

Thesis

Planning procurement from East Asia for a restaurant business

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<p>The purpose of this thesis is to find out a feasible and effective way of procurement for specific oriental food products. This is done for a restaurant business in its planning stage that does not suffice with the current products available in Finland's domestic market.</p> <p>This study includes a literature review on a variety of topics on sourcing. The review also touches some of the aspects, difficulties and advantages of international procurement. In addition to the literature review, a qualitative survey was conducted on how current Finnish oriental restaurant owners have built their procurement. The aim was also to find out if there could be an interest in cooperation and expense sharing in overseas procurement.</p> <p>The results were sufficient, and for the most part positive as well, as they built trust in the feasibility of establishing the supply chain even if procurement needs to be done directly from Asia. As there turned out to be a lot of variety in the supply chains of Finnish oriental restaurants, there is also a clear possibility to gain competitive advantage through sourcing. Furthermore, there are clearly potential options before even resorting to direct procurement, such as ordering through the oriental markets and wholesalers in Finland. These options need to be further studied before moving forward with the business.</p>	
<p>Keywords Supply Chain Management, International Procurement, Sourcing, Supplier Evaluation, Sourcing Processes</p>	

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1 Introduction

This thesis is done on the topic of procurement planning for a small sized exotic restaurant business which is still in its planning stage. Emphasis of the topic is on studying the ways how current Finnish exotic restaurant owners do the procurement in their businesses, and applying this, and the information gained from literature sources, to the procurement plan suggested for the company. The business in question will require some rather specific food products from a few East Asian countries, and finding the way for an efficient procurement of these supplies is the key issue of this study. The author is a final year international business BBA student specializing in supply chain management.

1.1 Background to the thesis topic

One of the main attractions of the planned restaurant business is its offering of specific exotic dishes from several different restaurants in East Asian countries. These restaurants and dishes are such that we have already visited, proven suitable, and some even regulated on our past travels with my brother, with whom this business would be started. These replicated dishes are one of the quite a few key ideas and attractions planned for this business, but the others are irrelevant to the topic of this thesis.

In our opinion, the restaurants and food served in the original countries are on a different level compared to the dishes currently offered by many of the exotic restaurants in Finland. To counter this, our restaurant would be replicating dishes of the chosen restaurants by using the exact same key ingredients and methods, and also the same necessary equipment, in the preparation of the dishes as the originals do. The key ingredients in question are either semi- or non-perishables. Quicker perishing products would be acquired from local Finnish suppliers, as transporting perishable products overseas would be clearly unwise, and as the chosen dishes will be ones that use the same core perishable products which can be found locally.

1.2 Research Objective

The objective of this study is to plan how the procurement of the food products acquired from countries of the original replicated restaurants should be done, based on the insight gained from the interviewed Finnish companies and literature sources. For me to gain more information on the subject, the research will first go through the decisions and processes of sourcing, supplier evaluation and the channels for finding potential suppliers, as well as the advantages and difficulties of international purchasing. After this, I will study the data gained from the current Finnish exotic restaurant owners, and then will apply all this to the suggestions on how our planned business should start looking to build its “exotic supply”.

To help structure the research, I’ve categorized the work under the following research question (RQ) into the below four investigative questions (IQs), on which the main body chapters of the research will be based on.

Research Question: How to establish the supply of a variety of foreign specific products for a small sized restaurant in Finland?

- Investigative Question 1: What is sourcing? And what are the processes and decisions in it?
- Investigative Question 2: What are the advantages and difficulties of international purchasing?
- Investigative Question 3: How have the current Finnish exotic restaurants built their supply?
- Investigative Question 4: Is there potential for supply cooperation with other Finnish exotic restaurant owners?

Table 1. Thesis overlay matrix.

Topic of Investigative Question	Data gathering method	Chapters
IQ 1 Sourcing	Literature review	2.1, 2.2 & 4.2
IQ 2 International procurement	Literature review	2.3 & 4.2
IQ 3 Supply in Finnish Restaurants	Qualitative survey	3.2, 4.1 & 4.2
IQ 4 Potential for Supply Cooperation	Qualitative survey	3.2, 4.1 & 4.2

1.3 Demarcation

This research will mainly focus on sourcing processes and decisions, supplier evaluation, channels for finding suppliers, international procurement, and on the study of the information gathered from the similar Finnish restaurants. Other related areas such as quality control, supply stability, food product logistics and Incoterms will only be briefly discussed, if at all.

1.4 Educational requirements

Both the international and supply chain management aspects required by Haaga-Helia for an International Business SCM student are evidently fulfilled in this thesis. The topic is centered around the planning of the overseas procurement of the business, thus both the requirements for the supply chain side and the internationality side should be well covered.

1.5 Anticipated benefits

This study is important, because the establishment of this international supply chain is currently one of the least familiar areas to us in the planning of this business, and thus needs to be carefully researched. In the end, this thesis should have given us clarity on how to proceed with the building of the supply chain, if, and hopefully when, this business plan becomes reality.

1.6 Key concepts

International Purchasing: Commercial buying where the buyer and the supplier are located in different countries. (Handfield, Monczka, Giunipero & Patterson 2009, 347.)

Global sourcing: “Global sourcing, which differs from international purchasing in scope and complexity, involves proactively integrating and coordinating common items and materials, processes, designs, technologies, and suppliers across worldwide purchasing, engineering, and operating locations.” (Handfield & al. 2009, 347.)

Total cost of ownership: “A calculation of all the costs involved in buying and using a product over time.” (Cambridge Dictionaries 2012.)

Strategic sourcing: A complicated, essential activity in purchasing that aims to fulfil the needs of a business through planned and proactive analysis of markets and selection of suppliers. (Chartered Institute of Procurement & Supply 2013, 1.)

Supply chain: “A supply chain is a network of partners who collectively convert a basic commodity (upstream) into a finished product (downstream) that is valued by end-customers, and who manage returns at each stage.” (Harrison & Hoek 2011, 7.)

