Procurement Strategy supporting Retailer’s Competitive Strategy

**Author:** Haris Khan  
Aziz Ahmad  
Jahanzaib Khan  
Naveed Khan

**Supervisor** Petra Andersson  
**Examiner** Helena Forslund  
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**Summary**

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<table>
<thead>
<tr>
<th>Authors:</th>
<th>Haris Khan, Muhammad Jahanzaib Khan, Aziz Ahmad, Naveed Khan.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutor</td>
<td>Petra Andersson.</td>
</tr>
<tr>
<td>Examiner</td>
<td>Helena Forslund.</td>
</tr>
<tr>
<td>Title</td>
<td>Procurement Strategy Supporting Retailer’s Competitive Strategy.</td>
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<tr>
<td>Background</td>
<td>Due to the intensive competition in retailing, outpacing strategies that offer several competitive advantages are increasingly necessary in order to satisfy consumers. A search of the trade and academic literatures, identified merchandise procurement as one of the key activities retailers use to implement or support retail competitive strategy. The changing industry trends in retailing such as increased competition, increasing size of retailers, shift in power structures, high proportion of cost of goods sold etc have made procurement very critical for a retailer to compete in the market.</td>
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| Research Questions | Q: What are the various competitive strategies used by the retail industry in general and the competitive strategies of the case retailers?  
Q: How do procurement strategies of the case retailers support their specific competitive strategies? |
| Purpose | The purpose of this study is to identify competitive strategies used in the retail industry and that of the case companies and investigate if and how the procurement strategy of a retailer supports the implementation of its competitive strategy. |
| Method | The empirical data and conclusions drawn from it are based on qualitative case studies carried out in three case retailers of Pakistan. |
An independent supplier common to all three retailers was also used to collect unbiased information. The information was collected using interviews and questionnaire. The thesis is written from a positivistic perspective with a deductive approach.

**Conclusion:**

The conclusions that can be drawn from this study are that primary competitive strategies are price/cost leadership and differentiation, whereas differentiation can be based on several things such as quality, store design, shopping experience etc. The procurement strategies are more relevant and fully support a price leadership strategy than a differentiation strategy. The procurement strategy does support the competitive strategy of a retailer.
Acknowledgements

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We would also like to thank all those people at the case companies who took out time and helped us in collecting the required information, without their support, this work would not have been possible.

Lastly we would like to thank out class mates as their scrutiny, critique and feedback on our work helped us improve our work. Their valuable input is highly appreciated.

Växjö May 25, 2011

_____________________ _____________________
Haris Khan Muhammad Jahanzaib Khan

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Aziz Ahmad Naveed Khan
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1. Introduction

1.1. Background
As competitive conditions grow ever more turbulent, the importance of developing and sustaining competitive advantage appears to be increasing exponentially. Competition in the retail sector has been increasing for years, the importance of developing an effective competitive strategy appears to be increasing constantly (Harris and Ogbonna, 2001).

Considering the characteristics of retail markets, clear competitive advantages relative to those of competitors become essential to success. Due to the intensive competition in retailing, outpacing strategies that offer several competitive advantages are increasingly necessary in order to satisfy consumers (Morschett et al., 2006). Companies need to be significantly more attractive to consumers than their competitors and to develop a strategic position in the market (Wortzel, 1987).

According to Porter (1985), competitive strategy can be understood as the activities a company undertakes to gain a sustainable competitive advantage in a particular industry. Porter (1985) assumes that there are essentially three generic types of competitive strategy (based on two basic types of competitive advantage): cost leadership, differentiation and focus on certain target segments (which itself is either anchored through low-cost or differentiation). Similarly Wortzel (1987) suggest three basic strategies, Conant et al. (1993) tends to define seven strategic competitive factors, however these can be generalized into Porters three generic types.

Retailers focus either on procuring unique merchandise, or on procuring low-cost merchandise. If a company strives for cost leadership, all sources of cost reduction must be exploited. A retailer must minimize cost throughout its value chain (and possibly intercompany supply chain) activities. The source of cost-based competitive advantage in retailing lies especially in the cost
of goods sold or operating expenses. Large retailers usually achieve cost leadership more easily than smaller retailers, since economies of scale and the associated negotiation power over suppliers enables them to secure low procurement prices for the purchased goods (Ellis and Kelley, 1992; Anderer, 1997).

Companies following a differentiation strategy strive to create and market unique products for varied customer groups. They aim to create a superior fulfillment of customer needs in one or several product attributes in order to develop customer satisfaction and loyalty, which can often in turn be used to charge a premium price for products. Differentiation in retailing can be seen as a strategy with the objective of adapting certain store attributes more closely to the specific needs of chosen customer segments (Morschett et al., 2006). Schiffman and Kanuk (2004) suggest that differentiation can be based on quality products, freshness, variety and assortment, customer service, store ambience and overall buying experience.

According to Ellram and Carr (1994) as a function, purchasing was claimed to be capable of being a source of competitive advantage for the business. The procurement strategy can be viewed as the pattern of decisions related to acquiring the required materials and services to support the operations activities that are consistent with the overall competitive strategy of the company. These strategic competitive elements are prioritized to satisfy the company level strategies. Depending on the company strategy, the procurement must identify its strategic priority. It is notable that there can be several elements. The same elements should be part of the procurement strategy also and the procurement strategy should be consistent with the competitive strategy and other functional strategies (Virolainen, 1997).

Researchers have focused on the changing relationship between retailers and their suppliers and the widespread consensus is that the balance of power has shifted from grocery manufacturers to grocery retailers (Wrigley, 1993; Burt and Sparks, 1994). The argument is that the major retailers have been able to take advantage of their size to exercise purchasing power. The power of the large retailers is reflected in the prices of goods charged to the small
independents, as opposed to the multiples, who are given significant discounts (Ogbonna and Wilkinson, 1998).

Most frequently discussed procurement strategies in the literature are related to the number of suppliers, pricing strategies, organizational structure and item-level strategy (Virolainen, 1997). Burt and Bobler (1996) also talk about procurement both in terms of purchasing and sourcing. This suggests that supplier selection is also an integral part of procurement as well. One of the retailer’s most important functions is that of composing an assortment of goods to present to the consumer. Thus, supply is of paramount importance to a retailer. Accordingly, supplier selection and relations take up a substantial portion of a retailer’s attention (Bultez and Naert, 1988). One important area is the choice between single supplier options as compared to multiple suppliers. A concentrated purchasing strategy (single supplier) makes the retailer an important customer to its supplier, meriting preferential treatment, by creating a larger order volume. However, concentrated sourcing can also increase the retailer’s dependence on the supplier. Reducing dependence, in turn, entails diversifying purchases, splitting them between suppliers, which unfortunately, increases transaction costs and reduces the retailer’s importance to either of its suppliers (Chatterjee et al., 1995).

Starting with the competitive strategies that the retail companies can focus on, the above paragraphs have briefly highlighted different facets of procurement strategies that help the retailer implement their specific competitive strategy.

The paper presents an analysis of procurement strategies of three retailers of Pakistan; Utility Stores Corporation (USC), Canteen Stores Department (CSD) and H. Karim Bakhsh Stores (HKB), which pursue different competitive strategies and tries to conclude on the fact if the procurement strategies support the competitive strategies pursued by a retailer. In order to further validate the research, a common supplier Biz-Channel, who is currently dealing with CSD and USC and is in evaluation process of HKB shall be used for collection of information on
procurement strategies of the three case companies to better draw a comparison among the three.

1.2. Problem Discussion

Retailing has become a mature industry with overcapacity, high concentration and, in many cases, price-driven marketing strategies which have led to rather homogeneous stores, differentiation from competitors through positioning seems increasingly necessary (Walters and Knee, 1989; Morschett et al., 2006).

A close examination of the trends in retailing suggests that a range of industry-level factors and firm attributes have influenced the competitive advantage of retailers (Harris and Ogbonna, 2001). Since the retailing is being dramatically transformed, it is clear that consumer demand for wider product assortment while price is also a particularly important issue in retailing. The industry has become increasingly competitive, margins are being driven low which means a profitable operation relies on heavy volume; the low-cost retailers. At the same time it has also spelled opportunities for niche marketers, the differentiated retailers. The other changes in the retailing have to do with supplier-retailer relationship where retailers have become more powerful and a choice between concentrated or multiple sourcing, which affects the quality, assortment and cost of goods (Key and Park, 1997; Harris and Ogbonna, 2001).

A search of the trade and academic literatures, identified merchandise procurement as one of the key activities retailers use to implement or support retail competitive strategy (Smith et al., 1995). For instance, retailers that focus on procuring unique merchandise attended trade show and industry meetings frequently to stay at the leading edge of new or different product offerings. They specifically search for new merchandise they thought would fit their strategic image and positioning. In contrast, retailers emphasizing low-cost merchandise procurement concentrate their efforts on search for low cost brands and bargain merchandise, search for the
best manufacturer trade deals, joined buyer groups, and negotiated hard with suppliers to ensure they obtained the lowest price (Smith et al., 1995).

In light of the increasing competitiveness in the retailing industry, the changing size of the retailers, the power shift between relationships between suppliers and retailers, the choice between sourcing options and high percentage of cost of goods sold of the total costs make procurement very critical for a retailer to compete in the market. Different retailers in the industry pursuing different competitive strategies are affected to a much extent by their procurement strategies, retailer dealing with more or else with the same suppliers in the industry end up building different competitive strategies such as price-leadership and differentiation, depending upon their procurement strategies which play a substantial role in building their competitive strategy (Morschett et al., 2006).

For the purpose of this study the procurement strategy shall include the a) procurement/purchasing of merchandise in context of the competitive strategy, b) sourcing options i.e. choice between few suppliers or many suppliers and c) the power relations in which procurement is done. The terms purchasing and procurement shall be used interchangeably, similarly cost-leadership and price-leadership shall mean the same.

1.3. Research Question:

In light of the background and problem discussion presented above, we specify the research to following research questions.

RQ 1: What are the various competitive strategies used by the retail industry in general and the competitive strategies of the case retailers?

RQ 2: How do procurement strategies of the case retailers support their specific competitive strategies?
1.4. Purpose

With a focus on specific competitive strategy of a retailer, the purpose of the paper is to identify different competitive strategies used by the retailer and that of the case companies and investigate how procurement strategies employed by the retailers help and support them in attaining their specific competitive advantage.

1.5. Thesis Structure

1. **Introduction:**
   - Background
   - Problem Discussion
   - Research Questions
   - Purpose
   - Thesis Structure

2. **Methodology:**
   - Scientific Perspective
   - Scientific Method
   - Research Method
   - Case Study Model
   - Data Collection
   - Scientific Credibility
   - Analysis Method

3. **Theory:**
   - Competitive Strategies
   - Strategic Relevance of Procurement
   - Procurement Strategies
   - Procurement in Context of Competitive Strategy
   - Sourcing Options
   - Power Relations

4. **Empirical Data:**
   - About Retailer
   - Competitive Strategy
   - Strategic Relevance of Procurement
   - Procurement in Context of Competitive Strategy
   - Sourcing Options
   - Power Relations
   - Supplier’s Opinion

5. **Analysis:**
   - Analysis RQ-1
   - Retail Competitive Strategies
   - Analysis RQ-2
   - Strategic Relevance of Procurement
   - Procurement in Context of Competitive Strategy
   - Sourcing Options
   - Power Relations

6. **Conclusion:**
   - Conclusion to Research Qs
   - Conclusion RQ-1
   - Conclusion RQ-2
   - Thesis Criticism
   - Future research

Fig 1: Structure of Thesis
Source: Own
2. Methodology

The value of research as a tool for expansion of knowledge is evident. Research can be defined as 'a systematic process of investigation, the general purpose of which is to contribute to the body of knowledge that shapes and guides academic and/or practice disciplines' (Powers and Knapp, 1995).

2.1. Scientific Perspective

2.1.1. Positivism

Positivism has been an extremely influential tendency, not only in research, but also in other areas of society (Neuman, 2003; Payne and Payne, 2004). Today the word positivism is often used synonymously with empiricism as a point of view. Positivism has a long history within the philosophy of science and among researchers. Positivism researchers prefer quantitative data and often use experiments and statistics (Neuman, 2003). Positivism advocates that the knowledge should be based on valid facts and that the knowledge is assimilated through logic, for example mathematical models and experiment. Positivism seeks rigorous exact measures and objective research and hypothesis is tested by carefully analyzing numbers from measures (Neuman, 2003; Cohen et al., 2007; Payne and Payne, 2004). Many applied researchers embrace positivism (Neuman, 2003). In the social sciences and the philosophy of the social sciences, positivism has supported the emphasis on quantitative data and precisely formulated theories (Neuman, 2003; Cohen et al., 2007).

2.1.2. Hermeneutics

An approach based upon the analysis and interpretation of texts (Robson, 2007). It emphasizes a detailed reading or examination of text (Cohen et al., 2007). A researcher tries to discover the meaning embedded within the text. When studying the text the researcher tries to absorb or get inside the view point it presents as a whole and then develop a deep understanding of how its parts relate to the whole (Neuman, 2003). Hermeneutics refers to the theory of the
operations of understanding in their relation to the interpretation of texts (John, 1998). It is a particular form of documentary analysis (Robson, 2007).

### 2.1.3. Scientific Perspective of Thesis

The scientific perspective of this thesis is positivism. The thesis starts with the theory and literature review on the subjects of competitive advantage and procurement in retailing and then answers the research questions based on both literature and empirical information collected from the case companies. The theoretical aspects have been validated or invalidated based on the factual information collected from the real-time companies through interviews and questionnaires from people who have the first-hand experience of the relevant study subject.

