usług hotelu będą zadowoleni goście.

Wnioski: Obecność elementów łańcucha dostaw w zaopatrzeniu koreluje z wielkością hotelu, ale nie z rodzajem hotelu lub jego lokalizacją. Podstawą organizacyjną samodzielnym hotelu jest lepsze dostosowanie się do rozwoju łańcuchów dostaw. Mniej formalna organizacja biznesowa i zdecentralizowane zaopatrzenie stwarza odpowiednie warunki do koncentracji się na skutecznym zarządzaniu procesem biznesowym w celu zwiększenia jakości produktu. W przeciwnieństwie do tego, zcentralizowane zaopatrzenie, osadzone w bardziej sztywnej organizacji przedsiębiorstw hotelowych stwarza szereg barier, które kolidują z koncepcją łańcucha dostaw. Częściowo z tego powodu, podstawowym celem przedsiębiorstw hotelowych jest niska cena, a jakość jest jedynie drugorzędnym celem. Struktury łańcucha dostaw są obecne w obu przypadkach, a wysoko na liście celów zaopatrzenia jest budowanie dobrych relacji z czołowymi dostawcami. Zaopatrzenie zorganizowane jest w ten sposób, żeby koncentrowało się na sprawach długoterminowych; okresowo analizowano rynek dostawców i warunki handlowe oraz, jeśli to konieczne, dokonywało zmian dostawców i relacji z nimi.

Słowa kluczowe: zaopatrzenie, łańcuch dostaw, logistyka, organizacja, gościnność
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