

1a) When discussing emerging country sourcing, Nojan presented 4 tools to use for this:

1. Evaluate relationship closeness ^{through} Actor bonds
Activity links
Resource ties
2. Evaluate Activity interdependence
3. Understand economics logic
serial pooled
reciprocal
Scale scope
Integration
Innovation
4. 3 approaches to EMC-sourcing
Transactional
Supplier base
positioning of network

The 4th tool is then used to identify which of the 3 approaches that should be used in EMC sourcing. The approaches means:

1. Transactional basis:

Suppliers are used in Emerging countries on transactional basis. Partnerships and so on is not common for this approach, rather the trade is made occasionally when needed. This is the easiest and most basic approach to sourcing from abroad. Reasons for using this approach could be that the company is new to EMC sourcing, it implies low risk, no large investments are needed- etc *

2. Supplier Base.

2nd approach means to establish part of or the whole supplier base in an emerging country. In this way, majority will be sourced from these countries. This needs more investment in terms of time and other resources to build this base abroad. Some benefits are that suppliers in the country can collaborate and exchange information, transports can be consolidated and it is also likely that labour and other costs are cut. One example of this is Volvo that are currently building a supplier base in Asia/China. Earlier they have sourced everything from locations close to the plants but is gradually moving supplier base to China.

* Example on transactional approach is for example a company that sources a standardized product when they need it. E.g. engine oil for LF's forklifts (case 3).

3. Positioning of Network:

The 3rd approach is to position your network in EoC. This means that production, distribution etc. also will be present here ~~to~~. This method can be used to access new markets, and is often done as a last stage in outsourcing, which means that supplier base etc. is already established. This approach can be costly and risky, but could also give large sales and revenue potential for the company.

One example of this is Storathens who recently opened a cartonboard machine in China. This is both to serve the European market when needed but also to enter the Asian market in a larger scale. Some benefits with Asian market is ~~more~~ raw material availability, (Eucalyptus instead of fir trees), and lower labour costs.

To summarize, the easiest way to start with EoC sourcing is through transactional approach and later increase with supplier base and network.

Though it could be necessary to start with Netw par. right away if the company need growth and market access. The other 3 tools could also be very helpful to identify which approach to use.

For example, if relationships are very close and dependency is high, the transactional approach probably won't work well.

Other aspects that can be important are obstacles for example in terms of language, time zone, infrastructure etc. This can mean that transactional approach is the only possible one to perform since it's hard to establish more operations than that.

2. When discussing purchasing structure, 4 major and 3 sub-types can be mentioned

- 1. Central structure
- 2. De-central structure
- 3. Hybrid structure
 - a) lead buyer concept
 - b) lead design concept
 - c) voluntarily involvement
- 4. Cross-functional structure.

Good structure ✓

When deciding which purch. structure to use, there are several factors that affects the decision; some are:

- Product characteristics
- Ordered volumes
- locations of plants / warehouses / suppliers.
- grade of shared components / standardization / customization

In FOXTRON case, the products of the 3 divisions are very different. Div. A produce large, potentially very bulky products. Div B make prod. for restaurants which means that they prob. have very hard regulations for food safety etc. they need to follow. Quality is an important factor in this case. Div C produce small possibly quite customized parts for automotive industry. Quality and responsiveness are keywords here.

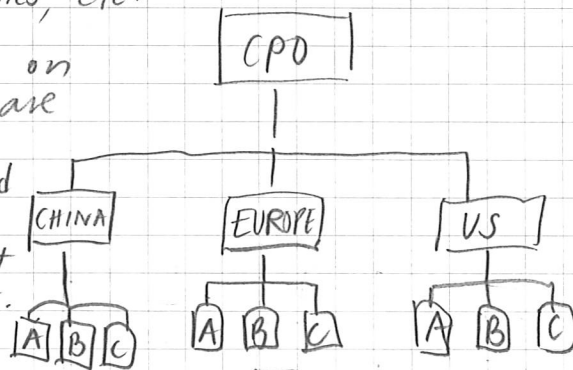
Just looking at product characteristics, there is not much synergies or shared parts etc between divisions. Also, locations of plants in 3 different continents further points out that the central structure probably is not feasible in this case

It doesn't say if all 3 products are produced in each site, but if assumed that this is the case, a hybrid structure would probably be something to choose

For the European plants, purchasing could be centralized, in order to find synergies, consolidate transports, lower inventories, etc.

