

# **THE PRACTICE AND THEORY OF STRATEGIC PURCHASING: A CASE STUDY OF AN INTERNATIONAL FOOD COMPANY REPOSITIONING ITS RELATIONSHIP TO SUPPLIERS**

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## **Abstract**

Strategic purchasing has gained recognition as an approach to change management for the purpose of enhancing competitive edge. In this case study, a major international food company decided to upgrade its purchasing practices in the Asia-Pacific region by launching a dual strategy, called the “Purchasing Blitz” and the “Learning Journey”, not only to lower its costs but also to renew the relationship with suppliers and to reposition the company for the future. The paper describes the process as a narrative account, produces formative evidence to

illustrate the performance of the dual strategy and makes exploratory links with the conceptual literature on strategic purchasing.

## **INTRODUCTION**

The chief buyer in the Asia Pacific region for an international food company (the co-author) initiated in 2001 what was termed the “Purchasing Blitz” (PB) with the many suppliers of raw materials and other commodities, mainly from China, Malaysia and Indonesia. Basically, the PB was a strategy to persuade suppliers throughout the region to almost immediately reduce their

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prices for materials by a discount of 8%. Most of the suppliers readily complied and therein began a new relationship with the company that they called the “Learning Journey” (LJ). For the company the success of the dual strategies, the PB and the LJ, enabled them to claim that they had made a solid beginning in repositioning the business in the region and enhancing competitive edge. Tangible evidence was produced to show that the dual strategy was working. Details will follow later.

It should be noted at the outset that the perspective of the paper is explicitly that of the company senior management, whose change strategy dominated the relationship with suppliers. It would require another study to obtain their side of the story. Superficially, the scenario might be interpreted as a global company using its powerful leverage to remind its suppliers that they had better comply if they wish to remain in the business relationship. At another level, the repositioning strategy might be seen as a means of enhancing competitive position and mutual benefit, not only for the international company but the smaller enterprises in the complex supply chain. Whatever interpretation is placed upon the actions of the food company, the ways and means they employed to design, implement and manage the change process provides useful insights into the relationship between the theory and practice of global strategic purchasing, which is the core conceptual focus of the paper.

### **The problem driving the change agenda**

The chief buyer (and co-author) recognised, along with senior colleagues at the head office in Paris, that the company had

not taken a critical eye to its purchasing practices for several years and an overhaul was required. Three needs for change were identified. First, it was discovered that a logical rationale was absent for the purchase of the wide variety of raw and finished materials for company products, thereby creating a need for an alignment and benchmarking of base price levels. Second, it was considered necessary to assist suppliers to better understand the requirements of the company, which was also intended to produce a more efficient supply chain with less wastage. Third, the outcome of these changes to the supply chain was to closely review the supply source portfolio, deleting from the list those suppliers unable to become more effective business partners with the company. The overall need for the company was to manage purchasing and the supply chain more effectively through a regular performance review process with suppliers. Hence the dual change management strategy focused on purchasing in the Asia Pacific region.

### **A note about theory**

It should be noted that the overall change strategy was not deliberately conceived and driven by theory, either in change management, strategic purchasing or implementation, although the PB and the LJ clearly has an implicit connection with research-based and other literature in these academic subjects. Rather the whole programme was mainly undertaken in the spirit of goal-directed action and pragmatic business-minded thinking. However, it is necessary to modify the statement by adding that the chief buyer for the company was aware of the academic literature (the co-

author was studying for a research doctorate). He understood that there is a cognitive route from concrete experience to observation and reflection leading to the formation of conceptual and abstract thinking (Kolb, 1979). What actually happened is that the initial results of the two strategies prompted a self-directed journey into theory from practice, chiefly as reflective illumination after the main action had evolved further.

The paper first unfolds as a narrative case study, in which the story of the 'Purchasing Blitz' is written, followed by connections to theory, notably in strategic purchasing, implementation and, more generally, in change management. As indicated earlier, that approach mirrors the way the PB and LJ strategies actually took place, that is to say, from practical application to theory reflection, and it is sensible to retain that order. Before reaching that stage some contextual background prepares the way forward.