### 2.2. Scientific Method

There are two general approaches in Western research that may result in the acquisition of new knowledge, namely the inductive and deductive research approaches (Hyde, 2000). The inductive research approach is a theory development process that starts with observations of specific instances and seeks to establish generalizations about the phenomenon under investigation. The deductive research approach is a theory testing process, which commences with an established theory or generalization, and seeks to see if the theory applies to specific instances (Hyde, 2000).

#### 2.2.1. Deductive

Deductive positivism is often discussed as the predominant research approach in general (Kirkeby, 1990), and also in logistics research (Svensson, 2001). Deductive reasoning is defined as a theory testing process, which commences with an established theory or generalization, and seeks to test whether the theory applies to specific instances (Hyde, 2000). Deductive research develops hypothesis before the testing and generalizing the results. These generalizations and their discussion in light of prior knowledge constitute the new knowledge (Peter and Olson,
1983). To summarize in terms of the indicators presented in the research process framework, the deductive research process starts with a strong theoretical footing (Danermark, 2001; Hyde, 2000), its aim is to test theoretical knowledge (Johnson, 1996) that has been developed prior to empirical research (Kova´cs and Spens, 2005).

### 2.2.2. Inductive

In inductive approach, you begin with detailed observations of the world and move toward more abstract generalizations and idea. The inductive research process can be described as the mirror image of the deductive process (Johnson, 1996). Argumentation in this process moves from a specific empirical case or a collection of observations to general law, i.e. from facts to theory (Taylor et al., 2002). The knowledge of a general frame or literature is not necessarily needed (Andreewsky and Bourcier, 2000) as a starting point, rather empirical observations lead to emerging hypothesis (Danermark, 2001). In other words, empirical observations (facts) are the starting point of inductive research (Andreewsky and Bourcier, 2002).

### 2.2.3. Scientific Method of the Thesis

The thesis uses a deductive approach. It starts with the study of the literature and relevant theory to the research area and research questions and then tests the theory with the help of empirical information collected. The thesis first develops a theoretical footing for the research topic and moves on to test it through real-time practical information.

### 2.3. Research Method

It is conventional to divide social research into two types a) qualitative or soft and b) quantitative or hard (Robson, 2007).
2.3.1. Qualitative Research

Qualitative research is an umbrella term covering several different research traditions which have in common a reliance on a collection of qualitative data usually in form of words. The traditions has arisen, in part as a reaction against approaches such as experimentation and survey work which rely exclusively on quantitative, numeric data (Robson, 2007). Qualitative research speaks the language of cases and contexts. Qualitative methods have had a long history within the social sciences generally and have for many years made a significant contribution to numerous substantive areas of management research (Cassel et al., 2006).

In general, qualitative investigations address broad questions related to description, discovery, or theory building, and, as a consequence, the researcher is concerned with the entire context surrounding the phenomenon of interest rather than concentrating on specific variables thought to influence that phenomenon. According to Thompson and Walker (1998) qualitative methods aims to describe phenomenon or generate theory, the perspective is subjective, small sample size purposive selection of participants based on their experience, usually consists of interviews, other written documents or artifacts in which the significance has been rendered into words and the analysis is imperative.

2.3.2. Quantitative Research

Quantitative approach seeks to explain causes and make predictions (Ghauri and Gronhaug, 2005). Stemming from an assumption that a reality exists that may be discovered and manipulated; this approach investigates the problem deductively, examining variables thought to be pertinent based on either existing theory or researchers interpretation of phenomenon (Abusabha and Woelfel, 2003). According to Thompson and Walker (1998) the purpose of quantitative methods is to explore causes and make predictions, the perspective is objective through use of precise measurement, sample size is large, data is generated through responses to objective measurement and analysis is statistical.

The basic premise and essence of quantitative research is that information is represented in forms of numerical data, precisely measured (Neuman, 2003).
2.3.3. Research Method of the Thesis

Qualitative methods have been used in the thesis, where information on practices and policies of case companies has been collected using interviews and questionnaire survey over the electronic means. The qualitative method is more appropriate for the research area since the research questions are more related to practices and policies rather than quantification.

2.4. Case Study

A case study is the study of a case. The case may be virtually anything, from an individual to an organization to a global event, they are studied in their context (Robson, 2007). The case study approach is often associated with descriptive and exploratory research. Case study is a description of a management situation. A case study often involves data collection through many sources including both primary and secondary. The main feature is the intensity of the study, enabling to explain the unique features of the case and to point out the characteristics that are common in several cases (Ghauri and Gronhaug, 2005). With comparative case studies it is possible to study a number of organizations with regard to a set of variables the researcher has already identified or assumed. In this type of study the same question in a number of organizations is explored and compared with each other to draw conclusions (Ghauri and Gronhaug, 2005).

The thesis uses a comparative case study method, which tries to compare three case companies with the same research questions and tries to establish as answer to the research questions. The three case companies were interviewed and analyzed regarding their practices and policies related to their competitive strategies, procurement and the effect of procurement on their respective competitive strategies.
2.5 Data Collection

Data sources are the carriers of the data. A first distinction can be made between primary and secondary data sources (Ghauri and Gronhaug, 2005).

2.5.1 Primary data sources

They have been described as those items that are original to the problem under study. Primary sources are those items that have a contact with the events being researched, which could include written and oral testimony provided by the participants. All those sources that are capable of transmitting firsthand account of an event and are therefore considered as sources of primary data (Cohen et al., 2007). The advantage of such sources is that they are used for the particular project at hand. This results in more consistent data with the research question and research objective. We have several choices as means of collecting primary data including observations, experiments, survey and interviews (Ghauri and Gronhaug, 2005).

The most extensive social research method is interviewing (Payne and Payne, 2004). There are many types of research interviews ranging from fully structured to fully unstructured interviews. The heart of interview technique is one person talking to one or more other person. The most common format is the individual face to face interview, however telephone interview is increasingly favored as it retains some of the advantages of direct person to person interaction, while often substantially decreases the travelling and time commitment called for in face to face interview (Robson, 2007). In structured interviews question are closed and have definite answers may be in form of alternate options predetermined by the interviewer. They are questions that are going to help you get answers to the research question. Semi-structured interviews are based on open-ended questions, the answers to which are freely probed by the interviewer for elaboration. The un-structured interviews don’t have pre-defined questions, they rather have topics. The interviewer just enables respondents to give their accounts of their experiences, opinions and feelings in their own way (Payne and Payne, 2004).
Survey techniques are often used in descriptive or exploratory research. The researcher asked people questions in written questionnaire mailed or handed to people. Surveys give the researcher a picture of what many people think or report doing (Robson, 2007). The questionnaire is a widely used data collection method in research. They are printed set of questions answered by respondents, either face to face or self-completion, as a tested, structured, clearly presented and systematic means of collecting data (Payne and Payne, 2004).

2.5.2 Secondary Data Sources

These are those that do not bear a direct relationship to the event being studied. They are made up of data that cannot be described as original. Instances of secondary sources used in research include, quoted material, textbooks, encyclopedia, other reproduction of material, catalogs, journals, web pages, government and non-government data sources on other companies and literature in general (Cohen et al., 2007). Secondary data are useful not only to find information but also to better understand and explain the research problem. The review of literature in educational research is regarded as a preparatory stage for gathering data and acquaints researchers with previous research on topic they are studying. Few of the secondary sources of collecting data are: internet and websites, studies and reports of private and government organizations, census reports, academic and professional journals, textbooks, commercial research companies, and researches conducted by students (Ghauri and Gronhaug, 2005).

2.5.3 Data Collection of Thesis

Both primary and secondary sources of information have been used in the thesis for the purpose of collection of data. The secondary sources have been used to establish the relevant theoretical framework for the thesis which discusses the relevant literature to the research area and similarly company websites and other industrial sources have been used for collecting information on industry and the case companies. Information was also collected from a common supplier to better understand the practices and policies of procurement of the case companies. The primary sources of data collection have been used in form of interviews and
questionnaire survey through the electronic means, telephone and email. A combination of
structured, semi-structured questions have been asked to the respondents, while a general
discussion over the research topic has also been done on few instances where respondents
were free to share their views besides the set questions. First a general discussion was
conducted with the respondents through phone and other electronic means, on the basis of
which a questionnaire was designed that was emailed to the respondents and then again the
respondents were contacted by phone. The respondent at Bizchannel, he common supplier,
was conducted over the Skype. The questionnaire was designed in such a way that initially it
was ascertained what is the competitive outlook and competitive focus of the company, once it
was clear, then follow-up questions were asked which were more specific. The table below
shows the people contacted in the case companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Respondent</th>
<th>Designation</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSD</td>
<td>Shoalb Nasir Khan</td>
<td>Buying Incharge</td>
<td><a href="mailto:shoaibnkq@gmail.com">shoaibnkq@gmail.com</a></td>
</tr>
<tr>
<td></td>
<td>Major Rashed Pervez</td>
<td>Dy. Director Purchase and Supply</td>
<td><a href="mailto:Rashid.pervez@csd.gov.pk">Rashid.pervez@csd.gov.pk</a></td>
</tr>
<tr>
<td>USC</td>
<td>Ishtiaq Mahmood</td>
<td>Planning Office, Franchising Project</td>
<td><a href="mailto:ismahmood@yahoo.co.uk">ismahmood@yahoo.co.uk</a></td>
</tr>
<tr>
<td></td>
<td>Haider Bukhari</td>
<td>General Manager, Merchandising and Purchase</td>
<td>Tel:0092-51-9262923</td>
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<td></td>
<td></td>
<td></td>
<td>Tel:0092-51-9245047</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Fax: 0092-51-9245116</td>
</tr>
<tr>
<td>HKB</td>
<td>Mubeen Ramzan</td>
<td>Assistant Brand Manager</td>
<td><a href="mailto:mubeen.ramzan@hkbstores.com">mubeen.ramzan@hkbstores.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>cell: 0092-321-4864669</td>
</tr>
<tr>
<td>Biz-Channel</td>
<td>Agha Waqar Ahmad</td>
<td>Head Sales and Marketing</td>
<td>Skype Name: bizchannel <a href="mailto:biz54760@hotmail.com">biz54760@hotmail.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tel: 0092-321-4420832</td>
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Fig 2: Respondents as the case companies
Source: Own

2.6 Scientific Credibility

2.6.1 Validity

Validity is an important key to effective research. Validity means that research is capturing
whatever it is supposed to capture (Cohen et al., 2007). It is used to mean true or correct. At its
core, measurement validity refers to how well the conceptual and operational definitions mesh
with each other. The better the fit the greater the validity (Neuman, 2003). If a piece of research is invalid then it is worthless. Validity thus is a requirement for quantitative and qualitative research. Validity primarily meant that a particular instrument measures what it purports to measure (Cohen et al., 2007), however more recently validity has taken many forms. In qualitative research it may mean honesty, depth and scope of data achieved, the participants approached and objectivity of researcher (Winter, 2000). Qualitative researches are less concerned with trying to match an abstract concept to empirical data and more concerned with giving a candid portrayal of social life that is true to the experiences of people being studied (Neuman, 2003; Cohen et al., 2007).

Both qualitative and quantitative methods can address construct validity, internal and external validity; the three common kinds of validity. Construct Validity can be defined as the extent to which an operationalization measures the concept which it purports to measure (Ghauri and Gronhaug, 2005). In this type of validity the agreement is sought on the operationalized forms of a construct, clarifying the meaning of the construct. It uses various measures which look at how well similar indicators converge or how well different indicators diverge or distinguish difference (Cohen et al., 2007; Ghauri and Gronhaug, 2005). The construct validity is important to secure an objective judgment when collecting data.

Internal Validity refers to the extent to which we can infer that a casual relationship exists between two variables (Ghauri and Gronhaug, 2005). To be able to establish internal validity many observations should be done to make sure that the final conclusion isn’t made up of assumptions (Yin, 2003). External validity refers to what extent the findings can be generalized to particular persons, settings and times, as well as across types of persons, settings and times. It is used primarily in experimental research. It is the ability of generalize findings from a specific setting and small group to a broad range of settings and to wide population, cases or situation (Neuman, 2003; Ghauri and Gronhaug, 2005; Cohen at al., 2007).
2.6.2 Reliability

Reliability refers to the stability of the measure. It means dependability or consistency. It suggest that the same thing would be repeated or recur under the identical or very similar conditions (Neuman, 2003; Cohen at al., 2007; Ghauri and Kronhaug, 2005). Reliability is essentially a synonym for dependability, consistency and replicability over time, over instruments and over groups of people. Lincoln and Guba (1985) refer to reliability for qualitative research as credibility, neutrality, conformability, dependability, consistency, applicability, trustworthiness and transferability. Reliability is about being confident that the way research be conducted could be repeated without generating different results.

2.6.3 Validity and Reliability of the Thesis

The validity and reliability of the thesis has been insured by firstly establishing a mutual understanding of the research topic among the researchers and respondents through frequent communication with them i.e. building the construct validity, similarly the questions has been designed and discussions conducted such that the objective information is being collected. The respondents were also chosen those who are closely linked with the areas of the research and who have the real insight to the topic. The right people and mutual understand helped in generating the most relevant questions and relevant discussion over the subject area. To insure internal validity, the researchers were objective in their approach with no personal inclination towards a possible answer to the research question. The data was collected as per the answers given by the interviewees, and justification was sought in light of practice and experience as well as common prudence. As regards to external validity the findings cannot be generalized since the sample size is small, one retailer for each type of competitive strategy has been selected and size of the retailers in same. A study of more retailers, with different size may show different results.

