

Strategic Purchasing Plan: Canned Fruit Product Category in Australia and New Zealand

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ABSTRACT

To strive as being the leader in the food and beverages industry, multinational companies have been continuously improving its efficiency to optimize its operations and to maximize its profitability. This research focusses on the role of a global procurement co-pack department, which deals with the buying of finished goods from external contract manufacturers. Currently, the sourcing process of Company X's canned fruit products in Australia and New Zealand is being done ad-hoc. This brings an opportunity to do a research on what is the best sourcing strategy for this product category in order to bring cost savings and operational benefits for the company. This research is conducted in a qualitative method, mainly using the primary and secondary sources from company's internal archival data, interviews with the global procurement co-pack team, complemented with desk research from the internet. From the research, it shows that company X should leverage competition among suppliers by using the tendering approach. By implementing this strategy, Company X is expected to gain financial benefit for around 10% of the total spending. As for the operational benefits, the company is expected to have less operational issues from suppliers, economies of scale benefits, and less knowledge spillover.

Keywords: Purchasing, Procurement Strategy, Contract Manufacturers, Tendering

ABSTRAK

Untuk tetap menjadi pemimpin di industri makanan dan minuman, perusahaan-perusahaan multinasional sedang terus berusaha meningkatkan efisiensi dengan mengoptimalkan operasi dan memaksimalkan profitabilitasnya. Penelitian ini berfokus pada peran departemen pembelian co-pack, yang berhubungan dengan pembelian barang jadi dari produsen kontrak eksternal. Saat ini, proses penyediaan produk buah kaleng Perusahaan X di Australia dan Selandia Baru dilakukan secara "ad-hoc". Hal ini membawa peluang untuk melakukan penelitian terhadap strategi persediaan untuk kategori produk buah kaleng dengan tujuan untuk melakukan penghematan biaya dan membawa manfaat operasional bagi perusahaan. Penelitian ini dilakukan secara kualitatif, terutama dengan menggunakan sumber primer dan sekunder dari data internal perusahaan, wawancara dengan tim pembelian co-pack global, serta dilengkapi dengan penelitian deskriptif dari internet. Hasil penelitian menunjukkan bahwa perusahaan X harus memanfaatkan persaingan di antara pemasok dengan menggunakan metode "tendering". Dengan menerapkan strategi ini, perusahaan X diharapkan dapat memperoleh keuntungan finansial sekitar 10% dari total pengeluaran di produk kategori ini dan juga memperoleh manfaat operasional bagi perusahaan.

Kata Kunci: Pembelian, Strategi Persediaan, Produsen Kontrak, Tendering

INTRODUCTION

To strive as being the leader in the food and beverages industry, multinational companies have been continuously improving the efficiency of its operations to maximize its profitability. With the global footprint of more than 200 brands that are owned by Company X, sourcing of supplies and production activities are very crucial to minimize the

production and logistic cost, as well as to optimize the distribution of the products within all regions. In addition to that, not all of the products are produced in-house within the company. Some of them are produced by contract manufacturers all over the world in order to maximize the efficiency of the production.

This research focusses on the role of a global procurement co-pack department, which is dealing with the

buying of finished goods from external contract manufacturers. It plays an important role to drive cost savings and efficiency by finding the most suitable and profitable contract manufacturers that can meet the products' requirements and capacity from the company. This includes creating and implementing the best strategy in relation with where the products are being sold, the cost and profitability margin, and also the quality and service of the contract manufacturers.

Problem Description

As for the co-pack procurement department, it will contribute to the company's cost saving goals by reducing the total spend for the contract manufacturers. As the activities in each department of Company X is driven by its management-by-objectives (MBO), the global procurement co-pack team is expected to bring a certain number of savings for the company at the end of year 2017 due to the company's objectives for this year. This savings target is set by the top managers of the company at the beginning of each calendar year as a goal to find any possible way to reduce cost within the company. It is then divided to each department and position to have an appropriate contribution in achieving the target.

However, currently, the co-pack department has not achieve 25% of the expected savings target in the first quarter of 2017. It is caused by some product categories that are not performing well, in terms of the operational and financial benefit/savings that is expected to bring for the company. One of the product categories that contributes to this gap is the canned fruit products in Australia and New Zealand, which caused by ineffective strategy that is currently implemented by the company. Thus, a research on what is the best sourcing strategy for this product category will be very beneficial for Company X to minimize the gap and to bring both financial and operational benefits for the company in the future.

LITERATURE REVIEW

Procurement strategy is defined as a plan for optimizing external spend, procurement operations, and other value contributions in a manner that supports the overall corporate's goals (Evans & Dearborn, 2013). With a comprehensive procurement strategy in place, it will help to align the procurement activities with the corporate strategy. In doing this research to propose suitable procurement strategy for Company X, the author used the adapted version of procurement strategy framework by Denali Group, which is an experienced consultation firm for sourcing services. It is adapted based on the elements that are relevant and feasible for this research in relation to the company's data availability, as shown in Figure 1.

