AN ANALYSIS OF ORGANISATIONAL BUYER BEHAVIOUR IN THE UK FOOD SERVICE INDUSTRY: CASE STUDIES IN THE CHAIN RESTAURANT SECTOR

by

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ABSTRACT

The growth of the food service sector and the particular characteristics of fast food restaurant chains have important implications for the food supply chain. Chain restaurant outlets characteristically have very specific requirements for farm commodities and processed foods. They seek suppliers who can produce to a high specification, supply a consistent and standardised product and meet exacting delivery requirements. Opportunities exist for UK farmers to supply to this growing market, if an appropriate strategy is adopted. However, the atomistic nature of primary production and lack of market orientation amongst UK producers may force the chain restaurant industry to seek suppliers from outside the country.

Preliminary research involved the collection of secondary data on the food service industry as a whole and chain restaurants as a specific part of this industry. The information gleaned from this initial research led to the conclusion that, in order to understand the nature of supply to these large companies, it is necessary to study their procurement practices.

The next stage in the development of the project was to conduct a series of case studies on companies successful in the field. This involved researching the organisational structures and the composition of the buying centres of key players in the chain restaurant sector. This gave valuable information on how the companies function, the work culture and motivations, amongst other things.

The final part of the research involved the verification of the results obtained. This was done using a method known as "triangulation" whereby the supplier side of the business partnership is investigated and the results compared. Material gathered by means of this study of suppliers was used to identify possible strategies which can be utilised by agents in the supply chain.

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CHAPTER 1

INTRODUCTION

1.1 Background to the Research

An important feature of the UK food chain is the continued and rapid growth in the value of the food service sector. The chain restaurants have had a large part to play in that growth. The chain restaurants characteristically have very specific requirements for farm commodities and processed foods. They seek suppliers who can produce to a high specification, supply a consistent and standardised quality and deliver promptly and regularly to their depots, processing points and outlets. The atomistic nature of primary production in the UK, and lack of market orientation appears to be at odds with these requirements. Yet opportunities exist for UK farmers to increase their share of this growing market, if they can satisfy the demands of the food service sector in general and chain restaurants in particular.

The research began with the focus on the role of primary producers (farmers) in the food service industry. The original research objective was to glean information which would enable farmers to become more responsive to the requirements of the chain restaurants. However, it quickly became apparent from the lack of published research on food service that, before doing this, primary research was required on the customers, the **chain restaurant buyers** or the decision makers within the organisation. Therefore, the focus of the research shifted downstream and centred on the organisational buyer behaviour displayed by the chain restaurants.

It also became apparent that farmers are unlikely to deal directly with the chain restaurants for two main reasons. The first reason is one of logistics, there are not many individual farmers large enough to deal in the volumes required by chain restaurants. Secondly, most of the products that are delivered to the chain outlets are processed in some way. With the exception of fresh fruit and vegetables, this is generally beyond the scope of most farm businesses. Therefore, the scope of the research extended to those suppliers who deal with the chain restaurants directly (food processors), but not beyond.

This research project has two objectives:

i) to define the key aspects of the procurement process in the chain restaurant sector. This includes the identification of members of the buying centre and the roles of decision makers, influencers, gatekeepers *etc*;

and ii) to identify qualifying and determining characteristics of suppliers in the eyes of the decision makers in the procurement process.

Thus, the focus of the research is the organisational buying behaviour of UK chain restaurants. The hierarchical structure of these organisations, their culture and strategy, and how these factors affect buying behaviour are of particular interest.

1.2 Structure of the Thesis

The thesis is set out in nine chapters. The background to the research and the key research objectives have been described above. The second chapter presents an analysis of the secondary data on the food service sector. It provides a background to the structure and size of the food service industry in the UK and identifies the importance of the chain restaurant sector in particular. Comparisons are drawn between the food service sector and the retail sector in the UK and some evidence is drawn from the food service sector in the USA.

Chapter three presents a review of the literature on the theory of organisational buyer behaviour, and establishes a theoretical framework for this study, from which the research hypotheses are derived.

The fourth chapter discusses alternative methodological approaches and describes the case study methodology adopted here.

Chapters five, six and seven present the six detailed case studies in the three sectors studied - roadside, pizza and hamburger.

Chapter eight summarises the results of the case study analysis and explicitly relates this to the hypotheses at the industry level as well as for each sector individually. This chapter also contains validating evidence from a triangulation study of suppliers to the chain restaurants.

The final chapter presents the overall conclusions and identifies important areas for further research.

CHAPTER 2:
PROCUREMENT PRACTICES IN THE FOOD SERVICE SECTOR - SECONDARY DATA ANALYSIS

This chapter discusses published data and previous research relating to the food service sector in general and procurement practices in particular. Data is largely limited to published Government statistics from the National Accounts Blue Book, the National Food Survey and the Family Expenditure Survey. The majority of market research in this area is undertaken by private companies and is therefore unavailable.

The main sources concerning the UK market are Backman (1990, 1992), Technomic Consultants International (1992), and reports published by Euromonitor (1989) and the Economic Intelligence Unit special report (Payne and Payne, 1993). The most informative work on procurement practices is Schmelzer's (1983) PhD thesis. Despite his focus on the USA, Schmelzer's descriptive analysis provides a useful starting point for this research into the procurement practices in the UK food service sector.

2.1 The Structure of the Food Service Industry

Precise definitions are required to clarify the major segments of the food service industry. *Food service,* refers to the provision of food to the public in a "ready to eat" form. In this sense the term can be applied in the same context as "catering". *Food service* includes ready made sandwiches purchased from a multiple retailer, meals served in public houses, and food served in take-away restaurants.

Chain restaurants are a sub-sector of the food service market, characterised by the fact that they operate with multiple outlets, and operate with uniformity of products offered and store concept. An American concept, the chain restaurant is a format business run as a fully integrated operation with standardised products, quick service and low, uniform prices, but also a definite pan-territorial marketing strategy (Goodman, 1989). There are several characteristics which distinguish the chain restaurants from other areas of the food

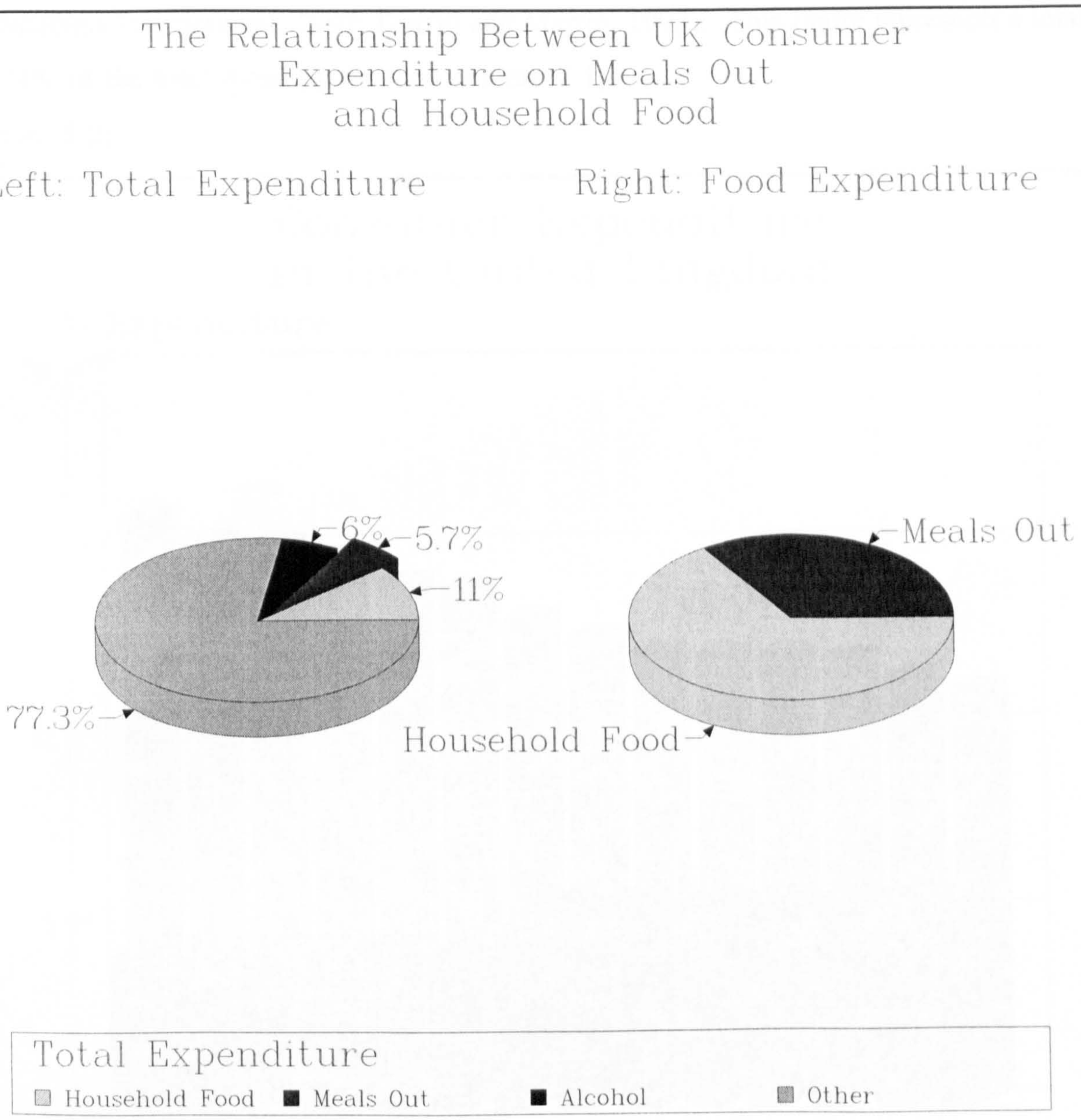
service sector. Restaurant chains offer the same menu items with little price variation no matter what the geographical location (Ray, 1991). The emphasis is very much on consistent standards, so that the same products can be consumed in similar surroundings irrespective of location and with strong brand identification (Goodman, 1989).

This consistency is of the utmost importance in gaining consumer faith in the product. Consistency is maintained *via* comprehensive staff training and rigorous employee policies (to enforce discipline on a predominantly young and unskilled workforce), technology (both in food and machinery), and a product which is easy to replicate. This quest for consistency would seem to have implications for the products demanded and may have led to changes in the supply processes employed. The food is generally manufactured off the premises to ensure consistent quality, and indicates a change from the conventional buying processes employed by the independent operators in the food service sector who procured the raw ingredients to prepare on site (Euromonitor, 1989).

There is a noticeable difference between traditional fast food concepts such as fish and chip shops and modern quick service restaurant chains such as McDonald's, Burger King and Pizza Hut. Similarities include a limited menu, fast service of the entire meal, low unit cost of meal, no booking or advance warning of custom, and often some element of take-away is evident (Euromonitor, 1989; Manchester Business School, 1981). However, uniformity is evident in chains as opposed to the individuality of traditional independent outlets. Emerson (1990) also highlights other possible definitional problems, such as whether supermarket food bars should be considered as "fast food" since they seem to meet the criteria of such an establishment.

The *quick service* sector refers to those establishments which provide the food at the time of ordering with little or no delay in preparation time. *"Fast food"* is another term which can be used in this context. The *quick service* sector comprises both chain restaurants and independent operators. Knutson (1993) summarises this with the three "C's" upon which the quick service industry is founded; Convenient foods that taste good, Consistently presented and Competitively priced.

Figure 2.1:

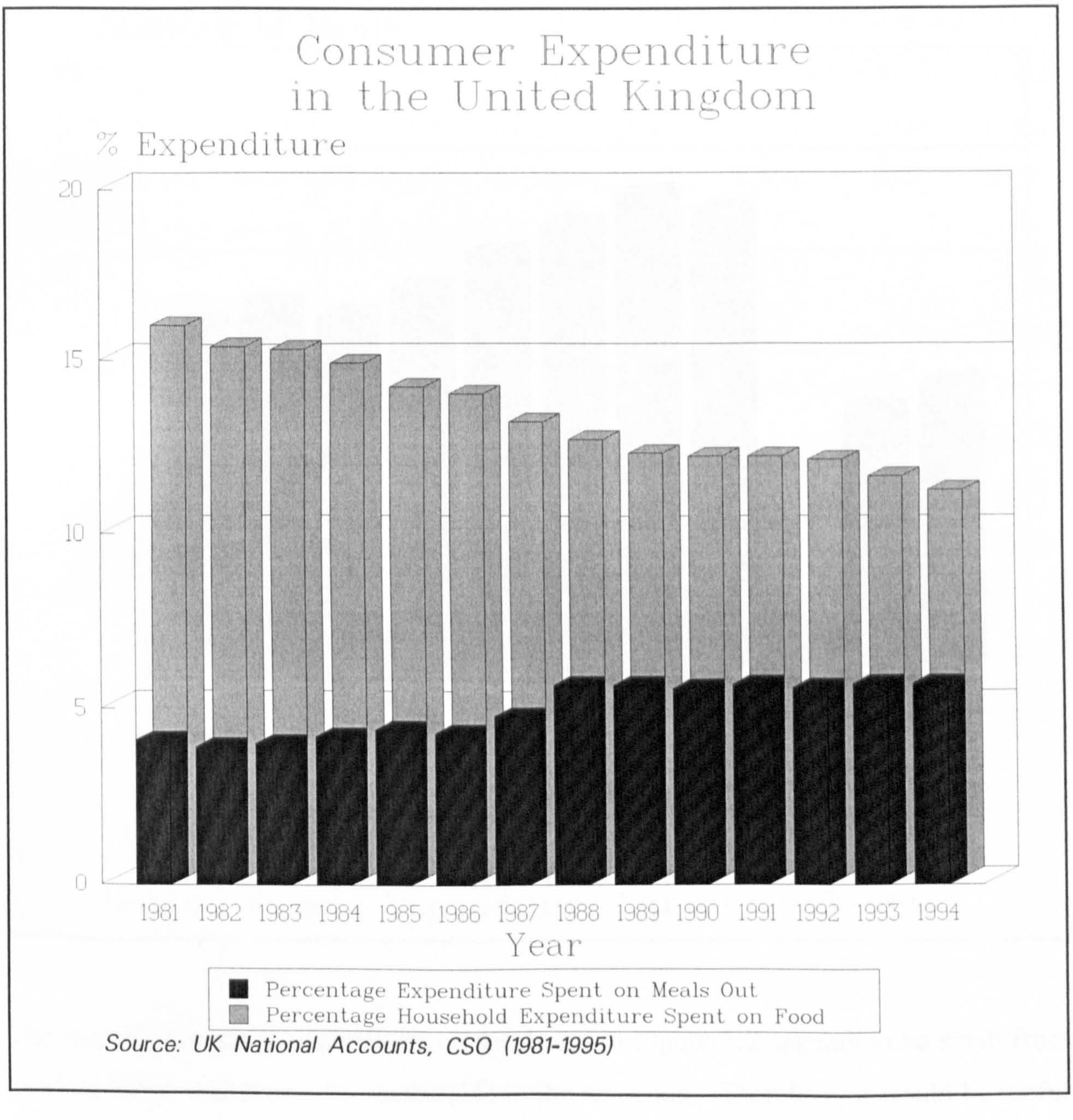


Source: National Accounts Blue Book, 1995

Under these conditions many independently run restaurants and take-away restaurants providing ethnic foods such as Indian and Chinese cuisine would be considered quick service restaurants. However, it is easy to differentiate these from those quick service restaurants run as part of chains. Quick service restaurants include Kentucky Fried Chicken, Pizza Hut and McDonald's and also restaurants serving take-away Chinese food, Indian food, crêpes, kebabs, sandwiches, baked potatoes, spare ribs, hot pies, sausages, pub catering and, of course, traditional fish and chips (MLC, 1986).

In 1991 the turnover of the UK food service industry amounted to £21 billion (Technomic Consultants International, 1992; Duffill and Martin, 1993). This figure represents a total of 34% of the total spending on food (Figure 2.1).

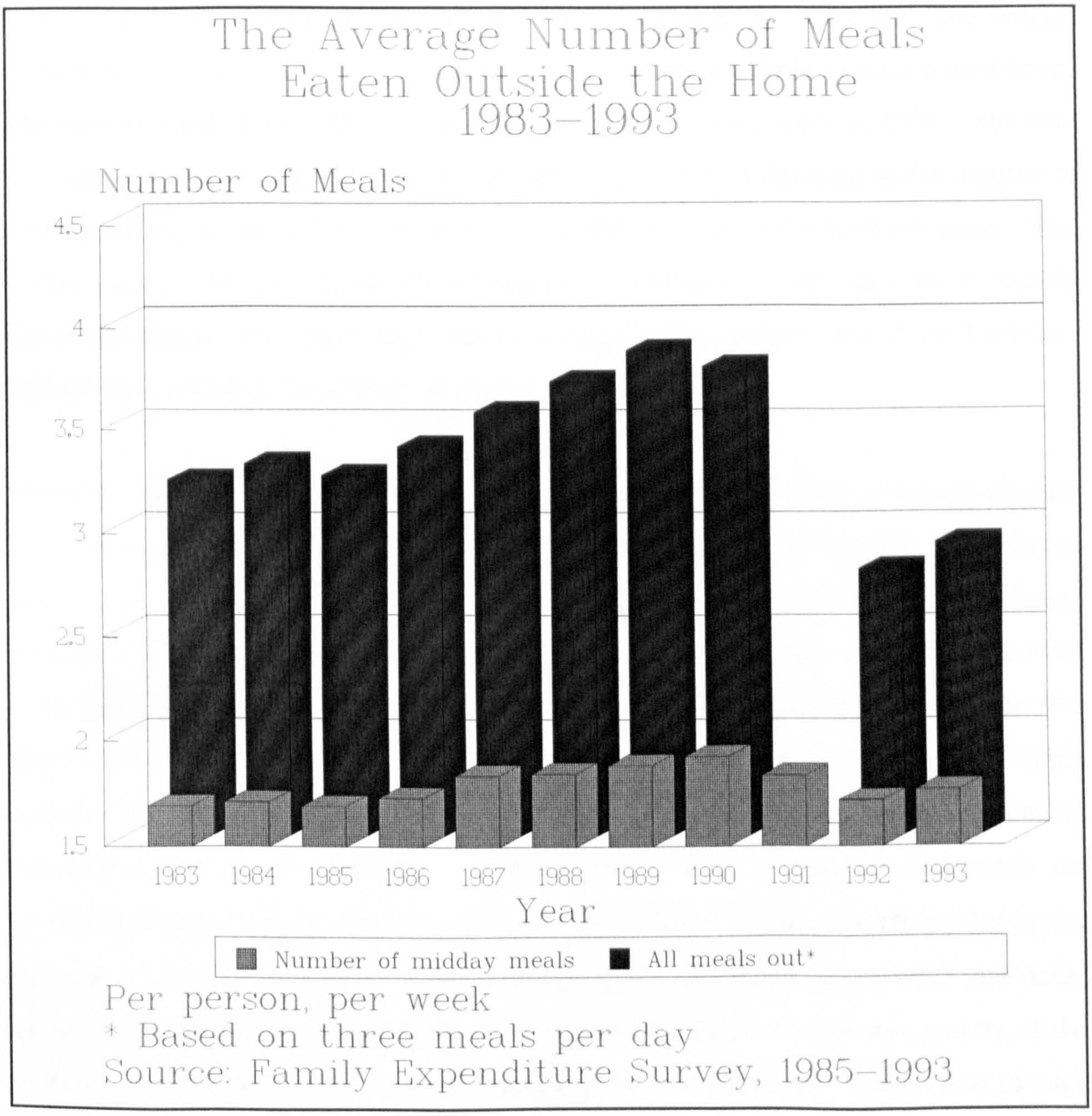
Figure 2.2:



Source: UK National Accounts, CSO (1981-1995)

There has also been an observed increase in expenditure on meals out (C.S.O., 1981-1995; Payne and Payne, 1993) compared to the relative decrease in expenditure on food at home (C.S.O., 1981-1995). See Figure 2.2.

Figure 2.3:



The rate of increase in expenditure on meals out in Figure 2.2 appears to be small from 1988 to 1994, which may be attributable to the recession. Therefore, it would be useful to consider the **number** of meals eaten outside the home to discover if the frequency of purchase has slowed or the spend per meal. Figure 2.3 shows the average number of meals eaten outside the home per person, per week (Family Expenditure Survey, 1985-1993). However, there is a problem with the available data from the Family Expenditure Survey.

There was a change in methodology during 1991, such that a light tea or supper (when taken in addition to another evening meal) is no longer regarded as a meal. This change in methodology means that data on "all meals out" are not available on a consistent basis. The data available using the previous methodology are shown prior to 1991. The data on midday meals out are not affected, and, in 1991, showed a decrease in the number of midday meals, not taken from the household supply, for the first time in six years. This would suggest that the decrease in "all meals out" observed in 1992, may not be simply due to the change in methodology, but may indeed reflect reduced use of food service, perhaps as a consequence of the recession.

However, the growth in food service establishments, eating away from home and changes in consumption patterns, even in the face of recession, (Slater and Cawley, 1992; Payne and Payne, 1993) suggest that social pressures of demographic and occupational change actually outweigh economic constraints. The increase in the number of meals eaten away from home between 1981 and 1987 has been observed by Euromonitor (1989; see also Figure 2.3). Hughes (1994) suggested that the continuing trend of women working outside the home is the single most important demographic factor influencing developments in the food industry. Such people are short of time and can justify the premiums on convenience foods in order to "buy" time. These convenience foods can take the form of pre-prepared dishes, eating outside the home, take-aways and home delivered foods (for example, pizza), of which the last three all represent sectors of the food service market. It may be that consumers are "trading down" in the value of each food service meal occasion, but maintaining the number of food service meal occasions (Martin and Mawson, 1994).

There has also been an expansion in the ***types*** of food eaten due to foreign travel affording wider experience and fostering interest in new tastes (Hughes, 1994). Euromonitor have compiled figures for eating behaviour by main type of food service establishment. They have found that there is a marked reduction in the appeal of both ethnic and fast food with increasing age (Euromonitor, 1989; see Table 2.1).

Table 2.1: Overall Eating Out Habits by Main Type of Establishment by Age Group, 1988

% of all respondents eating out in previous 12 months					
	Age Group				
	15-24	25-34	35-44	45-59	60+
Type of establishment:					
Patronised in last year					
Any traditional[1]	78	87	89	91	92
Any ethnic food[2]	71	73	64	48	22
Any fast food[3]	63	53	45	23	16
Any specialist[4]	5	17	16	12	8
Don't know/can't remember	1	1	*	1	3
Patronised in last month					
Any traditional[1]	43	49	57	60	58
Any ethnic food[2]	40	47	33	20	8
Any fast food[3]	44	28	22	11	6
Any specialist[4]	*	5	3	4	3
Didn't eat out in last month	19	20	19	25	39

Source: Euromonitor (1989)

*Notes: * Less than 1%*

[1]Covers pub, hotel, fish and chip restaurant, steakhouse, carvery and other traditional English

[2]Covers French, Italian, pasta, pizza, other European, American diners, Mexican, Chinese, Greek/Turkish, Indian, Thai and other miscellaneous ethnic restaurants

[3]Covers hamburger, baked potato, chicken, pizza, roadside diner, Mexican and other miscellaneous fast-food outlets

[4]Covers fish, vegetarian and other miscellaneous specialist outlets

As the consumer becomes more adventurous with food, so must the food service companies respond with greater menu variety. In 1983 McDonald's introduced McNuggets and the McChicken sandwich (Sullivan, 1989; McDonald's, n.d.) and since this time have also included "Filet-o-Fish", salads and pizza as items on their menu.

Moreover, the potential importance of the food service sector in the UK is demonstrated by the fact that in the USA eating out is not so much something of a treat, but a way of life (Knutson, 1993).

There is an increasing demand for salads and continuing emphasis on fish and fish centred dishes (Payne and Payne, 1993), although total fish consumption is static (Flear, 1993). This is partly due to supply constraints such as fishing restrictions. This represents a shift in the type of fish dish consumed from the traditional "fish and chips" to more diverse fish dishes. The introduction of more exotic imported fruit is a noticeable trend as is the inclination to eat more lightly, especially at midday (Euromonitor, 1989). However, there is a paradox in that menu choice combinations such as a diet cola and a full fat burger occur. The fashion for healthy living would suggest that products such as McDonald's McLean DeLuxe would be a high volume, successful product. However, although many quick service restaurants have carried products in this line in the past, McDonald's product is one of the last low fat burgers available in the quick service sector. McDonald's say that this item has a permanent place on the menu although a company representative recently characterised its volume as "not significant" (Knutson, 1993).

2.1.1 Major Players

Since 1970 major firms previously occupying specialist positions in the post-farm food system have expanded into different sectors by both horizontal and vertical integration (Goodman, 1989). Such expansion of interests has led to the consolidation of large diversified catering conglomerates, for example Forte (formerly trading as Trust House Forte), United Biscuits and major breweries in the UK (Goodman, 1989). The rise of these powerful firms, combined with the expansion of American companies, such as McDonald's and Pepsico, (alongside take-overs and mergers in the 1980's) represent the fundamental change in the structure of the catering industry in the last decade. Pepsico and McDonald's both operate globally and are very evenly matched on the world stage (Ray, 1991). Companies such as these think in terms of European markets rather than

UK markets, which illustrates their international expansion policy.

Although the UK catering industry is very fragmented in terms of numbers of outlets due to the large number of independents participating (including many public houses), when considering the value of market share it quickly becomes obvious that relatively few big players dominate the market (Technomic Consultants International, 1992). This aspect of fragmentation has made the catering industry an attractive target of diversification strategies and ripe for American-style chain marketing and franchising operations (Goodman, 1989).

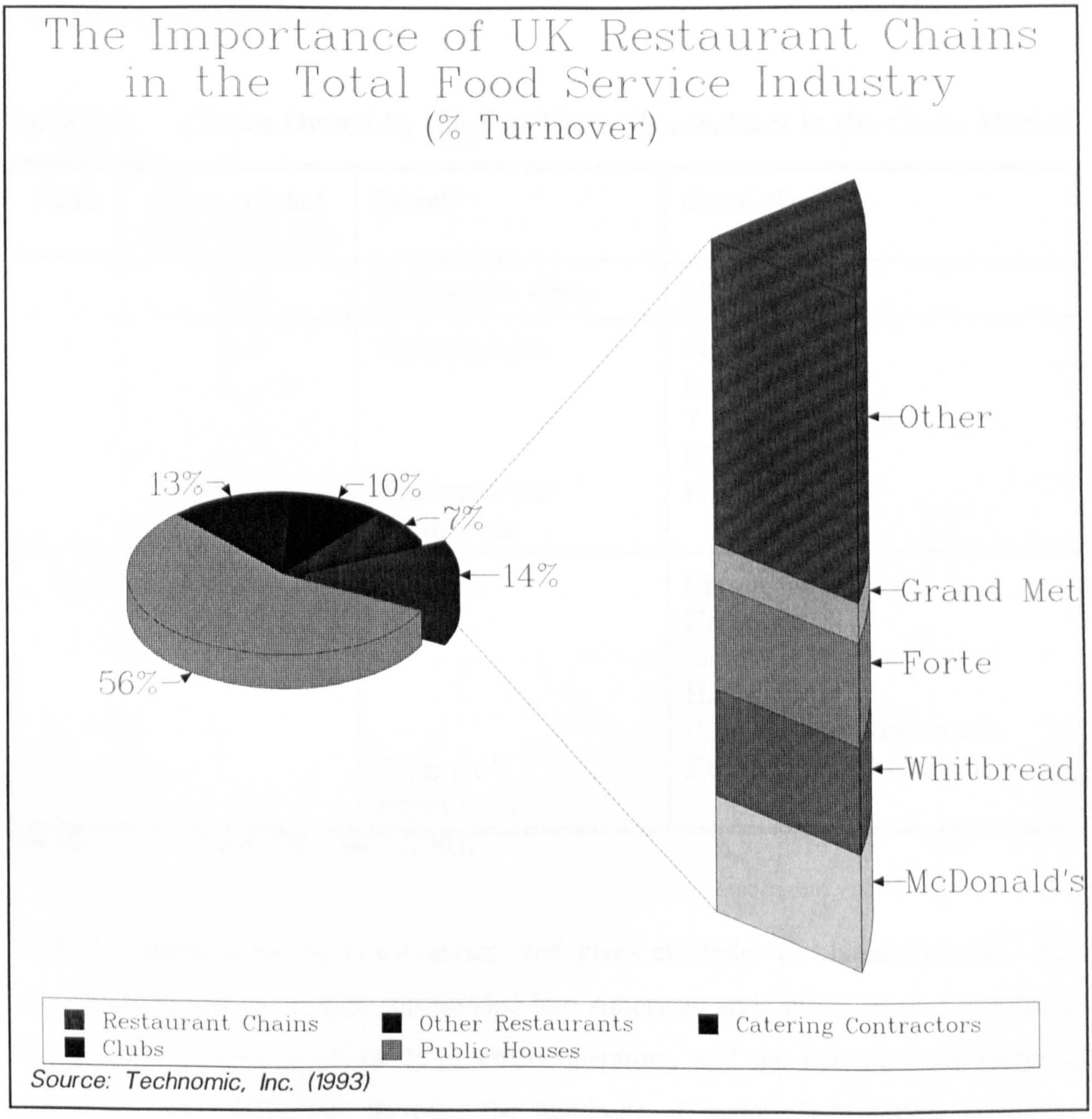
The rapid spread of quick service chain restaurants has much to do with the invention of franchise (Ray, 1991). This method of expansion is cheap in terms of capital outlay and increases outlet availability to prospective consumers, who have a young age profile. An integral part of Schmelzer's (1983) research effort was to identify the structural configuration of the commercial food service sector in the USA. He found that within this sector multiple outlet, franchise restaurant operations are especially important. The structural data he assembled revealed a number of interesting facts, including the increasing integration between large food processors and food service firms, resulting primarily from acquisitions by food processors since 1965 and also the growing importance of the largest multiple outlet operations within the commercial sector.

Large restaurant chains continue to dominate the quick service restaurant segment in sales growth and volume (Umbreit and Smith, 1990; Payne and Payne, 1993). Such outlets claim to provide value for money, consistent products and speedy service. Thus, the concept of restaurant chains is growing in importance in the UK within what is otherwise a largely fragmented industry.

This market is dominated by McDonald's and Pepsico, and it is interesting to note that Pepsico is represented by several companies (*e.g.* Pizza Hut and Kentucky Fried Chicken) whereas McDonald's relies on only one format represented by the ubiquitous "Golden Arches". Using estimates of company turnovers, it has been estimated that the

top forty restaurant chains account for 14% of the catering total, *i.e.* about £3 billion (Technomic Consultants International, 1992). The restaurant chains of only three companies - McDonald's, Whitbread and Forte - account for approximately half of this total (Figure 2.4).

Figure 2.4:



Source: Technomic, Inc. (1993)

Overall, the catering industry remains highly fragmented. According to MarketPower (1991), in 1990 there were over 320,000 separate catering outlets in the UK. Most of these are still independently owned and operated. Market concentration is encouraged

because concentration allows for company growth which is represented by an increase in market share in the relatively static volume food market (Shaw *et al.*, 1989). Thus, polarisation can be observed in the UK food service industry. This increase in concentration in the UK market mirrors that in the USA (Schmelzer, 1983). In this context it is interesting to note which chains are owned by the three major restaurant companies (see Table 2.2).

Table 2.2: Chains Owned by the Top Three Shareholders in the Chain Market

Rank	Chain Market Share 1992 (%)	Parent	Chain Name
1	17.4	McDonald's Corp	McDonald's
2	15.7	Whitbread plc Whitbread plc/ PepsiCo plc	Beefeater Brewers Fayre T.G.I. Friday's Mulligan's Pizza Hut
3	15.5	Forte plc Forte plc/ PepsiCo plc	Little Chef Harvester Welcome Break Happy Eater Forte Airport Restaurants Kentucky Fried Chicken

Source: Technomic, Inc. (1993)

Table 2.3 summarises menu categories, and gives examples of chains in each. This diverse group can be broadly sub-divided into American style quick service restaurants which are the preserve of the large chain operators, and the heterogenous sector of traditional fast food which includes the hundreds of mainly independent businesses (Goodman, 1989). American style quick service restaurants have their own distinctive character and claim to offer a new concept in food service. The concept is based around a simple and fairly restricted menu, within a tightly controlled operating system. Almost exclusively, there is a limited menu based on one "anchor" item (Euromonitor, 1989).

This establishes familiarity from the customers' perspective and can help to associate the item with the outlet's name (Manchester Business School, 1981).

Table 2.3: Examples of Chains and Parent Companies in the Studied Menu Categories

Menu Category	Chain	Parent Company
Cafe	Wimpy	Wimpy International Ltd.
Casual/Theme Dining	TGI Friday's	Whitbread plc
Chicken	Kentucky Fried Chicken	Forte plc/Pepsico plc
Hamburger	McDonald's	McDonald's Corporation
Italian	Prima Pasta	Rank Organisation plc
Other Dining	Garfunkels	City Centre Restaurants plc
Other Quick Service Restaurants	Spudulike	Spudulike Holdings Ltd.
Pizza	Pizza Hut	Whitbread plc/Pepsico plc
Pub Restaurants	Beefeater	Whitbread plc
Roadside	Little Chef	Forte plc

Source: Technomic, Inc. (1993)

In the United Kingdom the most significant quick service concepts are for burgers, pizza and chicken (Technomic Consultants International, 1992; Goodman, 1989). Market research shows the most likely casualties in the competition between American and British quick service restaurants to be the traditional fish and chip shops (Ray, 1991).

Table 2.4: Number of Fish and Chip Shops in the UK

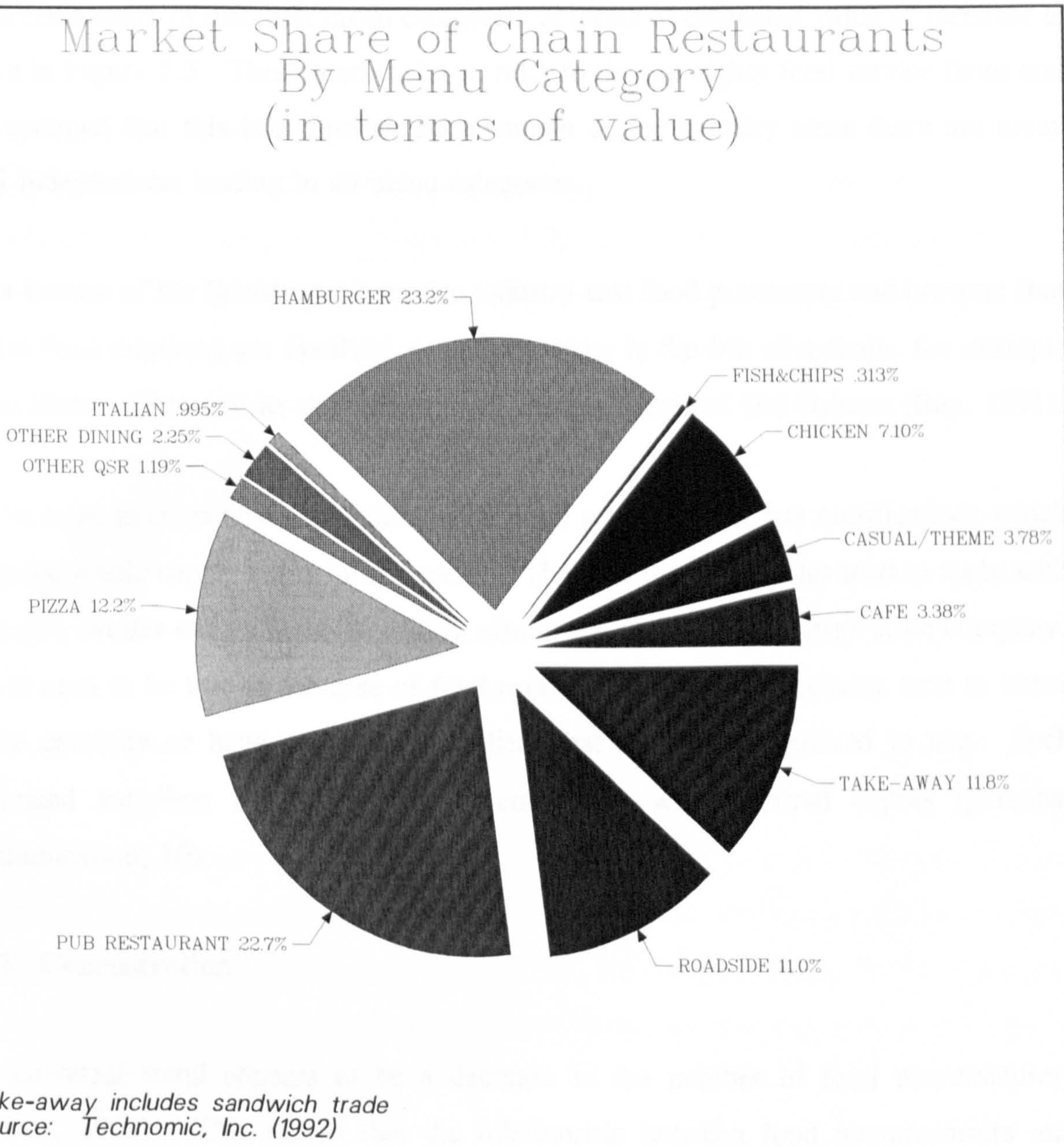
Year	1989	1990	1991	1992
No. of Outlets	10,000	9,000	8,700	8,500

Source: Flear, 1993

Fish and chip shop fare is the traditional form of fast food in the British culture.

However, it is interesting to examine the fate of the humble "chippie" in the wake of the emergence of American style fast food and quick service restaurants. From 1989 to 1992 there has been a marked decline in the number of fish and chip shops operating in the UK (see Table 2.4).

Figure 2.5:



The UK fish market has seen no increase in per capita consumption, in fact there has been a slight decrease which is now flattening out (Flear, 1993). Prices have increased over the last five years with the reductions in landings. This means that fish is no longer

a cheap alternative to poultry and red meat, but instead is finding its own market. This increase has effectively priced fish and chips on a par with other quick service fare such as burgers and chicken. This, in turn, leads to consumer choice based less on price and more on other factors, such as culture for example.

The market share of different menu categories in terms of estimated value of turnover is shown in Figure 2.5. These market shares refer to the top eighty food service firms and it is assumed that this is a representative sample of the industry since there are many small independents trading in all menu categories.

It is a feature of the British quick service industry that food processors and brewers (but not yet food retailers) are involved at an early stage in the life of a chain, for example Grand Metropolitan and its associations with Burger King and Old Orleans (Ray, 1991).

The increase in concentration evident in the food service sector has ramifications which affect the whole supply chain to that sector. The idea that companies tend to trade with those of a similar size, affects the critical size of the suppliers to a large scale company. This is seen to be true in the case of food service, where national chains tend to either source centrally or have nominated suppliers that outlets are required to use. Such nominated suppliers are national scale companies with regional depots (personal communication, 10).

2.1.2 Concentration

The universal trend appears to be a decrease in the number of food manufacturers (Connor, 1983). This means that the relationship between food manufacturers and distributors is now largely a matter of large firms dealing with large firms (Beaumont and Khamis, 1983).

In the 1980's, large corporations, historically from separate levels in the post-farm food system, adopted vigorous diversification strategies and moved horizontally and vertically

into different segments of the chain. Such firms have utilised resources accumulated in their historical "core" activities (*e.g.* hotels, breweries, food processing, and distribution) in order to establish a presence in different catering markets. In the FAST Occasional Paper number 143, Goodman (1989) uses the example of Whitbread, which has joint ventures with Pepsico in the Pizza Hut chain and with the Franco-Belgian group Casino/GB Inno BM, in the Quick hamburger chain.

The retail multiples display internationalism also. For example, chains such as Aldi and Carrefour have made entries into foreign markets by expansion, take-overs and the formation of new companies. American fast food companies such as Pepsico, McDonald's and Burger King (now owned by Grand Metropolitan) and large European catering conglomerates in hotel, restaurant and fast food sectors have also applied the organisational and marketing techniques of the retail multiple concept. This is discussed further in section 2.2.1.

Market leaders will increasingly be forced to rely on organic growth of core businesses and extension of national networks (Goodman, 1989). For example, Wimpy are actively expanding overseas operations. In essence, one effect of market saturation is to make it essential to create a market for new goods (Ray, 1991).

Food service companies have also been diversification targets. For example, United Biscuits (a major food manufacturer in the UK) became the market leader in pizza through the national chain, Pizzaland and, in 1984, the franchise chain, Perfect Pizza and the Wimpy chain (Goodman, 1989). However United Biscuits has since re-focused its activities and no longer operates in these areas.

An assertion has been made by Hobbs and Kerr (1992) that the requirements of the Food Safety Act, especially with reference to the due diligence clause, may lead to increased vertical integration to maintain resource efficiency and to keep control. Therefore it seems likely that there will be an increase in the number of partnerships formed as this confers the **control** of vertical integration without the financial commitment and

inflexibility of formal arrangements. This has already been observed in the fresh produce sector (Martin and Mawson, 1994).

The increase in integration in recent years reflects both changes in the structure of costs and rising transaction costs from using markets (Shaw *et al.*, 1989). Changes in products and production technology have triggered an increased need for integration, due to specialist holding, handling and distribution systems such as are needed for frozen or chilled products.

There is both formal and informal vertical integration. The major food service chains appear to be following the example set out by the multiple retailers (see section 2.2.1). The most notable formal change is the absorption of wholesaling and distribution functions by major food retailers (Shaw *et al.*, 1989). Parallel to this is the development of centralised distribution systems by most major retailers. It is notable that formal vertical integration of distribution (especially retailing) with manufacturing is less common, mainly because of the very different skills required in food retailing and manufacturing, and imbalances in economies of scope and scale between stages.

Informal relationships tend to be stable because the benefits of establishing close working relationships outweigh transaction costs of continual searches for suppliers and customers, this can be summarised in two words **mutual trust** (Shaw *et al.*, 1989). As concentration in the food industry increases, the incidence of informal integration is likely to increase, also. Burns (1983) found that vertical integration occurs both ways between manufacturers and distributors, but with the exception of the poultry and egg markets there is little evidence of vertical integration upstream by manufacturers into farming.

2.2 Procurement Policies

2.2.1 Retail *versus* Food Service

The food service industry comprises a multi-billion pound business sector, but this is still small compared with the retail sector. The retail food market is approximately seven

times larger than the food service market (Backman, 1992), thus food suppliers and manufacturers have generally adopted structures to cope specifically with the retail market. However, the food service market is growing and is more profitable than retail supply (Backman, 1990, Payne and Payne, 1993). Key accounts are fewer and smaller than in the retail sector and, in view of the imbalance in size between suppliers and caterers, food suppliers are in a position to use their market power. On the negative side, more customers must be supplied in order to maintain a viable business for a large supplier.

Notable characteristics of the retail sector are: concentration of buying power; centralisation of distribution; market and brand share requirements as part of restrictive stocking policies; requirements for suppliers to fund above and below the line promotions; the use of own label; and growth by new store openings (Backman, 1992). Retail competition centres not only around price and costs but also around the mix of goods offered to consumers (Shaw *et al.*, 1989). Multiple retailers are not only closer to customers than the manufacturers but can also undertake market research, product testing and monitoring changes in sales patterns.

The marketing methods used in the chain restaurant sector of the food service industry are already familiar in multiple retailing, which has many logistical similarities to modern restaurant chains. For example, there is commonly central procurement and distribution in both sectors. Chain restaurants and other large scale caterers are moving towards the maintenance of at least regional, if not central, depots. A distributor is often contracted to deliver from such depots to individual outlets. Examples of companies implementing this policy are Wimpy, Forte and Burger King. Goodman (1987) reported that Wimpy's fourteen core products, including ready-made frozen hamburgers, chips, fish and chicken, and freshly baked buns were distributed from regional depots by United Biscuits Distribution Services and its frozen food distribution subsidiary Pullman Foods. Burger King uses three distribution depots which serve all the outlets in the chain (personal communication, 13).

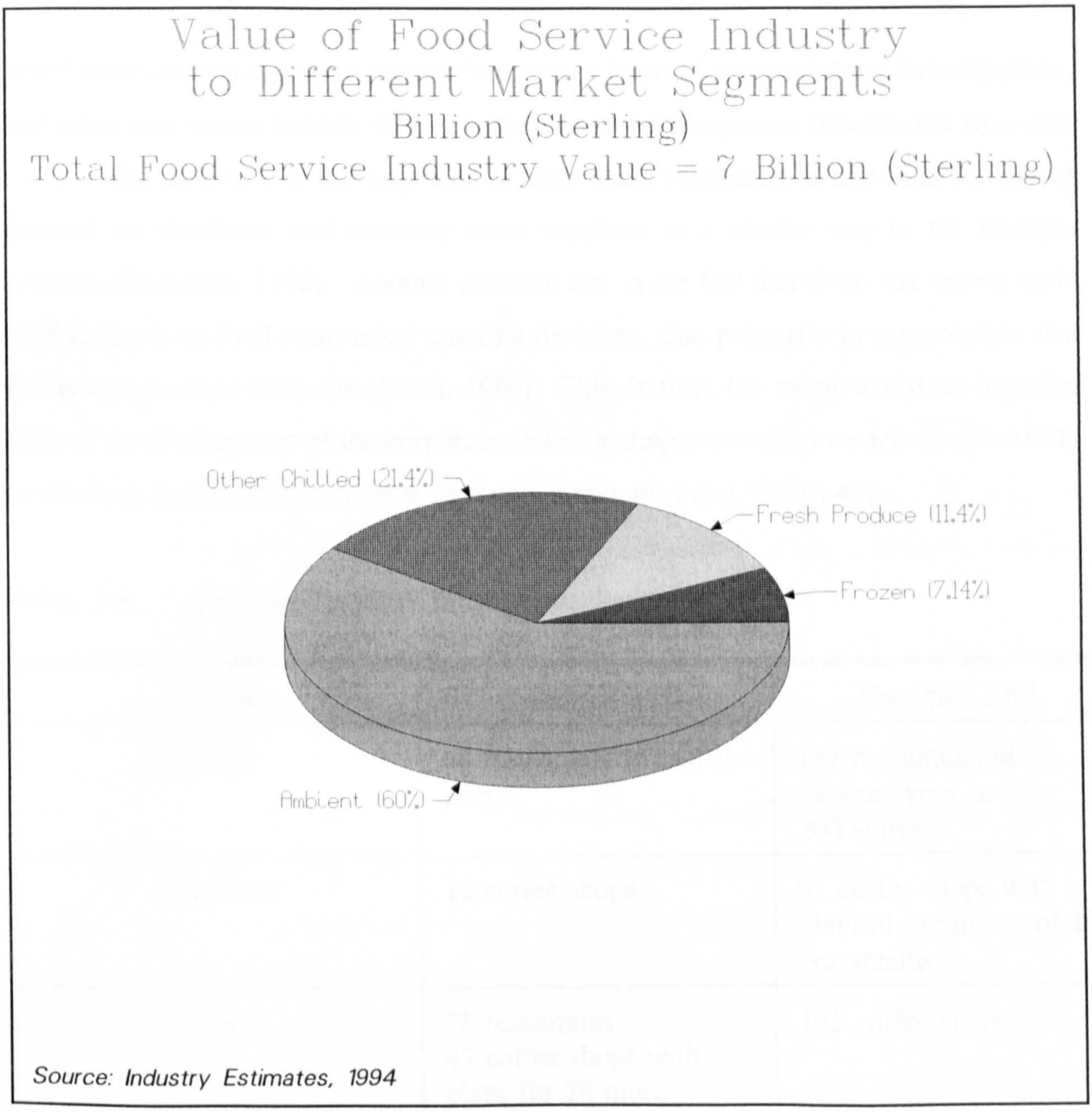
The chain restaurants operate tight portion control on all ingredients and finished products and use individual packaging as part of that control (Euromonitor, 1989). In much the same way the retail multiples implement control with standard pack sizes. This is as much to satisfy the consumer demand for guaranteed portion sizes and set specifications which confer the desired consistency between different outlets. In addition to this, from the industry perspective, there is a demand for improved packaging and labelling, national temperature controlled distribution and, allied to this, central distribution, storage and production (Carter, 1993; Forte, 1992).

The ingredients used in the chain restaurant sector of the catering industry are subject to rigorous specifications. These specifications extend not only to quality standards but also storage and handling regulations as well as size specifications. In the United Kingdom, food products are regularly inspected for hygiene by Environmental Health Officers, MAFF, National Association of Credited Butchers and MLC inspectors among others, as well as by customers' own technologists (Carter, 1993). Most ingredients are procured on a national scale by many companies, a fact which also influences the demands that can be made as regards storage and handling.

In contrast, the food service sector as a whole is polarised and complex, with large numbers of highly fragmented food service outlets in many sectors, and sub-sectors. The fragmented market demands individual selling and distribution of small orders, which is a costly process for suppliers. There are also fewer opportunities for food suppliers to use their highly developed branding and marketing skills for the development of food service sales, with the added twist that caterers are mainly small scale operators, often untrained or who possess only limited catering skills (Backman, 1992).

The reduction in the skill level is also observed in the chain restaurant sector. The types of meat cuts/products sought by buyers from the food service industry provide an indication of the product attributes that are now required. First, there has been a rapid reduction in the skills required from kitchen staff as more and more products are processed to the point of cooking by more efficient specialists.

Figure 2.6:



Source: Industry Estimates, 1994

Thus, a standard product is demanded which requires little skill to prepare and which cannot be purchased in the local supermarket (Andrews, 1993). This maintains an air of exclusivity and encourages people to return in order to enjoy the same gastronomic experience. The pace of technology also plays a part in the types of equipment available, whether this be microwave / combination ovens, slow roast ovens or the use of ambient prepared dishes. This ties in with space limitation which can influence the choice between frozen, ambient, chilled and fresh products (Andrews, 1993). The importance

of these sectors in terms of value is shown in Figure 2.6.

Small scale caterers demand a partnership, even a "caring" approach from their suppliers, and often feel uncomfortable dealing with large food companies (Martin and Mawson, 1994). The relevance of this approach to large chain restaurants is that such companies demand an obedience and accuracy from suppliers in a similar way to the multiple retailers (Backman, 1990). Another problem lies in the fact that there has been a rapid staff turnover in food companies' catering divisions, due primarily to a perception that this is a poor career move (Backman, 1990). This, in turn, has meant that there has been little or no development of the corporate understanding necessary to market successfully to the food service chain operator (personal communication, 13,18,41).

Table 2.5: Catering Facilities in Supermarkets

Company	Facilities 1988	Facilities 1993
Asda	68 restaurants at its 101 stores	137 restaurants of various types in over 200 stores
Sainsbury	12 coffee shops	91 coffee shops with a planned expansion of 10 per annum
Tesco	78 restaurants 47 coffee shops with plans for 28 more	161 coffee shops

Source: Euromonitor (1989) and Asda, Sainsbury and Tesco Public Relations Departments, (personal communications, 26,27,28)

However, the distinction between food service and food retailing is becoming less and less distinct. Many of the mass food service operations, such as Wimpy and Pizza Hut, have actually defined their operations as being retailing rather than catering. The other side of the coin is the conventional and unconventional food retailing outlets which are now heavily involved in what can only be perceived as catering (Lyons and Wood, 1990). This is illustrated by the proliferation of coffee shops in the major retail multiples and

the appearance of microwave ovens to provide hot snacks in newsagents and petrol stations. The explosive growth of American quick service food in the UK is past and a phase of consolidation and intensified competition is replacing it (Emerson, 1990; Ray, 1991). One reason for this may be the increase in food stations in supermarkets (see Table 2.5).

Food supply companies have responded to the centralised buying of retailers by establishing national accounts teams. Although this is a potentially successful approach for the catering market, the size of even the largest catering groups is such that they represent a much smaller opportunity for food supply companies and therefore, potentially, a less efficient use of the national accounts team. However, this must be offset against the fact that although they are small in retail terms, individual catering groups are multi-million pound businesses.

The wholesaler represents a class of trader squeezed by the process of centralisation in the retail sector (personal communication, 12). Gone are the days when most retail food was distributed *via* wholesalers to independent traders. The birth and subsequent growth of the multiple store concept has seen to that. However, the main trade *via* wholesalers is still to independent operators whether retailers or in the catering sector (personal communication, 12). Most chain restaurants, including pub chains, now have nominated suppliers. Such suppliers often operate on a national basis (personal communication, 7). However, within some chains certain produce can be obtained locally, and this is where wholesalers plug a gap in the market although even this opportunity is diminishing (personal communication, 41).

Wholesalers possess many of the qualities desired by small catering firms. They have an advantage over food companies in that they are well positioned to give a personal approach to selling and also have the logistic ability to provide small quantities of products, due to the fact that wholesalers tend to be smaller concerns than food processors. However, both the retail multiples and chain restaurants prefer to source directly to ensure consistent product quality, only using wholesalers to fulfil fluctuations

in demand.

The discussion has shown that the problems of supply sourcing for a large caterer are not dissimilar to those facing a centralised supermarket buying department. These problems would seem to be essentially those of supplying large volumes at consistent quality as and when required. This would be expected to be especially important for chain restaurants which require menu uniformity at all outlets. Therefore, it is not surprising that many such companies operate with subsidiaries or hold contracts with processing companies to ensure supplies of uniform meats and buns. However, not all large caterers operate in this way.

For example, Catering Direct - which is the largest contract caterer in Scotland - does not have a policy of centrally planned menus. Instead, every manager compiles menus within pre-determined parameters (Robertson, 1993). However, there is the added complication of the need to obtain a higher level of price stability, since the chain restaurants have a fixed menu. Schmelzer (1983) identified several key features of pricing policy in his research on procurement practices for beef and poultry in large limited-menu food service firms. The next section discusses the influence of American food service companies in the UK market, and then draws on Schmelzer's work to compare procurement in the American food service sector with that in the UK.

2.2.2 The American Influence

American firms are already well entrenched in the UK food service market. As the food service market is consolidated and approaches maturity, leading chains will achieve further growth at the expense of the traditional independent restaurant and take-away sectors. This has further ramifications as a Gallup survey has found that the take-away sector is the principal beneficiary of the decrease in the number of meal occasions at work and in school, for example, Kentucky Fried Chicken, fish and chips and bakeries (Goodman, 1989). This is just one indicator of the way in which quick service food, including take-aways, is firmly established in UK consumption patterns and is especially

important with younger age groups and other less affluent sectors of society (Goodman, 1989).

Variations in living standards, economic structures, occupational patterns and socio-cultural factors are determining elements which underlie the diversity in European markets. Therefore, different national markets present differing levels of maturity in terms of the development of the food service industry (Goodman, 1989). Native cuisine can successfully influence the style of quick service food, such as La Brioche Doree *et alia* in France. UK food service firms have failed to rise to the challenge laid down by American chain restaurants in this way. Goodman (1989) observed that the "second wave" of quick service food growth in France was distinguished by the emergence of locally-owned chains marketing French style quick service food. These chains are penetrating foreign markets both in America and Europe, for example La Brioche Doree, La Croissanterie and Franquette.

Consumer demand may be expected to fluctuate rapidly for quick service restaurants as customers can easily change allegiance. Quick service food consumers may frequent four or five different brands and, as both Emerson (1990) and Loader (1992) point out, may not remain brand loyal. This highlights the importance of strong brands such as Kentucky Fried Chicken, McDonald's *etc.* (Loader, 1992).

Schmelzer (1983) undertook a study into the procurement practices for beef and poultry of limited menu restaurants in the USA. He attempted to identify standard operating and procurement procedures and to assess the vertical co-ordination effects of these procedures. Although this work is becoming dated, it is believed to be the best source in this area.

Adjustments were made for structural differences between the limited menu food service companies studied. It was found that, in many cases, the procurement procedures used for a specific input were largely independent of structural conditions. The research identified a number of different procurement relationships that were involved in the

distribution of food products to limited menu operations. There was found to be a functional division of responsibility in large firms. The food service buying department controlled the procurement process through a system of contracts and distribution agreements with both food processors/suppliers and food service distributors.

The cost of many items was controlled by the use of fixed price contracts in conjunction with pre-negotiated distributor margins. The use of fixed price contracts was not common for beef and poultry buying, due to the frequent fluctuations in the market prices. There was a systematic reliance on formula pricing arrangements to facilitate change between market participants. A formula pricing system is one in which *the price in any given transaction is established on the basis of a mathematical formula that relates the transaction price to one or more indicators of value* (Marion, 1986). The price of raw material inputs used in processing was often found to be tied to a base market price quotation that was agreed upon by both parties. Prices were established in advance of the purchase and remained fixed throughout the length of the pricing cycle, which was normally seven days.

Processor deliveries to food service accounts were either direct to the retail outlets, or channelled through food service distributors. Firms that used fresh beef in their retail operations used local suppliers more frequently. Frozen beef products were more likely to be delivered to designated food service distributors, and subsequently to the retail units. When beef or poultry products were delivered by food service distributors, the distributors took title to the goods upon receipt. Title was transferred to the food service firm upon delivery to the retail units.

Detailed product specifications and in-house quality assurance personnel were often used by food service firms to maintain quality standards. Franchised firms employed these procedures as well as a system of approved suppliers and/or distributors to maintain the quality of products used by their franchisees. Franchisors were found to offer their franchisees the same prices for food that they negotiated with processors and/or distributors as standard practice. In America in 1983, franchisor/franchisee procurement

arrangements are typically voluntary relationships. This was due to prevailing case law providing for franchisees to make independent purchases, except in certain circumstances, such as where a trade secret would be jeopardised by the absence of such an agreement. The incidence of such restrictions were found to be infrequent, however, and were limited primarily to products such as sauces or special seasonings. Voluntary procurement arrangements between participants in a franchise system were not prohibited, and many such arrangements existed in the food service sector at the time of Schmelzer's study.

The system of procurement standard operating procedures used by limited menu firms was found to be internally consistent. In practice, there tended to be relatively stable procurement relationships between beef and poultry processors and large limited menu food service firms. Schmelzer suggested that the formula pricing arrangements prevalent between these parties contributed to the stability of relationships by reducing the incentives for either party to seek alternative exchange arrangements. It was further suggested that by reducing these incentives, both parties to the exchange were afforded the opportunity to plan and co-ordinate their individual procurement and distribution activities more closely. Important efficiencies realised at the firm level were lower personnel costs and reduced search costs. These savings resulted from the fact that fewer internal resources were required to manage a formula based pricing policy than one that required a more or less continuous monitoring of the terms of trade offered by potential exchange partners.

Schmelzer (1983) also found that vertical integration *via* asset ownership was unlikely in the food service sector. The procurement standard operating practices used were viewed by management as an effective means to secure products at competitive prices. Also, through their arrangements with processors, nearly all large limited menu firms assumed some of the price risks associated with the fluctuating wholesale prices of beef and poultry items. These were managed within their budgetary process.

Although vertical integration *via* asset ownership was considered unlikely by Schmelzer,

it was suggested that procurement of the general type reportedly used by McDonald's, that is the use of dedicated suppliers, would increase. In Schmelzer's opinion, this type of relationship is indistinguishable from what might normally be considered vertical integration. Only asset ownership was missing, all the other elements of control that are part of vertical integration were present.

The futures market had limited use as a risk management institution for most limited menu firms. Schmelzer predicted the possibility of increasing price instability in input markets resulting from the interaction of procurement standard operating procedures with other standard management practices. Schmelzer (1983) also commented that an "open book" pricing policy was reportedly used by McDonald's (see Chapter seven). This type of pricing policy means that a company has access to its suppliers' accounts in order to monitor the margins that are being made.

Meat is an example of a product that appears in most meals eaten outside the home in the UK. It is also the only product group for which it had been possible to obtain comparative data between the UK and America. There follows a comparison between consumption patterns in the food service sector in the two countries.

Table 2.6: Meat Usage in the Food Service Industry in America and the UK in 1992

Meat	Quick Service Restaurants in America	Catering in the UK[1]
Beef	60%	26%
Chicken	25%	27%
Pork	11%	39%
Seafood and mixed	4%	8%[2]

Source: Adapted from Knutson (1993) and (personal communication, 25)

Notes: [1]Figures include imported processed meat

[2]Mutton and lamb only - no figures for fish are included

In 1991, 72% of meals served outside the home in the UK contained meat. When split by sector this depicts 29% institutional, 11% office/factory and 60% commercial. The proportions of different types of meat used by the food service industry in America and the UK are shown in Table 2.6.

There has been a decline in beef usage in America which has arisen not only from increased customer choice but also as a direct result of a relative price increase, in the American livestock sector (Knutson, 1993). The British consumption of fresh beef and veal in the food service sector has decreased also, due mostly to the replacement of beef in the institutional part of the food service sector by lower cost meats and meat substitutes (MLC, 1986). However, there has been a compensating steady increase in the consumption of processed beef and veal in other areas of the food service sector, much of which can be attributed to beef burgers sold through take-away quick service outlets (MLC, 1986). There has also been an alteration in the specifications demanded by some companies. For example, Whitbread have moved towards relatively young animals (McCauley, 1993). This trend is not confined to British operations but extends to North America, Germany and Canada.

Chicken has been incorporated into many menus and Burger King, Hardee's and Wendy's all utilise breast meat. Because of this, demand from the food service sector has dominated short-term demand for broilers in America (Sullivan, 1989). In America, pork commands 11% of the meat volume used in quick service restaurants (Knutson, 1993; see Table 2.6). The majority of this is utilised in the breakfast market especially with sausage and biscuit combinations, also bacon toppings are becoming more common on burgers (Knutson, 1993).

Both Knutson (1993) and Small (1993) noted a change in emphasis to include breakfast as an important meal occasion in terms of the food service industry. Small (1993) went on to indicate that a vital part of British Rail catering trade is attributable to breakfast. This is in line with the American trend, where breakfast at a quick service restaurant is considered to be nothing out of the ordinary.

Changes in sourcing policies for food service operators operating on a national scale have tended towards central procurement and a chilled distribution network (McCauley, 1993). Such changes have taken place in the Whitbread supply chain, and this has allowed the concept of direct sourcing to be investigated (McCauley, 1993). This has occurred as a response to consumer demand and also to legislation and "due diligence" considerations. Whitbread therefore take the view that they are taking an active part in and are also influencing the structure of the catering market. The degree of influence depends on the industry and the importance of specific products which can, in some cases, result in partnerships being formed between suppliers and caterers (McCauley, 1993).

> The criteria that Whitbread examines in potential suppliers are:
> **innovation, competence, quality awareness, consistency and reliability, flexibility and responsiveness, competitive pricing, and customer and market awareness.** (McCauley, 1993)

Schmelzer (1983), on the other hand, views the criteria to choose suppliers as fourfold. First, an assessment of the firms performance history is examined with emphasis on recent performances with respect to reliability and product quality. Secondly, assessment is made of the quality and conditions of the physical processing and support facilities. Thirdly, the strengths and/or weaknesses of top management personnel are evaluated. Lastly, the financial position of the firm is taken into account.

It should be remembered that not all the big catering organisations are American. Many of the European conglomerates have been moving into foreign markets, including the States, accentuating the internationalism of the catering industry. The majority of successful American concept imports have made use of British personnel, whether through joint projects with British companies or independently, in order to have a "local presence" and local market knowledge (McLaughlin, 1992). In the future, the structural trends in the European industry are likely to reflect increasingly patterns of competition which prevail between European multi-nationals and their American rivals in international markets. Thus, a handful of large firms and their subsidiaries, with access to substantial

group financial resources, now occupy a strong overall position in the UK and French catering industries.

There has, prior to this study, been no research available on the procurement practices of the chain restaurants in the UK. Since many of the successful chain restaurant concepts in the UK are directly imported from the USA, it is reasonable to suggest that the procurement practices would be similar. This study aims to shed light on the procurement practices of chain restaurants originating both from the UK and also the USA.

2.3 Conclusions

Figure 2.2 showed the increase in expenditure on food service at the same time as a decrease in expenditure on food to be consumed in the home. The market is growing despite the dampening effects of the recession. This would appear to be driven by changes in demographics such as the increase in working women and the demise of the family meal (Hughes, 1994). Quick service restaurants have to increase the age profile of their customers to offset the reduction in the percentage of young people in the population. The latter is their current customer base, but older people represent the growth market. This may well be a natural progression as the young consumers of today age and still remain quick service devotees.

Several authors (Payne and Payne (1993), Lyons and Wood (1990) and Backman (1990) assert that the food service market is more profitable than the retail sector. This would seem to be affirmed by the actions of the major retailers who are moving into the food service sector (personal communications, 26,27,28). There is a growing desire by food companies to develop food service supply businesses (personal communications; 32,35,43).

This evidence further supports the idea that not only is food service an important sector in its own right, but also that it has yet to reach its potential. However, there has been

speculation in the trade press that the quick service restaurant industry is nearing total market saturation with the replacement of products instead of additions to the product range. Therefore, it is important to create something **new** to gain market share. This is especially relevant in view of the fact that the general criticisms levelled at the quick service restaurant industry are of tasteless food, poor service and poor value for money (Ray, 1991). Current challenging competitors are probably the supermarkets. In some cases their offerings are chilled for home re-heating, but hot food is already available in some "grocery" outlets both in "take-away" and "eat in" forms (see Table 2.5). Home delivery of pizza by supermarkets in the American manner has, at the time of writing, not been emulated in Britain. The fact that the food retailers are diversifying into the food service market further strengthens the supposition that the market is growing and profitable.

Thus, it can be appreciated that the food service industry may have the potential to evolve through many stages yet. The 1993 EIU report *"Eating out in the UK"* forecasts a spread of systems catering (that is, chains with standardised menu and format), themed restaurants (which match regional or national cuisine with some notion of its culture) and food courts (Payne and Payne, 1993).

It has been stated that the value of the food service market as a whole is small compared to the retail sector. Chain restaurants only represent 14% of the food service sector, whereas pub restaurants make up 56% of the sector. Pub restaurants were not made the focus of this study for the following reasons. The sector is very heterogenous being comprised of both independent an chain operators. Several large breweries support more than one pub restaurant chain concept. For example, both Brewer's Fayre and Beefeater concepts come under the umbrella of the Whitbread brewery. The diversity in the structure of the sector is reflected in the procurement behaviour displayed. That is, pub chains are restricted to nominated suppliers in many cases, whereas free houses may purchase in whatever way they choose. The chain restaurant sector, on the other hand, is much more homogenous in its structure which enables generalisations to be drawn. In the light of Schmelzer's (1983) work in the USA it seems likely that patterns exist in

terms of the procurement policy adopted by chain restaurants.

The line between retail and food service is becoming increasingly blurred both in terms of market participants and the procurement policies adopted by the chains in both sectors. It appears that chain operators are moving towards central procurement and distribution in order to maintain control over and consistency in the food inputs. This notion is reinforced by Schmelzer's (1983) work in America, which found that chain restaurants were indeed following such procurement policies.

As the structure of the chain restaurant business has become closer to the structure adopted by the food retail multiples so the procurement policies have also converged. This is demonstrated by the use of central procurement, or, at the very least, nominated suppliers by the chain restaurants. This development confers control in terms of product consistency at the outlet to the decision-makers at head office. The fact that most ingredients are procured on a national basis by many companies influences the demands that can be made regarding storage and handling.

The "due diligence" clause in the 1990 Food Safety Act suggests that the purchasers should have first hand knowledge of the supplier. This goes some way to encouraging companies to go down the route of direct sourcing. It has been suggested that this is the major influence behind the direct sourcing which is being increasingly practised by the major retail multiples.

The Food Safety Act has placed a legal obligation where previously there was merely a moral one. However, taking the example of chain restaurants which trade on their image, it is likely that this moral obligation was fulfilled since the potential cost in terms of loss of sales far outweighs the cost of the implementation of strict specifications and checks. The Food Safety Act benefits single source suppliers since the monitoring of hygiene is easier. It is essential then that the primary producer must see the industry from **his customers'** viewpoint in order to fulfil expectations and to retain custom.

Some quick service chains make use of intermediary companies whose function it is to procure the products and ensure that specifications are met. Taking hamburger meat as an example, Wimpy uses cow forequarter meat with 90% visible lean which is bought from a select list of approved suppliers (Goodman, 1987). McDonald's consumer information literature proclaims the use of *"prime cuts of lean forequarter and flank .... for their 100% pure beef hamburgers"* (McDonald's, n.d.). McDonald's go further and use ingredient origins as a marketing tool. An example of this is the 1993 run of advertisements, concerning lettuce, proclaiming in-depth knowledge of the supply chain and product care along it, right back to the primary producer.

When ingredient sources are examined several points become clear. First, there is the question of decreasing self-sufficiency of the UK fresh fruit and vegetable industry, even within the UK season (Sweep, 1992). This may be due to a separation between marketeers and growers resulting in no exchange of knowledge or information.

Failure by UK producers to meet the demands of product availability, quality, price and service opens the door to competition from overseas. The effect of seasonality is to make it impossible for UK producers to be the sole suppliers of many fresh products and therefore it is imperative that an exemplary service is provided to maintain contracts.

There is a lack of data and research in the UK food service sector. Given that the market is worth £7 billion, and appears to be not only profitable, but also a growth sector, it is important that UK suppliers identify and embrace the opportunity that it offers. Failure to do so will result in the large companies sourcing from abroad and the business will be lost to UK suppliers, since long term partnerships appear to be prevalent. However, it is difficult for suppliers to enter the food service market when they have no understanding of it. The lack of data and research exacerbates this difficulty.

Therefore, research is required in this area. Such research needs to address the whole procurement process from the identification of the decision-makers to the evaluation criteria applied. The structure of the buying department and the decision-makers within

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it should be identified. Selection procedures should be described and the methods of evaluation, including the criteria required must be distinguished.

CHAPTER 3:

THE THEORY OF ORGANISATIONAL BUYING BEHAVIOUR

3.1 Organisational Buying Behaviour

Organisational buying is a complex process involving information seeking activities, communications between members of an organisation who are involved in the purchase or will use the product or service, the evaluation of alternative purchasing actions, and the negotiation of necessary arrangements with suppliers. Organisational buying behaviour can therefore be defined as *"the decision making process by which formal organisations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers"* (Webster and Wind, 1972).

This chapter begins with a discussion of the characteristics of organisational buying behaviour and identifies the differences between organisational buying behaviour and that of consumers. Alternative theories of organisational buying behaviour are then discussed and their applicability to the research questions assessed.

There are three basic types of organisational markets, the industrial market, the reseller market, and the government market. Kotler and Armstrong (1990) propose definitions for each of these market types. The industrial market, which is also known as the producer or business market, refers to all individuals and organisations that acquire goods and services to use in the production of other products and services. All the individuals and organisations that acquire goods for the purpose of reselling or renting them to others at a profit form the reseller market. The government market consists of governmental units that purchase or rent goods and services for carrying out the main functions of government. One of the most obvious characteristics of organisational buying is that the buyers are geographically concentrated. Fluctuating demand is also displayed, along with evidence of direct purchasing, leasing and reciprocity (Kotler, 1991).

Kotler also identifies several main trends in organisational buying. First, there is

evidence of upgrading of purchasing departments at the same time as centralised purchasing is becoming almost standard. There has also been a trend towards long term contracts, and, as a further incentive to increase efficiency, purchasing performance evaluation is widespread.

The most noticeable feature of organisational buying is the scale of orders. Products bought by organisations tend to be multiple purchases whereas consumer purchases are usually for relatively few items. Another dimension to consider is the level of expenditure and, therefore, the financial risk to the buying organisation (Moriarty and Galper, 1978). The presence of fewer and larger buyers has made regional or even centralised purchasing possible for some organisations. This increase in scale has occurred at the same time as the evolution of new purchasing policies, for example *"just in time"* and *"total quality management"* which in turn has been made possible by the introduction of computerised purchasing. The value of orders facilitates the use of another distinct path in the buying process of organisations for standard parts. This can be explained by the fact that large orders make it possible to order direct from the manufacturer, involving a somewhat different buying process than when the choice is limited to buying from distributors or other middlemen.

Organisational buyers make purchase decisions in order to satisfy their goals, as do final consumers. However, the goals differ. Organisations have the goals of producing a good, providing a service, or reselling an item, and therefore buy products and services that will allow them to engage effectively in these activities. Organisational buying, then, is the decision making process by which organisations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and suppliers (Webster and Wind, 1972).

There are several major ways in which organisational markets and their buying behaviour differ from consumer markets and buying behaviour. The major variations are in market structure and demand, buyer characteristics, and decision processes and buying patterns (Louden and Della Bitta, 1993).

In terms of market demand and structure there are several factors to consider. The geographical concentration of buyers is higher than in consumer markets. Buyers are also concentrated by size in the organisational market, with fewer, larger buyers. Organisational buyer markets may be either vertical or horizontal. In a *vertical* market the product or service would be sold to virtually all organisations in perhaps one or two industries. *Horizontal* markets are those which are very broad, in which the product or service is sold to a wide spectrum of industries.

Organisational demand is derived from consumer demand. Total industry demand is inelastic since the demand for industrial goods is relatively unaffected by changes in price in the short run, compared to the price influence on demand in consumer markets. This is because the price of a single component is a small part of the total cost and any increases in the cost of inputs are passed on to the final consumer. Organisational demand is characterised by much greater fluctuation than that of consumer markets. Generally, organisational buying is closely related to the economic cycle. When demand is high inventories are built up, and these are utilised during times of low demand, exacerbating the reduction in demand to their suppliers.

The products encompassed by organisational buying are often more complex and thus require specialist knowledge in their purchase, which requires the use of professional buyers and the formalisation of buying procedures. Calder (1977) describes this as formal authority relationships. This use of professional buyers is also necessary to enable sourcing for a fluctuating demand, so it is important that the end customer can be identified and that trends can be monitored in order to derive demand. Consumer decision making models are likely to offer incomplete descriptions of organisational buying behaviour because they leave out the influence of the formal organisation and some of the essential characteristics of the buying process.

Since products purchased by organisational buyers are often costly and complex, a group of individuals are often involved in the decision. Professional buyers make the purchasing decision or may be directed by other technically competent individuals (such

as engineers) to the appropriate decision based on a group decision. As indicated by the skilled, technical nature of purchasers, organisational buyers are often strongly directed by rational motivations. For example, product quality specifications and consistency, prompt delivery, and service are all rather objective elements influencing buyers in their selection of a vendor.

Louden and Della Bitta (1993) comment on recent changes in organisational buyer behaviour. Among these changes is the reduction of the supplier base to only a few key suppliers of a component or service. Procurement is more frequently based on a long term cost per unit, not simply price per unit, as a way of recognising quality and service differences and costs. A thorough analysis of supplier companies is carried out, using teams with members from various functions within the purchasing company. There has also been an increase in supplier "partnering" such as early involvement in new product development projects.

Consumers may sometimes obtain written quotes and specifications, but this is rare, in contrast to the normally precise and formal processes used by organisational buyers, particularly in large organisations which generally have elaborate procedures and policies for purchasing. Organisational buyer behaviour is much more complex than consumer behaviour, and the financial risks are generally much higher than those faced by consumers and this is a prime cause of the formality necessary in purchasing.

Much organisational buying requires more extensive negotiation over a longer time period than typically occurs with final consumers. Multiple suppliers are often used in organisational buying as a response to the risk involved in single sourcing. This competition between vendors can also be a healthy lever for buyers to use in obtaining attractive terms and effective service from suppliers. The typical organisational purchase is much larger than that made by final consumers. Obviously, very large scale and costly items would only be purchased infrequently by organisations. However, even smaller, less expensive items may be bought on a contract basis, which may be reviewed annually.

Although marketing directly from producer to final consumer is growing, such a pattern has long been quite common in the organisational market. Reciprocity reportedly occurs when two organisations agree to purchase from each other, and is found more frequently in industries where products are homogenous with little price sensitivity. Organisational buyers, more so than final consumers, require service because it has such a direct bearing on their costs, sales and profits. Service areas such as on-time delivery, credit, repair, market information, and inventory maintenance can be effectively used to market to organisational buyers.

The decision making process is markedly different for individuals and organisations there is a remarkable degree of parallel research, thought and discovery in existence (Sheth, 1977). Organisational buying decisions usually involve group decision making which may follow formal purchasing policies and have constraints and requirements imposed by the organisation. In conjunction with this is the utilisation of formal buying instruments, for example, quotations, proposals and purchase contracts. Such buying procedures often involve a greater degree of negotiation than for individual buying which leads to close supplier-customer relationships. The buying centre concept is clearly viable for both the study of organisational and family buying behaviour (Wind, 1978). An understanding of the behaviour of buying centres can only result from much work on the conceptual problems involved and the design and implementation of better procedures for data collection and analysis (Wind, 1978).

3.1.1 Industrial Buying Decisions as a Special Case of the Behavioural Theory of the Firm

Industrial buying decisions can be viewed as a specific case of the decision process hypothesised by the behavioural theory of the firm. The behavioural theory of the firm has made a major contribution to our understanding of organisational behaviour by specifically recognising how the socio-psychological mechanisms of individual behaviour determine organisational functioning (Cyert and March, 1963). The behavioural theory of the firm consists of three sub-theories; the theory of organisational goal setting, the

theory of organisational expectations (including a theory of search), and the theory of organisational choice (Webster and Wind, 1972). The behavioural theory, as developed by Cyert and March (1963), suggests four relational concepts which represent the core of the behavioural theory of business decision making:

1. Quasi-resolution of conflict

   A buying centre is a coalition of members with differing goals. These goals are a series of aspiration-level constraints that may include non-essential, sporadic, and non-operational demands as well as essential, continuous and operative goals imposed on the buying centre by its members. Two characteristics of the decision process which promote consistency are: acceptable level decision rules rather than optimisation rules, and sequential attention to goals, *i.e.* the conflict is resolved, in part, by attending to different goals at different times. The findings of the empirical study carried out by Robinson, Faris and Wind (1967) support this proposition.

2. Uncertainty avoidance

   The members of a buying centre attempt to avoid uncertainty in making buying decisions. This is achieved using decision rules which emphasise short-run reaction to short-run feedback and by arranging a negotiated environment. For example, a buyer, if motivated to avoid or reduce uncertainty, would be expected to split orders between two or more sources, reward reliable sources with loyalty and avoid new sources unless no risk was involved (Cardozo, 1968).

3. Problemistic search

   Any search carried out by the members of a buying centre is stimulated by a problem and is directed toward finding a solution to that problem. Every search has three assumed characteristics: it is always motivated, it follows the simplest route and it is biased.

4. Organisational learning

   A buying centre exhibits adaptive behaviour over time with its members carrying out the adaptive behaviour. The buying centre is assumed to change its goals, to shift its attention (from some parts of its environment to others *etc.*), and to revise its procedures for search as a function of its experience. This approach to

modelling behavioural theory can clearly give rise to loyal behaviour in a model of the customer (Bubb and van Rest, 1973).

