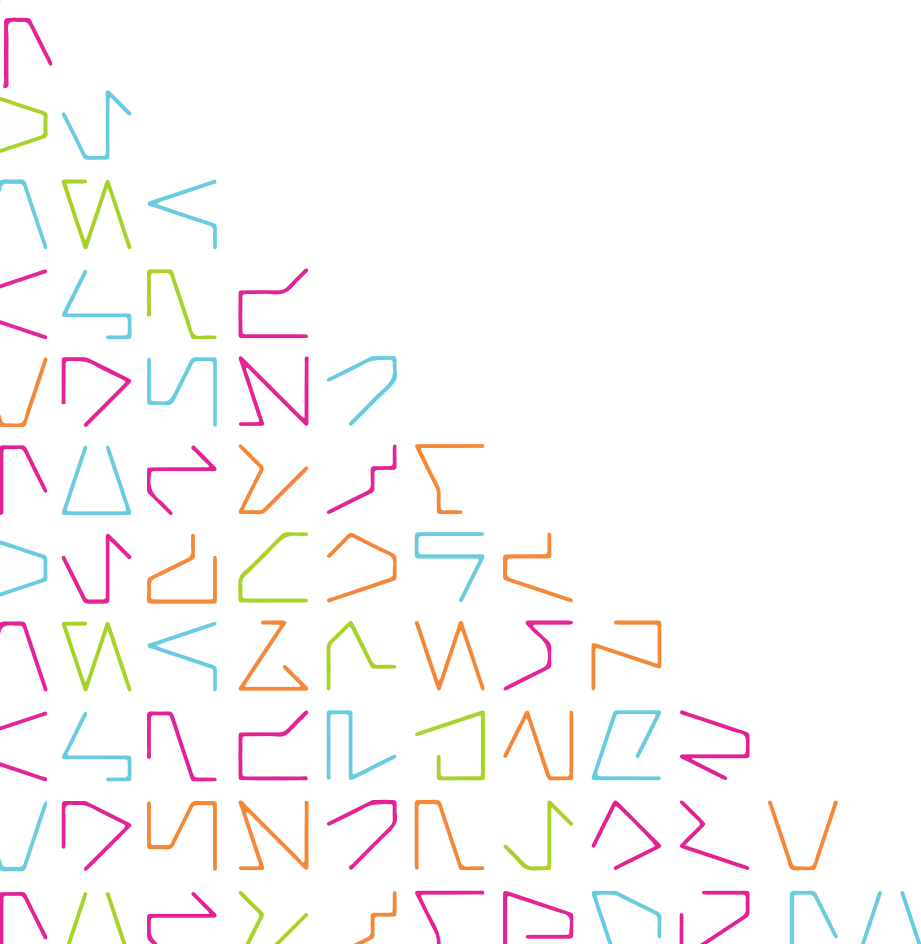


STRATEGIC PURCHASING PRACTICES

The Case Study of PAUL Bakery UK

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Bachelor's thesis
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Degree in International Business
Major in Green Supply Chain Management

ABSTRACT

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Strategic Sourcing Practices, the case study of PAUL Bakery UK

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Traditionally, purchasing has been considered to be an exchange activity between buyers and sellers for a mutual benefit. To some extent, this is the basic nature of purchasing and it will never be obsolete in a small operations scale. However, the leverage of strategic purchasing has been gradually recognized by practitioners and researchers over decades. With an integrated vision, purchasing is no longer a basic function in the organizational structure. Rather, it is now a potential area to develop in order to optimize the input performance specifically in inbound logistics and generally in logistics operations. A strategic development applied in purchasing requires company's ambition for establishing long-term relationships with their suppliers, negotiating total cost reduction and creating value-added features in supplier partnerships.

The commissioner of this thesis is PAUL Bakery UK. It is one of the fastest growing subsidiaries of PAUL International in France. Operating mostly in London, PAUL UK has a huge business potential for growth. This is the time when the company seeks for new improvement in its operational process to keep pace with the market competitiveness and support its own expansion. Purchasing at PAUL UK serves mostly for its production needs and has not yet been built up to its fullest potential. Thus, new development of sourcing methods shall be helpful with some possible applications in the near future.

Key words: Strategic Sourcing Supply Management Proactive Purchasing
Strategic Purchasing Supplier Relationship Management (SRM)

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1 INTRODUCTION

1.1 The need for the thesis

In this current competitive economy, all enterprises of all sizes are continuously longing for a better way to achieve the best performance and deliver the highest value to their end users with less expenditures. The way toward mastering this goal can be rocky as not every company has sufficient resources to fully support its strategic movement. Purchasing function is the first gateway for any primary inputs to be filtered for further movement inside the operational process. The saying “garbage in, garbage out” might explain briefly the role of supply management in any business. Without proper understanding and implementation of this function, firms are more likely to encounter numerous defaults at the other end.

Supply management mainly focuses on strategic purchasing and supplier relationship management. To be specific, strategic purchasing activates a proactive attitude toward an organization’s purchasing power and facilitates a win-win sourcing strategy with its suppliers. Nowadays, even medium sized enterprises have begun to invest in their sourcing strategies for a more efficient procurement. Purchasing is no longer a low cost negotiation but rather a value creating commitment. After determining appropriate buying strategies, companies need proper tools to maintain their supplier relationships. This is a very essential part of supply management and it is not an easy task. Effective supplier management supports firms to flexibly deal with all the problems occurring during their partnerships with suppliers. Additionally, purchase department could confidently make a decision on which relationships should be kept and which ones should be eliminated by applying supplier assessment methods.

For a long time, firms have ignored and underestimated the power of purchasing. Even though if they have, the full potential of purchasing has not been exploited. This traditional point of view has received a lot of criticisms lately. Researchers and practitioners are eagerly seeking for new approaches and techniques in order to improve the drawbacks of traditional approach.

Applying a strategic mindset into purchasing will not only create smooth goods and value exchange streams between buyers and sellers but also reduce company’s resources for fixing failures down to the chain. It also strengthens the flexibility and adap-

tation of a business for new opportunities and challenges thanks to its strong foundation with its suppliers.

During the author's study time at Tampere University of Applied Sciences, she has gained an interest in supply chain management and especially in the field of inbound logistics. Afterward, the experience as a stock and cost control intern at PAUL UK crystallized her firm interest for the field. The author discovered the importance of purchasing in this growing business and an update on strategic sourcing process was needed to increase the company's competitive advantages in the current business context. Hence, the topic: "Strategic Purchasing Practices, the case study of PAUL Bakery UK" was chosen to be the title of her Bachelor Degree's thesis.

1.2 Objectives of thesis

The thesis focuses on the purchase process particularly on supplier management at PAUL Bakery UK. There are three main objectives the author aims to achieve in this final thesis.

Firstly, the author is going to analyze and investigate the current purchasing practices at PAUL UK in order to detect the potential areas for further development. As mentioned above, purchasing attitude and supplier relationships will be focused to point out existing challenges.

Next, with the support of her academic knowledge and researches on supply management, the author will come up with suitable and relevant applications for each acknowledged challenge for purchase process at PAUL UK. More importantly, the suggested applications will be proposed under the consideration of retail bakery business context and London business environment. Modification and adjustment will be implemented if it is needed.

Lastly, the author shall reflect and evaluate the advantages and disadvantages of each application as there are always two sides of a coin. However, the best suggested applications would be the ones with more advantages and best situated with PAUL UK's resource and business potential.

Questions to be answered in thesis

1. What is the difference between reactive and proactive purchasing?
2. Which are the best sourcing strategies for different buying situations in business-to-business environment?

1.3 Thesis Structure

The thesis is divided into five main chapters. The first chapter is introductory part citing about the necessity and objective of the case research. Next, the second chapter explains theoretical framework as a foundation of the whole research process. Following that, the research methods are introduced in chapter 3. The main part is in chapter 4 with the case study at PAUL Bakery UK and its purchasing practices findings from the researcher. Finally, the thesis is ended with recommendation and conclusion for PAUL UK in terms of its purchasing strategies.

2 THEORETICAL FRAMEWORK

2.1 Strategic Purchasing

Generally, purchasing is referred to acquiring goods or services at the right price, on time, at the right quantity, with the right quality and from the right source. Nowadays, this common sense about purchasing becomes simplistic and superficial. Eventually, all buyers should question the illusion of what exactly the right price or the right source is. Our business world is changing with the speed of light and things fluctuate second by second. Hence setting stable and rigid standards for procurement is no longer potent for many enterprises. Baily et al. (2005, 4) suggest a broader description of purchasing's objectives:

- To fulfil an organization's needs by supply a good flow of materials and services.
- To ensure continuity of supply by maintaining effective relationships with existing sources and by developing other sources of supply either as alternatives or to meet emerging or planned needs.
- To buy efficiently and wisely; and acquire the best value for every dollar spent.
- To build a co-operative relationship with other departments and to spread out necessary information and advices in order to operate as a whole.
- To develop a combination of resources such as staff, policies, procedures and organization to achieve these above objectives.

Additionally, the objectives might include:

- To select the best suppliers in the market.
- To support the development of new products.
- To protect the company's cost structure.
- To maintain the correct quality/value balance.
- To monitor supply market trend.
- To negotiate effectively with suppliers for win-win relationships.
- To approach supply management environment-responsibly.

As can be seen from these objectives mentioned above, purchasing is not simply a series of transactional and administrative activities. Modern perception toward purchasing is a strategic function for resources management and development. Purchase strategists have always been aiming to achieve economics and strategic congruence in purchase department with its company.

