AN EVALUATION OF THE PROCUREMENT STRATEGIES OF
ZIMBABWE’S FOOD MANUFACTURING INDUSTRY: THE CASE OF
CAIRNS FOODS LTD (2000-2010)

BY

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SUPERVISOR - MR N.KASEKE
DECLARATION

I, Nelson Farawu, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the acknowledgements, references and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

.............................. ..............................
Student signature Date

.............................. ..............................
Supervisor Date
ACKNOWLEDGEMENTS

I would like to express my appreciation to the Cairns Foods Holdings Chief Executive Officer and his management team for their professional interest and support during the research. My sincere gratitude goes to my supervisor Mr. Kaseke and other lecturers for the guidance given during the research project as well as throughout the entire course.

I would also like to thank my family and social groups for bearing with me during my continued absence from their company as I worked on the project.
ABSTRACT
Cairns Foods (CF) Limited is a food and beverage manufacturer beset by raw material shortages, cashflow and foreign currency problems which pose as legitimate accomplices behind the company’s diminished capacity utilisation. The author, a raw material buyer with the food manufacture, evaluates the raw material procurement strategies of Zimbabwe’s food manufacturing industry using the case of Cairns Foods Limited from 2000-2010.

The author evaluates varied, published views and also uses questionnaires and interviews to gather information. The research methodology adopted both qualitative and quantitative research method. A sample size of 40 employees was randomly selected from Cairns Foods and graphs and tables were used to present the research findings. Analysis and discussion was done using literature review.

While it is clear that the absence of a reliable raw material sourcing strategy will accelerate the present decline, the research established that spot market is the main procurement strategy that is being used by Cairns foods while futures and forward buying are also being used as procurement strategies to a lesser extent. The research also concludes that the factors that are compromising the usefulness of the procurement strategies at Cairns Foods Ltd are; procurement strategies not being implemented, procurement strategies not addressing all the relevant issues and lack of clear guidance in some procurement strategies.

In conclusion, the study recommends that for the food manufacturing industry to enhance their raw material supply in the wake of shortages companies should adopt e-procurement, contract farming and backward vertical integration. The successful implementation of these prepositions should be guided by optimal funding options and skills strategies to achieve the desired end. Consignment stocking and alignment with the key authorities as a means to access funding and mitigate potential risks is also suggested. Implementation of the highlighted strategies will thus bring to fruition the survival and growth so envisaged by the author.

An area of further study is recommended to investigate the impact of good procurement strategy to the growth of an organisation.
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CHAPTER ONE

1.1 BACKGROUND

1.1.1 BACKGROUND TO THE ORGANISATION
Cairns Foods (CF) is a wholly owned division of Cairns Holdings Limited Zimbabwe (CHL), a Zimbabwe Stock Exchange (ZSE) listed food and beverage manufacturer. Formally Astra foods, Cairns Holdings Limited was listed in 2001 following the unbundling (demerger) of Astra holdings. CF consists of five Strategic Business Units (SBUs), namely: Chips and Snacks, Groceries, Canning, Beverages (Winery) and Spices SBU (formally Paprika Zimbabwe) (see figure 1.1) CHL also holds a controlling (60%) stake in Charhons, a Zimbabwean confectionery manufacturer.

Figure 1.1: Cairns Foods Holding structure.


CF’s major shareholder is the government, owning 75% of the equity. The company’s core operations involve the cooking, baking and brewing of foods and beverages. CHL’s vision states the company’s desire is to become a dominant food and beverage manufacturer and distributor in the region. Through its (generic) low cost strategy (Porter, 1990), CF aims to ensure that all objective, cost-saving opportunities along its value chain are utilized in the provision of affordable, quality products to broad markets. CF’s current growth strategy is internal development (organic growth), unlike acquisitive or
growth by merger. CF’s product mix, which includes: coffees, (Willard’s) peanut butter, snacks, potato chips, vinegar, canned food (Cashel valley), sweets and chocolates (charhons), wines(mukuyu), cordials, paprika oleoresin and other food and beverage products, is mainly composed of luxurious items.

Cairns Holdings has grown to be one of the leading food companies in Zimbabwe listed on the Zimbabwe Stock Exchange.

1.1.2 BACKGROUND TO THE ZIMBABWE FOOD MANUFACTURING SECTOR

Traditionally, the food manufacturing sector in Zimbabwe was well established and highly diverse. This is because the Zimbabwean economy has been supported by an agricultural sector that has been very successful. The success of agriculture has provided opportunities for agro-processing and value addition of agricultural produce.

The food manufacturing sector players

The sector is most described as the industry that manufactures semi-finished and finished products ready for human consumption (Zimtrade, 2011). Currently, there are over 102 manufacturers/processors in this sector. Production is located in the main cities of Harare, Bulawayo, Mutare and Gweru. The concentration of factories is high in Harare (about 63% of total number) and the other cities share the 37%.

Overview of the food manufacturing sector in Zimbabwe

Sub sectors are:

• Milling (products) produce

• Confectionaries and bakery

• Dairy products

• Food additives
- Beverages (alcohol and non alcohol)

- Canned products

The Zimtrade (2011) classified Cairns Foods Limited under the canned products sub-sector as indicated on the table below.

**Table 1.1 Zimbabwe’s key Canned products Manufacturers**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Products</th>
<th>Export Destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cairns Foods</td>
<td>Canned fruits and vegetables, • Frozen vegetables, • Dried fruits and vegetables, • Fruit juices, and Marmalades, Snacks</td>
<td>Namibia, Mozambique, Botswana, Malawi, South Africa, Zambia, Sweden, UK, Mauritius, USA, Tanzania, DRC, Norway</td>
</tr>
<tr>
<td>Cold Storage</td>
<td>Sausages, • Canned meat products, biltong, cold meats, salami</td>
<td>U/Kingdom, DRC, Tanzania</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colcom</td>
<td>Sausages, • Canned meat products, biltong, cold meats, salami</td>
<td>DRC, Mauritius, Angola, South Africa, Namibia</td>
</tr>
<tr>
<td>Olivine</td>
<td>• Canned fruits and vegetables, • Frozen vegetables, dried fruits and vegetables, • Jams and marmalades</td>
<td>Botswana, Malawi, Zambia, Mozambique, Tanzania, South Africa</td>
</tr>
<tr>
<td>Industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lake harvest</td>
<td>Dried fish, fish Fillets</td>
<td>UK, USA, Germany, France, Italy, Portugal, Belgium, Netherlands, SA, Zambia</td>
</tr>
</tbody>
</table>
Stage of industrial development of Food manufacturing sector

The industry has few developed players and the rest upcoming players are still in the process of acquiring machinery and equipment in order to fully commercialise their operations. However, persistent droughts and economic downturn that have robbed the country for years has frustrated development in this sector. Of late the economy is regaining on a slow pace.

Production

The food manufacturing sector relies heavily on the agricultural sector for raw materials.

Major ingredients/raw materials such as grain, meat (beef & pork), fruit & vegetables, sugar, oil seeds (soyabean and sunflower) and milk have traditionally been produced in Zimbabwe with imports being regarded as top-ups. However, since 2001 agricultural output has been on a negative trend and thus impacted negatively on the performance of the food manufacturing sector. Availability of raw materials has a huge bearing on productivity in this sector. Production has gone down in the last decade due to lack of continuity on the farms after the land reform programme and the shortage of inputs like seed and fertilisers. The amount of rainfall received during the cropping season also affects the quantity and quality of the inputs for the food manufacturing sector.

Other vital raw materials for the sector include packaging materials, additives and preservatives. Some packaging materials are designed and manufactured in Zimbabwe from the raw materials, (e.g.plastic and tinplate) being imported.

Technical skills for the sector are also locally available since the processes are fairly simple. Locally available food science courses (up to university level) also complement the sector. During recent years the major production constraint has been the inadequacy of local inputs (raw materials) due to poor performance by the agricultural sector.

Multi currency

The introduction of multi-currency system helped to revive all the manufacturing companies, even though working capital is still a challenge to many organisations.
Factors affecting performance

According to the Confederation of Zimbabwe Industry (CZI, 2010), the food manufacturing sector in Zimbabwe is yet to experience the big leap to high sustainable growth that had been projected by the government. The survey attempted to interrogate the main constraints to achieving optimum performance and cited the following;

1. Raw material shortages
2. Insufficient working capital for production, banks are not giving long term loans.
3. Low domestic demand
4. Outdated technology being used in food processing, packaging and labeling
5. Producers are fighting stiff competition on the market. Price is the major tool being used by importers since they are pricing their products lowly due to low production cost, therefore, living the majority with no option but to do impulse buying.
6. Production cost is too high therefore making it difficult for price strategy and to break through into regional markets.
7. High operational costs- maintenance for machinery (high tools and spares costs).
8. Electricity and water cuts
9. High raw materials costs.
10. Similar factors were cited as constraining capacity utilization.

Sector needs

The following factors remain the most challenges that need to be addressed;

1. Working capital to finance operations. i.e. The working capital remain a big challenge for all the manufacturers since the operation costs are high that results in pricing strategy being difficult, since competitors priced their products lowly due to low operational costs.
2. The manufacturers are requesting favourable payment terms for raw materials from suppliers
3. Product quality (quality management) to be improved
4. Breakthrough into external markets (exports)
5. Power and water cuts to be addressed

6. Electricity costs to be revised downwards

**Raw material shortages**

The CZI (2010) further established that over the first half of 2010, the estimated volume of domestic raw materials had increased by 32%, while that of imported raw materials had increased by 62%. This is a clear indication that the local market is failing to supply raw materials to industry. In terms of value proportions of raw materials, locally sourced raw materials accounted for 51% of the total showing that a significant amount of money is being lost to external economies. The food manufacturing sector can further be assessed using Porter’s Five Forces model.

![Porter's Five Forces Model](image)

**Figure 1.2 Porte’s Five Forces Model. Source:** (Porter, 1980)

Figure 1.2 represents Porter’s Five Forces Model which shows the forces that drive competition in any given industry. The industry structural analysis must be carried out in order to understand the
fundamental characteristics underlying that industry in a bid to formulate competitive strategies within the broad base of economics and technology.

**Threat of New Entrants**

New entrants normally come with new improved technology and this tends to force prices and consequently profits to decline (Hitt, Ireland and Hoskisson, 2001; Porter, 1980; Jain, 1993; Stoner and Freeman, 1989; QuickMBA, 2005). There are six major sources of barriers to entry (Porter, 1980) which are:

a) **Economies of Scale**: New entrants are forced to enter into an industry at large scale and this requires huge capital outlays.

b) **Product Differentiation**: New entrants are forced to spend heavily in trying to overcome existing customer loyalties to the established firms.

c) **Capital Requirements**: New entrants may be forced to invest heavily in order to be able to compete in the industry.

d) **Access to Distribution Channels**: The new firm needs to secure distribution for its products.

e) **Cost Disadvantages Independent of Scale**: The established firms might have favourable access to raw materials, favourable locations, preferential Government treatment, to mention but a few.

f) The pricing structure, the available excess capacity and the expected retaliation of the established firms in the industry will influence entry into that industry. If the price is lower than the Entry Deterring Price then new firms will enter that industry as they will be expected to reap huge profits (Porter, 1980).

**Bargaining Power of Buyers**

Buyers can play competitors against each other in lowering prices especially where the buyers purchase large volumes compared to sales from the industry or where there is no product differentiation in the industry. They pose a serious threat of backward integration as they can demand bargaining concessions (Porter, 1980).
Bargaining Power of Suppliers

Where an industry is dominated by a few suppliers, they tend to dictate prices and quality of products. This situation also arises where an industry is not a major customer of the suppliers. Supplier groups can pose serious threats of forward integration (Porter, 1980).

Rivalry Among Existing Firms

Intense rivalry among the established firms in the industry can result in a worse off position especially where price wars are used as tools to jostle for a bigger market share. Other factors that compound rivalry are slow industry growth, dwindling market, high fixed costs, lack of differentiation (for commodity type products), high exit barriers and high strategic stakes such as (international) expansion (Porter, 1980; Kotler, 1994; Thompson and Strickland, 1996).

Threat of Substitute Products

Substitute products from outside the industry limit the profits that can be earned (Porter, 1980). This happens especially where the customer switching costs are low and the product is a commodity.

1.1.3 BACKGROUND TO THE ZIMBABWEAN ECONOMY (PESTLE)

Political Overview

Politics of Zimbabwe takes place in a framework of a semi-presidential republic, whereby the President is the head of state and the Prime Minister is the head of government. Executive power is exercised by the government. Legislative power is vested in both the government and parliament.

In some quarters corruption and rigging elections have been alleged. In particular the elections of 1990 were nationally and internationally condemned as being rigged, with the second-placed party, Edgar Tekere's Zimbabwe Unity Movement, winning only 20% of the vote. Presidential elections were held in 2002 amid allegations of vote-rigging, intimidation, and fraud and also in March 2008.

Ethnic rivalry between the Shona and Ndebele has played a large part in Zimbabwe's politics, Since the defeat of the constitutional referendum in 2000, politics in Zimbabwe have been marked by slow
regression away from many of the norms of democratic governance, such as democratic elections; the independence of the judiciary; the rule of law; freedom from racial discrimination; the existence of independent media, civil society and academia. Recent years have seen widespread violations of human rights.

Instead, ensuing elections have been marked by political violence and intimidation, along with the politicisation of the judiciary, military, police force and public service. Statements by the President and government politicians have referred to a state of war, or Chimurenga, against the opposition political parties.

**Economic Overview**

Following over a decade of economic decline, in 2009 the economy was estimated to have grown by 5.7% (CZI, 2010). The growth recorded in 2009 was largely a result of policies measures instituted following the formation of the Government of National Unity (GNU). The consistent implementation of these policies, which included adoption of a multi-currency regime, cash budgeting by the fiscus, as well as other liberalization measures, which included the removal of price distortions as well as quasi-fiscal operations, lead to the stabilization of the economy. Although the country witnessed economic recovery of a certain magnitude, the levels fell below anticipated levels. The country’s GDP, which is a measure of the total production in the economy for a given year, grew from an estimated USD4.8 billion in 2008 to USD5.22 billion in 2009 and is further estimated to grow to USD5.517 billion in 2010.

**Social Setting**

The National Census of 2002 estimated Zimbabwe’s population as 11.635 million (as of 18 August 2002). ZIMSTAT put the 2010 population at 12.34 million with implicit year-on-year growth rate of 0.74 percent between 2002 and 2010. Given the high incidence of HIV and AIDS during these years the low net growth rate is understandable. Reportedly, there has been a significant amount of out-migration from Zimbabwe, particularly to South Africa and overseas, with the UK cited as the second most favourite destination. In 1999, the unemployment rate was 6% and the UN Human Development Report indicates that the proportion of Zimbabweans living on less than US$2 a day in 2003 was 83.0%. Zimbabwe’s GINI coefficient, which measures its income distribution, was 0.568 in 2003 according to the same report.
Technological Environment

Generally, speaking technological development in Zimbabwe is very limited. Most of the government resources are relatively focused on water and agricultural treatment.

Regulatory and Legal Environment of Zimbabwe

According to the World Bank, Zimbabwe is ranked 69th in the world in terms of the ease of enforcing contracts. More specifically, the Bank estimates that it takes an average of 33 procedures and 350 days to enforce contracts in Zimbabwe, which translates to enforcement costs (legal and court fees) of approximately 10.1% of the value of the overdue debt.

The process of filing for bankruptcy takes about 2.2 years and the costs associated with it in terms of estate value amounts to 22%. The average recovery rate for creditors is $0.021 per $1USD.

1.2 BACKGROUND TO THE PROBLEM

Prior to the land redistribution program embarked on by the Zimbabwean government (as a means to redress historic land ownership imbalances) in 2001, the supply of raw materials to CF’s SBUs (from competent commercial farmers) was commensurate with the company’s requirements. The chaotic formulation and implementation of the land redistribution programme, saw arable land being haphazardly confiscated from knowledgeable (predominantly) white farmers to unknowledgeable locals, resulting in reduced agricultural output. Figure 1.3 and Table 1.2 (overleaf) show the fall in maize and wheat output over the period 1995 to 2010. It will be noted that the 2006 production of maize, (a key input to Cairns Foods) represents 16% of what was produced during the base year of 1997.
The above fall in maize and wheat production (Figure 1.3 and Table 1.2 respectively), having generally replicated itself across other agro-products, resulted in CF’s eventual failure to meet market

Table 1.2 Zimbabwe - Wheat production trends from 1996–2010

<table>
<thead>
<tr>
<th></th>
<th>Area (ha)</th>
<th>Yield (t/ha)</th>
<th>Production (t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>47 843</td>
<td>5.5</td>
<td>263 134</td>
</tr>
<tr>
<td>1997</td>
<td>45 495</td>
<td>5.6</td>
<td>254 772</td>
</tr>
<tr>
<td>1998</td>
<td>44 022</td>
<td>5.5</td>
<td>242 121</td>
</tr>
<tr>
<td>1999</td>
<td>47 438</td>
<td>5.5</td>
<td>260 909</td>
</tr>
<tr>
<td>2000</td>
<td>42 551</td>
<td>5.4</td>
<td>229 775</td>
</tr>
<tr>
<td>2001</td>
<td>37 269</td>
<td>5.3</td>
<td>197 526</td>
</tr>
<tr>
<td>2002</td>
<td>39 000</td>
<td>5</td>
<td>195 000</td>
</tr>
<tr>
<td>2003</td>
<td>40 809</td>
<td>3</td>
<td>122 427</td>
</tr>
<tr>
<td>2004</td>
<td>70 585</td>
<td>3.5</td>
<td>247 048</td>
</tr>
<tr>
<td>2005</td>
<td>65 454</td>
<td>3.5</td>
<td>229 089</td>
</tr>
<tr>
<td>2006</td>
<td>67 201</td>
<td>3.6</td>
<td>241 924</td>
</tr>
<tr>
<td>2007</td>
<td>49 707</td>
<td>3</td>
<td>149 110</td>
</tr>
<tr>
<td>2008</td>
<td>10 300</td>
<td>3</td>
<td>31 000</td>
</tr>
<tr>
<td>2009</td>
<td>18 201</td>
<td>2</td>
<td>36 400</td>
</tr>
<tr>
<td>2010</td>
<td>15 000</td>
<td>2</td>
<td>30 000</td>
</tr>
</tbody>
</table>

requirements (of manufactured foodstuffs). The importation of agricultural produce (by CF) to cover the supply gap ignited acute foreign currency shortages, culminating in the company’s failure to service its foreign debts. Such failure, compounded by the adverse international sentiment against Zimbabwe resulted in CF’s loss of foreign credit facilities and some export customers.

