

Case study aalsmeer flower auction business essay



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Aalsmeer Flower Auction in the Netherlands offers global growers, wholesalers and exporters a central marketplace in which to trade flowers and plants. It gives them access to a range of marketing channels and financial information, storage and logistics facilities. Within the floricultural value chain, growers are the initial suppliers. Demand comes from exporters, importers, wholesalers, cash and carry stores, and retailers. Within this chain, auctions play a mediation role - they bring together suppliers and buyers and so determine prices. Sometimes these are world prices, since many parties throughout the world use them as price indicators. Another role is to increase efficiency by breaking large consignments from growers into smaller amounts for buyers.

This chain was originally dominated by growers who were able to sell what they produced in a steadily growing market. The auction was able to determine how to conduct business and took a fairly passive role. Three developments threatened that comfortable position.

The emergence of alternative, electronically driven flower markets.

The auction met the needs of growers, but not those of retailers. To satisfy changing consumer tastes the retailers asked for fresher products, more varieties, smaller quantities and multiple deliveries each week. They felt demand should have more influence on supply.

Mergers and acquisitions among retailers increased their size and power. At the same time growers became more professional, which led to a more formal way of doing business and interest in new, perhaps electronic, ways of selling.

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The board of the Aalsmeer Flower Auction felt that they had to react to these changes to support its business processes and to connect with suppliers and buyers. The initial objectives of these e-business activities were to enable innovation, redefine the value chain reduce transaction costs, strengthen the link with wholesalers and retailers, and to increase market share. The board hired an IT consultant and set up a team to develop a new information system as part of their survival strategy.

Source: Boddy, Boonstra, Kennedy (2008)

Task

As the IT Consultant you have been hired to recommend how the use of modern information systems and technology might ensure the continued success of the Aalsmeer Flower Auction.

Write a management consultancy report that addresses the following:

Identify and analyse the business and information requirements of the board of the Aalsmeer Flower Auction, suggesting a suitable information strategy which will help them to achieve their business objectives and ensure competitive advantage in the industry. (35%)

From your knowledge of systems theory and systems development discuss an appropriate methodology which would help the Aalsmeer Flower Auction to identify and develop a new information system which would help them to cope with a changing environment. (35%)

Consider the impact and effectiveness of a new system for the organisation, management and employees. (25%)

4. Your answer should be set out as a formal report and written in good business English. Presentation should be neat and should include appropriate tables and diagrams, a bibliography and word count. Any appendices should be minimal. (5%)

Question 1

Introduction

Aalsmeer Flower Auction is the largest flower auction and the largest commercial edifice in the world (Guinness World Records, 2001) located in Netherlands offers global growers, wholesalers and exporters to trade flowers and plants. It is a growers cooperative with over 3, 500 member companies. Most of the flowers come from the Netherlands but some also come from Israel, Kenya, Zimbabwe, Zambia and other foreign countries. (Aalsmeer, citedplantsgalore. com, 2009) The flowers around 20 million stems per day are waiting for over 1, 000 buyers to be bid and there are 13 auction rooms available in the unique form of auction that is distinctly Dutch. (Trunick P., cited logisticstoday. com, 2007)

1. 1 Objective

From the case study, I have defined the current situation of Aalsmeer Flower Auction and set up several objectives that we have to achieve in order for the company to improve their management and move forward.

Enable to cope with the change of consumer tastes

Intimacy relationship with consumer and supplier

New technologies opportunities - by developing a new modern information system and technology within the company

Create efficiency and effectiveness works

Increase trade outside the auction

Increasing of power of retailers -threats rather than objectives

Reduce transaction cost

1. 2 Identify and analyse the business and information requirements of the board of the Aalsmeer Flower Auction

Board of Directors

Representative Directors

Managing

Director

Operational Director

Commercial

Director

Finance

Auction

Logistic

Mediation

Marketing and Sales

Human Resource management

Information Technology

Figure 1 Aalsmeer Flower Auction Organization Chart

According to case study, I have indentified the current layout of Aalsmeer Flower Auction and department within the organization. From the figure 1 shows that currently there is very little data shared between the departments. This has resulted communication within organization having a big problem that needs to be rectified which could result in the organization being changed to fit a more efficient pathway where data can be freely shared.

As illustrated in the organization chart, the Aalsmeer Flower auction uses two main channels to play its role as a mediator among growers and buyers:

Auction: by using the auction clock and most of the supply from growers is divided into smaller units to be sold by exporters and wholesalers. (Van Dantzig T and Boonstra A., 2005: 30)

Direct mediation: teams of mediators combine specific supply and demand to generate transactions for day trade and futures. In this process, they often follow the auction prices. (Van Dantzig T and Boonstra A., 2005: 30)

Breeder

Commissioner

Auction

Wholesalers

Retailers

Importers

Cash and carry

Exporters

Figure 2 Flowers and Plants

Netherlands flower auctions play an important role in the international chain of flower and plant sales due to Netherlands is a flower exporting country. Growers are the initial suppliers and demand comes from exporters, importers, wholesalers, cash & carry and retailers.(See Figure 2)

