

Critical analysis of the role of purchasing



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U. K consumers for the time being seem to be playing it safe and this has been evident in the growing significance of private label products and fast rising sales in discount stores. For business in the food and beverage sector, since 2008, price of food and beverages soared driving the inflation of food price sharply upwards, impacting consumers and businesses alike. Factory gate prices escalated, the cost of drinks and food in foodservice outlets and stores followed suit, and people started to financially feel it.

For several years, demand has outstripped supply driven by the increasing affluence in the developing world and global population growth. The removal of price intervention in the European Union also had a significant contribution to waning inventories of major commodities. The past few years have witnessed a tipping point; price of food commodities peaked and since then have been declining. In the food and beverage industry, consumers are becoming more demanding, competition is getting tougher, pressure on margin and process continues, and distribution as well as other input costs is on the rise.

This paper will provide a critical analysis of the role of purchasing and supply chain management in food and beverage operations in the U. K while considering how this and a proactive approach to cost control can provide these businesses with a competitive advantage in a difficult trading environment. Discussion U. K Food and beverage industry performance In the U. K economy, food and beverage is an essential industry since it represents the biggest manufacturing sector. This industry employs more than half a billion people, thus, making a significant contribution to the economy.

Even in the wake of the economic downturn, food and beverage exports continue to substantially grow. While consumers in the U. K are becoming more focused on value and price, food and beverage companies rank it low on their list of crucial consumer trends. Various factors such as unemployment, household budgets, and banking crisis have affected the food and beverage industry in the U. K in recent years. In spite of the economic downturn, the country has continued to record positive volume sales in this industry; but value sales went downhill as British consumers traded down to items, which offered the best value for their money.

In general, economic indicators continue to reveal weak consumer confidence; but the food and beverage market is somewhat resilient and growth opportunities remain at the premium and value ends of this sector. Just as the inflation of food and beverage prices started to ease, however, by then the economic meltdown, which resulted from many years of irresponsible lending hit the fiscal markets and spread to the whole U. K economy. This presented businesses in the food and beverage sector with new challenges. The credit crunch rendered the cost of borrowing virtually unavailable.

Adding to the sense of financial woes, house prices started to fall and it all amounted to an ideal storm where the cost of food and beverage, among other things was on the increase, and consumer spending power and confidence were sharp in decline (Deloitte, 2012). Consumer spending is declining and disposable incomes are being squeezed. Additionally, consumer confidence is low and even individuals, who are better off, are spending carefully. Unemployment is rapidly rising and number of

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businesses failing is escalating. The recession is impacting the amount of money consumers spend and also the way they spend it.

Many shoppers are trading down and footfall in discount shops is rising. For instance, from more costly convenience foods and drinks to cheaper raw cooking ingredients and economy products. Average spending in restaurants and bars is falling; however, sales of several premium products in shops are rising as British consumers treat themselves at home rather than going out. Individuals are still spending money but they are changing their priorities, with value and price increasingly vital to the choices they make about what to purchase and where to shop.

In such a challenging environment, competition is very tough and pressure on margins heightened. Nevertheless, on a positive note, inflationary pressures from the prices of commodities have now eased; for now, inflation of food price has gone into reverse and the oil price has fallen. But, the underlying elements that drove the price of food and beverages in the first place are still there and a weaker pound albeit good news for exporters still have an effect on the cost of imported food and beverages.

While significantly lower than the peaks previously observed, the price of significant commodities will highly likely remain volatile against the backdrop of the economic slowdown. This has considerable implications for businesses operating in the food and beverage industry presenting demand-side and supply-side challenges. It basically means that companies in this sector should respond to shifting consumption patterns and weakening consumer spending power whilst concurrently paying close attention to costs.

This will inexorably translate into bigger margin pressure on suppliers and tough price competition between retailers, generating a challenging environment for food and beverage manufacturers. The cost of food and beverage commodities sharply rose because demand growth had surpassed supply growth for some years and inventories of major commodities had progressively fallen. At the root of this situation were global demographics. Global population growth continued to increase the demand for food and beverages with a net increase of approximately seventy million new mouths to feed added every year globally.