The shortage of agro-based raw materials like potatoes, spices, maize, groundnuts and wheat locally due to land disturbances has also led to the sourcing of expensive raw materials from as far as Spain and India which attract a high duty rate of 40% therefore the cost of procurement has gone up. This means the procurement department is supposed to look at the best possible market globally for the organisation’s products to remain competitive.

The supply constraints depicted above also led to a significant decline in capacity utilisation as indicated on figure 1.4. Production volumes in cases (for 2007) fell to around 39% of (year) 2003 levels (from 5 928 442 annual cases to 2 329 543). The fact that CF has the capacity to produce 8 000 000 cases means that current performance amounts to a mere 29% of total capacity. While research carried out by the Confederation of Zimbabwean Industries (in 2007) acknowledged a 66.2% fall in capacity across the manufacturing sector, the fall in food manufacturing capacity should be lesser as it should (ideally) be correlated to population growth, which arguably is on the increase. The author however, concedes that falling disposable incomes play a significant part in this decline.
Figure 1.4 Cairns Foods cases produced 2003 – 2010. Source: CF company records (2010).

**Effects on financial performance**

CF’s financial performance has fallen victim to the above decline, giving justification to shareholder outrage. The statistics below show that return on assets has fallen by 86.33% from 2003 levels. This is in sync with the (discussed) fall in capacity utilisation. Return on equity has also fallen by a similar magnitude over the same period.

Table 1.3 Cairns Foods Inflation adjusted performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating margin</strong></td>
<td>36.36%</td>
<td>20.99%</td>
<td>5.62%</td>
<td>9.77%</td>
<td>11.27%</td>
<td>25.00%</td>
<td>15.00%</td>
<td>12.15%</td>
</tr>
<tr>
<td>% fall from 2003</td>
<td>0.00%</td>
<td>-42.27%</td>
<td>-84.54%</td>
<td>-73.13%</td>
<td>-69.00%</td>
<td>19.10%</td>
<td>166.90%</td>
<td>24.36%</td>
</tr>
<tr>
<td><strong>Return on Assets</strong></td>
<td>41.76%</td>
<td>25.37%</td>
<td>8.98%</td>
<td>15.93%</td>
<td>5.71%</td>
<td>19.15%</td>
<td>10.12%</td>
<td>5.85%</td>
</tr>
<tr>
<td>% fall from 2003</td>
<td>0.00%</td>
<td>-39.25%</td>
<td>-78.50%</td>
<td>-61.85%</td>
<td>-86.33%</td>
<td>-24.52%</td>
<td>12.69%</td>
<td>-63.26%</td>
</tr>
<tr>
<td><strong>Return on Equity</strong></td>
<td>72.28%</td>
<td>44.09%</td>
<td>15.89%</td>
<td>26.74%</td>
<td>10.36%</td>
<td>11.50%</td>
<td>8.50%</td>
<td>7.10%</td>
</tr>
<tr>
<td>% fall from 2003</td>
<td>0.00%</td>
<td>-39.01%</td>
<td>-78.02%</td>
<td>-63.00%</td>
<td>-85.67%</td>
<td>-73.90%</td>
<td>-46.50%</td>
<td>-73.45%</td>
</tr>
</tbody>
</table>

Source: CF annual results (2003-2010)
Effects on market share

CF saw, over the period under study, some decline in market share in some of its key products. The table below shows that CF’s market share has fallen by an average of 23% from 2004 to 2007. This may (to a great extent) be attributed to the fact that CF’s key competitors like Innscor and Interfresh have been able to employ competent procurement strategies in order to secure their raw material supply. The fact that the fall in agrarian output is countrywide fails to justify CF’s declining market share as is operating in the same environment as its competitors.

Table 1.4: Cairns Foods Market share analysis

<table>
<thead>
<tr>
<th>Product</th>
<th>Market Share</th>
<th>Market Share</th>
<th>Market Share</th>
<th>Market Share</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chips</td>
<td>95%</td>
<td>81%</td>
<td>69%</td>
<td>58%</td>
<td>50%</td>
</tr>
<tr>
<td>Lakkernax</td>
<td>35%</td>
<td>23%</td>
<td>15%</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Cornflakes</td>
<td>40%</td>
<td>31%</td>
<td>24%</td>
<td>19%</td>
<td>15%</td>
</tr>
<tr>
<td>Gravy</td>
<td>70%</td>
<td>63%</td>
<td>57%</td>
<td>51%</td>
<td>46%</td>
</tr>
<tr>
<td>Baked beans</td>
<td>65%</td>
<td>41%</td>
<td>26%</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Tomato</td>
<td>35%</td>
<td>27%</td>
<td>21%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Curry powder</td>
<td>40%</td>
<td>36%</td>
<td>32%</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Peanut butter</td>
<td>55%</td>
<td>33%</td>
<td>20%</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>Average</td>
<td>54%</td>
<td>42%</td>
<td>33%</td>
<td>27%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: CF Marketing intelligence reports 2010

Other problems currently being faced by CF include:

a) Increasing material costs

The shortage of materials and hyper-inflation as highlighted earlier has led to a general increase in material costs. Figure 1.5 overleaf illustrates this effect.
As can be seen in Figure 1.5 above, the maize price fluctuated between USD 0.05 and USD 1.15/kg between October 2005 and January 2009. Prices were often higher in Bulawayo compared to the other cities. Between July 2008 and December 2008, price levels increased tremendously even in the US dollar conversion. This corresponds with the soaring of cereal prices globally but the rise in Zimbabwe was skyrocketing due to the widespread shortages of maize in the market. Since December 2008, price decreases have been equally dramatic reaching a level below USD 0.30/kg by April 2009. Since May 2009, maize prices in the major markets have been relatively stable between USD 0.23/kg (USD 4/bucket) and USD 0.34/kg (USD 6/bucket). Prices started rising again in December 2009 to reach their highest levels in January-March 2010, reflecting the scarcity of maize in the markets. Around that lean time, maize grain had completely disappeared from the Bulawayo and Mutare markets for several weeks. This maize price level is still much above the prices during 2006 and 2007.

**b) Serious cash flow constraints and foreign currency shortages**

Financial constraints like cash flow problems within the food manufacturing sector and the general economy as a whole have affected the early payment of creditors. This has affected the procurement department’s ability to execute its strategies like negotiating for good payment terms as supplier confidence is low. The high country risk attached to Zimbabwe has also affected the negotiation of favourable terms for imports such that procurement becomes complicated when dealing with suppliers.
c) Company closures and plant inactivity
Closure of local companies due to viability problems for example, Hunyani closed its pulp division in Norton in 2010 which has affected the supply of packaging materials locally, hence the procurement of packaging materials has been affected negatively. Old and obsolete technology and machines have led to a high level of machine breakdowns. The obsolete machines’ parts are also difficult to source as most of the machines still used by the company have been phased out by the manufacturers. Therefore this implies that the sourcing of machine parts is difficult therefore there are bound to be production stoppages due to machine breakdown.

d) Increased regional competition
Also on the other hand the liberalisation of the regional markets like SADC and Comesa has led to the availability of cheaper competitor products. This has put pressure on procurement to source for cheaper raw and packaging materials for the company products to remain competitive.

e) Dwindling disposable income of customers
There has been a general reduction in demand of Cairns products due to low disposable income for the majority of the Zimbabwean population. This raises the need for procurement to come up with strategies that reduce the company’s financial burden due to high stock holding and subsequent write-offs.

In the never-ending quest for cost savings, survival and profitability, this study seeks to establish the most relevant procurement strategies to use in the local and global procurement of agro-based raw materials like maize, potatoes and groundnuts, in the food manufacturing sector of a country besieged by raw material shortages.

1.3 PROBLEM STATEMENT
The survival and growth of Cairns Foods Limited has come under severe threat as a result of competition from imported products and serious raw material supply problems obtaining as shown by the declining market shares of its products and as a result of the failed agricultural reform program which affected raw material supply. Cairns Foods limited like any other organisation implemented different procurement strategies in order to survive in such a hostile and import competitive environment. Production capacity has fallen drastically over the period under consideration.

This research seek to investigate the different procurement strategies that are used by Cairns Food Limited in acquiring raw materials in order to survive in the current environment and improve
capacity utilization and make recommendations about different procurement strategies that can be applied citing the strength and weaknesses of each strategy.

1.4 RESEARCH OBJECTIVES AND QUESTIONS

1.4.1 MAIN OBJECTIVE
The main objective is to evaluate the procurement strategies of Zimbabwe’s Food Manufacturing Industry with the main emphasis on Cairns Foods Ltd (2000-2010)

1.4.2 SECONDARY OBJECTIVES
a) To assess the impact of a procurement strategy on the availability of raw materials for production.

b) To establish the relevance of the procurement strategies being employed in the food manufacturing sector of Zimbabwe in solving raw material shortages.

c) To establish which procurement strategies rank as supreme among those available and recommend their use to management.

1.4.3 RESEARCH QUESTIONS
Research questions of this study are as follows;

a) Are current procurement strategies in the food manufacturing sector of Zimbabwe relevant?

b) What are the challenges being faced in procuring raw materials for the food manufacturing sector of Zimbabwe?

c) What is the impact of strategic purchasing and supply chain management on the profitability of the food manufacturing business?

d) What is the most effective procurement strategy in the food manufacturing business like Cairns Foods?

1.5 RESEARCH PROPOSITION
This study proposes that proper procurement strategy improves the supply of raw materials and survival of food manufacturing sector in Zimbabwe.
1.6 JUSTIFICATION OF THE RESEARCH

This research is being carried out at the most appropriate time as it seeks to reverse the existing challenges of agro-based raw material shortages being faced by Zimbabwe’s food manufacturing sector. It seeks to give a total solution toolkit which can be used by policy makers in the sector in their quest to regain consistent and uninterrupted supply of raw materials for production. This study will benefit companies in Zimbabwe’s food manufacturing sector in coming up with the most relevant procurement strategies which will result in their survival and growth in the wake of increased regional competition from mainly South Africa.

In the particular case of Cairns Foods Limited, business potential cannot be adequately measured where input supply is constrained. The vision of becoming a dominant food and beverage manufacturer in the region (appendix 1) is therefore totally at the mercy of input supply strategies employed. The research therefore seeks to recommend the employment of the best procurement strategies to remove the input supply constraints.

1.7 SCOPE OF THE RESEARCH

The aim of the study is to establish the proper procurement strategy for Zimbabwe’s food manufacturing industry using a case study of Cairns Foods. The research will target staff and management of Cairns Foods, customers and its suppliers. Information collected should cover a period from 2000 to 2010.

1.8 LIMITATIONS OF THE STUDY

The researcher is likely to encounter challenges in terms of getting cooperation from respondents. Some respondents might not want to share information with the researcher yet the information being sought will be key to the success of the research. Financial resources are also likely to be a constraint to this research.

1.9 ASSUMPTIONS OF THE STUDY

The study is conducted under the general guideline of the following assumptions:

a) The sample picked in the study is fairly representative of the population under study.

b) All the respondents answer the questionnaire to the best of their knowledge and opinions.
c) The study is objective in data collection, analysis and interpretation.

1.10 DISSERTATION OUTLINE
Chapter one provided the introduction and background information to the study; covering background to the organization, background to the sector, background to Zimbabwe economy, background to the problem, research objectives, proposition, scope and research limitations.

Chapter two appraises and presents empirical evidence and literature relating to the research topic, more specifically, factors affecting procurement strategies, procurement strategies, characteristics of the strategies, e-procurement and challenges of procurement strategies.

Chapter three describes and justifies the research methods employed. The research design, research methods, population, sampling, research instruments and reliability.

Chapter four presents the research findings and analysis in terms of factors affecting procurement strategies, strategies currently used by the organization and challenges in the procurement process.

Chapter five draws conclusions and recommendations from the research findings and proposes an area of further study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION
This chapter reviews literature on the procurement strategies of Zimbabwe's food manufacturing industry, the relevance of the procurement strategies, challenges, strategic purchasing and supply chain management. This literature will form the basis on which the research findings will be discussed against.

2.2 PROCUREMENT STRATEGY DEFINED
The Procurement Strategy sets out the approach to be followed for the procurement, with the appropriate justification (Porter, 2005). Decisions about procurement options should relate to the objectives for the project and thus to the procurement priorities. The starting point for any procurement strategy should be to identify the objectives and benefits that are sought from the exercise (ibid). Consideration should also be given to the market structure, particularly the issues relating to strategic management of key suppliers - do they have the capability and capacity (as well as the commitment) to meet your requirement as well as those of others in the public sector?

2.3 FACTORS TO CONSIDER WHEN CHOOSING PROCUREMENT STRATEGY
Key factors influencing the procurement strategy relate to the degree of complexity, innovation, and uncertainty about the requirement, together with the time needed to achieve a successful outcome. The procurement strategy should facilitate a collaborative approach and open communication between potential suppliers and the client; subject to the procurement route chosen (i.e. the restricted route limits the extent of dialogue with suppliers) (Reid and Reid and Ruiegel, 1989). If the requirement is very complex, consider breaking it into several smaller and/or phased procurements, but be aware of the potential to be in breach of the “aggregation rules (ibid).

In order to select the optical strategy, various factors must be considered. Factors that affect the choice of optimal strategy are explored below.
2.3.1 PRICE RISK
Porter (2001) suggested that price risk refers to volatility, which is how much the price of a commodity varies over time. The volatility is measured in percentage terms and annualized to evaluate the historical volatility of a commodity (Bittman, 2001). For example, if a commodity varies from $1 to $1.10 over a year, it has an annual volatility of 10%. The time frame over which this volatility is measured varies with each commodity.

Croom (2001) argued that high price commodities have a relatively consistent price. If the commodity price is relatively volatile, it is expected that the manufacturer will implement a risk management instrument in the form of an advanced pricing mechanism, such as a forward buy. According to Douglas (2003), if no advanced price mechanism is used there is a high risk of paying a significantly higher price at a later date when the commodity is bought on the spot market. If there is little price risk, there is often little reason for commodity procurement department to spend time to develop an alternative buying strategy because the price is relatively stable (Wyld, 2002). As such when risk is low, it is likely that the buying strategy used is the spot market.

2.3.2 VOLUME
Sweeney (2002) defined volume as the amount of a commodity needed within given time frame to fulfill manufacturing requirements for finished products (Telgen, 1998). A high volume commodity requires a large quantity to be procured in a given time interval. On the other hand, low volume commodities do not require large quantities to be procured in order to maintain the manufacturing facility.

Quayle (1998) and Buvik (2001) are of the view that the manufacturer would seek some type of advanced pricing mechanism for high volume commodities. For high volume commodities, the risk of not having the required volume at the manufacturing facility at the appropriate time has a high cost. If the manufacturer runs out of a high volume commodity this holds up manufacturing of final products and incurs significant cost (Kingsman, 1985). For low volume commodities, it is more likely that the manufacturer will buy the commodity on the spot market in order to save storage cost, all other variables held constant (Bittman, 2001).
2.3.3 PERISHABILITY
Porter (2001) understands that perishability refers to how long it takes before the commodity decays or spoils, so that it cannot be used in production of final products. Perishability plays a major role in commodity procurement strategies because it determines the amount of time that a commodity can be purchased in advance. A high degree of perishability refers to a commodity that has a relatively short time until it spoils (Wagner, 2002).

Porter (2001) believed that it is expected that a manufacturer would tend to use the spot market with a commodity that is highly perishable. Essentially the transaction costs, as explained by Williamson (2000), are very high for perishable commodities. When the transaction cost increase, the manufacturer will tend to move away from markets (Williamson, 2000). Because a highly perishable commodity cannot be stored long, a manufacturer would also not want to make a forward buy that requires storage of a commodity. The risk of commodity spoilage and the costs associated with lost product is very high.

Therefore, with highly perishable commodities, it is likely that the manufacturer will forward contract with a supplier to have a supply available when the commodity is fresh to attempt to minimise risk (Bittman, 2001). A commodity that has low perishability has more forward buy options available.

2.3.4 SALES FORECAST
According to the view of Buvik (2001) nearly all manufacturers base their procurement volumes, at least to some extent, on the sales forecast of the final products produced from the commodity. The accuracy of the sales forecast refers to the degree to which the forecast sales deviate from actual sales. Reid and Riegel (1989) found that in large food service firms, around fifty three percent (53%) of the companies had the procurement department also handle the sales forecast activity. It is also noted that, in cases where another department did the sales forecast, procurement departments rated cooperation with the people who develop the sales forecast as very important to procurement success (Reid and Riegel, 1989). A highly accurate sales forecast is a forecast volume which is relatively close to the actual sales that occur.

Rigby and Zook (2002) suggested that it is expected that the higher the degree of accuracy of a sales forecast, the more the manufacturer will participate in forward pricing activities. If sales are very
accurate the volume risk is minimized, so a company can be more aggressive and focus in minimizing price risk. Williamson (2000) explained that a food manufacturer is not likely to use forward pricing on a product that has poor sale forecast accuracy, because there is high probability that the company would end up with excess inventory or not enough supply of the commodity.

2.3.5 SPECIAL PROMOTIONS
Kraljic (1993), Quayle (1998) and Davies and Ellis (2000) concurred that special promotions of final products also drive the procurement of commodities by manufacturers. While most of these promotions are based at the retail level, the end result is a change in the procurement of a commodity, (for example a higher volume of commodity is needed to process the final product that is being promoted). Quayle (1998) observed that special promotions also put price pressure on commodity procurement departments. If the final product is discounted at retail, the base commodity must be purchased at a lower price in order to maintain profit margins. A special promotion is expected to lead to a manufacturer to be involved in more advanced pricing activities (Davies and Ellis, 2000). A reason for more advanced pricing: is to ensure that there is sufficient supply to produce the amount of final product needed to make the promotion worthwhile.