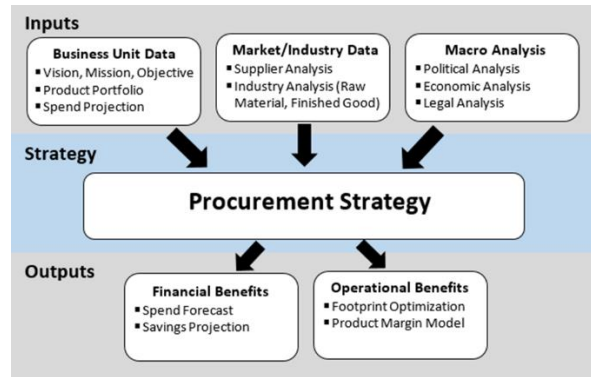


Figure 1. Procurement Strategy Framework
Adapted from Denali Group, 2013

Based on this framework, firstly understanding the current procurement operations and identify what is important for the procurement department, as well as the overall company are the first two steps to create an effective procurement strategy. It will be done by analyzing the current procurement condition as the inputs, which involves the business unit analysis of the company, current and alternative supplier analysis, canned fruit industry analysis, and macro analysis of Australia and New Zealand. From these data, the author analyzed some strategic options that were screened based on the suitability, feasibility, and acceptability for the company to choose the proposed strategy. Lastly, the author analyzed the expected results of the proposed strategy in term of the financial benefits and operational benefits to define what success looks like and develop measurable targets that define the success.

Theoretical Practices of Global Procurement Strategy

Making decision to outsource production from the internal factory to the external contract manufacturers is the first thing to do before choosing the appropriate strategy. It should be based on a proper make versus buy analysis, which shows that shifting to the external manufacturers will create potential savings for the company. There are some common cases which can lead to this decision. The first one is when there is a new product development that the company still does not have the technology to produce internally. Another example is when the company's production capacity is lower than the demand, thus creating a shortage of supply. In this case, the company needs to outsource some of the production to fulfill market demand and to avoid opportunity loss. On the other hand, when the company's production plant does not run at its full capacity, it can also lead to the decision of closing the internal factory and produce externally to avoid inefficiency and high fixed operating cost.

In relation to that, there are 4 basic practices of purchasing strategy by ATKearney that can be implemented in sourcing the contract manufacturers. These 4 strategies will be chosen based on the supplier's power and the buyer's power, which will be broken down into 16 levers and 64 methods (ATKearney, n.d.).

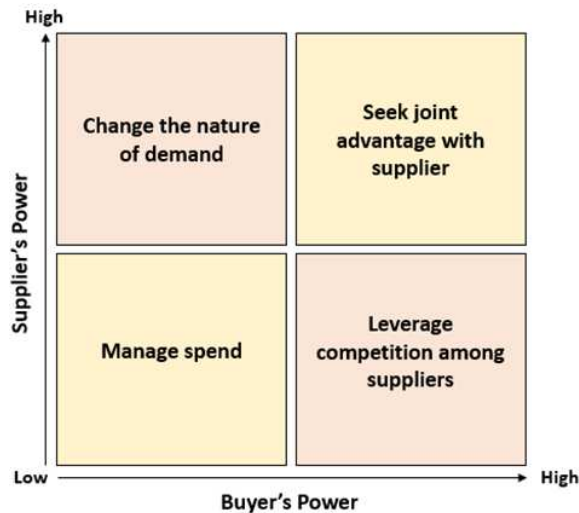


Figure 2. AT Kearney's 4 Purchasing Strategies

Source: AT Kearney (n.d.)

The basic four purchasing strategies are shown in Figure 2, which explains the appropriate strategy to be implemented in accordance with that level of supplier's power and buyer's power.

The first one is change the nature of demand, which is for the case of high supplier power with low buyer power. High supplier power exist when a supplier has a unique technical advantage of exclusive market access, thus can be succeed in establishing a monopolistic position. This position often happens, and it is indirectly caused by the demand of the buying company itself. Thus, to get over this situation, changing the nature of demand strategy should be implanted. It is by determining to what extend the company can modify technical specifications of the product to regain freedom of choice of sourcing the product (ATKearney, n.d.).

The second one is seek joint advantage with supplier, which should be implemented when there is both high supplier power and high buyer power. This strategy aims to search jointly with the suppliers for both advantages. The variants of this strategy range based on the scope and intensity of the partnership, from coordinating demand and capacity planning to increase the value chain effectiveness to project-based sharing of costs and financial success/risk (ATKearney, n.d.).

The third one is manage spend, which is for the case of both low supplier power and buyer power. In this case, knowing the details of what the company are buying from which supplier is needed so that the possibility of offsetting low demand power can be considered, either within the company or across company boundaries (ATKearney, n.d.).

The last one is leverage competition among suppliers, which should be implemented when the company has a high buying power with low supplier power. In this case, the company can seek for advantages by fueling competition among suppliers through appropriate measure on the supplier market and the use of analytical tools to influence supplier's pricing (ATKearney, n.d.).

