Management Control Systems for Sustainable Food Supply in South Africa: a Case Study for Woolworths

In partial fulfilment of the requirements for the

MBA 2010 Fulltime

by

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I certify that the report is my own work and that all references used are accurately reported.

Signed

Sergio Rodriguez Cano
Abstract

**Purpose** – This research project will analyse the supply chain management systems used in South Africa between one major food retailer (i.e. Woolworths) and one of their suppliers (i.e. Rennie Farms). The main focus of the study is to explore key drivers used in their Management Control Systems which will help us to understand the different stages of the supplier-retailer relationship and its management as well as the sustainability aspects that are in place. This research will cover three major aspects of food supply chain management as found in research: supplier-customer relationship management through vendor selections systems (VSSs), values based supply chain management for values based organizations (VBOs) and integrated performance measurement systems (PMS).

This study will facilitate understanding on what performance measures, management systems and values are considered important by both food retailer and supplier in order to build a sustainable long lasting relation. This case study will also help suppliers on understanding retailers’ needs in terms of sustainable food supply and vice versa. Moreover, this case study will draw attention to sustainability of food supply chain and its importance and current status in Woolworths.

**Design/methodology/approach** – The research methodology is a combination of literature analysis, case study with embedded units and case study-based research. In a case study, a particular individual, programme, or event is studied in depth for a defined period of time. Sometimes researchers focus on a single case, perhaps because its unique or exceptional qualities can promote understanding or inform practice for similar situations.

An exploratory holistic case study with embedded units was chosen because the case was the management control systems for sustainable food supply chain, but it could not be considered without the context, South Africa, and more specifically the retailer and supplier settings. It was in these settings that the management control systems were developed and utilised. It would have been impossible for this author to have a true picture of management control systems for sustainable food supply chain without considering the context within which it occurred.

**Keywords** Management Control Systems; Balanced scorecard; Supply chain management; Performance management; Food industry; Food supply; Sustainable food

**Paper type** Research case study
### Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
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<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
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<tr>
<td>CRM</td>
<td>Customer Relationship Management</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DC</td>
<td>Distribution Centre</td>
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<td>GAP</td>
<td>Good Agricultural Practices</td>
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<td>GBJ</td>
<td>Good Business Journey</td>
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<tr>
<td>EE</td>
<td>Employment Equity</td>
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<tr>
<td>FFF</td>
<td>Farming for the Future</td>
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<tr>
<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>IPM</td>
<td>Integrated Performance Management</td>
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<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
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<td>KPI</td>
<td>Key Performance Index</td>
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<tr>
<td>MCS</td>
<td>Management Control System</td>
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<tr>
<td>MSG</td>
<td>Monosodium Glutamate</td>
</tr>
<tr>
<td>NPD</td>
<td>New Product Development</td>
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<tr>
<td>NPV</td>
<td>Net Present Value</td>
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<tr>
<td>PMS</td>
<td>Performance Measurement System</td>
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<tr>
<td>ROI</td>
<td>Return on Investment</td>
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<td>SCM</td>
<td>Supply Chain Management</td>
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<tr>
<td>SDC</td>
<td>Sustainable Development Commission</td>
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<td>SSCM</td>
<td>Sustainable Supply Chain Management</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<tr>
<td>VBO</td>
<td>Values Based Organisation</td>
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<td>VSS</td>
<td>Vendor Selection System</td>
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1. Introduction
Supermarkets and major food wholesalers play a critical role in sustainable food supply chain development: “As gatekeepers of the food system, supermarkets are in a powerful position to create a greener, healthier, fairer food system through their influence on supply chains, consumer behaviour and their own operations” (SDC, 2008, p. 6). Supply chain management (SCM) describes the discipline of optimising the delivery of goods, services and related information from supplier to customer. It is concerned with the effectiveness of dealing with the final customer’s demand by the parties engaged in the provision of the product as a whole (Cooper, Lambert, & Pagh, 1997). A supply chain consists of different levels, namely supplier, manufacturer, distributor, and consumer, and it is a network of companies which influence each other and affect one another’s performance. Hence, an important issue in SCM is the development of integrated management control systems (MCSs). MCSs serve different functions in supply chain and operations management. These are formal systems to control, formulate and communicate the company’s strategy, and, as such, they primarily serve higher-level managers. But MCSs can also support operational managers, to motivate and enable them to improve operations. A performance measurement framework assists in the process of performance measures building, by clarifying measurement boundaries, specifying performance measurement dimensions or views and may also provide initial intuitions into relationships among the dimensions (Rouse & Putterill, 2003; Chan, 2003).

Three major aspects (subunits for the case study) of supply chain management have been considered: supplier-customer relationship management through vendor selections systems (VSSs), values based supply chain management for values based organisations (VBOs) and integrated performance measurement systems (PMSs).

