

## **PROCUREMENT STRATEGY IN SUPER MARKETS: A CASE OF CHOPPIES CHAIN STORES**

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### **ABSTRACT**

*The purpose of this study was to investigate the challenges faced by the procurement department at Choppies Chain stores in Botswana which is one of the leading retail organisations in the region. The organisation has grown over the years and managed to expand across the country of Botswana. The main focus was to identify the strategies used by the Choppies procurement department and they overcome with the challenges as well to assess the importance of strategic procurement at the department. Given the current projected and increasing importance of the procurement function in contributing to firm profitability, it is important for firms to employ a systematic means of which procurement practices can contribute to the attainment of corporate objectives. The researchers collected both primary and secondary data. Primary data was collected using questionnaires and interview covering the significance of the procurement strategy of Choppies. The results viewed that Choppies indeed values procurement as a function and the strategies employed by the organisation can actually be standardised.*

### **INTRODUCTION**

Today's dynamic food industry generates a highly competitive environment for food manufacturers and food retailers alike. Part of this ever-changing environment includes consolidation, new retail formats, and globalization (Kraig, Kellie, Whipple, Mollenkopf, & Peterson, 2007). Procurement is identified by Mdlambo & Njerekai (2012) as the nerve centre of all retail activities because at the centre of the success of retail organisation is the procurement function. Procurement is a complex process and this has been worsened by the fact that procurement within retail organisations involves thousands of products and it is increasingly carried out at a more global scale (Mdlambo & Njerekai, 2012). The activities involved in procurement increase its complexity. Reardon, Timmer, Barret and Berdegu (2003) said that the decisions related to purchasing of products for retail shelves lies on the procurement officers in the supermarket. The increasing importance of the procurement function in contributing to firm profitability, firms need to employ a systematic means of deciding which procurement practices will contribute most to the attainment of corporate goals. Today, procurement plays a far more strategic role than it used to a few decades ago due to diverse factors (Rimkūnienė, 2013). This thus gives this research paper its purpose and significance. The study on Choppies is used because of its reputation across the region in food retailing.

### **PROBLEM STATEMENT**

Choppies headquarters is a central sourcing of materials for the Choppies stores. The distribution centres which negotiate price and enter into agreements with suppliers and charge fees for delivery and handling. Currently there are centralised distribution centres, located in Gaborone, Francistown, Lobatse (Botswana) Zimbabwe, South-Africa, Kenya, Zambia and Tanzania. This has enabled rapid expansion of new stores in Africa. The company's top 200 products are delivered in bulk to the distribution centres and then distributed to the stores. Other products are delivered from the source to the stores directly for instance, perishables (Mokgethi, 2011). Although this is a good initiative to grow the organisation, challenges are inevitable because the more the businesses grow the high the challenges and risks (Gebauer & Arie Segev, 2001). The research intends to examine or evaluate the strategies used by Choppies supermarket to reduce the challenges they face under their procurement department. This is a way of trying to find out what is it that Choppies is doing which can help other upcoming as well as existing firms to grow in terms of procurement. This research also allows for further studies by others researchers and scholars in the field of procurement with a concentration on food retailing.

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## **RESEARCH OBJECTIVES**

- Examine the procurement challenges faced by Choppies Chain stores.
- Assess the procurement strategies used by Choppies Chain Stores to curb the challenges faced.
- To advocate for standardised procurement strategy for Choppies Chain stores.

## **SCOPE OF STUDY**

This research is a purposeful evaluation Choppies procurement strategy, because it is ranked one of the biggest Chain stores across the region. Procurement is quite inevitable in retailing and this organization carries the procurement process on a daily basis. Challenges are to be expected within an organisation's procurement, what is important is whether the company has identified these challenges and more importantly how do they deal with these challenges which automatically require them to have a procurement strategy. The research thus gives a greater concentration on the procurement challenges and strategies in retail stores using Choppies as a case study.

## **LITERATURE REVIEW**

Choppies, which is the largest local Chain stores / supermarket chain, is a major organisation to market for local suppliers. Given the lack of manufacturing capacity in Botswana, the majority of products are imported. This appears to be coordinated through large-scale distribution agents like CA Sales and Distribution, Global Holdings, and Safari. These agents are exclusive distributors for certain suppliers, although it appears that there is some degree of competition to become an agent for a supplier. Distribution agents procure products from main suppliers on behalf of supermarkets (Reena & Shingie, 2017).

