



## SUPPLY CHAIN MANAGEMENT IN HOSPITALITY INDUSTRY : AN OVERVIEW

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### **Objective**

Discuss the scope of supply chain management in the hospitality industry with particular reference to purchase process.

### **Definition of supply chain management**

Institute of Supply Management defines supply management as: ‘the identification, acquisition, access, positioning and management of resources the organisation needs or potentially needs in the attainment of its strategic objectives.’

Definition of supply chain management: All activities associated with the flow and transformation of goods from the raw materials stage, through to end users, as well as the associated information inflows. This includes material and information flows both up and down supply chain. Therefore supply chain includes a whole horde of systems such as systems management, operations and assembly, purchasing, production schedule, order processing, inventory management, transportation, warehousing, and customer service. Supply chain is essentially a series of linked activities starting from the suppliers and ending with the customers which can be simply put as under **SOURCES** ..... **LOGISTICS** .....

### **OPERATIONS**

Going by the above, supply chain management includes. **Upstream functions** of purchase department such as procuring the right products from the right suppliers at the right time and maintaining good relationships with the suppliers, **Internal functions** or processes used in transforming the inputs provided by the supplier encompassing the activities such as production, engineering, accounting etc and **Down stream functions** delivery of the finished products to the end customers.

## **Supply Chain management in the context of this paper**

Supply chain management includes a whole lot of interlinked processes, in the context of this paper; the discussion is limited to the sources management. To reiterate, in the present context supply chain management is the constant search for improving the way you get the materials that the hotels need to generate the product/ service. It touches upon planning for managing the resources which result in giving service to your customer. This is so because According to the basic requirements of SCM the hotel may spend up to 55% of their costs on material procurement. The main concentration of SCM would therefore be cost reduction, improved material delivery, shorter time cycle, quality improvement, and access to the product and process technology. “A supplier can make or break a company, in terms of providing products and services that either exceed their customers’ expectations or fail miserably. Reams have been written about supply chain management, here is an attempt to focus on the issue related to hostel industry. In this context Supply chain management is synonymous with **upstream functions of purchase management.**

## **Background for Supply Chain management in Hospitality Industry**

Joseph Acura, president of consulting firm Supply Chain Management in Ridgewood, N.J., says the hospitality industry as a whole is starting to awaken to the value of supply chain. “Currently, we are about two to three years behind the manufacturing industry,” reports Acura, whose company was spun off from Atlanta-based Intercontinental Hotels Group, where Acura had been the chief procurement officer, and who now provides third-party procurement services for the hotel group. “The hospitality industry is beginning to catch up quickly, though,” he adds.

When Acura arrived as CPO for Intercontinental four years ago, the company’s focus was on cost management and a third party firm was conducting a major spend-analysis project. Acura took over that project, implemented a supplier consolidation effort and created some performance metrics for existing suppliers.

## **Factors affecting supply chain management in Hotel industry**

Before discussing the utility of Supply chain management in the hospitality industry, one needs to understand that the premise under which the hospitality industry operates is much different from other industries. The industries capital costs are high, operating costs being comparatively

lower. The hotel industry has its unique characteristics, like customer centricity, different types of management etc. **Firstly**, for the hotel industry the guest or customer is “GOD”. Many a time it becomes difficult for extreme standardization. Customer satisfaction is of paramount importance to the hotel industry. This affects the supply chain management negatively. In the hospitality industry the customer related activities such as food and beverage production and service, housekeeping, Front office management are given utmost importance. The back office operations such as the accounts, purchases, supplies chain management, revenue recording etc take a back seat.

The purchase manager is always under constant pressure to meet the user departments’ un- planned needs. The majority of the internal customers of the purchase manager, be it the food and beverage production manager, the front office manager or the executive housekeeper etc operate at a higher level in the hierarchy. They have more importance in the organization because of their direct contact with the customers. As a result the purchase manager always tries to have huge buffer stocks, lest he should fall short of satisfying the hotel operating/user departments. But this does not mean that quality management processes should be totally ignored. **Secondly**, different types of management systems, such as the ownership hotels, franchisees, hotels which are run on operating contracts by chains etc. The different managements systems have different implications on the supply chain management. This leads to unique set of problems for differently managed properties which are broadly discussed as under. **Thirdly**, the current trends in the industry show that computerized property management systems are used but mainly for front office management and reservation systems. The interlinking of office processes be it hotel front office back office and purchase process is not found in most properties. In other words all the efforts are customer oriented, a result as lot of cost reduction which can be attained through improved **upstream functions** of supply chain management is lost. Proceeding from the above it follows that there are certain problems which can be identified which are exclusive to the hotel industry.

