

University of South Africa etd – Fourie, I (2003)

**PURCHASING, SOURCING AND SUPPLY
MANAGEMENT APPROACHES USED BY
WHOLESALEERS IN SOUTH AFRICA**

by

IRMA FOURIE

submitted in fulfilment of the requirements

for the degree of

MASTER OF COMMERCE

in the subject

BUSINESS MANAGEMENT

at the

UNIVERSITY OF SOUTH AFRICA

NOVEMBER 2003

SUPERVISOR: PROF JA BADENHORST-WEISS

DECLARATION

Student number: 3373-016-4

I declare that ***PURCHASING, SOURCING AND SUPPLY MANAGEMENT APPROACHES USED BY WHOLESALERS IN SOUTH AFRICA*** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

MRS I FOURIE

DATE

ACKNOWLEDGEMENTS

I would like to thank the following people for their contributions to this research project:

- My husband, for his love and encouragement
- My parents, family and friends, for their love and interest
- Professor Hannie Badenhorst-Weiss, for her professional guidance and support
- Mrs Monica van der Merwe, for sharing her statistical expertise
- Mrs Moya Joubert, for her skilled editing
- Mr Leon Marais and his team in the Production Department at Unisa, for printing the questionnaires
- Mrs Cora Schoeman and her colleagues of the Bureau for Market Research at Unisa, for their assistance in establishing the research methodology
- My colleagues in the School for Business Management at Unisa, for their support
- Unisa's Centre for Business Management at the University of South Africa, for their financial support

December 2003

ABSTRACT

Most contemporary South African businesses are facing tough times. This is the result of emerging trends such as intense global competition which requires businesses to be quick, agile and flexible; new technology available to any business willing to adopt it; more advanced customer expectations and the implementation of new strategic, proactive management approaches. In fact, many of them (including wholesalers) will succeed only if they can successfully integrate strategy, processes, business arrangement, resources, systems and empowered workforces to render their core business effectively.

Choosing suppliers and purchasing products are critical wholesaling activities and often determine the success of wholesalers. Wholesaling institutions, however, vary considerably in size, activity, style of business, types of products provided and services rendered. These variables imply that the complexity of wholesaling activities differs. It therefore stands to reason that the level of sophistication with which these wholesalers manage their purchasing, sourcing and supply activities may differ.

The level of sophistication with which wholesalers manage their purchasing, sourcing and supply function may vary from traditional management approaches to advanced integrated management approaches. The use of the new management approaches by businesses is a vital instrument in facilitating change. This leads to the development of more focused, specialised and high-performance organisations.

Manufacturers are not geared to deal directly with the thousands of small retailers and therefore use wholesalers for this function. Wholesalers provide a vital link between manufacturers and retailers, and play a pivotal role in efficiency of the whole supply chain. Adapting to the supply chain management approach may thus mean the difference between success, failure and the continued existence of the wholesaler in supply chains.

This research study was undertaken to determine to what extent wholesalers in South Africa have adapted to new demands and developments in their purchasing, sourcing and supply functions. Secondary to this objective was the need to (1) investigate the scope of wholesaling, with reference to the global and South African context; (2) investigate the concepts of and the evolution of purchasing to strategic sourcing as part of the broader supply chain management approach; (3) analyse the scope and concept of supply chain management; and (4) determine the purchasing, sourcing and supply management approaches used by the wholesale sector in South Africa.

The study was conducted in several phases. *Firstly*, a literature research was conducted to gather and integrate secondary data in order to (1) expound the definitions, importance, types, activities and trends of wholesalers; and (2) investigate the development of purchasing to strategic sourcing and evolution of supply chain management, and to give an overview of purchasing, strategic sourcing and supply chain management. *Secondly*, a questionnaire was compiled containing all the relevant issues identified in the literature research to enable the researcher to establish how far South African wholesalers have

advanced in adopting new approaches to managing the purchasing, sourcing and supply function. This questionnaire was pretested on two respondents to verify its validity, before proceeding to the next step.

Thirdly, a letter and the refined and tested questionnaire were mailed to all the wholesalers identified to be involved in the survey, informing them of the research study and soliciting their cooperation. The letter requested the participants to return the questionnaire via facsimile. *Fourthly*, to improve the response rate, after the date for returning the questionnaire had lapsed, additional questionnaires were faxed to all the respondents who had not completed the initial questionnaire.

The literature research established that the new demands and developments facing wholesalers in managing their purchasing, sourcing and supply function are a reality. Wholesalers are confronted with a variety of challenges concerning these demands and developments which is jeopardising their vital role in the supply chain, and they need to adopt a more sophisticated method of managing these activities, not only to ensure their own survival, but also to lower the costs of the wholesale operation, and ultimately allow an increase in shareholders' wealth.

The empirical study, however, clearly indicated that South African wholesalers are still significantly focused on the tactical aspects of purchasing, incorporating only a few aspects of strategic sourcing and supply chain management. The position of South African wholesalers regarding the level of

sophistication in their management approach to the purchasing, sourcing and supply chain management approach can be regarded as a mechanical approach, with proactive tendencies. It is therefore clear that South African wholesalers have not adapted to the strategic sourcing and supply chain management approaches, and need to prepare themselves for this change – or risk failure.

OPSOMMING

Die meeste hedendaagse Suid-Afrikaanse besighede bevind hulself in moeilike omstandighede. Dit is as gevolg van opkomende tendense soos intense globale mededinging wat vereis dat besighede vinnig, lenig en buigsaam moet wees; nuwe tegnologie wat beskikbaar is vir enige besigheid wat bereid is om dit te benut; meer gevorderde kliënteverwagtinge en die implementering van nuwe strategiese, proaktiewe bestuursbenaderings. Om die waarheid te sê, baie van hierdie besighede (groothandelaars ingesluit) sal slegs sukses behaal indien hulle strategie, prosesse, sake-ooreenkomste, hulpbronne, sisteme en bemagtigde werksmagte effektief kan integreer om hul kernbesigheid te bedryf.

Die keuse van leweransiers en die aankoop van produkte is noodsaaklike groothandelsaktiwiteite en bepaal meesal die sukses van groothandelaars. Groothandelsinstellings verskil egter aansienlik betreffende grootte, aktiwiteit, besigheidstyl, tipe produkte wat voorsien en dienste wat gelewer word. Hierdie veranderlikes impliseer dat die kompleksiteit van groothandelsaktiwiteite verskil. Die stelling kan dus gemaak word dat die vlak van gesofistikeerdheid waarop hierdie groothandelaars hulle aankoop-, strategiese aankoop- en voorsieningsaktiwiteite aanpak, kan verskil.

Die vlak van gesofistikeerdheid waarop groothandelaars hulle aankoop-, strategiese aankoop- en voorsieningsfunksie bestuur, kan wissel van tradisionele bestuursbenaderings tot gevorderde, geïntegreerde strategiese bestuursbenaderings. Die gebruik van hierdie nuwe bestuursbenaderings

deur besighede is `n deurslaggewende instrument in die fasilitering van verandering. Dit gee aanleiding tot meer gefokusde, gespesialiseerde en presterende organisasies.

Vervaardigers is nie ingerig om direk met duisende klein kleinhandelaars handel te dryf nie en gebruik dus groothandelaars vir hierdie funksie. Die groothandelaars voorsien `n belangrike skakel tussen vervaardigers en kleinhandelaars, en speel `n kardinale rol in die doeltreffendheid van die hele voorsieningskanaal. Om by die voorsieningskanaalbestuursbenadering aan te pas, kan dus die verskil beteken tussen sukses, mislukking en die volhoubare voortbestaan van groothandelaars in die voorsieningskanaal.

Hierdie navorsingstudie is onderneem om te bepaal in welke mate groothandelaars in Suid-Afrika by die nuwe vereistes en ontwikkelinge in die bestuur van hulle aankoop-, strategiese aankoop- en voorsieningsaktiwiteite aangepas het. Ondergeskik tot hierdie doelwit was die behoefte om (1) die omvang van groothandel te ondersoek, met verwysing na die globale en die Suid-Afrikaanse konteks; (2) die konsepte en die ontwikkeling van aankope tot strategiese aankope as deel van die groter voorsieningskanaalbenadering te ondersoek; (3) die omvang en die konsep van voorsieningskanaal te analiseer; en (4) te bepaal watter aankoop-, strategiese aankoop- en voorsieningsbenaderings deur die groothandelsektor in Suid-Afrika gevolg word.

Die studie is in verskeie fases uitgevoer. *Eerstens* is 'n literatuurstudie gedoen om sekondêre data te versamel en te integreer met die doel om (1) die definisies, belangrikheid, tipes, aktiwiteite en tendense van groothandelaars te verduidelik en (2) die ontwikkeling van aankope na strategiese aankope, asook die ontwikkeling van voorsieningskanaalbestuur te ondersoek en om 'n oorsig te gee van aankoop, strategiese aankoop- en voorsieningskanaalbestuur. *Tweedens* is 'n vraelys opgestel, met al die relevante sake wat in die literatuurstudie geïdentifiseer is, om die navorser in staat te stel om te bepaal hoe ver Suid-Afrikaanse groothandelaars gevorder het met die aanvaarding van nuwe benaderings tot die bestuur van die aankoop-, strategiese aankoop- en voorsieningsfunksie. Die vraelys is vooraf getoets op twee respondente om die geldigheid daarvan te toets voor daar na die volgende stap oorgegaan is.

Derdens is 'n brief en die getoetste en verbeterde vraelys aan al die groothandelaars, wat geïdentifiseer is om aan die studie deel te neem, gepos. Hulle is hierin van die navorsingstudie verwittig en versoek om hulle samewerking te verleen. Die respondente is ook in die brief versoek om die vraelys per faksimilee terug te stuur. *Vierdens* is vraelyste, nadat die datum verstryk het waarop die vraelyste terugontvang moes word, aan al die nierespondente gefaks om die responskoers te verbeter.

Die literatuurstudie het bevestig dat die nuwe vereistes en ontwikkelinge waarvoor groothandelaars ten opsigte van hul aankoop-, strategiese aankoop- en voorsieningsfunksie te staan kom, 'n realiteit is. Groothandelaars

word gekonfronteer met 'n verskeidenheid uitdagings rakende hierdie vereistes en ontwikkelinge. Dit bedreig die kardinale rol wat groothandelaars in die voorsieningskanaal speel en vereis dat hulle meer gesofistikeerde bestuursmetodes vir hierdie aktiwiteite moet volg. Daardeur word nie net hulle eie voortbestaan verseker nie, maar word die koste van die groothandelsbedryf ook verlaag en die aandeelhoudersbelang uiteindelik verhoog.

Die empiriese studie het egter duidelik getoon dat Suid-Afrikaanse groothandelaars nog grootliks gefokus is op die taktiese aspekte van aankope, met slegs 'n paar aspekte van strategiese aankoop- en voorsieningskanaalbestuur wat geïnkorporeer word. Die posisie van Suid-Afrikaanse groothandelaars met betrekking tot die vlak van gesofistikeerdheid in die aankoop-, strategiese aankoop- en voorsieningsbestuursbenaderings kan gesien word as 'n meganiese benadering met proaktiewe tendense. Dit is dus duidelik dat die Suid-Afrikaanse groothandelaars nog nie by die strategiese aankoop- en voorsieningsbenaderings aangepas het nie en hulle hul op hierdie verandering sal moet voorberei – of mislukking in die gesig moet staar.

TABLE OF CONTENTS

DECLARATION	II
ACKNOWLEDGEMENTS	III
ABSTRACT	IV
OPSOMMING	VIII
TABLE OF CONTENTS	XII
LIST OF FIGURES	XVIII
LIST OF TABLES	XX
KEY WORDS	XXIV
CHAPTER 1	1
INTRODUCTION	1
1.1 INTRODUCTION	1
1.2 BACKGROUND TO AND DEMARCATION OF THE STUDY	4
1.2.1 Wholesaling.....	4
1.2.1.1 The global development of wholesaling.....	5
1.2.1.2 The development of wholesaling in South Africa.....	6
1.2.1.3 Definitions	8
1.2.1.4 The essence of wholesaling	10
1.2.2 The development of purchasing to strategic sourcing, and the evolution of supply chain management.....	11
1.2.2.1 Development of purchasing, sourcing and supply chain management.....	11
1.2.2.2 Definitions	16
1.2.2.3 The importance of purchasing, sourcing and supply management.....	27
1.3 PROBLEM STATEMENT	28
1.4 RESEARCH OBJECTIVES	29
1.4.1 Primary objective	29
1.4.2 Secondary objectives	29
1.5 RESEARCH METHOD	30
1.5.1 Phases of the study	30

1.5.2	Research population.....	31
1.6	OUTLINE OF THE STUDY	33
	CHAPTER 2.....	36
	WHOLESALING	36
2.1	INTRODUCTION	36
2.2	DEFINITIONS	36
2.2.1	Wholesalers.....	37
2.2.2	Wholesaling.....	37
2.2.3	Wholesale management	37
2.3	ACTIVITIES OF WHOLESALING	38
2.3.1	Buying and selling	40
2.3.2	Negotiation	41
2.3.3	Bulk breaking	41
2.3.4	Warehousing.....	42
2.3.5	Risk bearing.....	42
2.3.6	Financing.....	43
2.3.7	Transportation	43
2.3.8	Assistance to suppliers and clients	44
2.4	TYPES OF WHOLESALERS.....	45
2.4.1	Merchant wholesalers	46
2.4.1.1	Full-service wholesalers	47
2.4.1.2	Limited-service wholesalers	48
2.4.2	Agents and brokers	49
2.5	TRENDS IN WHOLESALE MANAGEMENT	52
2.5.1	Wholesaler consolidation	52
2.5.2	New types of wholesalers	53
2.5.3	Competition and technology	53
2.5.4	Integrated supply chain	54
2.6	SUMMARY	54

CHAPTER 3.....	56
PURCHASING MANAGEMENT: AN OVERVIEW.....	56
3.1 INTRODUCTION	56
3.2 DEFINITION OF PURCHASING MANAGEMENT	57
3.3 OBJECTIVES OF PURCHASING.....	58
3.4 PURCHASING ACTIVITIES	58
3.4.1 Identification and definition of the material or service needs	59
3.4.2 Description of the need.....	59
3.4.3 Investigate, evaluate and select the supplier	59
3.4.4 Prepare, place and issue the purchase order or contract.....	60
3.4.5 Follow up the order	61
3.4.6 Receipt and inspection	61
3.4.7 Distribution	61
3.4.8 Supervising faulty consignments and rejections	61
3.4.9 Audit the invoice	62
3.4.10 Contract administration.....	62
3.5 PURCHASING TOOLS.....	62
3.5.1 Negotiations.....	63
3.5.2 Electronic data interchange (EDI)	63
3.5.3 Logistics management.....	64
3.5.4 Total quality management (TQM)	64
3.5.5 Research	65
3.6 SUMMARY	65
CHAPTER 4.....	67
STRATEGIC SOURCING:.....	67
A FURTHER DEVELOPMENT OF THE PURCHASING FUNCTION	67
4.1 INTRODUCTION	67
4.2 SCOPE AND DEFINITION OF STRATEGIC SOURCING.....	68
4.3 OBJECTIVES OF STRATEGIC SOURCING.....	70

4.4	ACTIVITIES OF STRATEGIC SOURCING.....	71
4.5	FROM PURCHASING MANAGEMENT TO STRATEGIC SOURCING	72
4.6	SUMMARY	74
	CHAPTER 5.....	75
	SUPPLY CHAIN MANAGEMENT:	75
	AN ANALYSIS	75
5.1	INTRODUCTION	75
5.2	THE SUPPLY CHAIN CONCEPT	75
5.3	SCOPE AND DEFINITION OF SUPPLY CHAIN MANAGEMENT	78
5.4	BASIC OBJECTIVES OF SUPPLY CHAIN MANAGEMENT	81
5.5	PRINCIPLES AND ACTIVITIES OF SUPPLY CHAIN MANAGEMENT	82
5.5.1	Strategic focus and integration	84
5.5.2	Customer focus and service	84
5.5.3	Multifunctional and multiorganisational sourcing teams	85
5.5.4	Strategic relationships and alliances	86
5.5.5	Process management	87
5.5.6	Business process re-engineering	87
5.5.7	Total cost of ownership.....	88
5.5.8	Strategic global sourcing	89
5.5.9	E-business	89
5.6	TRENDS IN SUPPLY CHAIN MANAGEMENT	90
5.6.1	The knowledge revolution	90
5.6.2	Continuous improvement requirements	91
5.6.3	Lean thinking	92
5.6.4	A values -based infrastructure	93
5.6.5	The greening of supply chain management	95
5.7.6	Virtual supply chain management.....	96
5.7	SUMMARY	98

7.2.3	Supply chain management: an analysis	140
7.3	CONCLUSIONS FROM THE EMPIRICAL STUDY	143
7.3.1	Profile of the responding wholesalers	143
7.3.1.1	Location of the wholesalers	143
7.3.1.2	Standard Industrial Classification	143
7.3.1.3	Size of the wholesalers	144
7.3.1.4	Status of the wholesalers	144
7.3.1.5	Wholesale functions performed by the wholesalers	144
7.3.1.6	Types of wholesale organisations	146
7.3.1.7	Target markets of the wholesalers	146
7.3.2	Wholesaler's approach to purchasing, sourcing and supply chain management.	147
7.3.2.1	Do these wholesalers adapt to either a purchasing, sourcing or supply chain management approach?	147
7.3.2.2	What is the level of sophistication with which wholesalers perform their purchasing, sourcing and supply chain activities?	150
7.3.3	Summary	151
7.4	RECOMMENDATIONS FOR FURTHER RESEARCH OPPORTUNITIES	154
	BIBLIOGRAPHY.....	156
	ADDENDUM A.....	165

LIST OF FIGURES

Figure 1-1	The development of purchasing into strategic sourcing, and the evolution of supply management
Figure 1-2	Logistics management
Figure 1-3	An outline of the study
Figure 2-1	Position of wholesalers in a supply chain
Figure 2-2	Wholesaling activities
Figure 2-3	Types of wholesalers
Figure 3-1	The purchasing cycle
Figure 5-1	A model of a supply chain
Figure 5-2	A model of supply chain management
Figure 5-3	Strategic sourcing as part of supply chain management
Figure 6-1	Location of wholesalers (n = 103)
Figure 6-2	Number of employees (n = 103)
Figure 6-3	Status of responding wholesalers (n = 104)
Figure 6-4	Target markets

- Figure 6-5 Mean scores of each of the status categories of the wholesalers on the three categories: purchasing management, strategic sourcing and supply chain management
- Figure 6-6 Mean scores of each sized wholesaler on the categories: purchasing management, strategic sourcing and supply chain management
- Figure 6-7 Mean scores of each sized company on the categories: tactical and strategic statements
- Figure 7-1 Strategic sourcing as part of supply chain management
- Figure 7-2 South African wholesalers' position in the development from tactical purchasing to strategic sourcing.

LIST OF TABLES

Table 1-1	Number of wholesalers by SIC code
Table 4-1	Comparison of the purchasing and strategic sourcing management approach
Table 6-1	Number of wholesalers by SIC code
Table 6-2	Standard Industrial Classification of the primary and secondary activities of the wholesalers
Table 6-3	Wholesale functions performed by wholesale organisations in the supply chain (n = 104)
Table 6-4	Comparison of wholesalers grouped according to status and the wholesale functions performed in the supply chain
Table 6-5	Percentage of the wholesalers grouped according to status and the wholesale functions the group performs
Table 6-6	Type of wholesale organisation based on wholesale functions performed

Table 6-7	Internal consistency reliability of the different management approaches to the purchasing and supply function: purchasing management, strategic sourcing and supply chain management
Table 6-8	Descriptive information on the different management approaches to the purchasing and supply function: purchasing management, strategic sourcing and supply chain management
Table 6-9	Correlation between the categories: purchasing management, strategic sourcing and supply chain management
Table 6-10	Differences between the status categories of the wholesalers on the three categories: purchasing management, strategic sourcing and supply chain management

Table 6-11	Differences between the size of the wholesalers and the categories: purchasing management, strategic sourcing and supply chain management
Table 6-12	Differences between the primary activity of the wholesaler and categories: purchasing management, strategic sourcing and supply chain management
Table 6-13	Internal consistency reliabilities of the tactical and strategic statements
Table 6-14	Descriptive information on the categories: tactical and strategic statements
Table 6-15	Correlation between the tactical and strategic statements
Table 6-16	Differences between the status categories of the wholesalers on the two categories: tactical and strategic statements
Table 6-17	Differences between the different sized wholesalers and the categories: tactical and strategic statements

Table 6-18

Differences between the primary activities of the wholesale organisation and the categories: tactical and strategic statements

KEY WORDS

Wholesale management

Management approaches

Purchasing, sourcing and supply function

Purchasing management

Strategic sourcing

Supply chain management

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

1.2 BACKGROUND TO AND DEMARCATION OF THE STUDY

1.3 PROBLEM STATEMENT

1.4 RESEARCH OBJECTIVES

1.5 RESEARCH METHOD

1.6 OUTLINE OF THE STUDY

1.1 INTRODUCTION

The South African wholesale industry is facing tough times (Hasenfuss 2001:1). This is the result of emerging trends such as intense global competition which requires businesses to be quick, agile and flexible; new technology available to any business willing to adopt it; more advanced customer expectations; and the implementation of new strategic, proactive management approaches (Monczka, Trent & Handfield 2002:8).

Thus a new era for business has emerged globally. It is becoming increasingly difficult for businesses to gain a competitive advantage, more so than ever before. Sustaining such an advantage is almost impossible (Greenhalgh 2001:1). In order to survive in this environment, wholesaling operations must be professionally managed to achieve success (Lamb, Hair & McDaniel 2002), or risk losing considerable market share (Khan 2001:1).

Mediocrity will not be tolerated in this new era. In fact, wholesalers will only succeed if they can effectively integrate strategy, processes, business arrangement, resources, systems and empowered workforces to effectively render their core business (Greenhalgh 2001:1). The core business of wholesaling includes all activities involved in buying a large variety of materials or products and selling them to those buying for resale or business use (Kotler 2000). Purchasing is therefore an important business function of any wholesale organisation.

- **Purchasing**

The purchasing function evolved from an independent administrative activity, involved in a simple transferral of goods, to an interdependent managerial function acknowledging the continuous interaction between variables to efficiently realise the organisation's mission and objectives (Hugo, Badenhorst-Weiss & Van Rooyen 2002:5). This was known as tactical purchasing (Monczka et al 2002:11).

- **Strategic sourcing**

According to recent developments, the purchasing function is managed as a fundamental unit of the integrated supply chain management philosophy, known as strategic sourcing. Strategic sourcing is a cross functional process used to manage, develop and integrate supplier capabilities to achieve a competitive advantage, involving members from all functions of the organisation (Monczka et al 2002:11).

- **Supply chain management**

The supply chain management approach forms the umbrella management philosophy. This implies that all supplier and buying organisations involved in

the process from raw materials to final consumer products are perceived and managed as a unified entity (or process) called a supply chain. An empowered managing team consisting of key members from all organisations involved in the supply chain is formed, their aim being to jointly contribute and add value to manufacturing goods and rendering services effectively to meet customer demands (Reeds 2000:3).

The objectives of this management approach include customer satisfaction, value adding, long-term profitability and the achievement of a competitive advantage of the supply chain as a whole. The building blocks of this management approach are focused on managing information flows, financial resource flows, and product and services flows between the various organisations to the benefit of the supply chain (Cronin 2001:3).

- **Wholesaling**

Choosing suppliers and purchasing products are significant activities in and often determine the success of wholesalers. The introduction of new purchasing, sourcing and supply management approaches provides the means for wholesalers to achieve objectives such as enhanced customer satisfaction, greater value adding, long-term profitability and the achievement of a competitive advantage (Crowley 1998:559).

Wholesaling institutions vary considerably in terms of size, activity, style of business, types of products provided and services rendered (Semenik & Bamossy 1998:506). These variables imply that the complexity of wholesaling activities differs. It therefore stands to reason that the level of sophistication

with which these wholesalers manage their purchasing, sourcing and supply activities, may differ.

The level of sophistication with which wholesalers manage their purchasing, sourcing and supply function may vary from traditional management approaches to advanced integrated management approaches. The use of the new management approaches by businesses is an important instrument in facilitating change, thus developing more focused, specialised and high-performance organisations (Carter 2001:47). It further enables businesses to adapt to the intense global competition, information revolution and the emergence of new forms of interorganisational relationships by increasing customer satisfaction, market share and profits (Wisner & Tan 2000:2).

1.2 BACKGROUND TO AND DEMARCATION OF THE STUDY

1.2.1 Wholesaling

Wholesaling constitutes an important industry in South Africa with a contribution of R24 347 000 in 2000, R27 116 000 in 2001 and R30 167 000 in 2002 to the quarterly gross domestic product at current prices (Statistics South Africa 2002). Despite this vital contribution to the South African economy, studies on wholesaling have unfortunately been neglected. This study has created a much-needed opportunity to investigate certain aspects of this industry in the South African context.

Wholesaling was an important part of business activities in earlier centuries. The development of wholesaling through the ages provides the background

for a thorough understanding of modern wholesaling (Beckman, Engle & Buzzell 1959:61). The global development of wholesaling and the development of wholesaling in South Africa will be discussed in the next sections.

1.2.1.1 The global development of wholesaling

Wholesaling originated in ancient times. The concept was a natural extension of commerce as primitive societies became more economically sophisticated. Regional and national markets emerged to facilitate the evolution from self-sufficiency to fuller satisfaction of wants and needs with the growth of specialised physical goods production (Beckman et al 1959:62).

Late in the Middle Ages (AD 500-1500), markets and fairs in Europe made a distinction between wholesale and retail trade. Most dealers sold both *en gros* (at wholesale) and *en detail* (at retail) as the opportunity presented itself. The powerful guild system later determined whether one could engage only in wholesale trade, also sell as a retailer, or trade with foreigners in foreign markets. Wholesaling was generally international, because internal trade was relatively small in volume. Consequently, wholesaling was largely associated with importing and exporting. Much of the trade was transacted at fairs, where there was buying and selling of goods of various descriptions. The wholesaler was a large-scale assembler who sold his or her goods to retailers, and sometimes directly to consumers (Beckman et al 1959:66).

Mercantilism marked the Commercial Era (1500-1800). Based upon an excessive emphasis of the complete identity of money and wealth, mercantilism encouraged the importation of gold and silver. Simultaneously, restrictive legislation was introduced to defend newly formed nations. However, trade could not be restrained. The prevailing system of production enhanced the importance of wholesalers, because it was their task to organise and control the selling functions. Wholesaling institutions emerged, including licensed brokers (their function being to make bargains between merchants and traders for merchandise and bills of exchange) and auctions (a general method of wholesale trade on exchanges) (Beckman et al 1959:72).

The Industrial Revolution had a huge impact on wholesaling, with infinite benefits obtained with the new application of power to machinery. This, combined with other changes (such as the changing modes of transportation, improvements in communication, development of organised banking and the changing attitudes of governments) saw the emergence of modern wholesaling.

1.2.1.2 The development of wholesaling in South Africa

In South Africa, wholesaling evolved with the establishment of South African import houses in Durban and Cape Town in the 1600s. These institutions sold a number of different product ranges mainly imported from Europe. Retailers developed in the coastal areas of South Africa, obtaining their merchandise from the import houses. As a result of the migration to the northern areas of South Africa, wholesalers were established in Grahamstown, Kimberley, Graaff-Reinet, Pretoria and Pietermaritzburg. Most of these wholesalers were

affiliated to the import houses in Durban and Cape Town, and received their merchandise from them (Van Scheers 1992:62).

South Africa's economic structure changed after the discovery of gold in 1886 as the focus shifted from agriculture to industry. Johannesburg became the largest distribution centre in the country with the development of a large consumer market and an effective infrastructure. The establishment of local manufacturers, from which the wholesalers acquired merchandise, further enhanced the rapid growth of South African wholesalers. Some of these manufacturers set up their own wholesaling operations, but others continued to make use of the more cost-effective wholesaler (Van Scheers 1992:65).

During the period 1960 to 1970, South African full-service wholesalers were mainly responsible for the distribution of products to retailers. These wholesalers provided a full set of services such as carrying stock, using a sales force, offering credit, making deliveries and providing management assistance (Van Scheers 1992:65).

In the early 1970s, limited-service wholesalers emerged. Limited-service wholesalers specialised in certain services rendered to their suppliers and customers. A case in point was the truck wholesalers who performed a selling and delivery function of a limited line of goods (such as dairy products) that they sold for cash as they made their rounds of institutions (such as cafes, restaurants and hospitals) (Van Scheers 1992:65).

Today, the South African wholesaling industry is still marked by these limited-service wholesalers (Strydom, Cant & Jooste 2000:274). Limited-service wholesaling affords entrepreneurs excellent opportunities to enter mainstream business activities in the South African economy. The relevant definitions, different types of wholesalers, the various functions they perform and current trends in wholesaling will be discussed in chapter 2 to obtain sufficient insight into wholesaling operations.

1.2.1.3 Definitions

Various authors define wholesalers, wholesaling and wholesale management from a different perspective. The following definitions are but a few of the many that exist.

- ***Wholesalers***

Wholesalers embrace all persons or establishments encompassing business activities involving the purchase and storage of large quantities of a variety of products. Bulk stock is assembled, sorted and delivered to conform to an order placed by customers. Wholesalers can further be defined as being concerned with the activities involved in selling to users for industrial, institutional and commercial purposes (Stern, El-Ansery & Brown 1989:97).

Wholesalers form part of the supply chain as a consolidator, linking manufacturers to retailers. They provide value-adding services which may include the design and operation of the supply channel arrangement between customers and manufacturers without a distribution function (Ross 1998:155).

According to Pride and Ferrell (2003), wholesalers include those individuals or organisations that are responsible for facilitating and expediting exchanges that are primarily wholesale transactions. They add that “occasionally, a wholesaler does engage in sales directly to the ultimate consumer”. Wholesalers are also defined as “businesses that buy products/services of which more than 50% is sold to other business organisations including general dealers, speciality stores, convenience stores and spaza shops” (Strydom et al 2000:274).

In this study, a **wholesaler** is defined as a consolidator in the supply chain providing more than half of its purchases to other business organisations.