The selection of suppliers is one of the most critical tasks for purchasing managers, as demonstrated by various articles on VSSs. Many authors have focused their attention on two issues in particular: the identification of what measures (selection criteria) should be considered in the assessment of suppliers, and the application of multi-attribute decision-making techniques to pass from the various selection criteria to summary measures allowing these suppliers to be ranked and thus selected (Masella & Rangone, 2000). While many articles discuss different measures and techniques, there is little support in literature for selecting the VSS that “best” match the specific characteristics of a given customer-supplier cooperative relationship. In this research project we will evaluate the most suitable VSS for this specific customer-supplier relationship from a sustainability perspective, using both the
reference time horizon and content of the relationship in terms of the level of integration between supplier and customer as proposed by Masella and Rangone (2000).

The long-term success of VBOs differentiating themselves on product and process attributes arising out of their core values depends on infusing their products with value-related attributes and transmitting and communicating these attributes to the targeted end customer. Infusing products with value-related attributes requires designing and implementing supporting supply chain process and management systems that embed the core values (Pullman & Dillard, 2010). Roth et al. (2008) show that these issues are particularly salient for food supply chain management, suggesting that the role of value chains and their management within this sector represents a timely and important research area. Moreover, in their recent study of best practices of companies with sustainable supply chains, Pagell and Wu (2007) found that the best companies had alignment between all three aspects of sustainability, had incorporated this sustainability focus into their daily conversations, and included a guiding sustainability value system which described the organisational values and informed all decisions both within the organisation and across their supply chain. This research report will identify value systems in place at both food retailer and supplier side and comment on gaps found at communicating and/or filtering these values across the supply chain. Moreover, we will examine how management’s personal values have influenced these organisations by linking top management’s values to production practices and systems. Specifically, we will research how these value systems increased/decreased interaction with, and awareness of, external stakeholders, and increased/decreased involvement by both parties on the sustainable development process.

Lastly, the balanced score card (BSC) is a tool for aligning business activities to the vision and strategy of the organisation, improving internal and external communications, and monitoring the organisation’s performance against strategic goals. It includes various performance indicators, namely customer perspective, internal business processes, learning and growth, and financials (Kaplan & Norton, 1992). Moreover, Bhagwat and Sharma (2007) developed a BSC for SCM that measures and evaluates day-to-day business operations following these four perspectives (i.e. finance, customer, internal business process, and learning and growth). In terms of performance management, this report will start from the work by Bhagwat and Sharma (2007) to outline a BSC framework for performance measurement tailored for the sustainable food supply chain for our specific case study.
On the basis of the above considerations, this study aims to explore different MCSs for SSCM used in South Africa on these three dimensions and analyse their suitability to be implemented in the sustainable food supply chain.

2. Literature analysis
Many studies have been published about the nature of cooperative partnerships and the critical role played by suppliers in contributing to the overall performance of the buyer (Cooper & Ellram, 1993; Dumond, 1994; Ellram, 1991; Han, Wilson, & Dant, 1993; Matthyssens & Bulte, 1994; Pilling & Zhang, 1992; Spekman, Kamauff, & Salmond, 1994; Stuart, 1993). Hence, in such an environment, the selection of suppliers is one of the most critical tasks for purchasing managers as demonstrated within the vendor selection systems (VSSs) research topic. In particular, the identification of what measures (selection criteria) should be considered in the assessment of suppliers (see, e.g. (Hendrick & Ruch, 1988; Van Weele, 1984; Chiang-nan, Eberhard, & Ruch, 1993; Weber, Current, & Benton, 1991; Willis & Huston, 1990; Narasimhan, 1983) and the application of decision-making techniques to pass from the various selection criteria to summary measures, which evaluate the overall suitability of alternative suppliers, so allowing them to be ranked and thus selected (Weber, Current, & Benton, 1991; Nydick & Hill, 1992; Mohanty & Deshmukh, 1993; Kenneth & Thomson, 1990; Timmerman, 1986).

Over the years, many methods and techniques have been suggested to evaluate the performance of a firm in general: well-known financial measures such as return on investment (ROI), internal rate of return, net present value and payback period have been the most studied in literature. At present, research in the field of supply chain performance measurement is receiving increasing attention by the scientific community, due to the need for developing integrated management control systems, taking into account all the partners (i.e. the immediate supply network as well as the total supply network) with which a company interacts. Comprehensive studies describing both quantitative and qualitative performance metrics for SCM are provided by Chan (2003), Gunasekaran et al. (2004) and Bhagwat and Sharma (2007). Based on those recent works, a summary of the performance indicators suitable to be used for SCM is presented in Table I.
Unfortunately, several authors agree that currently available PMSs suffer from not being fully suitable to be implemented in modern SCM applications, where a performance measurement system has to take into account a wider range of controlling targets (Bhagwat & Sharma, 2007). Specifically, complex supply chains seek to provide customers with a wide range of benefits, including intangible ones. Furthermore, most of these systems lack system thinking, in which a supply chain must be viewed as a whole entity and the measurement system should span the entire supply chain (Chan, 2003).