The importance of purchasing was declared by a phrase “a 1 percent saving in purchasing is equal to a 10 percent increase in sales” in early 1980s (Baily et al. 2005, 8). A firm can possibly increase its profits by investing in an efficient purchase practice instead of stimulating sales. This point of view totally shifts a company’s value system around and by mastering their purchase process, firms can acquire a tremendous value in terms of internal operational and financial management. In addition, it is said that on average 60 percent of every sales dollar goes towards material cost (Tiersten 1989, 21). This shows that not only from the saving perspective but the cost structure of a product depends very much on raw material costs and purchasing activities. Thus, the role of strategic purchasing is never being overrated.

2.1.1 Reactive Buying versus Proactive Buying

In mid-1970s, purchasing was seen as an administrative function rather than a strategic function. Purchase played a passive role in organizational structure and was operated in an isolated environment rather than an integrated supply chain (Cousins et al. 2007, 12.) The new term Supply Chain Management, developed in 1990s, has changed the way purchasing interacts with suppliers and other departments organizations. One of the new term in purchase process nowadays is Proactive Buying (Davies et al. 2004, 12). Apparently, it is a revolutionary term to avoid the drawbacks of reactive approach in purchasing and widely in Supply Chain Management.

Reactive Buying is seen as a transactional relationship between buyers and suppliers. It is an exchange of goods or services for a certain amount of money. This point of view is still an appropriate for small businesses which aimed for low-cost items in a limited amount of time. However, the mutual relationship between buyers and sellers is emphasized significantly lately in many organizations due to its great benefits. Proactive buying approach not only creates trustful and dynamic relationships with suppliers but also it actively interacts with other departments and works closely with the end goals of the

organizations. This is a suitable approach to eliminate the incongruence between individual function's visions towards the company's vision. Moreover, as it is mentioned in the table 1, proactive buying requires a firm to have its own purchase department and that department is in charge of generating product specifications. It is the matter of trust within a company and senior managers to let this department to be in charge of such an important thing. While reactive buying receives all the specifications from marketing and production department, proactive buying gives purchase department a bigger challenge to deal with. Since purchase department knows the input performance the best, it is more relevant to turn the information stream the other way around and let purchase department take the front seat. Of course communication needs to be set among purchase department and other departments and senior management levels before any decisions are made but from the contemplative view, purchase department has an active role for product specifications after all.

Another common myth about strategic buying is that it is a function only to filter defective materials and goods. Obviously purchase function played an administrative and detective role before. Nowadays, it is a function to manage and reduce technical risks and defective supplies of input performance. The function has a wider reach to its suppliers more than just ordering and detecting activities.

In many big firms where purchasing management is highly required, it is very important to have an integrated database with major suppliers. Most firms nowadays use Material Requirement Planning (MRP), Enterprise Resource Planning (ERP) or Systems, Applications and Products (SAP) as internal integrated management systems to better supervise their supply chain. In inbound logistics, these systems assist purchase department to analyse the goods flow and inventory level as well as specify product features for buying. By using either of these two systems, enterprises are more likely to exchange information with its suppliers and reduce the procurement's lead time. Apparently, good suppliers are the ones who have already mastered their internal informational system as well. Therefore; there is an equal clarity level between buyers and suppliers. This is when a great and dynamic partnership blossoms. In addition, a typical challenge that traditional purchasing has always been encountering is "bull-whip effect". Generally, bull-whip effect is caused by a failure in demand forecast and distorted informational amplification from outbound logistics back to inbound logistics in supply chain. Purchase department is not usually aware of this effect and it leads to huge unnecessary

orders. This is when the inventory level suddenly reaches the peak and the company wastes its current cash flow for liabilities. From this point of view, integrated database is also a tool for internal communication within the chain to avoid information flow failures and it allows purchase department to implement its buying plan accordingly.

In short, in order to make proactive buying works, organizations need both intellectual and technical resources to support this new approach. The down side of this new term is that not all companies have such large resources to split purchase to a separate department and invest in an internal integrated management system. Specially, this challenge's weight is even heavier for small and medium sized companies. Table 1 points out thirteen distinctive differences between Reactive Buying and Proactive Buying. (Baily et al. 2005, 12)

TABLE 1: Reactive Buying versus Proactive Buying

	Reactive Buying	Proactive Buying
1	Purchasing is a cost centred process	Purchasing can add value
2	Purchasing receive specifications from users and designers	Buyers and suppliers contribute to specifications
3	Purchasing rejects defective materials	Purchasing avoids defective supplies
4	Purchasing report to finance or production	Purchasing is a main management function
5	Buyers respond to market condition	Purchasing involves in making the market
6	Problems are supplier's responsibilities	Problems are shared responsibilities
7	Price is key variable	Total cost and value are key variables
8	Emphasis on today	Emphasis on strategy
9	Buyer's system is separated from suppliers	Buyer's and supplier's systems are integrated
10	Negotiation attitude: win-lose	Negotiation attitude: win-win
11	Plenty of suppliers = security	Plenty of suppliers = lost opportunities
12	Plenty of stock = security	Plenty of stock = waste
13	Information is power	Information is valuable if it is shared

Source: Adapted from Baily et al. 2004.

2.1.2 Key Purchasing Variables

There are four important purchase variables in supply management. They are quality, right quantity, time and price/cost.

Quality

Quality is a difficult concept to define. It is said a good quality is what customers validate to be good enough. In corporate world, there is a saying that perfection is like infinite. The effort towards great quality is defined by minimizing the wastes and bringing out the best possible outcomes. During a certain operational time, every company has its own standards for any input products or services. However, this is a constant and consistent task since the attitude of improvement is a must for the field of quality.

According to Baily et al. (2005, 108) buyers should make it clear on these two points:

1. "Quality of design or specification: have we specified the right material for the job and have we communicated our requirements to our supplier in a clear and unambiguous way? This is performance quality."
2. "Conformance quality: has the supplier provided the material in accordance with our specification? The answer is established after the inspection."

Statistical Process Control (SPC) is an essential part of quality strategy. It is a statistical method to ensure the quality competency of a firm. In this process, quality is controlled and maintained by monitor, feedback and adjustment systems. This is not only a set of techniques but rather an proactive strategy. It is a process of preventing the defective materials and services instead of identifying and correcting the faults that already happened. It is applicable to either manufacturing context and any other situations where processes take place. The inputs include materials, information, skills, knowledge, tools, equipments and so on. Outputs therefore can be products, services, information, documents and so on. Afterwards, the effort of making an inspection is needed for the final outputs to conduct a specification assessment for certain product's features. (Baily et al. 2005, 117.)

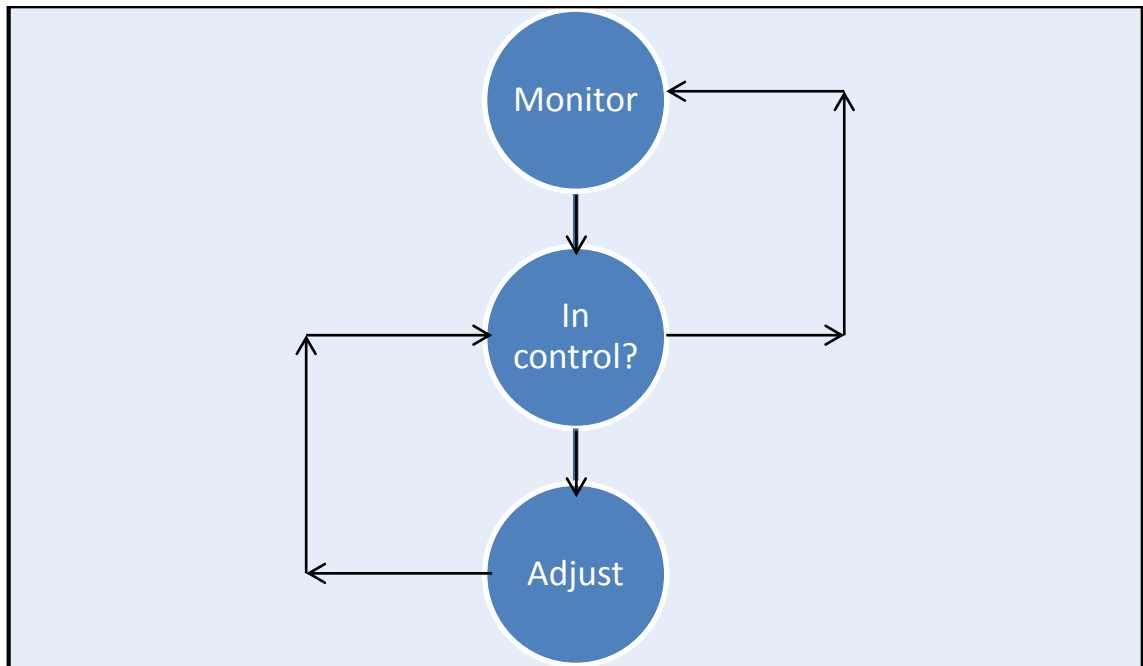


FIGURE 1: Feedback loops in statistical process control

Source: Adapted from Baily et al. 2005

To be more specific in the process of producing specifications in bakery business, usually the production or marketing department is responsible for the specifications; sometimes in the main headquarter it is the R&D department which is in charge of releasing specifications. It is common that the purchase department chooses a supplier and gets a sample for a particular product before buying, but in proactive buying, buyers will give suppliers a clear list of specifications to their suppliers to be fulfilled. Apparently, purchase department could not generate the lists alone, it is very important to get technical advices from production department and commercial advices from marketing department. However; as can be seen this point, there is no longer a reactive interaction with supplier but rather an active co-creation.

Standardization is another key aspect of quality control process. Standardization is referred to a systematic adoption of standards into a guideline in order to smoothen and optimize any process. In a mass production process, it is highly important and contributes significantly to both performance and conformance quality. Furthermore, organizations save cost of purchasing by downsizing the number of elements that serve the same function in their final products.

