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Food Industry Perspectives on Commodity-Procurement Strategy

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The dynamics of the food industry generate a highly competitive environment for both manufacturers and retailers. Consolidation, new retail formats, and globalization have changed the face of the industry and, in many cases, have shifted the balance of power away from food manufacturers toward food retailers (Dobson et al. 2001). As such, many food manufacturers face more intense pressure to contain costs while improving both quality and service. In response to this pressure, food manufacturers often concentrate on developing effective procurement strategies.

Commodity-procurement strategies can have a significant impact on company performance (Monczka, Trent, and Handfield 1998). In dealing with food commodities, buyers face the risk of inadequate supply as well as the price risk inherent in seasonal and potentially volatile commodity markets. Perishability is often a concern as well. Commodity procurement represents an opportunity for food manufacturers to focus on profit improvement, which is critical for survival in a competitive environment (Hayenga 1979). Commodity procurement also represents opportunities for service or quality enhancement for retail customers.

We evaluate primary characteristics considered in food manufacturers' commodity-procurement strategies using a case-study approach. Those primary characteristics are categorized as either

product constraints, company constraints, or service requirements. We use a case-study approach to determine which characteristics affect commodity-procurement decisions.

Preliminary results suggest that some factors are important for all participants while other factors varied in importance based on the strategic role that each participating Commodity Procurement Department played within the firm. In general, company constraints were less influential than product constraints or service requirements.

References

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