RESEARCH METHOD

The research is conducted mainly in the mono method, which is qualitative research method. Qualitative methodology is used as it is suitable for research that is exploratory in nature, hence is able to explain the process (Cooper & Schindler, 2012). In doing qualitative research, the author combined the archival data from the company, information from the interviews with some related parties, and data collected from the internet to draw a conclusion and create a set of recommendations based on in-depth analysis.

For this strategic purchasing plan, a prescriptive research design is used. This is because the research and analysis in this report aims to provide Company X with a set of recommendations on what is the best strategy in sourcing its canned fruit product category in Australia and New Zealand from contract manufacturers. This will be beneficial to increase the operational efficiency and to reach the cost savings target for the company, especially the co-pack department.

In doing this research, the author used primary data from the global procurement co-pack department that are available in the company. It includes the details of current suppliers that the company uses, specifically for the canned fruit products in Australia and New Zealand, the costs involved, and other data related that will be useful for this research. This data is used to understand the current procurement operations for the canned fruit products in the co-pack department.

To complement the data from the department, interviews were also conducted. These interviews are useful to get a more accurate picture of the current market condition in Australia and New Zealand from the person who has experiences in dealing and negotiating prices with the suppliers. Interviews were also conducted with the global category lead of co-pack department to know the best practice and feasibility in implementing the proposed strategy. The interviews were conducted in semi-structured approach, in which the researcher will develop some key questions that will be further elaborated in more detail by the interviewees. These key questions are based on the topic list that has been discussed with the co-pack procurement team in order to create an appropriate procurement strategy. The list of interviewees is made in regard to the people who are dealing with the purchasing of products from external manufacturers, especially for the canned fruit products in Australia and New Zealand.

Besides primary research, the author also used desk research for this project. This research is used to find initial theory and strategic framework that will be used as the basis of the research. In addition, desk research is also used to obtain various data about the company, the market analysis of canned fruit products, the supply of related contract manufacturers, and the country analysis of Australia and New Zealand. The data was mostly found through the internet and was analyzed further to support the proposed strategy for Company X.

RESULTS AND DISCUSSION

Firstly to understand the current procurement condition of the canned fruit product in Australia and New Zealand, business unit data analysis should be conducted. This includes the vision, mission, and objectives of the company, the product portfolio of canned fruit products, as well as the spending and savings projection of the products per supplier. From this analysis, it is concluded that there are some opportunities that should be captured in the canned fruit product category.

Firstly, this product category is currently sourcing from 6 different suppliers, which some of them are having insignificant number of spending and having the same capabilities of production with each other. This means that there is an opportunity to leverage the volume of the same products that the company needs to less suppliers so that Company X will have a better negotiation power because of the economies of scale. Secondly, the negative number of PPV from 4 of the suppliers shows that Company X is currently sourcing the products with a negative pricing from the suppliers compared to the calculated standard price. This is another opportunity for Company X to find alternative suppliers that will give a better pricing, and thus will contribute positively to the savings target of the company. Thirdly, from the cost card analysis of some of the suppliers, it is found out that the suppliers that Company X are using buy their raw materials, like sugar and citric acid, from their own suppliers. This will be an opportunity for Company X to get a better pricing from the suppliers by supplying these raw materials from the company's own suppliers and combining the volume of these raw materials with the in-house production.

Furthermore, based on the interview with the buyer of canned fruit products in Australia and is the one directly in contact with those suppliers, currently there are no strategy implemented for this product category. The sourcing activities are done ad-hoc, which means that they are just doing short-term contract when the products are needed. In addition to that, there is no project going on currently in the canned fruit product category, which strengthen the needs to apply these opportunities in the near future.

As for the supplier analysis, currently there are 6 contract manufacturers located in several countries that are used to supply the canned fruit products to Australia and New Zealand. These 6 suppliers are located in Indonesia, Thailand, China, South Africa, and New Zealand. After analyzing all the products that are produced by each supplier, it can be seen that there are some suppliers that have the same capabilities in producing similar products. For example, all the products that are produced by Supplier A can also be produced by Supplier B, and for the pineapple products, there are currently two suppliers who actually have the capabilities to produce similar products. In addition to that, the packaging capabilities of each suppliers also strengthen the possibilities to do this consolidation since there are some suppliers who are having a wide range of capabilities in the packaging type. Thus, this shows that there is an opportunity to consolidate the sourcing of fruit canned products from less suppliers.

After analyzing the business unit data analysis, the research is done further for the industry analysis of canned fruit products in Australia and New Zealand. The evolution of canning fruit products is believed to open up a whole new opportunity for overall growth in food and beverages industry. With this canning technique, it is not only enhance the life of the fruits and other ingredients, but also make it possible for consumer to enjoy fruits beyond their seasonal time. Aside from that, canning technique is also considered as an important part to preserve food for shipping and selling it in a distant locations across the globe for all year round. According to Sudip (2016), the global canned fruit market was valued at US\$8.62 billion in 2012, and expected to reach US\$10.83 billion by 2019 with a CAGR of 3.3% from 2013 to 2019. It is mainly caused by the increasing demand of convenience food items, the rising yield of fruits, and the fact that this product are based on environment-friendly raw materials. However, there are some challenges that will be faced in this industry, such as tough regulatory frameworks and increasing competition from substitute items.