Logistics costs: The logistics costs come from all the logistics related activities. These are transportation, warehousing, inventory and materials handling, distribution and recycling etc. (Waters 2007.)

2 Literature review

In this chapter I will go through the theoretical framework for this research and then review each component in their subchapters. The theoretical part of this study will give me the much needed further understanding on the matters of international procurement and sourcing, which then will be used in contrast with the data gained from the interviews to form the final suggestions on the building of the company's supply.

The below figure illustrates how the studied topics relate to each other and how they build up to be valuable pieces of information on the main subject. The theory part of this thesis goes through sourcing in general as well as its decisions and processes, channels for finding suppliers, and supplier evaluation. In addition to this, I'll also go through the international side of purchasing, the advantages it offers and the common difficulties involved in it. All these should then in the end collaborate to the decision suggestions for the international procurement of our planned business. In addition to this literature review, the data gained from the questionnaire sent to the current Finnish oriental restaurant owners will have at least an equal importance to the final suggestions.

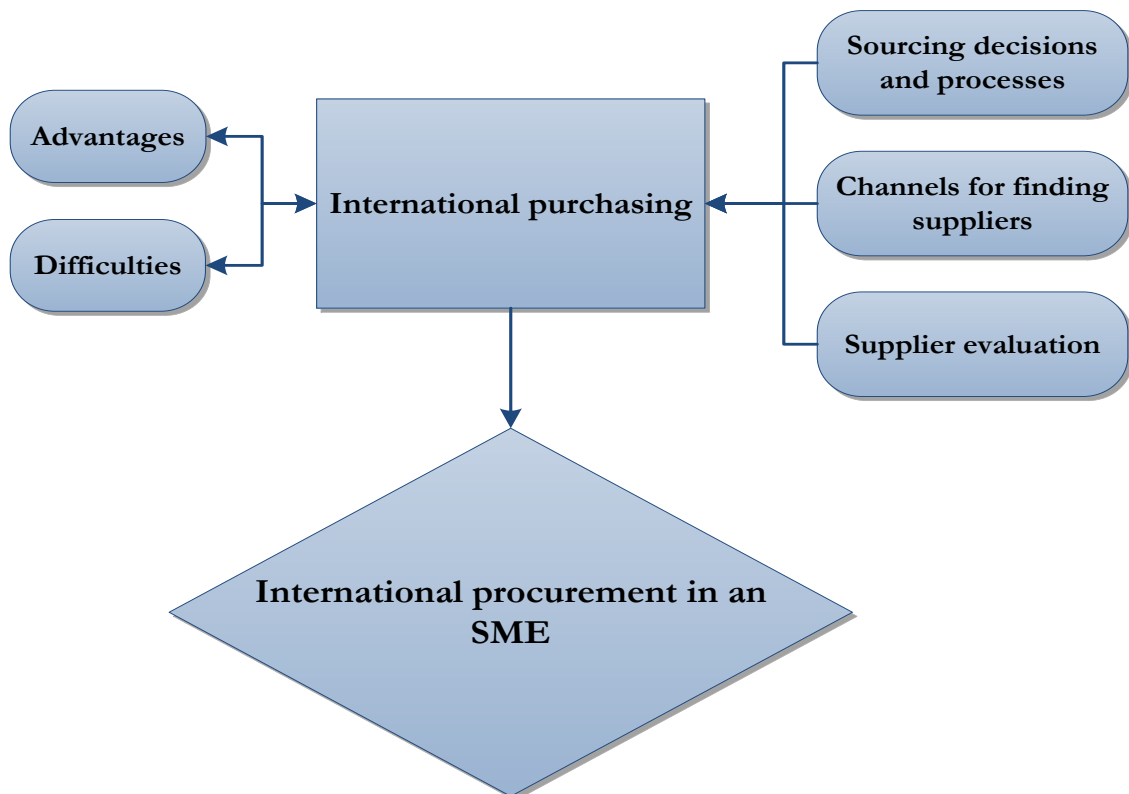


Figure 1. Visualization of the theoretical framework.

2.1 Sourcing and procurement

The definitions and understanding of the term “sourcing” seems to vary a lot regarding on the person. To some, sourcing is the main process of acquiring products, and the term procurement just a subprocess inside it. To others, it is the other way around.

Chopra and Meindl explain sourcing as the business processes that are needed for the purchase of either goods or services. To them, sourcing is the main activity, and procurement the component of sourcing that mainly includes the process where the supplier sends the products based on the customer’s order. (Chopra & Meindl 2007, 58-59.)

On the other hand, we have the perspective shared by Harrison, Skipworth and van Hoek, to whom procurement is one of the main essential functional domains of the entire supply chain with the purpose of ensuring that supply for required products and services happens as intended. In this view, sourcing is a subprocess of procurement that handles the selection of suppliers and includes the research required on the relevant areas of e.g. supplier markets, supply spending, and figuring out the need for the acquisition of the products in question. (Harrison & al. 2014, 354-356.) This is the way I see sourcing and procurement as well, and thus this thesis is conducted with mainly this view in mind.

There are different types of sourcing depending on the type of product or service being purchased. These can include for example the purchasing of consumables, materials and components, software, licenses or other intellectual property, capital purchases (production plants, machinery etc.), or services. Sourcing approaches and factors to note vary depending on the type, and some factors are more relevant to one type of sourcing than on the other. As a simple example, the logistical factors in the procurement of software don’t hold nearly as high importance as when procuring for instance materials or consumables. (Baily, Crocker, Farmer, Jessop & Jones 2008, 200.)

Sourcing is an especially crucial part of business for an oriental restaurant operating in Finland. Restaurant business itself is a tough and extremely highly competed business area for operation, and to succeed specifically with oriental products, sourcing begins to play even a more crucial role. Luckily in my experience, many of such businesses in Finland are not using and sourcing the best original oriental products possible, and thus I feel that sourcing is one of the ways to gain a significant competitive advantage.