2.3.6 STORAGE REQUIREMENTS
According to Douglas (2003), storage requirements refer to the accommodations required for a commodity to be held in inventory before it is needed in manufacturing. An example of special requirements would be a commodity that requires refrigeration. Storage requirements are an important factor for a commodity procurement department because if these requirements cannot be met, the forward buying options for a commodity are eliminated (Wyld, 2002).

It is expected that commodities with high storage requirements are less likely to be purchased in forward pricing activities (Kingsman 1985). This is expected for two reasons, (Kingsman,1985). First, these storage requirements may not be able to be met, thus eliminating forward buying opportunities. Second, often these storage requirements are costly. These costs may eliminate any financial gains that could be made by implementing a forward pricing strategy and, thus the favour spot market transactions.
2.3.7 STORAGE AVAILABILITY
Quayle (1998) defined storage availability as the amount of space available to the manufacturer for commodity storage; either company owned or rented space. Telgen (1998) added that a degree of storage availability refers to a company with relatively more warehouse space available to store commodities than competitors.

The expectation is that in firms with relatively high storage availability, buyers are more likely to participate in forward buying activities, because they have ample space to store the procured commodity (Kingsman, 1985). Moreover, manufacturers with a relatively low amount of storage space are limited to pricing activities that do not require taking possession of the commodity, like spot and forward contracts. The other option is to rent storage space which adds to the cost and may eliminate gains from participating in a forward price strategy.

2.3.8 MARKET EFFICIENCY
Sweeney (2002) defined Market efficiency as the speed at which the commodity market reacts to new information. A market with a high degree of market efficiency reacts very quickly to new information in the market place, while a market with a low degree of market efficiency reacts more slowly to new information in the market.

Porter (2001) suggested that the expectation is that the more efficient a commodity market is the less forward buys will be implemented. This is because if the market is very efficient, it is much more of a challenge for a commodity procurement department to be able to figure out and in effect, beat a market (Sweeney, 2002). In efficient market, the moment that buyers have information, it is likely that the market would have reacted to the information. On the other hand, in relatively inefficient markets it is more likely that a commodity procurement department could be ahead of the market and execute a forward price strategy before the market reacts. These expectations are based on information collected in pretest interviews with personnel in the commodity procurement profession.

2.3.9 BUDGET CONSTRAINTS
Sweeney (2002) maintained that budget constraints refer to the limited budgets the commodity procurement department face. A high budget constraint refers to a commodity procurement department that faces limited budget for a certain time period (Porter, 2001). In this case, firms are
expected to be involved in fewer forward buys since they have high execution costs. Forward buys are expensive to execute in the short run because the manufacturer has to pay for the commodity before it is needed for processing (Kingsman, 1985). Where budget constraints are not critical the main priority is to be profitable. In this case, profit is measured against price risk, without regard to any budget constraints.

2.3.10 TRACEABILITY
Traceability refers to the ability of the manufacturer to trace the source of the commodity that it uses in its processing plant (Hobbs, 1996). A high degree of traceability refers to a commodity that can be completely traced back to its origins and where many details about the production environment of a commodity are known. It is expected that firms dealing in commodities that require a high degree of traceability will be purchased via forward contract. As traceability is integrated into a commodity, the transaction costs increase. As Williamson (2000) indicates, when the transaction costs increase a firm seeks to move away from the cash market. The main reason for this is that commodities bought on the spot market do not have the attribute of traceability.

2.3.11 SERVICE LEVEL
Porter (2005) define service level as service that a commodity provider has available to a manufacturer. These services can range from market forecast to on-time delivery. The service level of a supplier was one of five characteristics referred by Monczka and Trent (1995) as purchasing concerns by procurement departments.

It is expected that commodities with a high service level are more likely to be purchased through forward pricing activities (Davies and Ellis, 2000). According to Kingsman (1985), if there is a high service level, there is a good relationship between the two parties and more information is shared allowing for more forward pricing activities to be executed.

2.4 COMMODITY PROCUREMENT STRATEGIES
Power (2003) suggests that the first and most basic function of the commodity procurement department within food manufacturers is to maintain the supply of commodities to the manufacturing plant in order to meet manufacturing demands. A commodity is defined as: “widely traded raw materials and agricultural products such as wheat, corn, and rice” (Seitz, 1994:435). These
Commodities have general quality standards that must be met in order to be classified in a certain category of commodity (Seitz, 1994). Within a commodity category, a commodity is not differentiated with non-commodity procurement, which would focus on product differentiation.

The commodity procurement department must consider several issues regarding maintaining supply. According to Quayle (2003) there are factors involved in maintaining and/or determining the level of supply. First, future quantity requirements of the commodity must be determined and subtracted from supplies already in inventory or ordered. Second, future requirements must be converted into a schedule of future purchases, specifying the timing and the size of the commodity purchase. Third, financial and operational constraints must be considered to determine the minimum and maximum lead-times needed for manufacturing. This helps determine what forward pricing mechanisms, if any, can be used. Fourth, while conforming to constraints of the buying time period, the department determines the timing for actual buys. These two time periods, as Hobbs (1996) stated, can be exactly the same, or if accurate price forecasts are available, purchases can take place in different time periods to take advantage of price swings. Fifth, buying strategies for each commodity must be developed and connected to scheduled orders with appropriate on time deliveries that allow efficiency at the manufacturing plant (Kingsman, 1985:8).

Monczka and Trent (1995) give the second function of a commodity procurement department which is to minimise the cost of commodities that are used as inputs into finished products. Theoretically, a firm is expected to minimise costs this is the expected behaviour required in order for a food manufacturer to survive in a perfectly competitive environment (Hayenga, 1979).

Once a commodity buyer evaluates the volume needed and the different cost for each strategy, then the appropriate strategy for each commodity is chosen. There are three strategies available for commodity procurement: the spot market, using futures, and the forward buying. The optimal strategy depends on a variety of factors. For example, perishable items have limited shelf life and, thus, must be procured in a way to ensure freshness. Other commodities offer more flexibility regarding strategy. Each strategy is examined below.
2.4.1 SPOT MARKET
According to Douglas (2003), the traditional commodity procurement strategy is the spot or cash market. Croom (2001) defined spot market as being the commodity on the cash market and immediately taking possession. When using the cash market, food manufacturers have no direct contract with a supplier. Rather, they buy from whichever supplier has the lowest cash price at the time when the food manufacturer making purchases of a certain commodity when inventory drops to a determined threshold level. There are several reasons given by Arbin (2002) why this is a widely used strategy. The first reason is that it involves no development of strategies or market analysis; rather it merely involves monitoring current supply and reordering (Arthur, 1971). The spot market is a very applicable tool when there is very little price movement and, hence, a strategy cannot be implemented to minimise or reduce the high risk of unpredictable prices. For many agricultural goods, there are no functioning futures markets. This leaves the spot market and forward buys as the main strategies used to procure commodities.

While there are many cases where the spot market is a viable procurement strategy, there are disadvantages in using the spot market exclusively for a commodity. There is the inherent risk of not being able to procure enough volume when needed, thus leading to inefficiencies in manufacturing (Arthur, 1971).

Since another function of a procurement department is to minimise input cost, using only the spot market may eliminate opportunities to purchase commodities at lower prices (Roberts 2001). Wyld (2001) argued that this is an additional disadvantage of using the spot market. If the spot market is used, the price is determined solely by the timing of the need for more input. If other procurement instruments are used, a procurement department can take advantage of low commodity market price swings to decrease cost over time by purchasing more a commodity when price is low and relatively less when prices are high.

2.4.2 FUTURES CONTRACT
Another procurement strategy that commodity procurement departments can use is the futures strategy. A futures contract is an obligation to buy or sell a given quantity and standard quality of a commodity at a designated future time.
The main way that futures are used is to hedge a cash purchase that will take place in the future (Bittman, 2001). According to Porter (1998), a hedge by a food manufacturer involves taking opposite positions in the same commodity market, that is, buying (long in the market) in the cash market and selling (short in the market) in the futures market or vice versa. Kinder (2002) added that a hedge is used when price forecasts indicate that prices will be increasing, this is because a hedge will essentially “lock-in” the current market price. Roberts (2001) explains the theory of the food manufacturer hedging by using futures contracts. A food manufacturer must buy on the spot market in a future time period they want to protect against commodity prices increasing. They do this by buying a futures contract in the current time period that expires when the commodity will be purchased on the spot market. When the commodity is purchased on the cash market, the food manufacturer will be purchasing on the cash market and will then sell the futures contract they bought earlier (Arbin, 2002). Assuming that cash and futures markets move in the same direction, food manufacturers can essentially “lock-in” cost.

This is demonstrated by the example of prices increasing as expected. While the cash cost of the commodity increases, the food manufacturer makes a profit by buying the futures contract at a lower price and selling it at a higher price. The amount of the cash price increase is equal profit on the futures trade, therefore the net price is the market price when the hedge was activated (Clarus, 2001).

2.4.3 FORWARD BUYING
Porter (1998) stresses out that a natural extension of spot market buying is to forward purchase in the spot market, buying higher volumes when prices are lower, and lower volumes when prices are high. A forward buy is defined when a manufacturer purchases and takes possession of a commodity in advance of manufacturing needs. As Hayenga (1979) discusses, manufacturers are then able to establish their per-unit commodity price, and thus set the price of the final goods and capture desired profit margins.

For food manufacturers, Stec (2000) commented that it is an advantage to establish the per-unit commodity cost on anticipated volume required of a commodity by advanced purchase and storage of that commodity at an earlier time period. If the cost saving on the commodity is greater than the storage cost, an advance purchase then results. Hayenga (1979:351) summarizes the concept of forward purchasing very well when he says, “The timing of commodity purchases has a significant on a firm’s costs.”
A disadvantage of a forward buy is that there is price risk (Quarles, 2003). There is a chance that the commodity price could decrease and the manufacturer could pay more than the market price at time of manufacturing.

Variations exist on forward buys that focus on who takes physical possession of the commodity at the time of purchase. This is a major consideration for a manufacturer with limited storage space available for them to use (Kingsman, 1985). If a manufacturer must take possession, there is an added cost and a disadvantage of requiring storage space. If storage is limited, a major advantage ensures when the supplier retains possession until the manufacturer requests delivery. Final components of forward buy are forward contracts. A forward contract is a contract a manufacturer has with a supplier that specifies delivery on a commodity at a certain future date.

2.4.4 CONSIGNMENT STOCKING
Wild Tony, (1999) defines consignment stock as the stock of goods at an external customer’s site that is still the property of the supplier. Payment for these goods is only made to the supplier when they are sold or used by the external customer.

Purpose
Consignment stocking arrangements are usually put in place to assure continuity of supply to the customer or to reduce the customer’s working capital or both. While much of the benefit is to the customer, the supplier also benefits because the customer is tied to his product, he does not have to hold stock, and has more freedom in choosing when to manufacture or procure additional supplies to replenish the consignment stock.

Key functions and features
Consignment stock is managed by the customer. The customer draws from and replenishes the stock at will, but should inform the supplier of all stock movements since the stock still belongs to the supplier. The customer makes specific arrangements with the supplier to inform him of remaining stock, usually monthly, so that the customer can be invoiced for usage. Usually the supplier physically checks stocks (with the customer) quarterly or half yearly and any discrepancies are invoiced as usages.
An agreement should be in place between customer and supplier to cover discontinuation of the supply contract. Customer and supplier generally exchange information about expected future usage and about reorder points and reorder quantities. There are implications for inventory management systems, material planning systems and financial systems. The stock is managed as if it were the customer’s property, but title is transferred only when a specific transaction (such as an issue to manufacturing) occurs. Similarly, the supplier must be able to record, plan or account for consignment stock although it is being managed by another party. Both of these requirements can however be difficult to satisfy.

BENEFITS AND RISKS

Advantages to the Supplier

- The customer is a ‘captive market’
- Supply can be made at convenient, regular intervals (so production and delivery costs can be reduced)
- Panic buying by the customer is eliminated.

Advantages to the Customer

- Confidence in availability of items
- No need to plan supply
- Reduction in inventory value and improved cash flow
- Purchasing does not need to be involved in replenishment

Consignment stocks may not reduce significantly the overall cost to the supply chain. They transfer some of the costs one stage back in the chain i.e. To the supplier. Their main advantage over a conventional supply partnership is that the goods are in place at the customer’s site.
Risks

Consignment stocks do have several disadvantages:

- The overall inventory may be increased due to suppliers sales people negotiating inflated stockholdings and due to duplicated inventories
- The only pressure to reduce inventory is indirect
- Customers can use it as an excuse for not planning purchases, and therefore some stock will eventually become obsolete
- Suppliers are likely to extra costs by carrying out stock audits on customer’s premises.
- A very high quality of stock rotation and record accuracy is required to be maintained by the customer’s employees when dealing with the suppliers’ inventory.

Industry specifics

Consignment stock is extensively used in many industries, especially food manufacturing.

2.5 E-PROCUREMENT

Electronic procurement is currently one of the most discussed topics in supply management with the potential to dramatically change the way purchasing is carried out (Morrissey and Pittaway, 2004; Buvik, 2001; Rigby and Zook, 2002 and Kraljic, 1993). Indeed, it constitutes a revolution through electronic purchasing (Davies and Ellis, 2000; Gunasekaren et al., 2000; Rugman, 2001 and Quayle, 1998). Electronic procurement is well defined and can take the form of e-mro, web based ERP, e-sourcing, e-tendering, e-reverse auctioning and e-informing (Perrings and Ansuanetegi, 2000; Wrennall, 2000; Min and Galle, 2001 and McIvor et al., 1997). Strategically, e-procurement should create value for the firm and is also seen as ideal for hyper competition conditions (Gowen and Tallon, 2003; Tan et al., 2002; Telgen, 1998 and De Boer et al., 2002). Electronic procurement is nevertheless merely a means for becoming more productive and efficient – not a tool to mistreat suppliers (Sweeney, 2002; Knudsen, 2002 and Roberts, 2001). Evidence suggests however, that with only two percent of UK business-to-business transaction going over the internet (despite twenty five percent signing up to all e-marketplaces) little is being e-purchased and buyers are having difficulty in making e-procurement decisions (Hawking et al., 2004; Leonard and Spring., 2002 and Wyld, 2002). However, evidence from the USA suggests e-procurement has taken hold and is rapidly expanding (Caldwell et al., 2002
and Clarus, 2001). Nevertheless, UK suppliers remain wary (Yeo and Ning, 2002 and Emiliani and Stec, 2002). Evidence supports this view with seventy-seven percent of businesses yet to develop e-supply strategies (CIPS, 2001). An inability to integrate e-procurement with overall business strategy is another problem (Roberts, 2001 and Mullane et al., 2001).

Despite the apparent low take up of e-procurement there are many benefits claimed (Arbin, 2002 and Wagner et al., 2002). These include reduced supply chain management costs, reduced inventory, increased supply chain flexibility, reduced delivery times, increased supply chain visibility and reduced purchasing costs (Van Hooft and Stegwee, 2001). However a blanket impact of e-procurement will not suffice. Part of the low take up problem is how these benefits might be achieved along with capital outlay, implementation costs and change management implications (McGarrie, 2002; Douglas, 2003 and Power, 2003). Similarly, time organisational culture, supplier relationships and users are barriers to e-procurement implementation (Winser and Tan, 2000 and Croom, 2001).

Most published case studies reveal that organisations that adopt e-procurement solutions are already involved in supplier relationships at a distance such as mail order or telephone-based sales and services (Porter, 2001 and Min and Galle, 2003). Indeed, there is some evidence that e-procurement improves supplier relationships (Poirer and Bauer, 2002). These organisations also tend to have a good understanding of computer based systems before they embark on e-procurement solutions and they usually do not opt for radical changes to their purchasing and customer supply systems – indeed paper-based systems are often maintained in parallel (Quayle, 2002). Usually, they modify and extend existing computer based systems such as EDI, or they extend e-business options but retain older non-computing systems (Jeffcoate et al., 2002). Nevertheless, the pace of business change, once the process of adopting e-procurement solutions has begun, can be very fast (Porter, 1998 and Kinder, 2002). None of these authors focus on neither the business case for e-procurement introduction nor its introduction in SMEs. The implications are that the cost of change is undertaken without the benefits being clear (Quayle, 2003). Thinking strategically about e-procurement, its success is based on reach, affiliation and richness (Ritchie, Brindley and Peet, 1999). Reach is access and connection; affiliation is about whose interests new business represents e.g. existing or new customers; richness is about depth and detail of information. More importantly, there appears to be a need to identify critical success factors and a need for a consistent effort to achieve them (Abery and Glindemann, 2004 and Poirer and Bauer, 2002).
There are three broad categories to be considered (Abery and Glindemann, 2004 and Poirer and Bauer, 2002). The human factors – which include culture, leadership, motivation, organisational infrastructure and deployment of technology (technical maturity of the corporate users as well as suppliers). The contextual variables – which include globalisation, industry, market size, the nature of competition and customer needs. The final category is the public sector – for example Government restrictions on trading with specific countries, the aftermath of terrorist attacks, local legislation or disaster regulations such as those imposed as a result of the foot & mouth epidemic.

**Why e-commerce and e-procurement?**
The explosive growth of electronic commerce conducted via the Internet is leading to changes in the ways that people conduct their lives and provoking interest by businesses and Governments alike (Microsoft White Paper, 1999). One major challenge is the relative lack of regulatory barriers. Businesses have been creating products that respond to the opportunities and demands of the new electronic marketplace. The results have been impressive, with global revenues exceeding one a trillion dollars by end of 2003, according to Microsoft White Paper (1999). The size of these developments has begun to attract the attention of some policymakers who have raised concerns about the implications of an unregulated marketplace, and in certain instances, suggested new legislation. It is important to take steps now to coordinate this nascent legislative activity and ensure that trade barriers are not erected. Numerous benefits as highlighted accrue to stakeholders mainly consumers, producers and government once a company adopts e-commerce.