Now, the major market for canned fruit products segmented geographically are in Europe, with the share of 40% in 2012, followed by North America with the share of 30% (Sudip, 2016). However, according to research analysts, Asia Pacific is expected to surpass the leading markets in term of the growth rate because of the rising in disposable incomes, the shifting of food preferences, and the changing of demographics in this region.

Specifically for the canned fruit products in Australia and New Zealand, the Michael Porter's Five Forces model is used to analyze the market attractiveness and to understand the competitive forces before strategically create an effective positioning for the company. The first force is bargaining power of suppliers, which assesses the power of suppliers to drive up prices by looking at several aspects. As for the number of suppliers within the canned fruit industry globally, there are more than 300 companies from all over the world who have the capability to produce canned fruit products (Europages, 2017). 70 of them are located in China, while the rest are spread in around 65 countries. This shows that the goods and services provided by the suppliers are not that unique, since there are many suppliers that are able to produce the desired products for the company, in this case the canned fruit products. This also means that the ability for Company X to substitute suppliers is pretty high, since there are many other suppliers who can fulfill demands from the company. However, in terms of the cost of changing, it will also be quite high for Company X because of the time and effort needed to make sure that those suppliers meet all the requirements from Company X to produce its products. Changing to new suppliers will also takes quite a long of time to build relationship, visit the factory, and make sure that those suppliers' financial condition are secure. In conclusion, the suppliers' power for Company X can be considered quite low to moderate, which also depends on the size of each supplier.

The second one is bargaining power of buyer, which assesses the power of customers, in this case Company X, to drive price down. Based on the interview with the buyer of

canned fruit product in Australia and New Zealand, Company X has a pretty high bargaining power with some of the suppliers. It is because of the high volume that Company X supply from that supplier. Thus, Company X is included as one of its biggest customers and thus have a quite high bargaining power. Aside from the volume factor, Company X bargaining power with suppliers is also depends on the timing of negotiation and closing the deal (Beroe, 2017). During the harvest time of the particular type of fruits, the supplies of the product will surely be higher, which leads to a higher bargaining power to drive the price down. Added with the relatively high ability to substitute suppliers, Company X bargaining power is concluded to be quite high in the canned fruit product industry.

The third one is threat of new entrants, which assesses the ability of other player to enter the market, in this case, the manufacturers of canned fruit products. As the process to produce canned fruit products requires a high level of automation with developed processing facilities and machinery, thus the capital investment for a new company to enter this industry is pretty high. In relation to that, economies of scale plays a significant role to drive down fixed cost of the company. Furthermore, this industry also has a high dependency of the weather conditions which affect the raw material price. Thus, new entrants will also face challenges in securing raw materials supply at an early stage, which lead to high cost fluctuation risk. Establishing a good relation with farmers should be done before entering this industry to make sure that the company can get supplies of raw materials to be processed. In conclusion, the threat of new entry in the canned fruit industry is pretty low since the barriers for new entrants is quite high.

The fourth one is threat of substitution, which assess the ability of customers to substitute your products with the others that serve similar functions. In the canned fruit industry, the threat of substitution is considered low. It is because fruit varieties can be substituted with each other based on the cost and preferences of individuals (Beroe, 2017). However, since Company X also has a variety types of fruit in its canned fruit product category, thus those products can be substituted with each other.

The last one is competitive rivalry, which assess the degree of competition in the marketplace based on the number of existing competitors and the capability of each competitor in the industry. Currently, the competition in the canned fruit industry is pretty high among few big players in the developed market (Sudip, 2016). However, the increasing presence of small-scale players in the developing countries has decreased the intensity of rivalry. Furthermore, the practices to do contract farming have minimized the price fluctuation because of the high dependability of price with the raw materials cost.

Besides looking at the market attractiveness of the canned fruit products, the raw material condition of the products is also one of the significant factors that determine the sourcing price from the suppliers. Based on the interview with Company X buyer in Australia and New Zealand, currently the season in Australia and New Zealand is quite bad, because it was really hot with pretty little rain in the past

3 months, but then it rains a lot starting from February. Because of this, the fruit crops have been not very good in Australia and New Zealand, and thus the company needs to source the raw materials from other regions. In sourcing this fruit products, timing is very important as the price will fluctuate based on the harvest time of the fruits. During the harvest time of the specific fruits, the supplies will be higher and thus the company will get a better pricing. In contrary, during the non-harvest time of the fruits, the supplies will be low and thus the company will get a bad pricing from the supplier.

Based on the interview, currently there is no specific strategy implemented regarding the raw materials. The sourcing process is done ad-hoc, which means that the buyer regularly finds out what is the type of fruits in the upcoming harvest time, and thus trying to negotiate for a good pricing for those particular type of fruits.

