

Procurement and Contract Law -

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**Critically analyse and discuss the procurement strategies
within a company of your choice.**

Procurement and Contract Law (M6X01292)

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Abstract

The first part of this report will discuss how Lidl manage its suppliers, what kind of relations the firm got with them and how they invest. The second part will show the development of its current sustainable procurement and future policy to achieve its objectives.

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Introduction

“The procurement is the process of sourcing and acquiring the goods and services a company needs to fulfill its business objectives.” (Lim, 2014).

It is a strategic process that has to find and acquire products or services at the best cost and quality to improve the business. The procurement aims to ensure that the factory and shop are supplying in merchandises where it is actually used with good quality at any time for the continuity of the operations. The procurement includes a lot of missions like the purchasing, transportation, storage, quality control of income products... (Quayle, 2006).

Most of the time the procurement refers to the supply of raw materials for the operations of company. It takes part in the supply chain process and it is very important because it could represent between 60% and 80% of the company revenues. The procurement service is strategic and the manager has different goals as “reducing cycle times, playing an integral role in product development, or generating additional revenues by collaborating with the marketing department” (Murphy, Wood, 2013).

Lidl has a long story of nearly one century. In the beginning, Lidl was a fruit wholesaler in 1930 and the company became a partner with Josef Schwarz to develop the firm in a general food wholesaler. It is the son of Josef Schwarz : Dieter Schwarz who developed the discount supermarket Lidl that we know.

The first store was opened in 1973 in Germany and today the company is international and has more than 10 000 locations in Europe and the United States (since 2017). In the United Kingdom Lidl has more than 800 supermarkets but it is not the store reference in the country with 5% of the grocery market share. The market of grocery is very competitive with more than 10 brands like Sainsbury's, Tesco, Mark and Spencer, Asda, Aldi, Morrisons... (Lidl, n.d.).

Firstly this report will describe the relations between Lidl and its suppliers with the local procurement and their policy of investment on national producers. The second part will show how the company try as much as possible to be sustainable with a reduction of wastes and development of a social environment with local procurement and the respect of human rights for its international suppliers.

1. Lidl purchasing service and suppliers

1.1. Reorganization of purchasing departement

In 2020, Lidl decided to restructure its purchasing service due to the pandemic and the recession which be a result of it, thus the company wants to enhance its price competition. Many purchasing directors had moved on to other positions to work in a specific country with their expertise (Retail detail, 2020).

As Christoph Pohl the international sourcing director of food who handled purchases for several European countries. He has been taking charge of fewer countries that enable him to focus his work on smaller market therefore finding better providers in these countries. Moreover, he manages the UK area which needs particular attention due to the Brexit and the cost of procurement with the increase of customs duties but also possible reductions of it with new trade agreements (Stockburger, 2020).

Jan Bock who had the “German purchasing director” has been become international purchasing director and working on the Belgium, Czechia, Ireland, the Netherlands and Slovakia markets. He took over from Christopher Phol on the countries he could no longer manage. To replace Jan Bock in the German purchasing director position Dominika Kubisch took his place (Retail detail, 2020).

1.2. Relations

The relations between the company and its suppliers depend on the procurement strategy of the firm which analyses the ratio of risk/profit for each product or services. According to this ratio, the supplier or the buyer have more or less control and the contract between them varies it could be long or short term. The matrix made by Peter Kraljic allows classifying these relations between buyer and supplier. The principal idea of this matrix is “to minimize supply vulnerability and make the most of potential buying power” (Caniëls, 2005).