### **The international food company**

The French owned company has major buying operations in six countries in the Asia Pacific region. The family of product ranges includes beverage packaging (still water, carbonated drink, milk, and Chinese tea), biscuits, sauces and dairy products. The sales turnover is about US\$2 billion. The business in Mainland China represents more than half of its buying portfolio.

The purchasing function head in the central office provides direction and leadership across the company. Due to continuous acquisition, business units are at various stages of maturity in purchasing capability and

organization. Hence, there is a continuous process of training to induct newcomers to the company and keep the rest of the purchasers moving up the ladder of progress in their skills.

The company is relatively de-centralized in terms of decision-making. It has a rather informal organizational structure and is highly goal oriented. Its core competence is in the area of marketing. As competition in the retail stores' food and beverage business increases, the cost of goods sold is a critical factor to stay ahead of the competitors. Hence, the pressure to drive costs down without compromise to quality and brand has become a constant focus within the company. Attending to supply side costs was considered a change management and strategic imperative. The resulting dual strategy (PB and LJ) was an initiative conceived and driven within the Asia Pacific region and considered an exploration that might be imitated globally in due course.

### **Key concepts: the 'Purchasing Blitz' and the 'Learning Journey'**

Essentially the 'Purchasing Blitz' was conceived as a simple and direct strategy for quickly reducing the costs of supply, although it was firmly believed it would yield longer-term benefits as well. Hence the PB was intended to signal to suppliers that the company was heading in a new direction and determined to reposition itself in a more competitive marketplace. The PB was specifically aimed at reducing costs among the 10 major categories of raw materials and finished commodities after a Pareto analysis

showed that they accounted for over 50% of purchasing in US dollars, with the rest of expenditure spread among another 200 items. How the PB was implemented and worked will be explained later. First it is useful to define key terms as understood within the company.

By definition a blitz is a warlike term, much favoured in the lexicon of strategy, which means a swift and sudden attack taking the other side by surprise. It describes the PB strategy used by the company exactly, as those in the supply chain had no forewarning until a letter arrived asking for a discount of 8% on current prices. The company also urged suppliers to consider ways and means of reducing costs, such as using alternative materials and production processes, the rationalization of transportation and other creative solutions. Suppliers were both obliged to respond quickly and undertake more thinking about how to produce cheaper products in more inventive ways without sacrificing quality. This was most definitely a new challenge for suppliers in the region and something of a shake up in an established relationship with the company.

From the above it may be seen that the PB set the tone for the 'Learning Journey' (LJ). Once more the overt agenda was to improve communications between the company and suppliers, to better understand the needs and perspectives of both sides of the relationship. It might be going too far to claim that the process really fostered learning, in the sense of causing a change in behaviour, although that was the intention. For the company educating suppliers in the comprehension and use of item cost breakdown analysis provided an indicator of

how aware they were of their own product cost structure. Second it indicated how serious suppliers were in seeking world-class practices and to better understand what factors constrained them in their goals and aspirations.

Hence the PB strategy was conceived not only as a means of cost reduction but also a way of determining those best suited to continue the supply relationship into the longer-term. In that respect the "Learning Journey" was essentially about communication between the company and suppliers, mainly in which the former explained its future strategy and specific objectives, but also providing some opportunity for suppliers to articulate their situation. More specifically, the LJ was also geared to educate suppliers into the item cost breakdown analysis widely used by the company, in the belief that adopting the method was a sign that suppliers were committed to industry best practice. A prime focus of the cost analysis method was to identify causes of wastage and preventive measures that suppliers might adopt.

Another aspect of the LJ was to make suppliers more aware of the importance of health and environmental issues as the food industry is very susceptible to any hazards that might threaten customer trade, as was demonstrated by the SARS epidemic in Asia in 2003.

In these ways the LJ was designed to consolidate the relationship with the company and prepare suppliers to be able to operate effectively in a global marketplace. Together with the PB the intended outcome for the company was to regularise the process of

settling on purchasing prices required by suppliers, a subject of almost constant negotiation.