Here are the benefits of standardization for purchase department listed by Baily et al. (2005, 122):

- Reduction in inventory level and save warehouse space.
- More choices for suppliers and supplier negotiation.
- Ability to take advantage of economies of scale.
- More simple routine of the design and purchase process (orders, requisitions and documents).
- Less work for special explanation by letter, phone and interview.

It is not advisable to standardize on either the cheapest or most expensive item; but on the right one for both production process and users' satisfaction. Standardization needs the involvement of both internal and external feedbacks and trials on which item fits best in the common picture.

Right Quantity

The decision on buying quantities from purchase department affects directly to stock and warehouse division. Stock control is a policy on which items should be kept in stock and in what quantities. Different enterprises have different provisioning systems based on their industry and scale of operation. In food production industry, production department should provide purchase department a thorough record and report of ingredients and material consumption in a time scale, so that it is easy to make a buying decision on when to buy and what quantity it is needed. Additionally, there is always a minimum inventory level of every items, which is set by the company to avoid sudden variations. Thus organizations have to set a strong communication among purchase, production and stock departments in order to effectively purchase the right quantity of goods and services.

Nowadays, businesses approach stock differently from the past. Holding big stock is no longer considered to be secured for the company since carrying stock is very costly. There are many reasons why firms should reduce the inventory level as low as possible. Storing goods ties up company's capital, impair its cash flow and flexibility. It also demands various costs for storing, renting property, handling and managing. Ironically,

there are many risks involved such as loss, damages, shrinkage and depreciation in value. However, it is very tricky to be good at this task as lot of persuasive reasons to keep more in stock are suggested widely under the mask of poor management. For example poor quality management would suggest to keep more items in case of faults; poor planning would suggest to keep more items to cover more possibilities in case; poor supplier relationship would suggest to keep more items since we can not rely much on suppliers. (Baily et al. 2005, 136.) It takes awareness and courage to overcome these weaknesses so that big inventory is not an option any longer.

Forecasting is a predicting term and may sound uncertain for some reasons. However, in strategic purchasing, it is not a sole predicting activities. In this technology age, there are several software and systems that assist forecasting task such as Material Requirement Planning (MRP) and Enterprise Resource Planning (ERP) and Systems, Applications and Products (SAP). In a smaller scope of purchasing department in bakery industry, MRP is emphasized more and contribute the most to purchase process than other two. MRP is a production planning and inventory control system that gather and process data to calculate the quantity of components, elements and material needed for producing complex products. This system decreases tremendously the weight of challenges for information flow and communication among purchase, production and stock department. Figure 2 describes the flow of information in a MRP system to clarify how it works within a buyer's organization.

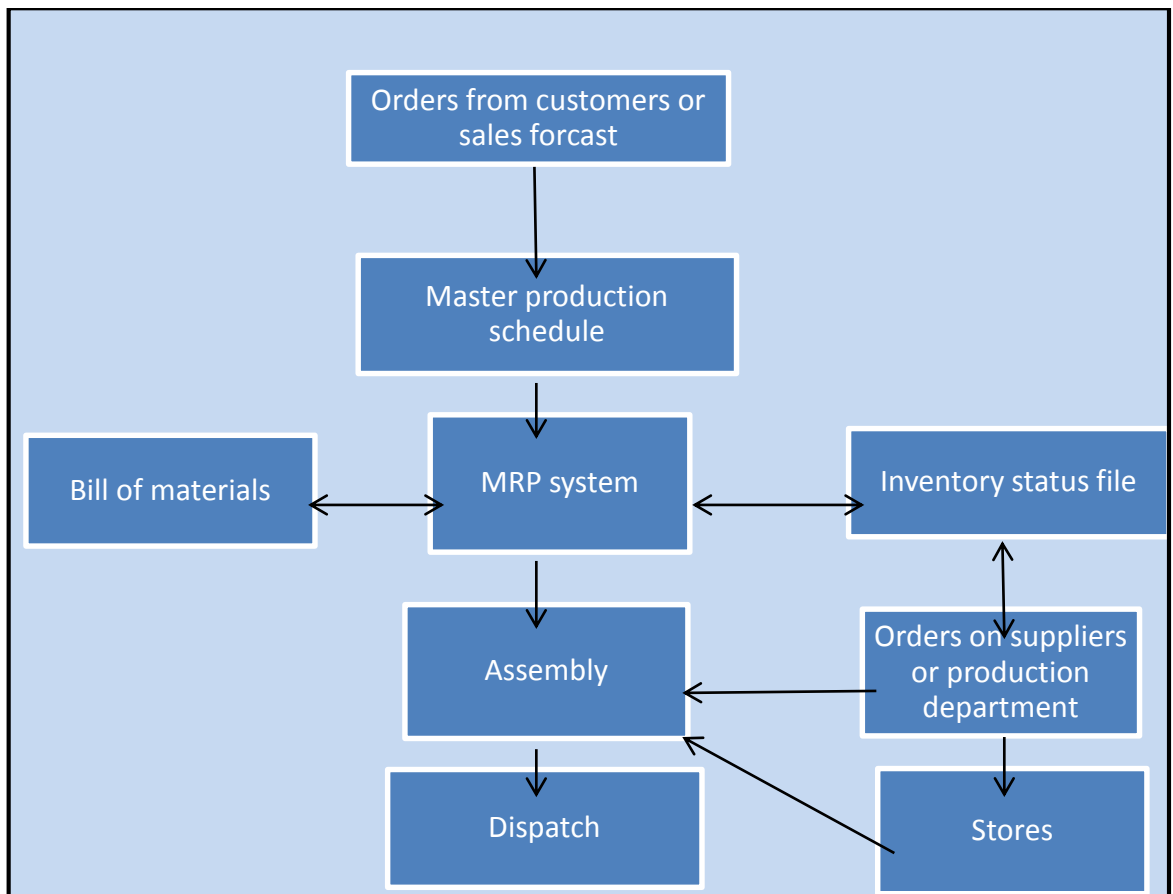


FIGURE 2: Flow of information and materials in a MRP system

Source: Adapted from Baily et al. 2005

Next, Economic Order Quantity (EOQ) is a classical formula to calculate a proper quantity of a product to be ordered so that it minimizes the holding costs and ordering costs from the company. According to business dictionary, the basic of EOQ is:

$$EOQ = \sqrt{\frac{2 \times \text{annual usage quantity} \times \text{ordering cost}}{\text{unit cost} \times \text{stock holding cost}}}$$

This is a formula for company to define how many units they should put into an order to best use their inventory holding capacity and expenses for one purchase order. It is very useful for industrial purchasing in big manufacturers. Usually many small and medium sized companies would go with repetitive amount of units within certain pallets offered by their suppliers instead of asking them to deliver in compliance with the company's requested quantity. In strategic purchasing, everything is planned and the buyers are proactive in every single move.

Another emphasis in quantity is Just-In-Time theory. Just-In-Time is a philosophy developed largely by Toyota in 1960s and 1970s. As soon as a customer orders a product, the purchase department orders the necessary items to make it. This method totally makes forecasting function and work-in-progress stocks disappear in the operational process. The amount of items purchased is just enough for the next manufacturing stage. Thus, the inventory level basically is close to zero as everything arrives just in time in every stage of manufacturing. This method operates differently from firm to firm and it requires a strong material requirement planning system (MRP) and extremely strong foundation in supplier relationships. Otherwise, it is very unlikely to succeed since the shortage of material and disruption in manufacturing are huge risks to take.

Time

Time is a critical variable to manage in a supply chain. In purchasing, it goes closely with the responsiveness of production demand which is a result from customer demand. The cost of time is sometimes more expensive than the actual cost of materials. A company could increase its competitiveness through improving its responsiveness to customer demand when it arises. (Baily et al. 2005, 161).

A must-to-have objective in purchasing is on-time delivery. The main role of purchase department is to convince and negotiate with suppliers to deliver the goods and services as the agreement was set earlier. Most of the purchasing orders take lead time. Another job of purchase department is to communicate thoroughly and effectively with customer department about lead time of each item so that they can communicate clearly with customers.

Proactive purchasing now emphasizes expediting more than ever. Expediting means actions that assist and accelerate any process. It is a proactive approach rather than a reactive problem solving. There are some criticisms about expediting, that it adds no value to the chain, as some expeditors put the alarm too often and sometimes unnecessarily. However, a proper alert for expediting is a great plus for achieving on time delivery and consecutive manufacturing process. Expediting is highly prioritized in any organization which applies Just-In-Time philosophy. There are many variables that purchase department needs to take into account when initiating any expediting efforts. Baily et al. (2005, 165) point out:

1. “Supplier:
 - How good is their record?
 - What is their reputation?
 - How often do we use them?
 - How important is our order to them?
 - Have they got a good record of co-operation?

2. Criticality:
 - How serious are the consequences of late delivery?
 - Is the material of: high priority, medium priority or standard priority?

3. Alternative:
 - Do we have alternatives if an item arrives late?
 - Is there an alternative supplier?
 - Are there any stocks somewhere?”

These are helpful questions to clarify the three variables for expediting work. There is a saying: “Clarity is power”, it is an advantage to have knowledge on what an organization is dealing with so that the company can eliminate avoidable challenges and difficulties. Expediting is mostly a task of purchase department but in some big manufacturers, it is a separate division to assist multiple purchasing points and warehouses.

Price and cost

As Baily et al. (2005, 207) mention in their book, *Purchasing Principles and Management*, there are four main factors that influence the price of a product:

- Market competition
- Value defined by customers
- Organizational strategy
- Production and operation costs.

The three first factors are intangible ones and are monitored by external forces. Production and operation costs are tangible and are monitored by how well a company manufactures and operates. As mentioned in the beginning of this chapter, some companies opt to save costs of production or purchasing to increase profits instead of upselling

products. Saving costs in purchase department takes proper strategies and co-operation with suppliers. In effective and solid partnerships with main suppliers, the actual costs drop approximately 30-40% according to Baily et al. (2005, 209).