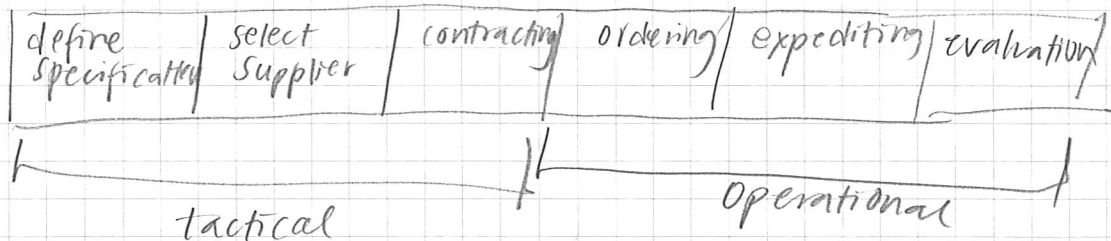
for each division A/B/C

For China/US, depending on how large volumes that are produced, it could either be split into A/B/C or performed centralized. If it's a small plant, it could be central, but if large and since prod.-charact. varies it could be split up.



2. Another thing to consider when organising purchasing structure is the strategic / tactical and operational levels.

The purchasing process can be described as:

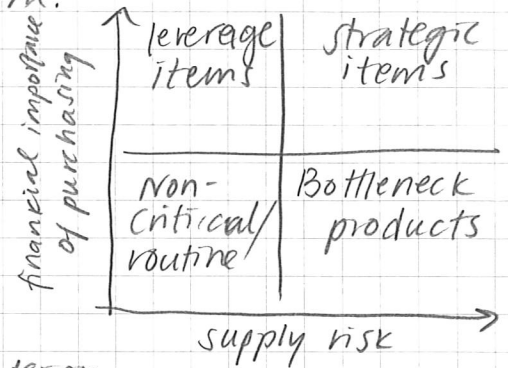


3a) To use Kraljics methodology, 4 phases should be passed:

1. Classify components

First step is to classify the purchased goods into 4 categories with the matrix.

This is to understand how important each component is and how purchasing should be prioritized. One challenge with the matrix is that it is quite easy to understand the model, but it is hard to evaluate e.g. supply risk in reality. Also most effort in research is put on how to classify rather than how to use the classification later on.



2. Perform Supply Market Analysis:

2nd step is to analyse the supply market to understand which context you operate in. This could be to:

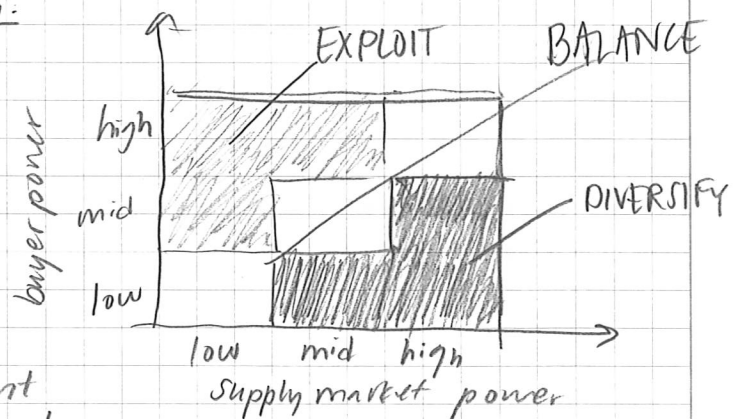
- Evaluate capacity of suppliers
- Understand weakened volumes of suppliers
- Check raw material availability
- See historically how suppliers have performed
- Is there any seasonality to take into account?
- Locations of suppliers

This analysis should be used to identify which suppliers that are feasible, to use and where the supply risks are.

3. Strategic Positioning:

3rd is to understand which strategy to apply. The matrix shows 3 diff ways: Exploit, Balance, Diversify, depending on who has the most power in the relationship.

To understand which power you have is very important in order to mitigate supply risks and dependency.