In the meantime, the fast emergence of a moderately affluent middle class in major developing economies such as India, Middle East and China has increased demand for high value foods conventionally popular in the West. Also, the removal of price intervention in the E. U has ended phenomena like the so-called ' butter mountain' (IMB, 2011). This removed incentives to over-produce; however it left inventories at low records. In the food and beverage market, balance of power suddenly switched from the buyers to the sellers and a fierce upward price cycle resulted as manufacturers and retailers scrambled for supply.

Impact of the economic slowdown on food and beverage operations Even though the fuel and food price inflation is over, any relief consumers may feel as a result will be outweighed by the effect of the present economic slowdown on their personal financial situations. The ending of a worldwide debt boom has steered in a new period of debt reduction and falling asset prices around the globe. It is likely that the British economy will continue to

contract into the coming years and it is possible that the recession will be more intense than those that have previously occurred.

The economic slowdown has left consumers financially feeling it. One of primary factors in the economic boom of recent years, house prices have continued to plummet. In addition to this, personal debt levels are very high with household debts in the United Kingdom having risen from twenty percent of GDP in 1978 to sixty percent in 1998 and nearly ninety percent presently (Deloitte, 2012). The access of consumers to new credit has been reduced and many are struggling to pay off existing loans. Unemployment has risen from its trough and it is likely to go considerably higher.

Miller et al (2011) presume that it will double over the next two years, leaving many people hard up. All these elements together connect to a situation where spending by already indebted consumers is being affected by vivid falls in consumer confidence. Predictably, consumers are attempting to save money by eating out less often, trading down in what they purchase and spending less money on the high street. However, the British government has not hesitated to intercede. Provision of capital to the banking system and reductions in interest rates should moderate the duration and severity of the economic slowdown.

Furthermore, British policymakers are likely to be willing to throw everything into the battle in a bid to prevent a prolonged period of deflation.

Nevertheless the adjustment in asset prices and debt levels that is already underway has further to run. Besides in a world of lower asset prices, and scarcer credit, consumers are spending less and saving more. As a way to

remain in business, food and beverage operators sought after opportunities to attract financially broke consumers with promotional discounts and vouchers (Dodd, Gultek & Guydosh, 2004).

For instance, Zizzi, Bella Italia, and Pizza Express were among those which offered 'buy one get one free' meals amongst other promotional offers, as operators battled with ready meal deals offered by retail stores that would allow consumers to spend less money by staying in. Because of the number of outlets present in the food and beverage market, bar operators, commonly known as pubs have maintained a strong presence in spite of the economic slowdown. Meanwhile, both independent and chained operators struggled because of declines of over two percent in 2011.

Losses stemmed from rising utility costs and rent alongside a decline in the number of consumers eating or dining out. Just like most markets, chained one hundred percent takeaway or home delivery flourished in this challenging economic environment, alongside less developed smaller niche subsectors, and affordable options like chained specialist coffee shops and Middle Eastern fast food. Since mid 2009, private consumption has help rationally well, but the outlook for food and beverage consumers and operators seems to be increasingly grim.

And with the aggressive public and private sector cuts, the rate of unemployment is set to continue. As a result, with the economy still vague, smaller food and beverage businesses are expected to be driven out of the market. On the other hand, high end restaurants and clubs have taken a hit, leaving mid level restaurants and clubs to benefit. Because the British are

acclimatized to eating out, frequently because of a large number of single mother families, they are prone to consume more takeaway meals instead, and are also expected to continue dining out less often.

Consumers with lower disposable incomes have turned away from more traditional restaurants and have moved towards takeaway or fast food eateries. Quick service restaurants are highly likely to continue to enjoy profits with people in reality spending less. Consumers still suffering from the economic slowdown are shifting to more in-home consumption and saving money by opting for private label foods rather than advertised brands. With the British increasingly in quest of convenience, quick service food outlets with drive through have witnessed an increase in trade over the recessionary era.

