**MAKERERE UNIVERSITY BUSINESS SCHOOL**

**SEMESTER TWO, ACADEMIC YEAR 2023/2024 COURSEWORK ONE TEST**

**FOR THE DEGREE OF**

**BACHELOR OF PROCUREMENT AND SUPPLY CHAIN MANAGEMENT OF MAKERERE UNIVERSITY.**

**COURSE NAME : SUPPLIER SOURCING AND EVALUATION IN**

 **PROCUREMENT AND SUPPLY**

**COURSE CODE : PSM2206**

**YEAR OF STUDY** : **TWO**

**DATE : SATURDAY FEBRUARY 24, 2024**

**TIME : 10:00 – 11:00 AM**

**INSTRUCTIONS**

**ATTEMPT ALL QUESTIONS**

**IN GROUPS OF 5 MEMBERS, SUBMIT HARD COPIES TO YOUR RESPECTIVE CAMPUS LEAD FACILITATOR**

**THIS TAKE-HOME COURSEWORK TEST CARRIES 20 MARKS**

**SUBMISSION DATE IS ON MONDAY MARCH 11, 2024 AT 5:00PM**

**CASE: SUPPLIER SOURCING AND EVALUATION AT LEINZ LTD**

***Read the case below and answer the questions that follow. Note: The information concerning the case company is purely fictitious and has been prepared for student purposes only. Any resemblance to any real organization or person is purely coincidental.***

**Introduction**

The Leinz Company headquarters’ is located in Texas, Leinz is currently one of the most global out of all the food companies based in the USA. The company has become famous for their brands which are globally well recognized and provides food products for over 200 countries. The company in over 50 of those countries is either one or two in market position.

The Leinz Company is named after its founder, James Leinz. James Leinz’s number one business principle was that every profit should be fairly earned. The actual year the Leinz Company was founded was 1869. James Leinz and Calvin Noble formed a partnership and named their new company Leinz, Noble and Company. It was headquartered in New Orion. They made and distributed horseradish, sauerkraut, vinegar, and pickles. This business venture ultimately failed in 1875. The following year Leinz started his own company under his own name, James Leinz Company. Like his previous business venture, this new company made and distributed many similar items. It quickly became famous for their pickles and the Leinz Company was dubbed the ‘pickle king’. During the 1960s the Leinz Company acquired several smaller companies and broadened their product line. These companies included, but are not limited to, Reymer and Bros., Inc., Hachmeister, Inc., StarKist Foods, and Ore-Ida Foods, Inc. In the 1970s, Leinz continued to make remarkably smart and timely acquisitions. The acquirement of Hubinger Company in 1975 allowed Leinz get ahead of the new found demand for high-fructose corn syrup right when the price of sugar was about to soar due to heavy taxes that were placed by the government on imported sugar. Corn syrup was heavily produced in the USA, and this meant that in order to save money food producers would be switching from sugar to corn syrup. In 1978, Leinz acquired weight watchers

international, just ahead of the fitness craze that swept the nation. By the 1980s Leinz began to extend its empire into what would be considered Third World countries. The company invested in countries such as Uganda, Korea, Thailand, and China, long before it was popular to do so.

Recent history has shown that Leinz continues to do good business. The company is still headquartered in Texas and continues to be a major employer having more than 32,000 employees around the world. In 2008, Leinz made more than US$10 billion in revenue and US$844 million dollars in net income. Condiments, frozen foods, soups, beans, and baby food continue to be the most important products.

**Leinz’s sourcing of Ariba**

In March 2004 Ariba, Inc. announced that the Leinz Company had selected Ariba as a partner and key component in its enterprise-wide cost reduction programme. Leinz had just conducted Project Delta, a review of all business operations which highlighted five key areas for cost improvement. Sourcing was identified as one of these areas. Leinz’s sourcing policies have remained virtually unchanged throughout the company’s history. When reviewing the company’s needs in a partner, and goals for the programme, key components included industry knowledge, flexible technology, global capabilities, and a well-defined process. After conducting market research and running test projects with Ariba, Leinz chose Ariba as a long-term partner and committed to sourcing at least US$500 million in goods and services through Ariba. Management at Leinz hoped that the Ariba services would enable the company to better manage spend and supply chain processes.