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3a) 4. Action plans

SPELL out.

The 4th step is to decide which strategy to pursue (exploit, balance, diversify) depending on how the classification and supply market looks.

From other sources there are also a set of purchasing strategies presented that could be linked to each classification category

competitive bidding	strategic partnership
efficiency & procurement	secure supply + look for alternatives

The portfolio analysis will help purchasing managers to perform both more effective as well as efficient purchasing

b) Bensaou has presented a different model based on classifying relationships instead of products. The 3 phases are:

1. Classify relationships
2. Do contextual profiles
3. Do management profiles

captive buyer	strategic partnership
transactional approach	captive supplier

For the 1st step the relationships are mapped into the matrix. 2ndly, for each relationship, the context is described for example in terms of technical and organizational aspects. Last management profiles are designed which means how each of the relationship types should be managed.

The difference is as mentioned that relationships are considered rather than products, since there might be more similarities in how to handle these suppliers. Depending on your company's context one of the different models could be more preferable than the other.

4a) Indirect sourcing.

Indirect sourcing means all purchased goods/services used for supporting activities. This is the opposite to direct sourcing for primary activities

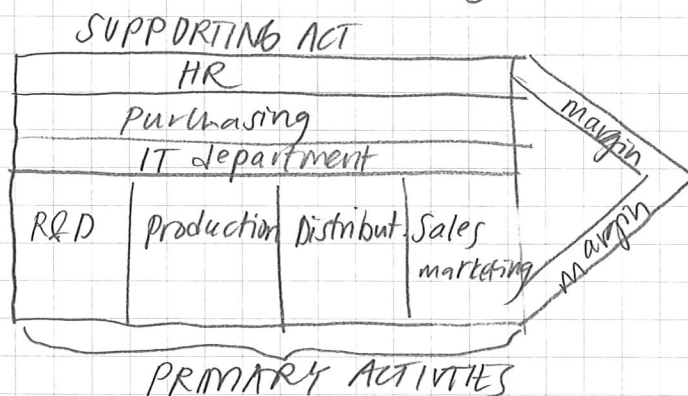
Primary activities are those that are a part of the company's value proposition. This could for example be manufacturing while HR is a supporting activity

Indirect sourcing could for example mean to buy paper for copy machine recruitment processes or coffee.

In many firms, indirect spend is larger than direct spend. Why it could be large cost-saving potential to review the indirect sourcing

as well. For purch. managers, it is also important to understand the difference of the two, in order to understand how purch. activities affects value proposition and be able to prioritize correctly.

PORTER'S VALUE CHAIN

b) Output specification.

When sourcing services, it is very important to specify what you want to purchase. This could be done in 4 different ways:

1. Input - Resource based, e.g. we need 10 people for the job
2. Throughput - Process based, e.g. Cleaning should be done like this
3. Output - Result based, e.g. Snow & ice free roads
4. Outcome - Goal based, e.g. No accidents ("noll-visionen" for the roads)

To use output/outcome specification is most common since then you specify what you want to achieve rather than how it should be made. One of the largest challenges with sourcing services is to really specify your needs in a clear way, why these methods can be very helpful to use for the task.

The specification will not only be helpful to identify a suitable supplier, but also a way for purch. managers to really figure out what they need before they start searching for candidates.

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4c) When discussing CSR, 3 dimensions can be described

ENVIRONMENTAL
SOCIAL
ECONOMICAL

When including CSR in procurement and purchasing, all 3 dimensions can thus be used in different ways. To perform social procurement means that the social impact from the work should do good for the society. For example in terms of:

- Ensure fair wages
- Ensure health insurance
- Prevent child labour
- Ensure breaks / normal working hours etc

When applying this, 3 different methods can be used.

1. To use 3rd sector company for the service/process, ex hire samhall for the work. or source from women networks abroad that ex. do hand-made products.
2. To give back certain % of profit to organisations that work with social issues.
3. Hire 3rd sector for certain % of a work, ex for a construction project, ex 10% should come from socially difficult conditions. This will also help to integrate these persons in the society.

The social dimension has traditionally not been as important as for ex environmental dimension in procurement to companies. Though, large scandals with for example child labour has hit some large companies which has damaged their brand & reputation. Thus the dimension has become increasingly important, not only to companies, but also for researchers.