One of these MCSs is the balanced score card. The BSC first appeared in the results of research developed in 1990 by Kaplan and Norton (1992), involving many companies, moved by the growing dissatisfaction with traditional financial measures as a sole (or main) measure for company’s performance. It includes various performance indicators, namely customer perspective, internal business processes, learning and growth, and financials (Kaplan & Norton, 1993, 1996, 2001a, b). Given its structure, the BSC can be appropriately implemented as a tool for measuring and evaluating supply chain performance. Figure 1 shows a scheme of the BSC model originally proposed by Kaplan and Norton (1996).

<table>
<thead>
<tr>
<th>Supply chain process</th>
<th>Performance measures</th>
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<tbody>
<tr>
<td>Plan</td>
<td>Order entry method</td>
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<td></td>
<td>Order lead-time</td>
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<td>Customer order path</td>
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<td>Source</td>
<td>Supplier selection</td>
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<td></td>
<td>Buyer-supplier relation</td>
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<tr>
<td>Manufacturing</td>
<td>Product cost, quality, speed of delivery, delivery reliability, flexibility</td>
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<td></td>
<td>Range of product and services</td>
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<td></td>
<td>Capacity utilization</td>
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<td></td>
<td>Effectiveness of scheduling techniques</td>
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<tr>
<td>Delivery</td>
<td>Delivery performance</td>
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<td></td>
<td>Number of faultless notes invoiced; flexibility of delivery systems to meet particular customer needs</td>
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<td></td>
<td>Total distribution cost</td>
</tr>
<tr>
<td>Customer</td>
<td>Product development cycle time; machine/toolset up time; economies of scope</td>
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<tr>
<td></td>
<td>Number of inventory turns; customer query time</td>
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<td></td>
<td>Post transaction measures of customer service</td>
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<td>Overall chain</td>
<td>Total supply chain costs</td>
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<td></td>
<td>Total cash flow time</td>
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<td>ROI</td>
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<td></td>
<td>Total cost of inventory</td>
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<td>Information processing cost</td>
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Table 1 - Summary of performance indicators from research
As outlined by Bigliardi and Bottani (2010), the BSC distinguishes four different perspectives of performance measures:

1. **Customer.** Recent management philosophy has shown an increasing realisation of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analysed in terms of kinds of customers and kinds of processes for which we are providing a product or service to those customer groups.

2. **Internal processes.** This perspective refers to internal business processes, and aims to satisfy shareholders and customers by excelling at some business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products/services conform to customer requirements.

3. **Learning and growth.** Its main objective is to determine the infrastructure that allows reaching the objectives of the other three perspectives, in order to create long-term company growth. This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement.
(4) Financial. This perspective reflects the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, there is often more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralised and automated. But the point is that the emphasis on financials leads to the “unbalanced” situation with regard to other perspectives. Hence, additional financial-related data, such as risk assessment and cost-benefit data, are often included in this category.

The BSC has been widely investigated in literature, but little attention has been paid by researchers to its adoption in the food industry: among these, it is possible to cite Cardemil-Katuranic and Shadbolt (2006), which adopted a case study methodology to research how an agricultural (kiwi fruit) cooperative in New Zealand could implement a balanced scorecard. However, to our knowledge, no specific studies address the development of a BSC model for the food supply chain. Moreover, in the context of SCM, there are only a few applications of BSC for performance measurement. Among these, Brewer and Sfeh (2000) introduced a modified version of the BSC that can be used for measuring the performance of a supply chain, and provided examples of possible measures. Bullinger et al. (2002) designed an adapted supply chain performance analysis approach based on the BSC model. Their study aims at supporting logistics organisations in deriving specific opportunities from the potentials of the SCM. A similar study has been performed by Park et al. (2005).

More recently, Bhagwat and Sharma (2007) developed a BSC for SCM that measures and evaluates day-to-day business operations following four perspectives: finance, customer, internal business process, and learning and growth. In this paper, we start from the work by Bhagwat and Sharma (2007) to develop a BSC framework for performance measurement, tailored for the food supply chain.

On the other hand, in terms of sustainability, a review of the literature suggests that organisational sustainability, at a broader level, consists of three components: the natural environment, society, and economic performance. Model 2 shows a visual representation of these three components. This perspective corresponds to the idea of the triple bottom line, a concept developed by Elkington (1998, 2004), which simultaneously considers and balances economic, environmental and social goals from a microeconomic standpoint. The triple bottom line suggests that at the intersection of social, environmental, and economic
performance, there are activities that organisations can engage in which not only positively affect the natural environment and society, but which also result in long-term economic benefits and competitive advantage for the firm. My research will start from Elkington’s theoretical framework and focus and expand on the area of economic performance through sustainability applying management control systems for supply chain management.

![Figure 2 – Triple bottom line (Elkington, 2004)](image)

After further developing and refining the SSCM framework, the logical next step would be to develop scales to measure the triple bottom line, the supporting facets of SSCM, and the relationships among resource dependence, external uncertainty, vertical coordination, imitability, and supply chain resiliency. Potential starting points to measure the triple bottom line would be the exploratory work of Murphy and Poist (2002) and Carter and Jennings (2002), and the developed scales which Carter and Jennings (2004) used to measure CSR. For the complementary facets of SSCM, researchers might look to Carter and Jennings (2004) and Chatman and Jehn (1994) to assess organisational culture, and Christopher and Peck (2004), Giunipero and Eltantawy (2004), Svensson (2004) and Zsidisin and Ellram (2003) to gauge risk management.