### **Problems of hotel industry related to supply chain**

**Material costs:** The cost of raw materials purchase is quite huge in the hotel scenario. Majority of the consumables of the hotel are of perishable nature. A hotel Store deals with huge quantities of the items with very less price. Bulk of the direct material cost is invested in such items. Because

of the perishable nature, one cannot make use of the economies of bulk purchase. This increases the Number of transactions and thereby the transaction costs. The logic of mechanization or automation cannot be truly applied because of the innumerable different Items bought for many departments from a large numbers of suppliers. Standardization is not possible in such situations. This results in increased transaction costs.

**Material ordering costs:** The individual departments normally use manual indents and purchase requisitions independently. In many properties the hotels do not have computerized indenting and purchase requisitions. The consolidation of such indents and requisitions become quite time consuming. The purchase Department is found to place individual orders for same products, due to difficulty in consolidation Even for chain properties where different units are located in the same city, the hotels do not take advantage of bulk purchasing due to reasons stated above. It may be found that hotels purchase too many units of different brands and pack sizes. This has a negative impact on consolidation, increased supplier base, and increase in cost. At times hotels belonging to the same group may be buying same products from same suppliers at different prices. This also greatly increases the cost of transportation and other direct costs Through supply chain management there could be considerable cost reduction.

**Inventory holding costs:** Forecasting of material required is quite unheard of. Even if done, the activity becomes a mere paper tiger, The purchase department, in the fear of not being able to give the right items to the user departments on time, stock large quantities of materials. This occupies a large space and there by leads to increase in costs.

**EMERGENCY PURCHASES:** Due to lack of planning, emergency purchases are a matter of routine and not due to exception. The purchases are made on the request to the user departments on the spur of the moment, and are regularized later by making the required paper work.

#### **Where does the Supply chain process start?**

There are two possibilities for implementing the supply chain systems. Strengthening the systems internally or through outsourcing.

The outsourcing of Supply chain management has come of age and there are umpteen service providers, which an organization can make use of. In this paper an attempt is made to discuss the strengthening of the systems internally. The purchasing process in any industry involves setting up of the purchasing objectives which could be to

- Support operating requirements
- Buy from right place, right source, right specification, right quality and quantity and time
- Manage efficiently and effectively
- Select develop and maintain sources of supply
- Constantly Endeavour to improve relationship with suppliers
- Support organizational goals
- Develop supply strategies.

This requires commitment from the management as well as the work force. But the resultant reduction in cost would be enormous. There are two parallel approaches to begin the process. Tactical and Strategic.

### **Tactical Methods In SCM**

**Commodity analysis:** This involves a lot of initial ground work. All the existing document such as indents, purchase requisitions, orders, is analyzed. Though a lot of time and effort goes into this work, once done, will lead to fantastic data analysis, for preparation of forecasts. Planning and forecasting are the first steps in any managerial processes. Developing trends based on actual date for the past three years and preparation of forecasts in conjunction with the overall objectives is the first requirement for supply chain management too. Analyzing the trends will help in understanding department wise consumption pattern, item wise consumption pattern, supplier wise commodity procurement, commodity wise supplier lists, commodity wise rate lists, supplier wise commodity wise rate and quantity lists, are some of the analysis which will help in implementation of the SCM process. Many a time such data are available, but analysis and decision making is never done based on the same. Make ABC analysis of the products for understanding the nature of utilization vis a vis the costs. This information is a very powerful tool in the hands of the purchase manager and is the beginning step in SCM. Following are the broad examples with reference to hospitality.