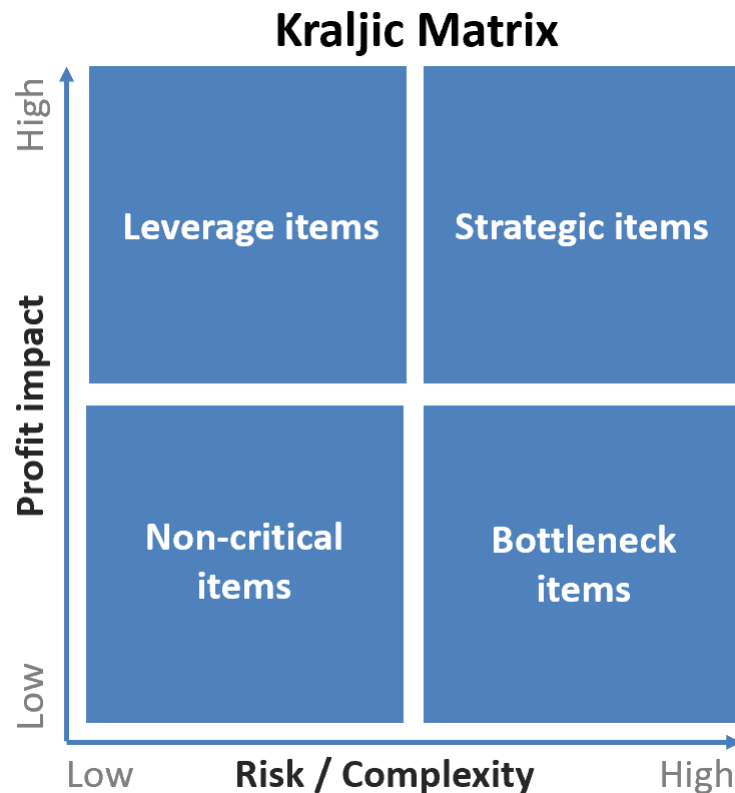


Figure 1 - Kraljic Matrix

In France, Lidl continues to develop its relations with current producers of the “Blonde du pays d’Oc” cooperative and Bigard company for the fourth year. The procurement is composed of three parts with the farmers then Bigard slaughterhouse which prepares different products and makes the packaging, after the company deliver to Lidl the merchandises. Lidl has increased its request for products by 64% in comparison to the last contract. The farmers received better pay than with other retailers because Lidl wants to remunerate at the right price the farmers for the fair trade. A picture of the farmer is put on the packaging of each good to raise awareness among the local production (Réussir, 2021).

1.3. Investment in suppliers

Lidl has investing £15bn in her suppliers in Britain during the five years between 2019 and 2024. This measure aims to create trust relations between the buyer and the suppliers with a long term contract. Moreover, it allows their providers to invest in new technologies, hire

employees, purchase new fields and facilities. Through these invests suppliers will be more efficient, increase their production, make better and quicker deliveries that will create a positive impact on the procurement and the supply chain of Lidl. The firm ensures the supply of products and creates durable relations with providers (Hart, 2019).

Moreover, Lidl has a lot of producer in Ireland who provide goods for Irish supermarkets and other retailers in European countries. The company invests increasingly in their suppliers each year with €1 billion to more than 275 producers in 2020. These inputs of money enable them to produce more and better. In addition, the firm creates “long-term relationships with their Irish suppliers” (Lidl, n.d.).

1.4. Kick start

Kick start is a programme created by Lidl and Bord Bia to finance local Irish suppliers in their development. It helps small and medium companies for their growth. Every year more or less 60 food and drink businesses are chosen to take part in this programme. During this year, the companies will assist at seminars with “industry expert in Lidl” and talking about “quality control, packaging, marketing, public relations and brand building”. Furthermore, their products will highlight in stores to increase their visibilities and sales (Lidl, n.d.).

This programme aims to improve the brand image of Lidl in the future with national products. Also, it allows to create the first relation between new suppliers and Lidl, it could be the beginning of trust between the two parts and a start of a long-term contract in the future if the provider has a good product. During this year, Lidl could monitor the efficiency of deliveries, the quality of products, how the supplier handles problems and start to build a relationship between the two companies.

2. Sustainable procurement

Procurement takes a huge part in the sustainability of the retail supply chain because there are many steps before obtaining products on the shelves of shops. Therefore, it is important to create a more sustainable procurement that enhances the triple bottom line (economic, social and environmental) (Bryde, 2011).