In addition, Porter’s (1985) value chain may be a particularly useful tool to pragmatically utilise SSCM framework to identify the environmental and social initiatives that can have the greatest economic impact, and to do so in the integrative, strategic fashion suggested by the framework.
3. The research methodology

Standardised open-ended interviews were conducted with different members of the retailer and the supplier focusing on the different areas of interest for this study (subunits outlined above: VSSs, VBOs, and PMSs). Case study research design principles lend it to the inclusion of numerous strategies that promote data credibility or “truth value”. For the purpose of this study, triangulation of data sources and data types is the primary strategy used. That way, it will ensure and support the principle in case study research that the phenomena will be viewed and explored from multiple perspectives.

The research methodology followed in this study consists of three steps. First, a detailed literature analysis, concerning SCM, vendor selection systems, value based organisations, performance measurement and food supply chains was performed. The aim of the literature review was to analyse the currently available management control systems for sustainable supply chain as well as to punctually examine specific issues of the food supply chains in order to identify key performance indicators (KPIs) to be used in the industry investigated. In particular, the four dimensions of the BSC proposed by Bhagwat and Sharma (2007) and lately by Bigliard & Bottani (2010) specifically for the food sector, has been the starting point of our study. As a result of this step, a set of KPIs suitable to be adopted in the context of food companies emerged. Such indicators were used as a guideline during the second phase of the research, where they were explored and asked during the interviews to experts from both the retailer and the supplier.

An appropriate multidisciplinary sample of about 12 experts from the retailer and the supplier was set up for this purpose. Sample members were selected from people reporting directly to the firm’s top management and operating in SCM, marketing, procurement, production, information technology, planning, and control and finance.

KPIs resulting from the literature were structured into an appropriate questionnaire, submitted to the sample members. The sample members were asked to express their opinion with regard to the suitability of some KPIs and also prompted to describe the current KPIs used at their companies. Moreover, participants could indicate the need for further specifications of KPIs (if required), as well as the main strengths and weaknesses of each indicator identified. The results of the first round of interviews conducted at Woolworths led to several modifications to the list of KPIs originally proposed. That is, adding all KPIs described by Woolworth’s personnel and removing non-relevant ones. After that, a second round of interviews now at
the supplier side was conducted and compared against these KPIs that were of more relevance for Woolworths.

A series of standardised semi-structured interviews was carried out with the top management operating in the SCM business functions of each company over a three-week period during November 2010. Interviews lasted between one and two hours, and were recorded and transcribed. A primary research question was formulated to explore the structure and characteristics of the company, in terms of the way each company selects their vendors, measures adherence to organisational values and measures its performance (i.e. whether the company adopted a specific performance measurement system or not).

4. The case studies

4.1 Companies description

Company 1 - Founded in Cape Town in 1931, Woolworths, today recognised as South Africa’s leading retail brand, marked its 75th birthday in October 2006. A household name throughout southern Africa, Woolworths sells a wide range of products including food, clothing, beauty products, homeware and more under its own label.

Woolworths has over 400 stores in South Africa and several franchise stores in Africa, including twelve in Botswana. There are five Woolworths store formats: food stand-alone stores, corporate stores with clothing and apparel sections, food micro stores in rural areas, franchise stores, and forecourt stores. For the fiscal year ending June 30, 2010 Woolworths’s revenue was R 21 billion, of which R 12.2 billion was from food sales. Over the past five years Woolworths has experienced 22% annual growth in turnover from its food operations. Woolworths envisions growth in its market segment in the future and plans to build 130 new stores over the next five years.

Woolworths caters primarily to the upper end of the South African market, but also attracts some customers from the middle income group. Woolworths prides itself on quality and what it terms “the good food journey” – healthy food acquired and produced in environmentally and socially responsible ways.

Woolworths operates a centralised distribution model through three large distribution centres (DCs) in the Western Cape, Gauteng and KwaZulu-Natal, with a smaller one in the Eastern Cape. This model supports the requirement for scalability and flexibility to deliver the retail
strategy. The distribution model and infrastructure supports the movement of a wide range of products from a number of sources around the world to a number of different store formats. The distribution centres are in-house owned businesses managed by Woolworths on a subsidiary basis. The Midrand DC supplies 135 Woolworth’s stores and 80% of KwaZulu-Natal’s perishable goods on a daily basis.