As can be seen from figure 3, by choosing fewer suppliers and boosting the level of co-operation in supplier relationships including joint product development, helping supplier flexibility, using integrated database, companies are able to save both cost and time in purchasing significantly. As a result, decrease in purchase cost contributes to the decrease in the final price of products. This effort to reduce the purchase cost is widely considered and emphasized by companies that apply cost-based model for pricing.

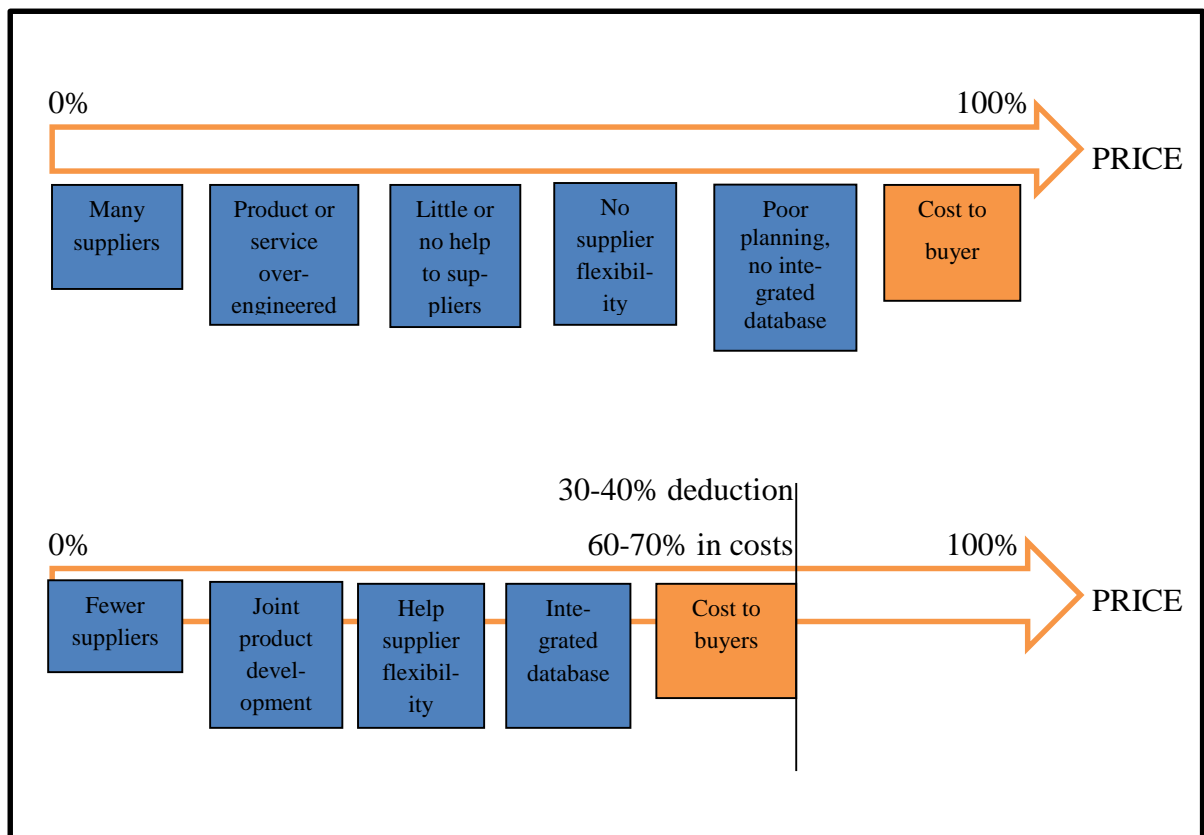


FIGURE 3: Suppliers and buyers work together to drive out unnecessary costs

Source: Adapted from Baily et al. 2005.

Another way to save cost in purchasing is taking advantage of discounts policy from suppliers. There are four types of discounts that exist in business-to-business trading: prompt payment, quantity, status and special. (figure 4)

Firstly, prompt payment is offered by suppliers to their customers when the orders are paid on time with cash or cheques. Sometimes, buyers are the ones who ask for this kind of discount especially when they are the main customers and have frequent big orders. Obviously according to purchasing contract, the buyer should obey the exact payment time and type of payment. However, in practice this is not frequent that customers pay on time and with cash, so this discount is a good solution for any cash-flow challenges. Secondly, quantity means discounts based on economies of scale. This is the most typical discount known in purchasing. However, buyers should consider about the inventory and cash-flow before ordering a big amount of goods. Thirdly, status of a buyer in purchasing is important for negotiating discounts from suppliers. If the buyers act as middle men in a chain, the price will be adjusted or if they are loyal and potential customers, the selling price will definitely be lower than the regular price. Lastly, special discounts are commonly used for seasonal products when it is out of season or when the suppliers try to promote a particular product. This kind of discount can be seen more in consumer market rather than business-to-business. Purchase department is able to save cost by taking advantage of discount from various ways. In practice, not all firms can use all four types; negotiation for long-term discount policy is more likely to exist than frequent discount hunting.

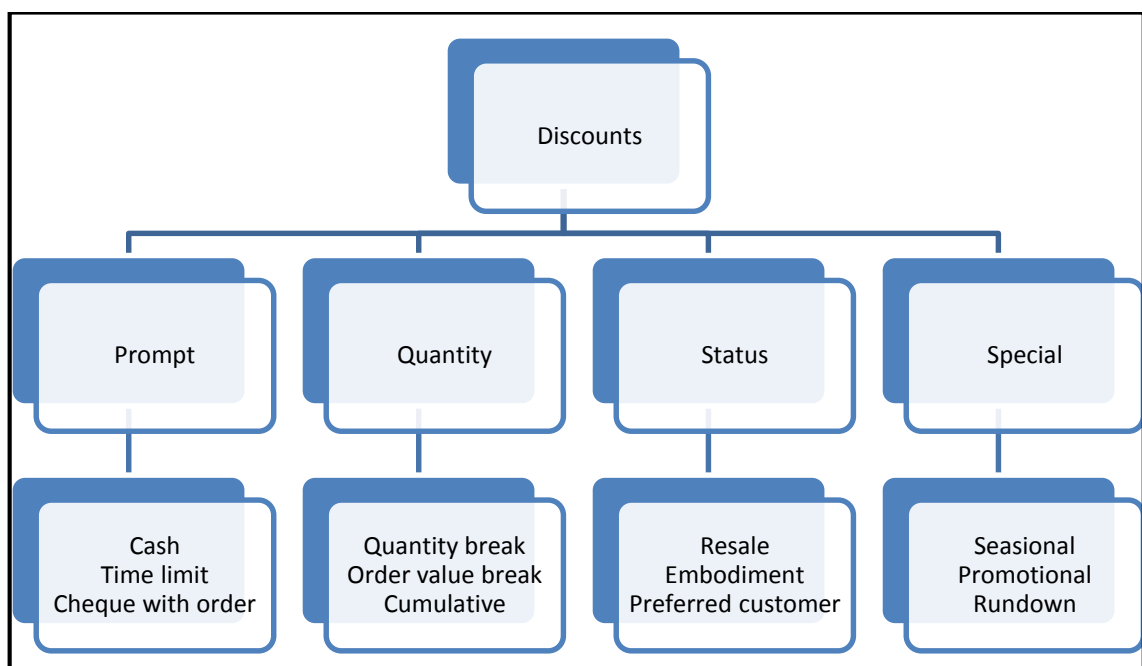


FIGURE 4: Main categories of supplier discounts.

Source: Adapted from Baily et al. 2005.

2.2 Sourcing Strategy and Supplier Relationship Management (SRM)

Supplier Relationship Management (SRM) goes hand by hand with sourcing strategy since it varies when sourcing strategy changes. Sourcing strategy is a set of supplier structure for purchasing one particular item. Sourcing strategy differs from company to company. In practice, there are three existing and applicable sourcing strategies that have been used by enterprises of all sizes throughout decades. They are single sourcing, multi-sourcing and hybrid sourcing including parallel sourcing, network sourcing and triadic sourcing. Companies nowadays agree on how many suppliers to purchase for an item based on their business's priorities, price and cost strategy or logistics operational structure.

Traditionally, purchase department tends to spread risks by choosing many suppliers for an item and let them compete against each other to attain cost deduction. Lately, fewer suppliers and strategic partnerships are emphasized thanks to their great collaborative benefits. According to Johnsen et al. (2014, 96), where purchase department has a SRM strategy, they normally have their own Customer Relationship Management (CRM) as well. Because when purchase department understands well their customer relationships, they are clearer in what they want from their suppliers. Therefore, they will build a structure of suppliers to deal with certain challenges and respond to different situations.

Multi-sourcing is a strategy to use many suppliers for the same or similar product. For example, a company can order baking flour from three different suppliers. The company is able to switch supplier when they want to. Sometimes, they let suppliers play against each other by mentioning that they have more than one supplier. This strategy allows buyer to minimize their dependency and risks on suppliers and gain negotiation power on price for the item. This is a typical sourcing strategy and it is still used to some extent. However, there are many criticisms for this one: that it is outdated and unsustainable for long-term operation. Especially in lean logistics practice, it is highly avoided as there is no time and resources to play around with many suppliers for each item.