To ensure reliability of the thesis, information was collected from concerned people and a common supplier of all three case companies was also contacted to ensure that the information provided by the case companies is actual and reliable.
2.7 Analysis Method

In order to achieve the understanding of a particular subject of research and information thus collected accordingly needs analysis. Since qualitative methods for different researches may vary according to the researcher’s choice and the subject of research, researchers may use various types of analysis method according to the needs as there is no definite method (Silverman, 2004).

Miles and Huberman (1984) have given techniques such as matrix categorization, array formation, frequency tables, flow charts, cross tabulations etc, which are more technical in nature.

Yin (1994) has suggested theoretical based analysis methods such as analyzing the information and evidence on the basis of theoretical propositions. This can be referred as Explanation Building. Another method given by Yin (1994) is Pattern-Matching; which compares the empirically found patterns with that of the predicted ones that may be based on the theoretical background. The analysis logic is based on comparison of predicted patterns and actual patterns.

The analysis of the thesis builds on the explanation of the empirical information collected from the companies in the light of the theory presented earlier. The theory builds the relevance of procurement strategies with the specific competitive strategies of the retailer and how they support it. The empirical data collected then is being analyzed to ascertain and build an explanation whether the procurement strategies of the case companies support their specific competitive strategies. We can call the analysis method to be Explanation Building.
3 Theoretical Framework

The theory chapter starts with a discussion on competitive strategies in general, and then builds onto the competitive strategies in the retailing industry. The discussion further narrows down competitive strategies to three generic competitive strategies identified by Porter. The next section then builds the grounds for strategic relevance of procurement to competitive strategies i.e. procurement actually affects the competitive strategy. The next section i.e. Procurement Strategies then discusses a) procurement in context of specific competitive strategies, b) the multiple and concentrated sourcing options and c) the power relations in retail industry.
3.1. Competitive Strategies

According to Porter (1980), competitive strategies refer to the development of attributes that characterize a company and differentiate the value it creates and offers in comparison to its competitors. It is the basic premise of the company that identifies the way a business can best compete in a market (Pearce and Robinson, 1994; Morschett et al, 2006). Competitive strategy can be understood as the activities a company undertakes to gain a sustainable competitive advantage in a particular industry (Porter, 1985). Mol (2003) refers to sustainable competitive advantage as to result of implementation of a strategy by the firm that is not being implemented by any other firm, currently or potentially and when the benefits of such a strategy cannot be duplicated by others. According to Morschette et al. (2006) competitive advantage is what elevates the company from its competitors. With the growth of competitive conditions in an industry, the importance of developing and sustaining competitive advantage increases exponentially (Fulmer et al., 1998). The competitive advantage, according to Mintzberg (1996) should relate to an attribute with value and relevance to the targeted customer segment, be perceived by the customer, be sustainable, i.e. not easily imitated by competitors. Harris and Ogbonna (2001) suggest that firm attributes are the potential sources of competitive advantage, and the most frequent attributes are economies of scale, quality, innovation, environmental friendliness and branding. Porter (1985) portrays competitive advantage as the organizational condition of superior performance which arises when a “firm successfully competes either on price or by charging a premium for differentiation. Virolainen (1998) suggests that the companies may have competitive strategies based on cost and quality. Based on the dimensions of competitive advantage and scope of operations Porter (1985) presents three generic types of competitive strategies: cost leadership, differentiation and focus.

3.1.1. Competitive Strategies in Retailing

As discussed in the earlier section the changing dynamics of the retailing industry such as increased competition, high concentration, market maturity, price driven strategies, and
overcapacity, have highlighted the importance of a competitive strategy of the retail store, differentiation from competitors through positioning seems extremely important and necessary.

Harris and Ogbonna (2001) give a review of competitive strategies and basis for competitive advantages built by the retailers over the years. They suggest that during the period from 1950s to 1970s the competitive strategies were base on price. Major retailers sought to compete on price (Palmer and Beddal, 1997). A series of price wars broke-out during the period. Retailers found that advantages were to be found by improving operational efficiency through controlling costs. Size became a major source of advantage which some of the large retailers sought to exploit. During the 1980s, the competitive strategies were developed upon economies of scale and scope, customer services, sophistication of distribution, and branding, effected by power and industry rivalry. Retail companies realized that their large size and enhanced power capacity could be employed to generate considerable advantage. Competitive strategies were also based on increasing scope of operation based on the concept of 'one stop shopping'. During the 90s, the competitive advantages were based on industry-level factors which became prominent are power, rivalry and regulation; and the firm-level attributes are customer service, information technology, culture and branding. Harris and Ogbonna (2001) further suggest that during the 2000s, the competitive advantage would be based on power, functional efficiency and customer service.

A number of retail researchers have applied Porter’s concept in retailing and shown that the two strategies of differentiation and cost leadership can be found in this sector and some indications of the expected effects on performance have also been found (Morschett et al., 2006, Anderer, 1997).

Palmer (1994) categorizes retailers with respect to the dimensions of price and quality, he further suggests quality to be seen as an aggregated construct that consists of a range of issues
such as assortment, speed and efficiency of transactions, quality of store personnel, quality of store ambience and other.

Ailawadi and Keller (2004) emphasize the strength of a comprehensive experiential marketing strategy which evokes positive emotions in consumers as the main component of the positioning strategy, strategically managing a customer’s entire experience with the retailers, focusing on store atmosphere, consumers desires, consumer excitement, entertainment and a clear, emotion focused image, since these features are expected to be less imitable than most functional attributes.

Major retailers seek to differentiate themselves from competitors on customer services and transform their customer service activities in many ways (Harris and Ogbonna, 2001).

Wortzel (1987) suggests three basic strategies for retail positioning: a product differentiation strategy through offering a different assortment to those of competitors, a service and personality differentiation strategy based on the addition of unique services and personality to differentiate the store, and a price leadership strategy.

Similarly Conant et al. (1993) points out generic competitive strategies in terms of presentation and preparation, product variety and depth, low price, high-priced convenience, inventory control and advertising, targeted incentives, traditional fashions and service.

A research conducted by Morschett et al.(2006) while conducted a research on retailers identified the most used attributes as the competitive advantage to be quality leadership, price leadership, service leadership, best variety of assortment/widest choice, convenience leadership, store design/layout, customer process leadership, and customer relationship management.
3.1.2. Generalizing Competitive Strategies to Porter’s Cost Leadership and Differentiation

No retail businesses would have same strategies; an important element in strategy selection is the ability of a particular strategy to provide superior level of performance in the industry. Such competitive positioning commonly involves an approach emphasizing either cost leadership or differentiation or either of that focused (Helms et al, 1992, Morschette et al., 2006).

![Diagram showing competitive strategies]

### Competitive Advantages in Retailing:
- Price/Cost Leadership
- Quality of Products
- Variety and Assortment of merchandise
- Customer services
- Store design and layout
- Experiential marketing
- Customer Relationship

### Price/Cost Leadership
- Quality of Products
- Variety and Assortment
- Customer services
- Store design and layout
- Experiential marketing
- Customer Relationship

### Differentiation:
- Quality of Products
- Variety and Assortment
- Customer services
- Store design and layout
- Experiential marketing
- Customer Relationship

### Focus:
- Quality of Products
- Variety and Assortment
- Customer services
- Store design and layout
- Experiential marketing
- Customer Relationship

An analysis of the above mentioned several competitive strategies based on different competitive advantages, can be simplified to the three generic competitive strategies of Porter, i.e. Cost Leadership, Differentiation and Focus (either low-cost or differentiation focused on a certain market segment) (Miller and Dees, 1993; Palmer, 1994; Harris and Ogbonna, 2001, Morschett et al., 2006).

A firm that chooses to follow a cost leadership strategy has the objective of being able to realize its offer at the lowest possible cost. The competitive advantage of cost leadership is achieved by performing important value chain activities at a lower cost than competitors (Porter, 1985). Low-cost leaders must either have or develop some unique capabilities in order to achieve and sustain that position. Examples of such capabilities and resources are:
dominant market share, secured supplies of scarce raw materials or having developed more efficient linkages to suppliers. Companies striving for cost leadership in their industry usually look constantly for cost reductions and efficiency. The companies which follow a differentiation strategy see themselves as unique with regard to certain characteristics valued by buyers throughout the industry. Differentiation rests on retail aspects tailored to the customer characteristics of a retailer's target market segment. Differentiation is a strategy with the objective of adapting certain store attributes more closely to the specific needs of chosen customer segments (Helms et al., 1992, Morschett et al., 2006).

In lights of the above discussion differentiation can be based on quality, merchandise, store layout and design, experiential marketing, customer services etc.

3.2 Relevance of Procurement Strategies to Competitive Strategies

Krause et al. (2001) suggest that purchasing is a strategic contributor to the firm. Managers have started to view operations and purchasing functions as more and more linked parts of supply chain, having the ability to contribute strategically to the firm. More frequently have executives started giving more attention to the procurement strategies (Nollet et al., 2005).
It is argued that central to purchasing is to support the production and operations activities with an continuous flow of materials and service, the purchasing and operational strategies must be consistent so that they support the corporate level competitive strategy (Watts et al., 1992; Krause, 2001). The recognition of the strategic importance of purchasing in many organizations has increased in recent years (Narasimhan and Das, 1999). The value chain model presented by Porter (1986) also signifies the strategic importance of purchasing function. According to Monczka et al. (1998), in order to increase customer value, businesses strive to offer lower prices, and for this purpose they have turned their attention to procurement.

The functional strategies of a company are driven by its competitive strategies that chalks out the way a company would compete in the market. The functional strategies identify how a functional area will help implement the over competitive strategy of the organization (Porter, 1996). Purchasing strategy can be viewed as a pattern of decisions related to acquiring required materials and services to support operations activities that are consistent with the overall corporate competitive strategy (Watts et al., 1992).
Mol (2003) suggest that the five forces of Porter i.e. threat of new entrants, bargaining power of buyers, threat of substitute products or services, bargaining power of suppliers and rivalry among existing competitors, interestingly, three of those five forces involves the suppliers of a firm and therefore procurement management. There is a plenty of evidence to the fact that sustainable competitive advantage can be drawn from procurement strategies (Mol, 2003; Krause, 2001).

Competitive strategy is a combination of the goals for which the company is striving and the means by which it will compete in the marketplace. Competitive procurement strategies focus on the buyer’s intrinsic bargaining power which allows buyers to leverage procurement and, as a result, improve the company’s competitive market position. The identification of procurement objectives as a subset of corporate or business unit objectives is necessary in the formulation of strategies that are acceptable to the company as a whole. Procurement cannot operate in isolation from other elements of the business. It is important that all functional area strategies and capabilities, including procurement, be consistent with business unit goals and
strategy. The procurement strategy can be viewed as the pattern of decisions related to acquiring the required materials and services to support the operations activities that are consistent with the overall competitive strategy of the company (Virolainen, 1998).

According to Mol (2003) purchasing has substantial relevance to strategic outlook of a firm. The field of strategic management has enough positive things to say about the strategic potential of purchasing to conclude that purchasing is strategically relevant. Purchasing management research seems to have done well by picking up the overall point that purchasing matters to competitive advantage.

3.3 Procurement Strategies

The procurement strategy can be viewed as the pattern of decisions related to acquiring the required materials and services to support the operational activities that are consistent with the overall competitive strategy of the company. Depending on the company strategy, the procurement must identify its strategic priority (Virolainen, 1997).

According to Burt and Bobler (1996) and Virolainen (1997) the procurement strategies involve the pricing, the merchandize, the number of suppliers to be used and the relationship in which the procurement is done.

For the purpose of this study, the procurement strategy shall include a) Procurement in context of a specific Competitive Strategy b) Sourcing Options and c) The Power Relation.

3.3.1 Procurement in context of Competitive Strategy

According to Smith et al. (1995), the retail competitive strategy of either price leadership or differentiation, results in retailers pursuing price centered activities or merchandize centered activities respectively.
Similarly Smith et al. (1995) and Costantino and Pallegrino (2010) argue that retailer’s procurement activities will be inline and in context to their respective retail competitive strategies. Retailers who employ a price leadership strategy will act accordingly with this strategy and will carry out more frequently price centered activities. Similarly retailers with a merchandise differentiation strategy will more frequently focus on and undertake activities that are merchandise centered than price centered activities.

The retailers pursuing a specific type of strategy will focus on two things, their own activities in line with their strategy and evaluation of suppliers on the basis of activities undertaken by them that are in line with the competitive strategy of the retailer (Smith et al., 1995, Dawson, 2000). This implies that the retailers tend to chose the suppliers who perform better in providing the support in achieving specific retail competitive strategy i.e. low priced versus differentiated.
3.3.1.1. Price/Cost Leadership

Retailers who implement a price leadership strategy are more dependent on sales volume as a driver of profitability. Retailers focusing on price centered activities operate with lower unit margins but with fixed plant and equipment expenditures comparable to other competitive retailers. Therefore the objective is to continually achieve aggressive sales volume, as every unit sold would contribute critically in covering fixed costs. Since price centered activities are more focused in lower prices and higher sales volumes, this may also result in a merchandise mix with lesser variety and assortment and merchandize that is normally less differentiated from other retailers’ assortments. Retailer following a price leadership strategy maximize economies of scale, reduce overheads and administrative expenses and use volume sales techniques (often including aggressive pricing) to proceed on the experience curve. They Retailers who are following a price leadership competitive strategy shall evaluate supplier’s activities more favorable that are consistent with that retailer’s strategy because these activities are instrumental in achieving the retailer’s goals. Thus, retailers pursuing a price leadership strategy will evaluate price support activities more favorably than product differentiation activities. If price leadership retailers want to maintain the lowest prices in the market, they would seek out the best deals from among all suppliers. They therefore are less likely to be loyal to a given manufacturer, and could fit poorly with a manufacturer seeking a more relational arrangement. Retailers would buy in larger volumes through centralized procurement, they shall exert their bargaining power more rigorously, they will negotiate hard, would chose suppliers that support, would take quantity offers from suppliers and they shall search for merchandize that they can sell at lower prices (Helms et al., 1992; Smith et al., 1995; Lowson, 2001, , Morschett et al., 2006).