Also, new enclosed retail malls throughout the U. K have led customers to gradually spend their time in them where they are likely to spend money on food and beverages. But, the success of quick meal/takeaway operators will not last long as consumers are slowly starting to return to pre-recessionary habits. Some fast food operators plan to remain competitive by widening their consumer base through sustainability, health and wellness and fair trade trends. Sustainability and the food and beverage supply chains

Food and beverage supply chains attract considerable attention because the survival of animal and plant species is mostly affected by production decisions. Consequently, large food and beverage operators are forced to address consumer concerns about the impact of the food system in the world. The food and beverage industry's thorny sustainability issues extend

far beyond the environment. For responsible purchasing and supply chain management, food and beverage operators should address numerous concerns such as the environment, biotechnology, health and safety, human rights and labour.

In the U. K, as part of the bars/cafes sector, pubs are a popular outlet. According to Pullman et al (2010), because of a shaky economy, cafes/pubs continue to shut at a firm rate. Miller et al (2011) also revealed that bars with a mutual focus between food and beverage fared better than pubs classified as 'drink led'. Majority of pubs serving food rely on snack food whilst the larger players have significantly expanded their food offering. Furthermore, many pubs have gone from pre-cooked foods and frozen foods to more international and ethnic food, thus appealing to a bigger market segment.

Meanwhile, the consumption of beverages has also changed with a move from beer to wine. A number of the bigger operators such as Butlers Plc, Mitchells, JD Wetherspoon, and Greene King Plc are generating profits as a result; pubs have become an informal and cheap food service destination for family dining. Price promotions and low prices are some of the main differences between pubs and restaurants. British pubs rely on an efficient supply of goods and services so as to function valuably. These goods and services come from various suppliers who re essential to the success of their establishment. With respect to the products they provide their size, and forms of services they have, suppliers differ significantly. For instance, a pub's suppliers might include those who supply wine, beer, whisky and so on. In particular, the wine industry heavily relies on a strong relationship with pubs/ restaurants owners. There is enormous sales potential for beverage

companies to develop the pubs/cafes market and the two industries can increase their respective sales by helping one another.

Beer, wine and whisky providers regularly visit pubs partly because of management turnover and constant introduction of new products. But, these suppliers should understand the preferences and needs of pubs/cafes and understand how to assure that these are met so as to maintain and establish strong relationships. Supply Chain management At the root of successful food and beverage operations is efficient supply chain management, enabling operators to react to the face of changing demand such as shifting consumer preferences, new food trends, and so on, by promptly communicating those needs to their suppliers.

Food and beverage operators should rely on their supply chains to help manage both regulatory compliance and food safety risks. And whilst this sector is moderately recession resistant, the severity of the recent economic slowdown forced all operators to closely scrutinize margins, squeezing suppliers as they manage quarter to quarter and month to month profits instead of long-term growth. However, food and beverage operators in the U.K look further down the road as they assertively deal with today's obstacles, challenges, and opportunities and they share that vision with consumers and suppliers. These operators seek to establish the best technology systems, best practices and solutions and create world class supply chains, and workforce cultures, which will grow and sustain their business; and their customers and suppliers into the next generation. Few operators are as dependant on their supply chains as food and beverage operators.

They face constant change that is spurred by: regulatory structures, new trends and stratified channels. Quickly emerging food trends such as the rise of private label brands and continued growth of 'good for you' products often cause food and beverage operators and their supply chains to turn on a dime. Trends such as organic or healthy foods might necessitate reconfiguring supplier sources, and final products whilst trends like serving size or private label packaging force logistics, messaging and branding revisions.

It is not enough food and beverage operators to prove that their products are safe; they should be able to ensure that their supplier's goods and products are also safe. With regard to stratified structures, consumers migrate depending on their financial status and taste: food and beverage operators should clearly understand where consumers will be going for their products, whether it is in convenience outlets, specialty stores, or big box stores, and so forth, and fight for shelf space in these outlets.