It is evident from the empirical work on the industrial buyer's decision making process that the propositions proposed by the behavioural theory of the firm do apply to the specific case of industrial buyer behaviour (Robinson, Faris and Wind, 1967; Webster and Wind, 1972). Webster and Wind (1972) found examples of latent conflict of goals among the members of every buying centre, reflecting their specialised interests and responsibilities within the organisation, as well as their personal needs and wishes. They suggest that the nature of the individual's goals will reflect to a large extent his position within the organisation. Procedures for obtaining local rationality are reflected in the organisational assignment of authority and responsibility for the stages of the buying decision process. Also, the buyer may try to resolve conflict by favouring some organisational members in one instance and others in other instances, as suggested by the concept of sequential attention to goals.

The organisational buying process is by its very nature an example of an attempt to avoid uncertainty through creating a negotiated environment. Buyers exhibit a definite tendency to favour known suppliers and to do business with reliable suppliers. The risks of innovation are avoided and the willingness of an organisational buyer to innovate, or his ability to tolerate risk in his decision making, reflects among other things his recent experience and whether his goal levels are increasing, static or decreasing. Another strategy used by organisational buyers to reduce risk is to split orders between two or more vendors, although single sourcing (especially from well-known suppliers) was found to be a more common practice in the specific case of electronic components (Wind, 1966).

Buyers avoid consideration of new alternatives as long as things are going well. New alternatives are considered only where problems are created, as when goal attainment falls below acceptable levels either because goals significantly change or because vendor performance falls. Buyers are busy and allocate their scarce time resources to those

problems that seem most urgent or most easily solved. There often is no attempt to identify all possible alternative courses of action and to choose the best one. Rather, the search is for an acceptable alternative. Having found a workable solution to his problem, the busy buyer is likely to go on to another problem instead of searching for a better solution to the original problem. Also, buyers tend to consider familiar alternatives first. The need for something new usually stimulates a search with the other organisational members (users or buyers), with present suppliers, or for suppliers in the local area. Only when this fails will new alternative suppliers be considered, and these are usually identified by seeking the assistance of buyers in organisations that are geographically nearby.

All three aspects of organisational learning were observed in Webster and Wind's (1972) studies of organisational buying. If no acceptable alternatives are identified in a search, the buyer may either change the goals, making one or more of the previously defined alternatives now acceptable, or he may modify his search rules hoping to identify new alternatives that will be acceptable to present goal aspirations. The importance of this is illustrated by the experience of the Wendy's restaurant chain. The company was a front runner in the American burger market, until it was almost wiped out by the rapid growth of the total market. Wendy's offered a fresh beef patty, and when rising demand led to a shortage of available beef, Wendy's was unable to source its products consistently. Breeding cows were even slaughtered to meet the demand. Frozen patty users like McDonald's and Burger King were able to source products more securely (Lyons and Wood, 1990), and so stole Wendy's market. Wendy's still uses fresh beef patties, but they have reverted to sourcing from quality beef stock rather than breeding cows!

Buyers' selectivity in their attention to evaluation criteria depends on their previous experience with rewards. Buying behaviour that is successful in terms of solving problems and earning rewards tends to be repeated. Satisfactory product performance results in repeat orders, and a vendor who can supply one product is very likely to be subsequently called upon for other products as well.

The behavioural theory of the firm thus provides a dynamic model of organisational behaviour that is relevant for the study of organisational buying and produces some insights into the specific ways in which individuals influence organisational performance. Within the framework of the formal organisation, individual members of the buying centre influence organisational functioning through a set of mechanisms for reducing goal conflict, avoiding uncertainty, searching for solutions to problems in the easiest fashion, and adjusting their behaviour to reflect their experience. It is the "quasi-rational" buyer, looking for satisfactory solutions to those sub-problems for which he is responsible, who makes the organisation work.

The next part of the chapter (sections 3.2 to 3.6) describes the evolution of theoretical models of organisational buying behaviour. The main models are described in chronological order, with a view to establishing how the theory of organisational buying behaviour has developed over the past twenty-five years.

3.2 The BUYGRID Model

Robinson, Faris and Wind's (1967) descriptive study of various representative buying situations generated a framework for analysing the procurement process based on three premises:

1. "Purchasing" includes a sequence of activities of varying complexity.
2. The central unit of analysis is the buying situation, which is termed the **buyclass.** There are three buyclasses. These are new task, straight rebuy, and modified rebuy.
3. The procurement process is the sequence of activities which must be performed in the resolution of a buying situation. The elements of this sequence of activities are the **buyphases.**

Table 3.1: The BUYGRID Model

BUYPHASES		BUYCLASSES		
		New Task	Modified Rebuy	Straight Rebuy
1.	Anticipation or recognition of a problem (need) and a general solution	X	X	X
2.	Determination of the characteristics and quantity of the needed item	X	-	-
3.	Description of the characteristics and quantity of the needed item	X	-	-
4.	Search for and qualification of potential sources	X	-	-
5.	Acquisition and analysis of proposals	X	-	-
6.	Evaluation of proposals and selection of supplier(s)	X	X	X
7.	Selection of an order routine	X	X	-
8.	Performance feedback and evaluation	X	X	X

Source: Adapted from Robinson, Faris and Wind, 1967, p.14 and Ferguson, 1979, p.41

There are eight buyphases, the first is anticipation or recognition of a problem (need). The second is determination of the characteristics and quantity of the needed item. The third phase involves the description of the characteristics and quantity of the needed item. Fourth is the search for and qualification of potential sources. Next comes the acquisition and analysis of proposals. This is followed by evaluation of proposals and selection of suppliers. The selection of an order routine is the seventh phase. The last buyphase identified by this model is performance feedback and evaluation. The resulting model is an analytical framework, that is a combination of the buyphases with each buyclass (see Table 3.1).

The most complex buying situations occur in the upper left portion of the BUYGRID matrix, when the largest number of decision-makers and buying influences are involved. Thus, a new task in its initial phase of problem recognition generally represents the

greatest difficulty for management. Clearly, a new task may entail policy questions and special studies, whereas a modified rebuy may be more routine, and a straight rebuy essentially automatic. As buyphases are completed, moving from phase one through to phase eight, the process of "creeping commitment" occurs, and there is diminishing likelihood of new vendors gaining access to the buying situation.

The relative emphasis given to each phase is by no means equal, either in the case of any given purchase or when comparing several purchases. The existence and duration of each phase depends on the buying situation. Johnston and Spekman (1982) identify a problem in that the buyphases as presented by Robinson, Faris and Wind may not progress sequentially and the entire process may consist of a number of iterative loops, depending on the complexity of the purchasing situation. When a purchase is a new task all the phases supposedly exist and are extensive. Under the conditions of a straight rebuy, the firm is assumed to pass quickly through the phases, perhaps even skipping some.

Flexibility is introduced through the "centre of gravity" concept, which acknowledges variations in the relative importance of the eight phases from purchase to purchase. According to the concept of "creeping commitment", decision making actually involves a sequence of incremental choices, each of which eliminates certain alternative solutions from further considerations. The concept of creeping commitment seems to be particularly relevant with the increase of:

1. The importance of the buying situation to the problem-solving company
2. The number of people involved in the decision-making process
3. The reliance placed upon buying committees and similar arrangements for diffusing the buying responsibility.

Although information on specific ways of solving problems is sometimes required in straight rebuys, most of the information gathered in the more routine cases is concerned with supplier capability, performance and prices. The flow of information is generally from internal technical staff to purchasing personnel, although some flows from purchasing personnel to designer-specifiers on such matters as sizes and grades available

and limits of vendor capability also occur. Many straight rebuy situations eventually become modified rebuys or even new tasks by virtue of environmental changes such as market requirements. The communication problem is particularly emphasised in the straight rebuy situation where the buyer is not deliberately searching for information. Consequently, he has little reason to consider the salesman anything but a nuisance.

The original definition of the problem which occasioned the modified rebuy situation has a basic effect on the orientation of the buying company decision-makers regarding the resultant procurement process. Where the modified rebuy arises as a part of a search for improvement of the buying company's products, the need is likely to be identified by engineering design personnel, although it could conceivably originate from marketing personnel involved in developing performance specifications for a new or changed product. In the third type of modified rebuy situation - a search for cost savings - the role of purchasing personnel is likely to be greater.

Value analysis groups may be used to offset the engineers' tendency towards conservatism and over-specification as well as to bring in broader solutions to existing needs. The purpose of a value analysis group is to assess the real worth of each specification to the final product in relation to its financial cost. The work of such groups may convert straight rebuys to modified rebuys. Whatever factor has precipitated the modified rebuy, cost information is very important, since an improved solution is generally being sought and costs represent a key aspect of the decision. Generally, cost information is of primary importance when the problem and solution sought by the buying organisation are clearly defined.

In a straight rebuy, there may be variations from time to time in the quantity purchased, the physical or chemical properties, delivery time *etc.*, so long as these changes do not entail a re-evaluation of the purchasing alternatives nor cause any changes in the procurement procedures and patterns. The purchase may even be made from a different supplier, so long as the selection is made from a previously approved or selected group. This has implications on the "IN" and "OUT" suppliers in rebuy situations (Table 3.2).

Table 3.2: Marketing Objectives for Current and Potential Suppliers

Supplier Characteristics	Buying Situation	
	Straight Rebuy	Modified Rebuy
"IN" Supplier	1. Reinforce the routine rebuy 2. Increase share of market	1. Increase share of market 2. Change the procedure to a routinised straight rebuy
"OUT" Supplier	1. Changing the buying procedure to modified rebuy	1. Maintain a modified rebuy status 2. Enter the buyer's feasible set of suppliers

Source: Robinson, Faris and Wind (1967)

The primary operational value of the buying situation classification scheme is that it provides a means for translating these judgmental categories derived from experience into more formal terms and making them generally meaningful to the varying marketing activities. Assuming that each buying situation leads to a somewhat different behavioural response, the three buying situations can serve as a basis for market segmentation, and hence lead to different marketing implications. Using the three buyclass buying situations as a basis for market segmentation does not rule out further modification of the segmentation policy.

As a procurement problem recurs, it will tend to be handled as a straight or modified rebuy. However, there is no rigid mechanistic sequence for predicting how a particular type of procurement problem will be handled on successive occasions, although new tasks that become part of the normal routine do eventually become rebuys of one type or another. The distinction between a straight and modified rebuy and new task can be made either as a conscious decision or develop as a learning function. The contention made by Robinson, Faris and Wind (1967) is that the buyclass dictates the buying behaviour displayed. Information must be obtained before decisions can be made with

a reasonable degree of confidence.

Robinson, Faris and Wind (1967) derived data from direct observations of real buying situations and from interviews with the buying influences and actual decision-makers. From this work they made the following generalisations about new task procurement:

1. New task buying may be viewed as progressive narrowing of the solution area for a problem.
2. The narrowing down process and the qualification of source are closely interwoven.
3. Final specifications are likely to follow, rather than precede, the selection of the supplier.
4. Economic considerations and evaluations enter the picture only after the basic problem has been solved.
5. Specifiers and buying decision-makers are subject to strong pressures which cause them to act cautiously and conservatively.
6. Purchasing personnel are involved in new task situations primarily as information switchers.
7. Competition among sellers tends to be qualitative and based on reputation for capability rather than based on comparative costs.
8. Because commitment to a course of action tends to "creep" as the specifications become narrowed, early entry by the supplier into the procurement decision making process is essential.

Anderson, Chu and Weitz (1987) suggest that the popularity of the BUYGRID framework is due to the detailed, testable propositions it advances, as well as its simplicity and intuitive appeal. Robinson, Faris and Wind (1967) argue that application of the BUYGRID framework not only helps to structure the complex decision making process from an observational point of view, but also helps to define a number of decision points at which the marketer can assist the buying company in its information acquisition process. They assert that this assistance can significantly influence the trend of its decision making process in a direction favourable to the selling company.

It is argued that a considerable amount of communicative interaction occurs between the buying company personnel and selling company representatives. However, Silk and Kalwani (1982) point out that information is not always reported in sufficient detail to permit the purchase decisions to be categorised according to the buyclass typology proposed by Robinson, Faris and Wind. They suggest that a reasonable conjecture would be that modified rebuys and new tasks predominate. In contrast, Anderson *et al.* (1987) propose that the new task buyclass is relatively rare.

The Robinson, Faris and Wind model focuses on certain task characteristics (to the exclusion of other personal and organisational characteristics) and predicts that more alternatives will be considered more carefully along the continuum from straight rebuy to new task. Other research indicates that marked variation in the seriousness of consideration of alternatives will occur within points on the continuum (Anderson *et al.*, 1987). A criticism levelled at the BUYGRID model by Webster and Wind (1972) is that although it has a number of significant implications for the design of marketing strategies, it is virtually devoid of predictive ability, and offers little insight into the nature of the complex interplay between task and non-task variables.

Webster and Wind (1972) argue that the BUYGRID framework does not permit inferences about behavioural cause-and-effect relationships of the kind needed for designing efficient marketing strategies. Although Webster and Wind have serious criticisms of the model, they do credit it with the virtue of completeness in the sense that individual, social, organisational, and environmental factors can all be positioned within this broad context. However, they make a further criticism which is that the model tends to obscure important non-task variables such as status drives and role set conflicts. This concern is echoed by Johnston and Spekman (1982) who feel that organisational researchers have tended to focus on the sequencing of decision phases to the exclusion of other important aspects of the process.

Doyle, Woodside and Mitchell (1979) carried out a study of British industrial marketing managers in new task and straight rebuy purchase decisions. There were seven

hypotheses concerning the relationship between buying classes and buying phases. The process variables considered were the length of time, the number in the buying centre, the source of contact of the supplier, concession limits, the composition of the buying centre, the reasons for supplier contact by customers, and the post-purchase evaluation procedure. The results offered mixed support for the hypotheses. Differences in the composition and size of buying centres in straight rebuy, modified rebuy, and new task buying situations were examined. The findings are related to the need for direct observation studies of buying decisions and behaviour.

The length of time involved in the organisational buying process was found to be shorter for straight rebuys as compared to new tasks. The buying centre was smaller in size for firms operating in straight rebuy situations. Both these findings were as hypothesised. However, no significant differences were found in the number of potential suppliers contacted by customers between straight rebuy and new task operating firms. Customers contacted slightly less than two suppliers for both buying situations. This supports the findings of previous research (Cyert, Simon and Trow, 1956) which suggested that the search for potential suppliers is very limited in industrial buying behaviour.

The composition of the buying centres was found to fluctuate through decision stages (buyphases) for all three buyclasses. This finding disagreed with the hypothesis made by Doyle, Woodside and Mitchell that the buying centre is stable under the conditions of a straight rebuy. The reasons for customers contacting suppliers were varied *but different* for straight rebuy *versus* modified and new task buying situations. This provides partial support to the stated hypothesis that the reasons for supplier contact by the customer would be varied in new task situations and limited in straight rebuys (depletion of stock). There is support for the contention that post-purchase evaluation is extensive for new tasks and relatively brief for straight rebuys. However, the main conclusion is that post-purchase evaluation is likely to be informal, verbal, and within the buying centre.

Doyle, Woodside and Mitchell provide some theoretical support for the buyclass and buyphase concepts used in the study of organisational behaviour. The findings do **not**

support the criticisms levelled at the BUYGRID model by Webster and Wind (1972) that it is *"virtually devoid of predictive ability and offers little insight into the nature of the complex interplay between task and non-task variables"*. Doyle *et al.* suggest that additional work is needed on observing and developing decision and behaviour routines on organisational buying and selling processes (also Cyert, Simon and Trow, 1956). They claim that the BUYGRID framework provides initial insight for more in-depth research.

Bellizzi and McVey (1983) attempted to test the effects of product type and purchase experience on industrial buyer behaviour. The research was conducted in the commercial construction industry. Their findings indicated that product type is a meaningful variable which is related to industrial buyer behaviour; however, the buyclass variable was not significantly related to buyer behaviour in this study. These results cast doubts on the application of the buyclass variable to buyer behaviour. Bellizzi and McVey expected that top managers would be found to exert more influence under new buy conditions and that lower level personnel, particularly shop foremen and other workers, would exert less influence under new buy conditions. They found the opposite to be true.

However, it is logical to assume that prospective "users" would have a strong influence in new buy purchases and that the role of top management would be limited to approving the initiation of the buying process. The results of this study suggest that there is general non-significance of the buyclass variable at least as a predictor of industrial buying influence. Bellizzi and McVey concede that the buyclass may be related, however, to the general importance of buying as manifested in the amount of buying information sought by buyers and the number of alternatives considered by buyers when making purchase decisions. Another problem with this study is the definitions applied to the buyclasses, which are similar but not the same as those put forward by Robinson, Faris and Wind in 1967. However, the lack of general significance is an important finding.

Anderson *et al.* (1987) also carried out an empirical exploration of the buyclass framework in the context of industrial purchasing. Their results were mixed with both

support and disagreement with the theory proposed by Robinson, Faris and Wind. They found that purchase newness and information needs are related, consistent with theory. Contrary to theory, the seriousness of consideration of alternatives was found to be only weakly related to newness and information needs. Newness and information needs appeared to represent the buyclass construct well and to be associated with buyer behaviour, regardless of the product class, in accordance with Robinson, Faris and Wind's predictions. The seriousness of consideration of alternatives was found to be related less strongly to buyer behaviour and was found not to be related consistently in the manner predicted by the theory. Further, the relationship between the buyer's open mindedness and buyer behaviour was thought to be affected by the product category under consideration.

Ferguson (1979) carried out a study to determine whether the BUYGRID model is a general model of industrial buying behaviour by performing a statistical evaluation on the model. Industrial buying behaviour in the selection of a public warehouse is used in this study. The results of the study do not support the contentions that the BUYGRID model is a general purpose model of industrial buying behaviour. The decision process data and the company and product information were cross tabulated. The company and product data included: Standard Industrial Code (SIC), annual sales, product value, and product density.

The Chi-squared values obtained were not consistently significant at the 90% confidence level. The differences in the confidence levels obtained are believed to be due to random variation. The inability to test the hypotheses that each buyphase occurs in straight rebuy and modified rebuy situations irrespective of product lines and company characteristics prevents their rejection. However, there is also no basis for supporting the contention that the BUYGRID model defines industrial buying for the service sector (Ferguson, 1979).

Ferguson suggests three possible reasons why the BUYGRID model does not define industrial buying behaviour for the service sector. First, services are very intangible

before they are performed. The service required can be comprehended in terms of quality and activity but the quality of service actually offered cannot be accurately conceptualised. Secondly, the importance of minimising the risk of making a bad decision was emphasised by respondents to the study. The method commonly cited to minimise the risk of making a bad selection is to solicit bids only from those suppliers who have proven from past performance that they can supply the required services.

The third point that Ferguson makes is that the BUYGRID model was constructed from data obtained by watching industrial buying behaviour at several companies. It was assumed that the independent observer would not influence the decision process. Since the results of Ferguson's study indicated that the BUYGRID is not a general model of buying behaviour for the service sector, some error in the basic assumptions must exist. The presence of an outside observer may have influenced the decision process by constraining the decision-makers, causing them to use the formal system.

Ferguson concludes that the BUYGRID model is a model of the formal system that is designed to provide equal consideration of all potential suppliers. The human influence on the decision process is manifested by the development of an informal system for performing the desired task and then complying with the requirements of the formal system.

The results of Ferguson's study indicate that the decision process used in selecting a service may be different from the one used in selecting a product. Zaltman and Bonoma (1977) emphasise the importance of further study about how the nature of the product influences decision making. Product attributes which would seem important include the level of technology involved, whether capital equipment is involved, life of the product and so on.

Monoky, Mathews and Wilson (1975) found that information source preferences of individual buyers was a function of the buying situation. The buyclasses (new task, straight rebuy and modified rebuy) can be thought of as differentiated by the magnitude

of uncertainty associated with each situation. It is maximal in the new task and minimal in the straight rebuy. Moriarty and Galper (1978) argue that a classification of buying categories is useful for marketing strategy only when considered in the context of a specific product category. They suggested integrating the new task, modified rebuy, straight rebuy typology of the BUYGRID model with the product classes of capital equipment, raw materials, industrial services, component parts *etc.*

Johnston (1981) identifies a problem with the BUYGRID purchase typology which is that it seems to confound at least three separate dimensions of the purchase situation. The importance of the purchase, the novelty of the product or service to the organisation, and the complexity or difficulty of evaluating the purchase alternatives all seem to be factored together. For instance, if a company is contemplating the purchase of minor supplies which they have not bought before (new task), such as low energy light bulbs, the BUYGRID would seem to predict a relatively more drawn out process than a purchase by the same company replacing its old fleet of distribution vehicles (modified rebuy).

This point led Choffray and Lilien (1978b) to claim a need to develop a theory for each of the various product classes. Anderson *et al.* note Johnston's criticism that the importance and complexity of the purchase is ignored by the model. Their findings suggest that the BUYGRID model is valid even when the product's technical complexity is taken into account. They offer the explanation that complexity is perhaps intertwined with newness, which is the most important dimension of buyclass. However, Anderson *et al.* (1987) did not address the importance of the purchase which may explain the separation found between buyclass and how seriously the buyer considers alternatives.

Anderson *et al.* (1987) also observed some deviations from the Robinson, Faris and Wind predictions. Specifically, they found indications that some new task buyers do **not** consider a range of alternatives seriously and that some straight rebuy buyers **do**. Both of these circumstances contradict the BUYGRID model but agree with expectations generated from other marketing literature, particularly the source loyalty research.

Johnston (1981) felt that while this model is empirically based, it would seem to be an almost impossible task for an industrial marketer to identify which of his actual and potential customers fall in each of the three buying situations, except through detailed analysis on an individual basis. Given these drawbacks, differentiated marketing strategies would be difficult to develop based only upon the use of the BUYGRID model.

Empirical work has been conducted which supports Robinson, Faris and Wind's description of buyer behaviour. Examples of such work include that of Doyle, Woodside and Mitchell (1979), who interviewed fourteen managers representing firms predominantly engaged in straight rebuys, modified rebuys or new tasks. In a novel approach involving a larger sample, Leigh and Rethans (1984) solicited salespeople's cognitive scripts, which are learned stereotypic action sequences for categories of events, such as modified rebuys. The descriptions of scripts for modified rebuys, which match the BUYGRID predictions well were rated as highly typical in these purchasers' experience.

The BUYGRID model proposed by Robinson, Fairs and Wind (1967) is basically a simple construction illustrating the relationship between buyclass and stages in the decision making process. The framework itself is not rigid with behaviour being dictated by the buyclass. However, some of the empirical work outlined above suggests that variance occurs over types of products as well as the buyclasses allowed for in the model. The flexibility of the concept allows its application as a general model which provides a good descriptive framework to apply to empirical situations. However, its main strength is as a descriptive tool, rather than providing any predictions. As a descriptive tool the framework allows the identification of specific decision points or buyphases which allows the mapping of the decision making process.

Although both task and non-task variables are considered, and many factors can be inserted into this broad context, it is not possible to examine the interaction between such factors within the confines of the model. Non-task variables are not explicitly stated within the BUYGRID model itself. The effects of individual variables will have a

profound effect on the outcome of the decision process and therefore should be considered as a part of any concept which attempts to model organisational buying behaviour. This theory tends to map the formal decision processes, as opposed to illuminating the process which actually occurs, that is, it makes no provision for short cuts made to the formal procedure. This was observed by Ferguson (1979), who suggested that the presence of an observer made members of the decision making unit "play by the rules".

The empirical work conducted to investigate the validity of this concept provides both support and criticisms. It is important to recognise that no theory is perfect in all situations. This concept does provide a good framework for situational analysis and thus as a springboard for further research. Such research should consider non-task variables, such as communication within the buying centre, explicitly.

3.3 Organisational Buying Behaviour Model

The organisational buying behaviour model developed by Webster and Wind (1972) was an attempt to integrate a large number of individual, interpersonal, inter-organisational, and environmental variables into a "consistent framework". The basic assertion of this model is that all organisations buy in a similar manner. Organisational buying is seen as a decision making process carried out by individuals in interaction with others in the context of a formal organisation. An acceptable model of a buying decision process should suggest that each of the decision stages, while a necessary stage for the next one (in a "hierarchy of effects" model), may also be a dependent variable in its own right and can be viewed as a legitimate response of the buying centre. The specific nature and importance of, and interrelations among, these stages vary across organisations and buying situations, yet such a model does provide a good starting point for the understanding of the buying decision process.

The model proposed by Webster and Wind (1972) suggests that these multiple influences on buying decisions can be expressed as:

$$B = f(I, G, O, E);$$

that is, buying behaviour (B) is a function of individual characteristics (I), group factors (G), organisational factors (O) and environmental factors (E). Each of these four factors can influence the buying decisions through a set of variables relating to the buying "task" and/or through a set of variables not directly related to the task at hand. Distinguishing between the task and non-task elements of the individual, group, organisation, and environmental variables that affect the buying decisions suggests that:

$$B = f(I_T, I_{NT}, G_T, G_{NT}, O_T, O_{NT}, E_T, E_{NT})$$

where T represents task variables and NT non-task variables. The model emphasises the importance of these variables as determinants of buying behaviour (see Figure 3.1). An illustration of the classification of determinants of organisational buying behaviour put forward by Webster and Wind (1972) is given in Table 3.3.

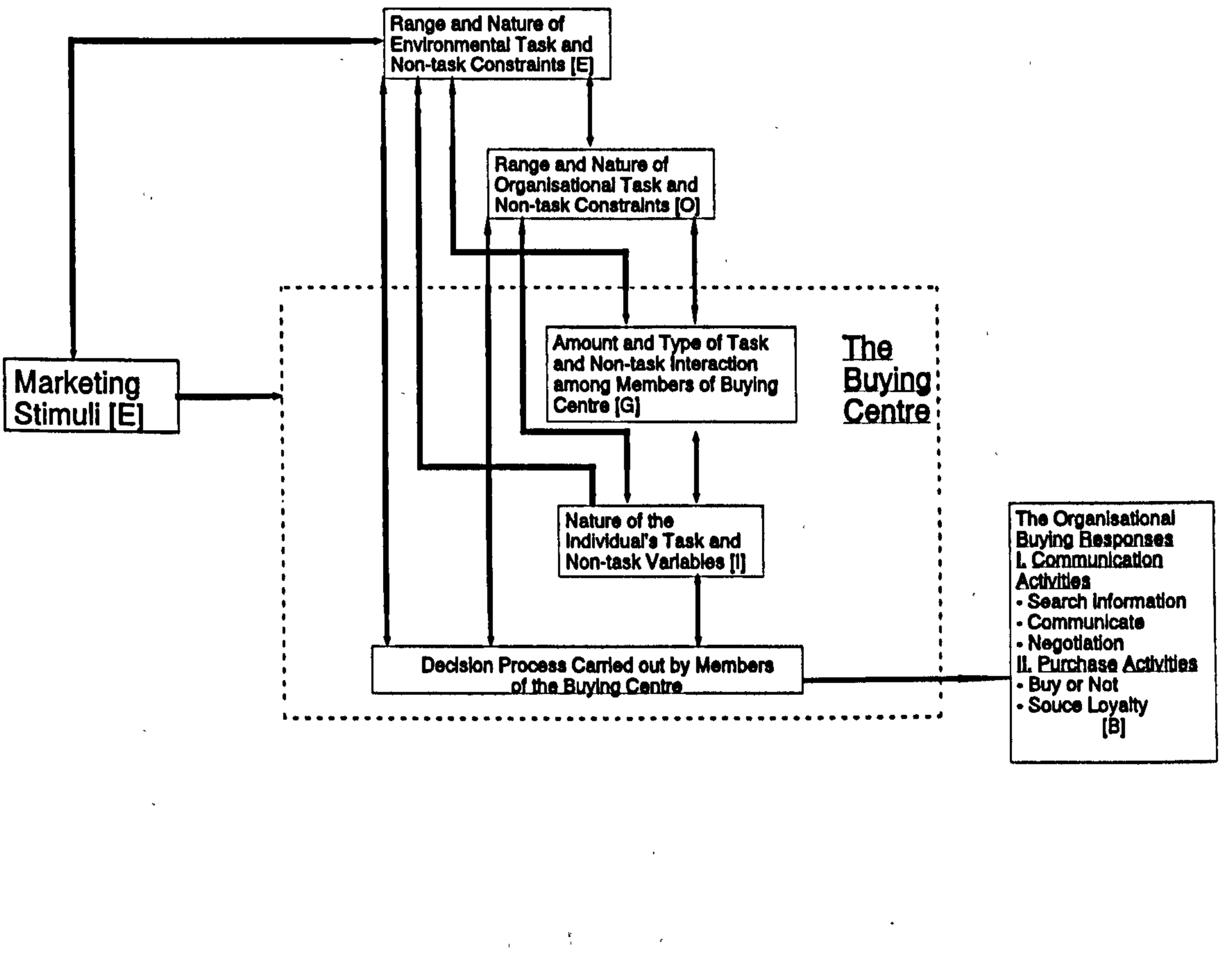
Table 3.3: Classification of Determinants of Organisational Buying Behaviour

Source of Influence	Task Variables	Non-Task Variables
Individual factors	Desire to obtain lowest price	Personal values
Interpersonal (social) factors	Meetings to set product specifications	Off-the-job interactions among company employees
Organisational (formal) factors	Company policies with respect to product quality	Company policies regarding community relations
Environmental factors	Expected trends in business conditions	Political factors in an election year

Source: Webster and Wind (1972)

Given these eight sets of possible determinants of organisational buying behaviour, the question becomes one of how they affect organisational buying behaviour. The model attempts to address this question (see Figure 3.1).

Figure 3.1: A Model of Organisational Buying Behaviour



Source: *Webster and Wind, 1972, p. 30.*

3.3.1 The Buying Centre

Members of the buying centre (the set of individuals who participate in the purchase decision making process) are motivated and directed by the organisational human resources of the firm. Wind (1978) points out two possible conceptual foundations for membership of the decision making unit: a group making a decision *versus* an individual making a decision with inputs from other people. Moriarty and Bateson (1982) observe that a change from one framework to another would dramatically change the questions

required to identify membership of the buying centre. Mattson (1988) developed a model to determine the composition and influence of a buying centre. This work is based on the study of the purchasing and marketing literature to identify key variables for determining the management level and functional areas of major importance in the buying process.

The buying centre encompasses the group factors and individual characteristics developed by its members. Interpersonal influence is defined simply as the influence of one person on another. When several individuals interact simultaneously and are guided by a shared set of objectives, norms, expectations, and so on interpersonal influences become "group" influences. The term "interpersonal" includes both dyadic interaction (that is, the interaction between two people) and the broader category of group influence. A source of variation in the model is the network of interpersonal relationships among organisational members and more specifically those within the buying centre. These individuals often have different responsibilities and may play different roles. Identification of each individual's "role set" (characterised by expectations, actual behaviour, and relationships with others) is required to understand the nature of participation in the buying decision process.

Michaels *et al.* (1987) found that a sales representative has a great opportunity to gather information about a customer's company and the buyers with whom they interact. The process of obtaining and/or updating information is done in an informal, unstructured way in response to the personal characteristics and behaviours of the buyer. However, the empirical evidence suggests that marketers know little about the organisational buying behaviour environment and are not very adept at receiving and interpreting clues about what is really happening within a buying firm. It is suggested that the reason may be a lack of a conceptual framework and is further suggested that role stress may provide a start in that direction.

In some empirical research on role differentiation in industrial buying decisions, McMillan (1973) examined how role position differences and similarities affected vendor

selection decisions in firms. He identified that occasions in which the purchasing agent is not the most influential person in the decision making process were increasing in frequency. McMillan argues that industrial buying behaviour is best conceptualised as a form of decision making involving several members of the firm who act collectively and could be called the firm's "buying centre". He found that others besides the purchasing agent are involved in the vendor selection, and sometimes members of the firm hold opposing views towards a particular vendor's offer.

Krapfel (1985) suggested one approach to influence vendor choice. This approach involves the boundary role person being stimulated to take on the additional role of advocate. Krapfel presented a causal model of antecedent factors hypothesised to stimulate advocacy and consequent effects of perceived advocacy behaviour on organisational buyers' vendor choice.

Finally, Webster and Wind see organisational buying behaviour as reducible to individual behaviour. The **individual** is at the centre of the buying process. These organisational members are, or should be, the targets of the industrial marketer's strategy, instead of the abstract entity of the organisation. These factors operate in conjunction with organisational and environmental influences exogenous to the buying centre as the decision process which dictates buyer behaviour (see Figure 3.1). It is beyond dispute that purchase decisions are a function of not only the individual, but of all the interactions which occur between the environment and people within the firm as well as people outside the firm (Zaltman and Bonoma, 1977).

3.3.1.1 Group Factors [G]

It has been stated that organisational buying **usually** involves group decision making. Such groups tend to be made up of users, buyers, deciders, influencers, and gatekeepers (Kotler, 1991). Each member of the group has their own part to play; users may be involved in devising product specifications; buyers have the formal authority to purchase, deciders actually make the buying decision; influencers affect the buying decision, for

example technical personnel; and gatekeepers control the flow of information to and from the buying group (see Table 3.4). The impact that gatekeepers have on the decision process has been studied by Pettigrew (1973) who found that these individuals structured the outcome of the purchase decision through the control of information to maintain or enhance their position in the decision making process.

In essence, information power reflects the gatekeeping ability of an individual. Information power is the basis of influence exerted if a target is influenced by the **information** provided. Purchase decisions involve considerable processing of information about alternative products, suppliers, and organisational needs. Therefore, an individual with access to such information can influence a purchase decision by withholding the information and/or controlling the manner of its dissemination (Kohli, 1989). This point was examined further by Spekman (1979), who found that under conditions of higher environmental uncertainty gatekeepers (in this case purchasing agents) could better influence the procurement decision by relying on expertise as their primary bases of power.

Table 3.4: Decision Stages and Roles in the Buying Centre

	User	Influencer	Buyer	Decider	Gate-keeper
Identification of need	*	*			
Establishing specifications and scheduling the purchase	*	*	*	*	
Identifying buying alternatives	*	*	*		*
Evaluating buying actions	*	*	*		
Selecting the suppliers	*	*	*	*	

Source: Webster and Wind (1972)

People become buying influences in specific situations because their organisational position gives them a formal stake in the outcome, or because they have a relevant special information position. In a few cases all the buying decisions may be made by

general management; usually its role is more limited. The original need is recognised by management, it sets broad criteria and delegates the buying decisions to lower levels (Brand, 1972). The purchasing agent performs a number of specialised facilitating activities which vary in importance across companies and buying situations. Regardless of his formal strength in a given situation, the purchasing agent is usually able to significantly help or hurt the chances of any particular supplier. Hidden influences, informal advice and consultation may not even be apparent to other members of the decision making unit (DMU).

In viewing a decision making unit, a marketer must ask four basic questions (Moriarty and Galper, 1978):

1. Who is in the decision making unit?
2. What is each members' relative influence in the decision?
3. What are each member's evaluation criteria and how do they rate each prospective supplier on those criteria?
4. How can communication be made with members of the unit?

If a marketer can answer the above questions then he is in a better position to influence the decision making process because preferences can be catered for and more influential members of the unit can be targeted.

According to Webster and Wind (1972) buying committees are commonly found in large retailing organisations, especially in the grocery field, where the decision is essentially a go/no-go decision as to whether to stock a particular product and involves judgments about consumer acceptance. Being a special case of group decision making and behaviour, buying committees are likely to encounter four types of problems.

First, problems of objectives. There are three possible levels of conflict of objectives. One level of conflict is defining and agreeing on the objectives of the committee. Another is explaining and solving the conflicting objectives of the various departments represented and the conflict between departmental objectives and the committee's objectives. The last level of conflict is determining the individual objectives and their

congruency with the departments and their objectives.

Secondly, problems of direction and leadership, there is a danger that a buying committee may become introspective and lose direction. Thirdly, there are problems of decision making within a committee. Fourthly, problems of personnel such as those of interpersonal relationships. Buyers who are ambitious and wish to extend the scope of their influence will adopt certain tactics and engage in bargaining activities in an attempt to become more influential at earlier stages of the buying process. These tactics or bargaining strategies define the nature of the buyer's relationships with others of equal organisational status and structure the social situation that the potential supplier must face in dealing with the buying organisation. This aspect of individual characteristics is covered in the next section.

3.3.1.2 Individual Characteristics [I]

The concept of a person's role in the decision making process is complex and can be thought of as including three distinct components. First, the **prescribed role** consisting of the expectations that exist in the social world for the behaviour of persons occupying a position, especially regarding behaviour toward persons in other positions. Secondly, the **subjective role** consisting of the expectations that a person has for his own behaviour in reference to persons in other positions. Lastly, the **enacted role** consisting of the actual behaviour of the individual when he interacts with persons in other positions. The influence of a member of the buying system can be shaped by situational contingencies or by personal attributes such as personality or an actor's skill in using influences, but Ronchetto, Hutt and Reingen (1989) suggest that structure imposes the ultimate constraints on the individual.

Buyers employ different tactics to influence their relationships with other departments. Strauss (1962) studied these tactics as a special case of the more general phenomenon of "lateral" relationships in formal organisations, that is, relationships among members of roughly equal status in the formal organisation hierarchy. Strauss identified five

categories of tactics used by purchasing agents. First, rule-orientated tactics, such as appealing to a superior for the enforcement of organisational policy, appealing to rules and formal statements of authority, and requiring serviced departments to accept financial charges. In contrast to this there are rule-evading tactics, which include complying literally with requests from users that violate organisational policies, and exceeding formal authority over quantities which can be ordered. Thirdly, personal-political tactics can be used such as reliance on informal relationships and friendships to get decisions made. Inter-departmental politics can become significant, especially when the purchasing department is trying to enlarge its influence or when value analyses are perceived as encroaching on the prerogatives of the using department.

Educational tactics are designed to persuade other members of the organisation to think in purchasing terms. The purchasing agent may rely simply on his knowledge of products, suppliers and other relevant facts to directly persuade others. Indirect persuasive techniques may also be used such as flattery, presenting facts and letting the other person draw his own conclusions, or carefully controlling the flow of information within the organisation (the gatekeeper function). Fifthly, organisational-interactional tactics are intended to change the formal organisation structure and the pattern of reporting relationships and information flows. A formal enlargement of job responsibility and authority may be required to secure involvement of the purchasing department at earlier stages of the buying decision. Similar formal steps may be required to facilitate the interaction of buyers with other members of the organisation. Strauss (1962) found that the typical purchasing agent used a variety of tactics, depending on the specific problems faced and the conditions of the organisation.

Another conceptual framework for analysing relationships within the buying centre is provided by the Walton-McKerzie (1965) model of social negotiations. According to this model, any form of social negotiation is composed of four systems of activities:

1. Distributive bargaining

Distributive bargaining resolves pure conflicts of interest between two independent parties. The game theorist would call such situations "constant sum" games in which a

fixed payoff is to be distributed between the opponents in the contest. In the buying process such a situation may be found when one party wishes to emphasise lowest cost while another wishes to obtain maximum quality, and price and quality are highly correlated.

2. Integrative bargaining

This is an attempt to find areas of mutual interest and common concern where parties are not in pure conflict. Integrative bargaining is not possible unless the payoffs to both parties can be enhanced by co-operation. A purchasing agent engages in integrative bargaining when he attempts to demonstrate to two other buying influences how their needs can be better served by a compromise, as when production scheduling is willing to take a slight delay in delivery in order to permit manufacturing to obtain a product better suited to its needs with the result that a better combination of delivery and product quality is obtained than if only delivery had been emphasised.

3. Attitudinal structuring

This is concerned with developing the most productive social relationships among members of the social system. Attitudinal structuring is an interpersonal process designed to change attitudes and relationships among members of the buying centre.

4. Intra-organisational bargaining

Intra-organisational bargaining involves the search for compromise among the distinct interests of members of the buying centre for the purpose of defining the terms on which they will do business with suppliers.

The social negotiations model attempts to analyse and structure essentially the same kinds of interactions and relationships as the lateral relationships model, but it emphasises different aspects of the relationship between buyers and others. Instead of placing the emphasis on the buyer's desire for increased organisational status and authority, the social negotiations model emphasises the negotiative aspects of the buyer's responsibilities and seems more directly related to the work he must perform. Distributive and integrative bargaining are necessary to obtain a workable definition of the buying problem and an operational set of product specifications and delivery requirements (Webster and Wind, 1972).

Attitudinal structuring and intra-organisational bargaining are necessary to define a set of working relationships that permit the buyer to represent the organisation unambiguously in his dealings with vendors, presenting a united front which requires co-operation among members of the buying centre (Webster and Wind, 1972). Thus, the model of social negotiations is a useful way of thinking about the buyer as the key decision-maker in the organisational buying process.

Wilson (1971) makes the point that although some decisions are dictated to a purchasing agent and others are made by a group, in many instances the buyer does have sole responsibility for the decision. Buyers' display different styles of decision making. Multi-attribute decision models are designed to emulate different decision styles. Wilson (1971) conducted a study on industrial buyers' decision making styles, and found that an individual's need for *certainty* appears to be an important influence upon choice under conditions of *uncertainty*.

Webster and Wind (1972) identify four styles which occur. These are conjunctive, disjunctive, lexicographic, or compensatory models or any combination of them. If displaying a conjunctive style, an individual will respond positively to a stimulus if and only if it meets certain minimum standards on **each** of the components of a complex set of criteria.

In a study conducted by Crow, Olshavsky and Summers (1980) it was found that if too few (many) vendors remained after the initial conjunctive screening process the criteria for acceptance would be relaxed (tightened). In contrast, a disjunctive style requires that a certain minimum is met on **any** of the relevant dimensions. If an ordering or hierarchy of importance exists among the relevant attributes then the style is lexicographic. This style was also observed in Crow, Olshavsky and Summers' study.

The results suggested that industrial buyers frequently employ multistage decision models involving conjunctive processes. Individual differences between buyers in this study in the initial screening stage involved the particular characteristics considered critical. With

the compensatory model, a surplus on one component may substitute for a shortage on another.

Research has shown that another difference between buyers is in the expression of predetermined constraints on the number of vendors to be quoted (Crow *et al.*, 1980). About half of the buyers in their study did not specify the number and simply requested quotes from those passing the screening test. The other buyers either specified some minimum number of quotes to be requested or specified an exact number they wished to quote. It is necessary to appreciate the importance of understanding the buyer's psychological characteristics and especially his predispositions, preference structure, and decision model as the basis for making marketing strategy decisions. Cardozo (1968) reported that preliminary research seemed to indicate that a typical industrial purchaser employs only one or two strategies, which he applies to all the purchase situations which he faces. This may explain some of the industrial purchasing behaviour which is not handled satisfactorily either by a "rational" or an "emotional" model. Cardozo found that in the course of informal conversations with industrial salesmen, they indicated that they frequently observe this "one strategy" approach, and tailor their selling strategies to match particular buyers' strategies.

The buying centre is a complex multi-person group of individuals within the buying organisation. Each individual has an assigned role in the firm and may be involved in the purchasing process either informally or formally. The discussion of role naturally leads to the dyad as a unit of analysis (Johnston, 1981). It is a human failing to overestimate the influence one has in a decision making process. This is supported by the findings of Silk and Kalwani (1982) in their study concerning measuring influence in organisational purchase decisions. They found that respondents tended to attribute more participation and influence to themselves and/or the positions they held than other informants attribute to them and/or the same positions. However, Kohli (1989) found that the influence an informant thought he or she had on the decision did not affect his or her estimate of another's influence. The finding is important because overestimation of personal influence could potentially result in the underestimation of the influence of

other individuals.

3.3.2 Organisational Influences [O]

The organisation itself is also a source of influence on buying behaviour in the form of task and non-task dimensions. Objectives, policies, procedures, structure, and systems of rewards, authority, status and communication define the formal organisation as an entity and significantly influence the buying process at all stages (Webster and Wind, 1972).

It is the objectives of the formal organisation which, in the first instance, define the existence of a buying situation. Products and services are purchased to facilitate goal accomplishment (Webster and Wind, 1972). A buying "problem" is defined by a discrepancy between the level of goal attainment perceived to be desirable and the level expected to exist if there is no action taken. Alternative courses of action can be evaluated according to their ability to contribute to the accomplishment of the organisation's goals. The technological state of the organisation seems to have an indirect effect on the buyer's decisions through its effects on the purchasing procedures and the organisational structure, the organisational structure of the purchasing department and equally its degree of centralisation (Webster and Wind, 1972). Further constraints can be set by certain organisational variables such as the requirement to use reciprocity buying, to buy only from a subsidiary company *etc.*

In a given buying situation, the organisational factors that are directly related to the buying task include organisational polices providing specific criteria as to the kind of material to be purchased and the specifications for product quality that must be met. Other task related organisational factors include the technical requirements created by the nature of the organisation's operations (such as production equipment constraints) and time related variables such as delivery requirements and the number of days' worth of inventory which must be maintained (Webster and Wind, 1972).

Organisations also have a set of policies that relate to the purchasing activity, but on an indirect non-task basis. For example, McDonald's has a policy to purchase ingredients from EU countries for its restaurants within that area. This has more to do with public relations than economic logic and is therefore a non-task factor which influences the buying decision. As organisations become more specialised, purchasing must co-ordinate its activities with other functional areas in the organisation (Johnston and Spekman, 1982). Both Cyert, Simon and Trow (1956) and Strauss (1962) stressed lateral negotiations between purchasing and other functional areas during the purchasing process.

3.3.3 Environmental Influences [E]

Environmental influences are subtle and pervasive (Webster and Wind, 1972). They are hard to identify and describe, and they provide the context within which organisational, interpersonal, and individual factors in turn exert their influence. Such influences may be of two types. These are internal and external environmental influences.

Internal influences include such factors as the human element, organisation of the buying company, bases of competition in the buying company's industry and the type of operation in the buying company. External environmental influences encompass characteristics of the supplying industry, social, political, and economic conditions and significant events. A significant impact on purchasing can be exerted by any number of events not even directly related to the procurement.

Each buying situation occurs, is modified, and is resolved within a unique combination of environmental factors. Examples of different kinds of environmental influences are physical (including ecological), technological, economic, political, legal, and cultural. Economic and political forces are the dominant influences on general business conditions (Webster and Wind, 1972b). There are also institutional forms of environmental influences such as suppliers, customers, government, social institutions, trade associations and professional organisations. These factors can affect organisational buying behaviour in two ways. The environmental factors can be perceived, reacted to, and taken into

account by the organisational members in making their buying decisions. In contrast, environmental factors may be conceived as constraints on the execution of strategies designed to achieve the envisaged buying goals.

3.3.4 Buying Behaviour [B]

Industrial buyers' decisions are subject to the effects of both "rational-economical" and "emotional-non-economical" factors. Rationality is defined as being contingent upon access to information, the computational capacities of individuals, and actual decision processes. The buyer's attitude toward and awareness of the various sources of supply also act as determinants of his buying decisions. The buyer's behavioural characteristics include the buyer's previous buying decisions and their "feedback" (a characteristic equivalent to present product ownership and retail store preference in the case of consumer behaviour) and his information handling habits.

Buyer behaviour is motivated by risk reduction and achievement. Cardozo and Cagley (1971) carried out a study of the industrial buying process in controlled experiments. The results of this study suggest that industrial buyers are indeed responsive to the amount and type of risk in purchase situations. The implication is that when purchase of a particular product is perceived as important (high risk), price concession is unlikely to produce sales.

Cardozo and Cagley go further and suggest that it may be possible to segment industrial markets on the basis of: the strategy used by individual buyers to solicit and evaluate bids in particular purchase situations; the preference patterns which individual buyers hold consistently for certain types of bids across a variety of purchase situations; and the size of the buying firm, the position within the firm of the particular buyer responsible, and the personal background of individual buyers. However, the stages in the decision making process are not explored explicitly and nor is the identity of any other personnel involved, nor any interactions which may occur.

Learning is another determinant of buyers' behaviour. Resistance to change is caused by a large number of variables of which habit is only one. The force of habit is usually inferred from observed behaviour, but a loyalty to a certain source can be ascribed, for example, to the motive of risk reduction. Loyalty becomes the means whereby past buying decisions affect the current one (Bubb and van Rest, 1973). These researchers found, from fieldwork, that at least some industrial marketing executives regard loyalty in this way. However, it is also suggested that some firms force suppliers to "prove themselves" or "re-win the bid" for every purchase (Bubb and van Rest, 1973).

Wind's (1966) empirical findings on the determinants of source loyalty in the purchase of industrial components can be simplified into four categories. First, variables associated with the offerings of the various sources of supply as related to the buying requirements. These include the "traditional" variables of price, quality, delivery, quantity and service. The buyer's past experience and interaction with the various sources is the second set of variables. It is assumed that a buyer's past experience and interrelations with the sources is summarised and expressed in his attitude toward the various sources. Thirdly, variables which are derived from Wind's (1971) "Reward-Balance" theory: the pressure for cost savings, the monetary value of the order, the number of complaints from the using departments to the purchasing manager.

Industrial buyers are, in most cases, under tremendous pressure to complete their routine of selecting and contacting sources of supply in a given period of time. Therefore, they tend to prefer alternatives that might simplify their work and save them extra time and effort (Wind, 1970). In summary, those product characteristics which have a role as determinants of buyers' decisions are: the product and service mix, the communication and information mix, and the distribution mix. In the light of this, Bubb and van Rest (1973) consider that it is useful to regard source loyalty in industrial marketing as one of the determinants of the buying decision, and not just a summary of decision outcomes.

Webster and Wind do not claim that the model is deterministic, in contrast to existing consumer behaviour models. Instead, recognising the situation dependent and dynamic

nature of buying behaviour, it presents the major sets of variables that marketing personnel should identify in their attempt to understand buying behaviour. Johnston and Spekman (1982) state that a true picture of the industrial buying process must reflect the multidimensional components of the procurement decision making structure. This is reflected in Webster and Wind's first stated objective. Moreover, the model proposed by Webster and Wind deals explicitly with organisational buying behaviour. Given the proviso that no deterministic model of organisational buying behaviour can be developed, the stated purpose of developing the model is threefold:

> *"1. To identify the major sets of variables affecting the organisational buying decisions;*
>
> *2. To highlight the current state of knowledge with respect to the various relationships among the key variables in the buying system;*
>
> *3. To provide guidelines for future research in the area of organisational buying behaviour."* (Webster and Wind, 1972, p.39).

Webster and Wind (1972) also studied the effects of centralisation and decentralisation on the locus of buying responsibility. There is almost always one individual within the formal organisation who has ultimate responsibility and authority for the purchasing function, although this may only involve one or a few stages of the total buying process - typically the selection of suppliers to meet predetermined specifications. Centralisation influences five elements of the buyer's job:

1. The geographical location of the buyer
2. The authority relationships between the buyers and users (including allocation, criteria, sampling, evaluation, and authority reversal rights)
3. The authority relationships between the buyer and the top purchasing executive
4. Informal relationships between buyers and users
5. The formal nature of communication between buyers and users.

Johnston and Spekman (1982) consider that the primary issue centres on whether the variable "influence" has been measured accurately. This debate ranges from whether global measures of influence are more accurate than item-specific measures to whether

an attributional approach is better than a self-reported measure of influence. The point that Johnston and Spekman make is that if the multi-person nature of the procurement process is to be focused upon, it is important that how buying centre members gain and use influence during the various decision stages is well understood.

The model is criticised by Johnston (1981) for failing to establish how to identify the organisational members who play the various roles in the buying centre and yet at the same time emphasising the need to understand the psychological characteristics of the buying centre members, to study their attitudes and preferences towards particular products and suppliers, and to understand the nature of their individual decision processes. Johnston also asserts that the model is loosely constructed and offers no testable propositions. He argues that; *"... although the stimulus-response framework allows excellent retrospective explanation of purchasing decisions, at best the model provides only vague predictions of behaviour."*

Webster and Wind (1967) aimed to construct a consistent framework for task and non-task variables in the context of individual, group, organisational and environmental influences. Their basic assertion is that all organisations buy in a similar manner, but with different emphasis on different stages of the model. However, organisations that differ widely in structure would also be expected to differ widely in the composition of the buying centre, and also the level of decisions made in terms of straight rebuy, modified rebuy or new task. Webster and Wind do emphasise the importance of the buying centre as a whole and not just the purchasing agent which may go some way to address this problem. The **motivation** behind the actions of the buying centre is not considered, which is a great omission. Even so, such concepts as source loyalty, and risk avoidance are discussed. However, this is a superficial investigation that hardly scratches the surface of possible motivations. The organisational influences set out in the model include the objectives of the organisation, but are nowhere near as focused as the attention given to this aspect in Anderson and Chambers' (1985) reward/measurement model (see section 3.6.1). The consideration of individual's roles leads to the conclusion that the dyad should be used as the unit of analysis in order to take account of these role

interactions. However, no indication is given as to how this might be achieved from the model itself.

The model is clearly not deterministic, nor was it intended to be. It provides a representation of major sets of variables and how they might interact with each other. This was pathfinding research, and although Webster and Wind criticised the BUYGRID model for not being predictive, the model they present is essentially flawed in the same way. Johnston (1981) made a valid point concerning the fact that the model demands an understanding of the psychological characteristics of members of the buying centre, without even suggesting a method for their identification. This is indicative of the models proposed which are of a "black box" nature with no suggestions for a suitable methodology given. As there is no indication of a measurement methodology for the various traits and variables it is difficult to apply the model in any other way than as a general framework for describing an observed situation. This makes the model loose and flexible which precludes the investigation of testable hypotheses or propositions.

3.4 Industrial Buyer Behaviour Model

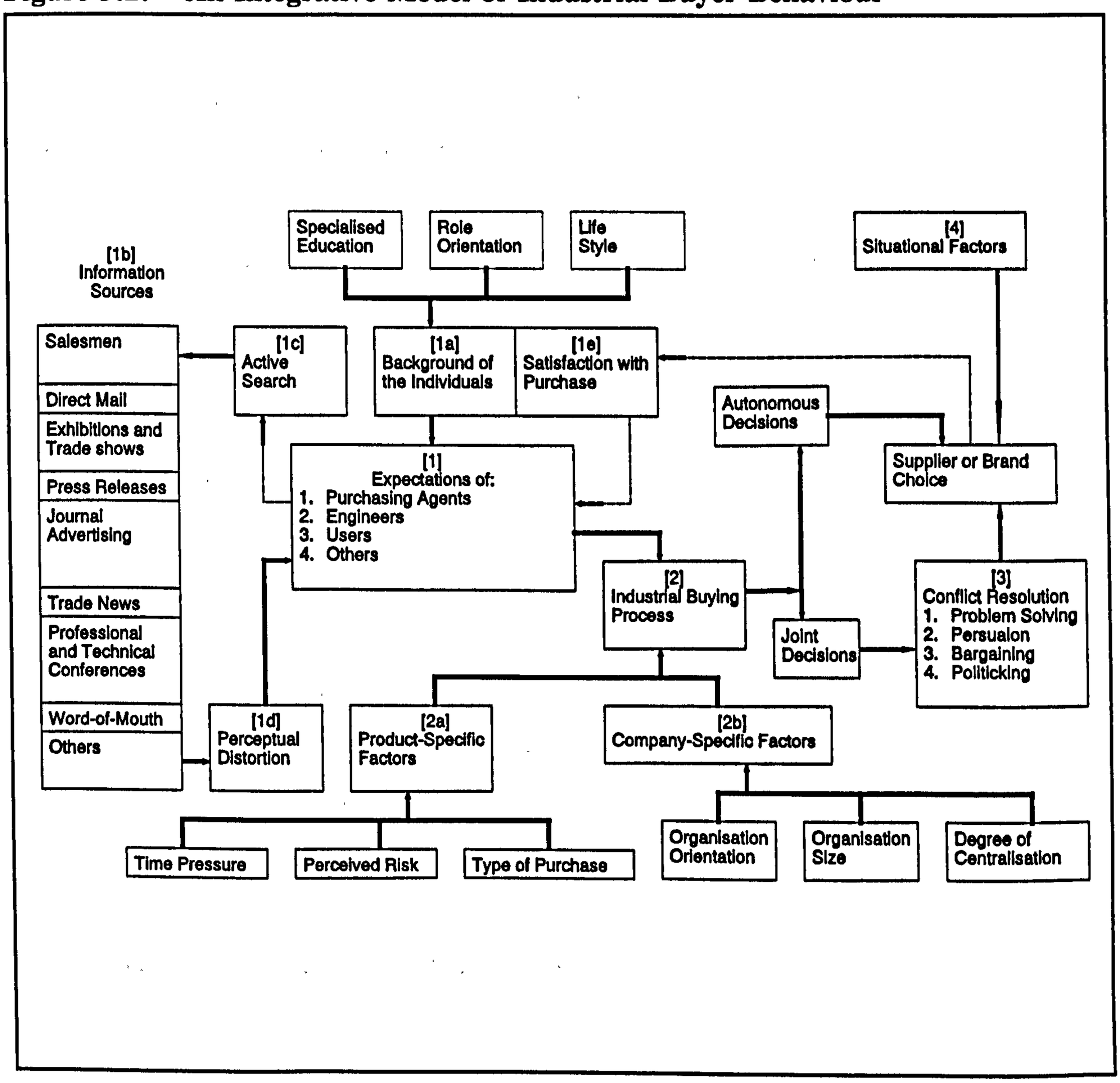
Sheth (1973) proposed a general model of industrial buyer behaviour (see Figure 3.2). The model contends that organisational buyer behaviour consists of three distinct aspects. The first aspect is the psychological world of the individuals involved in organisational buying decisions. The second aspect relates to the conditions which precipitate joint decisions among these individuals. The final aspect is the process of joint decision making with the inevitable conflict among the decision-makers and its resolution by resorting to a variety of tactics.

3.4.1 Expectations

Several different aspects of the psychology of the decision-makers are included in the model, which are based on research in consumer and social psychology. One of the most influential of these variables is the **expectations** of the decision-makers about suppliers

and brands ([1] in Figure 3.2). The model as it is presented specifies five different processes which create differential expectations among the individuals involved in the purchasing process: the background of the individuals, information sources, active search, perceptual distortion, and satisfaction with past purchases. These variables must be explained and operationally defined if the psychological world of the organisational buyers is to be fully represented.

Figure 3.2: An Integrative Model of Industrial Buyer Behaviour



Source: *Sheth, 1973, p. 51.*

Expectations refer to the **perceived** potential of alternative suppliers and brands to satisfy

explicit and implicit objectives in any particular buying situation. The most common explicit objectives include; product quality, delivery time, quantity of supply, and price (Sheth, 1973). However, research (Levitt, 1965) has highlighted the critical role of several implicit criteria such as reputation, size, location, personality, technical expertise, salesmanship, and even life style of the sales representative. Sheth asserts that, with the standardised marketing mix among the suppliers in oligopolistic markets, the implicit criteria are becoming marginally more and more significant in organisational buying decisions.

The different educational backgrounds of the purchasing agents, engineers, and plant managers often generate substantially different professional goals and values. In addition, the task expectations also generate conflicting perceptions of one another's role in the organisation. Finally, the personal life styles of individual decision-makers play an important role in developing differential expectations.

Sheth asserts that it is relatively easy to gather information on this background factor [1a]. The educational and task differences are comparable to demographics in consumer behaviour, and life style differences can be assessed by psychographic scales on the individual's interests, activities, and values as a professional.

The second and third factors in creating differential expectations are the source and type of information each of the decision-makers is exposed to [1b] and his participation in the active search [1c]. Purchasing agents receive disproportionately greater exposure to commercial sources, and the information is often partial and biased towards the supplier or the brand. In some companies, Sheth claims, it is even a common practice to discourage sales representatives from talking directly to the engineering or production personnel. The engineering and production personnel, therefore, typically have less information and what they have is gleaned primarily from professional meetings, trade reports, and even word of mouth. In addition, the active search for information is often relegated to the purchasing agents because it is presumed to be their job responsibility. It is not too difficult to assess differences among the three types of individuals in their

exposure to various sources and types of information by standard survey research methods.

A fourth factor is the selective distortion and retention of available information [1d]. Each individual strives to make the objective information consistent with his own prior knowledge and expectations by systematically distorting it. For example, since there are substantial differences in the goals and values of purchasing agents and production personnel, different interpretations of the same information should be expected among them.

Sheth acknowledges that perceptual distortion is probably the most difficult variable to quantify by standard survey research methods. He suggests experimentation (see Chapter four, section 4.2.2) as one possible approach, but discards it as too costly. Sheth considers a more realistic alternative to be the utilisation of perceptual mapping techniques such as multidimensional scaling or factor analysis and comparison of differences in the judgements of the purchasing agents and production personnel to a common list of suppliers or brands.

The fifth factor which creates differential expectations among the various individuals involved in the purchasing process is the satisfaction with past buying experiences with a supplier or brand [1e]. Often it is not possible for a supplier to provide equal satisfaction to the different parties because each one has different goals or criteria. For example, a supplier may be lower in price but his delivery schedule may not be satisfactory. Similarly, a product's quality may be excellent but its price may be higher than others. The organisation typically rewards each individual for good performance in his specialised skills, so the purchasing agent is rewarded for economy, the production personnel for efficient scheduling and so on. This often results in a different level of satisfaction for each of the parties involved even though the chosen supplier or brand may be the best feasible option in terms of overall organisational goals.

Past experiences with a supplier, summarised in the satisfaction variable, directly

influence the person's expectations towards that supplier. It is relatively easy to measure the satisfaction variable by obtaining information on how the supplier is perceived by each party.

3.4.2 Determinants of Joint *versus* Autonomous Decisions

Not all industrial buying decisions are made jointly by the various individuals involved in the purchasing process. Sometimes the buying decisions are delegated to one party, which is not necessarily the purchasing agent. It is, therefore, important for the supplier to know whether a buying decision is joint or autonomous and, if it is the latter, to which party it is delegated. There are six primary factors which determine whether a specific buying decision will be joint or autonomous. Three of these factors are related to the characteristics of the product or service [2a] and the other three are related to the characteristics of the buying company [2b].

The first product specific factor is **perceived risk** in the buying decisions. Perceived risk refers to the magnitude of adverse consequences felt by the decision-maker if he makes a wrong choice, and the uncertainty under which he must decide. The greater the uncertainty in a buying situation, the greater the perceived risk. Sheth suggests that it would be logical to hypothesise that the greater the perceived risk in a specific buying decision, the more likely it is that the purchase will be decided jointly by all parties concerned.

The second product specific variable is **type of purchase.** If it is the first purchase or a one-off capital expenditure, one would expect greater joint decision making. Conversely, if the purchase decision is repetitive and routine or is limited to maintenance products or services, the buying decision is likely to be delegated to one party.

The third factor is **time pressure.** If the buying decision has to be made under a great deal of time pressure or on an emergency basis, it is likely to be delegated to one party rather than decided jointly.

The three organisation specific factors [2b] are **company orientation, company size,** and **degree of centralisation.** If the company is production orientated, the buying decisions will be made by the production personnel. If the company is large, decision making will tend to be joint. The greater the degree of centralisation, the less likely it is that decisions will be joint (Sheth, 1973). Sheth gives the following example: a privately-owned small company with production orientation will tend towards autonomous decision making and a large-scale public corporation with considerable decentralisation will tend to have greater joint decision making. There appears to be some conflict between the size of company and the degree of centralisation of the buying activities. However, technological advances in communications and the introduction of computer ordering has made it possible for large companies to operate centralised purchasing since Sheth's assertions in 1973, and thus take advantage of their scale in terms of buying power.

3.4.3 Process of Joint Decision Making

The major thrust of this model of industrial buying decisions is to investigate the process of joint decision making. This includes initiation of the decision to buy, gathering of information, evaluating alternative suppliers, and resolving conflict among the parties who must jointly decide. The most important aspect of the joint decision making process, is the assimilation of information, deliberations on it, and the consequent conflict which most joint decisions entail.

Interdepartmental conflict in itself is not necessarily bad. What matters most from the organisation's viewpoint is *how* the conflict is resolved [3]. If it is resolved in a rational manner, the final decision will also tend to be rational. If, however, conflict resolution degenerates to what Strauss (1962) calls *"tactics of lateral relationship"*, the organisation will suffer from inefficiency and the joint decisions may be reduced to bargaining and politicking among the parties involved. Not only will the decision be based on irrational criteria, but the choice of supplier may be to the detriment of the buying organisation.

3.4.3.1 Critical Role of Situational Factors

The model described so far presumes that the choice of supplier or brand is the outcome of a systematic decision making process in the organisational setting. However, Sheth suggests that at least some of the industrial buying decisions are determined by *ad hoc situational factors* [4] and not by any systematic decision making process. In other words, similar to consumers, the industrial buyers often decide on factors other than rational or realistic criteria.

Sheth suggests a number of situational factors which often intervene between the actual choice and any prior decision making process which can be isolated. These include: temporary economic conditions such as price controls, recession, or foreign trade; internal strikes, walkouts, machine breakdowns, and other production related events; organisational changes such as merger or acquisition; and *ad hoc* changes in the market place, such as promotional efforts, new product introduction, or price changes, in the supplier industries.

Johnston (1981) acknowledges that the complexity of the model is a result of the number of variables and the relationships between them. This is because the model is an attempt to describe and explain every type of industrial buying decision from simple to complex. The model recognises the existence of differences between the various members of the buying organisation as to their expectations concerning product characteristics and suppliers. Empirical research on buying policies and practices of purchasing agents, observations of industrial buyers, and theories, models, and reports on industrial buying activities are incorporated into the model in an attempt to capture the realism and complexities of organisational buying behaviour.

Johnston asserts that the model goes a long way in reconciling and connecting many disparate pieces of empirical and conceptual work. The model considers product specific, company specific, and individual difference variables. Differences between individual roles are also considered. At the centre of the model are individuals involved in the

buying process. Considerable interaction is assumed to take place between these individuals and they are often required to decide jointly which alternative to select. Sheth feels that individuals who have different responsibilities in the organisation tend to consider different criteria in their evaluation of available alternatives. However, Johnston deems it essential for research to first discover who has what influence under what conditions before studying their particular preference patterns.

While Johnston acknowledges Sheth's model represents an attempt to apply some of the more important concepts from the area of organisational behaviour to the study of industrial buying behaviour, he criticises it for loosely connected and vaguely defined variables which produce no testable hypotheses. However, Johnston does assert that it enables one to begin to order the mass of existing literature and complexity of industrial marketing. In addition, Lambert, Dornoff and Kernan (1977) have shown that parts of the Sheth model are overly simplistic in their treatment of cause and effect factors in industrial buying behaviour. A revision to the model's post choice evaluation process has been suggested.

This revision splits the post choice evaluation into a decision section and a post choice evaluation section. To reflect the interaction between groups *choice* provides input to both the *decision-maker* and other *"user" groups*. The decision-maker may be a department, an individual, or some part of a departmentally mixed buying centre perceived as having "won" some process of conflict resolution. The other post choice evaluators may or may not be part of the buying centre, and might conceivably belong to any number of organisational groups. The definitional key is that they perceive the responsibility for the choice as external to their group (or wish to have others perceive the choice as external to their group) and are exposed to some aspects of product or vendor performance. In this expansion *expectations* interact with *background* to affect interpretations of the participant's experiences. Thus the expectations set relating to future choice is formed for the "user" groups through one process and for the decision-maker through a somewhat more complex synthesis of own and others' evaluations (Lambert *et al.*, 1977).

As noted above, Sheth (1973) outlined three major aspects of a company which influence buying behaviour; company orientation, company size, and degree of centralisation. Moriarty and Galper (1978) suggest that research on how organisational behaviour influences industrial buying decisions does not easily lend itself to work of a generalisable nature, because of the complexity of most large organisations. They assert that a marketer should be aware of organisational influences on buying behaviour, but these influences are so diverse and so complex that it is dangerous to postulate universal rules of thumb for incorporating organisational influences into a broad-based marketing plan. However, knowing the size and primary characteristics of an organisation is very useful for developing projections of market potential, segmenting the market, and formulating appropriate strategies.

This is a general model and therefore Sheth (1973) has tried to include all the possible variables which makes the resulting form quite convoluted. This is because of the inclusion of variables to hold constant various factors such as the differences between product types and different types of organisations. However, the fact that some of these variables can be discarded if not applicable makes the model far more workable than it would at first appear. The concept of different product types follows the logic of Robinson, Faris and Wind's (1967) buyclasses. The company type is defined in terms of size, orientation, and degree of centralisation.

To summarise, the model concentrates on three aspects; the psychological world of the individuals in the decision making process, the conditions which precipitate joint decisions as opposed to autonomous ones, and, the process of joint decision making itself. Sheth considers the expectations that decision-makers have about suppliers and brands are dictated by individuals' backgrounds, information sources, participation in active search, perceptual distortion and satisfaction with past purchases.

Implicit and explicit objectives are included in the model, for example, product quality and company reputation respectively, but they are product orientated with the individual's background the only concession to the individualism of the buyer in question. This

concept was evident in Webster and Wind's (1972) model where the compatibility of the buyer and sales representative is considered in terms of comparable backgrounds. However, the tendency to include implicit criteria suggests a deeper consideration of the psychology of decision making. Perceived risk appears as a product specific factor which determines joint or autonomous decision making. This variable also appears in other models (Anderson and Chambers, 1985, see section 3.6; Webster and Wind, 1972, see section 3.3).

Sheth does offer suggestions for methods of measuring various variables which are fairly simple, but acknowledges that variables such as perceptual distortion are difficult to quantify using standard research methods. This model suggests that individuals with different responsibilities tend to apply different criteria to the decision making process. This point is taken up explicitly by Anderson and Chambers' (1985) reward/measurement model (see section 3.6).

There are many choices to be made in the process of a buying decision. Sheth (1977) groups them into four sections. First, the product which must be defined in terms of size, type, design and product specifications. Secondly, the choice of supplier - for example, middleman *versus* supply house *versus* manufacturer. There is no universal "correct" choice of supplier since it depends very much on the individual circumstances. Thirdly, and related to the second point, there are choices to be made among manufacturers in direct buying and buying from a sole source and the related question of reciprocity. In the US it has been concluded that reciprocity is widely practised among organisational buyers (Sheth, 1977). Lastly, there are choices to be made in terms of buying *versus* leasing, or making a product internally.

Sheth (1977) also considers the impact of individual characteristics on the decision making process. It is proposed that the ideal buyer-seller interaction which may result in buyer loyalty towards the seller and *vice versa*, is likely to arise only if both the content and style of communication are compatible or matching between the two parties. However, it is further suggested that this needs more rigorous research (Sheth, 1977).

This includes the observation that organisational buyers may view the same situation differently and different situations as the same.

The question as to whether organisational buyers use primarily rational or emotional criteria in selecting suppliers follows on from this and Sheth (1977) likens such buyers' behaviour as similar to that of consumers in choice situations. These two points lead on to the application of *"perceived risk theory"* (Sheth, 1973). This suggests that buyers are not inclined to maximise the expected pay off, but rather tend to minimise the risk they perceive is entailed in a given buying situation. Therefore, the buying objective is satisfying as opposed to optimising. Sheth (1977) defines risk as the combination of perceived magnitude of adverse consequences and the degree of uncertainty faced by the buyer. Therefore, it can be deduced that risk plays an important role in organisational buying.

3.5 Industrial Market Response Model

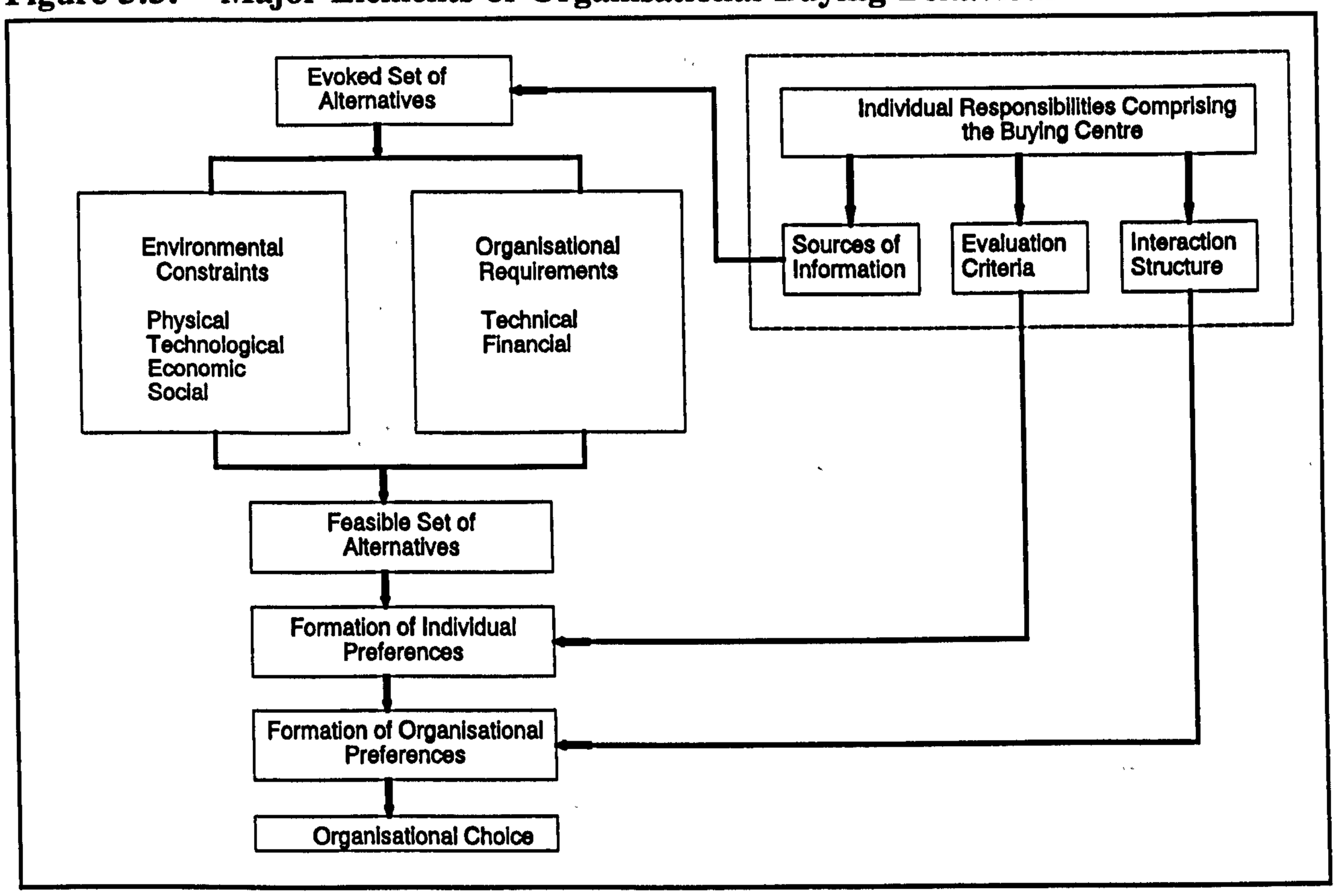
An important limitation of previous models of organisational buying is their lack of selectivity of variables. Typically, these models provide exhaustive lists of variables which might affect organisational buying. They do not, however, distinguish those variables which have a consistently major influence across product classes from those whose influence is of lesser import, dependent on specific purchase situations (Choffray and Lilien, 1978a). The models proposed by Robinson, Faris and Wind (1967, see section 3.2) and Webster and Wind (1972, see section 3.3) are both descriptive. Sheth's model (1973) attempts to encompass all industrial buying decisions and as such is somewhat general.

Recognising these limitations, Choffray and Lilien developed a framework to model organisational buying which is more concise than the models developed by Webster and Wind or Sheth. It focuses on the links between the characteristics of an organisational buying centre and the three major stages in the industrial purchasing decision process through:

1. Elimination of alternatives which do not meet organisational requirements
2. Formation of decision participants' preferences
3. Formation of organisational preferences.

Figure 3.3 illustrates this framework.

Figure 3.3: Major Elements of Organisational Buying Behaviour



Source: Choffray and Lilien, 1978, p. 22.

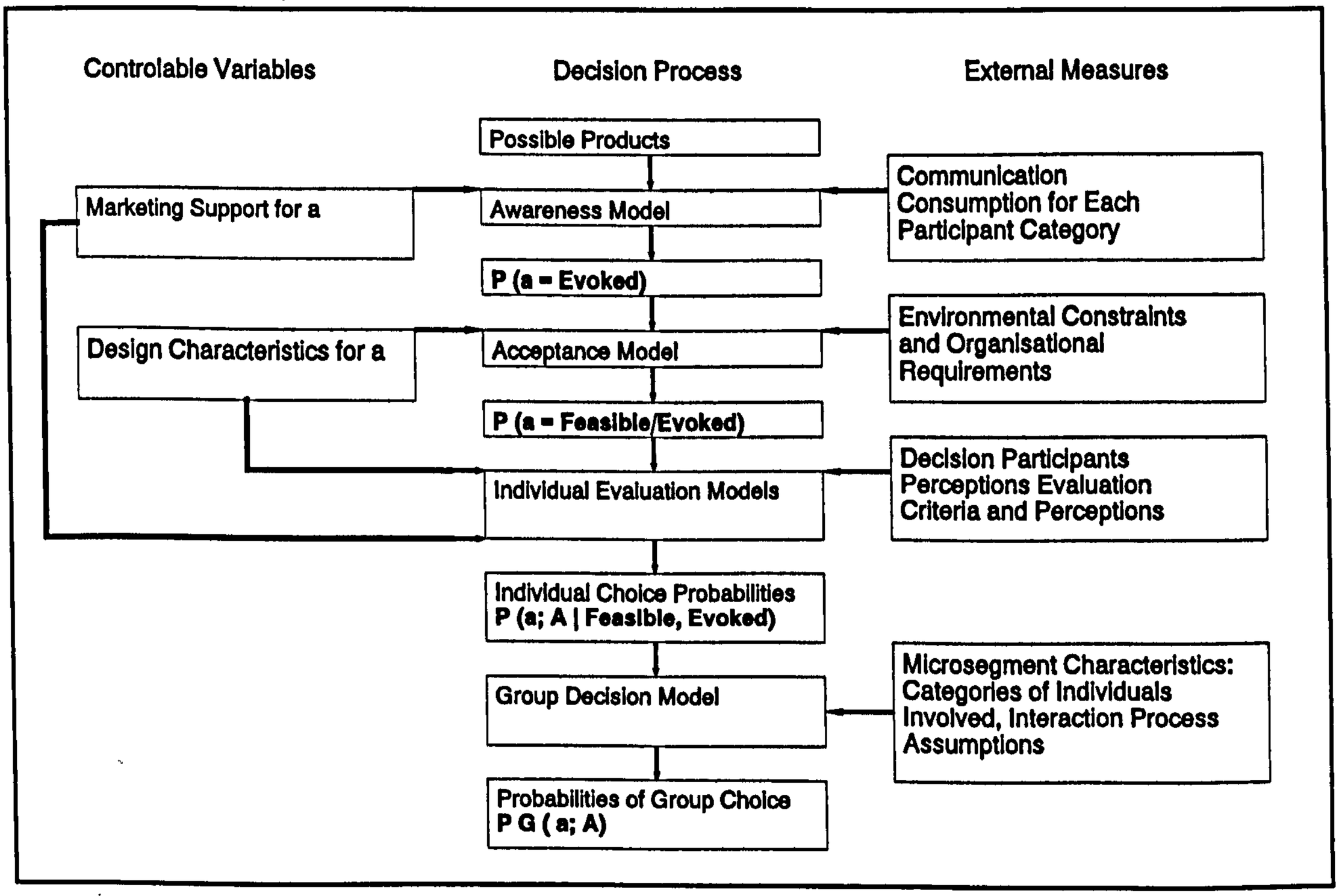
Choffray and Lilien contend that a complete, operational model of industrial response requires that organisational heterogeneity be explicitly handled. The model they propose addresses the following issues. Potential customer organisations differ in their "need specification dimensions" - that is, in the dimensions they use to define their requirements. They also differ in their specific requirements along these dimensions. Potential customer organisations also differ in the composition of their buying centres - the number of individuals involved, their specific responsibilities, and in the way they interact. Decision participants, or individual members of the buying centre, differ in their sources of information as well as in the number and the nature of the evaluation

criteria used to assess product criteria.