- ***Wholesaling***

Semenik & Bamossy (1998:501) define wholesaling as all sales transactions except those to individuals or households for their personal consumption - in other words, all sales of raw materials, the sale of business goods from one producer to another or from a distributor to a producer, the sale of import and export goods, and all sales to retailers. Wholesaling therefore includes all activities involved in selling finished products to those who buy for resale or business use (Kotler 2000).

For the purpose of this study, **wholesaling** can therefore be seen as the process of pushing manufactured products through the supply channel to users, or pulling products from the manufacturers in response to the end users' demands, for industrial, institutional and commercial purposes.

- **Wholesale management**

Wholesale management was traditionally described as identifying the principles, practices, policies and techniques conducive to the fullest accomplishment of major organisational objectives in a profit-motivated competitive economy. Wholesale management occurred in an independent manner, as an independent organisation, pushing the manufactured products through the distribution channel to the retailers and other users who buy the products for industrial, institutional and commercial purposes (Beckman et al 1959:291).

Recently, the management of a wholesaler has advanced to the planning, organising, activating and control of all the activities as an integrated whole, guided by the maximum satisfaction of the end user (Pride & Ferrell 2003). This entails pulling the products from the manufacturers in response to the end users' demands.

Wholesale management therefore entails the planning, organising, leading and control of wholesale operations to function as a link in the process to satisfy the needs of the end user or final customer by providing goods or services as per customer requirement.

1.2.1.4 The essence of wholesaling

In the context of this study it is important to note the following: A wholesaler exists because of the functions he or she performs for the suppliers of goods and customers he or she serves, including buying and selling, negotiating,

warehousing, risk bearing, financing, transportation and assistance to clients (Stern et al 1989:97).

This clearly implies that:

- the purchasing function is prominent in the reason for the existence of a wholesaler, and therefore one of the primary functions to manage
- it is of utmost importance to a wholesaler to source goods and services from the most suitable supplier and manage those relationships
- the wholesaler has a vital role to play in distribution channels (which developed into and extended to the “supply chain” concept)

The wholesaler’s purchasing, sourcing and supply function is shaped by the vast economic task of supply and demand, bridging the time and space gap between periods and places in which products are produced and consumed. The key aspects in the management of a wholesaler, namely cooperation and coordination with suppliers and customers, timing and optimal costs are all embedded in and part of the modern purchasing, sourcing and supply management philosophy.

1.2.2 The development of purchasing to strategic sourcing, and the evolution of supply chain management

1.2.2.1 Development of purchasing, sourcing and supply chain management

The purchasing function originated as an independent, clerical activity mainly concerned with the processing of orders. The first stage of figure 1-1 depicts

the reactive nature of purchasing during this period. Purchasing was not regarded as a vital business function, and was therefore assigned to employees who had neither the skill nor the aptitude to lead this function towards its full contribution to the success of an organisation. Purchasing, however, was responsible for a representative component of the cost of the goods sold, and a large share of business's quality problems (Burt et al 2003:24).

As managerial philosophies advanced, the purchasing function acknowledged the continuous interaction between the variables to efficiently realise the organisation's mission and objectives (Hugo et al 2002:4). During the 1960s and 1970s, the purchasing function expanded to also include inventory management. A limited number of purchasing staff were equipped with tertiary education, and the use of automation ensured that production lines functioned smoothly. Despite this, the purchasing function remained mechanical. Purchasers were mainly concerned with the purchase price, the prevention of line shutdowns and the management of inventory. The main focus of this period is depicted in stage 2 of figure 1-1.

Then the world of purchasing changed. Purchasing management became a proactive concept, as illustrated in stage 3 of figure 1-1. Training and education were offered to equip professional staff to meet the demands of the challenge posed by the constantly fluctuating environment, globalisation, major technological advancements, automation in production processes, outsourcing and inflation (Burt et al 2003:26). Materials costs increased as a percentage of the cost of goods sold. Firms initiated the growth of the

materials management concept during this period combining related functions such as purchasing, inventory control, receiving and warehousing under the authority of one individual (Monczka et al 2002:15).

During the early 1980s, physical distribution management was seen as part of materials management. This became known as logistics management, embracing all movement and warehousing activities from where the materials are purchased, through the transformation process to the final consumer (Cronjé, Du Toit & Motlatla 2000:397). By the late 1980s, competition became fierce, global firms increasingly captured world market share, the rate of technological advances was unprecedented and the ability to coordinate worldwide purchasing activities increased with the use of global data networks, and the World Wide Web emerged (Monczka et al 2002:16).

The transition was made from tactical purchasing to a more integrated and strategic approach, known as “strategic sourcing”, as illustrated in stage 4 of figure 1-1. Supply became a competitive global weapon and supply strategies were integrated with organisational strategies. Strategic sourcing entails a cross functional process to manage, develop and integrate supplier capabilities to achieve a competitive advantage. The strategic sourcing process is run by a strategic sourcing team (including members from the engineering, quality, design, manufacturing, marketing, accounting, strategic planning or other departments, as needed) (Monczka et al 2002:11).

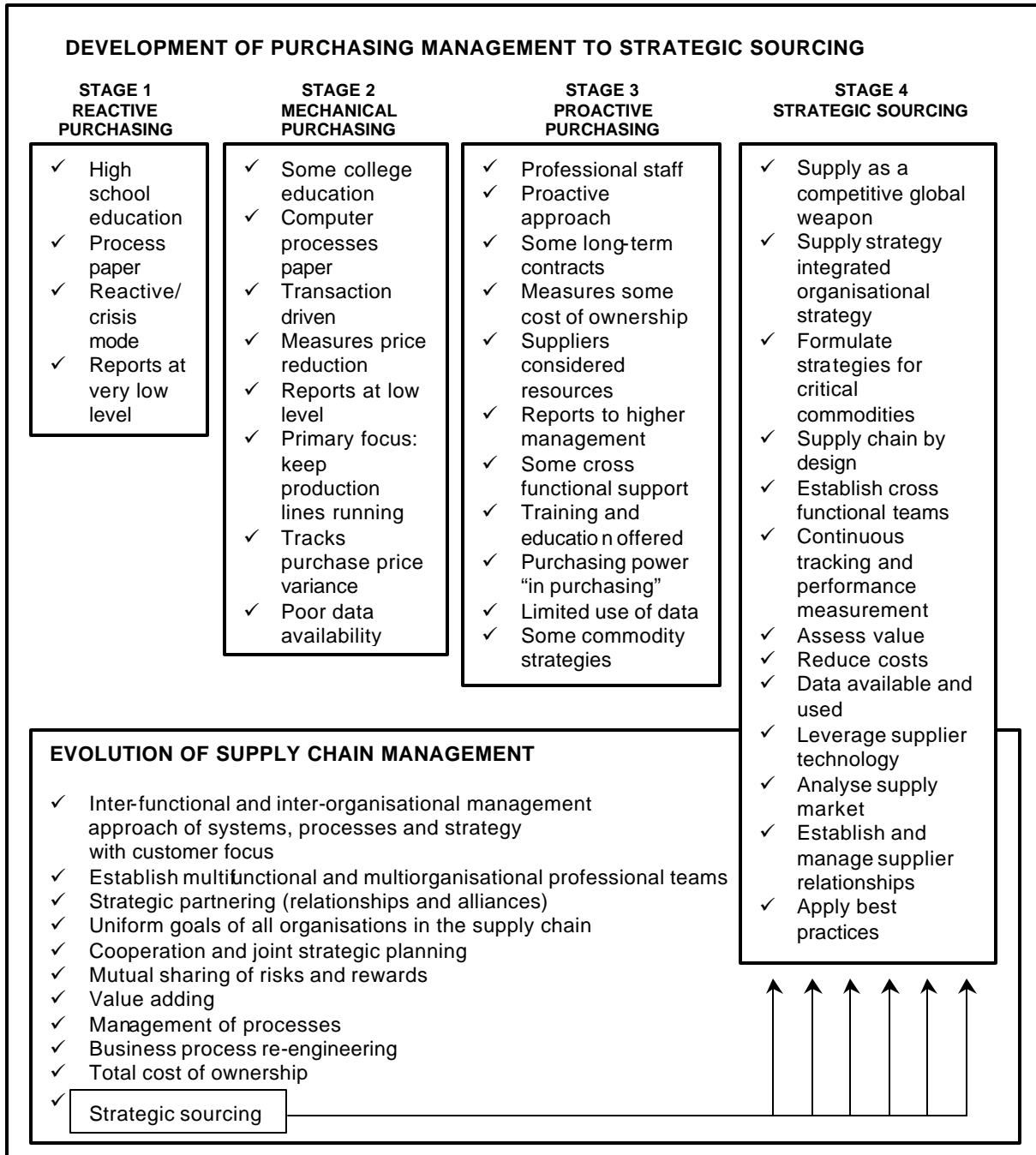
In addition to the evolution of the purchasing function into strategic sourcing, another phenomenon developed – supply chain management – as depicted in

figure 1-1. Rich and Hines (1997:51) suggest that the evolution of the supply chain management concept should be viewed in terms of organisational integration. At first, each business function operated in complete isolation from other business functions. A limited degree of integration between these functions developed, as inbound functions merged to form materials management and outbound functions united to form distribution management. Internal integration between materials management, internal operations and distribution followed. Cross functional processes were established to link design, quality and cost, and managed by multifunctional teams (Chandra & Kumar 2000:100).

Interest in the concept of supply chain management steadily increased in the 1980s, when organisations realised the benefits of collaborative relationships within and beyond their own borders. External integration saw the incorporation of suppliers, customers and the internal activities of the focal firm (the strongest leading firm in a distribution channel to propel the product through the market), as it expanded to include the collaborative activities of all organisations involved in producing a specific product or rendering a specific service. This became known as the “supply chain” of a specific product or service. Organisations became more specialised and sought suppliers who could provide low-cost, quality materials rather than their own sources of supply (Lummus & Vokurka 1999:11).

FIGURE 1-1

**THE DEVELOPMENT OF PURCHASING INTO STRATEGIC SOURCING,
AND THE EVOLUTION OF SUPPLY MANAGEMENT**



Source: Adapted from Burt et al (2003:8)

Industry groups now work together to improve the integrative processes of supply chain management and accelerate the benefits through successful implementation (Lummus & Vokurka 1999:15). This entails activities such as the establishment of multifunctional or multiorganisational teams, strategic relationships or alliances, management of processes, business process re-engineering, total cost of ownership, customer focus and mutual sharing of risks and rewards (Monczka et al 2002).

However, supply chain management developed further as a management philosophy, crossing the boundaries of the chain of organisations that is responsible for transforming raw materials into a final consumer product. The information chain developed, and enabled cross functional teams from around the globe to coordinate supply chain functions and activities via electronic mobility, such as telephone, fax, e-mail, the Internet and the World Wide Web. This became known as virtual supply chain management (Carter 2001).

From the above discussion it is clear that the purchasing function developed from a clerical function to strategic sourcing, which in turn became an integrated part of the broader supply chain management approach.

1.2.2.2 Definitions

The evolution of purchasing, sourcing and supply management resulted in the development of new concepts in supply – from traditional purchasing to strategic sourcing and supply chain management. The following section defines the concepts that were used to manage materials flow during the evolution process.

- **Materials management**

Materials management can be seen as an organisational concept that is designed to enhance coordination and control of the various materials activities including inventory management, receiving activities, stores and warehousing, transportation, in-plant materials handling, production planning, scheduling and control (Burt et al 2003:623).

Ross (1998) adds that materials management is associated with the incoming flow of information and materials into the organisation supporting the cycle of materials flow from the planning, purchase and control of inventory, to the manufacture and delivery of finished goods to the distribution channel system. He divides the material activities into two main categories: product acquisition (including supplier management, purchasing and receiving) and inventory management (receiving, materials handling and storage, work-in-process inventories, value-add processing and the delivery of goods to the distribution channel).

Gadde and Hakansson (2001) suggest that materials management is a functional centre aimed at improving the integration of materials activities, such as product scheduling, purchasing, transportation and distribution.

For the purpose of this study, **materials management** is defined as a functional centre established to enhance the integration and control of information flow and activities related to materials.

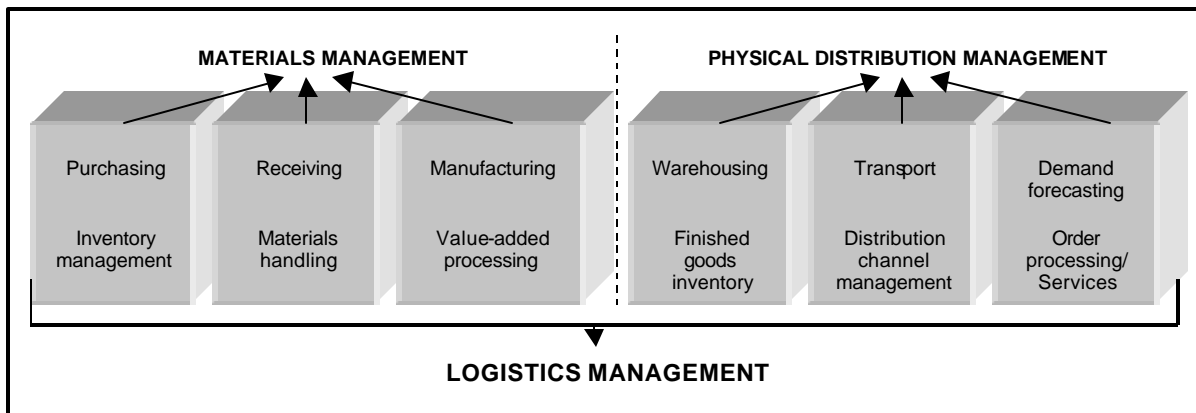
- ***Physical distribution management***

According to Ross (1998), **physical distribution management** is the management of all activities associated with the warehousing and movement of finished goods and service parts through the distribution channel in order to meet customer order fulfilment and delivery requirements. The researcher supports this definition for the purpose of this study.

- ***Logistics management***

Ross (1998) defines logistics management as the creation of time, place, quantity, form and possession utilities within and among firms and individuals through strategic management, infrastructure management and resource management in order to create products/services that satisfy customers through the attainment of value. He separates logistics management into two separate functions, materials management and physical distribution management, which are defined above (as illustrated in figure 1-2).

FIGURE 1-2
LOGISTICS MANAGEMENT



Source: Adapted from Ross (1998:26)

Logistics management is also defined as the planning, implementation and control of the efficient, effective flow and storage of raw materials, in-process inventory, finished goods, services and related information from point of origin to point of consumption (including inbound, outbound, internal and external movements) for the purpose of conforming to customer requirements (Coyle, Bardi & Langley 1996:28).

Logistics management can therefore be defined as the creation of time, place, quantity, form and possession utilities within and among firms and individuals by planning, implementing and controlling the efficient, effective flow and storage of raw materials, in-process inventory, finished goods, services and related information from point of origin to point of consumption according to customer requirements.

- ***Purchasing management***

Purchasing management can be defined as the planning, organising, leading and control of all the activities relating to the purchase of materials and services from an external source (Cronjé et al 2000:396). It is further aimed at maintaining and increasing business profitability by purchasing the right requirements at the right time and at the right price from the right source delivered at the right place, in the right way (Hugo et al 2002:9).

Burt, Dobler and Starling (2003:23) define purchasing management as the management of essential activities associated with the acquisition of the materials, services and equipment used in the operation of the organisation. A few of these activities include coordination with user departments to identify purchase needs, discussions with sales representatives, identification of potential suppliers, conducting of market studies for important materials, and negotiating with potential suppliers.

Fung (1999:362) adds that purchasing management requires a creative response to internal customers, emphasising the interlock relationship between input, throughput and output of goods and services by the organisation. Purchasing managers simultaneously have to maintain mutually profitable relationships with external customers. This is so because buyer and supplier organisations are active in performing similar tasks (such as preparing specifications to requirements, locating counterparts and attempting to control transactions).

Monczka et al (2002:11) define purchasing management as a functional activity concerned with the day-to-day management of materials flow and information. These activities generally ensure that products or services are delivered to the right internal people at the right time, but are often not performed with a long-term vision in mind.

Purchasing management can therefore be defined as the organisation of all activities engaged in the acquisition of the correct goods or services from an external supplier in the most efficient and effective manner to be delivered to the right user (internal client of the organisation) at the right time. Chapter 3 looks at purchasing management in greater detail.

- ***Strategic sourcing***

Most authors define strategic sourcing by describing or highlighting the principal elements or activities, or describing it as a process. Some definitions focus on supplier relations, while others emphasise the concept of applying long-term business objectives to sourcing decisions. Furthermore, there is evidence that what is viewed as strategic sourcing varies according to organisational and personal understanding of the concept (Roberts 2002). The reason for this could be that firms find themselves on various levels of maturity in strategic sourcing.

Ricker (1997) defines strategic sourcing as “a systematic process that directs purchasing, sourcing and supply managers to plan, manage and develop the supply base in line with a firm’s strategic objectives”. He elaborates on his definition by adding that strategic sourcing is the application of current best practices to achieve the full potential of integrating suppliers into the long-term

business process. The process of strategic sourcing starts with the establishment of cross functional teams who analyse the situation and decide which strategy to follow in the procurement of specific products. The cross functional team researches, evaluates and implements the strategic sourcing programme, and identifies areas of cost reduction. The team is also responsible for (1) reducing the supplier base, (2) driving down total acquisition costs, and (3) improving product design and technology.

According to the Institute of Supply Management in the USA, strategic sourcing is a process driven by an identified role or need and involves evaluating current and potential sourcing opportunities and relationships. The Institute adds that strategic sourcing involves assessing the value and relevance of these current and potential sourcing opportunities, according to long term-goals and overall business and supply management objectives, as well as formulating and applying action plans and processes for critical commodities or supply networks (Roberts 2002).

Strategic sourcing is thus a process that involves cross functional teams to identify, develop, manage and integrate an organisation's supplier base. The concept will be discussed in further detail in chapter 4.

- ***Value chain***

The value chain is certainly not a new concept. In 1985, Porter introduced the value chain as a means to identify and analyse business activities that transform inputs. He suggested that stages in the value chain could be

explored to find interrelationships and common characteristics, which could lead to opportunities for cost reduction and differentiation.

Brown (1997) defines the value chain as a tool to divide a business into strategically relevant activities. This enables identification of the source of competitive advantage by performing these activities more cheaply or better than the business's competitors. The value chain of the business is part of a larger stream of activities performed by other members of the channel consisting of suppliers, distributors and customers.

According to Scott (1998), all firms, whether industrial or services, have a value chain where each part requires a strategy to ensure that it generally drives value creation for the firm as a whole. Value chain strategy requires that the individual manager is clear about what capabilities the firm needs to deliver effective market impact.

The value chain therefore becomes an integral component in the business strategy process: the evaluation of the organisation's core competencies, processes and assets and their response to the opportunities and threats posed by the business environment. If the organisation is then faced with declining profitability, and often productivity, it has two solutions - either cut costs or increase transactions (Walters & Jones 2001:1).

Some companies identify the total value expectations of customers (that is existing customers and potential customers) and develop holistic value producing structures that utilise supply chain efficiencies and integrate them with a demand chain strategy. This requires an ability to view the value chain as a "multi-enterprise" organisation (Walters & Jones 2001:1).

To summarise the concept of a **value chain**: It is clear that customers' needs are identified and the process infrastructure is retraced to identify how the identified needs may best be satisfied with the performance of value-adding activities, while costs are optimised, extending beyond corporate boundaries.

- ***Supply chain***

The supply chain can conventionally be defined as the upstream portion of the value chain and is responsible for ensuring that the right materials, services and technology are purchased from the right source, at the right time, of the right quality (Burt et al 2003:7). Monczka et al (2002:4) add that a supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage (extraction), through to end users, as well as the associated information flows, both up and down the supply chain.

Essentially, **supply chains** are a series of link suppliers and customers - every customer is, in turn, a supplier to the next downstream organisation until a finished product reaches the ultimate end user (Monczka et al 2002:4). The concept will be examined further in chapter 5.

- ***Supply chain management***

Numerous definitions of supply chain management are encountered in contemporary literature, because it is an evolving concept representing a collection of management philosophies rather than one approach (Ross 1998:365). New (1997:1) describes supply chain management as the most practically and intellectually significant theme in current managerial and economic research. The term was originally used to describe the integration of logistics and physical distribution functions of a focal firm, and its suppliers and consumers (Wisner & Tan 2000:1).

Over time, supply chain management was viewed in operational terms, including sales, logistics and manufacturing as a linked system. An extended supply chain was eventually identified, including suppliers, manufacturers, wholesalers, retailers and customers. More recently, supply chain management was linked to strategy and became a critical point of business (Copacino 1997:1).

Ross (1998:365) suggests that supply chain management seeks to unify the competencies and resources of the business functions, found both within the business and its allied partners, located along intersecting supply channels into a highly competitive, customer-enriching supply system. It is focused on developing innovative solutions and synchronising the flow of marketplace products, services and information, to create unique individualised sources of customer value.

Pickowitz and Reekers (2000:1) defines supply chain management as the proactive management of a series of organisations that jointly create value for ultimate customers who are critical to a purchasing organisation's operations. Reeds (2000:1) identifies the following characteristics of supply chain management: Supply chain management seeks to unify both internal and external competencies. The management approach fosters alliances and trust throughout the supply network of enterprises, demands innovation and synchronisation of processes and optimises the delivery of products, services and information.

Wisner and Tan (2000:1) summarise all these opinions by defining supply chain management as the sum of all value-adding activities, from the extraction of raw materials through the transformation processes and delivery to the end user, spanning organisational boundaries within the supply chain as a unified entity.

Supply chain management is an evolving concept with no all-encompassing, clear definition. Therefore an effort will be made in this study to develop such a definition of supply chain management in light of the literature study documented in chapter 5.

This section explained the definitions of the various concepts pertaining to purchasing, sourcing and supply management approaches and provides the necessary background information to be able to put the definitions contained in chapter 3, 4 and 5 in perspective.

1.2.2.3 The importance of purchasing, sourcing and supply management

The importance of purchasing, sourcing and supply management has increased dramatically in recent years. Purchasing, sourcing and supply activities, as previously stated, are ultimately aimed at the successful achievement of organisational objectives through cost savings and the provision of the correct materials/services in time (Hugo et al 2002:12). Companies are therefore always trying to cut costs, while at the same time striving to improve the quality of their own products and remaining competitive in an ever-changing marketplace (Lau & Lee 2000:598). The need for cost saving is critical because the scope of materials costs in relation to other cost elements is ever increasing (Hugo et al 2002:10).

Inventory holding and the related costs further elevate the importance of purchasing, sourcing and supply management. These costs include the cost of financing, warehousing, warehouse staff, insurance and obsolescence. Effective purchasing, sourcing and supply management can reduce inventory holding by an uninterrupted flow of materials of the right quality to the operation process (Cronjé et al 2000:401).

Cronjé et al (2000:400) conclude that purchasing, sourcing and supply costs are a business's main expense, and cost saving in the area has a profound influence on profit. This implies that if purchasing cost compounds a major portion of total costs of a business (specifically in wholesalers and retailers), a saving in such costs has greater profit potential than a similar increase in sales. This constitutes profit leverage.

Thus far this chapter has placed the evolution of wholesaling, globally and with reference to specific South African circumstances, as well as the development of purchasing, sourcing and supply management in perspective. The key definitions for the purpose of this study were also clarified. It will further formulate the problem statement, define the objectives of the study, describe concepts, explain the research method and methodology and outline the structure of the study.

1.3 PROBLEM STATEMENT

Intense global competition, the information revolution and more sophisticated customers are but a few of the factors that have compelled many businesses to find new and better ways to manage their purchasing, sourcing and supply activities. As a result, purchasing evolved from a transaction-based function, focused on unit costs to a strategic cross functional process that manages the total cost of the supply chain (Darrow 2000:1).

Wholesalers find themselves in the middle of supply chain networks, providing a critical link between manufacturers and retailers. Manufacturers cannot afford to deal directly with the thousands of small retailers because of the costs involved in selling small quantities and the resultant low profits for manufacturers (Lamb et al 2002). Wholesalers also perform vital services for retailers and other organisations. Hence, they play a pivotal role in the whole supply chain. Adapting to the supply chain management approach may dramatically influence the efficiency and effectiveness of wholesalers and can mean the difference between success and failure. It can also determine the continued existence of a wholesaler in the supply chain.

The probable advantages ultimately benefiting the wholesaler from the efficient adaption to supply chain management are infinite. The question is: *Have South African wholesalers adapted to the new demands and developments, specifically with regard to their approach to managing their purchasing, sourcing and supply function?* In other words - do South African wholesalers play their rightful role in modern supply chain networks?

1.4 RESEARCH OBJECTIVES

1.4.1 Primary objective

The primary objective of this study is to determine to what extent wholesalers in South Africa have adapted to new demands and developments in managing their purchasing, sourcing and supply function.

1.4.2 Secondary objectives

The secondary objectives of this study are to

- investigate the scope of wholesaling, with reference to the global and South African context
- investigate the concepts of and the evolution of purchasing to strategic sourcing as part of the broader supply chain management approach
- analyse the scope and concept of supply chain management
- determine the purchasing, sourcing and supply management approaches used by the wholesale sector in South Africa

1.5 RESEARCH METHOD

This study aims to determine if South African wholesalers have adapted to new approaches to manage their purchasing, sourcing and supply functions. The study is by nature descriptive and explorative, and contains quantitative and qualitative elements. There are two reasons for this approach. (1) Crucial elements of the study are based on existing research and secondary data on wholesaling and the purchasing, sourcing and supply approaches and (2) primary sources needed to be explored to determine the level of sophistication in the purchasing, sourcing and supply management approaches currently employed by South African wholesalers.

1.5.1 Phases of the study

The study was conducted in several phases. *Firstly*, literature research was initiated to gather and integrate secondary data to (1) expound definitions, importance, types, activities and trends of South African wholesalers; and (2) to investigate the development of purchasing to strategic sourcing and evolution of supply chain management, and to give an overview of purchasing, strategic sourcing and supply chain management. *Secondly*, a questionnaire was developed containing all relevant issues identified by the literature studies to enable the researcher to establish how far South African wholesalers have advanced in adopting new approaches to managing the purchasing, sourcing and supply function. This questionnaire was pretested on two respondents to refine the research instrument, before proceeding to the next step.

Thirdly, a letter and the refined and tested questionnaire were mailed to all the wholesalers identified to be involved in the survey, informing them of the research study and soliciting their cooperation. The letter requested the participants to return the questionnaire via facsimile. *Fourthly*, in order to improve the response rate, after the date for the return of the questionnaire had lapsed, additional questionnaires were faxed to those respondents who had not completed the initial questionnaire.

1.5.2 Research population

The questionnaire was posted to a sampling frame, which was construed from a database compiled by the Bureau of Marketing Research of the University of South Africa (2001). This database includes a list of 5 104 wholesalers. Table 1-1 illustrates the number of wholesalers included in the database by Standard Industrial Classification (SIC). This constitutes the primary activity of the establishments.

Fifty of the 5 104 wholesalers were situated outside South Africa, and were eliminated from the sampling frame. This brought the total number of wholesalers situated in South Africa involved in the sampling frame to 5 054.

Probability sampling was used as the database ensured that each member of the population had the same chance of being included in the sample. By utilising simple random sampling every fourth wholesaler was chosen to be included in the sample. This ensured that the sample constituted approximately 1 289 wholesalers situated in South Africa.

TABLE 1-1
NUMBER OF WHOLESALERS BY SIC CODE

TYPE OF TRADE	SIC CODE	RECORDS
Agricultural	61210	338
Foodstuffs	61221	400
Beverages	61222	119
Tobacco products	61223	34
Textiles, clothing and footwear	61310	381
Furniture, household requisites and household appliances	61391	232
Books and stationery	61392	72
Precious stones, jewellery and silverware	61392	102
Pharmaceuticals and toiletries	61394	198
Household goods	61399	318
Solid, liquid and gaseous fuels and related products	61410	180
Metal and metal ores	61420	35
Construction materials, hardware, plumbing, heating equipment and supplies	61430	790
Intermediate products, waste and scrap	61490	140
Office machinery and equipment, including computers	61501	317
Machinery, equipment and implements for industrial and business purposes	61509	1 107
General dealers	61901	341
TOTAL		5 104

Source: Bureau of Marketing Research (2001)

The research methodology is explained in detail in chapter 6 of this study.