Leinz purchased Ariba Buyer™, Ariba Analysis™, Ariba Contracts™, and Ariba Invoice™ to meet the company’s goals (Ariba Signs, 2007; ‘Heinz selects Ariba spend management as part of global cost reduction program; Ariba solutions will assist Heinz in managing the company’s global spend’, 2004). These services assist in managing and analyzing data and information regarding how and where the company is spending money. Spend visibility and analysis can improve SCM on all levels as it will improve the information for Leinz to both make internal decisions and share with suppliers leading to more productive partnerships. The Ariba-based services also assist Leinz in identifying and selecting suppliers, developing and managing contracts, and improving invoicing and payment functions. The focus on SCM, sourcing, and Ariba offerings have involved Leinz in e-sourcing.

**Supplier integration**

Leinz has acquired a series of products and services from Ariba in order to gain better control of the company’s sourcing function. Key goals of this type of programme include cost savings, standardized processes, visibility of spend information, improved supplier relationships, contract management and compliance, and a faster payment process (Binns, 2004). Leinz has committed to use the Ariba programme to purchase a large dollar volume of the company’s global spend. In the proposed areas, the company has included global sourcing functions and all major spend categories with a focus on indirect materials and services (‘Leinz selects Ariba spend management as part of global cost reduction program; Ariba solutions will assist Leinz in managing the company’s global spend’, 2004). The ability to examine sourcing in a variety of areas allows an organization the option to use e-sourcing tools to focus on areas with the largest opportunities for savings. Spend visibility and analysis software is used to give the organization’s managers the information needed to know where these opportunities lie.

Part of the focus of the e-sourcing process, Leinz has also begun to use online request for quotations and online auctions to drive market competition. As mentioned before the general strategy is to use these tools with a many supplier strategy. The reasoning behind this strategy is to force market competitiveness when there are little differences between suppliers and a significant number of suppliers exist which can service the required account equally, aside from price. The Ariba software includes the ability to collect both supplier pricing and information during request for information, proposals or quotations. Flexibility in the software allows buyers the opportunity to use this software for other strategies.

When beginning the sourcing process Leinz works with the Ariba commodity experts to review their spend information, highlight areas of opportunity and begin to identify suppliers. Ariba’s supplier identification services can be used to research potential new suppliers for the product or service in question. An online request for information can be used to collect qualitative information about new suppliers. Collected information can be used to evaluate suppliers in any strategy as pricing negotiations can be kept separate from the online project if needed.

The software provides the ability to collect, store and analyze information very efficiently for current and future use. Leinz is, of course, also using traditional online request for quotations and online auctions. These projects can incorporate qualitative information, but ultimately focus on

pricing with a major goal of cost savings. The global level of this initiative allows the company to auction large volumes of products and services making the potential award more interesting to participating suppliers. The Ariba software enables Leinz to state service or product requirements included in the bid package to provide as much information up front to the participating suppliers. Providing requirements up front in an automated format reduces the length of contracting process as the terms have already been stated. Products placed on an online auction can be bid as groups of items or separately depending on the award scenario determined by the Leinz team. At the

conclusion of the auction, depending on the terms given, Leinz may decide to award to any participants as the supplier with the lowest price does not always offer the highest overall value.

The concepts of total cost and overall value are important to remember when using e-sourcing tools such as online auctions.

**Supplier management**

 It can be difficult for managers to understand the overall cost or opportunities involved in partnering with suppliers. Automated scoring features available on the Ariba software help Leinz to track and rate all aspects of proposals including services, quality and pricing. These aspects incorporate a weighted approach to vendor management which enables managers to individually weight the different aspects or criteria of a vendor and score each vendor individually against these criteria. Ultimately, an overall weighted average provides managers with a better comparison of the total cost associated with each vendor.

Leinz can also use the software to track internal use of the programmes as well as buyers’ compliance of purchasing products through approved, contracted suppliers.