**Implementing the Purchasing Blitz**

The implementation of the PB was very simple. A letter requesting the price reduction was sent to all suppliers in the company supply chain from the head office, translated into their language. As an alternative to the demand for an immediate price reduction of 8%, suppliers were given a choice of finding other ways of achieving the same objective, such as material substitution, albeit without quality sacrifice. The letter was reinforced with a follow up telephone call from the Asia Pacific region

office. They were given a week to respond. The burden of conveying the strategy fell to the sub-regional purchasing officers, who in their capacity as messengers were instructed not to engage in any kind of price negotiation with suppliers or even long conversations about the topic. In the first instance the PB was an uncompromising one-way communication from the company to its many suppliers in the region. More will follow later on the implementation of the PB strategy.

**Assessing the results**

The results of the PB campaign varied, as is shown in the set of figures below.

**Table 1: Responses to the Purchasing Blitz**

Respondents	Suppliers sent letter	Suppliers responding	Suppliers giving direct discount	Suppliers assisting cost reduction	Percentage of savings over 2001
China region 1	10	10	1	9	8%
China region 2	37	31	19	3	3.57%
China region 3	25	25	10	9	2.70%
Indonesia	20	12	12	9	16.50%
Malaysia	72	72	59	9	3.30%
Summary	N=164	N=150	N=101	N=30	
		91.46%	61.59%	18.29%	

What the figures show is a varied response, from one sub-region to another, from as little as 2.70% to as much as 16.50% during the 2001 budgetary period. Nearly two thirds gave a direct discount (N=101, 61.59%) and about one third assisted with cost savings (N=30, 18.29%), amounting to a total of 131 (79.87%) positive responses. Taken together the linear average of savings

to the Company was 6.81% with a weighted average of 9.69%.

**Analysis based on interviews between purchasing agents and suppliers**

It is useful to overview the responses to the PB from the three main regions: China,

Malaysia and Indonesia respectively. The data was subsequently obtained from face-to-face meetings between regional buyers for the company and suppliers, who are asked to reflect on their responses to the PB retrospectively. As the Company wished to emphasise that the PB was more than a one-directional communication, that is to say, a learning journey for both sides after the 'first strike', it was important to gather 'soft data' in the form of general perceptions after the PB had had its initial impact on costs and prices in the supply of materials.

### **China**

There was an initial mixed response from the three regions in China, reflecting the doubt already held in the Company as to whether to PB strategy might backfire. Taken as a whole, the savings from China arising from the PB amounted to 14.27% (ranging from 2.70% to the required 8%). Upon closer analysis the younger suppliers regarded the PB in a reasonably positive light, confirming the belief in the Company that the repositioning strategy was a productive beginning for a long-term relationship, in which both sides communicated with and understood each other better. Suppliers were more forthcoming about their market situation for the products they sold to the Company, which the latter treated as vital information for understanding price movements and sensitivities. Overall recognition was given that the PB approach, while somewhat aggressive in the eyes of some Chinese suppliers, underlined the fact that the leadership of the Company was taking the purchasing relationship with due seriousness and was determined to achieve desired outcomes.

Suppliers reported that their learning journey (LJ) also taught them that there was more than one way to reduce prices, notably by more effective management through the reformulation of raw materials. They also regarded the PB as an opportunity for focusing more attention on production costs within a limited timeframe, while maintaining quality.

### **Indonesia**

The largest accomplishment in both percentage and absolute number terms came from the Indonesian operations, with some suppliers offering both a price discount and other assistance in the cost reduction effort. They reported a positive response from the inception of the PB, finding it attractive and novel as a strategy. The initial view from the Company was that the purchasing function in the country was relatively immature with plenty of room for improvement. The Company had in fact initiated a more centralized purchasing strategy to replace existing decentralized arrangements and the success of the PB confirmed the good sense of the policy move.

### **Malaysia**

The suppliers from all parts of the country had a long-term and stable relationship with the Company. It was anticipated that obtaining an effective outcome from the PB might be difficult as suppliers had recently been through a long process of product reformulation. However, and contrary to expectations 82% of suppliers readily gave a direct discount on prices and 12.5% assisted in various cost-reduction measures. The view of the in-country purchasing officer was that suppliers, although initially reluctant to offer discounts, had enough insight to realize that they could



no longer do business with the Company as usual and that the PB acted as a change catalyst. This was the underlying motive for the learning journey.