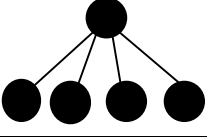
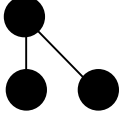

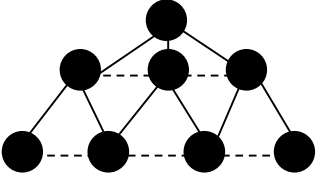
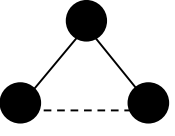
Single sourcing strategy was originally come up by Japanese automotive industry as they applied lean logistics. Single sourcing focuses on making the best out of a deal from one supplier. Firms using this strategy prefer long-term and strategic partnership. Lean logistics embrace operational and supply chain performance improvement so that firms would rather accept high degree of dependency and risks with fewer or no back-up plans. Of course there should be emergency back-up plans and expediting efforts required but in a large scale, firms shall go with one supplier at a time. It takes an extremely effective production plan and operational management to carry on this kind of sourcing strategy. As a result, companies benefit from economies of scale and save underlying supply chain costs such as transaction costs, negotiation costs and supplier managing costs. However, a firm does not usually single source all of their purchases but they would single source a certain percentage of their total purchases which would work safely with the whole. In practice, this strategy has been working very well from 1980s till now so there is validation for its effectiveness.

Enterprises do not usually single source one hundred percent of its purchases because they keep space for parallel sourcing. This sourcing strategy gives buyers option to explore more opportunities and compare quality of services between two suppliers. Additionally, it keeps competition between two suppliers in order to lift up value of supplier performance. Lastly, apparently a firm has its back-up plan for sure by using this strategy.

Network sourcing is a complex collaborative cluster of suppliers which is arranged in tier model. Many big firms and manufacturers use this strategy for their important and main components. The tiered supply structure relies pretty much on small suppliers of lower tiers and less interaction between suppliers within one tier. It appears that high degree of asset specificity exists among suppliers and this leads to risk sharing ability, close and long term relations, high level of trust, openness and profit sharing among them. In order to work closely and achieve high level of co-operation, network sourcing demands an intense supplier assessment system including supplier self-certificate, integrated data sharing system, supplier development activities as well as supplier coordinator by the customer company across the tiers. In addition, in this type of sourcing, suppliers involves actively and early in product development and process improvement. (Hines 1998, 8.). Indeed, mainly big industrial manufactures have enough resources and big supply chain to carry on this sourcing type.

The last type of sourcing is triadic sourcing strategy. This is another advanced version of parallel sourcing strategy. Instead of only making two dual suppliers compete, this strategy also encourages co-operation between them and also among buyers and suppliers. This is so called interdependent relationship. For example, a company might let two of its suppliers work jointly on a technical development of a component and let one produce what other develop and vice versa. (Johnsen et al. 2014, 100). Triadic sourcing appreciates the technical development of a product so that it fits well in technological and industrial purchasing. Table 2 distinguishes five different sourcing types in terms of structure and characteristics.

TABLE 2: Table of sourcing strategies.

	Illustration	Characteristics
Multi-sourcing		<ul style="list-style-type: none"> - High competition among suppliers - Spread risks - Less dependency
Parallel sourcing		<ul style="list-style-type: none"> - Focal firm-supplier collaboration and supplier-supplier competition - Existing of risks and dependency but back up supplier at hand
Single sourcing		<ul style="list-style-type: none"> - High collaboration between focal firm and supplier - Existing of high degree dependency - Supplier partnerships
Network sourcing		<ul style="list-style-type: none"> - Focal firm-supplier collaboration - Supplier-supplier collaboration and competition - Delegated tiered supply structure - Parallel/dual sourcing to spread risks
Triadic sourcing		<ul style="list-style-type: none"> - Focal firm-supplier collaboration - Supplier-supplier competition and facilitated collaboration - Less dependency

Source: Adapted from Johnsen et al. 2014.

There are companies which use solely one sourcing strategy for their entire purchase process. In fact, these five different sourcing strategies are used simultaneously in many firms since there are various types of products and occurring situations that require different strategic sourcing approaches. Recently enterprises are in a need for a sourcing portfolio to combine all the sourcing strategies and supply management effort in order to strengthen their flexibility in purchase department. Kraljic model is the best known model for building a sourcing portfolio based on external supply market conditions and internal relative importance of purchase item. In this model, there are four different types of items which are non-critical, bottle neck, leverage and strategic items. Each of them requires different strategies as mentioned in figure 5. Non-critical items need more of purchasing management, bottle neck items need more of sourcing strategy, leverage

items need more of material management and lastly, strategic items need more of supply management.

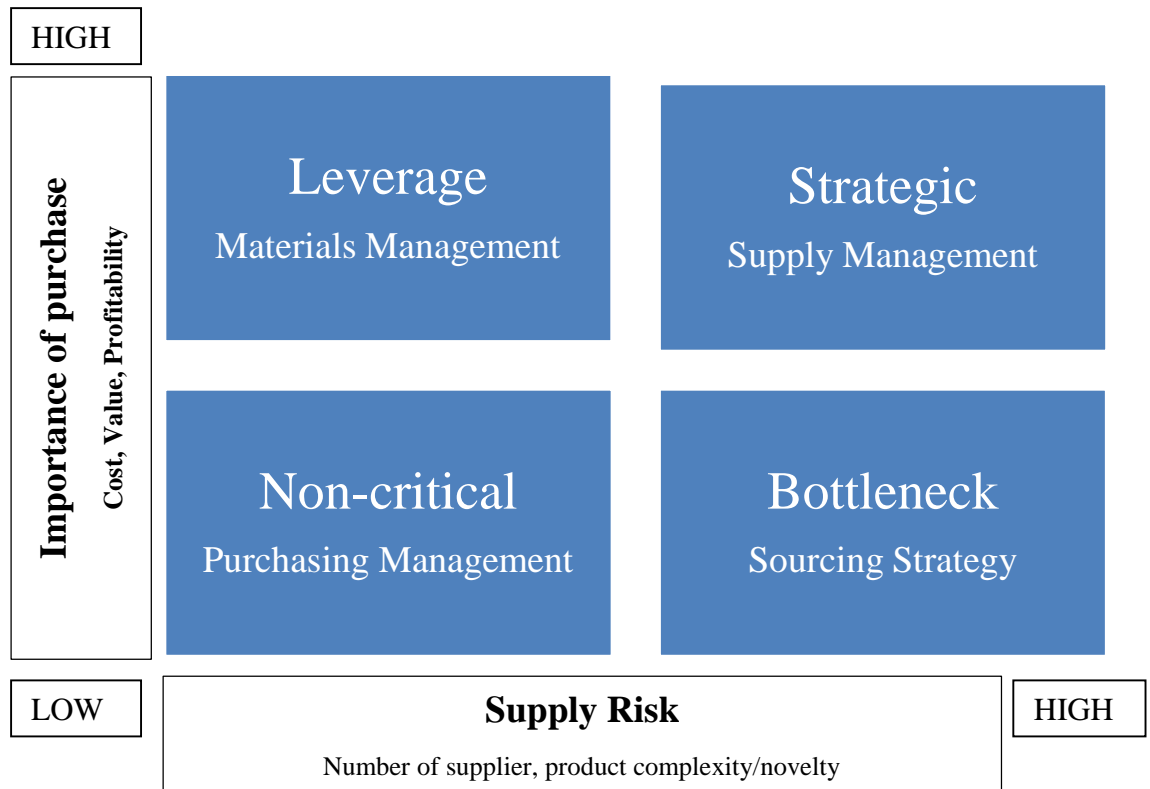


FIGURE 5: The Kraljic Portfolio Model.

Source: Adapted from Johnsen et al. 2014.

In detail, table 3 explains more about what is needed for each type of items in terms of sourcing focus, manufacturing decision, number of suppliers, supplier relationship, price/cost negotiation, supplier assessment and development policy and required information. By customizing the ways to react in different circumstances, companies achieve unshakable foundation to fully and flexibly shorten the gap between customer and supplier in the chain.

TABLE 3: Characteristics and suitable strategies for Kraljic model

	Non-critical	Leverage	Bottleneck	Strategic
Main sourcing focus	Multi-sourcing but focus on efficient process, reduction of admin cost/time (transaction cost)	Price/cost control, logistics, dual source, low cost country sourcing	Secure delivery, reduce dependency and risk: e-source globally, explore alternative designs	Single or parallel sourcing, manage total cost of ownership
Make versus buy	Always buy, outsource purchasing	Buy (or make if cost competitive)	Explore options for insourcing	Implement insourcing based on strategic core competence analysis
Number of suppliers	Many but fewer global service providers	Many approved suppliers to guarantee competition but few active suppliers	Very few suppliers, constant search for new suppliers	Few suppliers, seek out for new suppliers
Supplier relationship	Medium to long (with full service providers)	Competitive bidding short or medium term contract	Long term and mature relationship	Nourish and invest in strategic partnership with strong trust, commitment and openness
Price/cost negotiation	Product price is unimportant compared to total cost of ownership, e procurement, pool requirements to achieve bargaining power	Constant price deduction pressure, exploit bargaining power, aggressive negotiation, e-auctions	Price is not an issue	Open book policy, reducing total cost of ownership by sharing risks
Supplier assessment and development policy	Supplier assessment	Supplier assessment, negotiated investment to achieve full benefits	Market/supplier monitoring, less investment for supplier development	Supplier relationship assessment, share experience and co-develop with suppliers, invest in supplier development
Early supplier involvement in NPD	No, involvement can be late	Limited	Purchasing involvement in NPD to avoid bottleneck situ-	Yes, as black or grey-box suppliers

			ations	
Substitution policy and risk management	No investment, standardization of parts or commodities	Screen the market, cost, productivity and value analysis	Explore product/supplier substitutes, value analysis, safety stocks, volume insurance, contingency planning	Keep track on alternatives, value analysis, risk management
Required information	Good market overview, short-term demand forecast, economic order quantity, inventory levels	Good market data, short to medium term demand planning, accurate vendor data, price/transport rate	Medium term supply/demand forecasts, excellent and accurate market data, inventory costs	Long term supply/demand information, share of strategic information

Source: Adapted from Johnsen et al. 2014 and EFQM 2006.

