

Competitive Advantage through Sustainable Procurement in the Manufacturing Industry

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Abstract

The study sought to address the various strategies that can be deployed by organizations in gaining competitive advantage through sustainable procurement. Purchaser's contribution to the sustainability and survival will show how purchasing help in meeting the needs of production. The research was aimed at examining the contribution of purchasing to the competitiveness, sustainability and survival of Unilever Ghana Limited; to determine how purchasing helps to meet the requirement of the production unit; to determine how the company buys industrial materials, equipment, supplies and services at the lowest cost whilst complying with acceptable standards of quality and delivery; to determine how commercial relationships have helped Unilever Ghana in the competitive world and finally to examine the cycle of activities involved in acquiring goods, works and services for the organization. This has proved beneficial enough to the extent that, data collected was analysed and conclusions was drawn based on the responses gathered which showed that the purchasing department has indeed contributed to the sustainability of Unilever. After the relevant data has been collected and analysed evidences proved beyond reseanable doubt that Unilever should use the focus type of the porter's generic strategy by using geographical pricing strategies which will make sure that all the segments of the markets would be able to afford the price charged on products based on their income levels.

I. INTRODUCTION

It is no secret that being sustainable and delivering value to owner and shareholders are key business objectives and focusing on top-line growth strategies. To attain these goals remains a sound policy. Competitive advantage is the business concept describing attributes that allows an organization to outperform its competitors. These attributes may include access to natural resources, such as high grade ores or inexpensive power, highly skilled personnel, geographical location, high entry barriers etc. New technologies such as robotics and information technology can also provide competitive advantage, whether as part of the product itself, as an advantage to the making of the product or as a competitive aid in the business process (for example, better identification and understanding of customers). The purchasing function within an organization contribute at least as much to the competitiveness of an organization as other functions in the areas such as marketing, finance and accounting, engineering and operations, (Dobler et al 1996:pp.3-4). The purchasing department is one of the few sections within any organization that spends about 70% of the organization's cash resources and therefore has a unique opportunity to reduce some of the organization's costs and thereby increase sustainability. (Price et al 1993). They explained that, the organization can become more sustainable by the introduction of efficient and professional purchasing strategies and techniques. They further argued that organizational savings is made through agreements, quality, delivery, price, performance etc. and these are all the rewards of effective purchasing that leads to winning competitive advantage. Purchasing managers are now involved in the broader strategic aspect of the purchasing function within an organization, new product development, selecting sources, managing costs, developing and nurturing supplier partnerships and strategic alliances and issuing long-term agreements with carefully selected suppliers, (Dobler et al 1996,p.9). The suppliers selected on this regard is based on the fact that they are compliant to environmental, legal and statutory laws to ensure sustainability. The competitive advantage is achieved through consolidation of purchases to obtain quality discount, development of long-term purchasing agreement in return for large discount, negotiation of price reduction, controlling and resisting of price increases and promotion of sustainable purchasing opportunities by expansion of possible supply sources. The purchasing function contributes directly to the operating results and sustainability of an organization. It has been argued out that, the fact that purchasing is responsible for spending more than 60 percent of an organization's sales dollars highlights the sustainability potentials of the purchasing function on an organization.(Cater 1993,p.6).

A. Statement of the Problem

It is rather unfortunate that, many organizations 'think' they have to buy their materials from any supplier at all within the market. Functional managers sometimes it is a matter of making sure that materials come into the organization and issued to other departments when needed, Court et al(1997:pp.40-41). In most organizations, there is the need to achieve continuous process improvement, in order for products or services to be more effective in enhancing the organization's competitiveness which would enable them to give their customers better value whilst they are supporting green issues. According to Fearon et al (1997: p.1), "one of the keys to accomplishing this, is working with key suppliers to help them provide materials meeting high quality standards, faster, safer and more reliable delivery, innovative design, production, distribution ideas and a lower total product or service cost". According to Court et al (1997: p.1) in many organizations, purchasing remains the least understood and most ineffectively managed of all the business processes. Quite apart from the monetary loss and devastating effect on profit forecasts, mistakes can consequently threaten the viability of new products or services into the marketplace, leading in turn to a loss of competitiveness.