In the organization, auctions play a mediating role between growers and exporters buy bringing supply and demand of product together. The role of Dutch auction is also to increase the efficiency of transactions by breaking up large numbers of uniform products from grower into small amounts for buyers. (Haak, M., et al, 1992)

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1. 21 Value Chain

The value chain model highlights specific activities in the business where competitive strategies can best be applied (Porter, 1985) and where information systems are most to have a strategic impact. The model identifies specific, critical leverage points where a firm can use information technology most effectively to enhance its competitive position. (Laudon and Laudon, 2009: 91-92)

Between the auction and mediation departments, there is a cultural difference. Employees of both departments see each other as competitors. In the past, the emphasis was clearly on auctioning, while mediation was mainly a by-product. Now, business is gradually moving to mediation but the mediation process is following the price setting at the auction. (Van Dantzig T. and Boonstra A., 2005: 31) As the result, both channels are strongly organized, just the cooperation of the two channels gains advantage for growers and buyers. They can choose which percentage of selling or buying they want to do in each channel and therefore they are almost assured of selling or buying what they want.

The departments in Aalsmeer Flower Auction, such as logistics, IT, finance and human resource management are providing all kind of services to the commercial auctioning and mediation department. The following are the most activities in each department:

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Support

Administration and Management

Human Resource Management (HRM)

Procurement

Information Technology

Outbound

Logistics

Customer

Service

Sales and

Marketing

Operations

Inbound

Logistics

Mediation

Auction

Primary

Activities

Figure 3 Value Chain of Organization

Above the graph state out the primary value chain activities. The value chain concept as postulated by Porter (1985) suggests that achieving competitive advantage begins with an effort to develop deeper organizational expertise in performing certain competitively critical value chain activities, deliberately attempting to harness those capabilities that strengthen the firm's strategy and competitiveness.

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Inbound logistics:

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activities will bring input into the organization, such as receipt of good, warehousing etc.

Outbound logistics:

activities that dispatch products and distribute them to clients

Operations: activities that transform the product into its final form, whether it is physical good or service

Marketing and sales:

activities concerned with locating and attracting customers for the purchase of the product - for example advertising

-

Customer service:

activities that provide service and support to customer, for example maintenance, installation etc.

-

Organisation infrastructure:

activities that support the whole value chain, for example general management and financial planning etc.

-

HRM:

activities concerned with training, recruitment and personnel resource planning

-

Information Technology:

activities that identify and develop ways in which machines, software and other kinds of technology can assist the firm's activities

(Curtis G and Cobham D., 2008: 61)

The rapid growth of information technology has enabled business to exploit new opportunities to change the nature of competitor. The Value Chain allows an understanding of the way competition affects strategy and the way information provision, in its turn, affects competition. (Curtis G and Cobham D., 2008: 60)

Information technology is used to reduce the cost of the information component of each activity. For example, inbound logistics activities use IT to provide information on goods received and use this to update inventory records. Financial planning, an infrastructure activity, will use IT to collect information provided by many of the firm's activities to generate forecasts on future performance. IT may also be used to increase product differentiation for specific customer needs. For example, operations can use information technology to control the production process to generate custom-made output for customers

1. 3 Information Strategy

From the case study , I will suggest Porter Five's Force as information strategy for Aalsmeer Flower Auction. Porter Five's Force is a simple model but powerful tool for understanding where power lies in a business situation. It helps you understand both the strength of Aalsmeer Flower Auction current competitive position, and the strength of a position they are looking to move into.

Question 2

2. 0 Recommend information system Supply Chain Management Systems

Few products or services exist that do not require some supply chain management. The more suppliers that are involved the more complex as Aalsmeer Flower Auction the supply chain management becomes. Even if the entire supply chain from basic raw materials that come from the earth or out of the minds and actions of people, is not considered there is still a supply chain that must be attended and in today's global economy competition is growing every day, supply chain management plays an ever important, strategic and expanding role in delivering results once Auction are aiming to launch low cost vehicles and recognized as world best-in-class products.

From the case study, I will recommend Supply Chain Management System(SCM) which would help the Aalsmeer Flower Auction to cope with a changing environment.

The ability of a supply chain to compete based on cost, quality, time,

flexibility, and new products is shaped by the strategic focus of the
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supply chain members. A firm's position on the competitive priorities is determined by its four long-term structural decisions: facility, capacity, technology, and vertical integration, as well as by its four infrastructural decisions: workforce, quality, production planning and control, and organization. The cumulative impact of infrastructural decisions on a firm's competitiveness is as important as long-term structural decisions. Manufacturing strategy focuses on a set of competitive priorities such as cost, quality, time, flexibility, and new product introduction. It classifies production processes to five major types: project, job shop, batch, line, and continuous flow. " Make-to-stock", " assemble-to-order", " build-to-order" and " engineer-to-order" are a few of the manufacturing strategies used to address competitive priorities to compete on the market place.