Furthermore, supplier relationship assessment is the most important activity in general supplier relationship management. From traditional operational perspective, firms normally have a supplier assessment process which is quite similar to customer feedback for their supplier. Organizations review on whether their suppliers fulfil and perform well during the partnership and it will be submitted to the suppliers as a feedback to improve their services. This is basically a one way approach from buyers. However, supplier relationship assessment evokes two parties to take part in a reflective and evaluative process regarding to their relationship. Thus, this is a collaborative approach to improve relationship efficiency between suppliers and buyers. Both sides communicate with each other and find possible improvements towards their relationship's maturity. Not every relationship is the same and it can be very different from one to another. So far there are not so many fixed frameworks for supplier relationship assessment though many discussions about it have been developed. According to Johnsen et al. (2014, 122), based on the distinctive priority of each relationship, buyers and suppliers shall discuss around eight criteria which are maturity, exclusivity, co-operation, conflict, intensity, interpersonal inconsistency, power/dependence and trust. Both parties will decide on how often they should implement a supplier relationship assessment process. Hume and Wright (2006, 189) state that "You don't make a pig fatter by weighing it". This means this process is just a reflection for growth and should not be implemented too often. Firms and their suppliers must focus on the effort to nurture the partnership by being present and aware of any occurring errors and unfulfilled happenings in order to upgrade and improve instantly. This requires full attention, commitment and strong

communication capacity between both parties but it is the most effective way to improve anything.

3 RESEARCH METHODS

3.1 Basic research versus Applied research

Martin Brett Davies (2007, 17) states “research is a process of gathering data in a strictly organized manner”. By doing this, we have a more accurate and profound picture of the target matter rather than a mass assumption. Research conducted in business is usually identified as organizational research. The book “Doing Research in the Real World” (Gray et al.2004, 2) states that “Organizational research is a systematic and organized effort to investigate a specific problem that needs a solution”. There are two types of organizational research: basic and applied research. Table 4 below describes their differences in terms of purpose.

Table 4: Differences between basic research and applied research

Basic Research	Applied Research
Purpose	
-Expand knowledge for organizational processes	-Improve understanding of specific organizational problems
-Develop universal principles	-Create solutions to organizational problems
-Produce findings of significance and value to society	-Develop findings of practical relevance to organizational stakeholders

Source: Adapted from Saunders et al.2000

As the nature of this thesis is a case study of Paul Bakery UK, applied research is a proper type to implement the study.

3.2 Qualitative Method

“The phrase Qualitative Methodology refers in the broadest sense to research that produces a descriptive data-people’s own written or spoken words and observable behavior” (Taylor et al. 2015). Apparently, it is more subjective, richly informative, exploratory and non-statistics creating a deep understanding of a research matter or a new theory. Qualitative method works best with small and medium sized research sample.

However; it does not mean that this method is an inaccurate way to carry on a research. As different respondents have different opinions and points of view about the research questions due to their own situations and organizational positions in a business context. By choosing this method, the researchers need to prepare for a dynamic interpretation process. They have to be aware of the big picture of the matter and find balance towards the conclusions.

As the nature of this thesis is a case study of Paul UK, qualitative method is used in the whole process of researching. Additionally, every enterprise has its own characteristics, using qualitative research is more appropriate to shape the thesis's focal point based on the commissioner's business features.

3.3 Case study as a research method

Case studies are widely used as resources for discussion and problem-solving for students at many academic institutions. Most of social scientists believe that case studies are only appropriate for an exploratory phase of an investigation; and surveys or histories are suitable for the descriptive phase; experiments are for explanatory or casual inquires. This idea considers case studies as a preliminary research method and it could not be used to describe or test propositions. (Yin 2009, 6.). Yin (2009, 8) also mentions that there are three types of case study which are exploratory, descriptive and explanatory case study. Each of them has a different approach and purpose for the final goals. A business case study can be distinctive for its own features but at the same time quite representative for a particular industry.

A case study brings a practical understanding beyond a theory. It is a source of knowledge about organizational behaviors in a specific business aspect. Readers are challenged to question their theoretical assumption toward a research matter. It is considered to be an appropriate tool to accelerate students' ability to combine their personal and academic competency in a practical sense. Obviously, case study is not a research method for generating a theory, and many scholars argue its accuracy in data collection and interpretation. However, it is a good tool for diversifying a theoretical description and widening the variables range of an academic assumption.

In this thesis, the case study at PAUL Bakery UK is an exploratory case study in the author's opinion. The investigation phase by the author will be an essential part of this case study. The process of interpreting shall be carried out afterwards for the final recommendations.

3.3.1 Data Collection

Data collection for this thesis includes both primary data and secondary Data.

According to McNeil and Chapman (2005, 131.), "primary data is collected firstly by a researcher with multiple research methods such as surveys, interviews or participant observations. Secondary data is evidence used by sociologists as a part of their research which has been produced for non-sociological reasons, either by organizations such as the state or by individuals."

In this thesis, the author uses all the information she had observed during her 5-month internship at Paul UK as a primary data. All relevant data from PAUL internal figures and statistics as well as all official online publications about the company are preferred to secondary data collection for the research development and findings.

3.3.2 Data Analysis

This is also called the process of data interpreting. Data is collected and processed into information that serves the researcher to define the suggested applications for her thesis. The author will use her analytic thinking and problem-solving skills in compliance with theoretical framework to process the data in analysis phase. In terms of secondary data, she will check if it is aligned with contemporary business knowledge and practices.

4 THE CASE STUDY AT PAUL BAKERY UK

4.1 Establishment and Operations

London is undoubtedly one of world's leading cities with strong key features in finance, arts, fashions, services, tourism, commerce, media, education, entertainment and transport. It is the most visited city and has the largest city airport in the world. London has four World Heritage Sites including the Tower of London; Kew Garden; the combination of Palace of Westminster, Westminster Abbey and St Margaret's Church; Greenwich Royal Observatory. With other stunning landmarks, tourism business in this city is a billion-pound business. The incredibly busy working environment and non-stop tourism activities create a huge demand for food retail industry. The fact that London is hosting more international retailers than any other city in the world makes it is even more appealing to any retail investor.

French cuisine stands out for its unique expression. French cooking has influenced largely on Western cuisine to some extent. England's poor food culture opens a niche for French food to penetrate the country. This is an undeniable advantage for any French food business and it draws a new pathway of expansion for them especially in this lively city, London.

PAUL Bakery UK is a subsidiary of PAUL International which is owned by Groupe Holder. HOLDER consists of PAUL International and Ladurée Paris restaurant lines and two production sites, Château Blanc in the north of France and one factory, Manufacture du Pain in Greater Lille, France. Francis Holder is the founder of the group and is the one who brought PAUL from a small family own bakery into an international bakery outlet. Originally, PAUL Bakery was founded by Charlemagne Mayot (Francis Holder's grandfather) and his wife in 1889. They opened a small bakery located in rue de la Mackellerie in Croix, near Lille. "PAUL continues to be a family owned company under Groupe Holder S.A.S and is built on the foundations of time-honoured production methods passed down through five generations. A commitment shared in more than 25 countries today with PAUL bakeries in London, Washington, Dubai, Tokyo. In 2012 PAUL opened its first bakeries in Singapore and Moscow". PAUL headquarter is in Greater Lille, France. PAUL UK's EBITDA turnover at the end of 2014 was 14.3 million euro. (The Paul Story, 2015.)

Realizing the delicious potential in London, PAUL UK was established in London in 2000 with its flagship shop and restaurant in Covent Garden to pursue its founder's dream of becoming international. Today there are a total of 33 shops in primarily Central London locations and three shops outside in Oxford, Newbury and Birmingham. Each shop has its own manager and together they are managed by the two offices: Support Office and L'Atelier de PAUL. Support Office locates at Medius House, 63-69 New Oxford Street, London WC1A 1DG. L'Atelier de PAUL locates at 43-45 Brunel Road, East Acton, London, W3 7XR and this is where the author did her five-month practical training.

Over fifteen years, PAUL UK has definitely made its way to success in London. The company is considered to do very well and be on its fast track to approach other cities than London. The new store in Birmingham is the milestone of the company's new enlarged project. This rushing movement can be clearly seen by anyone who is currently working at PAUL UK. The company is seeking for new employees and buying new automatic machines to keep up with its growth. Stock and Cost Department is getting busier with new suppliers for new products, reestablishment of relationships with current suppliers in a bigger scope of operation, on-going cost defining projects, warehouse rearrangement, inventory control and new consumption ratio for each ingredient. Thus, purchasing gradually displays its strong role at PAUL UK.

4.2 Product lines and services offered

PAUL's products encompass 3 main lines Bread, Viennoiserie and Pateisserie, which are produced by L'Atelier. Main product lines are:

- Bread : Baguette, Charlemagne, Small Pain, Sandwich, Pain de Mie, Pain de Seigle, Pain Campagne, Benoiton, Fougasse.
- Viennoiserie: Croissant, Pain au chocolat, Escargot raisin, Palmier, Gourmandise, Brioche, Apricot Anglaise, Beignet, Apple grilled pie.
- Patisserie: Tartlet, Tart, Éclair, Flan, Cheesecake, Chocolate Moelleux, Fraisier, Dome Cassis, Meringue, Craquant, Opera, Millefeuille.

These are the products L'Atelier supply to all PAUL shops and PAUL's wholesale customers. There are more products in each line which have not yet been mentioned since each range is very wide.

4.2.1 PAUL outlets

At PAUL shops, there are several more food ranges in compliance with its retail format. Apart from basic products coming from L'Atelier, some of the food such as sandwiches, salads and hot ranges are prepared and served by shop's sale assistants. Twenty nine out of thirty three PAUL shops are in the quick-served format which is quite similar to delicatessen format. They are all located near main underground stations and busy spots in London center. On Christmas and Valentine's Day, the company always offers extra seasonal products into its food range.