One example of a company that have actively worked with this is the retailer INDISKA that often have collaborations with networks in emerging countries that manufactures different often hand-made products.

4,5

4d) Public procurement:

Public procurement is the process that government must follow when performing purchasing.

According to EU there are 5 regulations about this:

1. Non-discrimination

All suppliers must be taken into consideration independent on location/who is running the company / etc.

No suppliers can be discriminated based on their background

2. Equal treatment

Everyone should be evaluated on the same basis and based on specification, not specific characteristics of supplier

3. Transparency.

process must be transparent and information about process, deadlines etc clearly communicated.

4. Proportionality:

The specification/demands on the supplier must be reasonable and possible to live up to.

5. Mutual recognition:

International trade laws/agreements etc. should be accepted and followed by all parties.

There are also some basic rules regarding suppliers, for ex. Suppliers that have committed financial frauds are not allowed to be selected.

When the buyer then will select supplier they can either choose

1. Lowest possible price

2. MEAT - Most economically advantageous offer.

The second aspect also take ~~er~~ CSR into account and focus more on TCO and life cycle assessment
The regulations in Sweden are about to get updated so that the most sustainable/~~MEAT~~ offer need to be chosen. In some EU countries this is already law.

5. Below are 4 managerial challenges for CBR presented and addressed with strategies of how to manage these

1. Establish an efficient Distribution network:

For CBR to succeed in private label coffee segment, they need to largely expand their distribution network.

This is in terms of transportation, warehousing and packaging. To limit the number of SKUs and use postponement strategies, (will be presented in nr 2), is needed in order to work efficiently with distribution. Since CBR is trying to enter this new segment, demand is uncertain, why flexibility in distribution is needed. To minimize investments, it is recommended to outsource logistics to a 3PL provider, so that capacity can be adjusted to the situation. 3PL partner can also gain economies of scale in their operations, why it is usually cheaper to use those instead of establishing own transport fleet and systems.

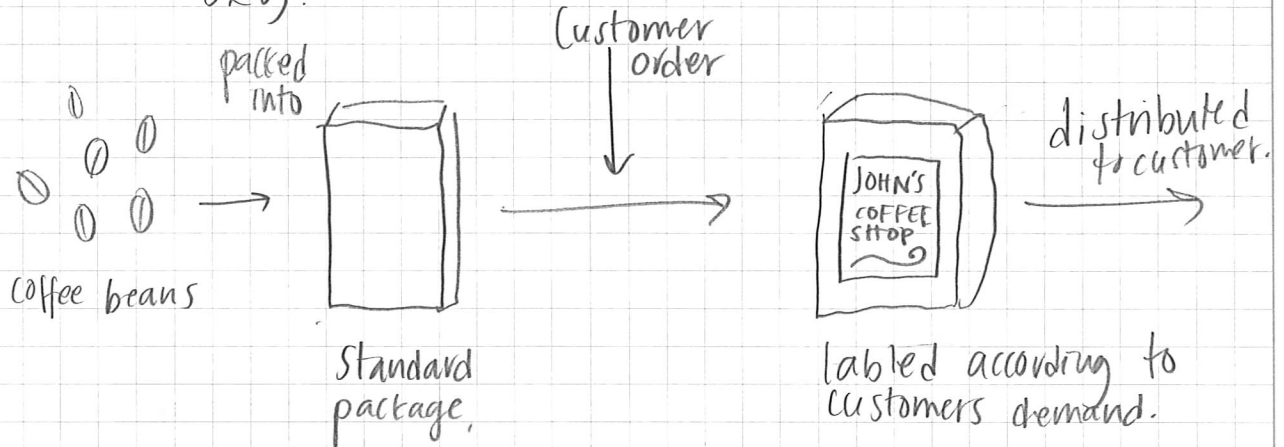
For warehouse operations it is assumed that CBR sells that large quantities that they benefit from using own warehouses. A suggestion is to keep one central warehouse for Scandinavian market, for example in Gothenburg since location is in the middle and shipping possibilities are good. Another central warehouse for Baltics/Russia could be placed in Poland or similar, depending on where customer base is strongest.