Choffray and Lilien's stated objective with this analysis is to gain leverage by analysing similar situations together; hence, areas where individual or organisational homogeneity allows meaningful aggregation are focused upon. Two assumptions are made in connection with this:

1. Within potential customer organisation, the composition of the buying centre can be characterised by the categories of participants involved in the purchasing process.
2. Decision participants who belong to the same category share the same set of product evaluation criteria and the same information sources.

Figure 3.4: Response Model Structure



Source: *Choffray and Lilien, 1978, p. 23.*

Figure 3.4 presents the general structure of the industrial market response model. It closely parallels the conceptualisation of the organisational purchasing process described

above. Four sub-models comprise this structure each of which is briefly described below.

The **awareness** model links the level of marketing support for the industrial product investigated, measured in terms of advertising, personal selling, and technical service spending rates, to the likelihood that an individual within an organisation will be aware of the product. Individuals are grouped by job category in most analyses.

The form of each of these awareness functions can either be derived empirically through a field study or can be provided by the firm's product manager judgmentally. In the first case, a survey can be made of a sample of individuals from each decision participant category who have been exposed to various levels of marketing effort. Choffray and Lilien suggest that individuals would be asked what brand(s) of product in the class they are aware of, their media consumption patterns, the last time they saw a salesman, *etc.*, providing the data needed to calibrate the awareness functions. If time and cost constraints are prohibitive, a second approach could be used. It is based on a "decision calculus" approach, which relies on the manager's experience with the product and its market to infer awareness functions for each decision participant category.

The **acceptance** model accounts for the process by which organisations in the potential market screen out "impossibles" by setting product selection criteria (for example, limits on price, reliability, continuity of supply, *etc.*). Choffray and Lilien claim that the empirically calibrated acceptance model can be used as input into a simulation model which provides insight into product design trade-offs and also allows accurate prediction of the rate of market acceptance for a product with a given design.

The **individual evaluation** models relate evaluation of product characteristics to preferences for each category of decision participants. The authors assert that the models permit the analysis of industrial market response to changes in product positioning. They therefore produce feedback of important information for the development of industrial communication programmes that address the issues most relevant to each category of

participant.

The **group decision** model, the last element of the industrial market response model, relates group choice to the preferences of the individuals comprising the group. Choffray and Lilien propose four classes of models of group decision making: a weighted probability model, a proportionality model, a unanimity model and an acceptability model. These models encompass a wide range of possible patterns of interaction between decision participant categories and offer representation of this process for most industrial buying decisions (Choffray and Lilien, 1978a). Depending on the manager's understanding of the interaction process within his market any one of these models, or a combination, can be used to assess group choice.

A general expression for the likelihood of organisational choice within any homogenous segment of the market can be obtained by combining the models presented above. The segment market share may be calculated by multiplying the fraction of customers who are aware of the product, by the fraction of customers for whom the product is feasible (given that they are aware), and the fraction of customers who prefer the product to other alternatives (given they are aware and that the product is feasible). According to the model, sales for the product can then be predicted as total market forecast sales (market potential) multiplied by the projected market share.

Implementation of the industrial market response model requires an associated measurement methodology. Choffray and Lilien propose such a methodology which provides the necessary input to each of the model's components. An example of this is "microsegmentation" following Wind and Cardozo (1974) which specifies the target market for the product. The purpose of this is to narrow the scope of the analyses to those organisations most likely to purchase the product. Another example is the use of a decision matrix.

Choffray and Lilien also propose an analytical structure of the response model using probabilities. They suggest equations to explain the situation in each of the sub-models.

They then illustrate how to assemble these components and provide a methodology for assessing the likely market response.

3.5.1 Uses of the Model

This framework proposes an operational model to assess industrial response to marketing strategy. The model explicitly addresses issues of product feasibility, individual preference formation, and organisational decision making. It also provides a framework to operationalise the concept of the buying centre. The procedure can aid the improvement of product design. An important problem in the development of a new industrial product is the determining of the specific features which the new product should incorporate. The product acceptance portion of the structure provides actionable information for making such decisions. Thus, the analysis forces management to identify and evaluate organisational need-specification dimensions.

Industrial communication programmes, including advertising and sales presentations, affect response through the awareness model and the individual evaluation models. Thus, the procedure can be utilised in the development and testing of communication programmes. The analysis of individual preferences, for each category of decision participant, allows analysis of product positioning. Results of the evaluation and preference analysis can be used in three different ways:

1. Identification of those attributes of a product which are not perceived by certain categories of decision participants in the ways desired by management, so that corrective action can be taken in a product communication strategy within the firm
2. Development of a communication programme which addresses the specific needs of each group of decision participants
3. Simulation of the impact of changes in communication content on the preferences of each category of individuals.

The microsegmentation methodology clearly identifies which categories of decision participants are most likely to become involved in the purchase decision. By isolating

homogenous microsegments of organisations, the measurement methodology provides an accurate description of the structure of the purchasing decision process. In the empirical work done by Choffray and Lilien in the industrial cooling sector, four microsegments were identified in the potential market for a new solar powered cooling system. These "microsegments" showed substantial differences in terms of:

1. The number of decision phases in which each category of participant is involved
2. The number of participant categories involved in each stage of the process
3. The frequency of involvement of each category of participant in each decision phase.

This information allows development of differentiated communication strategies, targeted at those categories of individuals most influential in the various microsegments.

Johnston (1981) asserts that Choffray and Lilien's model is built upon a questionable assumption and methodological issue in data collection. Choffray and Lilien assume (1978a, p.22): *"Decision participants who belong to the same category share in the same set of evaluation criteria and the same information sources."* This assumption allows for no individual differences with respect to individuals in the same or similar functional role within the target organisations. For example, a purchasing manager is a purchasing manager and an engineer is an engineer. Individual motives vary quite excessively even within the same functional role and individual goals change over time. However, this does not invalidate the model completely if the practitioner recognises the problem and makes appropriate allowances, such as a comparison of the actual evaluation criteria and information sources utilised with those identified in the model. In this way a qualitative aspect is introduced which makes allowance for individuals taking part in the decision making process.

Johnston (1981) asserts that the assumption that information sources are the same is not correct either, although a greater similarity exists for like category participants. Even after such criticisms Johnston (1981) acknowledges that the model does have some credits. He considers the main benefit to be that it provides the means to operationalise the buying centre and develops a managerially useful group measurement model. It also

provides good insight into the decision processes in industrial organisations concerning new product purchases.

The model proposed by Choffray and Lilien (1978a) is simpler than those put forward by Webster and Wind (1972) and Sheth (1973). The model contains fewer variables than the previous constructs but contains many of the variables that appear in the other models. This is possible because Choffray and Lilien have explicitly recognised the heterogeneity between different organisations. Therefore, this does not purport to be a general model but is useful for studying organisations which are similar, for example, chain restaurants.

The industrial response model is made up of four sub-models, which helps to simplify the basic model. Sub-models can be excluded from the study if circumstances make them irrelevant. The use of sub-models also attributes variables to specific processes which encourages clarity in analysis. Choffray and Lilien (1978a) offer methodologies which make this model more feasible for empirical study. Johnston (1981) criticised the use of a decision matrix questionnaire concerning the involvement in the decision making process on the grounds that individuals exaggerate their own involvement. The "decision matrix" questionnaire is a cross-tabulation of functional role by phase in the decision process. This matrix is given to individuals identified as having been involved in the purchase process and they are asked to fill in each cell with a percentage of involvement for participant by phase.

Previous research by Brand (1972) also highlighted the facts that individuals only have a partial picture of the entire process and do not agree with other members as to their amount of influence or participation. However, more recent research by Kohli (1989) suggests that the influence an informant thought he or she had on the decision did not affect his or her estimate of another's influence. This finding is important because it suggests that more accurate results may be obtained through the use of the decision matrix questionnaire if respondents are asked questions relating to other members of the decision making unit.

When the sub-models are used in combination it is possible to estimate the probability of the likelihood of organisational choice within a homogenous segment of the market. Because of the structure of the models, they can be used as an analytical tool for marketing purposes, for example, to communicate with relevant influencers in the decision making unit, and tailoring the product to the market. It is also possible to identify the decision phases, and who is active within these phases and their frequency of involvement. In conclusion, this appears to be a fully operational model in the empirical sense. However, it is designed for use with specific products and not to provide a general description of the procurement process for an industry.

3.6 A Reward/Measurement Model of Organisational Buying Behaviour

The framework of this model is based on the assumption that organisational buying behaviour is essentially a form of work behaviour (Anderson and Chambers, 1985). The model emphasises the role of reward and measurement systems in motivating purchasing process participants. The authors assert that this approach can serve as the foundation of a research programme that may eventually lead to a unified theory of the organisational dyad. A number of authors (Bonoma, Bagozzi, and Zaltman, 1978; Johnston, 1981) have argued that the key focus of organisational buying research should be on the process of dyadic interaction. Evans (1963) found that a similarity of attributes between the buyer and the seller appears to increase the likelihood of a sale in his study of the dyadic interaction in life insurance sales. The findings of Peters and Venkatesan (1973) indicate that personal characteristics as well as environmental or firm variables, play an important role in the adoption process.

Anderson and Chambers (1985) suggest that a unified theory of buyer-seller motivation may be possible as a foundation for a general theory of the organisational dyad. However, the model they present focuses exclusively on the buyer, although they express the hope that it will eventually underwrite a theory that is applicable to both parties in the transaction.

The central assertion of their model is that organisational buying behaviour is best understood as *work behaviour*. All the participants in the purchasing process, whether they act in the roles of buyer, decider, influencer, gatekeeper, or user, generally perform these activities as employees of the organisation. Therefore, their activities will be evaluated and some, or all, of their formal rewards will depend on the outcome of this evaluation process. It is further posited that individuals join organisations in order to achieve personal objectives.

Thus, the proposed model of organisational buying behaviour rests on the fundamental proposition that the behaviour of individuals in organisations is determined largely by the way in which their activities are measured and rewarded. This approach has been explored in earlier work (Wind, 1971; Webster and Wind, 1972; Sheth, 1973). However, it is argued that these earlier approaches did not develop the concept to its full potential. This model asserts that the reward and measurement system is one of the most fundamental and pervasive influences on the behaviour of participants in the buying process. Anderson and Chambers further suggest that a research programme which conceptualises organisational buying as work behaviour promises to contribute significantly to the understanding of the process by allowing for the integration of many seemingly disparate research findings under a single framework.

The reward measurement model itself consists of two sub-models. The first (Figure 3.5) concerns the motivation of individual purchasing process participants. The second sub-model (Figure 3.6) is concerned with the processes of group interaction and consensus formation. Thus, in combination the full model seeks to explain the factors which motivate the purchasing related behaviours of individuals and the processes by which individuals interact to generate group decisions.

3.6.1 The Motivational Model

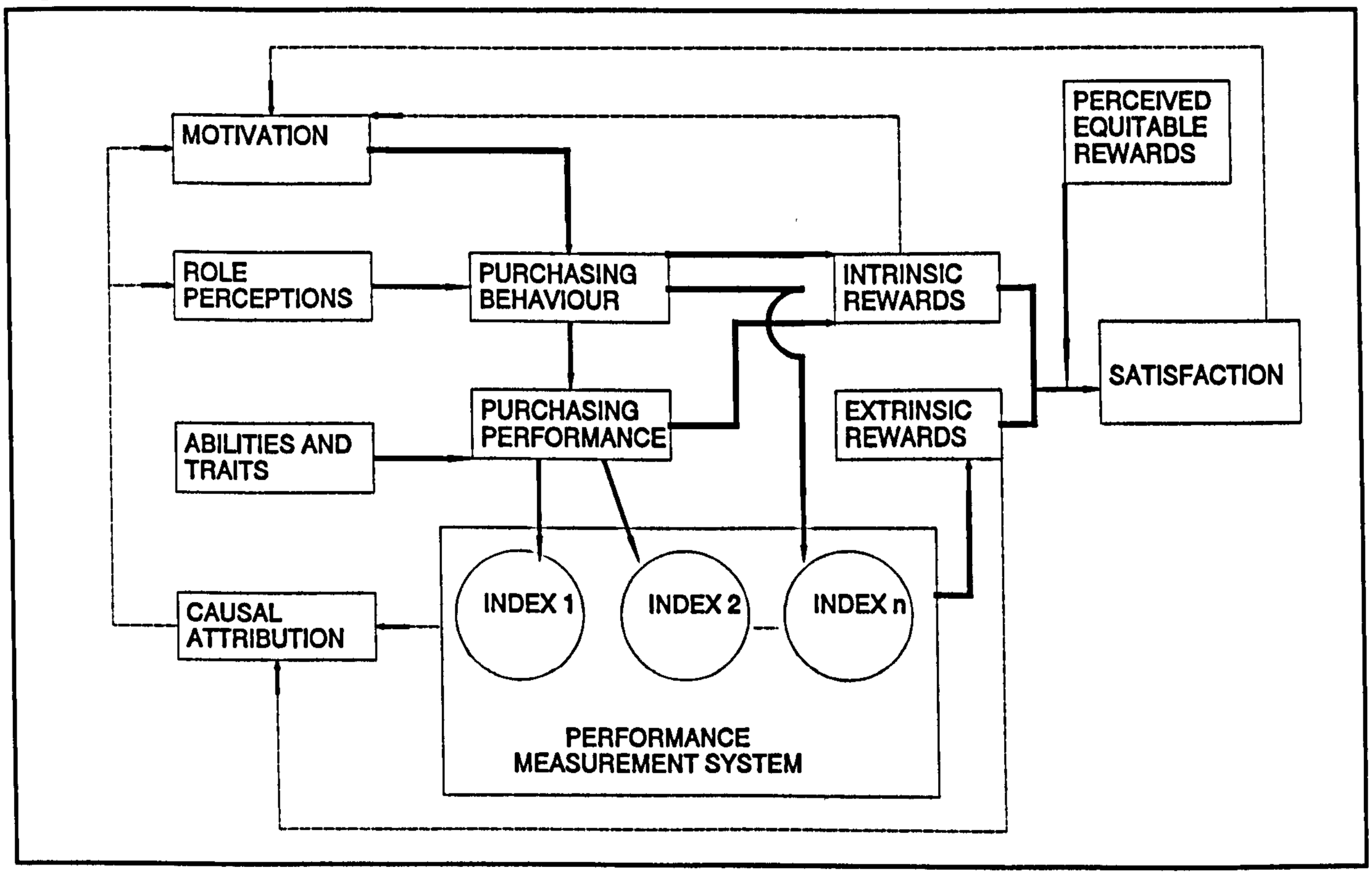
3.6.1.1 The Role of Rewards

Purchasing process participants are motivated to engage in purchasing behaviour by the

expectation of both **intrinsic** and **extrinsic** rewards (see Figure 3.5). Extrinsic rewards are those distributed by the organisation to its members. The organisation's performance measurement system directs the allocation of these rewards (Figure 3.5).

Intrinsic rewards are those which the individual self-administers. These are often thought of as rewards which satisfy higher order needs, such as the desire for self esteem (Maslow, 1943). Intrinsic rewards flow directly from purchasing behaviour and the accomplishment of purchasing performance. For example, a purchasing agent may find that the process of "winning" a particularly difficult bargaining session contributes significantly to his self-esteem.

Figure 3.5: The Motivational Model

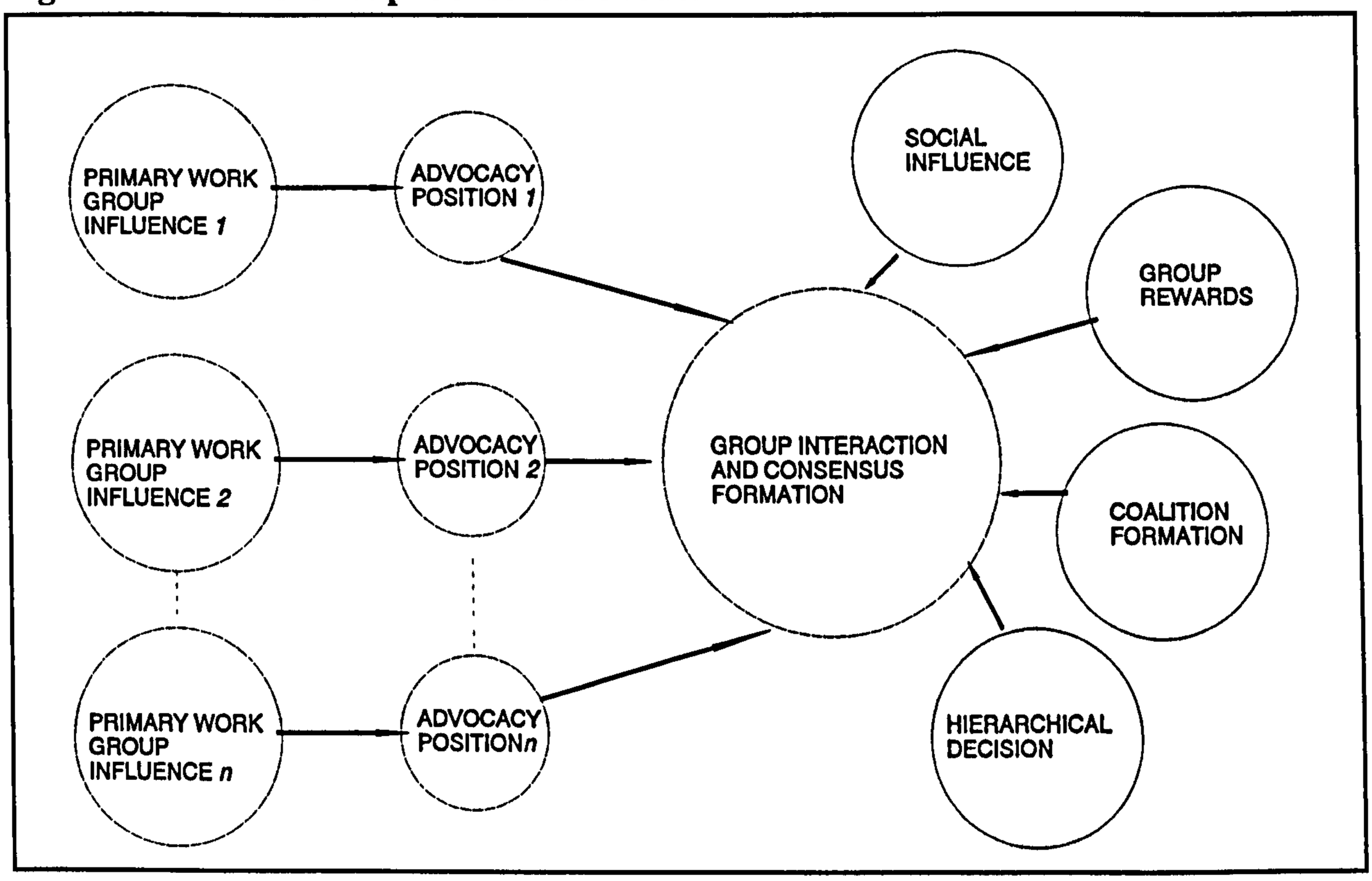


Source: Anderson and Chambers, 1985, p. 9.

Although intrinsic rewards are not distributed by the organisation, the structure of the organisational environment affects their realization. That is the flexibility the organisation allows the individual in pursuing intrinsic rewards will determine its potential as a motivating force. The level of satisfaction experienced by the individual

will be a function of two variables. The first is the level of intrinsic and extrinsic rewards. The second is the level of **perceived equitable rewards** These are the rewards an individual feels he should receive given the level of effort, task performance, and outcome achieved. If actual rewards equal perceived equitable rewards the level of satisfaction will be high. If there is an imbalance between the two rewards, a feeling of dissatisfaction will be present.

Figure 3.6: The Group Consensus Model



Source: Anderson and Chambers, 1985, p.10.

The specific purchasing tasks performed by the individual will be governed by his **role perceptions** (*i.e.* the individual's belief of the tasks required to complete the job "successfully"). Anderson and Chambers suggest that purchasing performance results from the application of effort to specific purchasing tasks and is mediated by individual differences and **abilities** and **traits.**

3.6.1.2 The Role of the Measurement System

The measurement of purchasing performance poses problems. It is interpreted through various measurement **indices.** For example, price concessions by a vendor due to negotiation by a purchasing agent represent an easily measured and quantifiable index of his performance. However, any animosity generated by the individual during the negotiations is not as easily measured or quantified. Moreover, reductions in product quality resulting from the lower price are quantifiable outcomes of the negotiation process which may not be experienced by the organisation for many months. In this way, the organisation may attribute the fall in quality to vendor-specific factors and fail to make the connection to the negotiating posture of the purchasing agent.

The problems of performance measurement mean that the measurement is likely to become a subset of an individual's total performance. Since an organisation cannot reward what it does not measure, the extrinsic rewards presented in Figure 3.5 are distributed solely on the basis of the performance measurement system. Intrinsic rewards, however, flow directly from purchasing behaviour and the achievement of purchasing performance. It should also be noted that intrinsic rewards and extrinsic rewards can by derived from the same dimensions of purchasing behaviour.

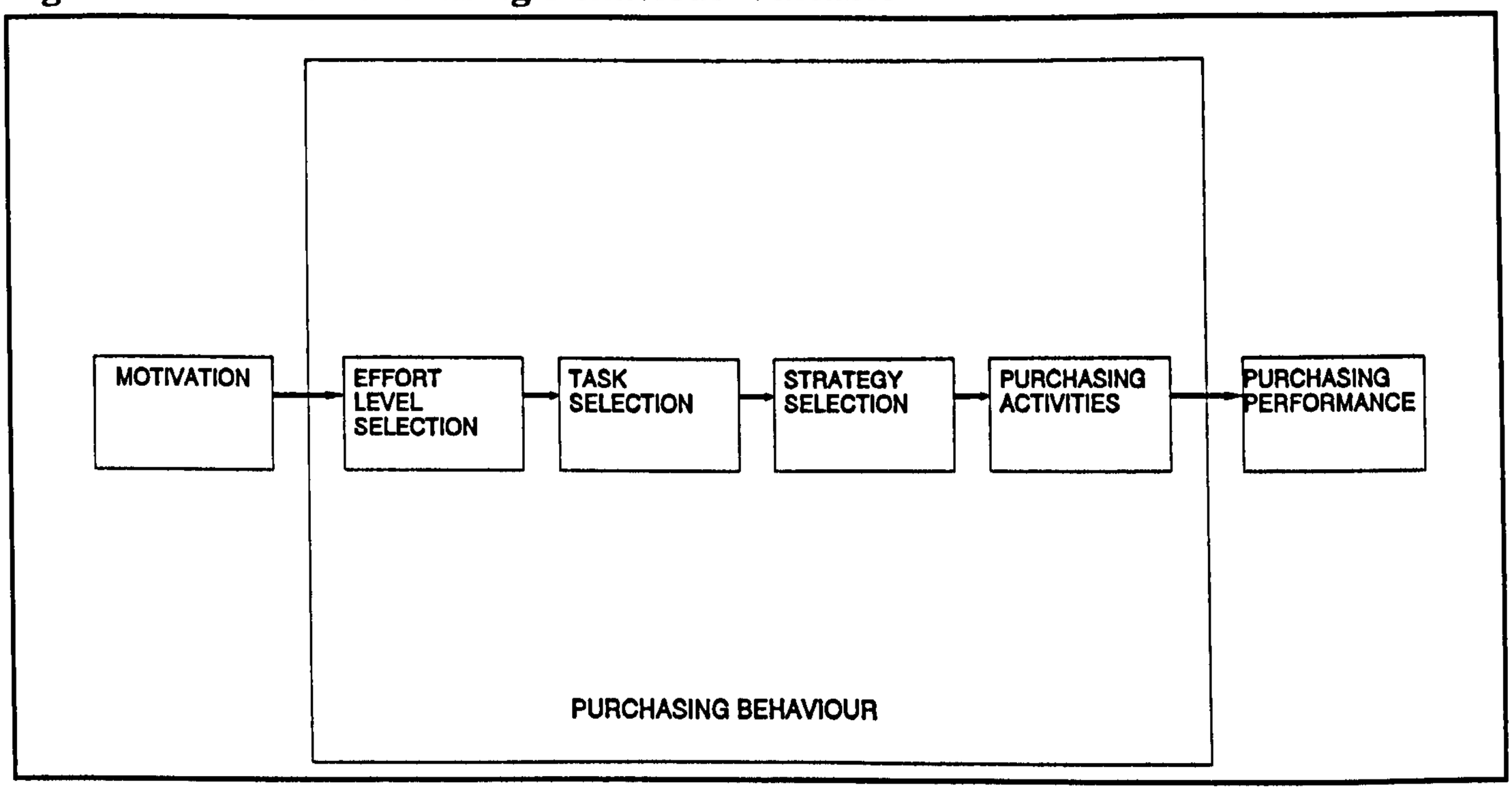
Therefore, an individual's **motivation** to engage in purchasing related behaviour can be significantly affected by the nature of the organisation's reward and measurement system. Anderson and Chambers propose an equation relating motivation, intrinsic and extrinsic rewards, and the perceived probabilities of attaining them. This method explicitly recognises the crucial role played by the measurement system in influencing the motivation and behaviour of the purchasing process participants.

Figure 3.7 provides greater detail on the nature of the purchasing behaviour variable and its relationship to motivation and purchasing performance. Behaviour is construed broadly as consisting of a set of selections and a set of physical activities. Purchasing process participants must decide how much **effort** they are willing to put into specific

tasks and what **strategy** they will employ in accomplishing these tasks.

Strategy refers to the problem-solving approach to the fulfilment of a job description. Thus, the decision by a purchasing agent to enter into formal bargaining and negotiation with a vendor represents the selection of a particular task, while the type of bargaining approach employed would represent the strategy selection. Anderson and Chambers relate that traditional expectancy theory asserts that an individual will make effort level, task, and strategy selections that maximise their motivational force. However, purchasing process participants may not consider all possible effort-task-strategy linkages before deciding on a course of action. Thus, at the individual level, behaviour may be sub-optimal in the sense that alternatives with greater total satisfaction are not always considered.

Figure 3.7: The Purchasing Behaviour Variable



Source: Anderson and Chambers, 1985, p.12.

In a similar sense, the **purchasing activities** and performance outcomes to which these selections lead may not always be optimal at the organisation level. This results, in part, from inherent problems with organisational measurement systems. For example, the indexes shown in Figure 3.5 will represent some, but not all, of the dimensions of

purchasing performance. In this sense the measurement system can be said to *underdetermine* purchasing performance.

Another problem is that any set of indexes will be subject to measurement error. As an illustration, the contribution of individual buying centre members to the outcome of the purchasing decision will be difficult to isolate. A related issue is the question of time lags in the measurement system. Very often in purchasing situations the outcomes of a particular decision are not known for months, or even years after the acquisition is made. This encompasses both lag times in delivery and time to assess the performance of the purchased item. However, in most organisations, personnel must be evaluated over much shorter time periods. Thus, rewards may have to be based on intermediate measures of performance or on performance surrogates.

Finally, there is the problem of measuring the performance of buying process participants against attainable standards. The individuals who must evaluate the outcomes of a buying task are often somewhat removed (both physically and in terms of involvement) from the details of the situation. As such, it will be difficult for evaluators to determine appropriate performance standards. Thus, it is unlikely that a purchasing manager could accurately determine the price concessions that a purchasing agent should be able to achieve in a given set of negotiations unless he is intimately involved in the process.

3.6.1.3 The Use of Performance Surrogates

Difficulties such as these often lead managers to employ observations or reports of behaviour as surrogates for purchasing performance. This is shown in Figure 3.5 by the solid line connecting purchasing behaviour with the performance measurement system. The arrow implies that perceived effort as well as task and strategy selection may be used along with performance criteria (such as price and quality) to evaluate buying centre members. Corey (1978) found some support for this theory in his in-depth case study of purchasing operations at General Motors.

The importance of this point for understanding the motivation of organisational buyers should not be underestimated. Traditional expectancy theory has tended to assume that extrinsic rewards are tied exclusively to performance (Campbell and Pritchard, 1976; House, 1971; Lawler, 1970, 1971). However, the failure to model explicitly the measurement process as an integral part of the total system has caused many work motivation theorists to underestimate its impact on the behaviour of the organisational members (Anderson and Chambers, 1985).

Imperfect measurement and the use of performance surrogates can actually encourage behaviour which is dysfunctional from the standpoint of organisational objectives. This can be demonstrated by looking at three specific imperfections which stem from the problems of index inclusion, index exclusion, and index deficiency. Since extrinsic rewards are allocated on the basis of the measurement system, the inclusion of a particular index in the system will motivate the individual to seek an improved rating on that dimension. This will be particularly true if the index is quantifiable and/or highly visible (Kerr, 1975).

The measurement system can also cause problems because of what it fails to measure. For example, on occasion it may be necessary for buying centre members to take a risk on new suppliers when existing vendors fail to meet required standards. However, over time, risk taking (a behavioural measure) will lead to both successes and failures (performance measures). If the necessity to take risks is not recognised and rewarded by the firm (regardless of the outcome in specific instances), buying process participants will tend to be risk averse and will be reluctant to change suppliers until the situation has deteriorated significantly. Thus, Cardozo's (1968) finding that buyers differ in risk tolerance and preference may reflect, in part, differences in reward and measurement systems across firms.

A third problem which can be caused by the measurement system results from the actual indexes used to record effort, task performance, and outcomes. The nature of the indexes themselves may tend to encourage behaviour which is dysfunctional from the

standpoint of the organisation as a whole.

Anderson and Chambers assert that few, if any, measurement systems are capable of consistently encouraging behaviour that is organisationally optimal. Thus, the activities of the buying centre personnel cannot be expected to be always congruent with the stated or imputed goals of the organisation. As Anderson and Chambers point out, this obviously has important implications for organisations seeking to influence the buying process.

An evaluation system that consistently rewards "satisficing" behaviour will tend to encourage reliance on existing suppliers and will lead to the use of what Cardozo (1968) has termed "sequential evaluation" purchasing strategies. This will be especially true if the measurement system gives more prominent attention to purchasing failures than to purchasing successes (Wind, 1971).

3.6.1.4 The Role of Feedback

The organisation communicates its desired specifications (intentionally or unintentionally) by the way in which it measures and rewards purchasing related behaviour. Purchasing process participants learn this system over time *via* the feedback loops shown as dashed lines in Figure 3.5.

The performance measurement system and resultant extrinsic rewards provide feedback which affects the individual's motivation and role perceptions. The exact nature of the effect will be determined by the **causal attributions** made by the individual. There is a substantial body of evidence (Fontaine, 1972; McMahan, 1973; Rosenbaum, 1972; Valle and Frieze, 1976; Weiner, 1972, 1974) suggesting that achievement motivation is significantly influenced by the individual's perception of the causes of particular performance outcomes.

Internal causes are viewed as originating within the individual making the attribution,

while external causes arise from the environment. Stable causes like ability and task difficulty are those that do not vary over repeated performances of the task, while unstable causes such as luck, economic conditions, and fatigue are assumed to vary over repeated trials. Finally, intentional causes of performance are those that can be affected by an individual's actions, while unintentional causes are beyond the individual's ability to control. Examples of the former include effort, misperceptions, and diligence or laziness. The latter would include such things as ability, task difficulty and fatigue.

Thus, Anderson and Chambers argue that the motivation of buying process participants to put forth effort on specific tasks and to seek certain types of purchasing objectives will change as they learn the reward and measurement system of the organisation. In very general terms, attributions to internal rather than external, intentional rather than unintentional, and unstable rather than stable factors will lead to greater motivation to improve performance (Anderson and Chambers, 1985).

Feedback from the reward and measurement system also affects the role perceptions of buying centre members. Initially, role perceptions develop as a result of formal and informal interaction with organisational peers and superiors. Formal sources of information on role activities include such things as job descriptions and training programmes. Informal sources can include any kind of vertical or horizontal communication related to job functions and objectives. However, it is suggested that as the organisational member becomes familiar with the reward and measurement system, his role perceptions will be subject to change (Anderson and Chambers, 1985).

Buying process participants may also be subject to the problems of role conflict and role ambiguity. The multiple and conflicting reward systems of evaluators and vague or poorly defined reward criteria or inaccurate measurements are a primary cause of such role difficulties.

The magnitude and persistence of role problems will also be affected by the individual's causal attributions. For example, if role inaccuracy is attributed to a misperception of

the reward/measurement system (an internal-intentional-stable factor), a change in role perceptions is likely to result. However, if the individual assumes that the problem arises from his inability to understand the directions of superiors (an internal-unintentional-stable factor), little change can be expected in role perceptions.

The feedback loop from intrinsic rewards to the motivation construct in Figure 3.5 reflects the impact of these rewards on the perceived probability that the expenditure of a given amount of effort on a particular set of tasks, while employing a particular strategy, will lead to the accomplishment of performance outcomes which are intrinsically valent. As noted earlier, outcomes that generate intrinsic rewards may not overlap fully with outcomes generating extrinsic rewards. This suggests that buying centre members may seek to attain certain outcomes or performance levels solely for their intrinsic rewards. This implies that the behaviour and purchasing objectives of buying centre members cannot be predicted solely on the basis of the organisation's *formal* reward and measurement system. Attention must also be given to the motivational force of intrinsic rewards.

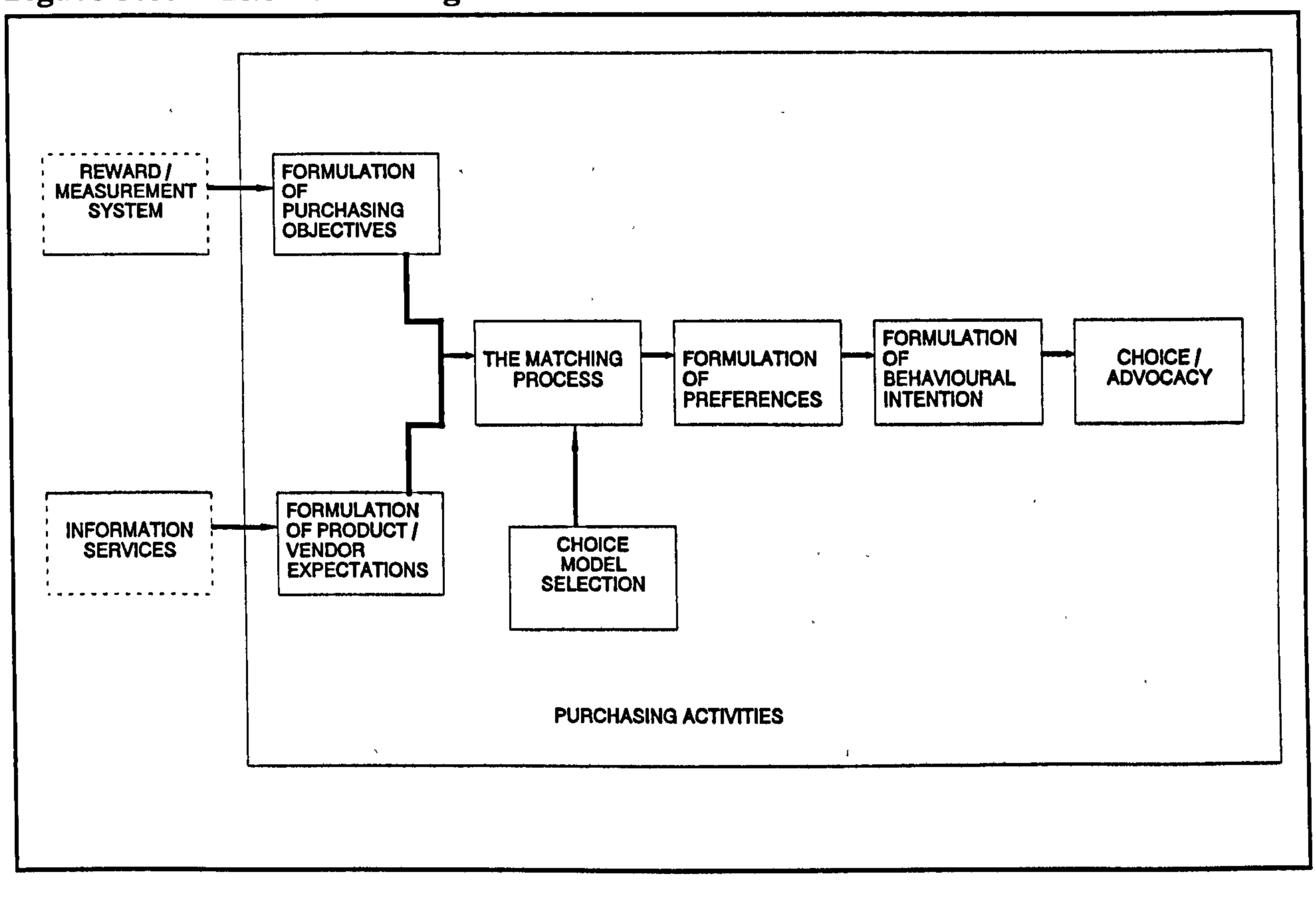
The vendor advocacy position of a purchasing process participant may be defined as the vendor choice or choices which the individual intends to recommend and defend during the course of buying centre deliberations. The critical factors that generate individual choice/advocacy decisions are shown in Figure 3.8. This figure provides additional detail on the purchasing activities construct of Figure 3.7.

3.6.1.5 The Choice/Advocacy Decision

It is suggested that there is a trade off to be made in modelling the purchasing activities of buying process participants. One approach is to attempt a detailed listing of the steps leading up to the choice/advocacy decision. However, with this option a heavy price is paid in terms of complexity and limited application. The alternative is to explain only the crucial antecedents of the buying decision. That is, it is attempted to identify those processes which are likely to operate in all purchasing decisions. As shown in Figure

3.8, Anderson and Chambers chose to structure the choice/advocacy decision in terms of this second alternative.

Figure 3.8: The Purchasing Activities Variable



Source: Anderson and Chambers, 1985, p. 16.

The model asserts that in making decisions concerning vendors, buying centre members must attempt to map their desired specifications onto the set of attributes offered by each vendor. This is referred to as the **matching process** in Figure 3.8. The necessary antecedents of this process are the formulation of **purchasing objectives** and **product/vendor expectations.** Purchasing objectives are the attributes sought by the purchasing process participant. Thus in Figure 3.8 the key determinant of this variable is the **information sources** to which the individual is exposed.

Information sources can, of course, be both internal and external to the firm. Moreover, some sources can be influenced or controlled by the marketer while others cannot. The dashed line surrounding the information services construct indicates that it is just one of

the many variables that can potentially affect expectations.

Purchasing objectives are determined largely by the individual's experiences with and perceptions of the reward/measurement system. As argued earlier, organisational members will tend to focus their primary attention on objectives that lead to extrinsic and intrinsic rewards. Thus, the nature, level, and relative importance of these objectives will be reflective of the way in which the individual realises his rewards. As indicated by the dashed line surrounding the reward/measurement variable, other constructs will also influence the formation of purchasing objectives.

By suggesting the purchasing objectives of individual buying centre members are a function of the reward and measurement system, Anderson and Chambers do not seek to minimise the importance of other factors. However, they do assert that the reward/measurement process is the most fundamental and enduring influence on the behaviour of buying centre members across all types of organisational settings. For example, the well documented tendency for different departments to emphasise different purchasing objectives (Choffray and Lilien, 1978b; Haas, 1982; Hutt and Speh, 1981; Sheth, 1973) is, in essence, a reflection of varying reward and measurement criteria.

Unfortunately, the influence of the reward/measurement process is often masked because organisational members tend to "internalise" the evaluation system of their departments. As shown by the feedback loops of Figure 3.5, purchasing process participants learn the appropriate objectives and behaviour *via* the reward/measurement system. Over time the objectives, values, and beliefs of the department tend to become those of the individual.

The choice of supplier or the development of an advocacy position results from a mapping of the individual's objectives set onto his expectations set. As shown in Figure 3.8, cognitive antecedents of the choice/advocacy decision can be conceptualised as the **formulation of preferences** and the **formulation of behavioural intentions.** In addition, situational factors such as time pressures, economic shifts, and labour conflicts may intervene during the decision making process. Thus, buying centre members may not

always choose or advocate their preferred vendors. The individual will employ some type of **choice model** to complete the matching process. Intuitively, one would expect that variables such as time pressure and number of potential vendors might affect choice model decisions. However, a study using industrial buyers as subjects failed to find such an effect (Crow, Olshavsky and Summers, 1980).

3.6.2 The Group Consensus Model

As shown in Figure 3.6, when final vendor selection is accomplished *via* **group interaction**, the focus shifts to the process of **consensus** formation. Consensus should not be taken to necessarily mean total agreement among group members. Given the various reward/measurement systems of different buying centre members, and given their varying perceptual experiences, it is likely that disagreement and conflict will result in many buying situations. Moreover, they are likely to be exposed to varying sources of information and will filter these sources based on their own unique viewpoints and experiences.

Also, these individuals will be subject to a variety of formal and informal pressures to conform to the commitments and values of the department that serves as their primary work group. These factors are combined under **primary work group influence** in Figure 3.5. The disparate **advocacy positions** which result from this situation must be reconciled in order to achieve a group consensus.

Anderson and Chambers (1985) assert that the problem is essentially one of determining the mechanisms which function to "override" the reward/measurement systems and social influence processes of primary work groups. This may be accomplished in the buying centre through the processes of **social influence, group rewards, coalition formation,** or through the process of **hierarchical decision.**

There is considerable evidence in the literature to suggest that groups are able to exert a significant influence on the behaviour, preferences, attitudes, and values of their

members (Bagozzi, 1978; Fisher, 1980; Nixon, 1979; Porter, Lawler, and Hackman, 1975; Shaw, 1976). Groups are able to accomplish this because they control stimuli which can be transmitted selectively to individual group members at the discretion of their peers. These are known as discretionary stimuli. Most groups employ two major types of discretionary stimuli: information, and rewards and punishments. The effectiveness of a stimulus transmission will depend, in part, on the social power of group members (Bonoma, 1982).

It appears that discretionary stimuli are most effective when individuals value group membership and are dependent on the group for the satisfaction of intrinsic or extrinsic rewards (Porter, Lawler and Hackman, 1975). Primary work group members are likely to have greater referent and legitimate power relative to other members of the buying centre.

Additional information may enhance the consensus building process in at least two ways. The buying group may supply dissenting information that gives them cause to reassess their expectations concerning product/vendor attributes. Thus, their perceptions of the various vendor offerings may change, leading them to the conclusion that an alternative advocacy position is more consistent with their immediate reward criteria. This is essentially equivalent to Sheth's (1973) "problem-solving" mode of conflict resolution. Informational stimuli will be more effective if the source is perceived to be an expert or has access to information not readily available to other members of the organisation. Thus purchasing personnel are likely to play an important role in consensus formation when environmental uncertainty and information needs are high.

The second way in which information may be used to achieve consensus involves the process of persuasion. Information is provided to dissenters in order to demonstrate that an alternative advocacy position is in the organisation's (and, hence, the individual's) best interests in the long run. This approach is very similar to Sheth's (1973) "persuasion" mode.

Rewards and punishments constitute the other major form of discretionary stimuli available to groups. As long as individuals value group membership, social rewards and sanctions can be effective in altering initial advocacy positions. Modes of influence not under the control of the source include persuasion (the use of warnings and recommendations) and informational control. These correspond, very roughly, to the two forms of informational stimuli already discussed. Influence modes in which the source controls the reinforcements include the use of threats and promises and reinforcement control. Within the buying centre, most influence attempts that use reward or punishment power are likely to fall in the reinforcement control category.

All of this suggests that social influence in the form of discretionary stimuli can play an important role in the emergence of consensus in the buying centre. In addition, it is clear that social influence will be more effective in melding a consensus if the individuals place a high value on buying centre membership relative to membership in their primary work group. However, such intrinsic and extrinsic rewards are more likely to be obtained within the primary group, mechanisms other than social influence must also exist to ensure that consensus is reached.

The organisation could distribute extrinsic rewards on the basis of group performance. In this case, individual buying centre members would be rewarded on the basis of the achievement of some imposed objective. This would encourage group consensus by diminishing the role of extrinsic rewards distributed by the member's primary work group.

Conflict that is not resolved *via* social influence processes may have to be handled authoritatively within the group. This can occur when several members form a coalition that is powerful enough to enforce a particular decision on the buying centre. While this approach generates a decision, it also increases the chances of a false consensus. Indeed, such situations may degenerate to the level of the "politicking" mode described by Sheth (1973). Conflict within the buying centre may be handled authoritatively by resorting to hierarchical decision making. In this case, the highest ranking participant in the buying

process assumes the role of decider. Open conflict is thus resolved by order. However, as in the case of decision imposition by coalition formation, the probability of false consensus is increased.

Each of the consensus generation mechanisms seeks in one way or another, to override the influence of reward and measurement systems in the primary work group. Over time these mechanisms may become institutionalised as a part of the organisation' corporate culture (Peters and Waterman, 1982). When this occurs, they will cease to function as a means of resolving open conflict because open conflict will be rare (Anderson and Chambers, 1985). Instead, such mechanisms will become part of usual procedures for reaching purchasing decisions. Anderson and Chambers (1985) suggest that unravelling causal linkages of this sort will call for the employment of research techniques that have not been widely used in organisational buying. They suggest that longitudinal studies, participant-observer procedures, and within-subjects experimental designs may be necessary to sort out the complexity of buying process dynamics.

In a direct test of the model's core hypotheses, Chambers (1983) had professional purchasing agents participate in simulated buying decisions. Using a repeated measures design, he found that subjects altered their preferences, intentions, and behaviour in response to different reward and measurement system treatments. Also, in an extension of some of the model's implications, Morris (1983) tested the impact of different reward systems on conflict and coalition formation. Using student subjects engaged in hypothetical buying centre decisions, Morris found that reward systems that encouraged co-operative, independent, and competitive behaviour led to differential levels of conflict and coalition formation.

Anderson and Chambers (1985) acknowledge that while the results of both studies are consistent with the reward/measurement perspective, much theoretical, conceptual, and empirical work still remains to be done. In this regard the model should not be viewed as a rigid template that can be mapped onto "reality", nor is it intended as a description of the stages in a buying process. The authors suggest that far greater progress will be

made if the reward/measurement model is viewed as a hypothetical structure or framework that can serve as the starting point for more elaborate research in organisational buying behaviour. They claim that the model provides a new way of conceptualising the organisational purchasing process and of identifying an underlying unity in previously unconnected research results. In addition, they assert that the model generates empirically testable predictions that can be used to identify its strengths and weaknesses.

Anderson and Chambers (1985) offer a completely refreshing approach to analysing the decision making process. They base the model on **work behaviour**, that is, it is proposed that people work to satisfy intrinsic and extrinsic desires. The role of reward and measurement systems in motivating purchasing process participants is incorporated into the model. This introduces an individual element, which makes the model more pragmatic. The inevitable problems of inaccurate evaluation measurements of achievement and thus the rewards proffered are explicitly explored.

The model itself is made up of two sub-models which consider both the motivation of the individual and also the processes involved in group interaction and formation of a consensus. Therefore, this framework makes it possible to explore the reasons for individuals carrying out certain purchasing related behaviours and also processes by which interactions generate group decisions. Methodologies and theories are proposed to unravel the complexities of buying process dynamics, including the practicalities of consensus formation.

The model appears to be workable with a proposed methodology which confronts the problems of a poor measurement system by the use of probabilities. It is comprehensive in that it includes performance that can be altered intentionally, and also performance which cannot be so altered. The basis of the model appears logical and the concepts strike a chord with the reader's own experience.

This model only attempts to explain the critical antecedents of buying decisions in order

to maintain simplicity and generalisability. If studying a homogenous sector such as chain restaurants then another approach may be appropriate. Such an approach would be to attempt a detailed listing of steps leading up to a choice/advocacy decision.

The authors suggest that the reward/measurement model may lead to the unified theory of the organisational dyad which is awkward to analyse with the previously described models. This would give a unique insight into the motivation of the parties on either side of the dyad and also the conflict of interests. Such an insight would be of great use to either party for use in negotiations. The model proposed is both innovative and useful. It is more than a mere framework to hang things upon, and is therefore a good analytical tool with which to study organisational buying behaviour.

3.7 Applicability to Research Question

The previous sections have given an indication of the direction in which the theory of organisational buying behaviour has developed over the past thirty years. This development is towards the study of joint decision making and the effect of motivational factors on the choice/advocacy. However, its is important to realise that the theoretical framework chosen as the basis to a research question must be the most **suitable** to address that question. This does not necessarily mean using the most **recent** model.

In this case, the research question concerns the organisational buying behaviour of chain restaurants. The hierarchical structure of the organisation, its culture and strategy and how these factors affect buying behaviour are of particular interest. The essence of the research question is to identify and describe the decision making process for the chain restaurants. This includes the identification of members of the buying centre and the roles of decision-makers, influencers, gatekeepers *etc*. In this way, the objective of identifying the correct person for supplier to approach and windows of opportunity for such approaches will be fulfilled. Another objective is to identify qualifying and determining characteristics of suppliers in the eyes of the decision-makers. It is also aimed to discover whether the chain restaurant sector is homogenous or heterogenous in

terms of the buying processes employed and the evaluation criteria applied.

Based on an awareness of concepts cited in the literature and analysis of the secondary data (see Chapter two) there is the need for a research design that will enable valid observations to be made about the topic under investigation. In order to achieve this aim it is necessary to compromise with regard to the various models that relate to this area of study. The five theories already described (sections 3.2 to 3.6) are now evaluated in terms of their applicability to the research question.

The BUYGRID model proposed by Robinson, Faris and Wind (1967) is useful to analyse the purchasing procedure. The decision making process is isolated for different buyclasses, thus providing a framework for detailed information. There is a distinction between new task and rebuy buying situations. The main problem lies in its lack of predictive ability, in terms of cause and effect, and its simplicity. Simplicity is not usually cited as a criticism for these general models, however in this case the model does not explore the interplay within the buying centre as is required in order to address the research question. However, it is possible to counter this problem and include social, organisational and environmental factors, if this framework is used in combination with another theoretical or analytical construct. However, the interaction between different factors cannot be analysed using this model alone.

Other criticisms levelled at the model concerning problems of comparing different product types are irrelevant in this case since the purpose of the research is to compare across a homogenous sector. A benefit conferred by the simplicity of this model is the ease with which it is possible to compare the decision making processes between different companies. This addresses the objective of discovering if the organisational buyer behaviour is homogenous for chain restaurants. Care must be exercised when putting this model into operation in order to avoid collecting data regarding a formal decision making process rather than the one that occurs in reality.

On first consideration, Webster and Wind's (1972) model of organisational buying

behaviour appears to be an improvement on the previous model in terms of answering the research question. This is because it provides a detailed listing of steps in the decision making process and it considers both task and non-task variables. It also examines the effect of the structure of the organisation on the individual and considers the effects of rewards (in terms of achievement recognition) on the decision making process. This model incorporates the buying centre concept, and, it is suggested that it would allow the examination of the dyad in a buying situation but fails to elucidate how this may be carried out. The model can be applied to different buying situations (new task and rebuy), however, there is no distinction between these different situations within the model itself.

In summary, this is a good model for retrospective explanation although it does not consider the motivational forces which drive the purchasing agent to make his decision, even though the effects of rewards are mentioned. However, this model is not predictive, a criticism which the authors themselves levelled at the BUYGRID model. In essence, it is a "black box" model containing a list of variables and their interactions but with no suitable methodology. This makes the connections between the variables tenuous and, therefore, it is not possible to test hypotheses due to the complexity of the model's structure.

Sheth's (1973) model provides a comprehensive listing of factors affecting the decision making process which fulfil most of the requirements of the research question. This model has been widely criticised for its complexity which has arisen from Sheth's attempts to make it a general model applicable in all circumstances. However, much of this complexity would be removed for the research in question because many of the stabilising variables could be discarded. The different buying situations are not included in the model but there is a variable related to risk (new task buying situations present more risk to buyers).

However, the attempt to make the model of a general nature has resulted in many loosely connected variables which are vaguely defined. The model still requires a vast amount

of data even with the stabilising variables discarded. Chapter two highlighted the dearth of secondary data available in the area of food service and particularly chain restaurants. Even if all the data was available, the complexity of the model would make comparisons between companies or sectors very difficult. This failing is exacerbated by the fact that some of these variables are difficult to quantify even if all the information was available. Again, no usable empirical methodology is forthcoming to measure the variables, let alone to link them together.

The model has also been criticised for over-simplifying the cause and effect factors, this is another result of the general nature of the model. Unfortunately, this research directly confronts the cause and effect variables making this an important failing on the part of the model. The motivation which lies behind the decisions made by buyers is again lacking in this model.

Choffray and Lilien (1978a) addressed the problems of complexity and loosely connected variables in their industrial market response model. This model is more concise than those put forward by either Webster and Wind (1972) or Sheth (1973). This is achieved by taking the analysis of similar situations together, as is required for the current research, thus removing the need for stabilising factors to be present in the model. The structure uses sub-models which simplifies the model and enables focused study on particular aspects of interest. For example, the awareness model would be of lesser importance in this research than the acceptance model which lies at the crux of the research question.

The model was designed to permit the analysis of industrial market response to changes in product positioning. Therefore, the model explicitly addresses the response to marketing strategies which is obliquely related to the research question, which specifically concerns the **decision making process**. In addition, this model utilises a decision matrix which involves respondents estimating the percentage of time that they spend on each task. This information was found to be impossible to obtain empirically as each buyer carried out many tasks in a disjointed fashion.

However, the model is also useful in the analysis of organisational buying behaviour because it isolates factors which trigger choice/advocacy decisions. It is possible to identify decision phases, who is active in which phases and the frequency of involvement using this framework. This is due to the flexibility in the application of the sub-models and thus the model as a whole. This makes it feasible to operationalise the buying centre which is a desirable attribute for this research question. Unfortunately, the validity of the second assumption of the model has to be brought into question. This assumption states that decision participants who belong to the same category share the same set of product evaluation criteria and the same information sources. This assumption makes no allowance for individual characteristics and behaviours.

The model proposed by Anderson and Chambers (1985) is very different to the preceding ones. It considers individuals, (as does the model of Webster and Wind, 1972) but in terms of their work behaviour and explores their motivation by implicit and explicit rewards. Thus the reward and measurement of achievement is fundamental to the structure of the model, whereas others (Wind, 1971; Webster and Wind, 1972 and Sheth, 1973) imply that it is just another variable. The authors also suggest the applicability of the theory to study the dyad in the organisational buying decision. They do not offer a suggestion as to how this may be achieved, but merely suggest that it may be possible.

Again, this model is made up of sub-models of which there are two. One concerns motivation and the second considers the process of group interaction and consensus formation. Therefore, the full model addresses the issue of how organisational buyers can be motivated and the process that the buying centre goes through in order to come to a decision. This is the essence of the research question.

The variation of intrinsic rewards with the structure and culture of the organisation is of interest from the motivational point of view. However, it is expected that there will be no great variation in this study due to smoothing from the selection of companies that appear to be very similar in structure, that is the chain restaurants. Pragmatic problems arising from the mode of operation of a measurement system in a company leads to their

recognition and consideration. The authors also note that the goals of the buying centre are not always congruent with the stated goals of the organisation due to the rewards offered and how achievement is measured.

A methodology is proposed which makes empirical exploration using this model feasible. Only the crucial antecedents of a buying decision are included in the modelling of the choice/advocacy decision to avoid complexity and lack of generalisability. However, it should be possible to tailor these antecedents into detailed stages which represent the chain restaurant sector. This model may serve as a starting point for the understanding of the motivations inspiring organisational buying behaviour as enacted by individuals.

However, the objective of this research is to **describe** the procurement process, whereas this model considers the motivations which drive the selection of supplier. A further problem is the extreme difficulty encountered in data collection. Exploratory research indicated a strong reluctance on the part of respondents to offer information relating to reward and appraisals. The information that it was possible to extract was very vague, and intentionally so. The opinion offered by respondents was that it is difficult to measure the performance of a buyer, since other factors (for example service) come into play as well as price.

3.7.1 Theory Followed in This Research Endeavour

None of the models of organisational buyer behaviour that have been described are completely suitable for this research. This is because organisational buyer behaviour is a complex subject. Furthermore, the scope of the research is limited by the availability of data. If the collection of data was not a limiting factor in the choice of the theory utilised, then the most appropriate model would be the reward/measurement model of organisational buyer behaviour proposed by Anderson and Chambers (1985). This model is the most recent of those presented and provides scope for addressing the dyadic nature of organisational buyer behaviour.

Even though Anderson and Chambers' model is not designed to describe the decision making process as required by the research question, it could have been used in conjunction with another model (for example, the BUYGRID model) to overcome this problem. However, exploratory research revealed the extent of the difficulty of obtaining the data for this model.

Therefore, the BUYGRID model was selected for this research endeavour. Although this model is old and limited in its application it is the most applicable in this case. The model is a good descriptive tool and provides a useful framework for describing the decision making processes in the chain restaurants. The simplicity of the model causes the omission of certain variables, for example, non-task variables such as motivation. However, the BUYGRID model enables the detailed examination of the decision making process for new tasks, modified rebuys and straight rebuys. It also allows testable hypotheses due to its strong yet flexible framework, which is conferred by its simplicity. This benefit is absent from the general and flexible models proposed by Webster and Wind (1972) and Sheth (1973).

In conclusion, it is planned to conduct a situational analysis of the state of the structure of buying behaviour in the chain restaurant industry using the BUYGRID model (proposed by Robinson, Faris and Wind, 1967). In this way a comparative analysis of the buying procedures for both a rebuy and a new task can be carried out. This theory provides a simple framework which facilitates comparisons both within and between different sectors in the food service industry. The theory itself will be specifically tested by hypotheses two, three, and four.

Due to the simplistic nature of the BUYGRID framework it is also planned to use structural role analysis (Calder, 1977; see Chapter four, section 4.3.2). This technique allows each task in the buying procedure to be related to the individual responsible for decision making and is more flexible in the description of the buying procedures in individual companies. In this way, it is possible to include explicitly social, organisational and environmental factors within the context of the BUYGRID model.

This throws light on the cause and effect of specific actions during the decision making process.

Structural role analysis links personnel structures with the roles and tasks that are carried out. In this way the construct gives a clear indication concerning who is responsible for which tasks. The research question considers the hierarchical structure within chain restaurants and how this affects buying behaviour. This is well illustrated by structural role analysis since the effects on buying behaviour in terms of the individuals that carry out specific tasks, and the order in which they are carried out are explicit. Structural role analysis requires the identification of decision-makers and gatekeepers *etc.* and the interactions between individuals in the decision making unit.

3.8 Scope of this Research

The research question concerns the organisational buying behaviour of chain restaurants. The hierarchical structure of the organisation, its culture and strategy and how these factors affect buying behaviour are of particular interest. The following hypotheses have been formulated relating to the research question. These hypotheses have been separated into two sections. First, those hypotheses that relate to the procurement process in general terms and, secondly, those hypotheses relating to the evaluation criteria imposed by the decision-makers at chain restaurants.

General Procurement Process

1. Procurement is centrally controlled with limited regional delegation.
2. Procedures for the selection of suppliers are task specific (procedures differ for new task or rebuy decisions).
3. Procedures for the selection of suppliers are company specific (different companies adopt different procedures).

Evaluation Criteria

4. The criteria adopted for the evaluation of potential and existing suppliers are

common to all companies.

5. The criteria adopted for the evaluation of potential and existing suppliers are common to all products.

6. The evaluation of existing suppliers is based on their ability to meet the company requirements in <u>all</u> of the following:

   i) technical competence (the ability to produce to specification)

   ii) volume (the ability to supply sufficient quantities)

   iii) competitive pricing

   iv) consistency (in terms of quality and volume).

7. The evaluation of potential suppliers is based on their ability to meet the company requirements in <u>all</u> of the following:

   i) technical competence (the ability to produce to specification)

   ii) the ability to supply a sufficient volume

   iii) competitive pricing

   iv) <u>predicted</u> consistency of supply (in terms of quality and volume).

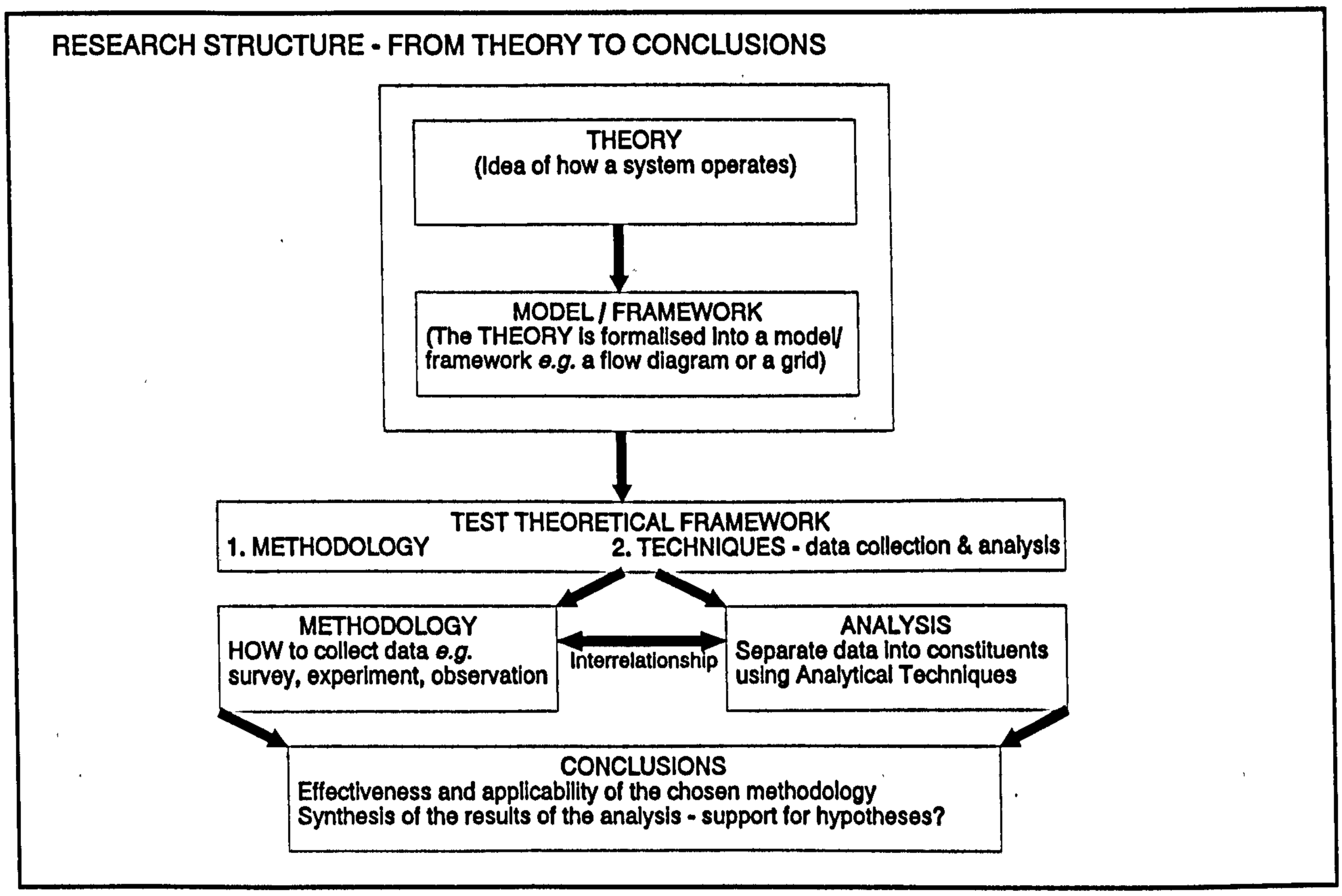
8. The importance of the requirements under the evaluation criteria, for existing and potential suppliers, is task specific (new task and rebuy).

CHAPTER 4:
METHODOLOGY

4.1 Methodological Issues

It is important to understand the relationship between theory, methods, analysis and techniques (see Figure 4.1).

Figure 4.1:



Every research endeavour must start with a theory which is formalised into a model or framework. This research project follows the theory of organisational buyer behaviour. The theoretical framework often takes the form of a flow diagram or a grid to try to explain how the system under scrutiny operates. In this case, the BUYGRID framework of Robinson, Faris and Wind (1967) has been used as the springboard for the resulting research (see Table 4.1 and also Chapter three, sections 3.4 and 3.7).

The majority of the literature relating to organisational buyer behaviour is theoretical rather than empirical. This can be explained by the fact that the theory is quite new with most of the work being done in the last thirty years. Thus, there is a distinct lack of empirical research in this area which has made the choice of methodology all the more difficult.

Table 4.1: The BUYGRID Model

BUYPHASES		BUYCLASSES		
		New Task	Modified Rebuy	Straight Rebuy
1.	Anticipation or recognition of a problem (need) and a general solution	X	X	X
2.	Determination of the characteristics and quantity of the needed item	X	-	-
3.	Description of the characteristics and quantity of the needed item	X	-	-
4.	Search for and qualification of potential sources	X	-	-
5.	Acquisition and analysis of proposals	X	-	-
6.	Evaluation of proposals and selection of supplier(s)	X	X	X
7.	Selection of an order routine	X	X	-
8.	Performance feedback and evaluation	X	X	X

Source: Adapted from Robinson, Faris and Wind, 1967, p.14 and Ferguson, 1979, p.41

A theory has to be developed first, before empirical studies can be carried out to explore the validity of the theory. Two instruments are required to test the validity of a theoretical framework. The first is the method for collecting data and the second is the technique employed for collating or analysing the data collected. There is an interrelationship between the methods and techniques employed but there is also a distinction between them (see Figure 4.1). The analytical techniques employed are dependent upon both the quality and type of data that is collected. This is dictated by the

methodology and also the data collection techniques chosen.

The methodology focuses exclusively on how to gain access to data. Various examples of methodologies are described in the next section. It is necessary to use some sort of analytical framework in any study and this is an ordering of the processes which must be undergone during the analysis. In this way the analytical techniques are held within boundaries - a "framework". The role of the analytical framework is to allow the testing of the hypotheses under consideration. There are many analytical techniques which may be used as part of the analytical framework, the choice of which is dependent on the objectives of the study. It is important to be able to delineate between the methodology and the techniques used in a study since the two instruments are closely related and largely determined by the focus of the study.

Analysis is the breaking down of a complete situation into its component parts. The aim of analysis is to understand the underlying issues and relationships between the research problems identified. This provides better understanding of the problem, but can also enable the redefinition of the problem so as to reveal the root causes. The next step is to consider the connections and interrelationships between the possible explanations based on the analysis of the data available.

Synthesis is the process where the constituent elements of a situation, identified through analysis, are put back together. It is at this point in research where conclusions may be drawn. Johnston, Chambers, Harland, Harrison and Slack (1993) suggest that many options should be considered before evaluating and criticising too harshly. This prevents the stifling of insightful conclusions which may evolve from faltering thoughts and initial conclusions. It is useful to arrange the conclusions thus obtained from the synthesis of the analysis carried out into sets that naturally group together. This grouping allows the researcher to check for overlaps, gaps and inconsistencies.

The remainder of this chapter discusses the alternative methodologies suitable for the investigation of organisational buyer behaviour. Examples of the empirical use of these

methodologies are given where possible in the context of the BUYGRID framework adopted for this study. Some examples of data collection techniques which can be used with these methodologies are discussed. A separate section is devoted to the brief discussion of examples of analytical techniques which are appropriate to use with some of the empirical studies previously described. The final section of this chapter describes in detail the methodology used for this research.

4.1.1 Primary Data Collection Methods

Research can be divided into two categories; qualitative and quantitative. Quantitative research uses mathematical analysis whereas qualitative research data are not subject to quantification or quantitative analysis. The use of qualitative research is widespread in industry in conjunction with triangulation methods in marketing. Deshpande (1983) comments on the fact that qualitative work is criticised for low reliability and the lack of work contributing towards a cumulative body of knowledge.

However, quantitative studies miss the "shadow of meaning" behind statistical formulations. Therefore, it is necessary to understand the advantages and disadvantages of both paradigms. Deshpande (1983) further suggests that qualitative work has been neglected relative to quantitative work, so more qualitative work is needed as well as the need to triangulate studies and mix the paradigms. In general terms qualitative research is used to generate new theory and quantitative work is used to test the theory.

Qualitative research can take several forms. The most commonly occurring form for market research is the use of focus groups (McDaniel and Gates, 1993). Focus groups consist of eight to twelve participants who are led by a moderator in an in-depth discussion on one particular topic or concept. Focus groups are therefore subject to group dynamics - the interactions among people in a group. There are various types of focus groups, for example, exploratory and clinical. Exploratory focus groups are used to aid the precise definition of a problem, in pilot testing, or to generate hypotheses for testing, or concepts for further research. Clinical focus groups explore sub-conscious

motivation.

Focus groups are usually conducted in a purpose built facility consisting of a conference or living room setting and a separate observation room. The facility also has audio visual recording equipment. The moderator leads the focus group. This person may need a background in psychology or sociology or, at least, marketing. A written outline of topics to cover during a focus group discussion is used. Focus groups have evolved with modern technology and can now be conducted by conference telephone facilities. A second evolution is two-way focus groups. In this case a target focus group observes another focus group, then discusses what it learned through observing.

Other methods of qualitative research includes depth interviews and projective techniques. Depth interviews are one-to-one interviews that probe and elicit detailed answers to questions, often using non-directive techniques to uncover hidden motivations. Projective techniques are ways of tapping respondents' deepest feelings by having them "project" those feelings into an unstructured situation. Examples of these techniques are word association tests and cartoon tests in which the respondent fills in the dialogue of one character in a cartoon.

Survey research is the use of a questionnaire to gather facts, opinions, and attitudes. The data subsequently collected can be analysed using statistical techniques to provide information upon which decisions may be based. There are many different ways of conducting survey research, such as postal, telephone and face-to-face techniques. There are also many types of error associated with the questionnaire design, target samples and processing of the data. These aspects are discussed in greater detail in section 4.2.3.

Observation research involves recording behavioural patterns without verbal communication. Three conditions must be met before observation can successfully be used as a data collection tool. First, the required information must be observable or inferable from behaviour that can be observed. Second, the behaviour of interest must be repetitive, frequent, or predictable in some manner, otherwise, the cost of observation

makes the approach prohibitively expensive. Finally, the behaviour of interest must be of relatively short duration. There are a variety of observational approaches to choose from. The five dimensions along which these approaches vary are; natural *versus* contrived situations, disguised *versus* open situations, structured *versus* unstructured observation, human *versus* machine observers, and direct *versus* indirect observation.

Open observation is the process of monitoring people who know they are being watched, whereas disguised observation means that the subjects do not know that they are being watched. Structured observation is a study in which the observer fills out a questionnaire-like form or counts the number of times an activity occurs. In contrast, unstructured observation involves notes being made on the behaviour being observed. Examples of observation methodology are the use of mystery shoppers and one-way mirror observations. A relatively new research method is that of humanistic inquiry (McDaniel and Gates, 1993). In this methodology the researcher is immersed in the system or group under study in order to understand the phenomenon under scrutiny.

Research based on experimentation is fundamentally different to research based on a survey or observation where the researcher is passive. In the case of experimental research the researcher becomes an active participant in the process. It is a research approach where one variable is manipulated and the effect on another variable is observed. Causal research is designed to determine whether a change in one variable is likely to cause a change in another variable. The experimental setting may be in the laboratory or the field depending on the specific area under investigation. Laboratory experiments are conducted in a controlled setting whereas field experiments are tests conducted in the actual environment.

The validity of an experiment can be measured in terms of internal and external validity. Internal validity is the extent to which competing explanations for the experimental results observed can be avoided. External validity is the extent to which causal relationships measured in an experiment can be generalised to outside persons, settings, and times. Experiments can be an extremely powerful form of research since it is the only type of

research that can truly explore the existence and nature of causal relationships between variables of interest. However, there are many reasons why experimental research is not used more often, including the high cost of experiments (money and time), the issue of security (*e.g.* exposing a marketing plan), and problems associated with implementing experiments.

The following section considers data collection methods which have been used for testing different organisational buyer behaviour theories.

4.2 Previous Methodologies

4.2.1 Secondary Data

It has been impossible to find examples of studies carried out using secondary data in the areas of organisational buyer behaviour or the food service sector. This is not surprising given the dearth of information available. As discussed in Chapter two, the food service sector is a particularly difficult area in which to find secondary data. There are several reasons for this. The market information that does exist is largely confidential research commissioned by individual companies. This information is therefore not freely available. The studies that are in the public domain tend to be "snapshot" research, over a limited period, therefore making it impossible to monitor trends. This is exacerbated by the fact that each study tends to work within its own definitions, rendering any comparison between studies particularly problematic. These problems are especially prevalent in the food service sector and there is a marked contrast with the information that is available in the food retail sector.

Information is published annually in the National Food Survey and the Family Expenditure Survey (MAFF). However, these data merely refer to the food consumed outside the home. This definition causes problems since a pizza delivered to the home would not be included but the same pizza delivered during a visit to a friend's home would. This pizza is food service in both cases, so care must be taken when using secondary data for analysis.

Secondary data can be used to plot trends and carry out analyses, but only if suitable data is available for the task at hand. It is possible to obtain the raw data from many studies, for example the service provided by the ESRC. This organisation stores the raw data from all the studies done under its auspices, which can be made available to other researchers. This enables appropriate analyses to be undertaken rather than having to use the processed data. However, the majority of studies do not afford this opportunity.

The advantage of using secondary data, when it exists, is that it allows the analysis of large data sets. It is relatively cheap to obtain, leaving both funds and time to be spent on analysis rather than data collection. If it is possible to obtain the "raw" data, it is often possible to manipulate it into the form that is required. It should be remembered that any analysis is dependent on the quality of the data. This methodology involves the use of "borrowed" data which has been specifically collected for a different study, with different requirements from that which the researcher is pursuing. Therefore, it may not be possible to obtain suitable data sets in a useable form. Also, since the data has already been collected, no control can be exerted over the manner in which it is carried out. It may also be difficult to obtain sufficient information concerning the methods employed and the problems encountered during the data collection.

4.2.2 Experiments

Although there have not been any experimental studies relating to the BUYGRID framework (Robinson, Faris and Wind, 1967) several studies have been carried out into other areas of organisational buyer behaviour. For example, Cardozo and Cagley (1971); Lambert, Dornoff and Kernan (1977); Crow, Olshavsky and Summers (1980); and, Krapfel (1985).

Cardozo and Cagley (1971) carried out an experimental study of industrial buyer behaviour using a buying game. Participants were a probability sample of sixty-four industrial purchasers who played the buying game individually in laboratory facilities at the University of Minnesota. A staff experimenter described the buying game and then

practised requisition processing with each participant. To play the game, a participant first read one of the two cases and then processed four requisitions. This was repeated for the second case.

For each requisition, participants requested up to five bids from firms listed in a directory of suppliers. Supplier characteristics were manipulated through descriptions in the directory. Participants were told that the directory descriptions had been provided by the vendors themselves and the terminology was standardised for ease of comparability. The five types of bids were varied so that none met exactly all the specifications on the requisition forms. Finally, each participant chose one of the firms from which he had solicited a bid. The order of presentation of cases and the requisitions was random, subject only to the restriction that each requisition be preceded by each case an equal number of times. After each participant had processed eight purchase requisitions, he was interviewed on his reactions to the game. Separately from the experiment, the participant received a questionnaire to evaluate the risk inherent in each of the purchase situations and the value represented by each of the bids in a particular purchase situation.

This type of study is conducted under laboratory conditions and involves hypothetical problems and yet it is desired to recreate the decision process that occurs in the work environment. In this study the respondents indicated the realism of the experiment, but great care must be taken to make this possible. Such a method only gives information on which supplier a buyer may choose under a certain set of circumstances but not why that selection is made.

Lambert, Dornoff and Kernan (1977) also collected data in a laboratory situation using a buying game, in which subjects acted as the person responsible for component part purchase decisions for a hypothetical firm. After subjects recorded their purchase choices, they were provided evaluative feedback. The feedback was false, determined only by treatment group assignment. After feedback, a measure of attitude was administered. Fishbein's expectancy model of attitude was used as the operational definition of attitude.

This was a complex buying game which aimed to investigate the attitudes after feedback to the chosen alternative, the rejected alternative and the source of feedback. This ambitious remit was conducted on a sample which was effectively "self-selected". This was due to the fact that potential respondents were confined to those buyers and purchasing agents that attended meetings of their professional societies. This may have lead to a bias towards a certain type of person, and, in turn, a certain attitude to feedback.

Crow, Olshavsky and Summers (1980) used protocol analysis to develop detailed simulation models of the decision processes individual industrial buyers use in requesting quotations and selecting a final supplier. The research method involved collecting protocols from a sample of industrial buyers as they were reacting to hypothetical purchasing situations. Each buyer participated in an individual evening session of approximately two hours at a university building. The use of hypothetical purchase situations allowed for the observation of several buyers under the same operating conditions and for the control of extraneous factors. It also served to constrict the time period over which purchase decisions were made and thus facilitated the collection of protocols.

Protocols verbalise the decision making process and, therefore, this technique enables the researcher to clarify why a buyer makes a particular choice of supplier. The experiment that was carried out by Crow, Olshavsky and Summers (1980) produced a vast amount of detailed information. The difficulty was then how to utilise it all. The analysis was therefore arduous and protracted. However, the output from this experiment produced more meaningful data than that of Cardozo and Cagley (1971), in terms of how a decision was reached.