- Provisions and grocery
- Capital equipment

- China silver and glass
- Linen and uniforms
- Cleaning supplies
- Maintenance supplies

### ***Market research***

Based on the data available after commodity analysis a market study of availability of the specific products and the suppliers is required. Make detailed analysis of product wise supplier lists from the market information. Such a research will lead to identification of newer suppliers or newer products which may be better and cheaper. This will help identification of best suppliers for specific products helping in lowering costs.

### ***Determine the needs of the internal customers***

Based on commodity analysis the internal customers, who are the departmental managers, can be asked to come out with their forecasts.

### ***Analyzing the existing contracts***

This paves the way for modification, cancellation or renewal of contracts which may be the result after commodity analysis and market research. Past performance of existing suppliers, their promptness, commitment etc comes to light. This will help in thoroughly studying the existing systems as regards, supplier selection, costs of the products, reviewing the terms and conditions tenders etc.

### ***Setting standards***

Based on Commodity analysis, standards are set for each department, product supplier. Purchase policies for the properties are set keeping in view the overall objectives of the firm.

**Documentation and communications** are created and contracts are drawn up. Internal and external communication regarding the steps taken towards improving the supply chain is made. This will lead to negotiations between the purchase and other departments, as well the suppliers. This will lead to cost effectiveness.

## **Strategic Methods In SCM**

### ***Supplier identification***

Supply chain management involves taking steps to identify the right suppliers. This is a very crucial step. The hotels have a tendency of dealing with a huge supplier base, though this has its positives, conscious steps should be taken to identify committed suppliers who are willing to go by the objectives of the concern, and be involved and appreciate and support the changes of the organizational requirements.

### ***Supplier evaluation and selection***

After careful identification the suppliers are evaluated. Their ability to supply the right goods at the right time with right specifications has to be studied. This is another crucial activity which the purchase process should undertake. After negotiations and competitive biddings, contracts are awarded.

### ***Supplier management***

Once the correct suppliers are selected, there should be a process which will help in smooth management of the purchase process. Once the supplier delivers the goods as per specifications, it is the responsibility of the purchase process to see that his bills are settled, as per contract. This is where, many a time, a property may let down the suppliers, by not paying up promptly. Many a good supplier may be lost to the hotel, due to delay in payment. The fault may be due to bottlenecks in any of the processes. The purchase department may not process the documents promptly to the finance department. The finance department may not have got all the details it is looking for, or the signatories of the cheques may be busy. Once in a while this may be acceptable, but if continuous delay in payment happens, the supplier feels harassed. If the hotel is a big buyer, the supplier may be threatened also. This spoils the relationship of the hotel with the supplier. Therefore, this is a very crucial stage, where the supply chain management has to be strengthened.

### ***Supplier development and improvement***

The supplier chain management must include this very crucial process. If the supplier is made to know about importance which the hotel gives him, he will definitely be encouraged to give very good service, which contributes towards efficiency and cost saving.

### ***Empowerment of the purchase manager***

As mentioned earlier, the purchase manager in a hotel concern is given a lower position in the organizational hierarchy. This results in improper and inefficient supply chain management. The purchase process has a very wide span of control if the supply chain has to be professionally managed. It starts from identification, forecasting of the material and services needed by the hotel the evaluation and selection of suppliers, review of specifications, negotiations with suppliers, awarding of contracts, recommend for release of payments, continuous monitoring and measurement of supplier performance. The purchasing head should be considered equal to any departmental head and given that status, if SCM has to be smooth. In case of centrally managed purchase process as in chain hotels, a position of Vice President purchases is ideal.

### **The Advantages of Supply Chain Management**

- Both the supplier and the hotel benefit from a well established system of supply chain management. The relationship between the supplier and hotel becomes stronger because of professional management in the form of development of proper purchasing policies. This could also lead to concentrating on a few trusted suppliers, rather than have a large and inefficient supplier base. Newer and more efficient suppliers could be identified, leading to increased efficiency.
- It leads to significant reduction in costs and also helps continuous evaluation and improvement in the buying process. It could increase the product range or perhaps reduce it too, because of intensive market research undertaken
- Improved management information to future requirements

### **Conclusion**

Efficient Supply chain management helps in enormous reduction of costs by developing and implement contracts and agreements with suppliers of hospitality products and services, securing for the hotels competitive prices be if for food and beverage, rooms or property operations. Through professional Supply Chain Management every supplier is committed, nationally negotiated contract pricing, and top-quality product and service standards. Offering a wide selection of products and services, they provide the best products at best time at best rates, which is the ultimate objective in supply Chain Management.