4.2.2 PAUL's wholesale business

In addition to its retail business, PAUL UK has a network of wholesale customers in London. The company has around sixty wholesale customers. They are delicatessens, hotels, restaurants, pubs, schools, offices and coffee shops. L'Atelier is in charge of deliver their orders on a daily basic. The majority of the customers make standing orders so that the demand is predictable. Some others have changeable and different orders each day. They can change the orders before 11am on the previous day of actual delivery date. As mentioned above, all the products PAUL UK send to its wholesale customers are similar to its outlets. However, L'Atelier agrees to make some different or customized products if customers order a big quantity (usually more than 200 pieces) or if they are the important and loyal clients. L'Atelier is highly under pressure to deliver consistently well in terms of time and quality for its wholesale customers since some of them are in luxury catering business and fast retail traffic flow. The biggest wholesale customer of PAUL UK so far is EasyJet airline. L'Atelier provides mini trio pastries boxes for meals on airplane. Each box contains one croissant, one escargot and one pain au chocolate. At L'Atelier, the packing team completes a pallet which is made up from 2.016 boxes everyday including weekend. This big amount of pastry is collected by EasyJet UK, EasyJet Ireland and EasyJet Europe alternatively.

4.3 Purchase Practice at L'Atelier de PAUL

4.3.1 Purchase process

As mentioned earlier, L'Atelier de PAUL produces fresh bakery and pastry products for all PAUL shops and PAUL's wholesale customers within London. Thus, most of its purchases are for the production purpose. Besides, L'Atelier purchases materials for packing process, technical and office-based needs such as hygiene, uniforms, machinery, staff food and stationery. There are around twenty regular suppliers in total. Stock and Cost Administrator is in charge of purchasing tasks in accordance with customer orders. Checking inventory level in different storage places alternatively on a daily basis assists purchasing decisions on the quantity and delivery time, which is another important responsibility of this division.

Retail bakery is a fast-pace and changeable environment for purchase function but it seems to be predictable to some extent. L'Atelier has a file of goods to be ordered and from which suppliers they come from. Nowadays, supplier is the main factor to define the ordering timetable. To be more specific, a timetable is made for each day during five weekdays on which supplier to order goods from, and from which supplier goods are delivered to L'Atelier on the same day. As there are many items needed for the whole operational process, a relatively fixed timetable for manual ordering is a good way to organize and stabilize goods flow. Also, this timetable makes it easier to know where to check stock holdings daily. There are also standing orders that come on fixed schedule and require no manual ordering through the system.

Another important data for making purchase decisions is weekly use of each purchase item. When stock check is done, it is the time to decide on the order quantity based on this data. This data is recorded and collected by production division and stock controller. Afterwards, orders are made and sent to each supplier through AXAPTA, another version of Enterprise Resource Planning system (ERP) from Microsoft for larger enterprises. This is how purchase orders are made in general at L'Atelier.

Furthermore, most of the negotiations on cost and price with suppliers are carried out by head of L'Atelier. Actually, all decisions on agreements and service policies between L'Atelier and its suppliers are finalized by the head of L'Atelier as well. L'Atelier has

one main supplier called Vestey. Vestey acts as an ingredient and materials supplier as well as an outsourcing transportation and warehouse supplier for PAUL UK. Originally, Vestey is a privately owned UK group of companies providing food products. However; PAUL UK made an agreement with Vestey to transport half-baked and frozen bakery products from the main factory in France to PAUL shops. These are the products L'Atelier does not produce but still belong to the retail range. Besides, L'Atelier produces part-baked breads and accumulates them to send to Vestey because Vestey has bigger warehouses to keep them. Afterwards, Vestey sends them to each PAUL shops when they get orders from the shops.

Another task of stock and cost division is to detect the faults in every delivery. Stock controller checks every coming delivery for any defective goods, then he reports to cost administrator. Only then, suppliers will be informed to issue credit notes for the defective items and arrange a collection for them if necessary. Stock and Cost division also communicates with finance department about the order payment for suppliers. Usually, when a delivery comes, delivery notes or invoices sent by supplier in every delivery are approved in the AXAPTA. That helps finance department to validate the accuracy of the same invoices suppliers to them in order to make the payment.

Occasionally, there are new suppliers coming to offer their products and services. In that case, Stock and Cost administrator would order samples and test if they fix the requirements and stand out from the currently used products. If they are better in terms of cost, quality and services, a meeting with that supplier will take place to discuss further about the orders. Most of new orders nowadays either with current suppliers or new suppliers are for new product development and delivery services. This is the changeable part of stock and cost control division. Most of other items has become regular and easy to control.

4.3.2 Challenges acknowledged in Purchase Process

Operating in food industry, quality and safety are two most critical factors that must be monitored strictly. The indispensable ingredients are flour, yeast, seeds, fresh fruits, egg liquid, cake sponge and cream. These are essential for making different breads and pastry products. The delivery of these products should be checked carefully because any

deterioration directly increases the wastage and affects customer safety and satisfaction. This requires alert detection from the stock controller. However, if defective goods issues happen quite frequently, it is the question of supplier's ability to perform consistently and the co-operative ability to avoid defective goods from both buyers and suppliers. There were times that quality issues not only created big wastes of materials, disruption in production process but also required extra procedures to deal with finance department. The challenge on quality and food safety from suppliers requires constant considerations from many food manufacturers.

Supplier relationship management is also a great issue of concern lately. The two main challenges are mutual communication and under-performance from suppliers. Because Vestey is the biggest supplier and logistics partner, as the result, managing the relationship with Vestey requires more attention. Since the more frequent trading activities there are, the more faults and failures occur.

Firstly, the most recognizable problem with Vestey is that they are out of stock for frozen viennoiseries and other products quite often. It created a difficult situation at L'Atelier to deal with all the urgent requests and hard complaints from PAUL shops and customers. At the same time, L'Atelier does not have much space to store for more frozen viennoiseries in case of shortage. No back up plan is available so that the situation seems to be helpless at some points.

Additionally, the out of stock problem affects L'Atelier staff meal orders and employee satisfaction. Vestey fails to deliver agreed items for staff meal because they are out of stock for these items. L'Atelier was not informed in advance about the problem so suddenly there is no food in the canteen to serve. There were many employees and production workers especially those who work in the night shift do not get a sufficient amount of food in their breaks; and it is quite important for them because the shifts are long and require hard work. Conversations had been conducted about Vestey's underperformance by L'Atelier and Vestey, it is seen that Vestey sales department has no clear idea about the shortage of stock for staff food. During the day, the sales team processes standing orders and passes them out to their warehouse to prepare late at night for the morning delivery to L'Atelier. When there is something wrong with the food such as out of stock or expired items, the warehouse department just prints out the invoice with a note "out of stock" for the delivery and does not inform back to the customer service department

about the problem. Therefore, no one is in charge to solve this problem or at least inform L'Atelier so that it could make a plan earlier to order food from other suppliers. This is not only the incompetency of Vestey to manage its goods' flow but also their internal information flow.

Secondly, communication between suppliers especially with Vestey is still an area to be improved. There were many times that frozen breads collection requests from Vestey were let down due to confusion in spreading information and passing out internal discussions. Apparently, delays and waste of resources appeared as well as tensions between two parties piled up. The power of clarity, strong commitment for mutual growth, attitude for sharing responsibilities are highly necessary for this situation. There is no way to grow when each of the party blames each other about their inability to perform. The challenge here is that it takes work from both sides to create an effective information exchange.

Another communication issue is how effectively L'Atelier communicates with its suppliers about product specifications. A clear example for this is PAUL's new uniform order for drivers at L'Atelier. All the specifications for new t-shirt, trousers, shoes with PAUL logo and pictures had been set up in detail. However, neither did the supplier offer a prototype of their actual products in compliance with the specifications nor did L'Atelier request a prototype to see if it matches their description and give feedbacks for necessary adjustments. When the order came in big quantity, it failed to match the suggested specifications.

Additionally, clear communication is the key to success especially in a business which orders a wide variety of similar products of the same type. Retail bakery and food industry requires purchase department to manage a bigger range of ingredients and some of them can be very similar. Conversations and agreement on order details must be paid more attention to. For instance, coffee or butter for cake production is different from the one for staff but sometimes they are mixed up because the supplier does not pay attention to the specifications L'Atelier told them earlier. These incidents are minor but with the effect of accumulation from many different products, if they are not managed well, it costs time and money from both sides.

Talking about cost deduction in purchase process, there is not a fixed vision for cost/price strategy and in purchasing decision making process at L'Atelier. As people act in roles and choose to buy items with their own tools and logic, sometimes, discussions within L'Atelier are needed for more important items. Nevertheless, it is a cost oriented and optimal set of activities. To some extent, it has been working well so far. However, an attitude for consistent improvement and optimization is a necessary for any purchase department without a fixed strategy. L'Atelier is considered to have few suppliers, which is the very first feature in cost deduction model mentioned in figure 3 in chapter 2. But integrated data base and supplier flexibility are two areas that need more attention. In terms of data base, PAUL UK and its suppliers share data base for product codes and figures, but incongruence between PAUL UK and suppliers still exists. For example, some of the codes from supplier do not match PAUL UK data base and other finished products such as the dough cakes' size and dimension figures which are unclear to Vestey. Therefore, it is time consuming for making calls to clarify the details and sort out the implicated problems. Once, Vestey needed to manually check and measure the dimensions of each type of a dough cakes in a collection in order to raise a purchase order. The incongruence might take time at the beginning and seems to be a minor error but eventually, the potential problems it creates are very costly. Supplier flexibility is an unclear matter and it needs further assessment from PAUL UK in order to come up with conclusion and possible improvement for this area.