Together with their farmers and without compromising quality or adding cost, Woolworths is pioneering a new approach to growing food sustainably and in harmony with nature so that South Africa’s farms will be able to provide enough food for future generations. Farming for the Future is a holistic approach that manages the entire farming process systematically. It all starts with building and maintaining the soil because, as any farmer will tell you, it takes good soil to produce good food. Healthy soil is better able to retain water, so it needs less irrigation and water use is reduced. It also needs fewer chemical interventions, which means farmers only use synthetic fertilisers or herbicides when needed. Fewer chemicals mean less chemical run-off which, along with less soil erosion and loss of top soil, helps maintain water quality and biodiversity. Farmers also use integrated pest management principles in order to reduce reliance on chemical pesticides and herbicides and encourage biodiversity. So, all in all, Farming for the Future is better for the land, the water and for the wildlife (Woolworths, 2010).

Company 2 - Rennie Farms (Pty) Ltd. produces and supplies tomatoes, cucumbers and herbs to Woolworths in the Western Cape. With the first farm bought in 1973, Rennie Farms started supplying tomatoes to Woolworths in 1975. Later, the first greenhouses were erected and the home farm was established in 1978 at Paarl, South Africa.

In 1980, Rennie Farms also started to supply cucumbers, fresh herbs and a speciality range of tomatoes (i.e. cherry tomatoes, then Rosa, and finally Israeli long-life tomatoes) direct to Woolworths. When Rennie Farms brought the Rosa variety to South Africa, it became one of the greatest success stories for Woolworths: currently 50% of all tomatoes sold at Woolworths are from this variety. Later on, Rennie Farms also introduced successfully varieties as Bella, Cherry on the Vine and San Marzano. Rennie Farms continuously dedicates time on their R&D program to find that new variety of tomato which will signal the new “Difference” on the shelves at Woolworths’.
After 2004 Rennie Farms went into a partnership with another Woolworth’s supplier from Limpopo to grow winter tomatoes. Since then, Rennie Farms has concentrated on becoming a year-round supplier of tomatoes. After three decades of strong growth, in 2006 they acquired another winter farm in Vioolsdrift and erected 6 hectares of greenhouses. They are erecting 14 hectares of additional shade cloth this summer to give Rennie Farms added protection for this coming winter. The company is truly a year-round supplier of all products supplied to Woolworths and is branching out into supplying green beans, peppers and melons.

Rennie Farms relies on their highly trained and motivated team lead by Dave Rennie, his two sons, and a board made up of senior management and a workers trust. The company is 43% owned by the workers trust and 57% owned by the Rennie family trust and management. Rennie Farms is a financially healthy company and is proud of having paid a dividend every year. Rennie Farms’ business with Woolworths is increasing at 20% per year and currently stands at over R 40 million annually.

4.2 Management Control Systems for Company 1 and Company 2

Integrating the supply chain requires philosophical and operational management control systems. As defined by Stewart (1995), four categories of operational control systems must be considered:

(1) Policies, practices and procedures including: management approaches/methodologies which define how to perform activities (task, sequence, timing, etc); balanced performance metrics which reflect process performance; knowledge of industry best practices that enable best performance.

(2) Organisation including: organisational structure and degree of cross-functional integration; roles and responsibilities for each policy, practice or procedure; skills/training available as well as required to perform activities.

(3) Structure including: assembly value add or distribution centre rationalisation; flow of material from source of supply to end customer; flow of data from customer to manufacturer/distributor and back.
(4) Systems including: the use of systems to enable best practice performance; the effective management of data and analysis across the supply chain (speed of flow, one touch quality, appropriate access).

All these four different categories of management control systems were well explored during these case studies and examples for each of these categories were identified.

4.2.1 Supplier-retailer relationship management through vendor selection systems (VSSs)

There are three key factors that play a role in how Woolworths selects their suppliers. Firstly, vendors are selected according to customer feedback and product need – what is required at the customer side. They always work backwards from the customer side in order to ensure that the product will be sold after all. Secondly, they check the potential of the supplier to deliver Woolworth’s standards of quality, availability and safety. Finally, they look for a strategic and cultural fit; they look for long-term partners with potential to grow together. The financial contribution to the selection process is minimal; suppliers are mainly selected by the operational team (i.e. commercial, technologist and product development).

Cooperation and integration between retailer and supplier is extremely high. In the words of Woolworth’s technologist: “With our suppliers we’ve got a relationship like a marriage where divorce is not an option. The dating stage is very critical; when we start a supplier we make sure that they’ve got the same values and ethos that we have.” The average length of time that suppliers stay with Woolworths is about 15 to 18 years and about 17 to 18 years for food produce. Considering that Woolworth’s food business is around 20 years old, this is quite an achievement. Retailer and suppliers exchange information on an ongoing basis and during supplier conferences, quality meetings, summer and winter growing programmes planning, and supplier’s’ review. Audits are conducted frequently by both Woolworths and Global GAP.

In terms of technological integration, ordering systems are integrated and, in the words of the suppliers, is one of the most efficient in South Africa. Orders are automatically registered at the point of sale, causing an order to be placed with Woolworths’s head office in Cape Town. The head office then orders directly from the supplier and the supplier delivers to the DC. Woolworth’s cold chain product lines (salads, fruit, vegetables, poultry, milk, and cheese) are sourced from approximately 135 suppliers, some of which supply multiple product lines. Suppliers of fruits and vegetables are given growing plans one year in advance outlining
quantity, quality, and when the produce will be required. The producers supply the product pre-packaged according to Woolworths’s specifications or cut, weighed, priced, and packaged in the case of Woolworths’s ready-to-eat product lines.