Lastly, macro analysis is done to analyze the organization's external macro environment. Three related elements in the PESTLE analysis framework will be used, which are political, economic, and legal factors. This analysis is important to identify the key factors from the wider and uncontrollable external environment that will affect the organization.

Political factor refers to the stability of the political environment and attitudes of political parties in a specific country. This includes the government involvement and influence toward import tax policies or trade agreements. This factor is inevitably entwine with the legal factor, such as product safety regulations, international trade regulations and trade restrictions. The difference between these two is that political refers to the attitudes and approaches, while legal refers to those which have become law and regulations (Oxford Learning Lab, 2015).

The first element is free trade agreement, which is international treaties that are made within two countries or a group of countries to reduce barriers for trade and investment. Currently, Australia has ten free trade agreements with other countries in force and in the process of doing negotiation with another seven countries (Australian Government, 2017). These FTAs open up a better access of market opportunities, improved Australia's exports competitive position, reduce import costs for businesses and consumers, and create more prospects for two-way investments.

With the global trends towards bilateral trade agreements, such as Brexit, Trump's protectionism plans towards America's economic growth, including the decision to withdraw from several trade agreements with some countries, and the force to get everyone ratify the Trans-Pacific Partnership (TPP), Australia is geared up to take early gains from these trends (Srivastava, 2017). In fact, Australia has been in the fast track of bilateral trade agreements with China and US, and is one of the only six countries (the other five are South Korea, Singapore, Chile, Peru, and Costa Rica) that have in place the free trade agreement with those two countries. Thus, if Australia quickly wraps up FTA with the European Union, United Kingdom, and Canada, this country will be the only major link among these global major

countries, which surely will give high growth opportunities (Lieto, 2017).

Aside from Australia, New Zealand is also exploiting opportunities through free trade agreements with many countries all over the world. The key interests and benefits from those agreements are the extensive tariff reduction, the opportunities to tap into international supply chain with the changes in rule of origin products, and economic cooperation projects with other countries (New Zealand Foreign Affairs and Trade, 2017).

New Zealand has FTAs in force with most Asian countries, while some other FTAs that have been concluded but not yet in force are with American countries, both the North America countries and some South America countries. Furthermore, New Zealand is also in the process of FTA negotiation with some countries, like Russia, Kazakhstan, and India, to streamline processes and create more certainty for companies in doing business overseas.

The second element is tariff and import duties. In Australia and New Zealand, these are calculated with the FOB valuation method, which means that it is calculated exclusively on the imported goods value. In addition to duty, there are other taxes and charges for imported goods, such as sales tax (GST), import entry transaction fee, and customs service fee. The duty rates in Australia vary from 0% - 10%, with an average of 4.6%, while in Australia it is vary from 0%-15% with an average of 5.11% (Pitney Bowes, 2017). The declaration procedures are based on self-assessment by importers, which should be based on the guideline provided by the Department of Foreign Affairs and Trade. Thus, importers have a legal obligation to assess their goods correctly, with penalties for any incorrect or misleading information (Pitney Bowes, 2017).

Based on the interview with the buyer of the company, most of the canned fruit products, which is pineapple products, are imported from Thailand and Indonesia. In this particular product, Company X does not need to pay any import duties for the products imported from Indonesia, while import duties are applied for the products from Thailand. There are also some other countries where import duties are not applied in Australia, such as Philippines, but Company X does not import any canned fruit products from those countries.

The last element is import foods regulations. In Australia and New Zealand, all imported foods must comply with the Australia and New Zealand Food Standards Code, which is a law that requires all food, both produced domestically and imported, to meet the food safety standards. For food entering Australia, it is subject to the Imported Food Control Act 1992, which requires inspection and control using the Imported Food Inspection Scheme (IFIS). This food safety system is currently being strengthen to better protect consumer health in Australia and New Zealand. The objectives are to increase importers' accountability for food safety, including the sourcing of safe food, and to improve the monitoring of new emerging food safety risks. There are some changes, both legislatively and non-legislatively, related to the documentary of the importer's assured supply chain, the power to hold imported food at the border if there

is uncertainty about the food safety, and the proactive compliance and enforcement activities to communicate this changes to the importers. This amendment will be introduced in the mid of 2017 and become effective during 2018 (Australian Government, 2017). Thus, food importers will have several months to adjust their business practices before the amendment is being enforced.

The other factor is economic factor. This factor refers to the wider economy condition of a country, which include the economic growth rates, exchange rates, inflation rates, and other monetary policies applied (Oxford Learning Lab, 2015). Currently, the economic growth in Australia and New Zealand is decelerated, even though still in a healthy GDP outturn. It is due to the weak labor market in Australia with a weak wage growth, which in turn dragged down the retail sales. In addition with the fragile financial situation of highly indebted households, it is predicted that some market sectors will be oversupplied, which will slow down investment. However, taking the broader view, business confidence has remained strong. It is caused by the rising credit growth of the private sector, which will push non-mining business investment over the coming year, and the upswing in commodity prices, which has led to a positive trade balance in the past few months (FocusEconomics, 2017).