Enclosed alongside, is the Hilton hotels experience in implementing the Supply Chain Management and it shows that SCM goes beyond mere improvement in internal processes. Hilton has gone a long way in developing the system and also conducting training programmers for the use of the other operators in the industry.

## References

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## The Hilton Experience

*With one eye on the changes taking place in the hospitality industry, Hilton Hotels Corporation has launched a number of initiatives to expand its brands, strengthen guest loyalty, decrease costs and increase profits.*

In late 1999 , Hilton Hotels Corporation (HHC) embarked on a new course that would take it into the new millennium, beginning with the acquisition of Promus Hotel Corporation, which increased its size from 270 hotels with 90,000 rooms to nearly 1900 hotels with more than 325,000 rooms, and diversifying its portfolio to include all major segments of the lodging industry. With that type of growth, Hilton knew it needed to establish new structures, new foundations, new strategies and new philosophies to identify how it could best serve the needs of all the hotels within its portfolio of brands. By consolidating the many divisions of the two companies, Hilton brought together the best resources and programmes of both organisations, including people, values, suppliers and technology, to establish a solid foundation for the future. Hilton decided to take an aggressive, strategic approach to purchasing and supply management by looking at end-to-end supply chain management in its function of providing goods and services to its hotels. Hilton renamed its purchasing division, adopting the fundamental concept of supply management from the Institute of Supply Management, which defines supply management as: 'the identification, acquisition, access, positioning and management of resources the organisation needs or potentially needs in the attainment of its strategic objectives.' The purchasing division's new name, Hilton

Supply Management® (HSM), more accurately reflects the responsibilities and deliverables of the discipline. Within the first two years following the integration of the two companies, HSM restructured its business model, terminated an outsource agreement with a technology and human resources provider, migrated to a new ERP and launched a B2B e-procurement technology. Any one of these initiatives on its own is a huge undertaking, let alone the task of integrating them at the same time. Today, HSM is taking supply chain management activity and is transposing it into a competitive advantage by instituting cost management through strategic sourcing, supplier management, and transaction process efficiencies. A recent study called ‘The Future of Purchasing and Supply: a Five and Ten Year Forecast’ observes that increased competition and focus on core competencies have driven the need for strategic supplier alliances. HSM will therefore continue to use supplier relationships as a vehicle for enhancing overall performance. HSM is not like a traditional purchasing department overseeing purely transaction-based purchasing, but rather a more diverse and strategic organisation providing end-to-end supply management solutions. HSM employs a hybrid ‘hub and spoke’ approach to supply management (centralised at the corporate level, regionalised at the field level), to leverage both national and regional opportunities. Where it is cost-beneficial to the hotels, HSM places orders for hotels directly with suppliers, thus becoming the ‘merchant of record’ and eliminating intermediary supplier costs. HSM also negotiates ‘supplier direct programmes’ where hotels do business directly with the suppliers while realising the benefits of HSM’s contracted prices.

Leveraging the power - at the hub and beyond HSM’s contracts and supply management team (one of four divisions in HSM, the others being project development/project supply management, field operations and administration) leverages the power of the entire Hilton portfolio to develop and implement contracts and agreements with hundreds of suppliers of hospitality products and services, securing for the hotels competitive, nationally negotiated contract pricing, and top-quality product and service standards. Offering a wide selection of products and services, the contracts and supply management team is segmented into three commodity and discipline operating modules: food and beverages, rooms, and property operations. HSM benchmarks and identifies suppliers, products, and services that best drive value to the hotels and ensures those suppliers are positioned to meet the varied needs of its constituents. Every Hilton supplier must

commit to providing its products and services at contracted prices, maintaining sufficient inventory levels, delivering products at scheduled times, providing monthly pricing reports and many other services to help each hotel perform at the highest levels. HSM's supply management programmes are designed to maximise each hotel's profits while minimising the ordering cycle times and inventory carrying costs.

