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**Impact of Cost Reduction Strategies on Purchasing and Procurement in Mozambique**

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## Impact of Cost Reduction Strategies on Purchasing and Procurement in Mozambique

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### Abstract

**Purpose:** The study sought to analyze the impact of cost reduction strategies on purchasing and procurement in Mozambique.

**Methodology:** The research was conducted entirely on computers. Secondary data, or data that doesn't require actual observation in the field, are the focus of desk research. Because it requires little more than an executive's time, telephone rates, and directories, desk research is generally seen as a low-cost strategy in comparison to field research. As a result, the research used data that had already been collected and reported. This secondary data was readily available via the internet's digital library and scholarly articles.

**Findings:** The results show that cost reduction strategies are effective ways of reducing costs associated with purchasing and procurement. Cost reduction strategies enables companies to reduce costs associated with materials, services, and labor, as well as reduce overhead costs. Additionally, strategic partnerships and the use of technology also help companies reduce costs and optimize their purchasing and procurement process. Overall, cost reduction strategies can be an effective way of reducing costs and improving efficiency.

**Unique Contribution to Theory, Practice and Policy:** Future research in the field of purchasing and procurement may be grounded in the competitive advantage theory and the supply chain theory. Policymakers, researchers and academics from all across the world will all stand to gain from this study's findings. Executives in charge of national purchasing and procurement initiatives will also use the study's findings to boost the cost reduction strategies performance across the board. The research suggests that the purchasing and procurement sector should implement cost reduction policies to boost the effectiveness of their primary operations and activities.

**Keywords:** *Impact, Cost Reduction Strategies, Purchasing and Procurement, Mozambique*

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## INTRODUCTION

Cost reduction strategies have become an essential element of modern business operations, as they can significantly reduce overhead costs and improve profitability. Cost reduction strategies are implemented in order to minimize expenses, increase efficiency, and reduce costs associated with purchasing and procurement (Niemann,2016). Cost reduction strategies have a variety of advantages when it comes to purchasing and procurement. Cost reduction strategies help companies reduce costs associated with procuring materials, services, and labor. Cost reduction strategies also help companies reduce overhead costs, such as energy and facility costs. This enables companies to optimize their purchasing and procurement process, and reduce overall costs. Mozambique has been experiencing a period of rapid economic growth and development in recent years (Qrunfleh,2014). Over the past decade, the country has made great strides in reducing poverty and improving living standards. As with any developing country, however, there are still many challenges that need to be addressed in order to ensure sustainable and equitable economic growth. One such challenge is the need to reduce costs in the purchasing and procurement sector. This is particularly important given the fact that Mozambique is a relatively low-income country, where resources are limited and the cost of goods and services can be high.

Mozambique is a low-income country located in south-eastern Africa. It has a population of approximately 28 million people, and the majority of the population lives in rural areas. The country has experienced a period of rapid economic growth in recent years, with a GDP growth rate of around 7% per year since 2015 (Van Poucke,2016). This growth has been largely driven by the country's strong agricultural sector and the development of natural resources such as coal and natural gas. However, despite this economic growth, Mozambique is still a relatively poor country and many of its citizens still live in poverty. The country's purchasing power parity (PPP) is estimated to be around \$2,500 per capita, which is much lower than the world average of \$14,500. Furthermore, due to the country's low-income status, the cost of goods and services can be relatively high, making it difficult for households to purchase the items they need (Lin,2020). The implementation of cost reduction strategies in purchasing and procurement in Mozambique has had a positive impact on the country. The increased competition in the market has led to lower prices for goods and services, making them more affordable for households. The increased transparency has also helped to reduce corruption and ensure that resources are used more efficiently (Kim,2020). Furthermore, the improved infrastructure has made it easier for suppliers and vendors to reach customers, as well as to compare prices and make informed purchasing decisions.

