PURCHASING COSTS OPTIMISATION THROUGH SUPPLIER LOCALISATION: THE CASE OF FLOWSERVE

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Project Background

The influx of technology has orchestrated opportunity for business to support integration of operational activities across the world for expanding business in the international market. This research study is structured to identify in prevalent issues in the supply network of global machinery industry company ***Flowserve SIHI*** in Germany (Sterlingsihi.com, 2020). It operates with over ***1,600 employees*** across world has been able to secure a turnover of over ***£250 million*** as it is working as a quality manufacturer and provider of innovative technologies for vacuum pumps, liquid pumps and engineered systems for the last 80 years (Sterlingsihi.com, 2020).

Considering the current business scenario, lower-cost regions including India, Mexico and China have supplied the base materials ranging from 22% to 42% of total business segment funding in 2015, indicating the need of supplier localisation (Sterlingsihi.com, 2020). Now, the company being operational across the globe need to regulate an extended supply network, which contributes to gradual increase in operational costs from ***$10.7 million*** in 2013 to ***$108.1 million*** in 2015 (Sterlingsihi.com, 2020). This highlights the issue in supply network for purchasing raw materials from global suppliers.

On the other than, the increasing issues in the supply chain and failure of the voluntary monitoring of supply chain abuses in Germany as only ***22%*** businesses considered this as important, contributed to the cost pressure (Green, 2020). However, the company focusing on low-cost sourcing and involvement of third-party logistics, focus on localising the supplier base would help to optimise the operational expenses influencing purchasing costs (Sterlingsihi.com, 2020).

Literature Review

In order to provide a brief overview of literature, the key literary findings can be presented as below-

Source	***Findings***	***Significance***
Nabhani *et al.* 2018	• Presence of unnecessary supplier in sourcing process can increase the purchasing costs • Number of suppliers and regional buyers need to be considered for improving procurement process and reducing operational costs	Effective to determine purchasing variances for improving sourcing process and localising the suppliers while

		considering the role of regional buyers
Bohnenkamp *et al.* 2020	• Cost reduction strategies of ***EDAS-Gray (gray evaluation based on distance from average solution)*** and ***SWARA-Gray (gray stepwise weight assessment ratio analysis)*** in supply chain for integrating value in the supply network • Localising suppliers extends chances to explore new ways to deal with purchasing deficit items • Localised suppliers are likely to justify the demands of regional buyers resulting in reduced purchasing costs	Highlights the importance of acknowledging the core functionalities of supply network for localising suppliers and optimising purchasing costs
Dahooie *et al.* 2020	• Low-cost countries emphasises on localisation of suppliers reducing operational expenses by cutting transportation costs • Localising suppliers contributes to strengthen local supply chain while reducing operational or purchasing costs regarding tax and tariffs of import and export of raw materials	Demonstrates the supply chain integrity for automotive sector highlighting the role of OEMs along with Tier 1 and Tier 2 suppliers to regulate operational process

Table 1: Findings from Key Literary Sources

(Source: Self-developed)

Objectives

This study aims at providing a detailed perception regarding optimisation of purchasing costs through localising suppliers of the ***Flowserve SIHI*** in Germany. Thus, the objectives of the study can be listed as follows-

- To identify the benefits and drawbacks of supplier localisation on operational performance of Flowserve SIHI in Germany
- To critically reflect on the prevalent issues in supply chain affecting purchasing costs of Flowserve SIHI in Germany

- To evaluate the implications of supplier localisation in Germany for reducing the purchasing costs of Flowserve SIHI
- To recommend suitable and feasible operational strategies for Flowserve SIHI to localise suppliers for optimising purchasing costs in German market

Methodology

This study will follow ***a secondary research method*** to gather relevant quantifiable data regarding the research context of the supplier localisation in Germany for optimising the purchasing costs of the chosen company ***Flowserve SIHI***. Since secondary research method extends chances to include data from reliable sources that deliver the required information backed up with evidences, it will be followed to carry out this empirical study (Kumar, 2019). Here, secondary sources including scholarly journals, peer-reviewed articles, news reports, Government publications, industrial reports along with annual reports of ***Flowserve SIHI*** will be used. In addition, ***quantifiable data*** will be gathered on the supply chain operations and purchasing details of the company for the last ***five years*** from annual reports ranging from ***2016 to 2020***.

Apart from that, ***positivism philosophy*** will be included in this study to gather information based on factual knowledge derived from observations (Bryman and Buchanan, 2018). Moreover, application of the ***deductive research approach*** will be beneficial for this study to test the research hypothesis and reflect on the causal relationship between the research variables. Along with this, an ***explanatory design*** will be adopted here for explaining the different aspects of supplier localisation and its impact on purchasing costs of the company. Besides, MS-excel and IBM SPSS will be used to collect, analyse and interpret the quantifiable data gathered from annual reports of this company. Similarly, data analysis will be completed through presenting the visual illustrations of graphs, charts and tables while ***correlation analysis*** and ***regression analysis*** will be performed to explain the significance of relationship between the research variables (Sekaran and Bougie, 2016).

Project Resources and Timeline

The required resources and timeline for preparing the project proposal within a tenure of estimated 26 days has been demonstrated below-

Key Activities ***(Milestones)***	**Time-scale** ***(Plan of action)***	**Resources required** ***(Equipment, software, personnel etc)***
Selecting suitable topic	3 days	Laptop, Wi-Fi connection, supervisor's guidance
Identifying aim, objectives and research questions	2 days	Supervisor's guidance, Laptop, Wi-Fi connection
Conducting critical literature review	4 days	Laptop, Wi-Fi connection
Determining appropriate research methodology	2 days	Laptop, Wi-Fi connection
Collecting secondary quantitative data	3 days	Laptop, Wi-Fi connection, MS-Excel to record data
Presenting, evaluating and interpreting the obtained data	5 days	Laptop, Wi-Fi connection, MS-Excel for generating relevant graphs and charts
Acquiring supervisor's feedback	2 days	Laptop, Wi-Fi connection, Supervisor
Writing and reviewing the proposal	4 days	Laptop, Wi-Fi connection
Final submission	1 day	Laptop, Wi-Fi connection

Table 2: Project Timeline and Required Resources

(Source: Self-developed)

References

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