MATERIAL SUPPLY – NECESSITY, ROLE, PARTICULARITIES AND ECONOMIC CYCLES

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Abstract: Established as one of the essential activities for any enterprise, activity which determinably and irrevocably exceeded the perimeter of a simple transaction between a buyer and a seller, regardless of the internal and external environment conditions, the supply had and has to express itself at the highest level, both as content and as performance.

Acquiring throughout time the status of strategic activity, establishing itself in one of the most important premises to insure the general efficiency of an activity developed by an enterprise, the supply, along with the other economic activities, was faced with one of the highest possible challenges experienced by mankind: the economic – financial crisis. The manner in which the supply managed to pass this difficult test and to valorize the experience acquired throughout the crisis represents the main elements of this study.

Keywords: supply, materials, market, crisis, business, performance

The human being, in order to insure his personal existence, needs a series of resources, among which the material ones hold their extremely well provided role and position. An individual, who holds a certain position in an organizational structure, insures for him and for the others, if he undertook this responsibility, the items necessary for the development of certain activities, based on certain rules and with a certain purpose, he and the others knowingly participate to the benefit of the organization where they belong and to their own benefit. Subsequently, the insurance of a certain volume of material resources and other type of resources becomes a stringent necessity.

And this because, only by consuming or using these resources the biological and spiritual existence of an individual or the functioning and development of an organization is possible. In other words, the establishment and consumption of a certain stock (inventory) of resources (material and other resources) became and continue to be “a way of life for all of us”\(^1\).

The insurance of this necessary of material and other type of resources is possible following the initiation, development and concretization of a business through which the supplier (seller) and the buyer can access those satisfactions and advantages that each of them, individually (and jointly) established to achieve.

If for a long period of time, the individual who sells (supplier) represents for the individual who purchase a veritable black box\(^2\), gradually, through the contacts between the parties engaged in a future business and especially through the visits performed by the buyer to the seller, it was possible to obtain some information related to: the production and distribution capacity of the seller, the manner in which the product quality is insured, the existence of some concrete and constant preoccupations regarding the development of...

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activity in the marketing spirit, the attitude and the establishment of the managerial team according to various hierarchical levels, the means used to administrate the relationships with the other partners, respectively clients, suppliers, banks and state institutions, the actual wish to conduct business in the short-time future. This information allows the buyer to shape an objective and complex image about a certain supplier, likely to become a future partner. Based on this information, one can extract the extremely representative elements which can be used in the supplier’s selection process. Thus, the premises for the initiation and concretization of some mutually advantageous relationships between the supplier and the buyer are created, based on which, throughout time, the establishment and functioning of partnerships was possible.

Obviously, the insurance by the buyer of a certain (materials) stock corresponding to some justified and very concrete consumption requirements cannot represent a complete and especially efficient approach of the complex issue to insure the material resources necessary to perform an activity, regardless of its nature, importance, extent and utility, individual or social.

Subsequently, an extremely accurate evaluation is also necessary in terms of what, as costs, represent, on one hand, the existence, maintenance and consumption of the stock or, on the other hand, its absence.

Thus, beyond a supply management which would insure the purchase of material resources, their administration, the efficient distribution of resources, the cost control related to the supply activity, the supply budget management, an accurate assessment of the suppliers’ performance cycle, the performance of forecasts related to the evolution tendencies of material resources offer and request, an inventory (stock) management is also imposed, which has as main objectives the specification of the optimum volume and the emplacement means of the materials stored, the insurance of a stock level which would allow the permanent supply of the production, the optimization of the stock maintenance costs, the performance of forecasts related to the stock dimension, the evolution of storage costs and the efficient usage of storage spaces.

The previously mentioned considerations were based on a normal economic evolution, where the operational mechanisms of the market economy are not facing exceptional circumstances, where the evolution of the environment is registered within its coordinates, namely relative stability and instability and the turbulent manifestations do not have a certain consistency, a certain reproduction and a certain duration.

The recent social and economic realities also imposed another type of approach beyond the one invoked up to this point. This new approach equally considers anything normal and benefic for the evolution of the human society, but also anything which, through higher or lower deviations from the usual situation, produce malfunctions in the evolution of the economy and of the human society.

In particular, it is well known that throughout time, in a sufficiently extended period as historical dimension, mankind experienced a series of social and economic events with high importance and extent, events which were numerous, extremely varied and intense, and whose immediate or long-term effects acted more or less against the punctual or general interests of people.