3.3.1.2. Differentiation Strategy

Retailers that follow a differentiation strategy would focus on product differentiation, offering brands that strengthen the retailers image and reputation, would advertise to better position
themselves and build their own brand, would introduce new, innovative products with better quality, features and performance, wider variety and deeper assortment of merchandize, would offer products that consumers shall perceive superior, better store layout, deigns and ambience, customer assistance and customer services, and relationship programs. Such retailers look for new and different merchandize; use their bargaining power to get merchandize of their choice, change displays and stores designs, open interaction with employees and customer to decide which brands to carry and what services to offer. Merchandise differentiation retailers may seek special relationships such as exclusive distribution with and assistance from manufacturers to give them an advantage over their retail competitors. Retailers focusing on differentiation considered the relationship between suppliers and retailer to be more interdependent. They valued the merchandising support and marketing coordination received from suppliers. Retailers emphasizing merchandise differentiating activities will more likely operate with higher unit margins will be less reliant on sales volume to drive profitability and, relative to other retailers, will likely feel less vulnerable to shifts in market conditions. The merchandise mix of these retailers will be more differentiated relative to price centered retailers, providing some measure of protection from competitive rivalry. Moreover, customers who frequent these merchandise differentiation establishments are likely to exhibit more loyalty to specific brands and retail franchises, further reducing uncertainty and vulnerability (Helms et al., 1992; Smith et al., 1995; Lowson, 2001, , Morschett et al., 2006).

3.3.2. Sourcing Options

For the purpose of this study, and keeping in view the dynamics of the market under study, we shall discuss multiple sourcing i.e. procurement from several suppliers versus more concentrated procurement from single or few suppliers, with respect to the retail competitive strategy.
A retailer’s core service competency should be its ability to provide an assortment of quality products desirable to customers at a reasonable price and at the time desired by them. Thus, availability of an assortment of quality products at a reasonable price is an extremely important attribute for a retailer to be able to maintain competitive advantage (Chatterjee et al., 1997). Competitive advantage is achieved by firms that combine their internal core competencies and abilities with those of their suppliers, customers and other external resources appropriately. The sourcing strategy of a firm is generally characterized by choice of appropriate set of suppliers; the decision is about the number of sources to use, primarily the choice between single or concentrated and multiple sourcing strategies (Burke and Vakharia, 2004). This complex choice is of great importance at a strategic level, especially in the context of specific competitive strategies of the retailers. The selection of the correct purchasing strategy requires the justification of additional costs against other benefits such as services in terms of merchandise quality and assortment, on time delivery, promotions etc. (Costantino and Pellegrino, 2010).

3.3.2.1. Multiple Sourcing

Multiple sourcing is often credited with increasing buyer flexibility and market knowledge, as well as allowing a buyer to obtain better wholesale prices and guard against the risk of product shortage (Ramsey and Wilson, 1990; Chatterjee et al., 1995).

Retailer by telling suppliers they split their purchases and not merely in nominal fashion, buyers may obtain better initial prices (Seshadri et al., 1991). Having active contacts with alternative suppliers enables the purchaser to monitor the supplier's competitiveness and shift business more readily. The mere threat of such a shift helps maintain the supplier's performance (Chatterjee et al., 1995).

According to Costantino and Pellegrino (2010) few of the advantages that businesses can gain from multiple sources are: Increased competition among suppliers leads to better price,
quality, delivery, product innovation and the over negotiation power of the retailer. Besides this multiple suppliers provide alternative sources of materials in case of delivery stoppage by a supplier, reduced probability of bottlenecks due to insufficient production capacity to meet peak demand, increase flexibility to react to unexpected events that could endanger supplier’s capacity, decreased dependency between the buyer and the supplier, decrease vulnerability of supply and decreased risk of supply interruption specific products. One other perspective regarding having multiple suppliers is to exploit the best in each.

According to Quinn (1992) one justification for multiple sourcing is to remain competitive in the market by taking on activities that the firm is best on and capitalize from the competence of others in the supply chains.

With multiple-sourcing strategy, the retailers have access and information about new products, market trends, and current prices due to establishing contacts with various suppliers. The retailer don’t end up over paying since they can compare retailers and have the knowledge of latest prices, they are less exposed to suppliers problems and they don’t suffer from supplier's opportunism that can manifest in form of unreliable delivery, noncompetitive prices, deficient quality, reneging on promises, and inadequate support services among others (Chatterjee et al., 1995; Bell et al., 1997).

The above discussion implies that the retailer should source its assortment of products from multiple suppliers, in order to obtain the best service in terms of price, delivery, quality, and variety, among others, for each of the products in the assortment carried by it. The need for multiple suppliers is justifies as it may not be possible for a single supplier to give the best service for each of the products in the retailer’s assortment. Therefore a retailer either using a price-leadership competitive strategy or a differentiation strategy can benefit from multiple sourcing accordingly. (Chatterjee et al., 1995; Bell et al., 1997; Lowson, 2001; Costantino and Pellegrino, 2010).

Linnaeus University
Sweden
3.3.2.2. Concentrated/ Single Sourcing

The other sourcing option and primarily used strategy for reducing the burden of supplier selection, relationship management, and administration, is to concentrate purchases i.e. limiting to few suppliers. One advantage, long noted but recently emphasized, is that funneling all purchases to one source makes the buyer a more important customer of the supplier, by virtue of commanding a larger volume of business (Seshadri et al., 1991). The important customer can and does wield power over, and ‘wring substantial concessions from, its supplier (Porter, 1980; Chatterjee, 1995). Nevin et al., (1990) found that purchasing performance from the buyer's standpoint is enhanced the larger the buyer's volume of business. As single sourcing increases purchase volume per vendor, this strategy therefore increase purchasing performance.

In the context of retailer-supplier relations, concentrated sourcing may yield its principal benefits in terms of reducing administrative complexity and becoming a more important customer, thereby being able to negotiate better prices and obtain better service and more access to the supplier's market information. The coordination benefits that may accrue may be of secondary importance. Coordination benefits are most often cited in the context of manufacturers who incorporate their supplier’s products into their own. But in retailing, where the product arrives in final form, retailer supplier coordination may not be as critical (Chatterjee et al., 1995).

According to Costantino and Pellegrino (2010) few of the advantages that businesses can gain from concentrated sourcing options are: partnership between buyers and suppliers that allows cooperation, shared benefits and long-term relationship based on high levels of trust, commitment from the supplier to invest in new facilities or new technology as per required by the retailer and in line with the retailer’s requirement and strategy, lower purchase price resulting from reduced operational costs, due to better knowledge of the retailer’s processes and by achieving economies of scale.
Single sourcing strategy strives for a strategic partnership between a buyer and a supplier to foster a close collaboration and to optimize shared benefits. The general benefits of single sourcing, according to Larson and Kulchitsky (1998), include higher quality, better services, more coordination in processes, supplies as per the requirements and specification of buyer, collaborative design, marketing and branding, and lower total costs.

The above discussion implies that single sourcing can result in lower costs which is the procurement objective of retailer pursuing a price-leadership strategy. Similarly single sourcing being more collaborative results in better quality of merchandize, variety and assortment as per the requirement of retailer, mutual promotions and branding etc, hence can be used by retailers following a differentiation strategy as well.

### 3.3.3. Power Relations

This section discusses another important aspect that plays an important role as part of procurement, especially under the lights of market dynamics of Pakistan retail market.

According to Dapiran and Hogarth-Scott (2003), an important principle about power is that it is an ever present factor whether actors wish to use it or not. Power is a concept that inevitably arises in any discussion of negotiation and buyer-supplier relationships (Duke, 1998).

#### 3.3.3.1. Sources of Power

Power is the ability of one channel member to get another channel member to do something it otherwise would not have done. Marketing channel members must work together to serve end-users, but this interdependence does not mean that what is good for one is good for all, different members may have differing objectives. Coughlan et al. (2006) and Duke (1998) have
discussed primarily five sources of power; reward, coercion, expert, legitimate and referent. Reward power stems from one party's ability to reward the other for compliance, a reward is a benefit given in recompense to a channel member for altering its behavior; coercive power comes from the ability to punish in case of failure to comply, its stems from one party's expectation of punishment by the other party. Expert power arises from one party's superior knowledge or expertise, it stems from one party's believe that the other part has better special knowledge and expertise that it does not have; legitimate power from one party's legitimate right to wield power in the view of the other party, and referent power stems from one party's identity or empathy with the other. Referent power exists when one party views the other party as a standard of reference and wishes to identify publically with it.

### 3.3.3.2. Power Relations in Retailing

The concept and occurrence of power in the retail channels has been the focus of a significant amount of discussion. According to Kumar (1996), a majority of supplier-retailer relationships are imbalanced. Research has been focused on the changing power relations between suppliers and retailers over the years and it's a widely accepted fact that power, of lately, has shifted from suppliers to retailers (Ogbonna and Wilkinson, 1998; Krishnan and Soni, 1997). In supplier retailer relationship, power is generally skewed in favor of the larger retailers, and suppliers of products are dependants (Hingley, 2005). There has been a shift in power within food marketing channels towards the multiple retailers where the retailer is seen as the main gateway to consumers’ and gate-keeper between producer and consumer (Lang, 2003). According to Hingley (2005) and Robson and Rawnsley (2001), Retailer are the real captains in the channel.

An important element in the discussion of inter-organizational relations and seeking power is to explain how power can be held by a certain channel member. One common and accepted approach is that the business dependency in terms of sales and profits of one party over
another. The greater the contribution, the higher shall be the dependence and more shall be the power exercised by the party who is contributing to the sale and profits of the other party. One other argument is in context of the availability of alternatives options and the switching costs from one alternative to another i.e. from one supplier to another (Ogbonna and Wilkinson, 1998; Hingley 2005; Crook and Combs, 2007).

From the above we can infer that an important element in power or gaining power is the dependence relationship between the two parties. More a party is dependent on other in terms of either its major proportion of business or having the control over the resources; more the other party becomes powerful.

The retail industry has become a concentrated over the years, where retailers have grown in size, have opened several new branches, have centralized their procurement, the proportions of overall retail sales of large retailers have substantially increased over the years and they have become brands in themselves (Krishnan and Soni, 2007; Ogbonna and Wilkinson, 1998; Hingley 2005). According to Crook and Comb (2007) concentrated industries are those where a few competitors generate most sales. Firms in such industries have bargaining power due to their large volumes.

Obgonna and Wilson (1998), Hingley (2005) and Crook and Combs (2007), argue that though the manufacturers/suppliers have their own brands and own market shares within their specific market segments but still their sales through one particular large retailer do not make up to more than two percent of the overall turnover of the retailer. Therefore retailer taking any of the products of the suppliers off the shelf would not affect their sales in a greater way, putting them in a better position to threaten the supplier. On the other hand the sales of a manufacturer through the shelves of a particular large retailer often constitute up to ten percent of its sales, which is a considerable number because of which manufacturer is not in a position to threaten the retailer to withdraw its products and sell them somewhere else. Also the unavailability of products of certain manufacturer at a retail store which pulls huge traffic
can negatively affect the long term sales of the manufacturer as the competition can capitalize on that.

### 3.3.3.3. Power Advantages

The above discussion results in building the argument that that the major retailers have been able to take advantage of their size to exercise purchasing power. Retailers have used this power not merely to extract favorable prices and delivery terms, but also to force manufacturers to pay for in-store promotional activity and display materials, to pay for the retailer to stock their products, to pay overrides and to supply own brand. Manufacturers are offering additional trade incentives, in the form of slotting placement allowances, listing fees and other trade deals to the retailers to stock their products. Because of the power that retailers have gained over the suppliers, puts them in a better position to negotiate better prices, few of the advantages include bulk purchases and discounts associated with that, quality and assortment requirements, special packaging requirements, participation in sales promotions, merchandise returns, stock handling, better services, and an inclusion of ‘Guaranteed Profit Margin’ clause (Krishnan and Soni (1997); Obgonna and Wilson (1998); Duke (1998); Hingley (2005).

Few of the big retailers who hold considerable power over the manufacturers have started demanding Guarantees of Margins from the manufacturers. Such a clause guarantees the retailer a fixed profit margin on the retail price. The retailers in order to attract customer from the competing stores often go on to reduce their prices. This new clause insures that retailers wont incur any losses, even if the reduced retail price is unable to attract customer and increase volume of sales. The manufacturer is threatened that if he does not provide the guaranteed profit margin the products shall be taken off the shelf. Therefore manufacturer has to either agree to the new condition of guaranteed profit and offer a fixed margin to retailer or sell his brand shall not be stocked by the retailer (Krishnan and Soni, 1997).
A negative view of the role of power is, however, by no means universal. To many lay observers, power is synonymous with oppression, coercion and force, despite the fact that such negative approaches are just one aspect of power. Relations between parties to an exchange (e.g., retailer and manufacturer) are not necessarily based on purely amoral considerations but may be based on the notions of 'fair play'. For instance, well-established norms of cooperation and commitment may reduce the likelihood of a more structurally dependent party being exploited. Therefore, the power may not only be used for exploitative purposes, but also for more collaborative purposes where the more powerful party takes care of the weaker counterpart and ensures the overall profitability and success of both (Duke, 1998; Hingely, 2005).
4. Empirical Information

The empirical chapter presents information on the competitive strategies and the procurement strategies of the three case companies i.e. Canteen Store Department (CSD), Utility Stores Corporation (USC) and H. Karim Bakhsh (HKB) Stores. The section proceeds by taking each company one by one, discusses its competitive strategy first, then moves on and presents management’s point of view on relevance of procurement strategy to their respective competitive strategy and then discusses the procurement strategy in terms of a) Procurement in context of Competitive Strategy b) Sourcing options and c) Power Relations. The section presents the information collected from the companies directly as well as one common supplier, Biz-Channel, dealing with all three chains. At the end a summary is presented in form of a table.