Krapfel's (1985) research looked at the ability of some members of organisational buying groups to influence other members of the group, relating to information availability. This is often the chief requirement for a successful marketing effort. The study involved a single manufacturer and both naturally occurring DMU's and those which were randomly

assigned. Natural DMU's consisted of two or three persons and were divisional office service managers and their staff assistants. In the organisation under study, purchasing department staff were not members of the natural DMU's, as they served primarily a paper processing function. The other category of subjects were plant, division, and corporate level buyers attending training programmes at a corporate facility. Since two person natural groups predominated in the first category, subjects in the second category were randomly assigned to two person units.

There were two cases: in half of the cases both group members had the same amount of information; and, in the other half, one of the two had 50% more information. All subjects received identical descriptions of the purchasing needs and situations. The experimental groups had to choose from high and low credibility suppliers. The non-experimental groups had the choice of suppliers of intermediate credibility. Suppliers had to be chosen, and agreement was encouraged within the groups in the choice of vendor in the post discussion vendor recommendation.

This study used both experimental and non-experimental groups and so allows a comparison between the two groups, using the non-experimental group as a control. The use of a single firm for the experiment means that internal validity is favoured at the expense of external validity; that is, the results related to the decision-makers within the subject firm but cannot be said to relate to industrial decision-makers as a whole.

In summary, experimental procedures can take many forms and can be used to collect a variety of different types of data. However, the problems with this methodology lie mainly in the facilities that are required for laboratory experiments and the expense that this entails. The subjects involved in this type of study must be very co-operative and be willing to make time for the researchers. On a more theoretical level, this type of work necessarily involves hypothetical buying situations, and therefore the behaviour observed may not be the same as actually occurs in the working environment.

4.2.3 Surveys

Several authors have used survey methods in their investigations of the BUYGRID framework proposed by Robinson, Faris and Wind (1967). Examples of these authors are Doyle, Woodside and Mitchell (1979), Ferguson (1979), Bellizzi and McVey (1983) and Anderson, Chu and Weitz (1987).

Doyle, Woodside and Mitchell (1979) conducted a study of organisations buying in new task and rebuy situations. Personal interviews were conducted with the senior marketing managers of fourteen British industrial manufacturers in early 1978 to study the effects of buying classes on organisational buying processes. Many different industries were represented by the companies which took part in the study. Senior marketing managers having direct contact with customers during 1977 participated in the survey. The frequency of purchase by customers, with or without product modifications, was used to classify the fourteen firms by their customer buying classes.

This work can be criticised due to the small sample of firms (fourteen) that were studied. On the other hand, the firms were very diverse in the goods that they manufactured. This is both an advantage and a disadvantage. The advantage is in the breadth of data that comes from such a heterogenous sample. The disadvantage is the inability to have any check on internal validity, *i.e.* did the firms represent their sector? The research attempted to gain true data by making the scenarios as real as possible. This was done by relating the scenarios to the firms' product representing the largest share of their revenue in both the straight rebuy and new task scenarios. Another disadvantage is the fact that the data was obtained by questioning the sellers about the buying process in their customers' firms. Therefore, it is quite possible that the respondents may not have accurate information regarding the decision making process. Related to this problem is the accompanying lack of insight into the decision making unit. The fact that only one half of the buyer:seller dyad is involved in the data collection means that the dyadic aspect is ignored.

Ferguson (1979) carried out a statistical evaluation of the BUYGRID analytical framework to determine whether it is a general model of industrial buying behaviour. The selection of a specific service was chosen for this evaluation since the service sector was growing at a faster rate than other business sectors at the time of the study. The specific service considered was the selection of a public warehouse. The number of public warehousing customers that were first time users comprised less than one percent of the total business volume. Due to this lack of data, the new-task buyclass could not be evaluated.

Ferguson (1979) used a single shot mail questionnaire designed to identify all possible steps in the decision process for each of the two buyclasses. A response rate of 16.4% was obtained. Although a 13% response rate was all that was required in order to conduct statistically significant Chi squared tests, a higher response rate may well have been gained by the use of a reminder letter. It is unclear how the responses were distributed between the two buyclasses under study. The study only addressed the modified rebuy and straight rebuy buyclasses due to data difficulties with the new task buyclass. This omission makes the study incomplete given the objective to evaluate the validity of the BUYGRID analytical framework.

Bellizzi and McVey (1983) carried out an investigation to test the effects of product type and purchase experience on industrial buyer behaviour in the commercial construction industry. The buyclass variable contained three levels: new task, modified rebuy, and a straight rebuy. The questionnaires were completed by presidents, owners, vice presidents, purchasing managers, purchasing agents, construction site superintendents, company engineers, office managers and other managers. Each respondent reported on his perception of the buying influence of various participant categories on a variety of purchasing activities. Each subject responded to the questionnaire for only one combination of product type and buyclass.

The postal questionnaire obtained a usable response rate of 21.5%, which is considerably better than that achieved by Ferguson (1979), even though reminder letters were not

used. The main problem with this study concerns the obvious source of self bias, since respondents had to report their perceptions of influence of other personnel categories in the buying process.

This study employed two approaches in order to reduce the impact of self bias distortion on the aggregate data. First, a large number of organisational job categories were sought for questionnaire completion. This allowed for the measurement of different buying centre members. Secondly, presidents, owners, and vice presidents were sought with greater effort in order to incorporate more respondents with a wider organisational vantage point into the data base. However, it must be recognised that the targeting of these job categories also introduces bias. It is quite possible for such personnel to follow the organisational structure and ignore the effect of personality on the influence a particular role might exert.

Leigh and Rethans (1984) used a survey methodology to analyse the industrial purchase behaviour involved in a computer terminal purchase, which included the modified rebuy scenario (Robinson, Faris and Wind, 1967). At a meeting of a Purchasing Management Association, thirty-six buyers completed a self-administered questionnaire designed to elicit scripts related to a computer terminal purchase. The script validation data for the second phase of the study were collected through a mail questionnaire sent to the 341 members of the same Association. The questionnaire package included a letter of introduction and support from the Association's President, an individually addressed and personally signed cover letter, a questionnaire, a raffle registration card, and a self-addressed stamped return envelope.

The postal questionnaire had a response rate of 32%. The study was rigorous in that it attempted to validate the scripts obtained by a second phase using a postal questionnaire. There is no information relating to the effectiveness of the incentives included in the questionnaire package, but the response rate obtained is good given that no reminder letters were sent.

Anderson, Chu and Weitz (1987) conducted an empirical exploration of the buyclass framework proposed by Robinson, Faris and Wind (1967) using a postal survey method. The electronics components industry was selected because of its large size, its importance in the U.S. economy, and its variety. They investigated whether the situations a sales force confronts fit the buyclass categories. Further, they inquired whether sales forces find that customers behave as expected in each of the three categories. In an organisation there is one individual, the district sales manager, whose job it is to know what a sales force is facing and what it is doing. Hence, a questionnaire was administered to sales managers. This questionnaire related to the experiences of their district sales forces.

Phase two of the study involved model replication, and requests to participate were mailed to senior sales managers of a broad range of manufacturing firms with annual sales of more than $50 million. Each firm was offered, as an incentive to participate, a summary of findings pertaining to the study's major focus, compensation plans. A field-pretested questionnaire was sent to each firm's contact person to be filled out by the sales manager. After two weeks, a follow up questionnaire was sent. After ten weeks, the study was closed.

The replication sample was much larger and more varied in terms of firms and industries than the model development sample. For validation and replication, it afforded a strong test of the results found in the relatively controlled (homogenous and micro) phase one setting.

The questionnaire itself was pretested comprehensively until there were no further objections from the pilot sales managers. The use of key informants introduces the problem of bias, since the informant is asked to give his/her **perceptions** of his/her sales force's experiences. However, the use of a key informant made the study less onerous for the participating companies, thus increasing the expected co-operation rate. Therefore, a balance had to be struck between the availability of data that may be biased, and the absence of co-operation from a significant number of companies.

The study used a large sample of sales people which produced a high response rate. This was achieved by using sales managers as key informants, having gained co-operation *via* a personal visit to the vice-president. In this way, the sales managers were obliged to co-operate and objections regarding their superiors' opinion were effectively quashed. There was a 50% failure rate to obtain co-operation from the vice-president, but almost 100% of the sales managers in co-operative companies responded.

Response was further encouraged by assurances of confidentiality. There was an identification code on the questionnaire, and this was used to identify those which were not returned. A reminder letter was sent to these individuals. The feeling of confidentiality was further enhanced because the correspondence was handled by the companies' National Sales Offices. After an initial approach, one third of the 750 companies agreed to participate. The total responses represented 21% of the 750 companies, which is 63% of those companies that expressed their willingness to take part in the study. These response rates are also good, and reflects the ground work done when the initial approach was made.

Several other authors (Silk and Kalwani, 1982; Moriarty and Spekman, 1984; Thomas, 1984; Michaels, Day and Joachimsthaler, 1987; and Frazier and Rody, 1991) have also used survey methods in the context of other aspects of organisational buying behaviour. Silk and Kalwani (1982) used a stratified sample and conducted two interviews at each respondent firm (managers and users). The initial contact was made by telephone, when co-operation was obtained the relevant manger was identified and an appointment made. Assistance was then obtained from the manager to arrange an interview with the user. This personal contact increased the levels of co-operation that could be expected from subject firms.

Both Peters and Venkatesan (1973) and Moriarty and Spekman (1984) used a screening technique as part of their survey procedure in order to isolate those subjects that satisfied their particular criteria. Peters and Venkatesan targeted the decision-maker responsible for negotiating and adopting the product in question (a new computer model). Any

problem identifications were eliminated from the sample so that individual variables could be utilised for comparing adopters and non-adopters.

Moriarty and Spekman used a telephone screening process through which firms were selected on the basis of whether they had made a major acquisition of the product in question in the last twenty-four months. The product in question was a non-intelligent data terminal and a major acquisition was defined as the purchase of three or more terminals that were not merely additions to an existing system. Firms included in the final sample also met a second criterion of truly having a multi-person (*i.e.* two or more people) DMU responsible for the product in question. This screening meant that the resultant surveys were therefore accurately targeted and this increased the usable responses. Moriarty and Spekman (1984) report a response rate of 39.7% in their study.

Michaels *et al.* (1987) also used a postal questionnaire for the investigation of role stress among industrial buyers, but this was supplemented by an advance letter and a postcard to follow up non-responses. The responses rate that they attained was 31.25% which they report to be typical of such surveys. Thomas (1984), on the other hand, conducted a survey using personal interviews which involved the rank ordering of sixteen cards to measure his respondents' perception of influence.

Frazier and Rody (1991) investigated the use of influence strategies in inter-firm relationships in industrial product channels and the effects of supplier power. Each distributorship was telephoned by a market research firm to ensure that the individual identified in each distributorship had major responsibility for making decisions relating to its suppliers.

Each distributor was sent a personalised letter introducing the study, followed by a questionnaire one week later. In order to obtain a diverse group of suppliers, half the distributors were sent a questionnaire asking them to report on their most important supplier and the other half were sent a questionnaire asking them to report on the supplier that needed the distributorship the most. Each distributor identified the appropriate

supplier on its own. A second wave of questionnaires was sent two weeks later to distributors that had not responded.

In addition, each respondent was asked to indicate who in the distributorship made the final decision in each of the three areas about the supplier in question. The primary decision-maker was identified in the vast majority of cases. However, in some cases at least one other individual was identified as having an influence on the decisions. A shortened version of the questionnaire was sent to those individuals.

This study demonstrates the value of researching the subjects chosen for a postal survey and of sending a reminder to non-respondents. A response rate of 36% was achieved, almost a third of which resulted from the second wave of questionnaires. The research undertaken prior to the survey meant that most of the surveys reached their target decision-maker. The use of a personalised letter to introduce the survey gave the subject a sense of importance. The study also followed up on other individuals reported to be involved in the decision making process (with a response rate of 58%) although it should be noted that this was not exhaustive. However, in this way at least a flavour of the decision making unit is obtained.

In general those studies which used covering letters, reply paid envelopes and reminder letters achieved higher response rates than those which did not. Response rates of between 30%-40% were achieved where the surveys were conducted in this way as compared to 16%-21% where they were not utilised. Therefore, it would seem wise to remind non-respondents and make it as easy as possible for them to reply, as well as offering incentives.

Postal survey methods predominate in the examples given and the advantage of this method is that the respondents can complete the questionnaire at a time that is convenient to them. This allows time for information collation where required. A postal survey also preserves the feeling of anonymity, which may give respondents the confidence to be more truthful than if they felt there may be reprisals. On the other hand, respondents

may misunderstand questions and so give incorrect information. However, such surveys should be pretested to negate this. In any case, there are likely to be some questionnaires which are unusable despite all the precautions taken.

Telephone surveys are also used, but these present different problems. First, the subject has to be contacted, which can be difficult in industrial research. A suitable time must then be found to complete the questionnaire. Information that is not to hand will not be accessible by this method. Personal interviews combat the problems encountered with the previous two methods but are very expensive for a survey of any size. The time taken to complete such a survey is also a problem since it is difficult to arrange interviews with many of the respondents in a commercial firm.

The advantages and disadvantages of the different survey methods are well documented in the market research literature (for example; McDaniel and Gates, 1993; Kotler, 1991). Survey research is the most popular method to gather primary data for market research (McDaniel and Gates, 1993). When assessing the quality of information obtained from survey research, the accuracy of the results must be determined. This requires careful consideration of the research methodology employed in relation to the various types of error that might result.

There are two major types of error in survey methods. The first is random error, which can be reduced only by increasing the sample size. The second type of error is systematic error, which can be reduced by minimising sample design and measurement errors. There are three type of sample design errors, and these are frame errors, population specification errors and selection errors.

Frame error can be minimised by getting the best frame possible and doing preliminary quality control checks to evaluate the accuracy and completeness of the frame. Population specification error results from flaws in research design (for example, incorrect definition of the population of interest). It can be reduced or minimised only by means of more careful consideration and definition of the population under scrutiny.

Selection error results from the use of incomplete or improper sampling procedures or when appropriate procedures are not followed. It can occur even with a good sampling frame and an appropriate specification of the population. It is minimised by developing selection procedures that will ensure randomness and developing quality control checks to make sure that these procedures are being followed in the field.

There are six measurement errors. Surrogate information error results from seeking and basing decisions on the wrong information. It results from poor design and can be minimised only by paying more careful attention to the specification of the types of information required to fulfil the objectives of the research. Interviewer error occurs due to interactions between the interviewer and the respondent that affect the responses given. It is minimised by more careful interviewer selection and training. In addition, quality control checks that involve unobtrusive monitoring of interviewers to ascertain whether prescribed behaviour is being adhered to should be employed. Measurement instrument bias or questionnaire bias, can only be minimised by careful questionnaire design and pretesting. Processing errors can occur in the process of transferring data from the questionnaires to the computer. This error is minimised by developing and following rigid procedures for transferring data and supporting quality control checks.

Non-response bias results from the fact that people chosen for the sample who actually respond are systematically different from those who are chosen and do not respond. It is particularly serious in connection with mail surveys. It is minimised by doing everything possible to encourage those chosen for the sample to respond (*e.g.* shorten questionnaire, call backs, incentives *etc.*). Response bias occurs when something about a question leads people to answer it in a particular way. This type of error can be minimised by paying special attention to questionnaire design. In particular, questions that are hard to answer, that might make the respondent appear uninformed if they cannot answer, or that deal with sensitive issues should be modified to deal with these problems.

Three methods of conducting surveys are prevalent in this research area. Face-to-face interviews have the advantages that not only can the interviewer explain and probe but

the environment can also be observed. However, the weak point of this method are that the interviewing process cannot readily be monitored and there is a greater chance for interviewer bias. There may also be sampling problems and distractions, such as the telephone ringing during the interview.

Telephone survey methods have the potential for a large sample and, again, the interviewer can explain and probe. If a central location is used then the interviewing process can be readily monitored. On the other hand, the respondent may be distracted by things going on at the location and there may also be problems in long interviews and those with many open ended questions.

Self-administered and postal questionnaires share the same strengths and weaknesses. These methods have the advantage of the elimination of the interviewer and the associated biases. The respondents can complete the questionnaire at their own convenience and can look up certain information and work at their own pace. The lack of an interviewer means that explanation and probing are impossible. There is also no control over who actually completes the questionnaire and the possibility of a poor sample due to non-response. Sample quality can be improved by the use of a panel for postal questionnaires.

There are several factors that come into play to determine the selection of a particular survey method. The need for sampling precision is important because if the need for accuracy is not great, less rigorous and less expensive sampling procedures may be appropriate. This decision must be made in relation to the budget available for the study and the quality of the data required. The need to expose the respondents to various stimuli or perform certain tasks such as card sorts are important factors. For example, taste tests require face-to-face contact.

Long questionnaires are difficult to do by post or by telephone methods. If the incidence rate of the target sample is low then it is wise to utilise an inexpensive method of identifying these respondents. The degree of structure in the questionnaire is also an

important factor, since highly unstructured questionnaires may require data collection by the face-to-face approach. The time available can also be a limiting factor. For example, a postal survey may be precluded because there is insufficient time to wait for a response.

4.2.4 Case Studies

Case studies provide an opportunity for in-depth interviews which are a rich source of qualitative data. Such methodologies also provide the opportunity to determine the composition of the buying centre (Cyert, Simon and Trow, 1956).

Cyert, Simon and Trow (1956) examined a decision making process to determine the feasibility of using electronic data-processing equipment in a medium size corporation that engaged both in manufacturing and in selling through its own widely scattered outlets. This was done by recounting the stages through which the actual problem proceeded in the actual company and then commenting upon the significance of various items in this narrative for future decision making theory.

The decision was captured and recorded by securing the company's permission to have a member of the research team present as an observer in the company's offices on a full-time basis during the most active phases of the decision process. The observer spent most of his time with the executive who had been assigned the principal responsibility for handling this particular problem. In addition, he had full access to the files for information about events that preceded his period of observation and also interviewed all the participants who were involved to a major degree in the decision.

These authors managed to obtain an incredible level of co-operation from their subject firm. This enabled, not only the provision of a full time observer, but also access to the relevant purchasing files. This is an ideal situation in which to conduct a case study. Unfortunately, not many firms are so obliging for reasons of confidentiality of information relating to suppliers, and because such access inevitably takes the time of the

staff away from work activities. The study claims to have interviewed all participants involved to a "major" degree although the identification of such personnel and the nature of the interviews are not discussed. However, this was an attempt at including the different members of the decision making unit in the study in order to give a more complete picture of the decision making process.

Bonoma, Bagozzi and Zaltman (1976) also used a case study approach. A purchasing agent:salesman interaction was observed and the researcher was subsequently able to meet alone with the purchasing agent and the salesman to discuss the events.

The authors only provide a very sketchy description of the methodology employed. The study only involved one interaction plus follow up interviews with the buyer and seller involved. Although, this is a move to take the dyadic aspect of the procurement process into account the data provided is too limited to allow valid conclusions to be drawn. There appears to have been no effort to gather any background information relating to either of the parties, which would seem to be a wasted opportunity. There is also no indication of the form that the interviews took. Thus, it is difficult to gain an insight into the effectiveness of the methodology when so little information is presented.

Calder (1977) used a case study methodology to investigate the decision making process in his subject firm. Interviews were conducted with members of a large financial institution, who were all involved in the procurement of office equipment. Respondents were identified using a snowballing technique (see section 4.3.1). The interviews were unstructured except that they focused on a particular type of office product. The product was a major recurring expense, mainly because of the replacement of existing machines, and the interviews sought to obtain sufficient information to reconstruct the typical decision process for the product through structural role analysis. The interviews gleaned information regarding authority relationships, assignments of individuals to positions, tasks in the workflow and interpersonal influence.

Calder's use of unstructured interviews allowed his subjects to provide a full description

of the decision making process and to provide much detail. This exploits the strength of a case study methodology, although, there may be attendant problems with consistency if the interviews are completely unstructured. This is negated by the focus of the interviews which was a major recurring expense, and which lent a realistic scenario to the study. Calder went further than just investigating the decision making process, and extended his area of inquiry to more abstract concepts such as authority relationships and interpersonal relationships. He overcame the problem of conveying this information by utilising the technique of structural role analysis to present his findings in one diagram - the digraph (see section 4.3.2).

Schmelzer (1983) used personal interviews with managerial decision-makers in order to gather primary data. Consistency across interviews was attained by developing the interview format around areas of inquiry. These were broad areas that circumscribed the procurement process in the food service industry. By combining these data with information pertaining to the market segment within which the firm operated and the firm's organisational structure (*e.g.* franchisor), a comprehensive description of the firm's procurement practice was obtained.

The primary emphasis of the study was not to enumerate the quantities of particular products (beef and poultry) that flowed through food service operations. Rather, it was to delineate those decision rules and procedures that firms actually employed in procuring primary inputs to their production process. Therefore, a composite case study approach was used to aggregate the primary data. Firms with similar organisational structures and market orientations were collapsed into a single general classification developed on the basis of those characteristics. This procedure was then repeated for each structure/market classification with control across cases provided by the development of key areas of inquiry. These areas of inquiry which remained constant across the composite cases, served as an organisational format through which the results of the case studies were generalised.

Semi-structured interviews were used in order to give both consistency and also allow

detailed data collection. However, only managerial decision-makers were interviewed, and detail regarding the rest of the buying centre is unavailable. A composite case study approach was used to generalise about companies with similar organisational structures and market orientations. Those areas which were constant across composite cases were generalised even further. Although much detailed information must have been gained using this methodology, much of it is lost to the reader due to the amount of generalising that is done. However, there are two reasons for this. First, much of the information that was given would have been deemed confidential, and therefore could not have been disclosed in a way that made it attributable to specific companies. Secondly, the objective of the study was to make **general** observations regarding the decision rules and procedures for primary inputs in the food service industry.

Ronchetto, Hutt and Reingen (1989) used a "snowballing" technique to identify the respondents in their case study (see section 4.3.1). Respondent identifications were cross-checked as the interview process unfolded. However, fifteen individuals were nominated incorrectly as they held clerical positions, nineteen individuals had duties which, upon further analysis, did not involve buying-related activities, six interviews could not be completed despite repeated follow up attempts, and five respondents were not sufficiently co-operative.

Each system member was interviewed personally. Individual interviews ranged from twenty minutes to nearly two hours, depending on how many workflow or communication relations a respondent had with other organisational members. All interviews were conducted by the same interviewer. Importantly, the interviewer had obtained a very thorough understanding of the company's buying activities through in-depth discussions with key personnel in selected departments prior to formal data collection. These discussions, coupled with a pretest of the questionnaire in another business unit of the organisation in another region, provided the opportunity to clarify words and phrases and reduce the likelihood of misinterpretation by network participants, and to identify measures of influence that would carry meaning within the organisational culture.

The personal interview technique allows each subject to express their own point of view, and this adds detail and richness to the study. The fact that the interviewer had already gained an understanding of the company and the procurement process endowed him with credibility in the eyes of the respondents. The use of a questionnaire adds more consistency to the interviews but this is at the expense of the detail that can be gleaned from unstructured interviews. In defence of this technique, it should be noted that the pretesting of this questionnaire within the same company had allowed an understanding of the company's buying activities to be gained prior to the formal data collection. However, the use of a questionnaire is restrictive in descriptive studies. The main advantage of the case study methodology is the **detail** that can be obtained and this may be lost by adhering to a questionnaire format.

Sako (1990) also used a case study methodology for her research on buyer:supplier relationships. This research directly addressed the problem of the dyadic nature of the buying process, since the unit of analysis was the bilateral trading relationship. Even this study was unable to obtain co-operation from buyer **and** sellers in all cases. Therefore, both one sided and two sided cases are reported. The customer companies were contacted independently of their suppliers, while some suppliers were introduced *via* their major customer companies. Personal interviews were used to collect data on the customer companies. The data collection techniques for the suppliers were semi-structured personal interviews, the use of company brochures and other requested documents and responses to a questionnaire.

This study looks at the interrelationship between buyers and suppliers and therefore addresses the dyadic aspect of the buying process. It was a pity that the anonymity of the customer companies had to be preserved with the loss of so much background information, but this was the basis on which the information was collected. However, overall the benefit of the willingness of interviewees to disclose information which they would not have done if they were to be identified by name appears to have outweighed the disadvantage in concealing their identity.

The quality of case study research is very dependent on the level of co-operation obtained from the case subjects. The ideal circumstances in which to conduct a case study would be to be present in the company as an observer, **and** have access to relevant company files. However, given the level of secrecy prevalent in the commercial world, this is an unlikely scenario. Therefore, it is necessary to gain access to many people within the subject firm in order to understand the company. It is also desirable to have the findings validated by at least one member of the company to ensure that no misunderstandings have occurred.

There is a problem with case study research in that subjects will be acting on their "best behaviour" whilst they are observed, whereas the objective is to discover what they really do as opposed to what they think they should do. There also needs to be consistency in the interviews with different subjects, although, this has to be done without being restrictive for the subjects. The use of semi-structured interviews is a good compromise in this situation.

The validity of the data generated by case study research can be assessed by the technique of either within- or between-method triangulation. A case study methodology produces a large amount of data and the techniques chosen to process and present this data must be chosen with care.

The need to validate the results of an investigation into organisational buyer behaviour by triangulation is discussed by Johnston and Spekman (1982). There are two types of triangulation, within-method triangulation and between-method triangulation. Within-method triangulation uses several measures of the same type. The problem is that by focusing on the same kind of measures, scales tend to be built that reflect the same biases. Between-method triangulation, on the other hand, is more satisfactory since the flaws of one method are often the strengths of another. If a lack of convergence surfaces when between-method triangulation is used, it forces closer scrutiny of the methodological development of a particular theoretical construct. Therefore, a survey design coupled with an in-depth case analysis or participant observation could provide a

rich explanation of organisational decision making processes (Johnston and Spekman, 1982).

4.3 Data Collection and Analytical Techniques

There are many data collection and analytical techniques. The main techniques which have been used in the preceding studies are outlined below. These techniques are those which were considered most appropriate to the research question. The data collection technique of snowballing is described first since data collection must be completed before analysis is possible. As previously mentioned in section 4.1, there is an interrelationship between the data collection and analytical techniques employed. This is due to the fact that specific data are required for any analysis, so the data collection techniques must fulfil the requirements of the analytical technique to be employed (see Figure 4.1).

4.3.1 Snowballing

Snowballing is a data collection technique used to identify the composition of the decision making unit and also enables validation of membership due to cross checking from several sources. Marketing researchers have, after locating a "central" buying centre member, relied on a snowballing technique to ascertain purposive involvement in a particular procurement decision.

For example, Moriarty and Bateson (1982) applied the snowballing technique using the telephone. They found that the telephone was as effective as visits, whilst being less expensive. In addition, they had a low rate of non-response of 10.4%. In each company "the person in charge of data processing" was contacted and administered a telephone questionnaire. The initial part of the questionnaire elicited the eligibility of the DMU for inclusion in the study. If the DMU was judged to be eligible, the primary respondent was asked to provide the names and titles of other people within the company who were perceived to have participated in the recent decision.

All other decision participants who were thus identified were then interviewed by telephone. Initially their purposive involvement in the DMU was confirmed. They were then asked to name all the people whom they thought were involved in the decision making process. This secondary snowballing technique was continued until no new names were generated. At least four attempts were made to contact each person named as a decision participant. This is known as exhaustive snowballing.

The snowballing technique is unlikely to fall prey to the partial systems fallacy whereby erroneous data result from a failure to include all members of the sociometric network (Lauman, Marsden and Prensky, 1983). Other examples of the use of snowballing can be found in Calder (1977), Ronchetto, Hutt and Reingen (1989), both of these studies used a case study methodology (see section 4.2.4). Moriarty and Spekman (1984) also use the snowballing technique but in conjunction with a survey methodology (see section 4.2.3).

4.3.2 Structural Role Analysis

Once data has been collated regarding the buying centre and the decision making process it has to be organised in such a way that the complexities of the interactions between personnel and their roles can be appreciated. Structural role analysis uses directional graphs (digraphs) to illustrate this. Calder (1977) assessed the utility of structural role analysis for investigating organisational buying by applying the theory to the data obtained from a case study of an actual firm's decision making process (see section 4.2.4, case studies).

Thomas (1984) concludes that, in order to gain competitive advantage, it may be opportunistic to understand the organisational buying centre beyond the traditional scope of defining functional needs for the product. It is also necessary to understand the non-task aspects of the buying centre (interpersonal dynamics). Zaltman and Bonoma (1977) also suggest that research is required into the interrelations between the purchasing agent and other roles within a firm.

It has been stated that organisational buying **usually** involves group decision making. Such groups tend to be made up of users, buyers, deciders, influencers, and gatekeepers (Kotler, 1991). Each member of the group has their own part to play. That is, users may be involved in devising product specifications; buyers have the formal authority to purchase, deciders actually make the buying decision; influencers affect the buying decision, for example technical personnel; and gate-keepers control the flow of information to and from the buying group. There are several forces acting to influence organisational buying behaviour these include environmental forces, group forces, force exerted by individuals and forces from within the organisation itself. Calder, (1977) labels this way of analysing decision making as *"functional role analysis"* and recognises its usefulness in descriptive terms but proposes *"structural role theory"* as a more complete analysis. This follows on from the work of Oeser and Harary (1962) who suggested a mathematical model for structural role theory.

Oeser and Harary (1962, 1964) introduced the concept of a mathematical model for structural role theory in two articles. The first article put forward some general concepts and theoretical considerations about the structure of role systems. The second paper developed these concepts and considerations further, and addressed the empirical problems. They highlighted the need for quantitative information about each variable and about its various interrelationships, but with the caveat that detailed quantitative analyses must follow later.

Structural role theory is one approach to the problem of conceptualising the properties of formal organisation. This theory recognises the fact that in order to understand organisational buyer behaviour it is not enough to merely consider buyers and sellers. Two major aspects of formal organisation that any theory must address are formal authority relationships and workflow (Calder, 1977). Structural role theory does this by focusing on both positions and tasks as elements of structure. Each person in an organisation (social structure) occupies a position that is linked to that of other people. The other people, members of the role set, transmit demands to a person, the focal person, about his behaviour. These behaviours constitute the focal person's role (Calder,

1977). Thus, this conceptualisation carries with it the possibility of structural as well as functional analysis.

Structural role analysis has a micro-level orientation because it calls for an intensive analysis of an individual organisation. The concept of role is represented in graph theoretic terms. The theory deals with three elements: one set of elements is the particular persons who make up the organisation or some subsystem of it (for example, buying). The second set of elements is positions that people occupy in the organisation (Calder, 1977). The key feature of the concept is that people are collectively aware as participants in an organisation of a given set of positional locations. The third set of elements is the tasks that constitute the operational units of any workflow through the organisation.

The concept may be formalised through consideration of several simple digraphs. A digraph is defined as a graph consisting of directed lines usually called arcs, where no relations are reflexive (Calder, 1977). There are various types of digraph. The *P*-graph is basic to the theory, and represents the formal authority relationships that exist among positions. The *T*-graph represents the actual flow of work through the organisation. Two digraphs can be used to connect the three different sets of person, position and task elements (Calder,1977). In this way the role of any person can be defined by referring to the digraphs (see Figure 4.2).

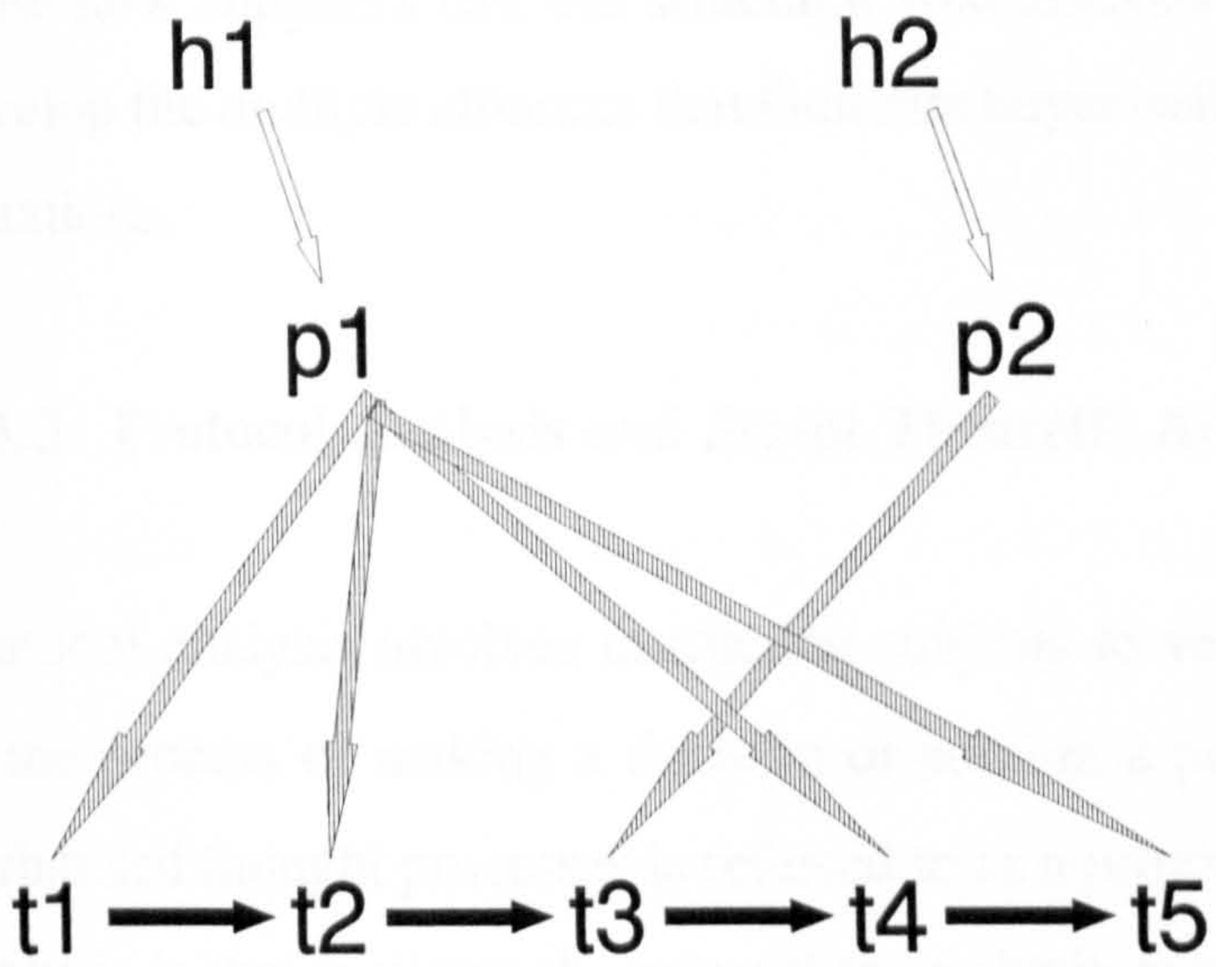
Both the methods outlined above attempt to formalise and map the decision making process within an organisation. However, the use of functional role categories alone does little to capture the complexities of the role concept. Structural role theory combines both structural and functional categories at firm level and thus gives a better idea of the complexity of even simple buying decisions whilst remaining a simple concept itself.

Preliminary investigations indicate that the use of digraphs is applicable to the buying subsystem (Calder, 1977). It follows that mathematical formulation of graph theory clearly delineates the possibility of testing inferences and, more importantly, the

representation offers a basis for aggregating across organisations while still preserving an individual micro-level perspective (Calder, 1977). Thus, the possibility exists for findings that can be both generalised across organisations and readily interpreted in terms of internal organisational processes.

Figure 4.2:

AN EXAMPLE OF STRUCTURAL ROLE ANALYSIS FOR A SIMPLE OPERATION



Interpersonal Influence

Personal Assignment

Authority

Task Specialisation

h1 & h2 — People

p1 & p2 — Positions or Roles occupied by h1 and h2

t1 - t5 — Individual tasks that form the operation

The structural role analysis digraph links individuals with their positions within the firm and the tasks for which they have responsibility. From such a highly schematic digraph the interpersonal dynamics of the buying centre can be examined in minute detail. Not only can one more easily discern the sequence of purchasing related events and the various positions sharing these activities, but one can also trace the informal power relationships and other sociometric connections. The structural role approach offers a basis for aggregating across organisations while still preserving an individual perspective. Structural role analysis is a useful conceptual framework for capturing the micro-level relationships which lie at the core of the buying centre construct (Johnston, 1981). Structural role analysis, then, is not a method in and of itself; it merely provides a guide

by which to conduct collective level analyses.

Structural role analysis was utilised recently by Puri and Sashi (1994) in their study of the anatomy of a complex computer purchase. The paper developed guidelines for managers interested in formulating marketing strategies in complex purchasing situations. A complex computer purchase is examined, the adoption of computer integrated manufacturing (CIM). Implementation of the CIM concept was found to require several specialist vendors to collaborate and develop solutions for each buyer's needs. They show how suppliers can use structural role analysis to understand buyer behaviour and develop the multiple alliances that facilitate buyer-seller interaction in complex purchasing situations.

4.3.3 Protocol Analysis and Script Theoretic Analysis

Protocol analysis involves instructing subjects to verbalise their thoughts while they are in the process of making a decision or solving a problem. The record of the subject's verbalised thought processes is referred to as a protocol. The major advantage of protocol analysis is that it allows the researcher to obtain more complete data on the details of the subject's decision making processes than can be obtained by any other method. The major disadvantage of protocol analysis is the enormous amount of time needed to analyse the data adequately for each individual subject. In the case of Crow, Olshavsky and Summers (1980), an average of approximately forty hours was required to collect and process (transcribe the protocol, construct a flow chart of the decision processes, computerise the flow chart, and validate the model) for each individual subject (see section 4.2.2). However, the technique provides detailed descriptive models of individual industrial buyers' decision processes. The closely related technique of script theoretic analysis has been used by Leigh and Rethans (1984) in conjunction with a survey methodology (see section 4.2.3). Crow, Olshavsky and Summers (1980) used the technique with an experiment methodology (see section 4.2.2).

4.4 Methodology Adopted for this Research

In view of the lack of secondary data, and, in the light of the literature, it was decided to use a case study approach for the main body of the work. The information was analysed using the BUYGRID framework and structural role analysis was used to illustrate the decision making process. The consideration of the dyadic aspect of the buying process was addressed by between-method triangulation of data collection (from both the chain restaurants and their suppliers).

A case study approach was chosen for two reasons. First, the terms of the MAFF studentship precludes the use of a survey. Ministerial policy limits the number of surveys conducted by officials and other surveyors who have the Ministry's support. The Ministry's notification of the award was made on the condition that no surveys were to be conducted under the studentship. Secondly, and more importantly, the use of case studies enabled us to focus on specific aspects of the decision making function of chain restaurants in-depth. Yin (1989) suggests a "technical" definition of a case study as:

> *an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used.*

The case studies were conducted in two phases. The first phase concerned a series of semi-structured interviews with key personnel from selected chain restaurants. The second phase concerned a study of their suppliers. The cases were conducted in this way to allow the dyadic aspect of organisational buying behaviour to be analysed. Six cases were conducted with chain restaurants, two in each of the following sectors: hamburgers, roadside and pizza.

PHASE 1

In the first phase, two firms were studied in each sector. The companies studied were Granada, Forte (Little Chef and Happy Eater), Pizzaland, Perfect Pizza, Burger King and

McDonald's[1]. The companies approached were selected in order of their market share in their fields. Two companies were studied within each sector to allow comparisons both within and between sectors.

Most of the companies approached were very co-operative but those that did refuse to take part referred to company policy and the time pressure they were under. In the end the two largest companies in the hamburger and roadside sectors, and the second and third market leaders from the pizza sector took part in the study. The relative importance of the companies in their respective markets was ascertained using the listings in the 1992 Technomic UK 80 study (Technomic Consultants International, 1992) and information gleaned from the trade press and annual reports.

A semi-structured interview technique in two stages was used in order to gain insights concerning the company structures and strategies. In the first phase of the study, the initial contact was with a Board member, usually the Purchasing Director, who was interviewed. The interviews lasted approximately an hour. The objective of this initial contact was the identification of the decision making unit, that is all those persons who have any input on the purchasing decision. The personnel chosen were those who were involved with the decision making process. These personnel were identified using a "snowballing" technique (Calder, 1977, see section 4.3.1). Each of these interviews were also semi-structured and took approximately one hour. The roles played by these members of the buying centre were described by themselves and their colleagues so that a more objective role analysis could be undertaken (Silk and Kalwani, 1982).

Two interview guides were used (see Appendices 1 and 2). The first interview concerned the company organisational structure, that of the buying department and procurement strategy. The second interview included the involvement of the subject and others in the

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[1] The pizza and hamburger sectors are similar both in the structure of the industry and their clientele. Although the roadside sector is operating in a slightly different market it still fits into the food service industry. It was thought that this apparent difference may be reflected in the findings of the case studies relating to the hypotheses.

decision making process, the process of procurement, the evaluation criteria of potential suppliers and motivational factors. All the interviews were taped and later transcribed for subsequent analysis.

The interviews were conducted on the understanding that confidentiality would be maintained in any published works unless permission was given to disclose various facts. This understanding extended to figures obtained and the specifics of supplier meetings that the company regarded as confidential information, but was willing to share so long as adequate safeguards were maintained concerning their use in the study.

In the process of decision making there are different forces which come into play. These forces include the relationships between the different persons who take up the individual roles in the process. Structural role analysis (see section 4.3.2) was used to illustrate the complex example of a new product buying decision and also the rebuy decision making process in a company.

The resulting case studies were written up in a standard format and the reports were sent to the relevant companies for validation. They were returned to the person identified as the major buyer, although they were also checked by the Board member originally interviewed in most cases. Any required amendments were carried out to the satisfaction of the person carrying out the validation. From the comments received it can be deduced that those doing the validation read the documents in detail.

A "shadowing" day was then arranged with a buyer from each of the companies studied in order to gain a greater insight into the manner in which the processes previously explained were implemented in reality. That is, to provide an opportunity to validate the information that had been given in prior meetings[2]. These visits were timed to give a broad range of experience with each company to include as many of the decision making

[2] It was impossible to obtain permission to have a "shadowing" day with Perfect Pizza and McDonald's due to company policies.

tasks as possible. These tasks were supplier meetings and negotiations, the arrangements for product trials, product tasting, factory visits and new product development meetings.

Obviously, each company also received a case report relating to their own company. Most of the companies studied expressed an interest in the findings since in some cases there were conflicts of interests and duplications of tasks. The interviews took place between June 1994 and April 1995 with the majority of the interviews taking place in the first five months. The "shadowing" days were carried out between February 1995 and June 1995. More than one day was spent at some of the companies in order to gain experience in most aspects of the buyers' jobs.

A total of twenty-one persons were interviewed at Board level and in the purchasing and quality control departments at the six companies studied. In addition to this, there were formal interviews and discussions with numerous other individuals within the food service industry and related organisations. Several of the twenty-one persons formally interviewed were seen on more than one occasion in the course of the various visits to each of the companies.

The goal of this research was to identify the evaluation criteria used by chain restaurants in the decision making process concerning the supplier choice. It was also intended to examine the differences in these evaluation criteria between different firms and between different products. Any differences found were examined both within and between the three sectors studied.

PHASE 2

The second phase of the research involved the validation of the findings produced from the case studies. The technique of "triangulation" was employed (Deshpande, 1983; Johnston and Spekman, 1982; see also section 4.2.4). That is, suppliers to the food service industry were studied regarding their perceptions of the decision making process occurring in and the evaluation criteria applied by the chain restaurants they supply. The

question guides used are contained in Appendix 3.

In order to compare the perceptions from the suppliers to the actual process and evaluation criteria applied the suppliers studied were chosen because of their supply relationships with the six chain restaurants studied. Such suppliers were identified by the chain restaurants themselves. Each company was asked to supply a list of ten suppliers in each of the following categories: current suppliers; potential suppliers; and delisted suppliers. Not all the companies provided ten suppliers in each category. The reasons given included delicate positions whilst they extracted themselves from contracts and that they simply did not have access to ten suppliers in a particular category.

Seven suppliers in various sectors were visited initially to pilot the questionnaire and to gain an understanding of the suppliers' perspective. These suppliers were identified from trade manuals and contacts made during the course of the case studies. The interviews followed the questionnaire format in Appendix 3. In all, the study was piloted on eight suppliers known to serve the food service industry. The eighth pilot was with the marketing director of Brake Brothers (Ashford, Kent), which is a major player in supply to the food service sector. This interview was specifically to discuss the questionnaire format and the feedback obtained was incorporated into the final postal questionnaire.

It should be noted that this study was designed strictly for triangulation purposes and therefore only a small number of suppliers were approached. The number of suppliers approached was far too small for it to be a representative sample of the suppliers to the chain restaurant sector. Therefore, this study should not be considered as a survey, but as a validation technique to the main case study research.

The number of suppliers eventually approached to take part in the postal study was sixty-four. Each supplier was first sent a letter of introduction, and a synopsis of the research project. A few weeks later the questionnaire was sent out with an explanatory letter and a reply paid envelope was provided. After a period of two weeks a follow up telephone call was made to non-respondents who were given the option of answering the questions

over the phone. After a further week had elapsed, non-respondents were again telephoned to request their co-operation in the study. At the end of the fourth week the investigation ceased.

Twenty-three suppliers consented to take part in the study. Thirteen suppliers responded immediately, and five after the first reminder, none of which opted for the telephone interview. Six suppliers responded after the second reminder giving a total of twenty-three responses. Again, none of the suppliers opted for the telephone interview. Of these responses all twenty-three questionnaires were usable.

A low proportion of the respondents were those nominated by the companies in the pizza and hamburger sectors. This was exacerbated by the fact that fewer contacts had been supplied by these companies. Therefore, a second letter was sent out to the non-respondents in these sectors, enclosing the questionnaire and a reply paid envelope. After a further two weeks the study was closed. A total of one response was received. The total number of respondents was therefore twenty-four, which is a response rate of 37.5%.

CHAPTER 5:
CASE STUDY ANALYSIS - ROADSIDE SECTOR

5.1 Granada Case Study

5.1.1 Background

Granada Motorway Services is in the roadside services sector and is part of a large conglomerate, Granada Group, which encompasses very diverse activities. These activities include television and video rental, computer services, a television company, services to business, and leisure, amongst others. Other catering services are also owned, but these are run completely separately from the roadside services business.

Granada Motorway Services operated from nineteen sites in 1992, and twenty sites in 1994 with an additional site due to open in Spring 1995. This is in addition to the eight sites operated from major trunk roads. There are twenty-seven restaurants situated at the twenty motorway sites, most of which have recently undergone major refurbishment. The franchised hamburger chain has outlets on most of the sites.

The turnover for the Leisure and Services division is shown in Table 5.1. It is difficult to isolate the turnover and profit (see Table 5.2) generated by the roadside services business as the annual report quotes for the leisure sector as a whole. The large increases in both operating profit and turnover for the Leisure and Services division in 1993 are partly due to the acquisition of two companies (Sutcliffe Catering and Spring Grove Services) in March of that year.

The operating profit and turnover for the Leisure and Services division, excluding that attributable to the acquisitions in 1993, are shown in square brackets in Tables 5.1 and 5.2. However, it can be ascertained that Granada Motorway Services showed improvements in both turnover and margins. The increase in operating profit was also largely attributed to the successful introduction of a hamburger franchise (Burger King) in November 1993 and the refurbishment of most of the sites.

The operating profit attributable to each division is shown in Table 5.2, from which it can be seen that the reliance on Rental and Computer Services has decreased over the last three years. The relative importance of each division, in terms of operating profit, has become more evenly distributed. The Leisure and Services division, of which Granada Hospitality is a part, has undergone the most growth in terms of operating profit. Granada Hospitality is the biggest profit earner in the Leisure and Services sector, contributing approximately 40% of the operating profit.

Table 5.1: Granada Group Turnover in £ million (1991-1994)

Division	Year			
	1994	1993	1992	1991
Leisure and Services [re: acquisitions in year]	1007	675 [415]	393	375
Rental and Computer Services	679	683	688	654
Television	411	257	258	254

Source: Company Annual Reports; 1992-1994.

Table 5.2: Granada Group Operating Profits in £ million (1991-1994)

Division	Year			
	1994	1993	1992	1991
Leisure and Services [re: acquisitions in year]	98	55 [38]	27	23
Rental and Computer Services	119	113	106	78
Television	85	43	33	22

Source: Company Annual Reports; 1992-1994.

There was also major re-structuring of the Group in 1992, which resulted in the reduction of non-income generating staff. This is reflected in the steady increase in the proportion of turnover attributable to operating profit (see Table 5.3). In the case of the Leisure and Services division the proportion of turnover attributable to operating profit was

approximately 6% in 1991 and 1992, and rose to 8% in 1993 and again to over 9% in 1994. From Tables 5.1 and 5.3 it can be seen that the Leisure and Services division shows the lowest percentage profit, but that the profit in absolute terms is second highest.

Table 5.3: Granada Group % Turnover Attributable to Operating Profit (1991-1994)

Division	Year			
	1994	1993	1992	1991
Leisure and Services [re: acquisitions]	9	8 [9]	6	6
Rental and Computer Services	17	16	15	12
Television	20	16	12	8

Source: Company Annual Reports; 1992-1994.

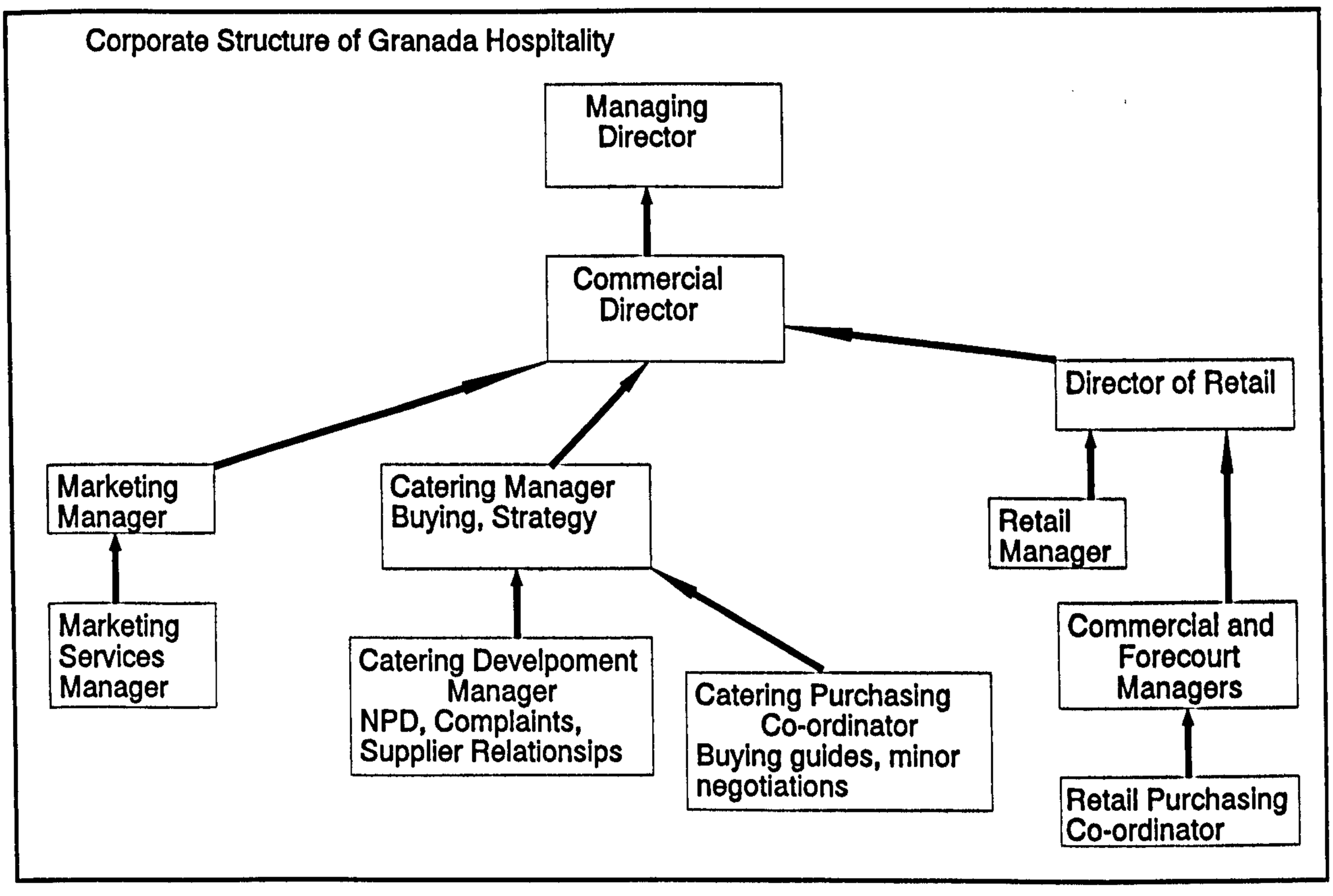
The interviews comprising this case study took place over a period of nine months. The people interviewed were identified using the "snowballing" technique. The first interview took place with the Commercial Director on the June 14th 1994. As a result of the information gained, three further interviews were arranged with the key personnel. The first of these was with the Company Catering Manager on July 14th 1994. The Catering Development Manager was interviewed on August 8th 1994. The last person to be interviewed was the Catering Purchasing Co-ordinator, on August 25th 1994. Finally, a full day was spent (February 15th 1995) shadowing the work of the procurement department. The content of the case study was validated by the company catering manager.

5.1.2 Company Structure

The company was completely re-structured in 1992. This re-structuring involved the separation of the Leisure and Services division into two parts; Granada Hospitality and Granada Leisure Development. Granada Motorway Services and the Granada Entertainments businesses were combined under one management team as Granada

Hospitality (see Figure 5.1a). Granada Motorway Services is the principal component in Granada Hospitality. The entertainment businesses comprise ten pin bowling establishments and nightclubs. In 1992, Granada Group attributed this re-structuring to improving margins in both of these businesses by between 3%-5% through a combination of presentation, pricing and improved purchasing control. The Group considers the catering and retail operations to be the key to profitability in roadside services. Therefore, Granada aim to gear the motorway services towards the "essential" end of consumer spending, thus creating a reliable income stream for the future.

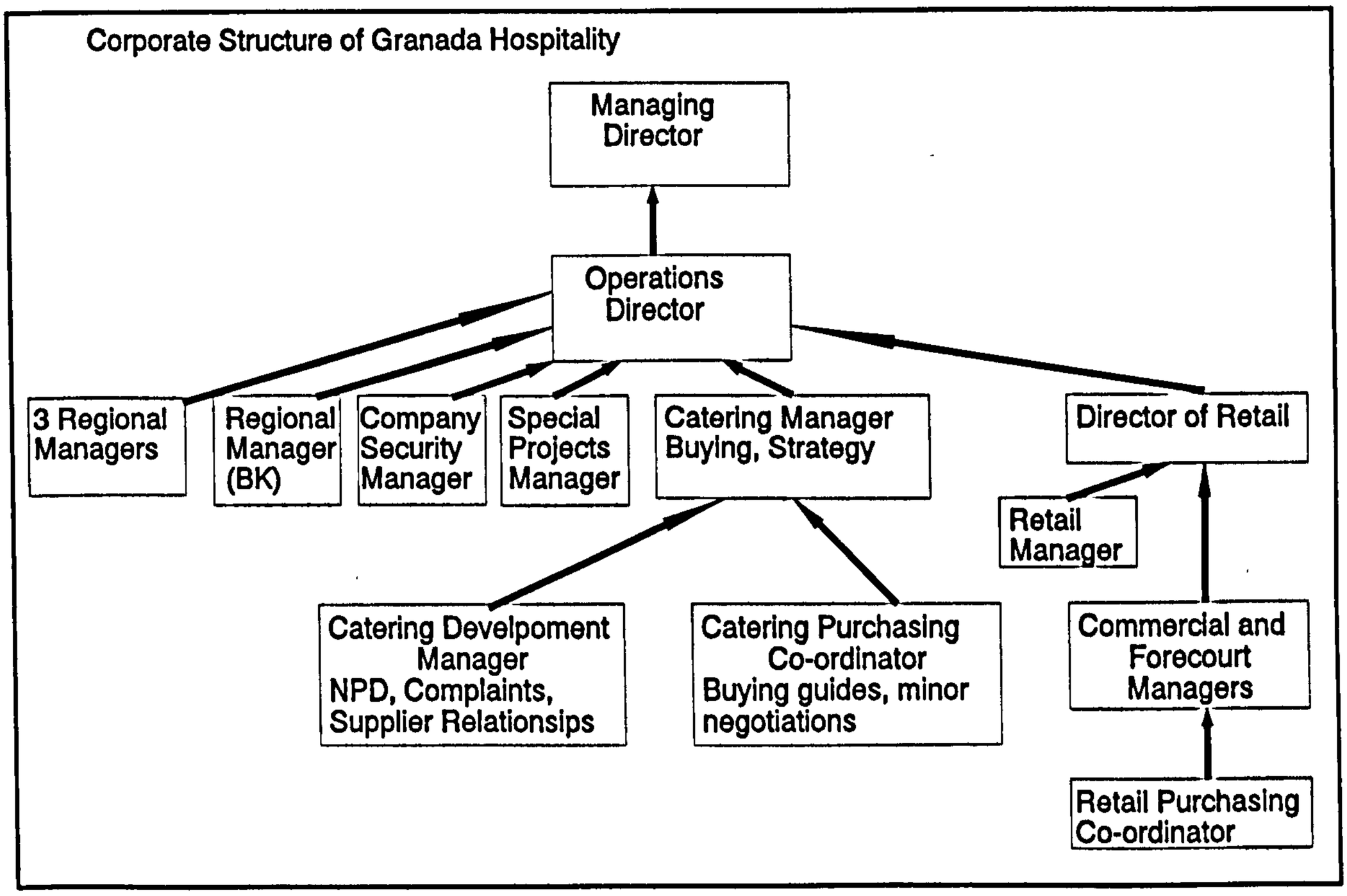
Figure 5.1a: Granada Hospitality - Commercial Department Personnel Structure 1994



The effect of this re-structuring was felt both at head office and at the individual sites. The re-structuring was done to increase economic efficiency by having a leaner and more efficient structure. This was due to the fact that in the late 1980's a good level of sales growth lead to an increase in the number of managerial staff employed. In 1991, the sales achieved decreased along with the decline in the economy. There was also a

significant change in the membership of both the main Board and the Motorways Board. These changes at Board level lead to a change in strategy and a more streamlined company structure. This policy lead to a doubling of profit in under three years. This was achieved mostly by cutting costs.

Figure 5.1b: Granada Hospitality - Operations Department Personnel Structure 1995



There was further re-structuring carried out at the end of 1994. Catering and Retail operations now report to an Operations Director rather than a Commercial Director (see Figure 5.1b). In turn the Operations Director reports to the Managing Director of the Leisure Sector. The positions of Commercial Director and Marketing Director no longer exist. The Development Director carries out the Marketing Director's duties and a Development Committee has been set up which meets each week. This Committee is composed of representatives from the catering, marketing and development departments.

The company maintains a small buying department, consisting of three members, which

reports to the commercial department. The commercial department encompasses sales and marketing as well as the buying function. The structure of the commercial department is illustrated in Figure 5.1b. The buying team works in conjunction with marketing to determine what to sell in relation to consumer requirements and therefore the derived demand for suppliers. These two departments aim to ensure that consumer requirements are fulfilled at site level.

These activities are co-ordinated by the catering review group. The catering review group meets every six weeks. This review group consists of the marketing manager, the company catering manager, the catering development manager, two or three site catering managers, and one site general manager. The review group is chaired by one of the two area managers. Other members of the review group who may attend but who are not always present are the operations director and the marketing director. The catering review group has been in operation for approximately two years. Prior to its conception, the department managers met twice a year, in October/November and in May/June. These meetings were very formal. Managers were also periodically called together to gain feedback. However, it was felt that there was too big a gap between the operations and the commercial department and that it was important to have a conduit for feedback, hence the formation of the review group. It is still felt that the sites could give more feedback regarding problems and successful strategies, and also the feedback that they are receiving from customers. The company catering manager and the area manager at the review group meeting expressed the view that most site managers still do not communicate with the review group. This is combatted by bringing different catering managers to sit on the review group every three or four meetings.

Broadly speaking, the company catering manager is responsible for buying strategy, input on environmental standards and all price negotiations (reporting to the operations director). The catering development manager is responsible for new product development in conjunction with the catering review group and the company catering manager. The catering development manager is involved with developing ideas regarding new products, the supplier base and the relationships with suppliers and she also responds to customer

complaints. The direct reporting relationship is from the catering development manager to the company catering manager.

The third member of the buying department is the catering purchasing co-ordinator. This position involves the administration of the buying department including organising the product information sheet for the distributors, and responsibility for updating the buying lists sent to the sites. The buying list sets out the products available and methods of procurement. This post also involves ensuring that the distributors have sufficient stock of all the products on the buying lists and solving any problems of unavailable product with the suppliers. This role has recently extended to include involvement in minor negotiations such as low value rebuys (between £1000 - £2000). This aspect of the position was planned during the restructuring two years ago, but implementation was postponed for the first year. The direct reporting relationship is again to the catering manager.

5.1.3 Procurement Procedure

A policy of central procurement is followed. Two months is required to complete the re-evaluation of the entire product range, a single product would take approximately three weeks. The entire product range is composed of about forty different product groups, for example, fresh produce, bakery, dairy and fish. There is a different menu for each concept sold under the Granada name, There are four such concepts established, Granada restaurants, the Rock Island Diner (Tamworth), AJ's, Burger King, with a fifth, Coffee Shops, launched in March 1995. Distribution is carried out from central depots through a specialist distribution company. The distribution company delivers to outlets three to four days per week.

Two scenarios were considered, these were a new task and a rebuy. There are two different types of new task: replacing an existing product or introducing a completely new product. The duration of the procurement procedure of a new task is approximately three months.

New Task

Figure 5.2 shows the procurement process operating in Granada Motorway Services. The eight persons in Figure 5.2 *h1, h2, h3, h4, h5, h6, h7,* and *h8* are all members of the review group which is *p1*. Although each member of the review group is represented by a person (*hn*) in the structural role analysis, it is important to note that it is the positions held that are of importance rather than the individuals that occupy them. Therefore, it is the *function* of the individual that is under consideration rather than the individual himself/herself.

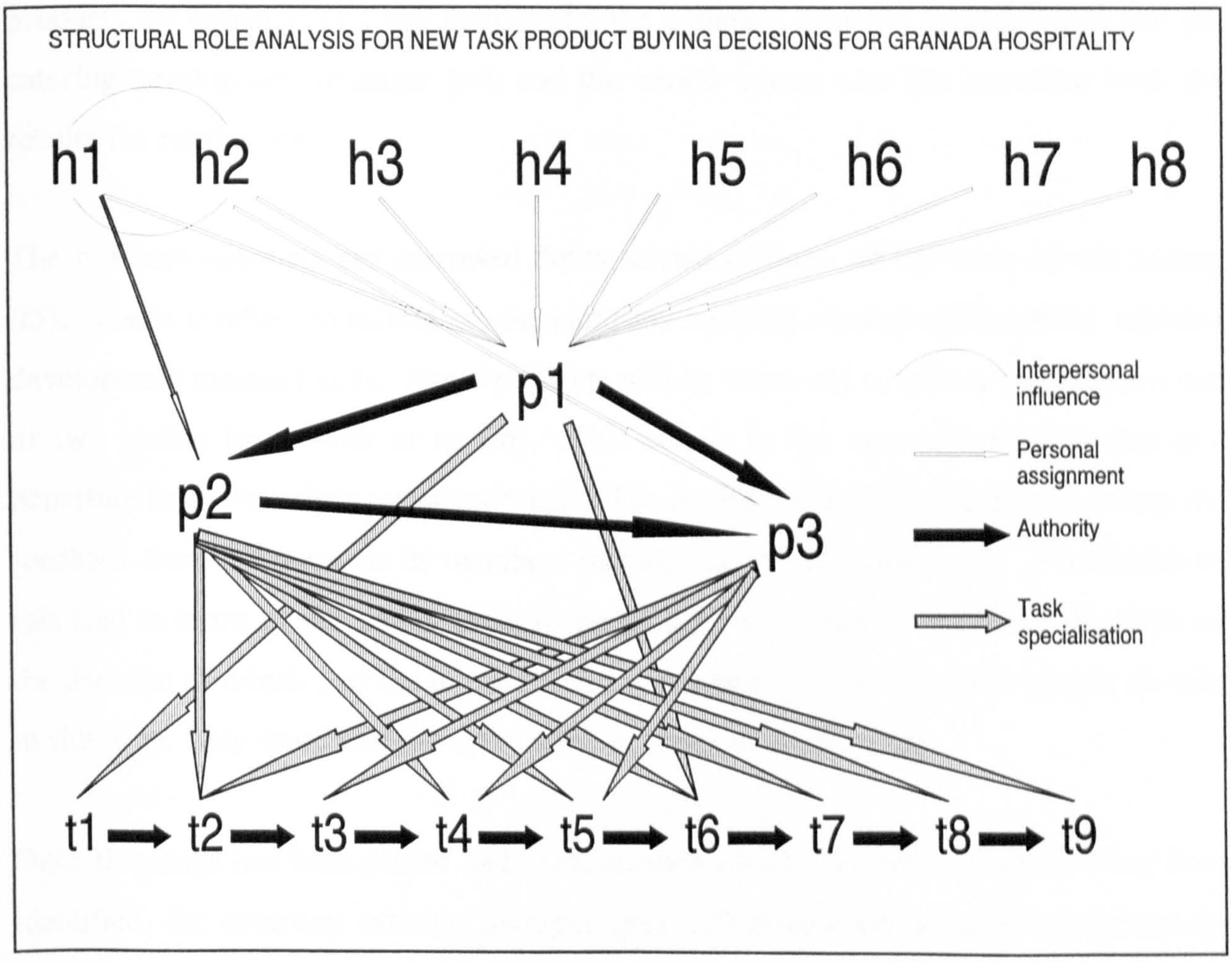
The review group acts as a forum for discussion but also has the power to veto or ratify a proposal. This decision is made by consensus, but if a consensus cannot be reached the members of the group can register their objections to a project even if the majority vote to ratify it. The co-ordinating role of the review group relies on the fact that the two area managers are involved and their site representatives co-ordinate information from their area for the meeting. These sites are also used as testing units for product trials. However, there is no direct authority attributable to the review group in terms of procurement policies.

Persons *h1* and *h2* exert interpersonal influence over each other as they work closely together in their roles of company catering manager and catering development manager respectively. The nature of their roles means that the company catering manager (*p2*) has a formal authority relationship with the catering development manager (*p3*). Both of these positions (*p2* and *p3*) are subordinate to the review group (of which they are both members).

The decision on the type of product that is required (*t1*) may come from the review group or the marketing department, or a combination of the two. Once this decision has been made the buying department becomes involved. Suppliers will be sought that appear to have a product that is similar to that in question or that have the capabilities to produce such a product (*t2*). Potential suppliers are either already known to the company catering

manager or the catering development manager, or found through trade journals and directories. Other sources of potential suppliers include trade shows and speculative letters. Therefore there is a pool of suppliers from which to choose as well as an active search for new suppliers.

Figure 5.2:



Legend: *h1-h8*, persons; *p1*, review group; *p2*, company catering manager; *p3*, catering development manager; *t1*, decision on product type; *t2*, seek potential suppliers; *t3*, obtain samples; *t4*, tasting of samples; *t5*, narrow choice to a few suppliers; *t6*, trial products; *t7*, preliminary negotiation; *t8*, obtain formal tenders; *t9*, decision/choice of selected supplier.

New product development is not as structured as the company catering manager would wish, but there is usually adequate time for product sourcing. The specification is still

fairly loose at this stage and samples are obtained from potential suppliers (*t3*). It is the responsibility of the catering development manager to identify suitable suppliers who can provide a good product to a set price point and to obtain samples from them. The samples obtained are evaluated at head office by means of a blind tasting which avoids bias due to prior knowledge of the suppliers. The product quality is evaluated in terms of taste, texture and colour. The tasting (*t4*) is carried out under standard conditions (the products are prepared in a test kitchen) by the company catering manager (*p2*) and the catering development manager (*p3*) and the review group who are presented with the results for ratification.

The potential suppliers are narrowed down to two or three on the basis of this tasting (*t5*). Those involved in task *t5* are the company catering manager (*p2*) and the catering development manager (*p3*). Some products will be taken out to trial at this stage in one or two outlets for a week or so (*t6*). This occurs in the case of a product that is a departure from the existing product range. The review group (*p1*) is used as a forum for feedback from the trials, as its members include site catering managers. The results of this trial in terms of the achievement of target sales and margins will form the basis of the decision of whether or not to introduce the product. Not all products are put on trial in this way, only those that are innovative in terms of menu range.

Once this stage has been passed and those suppliers with acceptable products have been identified, the company catering manager (*p2*) will meet them in order to discuss the prices and volumes under consideration (*t7*). A few suppliers are retained to this stage so that there is a choice from the company catering manager's perspective. Price is dependent on volume so both aspects are discussed at the same time. The volumes required for a new product are an educated guess. However, a replacement product has a known volume which is traded. The volumes are used as a guide in negotiations but are never guaranteed to a supplier.

At this stage formal tenders (*t8*) will be received from the two or three companies that are still potential suppliers. This is handled by the company catering manager (*p2*).

Price is considered in connection with other factors. For example, the supplier may already provide other products to the company in which case price could be linked to a "volume bonus". That is, although the price for the product in question may not appear competitive in isolation, it may become so in conjunction with the prices then offered for other products that are sourced from that supplier. The supplier is increasing the volume of goods traded, whilst maintaining the size of their customer base, thus increasing business but not the administration of it.

The tenders are evaluated by the company catering manager (*p2*), who will make the final sourcing decision (*t9*). This process may take several meetings in order that negotiations can take place and comparisons made between companies. The final decision is made autonomously by the company catering manager but may be influenced by persuasive arguments from the catering development manager.

The decision between single and multiple sourcing is made by the company catering manager and reflects a trade off between financial benefits and the risk involved in single supply. This risk is offset by the fact that alternative suppliers are available for products. Such companies may be either existing suppliers for other products, those that originally tendered but were unsuccessful, companies the company catering manager has dealt with in the past or companies known to supply other catering businesses. The incentive for such companies is the opportunity to win the business for themselves. An example of this is a vegetable supplier who was delisted after there were problems with foreign bodies in the produce. A new supplier was installed within two weeks.

Rebuy

The high value major lines (for example bacon, chips and oil) tend to be put out to tender once a year for an annual arrangement, other contracts are on a three or six month term. The re-evaluation of suppliers is based on two criteria; the quality and the price. Prospective suppliers often try to alter the specification, and in some cases this may be appropriate. For example, a mutual cost saving may be achieved by a change in the

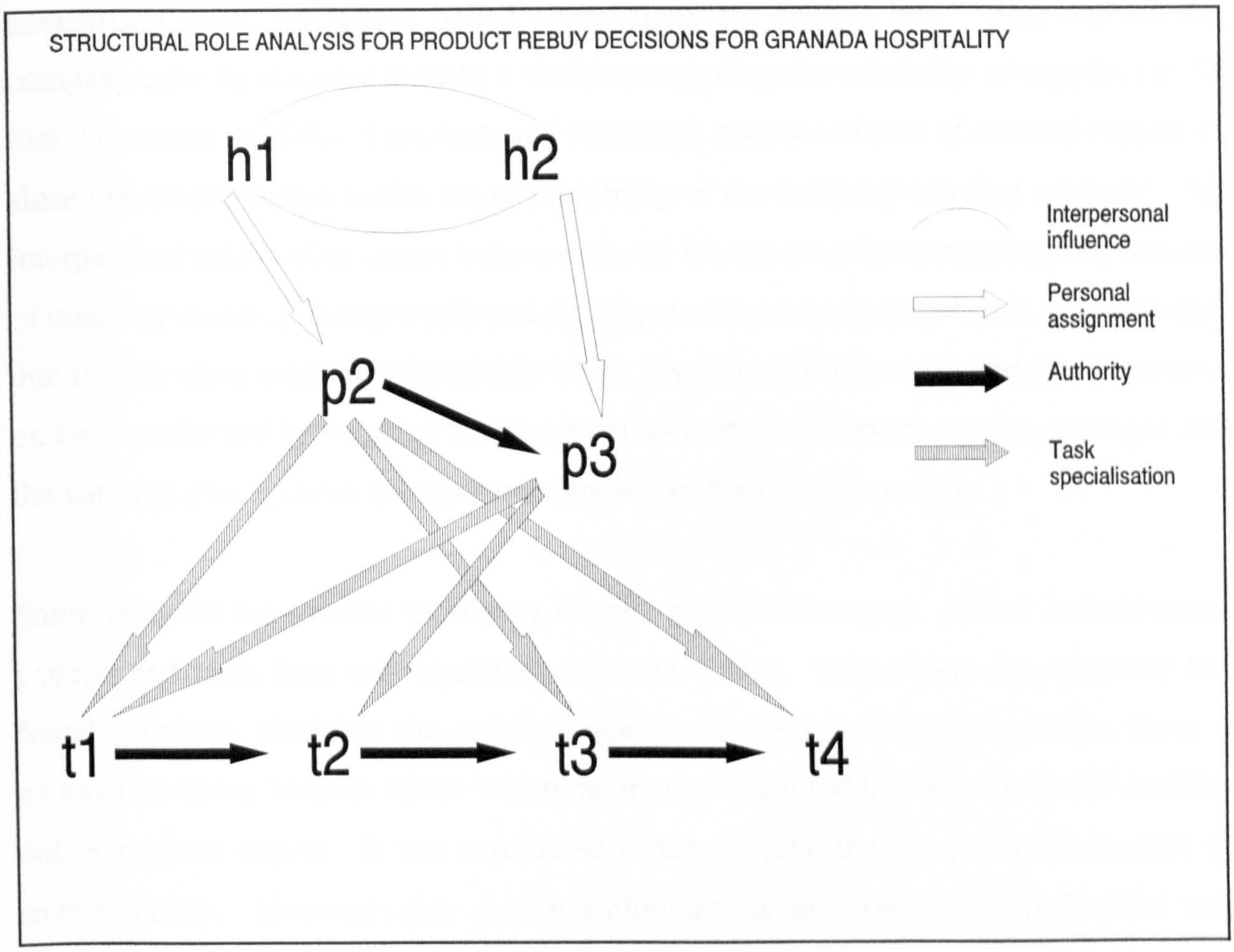
production process without detracting from the qualities required from that product.

An example of this would be sugar sachets where a supplier suggested that a change in packaging, so that four seals are used instead of three, would make the item cheaper. The response to this was to request a quote and a decision was made on the merits of the proposal. All the products are tasted blind and this comparison is the key evaluation on the quality aspect. The catering development manager makes the decision in terms of taste, texture and colour, and then makes recommendations concerning which products should be further considered based on the results of the tasting and recipe compilation (*e.g.*, meat content, weight, flavour profile *etc.*).

The rebuy is illustrated in Figure 5.3. The review group is not involved in rebuy decisions because the product already features in the established product range. This means that the company catering manager makes the final decision on the successful supplier on the basis of price and the recommendations made by the catering development manager.

Each of the persons *h1* and *h2* are assigned to positions *p2* and *p3* respectively. Position *p2* (the company catering manager) has authority over position *p3* (the catering development manager). In the case of a straight rebuy, re-evaluation is undertaken before re-ordering with the same supplier. A direct comparison is made of existing suppliers against at least three potential suppliers using a tasting, as is the case for a new task. As many suppliers as possible are sought in the same way as before involving both the company catering manager and the catering development manager (*p2* and *p3* respectively). This comparison will be with a tight specification on the product and with a rough price point built into the brief. All suppliers have to match the product specifications. In this way there is an overlap with both the company catering manager and the catering development manager (*p2* and *p3* respectively) involved in task *t1* (the seeking of potential suppliers).

Figure 5.3:



Legend: *h1,h2*, persons; *p2*, company catering manager; *p3*, catering development manager; *t1*, seek potential suppliers; *t2*, direct comparison between suppliers on quality; *t3*, direct comparison between suppliers on price; *t4*, decision/choice of selected supplier.

The recommendations made by the catering development manager are then passed on to the company catering manager who will use them to decide which suppliers should be progressed to the price negotiation stage. The catering development manager's involvement in price negotiations extends as far as the request for quotations which are "ballpark" figures which the company catering manager later finalises (*t3*, direct comparison on price). It is necessary that the specification is complete, and the expected costs, including distribution and product price estimates, are a part of this.

In this way the company catering manager has knowledge of costings and the taste comparison recommendations before negotiations are entered into. This enables the company catering manager to make a decision regarding the suitability of suppliers to fit into the current portfolio of products and prices (*t4*, decision/choice of selected supplier), since the overall budget is also the responsibility of the company catering manager. An interpersonal relationship occurs between *h1* and *h2*, the persons occupying the positions of company catering manager (*p2*) and catering development manager (*p3*), respectively, due to their close working relationship which involves not only tasks that are dependent on tasks performed by the other but also involves both the company catering manager and the catering development manager overlapping in the execution of *t1*.

Some products are sourced locally by the site general managers. These include some pastries and fresh fruit and vegetables for certain sites. In the past, the company has found problems obtaining the required quality of fresh fruit and vegetables from a national company because of the variations in quality caused by such companies trading out of regional depots. It was considered better to allow the site general managers to source locally. However, this does not eliminate wide variations in both price and quality.

There has been a change in this policy for fresh fruit and vegetables since early 1995, the sites have the option of site delivery by the distributor, wherever this is cheaper. Fruit and vegetable delivery can only occur at sites where there are deliveries three days per week. Currently, this is not the case at all sites, but the distributor will alter deliveries to three per week, if fruit and vegetables make up part of the order. Sites can trial the service for five weeks. Smaller sites tend to benefit because they are not using large enough volumes to be able to negotiate the price down independently. It is envisaged that pastry items will remain locally sourced because the quality of frozen products is inferior and no company is considered capable of centrally supplying fresh pastry products.

5.1.4 Evaluation Criteria

The catering development manager bases her decisions on recipe, quality (portion control, value for money, overall eating quality) and packaging. Packaging is evaluated in terms of its size and type. It must withstand the rigours of distribution, handling methods, food preparation (based on the skill level in the restaurant) and keep within the temperatures and guidelines that are currently in force. The method of manufacture is also assessed, along with any production run quantities which might limit the volume supplied.

The product itself is evaluated in terms of its uniqueness in the market and its suitability for the catering market as opposed to the retail market. The shelf life and storage method (frozen, chilled or ambient) are considered to allow space management in the outlets. A potential supplier is judged once the factory and the whole production process has been examined but a salesperson should be capable of demonstrating a good knowledge of the product and its manufacture.

Products are primarily evaluated against specification, with price also playing a key part. Important aspects of the specifications include the meat content (where applicable), packaging details, and processing details where the product is made to Granada's own specification. The identity of the supplier of raw materials is also required, as well as details of the quality assurance audits carried out and microbiological information.