In its various and numerous structures, throughout its existence, mankind acquired and valorized experiences, it was able to formulate conclusions, and subsequently not only theories were confirmed or infirmed, but also many of the higher truths which marked the evolution of the world. These higher truths, which most of the times became myths, influenced for decades or even centuries, sometimes in a decisive manner, sometimes important or even insignificantly, the life of people from large and important parts of the world.
Regardless of the expression level, macro or micro, there are many events, actions or activity which proved their permanency and utility and which acquired the incontestable attribute to become indispensable for larger or smaller structures, punctual or general, important or even essential of the human society. For those countries, among which Romania also ranks, where the market economy practices and the manifestations of the authentic democracy emerged and expressed themselves more recently, the new experiences, successfully or unsuccessfully, had the same development rhythm and the same intensity, and one could hardly extract the conclusions and experiences to be constituted in the necessary and important elements to sustain and develop those countries.

One of the truths which was confirmed through the existence and functioning throughout time of some important countries of the world was that, upon the edification of a functional and competitive market economy, the concrete means through which any activity is performed are essential, regardless of the nature, size, importance and location. If until recently, in various countries of the world the functioning of an economy was approached under the theoretical aspect and it was managed under the practical aspect, from the perspective related to the manifestation of certain conditions of the social – economic environment, as applicable, stable, instable or turbulent, 2-3 years ago, an important part of the world faced an economic – financial crisis, which imposed other action means, other evaluations and other major decisions, decisions which, at their turn, often generated and determined “peculiar situations” difficult to be externally managed.

Despite all the major difficulties, which were generated by the recent economic – financial crisis, in numerous states of the world, more or less economically developed, with established or future democracies, it is important that, both in the present and in the future, we should take into account a significant truth, namely not to expect large imbalances in other to find what has to be necessarily and efficiently done, namely to promote and adopt those “actual reforms” which would aim all the fields of activity, economic, social, or political. The manner in which the recent economic – financial crisis expressed itself, along with its powerful negative consequences, imposed the necessity to create an “actual reform” equally in the field of supply activity, with major implications both at microeconomic and macroeconomic level. This is a reform where, on one hand, the reconsideration of the importance held by the supply as omnipresent and essential activity in the economic and social life in all its structures is imposed, and on the other hand, the promotion of a new manner to approach the supply management under theoretical and practical aspect. Throughout crisis periods, taking into consideration the consequences they generate, among the many economic phenomena in involution, the regression of the industrial production obviously represents one of the most difficult and sensitive issues, whose solution depends not only on the future evolution of the enterprise, but on its actual

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3 The term belongs to the economist Paul Krugman, Nobel Prize laureate for economy in 2008. The assessment of “peculiar situation” was performed by Paul Krugman when, in August 2011, the American rating company Standard & Poor’s decided to retrograde the credit rating of the United States of America from AAA to AA+. According to Paul Krugman, the rating demotion comes from an agency which lately, beyond the fact that it surprised through weaknesses related to its capacity to prevent the crisis and to provide certain solutions which would have allowed a certain preparation of various countries in their confrontation with a crisis which became imminent, it is a financial services company which makes errors in its calculations related to the budget expenses of the USA.

4 Within a conference organized at the end of August 2011 in the city of Lindau, Germany, conference related to economic discipline issued, Edward Prescott, Nobel Prize laureate, along with Finn Kydland, for economy in 2004, stated that “An actual crisis is necessary for actual reforms”.

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existence. The high or extremely high deadlock of an enterprise following the sharpening of the effects generated by an economic–financial crisis is constituted in one of the most complex and complicated situations experienced by the top management in any enterprise. In such circumstance, they have to adopt extremely difficult measures, and most of the times with unique character.

One of the most serious consequences of the economic recession is represented by the compression, most of the times dramatic, of the production, compression which at its turns has negative effects not only in the supply activity of such enterprise. Through its incapacity to insure the exits undertaken by the enterprise, it prejudices the supply activity of the enterprises along which it conducts business activities.

Being a reality, which most of the times cannot be avoided, the production decline, reflected in the significant decrease of the material productive consumption, it can be attenuated through an essential modification of the means used to approach the supply activity, both from macro, and microeconomic perspective.

Certainly, this can mean the quantification of a benefit contribution from the supply management in the solution of difficulties generated by the production regression in the supply activity of a company only to the extent where an obvious managerial ability in the supply field is expressed. The capacity and ability do not only have to be well expressed and concretized, but equally correctly focused on the essential supply issues, thus, one can elaborate and valorize the type of supply strategy and policy which would constitute itself in a strong support for the production recovery and subsequently of the overall activity of the enterprise.

Thus, taking into consideration one of the three roles played by the supply managers, reactive, participative and innovative, role which the supply management can assume, the decision and the concrete effect of the decisions are different.