1.6 OUTLINE OF THE STUDY

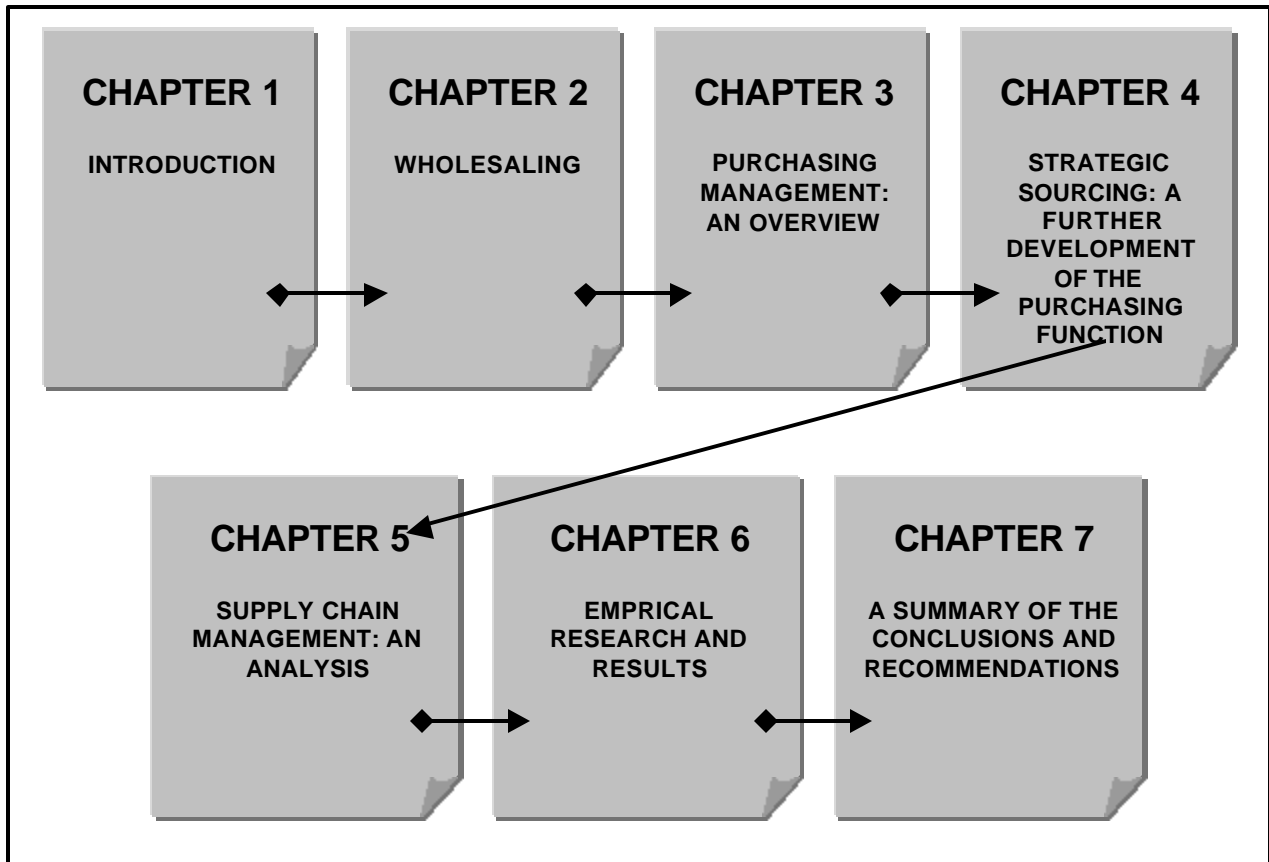
An outline of the study is provided in figure 1-3. Chapter 1 contains an overview of the evolution of wholesaling, with reference to the global situation and South Africa circumstances. Definitions of wholesaler, wholesaling and wholesale management, including the essence of wholesaling are supplied. The evolution of purchasing management to strategic sourcing, and the development of supply chain management are explained. Definitions of the various concepts and approaches are included. The importance of purchasing, sourcing and supply chain management is highlighted. The various concepts relating to purchasing, sourcing and supply chain management are defined. The problem statement and objectives of the study are established and the research method and methodology outlined.

In chapter 2 the definitions of the concepts of wholesaler, wholesaling and wholesale management are revisited. The different types of wholesalers are identified and their activities explained. The chapter concludes with a discussion of the trends in wholesaling.

Chapter 3 contains an overview of traditional purchasing management, including purchasing objectives, the purchasing process and additional purchasing activities. Chapter 4 focuses on the further development of the purchasing function, known as strategic sourcing. The scope and definition, objectives and activities of strategic sourcing are expounded. The chapter will conclude with a comparison of the purchasing and strategic sourcing management approaches.

FIGURE 1-3

AN OUTLINE OF THE STUDY



Source: Developed from text content

In chapter 5, the researcher analyses supply chain management by including the supply chain concept, scope and definition, objectives and activities of supply chain management. Attention is also focussed on the trends in supply chain management.

Chapter 6 contains information on the empirical research and results. The research process and methodology is outlined, including the choice of and justification for the research method, the scope of the research, sampling, the design of the questionnaire and the methods of data analysis used. This chapter also contains the results of the study, specifically with regard to the response rate, respondent characteristics and findings of the study.

Chapter 7 concludes the study with a summary of the theoretical and empirical studies. Conclusions are drawn from the research results on the use of purchasing, sourcing and supply management approaches by South African wholesalers. Recommendations for further studies are also made.

CHAPTER 2

WHOLESALING

2.1 INTRODUCTION

2.2 DEFINITIONS

2.3 ACTIVITIES OF WHOLESALING

2.4 TYPES OF WHOLESALERS

2.5 TRENDS IN WHOLESALING

2.6 SUMMARY

2.1 INTRODUCTION

This study focuses on the purchasing, sourcing and supply activities of wholesalers in South Africa. Section 1.2.1 provides background to the wholesaling industry by explaining the development of wholesaling globally and with reference to specific South African circumstances, and also defining the concepts of “wholesalers”, “wholesaling” and “wholesale management”.

In this chapter, “wholesaling” is discussed in further detail by revisiting the definitions as presented in chapter 1. Furthermore, the activities of wholesaling (the reason for its existence) will be outlined and types of wholesalers identified. The chapter ends with a discussion of trends in wholesaling.

2.2 DEFINITIONS

Definitions of the concepts relating to wholesaling were formulated in the first chapter to serve as part of the demarcation of the study, which will be highlighted in this section.

2.2.1 Wholesalers

Wholesaling operations, commonly referred to as wholesalers, were defined in section 1.2.1.3 by considering the opinions of Stern et al (1989:97), Ross (1998:155), Strydom et al (2000:274) and Pride and Ferrell (2003).

Wholesalers are defined as consolidators in the supply channel providing more than half of its purchases to other business organisations.

2.2.2 Wholesaling

Considering the statements of Semenik and Bamossy (1998:501) and Kotler (2000), **wholesaling** was defined as pushing manufactured products through the supply channel to users, or pulling products from the manufacturers in response to the end users, for industrial, institutional and commercial purposes.

For clarification purposes it is crucial to note that the users or end users referred to in the above definition include institutions (mostly retailers) that distribute products to the final user. It also includes other institutions (hospitals, schools, etcetera) that are used to perform basic functions, and raw materials, component parts and finished goods to institutions (mostly manufacturers) that will incorporate the item into a final product (Lamb et al 2002).

2.2.3 Wholesale management

Including the views of Beckman et al (1959:291) and Pride and Ferrell (2003), **wholesale management** was defined as the planning, organising, leading

and control of wholesale operations to function as a link in the process of satisfying the needs of the end user or final customer by providing goods or services as per customer requirement.

2.3 ACTIVITIES OF WHOLESALING

Wholesaling continues to exist and develop, despite evolving technology and business models that change the way companies make, sell and move products (Democker 2000:141). This is because of the vital role it fulfils in production and consumption. Products are rarely consumed in the specific place and at the specific rate at which they are produced (Semenik & Bamossy 1998:502).

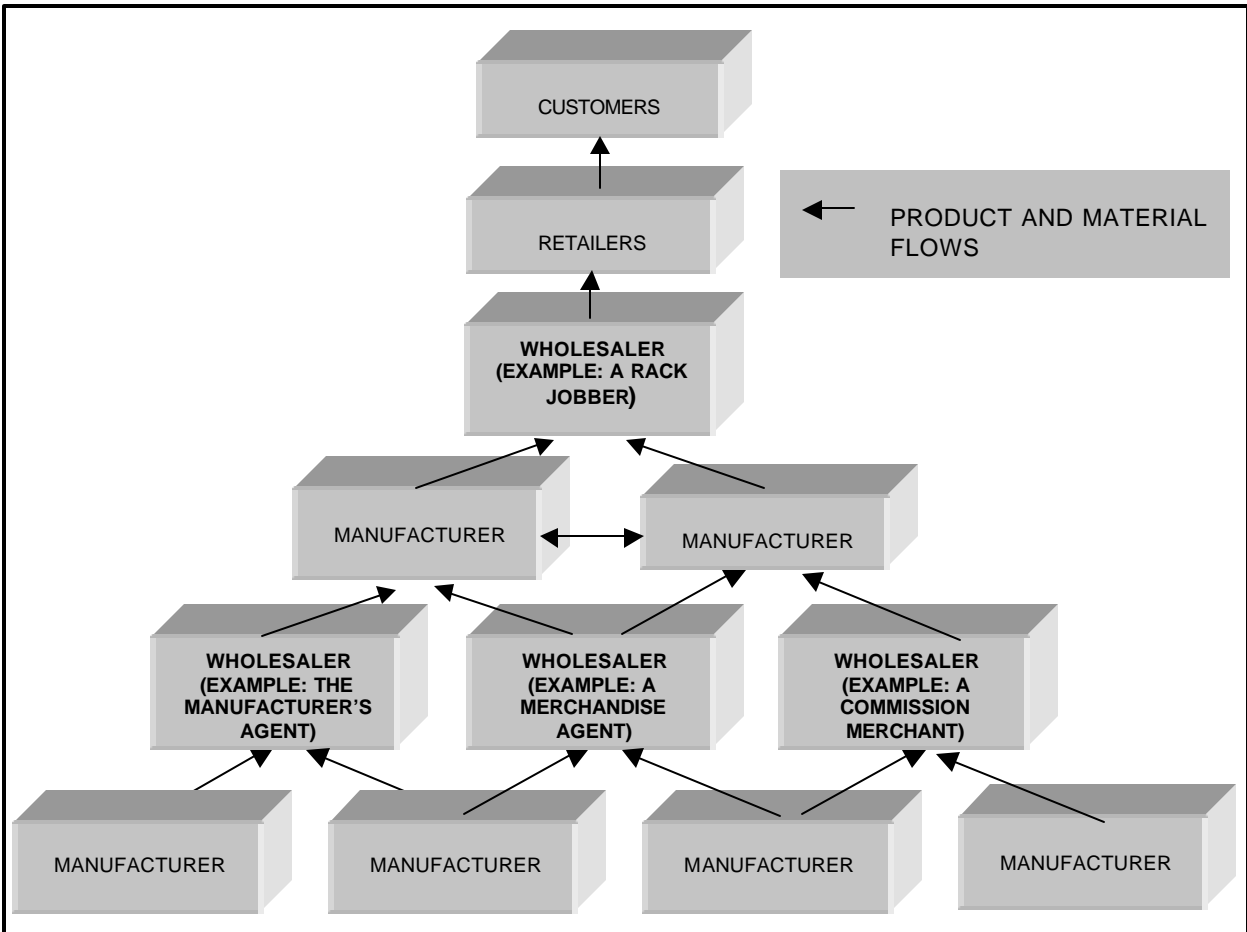
Wholesaling activities therefore ensure that the required assortment of products is at the place where and when it is needed (Strydom et al 2000:273). The objective is to bridge the gap between the manufacturer and the retailer responsible for selling the products to the ultimate consumer as illustrated in figure 2-1. (All the examples of wholesaling operations are discussed in section 2.4.)

These wholesaling activities do not have to be performed by a wholesale institution, but can be executed by the manufacturers or retailers themselves (Pride & Ferrell 2003). However, in most instances, manufacturers cannot afford to deal directly with the thousands of small retailers because the quantities purchased and resultant manufacturer profits are too small (Lamb et al 2002). The existence and development of wholesaling can therefore be

justified if the wholesaler performs the needed activities in a more cost-effective way than any available alternative (Hoover 1990:236).

FIGURE 2-1

POSITION OF WHOLESALERS IN A SUPPLY CHAIN



Source: Adapted from Handfield & Nicholas (1999:5)

The way in which wholesalers may justify their existence and even continued development can be understood by investigating their activities (Semenik & Bamossy 1998:502; Lamb et al 2002; Pride & Ferrell 2003). These activities are summarised in figure 2-2.

FIGURE 2-2
WHOLESALING ACTIVITIES



Source: Developed from text content

2.3.1 Buying and selling

The core business of a wholesaler is typically to buy from manufacturers and sell to retailers (Hoover 1990:236). Wholesalers accumulate the goods of several manufacturers to a single location, and resort the goods to fill orders from retailers (or manufacturers who further transform the products). This activity vastly reduces the number of transactions associated with the movement of goods (Semenik & Bamossy 1998:502). Thereby enhancing economic value for both the manufacturer (by voiding the sales function) and the retailer (by largely eliminating or simplifying the buying function) (Hoover 1990:236).

2.3.2 Negotiation

Wholesalers generally bring together an assortment of products by negotiating with a number of different sources (Stern et al 1989:98). Wholesalers therefore serve as the purchasing agent for retailers (Pride & Ferrell 2003). Over the years, the growth of nationally distributed manufacturers and retail brands, the massive size of manufacturing and retail operations and lack of innovation at wholesale level have eroded the power base of the wholesaler – leading to degradation of the wholesaling operation as a successful negotiator between sources (Lamb et al 2002).

This degradation, however, is countered by the consistent and intimate relationship wholesalers have with local markets, the possibility they present in the local availability of stocks and a salesforce in touch with the local customer's needs (Lamb et al 2002).

2.3.3 Bulk breaking

Wholesalers provide a maximum degree of market coverage of all types of retailers. Most manufacturers cannot afford the time and expense related to developing and maintaining an entire salesforce to sell a single or few product lines to retailers only (Semenik & Bamossy 1998:503). Therefore wholesalers provide retailers with an assortment of goods after breaking the bulk bought from various manufacturers.

The efficiency of a wholesaler's operation in bulk breaking would be difficult for a manufacturer to match as well. Retailers order an allotment of merchandise from wholesalers, consisting of a vast variety of volumes of

different product ranges (Semenik & Bamossy 1998:503). In this way, wholesalers help manufacturers to reach many small retailers at a low cost (Kotler 2000).

2.3.4 Warehousing

A wholesale warehouse is a stock reservoir from which retailers can draw the requires merchandise, considerably reducing the need for their own large inventories to maintain adequate supply (Semenik & Bamossy 1998:504). Manufacturers can hold stock or arrange for storage near retailers, but this is more costly than the specialisation of a wholesaler's operation (Semenik & Bamossy 1998:504).

Warehousing performs a wide spectrum of varied materials-flow activities, thereby providing a smooth flow of merchandise from the suppliers to the next point of sale. This includes (1) receiving goods into the warehouse, (2) identifying, sorting and labelling the goods, (3) despatching the goods into a temporary storage area, and (4) recalling, selecting or picking the goods for shipment (Lamb et al 2002).

2.3.5 Risk bearing

Wholesalers hold inventories, thereby reducing the risks of manufacturers and retailers. This includes taking ownership of the products that can deteriorate or become obsolete, bearing the cost of thefts and all the costs involved in safeguarding the merchandise (Kotler 408).

Wholesalers can also help the manufacturers to reduce risk by providing objective information to suppliers and customers including technical features, appropriate usage, availability, product quality and competitive conditions (Stern et al 1989:98).

2.3.6 Financing

Wholesalers finance their suppliers (manufacturers) by ordering early, and paying their bills before the merchandise has been resold (Kotler 2000). Often wholesalers may make merchandise advances to new retailers or carry a running credit for others. This allows retailers to spend more funds on activities that may stimulate demand and potentially increase sales. Manufacturers will not easily perform this credit function because they are far removed from the retailer's activities. For the wholesaler, correct credit administration can ultimately reward the wholesaler with greater revenue (Semenik & Bamossy 1998:505).

2.3.7 Transportation

Transportation is costly because it reflects the investment in equipment, people, fuel, taxes, insurance and maintenance (Hoover 1990:236). Hence the vital part wholesalers play in the transportation of goods from manufacturers to retailers (Semenik & Bamossy 1998:503).

A single manufacturer may ship enough of its entire product range to serve several hundred retailers. Retailers necessarily need products from a variety of manufacturers to serve their customers. Wholesalers are able to resort merchandise into an assortment, ordered by each retailer from the stock of

different manufacturers, and provide quicker delivery because they are closer to the retailers (Kotler 2000).

A smaller number of large volume (bulk) shipments of merchandise are able to move from the manufacturer to wholesalers in comparison with the large number of shipments that would be required to transport smaller volumes to retailers. This reduces the transportation cost per unit and improving efficiency significantly (Semenik & Bamossy 1998:503).

2.3.8 Assistance to suppliers and clients

Wholesalers also provide their suppliers and clients with management services and advice. This includes assistance to their suppliers in the form of considerate credit arrangements and advice on new product development. Service to clients entails advice to the retailer on the training of their sales clerks, improving their store layouts and displays and implementing accounting and inventory control systems. Wholesalers further provide market information on competitors, new products and price developments (Kotler 2000).

It is clear from the above discussion that wholesalers perform vital activities which are part and parcel of supply chain management (buying, selling, negotiation, bulk breaking, warehousing, risk bearing, financing, transportation and assistance to suppliers and clients). Furthermore, the nature of wholesaling activities fits the whole philosophy and associated concepts such as value adding, cost effectiveness in the supply chain (distribution), outsourcing of activities, concentration on core business activities and close

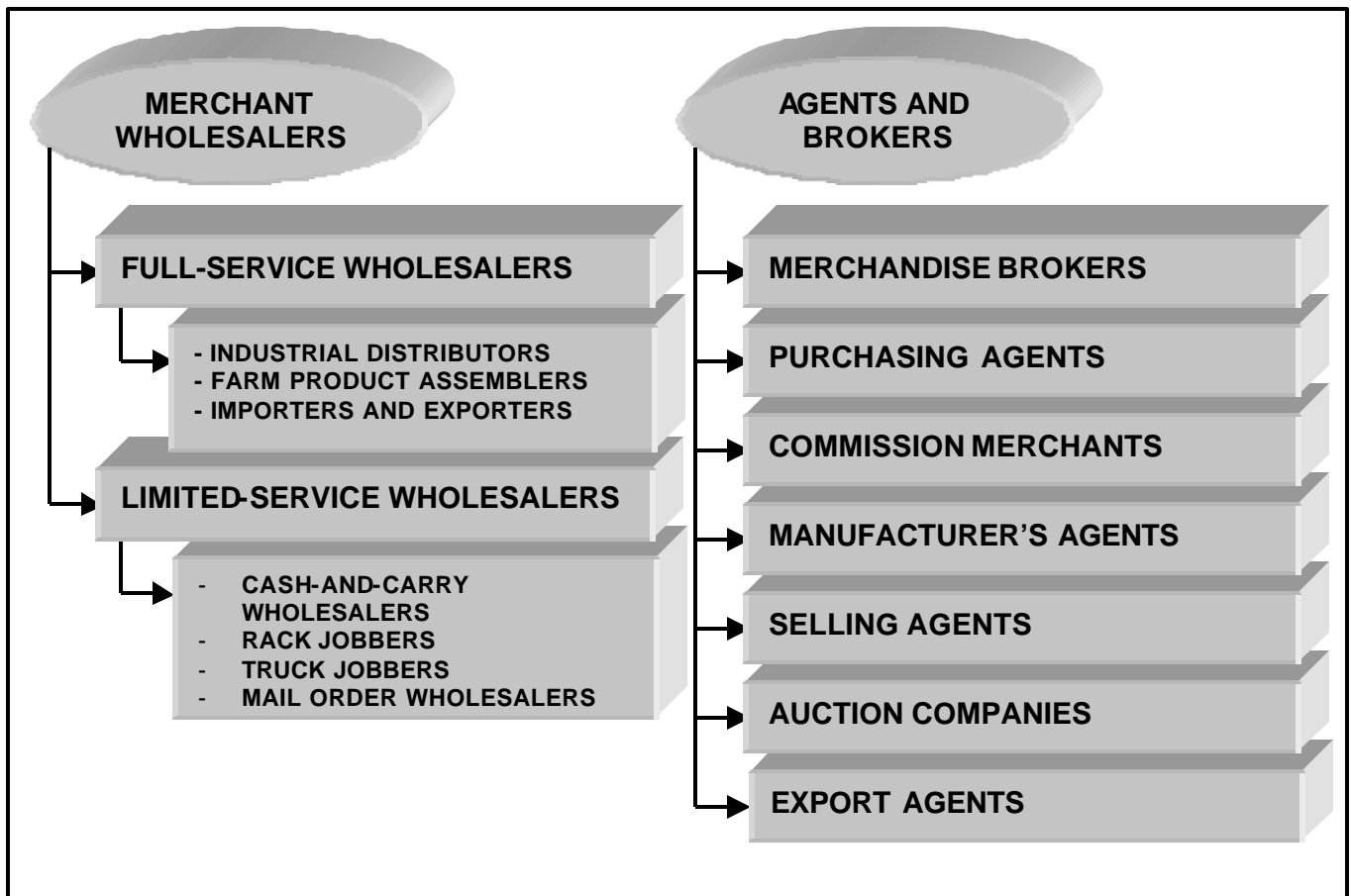
coordination (often seen as integration) of parties in the supply chain. Wholesalers thus represent a significant function or link in the supply chain, according to the supply chain management approach (which will be discussed in chapter 5).

2.4 TYPES OF WHOLESALERS

Wholesalers adjust their functions as the contours of the economic environment change. Many types of wholesalers therefore meet varying needs of manufacturers and retailers. New wholesaling establishments develop in response to the growing number of manufacturers. This is contrary to new developments that dictate the outsourcing of none-core activities, and some retailers performing the wholesaling activities themselves (Pride & Ferrell 2003).

Wholesalers are classified according to several dimensions. Factors in the classification include ownership of the wholesaler, ownership of the stock or inventories, the range of services provided and the breadth and depth of their product lines (Pride & Ferrell 2003). Using these factors, two general types of wholesaling establishments can be identified namely (1) merchant wholesalers, and (2) agents and brokers (Semenik & Bamossy 1998:502; Lamb et al 2002; Pride & Ferrell 2003). The different types of wholesalers are illustrated in figure 2-3.

FIGURE 2-3
TYPES OF WHOLESALERS



Source: Developed from text content

2.4.1 Merchant wholesalers

Merchant wholesalers are distinguished in the realm of wholesaling in that these institutions take title and ownership of the goods they sell (Semenik & Bamossy 1998:507). Lamb et al (2002) define a merchant wholesaler as an institution that performs the following activities: Firstly, it purchases goods from manufacturers for the wholesaler's own account and resells them to other businesses (such as retailers), government agencies and other

wholesalers, and secondly, it operates one or more warehouses in which it receives and takes title to goods, stores them and later reships them.

Merchant wholesalers' customers are primarily small- or moderate-sized retailers, but can also include manufacturers and other institutional clients (Lamb et al 2002). These merchant wholesalers include two types of wholesale operations, namely full-service and limited-service wholesalers.

2.4.1.1 Full-service wholesalers

The typical full-service (also known as the full-function) wholesaler offers the widest possible range of wholesaling activities (Pride & Ferrell 2003). These wholesalers therefore engage in all the wholesaling activities as discussed in section 2.3. Customers rely on them for services such as product availability, suitable assortments, bulk breaking, financial assistance and technical advice. Full-service wholesalers often obtain higher earnings than other wholesalers, but their expenses are also higher because of their wider range of services (Pride & Ferrell 2003).

According to Semenik & Bamossy (1998:508), there are three types of full-service merchant wholesalers.

- (1) *Industrial distributors* are establishments that trade in a complete line of industrial materials and/or supplies and sell mainly to retailers and industrial users such as mines, factories, public utilities and similar industries. They provide storage, sales personnel, delivery, order taking, credit and repair services.

- (2) *Farm product assemblers* exist because it is necessary to gather the output from many small farm producers and provide efficient transportation, storage, packaging and distribution of agricultural goods. They buy directly from the farmers and operate on a regional basis.
- (3) *Importers and exporters* are also classified as full-service merchant wholesalers. Importers are establishments that buy primarily from foreign sources, and exporters are primarily engaged in selling to foreign markets. Both of these institutions often sell to other wholesalers rather than directly to retailers.

2.4.1.2 Limited-service wholesalers

Limited-service wholesalers specialise in a few wholesaling activities, while the rest are left for the manufacturer or the retailer involved in the transaction to perform. Limited-service wholesalers take ownership of the goods, but often do not deliver the merchandise, extend credit, provide marketing information, store inventory or plan ahead for customers' future needs (Pride & Ferrell 2003).

The main appeal of this category of wholesalers is lower cost. If the manufacturer or retailer is capable of performing some of the required wholesale functions, the services of a limited-function wholesaler would be sufficient (Pride & Ferrell 2003). Strydom et al (2000:274) identify the following four types of limited-service wholesalers as the most common wholesalers in South Africa:

- (1) *Cash-and-carry wholesalers* sell primarily to retailers and do not provide credit or delivery services. The services provided by cash-and-carry wholesalers include buying, resorting of goods and maintenance of inventory.
- (2) *Rack-jobbers* (also known as service merchandisers) arrange with retailers to supply and maintain product lines. They merchandise their product lines (specialising in nonfood items such as cosmetics) in display space provided by the retailer and pay it a certain percentage of the sales of the products. Ownership of the goods thus remains with the wholesaler until the sale to the final customer is made.
- (3) *Truck jobbers* are distinguished by the fact that they combine sales and delivery functions. Their primary customers include restaurants, grocery stores and convenience stores. These wholesalers carry a limited assortment of fast-moving items of a perishable or semi-perishable nature. The driver of the truck also performs the tasks of the sale representative, and therefore delivers and sells simultaneously.
- (4) *Mail-order wholesalers* sell by mail, telephone or the Internet. The orders are then despatched to the customer on a cash-on-delivery basis. Mail-order wholesalers often do not have direct contact with the goods, but bear all the risks of ownership.

2.4.2 Agents and brokers

Agents and brokers are distinguished from merchant wholesalers by the fact that they do not take ownership of the goods handled (Semenik & Bamossy 1998:508). They are functional intermediaries that perform certain services in

exchange for commission (based on the product's selling price) (Pride & Ferrell 2003).

The diversity and overlap of the services provided, and the variability of operations of agents and brokers make distinct classifications in this category of wholesalers extremely difficult. According to Semenik and Bamossy (1998:509), the following categories are the most widely accepted:

- (1) *Merchandise brokers* negotiate transactions rather than complete sales. Manufacturers who make use of these wholesalers limit the broker's powers over prices and payment terms and require confirmation from the principals involved in a transaction before approving the sale. They are then paid a commission based on the value of the merchandise involved. Merchandise brokers never take possession or ownership of goods, and thus completely avoid risks related to price fluctuations, changes in market demand, loss due to damage, invoices or credit administration.
- (2) *Purchasing agents* and *resident buyers* are distinguished by the fact that they work for the buyer, and not the seller. They maintain offices where they supply their retailer client base with market information on issues such as product and price. If it is not practical for the retailer to make its own merchandise purchases, the resident buyer will often be able to do so.
- (3) *Commission merchants* are identified by the fact that although they do not take ownership of the goods they sell (they are therefore not technically merchants), they do take possession. They accept goods by

consignment and try to sell them at the most favourable price and terms that can be negotiated.

- (4) *Manufacturers' agents* sell the output of two or more manufacturers whose goods do not compete, but compliment one another in the same market sector. Their principal duty is to locate potential buyers and perform the personal selling function. They restrict their activities to a certain market sector and geographical area, and possess thorough knowledge of these environments.
- (5) *Selling agents* sell goods for clients on a commission basis. They are different from manufacturers' agents because the scope of authority they are granted by the businesses they represent differs. These selling agents assume full responsibility for selling the entire output of certain products for a manufacturer. In most instances they perform services such as production scheduling, credit administration and occasionally assist in product design.
- (6) *Auction companies* are amongst the oldest wholesaling establishments. They provide selling staff and in most instances the physical facilities where sales can take place. The quality of goods, the amount of stock and the expert judgement of the buyers competing for the goods all play a part in determining the price. The wholesaler is typically paid a commission, but sometimes asks a set fee for his or her services.
- (7) *Export agents* are wholesalers who trade between businesses in different countries in several noncompeting product lines from different manufacturers. They provide services such as foreign market research, identification of foreign market distributors, exhibition of clients'

products at trade shows and handling the documentation of the export of goods.

The various types of wholesalers documented in this section emphasise the fact that wholesalers assume a number of different forms. It also highlights the fact that wholesalers exist because of their ability to perform tasks that neither their suppliers (such as manufacturers) nor customers (such as retailers) wish to perform or can perform effectively and efficiently at a low cost.

2.5 TRENDS IN WHOLESALE MANAGEMENT

Progressive wholesalers constantly look for better ways to meet the changing needs of their suppliers and target customers. They recognise that the only reason for existence is to increase the efficiency and effectiveness of the supply channel in which they operate as a link - thus adding value. To achieve this aim, wholesalers must constantly improve their services and reduce their costs (Kotler 2000).

The wholesaler faces several key challenges. The manner in which wholesalers respond to these challenges will determine their success (Nelles 1999:1). This necessitates a discussion of these challenges and the principal trends in wholesale management.

2.5.1 Wholesaler consolidation

Wholesalers are forced by more demanding customers to improve and extend their services at a lower cost. In pursuit of this there is a global trend towards the consolidation and merging of various wholesalers to achieve greater

efficiency in response to price and competitive pressures (Pride & Ferrell 2003).

Larger wholesalers can afford to purchase and implement new technology to increase their productivity and service (Semenik & Bamossy 1998:513). Larger wholesalers also have more buying power. New technology and buying power are necessary to survive because retailers command more price concessions and more manufacturers are establishing direct marketing channels – thus eliminating wholesaling operations from the supply channel (Semenik & Bamossy 1998:513).

2.5.2 New types of wholesalers

A trend towards larger wholesalers allows expanded product lines, creating opportunities for the emergence of new types of wholesalers (Pride & Ferrell 2003). This includes adapting to a broader service role, and even performing certain retail functions such as selling directly to household customers (Semenik & Bamossy 1998:513). This allows wholesalers to respond more effectively to customer requirements.

2.5.3 Competition and technology

Being good at something is no longer enough (Greenhalgh 2001:1). The level of competition in both domestic and international markets demands that businesses be fast, responsive and flexible (Monczka et al 2002:8). Unprecedented technological development has made information and communication technologies increasingly available to anyone smart enough to adopt it (Greenhalgh 2001:1). Wholesalers will only comply with the

requirements of being fast, responsive and flexible if they adopt new technologies.

2.5.4 Integrated supply chain

Historically, supply chain management was only associated with manufacturing environments. However, in recent years it has become part of the wholesaling and other nonmanufacturing arenas (Pickowitz & Reekers 2000:1). Integrated supply chain management evolved as a core competitive strategy for wholesalers, after they realised they must work on a cooperative basis with the other organisations in their supply chain to provide better quality products and services to their customers at faster lead times (Monczka et al 2002:658).

With the implementation of the supply chain management approach wholesalers experienced a great deal of pressure because the whole supply chain (suppliers and customers) seeks more value (better service at lower cost). If the wholesaler cannot deliver this, its existence will be threatened. The other parties in the supply chain may decide that they can perform the wholesaling activities better themselves or they may source other wholesalers. They are thus forcing wholesalers to assume an integral intermediary role in almost all integrated supply chains as shown in figure 2-1.