Each channel has different value added and delivery requirements, and consumer signals should be swiftly communicated back to the operators and their supply chains. The selection of a supplier is an imperative and elaborate decision for the successful functioning of a food and beverage service operation and good cooperation and coordination between supplier and buyer are fundamental. Miller et al (2011) affirm that the most critical attributes when choosing a supplier were timely delivery, accurate, consistent quality at reasonable prices, as well as the willingness of the supplier to work with the buyer.

Other elements that should be considered by food and beverage operations are frequency of delivery, bulk discounts, and knowledge of sales staff.

Education, familiarity, and trust between the supplier and buyer as well as speed are crucial in the development of long-term relationships between the operators and suppliers. Another area that operators should consider when considering elements having an effect on selecting a supplier is how purchasing is handled by food and beverage operators. Some operators make all purchasing choices at the main headquarters.

In simple words, individual units do not have a say in what brands or items are purchased. This might have a significant effect on drinks (beer, wine, whisky, and spirits) sales in particular areas where a local product is popular with consumers but is not offered on the menu. For instance, a pub/cafe's menu might only include European or American wines, while some of the consumers of that area might prefer particular regional wines. This might create a predicament, especially in terms of supplier selection.

Food and beverage businesses should also examine the extent at which suppliers' sales representatives are helping their operators become more informed about food and drinks sales. Many businesses send their food and beverage workers to training seminars so that they can enhance their familiarity with the beverages such as whisky, wine, and so on, that they offer to consumers. These businesses can keep the cost of sending their staff to such events at a modest level if they partner with the suppliers who have the capacity to host the seminars themselves or who can invest in such efforts.

A trained supplier who is passionate about the drinks in his or her portfolio would recognize the fact that he or she would have a better opportunity of placing those drinks if the buyer is also educated about the drinks and appreciates good quality products. In addition to helping food and beverage businesses become more knowledgeable, suppliers should educate themselves about the various products they are supplying. For instance, a significant element when it comes to selecting a wine supplier might be the scale of which a wine supplier is conversant about wine.

It is only natural that a food and beverage business might demand to interact with a supplier who is truly acquainted with wine. This simply means that suppliers need to be knowledgeable or experts on the products they sell. The decision to include drinks such as wine or whisky on menu might be considerably related to the products' sales and thus, the decision about the kinds of beverages to order might be crucial. Conclusion The U. K's food and beverage sector suffering during the economic recession and the international malaise, which followed. Food and beverage consumption in the U.

K is being fashioned by several factors. Consumer spending is still sluggish and limits the capacity of food and beverage operators to raise their prices. High prices of commodities continue to impact prosperity. Food and beverage operators continue to face harsh competition from retailers that have sturdily promoted various deals, which are evidently presented as an alternative to dining or eating out. Across the food and beverage chains, but most noticeably in the food segment, businesses are diversifying their menus to offer more upscale and healthier products.

Pubs/cafes are expected to suffer as new regulations come into effect.

Growth prospects are highly expected to be witnessed in lower to middle market sectors. Even though the economic slowdown has helped damped food and beverage prices for now, operators have to prepare themselves for ongoing market volatility. Many operators consider refocusing their marketing approaches towards varying shopper and consumer needs as a significant strategy to ride out the economic slowdown and materialize stronger. In general, the food and beverage operations in the U.

K are diversified and very large. The most successful approach will be able to keep-up-to-date with ongoing trends in this industry, and for suppliers and manufacturers to match their network tactics with the rapidly evolving future requirements of the food and beverage sector in this country. References Agri-Food Trade Service. (2011). ' The U. K food and beverage Industry facts and trends'. International Markets Bureau Deloitte. (2012). Food and Beverage: Ingredients for success in volatile markets. Accessed from [http://www. eloitte.](http://www.eloitte.com/assets/Dcom-Portugal/Local%20Assets/Documents/pt(en)_dc_foodbeverage2012_15102009.pdf)

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