### Statement of the Problem

Cost reduction strategies on purchasing and procurement in Mozambique is an important topic as it reflects the country's commitment to economic growth and development. Mozambique has experienced considerable economic growth in recent years, as evidenced by its 5.7 percent GDP growth in 2018. Purchasing and procurement in Mozambique are regulated by the Ministry of Trade and Industry (MTC) and the Council for the Regulation of Public Procurement (CRPP). The MTC is responsible for overseeing the country's purchasing and procurement activities, while the CRPP is responsible for regulating public procurement processes. The government has established a number of laws and regulations to ensure the proper implementation of purchasing and

Mozambique's purchasing and procurement system is highly decentralized, with each of the country's provinces and districts having their own procurement and purchasing systems. This decentralization has led to a lack of standardization and efficiency in the system, as well as an increase in corruption and mismanagement.

Furthermore, the system has been widely criticized for its lack of transparency and accountability, as well as its failure to ensure that quality standards are met. One of the most important factors affecting the cost of living in Mozambique is the exchange rate. In recent years, the Mozambican metical (MZN) has depreciated significantly against the US dollar, leading to a rise in the cost of imported goods. This has had a particularly negative effect on the purchasing power of Mozambicans, making it more difficult for them to afford basic necessities. In addition, the cost of living in the country has increased significantly, making it difficult for businesses to maintain their current cost structures. According to the World Bank, Mozambique's GDP per capita in 2018 was US\$541.1, while the inflation rate was 7.2%. This indicates that the purchasing power of Mozambicans has decreased significantly in recent years. In addition, the exchange rate of the Mozambican metical (MZN) against the US dollar has also decreased, making it more expensive for businesses to purchase imported goods.

In addition, the World Bank also reports that the unemployment rate in Mozambique was at 18.5% in 2018. This indicates that many Mozambicans are unable to afford basic necessities, which has had a negative effect on the purchasing power of the country's businesses. Furthermore, the World Bank's Doing Business report for 2019 ranked Mozambique 130th out of 190 countries for ease of doing business. This indicates that it is difficult for businesses to operate in the country, as they must comply with a range of regulations and restrictions. This can increase the cost of doing business in Mozambique and make it more difficult for businesses to remain competitive and profitable. The lack of competition in the purchasing and procurement system is another challenge associated with cost reduction strategies on purchasing and procurement in Mozambique. The government's decentralization of the system has led to a lack of standardization, which has made it difficult for buyers and sellers to find the best prices. Furthermore, the lack of competition has led to a decrease in quality, as well as an increase in corruption and mismanagement.

### **Theoretical Review**

This study will benefit from Competitive Advantage Theory which was proposed Michael Porter (1985) and Supply Chain Theory by Van der Vorst and Beulens (2002)

### **Competitive Advantage Theory**

This theory suggests that cost reduction strategies can have a positive impact on purchasing and procurement. According to this theory, firms that are able to reduce their costs relative to their competitors will have an advantage in terms of purchasing and procurement. This advantage will be reflected in the ability to buy more goods or services at a lower cost, thus giving the firm a competitive advantage (Wang,2014). The concept of competitive advantage is closely linked to the concept of efficiency. Efficiency is the ability of a firm to produce goods and services at the lowest cost possible with the highest quality. The competitive advantage theory suggests that cost reduction strategies, such as outsourcing, technology, and process reengineering, can help firms become more efficient. By becoming more efficient, firms are able to purchase and procure goods

and services at a lower cost, thus giving them a competitive advantage over their competitors. (Porter,2016). The competitive advantage theory also suggests that cost reduction strategies can have a positive impact on procurement and purchasing practices. By reducing the cost of goods and services, firms are able to purchase more of them, thus increasing the quantity of goods and services available to the firm. This can lead to a more efficient purchasing and procurement process, as firms can purchase the goods and services they need in larger quantities and at a lower cost.

### **Supply Chain Theory**

The supply chain theory suggests that cost reduction strategies can have a positive impact on purchasing and procurement. According to this theory, firms can reduce their costs by streamlining their supply chain processes. This can be done by improving the efficiency of the supply chain, reducing inventory costs, and improving the quality of the goods and services that are purchased and procured. By streamlining the supply chain, firms can reduce the cost of goods and services they purchase and procure (Snyder,2019). This can lead to a more efficient purchasing and procurement process, as firms can purchase the goods and services they need in larger quantities and at a lower cost. Additionally, by reducing inventory costs, firms can reduce the cost of goods and services they purchase and procure. By becoming more efficient, reducing overhead costs, streamlining the supply chain, and improving the quality of the goods and services they purchase and procure, firms can reduce their costs and increase their competitive advantage. Ultimately, this can lead to a more efficient purchasing and procurement process, as firms can purchase the goods and services they need in larger quantities and at a lower cost.