2.2 Sourcing process

The sourcing process is a wide area to study, and so I will only be covering it here quite lightly with focus on the areas most relevant to our planned business. Sourcing consists of many processes, problems, and decisions that need to be done and tackled for the procurement of products or services. The following visualization shows the major steps of the sourcing process, and in this chapter I will go through them in more detail.

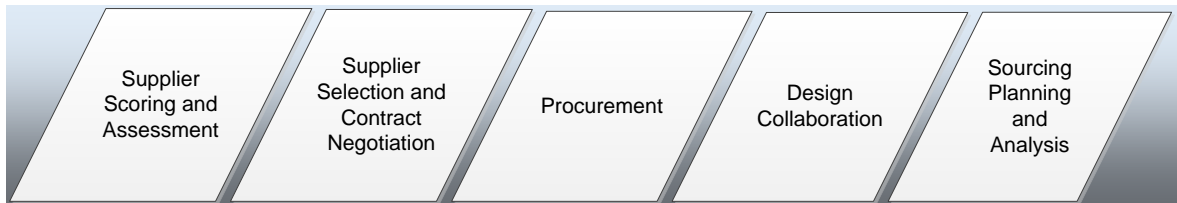


Figure 2. Key sourcing-related processes. (Chopra & Meindl 2007, 418)

Naturally the sourcing process starts from a requisition to the purchasing team that a product or service needs to be acquired (Baily & al. 2008, 203). The whole process then continues with the decision of whether to do the specific task inside the company, or to outsource it to another party. Outsourcing always comes with a risk, so it should be carefully researched if in each particular case the gained value for the supply chain is worth the risk about to be taken. (Chopra & Meindl 2007, 58-59, 420-421.)

If the supply of the product or service required was already under a long-term contract with a supplier, the order can often be placed without further evaluation. But when there is no such contract in place, as is the case in our study, the sourcing person or team needs to find out if an existing supplier of the company can supply the product, or if they have to find an entirely new one. More often than not the buyers tend to stay with existing suppliers if possible, but there are times when a re-evaluation of the supplier's performance is required, for instance when the supplier fails to meet the specifications for the product or service, prices have changed, other vendors appear to have better performance, or simply because a long time has passed since the last evaluation. (Baily & al. 2008, 203.)

It is important to identify and realize the key sourcing requirements for each procured item and to keep these in mind during the whole supplier selection and evaluation process. The key requirements are usually item specific, and are set by both the internal and external customers. These key requirements may include areas from product specifications, to categories such as supplier quality and delivery performance. (Handfield & al. 2009, 237.)

Next in line is the decision on which locations are potential for the supply of the said products or services. The reasons why only some locations are often suitable include technological, specialisation or concentrative reasons. Technological reasons are such when the customer requires more advanced products that are not available from suppliers from some regions. Specialisation reasons mean that the companies in that specific area of the industry are all also outsourcing their similar needs, and so the supply is only available from a different location. And finally, concentrative reasons are such where the suppliers of the industry have concentrated in such a way that there are only a few large players in the location, therefore with a more limited variety in offering. (Baily & al. 2008, 204.)

2.2.1 Sources for information on suppliers

There are plenty of sources for finding suppliers and information on them in today's business world. First of all, there are the internet sources, which can range from online catalogues of firms to trade press publications and trade directories. These allow for an easy access to lists of potential companies and on information about their products. The catalogues often contain even quite detailed specifications about offered items, whereas the trade directories include information and website links of companies that operate within the industry. Trade press publications can be a good place for search, as many suppliers use them for their own advertisement. Furthermore, the regular internet search engines can be very effective for finding potential suppliers, as they are used commonly for marketing by the sellers themselves. (Baily & al. 2008, 204; Handfield & al. 2009, 240-241.)

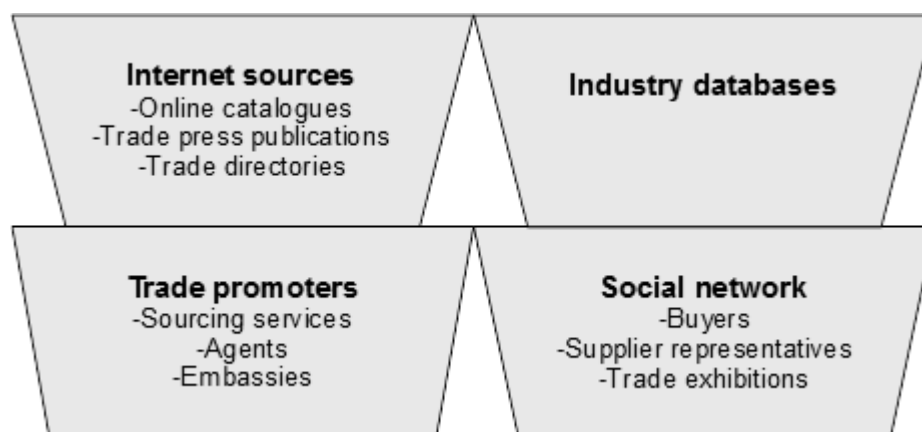


Figure 3. Sources for finding suppliers.

Secondly, there are the companies whose business is (sometimes solely) to hold information databases of suppliers grouped for specific industries, or even product lines. In some cases the supplier lists are such where the company needs to be approved to be added on it, thus requiring some sort of assessment or qualification through for example

standards such as ISO 9000. This naturally adds to the trust, and makes the evaluation process slightly easier for the searcher. These information databases can turn out to be especially welcome and useful for a business looking for foreign suppliers. (Baily & al. 2008, 204; Handfield & al. 2009, 239-240.)

Third, there are the agents, sourcing services, and organizations that promote trade. These organizations and persons can be able to share comparative information of different firms when the organization or person works, or has worked, with the companies in question, as might be the case with for instance a distributor. Also organizations such as an embassy might even be very keen on providing information to promote the trade in their representative country. (Baily & al. 2008, 204-205.)