## **SUMMARY OF THE FINDINGS**

The Company realised that both strategies had had impact, not only on the supply chain but also on its own organisational learning, noted below. In addition although each supplier responded to the PB and the LJ individually it is possible to discern a general pattern, as identified below:-

1. Most suppliers were willing to make price discounts, principally because the overall strategy made sense to them for the sake of a longer-term and stable relationship with the Company in the future. It was clear that suppliers recognised that the Company purchasing strategy obliged them to work more closely to their own buying behaviour and sensitivity to costs.

2. The cost-reduction program forged closer functional links between the Company and suppliers as it was in the interest of all to adopt a collective approach to economies of any kind.

3. Suppliers were aware that the two strategies were driven from head office and therefore believed that their contribution would be recognised and valued at the highest level. There was also some kudos in being an active partner in the change management strategies.

4. The image of the Company in the minds of suppliers was enhanced as they recognised a determined leadership and clear direction.

5. The Company benefited not only from an immediate reduction in prices but also a more regular and stable relationship with

suppliers that avoided frequent adjustments in their costs of supply (contingency 'fire-fighting').

6. The Company also learned more about the cost issues within the operations of suppliers. The response was not to defer asking for price reductions but to insist that suppliers more closely examine their production costs and seek greater rationalisation.

7. It was acknowledged that the sustain motivation for and the effectiveness of any price and cost reduction strategy it was necessary to undertake adequate monitoring and follow-up.

8. The effect of the strategies being driven by head-office was to shift the burden of price negotiation away from the front-line purchasers and to control the whole buying process in a more distant and even remote way.

Taken together, the results of the strategy were perceived of benefit to both the Company and suppliers and went beyond simple price reduction to a more embracing approach to costs geared to the longer-term.

## **Links to theory**

Given that a great deal of business thinking is pragmatic and very practical, with the intention to produce good results (such as lower costs and increased profit margins), whatever theory went into the strategic purchasing endeavour in the Company was implicit and a secondary consideration. This approach is akin to what has been called 'theory in use', that is to say, not explicitly driven by an extant theory (Marsick and Watkins, 1987). Theory-in-use, while still

depending upon reliable research evidence as well as the benefit of experience, is more closely allied with practical application and less philosophical in orientation. It should be further noted that the connection with theory was generally drawn from the literature but did not follow any particular research design. This is not an apology but a reflection of what actually happened from conception through to results. Nonetheless there are ways in which both the PB and LJ strategies reflected theories of various kinds and they are noted here as illumination.

As outlined earlier the dual strategy of the PB and LJ may be connected to three kinds of theory and these are noted in order of generality below.

### **1. Change management and strategic thinking**

Generally, strategic purchasing might be regarded as an organised response to a change driver, notably the economic imperative to find or secure competitive edge in a global marketplace. In practical terms, this mainly manifested itself as company policy to persuade suppliers to lower their prices for the supply of raw materials and seek other cost reductions. In this scenario strategic purchasing should be understood as more than a simple formula for lowering supply side costs. Company strategy was to regard the change process as a means of re-positioning the functional relationship between the company and suppliers for the longer term. There was a desire to suddenly shake up long-term relationships with suppliers and to concentrate their minds to get them thinking about supplying the material needs of the

company into the future on better terms of trade. Beyond the immediate impact of the PB, the strategy was, however, conceived as having a closer fit to incremental and fine-tuning change than anything more transformative.

In this case study the change agenda is an expression of instrumental and managerial rationality, which finds a practical outlet in a planned approach to bring about some improvement in the future business activities of the company. In outline the change strategies, generally reflects a well-known theory of change management termed *force field analysis*, in which the company uses the change driver of global competition to *unfreeze* current purchasing arrangements before embarking on the longer *re-freezing* process of re-aligning the relationships with suppliers (Lewin, 1951). In theory the process of repositioning the supply chain could be continuous as new management contingencies arising from the change drivers impact upon both the company and its suppliers. Indeed this possibly was understood by the regional purchasing manager, hence the recognition that it was reasonable for the company to take a leadership role in managing the change process through the purchasing strategy.