**2.6 BACKWARD INTEGRATION AS A PROCUREMENT STRATEGY**
The model overleaf (figure 2.1 - on related diversification options open to a manufacturer) articulated by Johnson and Scholes (2001) analyses the diversification.
Backward vertical integration, a component of related diversification options, is defined by Johnson and Scholes (2004) as the organization’s development into activities, which provide inputs into the value chain, unlike sourcing (inputs) from primary economic sectors (farms in this instance). Berlin and Mester (1998) goes further to state that a firm that produces and sells its own products is engaging in backward vertical integration and has control over the source of its raw materials. This is good in building competitive advantage compared to organizations which buy directly from the farmers.
Motives and benefits of backward Vertical Integration

Legros and Newman (1996) underlined that firms that fail to deliver the goods at the lowest feasible cost, whatever the reason, including inappropriate organization, will be unseated by their more efficient competitors. These viewpoints clearly beg for carefully guided consideration of backward vertical integration.

One classic benefit is that backward integration avoids “double-marginalisation”, or what Berlin (2001;43) saw as “the chain of monopolies problem”. Economides (1998) described double-marginalisation as the existence of two margins in a complementary duopoly, resulting in a higher price in duopoly than in a monopoly. In other words, instead of having two firms charging mark up, one after the other; only one of these firms charges a mark up, which is less than the two (mark ups) combined. Klein et al, (1978) showed that the integrated monopolist has lower price than the sum of the prices of two price-setting, independent firms. This is because a duopoly price includes two markups, while a monopolist (ideally) charges a single markup. Economides (1998) held that all prices fall as a result of a vertical merger as variable cost synergies soften the effect of increased fixed costs. Hortacsu and Syverson (2007) took such statements to mean that backward integration allows firms to “internalize markup externalities” that is; keep the profit within. This means firms can use backward integration to create market power and enjoy economies of scale.

Where economies of scope between successive stages are strong enough, Chandler (1966) advocated for joint ownership. Berlin and Mester (1998) concurred that backward integration firms could increase their joint profit and increase customer satisfaction as producers pass on part of their cost advantages to their customers.

Another benefit of backward integration is supply assurance, also discussed by Williamson (1975). A firm is better off with a guaranteed, adequate supply of inputs in the face of the resident uncertainties (Berlin and Mester, 1998). Langolis and Robertson (1992) also added that; in a rapidly growing industry, suppliers of intermediate goods may not be able to expand quickly enough to meet the needs of the producer of final goods, thus motivating the producer to integrate backwards.
Berlin and Mester (1998) conceded that uncertainty increases costs of haggling, which can be time consuming and expensive. Ramseyer (1997) said backward integration mitigate the risks arising from contractual opportunism. Gaynor and Martin (2000) also found that backward integration reduces this certainty through lower transaction costs, improved input supply and monitoring, as well as introduce other gains from price coordination. Fan et al. (2006), in reference to a (1980-2001) research, found that high price uncertainty made backward integration favourable. Better inventory and cash flow management also arose as a result of reduced “externalization” of cash resources (through payments to suppliers – who could be brought on board).

Fan et al. (2007) saw backward integration as more extensive where a firm is located in a region with poor legal protection of property rights and where market disciplinary forces are feeble. This position very much resembles the Zimbabwean situation, where land was haphazardly distributed as noted in (Chapter 1).

Chipty (2001) established that companies may be forced into integration if fellow competitors try to gain power by controlling multiple steps of the value chain. This can result in diversified manufacturing, distribution operations as well as buying chunks of equity. This can result in preferential access to various agro-based raw materials for many subsidiaries and associates of the organisation (Berlin and Mester, 1998). Jacobides (2005) underlined that opportunities for firms to change their institutional environments, helping to create new, all in one integrated markets, should not be taken lightly. Firms will need to consider abandoning piecemeal procurement in favour of integration. However, the cycle of discovery by Carlton et al. (2005), points to the fact that industries integrate to consolidate capabilities, but will consider de-merging when disintegration becomes favourable.

Hortacsu and Syverson (2007) held that firms will advocate for a type of integration that preserves their original competencies and advantages, especially when threatened with the spectre of commoditisation, or intensified competition. They use their scope and capabilities as their entry-point to integrated service provision, which is expected to be more profitable than their existing business. IBM became famous for using this tactic in the 1990s. Using data from 93 companies, Mitton (2005) found that backward integration is correlated with financial development, contracting costs and entry barriers, which in their entirety affect performance of a company. Research papers on US gasoline markets by Barron and Umbeck (1984) and cement by Hortacsu and Syverson (2004), predominantly
confirm that backward integration also results in lower prices. There is therefore a broad consensus, notwithstanding some objective dissenting concerns, that vertical backward integration is a worthwhile option for both growth and survival-seeking entities.

**Criticism of backward integration**

In spite of the positive attributes of backward integration discussed above, far-reaching, well-thought criticism of the option has been made over time, making it seem equally unfavourable. While discussing vertical integration in the sugar beet industry in the US, O’Brien and Gaffer (2004) signaled the possibility of “unintended consequences” which may arise as a result of vertical backward integration. The conspicuous undoing of “extreme” backward integration was noted as the possibility of killing choice in the market and therefore tempering with customer welfare. Resultantly, lack of choice can lead to unequal bargaining power in business relationships, where the dominant firm takes advantage of the vulnerable party by squeezing price, shifting liabilities, or demanding certain things without paying an associated price. Ramseyer (1997) regretted that consolidation and backward integration provided a safe setting for such abusive practices. As an alternative to Vertical integration, Hastings (2004) encouraged firms to simply exploit the high-powered incentives that market contracting gives. Market contracting in this instance would amount to Cairns Foods either relying on contracts with farmers or buying raw material from the market (with other customers). Any transaction difficulties arising from such an approach can be countered by legal contracts between the units and by market forces that discipline the two units, rendering backward integration unnecessary.

Fan et al. (2007) expressed unreserved fears that extensive integration dilutes a firm’s management focus and creates “territorial” political conflicts inside the (bigger) company. Accordingly, firms which are already highly horizontally diversified, should discard vertical integration because of already binding managerial constraints. There is also the valid concern with respect to a firm’s knowledge of upstream operations. According to Hastings (2004), firms run a great risk of diversifying into domains in which they lack the necessary wherewithal from a knowledge perspective.

Iossa and Stroffolini (2007) saw the downside of vertical backward integration as the exaggeration of marginal costs by upstream vertical integration monopolists. Hortacsu and Syverson (2007) agreed that vertical (at large) was an attempt to create monopolies and seek rents. Nikolova (2005) held that, as an industry matures, the uncertainty in it decreases and the benefits that accrue to vertical
integration presumably decline. The Bulgarian authorities justified their anti-vertical integration position by claiming that it is an instrument for price discrimination and a creator of entry barriers. Some economists and (most) antitrust authorities (anti-monopoly regulators) hold the view that vertical integration is an incentive for anticompetitive behaviour, mainly foreclosure - where an owner of an important facility has the incentive to limit competitors’ access. This is however, outside the positive intents of vertical integration so espoused by Williamson (1975).

The aim of antitrust bodies is to minimize the negative consequences of “too much” consolidation by regulating the behaviour of the participants and improving the enforcement of competition or trade practice laws. O’Brien and Gaffer (2004) revealed that policies against certain types of vertical integration also seek to thwart market manipulation and encourage unbiased market access for all participants. Interventions where abusive monopolies exist are, in the eyes of Iossa and Stroffolini (2007) by all means desirable. Quite rarely has theory (to date) been found to disapprove of this position.

Shleifer and Vishny (1988) saw the proponents of vertical integration as managers who are motivated by a desire to build corporate empires. They would get shareholder approval by bribing key shareholders through adjusting dividend payouts. Though White (2002) also dismissed vertical integration as driven by manager’s “empire-building zeal”, Bertrand and Mullainathan (2003) argued that managers seem to prefer a “quiet life”. It will however, be asked if non-integration achieves this “quite life”.

On the other hand, dissenting viewpoints could see the achievement of corporate empire as an innocent byproduct of non-expansionary, survival-seeking (corporate) realignment activity (Iossa and Stroffolini, 2007). That having been said, a number of writers still cling to the view that vertical integration is “going out of fashion” because of globalization and the fanatical preference for outsourcing. Fan (2000) added that the rising integration of world markets is, to the contrary, bringing a disintegration of the production processes. Such strides, given the myriad legal constraints related to moving agro-based products across nations, sound implausible. However, to put this position into its deserved perspective, Feenstra (1998) took the example of Nike, which employs only a few employees, but outsources 75 000 who are directly employed by third party Nike contractors. This and many other examples with respect to the use of manufacturing facilities in China and India by major corporations, confirms the existence of a worldwide drive towards outsourcing. This tallies with
the position held by Acemoglu et al. (2005) that globalization tends to transfer certain labour intensive parts of the production process to countries with lower wages. Wang (2000) saw technological developments and globalisation as key transformers of the internal organization of the firm, creating a shift from the old integrated firms, towards de-layered organizations. A fall in tariff levels may also cause an increase in the number of final producers choosing outsourcing from abroad, reducing global admiration for vertical integration.

Empirical work by Roberts and Supina (1996) and Syverson (2004) reveals that mergers lead to a significant reduction in the merging firms’ profitability. Berlin and Mester (1998) also dismissed the assumption that a single firm more profitably produces complementary products. Berlin and Mester (1998) expressed a concern that integrated firms have the capacity to drive other manufacturers out of the market, and power imbalances will always result from integration. Gaynor and Martin (2000) thus concluded that vertical integration reduces consumer welfare as a result of increased prices (more accurately, the price-cost margin).

Notwithstanding, or presumably as a result of the above viewpoints, Gaynor and Martin (2000) concluded that theory is ambiguous regarding the effect of vertical integration. It is therefore very possible that two different studies that use data from (substantially) similar markets can arrive at different sets of results. This, according to Slade (1998) is a similar position with empirical literature on many topics. Based on the above arguments, there remains, in absolute terms, no definitive effect that vertical integration must have. It can be as efficiency-enhancing as it can on the other hand be anticompetitive.

2.7 COMMODITY PROCUREMENT CHARACTERISTICS
Given the lack of previous research in the procurement literature specific to commodity-procurement decisions and buying strategies, we relied on characteristics that were shown in the commodity-marketing literature to affect marketing choices for commodities. The general proposition guiding this research is that characteristics which play a role in commodity-marketing decisions will also play a role in commodity-procurement decisions. The general procurement literature was also reviewed, and where characteristics relevant to commodity procurement were found. Gowen and Tallon (2003) suggests that the following characteristics are important in commodity-procurement decisions: market efficiency, perishability, seasonality, storage requirements, commodity cost share, budget constraints, cooperative involvement, limited supply, price risk, storage availability, traceability, and volume.
Additionally, Iossa and Stroffolini (2007) insights provided by discussions with commodity professionals and academics completed indicated that the following characteristics also affect procurement decisions, such as sales forecast accuracy, special promotions, and supplier service level.

Rugman (2001) divided the characteristics described above into three broad categories which provide a potential framework for understanding and investigating commodity-procurement decisions: product constraints, company constraints, and service constraints.

### 2.7.1 PRODUCT CONSTRAINTS

Rigby and Zook (2002) states that product constraints are related to the distinct characteristics of the commodity that may require special attention. Some product constraints derive from physical characteristics of the commodity, while others are related to economic characteristics of the commodity’s market. Characteristics derived from product constraints include market efficiency, perishability, seasonality, storage requirements, and the commodity cost share in the final product. Each characteristic is discussed briefly below.

*Market efficiency* refers to the speed at which commodity markets react to and incorporate new information into market prices. Petzel (1997) indicated that “Market information is an important economic good that is valuable to the immediate participants in a trade and to others who operate in related areas. Good information guides efficient production and allocation decisions. A market with a high degree of market efficiency reacts very quickly to new information. Forward purchasing mechanisms are less likely to be implemented in more efficient markets, since a commodity-procurement department would have limited ability to “beat” the market. In less efficient markets, a commodity-procurement department may hold an asymmetric information advantage and may execute a forward purchasing mechanism, such as a forward buy or a forward contract, before the market is able to react. An information “advantage” can occur through “ordinary business activities” that enable a firm to better predict “input and output price movements more accurately than other market participants” (Knill, Minnick, and Nejadmalayeri, 2006).

*Perishability* refers to the length of time before the commodity decays or spoils and can no longer be used in production. A high degree of perishability refers to a commodity with a relatively short shelf-life before spoilage and thus a higher associated transaction cost. Since companies move away from
open markets when transaction costs are high (Williamson, 1975), it is unlikely a manufacturer will use the spot market for highly perishable commodities. High perishability also discourages a standard forward buy that requires the buyer to secure storage. When commodities are highly perishable, it is likely that the manufacturer will develop forward contracts with a supplier to ensure fresh supply is delivered when needed to minimize risk.

*Seasonality* is the degree to which historic price swings (highs and lows) occur across growing seasons. A high degree of seasonality implies a strong and predictable pattern for the commodity’s prices within a year. Seasonality in prices can stem from growing patterns on the supply side and seasonality in demand patterns (e.g., turkey sales increase around Thanksgiving). When purchasing highly seasonal commodities, it is likely that manufacturers will use forward purchasing mechanisms, such as a forward buy, to obtain large volumes of commodities when prices are low and hold product in inventory (Kingsman, 1985).

### 2.7.2 COMPANY CONSTRAINTS

Company constraints are those characteristics which are created by financial, managerial, or organizational environment of the firm (Knill, Minnick, and Nejadmalayeri, 2006).

*Storage requirements* of a commodity focus on the physical environment needed to preserve the commodity’s quality (e.g., refrigeration). High storage requirements imply higher storage costs, so commodities with high storage requirements are less likely to be purchased with forward purchasing mechanisms, such as a forward buy (Kingsman, 1985). When a manufacturer cannot accommodate special storage requirements, taking possession of inventory in advance of production needs may not be practical.

*Storage costs* relatively higher may eliminate any financial gains generally available from a standard forward buy (Kingsman, 1985). Thus, the tradeoff between reductions in unit price and increases in storage costs must be considered, and is likely to favor a spot market strategy or a forward contract where delivery is taken close to the time of production.

The *commodity cost share* in the final product is determined by the contribution of the commodity to overall final product cost (Knill, Minnick, and Nejadmalayeri, 2006). When commodity cost share is high, it is expected that manufacturers will use forward purchasing mechanisms to minimize price risk and ensure profit margins (Hayenga, 1979). Forward purchasing mechanisms also allow a manufacturer to set a stable final product price, avoiding radical price fluctuations for the final good.
2.7.3 SERVICE CONSTRAINTS

Service constraints are related to the manufacturer’s relationships with buyers of the finished good as well as with purchasers of the commodity.

Service can equate to the requirements that the manufacturer sets for its suppliers, including supplier service level and traceability (Knill, Minnick, and Nejadmalayeri, 2006). The first service constraint affects the manufacturer as the seller of a finished good, while the second service standard affects the manufacturer as a buyer of a commodity product (Kingsman 1985).

Perrings and Ansuategi (2000) stated that while most special promotions are based at the retail level, the end result is an increase in production quantities for the manufacturer—translating into an increase in the volume of the required commodity. Special promotions also put price pressure on commodity-procurement departments. If the final product is discounted at retail, the base commodity must be purchased at a lower price in order to maintain profit margins. Based on pre-test interviews, it was apparent that this is a key characteristic, particularly in highly price-competitive markets (Perrings and Ansuategi, 2000). A special promotion is expected to encourage a manufacturer to investigate forward purchasing mechanisms. Sweeney (2002) further pointed out that two reasons for more-advanced purchasing include the need to ensure sufficient supply exists to produce the desired amount of final product forecasted for the special promotion; and the need to protect profit margin needed to make the promotion worthwhile and successful for both the manufacturer and retail customer.

Supplier service level refers to services available from a commodity provider, and can range from providing market forecasts to on-time delivery. Monczka and Trent (1995) list the service level of a supplier as one of the top five concerns of procurement. Commodities with a high service-level requirement are more likely to be purchased through forward purchasing activities. A high service level implies that a relationship generally exists between the two parties and more information is shared, allowing for forward purchasing activities to be executed (Kingsman 1985). It may indicate a higher level of trust and cooperation between the two parties. Thus manufacturers are more willing to listen to supplier ideas with respect to forward purchasing opportunities. Also, suppliers are more likely to work closely with manufacturers and assist in activities (e.g., cost-reduction programs) to ensure preferred-supplier status. Finally, since a spot market implies that no relationship exists between buyers and sellers, this procurement strategy will not be as beneficial when a high level of service is required.

Traceability refers to the ability to trace the source of a commodity and other pertinent product information such as where and how the commodity was grown (e.g., what herbicides were used on the
field). A high degree of traceability refers to a commodity that can be completely traced back to its origins and where many details about the production environment of the commodity are known. When a high degree of traceability is required, a forward purchasing mechanism, such as a forward contract, is more likely to be used. While traceability is typically considered a differentiating trait, it is also true that the line between commodity and differentiated product becomes blurred when traceability is applied to commodity agriculture. In fact, it is the implementation of traceability that transforms an agricultural commodity into a differentiated product. We include it here as an important characteristic that may guide how some food manufacturers make commodity-procurement choices. As traceability is integrated into a commodity or is expected from a supplier, the transaction costs of maintaining traceability increase (Hobbs, 1996), moving a manufacturer away from the spot market where commodities do not have traceability attributes.

2.8 EVALUATING THE PROCUREMENT STRATEGY OPTIONS

The most effective way to undertake the appraisal is in four stages (Knill, Minnick, and Nejadmalayeri, 2006):

a) A high level review considering all the potential options and ruling out those that do not merit further consideration (clear records of the reasons for eliminating any options must be retained)
   e.g. no external market exists for delivery and suppliers are not interested in creating one; and
b) A full options appraisal against the weighted criteria is applied to those remaining options.
c) A guide to the appraisal of possible options for the delivery of a requirement
d) Service delivery option appraisal summary sheet.

Where there are a number of external delivery options it is likely that a structured approach to discussing your requirements with the market will be invaluable in helping you to decide how to progress. Care must be taken to ensure that the consultations do not result in a competition that is skewed towards a particular supplier. The recommended option must satisfactorily meet the requirements and be affordable and viable. It should be agreed with key stakeholders. The business case should be updated with the new information.