Lastly we have the sources from social networking. Social networking can involve colleagues inside the firm, other buyers, supplier representatives, trade shows and exhibitions. These can all be surprisingly effective, and in the case of events such as trade shows, can provide an efficient way to discover even multiple different sources at a time. (Baily & al. 2008, 204-205; Handfield & al. 2009, 240.)

The purchasing department's decision on which suppliers to choose for the more in-depth evaluation often depends on the firm's sourcing strategy on the particular case. These preliminary cuts from the supplier evaluation sample can, for example, rely on the more major matters of whether the company wants the supplier to be a manufacturer or a distributor, domestic or international, or on the size of the supplier's business. Other factors firms take into account early can involve such as is the firm looking for multiple or single suppliers for the particular product. Also, they often can consider the results from possible preliminary financial risk analyses or information queries. (Handfield & al. 2009, 236-245.)

Different strategies are often required for different items or services, and thus a single sourcing strategy most likely will not cover all the purchases of the company. Handfield & al. (2009, 238) list the following matters as the crucial strategic decisions on the supplier and supply requirements:

- Single or multiple suppliers
- Short or long-term supply contracts
- Design capability of the supplier
- Full-service or non-full-service supplier
- Domestic or international supplier
- Close supply cooperation or "arm's-length" operation.

2.2.2 Supplier evaluation

After the potential suppliers for further evaluation have been selected, the sourcing personnel in the procurement department will have to evaluate the suppliers to find the best possible choice from among them. It's important to also note that supplier evaluation isn't only a one time process, but instead should be done continuously during the whole period of operation with the particular supplier. This, however, is a less demanding process, as with existing suppliers a rather comprehensive evaluation can be made by using the track record acquired from the experience of working with them. (Baily & al. 2008, 205.)

There is quite a large variety of attributes and factors that need to be considered when evaluating a supplier. Chopra and Meindl (2007, 429) have listed the following:

When scoring and assessing suppliers, the following factors other than quoted price must be considered:

- Replenishment lead time
- On-time performance
- Supply flexibility
- Delivery frequency/minimum lot size
- Supply quality
- Inbound transportation cost
- Pricing terms
- Information coordination capability
- Design collaboration capability
- Exchange rates, taxes and duties
- Supplier viability

Evaluation of all 11 of these points is required for a concise supplier assessment. *Replenishment lead time* is the time from the placement of the order till receiving the product from the supplier. Longer lead times tend to cause larger safety inventory levels for the focal firm, and thus should be optimized and "cut" shorter when possible. *On-time performance* means the variability in the lead times – how well the supplier stays on-time, and how the focal firm needs to adjust their safety inventory levels in accordance. (Chopra & Meindl, 2007, 429.)

Supply flexibility is the extent to which a supplier can handle differences in order quantities without it affecting lead-times. *Delivery frequency/minimum lot size* are two factors affecting the size of the deliveries ordered by a firm – how often deliveries can and need to be made, and what is the minimum order size offered by the supplier. From a logistical viewpoint *Supply quality* is important due to the defected products affecting inventory levels, as low quality products need to be replaced with follow-up orders, which result in variability to lead times. (Chopra & Meindl, 2007, 429-430.)

Inbound transportation cost is the total cost of moving products from the supplier to the premises of the customer. *Pricing terms* stand for the possible quantity discounts given by the supplier, and the time period during which the payment for the order has to be made. *Information coordination capability* refers to the level of information flow and coordination available with the particular supplier. *Design collaboration capability* is the possibility for a customer to affect the design of a supplied product or service. *Exchange rates, taxes, and duties* are factors that can potentially build up to make even large differences in total costs with international suppliers depending on the supplier's location, and even as they are not affected by the suppliers themselves, they still need to be considered when assessing the total costs affiliated with each potential supplier. And finally, the *supplier viability* means the certainty of the supplier fulfilling its promises and staying in operation for the expected period of time. (Chopra & Meindl, 2007, 430-431.)

We can also add the following key supplier evaluation criteria from Handfield & al. (2009, 249-255.), which were not covered by the previous list of Chopra & Meindl:

- Management and employee capabilities
- Cost structure
- Environmental regulation compliance
- Production scheduling and control systems
- E-Commerce capabilities
- Supplier's sourcing
- Long-term relationship potential

The assessments of management and employee capabilities aim to form a picture of the whole company's workforce, both on the white and blue-collar level, in order to figure out the visions of the management and the morale of the employees, what are their relations, and are they skilful and committed enough to the company. Cost structure assessment, even though difficult to gather information on, helps in understanding the efficiency of the supplier's production. Environmental regulation compliance is becoming more and more of a requirement in doing business on most industries in today's business world, and as such, making sure that the supplier operates in compliance with them saves from a lot of unnecessary potential trouble both from PR and liability standpoints. (Handfield & al. 2009, 249-251.)

Production scheduling and control systems, along with e-commerce capabilities, are also critical factors to note and assess on many fields of business today, as making sure that the supplier can utilize the modern systems efficiently can potentially be a major factor in staying competitive (Handfield & al. 2009, 253-254). After all, the benefits of using systems such as MRPs (material requirements planning) and production scheduling are

clear, and could be quite easily recommended for companies with any sizable production that can justify the investment.

Another competitive advantage can be the supplier's sourcing. Understanding the capabilities of the supplier's suppliers, and the strategies and methods they have in place, can turn out to be quite an important advantage, one that possibly many others aren't capitalizing on. (Handfield & al. 2009, 254.)

Lastly Handfield & al. (2009, 254.) list the long-term relationship potential with the supplier. This means the supplier's willingness and ability to move towards an "advanced" relationship over just a regular purchasing relationship. Depending on the items sourced, this can be very valuable and something that, more often than not, should be pursued towards to gain a relationship that builds on trust and reliability and one that allows for flexibility and potentially lower expenses. According to Chopra & Meindl (2007, 454) solid cooperation between the focal firm and the key suppliers encourages the supplier to make efforts that improve the operation with a particular buyer. These can include even quite heavy investments in areas such as e-commerce systems and technologies.