2.6 SUMMARY

Chapter 2 explained wholesaling in further detail. The chapter started by highlighting the definitions of “wholesalers”, wholesaling” and “wholesale management”. It was established that wholesalers play a pivotal role in supply

channels by providing retailers (and other businesses) with products bought from manufacturers. The activities of wholesaling were also documented (including buying, selling, negotiation, risk bearing, financing, warehousing, transportation and assistance to clients). The various types of wholesalers outlined in this section emphasise the fact that they assume a number of different forms. It was clear from these two sections that wholesalers perform vital activities that are part and parcel of supply chain management aimed at adding value and cutting costs for suppliers and customers alike. Wholesalers thus represent a vital link in the supply channel. This was confirmed by the discussion on trends in wholesaling.

CHAPTER 3

PURCHASING MANAGEMENT: AN OVERVIEW

3.1 INTRODUCTION

3.2 DEFINITION OF PURCHASING MANAGEMENT

3.3 OBJECTIVES OF PURCHASING

3.4 PURCHASING ACTIVITIES

3.5 PURCHASING TOOLS

3.6 SUMMARY

3.1 INTRODUCTION

The main purpose of this research is to establish the level of sophistication of the purchasing, sourcing and supply management approaches used by wholesalers. Chapter 2 provided the necessary background on wholesaling. It is now necessary to understand the above-mentioned purchasing, sourcing and supply management approaches. The following chapters will assist in this objective, and this chapter starts by giving an overview of the concept of purchasing management.

Section 1.2.2.1 documented the development of purchasing management to strategic sourcing as illustrated in the different stages in figure 1-1 (stage 1 - reactive purchasing; stage 2 - mechanical purchasing; stage 3 – proactive purchasing; and stage 4 – strategic sourcing). For the purpose of this study, purchasing management therefore refers to the more traditional, reactive or mechanical purchasing approach as reflected in stages 1 and 2, better known as “tactical purchasing”.

This chapter will contain only an overview of purchasing management because as explained in chapter 2, a wholesaler's core business is typically to perform the buying function (Hoover 1990:236). The definition of purchasing management (as in chapter 1) will be revisited. A brief discussion of the purchasing management objectives, purchasing process and other purchasing activities will also be included.

3.2 DEFINITION OF PURCHASING MANAGEMENT

According to Hugo et al (2002:8), purchasing function constitutes the essential activities associated with the acquisition of the materials, services, and equipment used in the operation of an organisation. Hence the management of the purchasing function is of vital importance to any organisation.

After considering the opinions of various authors (Burt et al 1996:19; Fung 1999:362; Cronjé et al 2000:396; Hugo et al 2002:9; Monczka et al 2002:11) **purchasing management** was defined in chapter 1 as the organisation of all activities performed in the acquisition of the correct goods or services from an external supplier in the most efficient and effective manner to be delivered to the right user (internal client of the organisation) at the right time.

It is clear from the above-mentioned definition that purchasing management is concerned with the acquisition of suppliers' goods and services in order to provide the user with the right quantity at the right time, thereby contributing to the objectives of the organisation. However, these purchasing tasks focus largely on an organisation's tactical (or administrative) objectives.

3.3 OBJECTIVES OF PURCHASING

The objectives of the purchasing function should support the organisation's objectives. The objectives of an organisation should always be focused on the profitable satisfaction of consumers' needs (Hugo et al 2002:9). The basic objective of any institution is therefore to obtain the highest possible return (output) with the lowest possible use of production resources (input). The purchasing function is also supposed to operate purposefully, efficiently and productively.

3.4 PURCHASING ACTIVITIES

Monczka et al (2002:9) regard purchasing as critical because as it helps organisations to realise the following benefits: cost reduction or improvement, improved material delivery, a shorter cycle time, access to product and process technology and quality improvement. This can only be achieved if an organisation performs its purchasing activities effectively and efficiently. Purchasing activities can be defined as the essential activities associated with the acquisition of the materials, services and equipment used in a business organisation (Burt et al 2003:35).

The purchasing cycle indicates specific activities that should be performed by purchasing personnel to achieve the purchasing objectives. The purchasing cycle (as illustrated in figure 3-1) constitutes a series of successive purchasing activities to be performed for most transactions, but may vary from one organisation to the next. The following (Hugo et al 2002:22-32; Monczka et al 2002:28-35; Burt et al 2003:62-75;) are therefore regarded as a general overview of the activities included in a purchasing cycle:

3.4.1 Identification and definition of the material or service needs

Material or service needs originate with the organisation's operating departments or in its inventory control section (Burt et al 2003:64). They determine the quality, quantity and time at which the goods are needed by internal customers and would have to notify the purchasing department of their specific need (Hugo et al 2002:24).

3.4.2 Description of the need

It is of utmost importance to describe the requirements of users for goods and services as specifically as possible, in order to ensure the acquisition of the correct product. Purchasing personnel therefore need to establish open communication channels with the end user, as well as the external source from which the acquisition will be made (Monczka et al 2002:28).

3.4.3 Investigate, evaluate and select the supplier

Once the purchasing need has been specified, the purchasing department must investigate, evaluate and select possible suppliers of the specific goods or services required. For routine items the supplier selection process is relatively simple and quick, but intensifies and is more prolonged for new or strategic items.

The supplier selection process starts with a list of potential suppliers, who have been thoroughly investigated. Purchasing personnel can then evaluate each supplier by using different performance criteria (such as past performance, technical ability and cost performance). Final evaluation often leads to visits to the suppliers' plants and facilities.

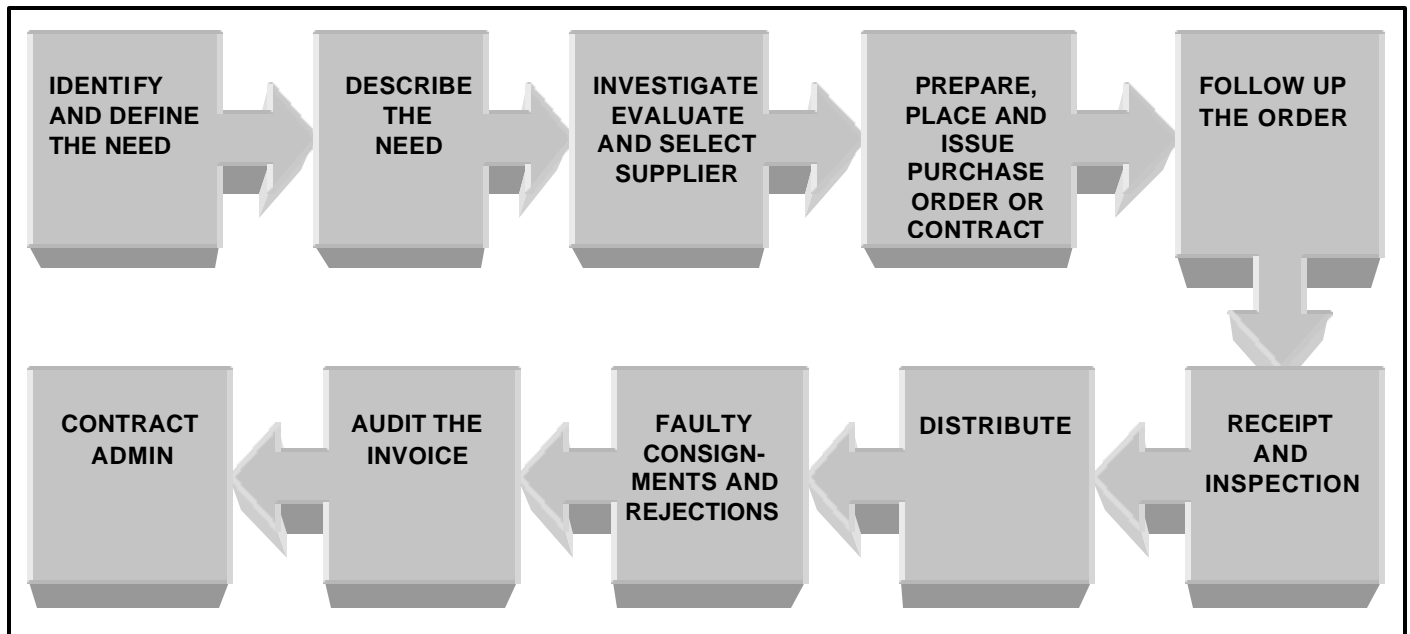
The most suitable supplier is then selected. This is possibly one of the most vital activities performed by the purchasing department because its effects may be damaging and longlasting (Monczka et al 2002:33).

3.4.4 Prepare, place and issue the purchase order or contract

The preparation for placing the purchasing order is of vital importance because issuing an official order is a legally binding step. The purchasing order or contract must include detailed information on quantities, prices, delivery dates, points of delivery, quality and discounts, in order to ensure a satisfactory contract (Hugo et al 2002:27).

FIGURE 3-1

THE PURCHASING CYCLE



Source: Developed from text content

3.4.5 Follow up the order

The purchasing department must follow up orders before the delivery date and if orders have not been received, ascertain the expected delivery date. Suppliers must be routinely reminded, telephonically or in writing, that the orders must be delivered on time or kept informed if they will be late. The purchasing department must also ascertain the cause of the delay, and notify the suppliers that they have not complied with the terms of the purchasing order (Hugo et al 2002:30).

3.4.6 Receipt and inspection

The receiving process should be as efficient as possible (Monczka et al 2002:34). The receiving clerk must use the packing slip (which itemises and describes the content of the shipment) to ascertain whether the consignment of goods complies with the requirements of the purchasing order. If everything has been inspected and has been found to be in order, a receiving report is compiled (Burt et al 2003:72).

3.4.7 Distribution

The orderly distribution of deliveries to the user departments follows, and a receipt from the user is obtained (Hugo et al 2002:30).

3.4.8 Supervising faulty consignments and rejections

The handling of faulty consignments and rejections can lead to serious disagreements and even litigation. Hence, the purchasing department must manage the negotiations with suppliers with diplomacy and responsibility (Hugo et al 2002:30).

3.4.9 Audit the invoice

To ensure that the purchasing department makes proper payment for goods actually received, a review procedure has to be in place prior to payment. A typical procedure involves a simultaneous review of the purchase order, receiving report and the invoice. Although this is a repetitive, time-consuming task it is imperative for sound accounting practice (Burt et al 2003:74).

3.4.10 Contract administration

Once the invoice has been audited, the order is closed. This entails consolidating all documents and correspondence relevant to the order. The completed order is then filed in the closed-order file, which constitutes a historical record of all activities encompassing the total purchasing cycle (Burt et al 2003:74).

Although the activities performed by the purchasing function vary from one organisation to the next, one aspect remains the same – the efficient and effective management of purchasing activities is regarded as a fundamental stepping stone to the success for any organisation (Russill 1997:19).

3.5 PURCHASING TOOLS

There are certain important purchasing tools that are inherently part of the purchasing cycle that were not included in the above discussion. They will be explained in this section (Lysons 1996:72; Pooler & Pooler 1997:9; Burt et al 2003:33).

3.5.1 Negotiations

Pooler and Pooler (1997:215) regard negotiation as the keystone of effective purchasing. As organisations continue to develop closer relationships with selected suppliers, negotiations (either face-to-face or electronically) become one of the reaching instruments in establishing a cooperative approach (Monczka et al 2002:33).

Pooler and Pooler (1997:215) argue that buyers need to negotiate proactively by following six key steps: (1) prepare for negotiations, (2) define objectives, (3) organise the team, (4) develop a strategic plan, (5) control the climate or behaviour and (6) seek alternative solutions to reach an agreement acceptable to the interests of both parties.

3.5.2 Electronic data interchange (EDI)

Electronic data interchange involves a communication standard enabling the electronic transfer of purchasing documentation and information (computer to computer) in a cooperative effort between the buyer and seller (Monczka et al 2002:34). Loughlin (1999:1) adds that electronic data interchange is an electronic commerce technology that affects communication and is used for ordering and order processing, payment and delivery arrangements.

Lankford and Johnson (2000:1) explain that electronic data interchange provides a tool that enables organisations to adapt to changing market needs in a more flexible manner in the global economy. Electronic data interchange, however, is intended as a completely standardised set of protocols, ensuring that an organisation has to be linked to all suppliers to do business

electronically, which is not possible without a huge financial investment - a drawback for smaller suppliers (Loughlin 1999:1).

3.5.3 Logistics management

Logistics management was defined in chapter 1 as the creation of time, place, quantity, form and possession utilities within and among firms and individuals by planning, implementing and controlling the efficient, effective flow and storage of raw materials, in-process inventory, finished goods, services and related information from point of origin to point of consumption according to customer requirements. It was also established that logistics management consists out of materials management and physical distribution management (see section 1.2.2.2).

All these management concepts play an integral part in the efficient and effective management of the purchasing function. For example, the focus on inventory reduction in today's competitive market has caused many organisations to look closely at the quality of the inbound delivery service they receive from suppliers. Consumers, however, have become just as demanding in their requirements (Gattorna 1998:274). The just-in-time system was developed to reduce the delivery lead times through smaller batch-size production to satisfy customer demand more effectively (Gattorna 1998:139).

3.5.4 Total quality management (TQM)

TQM requires suppliers to initiate a philosophy of zero defects, while endorsing continuous improvement. This can be achieved by initiating statistical process control (SPC), design of experiments, process capability

studies, quality audits, improved problem identification and demonstrative corrective action capabilities.

TQM is an essential tool embedded in the management of the purchasing function because it emphasises the need to meet and exceed the requirements as specified by the end user (Monczka et al 2002:185).

3.5.5 Research

The purchasing management environment in which purchasing decisions are made has become so dynamic in the past few years that information generated by research has become critical. Purchasing research can be defined as the systematic collection, classification, analysis and interpretation of information on all issues related to materials supply with the objective of making scientifically based decisions (Hugo et al 2002:248).

It is clear from the above discussion that the correct use of purchasing tools is inherently part of the optimum management of the purchasing function.

3.6 SUMMARY

Chapter 3 presented an overview of the more traditional purchasing approach. The definition of purchasing management emphasised the importance of the purchasing function to acquire goods and services to satisfy the needs of the internal customer, but also highlighted that the contribution of the function to the organisation's objectives is generally at a tactical level. It was established that the effective and efficient management of purchasing activities and tools

contributes to the bottom line of any organisation - cutting costs and adding value.

Purchasing management is poised to make a significant contribution to business success and competitive advantage. However, this is not a universal perception (Russill 1997:16). The concept of traditional purchasing management has fallen into disfavour in the literature and in modern organisations because of the outdated management approach it represents. A new response from purchasing management is demanded. Chapter 4 will therefore examine the strategic importance of purchasing to organisations.

CHAPTER 4
STRATEGIC SOURCING:
A FURTHER DEVELOPMENT OF THE
PURCHASING FUNCTION

4.1 INTRODUCTION

4.2 SCOPE AND DEFINITION OF STRATEGIC SOURCING

4.3 OBJECTIVES OF STRATEGIC SOURCING

4.4 ACTIVITIES OF STRATEGIC SOURCING

4.5 FROM PURCHASING MANAGEMENT TO STRATEGIC SOURCING

4.6 SUMMARY

4.1 INTRODUCTION

All the functions of a business must combine to form a unified whole if management is to fulfil its basic responsibility of maximising profit. To this end, the purchasing function has become a more integral part of the operation of an enterprise, shaping the purchasing operations with a strategic planning objective (Burt et al 2003:24). Figure 1-1 illustrated this by depicting the development of purchasing management from a reactive and mechanical function through the proactive stage, to finally include purchasing with a strategic rationale.

Chapter 3 contained an overview of the more traditional (reactive and mechanical) purchasing management approach. It is now necessary to investigate the purchasing management approach as part of central value creation in an organisation, better known as strategic sourcing. The aim of chapter 4 is to analyse the essence of strategic sourcing, by assessing the

scope of various perspectives on, the definition, objectives and activities of strategic sourcing. The chapter will conclude with a comparison of the purchasing and strategic sourcing management approaches.

4.2 SCOPE AND DEFINITION OF STRATEGIC SOURCING

The scope of strategic sourcing will emerge from a consideration of the various perspectives on the concept. The opinions of Ricker (1997) and Roberts (2002) were considered in chapter 1, and the following definition formulated on the basis of their opinions: Strategic sourcing is a process that involves cross functional teams to identify, develop, manage and integrate the supplier base of an organisation.

Slaight (1999:43), however, adds that strategic sourcing is “a periodic event that includes the identification and selection of initial commercial arrangements with a selected supplier that either creates or resets a relationship”. He views strategic sourcing as a process whereby organisations divide their total spending into categories and then classify the categories on the basis of the importance of that product and service, and on the complexity of the supplier marketplace.

The organisation and the supplier must then recognise that various relationships are required. At one end, the least strategic suppliers may be based on cost, while at the other, the most strategic suppliers may be chosen for their ability to create new business opportunities or technological advances. Targeting and searching for suppliers in such a formalised manner is what strategic sourcing is all about. Strategic sourcing leads organisations

to join with suppliers, spur innovation, apply joint expertise to product development and create a genuine supply advantage.

Kauffman and Crimi (2000) indicated that strategic sourcing consists of identifying those purchased items that are important to the achievement of strategic business objectives and then developing and implementing short- and long-range plans for the procurement of those items. Roberts (2002:33) defines strategic sourcing as “the use of strategy to rule sourcing decisions”. This implies that the supply/sourcing manager makes sourcing decisions consistent with the firm’s long-term objectives. This requires careful evaluation of the current supply situation, understanding the organisation’s objectives and creating a relationship with suppliers that can help to meet those objectives.

To round off of the above discussion of the scope of strategic sourcing, it is necessary to formulate a clear definition of strategic sourcing. **Strategic sourcing** can be regarded as a process whereby spending is analysed and categorised according to the importance and cost of the purchases, and the complexity of the supplier base. The supply base is then investigated to ensure that the correct relationship is formed with suppliers in the various categories of goods. The strategic sourcing process is managed by cross functional teams according to best practices in support of strategic business objectives.

4.3 OBJECTIVES OF STRATEGIC SOURCING

Monczka et al (2002) identify six primary objectives of strategic purchasing or strategic sourcing. Firstly, strategic sourcing must support organisational goals and objectives. This objective implies that sourcing can directly affect total performance (either positively or negatively) and must be recognised as a strategic asset that provides a powerful competitive advantage in the marketplace. The second objective is the development of integrated sourcing strategies that support organisational strategies. To achieve this, executive management must realise the benefits a progressive sourcing function can provide. The training and selection of sourcing personnel must therefore be done in such a manner that they have the ability to participate in the highest levels of corporate planning. The third objective is that strategic sourcing must support operational requirements.

The fourth objective involves the development of strong relationships with other functional groups to understand the major needs of the organisation's using departments. These needs can then be translated into materials support actions in a proactive and cost-effective manner. The fifth objective involves the efficient and effective management of the sourcing process. An organisation has limited resources available to manage the sourcing process, and must continuously work towards improved utilisation of these resources. The last objective of strategic sourcing entails the selection, development and maintenance of sources of supply. Strategic sourcing must focus on selecting and managing a supply base capable of providing performance advantages over the longterm, pertaining to product cost, quality, technology, delivery or

new product development. Strategic relationship management plays a pivotal role in achieving this objective.

The objectives of strategic sourcing move far beyond the traditional belief that the primary goal of purchasing is to obtain goods and services in response to user requirements. Strategic sourcing is not regarded as a narrow functionalism, but a driving force behind organisations' long-term success (Russill 1997:20).

4.4 ACTIVITIES OF STRATEGIC SOURCING

From the above discussion of the perspectives, definition and objectives of strategic sourcing, the following key activities of strategic sourcing can be identified (Ricker 1997; Slaight 1999; Kauffman & Crimi 2000; Sislian & Satir 2000; Litton 2001:10, Roberts 2002 and Monczka 2002:22):

- Establish, manage and develop cross functional teams.
- Analyse the total supply market.
- Evaluate the current supply situation of the supply chain.
- Reduce the supplier base of the supply chain.
- Identify and evaluate the sourcing opportunities of the supply chain.
- Assess the value of sourcing opportunities to the long-term goals of the supply chain organisations.
- Identify cost reduction opportunities from a purchasing and sourcing perspective.
- Formulate strategies for critical commodities of the supply chain.

- Analyse arrangements with the suppliers of the various requirements of the supply chain.
- Analyse the total procurement spending of the supply chain.
- Categorise products/services in terms of the importance and complexity of the market.
- Establish appropriate relationships with suppliers in the various categories of the supply chain.
- Apply “best practices” in the management of the suppliers.
- Make outsourcing decisions about the supply chain.
- Create a portfolio for each supplier involved in the supply chain.
- Apply continuous tracking and performance management of the partners in the supply chain.
- Identify total cost opportunities of the supply chain.
- Understand different supply chain economies.

As in the case of purchasing activities, the strategic sourcing activities performed vary from organisation to organisation. The organisation that successfully implements these strategic sourcing activities, however, has also developed the capacity to continually reach beyond success to set new standards for others to follow (Russill 1997:95).

4.5 FROM PURCHASING MANAGEMENT TO STRATEGIC SOURCING

The traditional (reactive and mechanical) purchasing management approach, as well as the more recent (proactive and strategic) sourcing management approach (as illustrated in figure 1-1) were discussed in chapters 3 and 4 respectively. For the purpose of this study it is now necessary to compare

these management approaches to identify their similarities and differences (as depicted in table 4-1).

TABLE 4-1

COMPARISON OF THE PURCHASING AND STRATEGIC SOURCING MANAGEMENT APPROACH

PURCHASING MANAGEMENT	STRATEGIC SOURCING
<ul style="list-style-type: none"> • Mechanical and reactive • Staff - unequipped for demands of purchasing function • Contributes to tactical organisational objectives • Short-term focus • Concentrates on meeting the requirements of internal customers • No or deficient relationship with suppliers • People process paper • Transaction driven • Centres around routine purchases • Functional • Independent management approach • Reports to relatively low level management 	<ul style="list-style-type: none"> • Proactive and strategic • Staff - professional • Contributes to strategic organisational objectives • Long-term focus • Concentrates on meeting the requirements of internal customers and establishing a relationship with external sources • Suppliers considered as resources (close relationships) • Technology focussed • Continuous improvement • Centres around new and strategic purchases • Cross functional • Integrated management approach • Reports to top management

Source: Developed from text content

It is clear from the above comparison of the purchasing and strategic sourcing management approaches that the possibility exists that certain aspects of each approach can be found in the same organisation.

4.6 SUMMARY

The concept of strategic sourcing was discussed in this chapter. The definition of strategic sourcing emphasised the strategic importance of the management approach and its contribution to the success of the organisation. The objectives of strategic sourcing highlighted the long-term value added by the effective and efficient management of the strategic sourcing activities as listed in section 4.4. The similarities of and differences between the purchasing and strategic sourcing management approaches were then identified. The conclusion drawn was that elements of both the traditional purchasing management approach and the strategic sourcing management approach can be found in one organisation.

The aim of this study is to identify which of these management approaches is implemented by wholesalers and at what level of sophistication. Before this can be done, it is necessary to analyse the remaining part of figure 1-1 – the supply chain management approach.

CHAPTER 5

SUPPLY CHAIN MANAGEMENT: AN ANALYSIS

5.1 INTRODUCTION**5.2 THE SUPPLY CHAIN CONCEPT****5.3 SCOPE OF SUPPLY CHAIN MANAGEMENT****5.4 BASIC OBJECTIVES OF SUPPLY CHAIN MANAGEMENT****5.5 ACTIVITIES OF SUPPLY CHAIN MANAGEMENT****5.6 TRENDS IN SUPPLY CHAIN MANAGEMENT****5.7 SUMMARY**

5.1 INTRODUCTION

The aim of this study is to ascertain the management approaches used by wholesalers in the management of their purchasing, sourcing and supply activities. Chapters 3 and 4 discussed the concepts “purchasing management” and “strategic sourcing” in detail. In this chapter, the supply chain management approach as an evolving notion will be analysed, which will include the concept of the supply chain, the scope and definition, objectives, the activities and the trends in supply chain management.

5.2 THE SUPPLY CHAIN CONCEPT

The supply chain definition was briefly explained in chapter 1. The conclusion was drawn from the definitions of Burt et al (2003:7) and Monczka et al (2002:4) that supply chains are essentially a series of linked suppliers and customers; every customer is in turn a supplier to the next downstream organisation until a finished product reaches the ultimate end user. It is

however important to understand the supply chain concept properly because it forms the basis of the supply chain management approach discussed in this chapter.

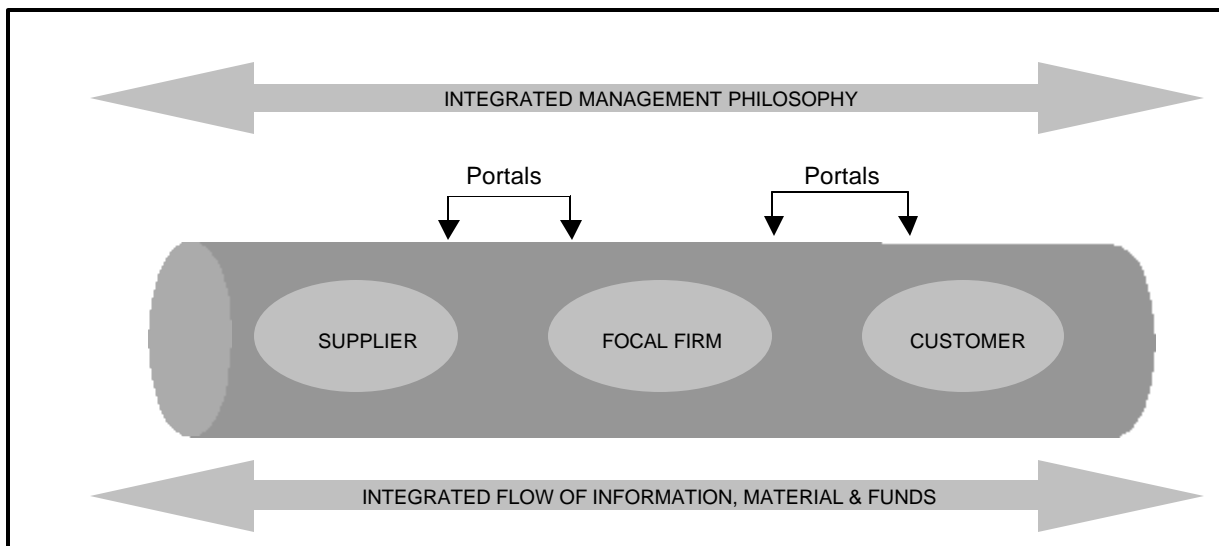
From the above definition it is clear that the supply chain links suppliers and customers from the extraction of raw materials until the product reaches the ultimate end user. Monczka et al (2002:4) emphasise the fact that the supply chain links organisations in the upstream as well as the downstream flows of materials and information. A supply chain therefore comprises a physical element (the strategic partnering of various market-focused, responsive organisations involved in the transformation of specific goods) and the information element (controlled sharing of business data and processes). A supply chain can therefore be viewed as the formation of a value chain network consisting of individual functional entities committed to the controlled sharing of business data and processes (Lau & Lee 2000:598).

Organisations in the supply chain focus on their core activities and outsource the remaining operations to other business partners (Lau & Lee 2000:598). This results in strategic partnering in various segments of business. Democker (2000:141) adds that supply chains consist of a focal firm (hub organisation) that builds portals linking buyers and suppliers – providing a platform to exchange information about products, inventory, capacity, shipment and payment. Linking such buyers and suppliers as a supply chain is achieved via the implementation of an efficient and effective information flow system – for the organisation and its business partners (Lau & Lee 2000:599).

Christiaanse and Kumar (2000:270) are of the opinion that, in order to compete successfully, a supply chain needs to be responsive to the customer's demands, provide mass-individualised products or services at the lowest cost and response time at an acceptable level of quality.

Chopra and Meindl (2001:3) state that a supply chain consists of all stages involved, directly or indirectly, in fulfilling a customer request. The supply chain may include suppliers, manufacturers, distributors, retailers and customers. Within each of these organisations (or stages), a supply chain includes all functions involved in filling a customer request. These functions include but are not limited to, new product development, marketing, operations, distribution, finance, purchasing and customer service.

FIGURE 5-1
A MODEL OF A SUPPLY CHAIN



Source: Adapted from Hugo et al (2002:29)

Figure 51 concludes this section with an illustration of a model of a basic supply chain. It is clear that a **supply chain** is a series of linked stages (or organisations) involved in the manufacture and distribution of a certain product/service aimed at satisfying end consumers' needs, managed according to an integrated management philosophy, and creating value through a constant flow of information, materials and funds.

5.3 SCOPE AND DEFINITION OF SUPPLY CHAIN MANAGEMENT

The views of Ross (1998:365), New (1997:1) Copacino (1997:1), Pickowitz and Reekers (2000:1), Reeds (2000) and Wisner and Tan (2000:1) were incorporated into the discussion in chapter 1 in the definition of supply chain management as the sum of all value-adding activities, from the extraction of raw materials through the transformation processes and delivery to the end user, spanning organisational boundaries within the supply chain as a unified entity.

Management of the supply chain, however, has evolved over the last two decades from an emphasis on integrating logistics and lowering costs to the provision of better products and services to customers more quickly and cheaply (Gattorna 1998:18). Handfield and Nicholas (1999:1) agrees with him by defining supply chain management as a dynamic enabler for organisations to realise the challenge of delivering products to consumers in a cost-effective manner when, where, how and in the quantity required.