Traditionally, the four parts of the supply chain (namely supplier, manufacturer, distributor, and consumer) have operated independently with minimal vertical integration and the lack of information-sharing, trust, and supply chain coordination has often resulted in product inconsistencies and opportunistic behaviour amongst chain members (Goldberg, Knoop, & Shelman, 2005). Contrarily, the Woolworths policy is to reduce the number of members in the supply chain (i.e. “middle man”) allowing their supply chains to be simplified by limiting these relationships into two parties. So, in opposition to Pullman and Dillard (2010) who considers that over the years, the members have found that reaching consensus is the most effective way to set policy or solve problems, Woolworths operates without the need for general agreement giving indication to their suppliers of what they need and by when.

Rennie Farms has been supplying tomatoes, cucumbers and herbs to Woolworths for over 30 years. Woolworth’s supplier performance plays a big role on their overall performance; they like to consider themselves the extension of the supplier’s business and see Woolworths as the retail arm for their suppliers. They all form part of the same system but, as in every business, not all suppliers contribute in the same way. Around 20% of their food produce suppliers contribute to an overall 80% of Woolworths’s food revenues. Due to this, they need to focus on these suppliers that bring more value to the retailer (such as Rennie Farms) but still need to bring in new suppliers with great potential. Woolworths push for exclusivity on their suppliers to the point that 60% of the supplier’s product is sold through Woolworths, making it difficult for the supplier to switch or find more profitable partner. On the other hand, the supplier provides 90% of the tomatoes and cucumbers and 100% of the herbs to Woolworths for the Western Cape with an outstanding record of delivery and quality (i.e. up to 98% service record) making it difficult for Woolworths to find a similarly reliable partner in the market. In addition, Rennie Farms provides technology and develops new products in conjunction with Woolworths’s product development team. This kind of relationship’s integration is defined by Masella and Rangone (2000) as a type D relationship (i.e. long-term and strategic integration). According to Masella and Rangone (2000), in the case of long-term logistic integration relationships, it is not sufficient to evaluate only the supplier’s current manufacturing performance. The potential for future improvement must also be considered due to the high investments and switching costs involved. For that Masella and Rangone
(2000) recommends the assessment of the supplier’s manufacturing infrastructural resources, which in a dynamic system based model are responsible for the future improvement of manufacturing performance. In addition, for strategic integration, they require the most complex VSS, including four different sets of measures referring to the current and long-term measures of manufacturing and technological performances (see Figure 4).

According to this model, a supplier’s future performance does not depend only on current performance and on the efforts that made in the future, but also on the current status of the available infrastructural resources. Consistently with resource-based theory, a company cannot create or radically improve an infrastructural resource in short term, and hence infrastructural resources may give an indication of the potential to improve performances in the future (Masella & Rangone, 2000, p. 74).

4.2.2 Value based supply chain management for value based organisations (VBOs)
Several researchers have examined how management’s personal values have influenced organisations. Here, values are defined as “desirable trans-situational goals, varying in importance, that serve as guiding principles in the life of a person or other social entity” (Schwartz, 1994, p. 21). Woolworths has seven well anchored values. These are: quality and style, value, service, innovation, integrity, energy and sustainability. These are the values that the business has put together and they penetrate every aspect of what Woolworths does. From people living them out to different training conducted onsite to ensure that their people understand and interpret these values to their corresponding business units, values are apparent in everything Woolworths does through four key aspects of its business management: leadership, product development, integrated performance management (IPM) and people. The figure below presents these values and the ways these values are transpired.
through different channels on their management control systems. More detailed explanation is provided in the paragraphs to come.

Values at Woolworths are cooperative and foster a cooperative environment. Between the suppliers there is a lot of competition. In the common interest Woolworths holds different meetings about the future asking suppliers about the next big things to come: new varieties, irrigation systems, pesticides... This offers a unique platform for suppliers to share freely: some will present new technology or growing techniques and some will come forward and offer Woolworths growing agreements for existing products or new ones for next year. Questions like “Should be growing more of this product or not? What does the future look like?” are common during these workshops. Woolworths offers them an estimate for suppliers to plan the following year. This estimate is an indication of intent and it works well for both Woolworths and the supplier. Sometimes suppliers consider them too conservative and add another 20%. In the common interest of both supplier and retailer Woolworths tries to set good estimates as the company does not want to be out of stock on any of its products.

In terms of leadership, competencies and capabilities are defined according to their values in four different bands. Every value is associated with an organisational target, from staying focused on achieving quality and delivering the best, to sharing the vision and success plans.
for achieving sustainability by building a better future. Members of the leadership team are then evaluated against the specific requirements at their band for each value.