Also in addition to all the dimensions of supplier performance mentioned before in this chapter, Baily & al. (2008, 202-203) have listed the following more "down to earth" factors:

- Sound business sense and attitude.
- A good track record in supplying the market in which the buyer operates (or similar).
- A sound financial base.
- A suitable technical capability with modern facilities.
- A total quality orientation.
- Cost-effective management.
- Effective buying – acquisition and control.
- Good morale among workforce.
- Effective logistical arrangements.
- A customer service mentality.

2.2.3 Sourcing decisions and supplier evaluation in practice

In practice, the source decision making traditionally starts from the buyer finding out which suppliers supply the product or service, mostly by referring to one or more of the sources mentioned in chapter 2.2.1. After a necessary amount of suppliers for the product or service type have been found, the buyer selects the few most suitable ones for further evaluation. The further evaluation is then made by enquiring these few about the requirements and product specifications, and evaluating the supplier on the factors mentioned in chapter 2.2.2. Then the best alternative is selected by comparing the offers, and finally the purchase order is made that specifies matters from order size, to place of delivery, price and schedule. In addition to this, on-site surveys are sometimes conducted by the focal firm.

However, this step can in many cases be skipped as enough information is gained through other means and by the supplier's reputation. (Baily & al. 2008, 200-201, 206.)

Evaluation rating forms are used by many companies to compare different suppliers. These multiple page forms require input on different areas from for example quality control to supplier's machinery and capacity. Evaluation forms consist of detailed questions to analyse different sectors, which are then rated and each given a specific weight on based on that particular matter's importance. Finally, after all these areas are evaluated, the vendor is given either full approval, approval, conditional approval or denial. (Baily & al. 2008, 206.)

2.2.4 Other matters affecting sourcing decisions

Product categorization is a crucial action in a firm's procurement. Sourced products can be first categorized into direct and indirect, depending on if they are used for production (direct), or supporting (indirect) actions, such as office work or maintenance. The categorization can then be taken a bit further. Direct materials can be divided into three different categories based on their value and criticality. These are *bulk purchase*, *critical* and *strategic* items. In this categorization model the indirect materials fill the last, fourth slot of *general items*. These are items that are low on both criticality and value. The criticality of an item comes from its importance to production and from possible difficulties in its supply through for example limited amount of suppliers and long lead times. The value factor means the cost of the item. Below is an illustration of the four categories. (Chopra & Meindl, 2007, 449-451.)



Figure 4. Product categories. (Chopra & Meindl, 2007, 450)

Categorization can be used to evaluate the importance of the relationship with a particular supplier. If the vendor sells mainly low criticality products (general and bulk purchase items), the purchasing department can try to tender with the price. However, if the procured items are critical or strategic it is advisable to instead aim to improve the relationship with one supplier, and look for cooperation in the product and production development, as well as coordination with the other participants in the supply chain. (Chopra & Meindl, 2007, 450-451.)

Furthermore, Chopra & Meindl recommend that when making sourcing decisions the firm should use multifunctional teams and have the necessary coordination between all regions and business units. They also state that a buyer should in every occasion calculate the total cost of ownership. Multifunctional teams should be used in sourcing to ensure a wider scale of perspective, as a buyer might lack expertise on the other areas, and thus could tend to focus too heavily on just the price of the product. Coordination between regions and units potentially lowers the transaction costs of the whole firm's purchasing, as it allows the company to capitalize on economies of scale. Total cost of ownership should be kept in mind to allow the buyer to lessen the narrow sightedness on just the price, and to gain focus on the other factors such as product design. (Chopra & Meindl, 2007, 454.)

2.3 International procurement

In common terms international procurement is purchasing from another country, basically importing. International procurement is advantageous for a few reasons. It is done in order to gain a comparative advantage, either through supplying from a country that (better) utilizes economies of scale on the given product or service, or simply because that specific good is not available in the domestic markets at all, or with the required features or quality. Also it can be that domestic production cannot satisfy the total demand for a specific product, exchange rates enable cheaper import, or that there are strategic reasons to secure the supply of a critical product that is still partially also available in the domestic markets. (Baily & al. 2008, 313-314.)

2.3.1 Customs and Logistics

The concepts of international logistics are not any different from domestic; both involve the movement of goods, storage and coordination. Instead, the issues stem from the geographic aspect, from the context specific to the region, country and distance. As such, the more complex international transportation has resulted in the development of intermediaries – companies specializing in international freight forwarding, express, third-party logis-

tics, and export. These companies can be used to help manage the logistical process by contracting with the forwarders and carriers, and by offering services in warehousing, order processing, documentation, and communication with the local parties, such as customs. (Schary & Skjott-Larsen 2002, 379-380.)

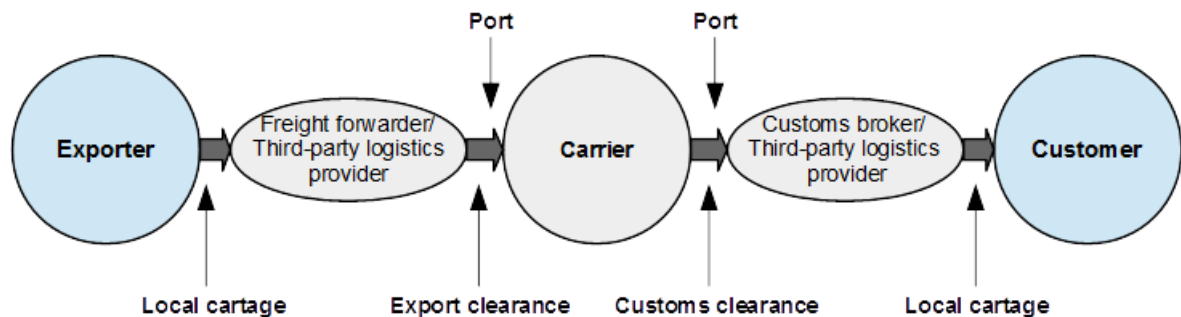


Figure 5. The International Logistics Channel. (Schary & Skjott-Larsen 2002, 379)

Movement of goods is easy between EU countries thanks to the common currency and the unified customs territory of the single market area. This also means that imports into the EU area only go through the EU customs procedures once, and are also only once paid tariffs for, as long as they stay within the EU borders. (NRW.INVEST 2014.)