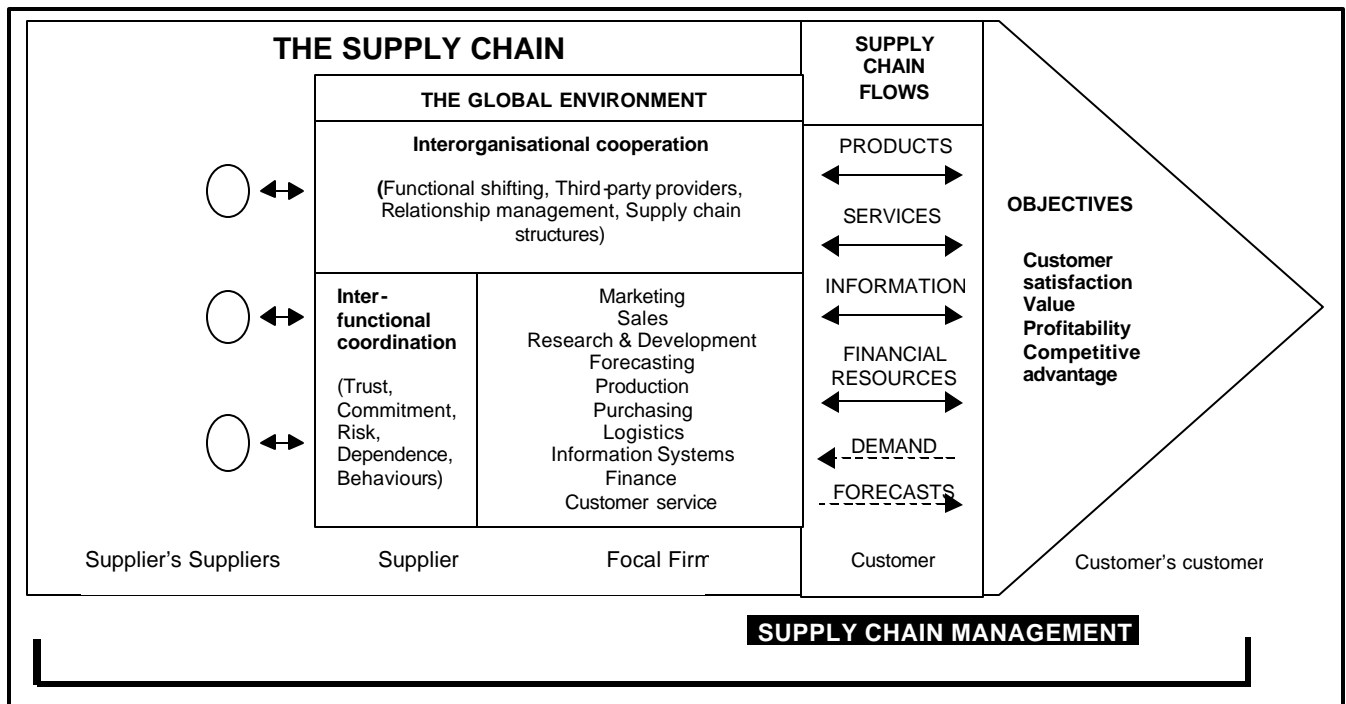
According to Fawcett & Magnan (2002:7), organisations need to possess several essential characteristics if they want to successfully integrate supply chain management as an enabler to form part of their value-adding processes. Organisations must be relentlessly customer centric; driven to improve asset efficiency; recognise inter-business collaboration as critical; focus on processes rather than functions; view open communication as a must; factor people into every decision; invest in information technology as an enabler; and be obsessed with performance measurement.

Monczka et al (2002:5) emphasise that supply chain management is the integration of all activities associated with the flow of goods from the raw materials stage through to end users, as well as the associated information flows both up and down the supply chain. The increasing importance of supply chain management is compelling businesses to adopt the new management approach.

Mentzer, Dewitt, Keebler, Min, Nix, Smith and Zacharia (2001:6) studied the various definitions of the concept of supply chain management in depth. They concluded that supply chain management can be defined as the systematic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purpose of improving the long-term performance of the individual companies and the supply chain as a whole. Their model of supply chain management is depicted in Figure 5-2.

Figure 52 focuses on two aspects of managing a supply chain. Firstly, inter-functional coordination of the focal firm (and its suppliers and customers respectively) is emphasised. This entails shifting the focus from a functional approach to establishing processes managed by cross functional teams to incorporate the marketing, sales, research and development, forecasting, production, purchasing, logistics, information systems, finance and customer service tasks. To achieve this, organisations must have cross functional trust, commitment, a sharing of risks, behaviour and established interdependence. Secondly, the model highlights the boundary-spanning coordination between organisations. This entails functional shifting, third-party service providers, intense management of relationships and the development of definite supply chain structures.

FIGURE 5-2
A MODEL OF SUPPLY CHAIN MANAGEMENT



Source: Adapted from Mentzer et al (2001:19)

Once the respective organisations in the supply chain have achieved interfunctional coordination and interorganisational relationships between the organisations involved has been established, different supply chain flows are experienced. This firstly entails the secure upstream and downstream flow of information on to the supply and demand situation of the particular supply chain, followed by information regarding products, services and financial resources.

With these perspectives of supply chain management as background, the following definition of supply chain management may serve as summary: **Supply chain management** can be regarded as the enabler of organisations to identify formal processes to integrate all activities associated with the flow of goods from extraction to the final consumer by strategically establishing interbusiness collaboration and information sharing, with emphasis on value-added activities and total cost savings.

5.4 BASIC OBJECTIVES OF SUPPLY CHAIN MANAGEMENT

Supply chain management is fast becoming a vital economic growth engine improving the quality of products and services, reducing total cost, increasing flexibility, integrating relationships, creating lean manufacturing and optimising value (Pickowitz & Reekers 2000:1). Pooler and Pooler (1997:37) indicate that supply chain management focuses on control of the entire supply chain – placing strategic emphasis on value-added activities and total cost savings. Gattorna (1998:18) suggests that corporate and supply chain goals must be

united, to improve profitability and growth – thereby increasing shareholder value.

According to Chopra & Meindl (2001:5), the basic objectives of supply chain management are to maximise the overall value generated by the supply chain, as well as benefiting the organisations involved in the supply chain. The value a supply chain generates is the difference between what the final product is worth to the customer and the effort the supply chain expends in filling the customer's request. For most supply chains, value will be strongly correlated with supply chain profitability, the difference between the revenue generated from the customer and the overall cost of the supply chain.

Figure 5-2 encompasses all the objectives discussed in this section by illustrating that the major objectives of supply chain management are to achieve customer satisfaction, add value, and to increase the profitability and competitive advantage of the supply chain as a whole, and for the individual organisations involved in it (Mentzer et al 2001:19).

5.5 PRINCIPLES AND ACTIVITIES OF SUPPLY CHAIN MANAGEMENT

Supply chain management encompasses a variety of principles and activities that can be regarded as vitally important - depending on how advanced an organisation is in the purchasing strategy development process (Monczka et al, 2002:184). These principles or activities may be unique to certain supply chains, organisations or even commodities.

The following is a list of the principles and activities of the supply chain management approach (Cooper et al 1997; Pooler & Pooler 1997; Spekman, Kamauff & Myhr 1998; Gattorna 1998; Pickowitz & Reekers 2000; Handfield & Nicholas 1999; Mentzer et al 2001):

- focusing on the satisfaction of customer needs
- integrated behaviour (interfunctional, interorganisational, system, process and strategy integration)
- strategic partnering (relationships and alliances) with suppliers and customers of the focal firm
- uniform goals of all organisations in the supply chain
- cooperation and joint strategic planning of all organisations in the supply chain
- strategic focus of long-term profitability and growth of the supply chain as a whole and all participating organisations
- mutual sharing of risks and rewards among all participating organisations of the supply chain
- value adding, enhancing the performance of the supply chain as a whole and all participating organisations
- business process re-engineering to restructure the work processes of the supply chain as a whole and all participating organisations
- total quality management and continuous improvement of all aspects of the performance of the supply chain
- human resource training and development of all personnel involved in the supply chain

- mutually sharing of flows of products, services, information and financial resources among all organisations involved in the supply chain

Some of the key principles of supply chain management merit a more detailed study.

5.5.1 Strategic focus and integration

The building blocks of this management approach have a strategic focus in the management of information and strategic relationships. This implies that all supplier and buying organisations involved in the process from raw materials to final consumer products are perceived as a unified entity. An empowered management team consisting of key members from all organisations involved in the supply chain is formed in order to jointly manufacture goods and render services effectively to meet the demands of the customer (Reeds 2000:3).

5.5.2 Customer focus and service

Chopra and Meindl (2001:4) are of the opinion that a customer is an integral part of the supply chain. The primary purpose of the existence of any supply chain is to satisfy customer needs. Supply chain activities start with a customer order and end when a satisfied customer has paid for his or her purchase.

Customer service can be defined as the manner in which a business organisation responds to the need and expectations of the customer in a

manner that maximises profitability (Gattorna 1998:23). The primary purpose of customer service is consequently to ensure that effective customer support is rendered to meet all the requirements of the customer as efficiently as possible.

5.5.3 Multifunctional and multiorganisational sourcing teams

Supply chain management is by its nature multifunctional and multiorganisational (Monczka et al 2002:185). Hence - implementing the supply chain management approach results in the integration of the functions of a business to a certain extent, and the collaboration of the core competencies of the different businesses involved in the supply chain (Hugo et al 2002:61). This is why businesses in the supply chain utilise various teams to make crucial purchasing, sourcing or supply decisions.

Representatives from the purchasing function, quality control, engineering, new product development and marketing inside the business form a multifunctional team (Hugo et al 2002:61). Should such a team include representatives from different businesses in the supply chain, the team is referred to as a multiorganisational team.

Electronic data interchange (EDI), email, the Internet and the World Wide Web enable multifunctional and multiorganisational groups from across the globe to direct and coordinate activities relating to the supply chain – interacting only through electronic mobility (Crowley 1998:551). These portals (links) can evolve towards online business communities and this simplifies the timeous and expensive distribution channels of the past (Van Hoek 2001:24).

The use of multifunctional and multiorganisational teams may be beneficial in areas such as providing different perspectives and expertise of team members, responsiveness to user needs, increased acceptance by users of the products, time reduction, increased innovation, joint ownership and enhanced communication (Hugo et al 2002:61).

5.5.4 Strategic relationships and alliances

Relationships between suppliers and purchasers vary considerably. They may range from low-value, transaction-based interactions to partnerships that are high in strategic and financial value for the organisation (Gattorna 1998:294). Such partnerships are one of the most crucial elements in supply chain management architecture (Greenhalgh 2001:21).

Gattorna (1998:289) captures the essence of strategic partnerships by stating that a formal alliance with suppliers provides the best opportunity to ensure that both parties join forces in realising the same goals. This can be achieved through joint development and continuous improvement programmes to provide products, while reducing total cost – with both parties benefiting from combined strengths.

Managing such a strategic relationship requires certain measures to maintain the balance of the high-value, long-term relationship: (1) the partnership needs to be clearly defined from the start via contractual relations; (2) information must be transparent to all parties involved; (3) performance evaluation is critical; (4) parties should be able to initiate cost reductions; and

(5) managing a partnership requires legal proficiency and complex negotiation skills (Gattorna 1998:295).

The key to strategic alliances is information sharing (Gattorna 1998:281). Open communication regarding all events, processes and operations from the procurement stage right through to the final manufacture and sale of items or services is therefore essential. Another crucial element of strategic partnerships is the continuous assessment or evaluation of the partners involved to ensure that a supplier is living up to expectations and performing in terms of the contract.

5.5.5 Process management

A supply chain is a sequence of processes and flows that take place within and between different business organisations and combine to fill a customer need for a product. It is important to note that most of the activities in a supply chain are managed as processes, including the customer order cycle, replenishment cycle, manufacturing cycle and the purchasing cycle (Chopra and Meindl 2001:7). It is consequently crucial to manage the respective processes to maintain optimal profitability in a supply chain.

5.5.6 Business process re-engineering

Business process re-engineering has become a powerful force in many organisations. It entails organisations restructuring their work processes to eliminate nonvalue-adding activities, reduce costs, increase profits, shorten cycle times and enhance the effectiveness of their operations (Copacino 1997:189).

Hugo et al (2002:271) emphasise the fact that business process re-engineering entails a radical change in performance measured by cost, cycle times and quality. It is achieved by implementing a variety of tools and techniques that focus on the business as a set of related customer-oriented core business processes rather than a set of organisational functions. Integration and performance measurement are therefore part of business process re-engineering.

5.5.7 Total cost of ownership

Total cost of ownership is increasingly important for businesses involved in a supply chain, to achieve the lowest total cost of possible sources of supply – both internally and externally. Total cost of ownership is the process of identifying cost considerations beyond unit price, transport and tooling when evaluating purchase proposals or supplier performance (Monczka et al 2002:187). This includes the full cost of the commodity - including price, use and administrative costs (Gattorna 1998:297). To implement the total cost of ownership approach the organisation must define and measure the major cost components associated with a purchased item (Monczka et al 2002:187).

This enables businesses to use the total cost measurement information in a variety of managerial decisions. A few benefits of the total cost of ownership approach are as follows: supplier nonperformance can be identified and corrected, negotiations can be more constructive and supplier selection can be more effective (Monczka et al 2002: 443). This creates a win-win outcome for the supplier-buyer relationship (Gattorna 1998:296).

5.5.8 Strategic global sourcing

Strategic global sourcing is an approach that promises substantial improvements in an organisation's competitiveness. It requires the organisation in the supply chain to view the entire world as a potential source for providing components, services or even finished goods (Monczka et al 2002:185), thereby identifying the most appropriate source, in accordance with the importance of the item to the organisation's overall business objectives. It therefore stands to reason that more time and effort will be spent to the items that are of the highest strategic and financial importance to the business (Gattorna 1998:300). This approach can provide immediate and dramatic improvements in cost, superior quality, gain access to new markets, exposure to new technology, increase the number of available sources, satisfy countertrade requirements and introduce global competition to domestic suppliers (Monczka et al 2002:185).

5.5.9 E-business

Rapid developments in technology (specifically the Internet) in the past decade have enabled businesses to communicate in a far more sophisticated and cost-effective manner than electronic data interchange allowed. Not a single aspect of a business's internal and external environment has been left untouched by the demands and benefits of the new phenomenon - e-business. Business-to-business electronic commerce worldwide is expected to exceed \$4,3 trillion by the end of 2005. The South African market will reach an amount of R310 billion in the same year at a compound annual growth rate in excess of 100% (Gibson 2001).

The supply chain consists of both intracompany and intercompany value-adding functions, which span company and functional boundaries. E-business enables a supply chain to automate enterprise resource planning (ERP) systems with workflow add-on tools. This creates a well-functioning execution system for the supply chain, entailing a live logistics system and a fully integrated workflow engine which will automate operational functions and be a provider of live manufacturing data.

The supply chain management approach will only be able to add value for the organisations involved if the principles and activities discussed in this section are implemented successfully. It is therefore essential to fully understand each concept.

5.6 TRENDS IN SUPPLY CHAIN MANAGEMENT

As mentioned earlier, supply chain management is a developing concept. Management approaches have to adapt to certain trends. A number of trends that will identify the supply chain management field are identified below.

5.6.1 The knowledge revolution

A few decades ago it was a extremely expensive and time-consuming exercise to extract relevant facts about competitors and suppliers. Today, organisations filter readily available facts into meaningful knowledge in an efficient and effective manner utilising electronic data transfer and Internet communications media (Crowder 1998).

Fact-based decisionmaking is replacing traditional negotiation methods. Decision models are used to produce optimal solutions to supply problems because organisations possess complex databases on the Internet of real-time knowledge, which includes all aspects necessary to consider when making a sourcing or supply decision (Carter 1999). Information and technology can be expected to continue playing a crucial role in supply chain management decisionmaking in the future.

5.6.2 Continuous improvement requirements

Strict customer requirements and intensifying competitive markets require continuous improvement across all major performance categories. This includes a variety of improvement targets that supply organisations expect to achieve in the years ahead:

- There will be continuous improvement in internal and external cycle time, cost, quality and delivery performance.
- The reduction of time, specifically during product and process development will become increasingly important.

Continuous improvement expectations make the contribution of supply management crucial to the longer-term success of the organisation. Purchasing, sourcing and supply approaches, policies and practices must be linked to and support continuous business improvement targets (Monczka et al 2002). The pressure of continuous improvement with regard to cycle time, quality cost and delivery performance is expected to continue in the future.

5.6.3 Lean thinking

Increasingly more organisations are adopting the lean management style to ensure successful implementation of the supply chain management approach. Lean principles and practices were originally used by the Japanese Automotive System and typically associated with manufacturing. However, lean thinking is highly relevant to supply chain management in both manufacturing and service organisations (Gordon 2002).

Lean thinking is a way of improving processes in order to maximise value and eliminate waste. Lean thinking has the following main goals: (1) focus on the customer's needs; (2) build what is already sold; (3) supply what is consumed; (4) simplify the flow of materials and production; and (5) promote flexibility in response and production (Noë 2001). The results of applying lean thinking both to organisations and supply chains include shorter cycle times, lower costs and better quality. As customers and suppliers work together as an extended enterprise, they function together efficiently and seamlessly. In order to maximise each other's business contribution to the end customer and to deliver on time and with the best cost and quality, waste is eliminated from the supply chain (Gordon 2002).

Lean thinking inevitably leads to the establishment of the lean organisation. Lean organisations will typically manage their business by focusing attentively on a number of key processes running cross functionally across the organisation (Hines 2002). This management style is in contrast to the traditional functional approach adopted in mass production. Lean supply

organisations will adopt flatter forms with less emphasis on hierarchy and less distinction between position. Functional silos will become obsolete. The traditional functions of marketing, engineering, purchasing, finance and personnel will become less important (Carter 1995).

As a result, staff from the different functions is encouraged to focus on the key goals of the company rather than traditional narrow functional targets. This allows for (1) the avoidance of functional optimisation at the expense of company optimisation, and (2) cross functional buy-in to decision making and implementation. While the number and description of these cross functional processes vary among companies, the three most important qualities are invariably quality, cost, and delivery, with the latter usually divided between new product delivery and existing product delivery (Hines 2002).

Fundamental restructuring and re-engineering will become a way of life in most lean-oriented organisations. The primary focus will be new market-driven emphasis on creating value for customers, as well as greatly increased flexibility, and a new business-driven attack on global markets which includes deployment of information technology and fundamentally new jobs (Carter 1995).

5.6.4 A values-based infrastructure

Obtaining supply chain management objectives to the advantage of all organisations involved in a supply chain is difficult. It becomes an obstacle when a vast array of ethical frameworks across the globe are involved

(Crowder 1998). The manner in which supply personnel respond to an ethical situation is determined by four variables:

- (1) *Organisational environment.* Every organisation has an informal or formal set of accepted ethical behaviour or norms. These norms may, however, differ from one business to the next, and even from manager to manager.
- (2) *Personal experience.* Each supply employee's personal experience will affect his or her personal moral and ethical beliefs about what is right and wrong.
- (3) *Cultural environment.* Society has a huge effect on the ethical perspective of a supply organisation or employee. Certain behaviour may be accepted in one culture, but totally unacceptable in another. The cultural environment might have the strongest influence on behaviour, especially through laws and regulations applicable to the organisation, and thus to the employee.
- (4) *Industry environment.* Accepted or common practices in an industry also define acceptable boundaries of behaviour for a supply organisation or employee (Monczka et al 2002).

A supply chain necessitates the formulation of a generally accepted set of ethical norms to which the organisations (and employees) involved can align their different frames of reference and value systems (Crowder 1998). This enables a supply chain to define the boundaries of ethical behaviour, thereby identifying common principles associated with appropriate versus inappropriate actions, moral duty and obligation to which the supply chain can

conform. Moral and ethical issues are expected to receive more attention in supply chains of the future.

5.6.5 The greening of supply chain management

The emphasis placed on environmental issues will increase even more as the pressure on supply chains to be more responsive to environmental concerns increases (Crowder 1998). Changes in the state of the environment, leading to subsequent public pressure and environmental legislation have necessitated a fundamental shift in manufacturing business practices. No longer is it acceptable or cost effective to consider only the local and immediate effects of products and processes; it is now imperative to analyse the entire life-cycle effects of all products and processes.

Therefore, the traditional structure of the supply chain must therefore be extended to include mechanisms for product recovery. This extension presents an additional level of complexity to supply chain design and analysis; more specifically, the addition of the product recovery mechanism gives rise to numerous issues affecting strategic and operational supply chain decisions. Consequently, the extension of the traditional supply chain requires the establishment and implementation of new performance measurement systems based on continuous improvement that will enable organisations to become and remain competitive while achieving sustainable processes (Beamon 1999).

5.7.6 Virtual supply chain management

Virtual supply chain management is a further development of the evolving supply chain management concept. Changing global market conditions are forcing organisations to constantly redesign and reconstruct supply chains in order to meet consumer expectations (Carter 2001). Rapid changes in technology will generate quick changes in products and services. The opportunities for profit will be short - hence the time needed to pull products and services through the supply chain to the ultimate consumer should be minimal.

A supply chain network comprises the physical element (physical supply chain) and the information element (information supply chain). In a physical supply chain, the resource flow and value of entities are added by the successive elements of designers, suppliers, carriers, fabrication sites and distribution centres. However, the information supply chain is of utmost importance in order to meet consumer expectations more responsively.

This implies that participants in the supply chain network must create an environment in which information flows freely between the business functions within an organisation, as well as across business boundaries. This enables the supply chain to respond accurately to customers' demands with minimised inventory levels enhancing efficiency levels with reduced labour costs and faster lead times, providing flexibility of destination choice and product presentation. This is executed under tight control, coordination and

synchronisation with the use of expert information and telecommunication systems (Lau & Lee 2000).

Virtual supply chain management includes the importance of sharing knowledge and intellect in creating value, where electronic data interchange, e-mail, the Internet and the World Wide Web plays a vital role (Graham & Hardaker 2000). This is possible through the establishment of intra-organisation communication in which all relevant information (contracts, supplier database, and so forth) is available by using an Intranet facility, with the appropriate security and authorisations in place. Information between organisations is shared via interorganisation communication, by utilising the Internet. Again, the appropriate security is implemented to prevent unauthorised viewing of data, protect intellectual property rights and authenticate senders (Carter 1999).

Virtual supply chain management thus allows intra-organisational and inter-organisational supply chain management groups from across the globe to direct and coordinate activities relating to the supply chain by interacting only through electronic mobility (Crowley 2000). This evolves into towards online business communities, simplifying the timeous and expensive distribution channels of the past (Van Hoek 2001). It is clear that virtual supply chain management dramatically changes supply markets. Purchasers have information on potential suppliers from around the globe and can do online supplier evaluation. Similarly, suppliers have information on all sources of potential demand. Organisations continue to enter into long-term partnerships,

but are able to meet purchaser demand with supply capacity at the lowest possible prices efficiently and effectively (Carter 1999).

The next decade might bring change beyond the expectations of supply management professionals. The manner in which they plan for and adapt to the future developments in supply chain management will determine the efficiency and effectiveness of supply organisations to come.

5.7 SUMMARY

Chapter 5 endeavoured to explain supply chain management and its related concepts, by firstly defining supply chain and supply chain management. A supply chain is defined as a series of linked stages (or organisations) involved in the manufacturing and distribution of a certain product/service aimed at satisfying end consumers' needs, managed according to an integrated management philosophy, creating value through a constant flow of information, materials and funds.

Supply chain management can be regarded as the enabler of organisations to identify formal processes to integrate all activities associated with the flow of goods from extraction to the final consumer by strategically establishing inter-business collaboration and information sharing, with the emphasis on value-added activities and total cost savings.

The basic objectives of supply chain management were established as achieving customer satisfaction, adding value, and increasing the profitability

and competitive advantage of the supply chain as a whole, and for the individual organisations that it comprises. The principles and activities of supply chain management were also covered. It was documented that the principles and activities are the building blocks of the successful implementation of supply chain management.

According to trends in supply chain management, the next decade will bring change beyond the expectations of supply management professionals. The manner in which they plan for and adapt to the future developments in supply chain management will determine the efficiency and effectiveness of supply organisations to come.

This concludes the literature research part of this study. A summary of conclusions on the information contained in chapters 2, 3, 4 and 5 will be drawn in chapter 7.

The empirical research aimed at testing the level of sophistication of the purchasing, sourcing and supply management approaches used by wholesalers in South Africa, is outlined in chapter 6.

CHAPTER 6

EMPIRICAL RESEARCH AND RESULTS

6.1	INTRODUCTION
6.2	PROBLEM STATEMENT
6.3	RESEARCH OBJECTIVES
6.4	RESEARCH METHOD
6.5	RESEARCH RESULTS
6.6	SUMMARY

6.1 INTRODUCTION

The previous chapters contained background information on wholesale management, purchasing management, strategic sourcing and supply chain management which form the essential topics of this study. The aim of this chapter is to outline the research methodology and results of the empirical study.

The chapter starts by revisiting the problem statement and research objectives. A discussion of the research method is also included. The results of the statistical analysis will also be discussed.

6.2 PROBLEM STATEMENT

Intense global competition, the information revolution and more sophisticated customers are but a few of the factors that have compelled many businesses to find new and better ways to manage their purchasing, sourcing and supply activities. As a result, purchasing evolved from a transaction-based function,

focused on unit costs to a strategic cross functional process that manages the total cost of the supply chain (Darrow 2000:1).

Wholesalers find themselves in the middle of supply chain networks, providing a critical link between manufacturers and retailers. Manufacturers cannot afford to deal directly with the thousands of small retailers because of the costs involved in selling small quantities and the resultant low profits for manufacturers (Lamb et al 2002). Wholesalers also perform vital services for retailers and other organisations. Hence, they play a pivotal role in the management of purchasing, sourcing and supply activities of the whole supply chain. Adapting to the supply chain management approach may dramatically influence the efficiency and effectiveness of wholesalers and can mean the difference between success and failure. It can also determine the continued existence of a wholesaler in the supply chain.

The probable advantages ultimately benefiting the wholesaler from the efficient adaption to supply chain management are infinite. The question is: *Have South African wholesalers adapted to the new demands and developments, specifically with regard to their approach to managing their purchasing, sourcing and supply function?* In other words - do South African wholesalers play their rightful role in modern supply chain networks?

6.3 RESEARCH OBJECTIVES

The research objectives were divided into one primary and four secondary objectives as outlined below.

6.3.1 Primary objective

The primary objective of this study is to determine to what extent wholesalers in South Africa have adapted to new demands and developments in managing their purchasing, sourcing and supply function.

6.3.2 Secondary objectives

The secondary objectives of this study are to

- investigate the scope of wholesaling, with reference to the global and South African context
- investigate the concepts of and the evolution of purchasing to strategic sourcing as part of the broader supply chain management approach
- analyse the scope and concept of supply chain management
- determine the purchasing, sourcing and supply management approaches used by the wholesale sector in South Africa

The literature study ensured that the first three of the secondary objectives was achieved. The empirical study will help to determine what purchasing, sourcing and supply chain approaches are used by wholesalers in South Africa.

6.4 RESEARCH METHOD

The aim of the empirical research is to determine if, and to what extent, South African wholesalers have adapted to new approaches in managing their purchasing, sourcing and supply functions.

6.4.1 Justification for research method used

The study is by nature descriptive and explorative, and contains quantitative and qualitative elements. There are two reasons for this approach: (1) crucial elements of the study are based on existing research and secondary data on wholesaling and the purchasing, sourcing and supply approaches; and (2) primary sources had to be explored to determine the level of sophistication of the purchasing, sourcing and supply management approaches currently employed by South African wholesalers.

6.4.2 Phases of the study

The study was conducted in several phases. *Firstly*, literature research was initiated to gather and integrate secondary data to (1) expound definitions, importance, types, activities and trends of South African wholesalers, and (2) investigate the development of purchasing to strategic sourcing and evolution of supply chain management, and to give an overview of purchasing, strategic sourcing and supply chain management. *Secondly*, a questionnaire was compiled containing all the relevant issues identified by the literature studies to enable the researcher to establish how far South African wholesalers have advanced in adopting new approaches to managing the purchasing, sourcing and supply function. This questionnaire was pretested on two respondents to verify its validity, before proceeding to the next step.

Thirdly, a letter and the refined and tested questionnaire were mailed to all the wholesalers identified to be involved in the survey, informing them of the research study and soliciting their cooperation. The letter requested the participants to return the questionnaire via facsimile. *Fourthly*, after the date of

return of these questionnaires had lapsed, additional questionnaires were faxed to all the respondents who had not completed the original questionnaire in order to improve the response rate.

6.4.3 Research instrument

Section 1 of the questionnaire contains questions pertaining to general information on the wholesale operation. Section 2 encloses questions to abstract data regarding the purchasing, sourcing and supply management approaches used by wholesalers. This is done by questioning to what extent various purchasing, sourcing and supply activities are performed in the wholesale organisation, as well as determining to what extent various statements on purchasing, sourcing and supply management are applicable to the wholesale organisation.

A copy of the questionnaire is attached as Addendum A. A detailed discussion on the results of the study is included in this chapter. The conclusions and recommendations are contained in chapter 7.

6.4.4 Research population

The questionnaire was posted to a sample, constructed from a database compiled by the Bureau of Marketing Research at the University of South Africa (2001).

This database includes a list of 5 104 wholesalers. Table 6-1 illustrates the number of wholesalers included in the database by Standard Industrial

Classification (SIC). This constitutes the primary activity of the establishments.

TABLE 6-1
NUMBER OF WHOLESALERS BY SIC CODE

TYPE OF TRADE	SIC CODE	RECORDS
Agricultural	61210	338
Foodstuffs	61221	400
Beverages	61222	119
Tobacco products	61223	34
Textiles, clothing and footwear	61310	381
Furniture, household requisites and household appliances	61391	232
Books and stationery	61392	72
Precious stones, jewellery and silverware	61392	102
Pharmaceuticals and toiletries	61394	198
Household goods	61399	318
Solid, liquid and gaseous fuels and related products	61410	180
Metal and metal ores	61420	35
Construction materials, hardware, plumbing, heating equipment and supplies	61430	790
Intermediate products, waste and scrap	61490	140
Office machinery and equipment, including computers	61501	317
Machinery, equipment and implements for industrial and business purposes	61509	1 107
General dealers	61901	341
TOTAL		5 104

Source: Bureau of marketing research (2001)

Fifty of the 5 104 wholesalers were situated outside South Africa, and were eliminated from the population because this study focuses exclusively on South African wholesalers. This brought the total number of wholesalers situated in South Africa involved in the sampling frame to 5 054.

Probability sampling was used because the database ensured that each member of the population had the same chance of being included in the sample. By utilising simple random sampling, every fourth wholesaler was chosen to be included in the sample.

This ensured that the sample constituted approximately 1 289 wholesalers situated in South Africa. Once all the phases of the study had been completed a total of 134 questionnaires were received - of which only 103 were usable. This ensured a response rate of 7.9%.