Infusing products with value-related attributes requires designing and implementing supporting supply chain process and management systems that embed the company’s core values (Pullman & Dillard, 2010, p. 745). Accordingly, Woolworths’s products are designed according to their values in partnership with their suppliers. This happens in two ways: on one hand Woolworths listens to their customers to understand what they need, but on the other hand, one of their strong values is “leading the customer” – owning the good food space and promoting these initiatives that go with their corporate strategy. Woolworths leads their customers by selecting products that are healthy, better-tasting and, in summary, are of better quality. For example, if their customers require a pack of chips with MSG, because Woolworths knows that MSG is harmful for their customers, they will work with their suppliers to design an equivalent product without the MSG component, or develop their own. In addition, all suppliers comply with global GAP and have full traceability (i.e. seed used, chemicals sprayed, area where it was grown). Traceability is controlled at the supplier side and allows Woolworths to investigate and quickly resolve any quality or safety issue that arises. Woolworths pushes for exclusivity and premium quality. For instance, this is reflected in the specifications they have for tomatoes, the highest on the market compared to their competitors, which are of very high quality.

The economic success of values based organisations (VBOs) often depends on the communication of critical product attributes acquired and sustained throughout the supply chain. These attributes differentiate products or services according to characteristics that cannot readily be discerned by the end customer (Golan, Krissoff, Kuchler, Calvin, Nelson, & Price, 2004). As exemplified by Pullman and Dillard (2010, p.744) in the case study on the natural beef production process, in order to attain the necessary price premium, the unique product attributes acquired through the natural beef production process must be sustained along the entire supply chain and communicated to the end customer. As outlined by Rennie Farms and confirmed by some Woolworths personnel interviewed, Woolworths historically hasn’t communicated enough and so they need to work on this area and making the customer a participant in their exceptional values and products. As stated by a Woolworths’s technologist: “We are very poor communicators, this is one field that I feel we are way short. If we do benchmarking against competitors in this country, we cannot market.”
People at Woolworths are recruited, appraised and continually trained in the seven values. The human resources team looks for people that can live the values and appraises them every year in accordance with the standard definition of these values applicable to their respective departments. This step is very important in order to give objectivity to the behavioural review, as values such as service, quality and integrity have different meanings for different line functions. Each value is evaluated on a scale of one to five and definitions for each rating are also provided. In addition, the human resources team consolidates these evaluations across departments through calibration meetings where all evaluations are compared and assessed for fairness across the board. Because value related reviews account for 40% of the performance measures and this affects pay increases, consistency in these measures is crucial for Woolworths to maintain integrity and transparency. This process is conducted internally by peers but also externally through 360 assessments which include suppliers and other stakeholders. While this is intended to give objectivity to the process, sometimes involving external parties through integration of value related performance measures can water down the process as these external parties do not live the values in the same way as Woolworths employees do. The whole process is managed by the retailer as human resources at the supplier side are very limited and systems there only account for the number of hours spent which echoes in cost of production. More information about the overall integrated performance management on both sides will be provided in the next section.

Within this more comprehensive context, the full supply chain must be considered for the successful implementation of values based business practices. In the past, we could meaningfully focus on one supply chain function or activity because they were seen as generally independent elements (Rao & Holt, 2005), but nowadays a holistic approach that covers the whole supply chain needs to be considered in order to make this chain efficient and sustainable in the long term.

4.2.3 Integrated performance management systems (IPMS)

Woolworths uses a modified balanced score card model as a management control system for their suppliers. Suppliers are evaluated on the four basic components of the score card as defined by Kaplan and Norton (1992) plus sustainability. Woolworths uses two different score cards for evaluating internal and external performance. The components will be discussed in the sections below.
4.2.3.1 Retailer side

Internally Woolworths assesses suppliers in terms of profitability. Woolworths rank their suppliers according to the level of profit obtained from them, making it easier for them to engage with those that bring them most of their revenues. As explained by the financial manager at Woolworths, as a retailer you should be spending more time with the suppliers that actually bring you more revenue. In order to measure profitability, different measures are in place. Woolworths looks at volume, sales and cost of sales, selling margin, waste, and adherence to supplier terms (e.g. quality, on time delivery and rebates). Financial systems in place are flexible and adaptable to supplier requirements but suppliers know that in order to keep their relationship with Woolworths they need to follow the company’s standards which are an integral part of their relationship. Woolworths can improve payment terms for the supplier, reduce discounts and give non financial rewards in order to work together and maintain a healthy and long lasting relationship. The close and flexible relationship Woolworths has with their suppliers allows them to grow together and reach levels of growth unattainable with any other retailer. That way, even some notes were made by the supplier interviewed about the high level of bargaining power the retailer has on the negotiations (e.g. profit margins), this association remains a long term win-win relationship.