Regarding customs, companies should try to reduce the time products are stuck there, as the delay can add unnecessary costs and naturally holds the goods away from use. These delays can be minimized with correct documentation by having concise and accurate information on the pro forma invoices, import licenses, waybills and letters of credit/bills of exchange (Baily & al. 2008, 325-326).

Barriers to trade have in recent years been addressed with free trade agreements (FTAs), which are trade contracts between two countries or market areas. Apart from just tariffs, FTAs aim to liberalize the trading of goods and to reduce the non-tariff barriers to trade, such as restricting standards and regulations (European Commission 2014). One recent FTA relevant to our case study is the one between EU and Korea from year 2011. This is a welcome addition to European Union's FTAs due to Korea being potentially one of the main supply countries for our planned business.

2.3.2 Culture

Cultural difference is one of the hindrances in global business making. It can mean difficulties in communication through different languages, information requirements (such as low or high context culture), or paths and mediums of information flow. Or it can some-

times show as differences in working habits, punctuality and work values. These can result in issues with the quality of work and staying on schedule. In addition, different cultures can differ in organizational hierarchy, resulting again in difficulties in communication and understanding of power relationships. (Schary & Skjott-Larsen 2002, 361-363.)

These were just some examples of the quite vast topic of cultural issues, but some that are relevant when comparing Eastern culture to the Western. As such, these are therefore something that needs to be taken into account in the case of our planned business as well, even if in our case the “business making” is limited to just small scale supply.

2.3.3 Currencies

Monetary exchange and the changes in currency rates are among the main elements that make international procurement different, and more difficult, to domestic supply (Schary & Skjott-Larsen 2002, 359). These issues are, however, a lot more relevant to large global supply chains, and thus don't have major impact to smaller scale purchases, though they still need to be taken into account. Along with potentially disadvantageous exchange rates, the currency conversion also usually costs money per transaction.

The risks in exchange rates from the buyer's side can, to some extent, be mitigated by stating the payable amount in the buyer's currency which shifts the uncertainty to the seller (Baily & al. 2008, 315). Other possible ways for risk mitigation are buying futures contracts, individual agreements with suppliers, and timing the purchasing by using forecasting and high volume purchasing when the rates are relatively low. (Schary & Skjott-Larsen 2002, 360.)

In larger international purchases, to ensure that the good is delivered and payment is made, the payment is often settled by using either letter of credit or bill of exchange. *Letter of credit* is a promise from the bank representative of the buyer to the exporter, stating that the goods will be paid when provided that all the terms and conditions of the purchase order are followed. Whereas *bill of exchange* is an order requiring the other party to pay a certain sum of money on demand or at given point in future to the bearer. The type of bill of exchange can be either documents against acceptance (DA), or documents against payment (DP). In DA the ownership to the goods is received when the bill is signed and the payment details thus accepted. When using DP, the importer has to pay for the goods before receiving the ownership. (Baily & al. 2008, 316-317.)

2.3.4 Legal systems and litigation

Other issues in international procurement can for instance involve legal systems and litigation. In international purchases it is important to determine whether it is the exporter's or importer's court, or the court of a third country, that has the jurisdiction in the case of a dispute. Otherwise the settling of the dispute can turn out to be quite complicated, especially if the subject product of the dispute can be affiliated with multiple parties from different jurisdictions, as often is the case in international purchases. Complicated litigation cases in international trade are possible to be solved by the arbitration services offered by the International Chamber of Commerce. Arbitration uses an independent panel of arbitrators to find a solution to the case while looking after the interests and rights of both parties. This is both a cheaper and quicker alternative to the traditional litigation. (Baily & al. 2008, 318-319, 322-323.)

3 Research design and methods

The study is strongly based on literature review, in order for me, the other business planner, to gain knowledge on the main issue of sourcing, and to determine the main potential difficulties in international procurement. In addition to this, a qualitative interview on Finnish exotic restaurant owners was conducted to gain practical information on how they have set up their supply chain, and how big of an importance domestic and international supply, respectively, have to their total supply. Furthermore, the interview was used to find out if there could be willingness for overseas supply cooperation between different restaurant owners. The below figure illustrates the research design and process of this study.