Since the market demand for coffee isn't depending on seasonality, the central warehouses will ensure efficient handling and EC's of scale. The 3PL partner can help reach and target large markets to allow cost since they can consolidate shipments with other products, thus also decreasing carbon footprint

2. Manage product variants and inventories:

The second challenge with entering the private label segment. Lies in managing product variants. To label coffee differently for each customer means that many different packages, need to be designed and purchased. This could also pose challenges for distribution if they products would contain different volumes, eg. customer A wants 400 g/bag
customer B wants 600 g/bag →

2. To start with it is therefore recommended to offer the same size and package for all customers. In order to include postponement, it is also a suggestion to package the coffee into e.g. black bags and then use stickers with the customer's specification on it. This will substantially decrease the number of SKUs and help reduce inventory levels and the risk of getting obsolete products, (if demand would decrease for a certain SKU).



To use postponement and standardization in this initial phase will help EBR to try the potential of market before investing in packaging equipment, different box sizes for the bags etc. etc. When the demand is more certain of course, more customer-specific packaging could be developed.

3. Perform supplier audits to ensure quality and origin of products.

One large challenge for the purchasing department is the dispersed supplier base. Also variations in volume from different sites and weather impact on quality as well as volume from the plantations need to be considered.

To ensure origin of the product is very important when operating in a premium segment that focuses on high-quality. The customers are usually conscious and want this type of information when buying the product. To establish processes on how to label the coffee bean batches and to be able to track and trace the deliveries is crucial. This process of course could be quite costly but is regarded as an order winner in this segment. Also, the costs of handling a scandal based on origin and quality e.g. horsemeat scandal is probably much, much higher than assuring origin & quality.

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3. A second thing regarding quality, origin and managing the dispersed supplier base is to ensure efficient information flow.

For example the Santa Maria company, realized that the harvesting of pepper plants was highly depending on weather conditions. They established information-channels with real time info about conditions which helped them to plan.

CBR also need this type of information to be able to follow and plan capacity at roasteries, warehouses, packaging facility and so on. Also, if one plantation isn't reaching as high volumes as expected, the other plantations could be used as "rubber bands" to cover for this. Thus it is crucial to get information fast in order to act fast.

4. Ensure CSR and brand value is perceived.

To operate in the coffee business has traditionally put much focus on CSR questions, since conditions at plantations have showed to be bad and unsustainable.

To assess supplier quality is important to avoid costly scandals in media.

This audit could be done on different levels:

- product
- process
- system
- company
- value chain.

For CBR it is recommended to control and audit on the highest level, which means value chain. When operating in emerging countries and also with products that some actors usually use heavy chemicals for, sustainable work conditions must be ensured.

To team up with an auditing organization, ex. Fairtrade or similar could be a way to ensure sufficient and accepted auditing processes as well as strengthen of brand value.

To ensure CSR and brand value is also important when entering private label market. If CBR suddenly would skip eg. Fairtrade / Eco certificates for these products, and it would become known that they don't ensure sustainable/high quality for all their products, brand value could be lost. Even if selling under private labels, it is still important to operate with same quality assurance since the actor behind will be the one responsible in the end.

Summary question 5.

To successfully enter the private label segment; CBR is recommended to do the following:

1. Establish an efficient distribution network

- 2 central warehouses will give EC's of scale
- 3PL partner will ensure low costs and flexibility

2. Manage product variants through standardized packaging and posttreatment.

- Use stickers to differentiate according to customer specification.
- Inventories and packaging material will be reduced.
- Flexibility and responsiveness to demand uncertainty reached.

3. Ensure information flow from Supplier base to ensure origin, quality and volumes.

- Capacity can be aligned in whole chain according to harvested volumes.
- Suppliers can work as rubberbands to ensure supply.
- Origin essential info for conscious customers.

4. Ensure CSR and that brand value is perceived:

- Team up with well-known certification organization.
- Ensure same quality and certificates for private label

These 4 actions suggested will ^{market} help CBR to successfully enter the private label without adding any large costs or creating risks.

Flexibility is ensured in an early phase, and as demand uncertainty decreases and volumes increases, the model could be changed accordingly.