II. LITERATURE REVIEW

This aspect of the study will talk about the background, the theoretical framework of the study and review of focused aspect. The aim of the study is to analyze why the sustainable competitive advantage may disappear for many business organizations and how to maintain the advantage in order to survive in the market. The paper proposes an evolution path of strategic literature, from the classical Porter's strategic theory to business inertia, strategic resilience, then organizational transformation, finally to the business sustainability. Based on the case studies and literature life cycle which starts from a planned selection and subsequent resource accumulation. However, enduring success requires sustainable competitive advantages and implies continuous improvement an innovation (Christopher Heywood, Russell Kenley, 2008). This paper is empirically explored in many explorative, historical case studies to research the evolution path of firm's strategic planning processes. The author aims at helping the firm leaders to solve complicated, uncertain management issues arising from today's dynamic business areas. Usually, the temporary competitive advantages will be redeployed in the product markets. Regarding the competitive advantage life cycles, the various stages of resource evolution should be renewed, replicated, redeployed or recombined to enhance growth and market share in a highly uncertain business world. The first half of this paper is to explore the initial competitive advantage of firms, then to analyze the reason why the earlier advantage will disappear.

A. Competitive Advantage

Competitive advantage is the business concept describing attributes that allows an organization to outperform its competitors. These attributes may include access to natural resources, such as high grade ores or inexpensive power, highly skilled personnel, geographical location, high entry barriers etc. New technologies such as robotics and information technology can also provide competitive advantage, whether as part of the product itself, as an advantage to the making of the product or as a competitive aid in the business process (for example, better identification and understanding of customers). Competitive advantage is what a business has over its competitors. This can be gained by offering client better and greater value. Advertising products or services with lower prices or higher interest to consumers. Target markets recognizes this unique products or services. This is the reason behind brand loyalty, why customers prefer that particular product or service. Value proposition is important when understanding competitive advantage. If the value proposition is affective it can produce a competitive advantage in either the product or service. The value proposition can increase customer expectations and choices. (Stutz and Warf 2009). Michael Porter defined the two types of competitive advantage an organization can achieve relating to its rivals: lower cost or differentiation. This advantage derives from attributes that allows an organization to outperform its competition such as superior market position skills or resources. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage. Competitive advantage seeks to address some of the criticisms of comparative advantage. Porter proposed the theory in 1985. Porter emphasizes productivity growth as the focus of national strategies. Competitive advantages rests on the notion that cheap labour is ubiquitous and natural resources are not necessary for good economy. The other theory competitive advantage can lead countries to specialized and exporting

primary goods and raw materials that trap countries in low-wage economies due terms of trade. Competitive advantage attends to correct for this issue by stressing and maximizing scale economies in goods and services that garner premium prices (Stutz and Warf 2009). The term competitive advantage refers to the ability gained through attributes and resources to perform at a high level than others in the same industry or market. (Christensen and Fahey 1984, Kay 1994, Porter 1980 cited by Chacarbaghi and Lynch 1999, p.45). The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels offence in the present competitive market situation. “A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current of potential player” (Barney 1999 cited by Clulow et al 2003, p.221).

B. Porter’s Generic Competitive Strategies

There are three strategies that Michael Porter stated that can be used to tackle competition.