4.1. Canteen Stores Department (CSD)
   Competitive Strategy
   Relevance of Procurement Strategy to Competitive Strategy
   Procurement in context of Competitive Strategy
   Sourcing Options
   Power Relations

4.2. Utility Stores Corporation (USC)
   Competitive Strategy
   Relevance of Procurement Strategy to Competitive Strategy
   Procurement in context of Competitive Strategy
   Sourcing Options
   Power Relations

4.3. H. Karim Bakhsh (HKB)
   Competitive Strategy
   Relevance of Procurement Strategy to Competitive Strategy
   Procurement in context of Competitive Strategy
   Sourcing Options
   Power Relations

4.4. Summary of Empirical Information

Supplier’s Opinion
Biz-Channel
An overall opinion regarding the procurement to identify competitive focus, procurement related activities and power exercise.

Fig 8: Outline of the Empirical chapter
Source: Own
### 4.1. About CSD

Canteen Stores Department (CSD) is one of the largest retail stores chain in Pakistan committed in serving the Armed Forces Personnel, civil employees, their dependents and lately, the CSD has been opened to all citizens of Pakistan throughout the country. The chain is run by the Ministry of Defense of Pakistan. CSD sells a wide variety of products like household provisions, groceries, kitchen appliances, sports equipment, computers, toiletries and textiles items. Generally, these goods are procured by CSD in bulk, and sold at concessional rates, compared with retail prices.

The field organization has been divided into five zones, i.e., Karachi Zone, Lahore Zone, Rawalpindi Zone, Peshawar Zone, Quetta Zone and Multan Zone. Each zone is being looked after by the Zonal Manager. Presently, the Department has 103 outlets for selling CSD goods which includes 5 depots (for bulk selling) one each at Peshawar, Rawalpindi, Lahore, Karachi & a sub depot at Quetta, 94 shops (including one Mobile Shop) and 3 petrol pumps in various cities of Pakistan.

The procurement is centralized and is handled by Director Purchase and Supply. However the stocks are delivered by the suppliers to the depots and shops directly, where they are require. Total procurement by the Retail Chain has reached approximately to Rs. 8 Billion mark in the 2010. The overall volume of the business has reached Rs. 12 Billion mark during 2009-2010. Total employees working at CSD head office, Depots and Shops are 1800+

<table>
<thead>
<tr>
<th>Company</th>
<th>Business Statistics</th>
<th>Type of Merchandize</th>
<th>Competitive Strategy (CS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSD</td>
<td>Sales: Rs. 12bn Proc: Rs. 8bn Stores: 103 Employees: 1800+</td>
<td>Grocery Toiletries Household Sports Textile</td>
<td>Low-Price, Good Quality Offering good value for money</td>
</tr>
<tr>
<td>USC</td>
<td>Sales: Rs 45bn Proc: Rs. 35bn Stores:5700 Employees:15000+</td>
<td>Commodities Grocery Household</td>
<td>Low-Price Leadership</td>
</tr>
<tr>
<td>HKB</td>
<td>Sales: Rs 200mn Proc: Rs. 160mn Stores:17 Employees:500+</td>
<td>Groceries, Cosmetics, Bakery, Children items, Gift options, Household linen, Textile</td>
<td>Merchandize Leadership Quality and Unique Merchandize</td>
</tr>
</tbody>
</table>

*Note: All figures are in Pakistani Rupee (Rs). Mn stands for Million. Bn stands for Billion. All figures are for year 2010. US $ 1 = Rs 85.*
4.1.1. Competitive Strategy

The competitive strategy of CSD is to provide quality products at lower than open market prices. CSD offers around 400 products in various categories at good value for the money. The management of CSD is of the opinion that customers value price the most and the merchandise that offers good value for money, i.e. better quality products at reasonable rates. The management is of the opinion that what makes them better than the competition is the fact that offer lower prices than the retail market, the quality of the products is good and they offer wider variety and deeper assortment of the products. CSD was not earlier focusing on offering wider variety of products, however of late they have added number of new products to their stores. CSD intends to be the price-leader in the market without compromising on the quality of the products. The management told us that they offer lower prices than any other retail chain which is not being given subsidy in any form by the Government.

Based on the above we can say that CSD is primarily competing on the basis of prices without compromising on the quality and offering merchandise that is good value for money.

4.1.2. Relevance of Procurement Strategy to Competitive Strategy

According to the management of CSD, the biggest costs they incur are that of Cost of Goods Sold, that is the merchandise they hold. It accounts for about 70% to 75% of the total costs. Therefore in order to offer competitive price which are lower than the market, the most important factor than any other is to procure merchandise at lower prices. The procurement strategy shall be discussed in terms of a) procurement in context of competitive strategy b) sourcing options used c) power relations.

4.1.3. Procurement in Context of Competitive Strategy

In order to achieve the objective of offering lower prices, CSD focuses on procuring merchandise at lower rates as compared to the retail market. The management told us that the
procurement has been streamlined, made proactive and eventually effective. The management told us that while qualifying the supplier one important element in qualification are the prices being offered by the supplier. The Purchase and Supply department of CSD conducts a market survey for every product category and all products in the market offered by other retailers. On basis of this market survey, CSD fixes a price for the product which is 5-7% lower than the open retail market. On basis of this end consumer prices, procurement is done by asking suppliers to offer lower prices. Suppliers offering quantity discounts are given preference. During the year 2010, CSD was able to get total discounts amounting to Rs 29 million from its suppliers. A total of discount of worth Rs. 58 million was passed on to the customers as compared to the open retail market.

An important element in keeping procurement prices low is that CSD buys in bulk, through centralized procurement and avoids any sort of middle men that can affect the prices.

The management also told that their stores look for merchandize that can be procured at lower rates, which includes non-branded products and Chinese products, however the quality control department of CSD insures that products are of good quality.

### 4.1.4. Sourcing Options; Multiple Vs Concentrated

As regards to the sourcing options, CSD earlier focused on a more concentrated approach. However of late they have switched towards increasing their supplier base. CSD has started using an electronic platform which is open for bidding by the suppliers. The management told us this enhances supplier base has put CSD in a better negotiating position now. CSD is now well aware of the market prices of products and what different suppliers are willing to offer. This also opens up competition among the suppliers and since CSD offers a big platform for Sales, suppliers are inclined to offer better prices and quality as compared to their competition. They told us that procurement for groceries and other products is done through tendering and
auction among vast base of suppliers and it has helped in bringing transparency and has resulted in effective savings in procurement.

The management also told us that the other reason to have an enhanced supplier base is that it offers the opportunity to stock a wider variety and deeper assortment of products catering to a wider audience thus increasing the overall sales turnover. Because of increased number of suppliers we come across products which are unique, are of good quality and available at lower prices. This increases our product portfolio.

4.1.5. Power Relations

The management of CSD told that an important element in them being able to get lower prices from suppliers is their better bargaining and negotiating power over the suppliers. Since they offer a huge platform for Sales, their total procurement during the year 2010 was around Rs 8 billion, puts them in a position where they can dictate their terms. Since there is a lot of business dependence of suppliers in terms of Sales and Profits, over CSD, this puts CSD in a better bargaining position. On most occasions the suppliers by themselves reduce their prices while dealing with CSD, however on other occasions, CSD explicitly asks them to offer lower prices as per their survey and fixation of prices.

They further told that all suppliers are qualified on quarterly basis mostly, which means they shall supply for a quarter and then reevaluated, this also keeps a pressure on the supplier to perform well. There have been instances where suppliers were either not qualified for not offering prices lower than the market or they intended to increase prices during the currency of their contract. As regards to quality, strict compliance with CSD standards is important. In case of any surprise inspection or customer complaints, if a product is found to be of inferior quality, it is taken off the shelves, deleted from CSD list of products and business is discontinued with that supplier.
4.1.6. Supplier’s Opinion

On enquiring from the supplier, Biz-Channel, who has been in business with CSD for almost 10 years and has been supplying, Detergent, Tooth Brushes, Tooth Pastes and Sanitary Napkins told that CSD emphasis ‘price’ the most at good quality.

The supplier of CSD, Biz-Channel, informed us that CSD’s management is absolutely clear in the fact that they need prices lower than the market. Hence we have to re-calculate our price structure in order to offer lower prices to CSD. Since they offer a large Sales platform, it is feasible to reduce prices. They deal directly with the company rather than the designated distributors which is normally the trend in the retail market. This excludes the profit margin of distributor which is then passed on to CSD in form of lower prices. They also buy centrally, which helps in selling larger quantities. However the products are delivered directly to the stores and depot by the suppliers. From time to time they ask for special discounts for a specified period of time e.g. three months, and this is mandatory to follow by the suppliers. Since the renewal of contract is an important thing, suppliers have to comply with any such sales promotion strategy initiated by CSD.

From the above we can summarize that CSD focuses on procuring at lower prices to support its competitive strategy, however they also focus on quality as well. They explicitly use their bargaining power drawn from their size, from time to time, whereas they report they don’t use it explicitly.

4.2. About Utility Stores Corporation (USC)

USC of Pakistan is a vast retail chain spread throughout Pakistan. This is the largest Retail chain in Pakistan catering to the needs of general masses. USC offers food and non-food products however the main focus is on providing commodities such as Wheat, Sugar, Pulses, Gram, Rice, Oil, Ghee, Chilies and besides that toiletries and other household items. It works under the Ministry of Industry and Production.
The operational activity of USC is headed by Managing Director who is assisted by Senior and General Managers. The market has been divided into Regions. Around 60 Regions have been defined so far which are headed by their respective Regional Managers. For even better control, each Region then further has Area Managers. The total number of stores currently working is 5700, with an expansion plan of opening another 5000 stores in a phased program under consideration.

The procurement is centralized which is done by the Head Office in Islamabad. The Head Office places orders with the suppliers depending upon the fortnightly demand of its various regions and then suppliers are responsible for delivering stocks directly to the regional warehouses.

Total procurement by USC during the year 2010 has been around Rs 35 billion. The overall volume of the business has reached Rs. 45 billion mark. Total number of employees working at USC including Head Office, Regional Offices, Warehouses and Retail stores is 15000+.

4.2.1. Competitive Strategy

According to the management of USC, the main objective is to offer lowest possible prices to the general public. The emphasis of the retail chain is to provide basic commodities to the masses- the general public on the rates which are lower than at any other place in the wholesale or retail market. The management told the market they are targeting values the price most and that is what they offer best. USC is the price-leader in the market and that too by a good margin. USC offers at least 8% to 10% discounts on most of the products it sells and even more on few commodities. The discounts are even higher during the Holy month of Ramadan. USC has passed on a relief of almost Rs 18 billion to its customers during the year 2010.
4.2.2. Relevance of Procurement Strategy to Competitive Strategy

The total Cost of Goods Sold for USC is around 90% i.e. the costs of the merchandize it sells, which makes procurement the most important element in containing costs to offer lower prices to the end consumer. The management told us that the most important element in their business strategy is procurement and the main emphasis is on procuring the commodities and necessary food items from suppliers at the lowest possible rates. However USC has also been allowed a subsidy from the Government, which according to the management, they are not using at the moment. They have been able to generate huge sales and reasonable profits through their operations only.

The procurement strategy shall be discussed in terms of a) procurement in context of competitive strategy b) sourcing options used c) power relations

4.2.3. Procurement in Context of Competitive Strategy

In order to offer lower prices to the customer USC focuses on procuring at lower rates. They place most emphasis on prices while procuring from its suppliers. The management told us that our only concern while procuring is the prices being offered by the suppliers.

We procure centrally which helps them buy in larger quantities giving economies of scales which eventually lower the procurement costs. Besides this we procure directly from the source, specially the commodities, no middle-men are used for this purpose and the benefit is passed onto the customers. At the time of harvesting, bulk procurement is done directly which helps us procure at the lowest possible rates and this then helps us in keeping prices of commodities low as compared to the market.

The head office fixes a price for items on semi-annually of annually basis and especially before the start of the month of Ramadan. The procurement is done then in a way that such prices can be eventually offered. Those suppliers are preferred that offer quantity discounts and can offer
products at lower prices. The merchandize offered is normally non-branded and by local manufacturers. USC constantly looks for merchandize that can be procured at a lower rate. The policy is to make a category available such as tea or oil etc., but those varieties, brands and labels that are lower in price. Limited products or basic necessity products are carried by the stores, with important variants only.

To sum up the above we can say USC looks for low-priced merchandize, qualifies suppliers that support its strategy and buys in bulk without any intermediaries.

**4.2.4. Sourcing Options Multiple Vs Concentrated**

USC believes in dealing with limited number of suppliers. This makes USC an important customer of the supplier and at times the sole customer of the supplier which helps USC obtain special attention, lower prices, quantity discounts, special packaging and good delivery services. This also eliminates the administrative issues of handling too many suppliers.

The commodities such as pulses are procured directly from the sources that are from the farmers at the time of harvesting. The other commodities such as Wheat, Sugar, Grams, Rice etc are procured from various Government Departments which regulate these commodities such as Pakistan Agriculture Supply Corporation (PASCO), Rice Exporter Association of Pakistan (REAP), Trade Corporation of Pakistan (TCP) and Food Department. This also helps in procuring at lower rates than market. However the organization is open to procuring from any source which offers lower rates. The management told that they even plan of importing commodities from countries which are low cost sources for any particular commodity. However USC likes to work with limited suppliers for longer period of time.