2.8.1 COMMODITY STRATEGY REVIEW

User Intelligence Groups should note that commodity profiling and strategy development should not be an isolated or ‘one-off’ occurrence. Whilst a subset of the group needs to be assigned to carry out the ongoing activities of supplier relationship management, monitoring the implementation, compliance and benefits tracking, the team will also need to conduct a periodic review of the chosen
strategic option to validate its applicability for the current/changing environment (both internal to the procuring organisation and external to market supply) (Knill, Minnick, and Nejadmalayeri, 2006).

There are a number of triggers for conducting a commodity strategy review, many of which will relate specifically to the commodity in question. However, there is a strong link between Commodity Profiling and understanding when to review, particularly in the case of supply market analysis and commodity expenditure analysis as these tools can be used to provide a supply and demand input for the strategy review process. Typical drivers for commodity strategy review include (Knill, Minnick, and Nejadmalayeri, 2006):

*Market Developments*: Any changes to the commodity supply market, for example, in terms of regulation or technological innovation. Review may also be prompted by any cyclical price or supply trends identified during supply market analysis (this may be particularly relevant for 'Fast Moving Goods');

a) *Internal Changes*: To the organisation, for example, in its procurement processes
b) *Contract Expiration*: Termination of current supply contracts
c) *Commodity Demand*: Changes to the demand profile for the commodity within the organisational (typically identified by Spend Analysis)

In course of strategy development and implementation, commodity teams should highlight the relevant drivers / triggers, and use these to build appropriate review points into the overall life-cycle of the commodity in question (Monczka and Trent, 1995).

### 2.9 THE PROCUREMENT PROCESS

Procurement is the acquisition of goods or commodities by a company, organization, institution, or a person (Knill, Minnick, and Nejadmalayeri, 2006). This simply means the purchase of goods from suppliers at the lowest possible cost. The best way to do this is to let the suppliers compete with each other so that the expenses of the buyer are kept at a minimum.

Procurement usually involves a bidding process in which the bidders or sellers quote their prices and the buyer accepts the lowest possible bid. This is the most efficient and cost effective method of procuring goods or services if the quality of the goods meets the buyers' requirement.
The process of procurement usually begins when the procurer starts to search the market for bidders. After identifying the suppliers, a request for bids, proposals, quotes, and information can be made. However, direct contact with bidders can also be made instead of advertising the above requests.

After selecting the suitable bidders, a quality check is essential in order to confirm the suitability of the goods in question. The next step would be negotiation of the terms, conditions, quality, and delivery schedules. Logistics and payment are the next two important processes that determine the safe delivery and the payoff of goods.

If this whole process is carried out on the Internet, then it can be called "e-procurement." The huge market that is accessible on the Internet provides numerous and unprecedented opportunities for sellers and buyers alike. This makes it a very popular tool for researching and consulting for the procurement of goods or services.

The whole process of procurement should be carried out in compliance with the existing laws in order to avoid any legal hassles. There are many consultants on the Internet who provide education and advice regarding the procurement process.

The process of procurement may differ slightly from one company to another, but the process is usually symbiotic in nature. It benefits both the buyer and the seller.

2.9.1 PROCUREMENT PROCESS-SPECIFICATION
In some countries the rules are less concerned with what you buy than with how you buy it and public bodies are, in general, free to specify sustainable options, provided that doing so does not distort competition unreasonably or discriminate against products and suppliers from other member states (Knill, Minnick, and Nejadmalayeri, 2006). It is possible, for example, to specify recycled paper or energy-efficient IT equipment (Monczka and Trent, 1995). It is at this stage of the process that sustainability issues can have their greatest impact. It is much easier and more cost-effective to build sustainability into the procurement process at the outset, when requirements are being drawn up, than later in the process.

2.9.2 PROCUREMENT PROCESS-SELECTION OF TENDERERS
Selection criteria must focus on candidates' economic and financial standing and their technical capacity (Knill, Minnick, and Nejadmalayeri, 2006). It is highly imperative that all the issues have to be directly related to the performance of the contract in question. It is not permissible to ask questions
about potential suppliers’ general policies on environmental issues, for example, where they do not relate to the performance of the contract.

2.9.3 PROCUREMENT PROCESS-CONTRACT AWARD
Only two options are available (Knill, Minnick, and Nejadmalayeri, 2006);

a) Lowest Price and
b) Most Economically Advantageous Tender (MEAT).

MEAT is likely to be used in the vast majority of cases and is equivalent to Value for Money. Value for Money is not about securing the lowest initial price; it is defined as the optimum combination of whole-life costs and quality to meet the user's requirement. This emphasis on whole-life costs encourages the consideration of environmental issues where such issues are part of the organisation's objectives (Hobbs, 1996). Resource consumption (e.g. energy, water) and disposal costs are examples of possible award criteria. Criteria for determining the most economically advantageous tender must be relevant to the subject matter of the contract and should be appropriately weighted, according to the importance of each to the performance of the contract (Knill, Minnick, and Nejadmalayeri, 2006).

2.10 JAPANESE MODEL OF BUYING CONTROL
While modern theory on backward vertical integration progresses well in other countries, it is less rife in Japan. Japanese firms continue to contract across the market. Ramseyer (1997) expressed an opinion that they (Japanese firms) should integrate more and be safeguarded from the large risks of opportunistic hold-ups. Based on research by Ramseyer (1997), in Japan, Toyota deals with an independent firm called Toyota Car Body where it controls 53%. Nissan similarly buys its bodies from Nissan Car Body in which it holds 48% control. Hino likewise buys from Hino Car Body where it owns 43%. Unlike in other countries, Japanese firms are smaller, even its biggest firms. Toyota for instance employs a tenth of GM workers, but achieves half GM sales. Hitachi has less than a third of General Electric employees while achieving half the sales. Mitsubishi chemical has a sixth of Dow employees, but has a third of Dow sales. Where American firms vertically integrate and produce in-house, Japanese firms stay small and buy from sub-contractors. Where American firms buy companies outright, Japanese firms buy fractional interests and stop. Ramseyer (1997) attributed part of this to tax law constraints under Japanese tax law, where firms cannot, unlike in America, merge without incurring a huge tax bill. A Japanese firm need not only solve its hold-up problem by buying control. Japanese firms either exercise majority or significant control in their “body providers”. With that control they can eliminate opportunistic contracting schemes as surely as if they merged the firms.
into themselves. How this can be possible for Cairns Foods Limited is a question that primary research will answer at an appropriate time.

2.11 CENTRALISED PROCUREMENT VS DECENTRALISED PROCUREMENT

Centralized purchasing involves having a central location within the organization to buy goods and services for the organization. An organization has a central procurement department with specialized buyers, project managers would then request certain purchases to be done for their project needs and the procurement department carries out those purchase requests. The centralized purchasing department has individuals who handle bids, quotes and ensure that the corporate purchasing standards are met during a purchasing process. For example, at Cairns Foods the procurement department purchases everything from raw materials, packaging materials, spares, computers, pens, mineral water to fruits and company cars. The department selects the suppliers and providers of services to the company.

Centralized purchasing provides for less duplication because of fewer orders thus less processing, receiving, inspection and accounts payable. (Project management Institute, 1997) Centralized purchasing also provides for efficiency and effectiveness in contracting or purchasing because the organization’s procurement department has more management control and are more specialized and they tend to have proper understanding of market conditions. Centralized purchasing also brings about major bulk discounts because of volume purchases for the organization and other benefits that they might get from economies of scale.

The disadvantage of centralized purchasing is that the central office lacks the technical skills or expertise to purchase service or goods that require a person with technical skills e.g. purchasing electronic parts, computer equipment etc.

Decentralized purchasing involves having the project managers, subsidiary, office or departments purchasing their own products or services. Decentralized purchasing normally has individuals attached to the project manager or office responsible for the purchasing needs of the project or office.

The advantage of decentralized purchasing is that it provides for less bureaucracy since the project manager has an individual dedicated to his purchasing needs and thus quick buy decisions can be made. If a manager needs to have software or stationery for his department, he can easily go online and purchase what he needs within no time or he can buy from any office mart just as quickly as he needs it unlike centralized purchasing that needs paperwork to be filled and passed up to the necessary office. Decentralized purchasing also provides for a closer knowledge of requirements since the dedicated buyer has the knowledge of the project needs.
One of the major disadvantages of decentralized purchasing is that there is a lot of duplication of effort in buying, receiving, inspection and accounts payable (Project management Institute, 1997). Also decentralized purchasing causes less buyer specialization thus the organization cannot take advantage of discounts from volume buys, negotiations etc.

Some organizations adopt a hybrid system that combines both centralized and decentralized purchasing. They use centralized purchasing for larger organization-wide contracts, but give individual business units autonomy to make small purchases for their departments or subsidiaries.

2.12 CHALLENGES OF USING CENTRALISED PROCUREMENT STRATEGIES
Research conducted by ODPM (2000) for the Byatt Taskforce suggested that few firms had the corporate capacity necessary to meet the procurement challenge presented by Best Value. In 2000 ODPM found that only a quarter of firms had a written procurement strategy in place. Members were reported as being ‘strongly involved’ in the development of the strategy in only thirteen per cent of cases. Approaching half of all organisations reported that their procurement strategy did not/would not cover e-procurement.

The ODPM research found that around a third of organisations had a ‘central procurement unit’ of some description. However, these were seldom involved in strategic partnerships, the most common responsibility being supplies. Construction procurement and social care contracting were normally outside their scope as well. Some firms rarely had a central procurement unit and thus lacked an internal source of procurement know-how. There was also clear evidence that small enterprises procurement needed to be professionalized. Only half the organisations surveyed by ODPM employed any staff at the centre with a procurement professional qualification. Only a third had any departmental staff with such qualifications.

This finding was subsequently supported by Audit Commission (2002) research on the procurement of services in the context of Best Value Reviews that included learning from inspections (Competitive Procurement, March 2002). In March 2002, the Audit Commission found that forty per cent of organisations had a procurement strategy. However, the Commission’s survey found that many procurement strategies were incomplete, untested or deficient in one or more key areas, and few were thought likely to be used to their full potential. “A common weakness was to describe the procurement process rather than take a strategic overview of the role of procurement.”

Procurement training and development was inadequate. Organisations reported to ODPM that around a fifth made provision for procurement training in corporate programmes. The Audit Commission
found that only around one quarter of organisations had specific arrangements in place to enhance their procurement skills and their ability to make the best use of competition.

It was found that while two-thirds of organisations made use of purchasing consortia for common use items, collaborative procurement of inputs in production was underdeveloped. The Audit Commission (2002) reported that only fifteen per cent of the organisations it surveyed had considered collaborative procurement of services like waste management or leisure provision.

The research evidence on the management of strategic procurement projects raised concerns. Market consultation was underdeveloped. The Audit Commission (2002) found that most organisations conducted some form of market analysis and nearly one half of the organisations surveyed consulted potential suppliers in some way. However “the scope is limited, and is normally confined to communication by telephone or letter or advertising in the trade press. Relatively few authorities go so far as to organized open days or workshops. And fewer still take steps to develop the market or actively seek out alternative or innovative arrangements.” Options appraisal needed significant improvement. Some form of option appraisal was undertaken by most organisations according to the Audit Commission (2002). However, this was defined as no more than “weighing up the advantages and disadvantages of different service models, and of making or buying the service in question”.

Few of the contracts examined by the Commission made provision for incentives for suppliers to raise standards. Procurement practices that tended to work against continuous improvement included over-rigid contracts and quality assurance arrangements that relied too heavily on client-side monitoring and the threat of penalties. There was also some evidence that some organisations were putting improvements on hold until the next contract period. It is well established that even where authorities had adopted best practice project management disciplines for PFI and ICT projects those same disciplines were not necessarily adopted for other strategic (high-value, high-risk) projects.

The Audit Commission (2002)’s overall assessment was that seventy per cent of organisations lacked commitment to ‘competitive procurement’. The Commission listed the following as the main barriers to competitive procurement in this sense:

a) legal complexity
b) risk aversion
c) a restricted supply market
d) lack of client-side capacity
e) narrow approach
f) organisational culture
The ‘CCT culture’ was regarded as perhaps the largest and most frequently encountered barrier. This refers to a cost cutting approach and the ‘them and us’ attitudes engendered by the Compulsory Competitive Tendering regime that preceded Best Value. In Patterns for Improvement (2003), the Audit Commission published its findings from Comprehensive Performance Assessments of single tier and manufacturing organisations. The Commission concluded that one of the reasons for high performance was a ‘robust approach to procurement, based on a well-developed mixed economy. 

Forty-nine organisations were cited in corporate assessment reports as responding well to the challenge of procurement in this sense. In the middle third (48) the corporate procurement strategy was working reasonably well, but more development would enhance capacity. These authorities were not being proactive enough in terms of seeking innovative means of getting services to the customer.

When procurement took place, blockages were caused by a traditional approach to the client contractor split and contract management. This was constraining innovation and firms were not making full use of external suppliers.

2.13CHAPTER CONCLUSION
This chapter reviewed literature on procurement strategies. The main focus was on procurement strategies that are in the food industry. The next chapter is going to look at the methodology of this dissertation.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION
This chapter provides the methodology that was used to answer the research questions as described. Creswell (2003) states that research design should be addressed describing the following:

a) The research theoretical perspective.

b) The research strategies.

c) The research methodology for data collection and analysis.

The methods, tools and techniques that were used for collecting, recording, analyzing and interpreting data were looked at under this section. Both quantitative and qualitative techniques were applied in this research. These techniques were used from planning, collecting data up to the final interpretation of data collected.

3.2 RESEARCH DESIGN
The concept of research design has been defined in a number of ways: a blueprint that enables the investigator to come up with solutions to the problems and guides the researcher in the various stages of the research (Hakim, 1987); a set of guidelines and instructions to be followed in addressing the research problem (Mouton, 1996); provides the glue that holds the research project together (Trochim, 2006).

The literature review permits the building of a preliminary framework, the research questions and the choice of research methodology. According to Saunders, Lewis and Thornhill (2003), research is defined as something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge. Ghauri and Gronhang (2003) gave the importance of a systematic way in which the research should be undertaken, in that research should be based on logical relationships, not just beliefs. They also pointed out that numerous purposes are possible for research including describing, explaining, understanding, criticizing and analyzing. Saunders et al. (2003) give the following research characteristics:

a) Data are collected systematically
b) Data are interpreted systematically.

c) There is a clear purpose

Easterby-Smith, Thorpe and Lowe (2002) in Saunders et al (2003) argue that the following three things make business and management research a distinctive focus:

a) The way in which researchers draw on knowledge developed by other disciplines.

b) The fact that managers tend to be powerful and busy people means they are unlikely to allow research access unless they see personal and commercial advantages.

c) The requirement for research to have some practical consequences.

Saunders et al. (2003) comment that research should complete a virtuous circle of theory and practice through which research on managerial practice informs practically derived theory. This becomes a managerial practice blueprint, thereby increasing the stock of relevant and practical managerial knowledge. Saunders et al. (2003) further comment that the purpose and context of research project can differ considerably within the boundaries of knowledge advancement, addressing business issues and solving managerial problems. They suggested the continuum for research projects according to their purpose and context.

The main function of a research design is to enable the researcher to anticipate what the appropriate research decisions should be so as to maximize the validity of the research. A design is used to structure the research, to show how all the major parts of the research project – the samples or groups, measures, treatments or programmes and methods of assignment – work together to try to address the central research questions.

3.2.1 RESEARCH PHILOSOPHY

A research philosophy is the way we think about development of knowledge. According to Saunders et al (2003), philosophy affects the way we do research. They state that there are three different mutually exclusive views of knowledge development which are positivism, realism and interpretivism.

**Positivism** approach is likened to the view of natural scientist. The researcher assumes the role of an objective analyst, making detached interpretations about those data that have been collected in an apparent free manner. The emphasis is on highly structured methodology facilitating replication and on quantifiable observations that can be statistically analyzed. The assumption is that the researcher is independent of and is neither affected nor affects the subject of the research.
Interpretivism, seeks to understand the subjective view of those under study in order to be able to make sense of and understand their motives, actions and intentions in a way that is meaningful to the research participants. This persuasive argument acknowledges the fact that business situations are complex and unique and hence it is necessary to explore the subjective meanings motivating people’s behaviour in order to understand them.

Realism is based on the belief that a reality exists that is independent of human thoughts and beliefs. In business this can be seen as indicating that there are some social forces and processes that affect people without being aware of their existence on interpretations and behaviours.

Selecting an overall research philosophy is a choice between two primary alternatives: between a positivist and a phenomenological philosophy. A number of authors (Easterby-Smith et al., 1991; Hussey, 1997; Saunders et al., 2000), cited in Kevin and Tobin, (2006), have highlighted the main elements of choice involving research philosophy.

In carrying out this research an open approach was adopted which accepts that there is no philosophy that is superior, the philosophies are situational. The research assumed a mixture of positivism and interpretivism as with most management and business researches. This was done recognizing the following parameters identified by Hussey and Hussey (1997:54) cited in Kevin and Tobin (2006) for this mostly phenomenological paradigm:

- It tends to produce both quantitative and qualitative data: this would fit well with the case study approach.
- Data is rich and subjective: the qualitative data would be rich by nature, and the gathering process would be subjective due to the level of involvement of the researcher.
- The Location is natural: the setting for this research was in public organization (rather than a laboratory setting)
- Validity is high: this would be seen as a result of the empirical data gathering exercise.

3.2.2 RESEARCH STRATEGY
A general plan of how the research question is answered is important for any research. The strategy contains clear objectives, specifies data sources and the constraints faced. The strategy is the overall approach adopted and forms the base for the research tactics which gives the finer details of data collection and analysis. The research methods that can be employed are experiment, survey, case study, grounded theory, and ethnography, action research, cross sectional and longitudinal studies.
**Experiment**

An experiment is used to test existing theories or new hypothesis in order to support them or disprove them. It can be carried out using the scientific method to answer a question or investigate a problem. First an observation is made. Then a question is asked, or a problem arises. Next, a hypothesis is formed. Then an experiment is used to test the hypothesis. The results are analyzed, a conclusion is drawn, sometimes a theory is formed and results are communicated through research papers. A good experiment usually tests a hypothesis. However, an experiment may also test a question or test previous results (Freedman, 1954)

According to Best and Kahn (1989), an experimental research describes what happens when variables are carefully controlled or manipulated, the focus being on variable relationships.