Open book accounting is considered an advantage as in this way costs can be more easily monitored. However, this practice is comparatively rare in the experience of the catering development officer. None of the thirty to forty companies dealt with on a regular basis apply open book accounting to their business with Granada Motorway Services. Some suppliers give a cost price but the company catering manager does not always trust its accuracy. A contract is held with the distributor, and the distributor audits the accounts.

Any company which has received bad press or has had poor dealings with a competitor will suffer discrimination from the catering development manager. On a personal level,

it is possible to discover inconsistencies in a company's presentation which suggests that they have something to hide. This is often a "gut feeling" and will have an effect on the final recommendation of supplier irrespective of whether or not any suspicions are justified.

The company catering manager applies various criteria to aid her in her choice of suppliers. The annual reports are scrutinised and the size of the company (turnover) is an important factor, as this indicates the scale of the operation. Ideally she would like Granada Motorway Services to represent 25% of their sales, but this would not be a reason for rejecting a potential supplier. Another influence is a good track record in terms of consistent supply (in terms of the product) and long term supply to major companies.

Personality is considered important as is a knowledge of what has prompted people to move jobs between companies. The company catering manager admitted that she would find it difficult to do business with someone who she did not like. Occasionally, a different account manager has been requested for an account when there has been a real personality clash.

Other influences include the ability of a supplier to deliver to the central distributors regularly (timely delivery reduces wastage and storage costs) and efficiently and the service given (in terms of answering queries promptly *etc.*). However, repeated unsolicited contact from suppliers was considered annoying by the company catering manager.

Speculative letters are put on file until such products are required. The company catering manager insists on seeing a person who is capable of decision making. She prefers to build relationships with suppliers and will not actively search for a new supplier unless the existing one cannot fulfil requirements.

The company catering manager attributes the following characteristics to having a good

partnership; reliability of deliveries, honesty - especially concerning problems, an account handler with the authority to negotiate and who is easily accessible. The account handler must also be knowledgable about the Granada style of business, the products available and their manufacturing process - to the extent of assessing the feasibility of changes in the production process. The supplier must have good new product development and be proactive in displaying their interest in Granada's business. Such partnerships are helped by a friendly, open personality and the supplier managing the product on behalf of Granada. The stock should be ready when agreed.

Repeat contracts are awarded approximately 80% of the time, and the existing supplier is given the opportunity to match competitive tenders. Therefore, a potential supplier must offer something that the others do not in order to stimulate a change of supplier. It should not be forgotten that it is preferable both in terms of administration and bargaining power to rationalise the supply base. Currently, the 800 different products in the range are purchased from eighty suppliers. However, it is intended to reduce this supply base by a further 10%.

The commercial director felt that the members of the buying department do not need incentives because of their status in the company. However, the performance of the department members is measured by the achievement of targets set over a three or six month period. These targets are agreed jointly with the member of staff and their relevant senior (currently, either the operations director of the company catering manager). Targets are set individually for every contract of sale for the following year.

A shopping basket is used as a measure of purchasing efficiency. This is a cross section of products which actually contributes to approximately 60% of the total purchases. Price performance is monitored on an annual basis, and it is important to keep price rises below the rate of retail price inflation. The commercial director believed that this is the best measure for buying performance. Market trends are also closely monitored for major products, as are the prices offered to competitors. The manner in which the prices offered to competitors are ascertained has not been made clear by the procurement staff

at Granada.

These assessment targets highlight the importance of price to the purchasing decision makers in the criteria they apply to potential and existing suppliers. Consistency of supply is also explicitly examined in the form of delivery, although this aspect is controlled by the distributor. Therefore, since members of the buying department are judged in terms of the price and reliable performance, these factors rate highly in their evaluation criteria.

5.2 Forte Case Study

5.2.1 Background

Forte is Britain's leading operator of motorway service areas with twenty-five Welcome Break sites. These outlets act as host to individual Forte catering, retailing and lodging operations. Forte operates several brands in the hotel and catering sectors. This case study focuses upon two brands in the Roadside Restaurants division, Happy Eater and Little Chef.

Happy Eater provides meals for nine million customers each year through its eighty-four outlets. Happy Eater is referred to as a family *brand* by Forte and offers safe children's play facilities, situated both within the restaurant and adjacent to it, in specially constructed playgrounds. Little Chef is Britain's largest table service restaurant chain catering for the needs of business and leisure travellers at over 340 locations in the UK. It also has special facilities for families with young children.

Sales by the restaurant businesses in 1993-1994 increased by 3% to £561 million and their profits grew by 8% in nominal terms to £55 million (see Tables 5.4 and 5.5). Happy Eater, Little Chef and Welcome Break made some progress on 1992-1993 despite a background of falling traffic volumes. A small reduction in meals sold was offset by a higher average spend and increases in retail sales. Forte acquired the French motorway business, Relais, at the end of 1993. Relais has made a positive contribution to earnings

despite the recession in France.

Table 5.4: Forte Turnover in £ million (1991-1994)

Division	Year				
	1994	1993	1992	1991	1990
Total[1]	2106	2721	2662	2641	2470
Restaurants[2]	561	543	638	644	574
Hotels	942	875	835	912	853
Contract catering[3]			1133	1206	961
Other	74	54	56	58	56

[1] including acquisitions and discontinued operations

[2] including all restaurant businesses

[3] discontinued in 1993

Source: Company Annual Reports 1991-1994

It can be seen from Table 5.5 that operating profit has been in decline until 1994. Much of this fall can be attributed to the large interest charges incurred against debt. This led to the shedding of non-core businesses to reduce the debt burden. The last year has been one of significant change for Forte because of this. The process of focusing their management and financial resources on their core hotel and restaurant activities, which was initiated in 1991, neared completion with the flotation of their airports catering and retail business. The remaining core businesses have been reorganised to create a sharper organisation with shorter lines of communication, a lower cost base and a stronger customer orientation. The management team has been complemented by the recruitment of a substantial number of new executives and promotions from within the Company.

Table 5.6 suggests a reason for the contract catering division being discontinued in 1993. Not only did it have a low operating profit in absolute terms (see Table 5.5), but it also had only 4% of its turnover attributable to operating profit. The margins for the restaurants and hotels divisions are comparable from 1992 until 1994. The large decrease

in the percentage of the turnover attributable to operating profit for the hotels division from 17% in 1991 to 9% in 1992 may be due in part to the severe reduction in international travel due to the Gulf war in early 1992, and in part to the effects of recession worldwide.

Table 5.5: Forte Operating Profits in £ million (1990-1994)

Division	Year				
	1994	1993	1992	1991	1990
Total[1]	192	199	179	275	285
Restaurants[2]	55	51	63	74	71
Hotels	107	94	75	159	169
Contract catering[3]			47	40	38
Other	0	0	(1)	1	3

[1] including acquisitions and discontinued operations
[2] including all restaurant businesses
[3] discontinued in 1993

Source: Company Annual Reports 1991-1994

Table 5.6: Forte % Turnover Attributable to Operating Profit (1991-1994)

Division	Year				
	1994	1993	1992	1991	1990
Total[1]	9	7	7	10	12
Restaurants[2]	10	10	10	12	12
Hotels	11	11	9	17	20
Contract catering[3]			4	3	4
Other	N/A	N/A	N/A	2	5

[1] including acquisitions and discontinued operations
[2] including all restaurant businesses
[3] discontinued in 1993

Source: Company Annual Reports 1991-1994

Record profits were recorded by Little Chef and Happy Eater in 1992 and ten new sites were opened in addition to the seventeen sites acquired from Kelly's Kitchen in 1991 (see Table 5.7). Figures are unavailable for the number of Little Chef outlets operating in 1993, but there was a reduction between 1992 and 1994. Twenty new Little Chefs are due to open in 1995 including twenty-five with the new Coffee Stop concept. Two Little Chefs have opened in Spain and a third is under construction.

Table 5.7: Number of Outlets Operated

Year	1994	1993	1992	1991	1990
Little Chef	340	---[1]	363	353	336
Happy Eater	84	---[1]	87	---[1]	---[1]

[1] Data unavailable

Source: *Company Annual Reports 1992-1994*

In 1994 Forte had a purchasing budget of £300 million. Of this, half was spent on non-food purchases (excluding capital goods) - wines, energy, toiletries, tableware *etc.*, and half was spent on some 3,300 lines of dairy, grocery and fresh produce. Fresh, frozen and chilled produce account for around £100 million of this total.

Forte relies on around 650 food suppliers (350 of which supply the Company with fresh produce and 300 of which operate in the dairy/grocery sector). This is half the figure of just two years ago. This depletion in numbers is defended by the evidence of loyalty by Forte to its suppliers. Loyalty to those suppliers who perform well means that only 5% of suppliers are changed each year as a result of Forte's expectations concerning performance standards not being met.

Roadside Restaurants and specifically the brands Happy Eater and Little Chef have been isolated for this case study. Although Welcome Break also makes use of Forte's in house food supply and distribution service, this brand is not generally included in the following discussion.

Several individuals were interviewed during the course of this case study which was conducted over four months. The Director of Purchasing and Supply at Roadside Restaurants was interviewed on June 16th 1994. As a result of this interview several individuals were identified at Forte Purchasing and Supply, and three further visits were made. On the first visit, the Purchasing Director was interviewed on August 25th 1994. On the second visit, the Senior Buyer for Fruit and Vegetables and the Food Technologist for Fruit and Vegetables were interviewed together on September 16th 1994. Due to the fact that the buyer and technologist interviewed were involved in the purchase of fruit and vegetables this case study focuses on fresh produce.

A day was spent "shadowing" the grocery and provisions buyer on April 20th 1995. The itinerary of the day included a meeting with an existing supplier to discuss product development, routine sample testing with the evaluation technologist, and meetings with the senior buyer for grocery and provisions and a member of the quality assurance department. The case study was validated by the senior buyer for fruit and vegetables.

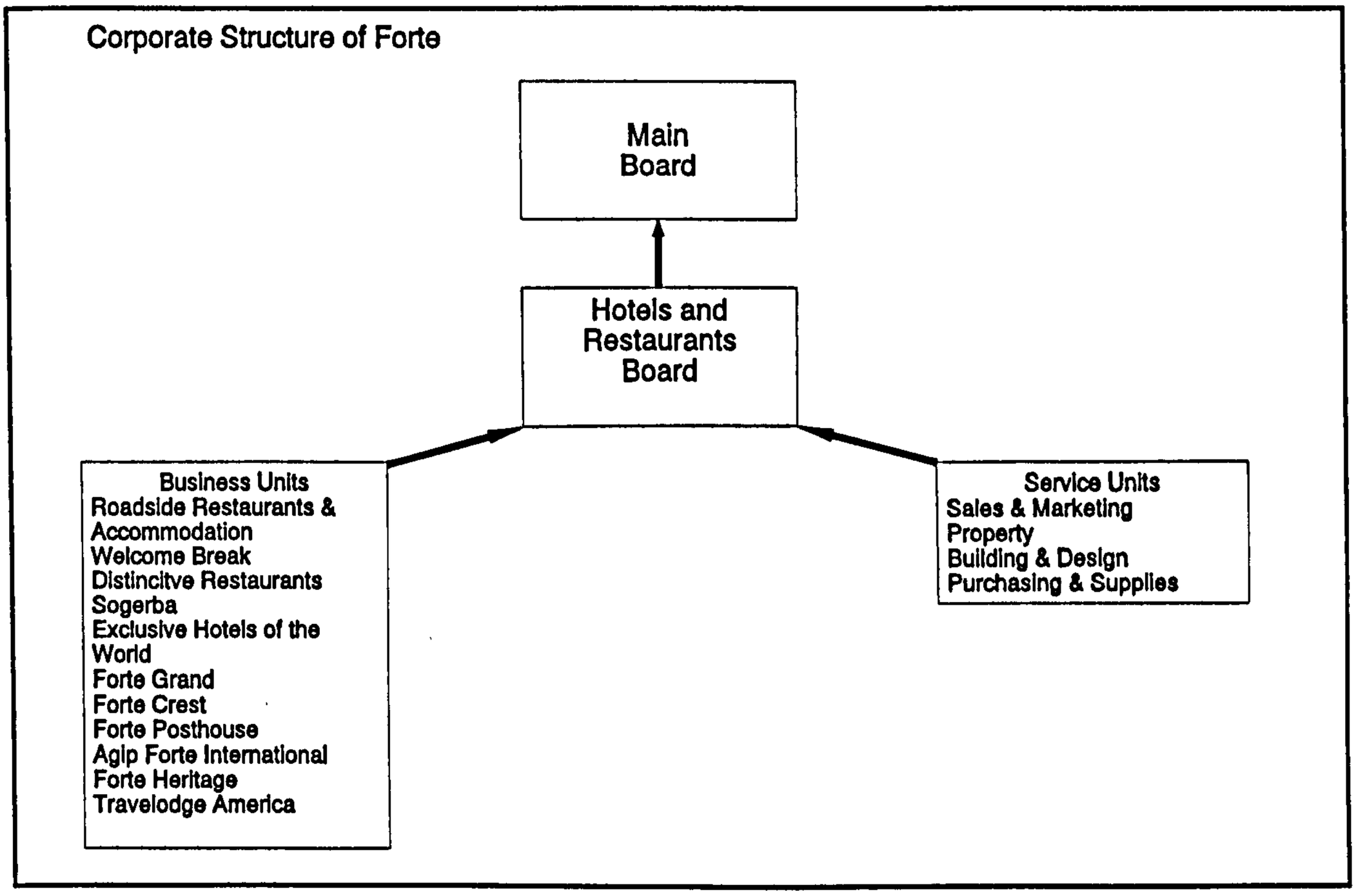
5.2.2 Company Structure

Forte is structured in terms of business units and service units (see Figure 5.4). In general marketing parlance these two branches of the business could be thought of as *divisions*, and the "brands" within them could be referred to as strategic business/service units. However, the language employed by Forte is interesting as it reflects the way in which the businesses are managed. For example, Happy Eater and Little Chef are managed as separate brands, which are part of the Roadside Restaurants strategic business unit. Thus, throughout this case study the term Roadside Restaurants will be used to refer to both brands (Happy Eater and Little Chef).

The organisational structure of Forte is illustrated in Figure 5.4. From this it is clear that there is a short communication chain between the business units and the service units. The hotel and restaurant Board and the main Board oversee the activities of the business units. The service units provide specialist expertise in their areas and allow Forte to

benefit from their market share since the service units operate on behalf of all of the business units. It should be noted that Welcome Break retail is to be taken over by Puritan Maid distribution for £18 million.

Figure 5.4:



The food purchasing and supply unit serves each of Forte's ten strategic business units (SBUs) each of which has different requirements for their catering operations. It is the responsibility of the food purchasing department to source the product as a Strategic Service Unit (see Figure 5.4). The purchasing department ensure that the correct product is procured both in terms of specification and quality assurance. In this way the central requirements are handled by a team of buyers which enables them to negotiate a better price due to the volumes involved.

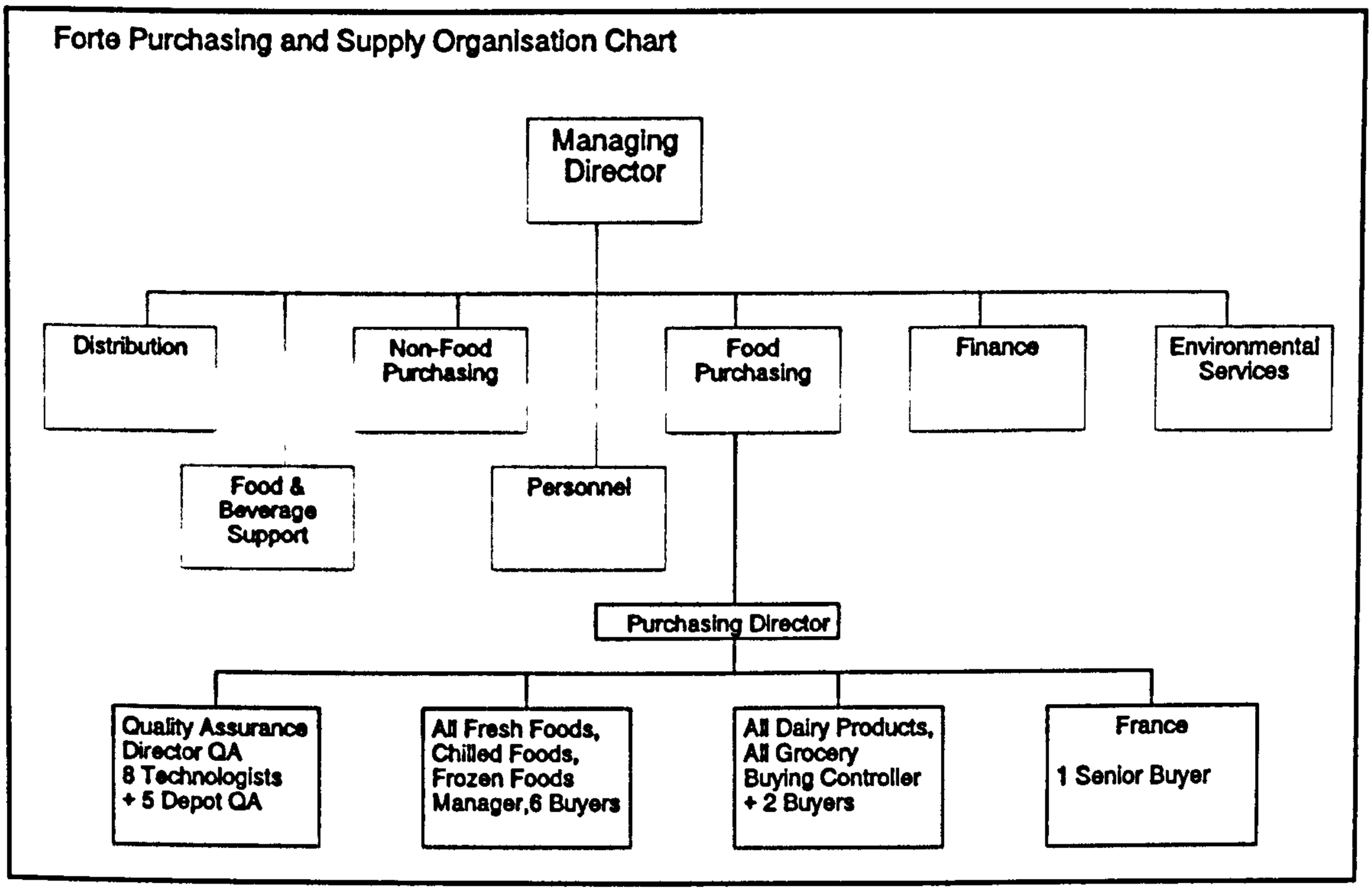
The role of the purchasing department is to provide a service to the SBUs. In this way procurement is entirely centralised for all brands and business units. Forte Purchasing and Supplies is a self funding department. This is achieved by the use of overriders.

The aim is to achieve an overrider of 2% of the turnover of the business undertaken with a supplier. This is not the case with all the companies dealt with at the time of writing. Sometimes the overrider may be set at a lower figure, which can then be increased to a maximum of 2% as business picks up. The situation with the overrider is reviewed annually. The trading year ends in February, so at the time that the shadowing took place the new overriders were being negotiated. Any marketing monies offered by the supplier are forwarded to the relevant business unit (for example, Little Chef and Happy Eater). The decision as to the utilisation of such monies is made by the menu specifier.

Forte purchasing and supplies liaises with the managing directors of the SBUs, and this may also involve liaison with the SBU marketing departments. However, it is unusual for there to be any communication between the purchasing and supplies division and the SBUs' finance departments. The liaison is specifically with the catering director. Buyers are encouraged to liaise with the SBUs at all times. The SBUs are the customers as far as the purchasing department is concerned. Each brand has a menu specifier, that is the individual who tells the purchasing department what food products are required for their menu. In effect, there are ten of these, one for each business unit. There is an overlap between brands for some products purchased, *e.g.* coffee, tea and cheese. There are also a number of items which are specific to particular brands.

The structure of the food purchasing and supply division is shown in Figure 5.5. This is not as "streamlined" as the whole organisation structure as shown in Figure 5.4. This division covers two main activities - purchasing and distribution. The purchasing section works with the operating divisions to ensure that the Company gains the proper financial benefits from the very considerable purchasing power which they enjoy by virtue of their size. The food buyers section includes a quality assurance function which sets demanding standards for suppliers and monitors their performance to ensure that they are meeting those standards. The non-food buyers ensure that the Company keeps abreast of new developments and also that they benefit from the latest technology in areas such as energy conservation.

Figure 5.5:



Distribution is carried out by the wholly owned food supply company, Puritan Maid, which provides the parent Forte with consistency of supply and control over the conditions under which products are stored and delivered to the units. It also relieves the operational management of much of the administrative work involved in dealing with a very large number of suppliers, by providing a one stop service for ordering, delivering and billing. Food and non-food are distributed on a "cost plus" basis. Puritan Maid buys the product from the supplier, on behalf of the relevant business unit, and then takes the product into the distribution system.

There are several advantages of central distribution from the point of view of Roadside Restaurants. These include ease of ordering, delivery handling and savings on invoices handled. At present there are 340 Little Chef outlets and eighty-four Happy Eater outlets. Therefore, there are many small outlets to be served. The average site size is half an acre with relatively small car parks. Thus, the co-ordination of deliveries is essential, to avoid congestion.

Puritan Maid used to operate a food manufacturing unit which produces a range of products tailored to the requirements of Forte and also a number of external customers, but the factory has now been sold. The wholesale and distribution functions of Puritan Maid serve both the business units of Forte and external customers through a distribution chain which covers the whole country. There are eight depots with specialised facilities for storage of specific food categories, computerised stock control and quality assurance laboratory facilities. A fleet of 100 vehicles, ranging in size from five up to seventeen tonne multi-compartment vehicles, delivers a selection of goods to thousands of locations in the UK. The product range available numbers around 4,000 items.

Happy Eater and Little Chef source the supplies to the outlets in the following way. Telesales at Puritan Maid call the outlets three times a week. It is planned that next year (the first half of 1996) this will change to an electronic system. Orders will be put into a computer which will be downloaded overnight. At the time of writing a "twilight" system is already in operation, (orders placed in the morning arrive that afternoon). Orders for 96% of products can be placed in this way. A merchandiser visits retail operations once a week, and creates an order for the retail manager and the restaurant manager signs it.

Restaurants run with no more than five days stock, and deliveries are made three times per week so vehicle or supply problems should not occur. Forte's distribution division also run an emergency service, and operate a "satisfaction check" every time an order is placed. This check covers issues such as quality of service and products, punctuality of the deliveries *etc*. In this way any problem occurring between the unit and the depot can be identified and solved rapidly. There is also a helpline which has a guaranteed response and which gives access to the head office of the distributor, for any problems or emergencies.

Roadside Restaurants sources almost all products through the food supply and distribution division. The vast majority of products are also distributed through the food and supply division but some products are delivered directly to outlets, for example fresh bread and

fresh fish for Happy Eater and Little Chef. The only exceptions to this are retail items, for example, music, and Coke syrups.

It is the policy of Roadside Restaurants to use "one stop shopping", that is the food supply and distribution division. In 1985 50%-60% of product came through this route, as opposed to 96% in 1994. For example, milk is now delivered three times per week by the food supply and distribution division. The chill chain is better and the milk lasts longer. Previously, milk was delivered six times per week by a dairy in unchilled vehicles.

The purchasing department consists of food purchasing and quality assurance. There are eight buyers who handle the commercial side and negotiation, and currently deal with between 650-700 suppliers. There are a range of levels of seniority; manager, senior buyer, and buyer. The size of budget varies in proportion to the position held. The buyer has an amount of authority which is agreed with his superior. When dealing with a major volume or value product, the manager's authorisation must be obtained before an agreement is made with the supplier. For example, chips are worth £2 million per year and any purchasing commitment would need the purchasing director's and the managing director's authority.

On an ongoing product worth less than about £100,000 a year, the purchasing director would not intervene, but the buyer would keep the manager briefed as a matter of course. There is daily liaison between the buyers and their superiors. More important contracts, such as chips, would be the domain of senior buyers. Although the buyers at Forte are chosen for their experience in given product areas, their area of specialism is changed round every two years, which gives a challenge of new areas. They may well come from a multiple or a food service purchasing background, promotions are also made from within.

Reporting relationships within the purchasing department operate with levels of seniority: in general, the buyer reports to the manager who in turn reports to the purchasing

director. The roles of the buyers are dependant on their field of expertise. There is one dedicated to fresh fruit and vegetables, one dedicated to grocery and so on. The only exception to this is the buyer based in France, who purchases all products for the Relais chain. The French buyer reports directly to the purchasing director.

The quality assurance side of the department consists of five food technologists, and five quality assurance people (who work at the five distribution depots, to check the quality of product as it comes in). The food technologists visit existing and potential suppliers and check the products, the way in which they are manufactured and whether they comply with the Food Safety Act. They also ensure that the quality is as declared by the manufacturer. They communicate with the buyers and also the SBU's. Quality assurance technologists report to a manager and from the manager to a director and on to the purchasing director.

5.2.3 Procurement Procedure

New Task

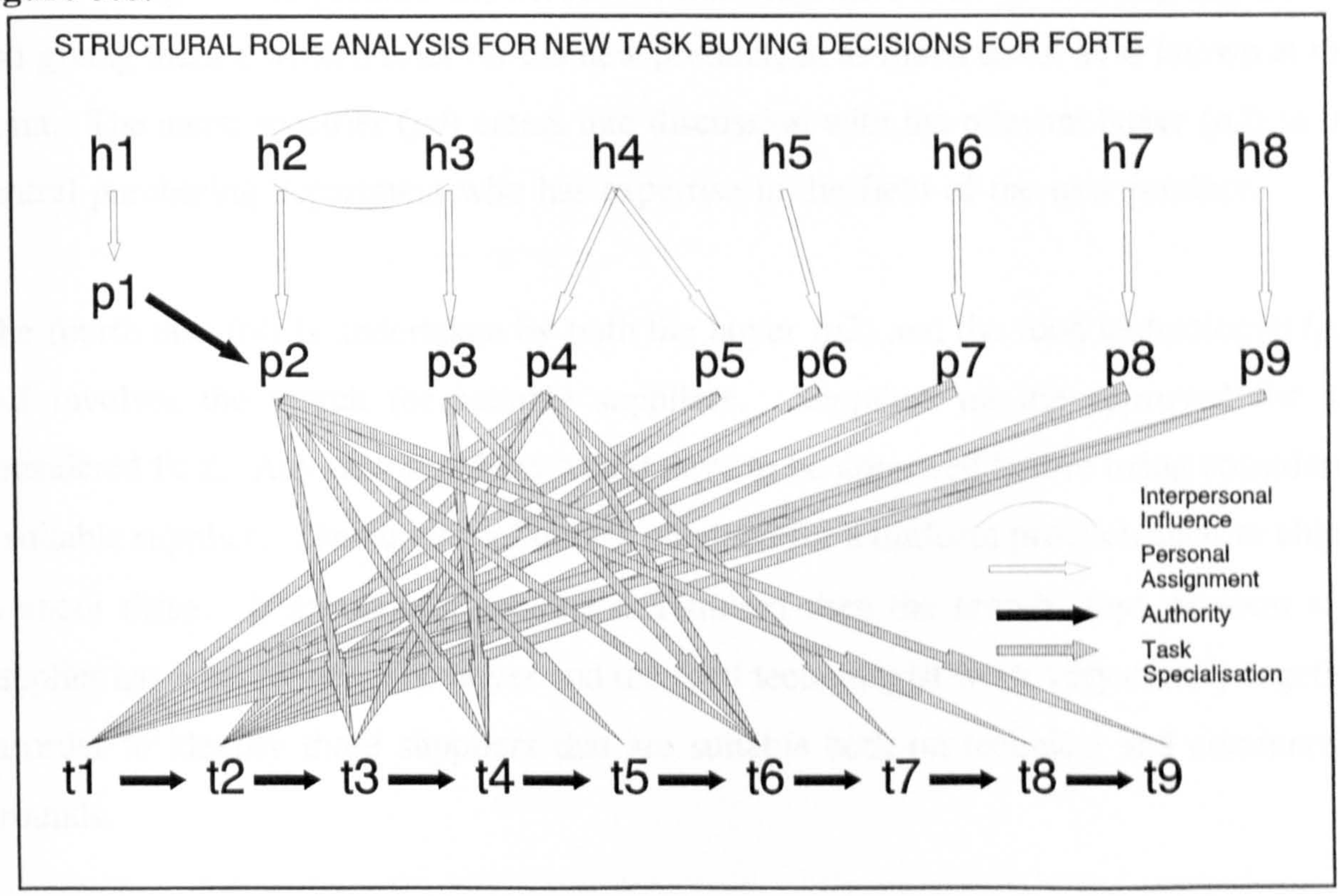
It is necessary to keep the menu interesting for Happy Eater and Little Chef. Therefore, there is a menu development system which runs in a continuous cycle. The total cycle takes about twelve weeks and is usually what triggers the process for a new task buying decision. This process is illustrated in Figure 5.6.

This diagram appears very complicated because so many positions are involved in the first two tasks (*t1* and *t2*). These two tasks are undertaken by personnel at Roadside Restaurants. The first task, *t1*, is the menu review. This involves the menu specifier (*p4*), operators (*p6*), sales and marketing personnel for the SBU (*p7*), a member of the commercial department (*p8*), and the new product development manager (*p9*). The director of purchasing and supply for Roadside Restaurants (*p5*) may also be involved.

These people meet and examine the performance of the existing menu in every respect. For example, the handling of the food, the gross margins achieved and the customer

reaction. This review will recommend future plans for the menu. This can take many forms, but is usually manifested in the form of new product development, special promotions or removing products that are no longer selling well. The deletion of existing products and the introduction of new products has to be considered in the context of the overall buying strategy due to the suppliers involved, stocks within the system and working practices. Fresh, chilled and frozen produce are all sourced in the same way.

Figure 5.6:



Legend: *h1-h8,* persons; *p1,* director/manager Forte purchasing and supplies; *p2,* food buyer; *p3,* food technologist; *p4,* menu specifier; *p5,* director of purchasing and supply for Roadside Restaurants; *p6,* Roadside Restaurants operators; *p7,* Roadside Restaurants sales and marketing; *p8,* Roadside Restaurants commercial department; *p9,* Roadside Restaurants NPD manager; *t1,* menu review; *t2,* decision on product type; *t3,* confer with food buyer; *t4,* seek alternative suppliers; *t5,* obtain samples; *t6,* taste samples; *t7,* decision on supplier; *t8,* negotiate price; *t9,* set up contract.

If it is decided to add a product to the menu, then it is necessary to decide on the type of product that is required. This is the second task (*t2*), and involves the same personnel as *t1*, namely *p4, p5, p6, p7, p8,* and *p9*. The specification of product type includes a description of the size, a choice of ambient, chilled or frozen, and method of preparation, and this leads to the first brief being drawn up. The marketplace is then studied to discover any instances of the product already being used.

The next stage in the process (*t3*) involves contacting the central purchasing department and giving them a written brief for the new product, in as much detail as is known at this point. The menu specifier (*p4*) enters into discussion with the relevant buyer (*p2*) in the central purchasing department who has expertise in the field of the new product.

The fourth task (*t4*) is undertaken by both the buyer (*p2*) and the food technologist (*p3*) and involves the search for suitable suppliers. Suppliers on the approved list are considered first. Any new suppliers would have to be approved before being considered a suitable supplier. The number of quotes obtained for a uniform product, such as chips, is about three. If an unusual product is required then the search stops as soon as a supplier has been found. The buyer and the food technologist work very closely together in order to identify those suppliers that are suitable both on technical and commercial grounds.

This joint decision making is by agreement. If either the buyer or the food technologist is uneasy with regard to a certain supplier then a compromise will be made (they will source from the supplier in question, but on the understanding that another will be sought). Both the buyer and the food technologist have a similar outlook, in that they wish to avoid problems of supply and quality, and this facilitates agreement concerning supplier choice.

The supply base is fairly constant and utilises information collated over a period of eight years. The commercial decision is made by the buyer and the food technologist as this involves the feasibility of the product and quality is a part of the feasibility. Specifiers

have no control over commercial decisions. The specifiers need to know the cost, and the likelihood of sourcing over a given time period. The buyer and the technologist can suggest alternatives to the menu specifier. For example, Chinese leaf lettuce would become very expensive towards the end of the season, so a presentation of the alternatives would be appropriate.

A supplier must be on the approved supplier list before any brand can use that supplier. Puritan Maid produce a catalogue of the products offered by approved suppliers. Once a supplier obtains a listing in the catalogue it is possible for any of the Forte brands or external customers to source that product. Some products are within the approved system but are not in the catalogue if they have been sourced specifically for a brand which wishes to retain the product exclusively.

There is also a commodity bulletin which is circulated once a month to chefs, specifiers and the directors of each SBU to ensure that these people are aware of the products on offer through Puritan Maid. The procurement department have an obligation to source what is required by the menu specifiers. The risks are too great for menu specifiers to use unapproved suppliers. Approval takes the form of a factory audit, and takes into consideration past relationships with buyers.

There are 1000 more suppliers on the approved list than the buyer interviewed is prepared to use. If the specifier brings a product in from an unknown supplier, that supplier must be approved before sourcing can take place. A supplier may be nominated for a particular hotel but this is rare (less than 2%-3% of business). The decision on the approval of potential suppliers is taken jointly between the food technologist and the buyer. This incorporates both the quality assurance and the commercial aspects. Distribution is frequently found to be a problem. Other problems could be a restricted volume capability, where a high volume demand by Forte could cause severe cash flow problems for the supplier.

The buyer and the food technologist have a portfolio of suppliers who are audited if not

six monthly, then certainly every year. The frequency of audits reflects how complex the product is. For example, a factory producing a complex product such as gateaux requires three visits per year because there are more opportunities for problems to occur in an complex production process. New suppliers require some notice before an audit is carried out. Realistically, new suppliers should be given two weeks notice before an audit. An approved supplier is only given a few hours notice. The specifier from Roadside Restaurants works as a team with the buying department in the selection of potential suppliers.

Ultimately, the menu specifier will make the final decision on supplier from a limited choice provided by the buyer. The specifier dictates any constraints on supplier eligibility. There are several constraints imposed by Happy Eater and Little Chef. Both brands operated by the Roadside Restaurants division have extremely simple production systems, and operate deskilled kitchens. The kitchens are equipped with heat exchange equipment. It is possible to defrost and serve, griddle, fry, toast, microwave, or use a combination oven. Therefore, the skill is transferred to the manufacturer level, with controls *via* the food technologist as opposed to controls at the cooking level in a busy restaurant. In this way, the same standard of food can be delivered nationwide, 364 days a year.

In terms of using raw materials, constraints include the ability to be handled with the given production equipment, the availability in the right portion sizes, and the ability to be handled without falling apart either in distribution or whilst being prepared.

It is essential that the product can be produced to specification to suit the individual business. This is especially important because of the rigid cooking procedures. For example, because of such procedures, plaice, for which the specification was 8oz, was supplied weighing 10oz and therefore was not cooked properly. Therefore, raw fish was served only to be returned and thrown away. The product is also required to be available countrywide and must make a "reasonable" margin, the level of which is set by the SBU.

The production system is tightly controlled. There are menu manual pages, training, and strict portion control. The product is photographed, and is trial cooked in restaurants and test kitchens in order to make sure that it can be produced consistently, within the constraints of the organisation, as it appears in the photograph on the menu. In the past, seasonal foods have not been favoured by Roadside Restaurants because of problems with the continuity of supply and because menu printing is very expensive (the cost of re-printing the menu is approximately £75,000).

Increasingly fresh foods are being used, and this leads to problems in terms of flow through the system. In addition the raw materials used must be bacteriologically safe. Therefore, no raw chicken is used and only cooked chicken is taken into restaurants. The product must also have a reasonable shelf life. In general the manufacturer may use up one third of a product's shelf life, leaving one third for the distribution depots and one third to be used by the end user (the outlets). Suppliers are normally required to hold three weeks stock. Suppliers are also asked to visit the depots to give the staff information on the handling of their product and lead times. When suppliers do this there are less instances of product non-availability because there is an understanding between the depots and the suppliers.

Samples for the given brief are requested from the potential suppliers (*t5*) by the buyer (*p2*). The initial samples may appear in different forms (for example, frozen, ambient, in cans *etc.*) if the brief is a little vague. All of these would be considered and the specifier (*p4*) decides which ideas are suitable for the required product (*e.g.*, pack size and product size).

A more detailed brief is composed from the ideas gleaned. This occurs as a part of the subsequent task (*t6*), which is the tasting of the samples obtained. The personnel involved with this are *p1*, *p2* and *p4* (the buyer, food technologist and the menu specifier respectively).

Taste panels are used for new products and replacement products which are required to

match an existing one. The taste panels use professional tasters for tea and coffee only. Otherwise, they are made up of the buyer and technologist. The taste panel is also used for the evaluation of unsolicited products which, like solicited products, have to fit into a brand remit or be an improvement on an existing product. This is known as the new product forum and is organised by the evaluation technologist. Those present on these occasions are the quality assurance department, the food purchasing department, and the account handler for Puritan Maid.

The evaluation criteria applied by the taste panel is that the product reasonably fits the food service industry (that is, it is not available to retail, and therefore exhibits exclusivity) and that it fits one of the ten Forte brands. The consideration of unsolicited samples can waste time, since many of them are unsuitable, but there might be an idea that can be exploited if the product is modified. This usually means another supplier is used since the originator often is unable to make the adaptations required.

The specifier makes the decision (*t7*) on the choice of supplier from the limited choice presented by the buying department. Any changes in product specifications are made by the menu specifier although the buyer and the food technologist will offer advice. Once the specification of a new product has been finalised and its technical feasibility has been established, it is necessary to evaluate its commercial viability. Therefore, Roadside Restaurants look to the purchasing department for advice concerning supply, given the large volumes involved, having informed the purchasing department of what the anticipated sales are likely to be. The purchasing department consider the prices, the suppliers capabilities and advise the specifier on the most suitable. At this stage decisions are taken regarding sole supply or dual supply, in order to give the best price relative to risk.

At this stage negotiations (*t8*) with the chosen manufacturer are opened by the buyer (*p2*). The buyer is then responsible for negotiating as keen a price as possible which is then agreed with the specifier. If this price is too expensive then the product may be abandoned as unviable or the buyer may enter into re-negotiations. The buyer is not only

responsible to his superior (the manager or the purchasing director) but also to the specifier, who will normally give price parameters. The purchasing director (*p1*) sees his job as one of directing the buying team. However, he will interfere and negotiate with suppliers if he sees fit, although he is not directly concerned with buying. The pricing arrangements are also dependent on the product in question.

Some products are priced three times per week, and some once a year. The choice is designed to reduce cost and risk. For example, the coffee contract has a fixed price for 18 months, whilst tomatoes are priced three times per week. Some systems involve buying three times per week but the price is agreed once a month. The operators' gross margins are safeguarded from changes in the market price by spreading any increases over a period after the increase has occurred. These negotiations include any modifications concerning product and service desired by the specifier as well as discussions regarding price and delivery.

Costings are put into a menu gross profit projection on current costs and prices. This forecasts forward probable price increases or decreases (from market research) over a six month menu. The purchasing department uses spreadsheets to carry out this menu gross profit projection, which is based on: current costs and prices, projected costs and current prices; proposed new products and costs (to anticipate demand and price level to give the desired gross profit); and, current costs and projected prices.

Financial constraints are directed by the menu specifier who will either give a maximum cost or at least a price point to be achieved. If this proves to be impossible the product must be re-sourced. The margins required by the specifier are calculated in this way. However, this does not prevent Roadside Restaurants' director of purchasing and supplies from contacting the manufacturer separately, and he may even visit the factory. Such a visit is usually in conjunction with the technologists when they audit the factory for inclusion on Forte's approved supplier list (as part of the fourth task, *t4*).

The contract of supply (product supply agreement) is then drawn up as the conclusion of

the negotiations between the chosen supplier and the buyer (*t9*). The stability of contracts varies for different types of products, and is governed by the frequency of specification alterations. For example, suppliers produce chips to a specification. If this specification changes then the supplier has to alter his production line machinery to accommodate the alteration, but this is not an arduous process. The supplier is required to undertake almost no development work to alter chip dimensions, so supplier choice centres on the best price and continuity of supply.

The product supply agreement (PSA) lists all the products a manufacturer is approved to supply. The PSA carries the date it is effective from and a code for use by Puritan Maid. Four weeks notice is required to change any of the details on the PSA.

It is considered to be the responsibility of the buyer to ensure that the manufacturers abide by the specification (written) and their formal agreement, which includes delivery. Each supplier has a written agreement (contract) signed both by the buyer at Forte and the supplier. This is a formal document, and will be of differing length of terms depending on the product involved. Each supplier not only has a contract, they also have a quality manual to abide by. This manual contains preferred standards concerning general principles, manufacturers' premises, personal hygiene, ingredients, labelling of containers, and storage and distribution including temperature control. The manual also outlines processes including documentation, quality assurance, and materials used in packaging *etc*.

At the other extreme, Happy Eater and Little Chef operate *"menu slot protection"*. This occurs for a speciality product that has proved popular. An example of this is spaghetti bolognese. This is a complex product which is manufactured in two pouches to microwave, within a time constraint, and is easy for operators to handle. The manufacturer made large investments in research and development to win that business, but received quite substantial rewards. It was a gamble, but if that supplier had not won the business with Little Chef and Happy Eater, the development time would have been lost in terms of Forte, but the supplier would have gained valuable experience to

approach other chain restaurants with that product.

However, the spaghetti bolognese supplier suggested more innovations as soon as he had won the business. Therefore, Roadside Restaurants are quite happy to protect his slot on the menu, providing he uses good quality products. This is because Roadside Restaurants make the same gross margin, and the sales level is being maintained. Little Chef and Happy Eater have operated with this particular supplier in a symbiotic relationship for several years.

The new product is then delivered to the food supply and distribution division of Forte, and thus to the outlets. Whether the first production run is attended by the buyer and food technologist depends on the chances of an error occurring. In general the buyer and food technologist either attend the first production run or take a sample from it.

The menu specifier from Roadside Restaurants is responsible for incorporating the new product into a dish. This is done initially in a restaurant and is finalised at the photography stage (menus feature photographs of meals as they are served). When the presentation of the product has been finalised it must appear throughout the system.

It is the buyer's responsibility to make sure that the product is **always** available. Physical stock control is the responsibility of the food supply and distribution division, which places the order to the supplier. The buyer is responsible for negotiation and the control of the account, but does not physically place the order. Instead, an account handler within Puritan Maid takes over the responsibility. The account handler works with the menu specifier and also liaises with the Puritan Maid depots.

This process takes about three months to complete but sometimes only six to eight weeks notice is given by the specifier. Those suppliers known to the individual buyer are at an advantage, since tight deadlines reduce the time available to search for potential suppliers.

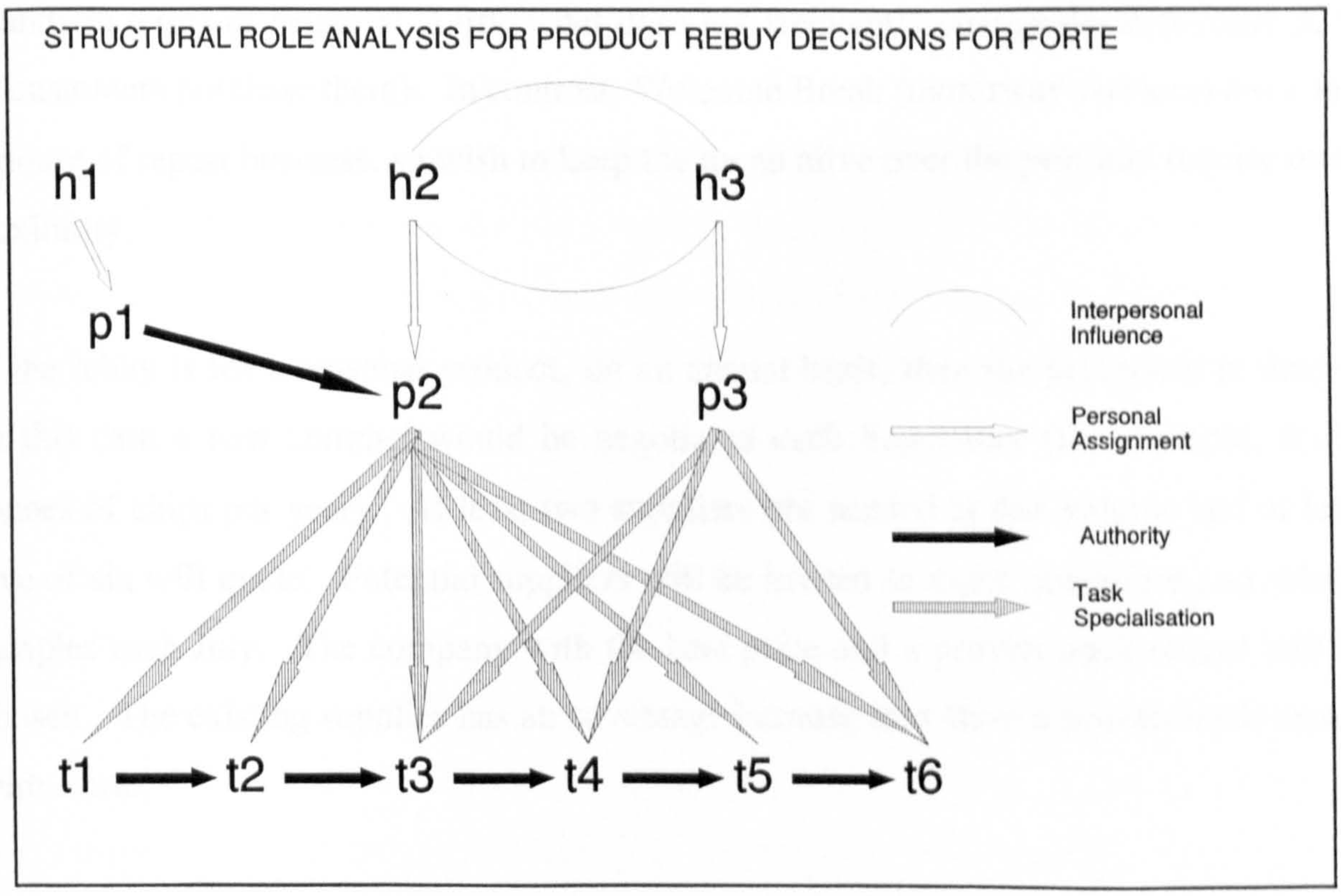
The specifier is not expected to know who produces a particular product. The buyer has

to use his knowledge and invite suppliers to quote for a product to a given brief. Suppliers that have a good reputation are at an advantage. Information is also obtained from trade press and exhibitions. However, the buyers are expected to be proactive and not just source from the same pool of suppliers.

Rebuy

The buying process followed for a rebuy is much less complex, and is illustrated in Figure 5.7. The buyer (*p2*) initiates the process by seeking alternative suppliers towards the end of a contract term. This is the first task (*t1*). The buyer (*p2*) also obtains samples from prospective suppliers (*t2*). These samples are then evaluated (*t3*) by the buyer and the food technologist (*p2* and *p3* respectively).

Figure 5.7:



Legend: *h1, h2, h3,* persons; *p1,* purchasing manager/director; *p2,* food buyer; *p3,* food technologist; *t1,* invite tenders; *t2,* obtain samples; *t3,* evaluate samples; *t4,* evaluate in terms of price; *t5,* evaluate existing suppliers; *t6,* choice of supplier.

The evaluation is to the detailed specification that has been previously laid down. The potential suppliers are then evaluated, both in terms of price and the suitability of the supplier as a business partner (*t4*). This is decided jointly between the buyer (*p2*) and the food technologist (*p3*). At this stage the food technologist will carry out a technical audit of the prospective suppliers' premises, if necessary. If the potential suppliers pass these checks then the price and service offered will be the deciding factor. However, the incumbent supplier is given the chance to retain the business (*t5*) in discussions with the buyer (*p2*). In this way, both the buyer and the food technologist (*p2* and *p3*) are responsible for the final choice of supplier (*t6*).

Rebuys tend to be on rolling "contracts". Contract length is variable and is seldom linked to time or tonnage. A link to tonnage is only used with large volume items, for example, chips (which are always needed). There are different perspectives between brands in terms of desserts. Little Chef does not frequently change desserts (only 32% of customers purchase them). In contrast, Welcome Break (motorway services) has a fair amount of repeat business, so wish to keep the menu alive over the year and require more flexibility.

If the rebuy is for a seasonal product, on an annual basis, then the procedure is simple. In this case a new contract would be negotiated each September (for example, 6,000 tonnes of chips per year). At least two suppliers are needed at this volume and at least five or six will quote. Potential suppliers will be invited to make quotations and submit samples each July. The company with the best price and a proven track record will be chosen. The existing supplier has an advantage because they have a proven track record with Forte.

Normally, a product supply agreement (contract) is held with a large number of suppliers and there is a number of products on that contract. Price negotiation can happen at any time depending on market conditions. Each time that there is price negotiation alternative suppliers are asked to quote.

The management at Roadside Restaurants consider that the procurement strategy employed by the purchasing department is organic and opportunistic. That is, not limited to one strategy, and includes the use of tenders (open and closed), single, dual, and multiple source supplies, and Dutch auctions. This flexibility is considered an advantage in obtaining the best value, and quality of service. The supply arrangement employed depends on the individual product required. Therefore, there is no clustering of types of strategy for certain product groups.

5.2.4 Evaluation Criteria

An individual's knowledge of products and sources of products is acquired by experience: interface with suppliers, attendance at food exhibitions, seminars and presentations. The purchasing director places emphasis on a supplier's track record, and their experience. There is a lot of history to draw upon in the consideration of any supplier. For example, a new supplier may be suggested by a menu specifier. If the buyer is to be happy with the idea of a supplier two things have to take place. First, there must be a quality assurance check on the production run, focusing on adherence to the specification and to legal requirements (*e.g.* labelling). Secondly, the buyer must ensure that there is suitable provision for delivery/distribution, that the relevant paperwork is in place with the distribution division, and the product is sound to sell. Service and quality are never assumed, so potential suppliers have to prove that they can produce the product to specification before Forte will progress with them.

The food technologist and the buyer work closely together to evaluate prospective suppliers. A visit is made after the initial meeting where several criteria are examined. The factories are checked at an early stage in the selection procedure (task *t4* in the buying procedure for a new task) by the quality assurance personnel, but the buyer may also be present at such a check. The evaluation criteria applied depends on the critical nature of the product.

The supplier's ability to supply is evaluated, bearing in mind that required volumes can

change rapidly. The size of the operation is assessed. This takes the form of an item count, the number of employees, the number of vehicles, the sterling turnover, the tonnage produced and the distribution method and capabilities. The total capacity of the supplier is considered and the percentage of capacity that would be used by Forte, so that potential risks can be assessed.

Important considerations are the volume ability; 15% of output to Forte is high, 25% is the maximum traded. Any greater proportion leads to financial stress to the grower and risk for Forte. A financial check is carried out, unknown to the potential supplier, and this takes the form of a Dun and Bradstreet search. The length of time in business and the existing customer base is also used to assess likely performance. The percentage of retail business to food service business in this customer base is important in gauging the supplier's understanding of the requirements of food service.

This information gives an overall impression of a company. It must all fit together to gain the trust of the buyer and the food technologist who must be convinced of the supplier's commitment and ability.

Hierarchical constraints are imposed within Forte. These tend to come from members of the main Board who are accustomed to a higher quality of food than that catered for by some of the brands. They visit the brands and make comments on products, based on their own tastes. Such products are then brought into the central procurement department and tested against the specification. The product usually meets the specification laid down. Then the complaint is passed on to the menu specifier who usually blames the operator.

The Board members tend to have an interfering attitude but they do not delve into supplier choice. However, the approval of a supplier can be refused by the main Board on commercial grounds, but this would only happen if the buyer is not doing a competent job. The final decision concerning the choice of supplier is made by the specifier. However, Board members will occasionally communicate with specifiers through their

line managers and influence the decision in this way.

Another example of a product where the hierarchical forces come into play is olive oil. There is a historical link with Italian companies for this product, therefore any change in suppliers or specification would require approval at a higher level than that of the buyers.

The food technologist interviewed used to be a specifier, and moved to this position in a company reshuffle. It was felt that the buying department have a broader overview than a specifier, because they see Forte as a whole. Menu specifiers are very blinkered within their strategic business units. For example, one of the brands want 8-10 oz specifications for jacket potatoes and Little Chef want potato skins. This dual requirement may mean that Forte can make use of a whole crop, which could confer economic benefits, saving time and money from sourcing from two different suppliers.

It is company policy to remove the intermediaries between the grower and Forte in fruit and vegetables. Intermediaries are necessary with imported hard top fruits (*e.g.* oranges, melons, avocados) and exotics, but otherwise growers (or co-operatives) are dealt with directly. The technical ability displayed by the supplier, such as grading to required standards and sizes is an important consideration. In the case of potatoes, the buyers stipulate varieties, permitted levels of scab, mechanical damage, bruising and disease (*e.g.* scurf). Forte trades 15,000 - 16,000 tonnes per annum, which is small compared to the major multiple retailers, who trade between 200,000 - 300,000 tonnes per annum.

Fresh fruit and vegetables are distributed by the food supply and distribution division who source them in several different ways, according to the product. For example, vast quantities of tomatoes are required so there are contracts with growers. The wholesale market is used to fulfil any shortfall. If non-EC specifications are required, it is the processor rather than the grower who is approached to obtain the required grading. If EC specifications are required then a Dutch grading house is appropriate because they can supply large volumes and offer tight specifications. It is necessary to be fluid and

flexible in procurement policy. If a rigid pattern of purchasing is followed opportunities will be missed, and if no controls are in place it is not possible to purchase at the optimum level.

It is a general policy of Forte to buy English products but this is obstructed by a lack of will and technical ability regarding grading for size and quality on the part of British producers. Therefore, sourcing from abroad is common. There are certain products for which there is no climatic reason for not sourcing from the UK. Examples of these products include; bacon, chips, and beef. Beef supplies are worth £10 million, and 80% of these supplies are sourced from Australia and Argentina. However, such products are not so sourced because the domestic price is often too high. Also, a lot of fruit and vegetables are bought from Spain, France, and Italy. The reason offered for this was that the buyers now have a far better knowledge of what these countries have to offer and the lowering of trade barriers has made sourcing from these countries easier and cheaper. These countries can be far more responsive, delivering to the UK within a few days. In 1984, 90% of Forte's product was sourced from the UK, in 1994 the UK share was 70%.

In 1994 Forte held both a suppliers open day and also a suppliers awards ceremony. The high profile awards ceremony was held at the Cafe Royale and suppliers were nominated for outstanding service and achievements by buyers, specifiers and hotels. This served to congratulate those suppliers who had worked hard with Forte over the previous year and to motivate those who did not win awards to try to work in partnership with Forte in the future.

An aspect of the partnership between Forte Purchasing and Supply and their suppliers is illustrated by the national account managers arranging regular meeting with the relevant buyer to review the performance of products currently listed and to make suggestions for new product development. The open day was reported in the trade press and highlighted the commitment that Forte requires from its suppliers and the type of relationship that they wish to cultivate.

The grocery buyer noted that these two events stimulated existing suppliers to become more proactive in their relationship with Forte, especially concerning new product development.

Assessment of the buying team is done with key performance indicators, for example, their range of products and the pricing of those products have to be logged and monitored on a monthly and an annual basis so that at the end of each year performance can be quantified. Price movements are compared to the retail food price index as released by the Central Statistical Office. At the time of writing, food prices in total are increasing by about +0.8% per annum. This is a very small increase, and shows that there is hardly any inflation on food products. The procurement team has to keep increases in cost below this level. Each buyer is judged on his range of products, clearly some products will go up in price, but on average they should beat that target. This is taken as an overview of the whole situation. Targets are also set on a monthly basis and include the quality assurance assessments in the depots.

Each month the buyers have to produce a report which is made up of three parts. The first section concerns the overriders earned and takes the form of an annual figure as well as a monthly breakdown. The second section relates to price changes resulting from currency movements amongst other causes. The final section compares the purchase level by value achieved for each product over different periods such as the previous year and month. In this way price trends and sales volumes are monitored, and markets are described (for example, stable or weakening). In order to compile this report product sales analysis is required from each depot monthly, this information is sent to the Puritan Maid head office from the individual depots.

The sales analysis indicates that there are a lot of products which do not appear to be used. The completion of the computer network should enable the rationalisation of the products listed. If it is decided to delist a supplier for a particular product, then four weeks notice must be given. It is attempted to use up the product held in the system before it is delisted, however, such products can also be sold to third parties.

Clearly, quality assurance personnel are judged on criteria such as problems with specifications - a percentage maximum infraction is allowed which varies between products. If this is exceeded then action is required either with the suppliers or with the performance of the quality assurance person. The percentage of allowable returns is set at a maximum of 2%. In 1994, the actual returns were 0.9%, which is well below the 2% limit. Around 600 individual assessments are done by Forte.

Assessments are carried out in the depots on receipted goods. The technologist in the depot studies the samples obtained. The evaluation technologist also has a routine sampling plan to monitor the quality of the goods delivered to the depots as well as the investigation of reported problems. Archive samples from the first production run are kept and are useful for comparison. This is especially true if there has been a change in supplier and the product has to be matched by the new supplier.

There are various options if the product does not meet specification. The first is to reject the product. The second is to demand compensation from the suppliers. Lastly, complaints can be made and the offending product monitored. This is usually found to be sufficient to correct any problems. The course of action employed is determined by the severity of the problem with the product.

The food technologist feels that because the quality assurance department is quite flat in structure there is mutual respect of others' expertise. It is also felt that the personality of the supplier contact is not very important, they attempt to maintain a distance at the same time as building a relationship with a supplier. Negotiations are then based on fact which makes the issues clear. The arguments are less subjective, and the objectivity makes the relationship easier.

However, the buyer stressed that it is necessary to deal with personality and business facts separately in negotiations, but that most supplier representatives take product criticism personally. He considers it is difficult to negotiate when there is aggressive selling as practised by large companies (often American). If their tactics in selling are

bullish (they are often trained in this type of selling), this can lead to an impasse. Also, such salesmen tend to give the impression of arrogance regarding their company so do not want to talk about specifics. When the buyer is trying to find out about a company this can cause great problems.

CHAPTER 6:

CASE STUDY ANALYSIS - PIZZA SECTOR

6.1 Pizzaland Case Study

6.1.1 Background

Pizzaland is in the pizza restaurant sector and is part of a parent company (BrightReasons plc) which manages three brands in the pizza and pasta food service market. Each brand has a significantly different target market. Pizzaland is in the High Street sector and targets the family market. BrightReasons is a private company at present but has indicated its intention, subject to market conditions, to seek a listing on the London Stock Exchange. The parent company operates 168 branded pizza and pasta restaurants throughout the UK, of which 112 are Pizzaland.

The parent company is quite young and the first set of annual report and accounts were prepared for 1993. Since it started to trade in 1991, the parent company's strategy has been to build national chains of restaurants aimed at the popular mid-spend range (£5-£10 per head) of the food service market and capable of becoming recognised brands. The financial year 1992/1993 was a successful one in this respect, with the expansion of their longest established brand, Pizzaland (acquired from Grand Metropolitan in 1991), which has become a major player in the growing pizza market.

In 1992 Pizzaland's estimated market share was approximately 10%, just behind the market leaders Pizza Hut (Technomic, Inc. 1993). There has also been expansion in the other two brands operated by the group. This took the form of fifteen new pasta restaurants in 1993, and the acquisition of a regional niche pizza restaurant chain. This expansion has been profitable because it brought the group a sufficient "critical mass" to enable it to make more efficient use of central resources and, in particular to put more impetus behind the marketing effort to drive the new or revitalised brands. The number of Pizzaland restaurants in 1994 was increased by eight, six of which were in Scotland or the Northern region. There were also plans for the opening of ten new pasta and

Pizzaland restaurants by Easter 1995.

Operating profit for the group started from a negative base in 1991 but has risen sharply as the business has become more established. This was partly assisted by the acquisition of a chain of restaurants in February 1993 with marketing led recovery in the original operations also evident. The financial performance of the parent company is shown in Table 6.1, and indicates that the profit margin is increasing.

Table 6.1: Performance of BrightReasons Group plc

£m	1994	1993	1992	1991
Turnover	75.9	63.3	47.1	25.0
Operating Profit	6.0	3.5	0.8	-0.4
Operating Profit as a % of Turnover	8	6	2	N/A

Source: Company Annual Reports 1993, 1994.

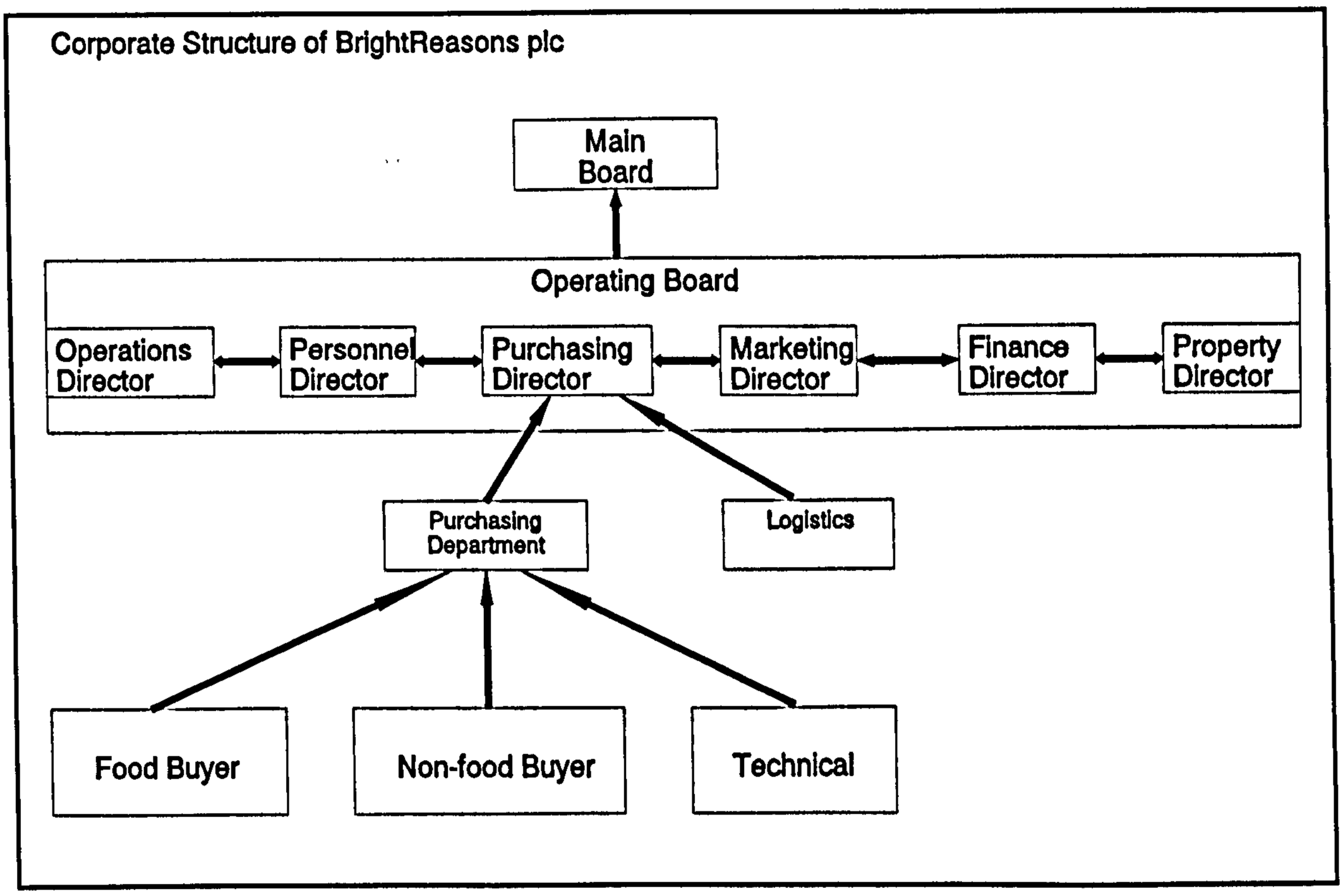
Interviews were carried out on two separate occasions. The initial interview was with the purchasing director on August 19th 1994. The second interview was with the food buyer for the group and took place on August 30th 1994. A day was spent "shadowing" the buyer on April 18th 1995. The day was spent in meetings with both potential and existing suppliers. The organisation of a product test was the subject of one of the meetings. In addition, a visit was made with the technical manager to a bacon factory on May 26th 1995. The reason for the visit was to carry out a routine technical audit. The content of this case study was validated by both the purchasing director and the food buyer.

6.1.2 Company Structure

Pizzaland is controlled by two Boards. The main Board reports to the shareholders and

is responsible for the group. The purchasing director sits on the operating Board, with representatives from marketing, finance, buildings, personnel and operations. All of these directors report to the main Board (see Figure 6.1). The purchasing department carries out procurement for all three of the brands operated by the parent company. Each brand has a clear identity and therefore requires different supplies. The brands can be considered in isolation, although it must be noted that the purchasing department will be influenced by any implications buying decisions may have on the other brands.

Figure 6.1:



The purchasing department is small with the purchasing director responsible for some food buying and the food buyer responsible for all food and beverages. The purchasing director works with the food buyer, the marketing department, and also the new product development manager and taste panel. The buyer has to check with the purchasing director over certain budgetary decision points, or a major supplier change. There is also a non-food buyer who is responsible for fixtures *etc*. Technical personnel are responsible for quality assurance for the supplies to restaurants, and for ensuring that product

specifications are adhered to. Logistics and distribution is a separate entity, but reports to the purchasing director.

The direct reporting relationship for the food buyer is to the purchasing director. It is difficult to assess the influence of power in this relationship because at the time of the interview the buyer was working a probationary period, therefore her work was being closely monitored while she was settling in.

Decision making is generally autonomous by the food buyer, but there are degrees of stratification when budgetary responsibility is exceeded. Usually, the recommendation made by the buyer is accepted by her direct superior, but occasionally it is necessary to consult personnel at the next level of seniority for ratification.

Fresh, chilled and frozen products are all procured in the same way. They are distributed in multi-temperature vehicles. Deliveries are made to outlets on average three times per week, and seven daily deliveries are the maximum (some London outlets). The distributor takes title to the goods and has lists of products to source. The role of the distributor is to place orders with suppliers, arrange for supplier delivery to the depot, collect goods, monitor stock and to provide a telesales service to outlets. The telesales service requires twenty-four hours notice. The outlet operators are given a list of available products. There is a specific range of products for each branded outlet.

There is formal communication between the different departments with both Board and departmental meetings taking place monthly. However, in addition to these meetings, there is informal communication which is aided by the close proximity of the departments. There is a free flow of information between departments and consultation is not uncommon.

6.1.3 Procurement Procedure

Procurement is entirely centralised. No products are bought locally from nominated

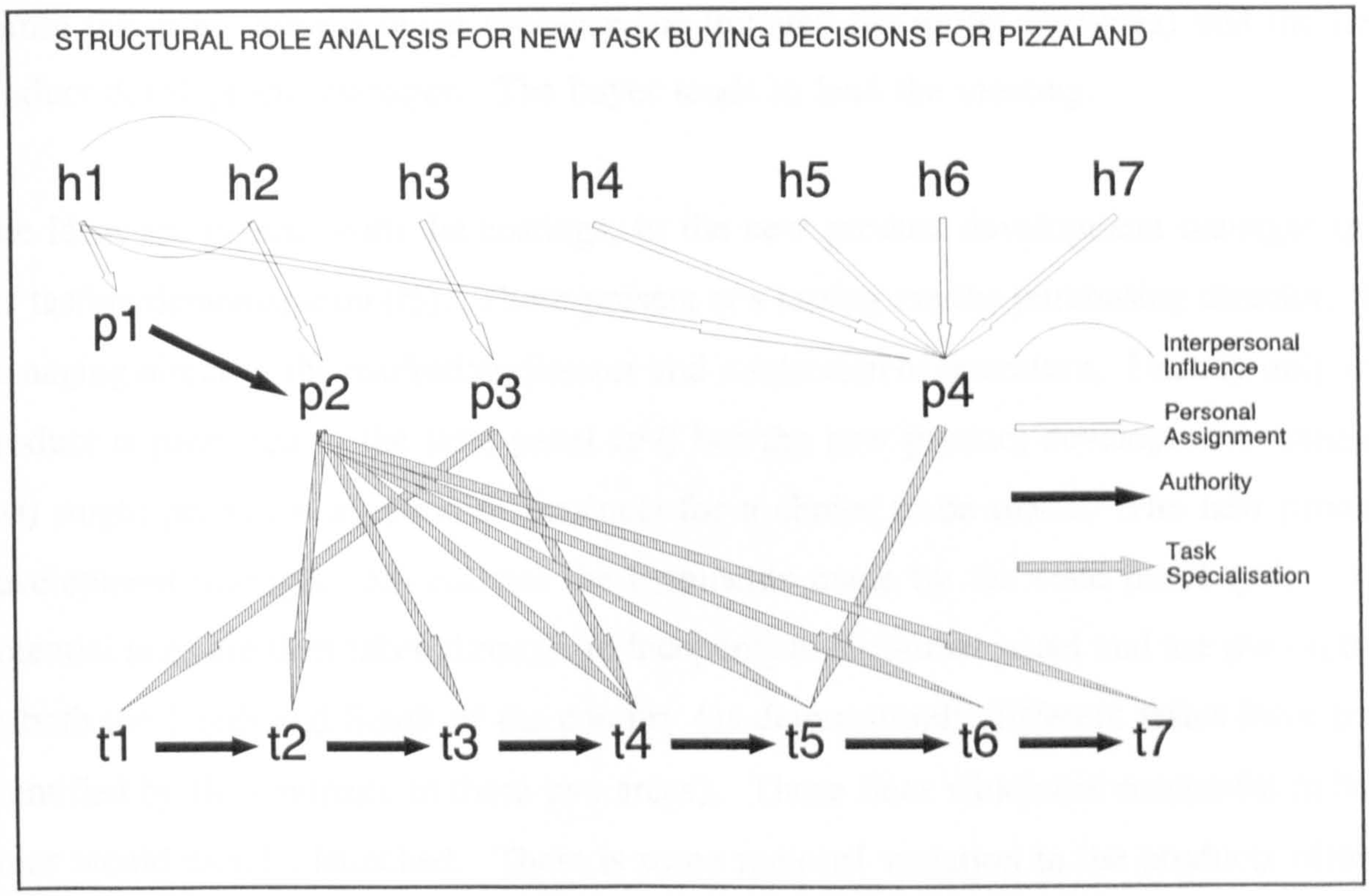
suppliers. The flow of work through the organisation differs between new products and existing products. New products may be briefs from the new product development team and the marketing arm. Alternatively, a supplier may present a product which the buyer identifies as suited to a particular brand. The buyer then passes such a product on to the marketing department to see if it is indeed suitable. The work for existing products is initiated by the buyer's knowledge of the situation and from price comparisons.

New Task

A new buying task occurs with new menu development and is illustrated using structural role analysis in Figure 6.2. Ideas are generated by various sources. These include suppliers, the customers, members of departments, and consultants are sometimes also employed. The new product development manager (*p3*) acts as a co-ordinator for these ideas in consultation with the purchasing director (*p1*) and the ideas are considered in terms of compatibility with the existing product portfolio. Clearly, it is wise to demonstrate products which are easy to source. For this reason there is continuous communication between the new product development manager (*p3*) and the buyer (*p4*).

Once the product type has been decided (*t1*) by the new product development manager (*p3*), the food buyer (*p2*) becomes involved. The food buyer (*p2*) then contacts both existing and new suppliers (*t2*). The buyer phones **every** supplier that she thinks will have a product to offer. Potential suppliers are found from trade manuals, ex-colleagues, her own database, and even Embassies. She asks **all** of them to send samples and indicative pricing (*t3*). The products from these suppliers are reviewed and the best selected by the food buyer. Sometimes the brief is very specific *e.g.* spicy pork of specific dimensions, but it can also be more vague *e.g.* pork. For a specific brief, the samples and indicative pricing are obtained and potential suppliers discussed in a meeting with the new product development manager (*p3*), who is a member of the marketing department. The buyer (*p2*) and the new product development manager (*p3*) look at the product and information that they have in terms of the quality and pricing and narrow the initial choice down to one or two products (*t4*).

Figure 6.2:



Legend: *h1-h7,* persons; *p1,* purchasing director; *p2,* food buyer; *p3,* new product development manager; *p4,* taste panel; *t1,* decision on type of product; *t2,* seek potential suppliers; *t3,* obtain samples and pricing; *t4,* reduce supplier to a few options; *t5,* taste samples; *t6,* recommend product modifications (may not occur); *t7,* return to chosen supplier and renegotiate.

Joint decision making occurs between the buyer (*p2*) and the marketing department. The decision is made by three people, the buyer (*p2*) and two people from the marketing department (the new product development manager (*p3*) and the assistant new product development manager). The decision is made by consensus. These meetings were initiated by the buyer on her arrival at Pizzaland to ensure that the product sourced matched the expectations of the marketing department. Since there have only been a limited number of such meetings due to their recent conception, the buyer is not sure what would happen if there were disagreement. However, the buyer feels that disagreement is unlikely as the decision relates to whether to progress the product or drop

it, rather than a definite decision on a product. At the moment, the stronger influences within the group are the buyer (because she initiated the group meetings) and the new product development manager. The buyer tends to lead the meeting.

The ideas are passed, with the costings, to the new product development manager (*p3*) for tasting/demonstration (*t5*). Those present at a tasting are the purchasing director, the managing director, the marketing director and a selection of operators. Usually only one product is presented to the taste panel (*p4*) but the new product development manager (*p3*) might present a selection of products for a choice to be made. The new product development manager (*p3*) collates the comments made by the taste panel (*p4*). The potential lines are then taken through an independent consumer panel and are put on trial in both the North and South of the country (as demonstrably different tastes have been identified by the company in these two areas). Those lines which are successful in both areas would then be launched. There is some regional variation in the products offered due to the availability of equipment in the restaurants, for example, Bella Pasta restaurants do not have the use of pizza ovens.

The new product development manager (*p3*) passes back the results of the tasting to the buyer for negotiation. Specifications are set by the marketing and buying departments, and the operators' opinions may be considered. At the time of the interviews, these discussions are informal, but they are likely to be formalised in the future. This is not committee driven but is similar to that style of management. This is because the company is driven by highly motivated people who want to get things done. If the specification was fairly loose an extra stage is inserted here. This is a return to the manufacturer with recommended modifications to be made to the product *e.g.* more/less salty (*t6*). This is likely for a bespoke product. The initial brief may be so wide that the desired product is refined as the samples are received, *e.g.* salmon steak cajun *versus* smoked salmon. The next task (*t7*) is carried out by the food buyer (*p2*) who returns to the chosen supplier and renegotiates the product pricing.

Although the purchasing director does not have a direct role to play in the purchase

decision there is frequent communication between him and the buyer. This interpersonal relationship is indicated on the structural role analysis by the arc between *h1* and *h2*.

Rebuy

The second scenario considered was that of a rebuy and this is illustrated in Figure 6.3. The perception is that such a buying task is not a **repeat** purchase, but an **ongoing** purchase. This is because contracts tend to be rolling. The maximum contract term is five years and the average contract term is one year. Sometimes contracts are avoided with volatile products such as coffee, although in some cases a contract with a fixed price could be beneficial to protect against price changes. There are several reasons for renegotiating a contract and these include price changes (for example if there has been a change in the market for that product), poor supplier performance, or that the end of the contract has been reached.

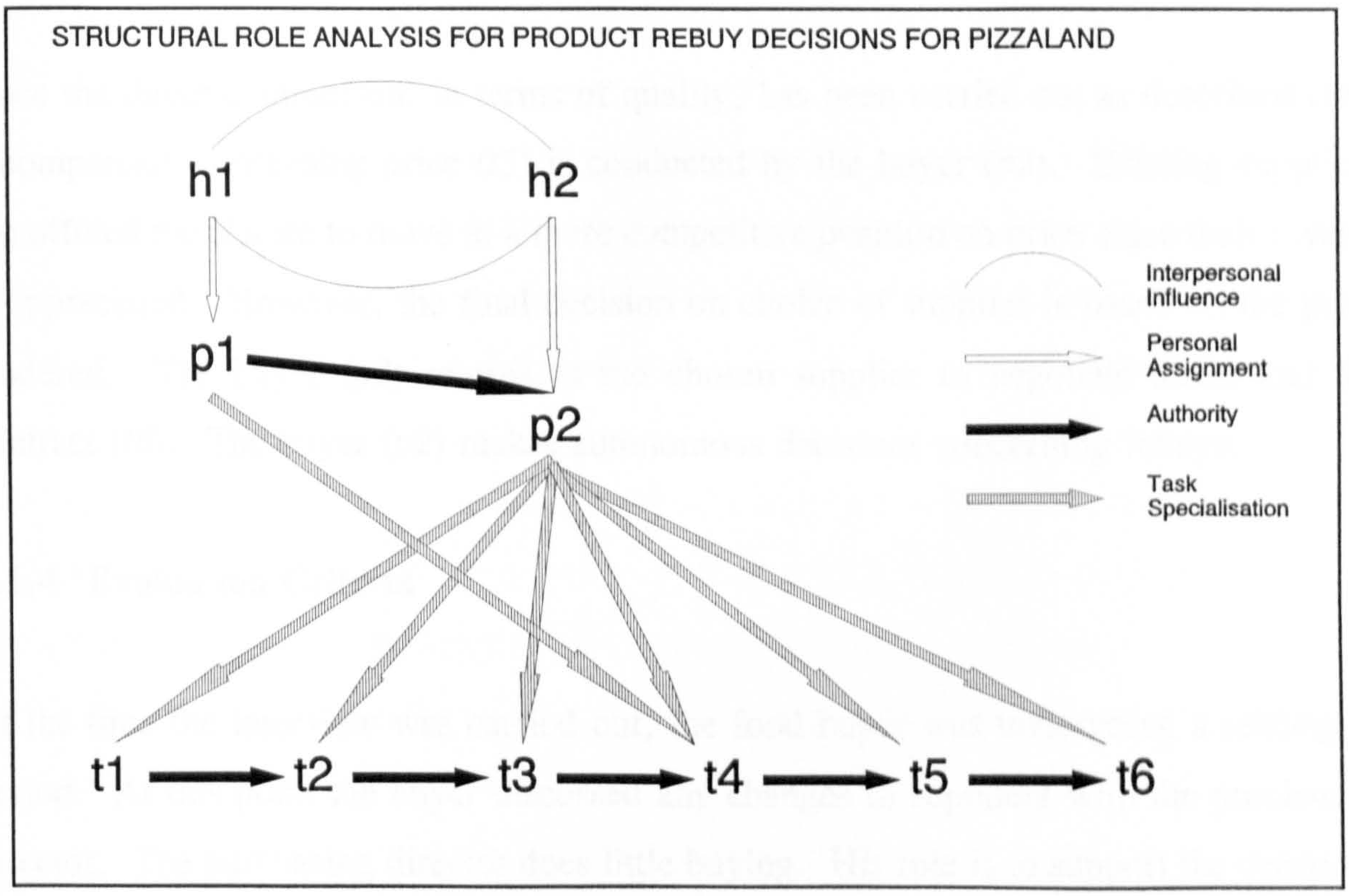
There are two ways of conducting a rebuy. First, the formal tender process can be undergone. Secondly, a random tender process can be carried out, which gives current market knowledge, but does not embroil the company with formal tenders. Tenders are taken from a minimum of two companies, to a maximum of eight or nine companies. Direct comparisons are made between the tenders, and existing suppliers are given the chance to move to a competitive price, since loyalty to the company is appreciated.