With the current economic outlook of Australia, the exchange rate of Australian dollars against US dollars was significantly weakened during 2015-2016, but has started to show improvement in 2017 (XE, 2017). While for the inflation rate, consumer prices in Australia rose 2.1% in the first quarter of 2017. It is an increase from the fourth quarter in 2016 with 1.5% of inflation rate, and is the highest since the last quarter in 2014 mainly driven by the surge of transportation cost and an increase in the cost of housing, food, and beverages (Trading Economics, 2017).

While in New Zealand, the economic cycle started to show the signs of mature stage. In the first two months of 2017, business confidence has decreased, productivity growth has lightened, and businesses are struggling to get skilled labors. However, it is predicted that this slowdown will not last long, as the country's growth outlook is one of the brightest in the next few years among the highest-graded countries (FocusEconomics, 2017). New Zealand dollar is also started to strengthen after the significant drop in the beginning of 2016 (XE, 2017). Likewise, the inflation rate in the first quarter of 2017 also exceeds the expectations of 2%, with consumer prices increased by 2.2%. This is mainly explained by the food group, which rose 1.6% and is the highest since the third quarter in 2011 (Trading Economics, 2017).

After doing the Porter's five forces analysis, it is shown that Company X is currently having a quite high buyer's power with low to moderate supplier's power particularly for the canned fruit products category. Thus, the appropriate strategy for Company X to implement based on the ATKearney's Purchasing Strategy Framework is to leverage competition among suppliers. This strategy should be implemented to get an appropriate measure on the pricing that the company has from the current suppliers, as well as to get a higher influence in negotiating the supplier's pricing.

For this strategy, there are 4 options of approach based on the ATKearney framework. The first approach is to do tendering. This approach is an effective way to get transparency of prices in the supplier market. There are some steps in the tendering process, the first one is to identify potential suppliers that will be invited for the tender. This step is followed by the preparation of needed documents for the tender, such as NDA, RFP, and product's specification, which then will be mailed to the identified potential suppliers. After all suppliers sent back their quotation in the RFP, Company X needs to analyze the result of the bids and do negotiations with the selected suppliers.

By doing this approach, Company X can minimize the number of suppliers by selecting few suppliers who give the best price for the company. Furthermore, Company X can also consolidate the volume of similar products and source them from only one supplier instead of two or three suppliers. Before doing this process, it is crucial to review the harvest time of each type of fruits. Thus, tendering should be done during the peak time of supplies in order to get the lowest price possible to source those products from the suppliers.

The second one is supplier pricing review. This approach involves comparing the prices of the company's current sourcing category with the prices paid by other companies with similar conditions or specifications. One way to do this is by comparing similar products that are currently produced by several different suppliers. Aside from that, Company X can also review and compare the pricing of similar products from different brands that the company has. By doing this comparison, Company X can review the prices from current suppliers and find potential to negotiate for better prices.

The third approach is globalization, which means to find alternative suppliers from the global market. As the current suppliers are mostly from Asian countries with low conversion cost, Company X should try to look and find other suppliers from not a wider global perspective. Based on the alternative suppliers' analysis, there are some top players in the processed fruits industry, such as Doehler Group in Europe, Northwest Natural Corporation in North America, and Selial Industria Comercio in Latin America that have the capabilities to produce many types of fruit in a can.

However, this approach is not really acceptable because of a higher transportation cost to get the products to Australia and New Zealand, and also the possibilities of a higher duty rate because of the lack of free trade agreement in force from those countries. In addition to that, sourcing from new suppliers that have never been in a cooperation with Company X will require a long process and time to make check the company's condition both operationally and financially, to build relationship with those suppliers, and to negotiate as well as to make agreement with them.

The last approach is target pricing, which is to ask the suppliers for cost structure break down, in term of raw materials cost, packaging material cost, and conversion cost. From this information, Company X can analyze how is the sourcing condition of each suppliers, in term of where they source its raw materials and packaging materials, as well as the pricing breakdown that is paid by Company X. By doing

this approach, Company X can find any opportunity to save costs by leveraging raw materials or packaging materials from the suppliers with our in-house production. For example, looking at the cost card of one of the suppliers, it is shown that this supplier source sugar and citric acid from its own suppliers, which are different with our ingredient suppliers for the in-house production. These materials make up some percentage of the total cost that the company paid to the suppliers, thus it must be analyzed further with Company X's ingredients department if the company wants to actually source those materials with lower cost. However, this approach is also not really acceptable to be implemented now because of the time constraint of some fruit contracts that need to be closed soon. Thus, this strategy approach should be implemented for the next step.

After analyzing the 4 approaches for the "leverage competition among suppliers" strategy and based on the interview with the Global Procurement Co-Pack department, tendering approach is chosen as the best approach that should be implemented by Company X for the canned fruit product category. In doing tendering, the RFI and RFP process method will be used, and it will be divided into two phases based on the harvest time of the fruits.