- a. *Cost Leadership Strategies:* Cost leadership is the ability to produce a product or service that will be a lower cost than other competitors. If the business is able to produce the same quality product but sells it for less, this gives them the competitive advantage over other businesses. Therefore this provides a price value to customers. Lower costs will result in higher profits as businesses are still making a reasonable product on each good or service sold. If businesses are not making enough profits, Porter recommends finding the low cost base such as labour, materials and facilities. This gives business a lower manufacturing cost over their competitors.
- b. *Differential Strategy:* A differential strategy is when a business products or services are different to similar competitors. According to Michael Porter’s strategies, he recommends making those goods or services attractive and stands out from other competitors. The business will need strong research, development and design thinking to create innovative ideas. This improvements to the good or service could include delivering high quality to customers. If customers see this product or service different from other products, customers will be willing to pay more to receive these benefits. Along with this, the business will need very effective marketing and advertising to enable customers understand how this product or service will benefit them or could be seen as better than what they already have. If the business has a strong idea but weak marketing strategy, customers would not know the benefits of this specific item in comparison to competing products.
- c. *Focus Strategy:* Focus strategy ideally tries to get businesses to aim at a few target markets rather than trying to target everyone. This strategy is often used for smaller businesses, as they may not have the appropriate resources and ability to do so. Businesses that use this method usually focus on the needs of the customer and how the product or services will improve their daily lives. This method can also be called segmentation strategy, which includes geographic, demographic, behavioral and physical segmentations. By narrowing the market down to the smaller segmentations, businesses are able to meet these needs of the customer. Porter believes that, once businesses have decided what goods they will target, it is essential to decide if they will take the cost reduction approach or differentiation approach. Focus strategy will not make your business successful. He mentions that it is important not to use all the three generic strategies because there is a high chance companies will come out achieving no strategies instead of achieving success. This can be called “Stuck in the middle” and the business will not be able to achieve competitive advantage when businesses can find the perfect balance between the two “Price and quality” it usually leads to a successful product or service. A product or service must offer value through price and quality to ensure the business is successful in the market. To succeed, it is not enough to be “Just as good as” another business. It comes to firms that can deliver a product or service in a manner that is more meaningful and different to customers based on their needs and desires. Deciding on the appropriate price and quality will depend on the business brand image and what they hope to achieve relating to their competition. (Porter, Michael E 1985).

C. What is sustainable procurement?

Sustainable procurement is a process whereby organizations meet their needs for goods, works, services and utilities in a way that achieves value for money on a whole life-cycle basis in terms of generating benefits not only to the organization, but also to the society and the economy, whilst significantly reducing negative impact on the environment. Organizations practicing sustainable procurement meet their needs for goods, services, utilities and works not on a private cost-benefit analysis, but to a view to maximizing net benefit for the organizations. In doing so they must incorporate extrinsic cost considerations into decisions alongside conventional procurement criteria of price and quality, all though in practice the sustainable impact of a potential supplier's approach are often accessed as a form of quality consideration. These considerations are typically divided thus: environmental, economic and social which is also known as "Triple bottom line". Sustainable procurement involves a higher degree of collaboration and engagement between all parties in a supply chain. Many businesses have adopted a broad interpretation of sustainable procurement and have developed tools and techniques in support of this engagement and collaboration. Procurement is letting of contract for goods, works and services on the best possible terms. This has historically been based on two criteria, price and quality with the view to maximizing profit for the procuring organization. Sustainable procurement broadens this framework to take account of third-party consequences of procurement decisions forming "Triple base line" of external concerns which the procuring organization must fulfil. (Porter, Michael E 1985).

a. Environmental:

Environmental concerns are the dominant macro-level justification for sustainable procurement; Born out of the 21st century consensus that humanity is placing extensive demands on available resources through unsustainable but well established consumption patterns. This will involve non-human factors. This is a significantly influential issue that environment-centric procurement (Green procurement) is sometimes seen to stand alone from sustainable procurement. The most straight forward justification for green procurement is as a tool with which to address climate change, but it offers the broader capacity to mitigate over-exploitation of any and all scarce resources. In support of sustainable procurement the organization should develop and publish "sustainable development procurement guidelines and procedures". When it comes to purchasing product and service, referral to guidelines would help make the organization become a leader in environmentally responsible purchasing.

b. Social

Sustainable procurement is also used to address issues of social policy such as inclusiveness, equality, international labour standards, adversity target, regeneration and integration. Examples include addressing the needs where employment, care, welfare of groups including ethnic minorities, children, the elderly, those with disabilities, adults lacking basic skills and immigrant population (Porter, Michael E 1985).

c. Economic

At the economic level it can be argued that there are economic benefits in a form or efficiency gains from incorporating whole-life costing into decision-making (Note: in contrast to most argument from sustainable procurement proponent, these can be purely private benefits accrued by the procurement organization). In addition, the creation of sustainable market is essential for long-term growth whilst sustainable procurement requires foster innovation. There are also potential global applications: sustainable procurement can favor fair trade or ethical practice and allow extra investments to channel towards developing countries. On a microeconomic level sustainable procurement offers the chance for economic redistribution. Targets might include the creation of jobs and wealth in regeneration areas, assistant for small or ethnic minority owned businesses. (Porter, Michael E 1985).