The buying process for a rebuy is carried out almost entirely by the food buyer (*p2*). The process is initiated by the food buyer as necessary. For example, if there was a yearly contract on the product due for renewal, the food buyer begins the rebuy process two months prior to the expiry date. The food buyer (*p2*) seeks alternative suppliers who may be able to produce the required product (*t1*).

The next stage in the process is to request other companies to tender, for specific volumes and quantities. This is *t2*, and is possible since the previous demand for the product is known. The number of suppliers contacted is dependent on the product in

question, the number of manufacturers, and the market. Therefore, many issues have to be considered which are individual to each product. For example, coffee has thirty companies tendering, which is a lot of suppliers to consider. However, this is necessary because the market is so volatile. In contrast, for a product such as tuna, tenders would only be requested from between five and ten companies.

Figure 6.3:



Legend: *h1, h2,* persons; *p1,* purchasing director; *p2,* food buyer; *t1,* seek alternative suppliers; *t2,* request for tenders to the specification; *t3,* obtain samples with indicative pricing; *t4,* comparison between samples in terms of quality; *t5,* comparison between samples in terms of price; *t6,* renegotiation with chosen suppliers.

The next stage in the buying process is to obtain samples from the suppliers tendering (*t3*). This is the responsibility of the buyer (*p2*). A direct comparison is carried out between the products of the potential suppliers and the existing product. This is task *t4* and the quality aspect involves a technical audit. The purchasing director (*p1*) and the

buyer (*p2*) conduct a side by side comparison of old and new products in terms of the quality of the potential replacement products. The interpersonal relationship between *h1* and *h2* indicated on the diagram makes the necessary communication between the positions *p1* and *p2* much freer. The only exception to direct comparison is if the product in question is a major part of the business *e.g.* pizza sauce or pasta. In this case a trial would be conducted in units in the same way as for a new product. For example, three different types of pasta have been put on trial for a week in two restaurants.

Once the direct comparison, in terms of quality, has been carried out as described (*t4*), a comparison concerning price (*t5*) is conducted by the buyer (*p2*). Existing suppliers are offered the chance to move to a more competitive position on price since their loyalty is appreciated. However, the final decision on choice of supplier is based on the price tendered. The buyer (*p2*) returns to the chosen supplier to negotiate terms and the contract (*t6*). The buyer (*p2*) makes autonomous decisions concerning rebuys.

6.1.4 Evaluation Criteria

At the time the interview was carried out, the food buyer was undergoing a settling in period. At this point the buyer discussed any changes in suppliers with the purchasing director. The purchasing director does little buying. His role is to support the decisions of the buyer. The food buyer is aware of one situation where the choice of supplier may be restricted. Other constraints may become apparent when the company is floated on the stock exchange. These constraints would be to maintain legality (insider trading *etc.*). The buyer indicated that there were felt to be no other constraints on procurement except to prove due diligence, abide by the law and to achieve the best price.

The food buyer is responsible for the buying decision in terms of pricing, initial quality and supply stability for re-sourcing an existing product that is already within the product range. Consultation may be entered into regarding quality, which is a decision that is taken between the buyer and the purchasing director. This is to verify that the new product matches the old product in terms of quality. If there is any doubt about this then

more people would become involved. If it is an own label product then the technical person would be involved with factory inspections *etc*.

There is a policy to single source at the moment, because Pizzaland is not dealing with large enough volumes to make it worth while diluting market power by splitting the supply of products. In order to avoid the supplier becoming dependent on Pizzaland, no more than 25% of their output is purchased. In fact, even this proportion is considered risky from the point of view of both companies concerned.

The purchasing director judges potential suppliers by several evaluation criteria. A supplier would need to demonstrate their product, that they were financially stable, that they could satisfy hygiene and safety criteria. They would also need to meet target prices. Desirable attributes to be displayed by a supplier include a good food safety policy with good "foreign body" detection. The customer portfolio held may serve to give bias either for or against the company. For example, a good track record would be a positive factor. A similarity to other food service restaurants' products would go against a supplier since differentiation of brands is desired, and potential competition from other companies would lead to a lack of trust in a supplier who dealt with several food service companies.

Linked to this is the avoidance of suppliers who are trading in the wrong spheres "politically". The environment in which Pizzaland operates is affected by "politics", in the form of historical commercial experiences. For example, Pizzaland will not trade with an organisation which does not support dolphin friendly tuna. The purchasing director feels that it is right to shoulder responsibility for such issues. These policies are decided jointly between the Chairman and the purchasing director. It is considered that this does not constrain the way procurement is carried out in any way.

The food buyer has come from a background of buying for the retail multiples, and has only been working in the food service industry for a short time. Therefore the food buyer is a retail multiple buyer at heart. The retail multiple sector is a different

environment - it is harsher, more competitive and more cut-throat with more power given to individuals.

The food buyer also has certain information she requires to assess a prospective supplier. The basic company portfolio is the first aspect investigated. A new company would be checked in the Grocer's Yearbook, Suppliers Handbook, and with colleagues. Before the buyer sees a supplier, she would want to know who else they are supplying - this is a guide to quality. She feels that it is not practical to worry about whether the supplier is serving competitors since there is nothing that can be done to prevent this occurring. Company turnover is also important in terms of year on year growth (value and volume). The volume turnover is especially important given that there has been price deflation on some products. In this case, the financial year on year growth would not be a reliable indicator. The buyer considers it important to make up her own mind before she seeks another opinion from colleagues, because she feels that other peoples' prejudices could colour her own judgement.

Aspects of supplier performance which would dissuade the buyer from placing business with a particular supplier include poor quality and poor service. Poor service includes, for example, failure to deliver to depots or units, lack of accessibility to relevant personnel, and slow reaction to problems. The buyer wants to be able to negotiate with the representative instead of being confronted with a non-negotiable fixed price. Another problem is if the supplier representative takes offence at tough negotiation. If there is a clash of personalities then this sets the stage for tougher negotiation. This is because it is harder for the buyer to negotiate aggressively with people with whom a good relationship is enjoyed and who are seen socially.

The purchasing director is happy to deal with new, unknown suppliers. However, the approach made is important. Speculative letters tend to be disposed of, and the preferred means of discovering new suppliers would tend to be from trade journals, books, market research, and trade shows. The trouble with trading with well known suppliers is that differentiation of products becomes harder. However, this is offset by reduced risk.

Overall, being well known is a strength for a supplier.

Lines of communication used by the buyer include trade press, trade shows, trade journals, and colleagues. At the time of the interview, colleagues were high on the list of information sources because of moving from one company to another, but this is likely to reduce over time. The buyer also has her own large database of suppliers gained through work and networking. Networking is carried out at any opportunity (such as at hospitality days) and is considered to be important in the buying profession by the food buyer. Any speculative letters received from suppliers are added to the database. A judgement is made about the supplier from the way the letter is presented: typed, professionally written, correctly addressed, a company portfolio included *etc*. It is necessary for a potential supplier to convey an air of competence in such communications.

The autonomy in decision making afforded to the food buyer makes her the gatekeeper to the supply business for the company. She is very open to approaches from prospective suppliers and actively seeks them for a new task. However, the approach made must be well presented as it gives the first impression of the prospective supplier and conveys much about their level of professionalism. A well presented speculative letter will earn a prospective supplier an entry on the food buyer's personal database. This is in stark contrast to the attitude of the purchasing director to unsolicited approaches. His reaction is one of impatience as he has many other matters to deal with. However, the purchasing director has little to do with the supplier choice, although there is a steady flow of information between the purchasing director and the food buyer and the purchasing director can exert influence on the buyer's choices.

When new suppliers are adopted, consideration is given as to whether a contract is necessary. This is dependent on the product and its value. It may be that flexibility is desired, in which case a contract may be a hindrance. The purchasing director feels that contracts tend to be of limited value and provide false security. This is because, although there is legal redress if a contract is broken, this does not ensure that a company will

honour the contract. In terms of rebuys the use of rolling contracts and the company policy to reward supplier loyalty would appear to make it difficult to break in on the business. However, the food buyer conducts a re-appraisal of suppliers towards the end of a contract term. Therefore, at this point the food buyer will be **actively** seeking alternative suppliers for comparative purposes. This provides a window of opportunity where prospective suppliers can move into the supplier base.

The fact that the food buyer is from a food retailing background would indicate a willingness to move business if this is considered to be financially preferable. This would be due to less emphasis on loyalty and supplier choice driven by price. However, there was evidence of loyalty to suppliers who were willing to work with the food buyer on new product development, including product trialling, and promotional activities. Existing suppliers have regular meetings with the buyer at which the performance of the product or products supplied to the BrightReasons Group are evaluated in terms of the value of usage compared between years and periods. Reasons for the success, or otherwise, of the product are discussed by the suppliers representative and the buyer. For example, the monthly sales for April may differ year on year depending on when Easter falls, since this holiday sees a predictable seasonal increase in consumption.

Ultimately, the purchasing director considers that personalities play no part in the negotiations, since maximum effort is always put into getting the best deal. However, a good relationship between supplier and restaurant chain would help in problem situations, and relate to the effort put in by the salesperson during negotiations for the supplier.

Assessment takes the form of agreed objectives that are linked to quality and cost, which members of the buying department should meet, or ideally exceed. There is also an annual plan, but this is updated on a monthly basis depending on the business environment. Although there is a formal annual appraisal, there is also constant appraisal of performance. The department operates in a consultative manner which is considered a necessity given that products are required to be sourced very quickly.

6.2 Perfect Pizza Case Study

6.2.1 Background

Perfect Pizza is only involved in take-away and home delivery. It operates both company-owned and franchised outlets and is part of an international consumer service company (Scott's Hospitality) with operations in Canada, the USA and Great Britain. The whole business is organised into three divisions; food services, transportation and hotels. These businesses share several important characteristics; they are branded consumer products and services; they appeal to a large segment of the consumer market; and they can be replicated in many locations. The food services division produces the largest revenue stream. Its primary focus is the quick service segment of the food service market. Food service businesses operate in all three of the geographical markets served, offering a range of menus including, chicken, Chinese, pizza, hamburgers, sandwiches, doughnuts and ice cream, that cover the entire quick service food spectrum. In Great Britain approximately 2,700 people are employed in the hotels and food services divisions.

Table 6.2 shows that the food services division contributes the largest proportion to the company turnover. It is difficult to isolate the turnover generated by Perfect Pizza as the annual report quotes for the food services division as a whole. The hotels and food services divisions both increased turnover in 1994 as compared to the previous year. However, in terms of operating profit (see Table 6.3), the food services division suffered a reduction in the level achieved the previous year. This is despite the fact that 1994 saw a major reorganisation of the food services division in order to streamline operations, reduce management costs, improve competitive strength and offer more effective response to customer demands. The food services division disposed of certain businesses during 1994, which were considered non-strategic. The division also announced, subsequent to year end, a major reorganisation which is expected to further streamline operations and bring management closer to its customers resulting in a 15% annualised reduction in divisional overhead. The stated objective of the division is to achieve meaningful growth in both sales and operating earnings in the 1995 financial year.

Table 6.2: Scott's Hospitality Turnover in £ million (1993-1994)

Division	Year	
	1994	1993
Total	809.6	785.3
Food Services	480.5	471.1
Transportation	213	214
Hotels	116.1	100.2

Source: Company Annual Report; 1994.

The hotels division moved from a loss making position in 1993, to one of profit in 1994. The transportation division has suffered small reductions in turnover and operating profit in 1994 as compared to the previous year. However, when the absolute values of operating profit are considered (see Table 6.3), the transportation division is by far the most productive sector. This is highlighted in Table 6.4, from which it is apparent that the transportation division is lucrative showing 18% of turnover being attributable to operating profit.

Table 6.3: Scott's Hospitality Operating Profits in £ million (1993-1994)

Division	Year	
	1994	1993
Total	63.7	59.4
Food Services	17.9	24.6
Transportation	37.4	38.3
Hotels	8.4	(3.5)

Source: Company Annual Report; 1994.

At the end of 1994 Perfect Pizza was operating 219 restaurants, 185 of which were franchised. This made Perfect Pizza Great Britain's largest pizza take-away and delivery chain. During 1994 Perfect Pizza purchased nine restaurants from Pronta Pizza, two of which are strategically located in Glasgow and seven in Newcastle. System sales increased by £3.2 million, to £32.2 million in 1994 from £29 million in 1993. The target

date for the conversion of a purchased chain of restaurants to the Perfect Pizza brand will be the end of the 1995 fiscal year. Management is committed to protecting and growing segment leadership in Great Britain, currently estimated to be 43%. Accordingly, twenty-five new sites are planned for 1995. There is also the stated objective that comparable sales growth in excess of 6% will be achieved in the 1995 fiscal year.

Table 6.4: Scott's Hospitality % Turnover Attributable to Operating Profit (1993-1994)

Division	Year	
	1994	1993
Total	8	8
Food Services	4	5
Transportation	18	18
Hotels	7	N/A

Source: Company Annual Reports; 1992-1994.

The annual report tenders the expectation that take-away pizza in the UK will enjoy above average growth. This assumes that the overall growth in the quick service industry will be moderate; the industry will continue to face intense pressure from value-conscious customers; and the convenience of home delivery will continue to be a significant factor in the future. Perfect Pizza's investment in its single phone number call centre infrastructure has provided a strong competitive advantage. Management is driving costs down and expanding the delivery network. In order to increase return on invested capital the food services division must continue to expand its restaurant network and invest in systems which will provide the technology for more efficient information-based operations. Management is developing an expansion strategy to achieve a dominant position in the pizza delivery business in the UK.

Two members of the buying department were interviewed. The initial interview was with the group purchasing and technical director on August 16th 1994. The buyer was subsequently interviewed on September 19th 1994. The case study was validated by the

group purchasing and technical director.

6.2.2 Company Structure

The corporate structure has undergone major reorganisation between 1991 and 1994. The composition of the corporation's operating assets has changed significantly, from many loosely related businesses within four divisions (see Figure 6.4a), to a few closely related businesses within three divisions (Figure 6.4b).

Purchasing is undertaken centrally for the three brands in the pizza market (Perfect Pizza, Gino's Dial-a-Pizza, and Pronta Pizza) which are all under the auspices of the parent company and a policy of single supply is followed. There is a wholly owned central distribution warehouse and delivery point. A central distribution point (Birmingham) is easy for the suppliers to serve. The ownership of a distribution service is very beneficial because the purchasing department is in control, since it is dedicated to the three brands. It is also possible to earn money by freighting goods back in what would otherwise be empty trucks.

The distribution company (which is a separate business unit) takes title to the goods at the warehouse. Quality assurance is the responsibility of the supplier, the distribution service only carries out distribution and is not expected to carry out any quality checks, unless there are very obvious faults such as cans exploding and boxes bursting.

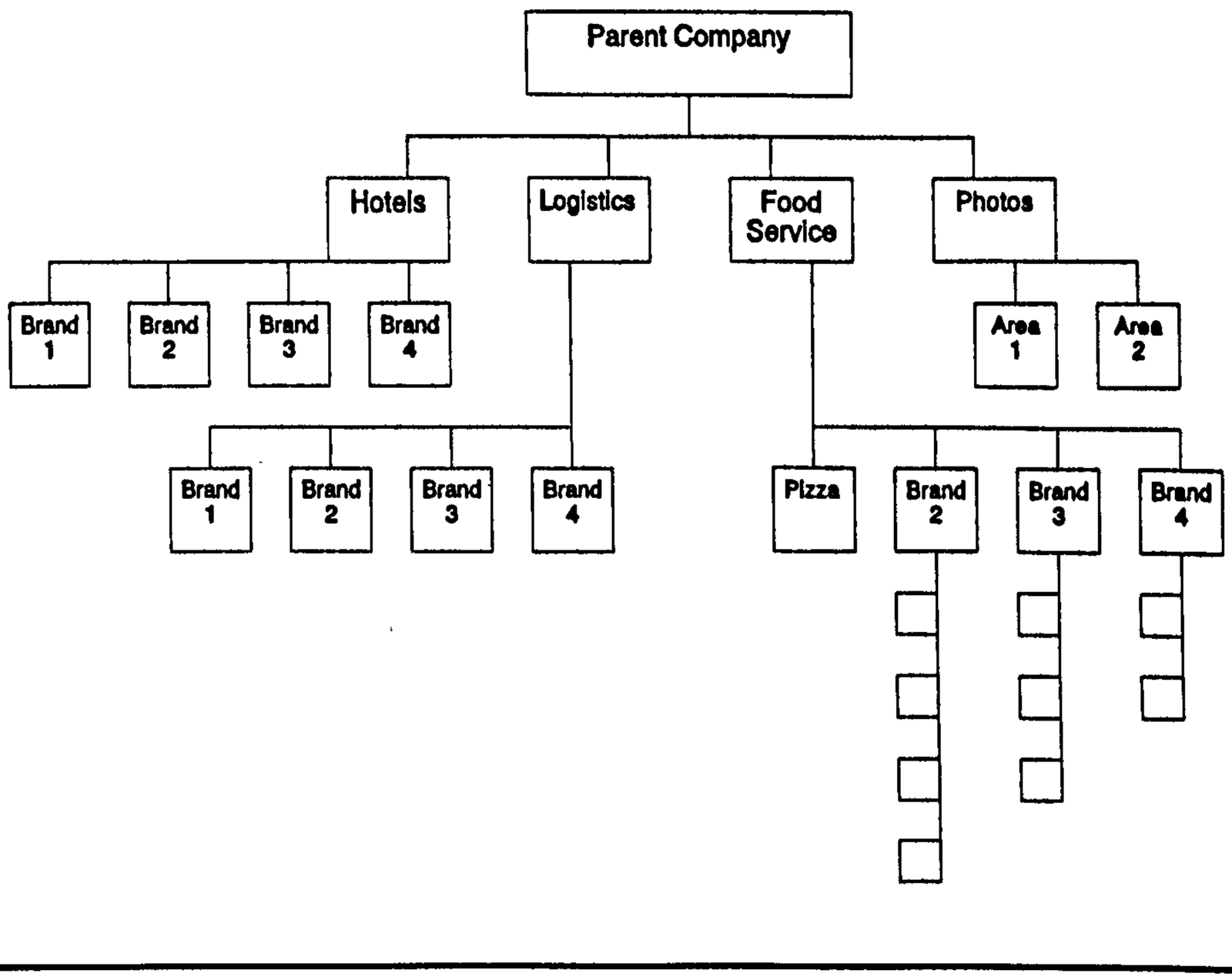
The purchasing department consists of the group purchasing and technical director and the purchasing manager. The job as group purchasing and technical director for Perfect Pizza includes responsibility for new product development and distribution. The job entails buying what the consumer wants but may also entail offering advice regarding technical and quality issues. Essentially, the brief is initiated by the marketing department and the purchasing director buys the appropriate quality at the lowest cost.

The purchasing director buys both food and packaging whereas the purchasing manager

buys in peripheral areas of purchasing, such as work for the hotel division and fresh produce. The purchasing manager also has the authority to make decisions regarding suppliers. However, the purchasing director has overall responsibility for ensuring that the right product in the right place at the right time, and works in a close relationship with the purchasing manager, primarily due to the fact that it is a very small department. The role of the purchasing manager is to source actively new and replacement products with consideration for specifications, costings, and the point of delivery. He is also responsible for some goods for the hotel division and fresh produce amongst other things. However, there is an overlap between the roles of the purchasing manager and the purchasing and technical director and they cover in each other's absence. The reporting relationship is to the group purchasing and technical director. The purchasing manager's decision making is fairly autonomous, but he will refer to his superior for advice before deciding whether to pursue some projects.

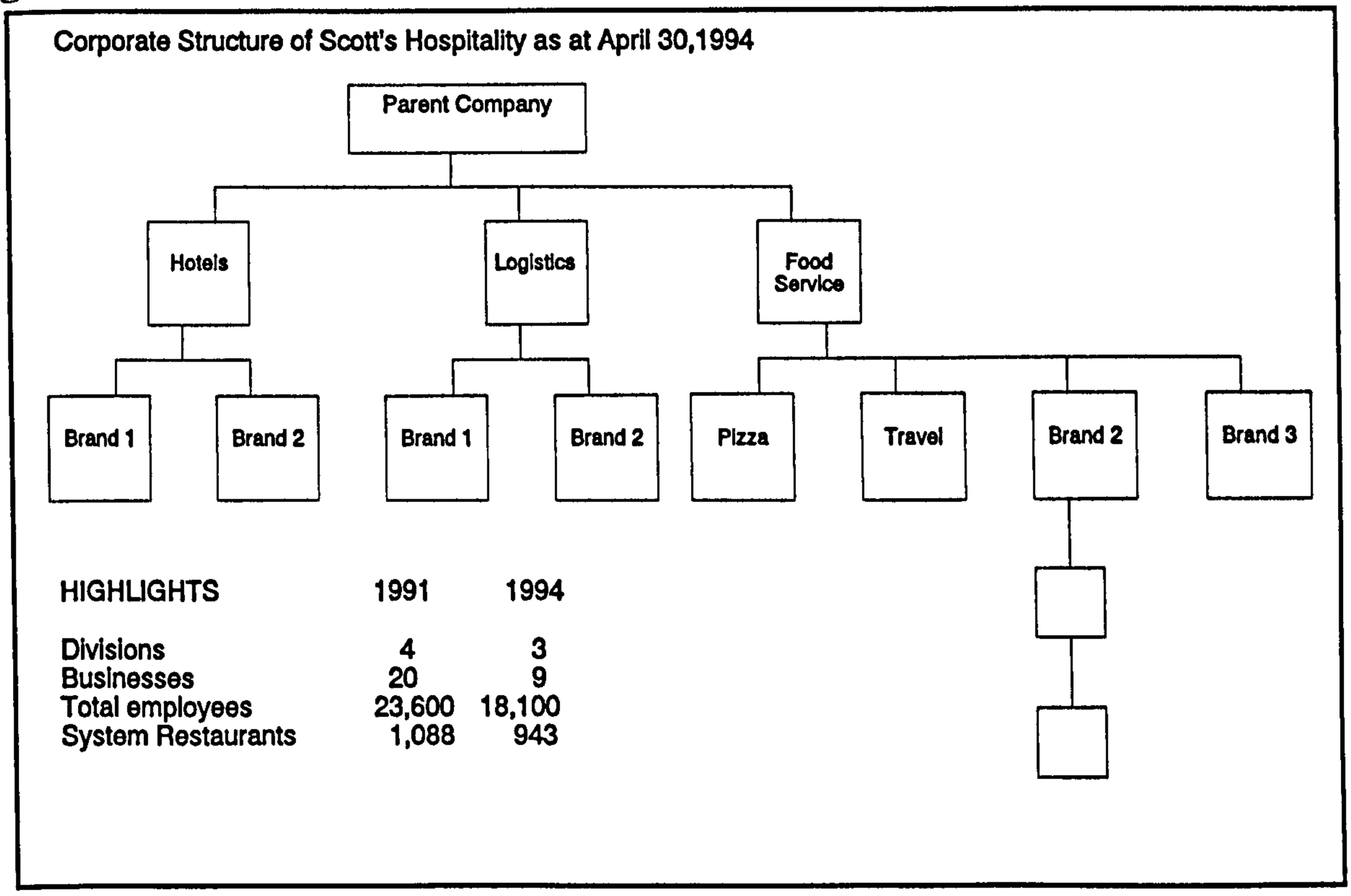
Figure 6.4a:

Corporate Structure of Scott's Hospitality as at April 30,1991



No hierarchical effects are felt from the parent company. They receive monthly accounts, but only react if there is a problem. There are, however, some constraints imposed, for example, one particular company had been blacklisted because it was considered a bad supplier.

Figure 6.4b:



6.2.3 Procurement Procedure

Two scenarios were considered, these were a new task and a rebuy. The duration of the procurement procedure of a new task is approximately six months from receiving the brief to having the product on line. However, it takes a minimum of three weeks to source a new task, if the product is a basic commodity.

Nominated suppliers are listed in a monthly document, "Buying News", which lists all the products that franchisees can buy from central distribution, and also lists all nominated products and their suppliers for those products which are not supplied by central distribution. There are certain small items that head office would not expect to

be involved in purchasing, for example; fresh produce (mushrooms, peppers, onions and tomatoes) is sourced locally by franchisees. It is considered pointless to centralise sourcing for these items since most outlets are in town centres and can obtain the products more cheaply locally. The reason for this is that the cost of distribution for fresh produce is out of proportion to the value of the produce itself. Distribution is charged per case, rather than as a percentage of value, and therefore it is not cost effective to distribute centrally low value products.

There are certain products which **must** be bought through the central purchasing department, and there are others that may be bought from alternative suppliers even though they are available through the purchasing department. However, alternative suppliers have to be approved by the purchasing director to ensure that the production standards are to specification, and checks are undertaken as a matter of policy. The depot imposes no constraint on the buyers because the stock turn around is so fast. Perfect Pizza does not handle enough volume to warrant direct sourcing from farmers of goods such as fresh produce.

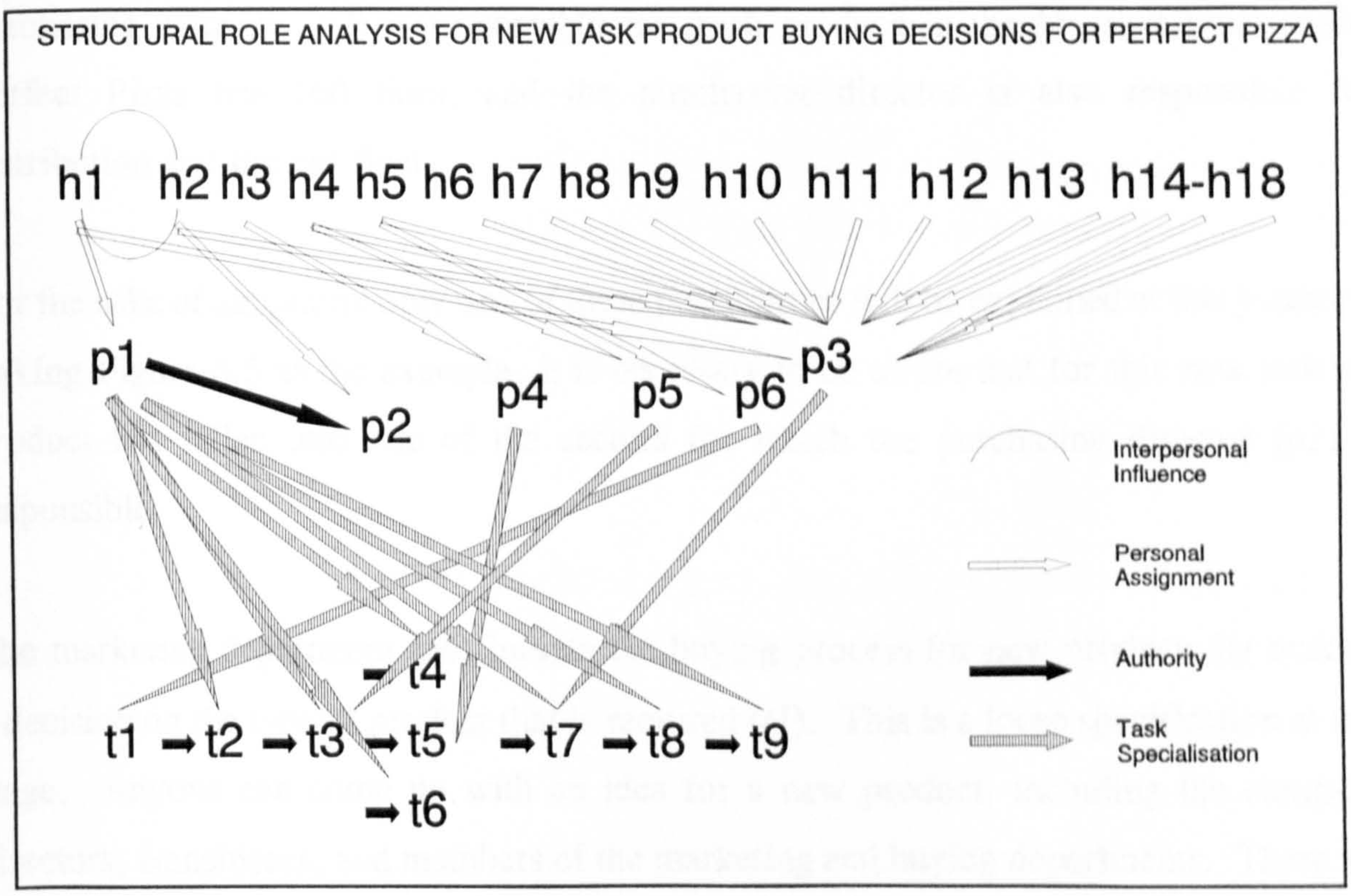
The purchasing director feels that it is very important to build a relationship with suppliers even if they are not being used currently. This takes the form of personal contacts and the maintaining of good communication. In this way it is possible to replace a supplier quickly if there is a problem. This is possible because the food service business deals with people rather than large companies. The composite pizza comprises of specialist niche products. Therefore, Perfect Pizza tends to deal with small specialist companies and not commodity suppliers.

New Task

The decision to include a new product is taken at Board level but the marketing department issues the briefs for a buying problem, which the purchasing department then acts upon. There is also some interaction with the finance department usually regarding settlement of accounts. The buying process for a new task is illustrated in Figure 6.5.

The eighteen persons *h1-h18* are all members of the taste panel which is *p3*. It is important to recognise that although each member of the taste panel is represented by a person (*hn*) in the digraph, it is the positions held that are of importance rather than the individuals that occupy them. Therefore, it is the *function* of the individual that is under consideration rather than the individual himself/herself.

Figure 6.5:



Legend: *h1-h18,* persons; *p1,* purchasing director; *p2,* purchasing manager; *p3,* taste panel; *p4,* quality assurance personnel; *p5,* home economist; *p6,* marketing department; *t1,* decision on product brief; *t2,* seek potential suppliers; *t3,* obtain samples and evaluate; *t4,* obtain industry references; *t5,* factory visit; *t6,* quality assurance audit; *t7,* product development; *t8,* price negotiations; *t9,* decision/choice of selected supplier.

Persons *h1* and *h2* exert interpersonal influence over each other as they will discuss proposals in which the other has some expertise, even though there is no overlap of tasks

which would cause them to do so of necessity. The position occupied by *h1* is that of group purchasing and technical director (*p1*). The position of purchasing manager (*p2*), which is fulfilled by *h2*, reports directly to *p1*. The two buying positions *p1* and *p2* (the purchasing director and purchasing manager respectively) operate autonomously during the buying process. This occurs due to the segmenting of buying tasks into different sectors so that *p1* and *p2* each have their own sector responsibilities. For example, the purchasing director (*p1*) is responsible for major lines such as pizza bases and the purchasing manager (*p2*) is responsible for fresh produce in the Marriott hotel chain. Perfect Pizza has 160 lines, and the purchasing director is also responsible for distribution and the car fleet.

For the sake of simplicity only one of these possibilities will be explained at this juncture. Taking Figure 6.5 as the example, it is necessary to be aware that for this new task the product has fallen into one of the sectors for which the purchasing director (*p1*) is responsible.

The marketing department (*p6*) initiate the buying process for new products by making a decision on the type of product that is required (*t1*). This is a loose specification at this stage. Anyone can come up with an idea for a new product, including the company directors, franchisees, and members of the marketing and buying departments. There are a few changes which occur each year as a result of menu changes. Assuming that the product to be sought falls into a sector under the jurisdiction of the purchasing director (*p1*) then he would carry out a search for potential suppliers (*t2*). Suppliers are identified through journals, personal contacts, and existing suppliers. Sourcing more than one product from a supplier may enable price leverage to be applied due to the volume of business.

If the product to be sourced was identical from each supplier, *e.g.* jalapeno peppers, then the decision is based purely on price. In this case price would be negotiated between the best two suppliers, in order to give a buying choice. If the product is not of identical quality even if it follows the specification, *e.g.* chocolate fudge cake, then samples are

taken from potential suppliers. These samples are tasted by both members of the purchasing department (*p1*, the purchasing director; and *p2*, the purchasing manager). This is *t3*, the samples are prepared for this tasting by the home economist (*p5*). This tasting is of the products as tendered, and acts as a guide for comparison. A further tasting is carried out by the taste panel, *p3*, at a later stage in the buying process.

The next three tasks in the process can occur in parallel since they are not dependent. The purchasing director, *p1*, may obtain references from other firms regarding potential suppliers, especially if the product in question is likely to be a large amount of business either in terms of value or volume (*t4*). Once it has been ascertained that the supplier under consideration can indeed produce the product then *p1*, the purchasing director, will visit the factory to inspect the facilities and meet the key personnel (*t5*). The third task that can occur in the same time period is the audit of the factory (*t6*) carried out by quality assurance personnel (*p4*).

After all these tasks have been completed (*t4*, *t5*, and *t6*) product development can take place (*t7*). This product development involves working with potential suppliers to perfect the specification. The taste panel (*p3*) is used in this process. The members making up the taste panel are the home economist, the purchasing director, the purchasing manager and other experienced people in the department. The final composition of the taste panel is product dependent since members with expertise in the specific product will be required. The marketing department and an executive panel of representative franchisees are also involved. There are ten franchisees on the panel who are elected by their colleagues.

This group make joint decisions concerning proposals on a consensus basis. There are three possible outcomes of the consensus. The first is to ratify the proposal. The second is to accept the proposal if modifications are made and the third is to reject it totally. This taste panel is a recent innovation. The role of this group is to ensure that the product suits its requirements given that there are a number of options in terms of suppliers and types of product. In order to achieve this the home economist (*p5*) will test

cook the samples for the taste panel.

Costings on the individual suppliers proposals are carried out during the whole buying process (*t8*). Specifically, prices are obtained at this stage if first samples (*t3*) and detailed price negotiations are conducted after the stage of product development and consideration (*t7*) by the taste panel (*p3*). Once the specification is set, and service level established, the decision on the choice of supplier (*t9*) is based on price and is taken autonomously by the purchasing director.

Where a product falls into one of the areas of responsibility of the purchasing manager (*p2*) the buying process follows the same sequence but *p2* has task assignment where *p1* held responsibility in the illustrated scenario.

Rebuy

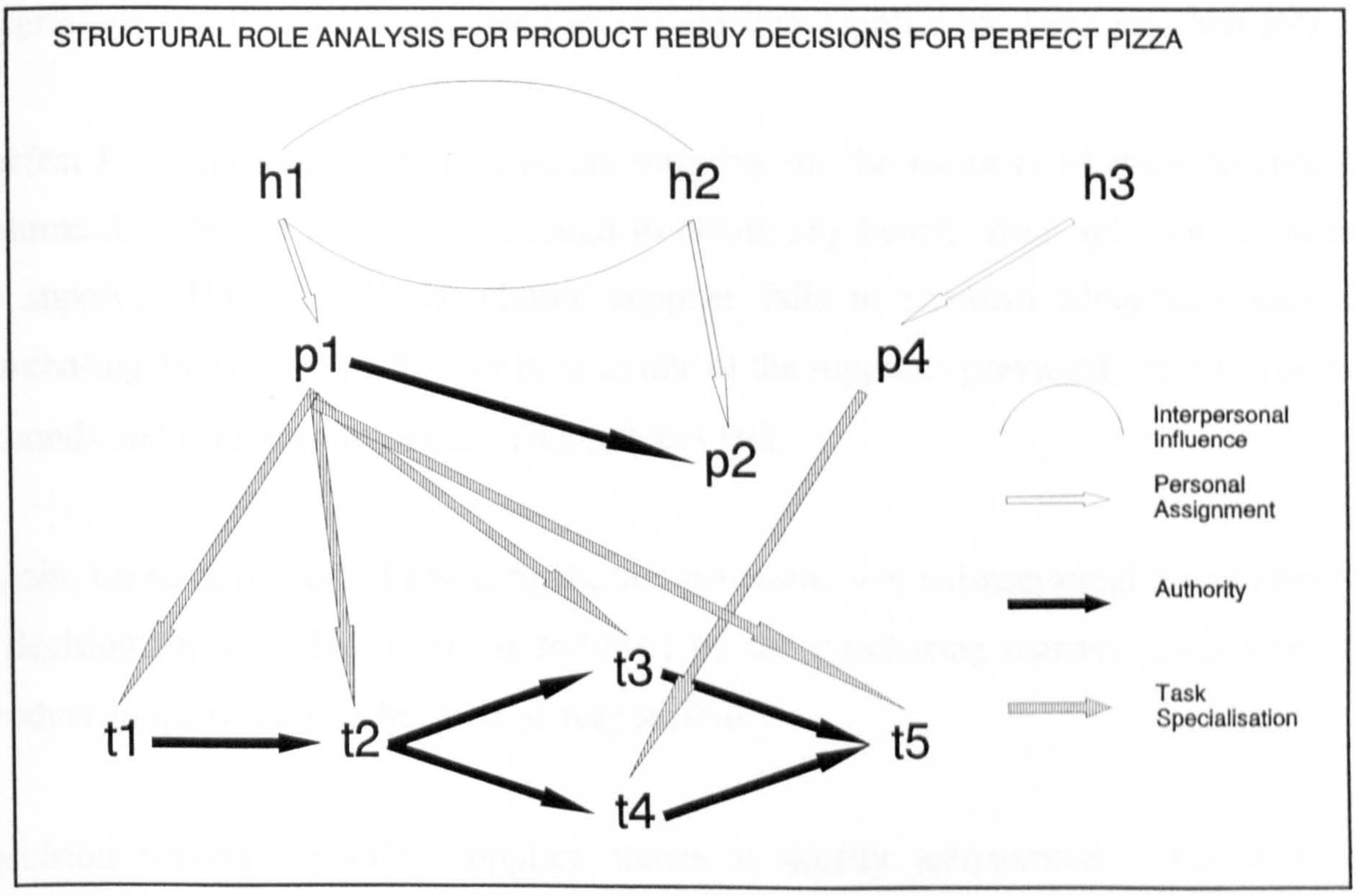
Rebuys follow a similar, but shorter, process with direct comparisons being applied between existing and potential suppliers. The process adopted for a rebuy can be completed in a matter of weeks, since the product development stage does not occur and the specification is very detailed for an existing product. The process that is undergone for the choice of suppliers for a rebuy is illustrated in Figure 6.6.

In the same way as before there are two possible scenarios, with task assignment being dictated by the area of responsibility of *p1* and *p2*. Again it is assumed that the product under consideration falls in a sector managed by the purchasing director (*p1*). The buying process is initiated by the purchasing department approximately 95% of the time, as a result of hands on awareness of the situation. This is task *t1*, seeking a comparison between the existing and potential suppliers.

The purchasing director (*p1*) makes a request for tenders from a number of potential suppliers (*t2*). The number of tenders required varies, with approximately seven or eight as a maximum. Very occasionally, only one or two suppliers may be considered. This

occurs if the product is a minor line, or if the product specification is so detailed that only very few companies can supply. The minimum number of tenders/quotations sought in a rebuy situation is three to four.

Figure 6.6:



Legend: *h1, h2, h3,* persons; *p1,* purchasing director; *p2,* purchasing manager; *p4,* quality assurance personnel; *t1,* seek potential suppliers; *t2,* obtain tenders to the specification; *t3,* evaluate samples against the specification; *t4,* quality assurance audit; *t5,* decision/choice of selected supplier on price.

The third stage in the decision making process for a rebuy is to check that the potential suppliers are indeed capable of producing the product as specified (*t3*). This is done by the purchasing director (*p1*) and involves visiting the factory to see the production process. If it appears that the existing supplier is not competitive and there is a strong possibility that the business may be moved, then the relevant quality assurance checks would need to be carried out on the potential suppliers (*t4*) by quality assurance personnel

(*p4*). Task *t4* would only occur if the potential supplier was likely to replace the existing one and if no other product was being supplied to Perfect Pizza from the same factory.

The purchasing director (*p1*) would then make the decision on the desired supplier (*t5*). This is dependent on the difference in price between suppliers once it has been ascertained that the service provided by the existing supplier has been matched (*t4*).

Perfect Pizza follows a policy of single sourcing for the majority of lines because the volume they deal in is not great enough to obtain any benefit from splitting the source of supply. However, if the chosen supplier fails to perform adequately then the purchasing director (*p1*) will refer back to one of the suppliers previously rejected on cost grounds and source from them. This reduces risk.

Again, the same process of assessing the competitiveness of existing suppliers and making a decision for a product rebuy is followed by the purchasing manager (*p2*) when the product in question is in his area of responsibility.

Decision making regarding supplier choice is mostly autonomous. However, on occasion, joint decision making occurs when Board (ten members) approval is needed, for example if a change of supplier is suggested for a major line such as dough balls. This is intended to ratify the recommendation put to the Board by the purchasing and technical director, and only occurs if the decision is an unusual one. When joint decision making occurs it is decided by vote.

6.2.3 Evaluation Criteria

Whether products are purchased in fresh, chilled, or frozen form is entirely dependent on the specific product, that is, there is no preferred temperature regime. There happens to be relatively few chilled products, although they are important ones. Examples of chilled products include certain meat toppings, cheese and coleslaw. Every other food product is either frozen or is ambient. Distribution vehicles are multi-temperature.

The purchasing manager is proactive in searching for alternative suppliers if problems arise with the existing suppliers. He carries out exercises in direct comparison (annually) at the end of contracts. The contracts used vary between products. Some products have to have annual contracts because of harvests *e.g.* pizza sauce, and dough. Other products have contracts either for fixed volume runs (*e.g.* three or four containers) or on-going arrangements. These rolling contracts continue until such time as the product specification alters, or it can no longer be supplied as specified, or the price becomes prohibitive, all of which might drive the company to look for an alternative supplier. Food and packaging products have no contract longer than a year, and vehicle leasing is over a longer period. Contracts tend to be on a rolling basis but a change of supplier may occur if a better deal is available. There is a question of loyalty to be addressed, and existing suppliers will be given the opportunity to improve their tender - providing that there is a good relationship with that supplier. If a supplier is to be changed for a major line then this decision is taken at Board level, otherwise the buying department has sufficient authority. However, the buying department takes an active role in the sourcing of new and replacement products.

The purchasing and technical director has definite preferences regarding the approach made to him by potential new suppliers. The first communication should be written and should satisfy three main criteria:

1. the product offered should be made clear, so that the purchasing director can decide on whether it is of interest to the company or not;
2. the financial viability of the supplier should be shown;
3. the availability of suitable production facilities should be assured.

If the product does appear interesting then the purchasing director will phone the potential supplier and assess the viability of the product. A meeting will then be arranged in order to discuss the matter further, if the product looks as if it would be a success.

The supplier should remember to research fully the business they are trying to target, because they are new and unknown they have to impress the potential customer. If this

was a key product the potential supplier would, in addition to the above, be required to enter discussions to discover if they are a viable supplier. Secondly, such a supplier must pass a check on the production facilities. This is carried out by the purchasing director. If the potential supplier satisfied the above criteria then they would be included in the next request for tenders for the product in question. There would only be a concern as to the level of business lodged with any one supplier if Perfect Pizza were the only customer, and the supplier manufactured no other products for other customers.

Assuming that the purchasing director has reached the stage of entering into discussions with a potential supplier, he evaluates the company on a whole range of aspects. He wishes to speak to someone knowledgeable about the product offered, so that he does not waste his time. The potential supplier is expected to have researched Perfect Pizza's business in order to be capable of producing a product suited to the company's requirements. This includes knowledge of how the product has got to perform, and how they can enhance this. It is then possible to have a meaningful discussion and progress to the point of deciding to do business or not. Communication is also important, and it is advantageous to deal with people who are easy to talk to. On occasion, it has been suggested to more senior management of a supplier that Perfect Pizza would like to do business, but that this would entail changing the contact person.

The purchasing director is a food technologist by training and also has a qualification in packaging and this enables him to have sufficient insight to identify underhand dealing fairly quickly. He prefers to deal with someone who can make decisions, and who knows their company's capabilities. Potential suppliers also need to be very professional and focused in what they are setting out to achieve. In return suppliers get straight dealing from the purchasing director. Negotiations are carried out as quickly as possible and a decision is then taken.

There are also definite disincentives which would discourage the purchasing director from entering into business with a supplier. The two main problems are lack of credibility in the industry and lack of company stability.

It is recognised that all suppliers are entitled to make a profit, and this is made very clear in negotiations. No business is a charity, however, the profit made by a supplier must be reasonable. Therefore open book accounting would be considered a benefit in supplier evaluation, although this is not very common. It is felt that the going price for any product tends to be very quickly established, a lot of suppliers are getting increasingly more "honest". This is particularly true if they are traders and they are dealing in imported goods, in which case they just add a percentage margin.

The purchasing manager puts forward slightly different evaluation criteria for suppliers. He considers that several criteria operate together to give an overall "feel good factor". References are considered to be a good start and the customer portfolio also gives a good indication of the calibre of the supplier. He will consult colleagues for information if this is relevant. The purchasing manager also likes to see how potential suppliers operate on site. This is accomplished by walking the process of the factory, and talking it through. In this way many potential problems can be prevented or resolved at an early stage. Other favourable characteristics of suppliers are flexibility in service and a computer invoice system.

In financial terms the purchasing manager feels that the risk of non-production is the relevant factor. Most firms dealt with are known so there is less need to check the accounts. There is a general feeling that the books may tell a different story to reality in any case. He stressed that an alternative supplier can always be found if there is a problem with the existing one. The purchasing manager encourages honesty and communication with his suppliers, both in negotiations and concerning production. In this way action can be taken on any problems that may arise.

Most of the working time is spent doing analytical work. Negotiation is affected by personality but this only takes up a fraction of the time (less than 3%-4%). In some ways it is easier to deal with unfamiliar people, since there is no relationship to hinder hard negotiations. However, there are pros and cons to this as a supplier with whom a good relationship is maintained will try to help if there is a problem.

Assessment of the purchasing department takes the form of annual appraisals and also interim appraisals. These appraisals are based on achievement against pre-agreed targets/objectives, and whether they have been met or exceeded. However, it is difficult to keep objectives meaningful since the company strategy is to expand continuously by acquisition, therefore objectives have to be changed, for example one supplier may become suitable for several products. Simplistically, the criteria for assessment is to always have the product available at the right price and quality.

CHAPTER 7:

CASE STUDY ANALYSIS - HAMBURGER SECTOR

7.1 Burger King Case Study

7.1.1 Background

Burger King is in the very competitive burger sector of the food service industry. Burger King was acquired by Grand Metropolitan as a part of the Pillsbury Company in January 1989. Grand Metropolitan is an international food, drinks and retailing group which specialises in highly branded consumer businesses. These businesses, which are few in number but large in size, have complementary features thus ensuring that the parent company can add value to the parts. The turnover recorded by Grand Metropolitan and its various divisions over the past five years is shown in Table 7.1. The turnover generated by discontinued operations is included in the total figure, but the figures quoted for the individual divisions only relate to continuing operations. This convention is also used in Tables 7.2, 7.3, and 7.4. It should be noted that Burger King is included within the retailing division. Unfortunately, it has not been possible to deduce separate figures for the performance of Burger King. The retailing division is mostly food orientated but also includes Pearle Vision.

Table 7.1: Grand Metropolitan's Turnover in £ million (1990-1994)

Division	Year				
	1994	1993	1992	1991	1990
Total for Grand Met[1]	7,780	8,120	7,913	8,748	9,394
Food: branded	3,267	3,066	2,647	2,618	2,998
Food: retailing	1,104	1,153	1,070	1,560	2,072
Drinks	3,371	3,418	2,858	2,471	2,266

[1]Includes discontinued operations

Source: Company Annual Reports; 1990-1994

In terms of turnover, the branded food and drinks divisions are much larger than the retailing division. However, when the operating profit is studied (see Table 7.2), it is apparent that the two food divisions generate similar operating profits. Both of these divisions show lower profits in 1992. In the case of the retailing division, the interim results show that the trading profit at Burger King increased by 23% to £48 million (£39 million in 1991), but set against this increase is the loss made by Pearle Vision in the same period. In 1992 the sale of Burger King Distribution Services was agreed and this was therefore one of the discontinued operations in that year.

Table 7.2: Grand Metropolitan's Operating Profit in £ million (1990-1994)

Division	Year				
	1994	1993	1992	1991	1990
Total for Grand Met[1]	1,023	1,042	937	1,027	1,059
Food: branded	267	227	186	257	271
Food: retailing	230	175	129	187	224
Drinks	520	563	493	451	391

[1]Includes discontinued operations

Source: Company Annual Reports; 1990-1994

In terms of the percentage of turnover attributable to operating profit the branded food division has the lowest percentage turnover (see Table 7.3). The drinks division is fairly stable and shows a high return on turnover. The food retailing division has nearly doubled the percentage of turnover attributable to operating profit. This illustrates the trends visible in Tables 7.1 and 7.2, which show that although turnover for the division is increasing, the operating profits recorded are increasing at a higher rate. This may be partially explained by the fact that in 1994 Burger King continued to franchise markets in North America, with increased conversion of company owned restaurants to franchisees. This resulted in income from this activity of £64 million, an increase of £38 million over the previous year. This compensated for a reduction in operating profits from company owned stores.

One of the factors that has helped to increase Burger King's expansion and growth has been the sale of restaurant franchises. As of March 31st 1994, the total number of restaurants operating under the Burger King brand was 7,320 worldwide. Of this total, 921 restaurants were company owned and 6,399 were franchised operations. Burger King operates in over fifty countries including the USA and the UK (see Table 7.4). In 1992, 5,700 of Burger King's 6,648 restaurants were in the USA. The brand employs 270,000 people systemwide with company employees numbering more than 41,000. Burger King's business worldwide is composed of 50% drive-through and 20% take away. The brand serves approximately 1,380 customers, per restaurant, per day, or about 10 million customers systemwide daily.

Table 7.3: Grand Metroploitan's % Turnover Attributable to Operating Profit (1990-1994)

Division	Year				
	1994	1993	1992	1991	1990
Total for Grand Met[1]	13	13	12	12	11
Food: branded	8	7	7	10	9
Food: retailing	21	15	12	12	11
Drinks	15	16	17	18	17

[1]Includes discontinued operations

Source: Company Annual Reports; 1990-1994

In October 1989, Grand Metropolitan bought Wimpy, a UK burger chain. At that time Burger King had thirty restaurants in the UK. The Wimpy chain had 140 counter service restaurants and about 240 table service restaurants. It was decided to convert the counter service restaurants to the Burger King format, and the great majority of these were converted during the early part of 1990. At one point the conversion rate was one a day. The remaining table service restaurants were sold by Grand Metropolitan to a management group headed by Wimpy's former managing director. Burger King continues to pursue an aggressive expansion policy in the UK. It intends to achieve this

through both company-owned and franchised restaurants.

Table 7.4: Burger King Restaurants Operated (1990-1994)

Restaurants	Year				
	1994	1993	1992	1991	1990
Total No. of Restaurants	7500	7121	6648	6385	6200
No. of Countries	56	50	--[1]	41	34

[1]Data unavailable

Source: Company Annual Reports; 1990-1994

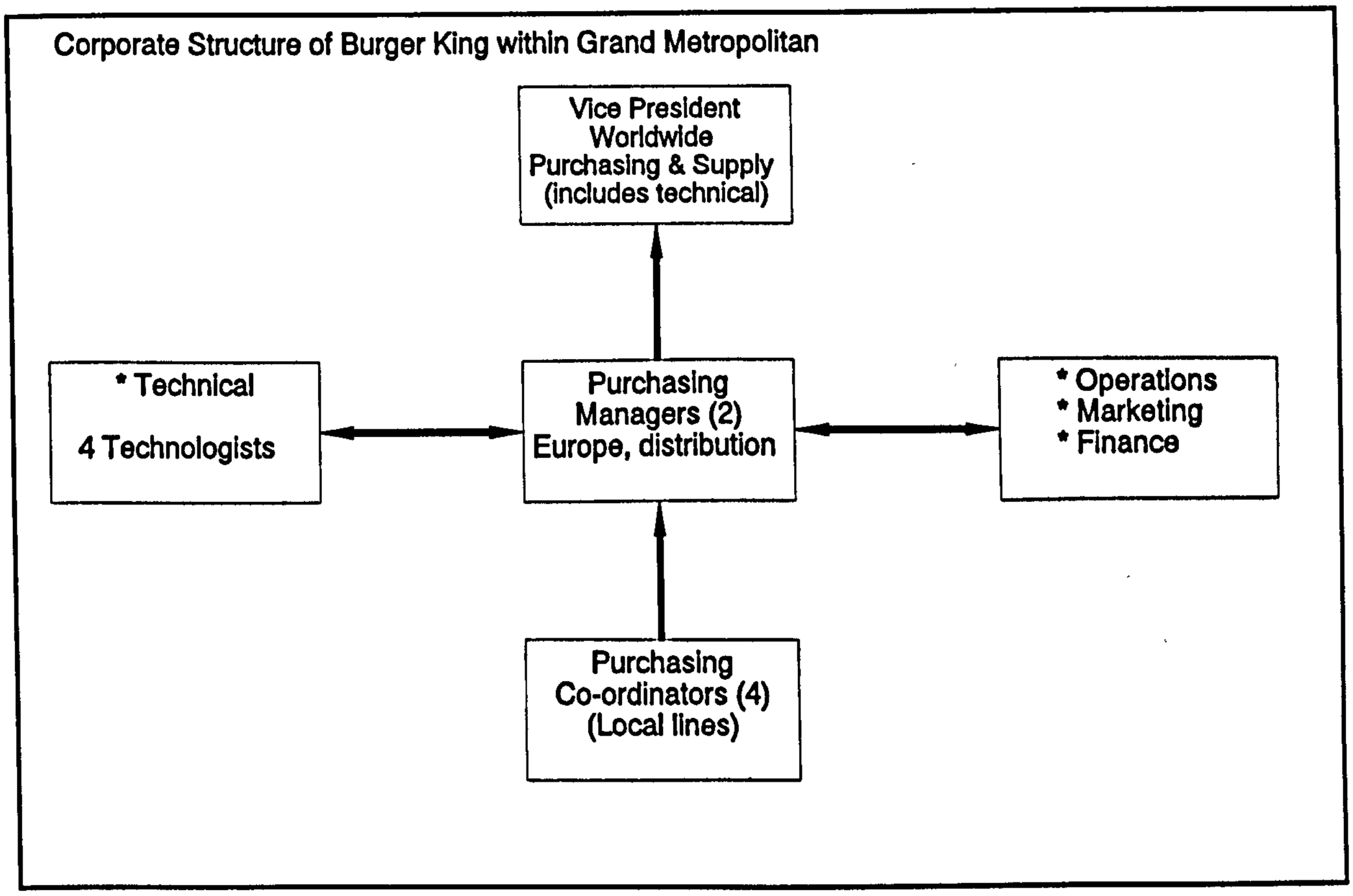
Interviews were carried out on two separate occasions. The initial interview was with one of the purchasing managers for Europe, the Middle East and Africa on June 21st 1994. In addition to this both purchasing managers were interviewed on November 4th 1994. Finally, a day was spent (July 21st 1995) shadowing the work of one of the purchasing managers. This day was largely spent in negotiation meetings with current suppliers and exploratory talks with prospective suppliers. The content of this case study was validated by both purchasing managers.

7.1.2 Company Structure

Burger King was re-structured in 1994. The current structure is shown in Figure 7.1. There is now a general manager for Europe, the Middle East and Africa, who, at present, has seventy people, including the purchasing managers, reporting directly to him. Prior to March 1994 the purchasing managers had reported to a purchasing and logistics director. The purchasing department is made up of two purchasing managers who are responsible for purchasing across Europe. In each of the major countries (France, Scandinavia/West Germany, Spain and the UK), there is a purchasing co-ordinator who is involved with the day to day liaison with distributors, suppliers, franchisees, and company restaurants. These purchasing co-ordinators report to the two purchasing

managers, and they purchase local lines, for example fresh produce, where it is not feasible to buy on a pan-European basis. In this context, "local" purchasing refers to purchasing within a country.

Figure 7.1:



Therefore, the buying centre consists of the purchasing managers, the country co-ordinators, and quality assurance. The co-ordinators report directly to the purchasing managers. Quality assurance personnel report to a separate department. Their direct superior is the vice president for worldwide purchasing and supply (including the technical aspects). In the past, the purchasing managers reported to the general manager (Europe, Middle East and Africa), who reported to the senior vice president in Miami, this avoided a conflict of interest (previously, there used to be the same ultimate report). The difficulty with such a conflict of interests was for one person to prioritise quality or price. This was addressed since the two senior vice presidents in Miami decided between the recommendations made by quality assurance personnel and by the purchasing managers. This meant that there were two people reconciling the recommendation from

the different departments as opposed to merely one. At the time of the interview there was to be a new appointment who would head purchasing and logistics and, possibly, quality assurance as well. The purchasing managers thought that this might cause a conflict of interests (as before) with purchasing and quality assurance under the same authority. The appointment of the vice president for worldwide purchasing and supply (including the technical aspects) was made in the early part of 1995.

The purchasing managers work very closely with the marketing department. The marketing department provides information, including expected volumes, but this information is only available for promotions. Motorway sites are the only sites which do not have to take part in the promotions. The purchasing department has to ensure that sufficient volumes of required products are available. This is particularly important with a new line, where the required volumes are unknown. There is a horizontal relationship between the marketing and purchasing departments, that is, each is of equal status. There is also a strong relationship with operations, and includes people in the restaurants. There is two way communication with both of these departments and the purchasing department. The finance department is also linked with the purchasing department, in terms of budgets, projections, and justification of price movements amongst other things. Both purchasing managers report to the finance department with a budget, which then may be capped, and they are challenged about the reasons for any price increases. Again, the finance department and the purchasing department have a horizontal relationship. These are the major links within the business.

Outside Burger King itself, the major links are with third party distributors, with whom the purchasing managers liaise. There are central distributors in each of the markets, all of whom are third parties. Purchasing is centralised across Europe for about 80% of the lines in restaurants. To summarise, the purchasing department consists of just two buyers, and four co-ordinators (France, Scandinavia/West Germany, UK and Spain). Therefore Burger King deals with a small number of large suppliers.

Distribution for Burger King is carried out nationally by one of the largest independent

distributors in the UK. Burger King make use of three of their depots, Banbury, Blackburn and Newbridge. These three depots handle the UK supplies for Burger King restaurants. This changed in October 1995, after which date only two depots are being used, one at Banbury and one at Oldham. Just over three years ago Burger King had two distributors, one in the North and the existing distributors in the South. This dual distribution caused problems, juggling supplies between the two distributors, and the purchasing managers decided to simplify the arrangement. The incumbent distributors handle all types of goods for Burger King; frozen, chilled and dry goods. Frozen and chilled goods are delivered to the outlets together and dry goods are delivered on a different day.

Most restaurants receive three deliveries per week, high volume restaurants, for example, Piccadilly, take deliveries every day because of the high volumes. Currently, the purchasing managers are trying to reduce costs, particularly in company operated restaurants, by reducing deliveries to two per week, where there is sufficient storage. The average storage capacity of ambient goods (ketchup, cola, mustard *etc.*) is probably about a week. Fresh produce requirements are calculated according to the three deliveries per week. Restaurants can store, on average, up to four days stock of frozen goods. Buns are fresh and are delivered by the bun suppliers, not through the incumbent distributors, again three times per week. Other suppliers deliver to the distributor's depots where the distributor takes title to the goods. Burger King concludes the deal with the suppliers and passes on the product details to their distributors. The distributors set up a code for that product and that supplier and are responsible for stock management. Therefore, the distributors are responsible for quality control, such as temperature regulation, which is checked as products enter the depots.

At outlet level, franchisees sign an agreement that they will buy products specified by Burger King through their nominated suppliers. This allows flexibility in case of a problem with the main supplier. Some products are purchased at outlet level as a matter of course, these are small items, such as light bulbs, and marketing materials which are procured through agencies, although these are also procured through nominated suppliers.

The reason that advertising materials such as posters are not put through the distributors is that they get damaged and the distributors do not have the capacity for such items. The purchasing managers have contact with the franchisees who complain on a daily basis when the market offers cheaper products than the company. The franchisees do not contact the purchasing managers when the products provided by the Burger King are cheaper than the market price!

7.1.3 Procurement Procedure

Each product is the responsibility of one of the purchasing managers. Division of responsibility over the product range between the two purchasing managers is completely arbitrary. The two product managers considered all the lines and divided them between them, the only reasoning applied being responsibility over areas in which the individual has expertise. Areas of responsibility are divided by product category, for example, meat, buns and baked goods, dairy, fresh fruit and vegetables, and desserts. Each of the purchasing managers has equal authority.

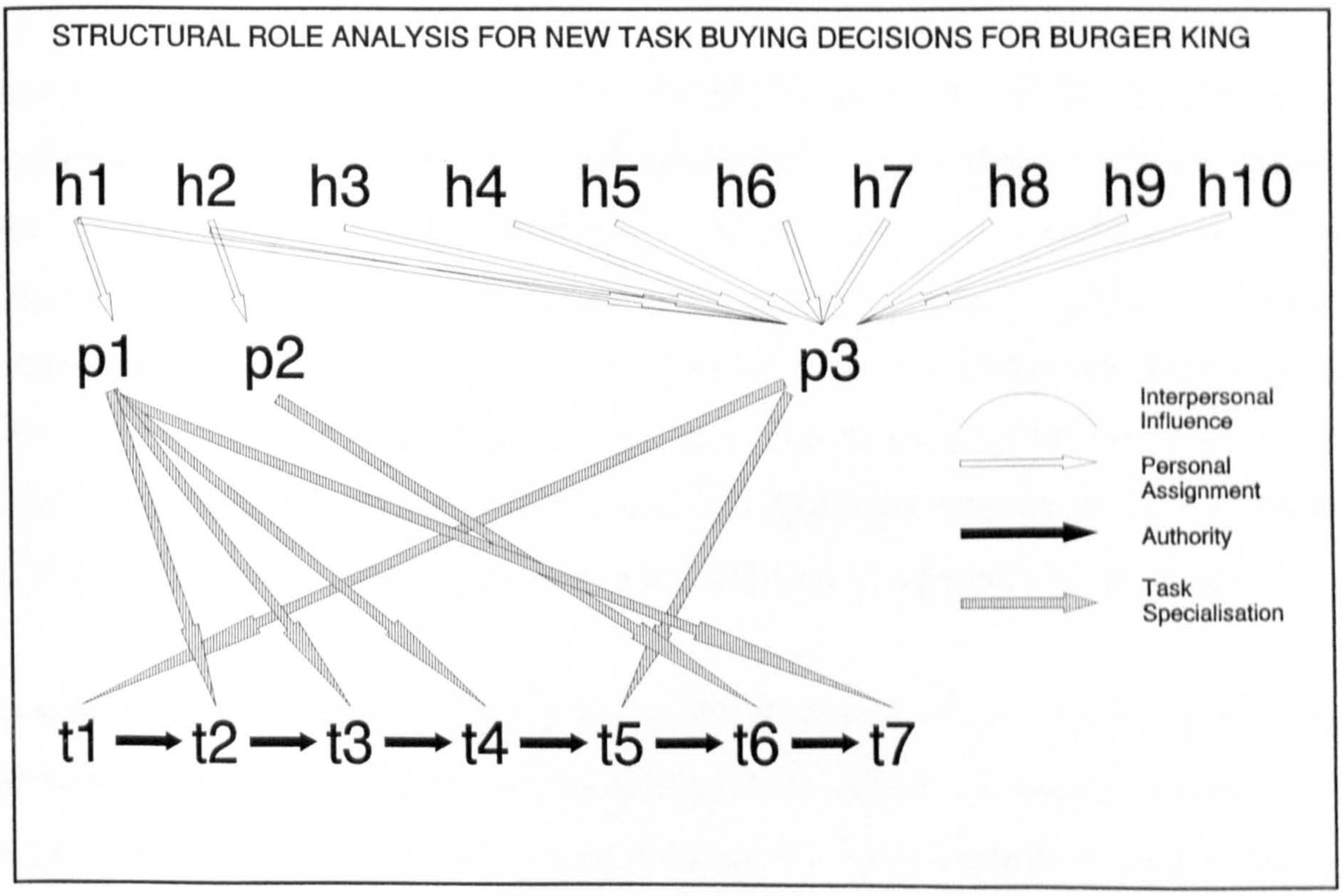
Burger King operates no stringent constraints on the purchasing managers and is a particularly free company, but particular issues that are very sensitive to the consumer are addressed in the procurement policy. On the other hand, the parent company is large and politics sometimes affect decisions, that is, a decision can be taken away from the purchasing manager to the senior management at Grand Metropolitan. This rarely occurs, but it has been experienced by one of the purchasing managers. A purchasing decision on supplier choice was overruled to benefit a supply company also owned by Grand Metropolitan. This is seen as part of being in a big company, and is something that can act as a constraint on the buyers.

New Task

Both purchasing managers follow the same procurement procedures. At the time of the interview, Burger King was undergoing a period of menu rationalisation, so there were

no new products being introduced. Prior to this a new product development group had operated. The purchasing managers thought that it was likely that the new product development group would reform when the office locations were amalgamated during November 1994. However, this has not proved to be the case, instead new product development is carried out in Miami and "lifted" to other areas. Nevertheless, structural role analysis has been carried out on the procurement procedure for a new task and this is illustrated in Figure 7.2.

Figure 7.2:



Legend: *h1-h10,* persons; *p1,* purchasing manager; *p2,* quality assurance personnel; *p3,* new product development group; *t1,* create brief; *t2,* seek alternative suppliers; *t3,* meet potential suppliers; *t4,* obtain samples with indicative pricing; *t5,* evaluate samples; *t6,* factory audit; *t7,* choice of supplier.

The procedure for a new task purchasing decision is precipitated by a brief being given to the purchasing manager (*p1*) from the new product development group (*p3*), this is *t1*.

The new product development group consists of two marketing representatives, one purchasing manager, two operations representatives, one quality assurance representative and a representative from finance may have also been present. These personnel are of middle management level, for example the UK marketing manager. In addition to these personnel, the marketing director sometimes joins the group. The purpose of the group is to generate ideas. Briefs often originate from the marketing department, because they control the menu range, although the buyers also suggest ideas. The relevant purchasing manager must find a supplier unless it is a branded product - in which case the supplier is obvious. Burger King uses a lot of brands which restricts the buying power.

Once the brief has been given, then a supplier must be found (*t2*) by the relevant purchasing manager (*p1*). The purchasing managers, *p1*, are obliged to work to whatever specifications are given, including political and environmental considerations. Burger King favours buying well-known brands, for example Heinz ketchup, and forming partnerships with brands, for example recent promotions such as that with KitKat (Winter 1994). This can be restrictive from a buyer's point of view so the buyer has to fight harder for a good deal. Some of the branded suppliers are reported to be very difficult to deal with since they know that their specific brand is required by Burger King.

Various methods are adopted for locating a suitable supplier for a non-branded product. Methods of locating a supplier include previous knowledge, consulting the trade press, recommendations from quality assurance personnel, and investigating the possibility of existing suppliers diversifying to produce the required product. Existing suppliers sometimes suggest another potential supplier. The European Supply Manual, which lists suppliers and information concerning them, is another source of reference although it is not extensively utilised. It is found that the food service industry is quite a small network, and potential suppliers are often identified through personal recommendations or suggestions. The search for potential suppliers continues until one, or preferably more, suitable suppliers are identified, so that comparisons can be made. In the area of unbranded goods between two and four potential suppliers are considered. This allows for a comparison to be made without it becoming complicated to keep track of each

company. However, the number of companies considered depends entirely on the product area concerned. For example, there are only four big suppliers of shortening (an ingredient used in baking), so all four can be considered.

The next stage of the procurement process is for the purchasing manager (*p1*) involved to meet the prospective suppliers. This is task *t3*. Such suppliers are required to visit the head office and at the meeting the purchasing manager explains the product that is sought, and anticipated volumes *etc*. After this initial meeting the supplier gives an indication of their ability to produce such a product. This may require the supplier to enter into discussions with their production staff. There may be a price point given at this stage to see if the product is commercially viable, if the product in question is a known brand then Burger King would have estimated the minimum acceptable margin.

The purchasing manager, *p1*, obtains samples from prospective suppliers (*t4*). At this point pricing is discussed based on the samples obtained and against the volume indication which has been given. Samples are evaluated by the new product development group (*p3*) in terms of taste, suitability *etc*., and a consensus decision is reached. This is task *t5*. There is a good relationship within the group since Burger King is quite a small company in terms of the number of personnel, and the people know each other well.

The new product development group was quite powerful. Joint decision making also occurs in *p3* (the new product development group). This is an open forum (every member is quite candid) and it is easy for any member of the group to challenge any proposal. However, the marketing members of the group are, in effect, the major decision-makers because they are responsible for the brand. The purchasing department is responsible for buying to specification and making a margin. These roles are quite clearly distinct. If a new supplier features amongst the potentials then quality assurance personnel (*p2*) will carry out an initial audit on the production facilities (*t6*) once the samples have been received and if the price appears to be competitive.

The choice between single *versus* multiple suppliers depends on the size of volumes and

importance to the business. For example, it is impossible for Burger King to have one supplier for beef across the whole of Europe due to the volumes involved. A single beef supplier would be a high risk as there would be no back up if a problem occurred. For example, a big line such as beef for the UK comes from four suppliers. In November 1994 there was not a standard fat content or patty size across Europe which could have caused problems if supplies had to be moved from one country to another. This problem has been addressed and the patties have now been standardised. Smaller lines such as condiments have had the supply base consolidated to one supplier, from five previously. This confers an advantage to the technical personnel in the reduction in the number of factories that must be audited four times a year. The purchasing managers have rationalised the supply base to consolidate purchasing power and because resources are stretched (fewer quality assurance factory audits are possible).

However, this policy leads to conflict in deciding when it is worth splitting the business between several suppliers. Although, the purchasing managers are focused on rationalising the supply base, this is done within certain limits on major lines. Returning to the example of beef, the purchasing manager is hampered in his buying decisions because of the political restriction in most countries which means that he has to split the supply more than is commercially optimal. For example, there is one supplier in Norway serving four restaurants, and one supplier in Switzerland serving three restaurants. This is very frustrating for the purchasing manager.

The purchasing managers have authority over purchasing and selecting suppliers. Generally, the purchasing managers find and select new suppliers but they cannot move any business until the suppliers have been approved by the technologists (*t6*). The technical department used to be part of the buying department but has been separated as part of the re-structuring. Big volume suppliers are audited several times per year by the technologists. A new supplier is audited initially, is monitored as the new product is developed, and the first production run is inspected. There were four technologists at the time of interviewing, and the purchasing managers suggested that this will increase as some technologists had been lost during the re-structuring.

After sampling (*t4, t5*) and the factory has been approved by quality assurance personnel (*t6*), the potential suppliers are whittled down so that those with similar products and price remain. It is from these alternatives that the successful supplier is chosen (*t7*) by the purchasing manager (*p1*).

The type of contract entered into with a supplier is entirely dependent on the product involved. Big volume lines, which represent a large amount of capital expenditure, such as chips, or where Burger King represents a large proportion of the supplier's business, are all situations when it is appropriate for there to be definite contracts. Such contracts run for about three years. Other products such as carbon dioxide gas for soft drinks, and coffee machines tend to require a more detailed contract that will last in the region of two to three years (maybe five years).

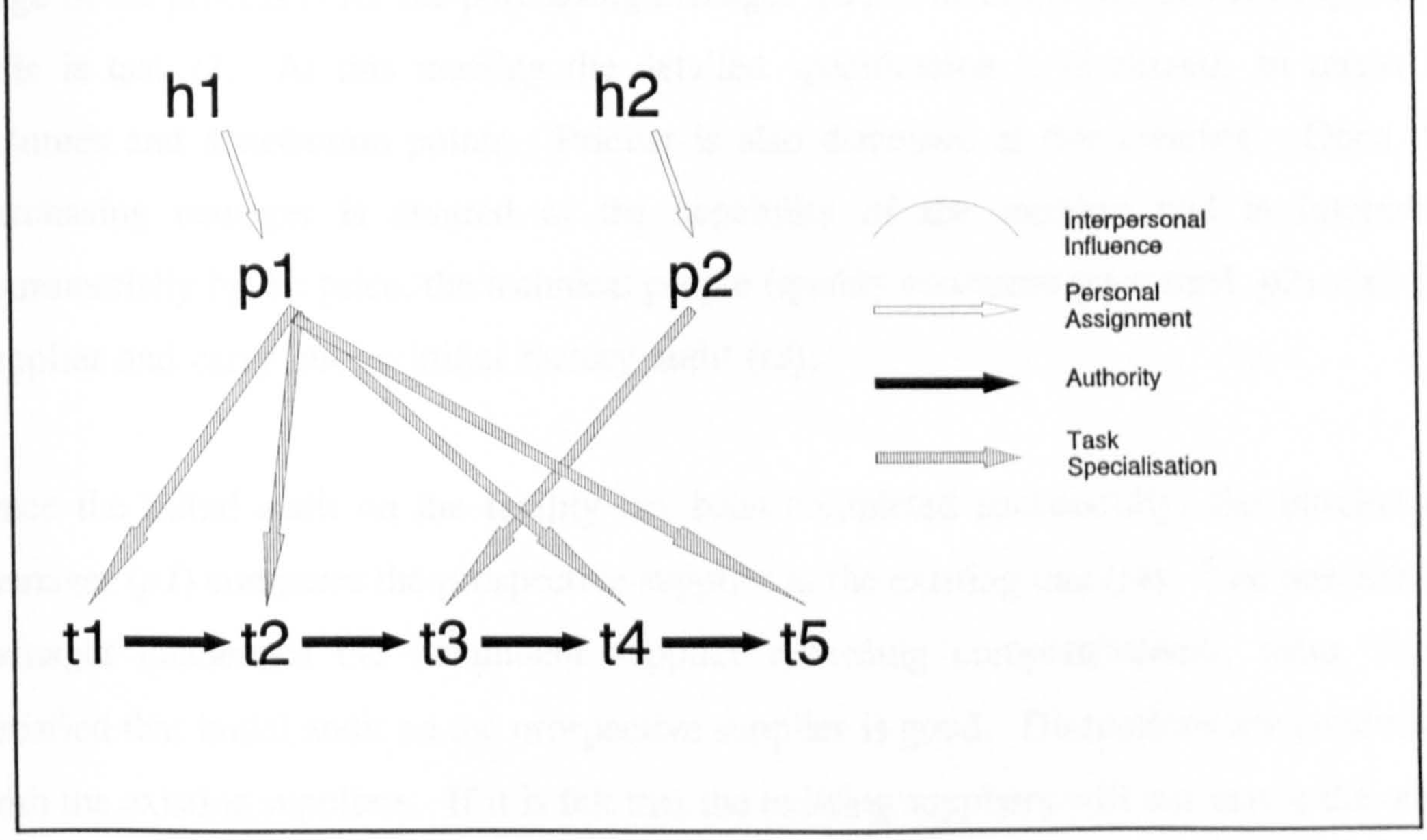
On other lines contracts tend to be annualised with prices and volumes agreed, for example, from January 1994 to January 1995. After this period a supplier can re-tender unless performance has been very poor. Existing suppliers have some knowledge of Burger King's working practices and this is a definite advantage. In general the purchasing managers prefer not to move business between suppliers, but will do so if pricing is uncompetitive. There is a cost of moving business, and uncertainty - things can go wrong. If a supplier has performed well, providing good service, good quality, a good factory, and has a good relationship with Burger King, the purchasing managers often want to keep the business there, so they just negotiate harder in order to meet the price parameters.

Rebuy

The procurement procedure for a rebuy follows a similar process to the above except that new suppliers are required to match an existing product. If there have been problems with the existing supplier, for example, production problems such as machinery breakdowns, then it is important that potential suppliers address these issues directly. The time required to carry out the procurement procedure for a product rebuy as

illustrated in Figure 7.3, is between three and six months. Annualised contracts begin to be re-negotiated for the following year nine months into the contract.

Figure 7.3:



Legend: *h1, h2,* persons; *p1,* purchasing manager; *p2,* quality assurance personnel; *t1,* seek alternative suppliers; *t2,* meet potential suppliers; *t3,* quality assurance audit; *t4,* comparison with current supplier; *t5,* decision/choice of supplier.

The first task (*t1*) that occurs in the procurement procedure for a product rebuy is the location of potential suppliers. This is carried out by the purchasing manager, *p1*, using the same sources of information as for a new task purchase. At this stage the initial discussions only produce a guideline specification. This is not very detailed, but gives an outline of what Burger King requires. The general discussion includes the volume capability and the production capability. The purchasing managers are looking for potential suppliers continuously, in this way they maintain their knowledge of market

opportunities. This knowledge is essential to maintain the competitiveness of the existing supply base. It is necessary for the suppliers and Burger King to have a mutual understanding of the meaning of their partnership.

Those suppliers pursued further are those who fulfil all these requirements. The next stage in the process is for the purchasing manager (*p1*) to meet the prospective suppliers. This is task *t2*. At this meeting the detailed specification is discussed, in terms of volumes and distribution points. Pricing is also discussed at this meeting. Once the purchasing manager is assured of the capability of the supplier and is interested commercially by the price, the technical people (quality assurance personnel, *p2*) visit the supplier and carry out an initial factory audit (*t3*).

Once the initial audit on the facility has been completed successfully, the purchasing manager (*p1*) compares the prospective supplier to the existing one (*t4*). The purchasing manager challenges the incumbent supplier regarding competitiveness, after being satisfied that initial audit on the prospective supplier is good. Discussions are conducted with the existing suppliers. If it is felt that the existing suppliers will not match the offer that has been made by the prospective suppliers, then product development moves ahead, and notice periods with existing suppliers are worked out.