The case study also highlights strategic thinking in practice, drawing inspiration from a popular textbook that conceptualises the topic (Wells, 1998). The actual form the strategic thinking took reflected at least two schools of strategy (Mintzberg, 1998). The first is the planning school with its emphasis on strategy as a *formal process of analysis*, building whatever actions that follow on a



platform of factual information, in this case on current prices and other related costs passed on by the numerous suppliers to the company. The second school of strategy emphasises that strategic thinking is essentially an *emergent*, rather than solely a deterministic process, in which *learning* is the active ingredient in the exchanges between the company and its suppliers.

The point in noting the ideas above is that the purchasing strategy was considered within a conceptual framework of ideas about strategic thinking and change management without being determined by any single perspective.

## **2. The literature on strategic purchasing**

The concept of strategic purchasing (SP) is different from purchasing strategy, with the former concerned with the longer-term repositioning of a business and the latter focused on short-term buying and cost objectives. In this case study the PB has an element of the latter, notably its intention to cause an immediate impact on suppliers, but being linked to the LJ becomes a repositioning strategy for the longer-term, ultimately concerned with achieving competitive edge and sustainable growth. SP is a process that entails taking account of purchasing prices and opportunity costs for the entire business enterprise, not just a segment. Hence SP can be defined as the determined change effort of a business enterprise to purchase effectively as a means of managing both internal and external costs with a view to repositioning for the future in a competitive global marketplace. This meaning of SP owes a great deal to the seminal work

of Porter (1996) whose focus on the dynamics of achieving competitive edge indicated how each functional unit of a business organisation contributes to realising corporate objectives.

Strategic purchasing as a concept is an integral feature of three types of purchasing strategy (Ellram & Carr, 1994): (1) specific purchasing activities that occur on a regular basis as part of the everyday operations of a business, (2) as a support role for the other operational functions of the enterprise, and (3) the utilisation of purchasing in a deliberately strategic way. The latter is regarded as a key element in the achievement of trading objectives and the overall wealth creation effort. In practice there is a great deal of overlap between the three forms of purchasing. However, both 2 and 3 forms, because they are more proactive than reactive, provide the buyer with a more significant and enlarged strategic role within the organisation, with some writers (Rajagopal and Bernard, 1993) observing that a higher corporate status can be earned by achieving lower costs through more effective management of the purchasing function.

In the late 1970s it was argued that the purchasing function had a potential role to play in the formation and implementation of corporate strategy in manufacturing (Farmer, 1978). A subsequent empirical study by the same author (Farmer, 1981) showed that the status of purchasing officers was still somewhat marginal, mainly because they had stubbornly retained the clerk mentality with few managing to embrace a strategic perspective. In spite of such constraints another study was able to claim, on the basis

of several case studies (Reck and Long, 1988), that there was a kind of evolutionary process underway in purchasing. They presented a four level model in which the last, the integrative stage, was described as a competitive struggle to obtain the lowest prices, thereby enhancing the market capability of the business. A comparable finding of 142 purchasing organisations (Freeman and Cavinto, 1990), showed the gradual shift from a service to a strategic management function. Their study underlined the importance of purchasing keeping pace with changing times and performing as an integral part of corporate strategy. A few years later further research showed that purchasing as strategy had gained wider recognition as a key element along with pricing and product design as a way of positioning the firm in the market (Carter and Narasimhan, 1996).

These studies underlined a number of points about the progression from purchasing strategy (PS) to strategic purchasing (SP). First, the stage SP had reached inside the business reflected the developmental level and maturity of the organisation. Second, with the progressive unfolding of a holistic conception of corporate activity, within a global competitive framework, SP was gradually afforded a more strategic role. If there is a consensus of opinion about the state of SP today it might be summed up as having room for improvement (Moody, 2001) for there is still a question about the real power and authority of buyers within the decision-making echelons of the modern business organisation.

Generally, the literature confirmed what the company intuitively understood and practically undertook as a change

management project, learning from direct experience.

### **3. Policy Implementation theory**

The way the Purchasing Blitz was implemented is worthy of comparison with extant theory (Ham and Hill, 1985). Implementation theory is intended to explore the practical details of application, that is to say, with what happens between when a policy is formulated, translated into objectives and the results analysed. The gap between policy formulation and outcome, the practical implementation stage, was initially created to appraise the effects of 'top down' policy making, probably to highlight the difference between vision and reality, for rarely do aspirations and intentions in life work out in a straightforward way. Indeed the focus of implementation theory is to explain the hazards that line the route to successful completion of any policy.