**Survey**

Survey research is one of the most important areas of measurement in applied social research. The broad area of survey research encompasses any measurement procedures that involve asking questions of respondents. A survey can be anything from a short paper-and-pencil feedback form to an intensive one-on-one in-depth interview. Surveys can be roughly divided into two broad areas: questionnaires and interviews.

**Case Study**

Yin (1984) defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used. A case study, according to Best and Kahn (1989), is a way of organizing social data for the purpose of viewing reality. The case study probes deeply into and analyses interactions between the factors that explain present status or that influence change or growth.

 Critics of the case study method believe that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings. Others feel that the intense exposure to study of the case biases the findings. Some dismiss case study research as useful only as an exploratory tool. Yet researchers continue to use the case study research method with success in carefully planned and crafted studies of real life situations, issues and problems (Stake, 1995).
Grounded Theory

Grounded Theory is most accurately described as a research method in which the theory is developed from the data, rather than the other way round. That makes this an inductive approach, meaning that it moves from the specific to the more general. The method is essentially based on three elements: concepts, categories and propositions, or what was originally called “hypotheses”. However, concepts are key elements of analysis since the theory is developed from the conceptualization of data, rather than the actual data (Straus and Corbin, 1996).

Grounded Theory, according to Saunders et al (2003) is the research through theory building through a combination of induction and deduction. Initially data is gathered without theoretical framework and used to develop theory. The developed theory is used to develop predictions that are tested further to confirm or deny the predictions.

According to Best and Kahn (1989), ethnographic studies sometimes known as cultural anthropology is a method of field study observation consisting of participant observation, conversation and the use of informants to study cultural characteristics of primitive. Lewin (1946) in Saunders et al (2003) states that action research is founded on three themes; firstly focus and emphasis of the research is on management of change; secondly the researcher is part of the organization within which research and change are occurring and thirdly the research has implications beyond the immediate project.

Ethnography

Ethnography is the process of studying different aspects of different cultures in a very intimate setting to best find out what makes these people tick. The idea of ethnographic method comes from basic understanding that the world is divided into societies, cultures and micro cultures; this makes studying ethnography committed to inquiring about patterns of interaction and collaboration inside of these cultures along with neighboring ones (Sterk, 1995).

Action research

Action research is simply a form of self reflective enquiry undertaken by participants in social situations in order to improve the rationality and justice of their own practices, their understanding of these practices, and the situations in which the practices are carried out (Carr and Kemmis, 1986). The approach is only action research when it is collaborative, though it is important to realize that action
research of the group is achieved through the critically examined action of individual group members (Kemmis and McTaggart, 1988)

**Cross-sectional research**

Cross-sectional research is research which makes observations at only one period in time. Examples include conducting a survey or opinion poll. It is analogous to taking one still picture of the population or group being investigated. In cross-sectional research, data are collected from the research participants at a single point in time or during a single, relative brief period. The data are typically collected from multiple groups or types of people (Schindler, 2008).

**Longitudinal research**

Longitudinal research is a correlation research that involves repeated observations of the same items over long periods of time. It is a type of observational study. It is often used in psychology to study developmental trends across the life span, and in sociology to study life events throughout lifetimes or generations. It makes observing changes more accurate and it is applied in various other fields (Halford, 1998).

Time horizons are important in research deciding whether a snapshot or diary of representative events should be considered hence the cross sectional or longitudinal approaches. Research can be classified according to the purpose of research. Exploratory researches are valuable to find out what is happening, descriptive studies portray accurate profiles of events or situations and explanatory studies establish relationships between variables (Saunders et al., 2003).

In carrying out this research it was recognized that the strategies do not exist in isolation, they actually can be mixed and matched. Two methods were used for different purposes in the study. This research used a case study and survey.

**3.2.3 TYPES OF RESEARCH**

There are various types of research that a researcher can use. The types of research that can be employed are exploratory, descriptive and explanatory studies (Saunders et al., 2003).
**Exploratory Research.**

Exploratory research is a type of research conducted because a problem has not been clearly defined. It provides insights into and comprehension of an issue or situation. It helps to determine the best research design, data collection method and selection of subjects. Given its fundamental nature, exploratory research often concludes that a perceived problem does not actually exist. It often relies on secondary research such as reviewing available literature or data, or qualitative approaches such as informal discussions with employees, management or competitors, and more formal approaches through in-depth interviews, focus groups, case studies or pilot studies (Eisenhardt, 1989).

**Explanatory Research.**

Explanatory research is a method or style of research in which the principal objective is to know and understand the trait and mechanisms of the relationship and association between the independent and dependent variables. It builds on exploratory and descriptive research and goes on to identify the reasons for something that occurs. It looks for causes and reasons. It is normally used when we encounter an issue that is already known and have a description of it, and we might begin to wonder why things are the way they are. The desire to know “why”, to explain, is the purpose of explanatory research (Scapens, 1990).

**Descriptive Research.**

Descriptive Research is used to obtain information concerning the current status of the phenomenon to describe “what exists” with respect to variables or conditions in a situation. The method involved range from the survey which describes the status quo, the correlation study which investigates the relationship between variables, to developmental studies which seek to determine changes over time (Scapens, 1990).

This research used the descriptive and explanatory researches in a way of trying to describe the procurement process and provide reasons for the process.

**3.3 POPULATION AND SAMPLING TECHNIQUES**
Cairns Foods Ltd is made up of Head Office, and branches or SBUs. At these SBUs, the total number of employees – 1178, as shown in Table 3.1 above, make up the study population as they face challenges in procurement strategy implementation. For a research of this nature, it is impossible to collect and analyze all the data available owing to time and resource constraints. It was therefore, necessary to adopt sampling.

### 3.3.1 SAMPLING DESIGN

Sampling techniques provide a range of methods that enable one to reduce the amount of data needed to collect by considering only data from a subgroup instead of all possible cases or elements. Saunders et al. (2003) argue that at times only sample data is required to generalize about all the cases from which a sample has been selected. They contend that a census survey may not necessarily provide more useful results than a well-planned sample survey.

### Sample Size

A sample size of 40 employees was randomly selected from Cairns Foods Ltd. This cuts across all categories of employees and departments within the company. The researcher ensured that there is representation in each category of employees. Table 3.2 clearly summarizes the sample.
Table 3.2: The Study Sample

<table>
<thead>
<tr>
<th>Designation</th>
<th>Number of staff</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Managers</td>
<td>11</td>
<td>28%</td>
</tr>
<tr>
<td>Supervisors</td>
<td>15</td>
<td>37%</td>
</tr>
<tr>
<td>Clerks/Shop floor staff</td>
<td>13</td>
<td>32%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

In research, data can be collected from every possible case or group member. There is however, difficulty in collecting all data available due to time, cost and access restrictions. It is therefore, necessary at times to collect data from a representative sample of possible respondents.

**Sampling Procedure**

There are several options for both probabilistic and non-probabilistic sampling techniques (Saunders et al, 2003). The probabilistic sampling was used and it was assumed that each case that was selected from the population or whole was known and equal for all cases. The selected techniques were chosen from the available techniques that are summarized in figure 3.1 overleaf:
The probability sampling that was used in this research is according to Saunders et al. (2003) and has the following stages:

- Identification of suitable frame based on the research questions and objectives
- Deciding on sample size.
- Selecting the most appropriate sampling technique.
- Checking that the sample is representative of the population.

The method involved choosing the sample subjects randomly from the population. No formula was used to select the respondents to allow every member equal chance to be selected. The research is for strategy implementation and it was felt that since the company has more junior staff members than those in managerial posts, there was a likelihood of getting more responses from the lower levels.
Stratified random sampling was used involving grouping the population into groups of directors, managers, supervisors and clerks/shop floor staff categories.

The reason for taking a stratified sample was to have a more efficient sample than could have been taken on the basis of simple random sampling. Random sampling error is reduced because the group adopted are internally homogeneous but comparatively different. More technically, a smaller standard error may be the result of stratified sample because the groups are adequately represented when strata are combined. Another reason for taking a stratified sample was the assurance that the sample will accurately reflect the population on the basis of criterion or criteria used for stratification.

3.4 DATA COLLECTION METHODS
Data to be collected can be in two forms, that is primary data and secondary data.

Secondary data on the other hand is data that is readily available, like data from directories, statistics, published or unpublished work based on research. In general secondary data exists in published sources.

Primary data is data which is created for the first time and there is no previous available source. It is facts and information collected specifically for the purpose of the investigation at hand or information that the researchers gather first hand. It is gathered directly from elements of the population or selected sample.

Wegner (1999) lists three methods of gathering data:

a) Direct observation.

b) Interview methods

c) Experimentation.

Additional research instruments that can be used by a researcher, are focus group discussions and questionnaires.

3.4.1 OBSERVATION
Observation can be participatory or non participatory. It is when data is collected by directly observing the respondents in action. The advantage of the method is the unawareness of respondents hence they act in their natural way reducing bias. This method is however passive in collecting data and was found not suitable for this research where data could not be observed. The only form of
observation that was used for this research was the researcher’s own experience with the organization, which reinforced data that was collected through questionnaires.

### 3.4.2 EXPERIMENTATION
According to Wegner (1999) is used to collect primary data through manipulation of variable under controlled conditions. While this method produces more objective and valid data, it was found not suitable for our subject.

### 3.4.3 INTERVIEW METHODS
These methods enable data to be collected through direct questioning to get responses for primary data. A questionnaire is the instrument used to structure data collection process.

Personal Interviews involve a process where questionnaires are completed through face-to-face contact with the respondents. The advantages of interviews according to Saunders et al (2003), are:

- High response rate.
- Questioning allows for further probing of reasons and clarifications.
- Data collection is immediate and accurate.
- Ability to observe non-verbal responses.

The disadvantages are:

- The process is time consuming.
- There is need for trained interviewers hence more expensive.
- Few interviews get conducted due to time constraints.
- The interviewer may introduce some influence.

Due to the disadvantage of trained interviewer requirement, this method was not used though some passive form of it were applied through initiating discussions in the subject matter to get more information of the research questions.

### 3.4.4 QUESTIONNAIRE
A questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statement can be made about a specific sample of people or entire populations. Questionnaires are frequently used in quantitative researches. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents (Earl, 1989).

Questionnaires were used as the main primary data collection tool. Additional information was obtained through semi-structured and unstructured interviews, which were used to follow up and clarify answers provided in the questionnaires. Hoinville et al. (1977) consider it most important to provide assurances about confidentiality. Certain parts of the questionnaire, particularly concerning organizational competencies, could be construed as sensitive both from the point of view of the individual and the organization they represented. A statement that no individual would be identified in any publication without express consent was included in the questionnaire itself.

**Questionnaire Composition and Design.**

The questionnaire (Appendix 2) was clearly laid out and questions designed in order to attract a high response rate as well as ensuring reliability and validity of data collected. The questionnaire was designed to accurately capture the attitudes and beliefs of the respondents. It was crafted in a way that ensures that all data essential to meeting the objectives of the research were captured. The questions were presented in a logical and coherent way that makes reading and filling easy. The questionnaire was restricted to an optimal size that attracts a high response.

**Nature of Questions and Responses.**

The items in the research questions individually and collectively provide the data required for the successful achievement of the research objectives. Each question in the questionnaire was intended to solicit information of a particular type relating to the research topic.

The respondents were asked to indicate with a cross (X), circle (O) or a tick (V) on the most appropriate answer. The responses were designed in line with the Likert Scale. The Likert Scale consists of a number of evaluative statements concerning an attitude about their satisfaction and the respondents indicated the extent to which they agree or disagree to a variety of statements. The Likert scale ranged from strongly disagree (Str Dis), Disagree (Dis), Neutral, Agree (Agr) and strongly agree (Str Agr). Other responses required responses of Yes, and No.
**Pre-testing of the Questionnaire.**

Before administering the questionnaire, it was pilot tested to ensure that ambiguous questions were eliminated. Saunders et al (2003) posits that the purpose of conducting a pilot test is to refine the questionnaire so that respondents do not have difficulties in answering questions. They note that pilot testing enables the researcher to assess the validity and reliability of questions. All questions have to be interpreted in the same way. The pilot questionnaire was given personally to six colleagues and they were asked to complete the questionnaires, note how long it took and provide comments on wording and layout. The pilot survey enabled the researcher to detect concerns about the wording of questions and their sequencing. Some of the questions were ambiguous. In view of this the questions were refined in order to eliminate confusing questions. The sequencing of questions was also modified to ensure smooth flow of questions.

**Self Administered and Postal Questionnaires Surveys**

The respondents were given at least two weeks before the administered questionnaires were collected or returned. A quick response was highly desirable and it was also felt that if too much time was given for completion, the questionnaires may be put on one side and forgotten. On the other hand, if the return dates were missed due to holidays for example, the questionnaires might not be returned at all. In view of these considerations it was decided to follow the advice of Bell (1993) and specify a date two weeks from posting on e-mail. A reminder was sent out after the due date extending the deadline. Respondents were thereby encouraged to respond quickly, but late returns could be accepted to maximize the overall response rate.

Questionnaires were sent through e-mails and through hard copies, taking count of every e-mail and hard copy administered. The method was used due to its advantages which Saunders et al. (2003) list as follows:

- A large sample can be reached.
- More cost effective.
- The possibility of interviewer bias is eliminated.
- The respondents have time to consider their responses.
- Due to the anonymity of responses, the respondents are likely to be honest.
The Disadvantages are:

- Response rate can be very low.
- The respondents cannot get clarity on questions easily.
- The possibility of probing further and getting clarity are limited.
- The process takes longer to conclude.
- There is no control over who actually answers the questionnaires.
- The possibility of check back for validity is very minimal.

The questionnaire was administered through e-mail and follow ups made through same means, in person and by phone. The names of selected respondents were kept secret in order to avoid contamination of responses through liaison. Saunders et al. (2003) contents that contamination of respondents’ answers reduces data reliability. The purpose of the study was explained in the covering letter. Dillman, Eltridge and Little (2002) argue that the message contained in both the covering letter and the first page of the questionnaire affects the response rate. Confidentiality promises were made and the use of the survey results clearly defined.

Mehta and Sivadas (1995) highlight advantages of internet survey over surface mail survey including speed of delivery and negligible marginal costs. Posting e-mail is less resource intensive than printing, packing, addressing and stamping “snail mail”. Once the address is stored, it is equally easy to post reminders and the e-mail system itself provides an audit trail with dates of posting and receipt. Incorrectly addressed e-mail is notified almost instantly. Respondents were found to reply more quickly by e-mail than by post. Kiesler and Sproull (1986) found that e-mail responses were more candid, leading to longer answers to open ended questions.

Semi-structured interviews were carried out to compliment questionnaires by capturing additional information. Saunders et al (2003) concur with this approach by arguing that it is usually better to link questionnaires with other data collection methods. The interviews provided an opportunity to clear possible ambiguities by further explaining answers provided. In order to ensure maximum cooperation and minimize disruptions, interviews were held in interviewees’ offices during working hours.
3.5 DATA ANALYSIS

The study of a problem through the use of statistical data analysis usually involves four basic steps as listed here under:

a) Defining the problem.

b) Collecting the data.

c) Analyzing the data.

d) Reporting the results.

Data are easy to collect but what is really needed in complex problem solving is information. A database may be viewed as a domain that requires probes and tools to extract relevant information. As in measurement process itself, appropriate instruments of reasoning must be applied to the data interpretation task. Effective tools serve in two capacities:

a) To summarize the data.

b) To assist in interpretation.

The objectives of interpretive aids are to reveal the data at several levels of detail. As part of the process of analysis, data reduction includes summarizing and simplifying the data collected and or selectively focusing on some parts of the data. Methods of reducing data include the production of interview or observation summaries, coding and categorizing data, and writing memos. The analysis also aims to describe, construct measurement scales, generate empirical relationships, explain and predict. For it to be of use, analysis must satisfy the principles of logical inference (Saunders et al 2003).

Tables, bar and pie charts were used to present data. Tables are the simplest forms of summarizing the data as specific values can easily be read. The bar and pie charts provide a visible clue and also provide an accurate presentation of data (Saunders et al, 2003). The tables and graphs provided a basis for data analysis in this research.

3.6 RESEARCH PROCEDURE

The research was concerned with the way data was collected in order to answer the research questions. Saunders et al (2003) state that the research process goes through a set of choices depicted by the research onion as shown in figure 3.2. Each layer of the onion represents an important stage for research choice until the centre stage, which deals with final data collection method.
The layers are peeled from outside going inside as follows:

a) The first layer answers the research philosophy adopted

b) The second layer considers the subject of the research approach that follows the philosophy,

c) The third layer is the research strategy.

d) The fourth considers the time horizon.

e) The fifth layer is the data collection method used.
The arrangement of the onion as above was adopted for this research. The research philosophy, the research approach, the research strategy, the time horizon and the data collection methods that were used are explained in the foregoing sections. The research methodology was guided by this approach.

3.6.1 CHOICE OF RESEARCH APPROACH.

There are two approaches to research, that is deductive approach and inductive approach. According to Saunders et al (2003), deductive approach is where theory and hypothesis are developed and a strategy is designed to test the hypothesis where as inductive approach is where data is collected and theory developed resulting from the analysis.

Robson (1993) in Saunders et al (2003), states that there are five sequential stages of the deductive approach as follows:

a) Deducing hypothesis from theory.

b) Expressing the hypothesis in operational terms, which propose relationship between two specific variables.

c) Testing the hypothesis.

d) Examining the outcomes.

e) If necessary modifying the theory in light of the findings.

The main characteristics are therefore, firstly search to explain relationship between variables; secondly the researcher is independent of what is being observed; thirdly concepts need to be operationalised in a way that enables facts to be measured quantitatively and finally it is necessary to generalize the findings from samples of sufficient size. The inductive approach may result in alternative theory being suggested. The research is more likely to use qualitative data and a variety of methods to collect the data in order to establish different views of phenomenon (Saunders et al, 2003).