D. Applications To Sustainable Procurement

Sustainable procurement is as applicable to the private sector as the public and certainly its proponent as part to seeing its application of all areas of the economy. Influencing procurement within a private sector firm is not straight forward for government, meaning that the companies often have to be self-motivated to embrace sustainability.

E. Approaches To Sustainable Procurement

While there are no straight definitions on how organizations implements sustainable procurements, there are two approaches that can be combined:

Product-Based

This is where an organization examines product movements along the supply chain and assesses the environmental credentials of themselves and of other suppliers. This part is commonly used when an organization wishes to understand the impact of a product or product range for strategic and marketing purposes. This approach can also provide a vivid picture of supplier processes.

Supplier-Based

An organization may analyze the corporate social responsibility management systems of a supplier and whether its practices conform with law and to the corporate social responsibility standard of “Buying” organizations. Thus, the organization measures the environmental and social activities a supplier may impose upon them. Implemented effectively, this method will show whether a supplier meets the environmental standards of the organization, along with whether suppliers are meeting the requirements of law. In order to assess the corporate social responsibility management systems, companies can use a variety of tools: self-assessment questionnaires and on site audit programs managed internally or through third parties. (International organization for standardization standards for purchases).

Steps in creating sustainable competitive advantage.

Whether you are pitching investors or launching a new product, success is more likely if you can create and communicate a sustainable competitive advantage. Being first to market is not enough, as someone bigger with something better will come along and leave you in the dust. And it doesn’t matter if there is not a product in the market that is not the same as yours. If another company is solving the same thing you are addressing for the same customers, they are in competition. While creating a sustainable competitive advantage is not easy, the following will ensure you get and remain ahead of the field. (thepitchclinic.com).

1. **Establishing Brand Loyalty.** Customers will often remain with a brand they have loyalty towards, even though the company does not offer the cheapest or most efficient products. Focus on building strong relationships with your customers and delivering a great customer experience and service.
2. **Patent Your Products.** There has been a lot of debate recently about the true value of a patent. While patents are not a “cure all”, they are an important weapon in an entrepreneur’s competitive advantage arsenal.
3. **Continually Innovate.** Customers like updates and upgrades. Keeping your products fresh and compatible with the market place (Particularly is software) is essential.
4. **Hire “Connected” Team Members.** If your market includes large companies and government departments, connections to key individuals within these organizations can dramatically accelerate your ability to meet and secure contracts. Try to have at least one member on your team who is “Connected”.
5. **Use Long Term Contracts and Incentives.** This step has to be executed carefully, as it can backfire. If you establish a long term contract with your customer, then clearly they are less likely to switch to a competitor. If they only offer long term contracts, however, and your competitors are offering short term contracts, then you are likely to lose business. Ideally, you have to incentivize your customers to enter into a long term contract with you, possibly by providing a slight reduction in cost or a bonus. Equally customers are more likely to be willing to enter into a long term contract if they have just completed a successful short term contract with you. (thepitchclinic.com).