Continuous improvement should remain a focus of the Leinz procurement process as the company learns to evaluate and review the data for these issues as well as working to improve supplier performance. Contracts and invoicing tools are used to track orders, invoicing and payments between Leinz and suppliers. Improved information such as this enables Leinz to improve the data flow with suppliers and monitor their performance.

These e-sourcing tools focus on managing the supplier relationship, and are just as important to meeting long-term goals as the cost savings tools used during the negotiation phase. Supplier management can also be tracked and scored on the Ariba tools, allowing Leinz to track and share information across the global organization regarding suppliers. This option provides buyers with a quick view of which suppliers are currently providing products or services to the company, what the contracts include, and how their performance has been throughout the relationship. All of the available information can improve managers’ ability to make better decisions regarding managing supplier relationships.

**E-sourcing considerations**

E-sourcing describes the many processes which involve the internet when facilitating acquisition. Traditional supply chains use many paper transactions including request for quotations, requisitions, orders, invoices, shipping and receiving documents, and so on.

E-sourcing uses technology to automate these processes in an effort to save time and money. E-sourcing processes can also integrate the supply chain by improving the ability to share knowledge in a real-time situation. A recent trend in the global market has been for companies to use electronic data interchange (EDI), which standardizes communication of data between computerized systems within the supply chain. This system has improved data transfer, but is only the beginning of a full e-sourcing process.

E-sourcing goes beyond computerized data transfer to involve the use of online catalogues, online request for quotations, online auctions, and real-time inventory tracking. Online catalogues may be published by vendors, third parties, or buyers. These provide part information and pricing along with the ability to buy online as needed. Many catalogues can even be customized per individual customers to include custom products and prices and have limited access to authorized purchasers within an organization.

Online request for quotations and auctions attempt to standardize and automate the tedious sourcing and negotiation processes. Companies have previously sent out paper request for quotations and manually gone back to suppliers to request updated pricing based on market feedback. Online sites, such as Ariba’s, allow buyers a single point-to-post requirements, invite suppliers, collect information and pricing, and conduct real-time auctions to identify the best prices in the market. This streamlines the process for both buyers and suppliers. Request for quotations and online auctions have the best results when a firm is using the many-suppliers strategy as this strategy allows many suppliers to compete against each other on a cost basis and a long-term partnership is not the primary goal. Online request for proposals, however, do not always result in online auctions and can also be used in conjunction with other SCM strategies successfully.

**Outsourcing considerations**

Leinz has made the decision to outsource as part of their supply chain strategy. Outsourcing is a means of procuring from external resources services or products that are normally part of an organization. In the case of Leinz, management choose Ariba to be their outsource provider in the area of procurement and vendor selection. The strategy, however, was not to completely replace the procurement function at Leinz, but to outsource key functions and activities to Ariba. Sourcing projects are performed by both Leinz sourcing teams and Ariba experts. In this way, the cost savings achieved is not in the elimination of the sourcing function and related labour at Leinz, but is the cost savings achieved from being able to streamline the vendor selection process. ‘Now’, as Scott Allen, Vice President and Chief Procurement Officer at Leinz, stated, “we can reallocate the resources to more productive activities”.

The outsourcing decision has become a major strategic focus in the business world. As society overall moves towards increasing specialization, outside expertise can be found for many functional areas of a company. One of the biggest factors contributing to the growth of outsourcing is the extensive low-cost knowledge sharing and informational services that now exist due to advances in technology, particularly the internet. The internet provides a communication and collaboration platform that helps support the global reach of a company that was previously limited to local outsourcing options. This is certainly evidenced in the relationship between Leinz and Ariba, as these advances in technology have allowed for entire sourcing projects and vendor selection activities to take place online.

Significant planning and analysis must take place to ensure the outsourcing strategy will be effective. The mere fact of turning over one of a company’s functions to an outsourcing provider does not, in and of itself, result in cost savings and streamlined processes. The main focus of this planning and analysis should be to identify a company’s core competencies. These core competencies are what give the company their competitive advantage, and should never be outsourced. Other non-core activities can then be identified and considered for outsourcing. One of the risks of this process is that a company will incorrectly identify a core competency as a non-core activity. Further, non-core activities identified should not be automatically outsourced. Just because it is not a company’s core competency does not mean that an outsourcer could perform the function more effectively.