In this research, the different research approaches were combined to tape the advantages of each approach. The deductive approach was however be more dominant. The deductive approach was preferred for its quickness to collect data, low risk and familiarity with prospective respondents.
3.7 RESEARCH LIMITATIONS

There searcher encountered a number of budgetary logistical and administrative challenges during the research. The entire project had to be carried out and completed within a period of six months and as such there was limited time to make preparations and carry out the research. The researcher is on full time employment with Cairns Foods Limited at Head office, hence the research work could only be carried on very limited time. This resulted in him getting limited access to certain information and individuals.

The research having been carried out with the respondents who are geographically and widely sparsed throughout the country, there was limited financial and human resources at the researcher’s disposal hence the challenges of travel costs were encountered. This resulted in the research being confined to a limited scope of individuals. The researcher also had to contend with non-responses and regular rescheduling of appointments by certain individuals.

However, despite the various challenges encountered in carrying out this research, the researcher sincerely believe that future researchers in the same area of scholarly interest will find the information presented in this research useful.

3.8 CHAPTER CONCLUSION

This chapter has dealt with the methodology employed in conducting this research taking cognizance of the rationale for the study. The target population and sampling have also been discussed. Stratified sampling was used to select 40 respondents in the study. The chapter also covered the data collection instrument and data analysis methods used. The questionnaire construction, questionnaire items and administration areas have also been discussed. The next chapter presents the results of the collected data.
CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 INTRODUCTION
This chapter is about presentation and discussion of findings from the survey based on the responses to questionnaires. The targeted respondents were the staff and management of Cairns foods. The analysis was done by first entering the data using Epi-Info and run analysis using a package called SPSS. These findings are discussed by providing a gap analysis between findings and literature reviewed in chapter two of this dissertation.

4.2 RESPONSE RATE
The researcher administered 40 questionnaires to the staff and management of Cairns Foods Private limited. Of those 40 administered questionnaires 32 were returned to the researcher giving a response rate of 80%. This response rate is considered high enough to summarise the research findings.

4.3 GENERAL INFORMATION

4.3.1 POSITION IN THE ORGANISATION
The positions of the respondents that participated in the research are illustrated in the figure below.

![Position in the organisation](image)

Figure 4.1: Position in the organisation
Figure 4.1 reveals that 3% of the survey participants were directors and 28% were managers. Furthermore 37% respondents indicated that they were employed at Cairns Foods as supervisors and 32% stated that they were clerk/shop floor workers. This shows that the respondents held diversified positions in the organisation thereby giving different views to the research findings.

4.3.2 DURATION SERVING THE FIRM

The duration that the respondents spent working at Cairns are summarised in the figure below.

![Bar chart showing duration serving the firm]

Figure 4.2: Duration serving the firm

Figure 4.2 shows that 3% of the research participants indicated that they have been working at Cairns for a period less than a year while 16% stated that they have served the organisation for 1-5 years, 28% of the research participants have served Cairns for 6-10 years and the majority of 53% have served the organisation for a period over 10 years. The results imply that the research participants have spent enough time in the organisation to give valid responses.
4.4 PROCUREMENT STRATEGIES BEING EMPLOYED BY CAIRNS

The section presents the research findings on the procurement strategies that are being employed by Cairns basing on the views of the staff and management.

4.4.1 AWARENESS OF THE PROCUREMENT STRATEGIES

The research participants were asked by the researcher if they are aware of any procurement strategies that are being implemented in the organisation. The findings are presented in the figure below.

Figure 4.3: Awareness of the procurement strategies

The majority (63%) of the respondents are not aware of the procurement strategies used in the organisation and 37% are aware of the procurement strategies in the organisation. This implies that the staff and management of Cairns are not aware of the procurement strategies that are being implemented. The findings contradict to Bittman, (2001), who states that the starting point for any procurement strategy should be to identify the objectives and benefits that are sought from the exercise. Consideration should also be given to the market structure, particularly the issues relating to strategic management of key suppliers - do they have the capability and capacity (as well as the commitment) to meet your requirement as well as those of others in the public sector?

4.4.2 PROCUREMENT STRATEGIES

The research sought to establish the procurement strategies that are being used in the manufacturing industry. The views of the staff and management of Cairns are presented in the figure overleaf.
Figure 4.4: Procurement strategies

Figure 4.4 reveals that 81% of the respondents agreed that Spot market is the procurement strategy being used while 19% disagreed. For the futures strategy, 45% of the respondents agreed that futures is the procurement strategy being used while 55% disagreed. In terms of forward buying, 46% of the respondents agreed that they used forward buying as a procurement strategy and 54% disagreed. This implies that the organisation used all procurement strategies. However, it seems that Spot market is used more often than other strategies.

In support of the study findings the research literature explains that there are several reasons why Spot market is a widely used strategy. The first reason is that it involves no development of strategies or market analysis; rather it merely involves monitoring current supply and reordering (Arthur, 1971). The spot market is a very applicable tool when there is very little price movement. For many agricultural goods, there are no functioning futures markets. This leaves the spot market and forward buys as the main strategies used to procure commodities.

On the other hand Bittman (2001) explains that another procurement instrument that commodity procurement departments use is tracking futures. A futures contract is an obligation to buy or sell a given quantity and standard quality of a commodity at a designated future time. The main way that futures are used is to hedge a cash purchase that will take place in the future (Bittman, 2001).
Moreover, in support to the study findings Kingsman (1985) argues that the main reason why forward buy is not widely used is that there is price risk. There is a chance that the commodity price could decrease and the manufacturer could pay more than the market price at time of manufacturing. Variations exist on forward buys that focus on who takes physical possession of the commodity at the time of purchase. This is a major consideration for a manufacturer with limited storage space is available for them to use.

The respondents who acknowledged awareness of the procurement strategies demonstrated knowledge of the circumstances under which the organization would use each strategy. According to them, the spot market strategy is used when there is very little price movement and, hence, cannot be implemented to minimise or reduce the high risk of unpredictable prices.

Respondents also indicated that the futures strategy is used when price forecasts indicate that prices will be increasing in order to “lock-in” the current market price. Forward buying is used when a manufacturer purchases and takes possession of a commodity in advance of manufacturing needs in order to have guaranteed supplies of materials in future.

Figure 4.5: Validity of the procurement strategies that are being used by the organisation

The majority of the respondents (71%) agreed that reduction of material stock outs is a direct indication of the validity of the procurement strategies that are being used and 29% disagreed. Moreover 44% respondents agreed that increase in return on investment is an indicator of the
validity of the procurement strategies adopted by the organisation whilst 56% disagreed. Also 74% disagreed that reduction of production stoppages shows the validity of the procurement strategies and on the contrary 26% agreed. This shows that the procurement strategies’ validity is mainly measured by the reduction of material stock outs and to a lesser extent by increase in return on investment and reduction of production stoppages.

4.4.3 FACTORS THAT ARE NEGATIVELY AFFECTING PROCUREMENT PROCESS

The majority of the respondents that is 53% strongly agree that price risk is a factor that is negatively affecting the procurement process, 11% agreed and 3% were neutral (Table 4.1). However, 29% disagreed and 6% strongly disagreed. Furthermore, about 53% of the respondents agreed that volume is a factor that has negatively affected the procurements process at Cairns Foods Ltd and 41% disagreed.

Table 4.1 shows that 69% of the respondents stated that perishability is a factor that is negatively affecting the procurement process, 4% were neutral and 27% disagreed. Accuracy of sales forecast was agreed upon by 97% of the respondents as a factor that is negatively affecting the procurement process at Cairns while 51% respondents stated special promotions. This implies that the factors that are negatively affecting the procurement process at Cairns are price risk, volume, perishability, accuracy of sales forecast and special promotions.

Table 4.1: The Factors that are negatively affecting procurement process

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price risk</td>
<td>53%</td>
<td>11%</td>
<td>3%</td>
<td>29%</td>
<td>6%</td>
</tr>
<tr>
<td>Volume</td>
<td>34%</td>
<td>19%</td>
<td>6%</td>
<td>31%</td>
<td>10%</td>
</tr>
<tr>
<td>Perishability</td>
<td>19%</td>
<td>50%</td>
<td>4%</td>
<td>27%</td>
<td>Nil</td>
</tr>
<tr>
<td>Accuracy of sales forecast</td>
<td>34%</td>
<td>63%</td>
<td>Nil</td>
<td>3%</td>
<td>Nil</td>
</tr>
<tr>
<td>Special promotions</td>
<td>13%</td>
<td>38%</td>
<td>9%</td>
<td>15%</td>
<td>25%</td>
</tr>
</tbody>
</table>
High price commodities have a relatively stable price. If the commodity price is relatively volatile, it is expected that the manufacturer will implement a risk management instrument in the form of an advanced pricing mechanism, such as a forward buy. Kingsman (1985) A high volume commodity requires a large quantity to be procured in a given time interval. On the other hand, low volume commodities do not require large quantities to be procured in order to maintain the manufacturing facility.

It is expected that a manufacturer would tend to use the spot market with a commodity that is highly perishable. Essentially, the transaction costs, as explained by Williamson (1975), are very high for perishable commodities. When the transaction cost increase, the manufacturer will tend to move away from markets (Williamson, 1975).

To further explain the research findings, Reid and Riegel (1989) found that in large food service firms, around fifty three percent of the companies had the procurement department also handle the sales forecast activity. It is also noted that, in cases where another department did the sales forecast, procurement departments rated cooperation with the people who develop the sales forecast as very important to procurement success (Reid and Riegel, 1989). A highly accurate sales forecast is a forecast volume which is relatively close to the actual sales that occur.

Given the lack of previous research in the procurement literature specific to commodity-procurement decisions and buying strategies, we relied on characteristics that were shown in the commodity-marketing literature to affect marketing choices for commodities. The general proposition guiding this research is that characteristics which play a role in commodity-marketing decisions will also play a role in commodity-procurement decisions. The general procurement literature was also reviewed, and characteristics relevant to commodity procurement were found. Gowen and Tallon (2003) suggests that the following characteristics are important in commodity-procurement decisions: market efficiency, perishability, seasonality, storage requirements, commodity cost share, budget constraints, cooperative involvement, limited supply, price risk, storage availability, traceability, and volume.

Additionally, insights provided by discussions with commodity professionals and academics completed prior to the case interviews indicated that characteristics not previously discussed in the literature also affect procurement decisions, such as sales forecast accuracy, special promotions, and supplier service level.

### 4.4.4 THE PROCUREMENT ROUTE THAT THE ORGANISATION ADOPTS

The table overleaf shows the procurement route that the organisation adopts.
Table 4.2: Procurement route that the organisation adopts

<table>
<thead>
<tr>
<th>The procurement route that organisation adopts</th>
<th>% of those who selected the factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Procedure</td>
<td>16%</td>
</tr>
<tr>
<td>Restricted Procedure</td>
<td>63%</td>
</tr>
<tr>
<td>Negotiated Procedure</td>
<td>19%</td>
</tr>
<tr>
<td>Competitive Dialogue</td>
<td>2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 4.2 shows that 16% of the respondents states that the organization has adopted the procurement route of open procedure, 19% stated negotiated procedure while 2% argued that the organisation has taken the procurement route of competitive dialogue. The majority of the respondents were of the view that the organisation has adopted the procurement route of restricted procedure. Basing on the above findings the research adopts the implication that Cairns Foods Ltd has adopted the restricted procedure as its procurement route.

The research literature further explains the study findings above by stating that the procurement strategy should facilitate a collaborative approach and open communication between potential suppliers and the client; subject to the procurement route chosen. If the requirement is very complex, consider breaking it into several smaller and/or phased procurements, but be aware of the potential to be in breach of the “aggregation rules” (Reid and Reid and Ruiegel (1989).

The restricted procedure allows any interested party to request to participate in the contract tender but only those invited by the organisation following a pre-qualification stage may submit a tender (Gowen and Tallon, 2003).
4.4.5 NEED TO CONSIDER CERTAIN AREAS IN DEVELOPING COMMODITY PROCUREMENT STRATEGIES

Figure 4.6: Need to consider certain areas when developing procurement strategy

Figure 4.6 reveals that 61% of the research participants agreed that there are areas that organisation must examine when developing commodity procurement strategies. On the contrary 39% disagreed. Basing on the views of the majority the result implies that indeed there are areas that the organisation must examine when developing commodity procurement strategies. Gowen and Tallon (2003) states that the organization needs to take note of the price of the product, the seasonality of the product, its perishability and the need for special storage conditions like refrigeration when determining the procurement strategies.

In support to the study findings above the research conducted by ODPM for the Byatt Taskforce suggested that in order to develop an effective commodity procurement strategy an organisation must examine all areas necessary in the process. Also it was found out that few firms had the corporate capacity necessary to meet the procurement challenge presented by Best Value, (Competitive Procurement, March 2002).

4.5 THE CHALLENGES FACED IN PROCUREMENT

The section presents the challenges faced in procurement.
### 4.5.1 CHALLENGES IN PROCURING COMMODITIES

Table 4.3: Challenges in procuring commodities

<table>
<thead>
<tr>
<th>Challenges in procuring commodities</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow constraints</td>
<td>96%</td>
<td>4%</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Shortage of materials from suppliers</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>Economic sanctions</td>
<td>31%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Results in the table above reveal that 96% of the respondents stated that cash flow constraints are the major challenge being faced by the organisation in procurement and 4% disagreed. This implies that cash flow is a major constraint in procurement in Cairns Foods. About 16% of respondents indicated that bureaucracy is the major constraint and the majority 84% disagreed. This implies that there is no red-tap in the organization in terms of procurement issues. In terms of shortages of raw materials from suppliers, 74% stated that shortage of materials from suppliers is challenges being faced by the organisation in procuring commodities for the organisation. On the other hand 31% of the respondents stated that economic sanctions are a challenge that they are facing in procurement. This shows that cash flow constraints and shortage of materials from suppliers are the main challenges being faced by Cairns in procuring commodities while other challenges present include bureaucracy and economic sanctions.

### 4.5.2 AVERAGE MONTHLY ORDER FILL RATE

The average monthly order fill rate is presented in figure 4.8 overleaf basing on the views of the staff and management of Cairns.
Figure 4.7: Average monthly order-fill rate

Majority (74%) of the respondents indicated that the average monthly order fill rate of Cairns is less than 20% and 11% stated that it is between 21-40%. Moreover, findings also revealed that 9% of the respondents indicated that the monthly order fill rate is 41-60% and 6% argued that it is 61-80%. This implies that the monthly order fill rate of Cairns is less than 20%.

In addition to the study findings, the commodity procurement department must consider several issues regarding maintaining supply. According to Kingsman (1988), there are factors involved in maintaining and/or determining the level of supply. First, future quantity requirements of the commodity must be determined and subtracted from supplies already in inventory or ordered. Second, future requirements must be converted into a schedule of future purchases, specifying the timing and the size of the commodity purchase. Third, financial and operational constraints must be considered to determine the minimum and maximum lead-times needed for manufacturing. This helps determine what forward pricing mechanisms, if any, can be used. Fourth, while conforming to constraints of the buying time period, the department determines the timing for actual buys. These two time periods can be exactly the same, or if accurate price forecasts are available, purchases can take place in different time periods to take advantage of price swings. Fifth, buying strategies for each commodity must be developed and connected to scheduled orders with appropriate on time deliveries that allow efficiency at the manufacturing plant (Kingsman, 1985).

4.5.3 STOCK OUTS
The researcher asked the respondents how often they have stock outs of the average retailers’ core basket of goods and the responses are presented below.
The majority (69%) of the respondents stated that very often they have stock outs of the average retailers’ core basket of goods, 12% indicated often and 9% stated sometimes. Furthermore the research findings indicated that 7% of the staff and management of Cairns stated that they have stock outs of the average retailers’ core basket of goods and 3% argued very rarely. This implies that Cairns Foods Ltd very often has stock outs of the average retailers’ core basket of goods.

In support to the study findings Kingsman (1985) states that the expectation is that the more efficient a commodity market is the less forward buys will be implemented. This is because if the market is very efficient, it is much more of a challenge for a commodity procurement department to be able to figure out and in effect, beat a market. In efficient markets by the time buyers have information, it is likely that the market has already reacted to the information without stock outs. On the other hand, in relatively inefficient markets it is more likely that a commodity procurement department could be ahead of the market and execute a forward price strategy before the market reacts.

4.5.4 COMPETITIVENESS OF PRICES
The researcher investigated the competitiveness of prices versus other manufacturers and wholesalers. The findings from the investigation are summarised in the figure below.
Figure 4.9: Competitiveness of prices

Figure 4.9 reveals that 81% of the staff and management of Cairns stated that the prices of Cairns are uncompetitive versus other competitors. On the other hand 3% stated that they are competitive and 16% were neutral. This implies that the prices of Cairns are uncompetitive versus competition. High price commodities have a relatively stable price. If the commodity price is relatively volatile, it is expected that the manufacturer will implement a risk management instrument in the form of an advanced pricing mechanism, such as a forward buy. This is because if no advanced price mechanism is used there is a high risk of paying a significantly higher price at a later date when the commodity is bought on the spot market. If there is little price risk, there is often little reason for commodity procurement department to spend time to develop an alternative buying strategy because the price is relatively stable. As such when risk is low, it is likely that the buying strategy used is the spot market.

4.5.5 RATINGS OF THE ATTRIBUTES OF CAIRNS PROCUREMENT
Respondents were asked by the researcher to rate the attributes of cairns procurement and their ratings are presented in the table overleaf.
Table 4.4: Rating of attributes of Cairns procurement

<table>
<thead>
<tr>
<th></th>
<th>Excellent</th>
<th>Good</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency of products flow</td>
<td>3%</td>
<td>34%</td>
<td>63%</td>
</tr>
<tr>
<td>Effectiveness as a channel</td>
<td>4%</td>
<td>78%</td>
<td>18%</td>
</tr>
<tr>
<td>Trading terms</td>
<td>20%</td>
<td>63%</td>
<td>17%</td>
</tr>
<tr>
<td>Payment track record</td>
<td>8%</td>
<td>Nil</td>
<td>92%</td>
</tr>
<tr>
<td>Speed of decision making</td>
<td>3%</td>
<td>16%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Table 4.4 reveals that 63% of the respondents stated that Cairns procurement is poor in efficiency of products flow, 3% stated it is excellent and 34% said good. Cairns procurement was rated as good in terms of effectiveness as a channel by 78% of the respondents, 18% said poor and 4% stated it is excellent. According to 63% of the respondents they rated good the attribute trading terms, 20% rated excellent and 17% rated poor.