The nature of producing fresh food obviously puts L'Atelier to operate closely within Just-In-Time theory. L'Atelier has literally no stock holdings on the site for fresh breads except a small amount of frozen cakes in case of order variations from customers day to day. Otherwise it outsources its stock items in frozen condition to Vestey. There are a lot of works to keep up with low level of inventory for both purchase ingredients and final products. One of the common issues that disrupt the production process and Just-In-Time implementation is the sudden rise of wastage which leads to the urgent need to order for more. Suppliers agree to deliver at the particular frequency and time, so, lead time is a biggest enemy to emergent needs occurring in Just-In-Time theory. After all, it is the work of collaborating within a buyer-supplier relationship that aim for both reducing wastage from buyer and tightening lead time or higher flexibility from supplier. This is an essential work to make Just-In-Time work without creating risks of shortage and delay.

Another prominent feature of proactive buying is strong communication and interaction between purchase department and other departments in the organization. At L'Atelier, stock and purchase still belongs to one department. To some extent it is good, because the distance between purchasing and warehousing is small enough for better communication and mutual understanding. Communication between purchase division and production administration team is quite strong. However, the production site downstairs usually misses the information from stock and purchase department. Information about lead time, stock level, value and weekly use for of certain important items are not spread well especially to team members. Thus, they actually do not know how to use ingredients flexibly or report in advance about the shortage of some items to their managers. The other reason is that L'Atelier is a 24/7 business so there are day shift and night shifts, and therefore, people working in different times can not communicate efficiently. This is the thing that blocks the information flow within a team and among departments. It is seen a minor and subtle issue but it is undeniable that disruptions in operational process very often are caused by small and frequent issues.

5 RECOMMENDATION

Looking at the purchase process at L'Atelier, it is considered to be still a reactive buying process. Though it is proactive with several features comprising of data base integration, fewer suppliers and low inventory, purchase process still operates relatively with reactive mode. It is not necessary that only businesses using proactive buying process are successful ones. When a business is not large enough, there is no point to invest in purchase department as a separate management function. Proactive buying is not a more complex and advanced problem-solving approach, it is a more co-operative and collaborative approach. If there are not many connection points in the supply chain, traditional buying still fits well. When a business grows, its supply chain expands as a result. That is when organizations consider a new approach in supply management.

Those challenges of L'Atelier mentioned in the fourth chapter could be improved relatively by focusing on two main areas which are quality of supplier relationship and internal communication competency.

Supplier Relationship Management

A strong and reliable supplier owns high flexibility, great resources for product development, a vast network of transportation, a sufficient amount of warehouses and fast flows of goods. However, to make a relationship work, the buyer has to allow the supplier to utilize all their strengths. Besides, the buyer has to give feedbacks and time for supplier to overcome their weaknesses. With suppliers with small and standing orders, L'Atelier does not necessarily require them high flexibility. But with Vestey, it is very crucial to ask and aim for higher flexibility. This is the matter of negotiation and constant feedback and discussions from L'Atelier after changes are made in order to see how well Vestey copes up with changes. Vestey can also tell L'Atelier what PAUL UK could do to make it easier for them to deliver better performance. For example, the new change recently is that L'Atelier bought a new cake cutting machine, which gives Vestey another deal to deliver frozen cakes to the shops instead of the logistics department at L'Atelier as before. This change provides a chance for PAUL UK to measure the flexibility of Vestey. Frozen cakes need more quality assurance, more sensitive freezing condition and more order variations from shops. The two jobs from L'Atelier are that firstly it has to provide a consistent sufficiency of cakes for Vestey to ensure the

delivery with changeable cake orders day to day; and secondly it has to inform well all the shops including team members about this new change and new way of ordering cake. Since the product development takes place in L'Atelier, it is not a need for PAUL to consider about its supplier ability to co-operate on product development and specifications. In the main headquarter PAUL France, most of the product development are already invested so it is more economic that L'Atelier put less effort on this area. Network of transportation and warehouses are fine so far at Vestey. So the last thing to pay attention to is its flow of goods. Back to the challenge about out of stock of frozen viennoiseries and staff meal, it is a question of communication and discussions with their senior managers. It is considered to be helpless if discussions just go around in different departments and are not synchronized by general or operations managers. In addition, an upgrade on system integrated data should be implemented firstly at PAUL UK and after that Vestey should adapt the adjustments or vice versa. In short, after improving all of these above areas, L'Atelier almost achieves the cost deduction model for price in figure 3 from chapter two with four main features which are fewer suppliers, joint product development, help supplier flexibility and integrated data base.

Internal Communication

Communication is a vague concept to define. What is considered as a good and efficient way to communicate by one party is sometimes not the same as other party. Within an organization or between buyer and supplier, the incongruence about the ideas of effectiveness, responsibility and understanding comes up often as a challenge. Sometimes, it requires a meeting in order to agree on one single best way to spread information and come up with solutions for existing issues. Usually within an organization, one person tries to change things for the better and other one also does in his/her own way. At the end it is very confusing for team members to follow up. This happens similarly in a buyer-supplier relationship. One day information and feedbacks about an occurred failure or problem is informed to a staff and another day it happens again since a different staff is in charge on that day. These difficulties in communication could possibly be solved on macro level rather micro level of management. There should be unification for new changes, task assignment and feedbacks to every operational level.

Apart from solving challenges, improvement on regular operational process has always been demanded from organizations. An MRP or ERP system assists purchase process

significantly. But it works best if items and other variables are encoded and systemized. At the moment, stock checking at L'Atelier is still a manual activity because barcode has not yet been developed for items in stock. It requires the investment in electronic devices and encoding related activities. When it is installed, the work for manual stock checking and communication issues about reporting shortage of goods from production sites to purchase department will literally disappear as information about stock level are precise and accessible through the system for everyone. It is better if team members in both bakery and pastry production division have access to the information. They should be trained to use electronic devices to scan an item every time when they pick it up for using. Most of retail businesses and big firms use barcode for all their stock and purchase items. However, the operation at L'Atelier is relatively small and it is still controllable doing things manually. There is no doubt that for sure in the future L'Atelier would need it for stock and cost department when PAUL UK gets larger.

Others

Besides, there are several things that have not been exploited fully by L'Atelier so far that might be in need for the future. They are economic order quantity (EOQ), expediting, discount options, Kraljic portfolio model and its applications for sourcing strategies. When orders get bigger and more frequent, using EOQ is a smart solution to decrease costs for lots in warehouses. Expediting assists in closing purchase schedules and speeding up the buying process. There are many discount options mentioned in figure 4 to make full use of in each purchase time that L'Atelier could consider in the future. Lastly, L'Atelier now is using both single and parallel sourcing strategy. In the future, when demand from customers grows, it is helpful to sort out four different type of items based on the importance of purchase and apply different sourcing strategies and set of management activities for each type. All of these applications are only worth using when purchase orders are very big and important.

In conclusion, L'Atelier purchase process is midway from reactive buying toward proactive buying. The shift would happen eventually in time and with the company's growth. Time is required to implement solutions for current challenges while the company's growth allows improvement to take place fully within broader operational scope and with more resources. The future of supply management at L'Atelier is very optimistic. Things are automatically forced to change in any growing time for a business to

protect its existence and improve its profitability. Therefore, proactive buying practices and all strategies in supply management are certainly adopted by L'Atelier by any chance in the future. Hopefully, it will be a business culture rather than simply a trendy approach aimed for implementing.

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APPENDICES

Appendix 1. Results of the interview with Cost and Stock Control Supervisor at PAUL UK.

1. **Would you please describe your position and responsibility at PAUL UK?**

I am Cost and Stock Control Supervisor. I am responsible for making sure we have the correct levels of stock at all times, oversee the month end stock take, to order ingredients and equipment, resolve problems, find suppliers for new products and negotiate prices, cost new and existing products.

2. **Would you please describe briefly the purchase process at L'Atelier?**

When we buy ingredients, packaging, smaller equipment than after checking stock levels and calculating the needed quantities we place an order through our internal ordering system, Axapta. The system creates a purchase order which is sent automatically to the supplier by email. After receiving the goods, we approve the order on Axapta, send the paperwork to Finance who pays it. If we buy big equipment or something of a bigger value we ask quotes from the suppliers than after the decision has been made we create a purchase order which gets authorized by the relevant person and sent to the supplier.

3. **Who initiates the purchase process and who specifies the products to be bought?**

Many products have been specified by Paul France. These can be brought from certain companies to maintain standards. If we need new products than the Head of department decide on what products should be bought and what are the specifications. My job is than to find a supplier. Many decisions come from Kevin Sherlock or from the Support Office.

4. **Do you ever place orders based on one quote?**

Normally we ask a few suppliers to quote. We only get a quote from one supplier if it is a very specific item that we can not order from somewhere else.

5. **What factors that make you choose X supplier over Y supplier?**

The specifications of the product, the price, availability, lead time and minimum order.

6. At PAUL UK, what is the most important variable for choosing a supplier?

The specifications of the product must comply with the company standards. There are many ingredients we can not use even if the other factors are more beneficial.

7. What are the reasons that make you go over a supplier again and again?

If they can keep the quality and the price of the product and they are reliable in supplying it.

8. Do you normally implement performance assessment for a current supplier?

Not formally. We are small enough to see if a supplier is falling behind expectations.

9. In your opinion, what is the best practice to reduce purchasing risks?

To work with suppliers we can reply on. To plan carefully and place orders in advance.

10. In your opinion, who has more power: buyer or seller?

I think it depends on the size of the buyer or seller. The bigger the company is, the bigger impact it can have.

11. Between a supplier who has greater communication competency and another one who offers a better price, who would you choose?

The price is very important but if a company is not reliable on the longer term it is not worth to do business with them.

12. In this expansive time at PAUL UK, what do you think would be a great improvement in Stock and Cost Control division to catch up with the company's growth?

I think at the moment the department is doing well. However having an electronic stock control/barcoding system would make the work easier and more precise.