Phase 1: This phase focusses on the fruit products with the harvest time within 1-4 months, thus focusses on all fruits that have the highest supplies within June to September. In the Northern hemisphere countries, these months are the peak season for almost all types of fruits that Company X needed, except pineapple and apricots. While in the southern countries, such as Indonesia and New Zealand, the peak time for almost all fruit products have passed, thus it will be more expensive for Company X to source from these countries during this period. Based on the harvest time of the fruits, pineapple and apricots products should be excluded in this tender phase.

With the relatively short time to prepare the tender, it is best to just invite the current suppliers for this phase. It is because those suppliers have been thoroughly checked and audited by Company X, thus does not need a long process to send the RFP. The steps to do this tender are as follow:

1. Send out the renewed NDA to the suppliers and ask them to return them as soon as possible with their signature.
2. Prepare the RFP template that will be sent to the suppliers, specifying the SKU number, the description of the products, the volume estimation in 2017, and some blank columns to be filled by the suppliers regarding the pricing breakdown.
3. Send the final RFP with the specs of products to the suppliers after they return the signed NDA.
4. Get the quoted pricing from the suppliers.
5. Analyze the result and negotiate based on the pricing from all suppliers.

In analyzing the result of the tender, Company X should not only look at the final price that the suppliers quoted. The price break down for raw materials and packaging materials should also be taken into consideration since those are the opportunities to negotiate for lower prices

to the supplier. For example when supplier A quoted the lowest final price, however the raw materials price are quite significantly higher than supplier B, then Company X can negotiate to supplier A by saying that the other suppliers can provide a lower price for the raw materials.

Phase 2: This phase focusses on the fruit products with the harvest time in more than 4 months or the products that are not included in phase 1, which are apricots and pineapple. In addition to that, most of the fruits in the southern hemisphere countries are also having their peak harvest time in the beginning of the year. For this phase, Company X should include alternative suppliers for the RFI/RFP process since there is enough time for Company X to contact the new suppliers, check the companies if they meet the requirements and quality needed to produce the products, visiting the factory in the respective country, and auditing the financial aspect of the companies. After doing this, the company can start with the RFI/RFP process.

This strategy approach is the best to be implemented by Company X because it is evaluated as suitable, feasible, and acceptable. Firstly, the suitability is evaluated based on the business unit data of the company. One of the most important aspect is that the overall rational of the strategy fits with the organization's mission and objective, which is to build world class sourcing capabilities and to deliver positive PPV in 2017. In addition to that, based on the product portfolio and its spending, consolidation of suppliers is needed as the current number of suppliers is not really efficient. It is shown by some similar products that are currently produced by more than one supplier, and some suppliers with relatively low spending that only produce three to four products for the company.

Secondly, in terms of the feasibility, it is evaluated by the constraints to source the products from other countries to Australia and New Zealand. As analyzed in the macro analysis of Australia and New Zealand, it is feasible to source products from both the current suppliers and the alternative suppliers as Australia and New Zealand has a wide range of FTA's with many countries. Currently, there is also no restriction to import products from a specific country, however it has to strictly comply with the import food regulation in Australia and New Zealand. Aside from that, the duty rates should also be considered as they are different for each country.

Lastly, the acceptability is evaluated based on the current contract's bound and time constraint to implement the strategy. Based on the interview with Kent, the current procurement process is still ad-hoc with no contract bound. Thus, it is acceptable to directly change suppliers during this time. In addition to that, the time needed to apply this strategy is also acceptable, as it can still be concluded during the harvest time of the fruits, which is the time when prices are at the lowest point.

By implementing this strategy, it is expected to bring both financial benefits and operational benefits for the company. The financial benefit that is expected from this strategy is in term of cost savings to source the canned fruit products from external manufacturers. These benefits can only be calculated once the RFI/RFP process is done, which

is when the company got the price quotation from the suppliers in the tender and did the negotiation with the suppliers. From the new agreed price with the suppliers, then it will be compared with the standard price set by the company at the beginning of the year. The differentiation from these two numbers times with the total volume of each product in 2017 will be the end result for the cost savings benefits. Based on the interview with the global category lead of co-pack department, the estimated cost savings for Company X by doing this tender is around 10% of the total spending in this product category.

Aside from the financial benefits, operational benefits should also be taken into consideration as it will make the purchasing process more effective and efficient. Firstly, the benefit of leveraging the suppliers is to have less operational issues within the purchasing process. It is mainly because the buyer will deal and in contact with less suppliers, which will end up in less time and effort needed to communicate and build relationship with the suppliers. For example, when buyers need to request for cost card from suppliers or manage day-to-day activities during the ordering of supplies process, they just need to contact and follow up from a few number of suppliers, which can maximize the time needed to get those things done. Secondly is the benefit from economies of scale. By leveraging the volume of several products and source them from the same suppliers, thus the total volume that is ordered by Company X will be higher, which can drag down the fixed cost price from the suppliers. Lastly, knowledge spillover is also one of the benefits from implementing this strategy. By having less number of suppliers to produce Company X's products, then the specifications and other confidential details of these products will only be known by less parties.