The procurement methods and requirements of supermarkets have important implications on suppliers. Internationally, supermarkets have moved away from spot purchases to adopting specialized procurement agents, dedicated wholesalers, or procuring directly from farmers and processors. This gives them direct influence over pricing, quantities, terms of delivery, and product quality. This also has the adverse effect of shrinking the supply base by using only **preferred suppliers** (Reena & Shingie, 2017). This is one of the procurement strategies that organisations can create for themselves. Having specialised procurement agents improves the overall performance of the organisation because these people are experts in their field therefore they can make better decisions as well make improvements where necessary.

Another strategy is that modern supermarket chains globally are also moving towards using their own centralized Distribution Centres to supply stores in the chain and are shifting away from the traditional store- by-store procurement and supply practices.(Reardon, Timmer, Barret, & Berdegu, 2003)Assert by writing that there is a trend toward **centralization of procurement**. As the number of stores in a given supermarket chain grows, there is a tendency to shift from a per-store procurement system, to a distribution centre serving several stores in a given zone, district, country, or a given region (which may cover several countries). This is accompanied by fewer procurement officers and increased use of centralized warehouses.

Reena and Shingie (2017) purpot that procurement officers seek to maintain diversity, year-round availability and products with assured quality and safety levels. They also lament that private infrastructure such as shipping equipments among suppliers and distributors is usually inadequate. This is a great challenge to the procurement office because it then becomes a hinderance to achieving procurement goals.(Reardon, Timmer, Barret, & Berdegu, 2003), Choppies distribution center uses a procurement strategy of using a core purchasing cycle. This is where they order from a group of regular vendors and use **outsourcing procurement** for their larger purchases. The company chooses an optimum mix of vendors who can provide the best prices on agreed terms. Although this procurement strategy seems to be working for the organization, challenges are inevitable. This is because as the business grows procurement is challenged and certain aspects of it such as replenishment plan are challenged and there is a need for changes (Reardon, Timmer, Barret, & Berdegu, 2003).



The challenges of procurement as outlined by (Isheke, 2007) include corruption, lack of professionalism, lack of skilled personnel, globalization, supplier related challenges, costs reduction. According to (Mumassabba, 2015) globalization attribute the rapid movement of goods and services across national borders. Further advocates that firms which cannot adapt to the global forces sooner or later lose their significance and struggle to survive but those who adjust and change as the globalization proceeds convert global opportunities into strategies that strengthens and makes them continuously relevant dealing with the threats from the environment more successfully. It was said that procurement needs to be practiced by experts in organizations and that firms should ensure that it is not done by other functions, it should rather be treated as an independent function. It was said that in order to achieve greater business success organisations should give more attention for long-term strategic benefits that are accessible through knowledge based buyers-suppliers relationship management, combined efforts between different functional divisions and increased focus on business intelligence (Rimkūnienė (2013).

### **METHODOLOGY**

The sources of information for the research are both secondary and primary data. The primary data was collected through questionnaires and interviews and some consultations. Secondary data was also collected from brochures, advertising materials and company official records.

Interviews are advantageous in the sense that they assist in gaining an insight and context into a topic and allow the respondents to describe what is important to them. Thus it enables the interviewer to analyse the data more easily and make good conclusions (Finn & Jacobson, 2008). Semi-structured interviews consist of several key questions that help to define the areas to be explored, but also allows the interviewer or interviewee to diverge in order to pursue an idea or response in more detail (Gill, Steward, & Chadwick, 2008). The semi-structured interview was administered at Choppies distribution centre specifically to the procurement department. Most of the information was obtained through Question/Answer format which was concluded in the process of highlighting the importance of procurement.

### ***Educational background of the employees who are involved in Procurement***

The education levels of employees show that 2 of total respondents are degree holders, 2 are diploma holders and 6 are secondary school. The results suggest that there is a need to improve training and development so as to provide room for career advancement in order to boost the education of the group. The study conducted by Isheke (2007), complement the fact that higher level of education will always reduce challenges in procurement.

The purpose of the question was to get an understanding of whether the employees clearly understand their roles and duties in the department. The questionnaire was given to 10 personnel. 8 members agreed that they do understand what is going on the department whilst 2 said the contrary as they are new in the department and they are undergoing training.