Make-to-stock involves holding products in inventory for immediate delivery, so as to minimize customer delivery times. This is in the category of push system. Demand is forecasted and production is scheduled before demand is there.

Assemble-to-order is the strategy to handle numerous end-item configurations and is an option for mass-customization. Assemble-to-order items use standardized parts and components. They require efficient and low cost production in the fabrication process and flexibility in the assembly or configuration stage to satisfy individualized demand from customers.

Build-to-order, on the other hand, produces customized products in low volume after the manufacturer receives the orders. Build-to-order items are usually in very small volumes and require high technical competency, high product performance design, and effective due date management.

- SMC systems will give Aalsmeer advantages within the organization, such as:

Helps to decide when and what to produce store and move

Rapidly communicate orders

Track the status of orders

Check inventory availability and monitor inventory levels

Reduce inventory levels, transportation and warehousing costs

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Track shipments

Plan production based on actual customer demand

Rapidly communicate changes in product design

Intimacy relationship with consumer and supplier

Create 24 hours emergency support

Aalsmeer can also use SCM systems to provide information to coordinate all of the business processes that deal with customers in sales, marketing and service to optimize revenue, customer satisfaction and customer retention. This information will help Aalsmeer examines customer orders, factory schedules, carrier rates and availability and shipping costs to produce optimal lowest-cost delivery plans. (Laudon and Laudon, 2010: 87) The SCM systems can adapt to use with other systems within the organization such as the system in the warehouse to help tracking and controlling the flow of finished goods from suppliers to its customers etc

Question 3

3. 0 Consider the impact and effectiveness of a new system for the organization, management and employees.

SCM systems create a lot of impact and effectiveness toward the Aalsmeer Flower Auction.

Below are the impact and effectiveness by using SCM systems:

3. 1 Organization

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The impact of supply chain management extends beyond reducing costs (Lambert and Cooper, 2000; Ellram and Liu, 2002; Farris and Hutchison, 2002), and it has been suggested that excellence in managing supply chains is directly linked to superior organizational performance (D'Avanzo et al., 2004; Ellram et al., 2004; Christopher, 2005).

Whilst the importance of supply chain management is understood, its influence on organizational financial performance is less clear (Frohlich and Westbrook, 2001). There are three key areas where supply chain management can affect an organization's financial performance: profitability, liquidity, and productivity or asset utilization

(Christopher, 1998)

An organization's profitability is the surplus of the revenue generated from sales

(price) less costs. Supply chains can improve both prices through increased service levels and costs by reducing operating expenditure.

Liquidity is the ability of an

organization to meet its obligations as and when they fall due. Cash-flow management is an essential enabler of liquidity and supply chain management can make a positive contribution to working capital reductions and reducing the cash-to-cash cycle time through, for example, reductions in inventory. Productivity measures the efficacy of an organization in generating sales from its fixed (e. g. capital production equipment) and current (e. g. work-in-progress, raw materials) assets. The efficient management and deployment of assets - both fixed and current - within an organizations supply chain will have a direct impact on productivity by doing more with less. We will now explore the impact of supply chain management on the profitability, liquidity, and productivity in more detail.

3. 2 Management

By using the SCM system, SCM systems help businesses manage relationships with their suppliers. These systems provide information to help suppliers, purchasing firms, distributors and logistics companies share information about orders, production, inventory levels, and delivery of products and services so that they can source, produce and deliver goods and services efficiently. (Laudon andLaudon, 2009: 61) The SMC systems will help Aalsmeer by lowering the costs of moving and making products and by enabling managers to make better decisions about how to organize and schedule sourcing, production and distribution.

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Supply chain management creates differentiation “ through the customer value that is

created by superior service” (Christopher and Peck, 2003, p. 46).

Furthermore, there is a positive relationship between increased levels of service and increases in sales volume and customer retention (Parasuraman et al., 1991; Mentzer et al., 1999; Ray et al., 2004).

This indicates that supply chain improvements must have the twin aims of reducing

costs without negatively impacting customer service or improving service without a

disproportionate increase in costs. Initiatives that reduce the organisation’s cost base

will also contribute to delivering a positive impact in terms of profitability.

Such

initiatives include:

Reducing the cost of goods sold through a reduction in the total cost of sourcing of materials (Ellram and Sifferd, 1998; Stapleton et al., 2002; Zsidisin et al., 2003);

Reducing the cost to serve customers through identifying customer attributable costs (Kaplan and Cooper, 1998; Norek and Pohlen, 2001) and improved customer contribution management (Sabath, 2003);

Reducing inventory holding costs through improved inventory management (Stapleton et al., 2002); and

Identifying and eliminating non-value adding supply chain activities (Hines and Rich, 1997) and their associated costs.

3. 3 Employees

Supply chain management requires internal teamwork. The priority is the customer and meeting his requirements. This is a flat organizational view recognizing the SCM process with its flow of information and product.

Organizations however are hierarchical and create functional silos which make internal integration difficult.

Supply chain management can provide competitive advantage to those who practice and participate in it. Companies must recognize the issues which can impact its effectiveness.