On the other hand, there are also some risks that will arise in implementing this strategy for the canned fruit product category. The first one is the increase of dependability to just one or few suppliers in sourcing the products. This will be a problem when there is any disruption from those suppliers that will lead to a delay in procuring the products. Aside from this, suppliers' power will also increase if they are aware that the company is very dependent to them for this particular product category. Thus, Company X's power to negotiate with those suppliers in the future will be decreased. To mitigate this risk, Company X needs to give some buffer in time during the procurement process. This is to avoid any long delay in getting the product when disruption occurred from the suppliers. Furthermore, Company X should also keep the fact from its suppliers that the company is very dependent of them. This will be supported by doing RFI/RFP method regularly every year to keep the competition within suppliers.

The second risk is regarding the tendering process. In doing this approach, suppliers are quoting the price based on the information in the excel sheet and the specification only, not the real products. This will create a problem if there is any inaccurate data in the information sheet, such as in terms of the volume, how the products should be delivered, the quality requirement, etc. This kind of errors will affect the quoted or agreed price with the suppliers, with the risk of getting a

higher price afterwards. To mitigate this risk, Company X needs to review all the important information and specifications before sending the RFP to the suppliers to make sure that this information is accurate.

The third risk is regarding the cooperation with new supplier. Since quality is a very crucial aspect in food industry, especially in Company X, thus producing from new suppliers will create risk in term of the quality requirement. In sourcing products from external manufacturers, the quality reputation of Company X products is really depending on the production process of the suppliers that cannot be fully controlled by Company X. To mitigate any bad quality risk, Company X needs to do a thorough checking of the entire production process of the new suppliers and to do a tight quality control of all the products before selling it to the market.

CONCLUSION

Based on the business unit data analysis, it is identified that there are some opportunities in the canned fruit product category that should be captured to bring cost savings for the company. Firstly is the inefficient number of suppliers that are currently being used by Company X. From the current supplier analysis, it is shown that currently Company X is sourcing from 6 different suppliers located in Thailand, Indonesia, China, New Zealand, and South Africa. Some of this suppliers are only producing a few type of products with insignificant spending. It is also seen that there are some similar products that are being produced by two or three different suppliers, which result in the opportunity to leverage those products' volume to only one supplier. Thus, after doing further research for the market and industry analysis of canned fruit products, as well as macro analysis in Australia and New Zealand, it is recommended for Company X to implement tendering strategy approach in order to leverage competition among suppliers and consolidate some products to be produced by the same suppliers.

This tendering approach should be divided in two phases based on the harvest time of each fruit products. The first phase should be done as soon as possible, which will tender the fruit products that have peak harvest time within the next 1-4 months. This tender will only involve the current suppliers as inviting new alternative suppliers requires a long process and time. This tendering process starts from sending out NDA to be signed by suppliers, then preparing the RFP documents and specifications to be filled by the suppliers. After getting the price quotation from the suppliers, Company X will need to further analyze and negotiate to choose the suppliers that will give the best price. As for the second phase, it will involve the rest of fruit products that are not included in the first phase, and should invite other alternative suppliers that are available in the global market.

By implementing this strategy, the purchasing process of canned fruit products in Australia and New Zealand will be more effective as it can consolidate the suppliers needed to produce each type of product in the current product portfolio. There are several expected benefits that will be gained by Company X, both financially and operationally. For the financial benefits, it is expected to obtain cost savings

around 10% of the total spending in the canned fruit product category in Australia and New Zealand. In term of the operational benefits, consolidating suppliers will leads to less effort and time for the buyers to source this products. In addition to that, Company X will also get the benefits from economies of scale and also less knowledge spillover from the implementation of this strategy.

There are some limitations and constraints for this research report, which are as follows:

- The 12-week time constraint and some confidential reports have limited the possibility of exhaustive research regarding the external analysis, especially the market analysis and supply analysis.
- The availability and confidentiality of some financial data from the company, such as the profit margin of each product and the actual number of cost savings that has been achieved in 2017.
- The cost limitation has limited the possibility to conduct field research of contract manufacturers in Australia and New Zealand.

For further research regarding strategic purchasing plan from external manufacturers, the author recommends to apply the theoretical framework and the purchasing chessboard into various other case study to better refine the model. Furthermore, the reliability of the application of these framework should also be tested across several other categories and in different area of procurement process. Further research should also be done regarding other criteria to select procurement strategy aside from the industry analysis of the products and also the effectiveness of those criteria towards the implementation of the strategy. For the company itself, the author recommends that the analysis to select and implement sourcing strategy should be conducted continuously since the market and industry condition will surely change overtime. Thus, the strategy that is recommended in this report may not be the most applicable in the next few years, and further research on how to best source this product category from external manufacturers should be reevaluated again.

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