Obviously, according to the role assumed, the actual professionals in the supply management have to know and understand in the slightest details the functional mechanisms of the market economy.

One of the most important attributes of the supply management is related to its susceptibility reported to everything which takes place in the exterior environment. Taking into consideration the fact that, through its dynamics and power, the environment significantly influences the development of any business, providing, regardless of the hierarchical level, a certain elaboration means, a certain content and a certain type of decision making, the supply managers have to monitor, accurately know the process and phenomena which take place in the environment and especially to express a certain capacity to anticipate the future evolution tendencies of the economic and social processes which can influence the enterprise’s activity. This is especially imposed throughout the turbulent evolution periods of the exterior environment, and especially throughout economic crisis period, when the enterprise’s evolution should not have the fingerprint of the environment’s evolution.

A behavior of the supply management among the above mentioned ones represents one of the possible alternatives.

For example, if the business cycle is considered, respectively the oscillations expressed in the economic activity within a certain period of time, fluctuations which, throughout an economic crisis, have an accentuated downward tendency, from the supply management’s point of view, the enterprises can count on two approach means, fundamentally different. According to the top management’s capacity within an enterprise

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5 The formulation belongs to Professor Eberhard E. Scheuing and it is taken from his works, “Innovative Supply Management” presented at the “88th Annual International Conference Proceedings 2003” – Nashville, Tennessee, USA.
to foresee the occurrence of an economic crisis, which are expression coordinates and which is the intensity of the downward fluctuations of the economy, the supply management can choose between two different philosophies.\(^6\)

Thus, congruent with the business cycle stages, the volume of the materials supplied by an enterprise will increase or it will be reduced.

Subsequently, a pro-cyclic philosophy will determine that throughout the economic crisis period, the enterprises would significantly restrain the quantities of materials supplied. This is an approach which logically corresponds to a real situation, respectively it corresponds to the significant restraint of production, restraint materialized through a strong decrease of the productive consumption demand which, at its turn, is determined by the strong reduction both of the population consumption and of the overall society.

An approach opposed to the previous one is the one based on the “anti–cyclical philosophy” which considers that throughout the recession periods, they will have to proceed to the supply of some higher quantities of materials. The reasoning of such a behavior, somehow illogical, has as supporting element the fact that, in the absence of the demand, the providers will decrease the prices, which represents an opportunity for the buyers, and subsequently, an advantageous business is shaping. The enterprises which, throughout the recession period make materials stocks, to the extent where the costs attracted by the stocking phenomenon are not high or very high, throughout the recovery period, they can acquire a good position on the market, they can create the premises of a competitive advantage.

An extremely important aspect which, throughout the economic – financial crises, has to be reconsidered in terms of importance and approach accuracy, is to know and assess the environment under its two dimensions, macro environment and business environment.

In terms of the microenvironment, an adequate, objective and prospective knowledge of this is possible through the activation of the “merchandise teams”\(^7\), functional essence teams, which are competent to maximize the value of the purchased resources, which means an efficiency of the supply activity both from the perspective of the activity performed, insurance of a beneficial balance, both for the buyer and for the seller. Mainly aiming a fair evaluation of the supplier’s offer potential, the “merchandise team”, after performing some preliminary visits, following the visits at various suppliers, elaborates detailed reports which reveal, among others, the aspects related to the product manufacturing technologies, quality regulations, substitution possibilities, standardization level, price practiced, associated services, competition, etc. Subsequently, it elaborates a list of the tenders, which, following certain rigorous procedures, will allow the selection of the best suppliers.

Taking into consideration the significant modifications which, throughout an economic crisis period, take place in the business macro environment, modifications whose extent is national and international, a very good knowledge of it (macro environment) is essential. And this because only in this manner the supply activity can register itself within the coordinates able to effectively support the enterprise in its functional or surviving approach. Beyond that reporting to the business cycle, previously mentioned, the supply specialists and managers, correctly evaluating the inflation influences on the marginal profit, identifying the moments when, within the conditions of a volatile currency markets it is advantageous to conclude futures contracts, fairly establishing the capital opportunity costs, objectively assessing the influences on the enterprises of the

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technological, natural, political – legal, social, psychological and ethical environments, are able to obtain, process and supply to the enterprise’s top management the information which are useful in the elaboration and adoption of the current and strategic decisions, decisions which would protect the enterprise from the numerous and great dangers generated by an economic – financial crises.

In conclusion, one can state that throughout the economic crisis period, the supply maintains the same attribute of essential activity for any enterprise, that, through a responsible and proactive approach, it can represent one of the important means used to restore the overall activity of the enterprise.

BIBLIOGRAPHY