The decision made by the purchasing manager (*p1*) on the choice of supplier (*t5*) is based on commercial viability. Stock takes varying times to work through the system. For example, baked goods, condiments and desserts could be expected to have a stock commitment of three months. Therefore it can be appreciated that much background work must be carried out before a change of supplier is carried out.

If the purchasing managers are uncertain on a big deal (for example, changing the bun supplier in the UK) then they can call on their direct superior, the vice president for worldwide purchasing and supply and explain the rationale behind the deal. The general manager will then sign it off and the purchasing manager would counter-sign. The purchasing managers enjoy a fair amount of power. The purchasing managers have a

signing power somewhere in the region of £10 million, thereafter a vice president would be required to sign. The total spend is about £150 million annually. The parent company is an advocate of empowerment and pushing the decisions down the ranks.

Fixed term contracts are used to keep track of suppliers and to maintain their competitiveness. The purchasing managers may not carry out the whole tender process for a rebuy if they have good knowledge of the market in question. However, they will check on the competitive alternatives, a supplier who was not quite good enough the previous year may now be suitable. The purchasing managers lose their market knowledge if they do not investigate prices offered by alternative suppliers and thus would have nothing to compare with the existing suppliers to assess their competitiveness.

Joint decision making occurs between the two purchasing managers when they have to work together on certain issues. An example of this would be where one of them is responsible for the country and the other is responsible for the product. This does not cause conflict as their roles are separate but they keep each other informed of the situation. For example, with a soft drinks supplier one purchasing manager does the legwork and the other does the implementation. Their personalities work well together and they feel that they operate well as a team. This facilitates the free flow of information and the efficiency with which such work is carried out.

7.1.4 Evaluation Criteria

The information required about a supplier depends on the amount of business to be placed with that supplier. Key information would include a Dun and Bradstreet survey on the supplier. However, this information would be unnecessary for a large, reputable company. Both the purchasing managers consider it essential to meet the key people in the supplier's company, those responsible for production, distribution, and the sales contact (perhaps the managing director - it depends on the importance of the Burger King business to the supplier). The purchasing managers insist on visiting the company, to see at first hand the machinery, including the distribution fleet, and obtain a feel for the

whole set up. Such a visit enables an assessment as to the level of commitment the company has to producing the product in question.

It is considered useful to see a product brochure and a list of current clients in order to gain an insight into the experience and capabilities of the supplier in question. The company is viewed over a period of several years. For example, the profitability over a number of years is examined. This gives an idea as to the stability of the company. The purchasing managers at Burger King like to represent approximately 25% of their suppliers' businesses. This proportion makes them large enough to be important to the supplier, but not so large that the company is dependent on the business.

There are also several other evaluation criteria which are applied to the consideration of a potential supplier. The purchasing managers look for good communication and the possibility of further business development by sourcing several different products from the same supplier. However, the critical criterion is price - assuming the distribution and stock control aspects of a company are acceptable. The product price agreed with a supplier is normally the delivered price into the distribution centre, or restaurants, FOB only occurs with products imported from the USA.

In terms of assessment and performance measures the goal of the purchasing managers is to get the best price and the best quality for the franchisees. Objectives are set for the next financial year, towards the end of the previous financial year (October). The purchasing managers are then measured against the achievement of these objectives. Their direct line manager is based in Miami, which makes it impossible for him to impose targets on the purchasing managers. The targets would have to be loosely defined, since it is not easy to set price targets if dealing with commodities, and they can only aim to remove processing charges.

This contrasts with one of the purchasing managers' experience in the retail environment, where a bad harvest would lead to reduced specifications and price would be maintained at outlets. This is not the case in food service. If a chip is specified at 9mm, then that

is what it must be. This is why retail companies have difficulty spanning countries with the same brand but food service can do this because they insist on consistency.

Since the re-structuring last year the purchasing managers receive no sales figures, so find it impossible to judge their performance in terms of satisfying the consumers' expectations of the products. In other words, although they set up the supply of products they have no idea of how well they sell at outlets. They do not receive this information for two reasons. First, the systems set up in outlets are not all compatible and cannot cope with the data requirements. Secondly, although some data is available from company operated outlets, franchisees are under no obligations to provide such information, and do not appear to be keen to do so. However, some information is obtained from the sales figures presented by suppliers and from the marketing department concerning product promotions.

Personalities do not affect the suppliers that are used. If there is a personality clash with a supplier who does his job well, the purchasing manager tries to meet more often and work at the relationship. If the first meeting with a supplier does not produce good communication, then the representative is not doing a good sales job. This means that the supplier is less likely to win a contract because of the poor impression given. Both purchasing managers stressed the fact that it is necessary to recognise people for their talents and not just their personalities.

7.2 McDonald's Case Study

7.2.1 Background

McDonald's is the world's largest restaurant chain. It operates in the burger sector and is an American company founded in 1954 by Ray Kroc. Kroc discovered the original restaurant in San Bernardino, California, run by the McDonald brothers, Mac and Dick. The brothers had no ambition for expanding the concept but were persuaded to allow Kroc to become the first franchisee. Kroc opened a restaurant near Chicago and within four years there were 100 such restaurants operating. In 1961, Kroc bought all rights to

the McDonald's concept for $2.7 million. In 1965, the McDonald's Corporation went public.

In October 1974, the first UK branch opened in Woolwich, South East London. Business was slow at first, the country was in recession and the whole notion of fast food was an alien, American concept. However, the McDonald's concept appealed to teenagers and was also the first restaurant to welcome children. More restaurants opened in other London suburbs. The company did not start advertising until 1976, when the first McDonald's opened in London's West End. The company first expanded to the north and then country-wide.

McDonald's does not release any specific financial figures for the UK. However, the turnover for the company as a whole shows a steady increase over the six year period (1988-1993), see Table 7.5. The turnover recorded for franchised and company owned stores indicates that a higher level of turnover is obtained by the company owned stores (see also Table 7.8 for the relative numbers of outlets in each category).

Table 7.5: McDonald's Turnover in $ million (1988-1993)

Division	Year					
	1993	1992	1991	1990	1989	1988
Total systemwide	23,587	21,885	19,928	18,759	17,333	16,064
Franchisees	15,756	14,474	12,959	12,017	11,219	10,424
Company Operated	5,157	5,103	4,908	5,019	4,601	4,196
Affiliates	2,674	2,308	2,061	1,723	1,513	1,444

Source: Company Annual Reports; 1988-1993

McDonald's uses franchising to aid expansion. However, it recruits and trains individuals to become active, on-premise owners, not just investors. The company cultivates a management environment which places a premium on quality operations; accordingly, the company franchises one restaurant at a time. New restaurants are

licensed to existing operators who have proven track records, to new franchisees, and to the company.

In virtually all cases, McDonald's does not supply food, paper, or equipment, but approves suppliers from which franchised and company operated restaurants can purchase these items. The conventional franchise agreement is generally for a term of twenty years and requires an investment of $650,000, 60% of which may be financed.

In addition to the conventional franchise, McDonald's offers the business facilities lease programme to enable individuals who do not have sufficient capital, but who meet all other criteria, to become franchisees. Candidates for this programme must have liquid assets of approximately $66,000. Over the past 15 years, approximately 50% of new franchisees have joined McDonald's through this programme worldwide. There are now 572 stores in the UK, of which 100 are franchised. There are more than 15,000 stores worldwide.

Table 7.6 shows that the operating profit for the company as a whole has been increasing in line with the increase in turnover. This is highlighted in Table 7.7, which shows that the percentage of turnover attributable to operating profits over the period 1988-1993 has been maintained at 8%.

Table 7.6: McDonald's Operating Profits in $ million (1989-1993)

Division	Year					
	1993	1992	1991	1990	1989	1988
Systemwide total	1,984	1,862	1,679	1,596	1,438	1,288

Source: Company Annual Reports; 1988-1993

Table 7.8 shows how the structure of store ownership has changed between 1988 and 1993. From this table it can be seen that not only are the franchised stores consistently in the majority, but also that their rate of growth outstrips that of company-owned stores.

It is also apparent that McDonald's has been focusing expansion on the markets outside the USA - illustrated by the increase in the number of countries that the company operates in. Again the rate of growth in numbers of stores outside the USA outstrips that of stores within the USA, although in absolute terms the USA still has by far the majority of outlets.

Table 7.7: McDonald's % Turnover Attributable to Operating Profit (1989-1993)

Division	Year					
	1993	1992	1991	1990	1989	1988
Systemwide total	8	8	8	8	8	8

Source: Company Annual Reports; 1988-1993

McDonald's emphasis on franchising also creates financial leverage. Franchisees provide capital, initially by purchasing the equipment, signs, seating and decor and over the long term, by reinvesting in their businesses. McDonald's shares the investment in the site by owning or leasing the land and building, and leases them to franchisees through franchise arrangements.

Table 7.8: McDonald's Restaurants by Type and Geographical Location (1989-1993)

Division	Year					
	1993	1992	1991	1990	1989	1988
Total systemwide	13,993	13,093	12,418	11,162	10,513	9,911
Franchisees	9,832	9,237	8,735	7,573	7,110	6,760
Company Operated	2,699	2,551	2,547	2,691	2,600	2,399
Affiliates	1,462	1,305	1,136	898	803	752
Within USA	9,283	8,959	8,576	8,270	7,907	7,567
Outside USA	4,710	4,134	3,227	2,892	2,606	2,344
No. of countries	70	65	53	51	50	47

Source: Company Annual Reports; 1988-1993

Revenues from franchised restaurants are based on fees paid as a percentage of sales, with specified minimum payments. The expenses associated with these restaurants are rent and depreciation, which are relatively fixed. Accordingly, McDonald's franchised margins are positively affected by increases in sales, yet protected from rises in operating costs.

The initial interviews were with the international purchasing manager and the UK purchasing manager. Both these interviews were carried out on January 4th 1995. Subsequently, the senior buyer was interviewed on April 5th 1995. Further information regarding aspects of quality assurance was obtained *via* correspondence with the quality assurance manager. The UK purchasing manager validated the content of this case study.

7.2.2 Company Structure

The international purchasing manager is involved with the purchasing for the Northern continent. He has a liaison role and advises on policy for methods of communication, pricing policy, currency management and distribution management. There are a range of suppliers providing similar products to different European McDonald's companies, and this provides a guide on price levels. In turn this makes discussions with suppliers more open and factual. It also means that suppliers are not forced to make extra investment, because unused capacity can be utilised. It is company policy to use up capacity with dedicated suppliers. This is possible given the amount of growth in some markets. For example, in Denmark in December 1994 the sale of fries was up 69% by volume on the previous year. Although this figure seems high, an increase in turnover of 20% is not unusual. As more stores open the overall volume is increasing although the volume per store may decrease.

Each country has its own company, for example, McDonald's Restaurants Ltd (UK), McDonald's Restaurants Ltd (Germany), McDonald's Systems of France *etc*. Ownership may take the form of joint ventures, when this is the most practical approach. For example, the Moscow operation is a joint venture with Moscow City. Each company has

a different structure and reports to the relevant McDonald's *"relationship partners"* in the relevant sphere (see Table 7.9). In terms of the reporting areas to relationship partners, Turkey, Greece, Middle East, North Africa (not including Morocco), India, and South Africa are grouped away from Europe under the USA. Germany also reports to the USA, but this ties the rest of these countries into Europe. There are common boundaries and products in all of these countries, and a common relationship with quality assurance in each of these markets.

Table 7.9: Relationship Partners and Areas of Responsibility

RESIDENCE OF RELATIONSHIP PARTNER	REPORTING AREA
UK	NORTHERN EUROPE
FRANCE	SOUTHERN EUROPE
USA	GERMANY, MIDDLE EAST, CENTRAL EUROPE

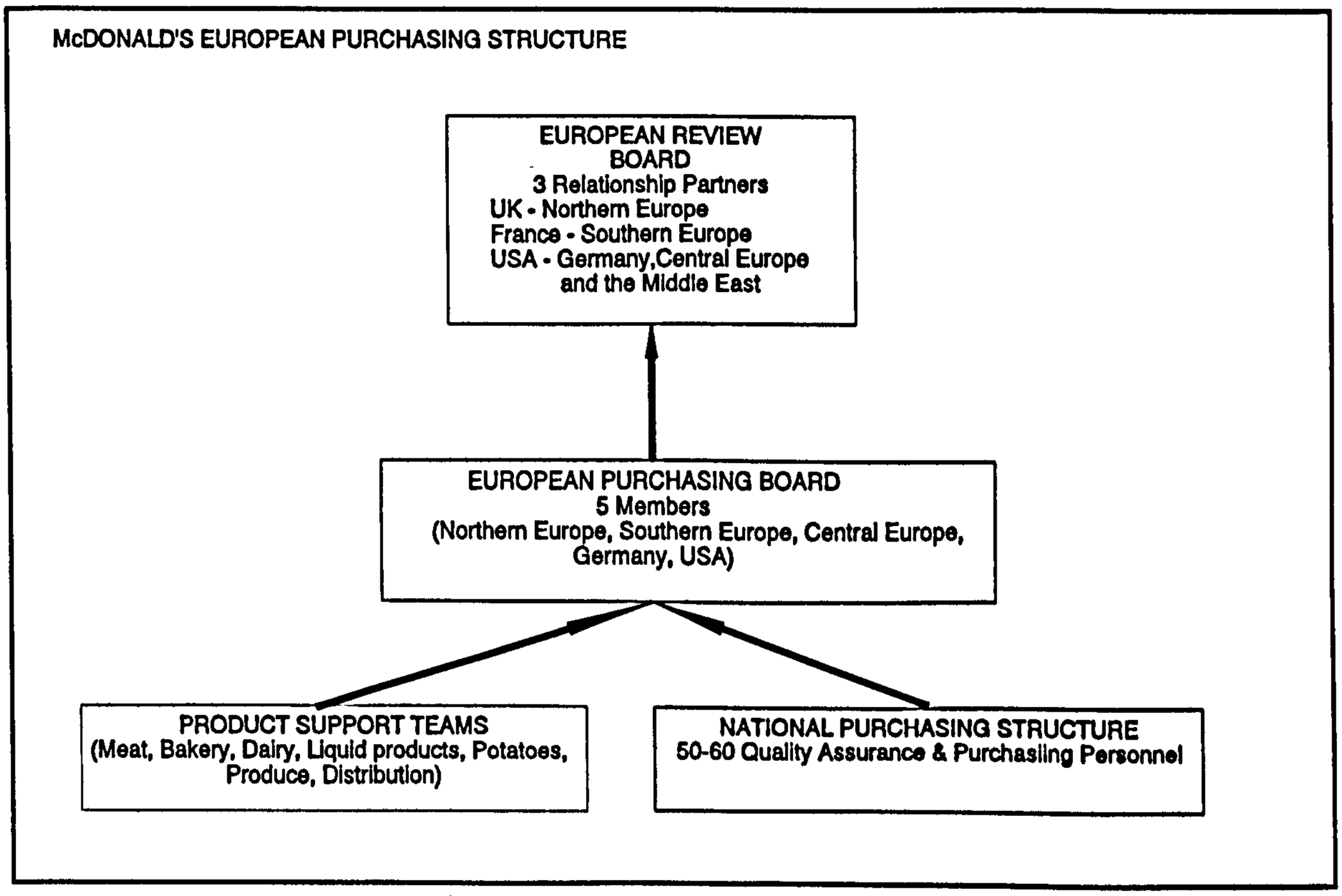
The European purchasing structure is illustrated in Figure 7.4. The European Review Board consists of senior vice presidents of purchasing and communications from the three relationship partners (UK, France and USA, see Table 7.9).

The European Purchasing Board reports to the European Review Board. The European Purchasing Board consists of five people, vice presidents or senior vice presidents of purchasing for Northern Europe, Southern Europe, Central Europe, Germany and USA. This Board approves aspects of product change, for example, a change in suppliers for beef. Therefore, an aspect of teamwork is brought in, because such a change would have to be approved at national management level also.

On a European scale, there is a central quality assurance laboratory in Frankfurt which contains all the restaurant equipment and where product evaluations of raw materials are carried out. Examples of such evaluations include the frying life of oils, and the ability of packaging to maintain product temperature. There is also a consumer panel, extracted

from a large pool of people. This panel is used to test if consumers notice a difference in products prepared under different conditions, whether a change is noted is largely dependent on the type of product, and is especially important for regular customers. The key to McDonald's success being the consistency of the products. The objective is to ensure safe, consistent raw materials at a price that means that restaurants can be competitive.

Figure 7.4:



In the UK the quality assurance department consists of five individuals. These are the senior QA supervisor, the QA supervisor, the QA assistant, and the QA co-ordinator, all of whom report to the QA manager. The QA department works closely with the purchasing, operations, marketing, and customer services departments. All suppliers are subject to QA approval on the grounds of hygiene, raw material integrity, production procedures and all other technical aspects of the product. Tests are conducted on samples for a new product, and these include microbiological tests on raw materials and finished products, shelf life and packaging suitability. The QA department evaluate the results.

The results are evaluated according to the particular product being produced, that is, whether it is to be served in its original state or whether it is to be prepared in the restaurant. All suppliers are subject to both announced and unannounced visits. Quality control sheets are submitted to the QA department and random samples are sent to the laboratories for analysis. The QA department is responsible for setting food safety standards for the products and at the suppliers premises and setting all technical standards.

There are also Product Support Teams who report to the European Review Board. These Product Support Teams have replaced the senior purchasing committee which consisted of senior people in purchasing (key people in key countries, with experience with key products). The Product Support Teams are related to a specific key product sector (meat, bakery, dairy, distribution, liquid products, potatoes and produce (which is mostly lettuce). Each team has a team leader and representatives from various countries, and the teams within Europe also have a product specialist, for each category. This is a key person within the team. Other members of the Product Support Teams are nominated by the European Purchasing Board to give a balance in terms of experience and their different cultural attitudes (*i.e.* East *versus* West, big country *versus* small country). This is a pooling of expertise and experience and is also a way of training and trouble shooting in smaller countries and younger members of the McDonald's Corporation.

These Product Support Teams gather up all the information relating to their specific product and are asked by a member of the European Purchasing Board to perform certain tasks based on the data they collect. Each team has a sponsor on the European Purchasing Board. In the case of the meat product support team the sponsor is the purchasing director from Germany. He would give a specific request for help for a certain country. The group goes through the data and reports back to the relevant country regarding the best methods of sourcing, future planning, which country has the best capacity, changes in the specifications, packaging or any other advice which is requested. Each team sets its own goals and objectives which ultimately meet McDonald's global goals and objectives. The team then formulates their strategy which

has to be approved by the European Purchasing Board.

In terms of the meat product support team there are production needs under consideration such as the standardisation of the meat patties, since there are definable differences between countries for various reasons. Examples of these reasons are, local legislation, changes through evolution and local sourcing.

The purpose of the Product Support Teams is to provide local management with the tools to purchase effectively, using expertise from the rest of the company. When the local purchasing manager wants some help the Product Support Team can give information concerning the approach which should be taken. Some product support groups have formed supplier councils.

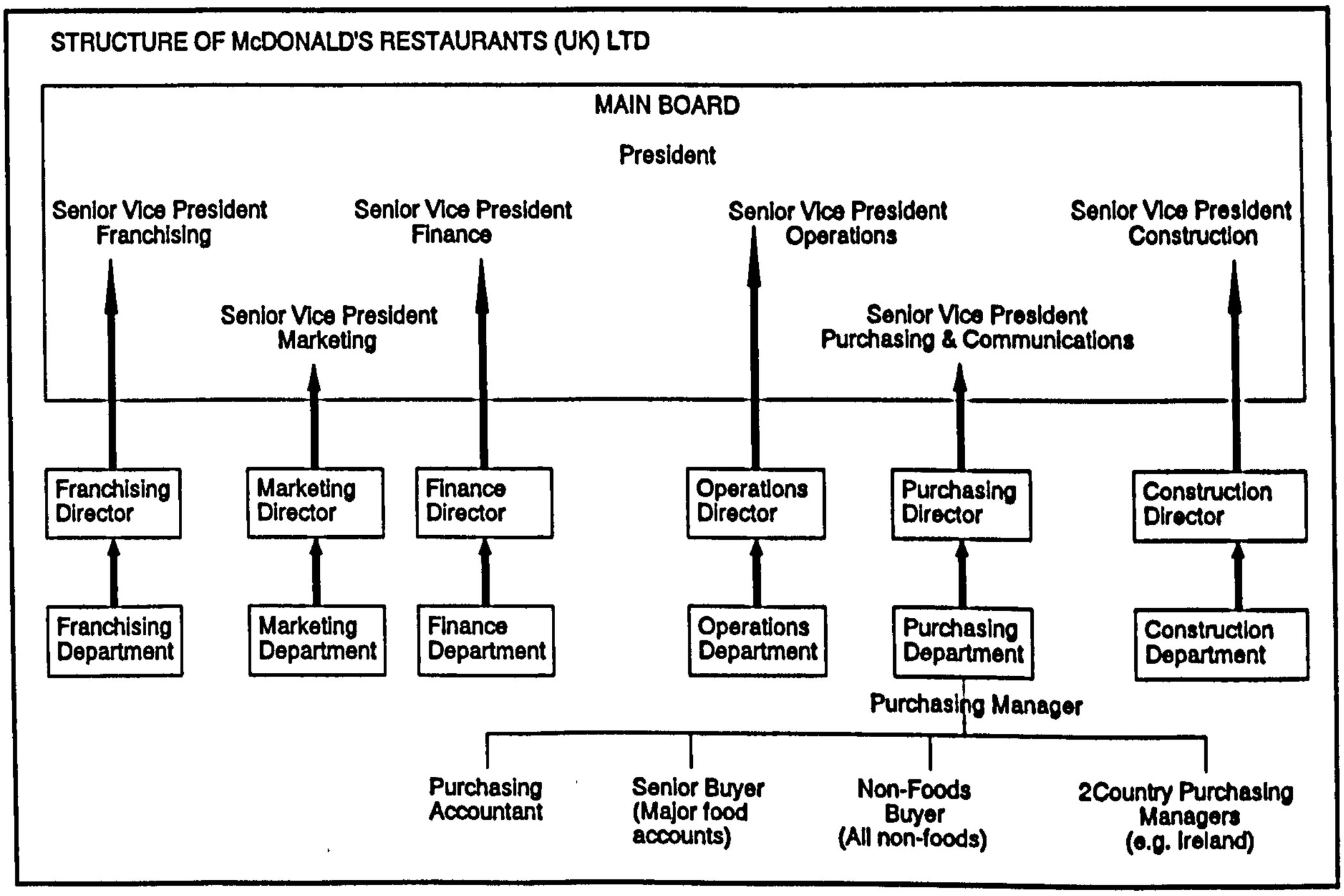
Supplier councils are formed by suppliers relating to a specific product group voting for representatives on the council. These councils meet quarterly to share information, technology and research projects. This can lead to joint research projects, which saves money if the companies were previously working independently on the same research. This forum also agrees standards of practices to give the best quality and efficiency, and increasingly involves traceability and aspects of animal welfare. This is driven partly by concerns over food safety, such as BSE issues and partly by legislation affecting the specific product. There is also a lobbying group which points out the implications of legislation to Government (local or European).

The National purchasing structure (fifty to sixty individuals in Europe representing purchasing and quality assurance, and 220-230 individuals worldwide) collates and presents information to the European Purchasing Board. This information has to be presented in such a way that all likely questions are answered and that it is possible to make a decision from the information given. Up until 1994, products were developed on the basis of subjective opinions, now consumer research is carried out. This has occurred as the McDonald's organisation has become more customer orientated.

There are four zones which operate in this way; North America, Latin America, Asia Pacific, and Europe. Obviously, there are slight variations in structure between the different zones, depending on the stage of development of the business in individual countries.

The structure of McDonald's Restaurants Ltd (UK) is illustrated in Figure 7.5. The President of the company sits on the main Board with the senior vice presidents who cover purchasing and communications; finance; construction; marketing; operations; and franchising. The senior vice presidents report to the president *via* the main Board. There are also directors in each sector who are responsible for their respective departments. These directors report to the relevant vice presidents, although there is also direct contact between the main Board and the departments. This is indicative of the good communication which exists throughout the company structure.

Figure 7.5:



The buying department consists of the purchasing manager, the senior buyer, two country

purchasing managers and the non-foods buyer. The purchasing manager has a total responsibility for purchasing in the UK / Ireland / Iceland, with the other members of the buying department reporting to him. The latter three positions are all on the same level. There is also a purchasing accountant who deals with computer systems, supplier audits and financial evaluations of suppliers. Each buyer has his own particular accounts to handle. The senior food buyer handles major food accounts, the non-food buyer handles all non-foods. In principle, the title of country purchasing manager is most used in relation to small and growing countries. The country purchasing manager is responsible to the head of the country for purchasing and distribution, generally supported by a quality assurance person. A country may vary in size from one restaurant upwards. For example, one of the country purchasing managers is responsible for Ireland, incorporating some food and non-food purchases. Each member of the buying department has decision making authority.

However, there is multi-level contact between McDonald's and their suppliers from the President downwards. Suppliers are considered an extension of the distribution centres. There are other areas of activity undertaken by members of the buying department. For example, the senior buyer is involved with the meat Product Support Team, Iceland as a country, and new product development, in addition to his responsibilities regarding key food products for the UK, and some non-foods. The purchasing manager is involved with the dairy Product Support Team.

UK food supplies are all centrally sourced from McDonald's UK Headquarters in East Finchley. The purchasing department is responsible for food and indirectly for paper and packaging. Packaging is something that can be used in more than one country, therefore another company buys the packaging and passes it on, liaising with the non-food buyer, who controls the situation. No ordering is carried out from head office, instead an account is set up. An estimate of the annual volume is given to the supplier every twelve months.

Operational supplies are bought in by franchisees from nominated suppliers, for example

uniforms, but this does not apply to food products. Information concerning the estimated volumes required is passed on to the distribution centre, from where the individual stores then order. This can take either the form of a written order form or a telephone call. Computerisation is being introduced. The orders are placed weekly, except for small stationery items. Under the franchise agreement, stores are legally entitled to order from any distribution centre, globally, but delivery costs have to be paid. The distribution is carried out by a dedicated distributor, with its own distribution fleet and two centres, one at Hemel Hempstead and one at Haywood.

7.2.3 Procurement Procedure

The general philosophy surrounding the buying function at McDonald's differs markedly form the situation at all the other companies that were studied. McDonald's hardly ever change their suppliers. There is no rebuy in the accepted sense, *"partnerships"* with suppliers mean that there is an ongoing review of the situation and, since there are no contracts, there is no re-evaluation as the end of contract terms approach. This is realised in the form of review meetings with existing suppliers, where the cost of the factors of production dictate the price agreed. That is, the supplier receives an agreed margin on the products supplied. This is possible because of the use of open book accounting. The close relationship between McDonald's and their suppliers means that existing suppliers are preferred as the source of new products, and it is only if this is not possible that new suppliers are considered.

A new task buying decision rarely occurs at McDonald's. New product development (NPD) is driven by suggestions from senior management, and from the new product development group itself through marketing assessment and gap analysis. It often involves improvements to an existing product. An example of this is improvements made to salad packaging, this was driven by NPD group based on a need and a request from the operations department. Most new products are variations on those already launched, for example, the McTexan sandwich, which is a variation on the quarter pounder, and the Chicken Club sandwich which is a chicken sandwich with extra fillings. These

buying situations are therefore modified rebuys rather than a new task situation. These "new" products require specific packaging, which again is a variation on that already in use. The main criteria required for NPD are a product that is unique, "American" and indulgent.

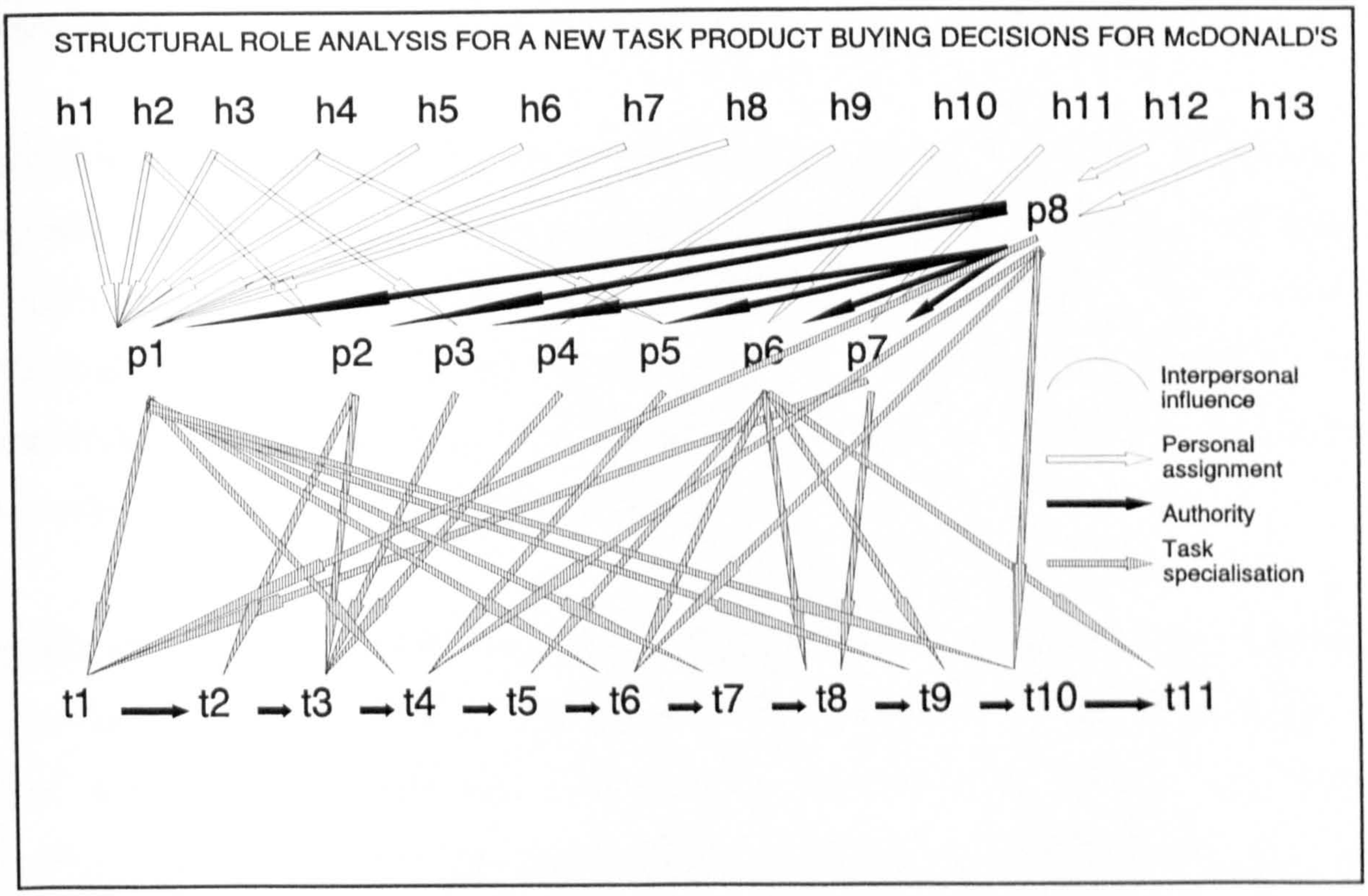
If a product brief comes from the USA then the concept is just "lifted" across. For example, pizza which is imported from America. Another example is the Shaker fry which is taken from Australia. A sachet of seasoning is added to the ordinary fries. Permission for the release of the specification had to be obtained and then an existing supplier produced the product in the UK. Another example of a new product which was introduced as an idea lifted from the USA is the American muffin. Initially this product was shipped in, then a bakery specialist recommended a suitable supplier. This supplier was able to provide the required product quality in a frozen form. Essentially, this was the whole procurement process for this product. Thus it can be seen that there are different levels of "lifting" products from other countries, and that this causes the distinction between new task and modified rebuy buying situations to be unclear.

A fundamental criterion operated by the purchasing department is to source the product to the correct quality, therefore specifications must be met. Products are developed in house in order to create the specifications. Ideas are mainly generated by the marketing department, and are sometimes taken from other areas of the company, for example, franchisees. The promotional product is developed with the marketing and purchasing departments. The decision on the fate of a product is made by the managing director, the purchasing director and the marketing director.

New Task

Structural role analysis has been carried out on the procurement procedure for a new task that would be carried out if there were no experience of the product within McDonald's Corporation as a whole, and this is illustrated in Figure 7.6, based on the example of popcorn.

Figure 7.6:



Legend: *h1-h13,* persons; *p1,* NPD group; *p2,* senior buyer; *p3,* quality assurance manager; *p4,* purchasing accountant; *p5,* operations development manager; *p6,* marketing department; *p7,* operations department; *p8,* senior management; *t1,* product suggestion; *t2,* research product market; *t3,* research, approach and visit potential companies; *t4,* obtain samples; *t5,* consumer test; *t6,* report on consumer test; *t7,* define test market; *t8,* test market; *t9,* evaluate market test; *t10,* presentation to senior management; *t11,* national launch.

The procurement process for a new task buying decision centres around the NPD group. There are eight members of the NPD group. These members are the senior buyer, the quality assurance manager, the adult marketing manager, one representative from the communications department, one licensee, the operational market manager (from one of the regions), the operational development manager, and the head of operational development, hygiene and safety and customer relations. The last in this list is the

chairman of the NPD group. The NPD group meets monthly, the actual timing of the meetings being dependent on the projects which are current at the time.

The first task (*t1*) is the setting of the specification of the new product. As previously described, this is often just a variation on an existing product. In this case the existing supplier would be given a brief from the purchasing department. The purchasing department would give such a brief after the NPD group had considered the issue. The generation of ideas often comes from franchisees, but can come from senior management or as the result of gap analysis of the market.

An example of a new product is popcorn. There are two choices in terms of the types of product available relating to the first task (*t1*). There is corn to pop at outlets and there is ready popped popcorn. The decision went in favour of the ready popped product. This decision was made by the NPD group (*p1*) and the operations department (*p7*), and was based on the basic information the senior buyer (*p2*) had collated. The product to pop requires a hot cabinet, and the product McDonald's requires needs to be simple, straightforward, least cost, with no labour input, all of which suggests that the ready popped product is more suitable.

The market for ready popped popcorn must then be researched (*t2*) and this task is carried out by the senior buyer (*p2*). Information concerning the availability of such a product was obtained from a cinema group, who have experience in this product area. It is the senior buyer's (*p2*) responsibility to follow the markets of all the products in his remit. From market research, the senior buyer (*p2*) discovered the main players in the supply market. There are two main players, a third lower down the scale and several very small businesses. The small size of some of the companies would not preclude them from supplying McDonald's, since popcorn is considered to be a minor product in terms of sales.

McDonald's tend to work with one supplier, picked from their existing supplier base, but in this case this was not possible. Most suppliers provide more than one product. A

long term approach is employed. In terms of the number of requests for quotations, they work with one company, although there are other McDonald's suppliers in Europe, which give a guide to competitiveness.

The senior buyer (*p2*) chose to approach the two main suppliers (*t3*). This is because McDonald's required a company which was active in the market, and which did not need McDonald's but would work with them. He referred to this choice as "professional judgement". These companies were then researched and approaches made. Key information is gleaned from the factory visit, which involves an introduction of McDonald's to the prospective supplier and a quality assurance audit carried out by the quality assurance manager (*p3*). The key information concerns the size, turnover, production capacity, types of machines, and the supplier's attitude towards quality assurance, and traceability. An idea of the customer portfolio can be formed by observing the livery of the packaging in the factory. The purchasing accountant (*p4*) prepares a financial statement from an audited set of accounts, similar to that produced by a company such as Dun and Bradstreet. The decision on whether to pursue enquiries with a supplier is based on this information.

The operations development manager (*p5*) arranges to obtain samples and their presentation to either the NPD group (*p1*) or to senior management (*p8*). This is the fourth task, (*t4*). A product such as popcorn is shown to senior management because the different companies produce a very similar product and it is therefore on the "fast track" in terms of tasting and testing. A product requiring further refinement goes through the NPD group (*p1*). Tasting is carried out by quality assurance, purchasing and marketing as members of the NPD group (*p1*).

The next stage in the procurement process for a new task buying decision is a consumer test (*t5*) which is run by the marketing department (*p6*) through an agency. Hall testing is also carried out as part of *t5*, with consumers doing the tasting. Hall testing involves consumers being approached in restaurants and asked to taste the product under test. This represents a change in policy which occurred in 1994.

The marketing department (*p6*) report back (*t6*) to the NPD group (*p1*) and this is task *t6*. The results are presented to the Board of directors (*p8*) who will decide whether or not to test market the product. Assuming that it is decided to test market the product, the next task (*t7*) is the definition of the test market. The test market is defined by the NPD group (*p1*). Market testing (*t8*) is conducted by the marketing and operations departments (*p6* and *p7* respectively). Market testing is carried out over a period of two to three months. However, with obvious successes like the chicken sandwich, market testing may be accelerated into a national launch, although this is still done in stages. The marketing department (*p6*) present the results of the market testing to the NPD group (*p1*) for evaluation (*t9*). A decision concerning the likely success of the product is reached after discussion within the NPD group. A consensus is always reached, there is never disagreement over a decision. This is possible because all the members of the NPD group have the same aim which is to meet the stated objective of the NPD group, that is, to find products which are unique, "American" and indulgent. Therefore the predicted sales figures of the new product must be realistic and achievable.

The Chairman of the NPD group (the head of operational development, hygiene and safety and customer relations) presents the findings of the NPD group to the senior management (*p8*) of the company. This is task *t10*. The presentation is made to the President and the Senior Vice President who make the final decision concerning the launch of the new product. The senior management (*p8*) receives copies of the minutes of all the NPD group (*p1*) meetings. If it is decided to launch the product nationally (*t11*), then this is the responsibility of the marketing department (*p6*). The last national launch was for the chicken sandwich which was six years ago. Not all products are launched nationally, for example, pizzas are only available in selected areas, mostly in East Anglia.

All products introduced have to fit existing operational methods in the restaurants. The cooking facilities are basically a grill and a toaster. Therefore, it makes sense to work with suppliers who know the McDonald's system, for example, they are aware that there are no microwaves in the restaurant kitchens. The buying department do not have

enough resources to waste time explaining the system to new suppliers[1].

The senior buyer tends to buy locally (that is, in the country of operation). There are several reasons for this policy, the product can delivered to the depot quickly, there are no international freight costs, no currency costs, and there are lower minimum volume requirements. For example, a few cases of a product can be delivered to test market and the buyer can easily access the factory to oversee any changes required. Also the supplier can become more involved in any changes required. For example, the products bought for Iceland are bought from Iceland. It is becoming more open than just sourcing from the host country with global purchasing becoming a factor. However, there are local needs. There is a need to be seen to putting revenue back into a country. Using local suppliers provides employment outside the restaurants, due to McDonald's business. Usually, McDonald's announce if they are importing a product because they are unable to source the same quality locally. This highlights that there is a demand for that product, which is useful information for local suppliers.

Rebuy

It is the responsibility of the purchasing department to ensure that supplies are available at the right price. They are also responsible for negotiation with suppliers. Any price changes are reported to the purchasing director. Because of the close links to operations and quality assurance, any decisions are based on criteria that represent the best for all departments - team operation. Quality assurance are responsible for the quality of the food, the purchasing department are responsible for the quality of the supplier.

[1] Direct approaches to the buyer are kept in an pile in a cupboard and mentally (memory bank). There is a difficulty in that there are frequent changes in companies, therefore letters are only kept for about two years. McDonald's is involved with Northern Foods and the Albert Fisher Group, therefore it is felt that they have access to two of the key supplier bases in UK anyway.

McDonald's very rarely change suppliers, there have only been two changes made in the last eight years. There is not much emphasis on new suppliers, the emphasis is on making the existing ones grow. This ties in with the multi-level communication, growth is expected not just in volume terms but also in sophistication and ability to manage themselves. Rebuys are considered an ongoing process, with the approval of an annual budget. McDonald's require their suppliers to hold two weeks stocks (in other countries there is an additional one week's stock held at distribution centres).

There is no contractual arrangement written or verbal, the business is an ongoing process. The way the business is managed depends on the product group. There is an ongoing open book policy on pricing, but on branded products (such as Dairy Crest butter) the price is given by the supplier. However, butter could be sourced from another company such as St. Ivel. A product group that is treated in a different way is preserves. Preserves are an ongoing product, where bids are encouraged from potential suppliers. The senior buyer carries out an active search for competitors to the incumbent supplier. The information gleaned from this search and from cold calls from interested suppliers is used to monitor the market. The products are judged on a like for like basis. Quality is very important, and the senior buyer expressed the opinion that you get what you pay for. The open book policy on main products gives the costings of the supplier down to the profit contribution. Reviews of prices occur when there are factors affecting the costing structure.

For example the senior buyer reviews the situation with the meat supplier on a monthly basis. That is, the review involves looking at the factors affecting the costs incurred by the supplier, a price is established on the basis of agreed returns to the supplier. The danger with this is having large fluctuations in price. Meat prices used to change weekly, however, it is not feasible to change outlet prices so erratically. Therefore, a return is agreed over a given period to smooth out these fluctuations in the cost of factors of production. The supplier is sometimes working at a loss but sometimes making a high profit. The suppliers and McDonald's come to an agreement regarding these fluctuations in the factors of production which are partly due to the variation in the market for the

raw materials *i.e.* the beef for beef patties. Also considered are factors such as labour rates, factory efficiency, exports, exchange rates and volumes.

McDonald's has an inconsistent volume requirement since sales occur in predictable peaks and troughs. The business is related to school holidays. There are low sales in January, (which is why there is heavy marketing over this period) with an easily predictable increase at the half term break. Other peak sales occur at Easter, the August Bank Holiday (which is the second highest sales of the year) and the best sales occur at Christmas. These peaks and troughs are starting to change as outlets are entering new locations, for example drive-through outlets and Welcome Break sites. However, the service station outlets will also be affected by the school holidays and sales will still be seasonal. Therefore, the buyers and the suppliers have to track and plan for these ups and downs in demand. Therefore, McDonald's have to be very much geared to consumer shopping habits.

Potatoes for fries are not grown for McDonald's on an open contract, because of the nature of their business they cannot, do not and will not be operating in this way. They were contract grown at first because the required variety, Russet Burbank, was not available on the open market. This meant a commitment to seed production and acreage and is done with McCain very much on an annual basis, but this is continuously reviewed due to the fluctuations in the variable costs. For example, at one stage not enough potatoes were grown for McDonald's, therefore the shortfall had to be sourced from the open market. The oil used for cooking the fries also suffers from price fluctuations. Price fluctuations are reviewed but may be carried forward into the next year, for example if potato yields are likely to be better (better weather, more planting *etc.*). Changes may be introduced in packaging to reduce the freight costs as a part of such reviews.

The frequency of meetings with current suppliers depends on the variability of the price of the product in question. For example, the meat suppliers are seen monthly. The dairy suppliers are seen when the market price changes. In the past the MMB did not change

the milk price, however, the UK industry is undergoing major change and restructuring. Therefore, the senior buyer expects that meetings with dairy suppliers will become more frequent. Another example of a product which suffers from price fluctuations, is sugar which is used as part of a shake base. The strength of sterling affects the green rate. This had seen three changes in the six weeks prior to the interview which had made the price of sugar rise quite significantly. Sugar and milk are products in their own right, but are also inputs for other products. In this case, such goods also represent factors of production, and therefore affect the cost of other products, such as milk shakes.

For the last two years there has been a supplier conference, in order to get the key suppliers together annually to keep them informed of McDonald's marketing plans, objectives, and to encourage development contacts and collaboration amongst suppliers. It was decided to have some awards to lighten the atmosphere of the conference. These awards are for both sporting events and, more seriously, in recognition of service. The supplier of the year award is chosen from nominations from members of the quality assurance and purchasing departments. These nominations are judged by the purchasing director and the quality assurance manager. In 1995, there is also an exporter of the year award, for increasing the volumes exported and decreasing the cost. This is based on the increases in volume over a year.

7.2.4 Evaluation Criteria

There are organisational constraints imposed on the buying decisions in terms of rigid processes that must be carried out. However, McDonald's has become much more consumer orientated than in the past. This represents a fundamental change in attitude which makes the fulfilment of jobs much freer, and is due to the evolution of the market. This evolution has seen both internal customers (franchisees) and external customers (consumers) become much more demanding. The demands of this market have led to more flexibility being exercised by McDonald's, the culture of which tends towards autocracy.

The purchasing manager evaluates suppliers in a number of ways. A comparison is made with the existing customer base, to assess competitiveness. McDonald's displays a preference to be the major customer for a supplier. This is illustrated by the fact that they deal with dedicated suppliers, where McDonald's purchases the entire production capacity. The minimum share of a supplier's business that the purchasing manager is willing to represent is 20%. The customer portfolio is therefore not highly sought after. A financial search similar to that offered by Dun and Bradstreet is done in-house by the purchasing accountant, who also obtains details from Companies House and compiles a detailed review for the buyers. The ownership of the prospective supplier is also important, for example, McDonald's would not do business with a supplier owned by Grand Metropolitan (which also owns their competitor Burger King). The purchasing manager would use personal contacts both to obtain and confirm information. Decisions are based on the current customer base, personal knowledge of the company and knowledge within the department.

Companies that approach McDonald's as prospective suppliers need to be flexible, imaginative, aware of technological progress and to have an expansion policy. In the case of new suppliers, a major national company may approach senior management in McDonald's who will pass the matter on to the purchasing department. This is an example of the multi-level communication that McDonald's operates with suppliers. Such companies must still demonstrate that they understand McDonald's requirements regarding quality, service and business development.

In non-mainstream lines, it takes five to ten years for suppliers to understand what is required. McDonald's tries to instill into suppliers the need for them to develop their businesses. The company does not own any suppliers. It was involved in joint ventures as the companies were set up, but that stake was sold as soon as possible.

Dedicated suppliers are used on major lines. These dedicated suppliers are guaranteed the business and make a profit on the business. There is a policy of using a small number of large suppliers. For example, there are twenty-five food suppliers covering

fifty products. The choice between single and multiple sourcing is dependent on the product in question. For example, beef in the UK comes from two plants one of which is dedicated and one of which is not. Shakes and sundaes are sourced from two companies, independent of each other and of McDonald's. Buns are sourced from dedicated suppliers. The potential risk of being a dedicated supplier is offset by McDonald's track record of loyalty, the only way a dedicated supplier loses business is by being unreliable.

Most of the products used in the UK are sourced from the UK (95%). McDonald's deal with manufacturers/producers but require information about the rest of the supply chain. The collation of this information is deemed the suppliers' responsibility. McDonald's have a direct input, using the quality assurance department. It is necessary for McDonald's to ensure that quality controls are in place, but the monitoring of these controls are the responsibility of the supplier, although spot checks are carried out by McDonald's.

There are differences in sourcing between ambient, chilled, frozen *etc*. For example, fresh buns are used, which have a required shelf life of the time in production plus five days. In addition to this, the suppliers must hold three days of frozen stock which is turned over once a month. Fresh buns are used because 25% of the business is centred in the West End of London, where space for freezers is limited. Therefore, the use of frozen buns would lead to problems of competition for freezer space.

Assessment of the purchasing department centres on having the right product in the right place at the right price. The suitability of the product can be assessed by the number of store/operational complaints. The right place is assessed by the ability to supply. The price is assessed against the food price index of the previous year, to examine the effect of what the purchasing department is doing. All these factors are measured before a claim can be made regarding the achievements of the department. This is seen in the profit and loss account.

Every McDonald's employee has an annual review on the anniversary of their employment. Targets form a small proportion of this, with team orientation emphasised. There are thirty different criteria that every employee is graded against. These criteria include their ability to do the job, personal attributes and skills including writing, presentation, appearance, time-keeping, effectiveness in the job, knowledge of the job and their ability to take responsibility and make decisions. The overall score from this assessment dictates the size of increase in the pay review. There is a perceived danger that the review may focus on the most recent events (the last few months) and achievements earlier on in the year can be forgotten.

There is also an annual review with suppliers, which concentrates less on individual details and more on an overall review. This also allows for feedback from suppliers, and allows supplier development to be monitored over time. It is a means of measuring how well a supplier is doing overall. Open book accounting is a must in new suppliers, and the majority of existing suppliers. This allows McDonald's and the suppliers to work in a partnership and the suppliers to maintain an agreed margin on the products they provide.

CHAPTER 8:
SYNTHESIS OF CASE STUDIES

The information generated by the six case studies has been used to test the hypotheses formulated in Chapter three. Each hypothesis is considered in turn and the results are set out in two sections. The first considers the general procurement process and, the second, examines the evaluation criteria adopted by the chain restaurant buyers.

The case study findings were validated by a study of suppliers, details of which are contained in Appendix 4. Triangulation is an essential element of case study analysis in order to validate the information that has been generated. Triangulation involves approaching the question from a different angle. If a lack of consensus surfaces between the two approaches then the validity of the results is brought into question. However, if a consensus is evident, then the validity of the results is supported.

In the context of this research the case study findings have been validated through a survey of companies known to be suppliers to at least one of the six restaurant chains analysed in this research. The sample is small (twenty-four companies responded from the initial sample of sixty-four) but it is hoped that the results serve an important function nevertheless. The postal questionnaire used and the earlier pilot version are contained in Appendix 3.

8.1 General Procurement Process

Hypothesis 1 Procurement is centrally controlled with limited regional delegation.

All six companies operate a policy of central procurement. Chain restaurants are striving to achieve a "brand" image and identity bolstered by consistency of products and ambience in all of the chain outlets. This is a fundamental premise of the philosophy of chain restaurants. In addition to this, central procurement allows the buyers to use the volumes required as a lever in their negotiations with suppliers. Limited regional delegation of procurement is used in some sectors where some variation in the products

offered to the public is permissable and where local sourcing confers benefits either in financial terms or quality aspects.

In the roadside restaurants sector Granada Hospitality conducts its own procurement whereas Forte operates a separate division which services the buying needs of the whole group. In both companies, a few products are still sourced directly at outlet level although the suppliers may have to be chosen from a list of nominated suppliers provided by the central purchasing department.

Some Granada sites still source fresh produce independently, and all sites source pastries from local suppliers. Forte strongly believes in the purchasing and distribution service unit making use of the considerable buying power that they enjoy by virtue of their size. The Roadside Restaurants business unit centrally controls all the products supplied to its outlets.

In the pizza sector there is quite a considerable difference in the extent of central procurement. Pizzaland source all products centrally, there are no exceptions. Perfect Pizza, on the other hand, effectively offer their franchisees a choice of suppliers. There are two types of nominated suppliers, those that deliver to the central depots and those that deliver direct to the franchisees. There is also regional delegation to store level for some relatively minor products of low unit value.

In the hamburger sector both companies studied trade through franchised and system owned outlets all of which must source from nominated suppliers if not direct from the distributors. Purchasing for Burger King is centralised across Europe for about 80% of the lines in restaurants. Burger King have central distributors in each of the markets, all of whom are third parties. McDonald's centrally source all the UK food supplies from their UK Headquarters in East Finchley. No ordering is carried out from head office, instead an account is set up between the supplier and the distribution centres.

The evidence that chain restaurant companies operate a system of central procurement is

convincing. The validation exercise clearly supports this contention and thus the case study findings. The distribution of responses to question four (see Figure A5.1, Appendix 5) shows that by far the majority of the respondents report 100% of their chain customers operate in this way. On average 90% of chain restaurants were reported as doing so. Although central ordering[1] is also very common (two thirds of the companies dealt with operate in this way), the distribution is much more widespread (see Figure A5.2, Appendix 5).

Hypothesis 2 Procedures for the selection of suppliers are task specific (procedures differ for new task or rebuy decisions).

In all the cases the procedures adopted for the selection of suppliers for a new task were more complex and involved more stages than those procedures adopted for a rebuy. The rationale for this is clear. There is more uncertainty attached to a new task buying decision, not only regarding the suppliers and their abilities but also concerning the product itself. For example, the exact specification of a new product has to evolve from the samples evaluated through tasting, and their appearance. The ability of a product to survive the environment in the outlets is also considered. This is in terms of both the product's shelf-life and also the ability of the packaging to withstand the handling encountered during distribution and in the outlets. It is because the procedure for the selection of a supplier for a new task involves specialist skills, such as the tasting of samples, that more personnel are involved. It is interesting to note that each of the companies studied followed very similar procedures with a comparable number of tasks (see Table 8.1) and that the differences observed between the procedures adopted for new task and rebuy buying decisions were similar in all cases. That is, the procedure for a rebuy involves fewer individual tasks and therefore fewer personnel. This is because

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1 *Central procurement* involves central negotiation with suppliers. *Central ordering* involves the routine ordering of specific quantities of product required from the restaurant chain's headquarters. Many chains delegate this task to the distributors or even to the operators. This would not be described as central ordering.

many of the tasks relating to a new product, such as the formulation of the product specification, no longer apply.

Table 8.1: Case Study Results Compared to The BUYGRID Model

BUYPHASES	BUYCLASSES			
	Model		All companies studied	
	New Task	Rebuy	New Task	Rebuy[1]
1. Anticipation or recognition of a problem (need) and a general solution	X	X	X_1	X_1
2. Determination of the characteristics and quantity of the needed item	X	-	X_2	-
3. Description of the characteristics and quantity of the needed item	X	-	X_3	-
4. Search for and qualification of potential sources	X	-	X_4	X_2
5. Acquisition and analysis of proposals	X	-	X_5	X_3
6. Evaluation of proposals and selection of supplier(s)	X	X	X_6	X_4
7. Selection of an order routine	X	-	X_7	X_5
8. Performance feedback and evaluation	X	X	X_8	X_6

[1] Excluding McDonald's

Source: *Adapted from Robinson, Faris and Wind, 1967, p.14; Ferguson, 1979, p.41.*

LEGEND:

X_1: indicates occurrence of the relevant task, subscript indicates the chronological order
-: indicates non-occurrence of the relevant task

When the procurement procedures observed in the case studies for a new task are compared with that proposed by the BUYGRID model (Robinson, Faris and Wind, 1967), the model is found to be a good predictor (see Table 8.1). All of the companies

studied conform not only to the buyphases predicted, but also to the predicted order of occurrence. However, in the rebuy situation all the companies, with the exception of McDonald's, conform to the same order and occurrence of the buyphases, but they differ from the model. The difference is due to the occurrence of buyphases four and five. These two buyphases refer to the search for a qualification of potential suppliers and the acquisition and analysis of proposals from these suppliers. The model suggests that these two buyphases are not required in a rebuy situation because the supplier has already been found.

The reason for their observed occurrence in the case studies is that the buyers wish to ensure the competitiveness of their suppliers. This is done by monitoring the market and the direct comparison of potential suppliers with the incumbent suppliers. However, despite this search for new suppliers the buyers will usually return to the incumbent suppliers and allow them the chance to match the proposals put forward by competitors. The reasons for this are twofold. First, any change of supplier involves an element of risk for the buyer since the reliability of a current supplier has been proven and that of a potential supplier can only be predicted. Secondly, the loyalty displayed by this action indicates the "partnership" between the two parties. McDonald's does not really have a rebuy situation since all their relationships with suppliers are on an ongoing basis.

McDonald's very rarely change suppliers (there have only been two changes made in the last eight years). Thus, there is not much emphasis on new suppliers, rather the emphasis is on making the existing ones grow. This ties in with the multi-level communication, which facilitates growth, not only in volume terms but also in sophistication and the degree of management autonomy. Rebuys are considered an ongoing process, with the approval of an annual budget. New products are rarely introduced, and those that are can often be "lifted" from a country where they are already a menu item. However, it appears that there is a marked difference in the way that a new product is developed and the ongoing relationships that are maintained with incumbent suppliers.

It is important to note that this hypothesis was not explicitly validated for two reasons:

i) to do so would require a complex question format which would have been difficult to present in a postal questionnaire,

ii) this would involve suppliers' attempting to interpret their customers' <u>perceived</u> procedures. However, the validation study did include the perceived evaluation criteria imposed by the chain restaurants' buyers. This inclusion is justified by the fact that suppliers have experience of reasons why they both lose and gain business, and therefore can be expected to have formed an opinion on the evaluation criteria by which they are judged.

Hypothesis 3 Procedures for the selection of suppliers are company specific (different companies adopt different procedures).

All the companies studied, with the exception of McDonald's, follow very similar buying procedures. This is because they are striving to glean the same information regarding the suitability of potential suppliers. The specific criteria involved are discussed in the next section. However, because each buyer is an individual and there are differing company structures the procedures adopted are not identical. The differences in buying procedures between the companies studied is more apparent in the new task buying situation because of its increased complexity due to the risk involved. For example, the structures of the companies dictate how new product development is carried out.

Within the roadside sector the procurement procedures adopted by the two companies studied was not identical. However, there are striking similarities with the same tasks appearing in each buying situation. The differences between the two companies are largely due to the internal structures and differences in terminology. One such difference is the role of the menu specifier for the SBU at Forte and the fact that the menu specifier makes the decision on the choice of supplier. In contrast, at Granada the company catering manager makes an autonomous decision concerning supplier selection and the menu review group, of which she is a member, is responsible for decisions concerning new products. The underlying requirements and tasks follow the same pattern for both

buying situations and for both companies (see Table 8.1).

The procedures undertaken by the two companies studied in the pizza sector are markedly similar, although they are not identical. However, there is a marked difference between the procedures adopted by the two companies in the hamburger sector. Burger King follows the same procedural pattern observed in the other cases, but McDonald's does not.

McDonald's operates a very different buying procedure to the rest of the companies studied and this is due to the long lasting partnerships that are cultivated between McDonald's and their suppliers. These partnerships are epitomised by the willingness on the part of the suppliers to work with McDonald's on new product development. This also means that the existing suppliers are the first port of call when the company is searching for suppliers to supply new products, specified by the McDonald's Corporation in the USA. Suppliers to McDonald's are also encouraged to work together on research and NPD which would be an unthinkable situation in the open market, in which the other chains studied operate. The autocratic nature of the company also has a part to play along with its multi-national operation. This means that many new products are simply "lifted" from another country into the UK. Approaches are only made to new suppliers if the product in question represents a departure from the expertise of the existing supplier base.

Again, this hypothesis was not explicitly validated for the same reasons as stated above. However, one of McDonald's suppliers was interviewed by telephone and this conversation corroborates the difference in procurement procedures between McDonald's and other chain restaurant companies suggested in the case study analyses.

The McDonald's supplier commented that McDonald's are different to other customers. Not only are McDonald's very precise with a professional buying set-up, but the technical department and the buyers work well together - with the technical side defining the standards the buyers must obtain. McDonald's can be seen to place trust in their

suppliers. This supplier sells in a commodity market and supplies to food manufacturers in bulk tankers. Therefore, there are decisions to be made regarding currency, growing situations and how this affects price. McDonald's give this supplier the responsibility to judge the right time to buy and the supplier emphasised the mutual trust which this engendered.

8.2 Evaluation Criteria

Hypothesis 4 The criteria adopted for the evaluation of potential and existing suppliers are common to all companies.

The criteria adopted for the evaluation of potential and existing suppliers is common to all the companies studied except McDonald's. All the other companies were interested in ascertaining the financial stability of suppliers, and their ability to supply the volume required at the given specification. The industry standard report on suppliers' financial stability is that produced by Dun and Bradstreet. McDonald's compile such reports in house but follow a similar format. If financial stability cannot be demonstrated then there is too great a risk for the buyer to consider the supplier. Once the financial stability of the supplier has been ascertained, the buyer moves on to consider the suitability of the product offered and if the required volumes can be supplied. Distribution ability is also considered by each buyer. It is only when the buyer is satisfied on all of these points that he/she considers the price, which becomes the deciding factor between alternative suppliers.

McDonald's also apply these criteria to suppliers, but the major difference that distinguishes them from the others is the percentage of the suppliers' output that they are willing to buy. McDonald's has dedicated suppliers on their major lines and has no qualms about such dependency between themselves and their suppliers. This is possible due to the special relationship which is cultivated, despite the lack of contracts to act as security between the companies. In contrast, the rest of the companies studied, apart from Perfect Pizza, were unwilling to trade any more than about 25% of the output of the supplier and Forte considers 15% to be high. The reason given is the reduction of

the reliance between the supplier and the chain which dilutes the risk if there should be any kind of problem. However, Perfect Pizza would show concern if they were the supplier's only customer.

It was established in the case studies that the common criteria adopted by the six chain restaurants studied are: the financial stability of the supplier; the ability to supply the required volume to consistent specifications; and the ability to supply into the distribution facilities. Two questions in the supplier study (questions seven and nine, see Appendix 3) provide information on these criteria. The validation exercise clearly supports the case study findings. Table 8.2 shows the percentage of respondents that were willing to supply specific information to prospective chain restaurant customers.

Table 8.2: Percentage of Respondents who Provide the Following Information for Potential Customers (actual numbers shown in brackets)

COMPANY BACKGROUND	92%	(22)
CLIENT PORTFOLIO	54%	(13)
PRODUCT LIST	88%	(21)
LIST PRICING	46%	(11)
PRODUCT ILLUSTRATIONS	88%	(21)
PRODUCT SAMPLES	92%	(22)
OTHER	26%	(6)

The company background provides information regarding the financial stability of the supplier, and this information is offered by most of the respondents. The client portfolio not only provides information regarding the financial stability of a supplier, but also regarding the consistency of supply and the ability to meet specific and varied delivery requirements. If a supplier has long standing business relationships with reputable clients then this would suggest that the supplier is reliable. However, it can be seen that only 54% of respondents provided this information to prospective customers, and some of these respondents added the caveat that this information would only be provided when

specifically requested.

Other information "volunteered" to potential customers included product lists, product illustrations and product samples. This is to promote other products available whilst a supplier has the chain buyer's attention. This is sometimes seen as time wasting by the buyers, who are usually working to specifications, but for some companies this approach may be more effective. List pricing is often available (offered by almost half of the respondents), the reason it is not always provided is that price is usually negotiable to chain restaurants because of the volume of product that they demand.

Other information provided to potential customers by a quarter of respondents included product demonstrations, factory tours, visits to existing customers and a personalised approach emphasising the strengths of the company. Factory tours were described as a good source of information by the buyers.

Evidence from McDonald's suppliers suggests that in order to maintain the consistency and quality of products, McDonald's aim to source from a primary producer and wish to avoid intermediaries. McDonald's is also perceived to prefer a large producer, since this confers confidence especially if other big players are in the client portfolio, the composition of which McDonald's wish to know. However, despite the fact that McDonald's has many dedicated suppliers, exclusivity of supply is not requested. To summarise, the qualities that McDonald's desire are consistency, quality, openness and frankness regarding what and how a good is produced. This openness is epitomised by the practise of open book accounting, which is favoured by McDonald's. At least one supplier has an agreement for an open audit and McDonald's staff can visit the supplier at any time.

The quality that this supplier felt attracted McDonald's to them was their emphasis on personal service. Since this supplier deals in a commodity it is difficult to differentiate the product. The importance of ensuring consistency of the product was stressed. There was also felt to be a need for personal understanding of McDonald's business and for

attention to detail, with visits made when necessary to resolve operational problems with the product. For this reason, there is liaison between the suppliers' quality control and assurance departments and McDonald's Head Office. There are other links with McDonald's Head Office in the buying, quality assurance, and engineering departments (regarding Health and Safety with respect to the product supplied).

There is also a working relationship with other suppliers to McDonald's. For example, McCain produce the french fries for McDonald's and are obliged to use this supplier's product in their preparation. McCain's and this supplier work *together* to supply McDonald's and this is encouraged. This co-operation is in addition to the supplier forums organised by McDonald's. Thus, there is clearly a supply chain network.

It came to light in the case studies that buyers wanted to deal with decision makers from supplier companies. Therefore, a question was included in the supplier study to discover who is involved with **approaches** to new customers. The percentage responding "yes" in each case is shown in Table 8.3.

Table 8.3: Personnel Involvement in Approaches to Chain Restaurants (actual numbers shown in brackets)

Managing Director	46%	(11)
Account Manager / Brand Manager	83%	(20)
Marketing Director	46%	(11)
Other (Development Manager, Sales Manager, Operations Manager, General Manager)	17%	(4)

It can be seen that in most cases the account manager or the brand manager is involved in the initial approach to the potential customer. However, almost half of the respondents indicated that the Managing Director and/or the Marketing Director would also be involved. This evidence suggests that suppliers to the chain restaurant sector have recognised the requirements of the buyer in terms of the level of seniority required of the

supplier representative. The "other" category was only employed in conjunction with other categories, suggesting a multi-level approach by only a small number of the respondents.

The cases revealed that different buyers prefer to be approached in different ways. Cold calls were not very popular with the buyers. The supplier study revealed that cold calls were a common initial approach. Table 8.4 shows the incidence of various initial approaches. The "other" category includes approaches such as direct mail, referral, advertising, personal contact, and agents and distributors.

Table 8.4: Percentage of Respondents Utilising these Initial Approaches (actual numbers shown in brackets)

EXHIBITIONS	67%	(16)
COLD CALLS	58%	(14)
LETTER OF INTRODUCTION	67%	(16)
OTHER	54%	(13)

Hypothesis 5 The criteria adopted for the evaluation of potential and existing suppliers are common to all products.

The criteria that each buyer applies to the evaluation of potential and existing suppliers is common to all products whether frozen, ambient or chilled. This is true right across the range of companies studied because each company applies fairly general criteria to the evaluation of a supplier. The buyer needs to know that the supplier is technically competent, has the volume capacity, is financially stable and reliable.

The companies studied in the roadside and pizza sectors provide evidence to support the hypothesis that the criteria adopted for the evaluation of potential and existing suppliers is common to all products. The criteria adopted for the evaluation of potential and

existing suppliers by the buyers are common to all products because they are general and relate to whether a supplier can produce the goods required. Therefore, the criteria are related primarily to risk management on the part of the buyer. It is for this reason that the existing customer portfolio is studied as a guide to the quality of a supplier's products. The length of the relationships within the customer portfolio gives a guide to the consistency of the service offered. Obviously, if the average customer relationship is only a year or so, then the supplier would appear risky to the buyer.

The financial stability of a company is also an important consideration which is again related to risk, and this is assessed in terms of the value and volume turnovers. A factory visit to a potential supplier also gleans a useful overall impression of the abilities of that supplier. A visit is made which enables an assessment as to the level of commitment the company has to producing the product in question, in order to reduce the risk in taking on new and unproven suppliers.

Both companies in the hamburger sector adopt criteria for the evaluation of potential and existing suppliers which are common to all products. Differences in risk are encountered with core products such as french fries, however, the criteria applied are the same as for lower volume and value products such as salt. Any difference in the action taken is entirely related to the risk involved and is not directly influenced by the product type.

McDonald's applies the same criteria across the product range for their evaluation of potential and existing suppliers. However, it is also necessary for a supplier to demonstrate their commitment to working with McDonald's so that both companies can grow together. It is not enough for a supplier to be capable of keeping pace with McDonald's expansion, they must also demonstrate that they will be proactive in expansion of their own. Any potential supplier must first accept that they must conduct business using open book accounting. Thus, the loyalty shown by McDonald's to their existing suppliers makes opportunities for potential suppliers very rare.

The validation exercise clearly lends support to this hypothesis because the respondents

represent a very broad range of products from beverages to fresh produce in the ambient, frozen and chilled sectors. The high levels of agreement over the information provided to potential customers and the personnel that make the approaches would suggest that there is no difference in the perceived criteria applied by chain buyers to different products.

Hypothesis 6 The evaluation of <u>existing</u> suppliers is based on their ability to meet the company requirements in <u>all</u> of the following:

- **i) technical competence (the ability to produce to specification)**
- **ii) volume (the ability to supply sufficient quantities)**
- **iii) competitive pricing**
- **iv) consistency (in terms of quality and volume).**

All the companies studied based their evaluation of existing suppliers on the ability of those suppliers to meet the company requirements in all of the hypothesised criteria. It is important to note that existing suppliers have a proven track record in their abilities in the areas of technical competence, volume capability and consistency. All the buyers interviewed are reluctant to move business from the incumbent suppliers, unless the price offered is not competitive. This is for two reasons. First, the element of risk is reduced when using a supplier with a proven track record. Secondly, an existing supplier has built a relationship with the restaurant chain which aids communication and means that the supplier is aware of the way the business operates. Again, McDonald's does not fit neatly into the emerging pattern of behaviour. McDonald's does not conduct a rebuy in the same way as the other companies since all the business is conducted in an ongoing manner. However, McDonald's does apply these hypothesised criteria to the evaluation of their existing suppliers. In addition, the suppliers are also judged on the commitment that they put into the relationship with McDonald's.

The criteria applied by Perfect Pizza and Pizzaland are effectively the same. The hypothesised criteria must all be met with price being the deciding factor in the choice of suppliers, given that all the other criteria have been satisfied. The buyer at Pizzaland evaluates existing suppliers based on their proven ability, and re-appraisal of suppliers occurs towards the end of their contract term. At this point other suppliers are actively sought for comparative purposes. Comparisons are made concerning the ability of the suppliers to produce the goods to specification (technical competence), at the required volumes (estimated from the previous year's sales). The buyer has to be convinced that this performance will be sustained consistently. The decision on supplier choice, given parity of the other criteria, comes down to price. The criteria applied by Perfect Pizza concerning the evaluation of existing suppliers is based on comparisons with other companies made at the end of the contract term and, given that the other hypothesised criteria are fulfilled the decision on supplier choice is based on price.

The two companies studied in the burger sector both evaluate their existing suppliers on their ability to meet the companies requirements in all of the hypothesised criteria. However, McDonald's relationship with their suppliers is unique amongst the companies studied, in that rebuys do not occur in the same way as for Burger King since there are no contracts to be renewed. Instead there is ongoing work and communication leading to the development of the aforementioned "partnership" between McDonald's and their suppliers. The use of open book accounting allows McDonald's and their suppliers to work in a partnership and the suppliers to maintain an agreed margin on the products that they provide. In addition to these demands, existing suppliers are judged on their development over time.

The validation exercise clearly supports the findings of the case studies. This hypothesis was investigated in the supplier study using a question which required respondents to rank the importance of various marketing activities in relation to a rebuy scenario (see Table 8.6, and question six, Appendix 3). This scenario was the renewal of a contract for an existing product with an **existing** customer (a straight rebuy). In relation to this hypothesis it is sufficient to study the perceived importance of the buyers' specific

requirements for supplier evaluation.

In the case of this straight rebuy scenario, the activities designed to convince a buyer that the supplier fulfils evaluation requirements as stated in the hypothesis were ranked as the four most important activities. This evidence lends support to the hypothesis that the attributes of technical competence, the ability to supply sufficient volumes, competitive pricing and consistency (in terms of quality and volume) are indeed those by which chain restaurant buyers evaluate their existing suppliers

Table 8.5: Top Five Actions to Retain Existing Business with Chain Restaurant Customers

Attributes	% of respondents mentioning (actual numbers in brackets)
Good service	61 (14)
Reliability and consistency	56 (13)
Good quality	45 (10)
Competitive pricing	35 (8)
Product innovation	30 (7)

Two further questions were used to probe the validity of the hypothesised evaluation criteria (see questions thirteen and fourteen, Appendix 3). These questions were open ended to reduce suggestive bias. The first of these questions inquired about the single most important reason for the loss of business. If the hypothesised evaluation criteria are valid, then similar answers to the proposed criteria would be expected to this question. Only four reasons for loss of business were offered by the twenty-four respondents. These were uncompetitive pricing (78%), poor service (13%), poor quality (9%), and changes to menus which excluded the product in question (9%).

The second of these open ended questions referred to the specific action taken by suppliers in order to retain existing business with chain restaurant customers. The

answers to this question were much more varied. However, the most frequently mentioned answers also lend support to the hypothesised evaluation criteria. The presence of evaluation criteria of competitive pricing, good quality and reliability and consistency in this list cover three of the four hypothesised criteria. The most often cited criteria of the provision of good service incorporates the hypothesised technical competence and volume criteria. These attributes along with the percentage of respondents mentioning them are listed in Table 8.5.

McDonald's suppliers emphasised the need to take forward new ideas and be competitively priced. This supports the stated criteria from McDonald's that they want suppliers who are proactive, and not content just to ride on the success of McDonald's. The suppliers strive to be more cost efficient, and therefore make investments in their businesses. They also make McDonald's aware of these investments and what benefits they will have for the customer. McDonald's needs to feel that they are paying a competitive price for the product, compared with what **their competitors** are paying.

Table 8.6: The Importance of Marketing Activities RANKED by Suppliers in Relation to the Four Different Business Scenarios with Chain Restaurants (1= most important, 8= least important)

Scenario 1: Renewing a contract for an existing product with an existing customer
Scenario 2: Offering a product (which is currently purchased from a competitor) to a potential customer.
Scenario 3: Offering a new product (*i.e.*, an addition to the customer's product range) to an existing customer.
Scenario 4: Offering a new product (*i.e.*, an addition to the customer's product range) to a potential customer.

	Scenario 1		Scenario 2		Scenario 3		Scenario 4	
ACTIVITY	Median	Mode	Median	Mode	Median	Mode	Median	Mode
1. Identify buyer	6	7	1	1	4.5	1	1	1
2. Convince buyer of consistency of supply (reliability)	2	2	3	3	3	3	3	2
3. Convince buyer of sufficient volume capacity	4.5	4	5	6	5	3	5	6
4. Convince buyer and/or QA personnel of product quality (specifications *etc.*)	3	3	1.5	3	1.5	1	2	2
5. Convince buyer and/or QA personnel of adequate QC	5	5	4.5	4	4.5	4	5	4
6. Establish price competitiveness	2	1	3	2	3	2	3	3
7. Offer exclusivity of supply	7	7	6	7	6	6	7	7
8. Other (please specify)	8	8	8	8	8	8	8	8

Hypothesis 7 The evaluation of <u>potential</u> suppliers is based on their ability to meet the company requirements in <u>all</u> of the following:

i) technical competence (the ability to produce to specification)

ii) the ability to supply a sufficient volume

iii) competitive pricing

iv) <u>predicted</u> consistency of supply (in terms of quality and volume).

This hypothesis is very similar to the preceding one. However, there is a fundamental difference, since it refers to the evaluation of **<u>potential</u>** suppliers. The fourth criteria, is the **predicted** consistency of supply in terms of quality and volume. Unlike an incumbent supplier, a new supplier has no proven track record on which to base this prediction.

Potential suppliers are evaluated in much the same way as the existing ones apart from one key difference. All suppliers are evaluated for their technical competence, volume capability, and the competitiveness of their pricing. These criteria are used to judge whether a supplier can produce the goods required. In addition to this, a supplier must be able to maintain standards and reliability consistently. As noted before, existing suppliers have a proven track record regarding their reliability. Potential suppliers have to have their reliability **predicted** by the buyers. This is done by amassing information from factory visits and by the scrutiny of the customer portfolios of potential suppliers. The theory is that if suppliers have a long standing relationship with other customers then they are likely to be reliable. The identity of the customers is also used as a guide since prestigious customers give a supplier more credibility.

The two companies studied in the roadside sector operate very similar procurement processes for both new tasks and rebuys. They also apply very similar evaluation criteria to their choice of potential suppliers. The most crucial part of this evaluation is that concerning the reliability and consistency of these potential suppliers. There is no point

in the buyers wasting time with a potential supplier which is financially unstable and which cannot produce the goods in a consistent manner since this represents too high a level of risk for the buyer. The potential suppliers' capabilities are therefore researched before price becomes a factor. The final decision will be based on price, but only those companies that satisfy the other criteria will reach the final stage.

The evaluation of potential suppliers at Granada is based on the same criteria as the evaluation of existing suppliers. However, potential suppliers are an unknown quantity. Therefore, much effort is put into background research. This takes the form of studying the customer portfolio of potential suppliers and also gaining a feel for the reputation of the company within the food service sector. Although all the same evaluation criteria apply to both existing and potential suppliers, the existing suppliers have already proved themselves making their customer portfolio and outside reputation less important. Technical competence in terms of specification adherence is also an unproven aspect which requires detailed research. The remaining criteria are applied in the same way as for existing suppliers.

Forte also scrutinises the track record of potential suppliers. The quality assurance aspect of the assessment is carried out first, since this must be acceptable in order for the inquiry to progress further. The quality assurance check involves both specifications and legal aspects (packaging *etc.*). The buyer next assesses the suitability of the delivery and distribution offered. The ability to supply is judged in terms of the volume required and the size of the operation. A financial survey is also carried out by Dun and Bradstreet. All these measures are designed to reduce the element of risk that is involved with taking on a new supplier. The competitiveness of pricing comes after the predicted ability of a supplier to produce to specification at a certain volume, and distribute to the required points. However, since price is one of the key indicators in Forte's assessment of the buyers, it is an important part of the evaluation criteria that the buyers apply to their choice of supplier.

The criteria that the buyers in the pizza sector apply to potential suppliers begin with the

assessment of the viability of that supplier. This concerns the financial stability and the reputation of the company. The reputation of a company is assessed partly from consideration of a customer portfolio. Secondly, such a supplier must pass a check on the production facilities. If these criteria are satisfied the supplier in question would be included in the next request for tenders for the relevant product. The two main problems which would prevent business being placed with a supplier are a lack of credibility in the industry and a lack of company stability.

At Burger King price is the first factor to be considered with potential suppliers. If the price is attractive then the purchasing managers would be interested in researching a potential supplier. Sampling and direct comparisons are used to assess the technical competence of the supplier. The volume capacity is ascertained on the factory visit by the purchasing managers. The consistency of the supply, should the company be taken on, can only be estimated. It is for this reason that for a rebuy an incumbent supplier is at an advantage because they have a proven track record. In order to assess the likely consistency of supply the current client portfolio is studied, along with the length of the supply relationships. This gives an insight into the experience and capabilities of the supplier in question.

Potential suppliers to McDonald's would have to satisfy the company's requirements in their technical competence, the ability to supply a sufficient volume, and competitive pricing. In addition to this McDonald's would have to predict the level of consistency that a potential supplier could produce in terms of quality and volume. Potential suppliers must be prepared to engage in open book accounting and demonstrate a commitment to working with McDonald's.

The validation exercise lends support to the findings of the case studies. Hypothesis six was concerned with the evaluation of **existing** suppliers and scenario one (see Table 8.6, and also question six, scenario one, in Appendix 3). In contrast, hypothesis seven was investigated in the validation exercise using three further scenarios with questions which required respondents to rank the importance of various marketing activities. These three

further scenarios related to various different modified rebuy and new task scenarios (see question six, scenarios two, three and four in Appendix 3).

The second scenario referred to a rebuy as did the first scenario (see hypothesis 6), but this time the emphasis was on offering a product (which was purchased from a competitor) to a **potential** customer. The difference in emphasis of the two scenarios would be expected to produce differences in the ranked order of the activities since there is a risk attached to the use of a new supplier.