### **Empirical Review**

Musivo (2022) looked at the effects of contract management, inventory management, supplier sourcing, and tendering on the success of community-based initiatives in Machakos County. The questionnaire was distributed using a census sampling technique in this study. According to the study's findings, the coefficient of correlation R was 0.812, indicating a strong positive relationship between the variables. Based on the results, the survey concluded that there is a strong correlation between the success of community-based projects and an organization's ability to manage suppliers and project contracts.

Nidthida (2020) This study examined the role of global sourcing strategy on financial and innovation performance of global sourcing activities. Using a fuzzy set qualitative comparative analysis on 235 firms engaging in global sourcing of business service activities. The findings suggested that global sourcing strategy leading to high financial performance differs largely from global sourcing strategy leading to high innovation.

Jeomhong (2019) investigated whether the relationship between supplier transaction specific investments (TSIs) and buyer commitment is moderated by the type of buyer relational strategy (competitive or cooperative strategy). A survey of 248 Korean purchasing firms' purchasing managers was used to gather data. The findings showed that supplier TSIs have a positive impact on supplier firm performance through buyer commitment and trust. The relational strategy that buyers employ affects the impact of supplier TSIs on their commitment, and the cost reduction strategy that they employ affects the impact of their commitment on supplier firm performance.

Enoch (2018) determined how procurement cost reduction strategies affected how well state parastatals in Kenya performed in electronic procurement. Primary data were gathered utilizing A questionnaire covering the function of E-procurement in state corporation performance was used to gather primary data. Both formal and unstructured questions were included in the survey. Findings indicated that among Kenya's state parastatals, the performance of e-procurement was more affected by procurement cost reduction plan.

Orina (2018) examined the influence of centralized purchasing strategies on the organization performance within manufacturing firms. The study used both primary and secondary data to examine the relationship between the two variables. The results of the study indicated that there was a positive and significant influence of centralized purchasing as indicated by  $R^2 = .844$ . The study concluded that the performance of MRM was higher as a results of centralized purchasing as indicated by the growth in sales and the profit margins of the firm.

Neimann (2016) examined the motivations behind and obstacles to the adoption of green supply chain management in the manufacturing sector of Mozambique. One senior manager from eight different organizations within the industry participated in semi-structured interviews as part of a descriptive qualitative study. In the Mozambican setting, the study found four drivers and eight barriers. Corporate social responsibility, internal organizational policy, and support from the board and top management are the main motivators. The barriers with the biggest effects were determined to be those caused by culture, costs, and governmental regulations.

Minkyun (2015) investigated the relationships among strategic sourcing, e-procurement and firm performance, along with the moderating effects of business characteristics and environmental factors on these relationships. Survey responses from 137 managers of US manufacturing firms were used to collect data. The results confirmed that both strategic sourcing and e-procurement have a positive effect on firm performance. In addition, e-procurement is also found to have a positive impact on strategic sourcing.

Chemjor (2015) established the criteria used for supplier evaluation in Parastatals in Kenya; Questionnaires were used to collect data which was analysis through SPSS software version 22. Findings revealed that Parastatals in Kenya base their selection on following criteria; quality of the supplier services during, financial position of the supplier, flexibility of the supplier, supplier efficiency in service delivery, supplier charges, constitution and the PPOA guidelines, information sharing between the organization and supplier, supplier technical capability, supplier profile, ability of the supplier to share confidential information, experience of the supplier in offering certain services/products as well as compliance with procurement procedures.

Olali (2015) assessed the impact of Integrated Financial Management Information System (IFMIS) adoption on public procurement performance in Kenya. Primary data was collected for the purpose of this study. It was collected using interviewer administered questionnaires from chief procurement officers and IT managers in the target institutions. The study found out that the various components of IFMIS have been adopted in the government ministries. They include; purchase ordering, general ledger (GL), accounts receivable, accounting, accounts payable, budgeting, procurement management, cash management, debt management tax administration, social security systems, pension systems, pay roll systems, human resource, asset management respectively.