6.5 RESEARCH RESULTS

The purpose of this section is to present the results of the empirical research conducted to achieve those objectives of the study, as set out in section 6.3, which were not achieved during the literature research. This will be done by explaining the results in the same structure as the questionnaire.

Section 6.5.1 will provide a profile of the responding wholesalers in terms of general information pertaining to the wholesale operations. Thereafter section 6.5.2 will reflect the result of the purchasing, sourcing and supply management approaches used by these wholesalers.

6.5.1 Profile of the responding wholesalers

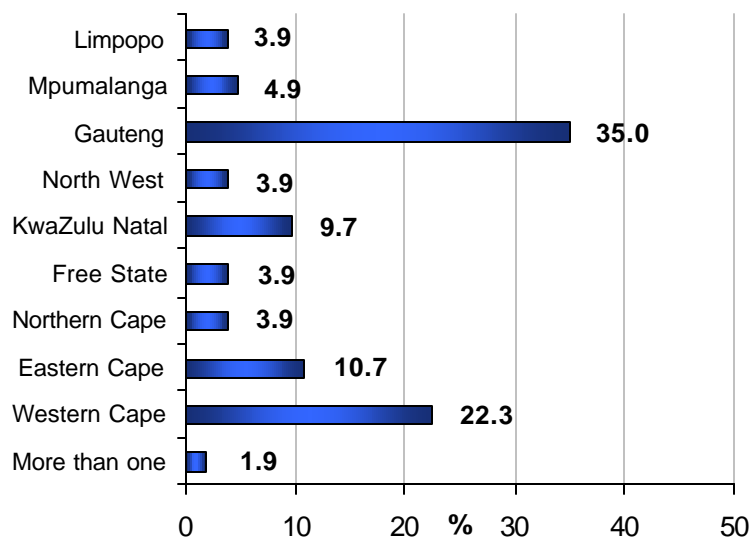
The results pertaining to the general information on wholesalers as in section 1 of the questionnaire (see addendum A) will be outlined in this section.

6.5.1.1 Location of the wholesaling operations

Figure 6-1 below shows the percentage of respondents located in each of the nine provinces of South Africa. Most respondents are located in Gauteng (35%), the Western and Eastern Cape (22.3% and 10.7% respectively). An almost equal split was obtained for the other provinces.

FIGURE 6-1

LOCATION OF WHOLESALERS (n = 103)



6.5.1.2 Standard Industrial Classification of the wholesalers

The Standard Industrial Classification of the wholesale organisations is given in table 6-2 below. The table includes the type of trade categories regarded by the respondents as either primary or secondary activity classifications.

TABLE 6-2

**STANDARD INDUSTRIAL CLASSIFICATION OF THE PRIMARY AND
SECONDARY ACTIVITIES OF THE WHOLESALERS**

TYPE OF TRADE	SIC CODE	PRIMARY ACTIVITY		SECONDARY ACTIVITY	
		FREQUENCY	PERCENTAGE	FREQUENCY	PERCENTAGE
Agricultural	61210	9	8.74	5	4.81
Foodstuffs	61221	14	13.59	8	7.69
Beverages	61222	2	1.94	1	0.96
Tobacco products	61223	0	0	0	0
Textiles, clothing and footwear	61310	7	6.80	3	2.88
Furniture, household requisites and household appliances	61391	3	2.91	2	1.92
Books and stationery	61392	3	2.91	2	1.92
Precious stones, jewellery and silverware	61393	0	0	0	0
Pharmaceuticals and toiletries	61394	6	5.83	2	1.92
Household goods	61399	2	1.94	1	0.96
Solid, liquid and gaseous fuels and related products	61410	4	3.88	3	2.88
Metal and metal ores	61420	4	3.88	8	7.69
Construction materials, hardware, plumbing and supplies	61430	14	13.59	1	0.96
Intermediate products, waste and scrap	61490	1	0.97	0	-
Office machinery and equipment	61501	6	5.83	2	1.92
Machinery, equipment and implements for industrial and business purposes	61509	17	16.50	8	7.69
General dealers	61901	11	10.68	6	5.77
Total		103	100.00		
Missing		1			
Total		104			

Most of the responding wholesalers (16.5%) are classified as wholesalers whose primary activity relates to the category “Machinery, equipment and implements for industrial and business purposes (SIC code: 61509)”. This correlates well with the population as included in table 6-1, in which the largest number of wholesalers (1 107 out of 5 104 or 21%) was also classified in this category.

Secondly, 13.59% of the responding wholesalers regard their primary type of trade to be related to “Foodstuffs (SIC code: 61221)” and “Construction materials, hardware, plumbing and supplies” (SIC code: 61430), respectively. This percentage of the wholesalers (13.59%) classified by type of trade is more than that reflected by the 7.8% of wholesalers in the “Foodstuffs” category, and less than the 15.5% in the “Construction materials, hardware, plumbing and supplies” category in the population as indicated in table 6-1. Thirdly, general dealers (SIC code: 61901) encompass 10.68% of the responding wholesalers, correlating well with the 6.7% in the total population as in table 6-1. Interestingly, the only category with a relatively high occurrence as a secondary type of trade in comparison with its status as a primary type of trade was the “Metal and metal ores” category (SIC code: 61420).

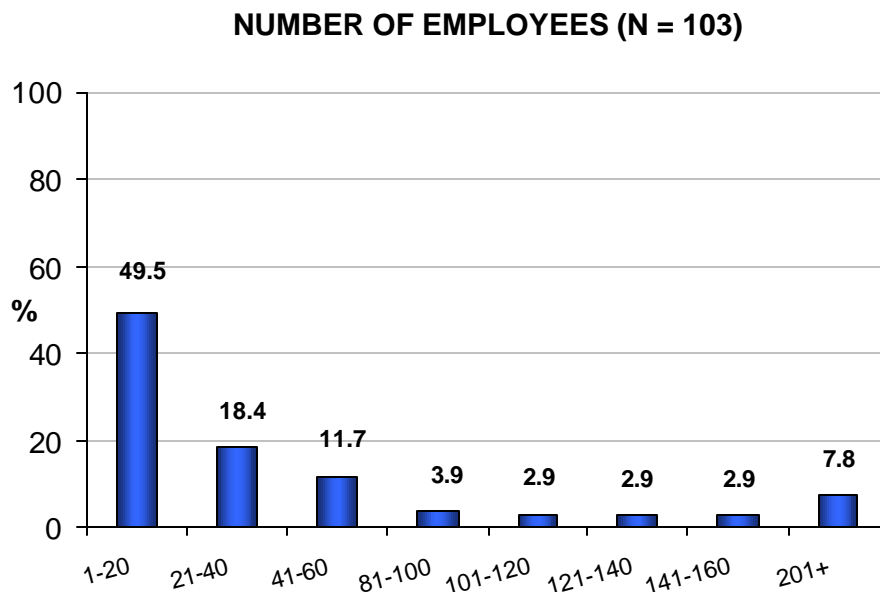
Overall the average percentage of the respondents in the various categories compares well with that of the total population, and the respondents were spread well among the various types of trade, thereby ensuring that this study does not just focus on one portion of the wholesale sector in South Africa. The importance of the types of trade mentioned as primary activity are reflected by

the high percentage of respondents indicating that, although it might not be their primary activity, they consider it to be a secondary activity – especially pertaining to “Foodstuffs” and “Machinery, equipment and implements for industrial and business purposes.”

6.5.1.3 Size of the wholesalers

The size of the wholesalers, measured in terms of number of employees, is illustrated in figure 6-2.

FIGURE 6-2



Most of the responding wholesalers (49.5%) have between 1 to 20 employees. It is clear from figure 6-2 that approximately 80% of all the responding wholesalers have less than 60 employees in their organisations. It could therefore be reasoned that this study is largely focussing on small- and medium-sized wholesalers. It is important to note, however, that 7.8 % of the wholesalers had more than 200 employees – making it impossible to

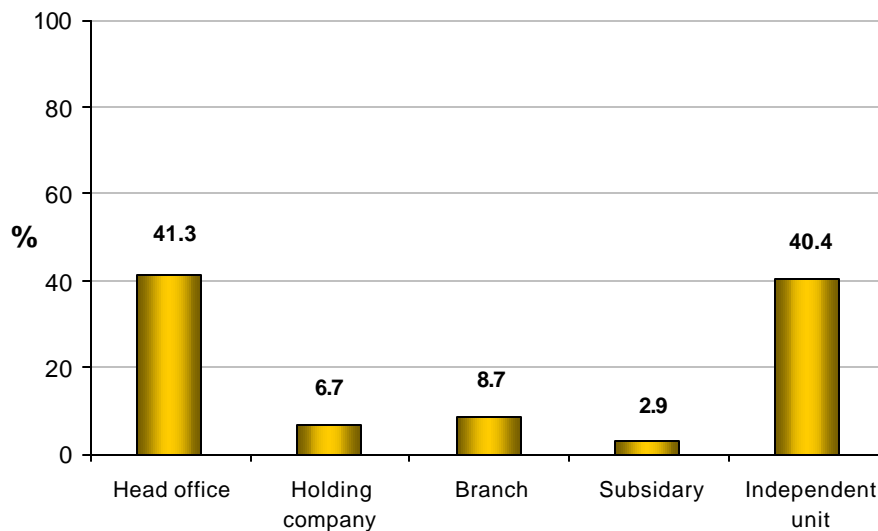
generalise the findings as being only applicable to small- and medium-sized wholesalers.

6.5.1.4 Status of the wholesalers

Figure 6-3 represents the status of the wholesale operations. Most are either head offices (41.3%) or independent companies (40.4%). Of the remaining wholesale operations, 8.7% are branches, 6.7% holding companies and 2.9% subsidiaries.

FIGURE 6-3

STATUS OF RESPONDING WHOLESALERS (n = 104)



6.5.1.5 Wholesale functions performed by the wholesalers

The wholesale functions performed by the wholesale operations in the supply chain are illustrated in table 63. It is clear from the table that the function performed by most of the responding wholesale organisations (92.3%) in the supply chain is the buying and selling of goods. Secondly, 54.4% of the responding wholesalers negotiate with suppliers/manufacturers of various

products. Of the respondents, 51.5% own and hold inventories at own risk and 46.6% provides credit facilities to retailers/users.

More than 20% of the responding wholesalers also transport bulk to customers; increase market coverage of manufacturers; break bulk in different assortments; perform warehousing in the functions in supply chain; transport bulk from suppliers; and provide training assistance to clients. Providing management assistance to clients, as well as management assistance and training assistance to suppliers, is relatively seldom undertaken by the responding wholesalers.

TABLE 6-3

WHOLESALE FUNCTIONS PERFORMED BY WHOLESALE ORGANISATIONS IN THE SUPPLY CHAIN (n = 104)

	FREQUENCY	PERCENTAGE
Buys and sells goods	96	92.31
Negotiates with suppliers/manufacturers or various products	56	54.37
Owns and holds inventories at own risk	53	51.46
Provides credit facilities to retailers/users	48	46.60
Transports bulk to customers	33	31.73
Increases market coverage of manufacturers	30	29.13
Breaks bulk in different assortments	28	27.18
Performs warehousing functions in supply chain	27	26.21
Transports bulk from suppliers	25	24.27
Provides training assistance to clients	21	20.39
Provides management assistance to clients	11	10.68
Provides management assistance to suppliers	6	5.83
Provides training assistance to suppliers	4	3.88
Other	4	3.85

Table 6-4 reflects the difference between the wholesale functions performed by the wholesalers grouped by status when a Chi-square test was applied. It is clear that there is a difference between these status groups and the functions it performs.

TABLE 6-4

**COMPARISON OF WHOLESALERS GROUPED BY STATUS AND THE
WHOLESALE FUNCTIONS PERFORMED IN THE SUPPLY CHAIN**

	CHI-SQUARE	SIGNIFICANT DIFFERENCE
Buys and sells goods	1.53	0.674
Negotiates with suppliers/manufacturers of various products	3	0.392
Increases market coverage of manufacturers	5.04	0.168
Performs warehousing functions in supply chain	6.60	0.086
Owens and holds inventories at own risk	1.53	0.675
Provides credit facilities to retailers/users	9.15	0.027
Transports bulk from suppliers	0.94	0.814
Transports bulk to customers	0.80	0.823
Provides management assistance to suppliers	13.56	0.004
Provides management assistance to clients	12.05	0.007
Provides training assistance to suppliers	5	0.171
Provides training assistance to clients	7.33	0.062
Breaks bulk in different assortments	8.88	0.032

The responses of the status of each wholesale operation were examined to determine where these statistically significant differences exist, between either head offices, holding companies, branches, subsidiaries or independent units, on each of the significant wholesale functions. It is obvious that the different status groups of wholesalers vary significantly in executing the following activities: providing credit facilities to retailers and users; providing management assistance to suppliers and clients and breaking bulk in different assortments.

TABLE 6-5

PERCENTAGE OF THE WHOLESALERS GROUPED ACCORDING TO STATUS AND THE WHOLESALE FUNCTIONS THE GROUP PERFORMS

	Head office	Holding company	Branch	Subsidiary	Independent unit
	%	%	%	%	%
Buys and sells goods	95	86	89	33	98
Negotiates with suppliers/manufacturers of various products	53	57	78	100	46
Increases market coverage of manufacturers	35	0	44	33	24
Performs warehousing functions in supply chain	35	14	44	33	15
Owns and holds inventories at own risk	53	43	67	67	46
Provides credit facilities to retailers/users	49	43	89	67	34
Transports bulk from suppliers	26	14	33	33	22
Transports bulk to customers	30	29	44	67	29
Provides management assistance to suppliers	0	1	2	3	4
Provides management assistance to clients	9	14	44	0	5
Provides training assistance to suppliers	7	14	0	0	0
Provides training assistance to clients	28	0	33	67	10
Breaks bulk in different assortments	14	14	33	33	41

These items were nonparametric in nature, as it included two measurement levels, including no = 0 and yes = 1. One was therefore permitted to do an analysis of variance (ANOVA) test to establish statistically significant differences, although the Chi-square test is the most technically correct. However, the ANOVA function does allow for a post hoc comparison to help identify between which of the groups (the head offices, holding companies, branches, subsidiaries or independent units) the differences actually exists.

With the application of a post hoc Bonferoni test the following interesting findings emerged (see table 6-5):

- All of the wholesalers (grouped according to status) primarily buys and sells goods, except for the subsidiary category – they primarily negotiate with suppliers/manufacturers of various products.
- Branches are more likely to increase market coverage for manufacturers, perform warehousing functions in the supply chain and give credit facilities to retailers or other users, than any other group of wholesalers (grouped according to status).
- All the different groups of wholesalers (grouped according to status) own and hold inventory at own risk.
- Branches and subsidiaries are more likely to transport bulk from suppliers and to clients than any other group of wholesalers (grouped according to status).
- Branches are more focussed on management and training assistance to clients, and holding companies are more likely to provide management and training assistance to suppliers.
- Independent units are more likely to break bulk than head offices.

6.5.1.6 Types of wholesaling organisations

Respondents were further asked to indicate which descriptions best suit their organisation, based on the wholesale functions it performs. The respondents were allowed to indicate more than one description.

TABLE 6-6

**TYPE OF WHOLESALE ORGANISATION BASED ON WHOLESALE
FUNCTIONS PERFORMED**

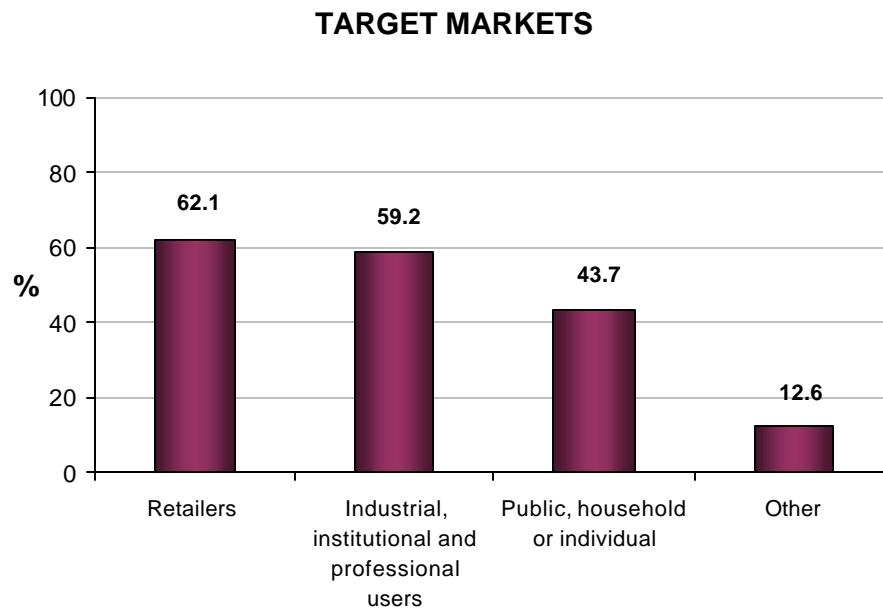
	Frequency	Percentage
Industrial distributors	37	35.92
Manufacturer's agent	37	35.92
Selling agent	28	27.18
Importers and exporters	22	21.36
Cash-and-carry	19	18.45
Farm product assemblers	8	7.77
Other	8	7.77
Purchasing agent	8	7.77
Merchandise broker	5	4.85
Commission merchant	2	1.94
Export agent	1	0.97
Mail-order wholesaler	1	0.97
Truck jobber	1	0.97
Auction company	0	0
Rack jobber	0	0

It is clear from table 6-6 that the respondents in this study comprised of 35.92% industrial distributors and manufacturer's agents, respectively, 27.18% selling agents, 21.36% importers and exporters and 18.45% cash-and-carry wholesalers. In this respect the sample was not representative of the population.

6.5.1.7 Target markets of the wholesalers

In response to the question on target markets, the wholesalers could indicate more than one option, resulting in the percentages provided in figure 64 not adding up to 100%. Most respondents (62.1%) provide products to retailers, while 59.2% of them trade with industrial, institutional and professional users.

FIGURE 6-4



The results pertaining to the wholesaler's target markets again emphasise the vital role wholesalers' play in the supply chain (see figure 2-1), especially as a link between retailers and manufacturers, as well as the role of consolidator between manufacturers and the public.

This concludes the results of section 1 of the questionnaire pertaining to the general information on wholesaling operations in South Africa. It is obvious that most of the responding wholesalers are from Gauteng, the Western and Eastern Cape. The most frequent primary activity of these wholesalers relate to "Machinery, equipment and implements for industrial and business purposes." Most of the responding wholesalers have between 1 and 20 employees, and are categorised as either head offices or independent companies.

These wholesalers primarily buy and sell goods; negotiates with suppliers/manufacturers; own and hold inventory and provide credit facilities to retailers and other users. Accordingly, the bulk of the wholesalers classify themselves as industrial distributors and manufacturer's agents – servicing retailers; industrial, institutional and professional users; as well as the public (be it households or individuals).

6.5.2 Wholesaler's approach to purchasing, sourcing and supply management

Section 2 of the questionnaire (see addendum A) was compiled to measure the responding wholesale organisation's approach to purchasing, sourcing and supply management.

6.5.2.1 Do these wholesalers adapt to either a purchasing, sourcing or supply chain management approach?

In the first part of this section, the respondents had to indicate whether their wholesale organisation performs certain activities. These activities were based on secondary information gathered in the literature study and were incorporated as items in the questionnaire – section 2.1. If the organisation did perform the activity, they had to indicate to what extent it was performed on a three-point scale (from a lesser to a great extent).

For further analysis, the scale for these activities was transformed into four alternatives: no execution, execution to a lesser extent, some execution and execution to a great extent. Three categories, (1) purchasing management; (2) strategic sourcing; and (3) supply chain management, were then formed by grouping the typical activities - as listed in section 2.1 of the questionnaire - associated with each concept as established in the literature study. The

reliabilities of the three categories were then tested, before any further analysis was done, to ensure the reliability of any supplementary findings. The table below contains the items from section 2.1 of the questionnaire making up each category and the Cronbach's Alpha (internal consistency reliability) of each category.

TABLE 6-7

**INTERNAL CONSISTENCY RELIABILITY OF THE DIFFERENT
MANAGEMENT APPROACHES TOWARDS THE PURCHASING AND
SUPPLY FUNCTION: PURCHASING MANAGEMENT, STRATEGIC
SOURCING AND SUPPLY CHAIN MANAGEMENT**

Purchasing management Items in section 2:	Strategic sourcing Items in section 2:	Supply chain management Items in section 2
1	11	23
2	12	24
3	13	25
4	15	26
5	16	27
6	17	28
7	18	29
8	19	31
9	20	36
10	21	38
14	22	39
	30	40
	32	23
	33	24
	34	25
	35	26
	41	
	42	
	43	
Cronbach Alpha = 0.84	Cronbach Alpha = 0.91	Cronbach Alpha = 0.88

All three categories show high and satisfactory Cronbach's Alpha values of between 0.84 and 0.91. These values were created by obtaining a mean score for all the items (or activities) in section 2.1 of the questionnaire that make up a certain category and then allocating a mean score on each of the three categories (purchasing management, strategic sourcing and supply chain management) to each of the respondents. Further analysis on these categories can now be done.

TABLE 6-8

**DESCRIPTIVE INFORMATION ON THE DIFFERENT MANAGEMENT
APPROACHES TO THE PURCHASING AND SUPPLY FUNCTION:
PURCHASING MANAGEMENT, STRATEGIC SOURCING AND SUPPLY
CHAIN MANAGEMENT**

Factor	N	Minimum	Maximum	Mean	Std. Deviation
Purchasing management	103	0	3.00	1.70	0.75
Strategic sourcing	103	0	2.89	0.98	0.71
Supply chain management	103	0	2.92	1.05	0.72

The descriptive information depicted in table 6-8 show that the tactical purchasing management approach has the highest mean score of the three categories (1.70). This indicate that the responding wholesale operations in South Africa are clearly performing the activities associated with the traditional purchasing approach to a greater extent than that of the strategic sourcing (mean = 0.98) or supply chain management (mean (0 = 1.05) approaches.

The three categories (purchasing management, strategic sourcing and supply chain management) correlate positively with one another as depicted in table 6-9. The positive correlations indicate that when one of the categories

(purchasing management, strategic sourcing and supply chain management) tends to be high the others also tend to be high. This correlation makes sense because a wholesale operation that adopts strategic sourcing will also make use of many tactical purchasing activities, and the fewer tactical purchasing activities a wholesaler employs, the less likely it is to participate in any strategic sourcing activities.

Hence, although the supply chain management factor correlates significantly with both the tactical and strategic categories, it has a particularly high correlation with the strategic sourcing factor with a Pearson coefficient of 0.86. This again emphasises the fact that strategic sourcing forms an integral part of the supply chain management approach.

TABLE 6-9

**CORRELATION BETWEEN THE CATEGORIES: PURCHASING
MANAGEMENT, STRATEGIC SOURCING AND SUPPLY CHAIN
MANAGEMENT**

		Purchasing management	Strategic sourcing	Supply chain management
Purchasing management	Pearson correlation Sig. (2-tailed) N	1.00 103		
Strategic sourcing	Pearson correlation Sig. (2-tailed) N	0.64 0.000 103	1.00 103	
Supply chain management	Pearson correlation Sig. (2-tailed) N	0.56 0.000 103	0.86 0.000 103	1.00 103

An analysis of variance (ANOVA) was also performed to compare the differences between the wholesalers, grouped according to status (excluding subsidiaries due to small sample size) in terms of the categories (purchasing management, strategic sourcing and supply chain management).

FIGURE 6-5

MEAN SCORES OF EACH OF THE STATUS CATEGORIES OF THE WHOLESALEERS ON THE THREE CATEGORIES: PURCHASING MANAGEMENT, STRATEGIC SOURCING AND SUPPLY CHAIN MANAGEMENT

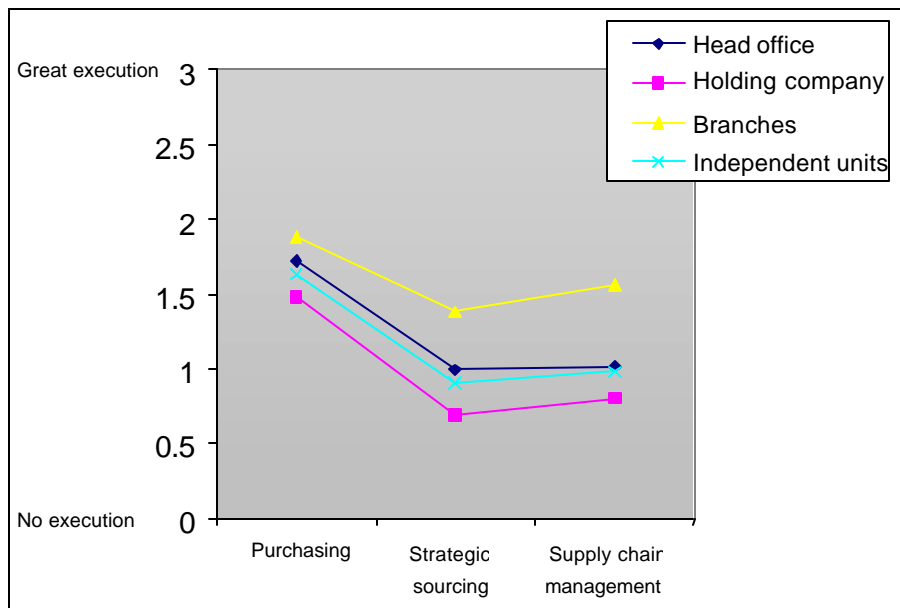


Figure 6-5 above shows that there does not appear to be a large difference in the various status categories and the scores on the purchasing categories. This is confirmed by the f-test as seen in table 6-10 below.

TABLE 6-10

**DIFFERENCES BETWEEN THE STATUS CATEGORIES OF THE
WHOLESALEERS ON THE THREE CATEGORIES: PURCHASING
MANAGEMENT, STRATEGIC SOURCING AND SUPPLY CHAIN
MANAGEMENT**

	F	Sig.
Purchasing	0.47	0.704
Strategic sourcing	1.60	0.194
Supply chain management	1.92	0.131

The status of a wholesaler does therefore not appear to have an influence on the type of approach adopted in the management of their purchasing, sourcing and supply chain activities.

Another variable that may influence the use of a more strategic management approach towards the purchasing, sourcing and supply function is the size of the company. Once again the sample size in each category of the number of employees in the wholesale organisations is not equal and some small base sizes are observed. To facilitate a more stable statistical analysis and sound interpretation, some of the categories were collapsed to create the following: (1) 1-20 employees; (2) 21-40 employees; (3) 40-100 employees; and (4) 101+ employees.

TABLE 6-11

DIFFERENCES BETWEEN THE SIZE OF THE WHOLESALERS AND THE CATEGORIES: PURCHASING MANAGEMENT, STRATEGIC SOURCING AND SUPPLY CHAIN MANAGEMENT

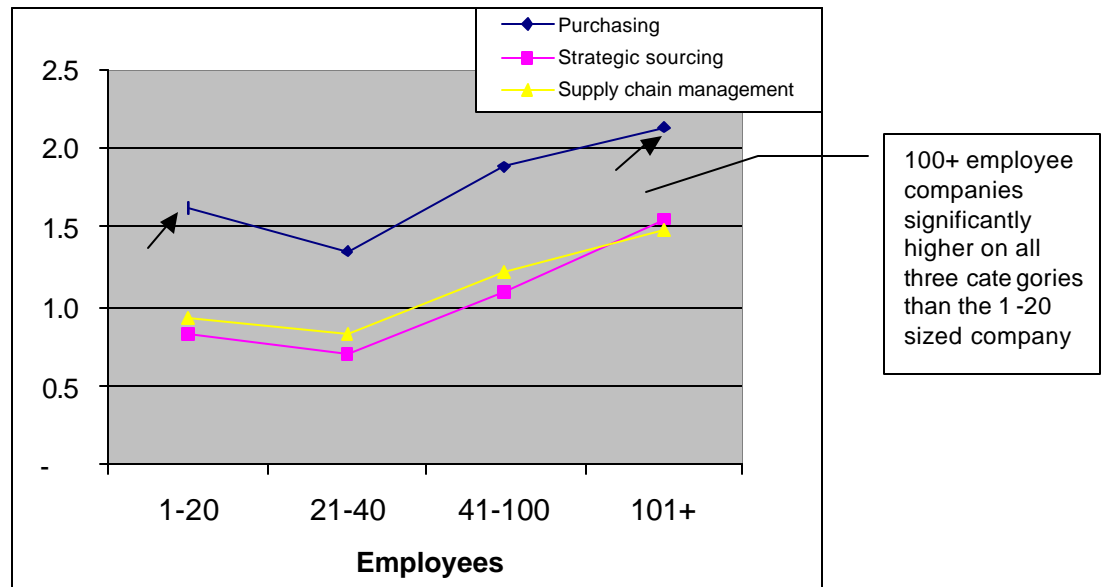
	F	Sig.
Purchasing management	4.51	0.005
Strategic sourcing	7.63	0.000
Supply chain management	4.23	0.007

These four groups were compared by means of an ANOVA, and significant differences were found as illustrated by figure 6-6. The large wholesaler organisations appeared to score significantly higher on all three categories (purchasing management, strategic sourcing and supply chain management) than the small wholesale organisations with less than 20 employees.

It therefore stands to reason that the larger wholesale organisations appears to implement the purchasing, strategic sourcing and supply chain management approaches more effectively than their smaller counterparts.

FIGURE 6-6

**MEAN SCORES OF EACH SIZED WHOLESALER ON THE CATEGORIES:
PURCHASING MANAGEMENT, STRATEGIC SOURCING AND SUPPLY
CHAIN MANAGEMENT**



The last variable to be compared with the three categories was the primary activities of the wholesalers. This was done to establish whether the primary activity of the wholesalers plays a role in the management approach followed in regards to their purchasing, sourcing and supply chain function. No statistically significant differences were observed at the 0.05 level between any of the primary activities of the wholesalers and the extent to which they adapt to the different categories as exhibited in table 6-12.