To sum up the above, USC uses concentrated sourcing strategies as it makes it a huge customer of any given supplier, higher volumes help it better negotiate prices and increase its overall
bargaining power. The other reason is also the fact that it does not intend to carry a wide variety and deep assortment of products.

4.2.5. Power Relations

USC works in two sorts of power relations. One is while dealing with suppliers such as farmers and Government departments and other is while dealing with local and branded suppliers of groceries and household items.

While dealing with farmers USC takes care of the interest of the farmers as well since they are the main sources of commodities being offered by the store and USC needs to work along with them so as to secure its supplies for coming years. Therefore USC does not believe in exploitation of farmers rather works for their well-being. However, the procurement is huge in volume, and payment is direct and quick, therefore the farmers are willing to sell more to USC at better rates rather than to intermediaries in other wholesale markets. Therefore there is no use of explicit power, however indirect power is exercised. Similarly while dealing with other Government departments for procurement of commodities, USC has to work in coordination and cooperation with them since they regulate and control the bulk of commodities in the country. This reduces the bargaining power but since the objective of both is the same i.e. to facilitate the masses and provide them with basic necessities at lower rates, there is no exploitation by any of the parties.

However while dealing with other suppliers for groceries, toiletries and household products, USC explicitly exercises its bargaining power and suppliers have to offer 10%-12% discounts on their products otherwise they are not stocked. Since it offers a huge sales platform, suppliers mostly quote lower prices in anticipation of higher sales volumes. Hence indirect exercise of power. Offering branded or non-branded products is irrelevant for USC since the customers don’t come to the store for a certain label; they just come for lower prices. UCS takes those products off its shelves on which suppliers ask to increase prices and at times have discontinued the business as well.
4.2.6. Supplier’s Opinion

According to Bizchannel, who has been a supplier to USC since 2007, informed that the management of USC has complete focus on the prices of the merchandize. The sole qualification criteria is price of the merchandize that has to be 10% to 12% less than the market rate. For this purpose the supplier has to operate at a very low profit margin, while passing on the profit margin to USC in form of lower prices. USC asks for products variants that are lowest in prices. Quality is checked during the initial qualification of the supplier, where the head-office checks the quality of the products, however subsequent to that there are rarely any quality checks and the whole focus shifts to pricing of the product. During the Holy month of Ramadan, there is further more pressure to reduce prices.

From the above we can summarize that in order to implement price-leadership competitive strategy, USC highly focuses on procuring at lowest possible rates, compromising on variety and at times, quality of merchandize.

4.3. About HKB

HKB started its operations in 1948 and opened their first store in 1952 on The Mall Lahore, which started as a small trading and tailoring store of clothes and textile. Over the years HKB expanded its business and has now become one of the premier retail stores of the major cities in Pakistan. Two super stores of ‘HKB’ are being managed by H. Karim Bakhsh (Pvt) Ltd and rest 13 stores across 4 cities, that include departmental stores and specialty stores are managed under the umbrella of Bakhsh Group. All the stores have the same business strategy. They have chosen on keeping stores independent with different names for the stores; HKB-Men’s Store, HKB-The Mall, HKB-Exist, HKB-Cavalry and HKB-Store Iqbal Town. It’s a family run business which handles the H. Karim Bakhsh (Pvt) Ltd and Bakhsh Group.

The store has implemented a one-stop shopping concept with merchandize offered ranging from groceries, cosmetics, bakery, toiletries, children items, gift options, house-hold linen to textile. Generally these items are procured through domestic as well as foreign sources with
Managing Director and General Manager taking personal interest in choosing products to be offered by the store.

The company is available on many international and domestics merchandize buying platforms and all procurement is centralized. The annual sales reach a 200Mn mark. There are currently 500 employees working with the group.

4.3.1. Competitive Strategy

The competitive strategy of HKB is to offer highest quality products and unmatched customer services. The store differentiates itself from other retail stores in the market on the basis of merchandise is carries. The mission statement of the company says, ‘to provide better quality and unique merchandize to the customers’. The management told us that their competitive advantage is based on two elements, a) quality and unique merchandize and b) Customer services. HKB believes that customer value the quality and variety of the merchandize the most. However the merchandize alone cannot differentiate you from others unless it is combined with better customer services and overall good shopping experience. HKB wants to attain merchandize leadership. Based on the above, we can say that HKB’s competitive strategy is based on differentiation through quality and unique merchandize and overall better buying experience. However they have a greater focus on merchandize they offer.

4.3.2. Relevance of Procurement Strategy to Competitive Strategy

While pursuing a differentiation strategy based on quality and uniqueness of merchandise offered, procurement becomes an all important process in the company. Since the customers coming into the store expect high quality, differentiated merchandise, therefore it keeps a pressure on the management to stock such merchandise at all times. Merchandise offered by HKB is 60% to 70% imported from various parts of the world. The supplier such as Unilever, P&G, C&P, Nestle, Pespsi, Coca-Cola, etc are asked to make those variants and brand extensions available at the store that are not available in the open retail market. Most of such
merchandise is imported from Dubai. The textile and cosmetics sections have major brands imported from different parts of the world. These brands are exclusively available at HKB only. This makes procurement highly relevant to the competitive strategy. However the management is of the view that other elements such customer services and overall buying experience also plays a vital role in differentiating the store.

The procurement strategy shall be discussed in terms of a) procurement in context of competitive strategy b) sourcing options used c) power relations.

4.3.3. Procurement in Context of Competitive Strategy

In order to implement the competitive strategy of differentiation, primarily based on the merchandise, the objective of procurement is to obtain merchandise that is of higher quality, fresh and not easily available anywhere else. The management told us that procurement of merchandise is one internal process in which the top management is highly involved and merchandise selection and approval is done by the directors and general manager. Often, they go abroad to meet suppliers and select merchandise for their stores by themselves. In order to achieve merchandise differentiation, HKB undertakes activities such as constantly looking for merchandise that is new and unique, merchandise that cannot be easily procured by others, exclusive and sole distribution contracts with suppliers for certain items, import merchandise, buy those varieties and brand extensions that are not available elsewhere, asking suppliers to offer merchandise of higher quality and latest features which would help strengthen the store reputation and image.

4.3.4. Sourcing Options; Multiple Vs Concentrated

As regards to the sourcing options, since the objective is to constantly offer new, different and unique merchandise, HKB follows a multiple sourcing option, using various suppliers supplying the same product category which helps achieve the objective to offering wider variety and deeper assortment of merchandise. Using multiple suppliers also help in procuring such
variants and line extensions that another supplier might not be offering. The management completely believes in the fact that it is better to capitalize on the best offered by a particular supplier rather than expecting few suppliers to be good with everything. Using multiple suppliers also helps keep an eye on the changing market trends and what’s new happening around in the retail and supply market.
To sum up the above we can say that HKB uses a multiple supplier strategy for new, different and wider variety of merchandize from various sources.

4.3.5. Power Relations

As regards to power relations, HKB communicates its business strategy to its suppliers clearly and then it is up to them whether they can offer such merchandize that can be stocked by HKB or not. If they don’t offer merchandize of higher quality and unique in nature, the supplier is not qualified, but no explicit power is exercised, as according to the management they are not that big buyers to exercise any power over suppliers. However since HKB has built its own brand name over the years, supplier wish to place their products at the store’s shelves as they can leverage the equity of the store name to their products as well. The MNCs also get a platform to sell those extensions of their brands, which are otherwise not feasible to sell in the open retail market, thus differentiating themselves from other manufacturers. Also there are many suppliers who have a niche marketing strategy and are targeting the same target market as of HKB, they tend to support the store in its strategy and are willing to cooperate and coordinate to extents that are beneficial for all parties.
Hence we can say that HKB does not use any explicit power while dealing with suppliers, however it sticks to its business strategy, and suppliers tend to support and cooperate with the store for shared benefits.

4.3.6. Supplier’s Opinion

Bizchannel informed that HKB’s biggest concern is quality and uniqueness of merchandize. Since we have our manufacturing set in China and use Chinese suppliers, which are not perceived to be of higher quality, it has been a real problem to get qualified as supplier by HKB.
But since we also have high quality, differentiated merchandize to offer, we have consistently been in talks with HKB to stock our products. As our flagship product is specially designed toothbrushes for kids, HKB’s one essential requirement besides quality has been uniqueness of designs that we shall not make available at other stores as long as a design is available at HKB.

From the above we can summarize that HKB focuses a lot on quality and uniqueness of merchandize while procuring and explicitly asks its suppliers for better quality and unique merchandize, at-least to the extent, a supplier can offer.

4.4. Summary of Empirical Information:

<table>
<thead>
<tr>
<th>Company</th>
<th>Procurement w.r.t. CS</th>
<th>Sourcing Options</th>
<th>Power Relations</th>
<th>Supplier’s Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSD</td>
<td>Price and Quality focused buying Bulk Buying No intermediaries Quantity Discounts Mix of quality and low price merchandize 5%-7% Lower prices Discounts worth Rs 58Mn passed onto customers</td>
<td>Multiple Increased supplier base Tendering Auctioning Bidding</td>
<td>Indirect and direct use of power</td>
<td>Prime Focus is on price and then on quality Special price structuring Explicit discounts for specific period of time</td>
</tr>
<tr>
<td>USC</td>
<td>Price focused buying Bulk buying No intermediaries Local suppliers, non-branded labels Limited variety; Low-priced variants only 8-10% Lower prices Discounts worth Rs 18bn passed unto customers</td>
<td>Concentrated Few suppliers who offer lower prices USC major or sole buyer PASCO, REAP, TCP, Food Dept.</td>
<td>Cooperation with farmers and Govt Depts. Explicit use with other suppliers.</td>
<td>Sole focus on price Explicit use of power</td>
</tr>
<tr>
<td>HKB</td>
<td>Quality and uniqueness of merchandize Local/foreign suppliers Branded items Unique variants</td>
<td>Multiple For unique merchandize Domestic/Foreign</td>
<td>Cooperation Same target market Niche Market Shared benefits</td>
<td>Focus on Quality and Uniqueness of Merchandize Indirect use of power, however supplier cooperate for shared benefits</td>
</tr>
</tbody>
</table>

*Note: All figures are in Pakistani Rupee (Rs). Mn stands for Million. Bn stands for Billion. All figures are for year 2010. US $ 1 = Rs 85

Fig 10: Summary of empirical information
Source: Own
5. Analysis

This chapter presents an analysis of theory presented in chapter three and empirical findings in chapter four in order to answer the research questions of this thesis. The section starts with the analysis of competitive strategies used by the retail industry in general as discussed in the theory and as of those used by the case companies. This analysis will answer the first research question of this study. Then the relevance of procurement strategies to competitive strategies is analyzed with help of theory and empirical findings. The section then analyzes how the three elements of procurement strategies a) Procurement in context of Competitive Strategy b) Sourcing options and c) Power relation support the competitive strategy in order to answer the second research question.

Fig 11: Outline of Analysis Chapter
Source: Own
5.1. Retail Competitive Strategies (Answering RQ-1)

This section would analyze the theory and the empirical information collected from the case companies to answer the first research question.

According to the theory competitive strategy can be understood as attributes that help companies differentiate itself from others by doing something that others are not doing to gain a sustainable competitive advantage (Pearce and Robinson, 1994; Morschett et al, 2006). The attributes that differentiate the company from others should be of value to its targeted audience and should be relevant to them (Mintzberg, 1996). According to the literature the retailers have build their competitive strategies around price, quality and variety of merchandize, customer services, store design and layout, information technology, branding, power and functional efficiencies (Harris and Ogbonna, 2001; Palmer and Beddal, 1997).

Other authors have put price and quality to be the two most important competitive advantages around which retailers build their competitive strategies while quality being a collective term used for variety and assortment, quality of store ambience, speed and efficiency of transaction, and quality of store personnel (Palmer, 1994; Conant et al., 1993). While Ailawadi and Keller (2004) talk about creating an overall differentiated experience while shopping which cannot be imitated by other retailers, to be the best competitive strategy. Morschett et al.(2006) suggest major competitive strategies to be price leadership, quality leadership, convenience leadership, variety and assortment leadership and customer process leadership.

However these various competitive strategies that have been introduced and researched upon by different authors can be eventually generalized to the Porter generic competitive strategies which are Cost Leadership, Differentiation and Focus (either low-cost or differentiation focused on a certain market segment) (Miller and Dees, 1993; Palmer, 1994; Harris and Ogbonna, 2001, Morschett et al., 2006).
The competitive strategies of the three case retailers in this study are very much in-line with the competitive strategies being discussed in the theoretical section.

According to the management of all three case retailers (question no. 1 of the questionnaire), the competitive strategies of these companies have been designed keeping in mind the value they would create for the customers and its relevance to the target market, as also suggested by Mintzberg (1996).

In CSD’s opinion customer value prices the most and that is the most relevant factor on which competitive advantage should be build. The management on being asked what is it that they do better than others, was of the opinion that they offer lower prices. Same was the information provided by one of its suppliers that CSD put a major emphasis on getting lower prices from them. However they also keep products of good quality and quality also remains an important element, but comes after the ‘Price’. Variety and assortment of products kept is also high with many variants of products available. This can also be considered as part of quality as suggested by Palmer (1994). This eventually leads to the fact that CSD’s competitive strategy is ‘Price-Leadership’ or simply ‘Price’.