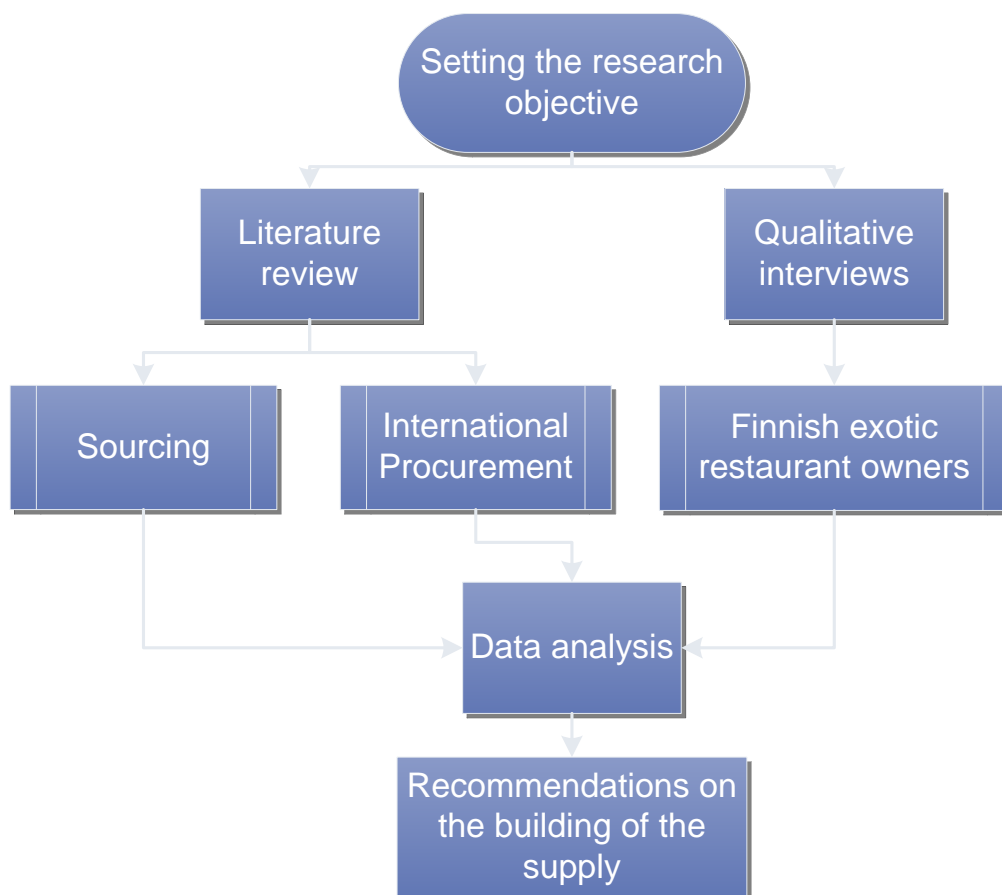


Figure 6. Thesis research design.

3.1 Qualitative research

Qualitative research was selected as the research method in this study. In addition to the literature review, the study on the Finnish restaurant owners was conducted by using qualitative interviews. This method was chosen as I wanted to find out detailed information on the structure of the supply of the respondents' companies, and also about

their opinions on possible cooperation, and therefore I found the aim of the study to be in line with the purpose of qualitative research. (Sarajärvi & Tuomi 2002, 7-8.)

3.2 Survey structure and sample

The specific data gathering method used for this study was an online survey with open ended questions, and it was conducted by using the website Webropol. The respondent sample was 10 Finnish exotic restaurant owners (or their personnel associated with the supply chain). The respondents were contacted through emailed invitation letters.

The survey was designed as short as possible, as I was looking for answers on very specific questions, and I also wanted the respondents to maintain focus and interest throughout the survey. Therefore the survey consisted of 8 questions. 7 of these were open ended, out of which one was needed mainly for the content of the respondent for the data publication. The survey was made available in both English and Finnish languages.

The questions mapped out the share of domestic and international suppliers in the respondent's restaurant, the origin of the materials used in the restaurants, which specific stores and distributors they used, and what kind of an importance local oriental markets had on their supply. In addition to these, the survey had questions regarding the restaurant's interest in sharing expenses through cooperating in the international procurement, and the restaurant's possibility to affect the selection of the products available in the oriental stores they were using. The survey forms are visible in appendices 1-4, and the questions are also visible in the following chapter 4.

4 Discussion

In this chapter I will analyze the results gained from the survey, and form the recommendations on how to go forward with the establishment of the supply chain.

4.1 Survey results

The survey gave a wide variety of answers and results. However, I can only find this to be positive, as it means that all the options are feasible as there are already actual operating companies making their business in these differing manners.

Q1. How large share of the materials you use origin from Finland (approximately)?

With this opening question I wanted to map out how large share Finnish products and foreign products respectively take of the whole material usage of the restaurants. As with most results, there was a lot of variety.

Three of the companies stated that only a very small portion of their materials originated from Finland – in their case even the products bought from Finnish wholesalers were imported from abroad. On the other hand, six respondents procured at least half or more of the products they used from Finland, of which fresh products naturally played a major role. The one last respondent claimed to use 100% Finnish based products, but it is probable that this was subject to a translation error, as all the materials required in oriental restaurants aren't even produced on Finnish soil. Therefore it is probable that the respondent misinterpreted the question to mean Finnish retailers and wholesalers instead.

Q2. Which Finnish stores and distributors do you use?

With this question I wanted to find out the retailers and wholesalers the oriental restaurants are currently using in Finland. This information would be very useful in the establishment of our own supply.

Apart from the major grocery store chains in Finland, a few wholesalers were used by almost every respondent. These included Metro-tukku, Heimon Tukku Oy, Aseanic Trading Oy and Ropakonnokka Oy. In addition to these, numerous different smaller stores and local suppliers were mentioned.

Q3. Do you buy products from local oriental markets? If yes, what kind of products, and what kind of an importance does it have for your supply?

With this question I wanted to find out if the restaurants are using the many oriental markets we have in Finland, and also what kind of a role they have in their supply.

Most respondents stated to buy products from local oriental markets. The products mainly included some specific spices, seasoning and rice. Also most who did procure from the oriental markets saw them as extremely important to them.

Q4. If yes to previous: Are you, or would you be able to order specific products through these oriental markets outside of their current selection?

This question in the study was very interesting, as having a possibility to effect on the selection of the oriental markets could give us potentially a rather easy way to deal with the issue of procuring the specific products we needed.

The answers to this question were again very varied. Apart from a couple of “maybes”, the answers split quite evenly to both positive and negative. I found it very positive that it was possible for restaurants to have say on the products in the market’s selection. It is thus a possibility that the oriental markets could potentially be used for our purposes as well.

Q5. Do you use products that are not available in Finland? (Not even in oriental shops) & Q6. If yes, could you tell how you have set up the procurement for these products? Also, what kind of products are they?

Majority of the sample restaurants don’t procure from foreign companies - in fact, only three do. They procure items such as specific spices or frozen raw products from their foreign suppliers or partners. As an example, in the frozen raw product case, the products are ordered from Bangladesh and shipped via London to Finland.

Again, this was a very important question to see if any restaurant actually individually procured from foreign companies. Fortunately a couple did, and thus I now have example companies whom I know to be doing this, and therefore it should be also feasible to at least some extent.

Q7. Would you be willing or interested in ordering together and sharing expenses regarding this kind of international procurement with other entrepreneurs?