Moreover 92% of the respondents stated that payment track records of Cairns procurement are poor and 8% rated excellent. Speed of decision making was rated poor by 81% of the respondents in evaluating Cairns procurement, 16% stated good and 3% said excellent. This implies that Cairns procurement is poor in the speed of decision making, payment track record and efficiency of products flow. On the other hand the study also implies that it is good in trading terms and effectiveness as a channel.

The function of a commodity procurement department is to, among other things, minimise the cost of commodities that are used as inputs into finished products. Theoretically, a firm is expected to maximise profits; this is the expected behaviour required in order for a food manufacturer to survive in a perfectly competitive environment (Hayenga 1979).

Once a commodity buyer evaluates the volume needed and the different cost for each strategy, then the appropriate strategy for each commodity is chosen. There are three strategies available for commodity procurement: the spot market, using futures and the forward buying. The optimal strategy depends on a variety of factors. For example, perishable items have limited shelf life and thus must be procured in a way to ensure freshness.
4.5.6 PROCUREMENT NEGATIVELY AFFECTED BY THE MULTI-CURRENCY SYSTEM OF THE ECONOMY

The research respondents were asked by the researcher if they think that procurement was negatively affected by the multi-currency system of the economy. The findings are presented below.

![Pie Chart: Procurement negatively affected by the multi-currency system of the economy]

Figure 4.10: Procurement negatively affected by the multi-currency system of the economy

Majority (81%) of the respondents stated that procurement in the organisation was not negatively affected by the multi-currency system of the economy. On the other hand 19% agreed that it was negatively affected. This leads to the implication that procurement in the organisation was not negatively affected by the multi-currency system. The general reason and view of the respondents was that the multi-currency system brought about sanity in the supplies market and raw materials are generally more available after the introduction of the multi-currency system thus its effect has been positive to procurement.
### 4.5.7 FACTORS THAT ARE COMPROMISING THE USEFULNESS OF THE PROCUREMENT STRATEGIES IN THE FOOD MANUFACTURING INDUSTRY

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incomplete procurement strategies</td>
<td>19%</td>
<td>7%</td>
<td>16%</td>
<td>63%</td>
<td>8%</td>
</tr>
<tr>
<td>Procurement strategies untested or deficient in one or more key areas</td>
<td>20%</td>
<td>16%</td>
<td>4%</td>
<td>60%</td>
<td>Nil</td>
</tr>
<tr>
<td>Procurement strategies not implemented in the proper context</td>
<td>59%</td>
<td>21%</td>
<td>6%</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>Procurement strategies did not address all the relevant issues</td>
<td>28%</td>
<td>34%</td>
<td>15%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Lack of clear guidance in some procurement strategies</td>
<td>24%</td>
<td>65%</td>
<td>Nil</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Table 4.5 Factors that are compromising the usefulness of the procurement strategies in the food manufacturing industry

Table 4.5 reveals that 26% of the respondents agree that incomplete procurement strategies is a factor that is compromising the usefulness of the strategies at Cairns Foods Ltd, 16% were neutral and 71% disagreed. Sixty percent of the respondents disagreed that procurement strategy untested or deficient in one or more key areas is a factor compromising the usefulness of the procurement strategy. Moreover, 80% (59% strongly agree and 21% agree) of the respondents agreed that procurement strategies not implemented in the proper context is a factor that is compromising the usefulness of the procurement strategy. Also, 62% (28% strongly agree and 34% agree) of the respondents agreed that procurement strategies did not address all the relevant issues and 89% (24% strongly agree and 65% agree) of respondents agreed to lack of clear guidance in some procurement strategies.
This shows that the factors that are compromising the usefulness of the procurement strategies are; procurement strategies not implemented in the proper context, procurement strategies did not address all the relevant issues and lack of clear guidance in some procurement strategies.

The Audit Commission (2002) found that forty per cent of organisations had a procurement strategy. However, the Commission’s survey found that many procurement strategies were incomplete, untested or deficient in one or more key areas, and few were likely to be used to their full potential. “A common weakness was to describe the procurement process rather than take a strategic overview of the role of procurement.”

This finding was confirmed by auditors’ reviews of 2001/2 Best Value Performance Plans. According to the Commission (2002) these showed that eighty per cent of procurement strategies were deficient in some way, because they had not been finalized, had not yet been implemented, or did not address all the relevant issues.

As far as the auditors were concerned, the most common perceived shortcoming of procurement strategies was the failure to address the need for challenge or (more frequently) competition when reviewing services under the Best Value regime. Other significant omissions were in the areas of market analysis and option appraisal, where auditors pointed to a lack of clear guidance in some procurement strategies. More than forty organisations had not even begun to prepare a strategy at that time.

The ODPM (2000) research found that around a third of organisations had a ‘central procurement unit’ of some description. However, these were seldom involved in strategic partnerships, the most common responsibility being supplies. Construction procurement and social care contracting were normally outside their scope as well.

The study findings are further added to what the ODPM (2000) found when they stated that only a quarter of firms had a written procurement strategy in place. Members were reported as being ‘strongly involved’ in the development of the strategy in only thirteen per cent of cases. Approaching half of all organisations reported that their procurement strategy did not/would not cover e-procurement.

Moreover, it was found out that some firms rarely had a central procurement unit and thus lacked an internal source of procurement know-how. There was also clear evidence that small enterprises procurement needed to be professionalized. Only half of the organisations surveyed by ODPM (2000) employed any staff at the centre with a procurement professional qualification. Only a third had any departmental staff with such qualifications.
Moreover, the research literature further adds that one of the challenges being faced in procuring is that procurement training and development was inadequate. Organisations reported to ODPM(2000) that around a fifth made provision for procurement training in corporate programmes. The Audit Commission found that only around one quarter of organisations had specific arrangements in place to enhance their procurement skills and their ability to make the best use of competition.

It was found that while two-thirds of organisations made use of purchasing consortia for common use items, collaborative procurement of inputs in production was underdeveloped. The Audit Commission reported that only fifteen per cent of the organisations it surveyed had considered collaborative procurement of services like waste management or leisure provision.

4.6 CONCLUSION

This chapter has outlined the findings from the primary research undertaken by the researcher. The findings and results were discussed by linking with the relevant literature from the literature review undertaken in the study. The major issues that were discussed include the procurement strategies being employed by Cairns and the challenges faced in procurement. The next chapter presents the research conclusions and recommendations from which the basis of the conclusions is taken from the findings in this chapter.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION
The final chapter of this research contains the conclusions, recommendations and area of further study for the researcher. The conclusions and recommendations were centred on the main objective which was an evaluation of the procurement strategies of Zimbabwe’s food manufacturing industry. The recommendations were made by the study participants.

5.2 CONCLUSIONS
The research makes the following conclusions;

The study concludes that the majority of the staff and management of Cairns are not aware of the procurement strategies that are being implemented. The procurement route adopted by Cairns food ltd is restricted procedure.

The research also concluded that there are areas that Cairns Foods Ltd must examine when developing commodity procurement strategies. These include the price of the product, the seasonality of the product, its perishability and the need for special storage conditions like refrigeration. Moreover the factors that are negatively affecting the procurement process at Cairns are concluded as price risk, volume, perishability, accuracy of sales forecast and special promotions.

It is also concluded that Spot market is the main procurement strategy that is being used by Cairns Foods Ltd and also that futures and forward buying are also being used as procurement strategies.

The research concludes that the validity of the procurement strategies that are being implemented at Cairns are evaluated mainly by the reduction of material stock outs and also, but to a lesser extent, by an increase in return on investment and reduction of production stopages.

It is also concluded that cash flow constraints and shortage of materials from suppliers are the main challenges being faced by Cairns Foods Ltd in procuring commodities while the other challenges present include, bureaucracy, and economic sanctions.

The study also concluded that procurement at Cairns Food Ltd was not negatively affected by the multi-currency system of the economy.
Research concludes that the factors that are compromising the usefulness of the procurement strategies at Cairns Foods Ltd are; procurement strategies not implemented in their proper context, procurement strategies not addressing all the relevant issues and lack of clear guidance in some procurement strategies.

5.3 RESEARCH PROPOSITION
This study proposes that proper procurement strategy improves the supply of raw materials and survival of food manufacturing sector in Zimbabwe. The results of the research leads acceptance of the proposition. The different procurement strategies in acquiring raw materials applied by Cairns Foods limited were essential for fighting competition and survival in the market.

5.4 RECOMMENDATIONS
In order to broaden the horizon of buyers in the food manufacturing sector of Zimbabwe, organizations need to adopt e-procurement as a strategy. This will help to reduce the purchase price of raw materials to the organization as it will be sourcing globally. This goes a long way in helping to solve the cash flow constraints in the organizations. There is therefore need to promote computer literacy in companies as this will ultimately create amongst the personnel a desire to embrace new computer technology, thereby introducing greater efficiency into the company. The organisations should create an environment conducive to the adoption of the internet, such as investing in the hardware, software, installation and back-up service.

The author also suggests the use of contract farming as a strategy to guarantee Cairns Foods Limited of constant supplies of its key agricultural inputs like maize, groundnuts, wheat and potatoes. In the interim, Cairns Foods will have to bear the brunt of opportunism that is rife in this (contracting) option as it represents a better evil compared to not having raw materials at all. Efforts to improve enforceability of contracts, notwithstanding prior challenges, will have to be made until such a time that Cairns is in full charge of the supply of its key materials.

As a 75% Government owned entity, the company may as well invest in backward integration and acquire its own farms to grow the main grains which are its key inputs by seeking the state’s intervention in acquiring land through the state’s land redistribution exercise. Being in the very hands of the institution that “legitimizes” such redistribution, Cairns faces lesser risk than other privately owned manufactures whose farms may be taken (by or through government action/inaction).
With respect to source of funds to solve the cash flow constraints, Cairns will need to ask its shareholders for funds. A parallel request to the central bank for concessionary funding will be necessary, especially so in light of the economic constraints affecting the entire country. Consideration of the Japanese model of buying control (and not the entire firm) will enable the freeing of cash resources and a steady spread of the risk profile (of farming ventures) with minority partners once the requisite feasibility studies have been carried out.

The study recommends that for the food manufacturing industry to enhance their cash flow positions through negotiating for better payment terms with suppliers in the light of the multi-currency system which has brought about relative stability in inflation rate.

Another procurement strategy that the author recommends to Cairns Foods in trying to mitigate the problem of cash flow constraints is Consignment Stocking. Ownership of consignment stock is passed only when the stock is used (issued). Unused stock in a warehouse may be returned to the supplier. As ownership of consignment stock is not transferred until use, invoicing is not immediate. To account for a replenishment of consignment stock at a customer site, a supplier manufacturer must credit inventory and debit customer consignment stock. Only after a customer actually uses the consignment stock may an accounts payable be created.

The responsibility to map strategy, while largely a senior manager’s role, need not be totally ignored by middle and low level managers who are closer to the ground especially with respect to the review part of it. This has also been highlighted by the research findings since most of the ideas and recommendations came from the lower-level employees. The tradition of waiting for the next annual strategic retreat to map out strategy in a turbulent environment as that faced by Cairns Foods needs to be replaced by quarterly reviews. Idea generation and ownership of organizational performance needs to be encouraged, especially outside the confines of strategy workshops. If “empire-building zeal” and “quite life” were to be perceived as two evils, Cairns Foods stands a better chance of survival in the hands of “empire-builders.” As such, an entrepreneurial spirit needs to be imparted on the organization as a whole.

The study recommends Cairns Food Ltd to have a lot of flexibility and speedy decision making to respond to the ever changing market environment. Decision making should be consultative and involve all employees so that they feel motivated at being part of the organisation.

Market research is an important fundamental in procurement. This research recommends Cairns to carry out a market research to determine the needs of the market. The research should be undertaken by an independent body to get the demand trends of the customers and the activities of competitors in the market so that a productive procurement strategy can be formulated.

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Furthermore, it is recommended that the food manufacturing industry should lobby the government to help in instilling barriers against regional competitors. This would protect the local industry against unfair competition from big regional and global competitors like Simba chips and Lays from South Africa.

**Area of further study**

An area of further study is recommended to investigate the impact of good procurement strategy to the growth of an organisation.
REFERENCES


Yin, R. B.(1994), Survey Research Methods”, Beverly Hills, CA SAGE.

APPENDIX 1

VISION, MISSION AND VALUES

Vision

Cairns Holdings Limited aims to become the dominant food and beverage manufacturer and marketer in the region in defined product lines.

Mission

To be the supplier of choice to target markets that demand:

Quality products that can always satisfy internationally accepted standards.

Professional and consistently dependable service.

Core values

The Group’s core values are; Integrity, teamwork, continuous quality improvement, a sense of urgency and a shared vision.
APPENDIX 2

QUESTIONNAIRE FOR STAFF AND MANAGEMENT OF CAIRNS FOODS

Attention Respondent

As a final year MBA student with the University of Zimbabwe, I am required to undertake an in-depth research (Dissertation) in a chosen research area. This questionnaire is targeted at gathering primary research data relating to my research topic; “An Evaluation of the Procurement strategies of Zimbabwe’s Food Manufacturing Industry: The case of Cairns Foods Ltd (2000-2010).”

The aim of the research is to establish the extent to which procurement strategies may solve Cairns Foods’ (CF) raw material shortages and return on investment problems. This comes on the backdrop of reduced raw material supply and declining return on investment over the past ten years.

Your responses to the following questions, which will be treated with strict confidence, will greatly assist this research endeavor. I would be grateful if your responses can be returned to myself by Friday 3 June 2011.

Yours Faithfully

Nelson Farawu

SECTION A: GENERAL QUESTIONS

1) Your position in the organisation?
   a) Director [ ]
   b) Manager [ ]
   c) Supervisor [ ]
d) Clerk/ Shopfloor [ ]

e) Other, specify______________________________________________________________

2) How long have you been serving your firm?

a) Less than a year [ ]
b) 1-5 years [ ]
c) 6-10 years [ ]
d) 11-15 years [ ]
e) Over 15 years [ ]

SECTIONB: THE PROCUREMENT STRATEGIES BEING EMPLOYED BY CAIRNS

3) Are you aware of the procurement strategies that are being implemented at your organisation?

Yes [ ] No [ ]

4) Does your organisation use the following commodity procurement strategies? (Tick where applicable).

a) Spot market Yes [ ] No [ ]
b) Futures Yes [ ] No [ ]
c) Forward buying Yes [ ] No [ ]

5) Under what circumstances would you use each of the procurement strategies?

a) Spot market
____________________________________________________________
____________________________________________________________

b) Futures
____________________________________________________________
____________________________________________________________

c) Forward buying
____________________________________________________________
____________________________________________________________
6) How can you evaluate the validity of commodity procurement strategies which are being employed by the retail industry of Zimbabwe?

a) Reduction of production stoppages
b) Increase in Return on investment
c) Reduction of material stock-outs

7) Which of the following factors is negatively affecting your procurement process? (circle the most appropriate answer)

<table>
<thead>
<tr>
<th>Factor</th>
<th>1=Strongly agree</th>
<th>2=Agree</th>
<th>3=Neutral</th>
<th>4=Disagree</th>
<th>5=Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Price risk</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>b) Volume</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>c) Perishability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>d) Accuracy of sales forecast</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>e) Special promotions</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>f) Storage requirements</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>g) Storage availability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>h) Market efficiency</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>i) Budget constraints</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>j) Traceability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

8) Which procurement route does your organisation adopt? (Tick the applicable from the list below).

a) Open Procedure [ ]
b) Restricted Procedure [ ]
c) Negotiated Procedure [ ]
d) Competitive Dialogue [ ]

9) Are there any areas the retail industry must examine when developing commodity procurement strategies?

Yes [ ]
No [ ]
If yes can you please state them?

___________________________________________________
___________________________________________________
___________________________________________________
___________________________________________________
___________________________________________________

SECTION C: THE CHALLENGES FACED IN PROCUREMENT

10) Can you please list challenges which you are facing in procuring commodities for your organisation?

a) Cash flow constrains
b) Bureaucracy
c) Shortage of materials
d) Economic sanctions

11) What is your average monthly order fill rate? (Select and tick one)

☐ Less than 20% 1
☐ 21% - 40% 2
☐ 41% - 60% 3
☐ 61% - 80% 4
☐ 81% - 100% 5

12) How frequent do you have stock outs of the average retailers’ core baskets of goods?

☐ Very often 1
☐ Often 2
☐ Sometimes 3
☐ Rarely 4
☐ Very Rarely 5
13) How do you compare your prices versus other wholesalers/suppliers?

☐ Very competitive
☐ Competitive
☐ Neutral
☐ Uncompetitive
☐ Very Uncompetitive

14) How would you rate the Cairns Procurement on the following attributes?

1=Excellent 2=Good 3=Poor

a) Efficiency of product flow 1 2 3
b) Effectiveness as a channel 1 2 3
c) Trading terms 1 2 3
d) Payment track record 1 2 3
e) Speed of decision making 1 2 3

15) Do you think your procurement was negatively affected by the multicurrency system of the economy?

Yes [ ] No [ ]

16) Can you please explain your answer in question 15 above?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

17) From the list below can you indicate the factors that are compromising the usefulness of the procurement strategies at Cairns Foods Ltd? (Tick the appropriate factor)

1=Strongly agree 2=Agree 3=Neutral 4=Disagree 5=Strongly agree

Incomplete procurement process 1 2 3 4 5
<table>
<thead>
<tr>
<th>Procurement strategies untested or deficient in one or more key areas</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement strategies not implemented in the proper context</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Procurement strategies did not address all the relevant issues</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Lack of clear guidance in some procurement strategies</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

**SECTION:D RECOMMENDATIONS**

22) What advice do you give to the food manufacturing industry in general to the ways they can use to enhance their procurement strategies?

___________________________________________________

___________________________________________________

___________________________________________________

___________________________________________________

___________________________________________________

**END OF QUESTIONNAIRE**

THANK YOU FOR YOUR TIME AND EFFORT