Similar is the case with USC, their prime and only focus in on offering prices that are lower than anywhere in the market. However in doing so, they tend to compromise on the quality of merchandize they keep. Also there is limited variety and assortment of products available at their outlets. They are of the opinion that customers come to their stores for lower prices, not for a branded product or wider variety, if they want to buy oil, they will buy it because its cheap irrespective of its label. This eventually leads to the fact that USC’s competitive strategy is ‘Price-Leadership’ or simply ‘Price’.

Price-Leadership has been identified as a competitive strategy by almost all authors such as Porter (1980), Wortzel (1987), Conant et al. (1993), Palmer (1994), Anderer, (1997), Harris and Ogbonna (2001), and Morschett et al., (2006).
HKB uses differentiation strategy to compete with other retailers in the market. They differentiate on the basis of quality and uniqueness of its merchandize. As expressed by their Assistant Brand Manager, they don’t wish to be either price-leaders or quality leaders, they are merchandize leaders. HKB is also of the view that only merchandize cannot help build a competitive strategy alone, it has to be complemented by the store layout and design and overall shopping experience. This eventually leads to the fact that HKB’s competitive strategy is primarily based on quality and uniqueness of merchandize and secondarily based on store ambience and shopping experience.

Porter (1980), talks about differentiation as a competitive strategy. Similarly Palmer (1994) suggest quality to be a competitive strategy while further suggesting that it consists of issues such as assortment, and quality of store ambience, which is same as identified by HKB. Ailawadi and Keller (2004) emphasize the strength of a comprehensive experiential marketing focusing on store atmosphere, consumers desires, consumer excitement, entertainment and a clear, emotion focused image. The same has been identified by the Brand Manager of HKB, i.e. putting an emphasis on overall shopping experience. In their research Morschett et al.(2006) also identify quality and variety of merchandize along with store layout and design to be the competitive strategies used by various retailers.
5.2. Procurement Strategies Supporting Competitive Strategies (Answering RQ-2)

This section would analyze the theory and the empirical information collected from the case companies to answer the second research question. The analysis is divided into four section that would collectively answer the second research question. The four sections are 1) Relevance of Procurement Strategies to Competitive Strategies 2) Procurement in context of Competitive Strategy 3) Sourcing Options and 4) Power Relations.

5.2.1. Relevance of Procurement Strategies to Competitive Strategies

According to the theory procurement has the ability to strategically contribute to the firm and managers have started giving more attention to the procurement strategies (Nollet et al., 2005). According to Mol (2003), sustainable competitive advantage can be achieved through procurement strategies. He further concludes that procurement is strategically relevant to the outlook of the firm and procurement matters to competitive advantage.

Both CSD and USC have identified procurement to be the most important elements in achieving their low price advantage and implementing their price-leadership competitive strategy. According to CSD, of their total costs, COGS (cost of goods sold) i.e. the merchandize cost, is around 75%, which makes procurement all important element in total costs. Similarly for USC, these costs are as much as 90% to 95% percent, hence the only way to keep costs low for both these retail chains is to procure the merchandize at lower prices. Therefore making their procurement strategies highly relevant to implementation of their competitive strategies.

On being asked what is it that helps them offer lower prices to the end consumers, USC's response was directly procurement at lower prices, whereas CSDs response was special discounts in huge quantity purchases, which eventually means procurement at lower prices.
The above empirical information is also supported by the theory as according to Monczka et al. (1998), in order to increase customer value, businesses strive to offer lower prices, and for this purpose they have turned their attention to procurement. Competitive procurement strategies focus on the buyer’s intrinsic bargaining power which allows buyers to leverage procurement and, as a result, improve the company’s competitive market position (Virolainen, 1998).

In case of HKB, which follows a differentiated strategy on the basis of quality and uniqueness of merchandize, the Assistant Brand Manager, reported that procurement is an all important element. The higher-ups in the organization take keen interest in choice of merchandize and make personal choices for imported merchandize. Similarly they ask their suppliers to make those variants and products lines available at their stores that are not available anywhere else. On being asked what helps you to differentiate from the rest, the management's response was procurement strategy; quality and differentiated assortment of merchandize. The Assistant Brand Manager also told that they constantly look for new and different merchandize that cannot be easily procured by others. However HKB was also of the view that besides procurement, overall shopping experience is also very important to differentiate and store design and layout play an important role as well.

From the above analysis we can conclude that procurement strategies are highly relevant with the competitive strategies of the retailers. However they are more relevant and can be the sole element in implementing competitive strategy in case a retailer is pursuing a price-leadership strategy, whereas in case a retailer is pursuing a differentiated competitive strategy, procurement though relevant, but is not the only element.

5.2.2. Procurement in Context of Competitive Strategy

According to the theory the procurement activities of the retailers would be in-line with their respective competitive strategies. Retailers employing the price leadership strategy will act
according to this strategy and retailers employing differentiation strategy will act according to
their strategy when it comes to procurement (Dawson, 2000; Costantino and Pallegrino, 2010).

According to the theory retailers who pursue a price-leadership strategy buy larger volumes,
take quantity discounts, seek out best deals from the suppliers, procurement is centralized,
exert their bargaining power explicitly, negotiate hard, choose suppliers that support their
strategy, and search more merchandize that they can sell at lower prices (Helms et al., 1992;
Smith et al., 1995; Lowson, 2001, , Morschett et al., 2006).

The two case retailers CSD and USC who are following the price-leadership competitive strategy
show the similar traits as presented by the theory. Both retailers buy in huge quantities and
procurement is centralized. Both retailers told that they avoid any kind of middle-men to avoid
increase in prices due to their margins. CSD further said that they choose suppliers, besides
things other things, who support their strategy. On being asked ‘for the choice of supplier, what
is that you focus on?’ and the response was ‘quantity discounts offered’. USC also used the
same strategy as its major suppliers are PASCO, REAP, TCP, and Food Department, which also
have the same objective and support the competitive strategy of USC. Both CSD and USC search
for merchandize that can be procured at lower rates. CSD though, gives weight-age to quality as
well, USC on the other hand is more concerned with the prices. CSD besides other products also
keeps Chinese merchandize which is procured at lower prices. USC stocks lesser know local
labels which can be procured at lower prices.

Retailer pursuing a price-leadership strategy focus on lower prices and higher sales volumes,
which results in a merchandise mix with lesser variety and assortment and merchandize that is
normally less differentiated from other retailers (Lowson, 2001, , Morschett et al., 2006). This
stands true for USC. Since the main focus is on lowering prices, USC stocks only low priced
variants of the products, which eventually results in limited variety and assortment of products
available at USC. CSD has, however, started added newer merchandize to its shelves, widening
the variety and deepening the assortment it carries.
Retailers who implement a price leadership strategy use aggressive sales volume techniques as a driver of profitability, since unit margins are low (Smith et al., 1995). The same goes true for both CSD and USC as they told that their vision is to work at low unit margins, selling large volumes, and generating profit through huge turnover.

According to the theory, retailers who pursue a differentiation strategy, they focus on product differentiation, offering brands that strengthen the retailer’s image and reputation, introduce new, innovative products with better quality, features and performance, wider variety and deeper assortment of merchandize, would offer products that consumers shall perceive superior, better store layout, deigns and ambience, customer assistance and customer services, and relationship programs (Helms et al., 1992; Smith et al., 1995; Lowson, 2001, , Morschett et al., 2006).

HKB, which is employing a differentiation strategy undertakes procurement activities that are in line with its strategy, similar to as identified by the theory. HKB constantly looks for merchandize that is of higher quality, which is unique and is not easily available in the market. They constantly look for such merchandize, import it from foreign suppliers, keep a wider variety and deeper assortment of products and ask suppliers for merchandize that complements their store’s image and repute. Besides this, they also put a lot of emphasis on store layout and design, store ambience and shopping experience.

From the above analysis and discussion we may conclude that retailers employing price leadership or differentiation strategy undertake activities that support their competitive strategy, in context of procurement. Price-leaders go for activities such as buying larger volumes, centralized procurement, negotiating hard, seeking quantity discounts, compromising variety and qualifying suppliers that support them. Similarly differentiators undertake activities such as seeking good quality merchandize, asking suppliers for variants that are of good quality and unique, keeping a rather wider variety and deeper assortment of merchandize and procuring from quality suppliers either local or foreign.
5.2.3. Sourcing Options; Multiple Vs Concentrated

According to the theory, the choice of appropriate set of suppliers i.e. the decision about the number of sources to be used characterizes its sourcing strategy which is of great importance at the strategic level since it identifies the additional costs of managing suppliers against other benefits such as merchandise quality and assortment, delivery services, promotions, negotiations power etc depending upon number of suppliers (Costantino and Pellegrino, 2010). The choice is normally between single or concentrated and multiple sourcing strategies (Burke and Vakharia, 2004).

CSD uses a multiple supplier strategy, as they have increased the supplier base, by introducing an electronic platform for suppliers to bid for the merchandise they offer. On being asked ‘for every product category multiple suppliers is their preferred choice?’, the response was ‘yes’ and the reason given was ‘increased competition offers better prices’ and ‘helps offer wider variety and deeper assortment of products’.

The theory also highlights the same fact as according to Costantino and Pellegrino (2010) one of the advantages that retailers can gain from multiple sources is increased competition among suppliers, which leads to better prices. Another important advantage is with multiple-sourcing strategy, the retailers have access and information about new products, market trends, and current prices due to establishing contacts with various suppliers. The retailers don’t end up over paying since they can compare retailers and have the knowledge of latest prices (Chatterjee et al., 1995; Bell et al., 1997). CSD achieves the same by employing the electronic platform where all suppliers post their offers and prices. This equips CSD with knowledge on new products and latest prices in the market, enables it to compare offers of different suppliers and make informed decisions.

The theory identifies other advantages as well such as product innovation and better delivery services, avoiding supply disruptions, capitalizing on core competence of various suppliers and
avoiding supplier opportunism. However these benefits have not been reported by CSD. Hence we may say that CSD's choice of 'multiple sourcing' strategy is to obtain better lower prices from the suppliers to support its competitive strategy.

USC uses a concentrated sourcing strategy, sticking to fewer suppliers. The management told us that for most of their suppliers, USC is the biggest buyer of even the sole buyer at times. On being asked ‘for every product category few suppliers is their preferred choice?’, the response was ‘yes’ and the reason given was ‘more purchase volume helps negotiate better prices’. One other reason that was not an explicit answer, however can be concluded from the information collected is that they are not interested in keeping a wider variety and deeper assortment of products, so they for fewer suppliers.

The theory also supports this approach as according to the theory funneling all purchases to one source makes the buyer a more important customer of the supplier, by virtue of commanding a larger volume of business (Seshadri et al., 1991) and customer can exercise power over its supplier and get substantial concessions (Chatterjee, 1995). Other authors that suggest that concentrated sourcing makes buyer the stronger party while negotiation and helps obtain lower purchasing prices are Nevin et al., (1990), Larson and Kulchitsky (1998) and Costantino and Pellegrino (2010).

The theory however identifies other advantages of concentrated or single sourcing, which have got much emphasis in the recent past such as better coordination and cooperation, collaboration is product design, operational efficiency through integration, mutual investments in technology, better knowledge of each other’s processes, co-branding etc. These advantages, however, have not been reposted by USC as the reason for employing a concentrated sourcing strategy. The primary reason is to obtain better negotiating power and thus lower prices from supplier. Hence we may conclude that the main objective of this strategy is primarily to support the competitive strategy.
HKB uses a multiple sourcing strategy. The prime reason given by them for use of this strategy is to get hold of a wider variety and deeper assortment of quality merchandize. According to the management this helps them procure those variants and line extensions that are not otherwise available. This also at times helps us identify suppliers that are offering something unique. This also helps them equip themselves with better market knowledge, specially the foreign supplier.

According to the theory multiple-sourcing strategy helps the retailers in having access and information about new products, market trends, and current prices due to establishing contacts with various suppliers (Chatterjee et al., 1995; Bell et al., 1997). The theory also talks about getting better quality products through multiple sourcing as according to Costantino and Pellegrino (2010) one of the advantages of multiple sourcing is that increased competition leads to better quality products. This corresponds with the reasons identified by HKB. However theory does not highlight the fact much, regarding variety and assortment of products, and uniqueness of merchandize which have been reported as the primary reasons by HKB for using multiple supplier sourcing strategy. From this discussion we can conclude that multiple sourcing option is used by HKB to support its competitive strategy of offering wider variety and deeper assortment of quality and unique merchandize.

*From the above discussion on three case companies, we can conclude that these retailers make choices between sourcing options to support their respective competitive strategy, however either concentrated sourcing or multiple sourcing can be explicitly linked to certain sort of advantages and retailers seeks contrasting benefits from different strategies, according to what suits them best. For example CSD and USC which follow the same competitive strategy, use contrasting sourcing options, yet achieve their objectives through them. Similarly with HKB, ‘multiple sourcing’ option not just gives price advantage and better negotiation power, but also supports procurement of quality and unique merchandize and wider variety of products.*
5.2.4. Power Relations

The research on power relations in retailing show that most of the supplier-retailer relationships are imbalanced (Kumar, 1996) and power is generally skewed in favor of larger retailer (Hingley, 2005). According to theory, an important element that results in gaining power over the other party is the business dependency in terms of sales and profits of one party over another. The higher the dependence the greater the dependent party is under influence (Crook and Combs, 2007).