The third scenario was a new task for an existing customer, here the risk is centred firmly on the new product since the supplier already has a proven track record. That is, the supplier offered a **new** product (which was an addition to the **customer's** product range) to an existing customer. The fourth scenario was a new task for a potential customer. This is the most risky type of buying decision for a chain restaurant since there is risk attached both to the use of a new supplier and the new product itself.

The ranked importance of the various marketing activities in relation to the four different buying scenarios previously described is shown in Table 8.6. Using the median as the measure of central tendency, the consensus regarding the relevant importance of the hypothesised evaluation criteria quickly becomes apparent. Of the four *hypothesised* criteria, the most important (ranked 1.5 and 2) is *to convince the buyer and/or QA personnel of product quality (specifications etc.)*. This indicates the emphasis on the buyers' evaluations of the **predicted** consistency of supply in terms of technical competence which must include quality and volume. This emphasis goes some way to explaining the relatively low ranking (5) regarding volume capability. The other two hypothesised criteria are second in importance (both ranked 3) and lend further evidence to support the need for consistency of supply and price competitiveness.

The activity identified in scenarios two and four as surpassing the importance of product quality assurances, is the identification of the buyer. This is consistent with the findings from the case studies where all the buyers indicated a preference for being contacted in

a personal manner. The apparent anomaly in scenario three, concerning the rank assigned to identification of the buyer can be explained since this scenario refers to a new task with an **existing** customer. In this case many of the respondents appear to have assumed prior knowledge of the buyer's identity through previous business. When the distribution of the assigned rankings is studied, polarisation of the assigned rank emerges (see Figure A5.3, in Appendix 5). In some cases it may be that the buyer is already known from previous business and that in others a different buyer may have to be identified for the new product. This would account for the bi-modal distribution and indecision as to which situation is in existence.

Table 8.7: Ranked Advantage(s) that Respondents Considered the Incumbent Supplier has over a Potential Supplier (1= most advantageous, 5= least advantageous)

PERCEIVED ADVANTAGES	MEAN	MEDIAN	MODE
PARTNERSHIP/RELATIONSHIP WITH BUYER	1.5	1	1
PROVEN ABILITY AND TRACK RECORD	1.8	2	1
KNOWLEDGE OF CLIENT COMPANY'S STRUCTURE	3.9	4	3
KNOWLEDGE OF CLIENT COMPANY'S DISTRIBUTION NETWORK	4.1	4.5	5
KNOWLEDGE OF CLIENT COMPANY'S DECISION PROCESSES	3.0	3	3

In order to discover if the uncertainty surrounding a new supplier was perceived to affect the sourcing decision the ranked advantages that the respondents considered the incumbent supplier has over a potential supplier were obtained (see Table 8.7). The partnership and relationship with the buyer was considered to be the greatest advantage. This was closely followed by the proven ability and track record. These two perceived advantages are consistent with the hypothesised evaluation criteria and with the fact that the **predicted** consistency of supply is the measure against which the risk of dealing with a new supplier is based. Knowledge of the client company's decision making processes

was considered the third most important advantage for an incumbent supplier with knowledge of the company structure and distribution network being considered relatively unimportant.

Table 8.8: Suppliers' Descriptions of their Relationships with their Chain Restaurant Customers (actual numbers shown in brackets)

Suppliers' Description of Relationship with Chain Restaurant Customers	%	(no.)
Good relationship	74	(17)
Partnership	17	(4)
Open and honest	9	(2)
Reactive	4	(1)
Healthy respect of each other	9	(2)
Weak areas - lack of new products	4	(1)
The buyer is courted with corporate entertainment	4	(1)

A further question in the validation exercise (see question sixteen, Appendix 3) explored the nature of the relationship between the supplier and their chain restaurant customers (see Table 8.8). The most commonly occurring descriptions emphasised a good relationship, which ranged from developing to excellent. This description was cited by three quarters of the respondents. The partnership aspect of the relationship was also mentioned explicitly with the words "established" and "wedlock" also appearing in this context. Other comments included "open and honest", "reactive" and some companies indicated that there was a healthy respect between supplier and customer. Only one respondent gave a negative description on their relationship with chain restaurants. This supplier considered that there were weak areas in their relationship because there was a lack of opportunity to introduce new products.

Hypothesis 8 The importance of the requirements under the evaluation criteria, for existing and potential suppliers, is task specific (new task and rebuy).

The evidence obtained from each of the companies studied would seem to indicate that the importance of the requirements under the evaluation criteria is indeed task specific. This would appear to be due to the uncertainty involved in the development and introduction of a new task product. This leads to increased emphasis on the technical aspects of the evaluation criteria. However, the deciding factor in the choice of supplier will always be price, given that the other criteria have been satisfied. Price can be a secondary consideration for a new task since it is imperative to ensure the product is suitable, but this would have to relate to a given price point. Price is often a factor which prompts research into a potential supplier in the rebuy situation. In this case, the product specification is known and the experience of handling the product reduces the emphasis on the technical aspects of the evaluation criteria. However, any supplier must convince the buyer that they are capable of producing the product, not only to the required specification but also at the required volumes.

Both of the companies studied in the roadside sector act in very similar ways and for the same reasons. The importance of deciding on the right technical specification increases for a new task, compared to a rebuy where the specification is already laid down. However, the other evaluation criteria are still applied in both cases. For example, there is little importance attached to setting product specifications for a rebuy since these will already be fixed. However, a new task requires there to be some flexibility during the sourcing procedure, so that the new product can be tailored to requirements as the samples are evaluated. This is one of the reasons why the procurement procedure for a new task is more complex than that for a rebuy. Therefore, samples are taken as a basis from which to work towards the product description. Production runs are also monitored to assess the likelihood of problems occurring.

Both companies studied in the pizza sector displayed differences in the importance of the requirements under the evaluation criteria, for existing and potential suppliers specific to

the task in hand (new task or rebuy). In both cases the major difference is the importance attached to the desired specifications for a new task. The importance of this criteria is related to the element of uncertainty which always exists when dealing with a new product. For this reason, a formal taste panel is utilised in the selection of a new product at Pizzaland. The chosen sample is monitored by the new product development manager to ensure the resultant product is as it was envisaged. Therefore, there is increased emphasis on the formulation of the specification, the ability of the supplier to supply to that specification and at the required volume consistently. In the case of a product rebuy, much of this uncertainty has been removed, the specification has been finalised and the required volumes can be estimated using previous sales. Thus, the consistency of supply and the price become more important in the rebuy situation.

The evidence supplied by Perfect Pizza suggests that the same evaluation criteria are applied to both existing and potential suppliers. Obviously, it is vital to pay close attention to the specifications and to attempt to predict the expected volumes required in order to have meaningful discussion with any supplier, and this is more difficult for a new task.

The importance of the requirements under the evaluation criteria at Burger King, for existing and potential suppliers, is task specific (new task and rebuy). A new task buying decision represents more risk to the company, therefore, the specification may require changing for a new product. This would indicate that more importance may be attached to the suppliers' technical competence and their ability to supply the predicted volumes than for a rebuy where the specification is fixed and the volumes are known.

New task buying decisions at McDonald's often involve products that have been successfully introduced elsewhere in the world, which reduces the risk involved over tasks such as product specification, since the development work has already been undertaken. In general terms new task buying decisions involve more risk than product rebuys, and this is reflected in the relative importance of the supplier evaluation criteria.

The results of the validation exercise are inconclusive regarding the task specific nature of the importance of the evaluation criteria. The small sample size rendered statistical tests for differences between the data for new task and rebuy situations inappropriate. However, the ranked order question under four different scenarios (see question six, Appendix 3) was used to see if there was any apparent difference in the way that suppliers approached chain restaurants under these four scenarios. This question was also used to discover if any such difference could be related to new task and rebuy situations. If the importance of the requirements under the evaluation criteria is task specific the ranking of the various activities would be expected to reflect this differentiation. The data in Table 8.6 would appear to support this theory since there appears to be a general consensus between the rankings for the three different new task scenarios (scenarios two, three and four). On further consideration, Table 8.6 reveals some differences between the rebuy situation (scenario one) and the new task situations (scenarios two, three and four). Therefore, it would be interesting to conduct a large survey covering the same areas as the supplier study which would be appropriate to test for statistical significance.

Table 8.9 summarises the findings relating to the individual hypotheses tested during the course of this research.

Table 8.9: Summary of Results Relating to the Individual Hypotheses

	Hypothesis	Verification
General Procurement Process		
1.	Procurement is centrally controlled with limited regional delegation.	Yes
2.	Procedures for the selection of suppliers are task specific (procedures differ for new task or rebuy decisions).	Yes
3.	Procedures for the selection of suppliers are company specific (different companies adopt different procedures).	No
Evaluation Criteria		
4.	The criteria adopted for the evaluation of potential and existing suppliers are common to all companies.	Yes
5.	The criteria adopted for the evaluation of potential and existing suppliers are common to all products.	Yes
6.	The evaluation of existing suppliers is based on their ability to meet the company requirements in <u>all</u> of the following: i) technical competence (the ability to produce to specification) ii) volume (the ability to supply sufficient quantities) iii) competitive pricing iv) consistency (in terms of quality and volume).	Yes
7.	The evaluation of potential suppliers is based on their ability to meet the company requirements in <u>all</u> of the following: i) technical competence (the ability to produce to specification) ii) the ability to supply a sufficient volume iii) competitive pricing iv) <u>predicted</u> consistency of supply (in terms of quality and volume).	Yes
8.	The importance of the requirements under the evaluation criteria, for existing and potential suppliers, is task specific (new task and rebuy).	Yes

CHAPTER 9:

CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

9.1 Research Background

This research was funded by the MAFF Postgraduate Agriculture and Food Studentship Scheme. The initial objective of this research was to identify opportunities for farmers to supply to the food service sector. However, in the early stages of the work it became apparent that we needed to focus on the **consumers**, in this case the chain restaurant buyers. For this reason, the focus of the research has shifted away from the primary producers, where it began, to the other end of the supply chain.

It is recognised that this study has only examined a very specific part of the supply chain (chain buyers and their suppliers), and, that there is much further research that needs to be carried out in this area. However, given the dearth of information available in the food service sector, it was necessary to carry out exploratory research. The chain restaurant sector was chosen for two reasons. Chain restaurants are one of the fastest growing areas of food service, and, on a practical level, represent the least fragmented sector.

9.2 Theoretical Implications

On the basis of the case study findings, the hypotheses relating to the theoretical framework were accepted. It was found that procedures for the selection of suppliers are task specific in that the procedures differ for new task and rebuy decisions. This is as is predicted by the BUYGRID construct, except for the addition of two buyphases in the rebuy decisions. These additional buyphases were the search for potential new suppliers and soliciting proposals from these new suppliers. These actions provide a comparison against which the incumbent supplier is judged, and keep the buyers abreast of the current market in that product. These procedures are not company specific, since they all follow processes consistent with the BUYGRID model. The exception to this is

McDonald's as they do not undertake rebuys as such, preferring to purchase on an ongoing basis.

However, the case studies indicated that the chain restaurant personnel saw the procurement procedure as a process and not as individual steps. This was exacerbated by the fact that the tasks in the procurement procedure were undertaken by several individuals. This meant that individuals had difficulty in commenting on tasks other than those for which they were personally responsible. Therefore, the enforced categorisation of the process was an artificial representation of what actually occurs.

In addition, the limitations of the BUYGRID theory meant that there was little discovered concerning the motivations behind the observed actions. Structural role analysis was used to compensate for the lack of interpersonal interaction in the model.

On the other hand, the BUYGRID framework is ideal for a very detailed descriptive study, as was required for this (exploratory) research. It also facilitated the comparison of procedures between different companies. Efforts were made to combat some of the limitations of the model. Informants were allowed to describe the whole process and the validity was checked since each member of the buying centre was interviewed and the final procedure identified was a composite of all the interviews. There were very few discrepancies between the descriptions of different members of the buying centre and those that did occur were resolved between the relevant members. Also, the "shadowing" days and visits to each company made it possible to observe if the procurement procedure described occurred in reality.

Although the BUYGRID model has the limitations which are discussed above, this study suggests that this model could be adapted to suit the food service industry. The basic tenets of the model are found to be true with more risk being attached to new tasks *etc.* However, a link could be made between this model and the school of relationships marketing which could provide an avenue for alternative research.

Relationships marketing can be used to monitor the life cycle of the relationship between buyer and supplier. In this way hypotheses can be formed to test the supposition that the life cycle of buyer:supplier relationships can be managed in the same manner as product life cycles. Attributes which are prevalent in the food service buyer:supplier relationship cycle includes the need for consistency and the buyers' risk averse attitudes. These attitudes are indicated by the loyalty which is displayed towards incumbent suppliers. At the same time economic considerations are brought into play, which demand price comparisons being made. The incumbent supplier appears, however, to continue to be at an advantage since they are often given the opportunity to meet the price quoted by a potential supplier.

9.3 Methodological Limitations

The methodology involved the use of six case studies of chain restaurants in three different sectors (roadside, pizza and hamburger). The results of the case studies were validated by a study of suppliers. The main advantages and disadvantages of the case study methodology are detailed below.

- Detail

The case studies provided detailed, in-depth descriptions of the procurement process that occurs in each company. The use of semi-structured questionnaires reduced the amount of variation between interviews.

- Reflected Reality

Visits to the companies added further detail to the case studies and ensured that the descriptions of the procurement process resembled the reality.

- Lack of Generalisation

The use of case studies alone precludes generalisation about the industry, since only six companies were studied.

- Interviewer Bias

A general problem with the use of case studies is the potential for interviewer bias in the administration and analysis of enquiries. However, the fundamental nature of the research meant that the researcher did not have any preconceptions with which to bias the collection and analysis of data. Qualitative research such as this is often criticised for its lack of structure and rigour. However, qualitative research was considered to be the most appropriate approach in this case because of the lack of data and the need to obtain judgemental input from management personnel. Also, it should be noted that the terms of the MAFF studentship preclude the use of surveys.

The structural role analysis enabled the presentation of digraphs to aid the understanding of the structure, authority, and personal interactions within each company's buying centre. Basically, the digraphs show who does what and when. The problem encountered in the use of this technique was the difficulty experienced in separating the process into individual tasks. This had to be done by subjective judgement.

The case studies themselves were validated by members of the subject organisations. This was to correct misunderstandings and inaccuracies. However, it is feasible that some subjects may have wished to mould the final report - in short, to act as a censor. However, the limited corrections suggested by the validators would suggest that this was not the case in this research.

The final tranche to this research was the triangulation of the case study findings by conducting a study of suppliers. This was designed as another validation procedure and also to gain some information regarding the dyadic nature of the exchange process. The main problem with the triangulation exercise was with gaining access to suppliers. The results were therefore disappointing. Although a reasonable response rate was achieved (37.5%) the total number of respondents was too small to conduct any meaningful statistical analysis.

9.4 Conclusions Relating to Case Evidence

Procurement procedures were found to differ with different buying situations (new task and rebuy). The new task buying situation was considered to carry more risk and this is why the resulting procurement procedure is more complex than for a rebuy. Although the procurement procedures for different companies were not identical, the procedures were very similar with most of the differences attributable to the differences in company structures. This was true both within and between the three sectors under scrutiny.

The evaluation criteria employed by the buyers were common to all the companies. The qualifying characteristics were technical competence, financial stability, consistency and the volumes supplied. McDonald's exhibited different criteria regarding the volume aspect. McDonald's were happy to deal with dedicated suppliers and stated that they prefer to represent at least 20% of their suppliers' output. In contrast, this was the maximum figure quoted by the some of the companies studied. These evaluation criteria are also common to all products.

Buyers attach more risk to trading with new suppliers. This is because the incumbent suppliers have a proven track record of consistency. Potential suppliers can demonstrate their technical ability by producing samples to the required specifications, but the ability to maintain consistency can only be demonstrated once the business has been won. However, since price is the determining characteristic in supplier choice, this can precipitate the search for a new supplier. There was much variation reported in how actively potential suppliers are sought to compare with incumbents. The importance of the evaluation criteria is task specific. For example, a new task would require more technical input to decide the specification than a rebuy. In all cases price is the determining characteristic, once the qualifying characteristics have been fulfilled.

The evaluation criteria used by all the companies studied are very similar, and this can be related to the procurement procedures which are then adopted. This is because the procedures are designed to discover if the suppliers fulfil the evaluation criteria. It

follows that if these criteria are similar then the resultant procurement procedures are likely to be similar also. If this is the case, then generalisations can be made. In conclusion, the BUYGRID was found to be a good predictor of the procurement procedures adopted by the chain restaurants.

9.5 Limitations of this Research

With the benefit of hindsight, there are several improvements that could have been made to this research. The case study work could have been improved by spending more time in each company as an observer. In the course of analysing the case study material it has become apparent that more detail could have been gleaned regarding the evaluation criteria applied in the procurement decision making process by studying specific buying decisions in detail. Ideally, this would include access to company files. The reasoning behind specific decisions provides a better explanation than a general description regarding a hypothetical decision. The problem with implementing this type of methodology is in obtaining this level of co-operation from subject companies.

The supplier study was weak due to the very small number of respondents. The replies that were received indicate that the suppliers to the chain restaurants are aware that there are different procurement procedures for new tasks and rebuys. The distributions of the results are interesting but a study on a much larger scale would reveal more about the dyadic relationship between the chain restaurants and their suppliers.

9.5 Topics for Further Research

- Data Collection

A key requirement is the collection of data *on a regular basis* in the food service sector. Any further research will be hampered by the dearth of secondary data (see Chapter two). Such data should include the market shares of companies both in terms of value and volume *vis à vis* the data available in the retail sector.

MAFF has already demonstrated its commitment to research in this sector by funding this study. The next step is either for MAFF to produce such data in house, or to encourage the collaboration of food service organisations (for example, the Pizza and Pasta Association *et alia*). It may be possible for the Institute of Grocery Distribution to co-ordinate such data collection, given its role in the food service tranche of the Strathclyde Food Project.

It is imperative that such data collection is undertaken in the near future to ensure that data availability is not restricted solely to large companies with the resources to commission private research. If such action is not taken then the food service sector will fall further and further behind the retail sector in data availability.

- Supply Chain Intermediaries

This research has focused on the organisational buyer behaviour of chain restaurants and addressed the issue of the buyer:supplier dyad. Therefore, it is a logical step to investigate the supply chain back towards the primary producer. Such a study would identify the role of primary producers in the chain restaurant market. The dyadic aspect could be addressed by focusing the research on specific buying decisions. In this way both the buyer and the seller could be identified and their interactions could be studied. Any evidence of or requirements for "partnership arrangements" could also be monitored.

The supply chain up to the point of chain restaurant purchase for meat and potatoes comprises: farmers and growers, abattoirs and processors. In the case of meat, the abattoir is often the processor as well. Potatoes for the large chipping companies are often contract grown and demand special varieties of potato for their food service customers. It would be interesting to look at relationships along the supply chain. This would include a study of manufacturers' relationships both with chain buyers and with their suppliers upstream.

- UK Producers - Opportunities and Threats in the Food Service Sector

Further analysis is required which would highlight areas both of opportunities and of

threats for UK processors and producers. Various staple products form the backbone of many chain restaurant menus and also are part of a relatively short supply chain. Examples of such products include lettuce and other fresh produce, beef (in the form of burgers), chicken, and chips. Research in this area should identify the characteristics of suppliers to the food service sector and should investigate the utilisation of by-products from the production process.

- UK Supplier Participation in the Food Service Market

More information is required with regard to ascertaining the market share of UK produce both in terms of value and volume. This will address the problem that products sold on UK wholesale markets are not necessarily UK produced. An important objective would be to quantify the magnitude and to identify the structure of the supply system to the UK food service industry. Also, to quantify the ingredient shares of the total market value and to ascertain the source of food products/ingredients for the UK chain restaurant industry. This would enable an estimate to be made of UK farmer participation in the market in terms of percentage of supply (value and volume terms). Finally, the light shed on the role of the primary producers in the chain restaurant market would lead to the exploration of the commercial options open to UK farmers to penetrate more effectively this growth area.

- Chain Restaurant Sourcing Issues

Previous research has revealed that chain restaurants operate globally and that this is being reflected in their procurement policies. At the present time, sourcing decisions are coloured by politics, for example, Germany will not accept UK hamburgers due to the BSE scare. However, research indicates that the major chain restaurants are structuring themselves to operate on a global scale in terms of purchasing. Europe is inevitably identified as a single unit. Therefore, it is important to act soon to ensure that UK producers do not lose their market share.

It is necessary to investigate methods of exchange and the buyers' preferences towards single or multiple suppliers. Such preferences could mean that buyers wish to reduce risk

by using dual suppliers from different countries. Therefore, quantitative information concerning the percentage of foreign purchases, both within the EU and from other sources is an important step in this direction. It would be interesting to consider the motivations that drive the chain restaurants supplier choices in this context. The reward/measurement model of Anderson and Chambers (1985) may be appropriate for such work. For example, the buyers may be intrinsically rewarded by buying from a UK supplier, such rewards may include a feeling of patriotism (see Chapter three, section 3.6.1).

The objectives of the study would be: to investigate the UK penetration into the food service market; secondly, to investigate the likelihood of central purchasing for the whole of Europe *versus* local sourcing. The work would also identify opportunities and threats to UK processors and producers and analyse the required supplier specialisation into food service as contrasted with the requirements for the retail market.

- Extended Study of Suppliers

As previously stated, a limitation of this research was the small size of the supplier study. The work that was done with suppliers produced results which would seem to indicate that there are trends for those firms that specialise in food service. Therefore, further work should be done in this area. A large scale study is required which would allow tests for statistical significance to be carried out to ascertain whether the apparent distributions are purely random or if they have meaning.

- Other Food Service Sectors

Obviously, this study has focused on only one sector of the food service industry. Therefore, it is necessary for similar work to be carried out in other sectors. Examples of areas of interest are contract caterers and hotels. On the conclusion of this study, it was discovered that one of the areas being researched by the Strathclyde Food Project was the hotel sector. The results of this work will be published early in 1996. It should not be forgotten that independent caterers make up a large part of the total food service industry and therefore warrant research into their buying practices.

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4. S. Barlow, Managing Director, Euro Food Brands Ltd., June 22nd 1995.
5. L. Blake, Catering Development Adviser - Trade Marketing, Meat and Livestock Commission, February 17th 1993.
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7. D. Casey, Senior Buyer - Fruit and Vegetables, Forte Purchasing and Supply, September 16th 1994.
8. B. Crawford, Quality Assurance Manager, McDonald's Restaurants Ltd., May 25th 1995.
9. A. Davison, International Purchasing Manager, McDonald's Restaurants Ltd., January 4th 1995.
10. S. Dudley, Purchasing Director, BrightReasons Restaurants Ltd. (Pizzaland), August 19th 1994.
11. J. Eringer, Managing Director, Doctor Chocolate, June 19th 1995.
12. J. Faulkner, Sales and Marketing Controller, Geest Wholesale Services, February 24th 1993.
13. R. Feather, Senior Purchasing and Distribution Manager, Burger King, November 4th 1994 and June 21st 1995.
14. M. Fisher, Purchasing Director, Forte Purchasing and Supply, August 25th 1994.
15. L. Green, Purchasing Manager, Burger King, June 21st 1994 and November 4th 1994.

16. R. Hingle, Senior National Accounts Manager - Food Services, Ferndale Foods, June 27th 1995.

17. C. Horsley, Catering Purchasing Co-ordinator, Granada Hospitality, August 25th 1994.

18. R. Ivory, Food Buyer, BrightReasons Restaurants Ltd. (Pizzaland), August 30th 1994 and April 18th 1995.

19. D. Johns, Senior Buyer - Grocery and Provisions, Forte Purchasing and Supply, April 20th 1995.

20. A. Jowett, Food Technologist for Fruit and Vegetables, Forte Purchasing and Supply, September 16th 1994.

21. D. Kent, Commercial Director, Granada Hospitality, June 14th 1994.

22. S. Knock, Evaluation Technologist, Forte Purchasing and Supply, April 20th 1995.

23. A. McDonald, Managing Director, Cheshire Produce Company, June 20th 1995.

24. P. Newton, Senior National Accounts Manager, Ferndale Foods, June 27th 1995.

25. M. Palmer, Chief Economist, Meat and Livestock Commission, February 17th 1993.

26. Public Relations Department, Asda, November 16th 1993.

27. Public Relations Department, Sainsbury, November 16th 1993.

28. Public Relations Department, Tesco, November 16th 1993.

29. P. Reynolds, Buyer, Perfect Pizza, September 19th 1994.

30. W. Richards, Managing Director, Kara Foods, June 23rd 1995.

31. F. Rowell, Technologist, Forte Purchasing and Supply, April 20th 1995.

32. A. Smith, Foodservice Director, Van den Burgh Foodservice, May 30th 1995.

33. C. Smith, Purchasing Co-ordinator, Burger King, July 21st 1995.

34. D. Smith, Director of Purchasing and Supply - Roadside Restuarants, Forte, June 16th 1994.

35. M. Stephen, Group Managing Director, Grampian Country Food Group Limited, June 21st 1995.

36. P. Stutchbury, Marketing Manager, Brake Bros. Foodservice Ltd., June 30th 1995.

37. J. Taylor, Personnel Manager, Granada Hospitality, March 16th 1995.

38. D. Thomas, Senior Buyer, McDonald's Restuarants Ltd., April 5th 1995.

39. D. Thomas, Marketing Executive, Frigifrance French Frozen Foods, June 29th 1995.

40. N. Tilley, Technical Manager, BrightReasons Restaurants Ltd. (Pizzaland), April 18th 1995 and May 26th 1995.

41. D. Walter, Company Catering Manager, Granada Hospitality, July 14th 1994 and February 15th 1995.

42. B. Weightman, Non-Food Buyer, BrightReasons Restaurants Ltd. (Pizzaland), April 18th 1995.

43. P. West, General Manager, Geest Foodservice Company, June 21st 1995.

44. J. Whelan, Director, Food and Farming Information Service, January 19th 1993.

45. E. Wootton, UK Purchasing Director, McDonald's Restaurants Ltd., January 4th 1995.

Letter of Introduction

Project Synopsis

Interview Guide 1

WYE COLLEGE
University of London
Wye, Ashford, Kent
England TN25 5AII

Food Industry Management

Telephone: 01233 812401

Facsimile: 01233 813498

21 February 1996

Dear ,

I am writing on the behalf of one of my PhD research students, Elizabeth Mawson. She is currently carrying out research in the area of chain restaurants and I enclose a brief synopsis of the research project.

The next stage in the development of the project is to research the organisational structure that holds the procurement aspect of a chain restaurant together. She is particularly interested in the decision making process with regard to the purchase of raw materials. I would like to emphasise that she has no interest in particular products or information of a confidential nature. As a major player in the food service sector, she would like to use XXXX for a case study. Needless to say, we would be delighted if you would agree to review her findings once she has completed the case.

Elizabeth would be very grateful if she could have a meeting with you, or someone you would like to nominate, who could explain how the company is structured and who could identify those people involved in the decision making process for the procurement of raw materials. She is particularly interested in the composition of the decision making group and how this operates within the whole company structure.

I hope that you will be able to assist us by meeting with Elizabeth. I suggest that she contacts you directly by telephone. If you have any reservations regarding this matter please do not hesitate to contact me.

Yours sincerely,

Dr. David Hughes
Sainsbury Professor of Agribusiness and Food Marketing

Elizabeth M.H. Mawson

Wye College, University of London

AN ANALYSIS OF BUYER BEHAVIOUR IN THE FOOD SERVICE INDUSTRY

The growth of the food service sector and the particular characteristics of fast food restaurant chains have important implications for the food supply chain. Chain restaurant outlets characteristically have very specific requirements for farm commodities and processed foods. They seek suppliers who can produce to a high specification, supply a consistent and standardised product and meet exacting delivery requirements. Opportunities exist for UK farmers to supply to this growing market, if an appropriate strategy is adopted. However, the atomistic nature of primary production and lack of market orientation amongst UK producers may force the chain restaurant industry to seek suppliers from outside the country.

A large amount of my research to date has involved the collection of secondary data on the food service industry as a whole and chain restaurants as a specific part of this industry. This was done in conjunction with an examination of changes in consumer eating habits and the amount of spending on food consumed away from the home. The structure and performance of the UK food service industry was researched in terms of concentration, and vertical and horizontal integration.

The information gleaned from this initial research led to the conclusion that in order to understand the nature of supply to these large companies it is necessary to study their procurement practices.

The next stage in the development of the project is to conduct a series of case studies on companies successful in the field. This will involve researching the organisational structures and the composition of the buying centres of key players in the chain restaurant sector. This will give valuable information on how the companies function, the work culture and motivations amongst other things.

Material gathered by means of the case studies will be used to identify possible strategies which can be utilised by agents in the supply chain. The implications that this will have on the marketing strategies adopted by suppliers will also be explored. In this way the requirements and commercial options open to suppliers to the chain restaurant segment of the food service market will be identified.

RESEARCH IN ORGANISATIONAL BUYING BEHAVIOUR

Elizabeth M.H. Mawson

The purpose of these questions is to obtain an overview of your company, its structure, and how it operates. This information will be used as a framework for further study and a structural role analysis will be performed on the data. Therefore, only a small number of key questions are posed at this stage.

1. COMPANY ORGANISATIONAL STRUCTURE

Where does procurement fit into the organisational structure?

(Covering: structures in terms of reporting relationships; authority; status and communication; degree of centralisation)

2. BUYING DEPARTMENT

How is the buying department structured and how is authority distributed / allocated?

(Covering: size; roles of members; responsibility for different product areas; systems of rewards, such as promotion and bonuses)

3. PROCUREMENT STRATEGY

What strategy is adopted in procurement and how is this strategy fulfilled?

(Covering: procedures and component stages of the decision making process; decision-makers etc.; objectives; policies; contractual arrangements e.g do they exist?)

How is the combination of procurement strategy and the buying process manifested?

(Covering: central or localised buying; nominated suppliers; single or multiple suppliers; sourcing of certain products at outlet level; differences between sourcing policies for different products i.e. fresh, chilled and frozen)

Interview Guide 2

RESEARCH IN ORGANISATIONAL BUYING BEHAVIOUR

Elizabeth M.H. Mawson

The purpose of these questions is to gain an understanding of the decision making process as it occurs in reality. It is hoped that this will be revealed in some depth, and the information gleaned will be presented in a case study format. The results from this research will be used as part of a PhD research thesis with the aim of making recommendations to suppliers regarding preferred approaches to companies such as yours.

1. INVOLVEMENT

Who is involved with the decision making process at each stage?

(Covering: initiation of each stage; roles within the buying centre; official reporting relationships; influence of power; flow of work through the organisation; new task and rebuy scenarios)

2. PROCUREMENT PROCESS

What stages are gone through in the process of making a purchasing decision?

(Covering: all decision stages from problem recognition; policy; number of RFQ's; product specific factors; organisational constraints; strategy selection; different scenarios)

JOINT DECISION MAKING

What processes occur in joint decision making?

(Covering: number of people in the decision making unit for the sourcing decision; how this alters for different product types; conflict resolution; problem solving; persuasion; bargaining; politicking; evoked set of alternatives; individual preferences and how consensus is reached; social influence; group interaction leading to consensus formation; circumstances in which autonomous decision are taken)

ENVIRONMENT

How does the industry environment influence decisions made?

(Covering: situational factors; company specific factors such as centralisation etcetera; constraints for example, physical, technological, economic social)

ORGANISATION

What organisational constraints are present and how do they affect the buying process?

(Covering: technical; financial; task and non-task influences; hierarchical effects on the decision making process and the actions of the buying department in general)

3. INFORMATION

On what information are decisions based?

(Covering: information and its sources; lines of communication; active search; perceptual distortion; supplier awareness; evaluation criteria - bothis pros and cons)

4. PEOPLE AND MOTIVATION

What motivates you in your work?

(Covering: profit driven; respect from peers; level of satisfaction and fulfilment; bonuses; constraints that obstruct these motivational factors)

How is your work assessed?

(Covering: agreed objectives; price reduction; consistent quality etcetera)

REWARDS AND THEIR MEASUREMENT

How are you rewarded for your work?

(Covering: bonuses; promotion; level of satisfaction and fulfilment)

How is your work assessed for such rewards?

(Covering: perceived possibilities; price reduction; consistent quality etcetera)

How does this measurement system perform in comparison with perceived equitable rewards?

(Covering: perceived effort and resulting recognition; effort level applied etcetera)

PERSONAL

How does your personality affect the way you do your job?*

(Covering: general background; role perceptions; motivation; evaluation criteria; strategy selection; task and non-task influences)

Letter of Introduction

Project Synopsis

Pilot Supplier Questionnaire

Supplier Questionniare

WYE COLLEGE
University of London
Wye, Ashford, Kent
England TN25 5AH

Food Industry Management

Telephone: 01233 812401

Facsimile: 01233 813498

22 May 1995

Dear ,

I am writing on the behalf of one of my PhD research students, Elizabeth Mawson. She is currently nearing the end of a three year project on the food service industry with particular focus on chain restaurants and I enclose a brief synopsis of the research project.

The first stage in the development of the project was to research the organisational structure that holds the procurement aspect of a chain restaurant together. Particular attention was paid to the decision making process with regard to the purchase of raw materials. She has now completed six case studies with major food service chains in the pizza, burger and roadside sectors.

In order to complete the research, she needs to discover suppliers' views on their business partnerships with companies in the food service sector. I would like to emphasise that she has no interest in particular products or information of a confidential nature. As a major player in the supply sector, she would like to use your company as part of her research.

Elizabeth would be very grateful if she could have a meeting with you, or someone you would like to nominate, who could explain approaches to and relationships with chain restaurants.

I hope that you will be able to assist us by meeting with Elizabeth. I suggest that she contacts you directly by telephone. If you have any reservations regarding this matter please do not hesitate to contact me.

Yours sincerely,

Dr. David Hughes
Sainsbury Professor of Agribusiness and Food Marketing

Elizabeth M.H. Mawson

Wye College, University of London

AN ANALYSIS OF BUYER BEHAVIOUR IN THE FOOD SERVICE INDUSTRY

The growth of the food service sector and the particular characteristics of fast food restaurant chains have important implications for the food supply chain. Chain restaurant outlets characteristically have very specific requirements for farm commodities and processed foods. They seek suppliers who can produce to a high specification, supply a consistent and standardised product and meet exacting delivery requirements. Opportunities exist for UK farmers to supply to this growing market, if an appropriate strategy is adopted. However, the atomistic nature of primary production and lack of market orientation amongst UK producers may force the chain restaurant industry to seek suppliers from outside the country.

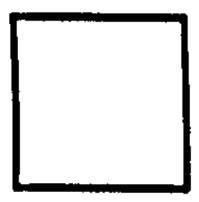
Preliminary research involved the collection of secondary data on the food service industry as a whole and chain restaurants as a specific part of this industry. This was done in conjunction with an examination of changes in consumer eating habits and the amount of spending on food consumed away from the home. The structure and performance of the UK food service industry was researched in terms of concentration, and vertical and horizontal integration.

The information gleaned from this initial research led to the conclusion that in order to understand the nature of supply to these large companies it is necessary to study their procurement practices.

The next stage in the development of the project was to conduct a series of case studies on companies successful in the field. This involved researching the organisational structures and the composition of the buying centres of key players in the chain restaurant sector. This gave valuable information on how the companies function, the work culture and motivations amongst other things.

The final part of the research involves the verification of the results obtained. This will be done using a method known as "triangulation" whereby the supplier side of the business partnership is investigated and the results compared. Material gathered by means of the case studies will be used to identify possible strategies which can be utilised by agents in the supply chain. The implications that this will have on the marketing strategies adopted by suppliers will also be explored. In this way the requirements and commercial options open to suppliers to the chain restaurant segment of the food service market will be identified.

PILOT QUESTIONNAIRE
RESEARCH IN THE FOOD SERVICE SECTOR



Elizabeth M.H. Mawson

The purpose of these questions is to gain an understanding of the relationship that suppliers have with the restaurant chains. The results from this research will be used as part of a PhD research project looking at buyer behaviour amongst chain restaurants.

COMPANY BACKGROUND

1. How are your customers distributed across the following food service categories? And who are your main customers in each category?

CATEGORIES	% OF BUSINESS	MAJOR CUSTOMERS
PIZZA		
PUB RESTAURANT		
ROADSIDE		
TAKE-AWAY (including sandwich trade)		
CAFE		
CASUAL/THEME		
CHICKEN		
FISH AND CHIPS		
HAMBURGER		
OTHER (please specify)		

2. What proportion of your business is with restaurant chains? . . . . . .

3. What proportion of the chain restaurant companies that you deal with operate a system of central procurement? . . . . . .

INVOLVEMENT

4. Who is involved with <u>approaches</u> to new customers? Please tick one or more of the following:

Managing Director	
Account Manager / Brand Manager	
Marketing Director	
Other (please specify)	

5. Please rank the importance of the following activities in relation to the four different business scenarios with chain restaurants outlined below, (1= most important, 8= least important):

a) Offering an <u>existing</u> product (in the <u>customer's portfolio</u>)

ACTIVITY	Existing Customer	New Customer
1. Identify buyer		
2. Convince buyer of consistency of supply (reliability)		
3. Convince buyer of sufficient volume capacity		
4. Convince buyer and/or QA personnel of product quality (specifications etc)		
5. Convince buyer and/or QA personnel of adequate QC		
6. Establish price competitiveness		
7. Offer exclusivity of supply		
8. Other (please specify)		

b) Offering a <u>new</u> product (in the <u>customer's portfolio</u>)

ACTIVITY	Existing Customer	New Customer
1. Identify buyer		
2. Convince buyer of consistency of supply (reliability)		
3. Convince buyer of sufficient volume capacity		
4. Convince buyer and/or QA personnel of product quality (specifications etc)		
5. Convince buyer and/or QA personnel of adequate QC		
6. Establish price competitiveness		
7. Offer exclusivity of supply		
8. Other (please specify)		

INFORMATION

6. How do you initially approach a potential customer?

EXHIBITIONS	
COLD CALLS	
LETTER OF INTRODUCTION	
OTHER (please specify)	

7. What information do you provide for potential customers? Tick all that apply.

COMPANY BACKGROUND	
CLIENT PORTFOLIO	
PRODUCT LIST	
LIST PRICING	
PRODUCT ILLUSTRATIONS	
PRODUCT SAMPLES	
OTHER (please specify)	

EVALUATION CRITERIA

8. Rank the advantage(s) you consider that the incumbent supplier has over a potential supplier (1= most advantageous, 5= least advantageous):

PERCEIVED ADVANTAGES	RANK
PARTNERSHIP/RELATIONSHIP WITH BUYER	
PROVEN ABILITY AND TRACK RECORD	
KNOWLEDGE OF CLIENT COMPANY'S STRUCTURE	
KNOWLEDGE OF CLIENT COMPANY'S DISTRIBUTION NETWORK	
KNOWLEDGE OF CLIENT COMPANY'S DECISION PROCESSES	

9. What percentage of contracts does your company retain each year?

50-79% ☐ 80-99% ☐ 100% ☐

10. What is the <u>single most important</u> reason for loss of business? . . . . . .

. . . . . .

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11. What specific action does your company take in order to retain existing business? (i.e., what do you consider are your major assets, in the eyes of your chain restaurant customers?) . . . . . .

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12. How often does a representative (e.g. account manager) from your company usually meet with the buyer from the chain restaurant(s) you supply, to discuss:

a) strategic issues

and, b) operational issues

	STRATEGIC ISSUES	OPERATIONAL ISSUES
WEEKLY		
MONTHLY		
QUARTERLY		
ANNUALLY		
ONLY WHEN A PROBLEM OCCURS		
OTHER (please specify)		

13. How would you describe your relationship with your chain restaurant customers? . . . . . .

. . . . . .

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. . . . . .

. . . . . .

Thank you for your co-operation in completing this questionnaire.

RESEARCH IN THE FOOD SERVICE SECTOR

Elizabeth M.H. Mawson

The purpose of these questions is to gain an understanding of the relationship that suppliers have with chain restaurants. Chain restaurants are a sub-sector of the food service market, characterised by the fact that they operate with multiple outlets, and operate with uniformity of products offered and retail format. The results from this research will be used as part of a PhD research project looking at buyer behaviour amongst chain restaurants.

COMPANY BACKGROUND

1. What percentage of your business is with:

   a) food service customers .....

   and b) retail customers .....

2. Who are your main food service customers?

CATEGORIES	MAJOR CUSTOMERS	APPROX. % SHARE OF SALES
PIZZA		
PUB RESTAURANT		
ROADSIDE		
TAKE-AWAY (including sandwich trade)		
CAFE		
CASUAL/THEME		
CHICKEN		
FISH AND CHIPS		
HAMBURGER		
OTHER (please specify)		

3. What proportion of your business is with restaurant chains, as defined above? .....
. . . . . .
. . . . . .

4. What percentage of the chain restaurant companies that you deal with operate a system of:
a) central procurement . . . . . .
and b) central ordering? . . . . . .

5. What percentage of your sales are in:
a) contract basis . . . . . .
and b) the spot market basis? . . . . . .

6. Please **RANK** the importance of the following activities in relation to the four different business scenarios with chain restaurants outlined below, (1 = most important, 8 = least important):

Scenario 1: Renewing a contract for an existing product with an existing customer

ACTIVITY	Rank
1. Identify buyer	
2. Convince buyer of consistency of supply (reliability)	
3. Convince buyer of sufficient volume capacity	
4. Convince buyer and/or QA personnel of product quality (specifications etc)	
5. Convince buyer and/or QA personnel of adequate QC	
6. Establish price competitiveness	
7. Offer exclusivity of supply	
8. Other (please specify)	

Scenario 2: Offering a product (which is currently purchased from a competitor) to a potential customer.

ACTIVITY	Rank
1. Identify buyer	
2. Convince buyer of consistency of supply (reliability)	
3. Convince buyer of sufficient volume capacity	
4. Convince buyer and/or QA personnel of product quality (specifications etc)	
5. Convince buyer and/or QA personnel of adequate QC	
6. Establish price competitiveness	
7. Offer exclusivity of supply	
8. Other (please specify)	

Scenario 3: Offering a <u>new</u> product (i.e., an addition to the **customer's** product range) to an existing customer.

ACTIVITY	Rank
1. Identify buyer	
2. Convince buyer of consistency of supply (reliability)	
3. Convince buyer of sufficient volume capacity	
4. Convince buyer and/or QA personnel of product quality (specifications etc)	
5. Convince buyer and/or QA personnel of adequate QC	
6. Establish price competitiveness	
7. Offer exclusivity of supply	
8. Other (please specify)	

Scenario 4: Offering a <u>new</u> product (i.e., an addition to the **customer's** product range) to a <u>**potential**</u> customer

ACTIVITY	Rank
1. Identify buyer	
2. Convince buyer of consistency of supply (reliability)	
3. Convince buyer of sufficient volume capacity	
4. Convince buyer and/or QA personnel of product quality (specifications etc)	
5. Convince buyer and/or QA personnel of adequate QC	
6. Establish price competitiveness	
7. Offer exclusivity of supply	
8. Other (please specify)	

INVOLVEMENT

7. Who is involved with <u>approaches</u> to new customers? Please tick one or more of the following:

Managing Director	
Account Manager / Brand Manager	
Marketing Director	
Other (please specify)	

INFORMATION

8. How do you initially approach a potential customer?

EXHIBITIONS	
COLD CALLS	
LETTER OF INTRODUCTION	
OTHER (please specify)	

9. What information do you provide for potential customers? Tick **all** that apply.

COMPANY BACKGROUND	
CLIENT PORTFOLIO	
PRODUCT LIST	
LIST PRICING	
PRODUCT ILLUSTRATIONS	
PRODUCT SAMPLES	
OTHER (please specify)	

EVALUATION CRITERIA

10. Rank the advantage(s) you consider that the incumbent supplier has over a potential supplier (1= most advantageous, 5= least advantageous):

PERCEIVED ADVANTAGES	RANK
PARTNERSHIP/RELATIONSHIP WITH BUYER	
PROVEN ABILITY AND TRACK RECORD	
KNOWLEDGE OF CLIENT COMPANY'S STRUCTURE	
KNOWLEDGE OF CLIENT COMPANY'S DISTRIBUTION NETWORK	
KNOWLEDGE OF CLIENT COMPANY'S DECISION PROCESSES	

11. Approximately what percentage of contracts does your company retain each year?

50-79% ☐ 80-99% ☐ 100% ☐

12. What is the average length of contract held with chain restaurants? . . . . . .

. . . . . .

13. What is the <u>single most important</u> reason for loss of business? . . . . . .

. . . . . .

. . . . . .

14. What specific action does your company take in order to retain existing business? (i.e., what do you consider are your major assets, in the eyes of your chain restaurant customers?) . . . . . .

. . . . . .

. . . . . .

15. How often does a representative (e.g. account manager) from your company usually meet with the buyer from the chain restaurant(s) you supply, to discuss:

a) strategic issues and, b) operational issues:

	STRATEGIC ISSUES	OPERATIONAL ISSUES
WEEKLY		
MONTHLY		
QUARTERLY		
ANNUALLY		
ONLY WHEN A PROBLEM OCCURS		
OTHER (please specify)		

16. How would you describe your relationship with your chain restaurant customers? . . .

. . . . . .

. . . . . .

Thank you for your co-operation in completing this questionnaire. I will contact you in about a week, in case you have any problems.

APPENDIX 4

Details of the Supplier Study

The Sample

The supplier study was carried out during August 1995. The sample for the validation exercise was drawn from companies known to be supplying at least one of the six restaurant chains analysed in this research[1]. Of the sixty-four questionnaires mailed out, twenty-four were returned, representing a response rate of 37.5%.

Only five of McDonald's suppliers participated in the study, none of whom were dedicated suppliers. In addition, a telephone interview was undertaken with the Sales Director of a sixth supplier to McDonald's in order to gain a more in depth understanding of the relationship and to compensate for the small number of respondents in this category. This supplier was not dedicated to McDonald's, but the division in question serves McDonald's exclusively, and has done for nine years. This meant that the Sales Director only had direct experience of dealing with McDonald's and therefore was unable to answer the questionnaire used for the rest of the supplier study.

On average food service represented about two-thirds of the business of the twenty-four companies in the sample. However, when the distribution of trade is studied, it is apparent that most of the companies supply to food service exclusively (see Figure A5.4, Appendix 5).

The most popular sectors serviced were pub restaurants, roadside and "other" (see Table A4.1). The "other" sector included contract catering, airline catering and employee catering. The remaining sectors fall into two main categories. Approximately one third of the respondents supplied the chicken, and fish and chips sectors. About two fifths of the respondents supplied the pizza, take-aways, cafe, casual/theme and hamburger sectors.

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[1] The suppliers were identified by the chain restaurants themselves, and placed into three categories (current, potential and delisted). Thus, the sample size for the validation exercise was effectively constrained by the number of contacts obtained from the six restaurant chains analysed in this research.

Table A4.1: Percentage of the Sample Active in Various Menu Categories

CATEGORIES	% OF SAMPLE ACTIVE IN SECTOR, (ACTUAL NUMBERS SHOWN IN BRACKETS)
PIZZA	39 (9)
PUB RESTAURANT	91 (21)
ROADSIDE	78 (18)
TAKE-AWAY (including sandwich trade)	44 (10)
CAFE	41 (9)
CASUAL/THEME	41 (9)
CHICKEN	32 (7)
FISH AND CHIPS	32 (7)
HAMBURGER	44 (10)
OTHER	74 (17)

On average, restaurant chains represented almost half of the food service customers. When the distribution of this data is examined it can be seen that there is a divide between those companies that specialise in serving the chain restaurants and those for whom this sector makes up a small proportion of the market (see Figure A5.5, Appendix 5). The largest concentration of suppliers was found to be those with 10% chain business. However, over one quarter of respondents had 80% of their business with restaurant chains. The wide variation in the amount of business conducted with chains reflects the structure of the food service market as a whole, with a large number of small non-specialist suppliers and a much smaller percentage of specialist suppliers to the food service sector (see Chapter 2).

This split in the distribution provided an opportunity to compare the responses given by those in the sample with less than half of their business with chain restaurants and those in the sample with more than half of their business with chain restaurants. With this in mind, cross tabulations were conducted to test for any statistically significant differences

between the two sub-samples. However, no significant differences were found at the 5% level of significance. This was not surprising given that the original sample was so small, even though the sub-samples were of equal size. Thus, there was no evidence to suggest that those suppliers that specialise in chain restaurant business act in a different manner to non-specialists in their dealings with their chain restaurant customers.

If the sample had been larger, it would have been interesting to analyse the results for the three different sectors. However, the small number make this impossible. It is for this reason that the sample is treated as a whole and not subdivided into its constituent sectors.

Trading and Business Strategies

The distribution of the percentage of sales by contract is positively skewed (see Figure A5.6, Appendix 5). The average percentage of contract sales was found to be 86%. By far the majority (91%) of respondents claimed to retain 80%-99% of their contracts each year. One respondent only claimed to retain 50%-79% of contracts per year (a potential supplier to Granada) and one claimed 100% contract retention (a current supplier to Pizzaland). The mean length of contracts held with chain restaurants was eighteen months, although twelve months contracts were most frequently cited (see Figure A5.7, Appendix 5).

However, the McDonald's supplier interviewed confirmed that this business relationship was conducted with no contract, instead working on trust - a "gentlemen's agreement". This supplier deals in a commodity and the agreement is essentially that the supplier has responsibility for buying decisions in terms of the spot and futures markets. In this way the supplier is committed to honouring these purchases. However, the supplier felt quite comfortable with this arrangement because of McDonald's size and reputation. The opinion was given that this method of doing business is unusual, but that it is not exclusive to McDonald's.

Communication between the chain restaurants and their suppliers was also studied in terms of the frequency of meetings or contact between chain buyers and representatives (*e.g.* account manager) for the suppliers. This contact was divided into two sections depending on whether the discussions centred on strategic or operational issues. The results obtained are shown in Table A4.2, which illustrates the greater frequency for operational meetings (monthly) compared to longer term strategic meetings (quarterly).

Table A4.2: Percentage of the Sample Meeting Chain Buyers to Discuss Strategic and Operational Issues (actual numbers shown in brackets)

	STRATEGIC ISSUES	OPERATIONAL ISSUES
WEEKLY	0% (0)	12% (3)
MONTHLY	17% (4)	50% (12)
QUARTERLY	54% (13)	21% (5)
ANNUALLY	25% (6)	8% (2)
ONLY WHEN A PROBLEM OCCURS	4% (1)	8% (2)
OTHER (please specify)	0% (0)	0% (0)

In contrast, the McDonald's supplier stated that operational issues regarding purchases are discussed at least weekly, but if the market is lively contact may be daily. A daily morning report is sent to McDonald's regarding currency movements and the commodity market. The markets are discussed on a weekly basis, to follow up the daily reports. Statistical data on deliveries is provided on a monthly basis. In the case of this supplier, strategic issues can relate to forward contracts or new product development. There had been a lot of work on new product development in 1995, so strategic discussions had become more frequent. However, there is no established pattern for meetings of this kind.

There is multi-level communication between McDonald's and this supplier. The Sales Director interacts with the Buyer and Quality Assurance Manager at McDonald's.

McDonald's QA Manager is also in contact with the supplier's Sales Development Manager who is responsible for technical development. The laboratory personnel on the production side and in research and development provide input to this relationship, but have no direct contact with personnel at McDonald's.

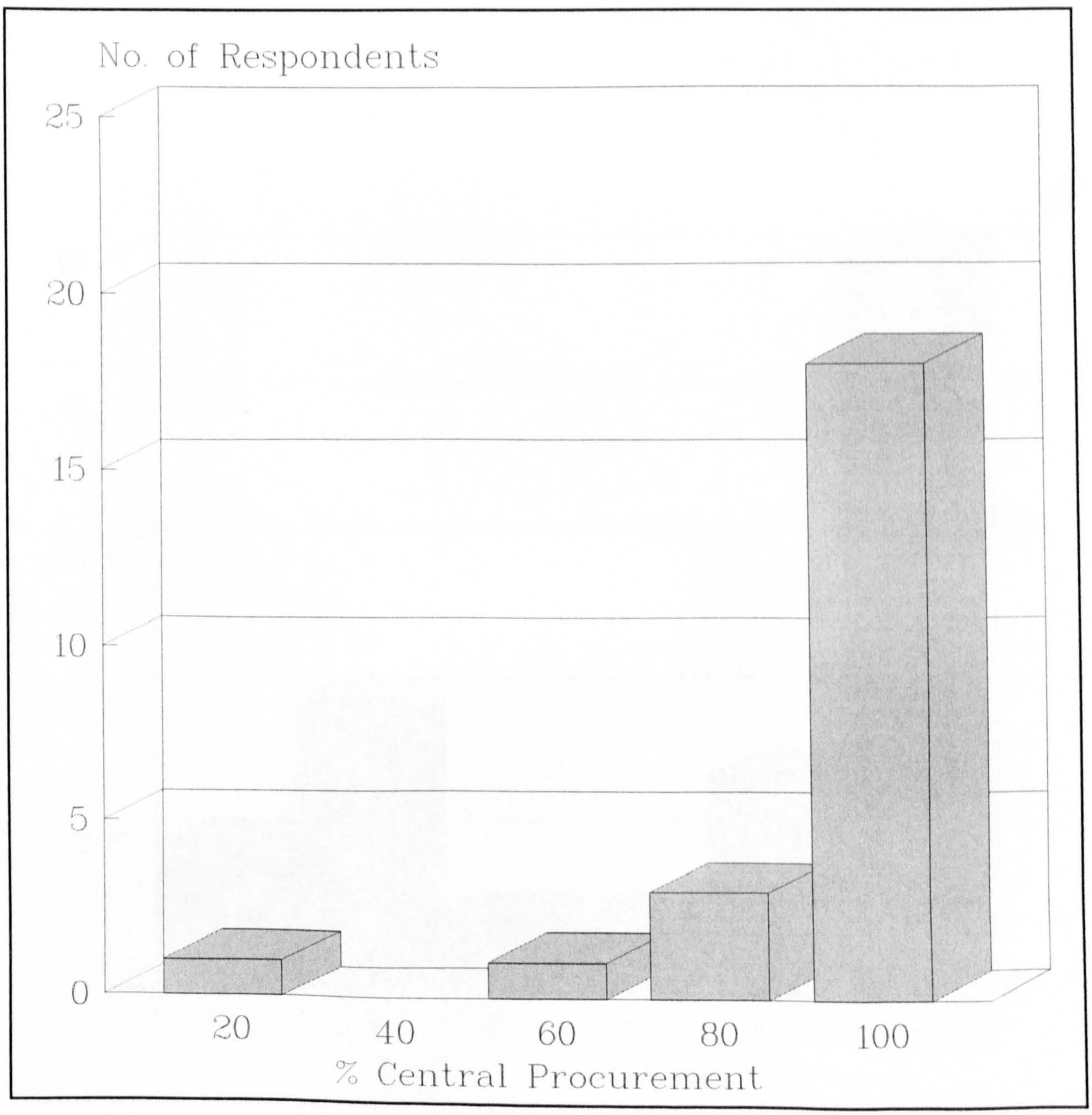
APPENDIX 5

Figures Relating to the Supplier Study

FIGURE A5.1

Percentage Chain Restaurant Customers

Using Central Procurement



Std. Dev. = 21.43

Mean = 89.70

n = 23.00

FIGURE A5.2

Percentage Chain Restaurant Customers

Using Central Ordering

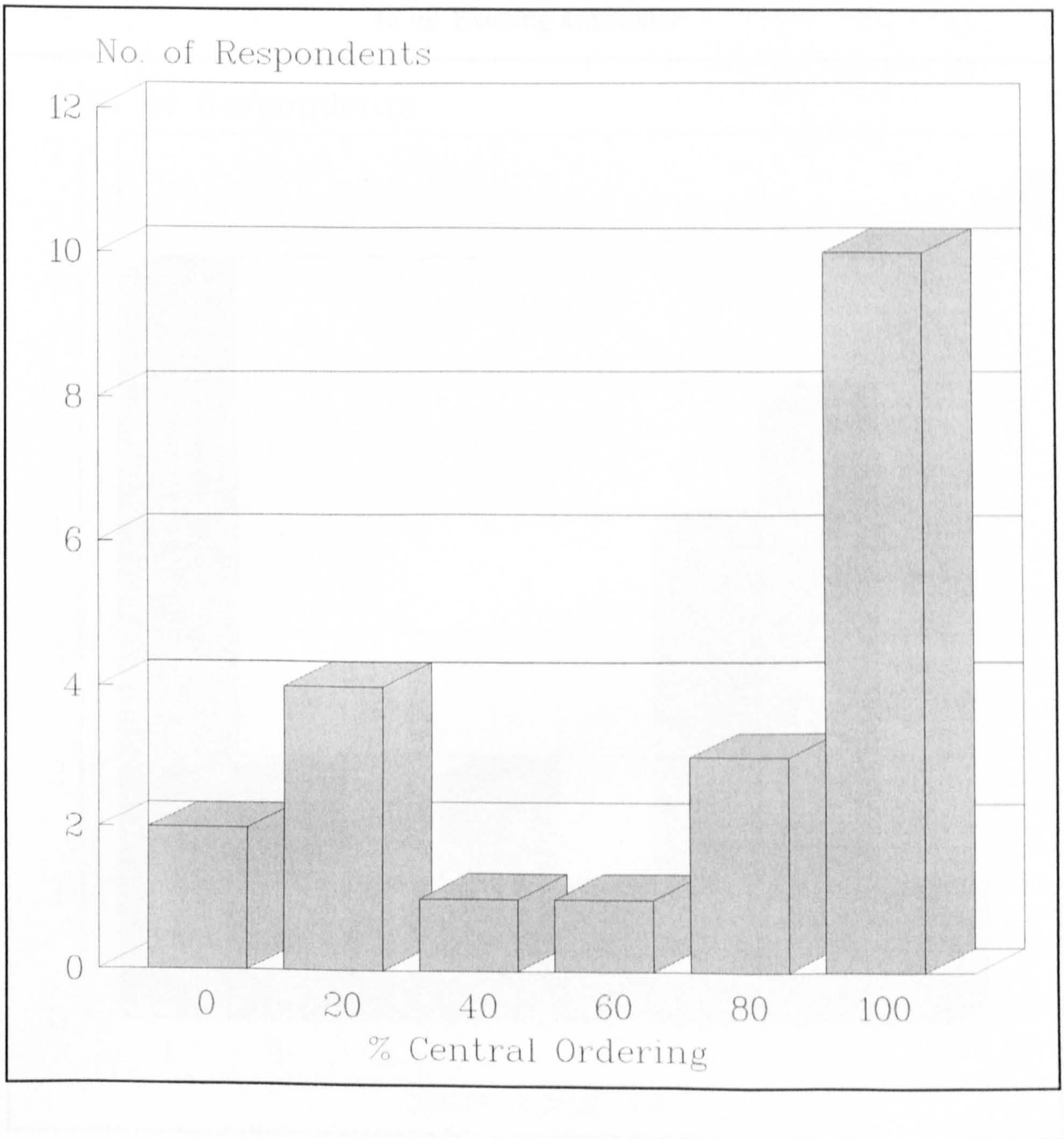


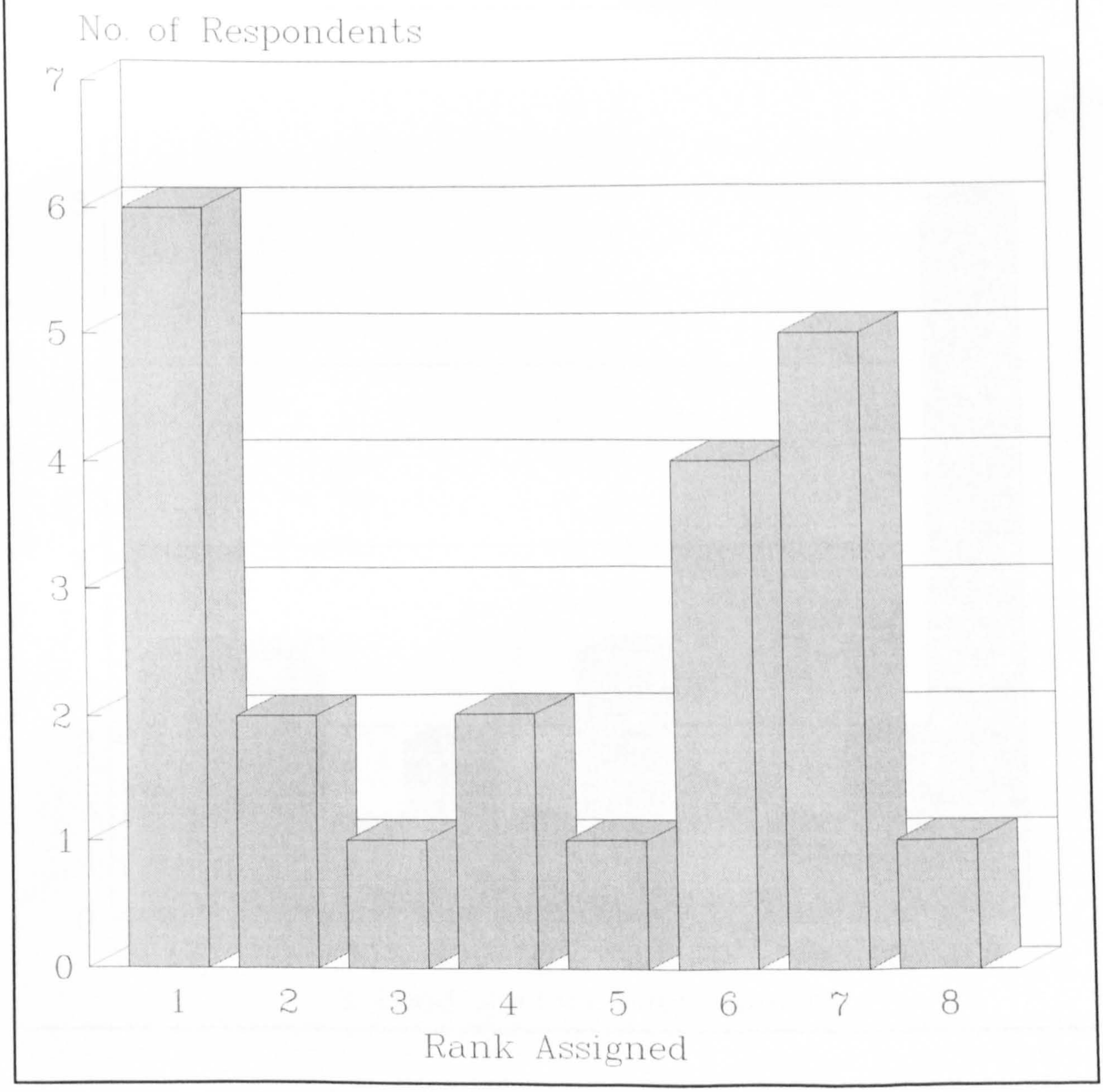
FIGURE A5.3

Ranked Order for "Identify Buyer" Activity

Under Scenario 3

Offering a New Product (Product Range Extension for the CUSTOMER)

to an Existing Customer



Std. Dev. = 2.58

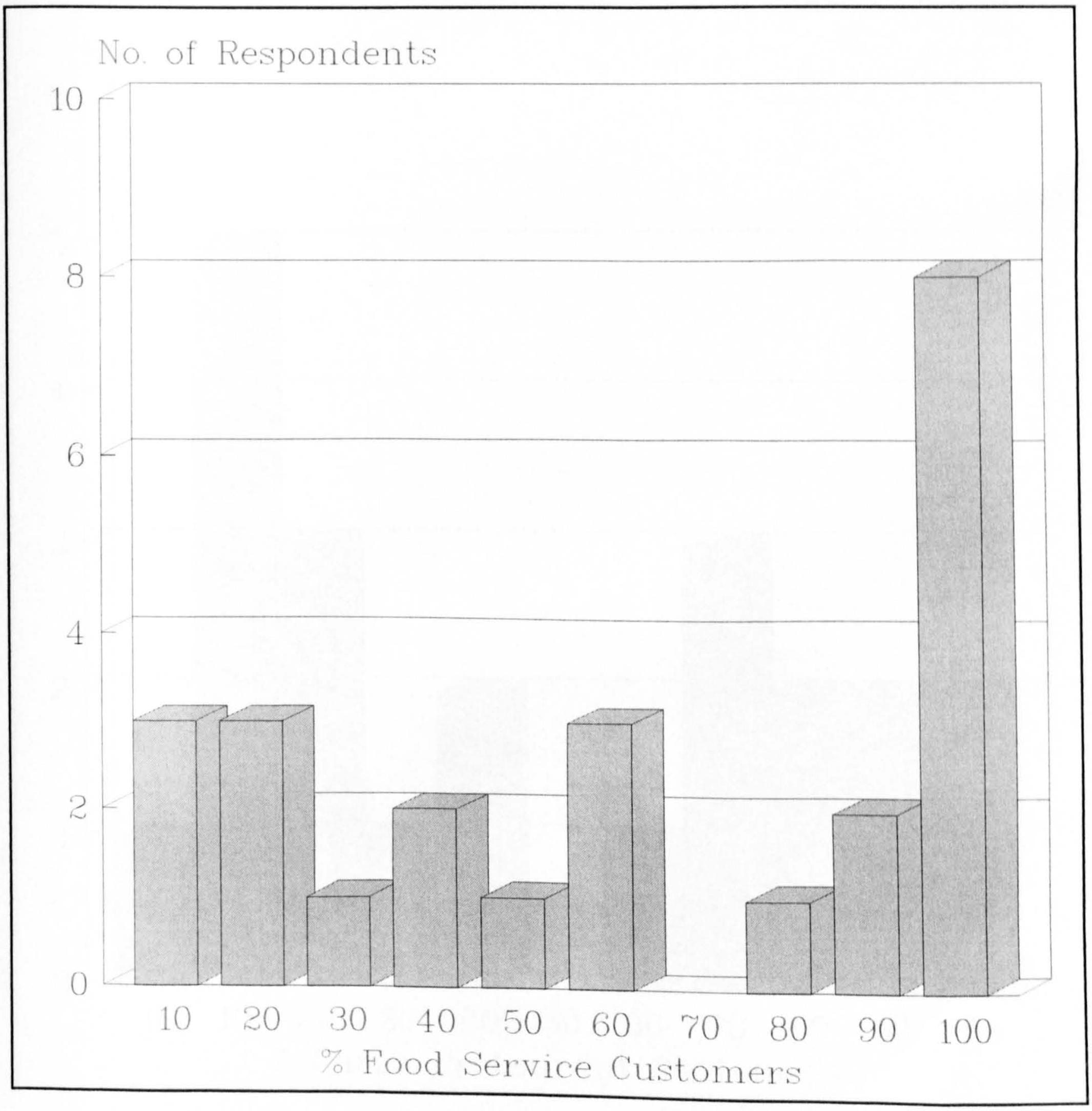
Mean = 4.20

n = 22.00

FIGURE A5.4

Percentage Food Service Customers

in Customer Portfolio



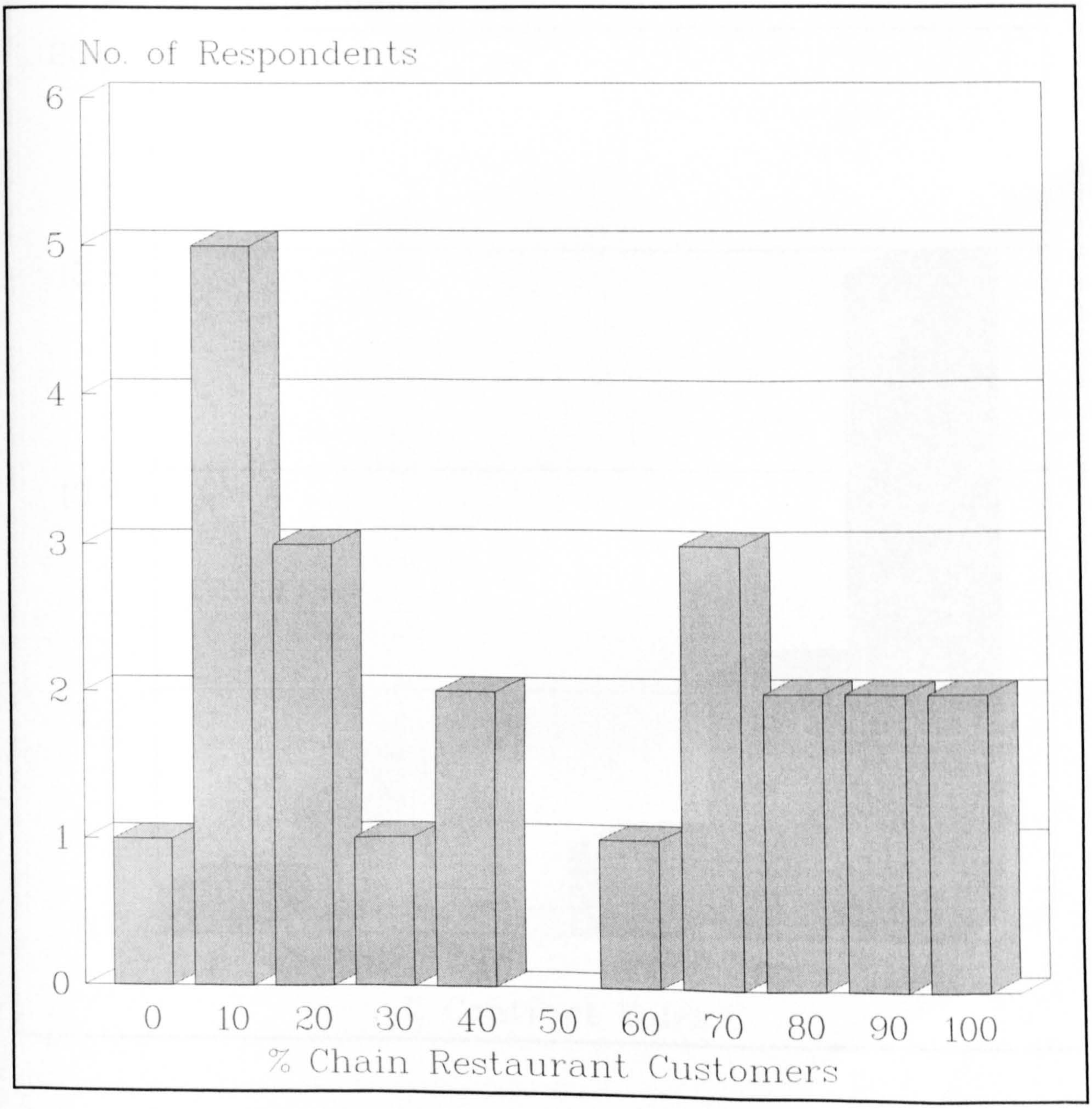
Std. Dev. = 35.79

Mean = 60.60

n = 24.00

FIGURE A5.5

Percentage Chain Restaurant Customers in Customer Portfolio



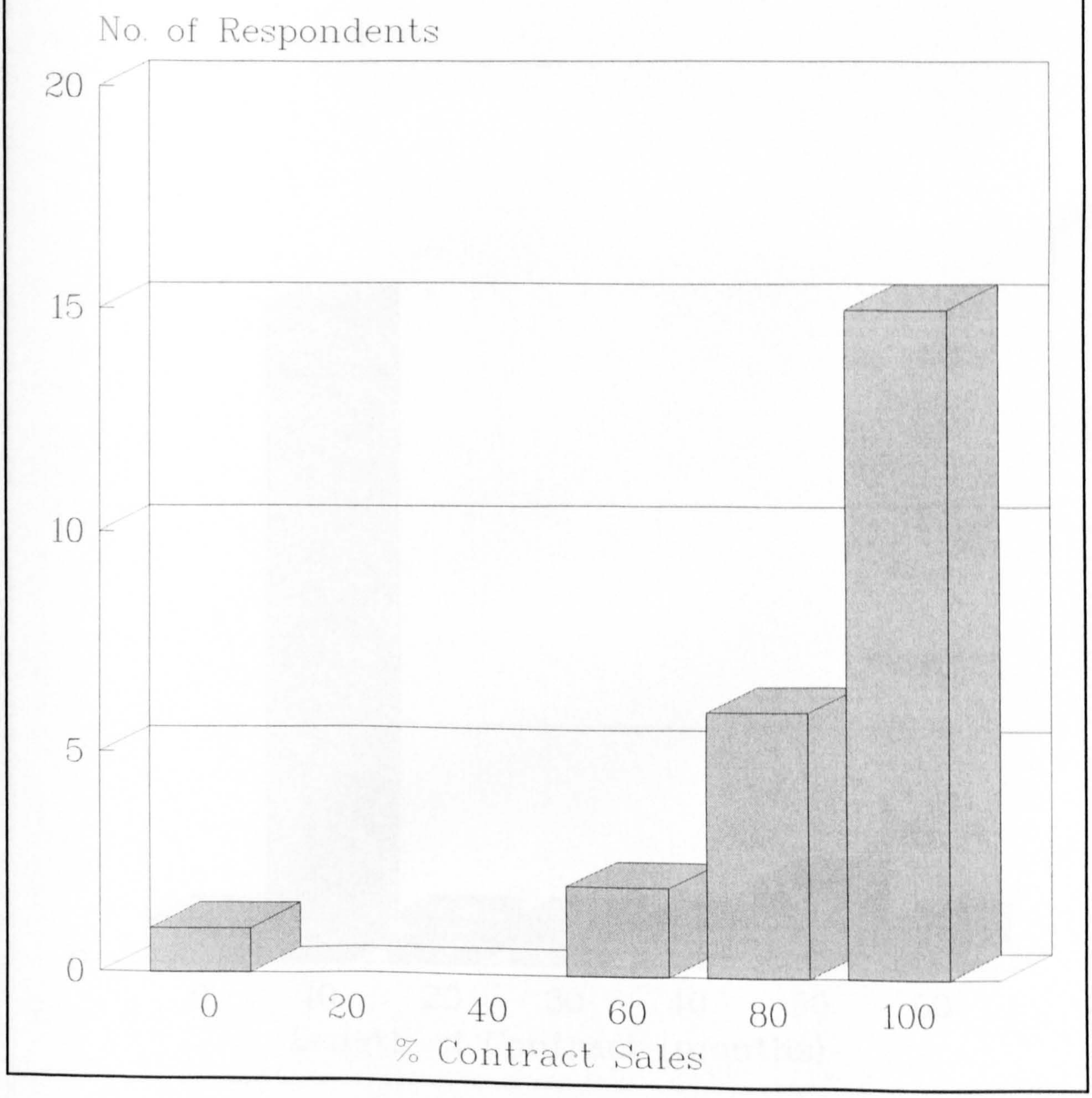
Std. Dev. = 34.30

Mean = 45.50

n = 22.00

FIGURE A5.6

Percentage of Contract Sales



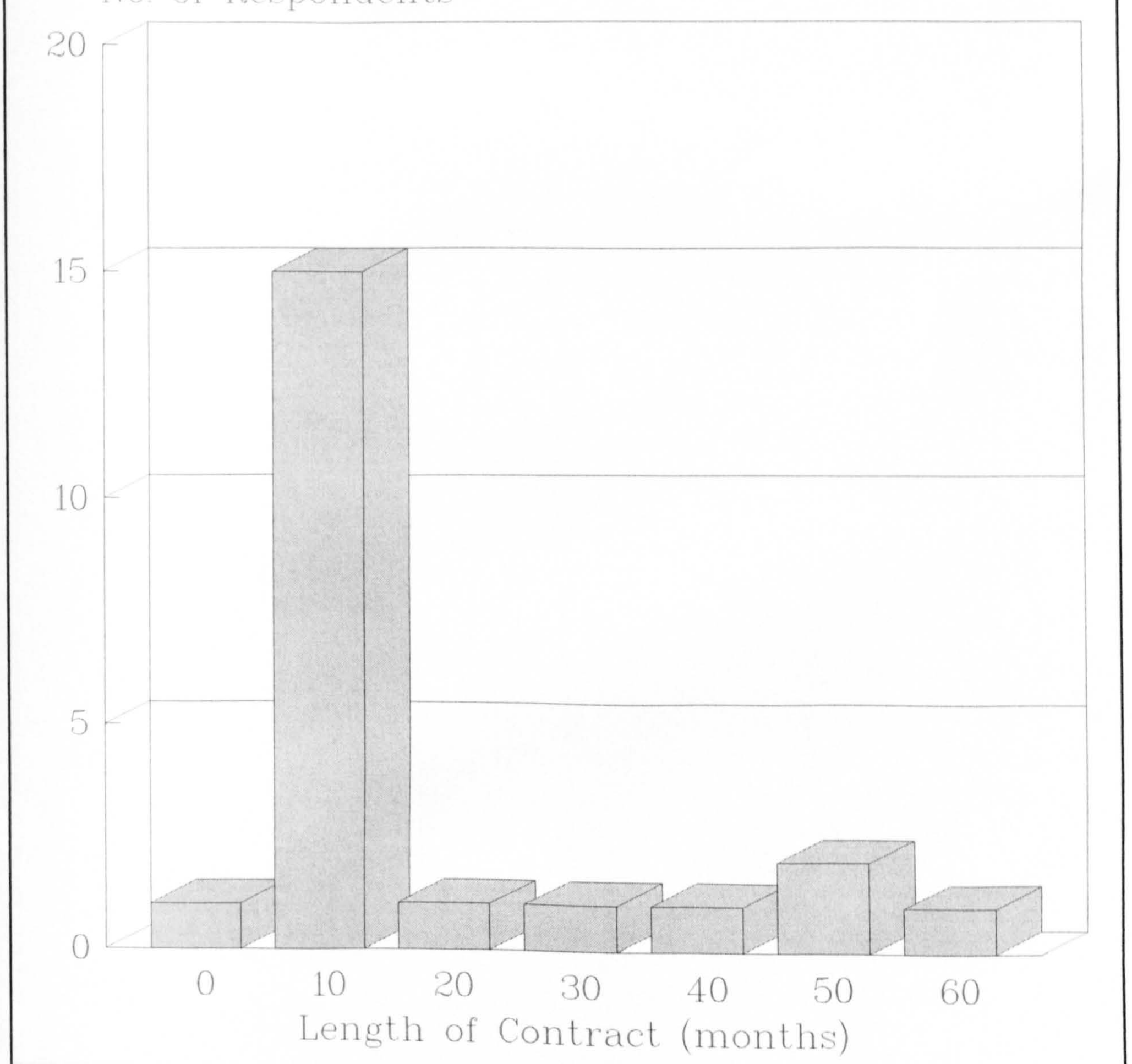
Std. Dev. = 23.13

Mean = 85.70

n = 24.00

FIGURE A5.7

Length of Contracts with Chain Restaurants (in months)



Std. Dev. = 16.06

Mean = 18.00

n = 22.00