TABLE 6-12

**DIFFERENCES BETWEEN THE PRIMARY ACTIVITY OF THE
WHOLESALE AND CATEGORIES: PURCHASING MANAGEMENT,
STRATEGIC SOURCING AND SUPPLY CHAIN MANAGEMENT**

	F	Sig.
Purchasing	0.87	0.532
Strategic sourcing	1.03	0.419
Supply chain management	1.91	0.080

The primary activity of a wholesaler does therefore not appear to have an influence on the type of approach adopted in the management of their purchasing, sourcing and supply chain activities.

It was established in this section that traces of all three categories (purchasing management, strategic sourcing and supply chain management) can simultaneously be found in one wholesale organisation. However two aspects merits reference: (1) overall, the most wholesale organisations in this research study are adopting the tactical purchasing management approach; and (2) the supply chain management category correlated substantially with the strategic sourcing factor implying that wholesale organisations who implement the strategic sourcing approach will therefore be more likely to adapt to the supply chain management approach than those organisations still functioning on the tactical purchasing level.

6.5.2.2 What is the level of sophistication with which wholesalers perform their purchasing, sourcing and supply chain activities?

It is therefore imperative to determine the level of sophistication with which wholesalers perform their purchasing, sourcing and supply chain activities. To achieve this, question 2.2 in section 2 of the questionnaire (see addendum A) incorporated statements to which the respondent had to indicate whether it was applicable to his or her wholesale operation or not. If the statement was applicable to the wholesaler, they had to indicate to what extent it is performed on a three-point scale (from a lesser to a great extent). Here, only two categories were created - one based on tactical aspects and the other on strategic aspects. Table 6-13 contains the items in each category and the Cronbach's Alpha value (internal consistency reliability) of each category. This was determined to ascertain that further analysis can be done on these categories

TABLE 6-13

**INTERNAL CONSISTENCY RELIABILITIES OF THE CATEGORIES:
TACTICAL AND STRATEGIC STATEMENTS**

Tactical	Strategic
Items in section 3:	Items in section 3:
1	2
3	4
5	6
7	8
9	10
11	12
13	14
15	16
17	18
19	20
21	22
23	24
Cronbach Alpha = 0.83	Cronbach Alpha = 0.87

Once again high and satisfactory Cronbach’s Alpha values were found (0.83 and 0.87), thus indicating a high internal reliability consistency within each of the categories.

TABLE 6-14

DESCRIPTIVE INFORMATION ON THE CATEGORIES:

TACTICAL AND STRATEGIC STATEMENTS

	N	Minimum	Maximum	Mean	Std. Deviation
Tactical	100	0	2.75	1.29	0.717
Strategic	100	0	3	0.89	0.733

If the descriptive information on the tactical and strategic statement categories is evaluated (see table 6-14), it is clear that the more tactical statements again scored higher than the strategic statements for the sample as a whole with a mean of 1.29, but no real correlation is seen between these two categories.

TABLE 6-15

CORRELATION BETWEEN THE TACTICAL AND STRATEGIC STATEMENTS

		Tactical
Strategic	Pearson correlation	0.19
	Sig. (2-tailed)	0.052
	N	100

No real correlation is seen between these two categories as depicted in table 6-15, indicating that a wholesaler is more likely to be one or the other, rather than having high scores on both or low scores on both. One of these two categories is therefore applicable to a particular respondent and these two categories are better at distinguishing the level of sophistication of the

wholesaler's management approach to its purchasing, sourcing and supply function.

An analysis of variance (ANOVA) was also performed to compare the differences between the wholesalers, grouped according to status (excluding subsidiaries due to small sample size) in terms of these categories (tactical and strategic statements).

TABLE 6-16

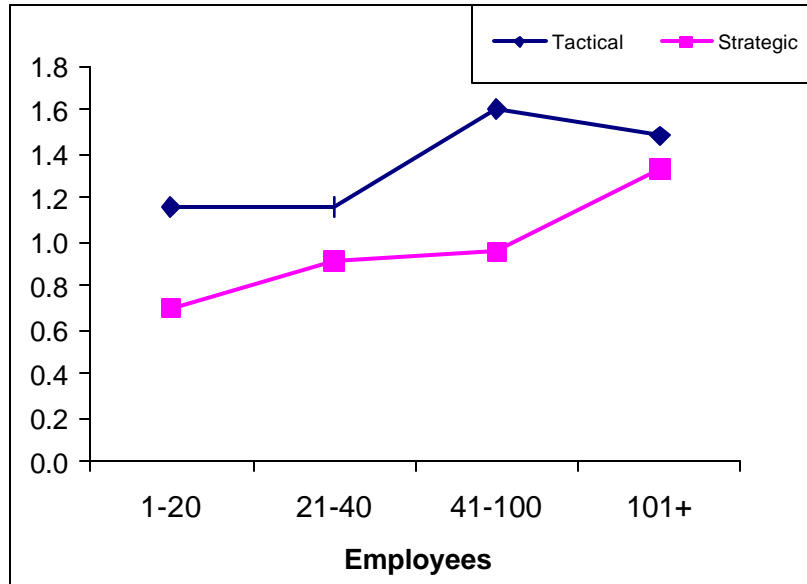
**DIFFERENCES BETWEEN THE STATUS CATEGORIES OF THE
WHOLESALEERS ON THE TWO CATEGORIES: TACTICAL AND
STRATEGIC STATEMENTS**

	F	Sig.
Tactical	0.32	0.812
Strategic	2.44	0.069

No significant differences were experienced between the mean scores of each of the status categories of wholesalers on the tactical and strategic statement categories (see table 6-16). It is thus clear that the status of a wholesaler does not influence the level of sophistication of its purchasing, sourcing and supply activities.

FIGURE 6-7

**MEAN SCORES OF EACH SIZED COMPANY ON THE CATEGORIES:
TACTICAL AND STRATEGIC STATEMENTS**



Looking at the mean scores of the different sized companies, as depicted in figure 6-7 above, it is clear that the tactical scores are much higher than the strategic scores. However, the larger companies have a much higher strategic score than the smaller wholesalers employing 1 – 20 people. This difference is statistically significant at the 0.05 level as can be seen from the ANOVA results in table 6-17 below.

TABLE 6-17

**DIFFERENCES BETWEEN THE DIFFERENT SIZED WHOLESALERS AND
THE CATEGORIES: TACTICAL AND STRATEGIC STATEMENTS**

	F	Sig.
Tactical	2.14	0.100
Strategic	3.86	0.012

It therefore stands to reason that the more employees wholesalers have, the more strategic their approach to their purchasing, sourcing and supply chain management function.

TABLE 6-18

**DIFFERENCES BETWEEN THE PRIMARY ACTIVITIES OF THE
WHOLESALE ORGANISATION AND THE CATEGORIES: TACTICAL AND
STRATEGIC STATEMENTS**

	F	Sig.
Tactical	0.56	0.789
Strategic	0.52	0.817

The primary activities of the wholesalers were also compared to the tactical and strategic statement categories. Once again only those with larger sample sizes were used. No difference was observed between the primary activity of the organisation and the scores on the tactical and strategic categories. Hence the primary activities of wholesalers have no effect on the level of sophistication of their approach to their purchasing, sourcing and supply chain management approaches.

This section established that most of the responding wholesale organisations are still employing tactical purchasing management approaches.

6.6 CONCLUSION

Chapter 6 outlined the research methodology of the empirical study by revisiting the problem statement as well as the primary and secondary research objectives. A discussion of the justification of the research method

used, the phases of the study, the research instrument and the research population was included.

The research results were then presented in a structure similar to the questionnaire that had been compiled - as included in Addendum A. The results of section 1 of the questionnaire pertaining to the general information on wholesaling operations in South Africa revealed the following: It is obvious that most of the responding wholesalers are from Gauteng, the Western and Eastern Cape. The most frequent primary activity of these wholesalers relate to “Machinery, equipment and implements for industrial and business purposes.”

Most of the responding wholesalers have between 1 and 20 employees, and are categorised as either head offices or independent companies. These wholesalers primarily buy and sell goods; negotiates with suppliers/manufacturers; own and hold inventory and provide credit facilities to retailers and other users. Accordingly, the bulk of the wholesalers classify themselves as industrial distributors and manufacturer’s agents – servicing retailers; industrial, institutional and professional users; as well as the public (be it households or individuals).

Section 2.1 of the questionnaire revealed that that traces of all three categories (purchasing management, strategic sourcing and supply chain management) can simultaneously be found in one wholesale organisation. However two aspects merits reference: (1) overall, the most wholesale organisations in this research study are adopting the tactical purchasing

management approach; and (2) the supply chain management category correlated substantially with the strategic sourcing factor implying that wholesale organisations who implement the strategic sourcing approach will therefore be more likely to adapt to the supply chain management approach than those organisations still functioning on the tactical purchasing level.

Section 2.2 of the questionnaire revealed that the more tactical statements again scored higher than the strategic statements for the sample as a whole, but no real correlation is seen between these two categories - indicating that a wholesaler is more likely to be one or the other, rather than having high scores on both or low scores on both. One of these two categories is therefore applicable to a particular respondent and these two categories are better at distinguishing the level of sophistication of the wholesaler's management approach to its purchasing, sourcing and supply function. It is therefore clear that although most of the responding wholesalers are employing a management approach to its purchasing, sourcing and supply activities it is still on a very tactical level of sophistication.

A summary of the literature and empirical study conclusions and appropriate recommendations for further study follow in chapter 7.

CHAPTER 7

A SUMMARY OF THE CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

7.2 CONCLUSIONS FROM THE LITERATURE STUDY

7.3 CONCLUSIONS FROM THE EMPIRICAL STUDY

7.4 RECOMMENDATIONS FOR FURTHER RESEARCH OPPORTUNITIES

7.1 INTRODUCTION

This research study was undertaken to determine to what extent wholesalers in South Africa have adapted to new demands and developments in their purchasing, sourcing and supply functions. Secondary to this objective was the need to (1) investigate the scope of wholesaling, with reference to the global and South African context; (2) investigate the concepts of and the evolution of purchasing to strategic sourcing as part of the broader supply chain management approach; (3) analyse the scope and concept of supply chain management; and (4) determine the purchasing, sourcing and supply management approaches used by the wholesale sector in South Africa.

Chapter 7 concludes this study by determining whether these objectives were met by summarising the information gathered and establishing what inferences can be made from it. Recommendations will then be made regarding further research opportunities.

7.2 CONCLUSIONS FROM THE LITERATURE STUDY

In this section the literature study will be summarised and the conclusions drawn highlighted according to the various objectives of the research study.

7.2.1 Wholesaling

The discussion in section 1.2.1 and chapter 2 examined wholesaling in detail and therefore complied with the first secondary objective as set out in this study, namely to investigate the scope of wholesaling in the global and South African context.

Section 1.2.1 contained a discussion of the development of wholesaling globally and in South Africa - emphasising the elongated development of the industry. The global development of wholesaling started in ancient times and developed through the Middle Ages and Commercial Era to be refined in the Industrial Revolution, when modern wholesaling emerged as a result of improved transportation, communication, organised banking and government attitudes. In South Africa, wholesaling evolved from the establishment of trade in the 1600s, through the discovery of gold in 1886 and the late 1900s to the formidable industry it is today – contributing a large portion of the gross domestic product. In spite of this, it was recognised that studies in this industry were still neglected.

The different concepts pertaining to wholesaling were also defined. A wholesaler was defined as a consolidator in the supply channel providing more than half of its purchases to other business organisations, and wholesaling as pushing manufactured products through the supply channel to

users, or pulling products from the manufacturers in response to the end users, for industrial, institutional and commercial purposes. Wholesale management entails planning, organising, leading and controlling wholesale operations to function as a link in the process in order to satisfy the needs of the end user or final customer by providing goods or services as per customer requirement.

The essence of wholesaling was established as the value-adding benefits a wholesaler provides with the purchasing and supply functions it performs for the suppliers of goods and customers it serves.

Chapter 2 emphasised that wholesalers play a vital role in supply channels by providing retailers (and other businesses) with products bought from manufacturers. From the discussion it was also clear that wholesalers perform vital activities (including buying, selling, negotiation, risk bearing, financing, warehousing, transportation and assistance to clients) which are part and parcel of supply chain management - aimed to add value and cut costs for suppliers and customers alike. The different types of wholesalers (also discussed in the chapter) thus represent an essential link in the supply channel. It was also concluded that the wholesaler faces several key challenges in the form of wholesaler consolidation, new types of wholesalers emerging, competition and technology and the integrated supply chain.

7.2.2 Strategic sourcing: a further development of the purchasing function

The second secondary objective - to investigate the concepts of and the evolution of purchasing to strategic sourcing as part of the broader supply chain management approach - was achieved in section 1.2.2, chapter 3 and chapter 4 of this study.

Section 1.2.2 contained an exposition of the evolution of purchasing to strategic sourcing, and put these concepts in perspective as an integral part of the supply chain management approach. This discussion can be concluded by referring to the outline depicted in figure 1-1.

A number of concepts of this field were also explained by reviewing the opinions of various researchers. The most important of these, purchasing management, strategic sourcing, supply chain and supply chain management were further discussed later in the study and will be dealt with shortly in this section.

The importance of purchasing, sourcing and supply management was underlined. It is clear that categories such as quality, competitiveness, cost and ultimately shareholder's wealth are greatly influenced by the purchasing, sourcing and supply management approach adopted by an organisation.

Chapter 2 focused on purchasing management as the organisation of all activities engaged in the acquisition of the correct goods or services from an external supplier in the most efficient and effective manner to be delivered to the right user (internal client of the organisation) at the right time. The objectives of purchasing management were highlighted as supporting the organisational object of obtaining the highest possible return (output) with the lowest possible use of production resources (input).

The purchasing cycle was discussed, and included the following steps: (1) identification and definition of the material or service needs; (2) description of the need; (3) investigation, evaluation and selection of the supplier; (4) preparation, placing and issuing the purchase order or contract; (5) following up the order; (6) receiving and inspection; (7) distribution; (8) supervising faulty consignments and rejections; (9) auditing the invoice; and (10) contract administration.

Tools that add value to the purchasing cycle was also discussed, specifically negotiations, electronic data interchange (EDI), logistics management, total quality management (TQM) and research.

Chapter 4 commenced with the scope and definition of strategic sourcing. It was concluded in this section that strategic sourcing can be regarded as a process whereby spending is analysed and categorised according to the importance and cost of the purchases, and the complexity of the supplier base. The supply base is then investigated to ensure that the correct relationship is formed with suppliers in the various categories of goods. The

strategic sourcing process is managed by cross functional teams according to best practices in support of strategic business objectives.

Six objectives of strategic sourcing were formulated. Strategic sourcing must support (1) organisational goals and objectives; (2) the development of integrated sourcing strategies that support organisational strategies; (3) operational requirements; (4) the development of strong relationships with other functional groups to understand the major needs of the user departments of the organisation; (5) the efficient and effective management of the sourcing process; and (6) the selection, development and maintenance of sources of supply.

A detailed list of activities of strategic sourcing was compiled by reviewing a variety of sources. This included activities relating to the management of crossfunctional teams; analysis of the total supply market; the evaluation of the current supply situation; arrangements and relationships of the supplier base; outsourcing decisions; long-term sourcing opportunities and economies of the supply chain; identifying total procurement spend and total cost opportunities of the supply chain; categorising products/services in terms of the importance and complexity of the market; formulate strategies by applying best practices for critical commodities of the supply chain; and applying continuous tracking and performance management of the partners in the supply chain.

From the discussion in chapters 3 and 4 it became clear that purchasing management developed from a purely administrative to a more strategic

function, known as strategic sourcing. It was also established that purchasing management is focused on a more tactical approach and that strategic sourcing is used by organisations which embrace an integrated management approach.

After a comparison of the purchasing and strategic sourcing management approaches (see table 4-1) it was concluded that the possibility exists that certain aspects of each approach are sometimes found in the same organisation.

7.2.3 Supply chain management: an analysis

The third secondary objective of this study required an analysis of the scope and concept of supply chain management. In chapter 5, after a detailed investigation, it was concluded that a supply chain can be defined as a series of linked stages (or organisations) involved in the manufacturing and distribution of a certain product/service aimed at satisfying end consumers' needs, managed according to an integrated management philosophy, and creating value through a constant flow of information, materials and funds (see figure 5-1).

Supply chain management was also defined as the enabler of organisations to identify formal processes to integrate all activities associated with the flow of goods from extraction to the final consumer by strategically establishing interbusiness collaboration and information sharing, with the emphasis on value-added activities and total cost savings (see figure 5-2).

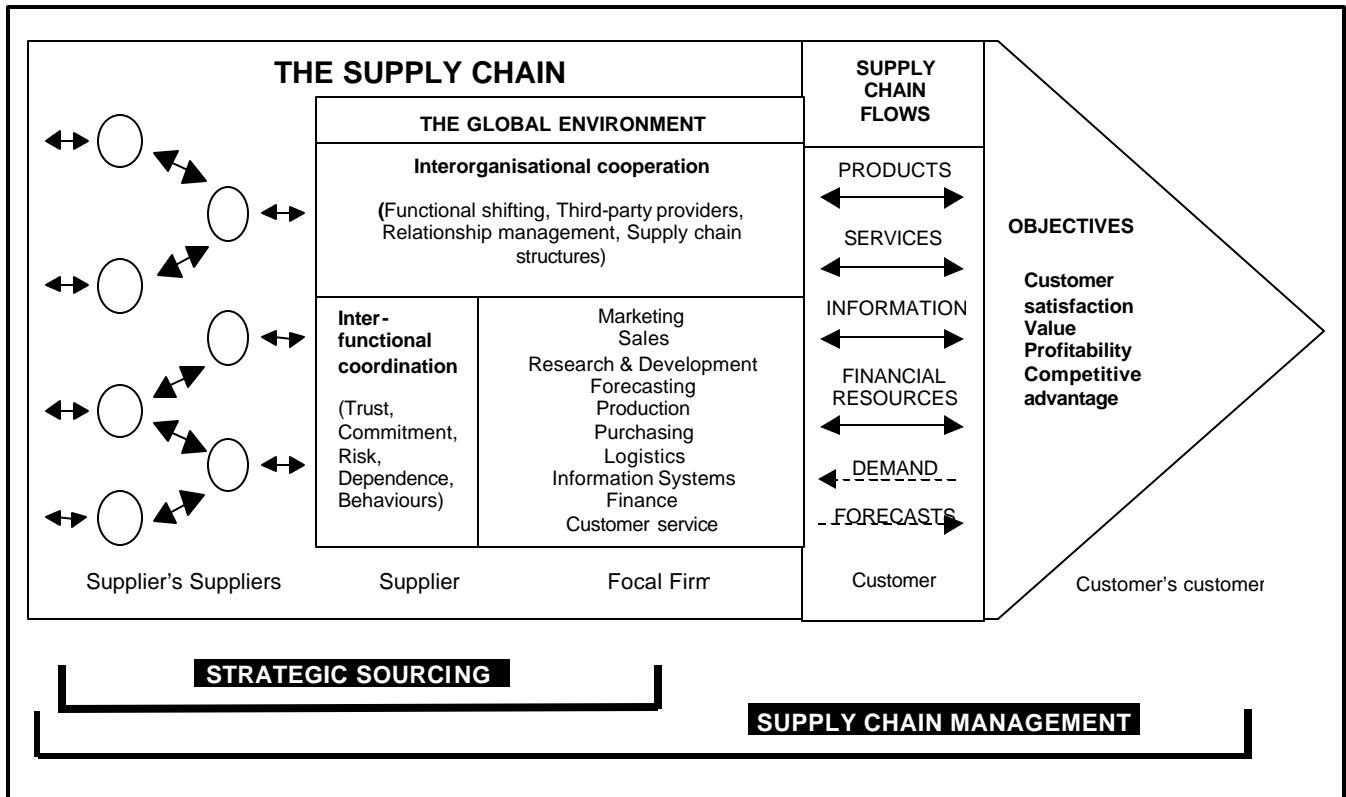
It was established that the basic objectives of supply chain management are to achieve customer satisfaction, add value, increase the profitability and create competitive advantage of the supply chain as a whole, and for the individual organisations it comprises of. It was concluded that supply chain management also encompasses a variety of activities and principles that can be regarded as vitally important - depending on how advanced an organisation is in the purchasing strategy development process.

These supply chain management activities are summarised in figure 7-1. The principles include strategic focus and integration, customer focus and service, multifunctional and multiorganisational sourcing teams, strategic relationships and alliances, process management, business process re-engineering, total cost of ownership, strategic global sourcing and e-business. It was also stated that supply chain management is a developing concept that will be defined by certain trends, such as the knowledge revolution, continuous improvement requirements, lean thinking, a values-based infrastructure, the greening of supply chain management and virtual supply chain management.

In chapter 4 it was concluded that purchasing management developed from a purely administrative function to a more strategic management approach to the tactical and strategic purchasing activities, known as strategic sourcing – and in chapter 5 it was concluded that the supply chain management approach manages the supply side of the integrated value chain approach. It

can therefore be concluded that strategic sourcing is part of the broader supply chain management approach as depicted in figure 7-1.

FIGURE 7-1
STRATEGIC SOURCING AS PART OF SUPPLY CHAIN MANAGEMENT



Source: Adapted from Mentzer et al (2001:19)

7.3 CONCLUSIONS FROM THE EMPIRICAL STUDY

The primary and the last secondary objective - determine the purchasing, sourcing and supply management approaches used by the wholesale sector in South Africa – was achieved in the empirical study undertaken. Chapter 6 explained the research methodology followed, and contained the results of the empirical research. It is important, however, to highlight the vital inferences to be drawn from these results.

7.3.1 Profile of the responding wholesalers

7.3.1.1 Location of the wholesalers

This study aimed to test the purchasing, sourcing and supply management approaches from wholesalers across South Africa. It was therefore well received that the respondents to the study was from all nine provinces, although most of them were from Gauteng, the Western and Eastern Cape.

7.3.1.2 Standard Industrial Classification

The Standard Industrial Classification of the wholesale organisations included the type of trade categories regarded by the respondents as either primary or secondary activity classifications. Overall the average percentage of the respondents in the various categories compares well with that of the total population, and the respondents were spread well among the various types of trade, thereby ensuring that this study does not just focus on one portion of the wholesale sector in South Africa.

The importance of the types of trade mentioned as primary activity are reflected by the high percentage of respondents indicating that, although it

might not be their primary activity, they consider it to be a secondary activity – especially pertaining to “Foodstuffs” and “Machinery, equipment and implements for industrial and business purposes.”

7.3.1.3 Size of the wholesalers

The size of the wholesalers, measured in terms of number of employees, showed that approximately 80% of all the responding wholesalers had fewer than 60 employees in their organisations. It is thus clear that this study is largely focussing on small- and medium-sized wholesalers. It is important to note, however, that 7.8 % of the wholesalers had more than 200 employees – making it impossible to generalise the findings as being only applicable to small- and medium -sized wholesalers

7.3.1.4 Status of the wholesalers

The wholesalers were also grouped according to their status. Most respondents were either head offices (41.3%) or independent companies (40.4%).

7.3.1.5 Wholesale functions performed by the wholesalers

The three wholesale functions performed by most of the responding wholesale organisations in the supply chain (the buying and selling of goods, negotiating with suppliers and owning and holding inventories at own risk) are directly related to the purchasing, sourcing and supply function. Again, emphasising that wholesalers exist to a large extent due to the purchasing, sourcing and supply activities they perform.

The status of the wholesalers and the wholesale functions it performed were analysed with the aid of a Chi square and significant differences was found with regards to the following functions: providing credit facilities to retailers and users; providing management assistance to suppliers and clients and breaking bulk in different assortments.

An Anova application allowed the performance of a post hoc Bonferoni test to assist with the conclusions from the data and the following interesting findings emerged (see table 6-5):

- All of the wholesalers (grouped according to status) primarily buys and sells goods, except for the subsidiary category – they primarily negotiate with suppliers/manufacturers of various products.
- Branches are more likely to increase market coverage for manufacturers, perform warehousing functions in the supply chain and give credit facilities to retailers or other users, than any other group of wholesalers (grouped according to status).
- All the different groups of wholesalers (grouped according to status) own and hold inventory at own risk.
- Branches and subsidiaries are more likely to transport bulk from suppliers and to clients than any other group of wholesalers (grouped according to status).
- Branches are more focussed on management and training assistance to clients, and holding companies are more likely to provide management and training assistance to suppliers.

- Independent units are more likely to break bulk than head offices.

7.3.1.6 Types of wholesale organisations

The study further indicated that 35.92% of the responding wholesalers classify themselves as industrial distributors and manufacturer's agents, respectively. Few respondents were in the export agent, mail-order wholesaler, truck jobber, auction company and rack jobber category. In this respect the sample was not representative of the population.

7.3.1.7 Target markets of the wholesalers

In response to the question on target markets, most respondents (62.1%) provide products to retailers, 59.2% of them trade with industrial, institutional and professional users (manufacturers) and 43.7% target the public (households or individuals). Again emphasising the pivotal role wholesalers' play in the supply chain (see figure 2-1), especially as a link between retailers and manufacturers, as well as the role of consolidator between manufacturers and the public.

In this section the complete conclusions pertaining to section 1 of the questionnaire - general information on wholesaling operations in South Africa was outlined. In addition, this section emphasised that wholesalers exist largely as a result of their purchasing, sourcing and supply chain activities and established that wholesalers play an important role in the supply chain.

7.3.2 Wholesaler's approach to purchasing, sourcing and supply management

Section 2 of the questionnaire (see addendum A) was compiled to measure the responding wholesale organisation's approach to purchasing, sourcing and supply management.

7.3.2.1 Do these wholesalers adapt to either a purchasing, sourcing or supply chain management approach?

In the first part of this section, the respondents had to indicate whether their wholesale organisation performs certain activities. These activities were based on secondary information gathered in the literature study and were incorporated as items in the questionnaire – section 2.1. If the organisation did perform the activity, they had to indicate to what extent it was performed on a three-point scale (from a lesser to a great extent).

For further analysis, the scale for these activities was transformed into four alternatives: no execution, execution to a lesser extent, some execution and execution to a great extent. Three categories, (1) purchasing management; (2) strategic sourcing; and (3) supply chain management, were then formed by grouping the typical activities - as listed in section 2.1 of the questionnaire - associated with each concept as established in the literature study. The reliabilities of the three categories were then tested, before any further analysis was done, to ensure the reliability of any supplementary findings.

All three categories showed high and satisfactory Cronbach's Alpha values of between 0.84 and 0.91. These values were created by obtaining a mean score for all the items (or activities) in section 2.1 of the questionnaire that

make up a certain category and then allocating a mean score on each of the three categories (purchasing management, strategic sourcing and supply chain management) to each of the respondents. Further analysis on these categories could then be done.

Table 6-8 showed that the tactical purchasing management approach had the highest mean score of the three categories (1.70). This indicated that the responding wholesale operations in South Africa are clearly performing the activities associated with this traditional approach to a greater extent than that of the strategic sourcing (mean = 0.98) or supply chain management (mean (0 = 1.05) approaches.

The three categories (purchasing management, strategic sourcing and supply chain management) correlate positively with one another, with the supply chain management showing a particularly high correlation with the strategic sourcing factor. This again emphasises the fact that strategic sourcing forms an integral part of the supply chain management approach.

The positive correlations indicate that when one of the categories (purchasing management, strategic sourcing and supply chain management) tends to be high the others also tend to be high. This correlation makes sense because a wholesale operation that adopts strategic sourcing will also make use of many tactical purchasing activities, and the fewer tactical purchasing activities a wholesaler employs, the less likely it is to participate in any strategic sourcing activities. Hence, although the supply chain management factor correlates significantly with both the tactical and strategic categories, it has a particularly

high correlation with the strategic sourcing factor with a Pearson coefficient of 0.86.

An analysis of variance (ANOVA) was also performed to compare the differences between the wholesalers, grouped according to the size of the company and significant differences were found (see table 6-11). The large wholesaler organisations appeared to score significantly higher on all three categories (purchasing management, strategic sourcing and supply chain management) than the small wholesale organisations with less than 20 employees.

It was established in this section that traces of all three categories (purchasing management, strategic sourcing and supply chain management) can simultaneously be found in one wholesale organisation. However two aspects merits reference: (1) overall, the most wholesale organisations in this research study are adopting the tactical purchasing management approach; and (2) the supply chain management category correlated substantially with the strategic sourcing factor implying that wholesale organisations who implement the strategic sourcing approach will therefore be more likely to adapt to the supply chain management approach than those organisations still functioning on the tactical purchasing level.

7.3.2.2 What is the level of sophistication with which wholesalers perform their purchasing, sourcing and supply chain activities?

It is evident that South African wholesalers still focus significantly on the more tactical purchasing management approach. However, some strategic aspects of the approach are employed. To determine the level of sophistication with which wholesalers approach their purchasing, sourcing and supply management function, question 2.2 in section 2 of the questionnaire incorporated statements to which the respondents had to indicate whether or not (and if so, to what extent) these were applicable to their wholesale operations.

The two categories created - one based on tactical aspects and the other strategic aspects again showed high internal reliability consistency due to acceptable Cronbach's Alpha scores (see table 6-13). It is noted that the more tactical statements again scored higher than the strategic statements for the sample as a whole, but that no real correlation is seen between these two categories. One of these two categories therefore is applicable to a particular respondent and these two categories are better at distinguishing the level of sophistication of the wholesaler's management approach to its purchasing, sourcing and supply function.

Again, the mean scores of the different sized companies (see figure 6-7) clearly indicates that the tactical scores are much higher than the strategic scores, yet the larger companies have a much higher strategic score than the smaller 1-20 employee companies. This difference is statistically significant at the 0.05 level as can be seen from the ANOVA results.

Yet again it is evident from the results of this section of the empirical study that the majority of the South African wholesalers have still not adapted to the more strategic approaches of managing their purchasing, sourcing and supply chain management function. They still employ the tactical purchasing approach to a large extent.

7.3.3 Summary

Through the literature research, it was established that there are new demands facing wholesalers in managing their purchasing, sourcing and supply function. This is largely as a result of rapid developments in the purchasing, sourcing and supply environment. Wholesalers are confronted with a variety of challenges concerning these developments, which is jeopardising their current vital role in the supply chain and they need to regard the adoption of a more sophisticated, strategic management approach of these activities as a matter of urgency.