Another risk to the outsourcing decision is the potentially negative impact in can have on a company’s employees. When jobs are outsourced, morale can be impacted as employees fear they may lose their jobs. In the case of Leinz, they mitigated this by not outsourcing the entire procurement function to Ariba, but by leveraging the core competencies of Ariba to support and improve the efficiency of the process.

Gaining outside expertise in the area of sourcing was the main outsourcing advantage that Leinz achieved in choosing Ariba. Specific focus was on the needs inherent in the vendor selection process, including vendor evaluation, vendor development, and negotiation. Vendor evaluation is the process by which vendors are evaluated based on their potential to become an effective supplier. Leinz, with an extensive need for various suppliers’ expertise and collaboration, must be assured that the vendors they select are going to meet their core supply chain needs. Ariba has helped Leinz build a vendor database complete with detailed specifications, market information,

and supplier capabilities. This information helps to identify suppliers with strengths in financial stability, management quality, research initiatives, technical ability, and potential for entering into a long-term relationship.

**Selecting outsourcing partners**

 Leinz can then weigh potential suppliers and evaluate their ability to meet critical supply chain needs. The second critical piece of vendor selection is found in the area of vendor development. Ariba supports Leinz in this area by helping to identify suppliers that are going to integrate effectively in their supply chain. Ariba has the expertise in making sure suppliers in their catalogue have an appreciation of a company’s quality requirements, product specification, schedules and delivery, payment systems, and procurement policies.

Finally, a major consideration in selecting the best vendor at the most favourable price is to execute effective negotiation strategies. These strategies are aimed at developing contractual relationships with suppliers. The contractual relationship, however, is more than just deciding on a price. The negotiations should be aimed at cost, but also focus on quality, delivery, and payment as an overall strategic offering.

For Leinz, the specific negotiating strategy employed is that of competitive bidding, whereby a sourcing agent has many potential vendors provide a quotation on supplying the product. By outsourcing to Ariba, Leinz is able to conduct their competitive bidding strategy online, leading to a broader vendor base and greater cost savings over traditional procurement methods. In addition, the online community and auction site that Ariba provides allows for both buyer companies, like Leinz, and supplier companies establish some baseline degree of mutual trust and belief in each other’s competency, honesty, and fair dealing.

Ariba was able to provide Leinz with an extensive vendor base by leveraging their core competencies of identifying, attracting, and evaluating suppliers on a global scale.

Ariba compiles prospective suppliers using a rigorous process to ensure Leinz obtains the best quality from the best suppliers worldwide. These global opportunities are supported and coordinated by Ariba’s multi-language and multi-currency capabilities. The global vendor selection ability that Ariba has built allows for Leinz to make the most efficient and cost-effective sourcing decisions. For example, the vendor selection options include regional suppliers based on buyer locations for efficient and timely delivery. Also included in the vendor selection options are suppliers in global markets. This allows for Leinz to identify the lowest cost county supplier for commodities needed. Given that commodities are typically easily and inexpensively shipped, Leinz can focus on the lowest cost supplier regardless of the country in which they operate.

Ariba also uses technology and information management to add value to the Leinz procurement process. Vendors are catalogued in a comprehensive database that includes information on their detailed specifications, market information, and overall capabilities. Leinz can search supplier profiles to find qualified suppliers. Further, Leinz can search supplier catalogues to review offerings. This single point supplier catalogue interaction as provided by Ariba results in significant cost savings for Leinz, who would otherwise need to manage these supplier relationships using multiple point-to-point communications. To effectively train its buyers, Leinz uses Ariba’s offering of extensive online documentation, training, and testing tools. Overall, Ariba’s technology offerings allow Leinz to have increased management visibility into sourcing projects, which keeps the sourcing organization more focused on the implementation of specific strategic company goals and objectives.

**Questions**

**Based on the information from the case above;**

1. Explain the significance of supplier sourcing to Leinz company.
2. Examine the supplier sourcing enablers for Leinz company.
3. Explain the supplier assessment criteria used by Leinz company.
4. Describe how Leinz and Ariba partnership has enhanced Leinz’s sourcing effectiveness.

THE END