Types and examples of sustainable competitive advantage

- **Low Cost Provider/Low Pricing:** Economics of scale and efficient operations can help a company to keep competition out by being the low cost provider. Being the low cost provider can be a significant barrier to entry. In addition, low pricing done consistently can build brand loyalty be a huge competitive advantage.
- **Market or Pricing Power:** A company that has the ability to increase prices without losing market share is said to have pricing power. Companies that have pricing power are usually taken advantage of high barriers to entry or have earned the dominant position in their market.
- **Power Brands:** It takes large investments in time and money to build a brand. It takes very little to destroy it. A good brand is invaluable because it causes customers to prefer the brand over competitors. Being the market leader and having a great corporate reputation can be part of powerful brand and a competitive advantage.
- **Strategic Assets:** Patents, trademarks, copy rights, domain names and long term contracts would be examples of strategic assets that provide sustainable competitive advantages. Companies with excellent research and development might have valuable strategic assets.
- **Barriers to Entry:** Cost advantages of an existing over a new company are the most common barrier to entry. High investment costs (i.e. new factories) and government regulations are common sometimes create monopolies or near monopolies (i.e. utility companies). (arborinvestmentsplanner.com)
- **Adapting Product Line:** A product that never changes is ripe for competition. A product line that can evolve allows for improved or complementary follow up products that keeps customers coming back for the “new” and improved version (i.e. Apple iPhone) and possibly some accessories to go with it.
- **Product Differentiation:** A unique or service builds customer loyalty and is less likely to lose market share to a competitor than an advantage based on cost. The quality, number of models, flexibility in ordering (i.e. customer orders), and customer service are all aspect that can positively differentiate a product or service.
- **Strong Balance Sheet/Cash:** Companies with low debit and/or lots of cash have the flexibility to make opportune investments and never have a problem with access to working capital, liquidity, or solvency. The balance sheet is the foundation of the company.
- **Outstanding Management/People:** There is always the intangible or outstanding management. This is hard to quantify, but there are winners and losers. Winners seem to make the right person decision at the right time. Winners somehow motivate and get the most out of their employees particularly when facing challenges. Managements that has been successful for a number of years is a competitive advantage. (arborinvestmentsplanner.com)

III. CONCLUSIONS

A. Summary Of Findings

The main objective of the study was to examine the maximum contribution of purchasing to the competitiveness, sustainability and survival of Unilever Ghana Limited. Among other objectives of this study includes, determining how purchasing helps to meet the requirements of the production unit of Unilever sustainably, determining how the company buys industrial materials, equipment, supplies and services at the lowest cost whilst complying with acceptable standards of quality and delivery, examining how commercial relationships have helped Unilever Ghana Limited in the competitive world and to examine the cycle of activities involved in acquiring goods, works and services for Unilever Ghana Limited. With regards to the procurement department of Unilever Ghana Limited, it was observed that the department follows the standards and processes of purchasing and the department is seen as one of the core

departments of the organization. It also determined that the organizations follows purchasing procedures meticulously and systematically which is evidence through qualified procurement personnel's that work for the department.

B. Conclusions

The findings have proved beyond reasonable doubt that the procurement department is one of the strategic department other than an administrative department that often engage in corporate social responsibility and who's uniqueness lies in the quality of products that they offer for sale in the market and who has also been able to overcome competition through the closer relationship they have with their suppliers. The department was solely responsible for supplier selections, negotiations, bench marking, managing contracts and others. The research further made it clear that among the forms of environmental pollution that can be caused by companies, Unilever Ghana Limited mostly causes air pollution than water and noise, whilst they also discharge sewage through other means other than into water bodies and man-holes. It was also evident that Unilever automatically deals with foreign suppliers whilst the Benso Oil Palm Plantation is their main supplier for palm oil which is a strategic material for production. Contracts are also awarded to suppliers based on the production capacity of the suppliers. It was observed that customers react satisfactorily to Unilever Ghana Limited's key soap and that has expanded its life cycle which is making it sell even without consistent advertisement. They also price their product using the market price, with their product meeting international standard and it's sold in both the national and international market.

C. Recommendations

After the careful analysis of the findings, analysis of data collected and the numerous observations made at Unilever Ghana limited, the following recommendations where made that if implemented will contribute towards the success and survival of Unilever Ghana Limited.

- The analysis made is clear that Unilever is unique in terms of the quality of their products. We therefore recommend that Unilever should use the focus type of the porter's generic strategy by using geographical pricing strategies which will make sure that all the segments of the markets would be able to afford the price charged on products based on their income levels.
- Management of Unilever should try as much as possible to equip all employees with relevant issues or updates concerning the day to day activities of the organization since that is one way of remaining competitive. The reason being that if employees don't have the exact information or relevant issues, they might create wrong impressions about the organization to customers. This can be achieved through creations of workshops, organization of seminars and other training opportunities.
- From the analysis, it was also clear that Unilever mostly pollutes the air in the course of their production. This goes a long way to cause the depletion of the ozone layer, global warming as well as environmentally related diseases such skin diseases, therapatic diseases on the people living in the environment. We therefore recommend that Unilever should consider being sustainable in the course of their operational activities to preserve the environment.

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