Answers to this question were surprisingly positive. Only a minority of the respondents was currently totally content with their own supply chain, and thus there was a lot of readiness for cooperation. However, to many respondents there was the natural condition that the cooperation needs to be well coordinated, and that it needs to actually lower the costs.

4.2 Recommendations for the procurement

As there turns out to be a lot of variety in the supply chains of the Finnish oriental restaurants, there is also room to gain competitive advantage through sourcing. Many of the restaurants were content with the selection Finnish wholesalers and the local oriental markets offered, and thus didn't source from foreign companies. However, in the case of our business, I can quite certainly claim that we need to. Fortunately, there are examples of small sized restaurants that individually do this as well, and show that it can be done and be feasible for such as well.

The option that needs to be studied next in the future of our planned business is the local oriental markets. These are companies specializing in the supply of the kind of products we are looking for, and thus possess more efficient supply chains than a single restaurant can most likely ever have. That is why it is wise to evaluate this option first, and see if there could be a possibility to procure through them some, if not all, of the specific products we need for our business. Also the possibility to attempt to source these products through the Finnish wholesaler companies, such as Metro-tukku and Heimon Tukku, rose from the study, and is something that needs to be examined as well. It is probable that all the specific products we need can't be sourced through these markets or wholesalers. In these cases we need to procure them individually or possibly in cooperation with a few of these already operating restaurants, while sharing the expenses and risks.

The literature review I conducted in this study gave me readiness and a lot of the required knowledge for starting the sourcing process, and so the steps on how to start doing this are quite clear. In chapters 2.1. and 2.2. I went through sourcing and its processes, and these are all relevant and need to be used, and paid attention to, when sourcing for our business. Therefore, instead of referring to them here, I advise to see the actual chapters.

5 Conclusions

The purpose of this thesis was for me to figure out the way how to build the supply chain for our planned oriental restaurant business, which wouldn't suffice with the current products available in Finland's domestic market. The aforementioned was achieved by conducting a qualitative survey research on the similar oriental restaurants currently operating in Finland, and by studying the literature on both sourcing and international procurement.

The results were sufficient, and for the most part also positive, as they built trust in the feasibility of establishing the supply chain even if procurement needs to be done directly from Asia. There turned out to be also very potential options before even resorting to the direct supply, and these will need to be further examined first hand when moving forward with the business.

The sources used in this thesis were from well-known authors, and the qualitative research on the Finnish restaurants was conducted by sending invitation letters directly to the restaurants, and contact information was requested, and acquired, from the respondents. Thus I'd claim the data shown and referenced to be both trustworthy and valid.

This thesis enlightened me about areas of business that are very relevant to my professional specialty (supply chain management), such as sourcing, purchase documents and currency exchange. Additionally, I learned quite a bit about other topics during the literature review process that weren't even directly related to this particular area of study. The whole thesis process also taught me a lot about successful and also less successful research practices, conducting larger researches and survey making.

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Appendices

Appendix 1. English webropol questionnaire, part 1

Survey: Procurement in Finnish exotic restaurants


This survey contains 7 questions and one extra space for your optional contact information and anything additional you want to say. The questions should be rather quick to answer for a person who knows about the firm's procurement! Thank you sincerely for your time!

1. How large share of the materials you use origin from Finland (approximately)?

2. Which Finnish stores and distributors do you use?

3. Do you buy products from local "oriental markets"? If yes, what kind of products and what kind of an importance does it have for your supply?

4. If yes to previous: Are you, or would you be able to order specific products through these oriental markets outside of their current selection?



Appendix 2. English webropol questionnaire, part 2

5. Do you use products that are not available in Finland? (Not even in oriental shops)

- Yes
 No

6. If yes, could you tell how you have set up the procurement for these products? Also, what kind of products are they?

7. Would you be willing or interested in ordering together and sharing expenses regarding this kind of international procurement with other entrepreneurs?

8. Optional: Can your name and the restaurant you represent be shown in the written analysis of this study? If yes, please state your contact information and also anything additional you want to say here!

That would be all! Thank you!

Lähetä

Appendix 3. Finnish webropol questionnaire, part 1

Kysely: Hankinta suomalaisissa eksoottisissa ravintoloissa


Kysely sisältää 7 kysymystä ja yhden ylimääräisen tilan "vapaalle sanalle" ja mahdollisille yhteystiedoille. Kysymykset pitäisi olla melko nopeita vastattavia henkilöille joka tietää yrityksen hankinnasta! Kiitokset ajastanne!

1. Kuinka suuren osuuden käyttämistänne raaka-aineista arvioisitte tulevan Suomesta?

2. Mitä suomalaisia liikkeitä ja tavarantoimittajia käytätte?

3. Ostatteko tuotteita paikallisista "oriental" myymälöistä? Jos kyllä, millaisia tuotteita ja miten tärkeä osuus näillä on teidän hankinnassa?

4. Entä pystyisittekö/uskoisittekko pystyvänne tilaamaan tiettyjä tuotteita käyttämienne oriental myymälöiden kautta heidän nykyisen valikoimansa ulkopuolelta?



Appendix 4. Finnish webropol questionnaire, part 2

5. Käytättekö tuotteita mitä ei saa suomalaisista myymälöistä? (Ei edes "oriental" myymälöistä)

- Kyllä
 Ei

6. Jos kyllä, kertoisitteko miten olette järjestäneet näiden hankinnan ja toimituksen? Entä millaisia tuotteita nämä ovat?

7. Olisitteko valmis tai kiinnostunut ulkomaan yhteishankintoihin, ja näin jakamaan kustannuksia toisten yrittäjien kanssa?

8. Voiko nimenne ja ravintolan mitä edustatte mahdollisesti näyttää analysoidessani dataa opinnäytetyössänne? Jos kyllä, ilmoittakaa ystävällisesti yhteystietonne tässä! Tähän voit myös kirjoittaa mikäli jäi jotakin lisättävää!

Siinä kaikki! Kiitos!

Lähetä