### **Managing new openings and renovations**

HSM's project supply management team assists hotel owners through every step of getting a new hotel open or completing renovations through the use of comprehensive project packages tailored to each hotel's needs. The team oversees the purchasing of capital items for hotel projects ranging from as few as ten to over 2000 guestrooms, as well as lobbies, restaurants, meeting rooms, pools and patios, and other public spaces for hotels. HSM works with the brand management teams and acclaimed designers to develop décor schemes for today's discerning travellers. All-inclusive designer guest room packages, complete with décor schemes, soft goods and case goods, help simplify the design process and help owners save money, time and frustration. Project supply management services are available to both managed and franchised properties, and include:

- Guest room design packages
- Budget development
- Financing and leasing options
- Budget and cost reporting
- Freight consolidation
- Furniture, fixtures and equipment (FF&E) and operating supplies and equipment (OS&E) purchases
- FF&E installations
- Expediting and logistics
- Warehousing

### **Reaching out - with the spokes**

The HSM field operations division reaches out with its five regional and six satellite offices to capture regional/local synergies of the hotels within a given market or region by leveraging and consolidating the

purchasing volume of the participating properties. Its regional offices are geographically aligned to best support the hotels within the specific region. The HSM Field Operations teams negotiate supplier and distributor programmes for each metropolitan area using a best-in-class approach, where volume can sustain multiple commodity programme suppliers. The local and regional programmes leverage the collective volume of the properties within a market or region to maximise efficiencies, drive economies of scale and reduce base product costs. The programmes, developed using cross-discipline teams within a geographic supply market, allow the necessary flexibility to quickly make changes in individual markets and/or properties without affecting the entire programme.

Key benefits for hotels participating in these programmes include:

- Reduction of the total cost of products and services
- Improved forecasting, productivity and economies of scale
- Supplier consolidation (fewer deliveries, fewer invoices, fewer checks)

### **Adding value beyond cost reduction**

As a centre-led purchasing and supply organisation, HSM continues to enhance its strategic role and add greater value to Hilton beyond cost reduction. In 2003, HSM will focus on the design and management of value-added processes across organisational boundaries to meet the needs of the ultimate end user - the hotel guest. As the department with the closest ties to the supply chain, HSM is in a unique position to capitalise on this opportunity. The interface that already exists within the organisation's many business units allows HSM to readily leverage cross-functional activities. Driving these initiatives are industry trends such as collaboration using customer and supplier relationship management, technology as an enabler, penetration of spend and project administration. All of these trends are interrelated and interdependent. Collaboration enhances supply management success. When internal departments collaborate to achieve the overall goals of an organisation, the chances of success are considerable. Through persistence, communication and the process of inclusion, relationships with the end user are strengthened. Joint efforts with strategic suppliers help to identify new opportunities and applications that add value for constituents

and enhance the value of the relationship. Technological capabilities will continue to improve and enhance operational efficiencies and CRM. Internal marketing of the benefits that HSM provides to its constituents will improve penetration of spend and brand consistency, reduce costs and add value to hotel operations. Project management principles can be incorporated to address initiatives in finance, technology, logistics and catalogue development and maintenance. Unlike the traditional concept of project management in the hospitality industry, project management in this sense is more all-encompassing, overseeing business activities from concept to implementation and beyond, with particular emphasis on the functions, roles and responsibilities of the project team. To this end, knowledge, skills, tools and techniques can be used to meet or exceed stakeholder needs and expectations in a variety of areas, such as scope, time, cost, quality, human resources, communications, risk and procurement management. Project management is applicable to most business applications, not the least of which is purchasing and supply management. HSM's new business model, structure, and initiatives are helping its hotels achieve more savings every day as it continues to deliver customer-focused, value-based supply management solutions. HSM is not limited to sourcing or supply-side activities - all units contribute to all aspects of Hilton's business wherever there is the potential to create value for the company.

Website: <http://www.hilton.com>