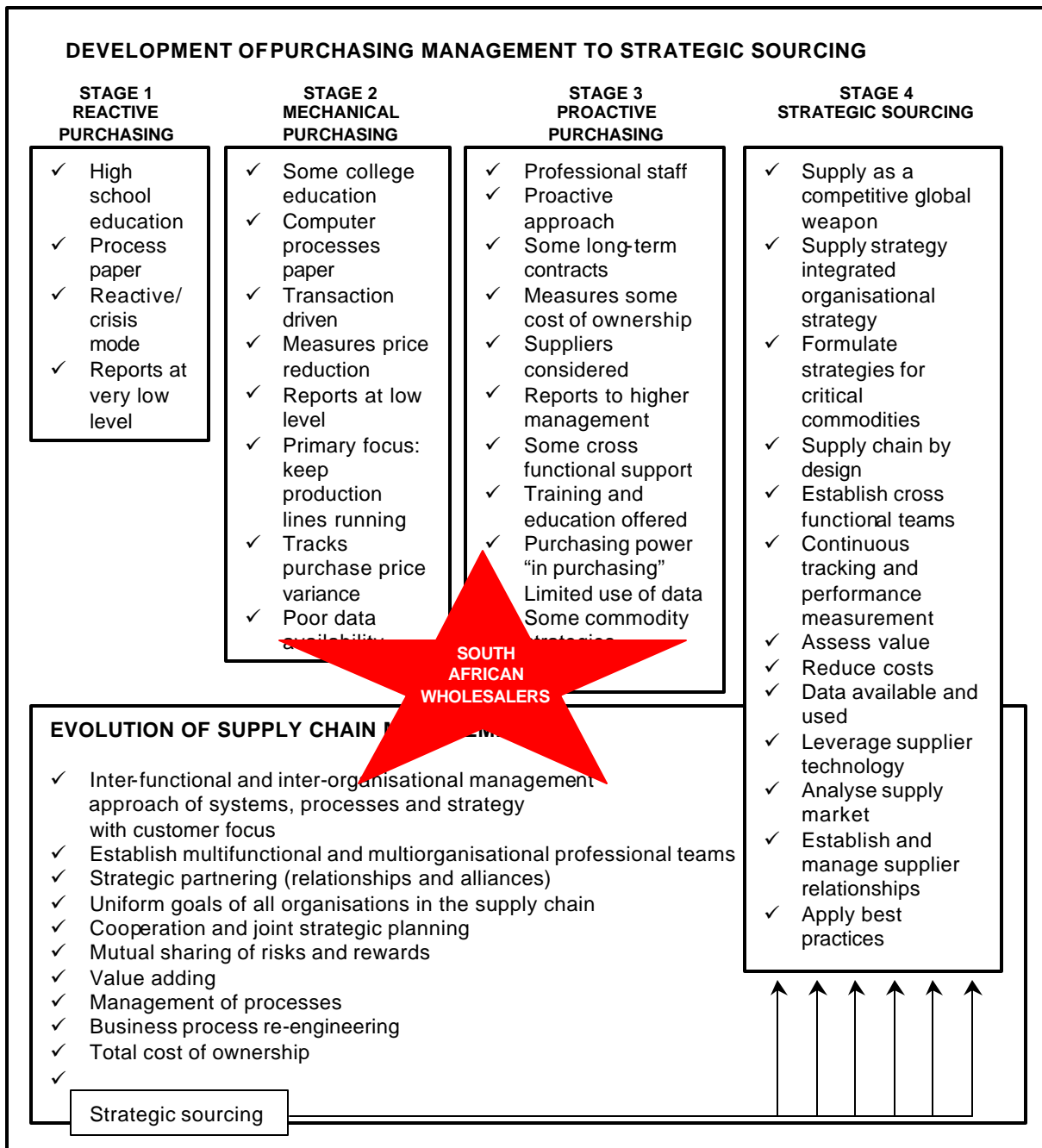
The empirical study, however, clearly indicated that even though South African wholesalers regard the buying and selling of goods as their most important activity – and that although they do adopt a management approach in this regard – their management approach is still significantly focused on the tactical aspects of purchasing, incorporating only a few aspects of strategic sourcing and supply chain management.

The position of South African wholesalers regarding to the level of sophistication in their management approach to the purchasing, sourcing and supply chain management approach can thus be incorporated into figure 1-1, as depicted by figure 7-2.

South African wholesalers are currently positioned between mechanical and proactive purchasing on the development outline. It is therefore clear that South African wholesalers have not adapted to the strategic sourcing and supply chain management approaches, and need to prepare themselves for this change – or risk failure.

FIGURE 7-2

SOUTH AFRICAN WHOLESALERS POSITION IN THE DEVELOPMENT OF PURCHASING TO STRATEGIC SOURCING, AND THE EVOLUTION OF SUPPLY MANAGEMENT



Source: Adapted from Burt et al (2003:8)

7.4 RECOMMENDATIONS FOR FURTHER RESEARCH OPPORTUNITIES

Various research opportunities pertaining to this study can be identified as outlined below.

- The wholesaling industry is an important contributor not only to the South African, but also the global economy. As stated in this study there is a lack of reliable sources regarding wholesalers in South Africa. Research that could extract information on this industry in South Africa, and its global importance, would be constructive.
- Increasingly more manufacturers and retailers are attempting to perform all wholesaling activities themselves. Research on the extent to which these organisations are taking responsibility for these activities would be useful to determine the sustainability of the traditional wholesaler.
- Awareness of the strategic importance of purchasing and supply function and its contribution to value adding and cost savings also needs to be raised in South Africa. Studies on the contribution of the purchasing and sourcing functions in various industries would therefore be useful.

- There is a shortage of research on supply chain management in the South African context. A large number of South African organisations are attempting to adopt this approach but do not fully understand its impact in their industry. Research in this regard would be a useful tool for such organisations in their preparation and implementation of supply chain management.

BIBLIOGRAPHY

Beamon, BM. 1999. Designing the green supply chain. *Logistics Information Management* 12(4).

Beckman, TN, Engle, NH & Buzzell, RD. 1959. *Wholesaling*. New York: Ronald Press.

Brown, L. 1997. *Competitive marketing strategy*. Melbourne: Nelson.

Bureau of Marketing Research (Schoeman, CJ). 2001. *A guide to the BMR registers*. Pretoria: Unisa Press.

Burt, DN, Dobler, DW & Starling, JL. 2003. *World class supply management – The key to supply chain management*. 7th edition. Singapore: McGraw-Hill.

Carter, JR & Narasimhan, R. 1995. *Purchasing and supply management: future directions and trends*. Available from: <http://www.capsresearch.org/publications/pffs-public/carter19995.html>

Carter, PL. 2001. Supply chains get virtual. *Purchasing Digest – Africa Journal for Procurement & Supply Management*.

Carter, PL. 1999. The future of purchasing and supply: electronic commerce in the new millennium. *Purchasing Today*. August.

Chandra, CC. & Kumar, S. 2000. Supply chain management in theory and in practice: a passing fad or a fundamental change? *Industrial Management and Data Systems* 100(3).

Chopra, S & Meindl, P. 2001. *Supply chain management: strategy, planning and operation*. Upper Saddle River, NJ: Prentice Hall.

Christiaanse, E & Kumar, K. 2000. ICT-enabled co-ordination of dynamic supply webs. *International Journal of Physical Distribution and Logistics Management* 30 (3/4).

Copacino, WC. 1997. *Supply chain management: the basics and beyond*. Boca Raton, Fla: St Lucie Press.

Coyle, JJ, Bardi, EJ & Langley, CJ. 1996. *The management of business logistics*. 6th edition. Minneapolis: West.

Cronin, MJ. 2001. *Unchained value: the new logic of digital business*. Boston, Mass: Harvard Business School Press.

Cronjé, GJde J, Du Toit, GS & Motlatla, MDC (ed). 2000. *Introduction to business management*. 5th edition. Cape Town: Oxford University Press.

Crowder, MA. 1998. The big picture: seven global trends driving the supply chain. 1998 NAPM International Purchasing Conference Proceedings.

Crowley, JA. 1998. Virtual logistics: transport in the marketspace. *International Journal of Physical Distribution and Logistics Management* 28(7).

Darrow, D. 2000. Speaking of ... changing environments. Available from: <http://www.ism.ws/ResourceArticles/2000/050084.cfm>

Democker, J. 2000. Businesses seek to cut weak links from the supply chains – evolving technology and business models change how companies, make, sell and move products. *Information Week*, March.

Fawcett, SE & Magnan, GM. 2002. *E-commerce exchanges: making informed decisions, applying best practices*. Available from: <http://www.capsresearch.org/publications/reports.cfm?Section=1>

Fung, P. 1999. Managing purchasing in a supply chain context: evolution and resolution. *Logistics Information Management* 12(5).

Franks, J. 2000. Supply chain Innovation. *Work Study* 49(4).

Gadde, L & Hakansson, H. 2001. *Supply network strategies*. West Sussex, UK: Wiley.

Gattorna, JL. 1998. *Strategic supply chain alignment – best practice in supply chain management*. England: Gower.

Gibson, K. 2001. B2B commerce bounces back *Business IT Africa*, October.

Graham, G & Hardaker, G. 2000. Supply chain management across the Internet. *International Journal of Physical Distribution and Logistics Management* 30(3/4).

Gordon, S.R. 2002. Applying lean thinking to your company and your supply chain. Available from:
<http://www.ism.ws/ConfPastAndOnlineDaily/Files/May00Gordon-FC.pdf>

Greenhalgh, L. 2001. *Managing strategic relationships*. New York: The Free Press.

Hasenfuss, M. 2001. Rebhold: Not a Jumbo Price. *Financial Mail*. Available from: <http://www.fm.co.za>.

Handfield, RB & Nichols, EL. 1999. *Introduction to supply chain management*. New York: Prentice Hall.

Herrald, H. 2001. Optimising supplier selection: companies trim workflow costs by bringing strategic sourcing to the procurement process. Available from: <http://www.findarticles.com>.

Hines, P. 2002. Purchasing for lean production: the new strategic agenda. Available from: <http://www.ism.org>.

Hoover, H. 1990. *An interdisciplinary approach to marketing – perspectives for the Christian Liberal Arts College*. Michigan: Andrews University Press.

Hugo, WMJ, Badenhorst-Weiss, JA & Van Rooyen, DC. 2002. *Purchasing and supply management*. 3rd edition. Pretoria: Van Schaik.

Kaufmann, RG & Crimi, TA. 2000. *Procurement to strategic sourcing: how to make the transition*. Available from: <http://www.ism.ws/ResourceArticles/2000/cp00KauffmanCrimi.cfm>.

Khan, B. 2001. SA companies floundering in e-business confusion. Available from: www.itnews.co.za.

Kotler, P. 2000. *Marketing management: millenium edition*. 10th edition. New Jersey: Prentice-Hall.

Lamb, CW, Hair, JF & McDaniel, C. 2002. *Principles of marketing*. 6th edition. Cincinnati, Ohio: South Western.

Lankford, WM & Johnson, JE. 2000. EDI via the Internet. *Information Management and Computer Security* 8(1).

Lau, HCW & Lee, WB. 2000. On a responsive supply chain system. *International Journal of Physical Distribution and Logistics Management* 30(7/8).

Litton, K. 2001. Creating a strategic sourcing environment. *Purchasing today*, June.

Loughlin, P. 1999. Viewpoint: E-commerce strengthens supplier's position. *International Journal of Retail and Distribution Management* 27(2).

Lummus, RR & Vokurka, RJ. 1999. Defining supply chain management: a historical perspective and practical guidelines. *Industrial Management and Data Systems*, 99(1).

Lysons, K. 1996. *Purchasing*. 4th edition. London: Pitman

Mentzer, JT, Dewitt, W, Keebler, JS, Min, S, Nix, NW, Smith, CD & Zacharia, ZG. 2001. Defining supply chain management. *Journal of Business Logistics* 22(2).

Monczka, R, Trent, R & Handfield, R. 2002. *Purchasing and supply chain management*. 2nd edition. Mason, Oh: South Western.

Nelles, J. 1999. The role of the distributor. Available from: www.napm.org.

New, SJ. 1997. The scope of supply chain management research. *Supply Chain Management* 2(1).

Noë, AA. 2001. Development of a supply chain in a lean manufacturing environment. 86th Annual International Purchasing Conference Proceedings (May).

Pickowitz, SJ & Reekers, JP. 2000. Making internal preparations for SCM. Available from: www.napm.org.

Pooler, VH & Pooler, DJ. 1997. *Purchasing and supply management – creating the vision*. Florence: International Thomson.

Porter, M. 1985. *Competitive advantage*. New York: Free Press.

Pride, WM & Ferrell, OC. 2003. *Marketing*. 12th edition. Boston, Massachusetts: Houghton Mifflin.

Reeds, JD. 2000. Will the real definition of supply chain management please stand up? Available from: www.napm.org.

Rich, N & Hines, P. 1997. The three pillars of strategic alignment: a model for the achievement of internal and external synergy, in *Advanced supply management: the best practice debate*, edited by A Cox & P Hines. Boston USA: Earlsgate Press: 51-104.

Ricker, J. 1997. The synergy of strategic sourcing. *Purchasing Today*. May.

Roberts, JS. 2002. Sourcing strategically: it's your move. *Inside Supply Management*, March.

Ross, JD. 1998. *Competing through supply chain management*. New York: Chapman & Hall.

Russill, R. 1997. *Purchasing power: your suppliers, your profits*. Hertfordshire, UK: Prentice Hall.

Scott, M. 1998. *Value drivers*. Chichester, West Sussex: Wiley.

Semenik, RJ & Bamossy, GJ. 1998. *Principles of marketing: a global perspective*. Cincinnati, Ohio: South Western

Sislian, E & Satir, A. 2000. Strategic sourcing: a framework and a case study. Available from: <http://www.ism.ws/ResourceArticles/2000/jsummer00p04.cfm>.

Slaight, TH. 1999. The future of purchasing and supply: strategic sourcing. *Purchasing today*, October.

Spekman, RE, Kamauff, JW & Myhr, N. 1998. An empirical investigation into supply chain management: a perspective on partnerships. *Supply Chain Management* 3(2).

Statistics South Africa. 2002. Gross Domestic Product (Fourth Quarter 2002). Report P0441. Pretoria: Government printer.

Stern, LW, El-Ansery, AI & Brown, JR. 1989. *Management in marketing channels*. New Jersey: Prentice Hall.

Strydom, JW, Cant, MC & Jooste, CJ (ed.) 2000. *Marketing management*. 4th edition. Kenwyn: Juta.

Van Hoek, R. 2001. E-supply chains: virtually non-existing. *Supply Chain Management: An International Journal* 6(1).

Van Scheers, ML. 1992. *Die rol van die groothandelaar in die ontwikkeling van die spazawinkel in die suidelike gebied van johannesburg*. MCom Verhandeling, Universiteit van Suid-Afrika, Pretoria.

Walters, D & Jones, P. 2001. Value and value chains in healthcare: a quality management perspective. *The TQM Magazine* 13(5).

Wisner, JD & Tan, KC. 2000. Supply chain management and its impact on purchasing. *NAPM – Journal of Supply Chain Management*.

ADDENDUM A



MRS IRMA FOURIE
AJH VAN DER WALT BUILDING ROOM 3-78
PO BOX 392
UNISA
0003

Telephone number: 012 429 4500
Facsimile number: 012 429 4885
E-mail address: fourii2@unisa.ac.za

10 July 2003

Dear Sir/Madam,

PURCHASING, SOURCING AND SUPPLY MANAGEMENT APPROACHES USED BY WHOLESALERS IN SOUTH AFRICA: A RESEARCH PROJECT

Wholesaling constitutes a formidable industry in South Africa, making a vital contribution to the South African economy. However, studies on wholesaling have unfortunately been neglected. This research project provides a much-needed opportunity to investigate certain aspects of this industry in the South African context.

A new era for business has emerged globally and forced many wholesalers to find new and better ways to manage their purchasing, sourcing and supply activities. As a result, purchasing has evolved from a transaction-based function, focused on unit costs to a strategic cross functional process that manages the total cost of the supply chain. Wholesalers find themselves in the middle of supply chain networks, providing an important link between manufacturers and retailers, and play a pivotal role in the management of purchasing, sourcing and supply activities of the whole supply chain. The question is: ***Have South African wholesalers adapted to the new demands and developments, specifically with regard to their approach to managing their purchasing, sourcing and supply function?***

As a purchasing, sourcing or supply professional in a wholesaling operation in South Africa, you will understand the importance of such a survey and the role the data obtained can play in the better management of this industry. All replies are treated in the strictest confidence and the information will be used

University of South Africa etd – Fourie, I (2003)

solely for our research and no other purpose. The questionnaire concentrates on the characteristics of your wholesaling operation, as well as questions to abstract data on the purchasing, sourcing and supply management approaches used by wholesalers. As such it will take approximately **30 minutes** to complete. I appreciate the time commitment invested on your part.

Please submit your response via fax to 012 429 4885/4356/3456 before or on **10 August 2003**. A fax cover sheet is included for you convenience. If you have any queries about the questionnaire or the research project in general, please do not hesitate to contact me at the above details.

I look forward to receiving your response.

Yours sincerely

Irma Fourie

LECTURER: PURCHASING AND SUPPLY MANAGEMENT
DEPARTMENT OF BUSINESS MANAGEMENT
UNISA



UNISA

FAX COVER SHEET

ATTENTION: IRMA FOURIE
DEPARTMENT OF BUSINESS MANAGEMENT
UNISA

FAX NUMBER: (012) 429 4885/4356/3456

DATE: BEFORE OR ON 10 AUGUST 2003

NUMBER OF PAGES: 11 (INCLUDING FAX COVER SHEET)

--	--	--	--

QUESTIONNAIRE

RESEARCH PROJECT

**PURCHASING, SOURCING AND SUPPLY MANAGEMENT
APPROACHES USED BY WHOLESALERS IN SOUTH AFRICA**

GENERAL INFORMATION

Instructions on the completion of this questionnaire will follow before each section. The questionnaire is designed to make completion as easy and quick as possible. Most of the questions can be answered by simply making a tick in a box.

The information that you supply will be treated in the strictest confidence and will be used for survey purposes only. The questionnaire has merely been numbered for administrative purposes, making it possible to send reminders to companies – where necessary.

If any aspect of the questionnaire is not clear, or if you have any queries, please contact the researcher, Mrs I Fourie, at 012 429 4500 or 083 564 5594.

Please return the questionnaire via fax to:

MRS IRMA FOURIE
FAX NUMBER: (012) 429 4885/4356/3456

THANK YOU FOR YOUR COOPERATION

IF YOU ARE INTERESTED IN AN EXECUTIVE SUMMARY OF THE FINDINGS OF THIS STUDY, PLEASE INDICATE WITH AN X. **ÿ**

ATTENTION _____
ADDRESS _____

(THIS PART WILL BE DETACHED FROM THE QUESTIONNAIRE.)

SECTION 1 GENERAL INFORMATION

Complete section 1 by marking the appropriate/most appropriate response.

1.1 In which province is your organisation situated?

PROVINCE	CIRCLE (o) ONE
Western Cape	1
Eastern Cape	2
Northern Cape	3
Free State	4
Kwazulu/Natal	5
North West	6
Gauteng	7
Mpumalanga	8
Limpopo	9

5

1.2 What is your organisation's Standard Industrial Classification?

TYPE OF TRADE	SIC CODE	PRIMARY ACTIVITY (CIRCLE (o) ONE)	SECONDARY ACTIVITY (CIRCLE (o) NOT MORE THAN TWO)
Agricultural	61210	01	18
Foodstuffs	61221	02	19
Beverages	61222	03	20
Tobacco products	61223	04	21
Textiles, clothing and footwear	61310	05	22
Furniture, household requirements and household appliances	61391	06	23
Books and stationery	61392	07	24
Precious stones, jewellery and silverware	61393	08	25
Pharmaceuticals and toiletries	61394	09	26
Household goods	61399	10	27
Solid, liquid and gaseous fuels and related products	61410	11	28
Metal and metal ores	61420	12	29
Construction materials, hardware, plumbing and supplies	61430	13	30
Intermediate products, waste and scrap	61490	14	31
Office machinery and equipment	61501	15	32
Machinery, equipment and implements for industrial and business purposes	61509	16	33
General dealers	61901	17	34

6	<input type="checkbox"/>	<input type="checkbox"/>	7
8	<input type="checkbox"/>	<input type="checkbox"/>	9
10	<input type="checkbox"/>	<input type="checkbox"/>	11

1.3 Indicate the number of employees in your wholesale organisation?

NUMBER OF EMPLOYEES	CIRCLE (o) ONE
1 – 20	01
21 – 40	02
41 – 60	03
61 – 80	04
81 – 100	05
101 – 120	06
121 – 140	07
141 – 160	08
161 – 180	09
181 – 200	10
201 +	11

12 13

1.4 Which option best describes your status as a wholesaler?

STATUS	CIRCLE (o) ONE
Head office	01
Holding company	02
Branch	03
Subsidiary	04
Independent unit	05

14

1.5 What wholesale functions does your wholesale organisation perform in the supply chain?

FUNCTIONS	CIRCLE (o) ALL THAT APPLY
Buys and sells goods	01
Negotiates with suppliers/manufacturers of various products	02
Increases market coverage for manufacturers	03
Performs warehousing function in supply chain	04
Owens and holds inventories at own risk	05
Provides credit facilities to retailers/users	06
Transports bulk from suppliers	07
Transports bulk to customers	08
Provides management assistance to suppliers	09
Provides management assistance to clients	10
Provides training assistance to suppliers	11
Provides training assistance to clients	12
Breaks bulk in different assortments	13
Other (specify not more than four)	

15 16
 17 18
 19 20
 21 22
 23 24
 25 26
 27 28
 29 30
 31 32
 33 34
 35 36
 37 38
 39 40

1	14	41		42
2	15	43		44
3	16	45		46
4	17	47		48

1.6 Which of the following would best describe your organisation according to the wholesaling functions that you perform?

TYPE OF WHOLESALE ORGANISATION	CIRCLE (o) ALL THAT APPLY			
Industrial distributors	01	49		50
Farm product assemblers	02	51		52
Importers and exporters	03	53		54
Cash-and-carry	04	55		56
Rack jobber	05	57		58
Truck jobber	06	59		60
Mailorder wholesaler	07	61		62
Merchandise broker	08	63		64
Purchasing agent	09	65		66
Commission merchant	10	67		68
Manufacturer's agent	11	69		70
Selling agent	12	71		72
Auction company	13	73		74
Export agent	14	75		76
Other (<i>specify not more than one</i>)				
1	15	77		78

1.7 Which of the following is/are your target market(s)?

TARGET MARKET	CIRCLE (o) ALL THAT APPLY			
Retailers	01	79		80
Industrial, institutional and professional users	02	81		82
Public, households or individuals	03	83		84
Other (<i>specify not more than two</i>)				
1	04	85		86
2	05	87		88

SECTION 2

**WHOLESALE R’S APPROACH TO
PURCHASING, SOURCING AND SUPPLY
MANAGEMENT**

2.1 Do the following activities form part of your purchasing, sourcing and supply function? If yes, to what extent.

*Complete question 2.1 by marking either **yes** or **no**.*

*If your answer is **yes**, indicate to what extent the listed activities are performed in your wholesale organisation.*

Key:
1 = to a lesser extent
2 = to some extent
3 = to a great extent

	ACTIVITY	CIRCLE (o) EITHER		IF YES, CIRCLE (o) TO WHAT EXTENT					
		YES	NO	LESSER	SOME	GREAT			
1	Preparing, placing, issuing and following up purchase orders	1	2	1	2	3	89		136
2	Receiving purchase orders	1	2	1	2	3	90		137
3	Inspecting purchase orders	1	2	1	2	3	91		138
4	Distributing purchase orders	1	2	1	2	3	92		139
5	Supervising faulty consignments and rejections	1	2	1	2	3	93		140
6	Making transporting decisions	1	2	1	2	3	94		141
7	Documenting the transaction	1	2	1	2	3	95		142
8	Concluding contracts	1	2	1	2	3	96		143
9	Managing the administration of contracts	1	2	1	2	3	97		144
10	Managing the implementation of contracts	1	2	1	2	3	98		145
11	Implementing electronic data interchange (EDI)	1	2	1	2	3	99		146
12	Using the Internet	1	2	1	2	3	100		147
13	Using e-procurement	1	2	1	2	3	101		148

University of South Africa etd – Fourie, I (2003)

14	Conducting purchasing, sourcing and supply research	1	2	1	2	3	102		149
15	Establishing cross functional teams	1	2	1	2	3	103		150
16	Developing cross functional teams	1	2	1	2	3	104		151
17	Managing cross functional teams	1	2	1	2	3	105		152
18	Establishing strategic alliances with suppliers	1	2	1	2	3	106		153
19	Developing strategic alliances with suppliers	1	2	1	2	3	107		154
20	Managing strategic alliances with suppliers	1	2	1	2	3	108		155
21	Using long-term contracts with current suppliers	1	2	1	2	3	109		156
22	Analysing the total supply market	1	2	1	2	3	110		157
23	Evaluating the current situation (status quo) of the supply chain	1	2	1	2	3	111		158
24	Reducing the supplier base	1	2	1	2	3	112		159
25	Synchronising processes of suppliers and customers with the processes of the organisation	1	2	1	2	3	113		160
26	Integrating suppliers and customers with regards to information and materials flow	1	2	1	2	3	114		161
27	Identifying and evaluating the sourcing opportunities for the supply chain	1	2	1	2	3	115		162
28	Assessing the value of sourcing opportunities to the long-term goals of the supply chain	1	2	1	2	3	116		163
29	Identifying cost reduction opportunities	1	2	1	2	3	117		164
30	Formulating strategies for critical commodities	1	2	1	2	3	118		165
31	Focusing on satisfying customer needs rather than short-term profit	1	2	1	2	3	119		166
32	Analysing arrangements with suppliers of the various requirements	1	2	1	2	3	120		167

University of South Africa etd – Fourie, I (2003)

33	Analysing total procurement spending	1	2	1	2	3	121		168
34	Categorising products/services with regard to the importance and complexity of the market	1	2	1	2	3	122		169
35	Establishing appropriate relationships with suppliers of various categories	1	2	1	2	3	123		170
36	Applying “best practices” in the management of supplies	1	2	1	2	3	124		171
37	Making outsourcing decisions	1	2	1	2	3	125		172
38	Creating a supplier portfolio for each organisation involved in the supply chain	1	2	1	2	3	126		173
39	Applying continuous tracking and performance management of the partners in the supply chain	1	2	1	2	3	127		174
40	Identifying total cost opportunities for the supply chain	1	2	1	2	3	128		175
41	Applying a strategic focus	1	2	1	2	3	129		176
42	Performing relationship management	1	2	1	2	3	130		177
43	Managing reverse logistics	1	2	1	2	3	131		178
	Other (<i>specify not more than three</i>)				2	3			
44		1	2	1	2	3	132		179
45		1	2	1	2	3	133		180
46		1	2	1	2	3	134		181

2.2 Are the following statements applicable to your purchasing, sourcing and supply function? If yes, to what extent.

Complete question 2.2 by marking either **yes** or **no**.

If your answer is **yes**, indicate to what extent the listed activities are performed in your wholesale organisation.

Key: **1 = to a lesser extent**
 2 = to some extent
 3 = to a great extent

	ACTIVITY	CIRCLE (o) EITHER		IF YES, CIRCLE (o) TO WHAT EXTENT					
		YES	NO	LESSER	SOME	GREAT			
1	Buyers identify the material or service needs	1	2	1	2	3	183		217
2	Cross-functional teams identify the material or service needs	1	2	1	2	3	184		218
3	Buyers define the material or service needs	1	2	1	2	3	185		219
4	Cross-functional teams define the material or service needs	1	2	1	2	3	186		
5	Buyers describe the material or service needs	1	2	1	2	3	187		220
6	Cross-functional teams describe the material or service needs	1	2	1	2	3	189		221
7	Buyers investigate suppliers	1	2	1	2	3	190		222
8	Cross-functional teams investigate suppliers	1	2	1	2	3	191		223
9	Buyers evaluate suppliers	1	2	1	2	3	192		224
10	Cross-functional teams evaluate suppliers	1	2	1	2	3	193		225
11	Buyers select suppliers	1	2	1	2	3	194		226
12	Cross-functional teams select suppliers	1	2	1	2	3	195		227
13	Buyers develop suppliers	1	2	1	2	3	196		228
14	Cross-functional teams develop suppliers	1	2	1	2	3	197		229
15	Buyers evaluate tenders and quotations	1	2	1	2	3	198		230

University of South Africa etd – Fourie, I (2003)

16	A tendering committee evaluates tenders and quotations	1	2	1	2	3	199		230
17	Buyers compile the tender specifications and quotations	1	2	1	2	3	200		231
18	Cross-functional teams compile tenders and quotations	1	2	1	2	3	201		232
19	Buyers negotiate with suppliers	1	2	1	2	3	202		234
20	Cross-functional teams negotiate with suppliers	1	2	1	2	3	203		235
21	Relationship with suppliers is distant	1	2	1	2	3	204		236
22	Relationship with suppliers is sound	1	2	1	2	3	205		237
23	A just-in-time system is used to manage inventory	1	2	1	2	3	206		238
24	Buyers determine quality and timing of purchased goods or services	1	2	1	2	3	207		239
25	A total quality management (TQM) approach is followed	1	2	1	2	3	208		240
26	Supplier capabilities are integrated in the organisation's processes	1	2	1	2	3	209		241
27	Purchasing, sourcing and supply costs are determined by life cycle costing	1	2	1	2	3	210		242
28	Purchasing, sourcing and supply costs are determined by total cost of ownership	1	2	1	2	3	211		242
29	Purchasing, sourcing and supply objectives focus on lowest prices	1	2	1	2	3	212		243
30	Organisational objectives focus on profit maximisation	1	2	1	2	3	213		244
31	Business process re-engineering is regularly performed	1	2	1	2	3	214		245
32	Noncore activities are outsourced	1	2	1	2	3	215		246
33	Materials and services are sourced globally	1	2	1	2	3	216		247
	Other (specify not more than three)								
34		1	2	1	2	3	248		249
35		1	2	1	2	3	250		251
36		1	2	1	2	3	252		253