2.1. Environment

One of the most impactful leverages to be more sustainable for a grocery retailer is the way of sourcing for their products. According to the collective conscience about global warming and the environment, Lidl would offer merchandises “that are produced to the highest quality, environmental and social standards ... at affordable prices”. The managing director J.P. Scally said : “We are committed to ambitious sustainability targets in a variety of product categories.” (Lidl, n.d.)

Moreover, the company has organic producers who respect Lidl standards but also national and international standards for sustainable production. These rules enable to decrease the impact of fertilizers on soils, reduce the use of water, respect seasons for the production of certain vegetables. Nowadays, the Lidl brand sales more than 220 organic products (Lidl, n.d.).

Lidl tries as much as possible to source locally its fruit and vegetables, today 37% of these type of products come from the country where are localise the shops. This procurement allows to reduce footprint impact and also reduce the cost of delivery for products that come from other continents. To ensure quality Lidl suppliers’ must respect certifications “Sustainable Horticulture Assurance Scheme” and “ GLOBALG.A.P ”. Moreover, Lidl is creating his own biodiversity standard for fruit and vegetable producers to respect its values (Lidl, n.d.).

2.2. Reduction of plastic waste

Another aspect where companies and particularly the procurement service could improve their sustainability is with the reduction of the usage of plastic. Lidl had decided to reduce the

usage of this material with a special policy until going 2025 which aims to achieve a decrease of 40% of plastic packaging on own-label. In 2020 the firm had already achieved 18% of its objectives (Walton, 2020).

In addition, the company desire to increase its offer of refillable packaging which could be with loose goods that enable to order much quantity in one package. Lidl wants to package 50% of its products with recycled content and at the same time offer the totality of its own-label products with recyclable packaging. This policy will allow reducing wastes due to certain packaging that are not reusable materials and enable to increase benefit because the cost of waste processing will be reduced (Walton, 2020).

The company make investment recovery, which enables it to “recover revenues or reduce costs associated with scrap, surplus, obsolete, and waste materials, is often the responsibility of the procurement manager.” Therefore, the company could recycle its reusable materials or sell this material to another company to replace the cost due to waste processing (Murphy, 2013).

2.3. Social

Furthermore, this investment will have a good social impact on the employment market because it will enable them to create jobs. Then, for the Britain economy, it will increase the revenue of national producers. The company wanted to enhance “sales of British sourced fresh meat, poultry, and produce by over 10% across the next 12 months.”. The brand improves its corporate image to customers with British products and decreases the distance of origin for products which reduce transport costs and could cause delay of delivery due to customs control or pandemic for example (Hart, 2019).

The Brexit had encourages Lidl to invest in their national suppliers because it increases the duties for importation from European countries which would have consequences on prices for clients at the end of the chain (Hart, 2019).

2.4. Human rights

Lidl gives importance to human rights and fairness for her employees but also to the suppliers' employees which make part of her supply chain and particularly the procurement process. The firm has a "Supplier code of conduct" that every businesses partner in the world must respect to work with the brand. These code and rules are notified in the contract between Lidl and the provider that print the legal aspect (Lidl, n.d.).

The firm has shared its list of all food and non-food suppliers to prove to customers their attachment to sustainability and social development with the choice of suppliers who respect the human right and fair treatment of any employees (Retail detail, 2020).

Conclusion

This report discusses the grocery retailer : Lidl, and examine its policy of procurement. It describes how the firm had anticipated the recession due to the pandemic with the reorganization of its purchasing department. Then, the report showed the benefits of the long-term relations that Lidl created with its suppliers which increase the efficiency of procurement because two parts could share information about stock and request of goods. The investments in their suppliers by Lidl allow reducing the delay of delivery because producers are able to produce more and with efficiency.

Furthermore, the report has shown the positive impacts of the sustainable procurement of Lidl with its national providers and the respect of their pay. In addition, Lidl tries as much as possible to respect the environment with local procurement and organic products. This policy of sustainability enables to highlight to customers who are increasingly sensitive to these positives efforts, therefore these actions enhance the sells of the firm.

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