CSD and USC, being the large retail chains, exercise their power over the suppliers in achieving their objectives. CSD on being asked ‘what is it that helps them in offering lower prices’, responded that ‘special discounts on huge quantity purchases, being one of the largest retail chains’, this statement identifies the fact that it exercises power over its suppliers. Similarly CSD told that in order to do business with the suppliers by themselves quote lower prices seeking greater quantity purchases. However one of the suppliers told that CSD asks explicitly for discounts from time to time, and they have to comply as the contracts is on quarterly basis or maximum an early basis. Also CSD has disqualified suppliers on the basis of quality and price. The same goes for USC. Due to its huge size, it explicitly exercises its negotiating power over suppliers in getting lower prices from them, especially over the local suppliers of grocery and household merchandize. Both retail chains are huge in size and procurement is centralized and procured volumes are larger.

This fact is also supported by theory that retail industry has become a concentrated over the years, where retailers have grown in size, have opened several new branches, have centralized their procurement, the proportions of overall retail sales of large retailers have substantially increased over the years, few competitors generate most sales and have increased bargaining power due to their large volumes (Krishnan and Soni, 2007, Crook and Combs, 2007).
HKB on the other hand exercises more referent power over its suppliers. Referent power is one in which a party wishes to identify publically with the other party (Coughlan et al., 2006). HKB works according to its strategy and any suppliers wish to cooperate with it since it offers them the platform to sell variants that they otherwise cannot. The niche marketers also find HKB a good platform. However HKB does not qualify suppliers unless they fulfill the criteria of quality and uniqueness. According to the HKB, they are not such a big store to exercise any power over suppliers, they just follow their policy and suppliers tend to cooperate for shared benefits. The theory also identifies the positive perspective of power, which highlights cooperation and collaboration of parties where the stronger part takes care of interests of weaker party (Hingely, 2005).

From the above discussion we can conclude that power plays an important role in supporting competitive strategy of retailer with respect to procurement. The role of power is more relevant, specially the oppressive nature of power, with retailers who pursue a price-leadership strategy. They are more explicit in use of power to obtain lower prices from suppliers, in order to support their competitive strategy. The use of power by retailers, who follow a differentiation strategy, is less explicit. The use of power is more indirect and referent.

<table>
<thead>
<tr>
<th>Answering RQ-2</th>
<th>Analysis Results:</th>
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| Relevance of Procurement Strategy to Competitive Strategy | **Price/Cost Leadership:** Highly Relevant  
**Differentiation:** Relevant, but other elements also important |
| Procurement in Context of Competitive Strategy | **Price/Cost Leadership:** Buying bulk, Centralized Procurement, No intermediary, negotiate hard, exercise power, seek quantity discounts, look for low priced merchandise, work with suppliers that support strategy.  
**Differentiation:** Product-differentiation, keep new, innovative merchandise, ask suppliers for unique variants and seek merchandise that support store image. |
| Sourcing Options; Multiple Vs Concentrated | Retailers seek contrasting benefits from different strategies, according to what suits them best. |
| Power Relation | **Price/Cost Leadership:** Direct, explicit use of power to get lower prices.  
**Differentiation:** Indirect and referent power, for shared benefits |
6. Conclusion

The chapter gives a conclusion to the research questions in light of the relevant literature, empirical findings and analysis conducted in earlier sections in this study. The section briefs the important elements that the analysis has highlighted and helped in answering the research questions. At the end criticism on the thesis has been presented along with future research direction.

6.1. Conclusion of Research Questions

RQ 1: What are the various competitive strategies used by the retail industry in general and the competitive strategies of the case retailers?

From the theory and empirical findings we can conclude that retailers build their competitive strategies around a number of competitive advantages such as price, quality, differentiated merchandize, variety and depth of assortment, store layout and design, overall shopping experience, customer services, store brands etc. They follow different strategies such as price leadership, quality leadership, convenience leadership, variety leadership, merchandize leadership, etc. however these various advantages and strategies can be simplified into basic and generic competitive strategies which are Price Leadership and Differentiation. The case retailers in the study can be categorized in these two categories.

CSD uses a price leadership strategy with focus on quality as well. However due to its prime focus on offering lower prices, we can conclude that it used a Price Leadership strategy.

USC also pursues a Price-Leadership strategy as its only focus is to offer lower prices than anywhere else in the market.
HKB uses a differentiation strategy, differentiating itself from other retailers on the basis of quality and uniqueness of merchandize along with emphasis on store layout and design and overall shopping experience.

**RQ 2**: How do procurement strategies of the case retailers support their specific competitive strategies?

This question was answered in light of discussion on four facets related to procurement which are 1) Relevance of Procurement Strategies to Competitive Strategies 2) Procurement in context of Competitive Strategy 3) Sourcing Options and 4) Power Relations in Retailing.

First of all, relevance of procurement strategies to competitive strategies was investigated as to ascertain if the procurement strategies support competitive strategies or not. In light of theory and empirical findings we can conclude that procurement strategies are highly relevant with the competitive strategies of the retailers. It can be further concluded that they are more relevant and can be the sole element in implementing competitive strategy in case a retailer is pursuing a price-leadership strategy, whereas in case a retailer is pursuing a differentiation strategy, procurement though relevant, but is not the only element. Hence we can conclude that procurement strategies support competitive strategies, to begin with.

Moving onto 'procurement in context of competitive strategy', we can conclude that retailers who pursue a price-leadership strategy under take activities such as buying larger volumes, centralized procurement, negotiating hard, seeking quantity discounts, eliminating intermediaries, qualifying suppliers that support them and looking for merchandize that can be procured at lower prices. Such activities support their competitive strategy of price leadership, since it allows them to procure at lower prices. Similarly differentiators undertake activities such as seeking good quality merchandize, asking suppliers for variants that are of good quality and unique, keeping a rather wider variety and deeper assortment of merchandize, procuring
from quality suppliers either local or foreign, and stock merchandize that complement their store image.

The sourcing option used by retailer also supports the competitive strategy of a retailer. Price Leaders have been found to follow both multiple and concentrated sourcing options with the same objective of procuring at lower prices. The rationale behind using multiple sourcing is the competition between suppliers that results in lower prices, whereas the rationale behind using concentrated approach is to become a larger buyer and enjoy the benefits of volume and superior bargaining power.

CSD and USC, who pursue the same competitive strategy, use contrasting sourcing options, yet achieve their objectives through them. On the other hand CSD and HKB use multiple sourcing with the objective of procuring wider variety and deeper assortment of merchandize, whereas these two retailers use different competitive strategies.

Hence we can conclude that retailers make choices between sourcing options to support their respective competitive strategy, where concentrated sourcing or multiple sourcing can be explicitly linked to certain sort of advantages and retailers seek contrasting benefits from different strategies, according to what suits them best.

As regards to the power relations in retailing, we can conclude that power plays an important role in supporting competitive strategy of retailer with respect to procurement. The role of power is more prominent with retailers who pursue a price-leadership strategy since they exercise their coercive power to procure at lower prices from the suppliers. They are more explicit in use of power to obtain lower prices from suppliers, in order to support their competitive strategy. The use of power by retailers, who follow a differentiation strategy, is less explicit. The use of power is more indirect and referent, where suppliers wish to associate themselves with such retailers for leveraging retailer’s image and tap the same target market.
6.2. **Thesis Criticism:**

As regards to criticism we believe that meeting with the respondents in person and first hand observation could have helped in gathering more objective information. The study included three retailers; this could be broadened to include more retailers in the study. The size of the retailers also varied substantially that could somewhere affect the results as well. The inclusion of an end-consumer survey could have better substantiated the results. Though the study provides answers to the questions, however they may not be generalized on the whole retailing industry.

6.3. **Future Research:**

There is a lot of scope for further research on the subject matter of this thesis. In order to substantiate the results, an empirical study can be conducted in a more extensive way to identify the extent of support in numeric and quantitative terms. The two of the case retailers had almost the same competitive strategy; therefore more retailers can be included in the research to get a right mix of sample for study. There could be further dimension added in the research such as product, supplier, retailer and customer characteristics effecting the procurement and competitive strategies. The study primary focused on retailers selling grocery, household and allied merchandize, however other retailers who may be selling high-tech or high-value products can be included in the research.


Danermark, B. (2001), Explaining Society: An Introduction to Critical Realism in the Social Sciences, Routledge, Florence, KY.


Neuman, W.L., (2003), Social research methods: qualitative and quantitative approaches. Allyn and Bacon, Boston.


Yin, R., (2003), Case study research: Design and methods, Thousand Oaks, Calif
Appendix A: Questionnaire for case companies

Kindly take time to fill in the questionnaire. Rank your answers in order of importance (1 for most important and so on...) or select any one answer as per your choice. You can choose to leave questions without answering that you feel are irrelevant.

Q-1-What in your opinion customer value the most while making their purchases from retail store?
Better prices
Quality merchandize at higher prices
Merchandize that offers good value for money
More variety and assortment in merchandise
Customer services
Overall buying experience (Store ambience, air conditioning etc.

Q-2-What is it that you do better than other retailers?
Offering lower prices
Better Quality products
Better variety and assortment of merchandize
Better customer services
Better overall buying experience

Q-3-What is that you want to achieve?
Price Leadership
Quality Leadership
Services Leadership
Overall Buying Experience Leadership
Question 4 to 10 focus more on Price factor i.e. if the basic strategy is to offer lower prices to customers. Questions 11 to 16 focus on differentiation i.e. if the basic strategy is to offer high quality, unique merchandize or special retail layout, setup and design. (This explanation is for the purpose of this thesis, not for the respondents, they were given questions accordingly after ascertaining their strategic orientation)

**Q-4**-What is it that helps you in offering lower prices in the Market?
- Procurement at Lower Prices
- Less investment on store designs and layout
- Internal Administrative controls
- Reduced overheads
- Others_________________________________

**Q-5**-In order to offer lower prices:
- You would keep merchandize that can be procured at lower prices i.e. non-branded, Chinese etc
- You would rather keep good value for money merchandize than high quality merchandize
- You would prefer offering limited product lines rather than full line extensions
- You would offer full product lines and quality products but at lower prices
- Others_________________________________

**Q-6**-How do you manage to procure at lower prices?
- Negotiating hard
- Looking for merchandize that can be sold at lower prices
- Qualifying suppliers that support your strategy
- Buy in bulk
- Exercise bargaining power
- Others_________________________________
Q-7- For the choice of supplier, what is that you focus on:
Prices offered
Quality of Merchandize
Variety/Assortment of Merchandize
Sales promotions offered
Quantity Discounts offered

Q-8- While asking suppliers for lower prices:
You explicitly demonstrate your bargaining power
In order to do business with you suppliers by themselves quote lower prices seeking greater quantity purchases

Q-9- Have disqualified suppliers in the past for not offering lower prices?
Yes No

Q-10- Have taken high priced products of suppliers off the shelf in the past?
Yes No

Q-11- What is it that helps you differentiate yourself from others in the Market?
Procurement strategy: Quality and Differentiated Assortment of Merchandize
Store designs and layout
Internal process; Customer Services, Customer Convenience
Overall shopping experience
Others_________________________________
Q-12- In order to Differentiate:
You look for new and different merchandize
You would keep merchandize that cannot be easily procured by others
You would keep Imported Merchandize
You would only keep high quality products
You would offer complete range of products and all line extensions offered by branded suppliers
You would offer good value for money products, non-branded, Chinese products as well
Others__________________________________

Q-13- For the choice of supplier, what is that you focus on:
Offers products with latest features
Offers a superior Quality Merchandize
Offers wide variety and deep assortment of Merchandize
Helps strengthen the store reputation and image
Quantity Discounts offered

Q-14- While dealing with suppliers:
You exercise your bargaining power and push your suppliers to get merchandize of your choice
You collaborate with your suppliers to clarify your needs and help suppliers in supplying the required merchandize.

Q-15- Have disqualified suppliers in the past for not offering good quality merchandize?
Yes  No

Q-16- Have disqualified suppliers for not supplying the required variety and assortment of merchandize?
Yes  No
Q-17-For every product category few suppliers is your preferred choice:
Yes                      No (If No, move to next question)
If Yes then why?
More purchase volume helps negotiate better prices
Increases bargaining power
We are not interested in keeping a wide variety and assortment of merchandize, rather qualify only those suppliers that offer better prices
We only qualify suppliers that offer better quantity deals
Better coordination and services for better availability
More collaboration for unique merchandize offering
Less administrative costs
Others_______________________________

Q-18- For every product category multiple suppliers is your preferred choice:
Yes                      No
If Yes then Why?
Increased competition offers better prices
Increased competition offers better quality and services
Helps offer wider variety and deep assortment of merchandize
Helps keep an eye on overall prices and supply trends in market.
Avoids disruption of supply
__________________________________________

Any other practices and policies that you would like to share that help you achieve the price advantage in the market?
_______________________________________________________________________________
_______________________________________________________________________________
_______________________________________________________________________________
Any other practices and policies that you would like to share that help you achieve the required differentiation?
_______________________________________________________________________________
_______________________________________________________________________________
_______________________________________________________________________________

Appendix B; Questionnaire: Supplier

General discussion regarding the procurement of the case companies.

Q- While dealing with the following companies, what is their prime focus: You can simply choose an option or rank them in order of importance with 1 being most important.

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>USC</th>
<th>HKB</th>
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<tbody>
<tr>
<td>Price</td>
<td></td>
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<tr>
<td>Quality</td>
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<td>Services</td>
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<tr>
<td>Additional</td>
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</table>

Is there something extra that you need to do to be a supplier with these companies?

Yes  No

If yes, what is it that you do different for these companies as compared to open retail market?

CSD___________________________________
USC___________________________________
HKB___________________________________
In getting that ‘extra’ from you, these companies tend to coordinate and cooperate or dictate their terms?

CSD Cooperation/ Exercise power
USC Cooperation/ Exercise power
HKB Cooperation/ Exercise power

Briefly explain in what way they cooperate or exercise power.

CSD______________________
USC______________________
HKB______________________