### ***Challenges Faced by Procurement Department***

Choppies Group has the highest retail market in Botswana and is listed on the Botswana Stock Exchange, it has more than 4500 employees, and despite this, it has gone through challenges of its own in recent years internally and externally. These challenges if not addressed might hamper the growth and progression of the company. In random checking during consultation with few staff, the challenges which were present in both the questionnaire and interview include among others lack of training was suggested by 9 staff, communication issues were highlighted by 6 members, lack of involvement of subordinates in the decision making process was informed by 5 members and supplier issues were raised by 10 members. The problems arise when a local supplier has signed the contract and does not comply and does not deliver as per the contract. Another issue raised concerning local suppliers and the selection process, which they said was long and time consuming in the sense that potential suppliers do not bring relevant documents and samples of their products and do not comply to the quality standards of Choppies or with the Botswana Bureau of Standards. When asked about globalisation as a challenge during the interview, the Chief buyer said that in their department, globalisation is more of an advantage rather than a challenge. This is because it helps them in market expansion and also creates more employment. Global procurement acts as a source of competitive innovation; provide opportunity for attracting the best talents for competitive advantage; provide opportunity to procure products of high quality and ensures stable supply of goods for competitive advantage (Mumassabba, 2015). One of the challenges that



seemed to be bothering the manager the most is that of lead time. It was indicated that suppliers did not deliver at the right time and having agreed to deliver at a particular time and they would do otherwise. This slow responsiveness disturbs the orders of the day. This is because, the procurement department receives orders from Choppies stores and promises to deliver the right quantities, at the right time and place but this is hindered when the suppliers do not deliver to the Choppies warehouse at the right time.

### *Are you Aware of the Procurement Strategy in your Department?*

This question was directed to the employees and not to management. A strategy should be communicated to the whole department and be in line with the overall company strategy (Gebauer & Arie Segev, 2001). Out of the employees who gave the responses, 31% said that they are not aware of any strategy as they are new, but other 69% said that they understand the procurement strategy.

### *Strategies of the Department*

In order to realise their degree of understanding of the strategy, participants were asked to explain the strategy. One of the participants handling local potential suppliers explained the importance of contract management which is a good strategy. If a supplier's product is approved the company will be listed on the Choppies database, only then can they start trading. It is important that the signed supplier abides by the contract and failure to do so results in removal of the supplier's company from database and therefore cannot trade. This on its own is a strategy which emphasises of contract management. The supplier has the obligation of delivering accordingly without failure.

Another strategy is the use of information technology. Choppies created a platform for the public which basically gives information on the management, store location, financial stand and all of their products. The website is a way of bringing the company to the people. The chief buyer also mentioned the use of software such as Enterprise Resource Planning (ERP) which he said played a significant role in improving efficiency. ERP integrates internal and external management information across the entire organization, embracing finance/accounting, manufacturing, sales and service and Customer Relationship Management. Its purpose is to facilitate the flow of information between all business functions inside the boundaries of the organization and manage the connections to outside stakeholders (Kiragu, 2012). Technology is another way of advertising the organisation which brings about another strategy of advertising.

Choppies invested enormous funds on advertising its products. Sponsoring events and radio and television programmes is a way of exposing the organisation as mentioned in the interview. Choppies has done a tremendous job in taking the company to the public as it has become a household name and a company to reckon with in terms of competition. This implies that procurement and marketing departments work together in doing this. It is thus important for different functions within the organisation to work together for business improvement by recognising each other's significance in achieving organisational goals and objectives.

Investing in logistics is another strategy of Choppies. The organisation has planted warehouses across the country and has about 200 vehicles to improve efficiency. Choppies has competitive advantage over its peers in key areas such as geographical foot print, distribution network and customer base, in-house logistics, supply, and distribution, and bulk purchasing power. Procurement is not only about purchasing but also meeting customer requirements which promotes responsiveness and efficiency.

Choppies distribution centres use a procurement strategy of using a core purchasing cycle. This is where they order from a group of regular vendors and use outsourcing procurement for their larger purchases. The company chooses an optimum mix of vendors who can provide the best prices on agreed terms. As the number of stores grew they have established distribution centres serving several stores in a given zone or district. This is accompanied by increased use of centralized warehouses which increases control of procurement cost as well as other costs associated with decentralising. The procurement manager was quite confident and indicated that the choppies negotiation skills were quite good and helped in striking good deals and getting everything done. A good negotiator has good perceptive skills and intuition.