One writer (Gunn, 1984) in attempting to come to terms with the practical realities of obtaining desired policy outcomes (particularly in government 'big ideas' projects), produced ten 'perfect conditions' for successful implementation. His work was particularly focused on government policy implementation. These conditions include the absence of external constraints, adequate time and resources, a clear understanding of cause and effect relationships, a lack of complexity between all the factors involved in producing outcomes, complete agreement on the objectives to be achieved and tasks to be performed, perfect communication and co-ordination, a single implementing agency, and obedience to those in authority. The ironic use

of the idea of perfect conditions points out the probability of ambiguity in policy formulation, the likelihood of weakness of links in the chain of implementation, external interference and lack of control over those responsible for making things happen. What the theory also suggests is that some types of policy may be more difficult to implement and gain successful outcomes than others. Other writers have seized on this idea by distinguishing between 'distributive', 're-distributive' and 'regulatory' (Lowi, 1972) as a device for predicting what might happen when government policies in particular are implemented.

As indicated the interest in policy implementation arose in response to the 'top-down' nature of many change driven government projects and the perceived gap between what they promised and actually delivered. The policy and implementation process of a business company is not the same as government and community politics and much of the writing noted above is more concerned with the latter. In the case study it was decidedly 'top down' and uncompromising in what it demanded from suppliers. The metaphor of the swift and sudden attack, from the German term 'Blitzkrieg', is apt as the suppliers were caught unawares as the international company used its considerable power to bring about change in trading conditions almost overnight, a clear case of 'top down' policy and strategy.

More specifically, to the three-fold model of policy types another, more suited to business can be added, the basic profit seeking, in short the spirit of enterprise. Taking the ten perfect conditions as a means of

understanding the implementation of the PB strategy, it is fairly clear that the company was operating in a less complex environment with little ambiguity. It had virtually no external politics and opposition to contend with and therefore few compromises to make. It enjoyed nearly complete authority, driven by economic concerns, which suppliers could instantly recognise for they share the same business interests and practices. As the PB strategy showed, implementation was direct, easy and relatively successful, all of which indicate the strength of a 'top down' approach within the price and cost regime that dictate business affairs in almost any context.

These various perspectives demonstrate that the two change strategies, in which the company sought to reposition the purchasing relationship with suppliers, reflect a reasonably clear connection to theory, although the project was never explicitly constructed with that purpose in mind. In that sense the paper uses theory as an illuminative and reflective device on a post-facto basis.

## **CONCLUSION**

The international food and beverages company featured in this paper took the concept and practical application of strategic purchasing seriously. The main change driver was the need to secure the benefits of global buying opportunities and the Asia Pacific region with its vast developmental potential was considered an ideal test case for a centrally co-ordinated and senior management led strategic purchasing effort, both for itself and suppliers. The actual learning, viewed in retrospect, focused on the benefits of having a strong centralised direction, a 'top down'

strategy that appears to have produced good results in the short term and the foundation for continuous improvement in the future.

More specifically, the realignment of the supply source portfolio, which underlined the PB and LJ strategies, has consolidated into a better management system, with suppliers having to demonstrate by performance review their 'fitness' to remain in trading favour with the company. This has placed more responsibility on suppliers to ensure that the product supplied is price sensitive, conforming to health and environmental standards, technically up to date and of sound quality. They were also required to show their financial capability, corporate values and other expressions of organisational 'fit' to the company. In addition suppliers were expected to keep abreast of company aspirations and directions, conforming to requirements when deemed necessary. The company reinforces these expectations and qualifying conditions by sending an audit and appraisal team to determine the compliance of suppliers for the relationship to continue.

The 'top down' and deterministic nature of the relationship between the company and its regional suppliers runs counter to the advice of some writers (Janda and Seshadri, 2001), who have argued that ideally the process of price and service negotiation should be based on a kind of level playing field of equal cooperation. The company achieved cooperation through a blitz on supplier's asking prices, which led to even more detailed compliance demands as a condition of continued relationship. It is a matter of continued debate as to which method of change management is better, but

certainly the company has a strong case to put for its approach.

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