Ngunyi (2014) established the Effects of procurement practices on organizational performance of Parastatals in Kenya. The research adopted a descriptive research design. Data was collected using a self-administered questionnaire that was distributed to 76 senior and middle level managers at the firms. The finding indicated that procurement is both a motivating force to competitive strategy selection and an important resource to attaining improved organizational performance.

Khakata (2014) established procurement methods used by state corporations in Kenya and ascertain if there was a functional relationship between the procurement methods and operational performance of the state corporations in Kenya. A total of 32 state corporations were selected for the study, each organization selected was given one questionnaire with targeted questions aimed at meeting the objectives of the study. To enhance consistency in the results, a standard questionnaire was developed with open ended questions addressing the twin objectives of the study. The study established that the procurement methods used by state corporations to a large extent are price based and hence may not necessarily guarantee the best value for money. Best value procurement methods such as negotiated procurement were used but to a small extent.

## **METHODOLOGY**

The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library

## **RESULTS**

The results were grouped into various research gap categories namely as conceptual, geographical and methodological gap

### **Conceptual Gaps**

Studies by Musivo (2022), Nidhida (2020), Jeomhong (2019), Enoch and Orina (2018), Neimann (2016), Minkyun, Chemjor and Olali (2015), Ngunyi and Khakata (2014) had conceptual framework gap in addition, all the mentioned studies did not establish the challenges of cost reduction strategies on purchasing and procurement. The studies did not outline the challenges in a clear manner. Therefore, the current study seeks to address these conceptual gaps.

### **Geographical Gap**

Studies by Musivo (2022), Jeomhong (2019), Enoch and Orina (2018), Neimann (2016), Minkyun, Chemjor and Olali (2015), Ngunyi and Khakata (2014) had geographical gap because they were not conducted in Mozambique. This implies that the results may be inapplicable in Mozambique since the social economic environment of Mozambique and other countries differ. The current study seeks to address this gap.

### **Methodological Gap**

A methodological gap presents itself in this study, Orina (2018) examined the influence of centralized purchasing strategies on the organization performance within manufacturing firms. The

study used both primary and secondary data to analyze data while our study will use a desk study literature review methodology.

## **SUMMARY CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusion**

The implementation of cost reduction strategies in purchasing and procurement in Mozambique has had a positive impact on the country. The increased competition in the market has led to lower prices for goods and services, making them more affordable for households. The increased transparency has also helped to reduce corruption and ensure that resources are used more efficiently. Furthermore, the improved infrastructure has made it easier for suppliers and vendors to reach customers, as well as to compare prices and make informed purchasing decisions. Finally, the training and capacity building initiatives have improved the skills and knowledge of procurement professionals, resulting in more effective and efficient procurement processes. As a result, organizations have had to look for ways to reduce their costs in order to remain competitive and profitable. In this essay, we discussed the challenge of cost reduction strategies on purchasing and procurement in Mozambique, and provided evidence and statistics to support our discussion. We found that businesses in Mozambique can use a range of cost reduction strategies, such as renegotiating contracts with suppliers, purchasing in bulk, and reducing the number of vendors. We also found that the economic situation in Mozambique is difficult, with a low GDP per capita, a high inflation rate, and a high unemployment rate. In addition, the World Bank's Doing Business report for 2019 ranked Mozambique 130th out of 190 countries for ease of doing business. This indicates that it is difficult for businesses to operate in the country, as they must comply with a range of regulations and restrictions.

### **Recommendations**

The study recommends that effective communication channels should be established between the procurement and purchasing departments and other departments in order to ensure that all relevant information is shared. This will help to ensure that all departments are on the same page when it comes to cost reduction strategies. Developing strong relationships with suppliers can help to reduce costs by facilitating better pricing and terms. Suppliers should also be encouraged to provide feedback on the effectiveness of cost reduction strategies. It is important to monitor the performance of cost reduction strategies to ensure that they are achieving their desired outcomes. This can be done through the use of metrics and other analytical tools. It is important to stay up to date with industry trends and best practices when it comes to cost reduction. This can help to ensure that the organization is making the most of the latest cost reduction strategies.



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