### ***Are the Strategies Yielding the Anticipated Results?***

Most participants seemed to be pleased with the strategies put in place, indicating that if the strategies did not work, the organisation would not be where it is today. They also appreciated that there is always room for improvements because not everything is perfect. 8 participants agreed that the strategies were yielding the good results while the 2 responded otherwise. The research intended to examine the strategies used by Choppies supermarket with a concentration on procurement and at the same time finding out the challenges faced by the department as well as how they overcome them. **The study was guided by the objectives** and the outcomes of the study are as follows:

### ***What are Challenges Faced by the Choppies Procurement Department?***

It has been observed that Choppies procurement department has challenges like any other organisation would. Some of the challenges they mentioned are supplier related such as the supplier's failure to deliver accordingly, internal communication problems, lack of skilled labour and lack of involvement of other staff members in the decision making process. These issues can bring about serious problems within the department and can even hinder growth. There is a need to attend to such challenges as soon as possible.

### ***How does Choppies Procurement Department Curb the Challenges they Face?***

The department seemed to have been coping with the challenges that they have very well although some of the solutions have not been implemented yet. The management and suppliers communicate regularly to avoid supply issues and to keep the relationship stable. Communication channels such as e-mails and making calls are the key communication tools used in the department as they are faster and save costs. It is however important that the department improves its internal communication through holding meetings regularly as already indicated above. Management must realise the importance of having a good relationship with employees and understand the importance of improving their skills.

### ***What is the Strategy(s) used by the Procurement Department?***

The management identified quite a number of strategies applicable to the department. These strategies include the use of information technology, investment in advertising, investment in logistics, contract management, and the core purchasing strategy as well as managerial skills of negotiation and analytical skills. These strategies are applicable to the procurement department and can also apply to the organisation at large because some decisions taken in strategy design and implementation require the blessings of executive committee. It is evident that the strategies are working for the organisation looking at its growth and the position of retail business in the region. Further, the department suggested that it's important to improve supplier relationship. In the process of consultation, 8 people said that they should be involved in the decision making process of the department, 9 suggested regular departmental meetings to improve communication and 9 said that they would like to go on training and skills development programmes.

### ***How important is the Procurement Strategy to the Organisation?***

It is important to applaud the organisation on realising that procurement plays an integral part in the organisation and thus should be an independent function. The activities carried out in the procurement department ensure flow of goods, services and information across the retailing business. By looking at the growth of Choppies stores in Botswana over a period of time and the extension of stores to some countries in the region, it could be assumed that the procurement strategy has hot immense value in the process.

### ***CONCLUSION***

The changing nature of the retail industry indicates that skills such as the ability to see the big picture, the ability to think outside the box, cross-functional coordination, team work and strong communication skills are critical to the success of today's global and highly complex business environment. Skills such as business process improvement, the ability to plan and prioritise, decision-making and leadership will become increasingly important as the organisation develops and matures. Procurement must be integrated with the other aspects of logistics functions within the organisation, such as Warehousing, Distribution, Finance, and human resources. It can be concluded that organisation



must make strategy development a priority and find ways to create a competitive advantage. Procurement can be used as leverage in the creation of the overall company strategy. Therefore team-work is an important factor in achieving the set procurement goals and strategies which is possible by the tool of communication. It is quite possible that if management can put in extra effort the strategies outlined can definitely be standardised.

### RECOMMENDATIONS

The research indicated that there are significant skills shortages in the procurement industry. It will be necessary to have Purchasing staffs proficient in computer skills, team building, and business procedures. Supplier performance measurement is another component that the department can take into account. In addition to evaluating supplier contracts on a regular basis to ensure performance and compliance from vendors, procurement departments should also be looking for ways to improve their lasting relationships with them. The department should improve communication by team building workshops. The management should involve the staff in meetings with suppliers so that they can be given the platform for better negotiation with suppliers. The organization should strategically locate their stores across the country. Placing many stores in an area can bring about problems with the organization and control of processes may be difficult and become too complex. The organization therefore should place stores in a more convenient way without increasing cost and not compromising customer service.

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