In terms of people, Woolworths appraises their employees twice a year on both operational and value-based objectives. These objectives come from higher levels of management’s objectives: that way both operational and value-based objectives are filtered through the whole organisation and indirectly to their suppliers (see next section about the supplier’s side of the score card). The leadership team will set targets for their direct reports: that way people know upfront what is expected from them and then get a consistent measure of their performance. This process will allow individuals to rate themselves and also be rated by their line manager. Line managers will note which other five people from their key colleagues, direct reports, leadership team and suppliers must participate in the 360 feedback process. Associates will get a total of seven people that work directly with them and rate them. After the review areas of development will be identified, and support and training will be provided. The main objective of learning and growth is to determine the infrastructure that allows reaching the objectives of the other three perspectives, in order to create a long-term growth of the company (Bigliardi & Bottani, 2010, p. 252).

Human resources at Woolworths also keep a close eye on their talent pool, and through their talent management system can identify who are the potential candidates for promotion or
next level on their succession plans. Though this system they find out what actions they need to put in place in order to retain these overachievers and how they move them though the business. They also establish who the individuals are that are not performing, and what they need to do to bring them back on board. In Woolworths this process happens four times a year and during these meeting the leadership team determines whether everything has remained the same or if it has shifted. Woolworths continuously and consistently checks that the job levels and the remunerations are properly aligned with the business strategy. Moreover, with the recent introduction of BEE (black economic empowerment) objectives on their score cards, Woolworths and their suppliers are fully committed to achieving an equitable level of employment for previously disadvantaged black people, achieving a level 6 on their last BEE index audit.

Recent management philosophy has shown an increasing realisation of the importance of customer focus and customer satisfaction in any business. (Bigliardi & Bottani, 2010, p. 251). Woolworths maintains a very rigorous customer complaint system whereby the customer can go to a store or phone into their office and complain about a product. These complaints get locked in the system and are investigated by Woolworths’ personnel. If it is a quality issue or taste problem the technologist and the product developer will work together to find out the cause and resolve the problem. In the case of price related issue the buyer or commercial representative from Woolworths will handle the dispute. Woolworths is very strict about product quality. The product is inspected at both the DC and at the shop when the product arrives. Suppliers also check the product before sending it to the DC and regular audits are performed by Woolworth’s personnel at the supplier premises. This is important for both Woolworths and the supplier because the supplier that achieves the best result on their customer satisfaction will get the bigger business. While Woolworths does not reward better suppliers with a better price, they do increase their order volumes to these suppliers that have a better track record. Woolworths “leads the customer” through management control systems that measure general retail market growth versus Woolworths growth. They also measure a price index which is intended to evaluate whether or not their foods and grocery products are worth the price charged to their customers. Moreover, Woolworths also measures the amount (in Rands) of sales their customers spend on new products and innovations offered to them.

In terms of operation excellence on their internal processes, Woolworths has different information systems in place that allow them to automatically identify issues or trends. With a recent installation of a TQM (total quality management) system, Woolworths is achieving a
high level of automation on their processes, allowing them to have a single point of access for their supplier’s reports, audits and supplier terms; allowing the retailer to automatically inform suppliers of any issue or delay in complying with Woolworths’s standards. As defined by Bigliardi and Bottani (2010, p.252), this perspective refers to internal business processes, and aims to satisfy shareholders and customers by excelling at some business processes. Other systems used at Woolworths for that purpose are: financial systems (e.g. Oracle Financials), traceability systems (e.g. Pathfinder), or the integrated performance management system outlined in the previous section. All these systems are integrated though the BSC presented here and allow Woolworths to maintain a balanced perspective that, for example, allows them to comply with their operational objectives without breaking relations with their suppliers. Some measures in place for this aspect of the BSC are: progression on waste generated, sales per trading square metre of growth, distribution of costs as percentage of sales and improvement on their forecast accuracy.

The last aspect that Woolworths considers on their score card is sustainability. This includes social, economical and environmental aspects. From the social perspective, diversity forms an integral part of this BSC component. Diversity is always measured from an employment equity perspective, so the aim is to work with suppliers that have a BEE rating, which contributes to the company working towards a BEE rating. For instance, Rennie Farms has a BEE rating of 5. Woolworths maintains an office with the only purpose of diversity being created at the organisation.
4.2.3.2 Supplier side

Externally Woolworths assesses suppliers in terms of commercial effectiveness, technical infrastructure, innovation (or new product development), service levels and alignment with their sustainability strategic imperative. Woolworths’s suppliers are then ranked into three categories, namely gold, silver and bronze, which correspond to the overall ranking derived from the individual points obtained.

Firstly, in terms of commercial effectiveness, Woolworths looks for evidence in business planning, business growth, lean manufacturing, cost of business, marketing or promotional support and structures, people and succession. Different levels for each of these categories are defined and audited at the supplier side so, for example, for business planning, Woolworths looks for evidence to assess: if the supplier has a full supplier business plan including market-leading new product development, technical, service and programme for the good food business journey; if the supplier plays a role as a “category champion” leading the category plan and have a deep customer insight; if they have a proactive development of new promotional ideas for their products and if they are proactive account managers. Rennie Farms follows their finances very closely and by the end of the following month will have...
their financial position for different farms and areas. Risk of losing performance (i.e. trials of new varieties) is managed through testing and only when Rennie Farms is confident enough to grow it on bigger scales (i.e. the product can be grown and will be accepted in the market) will the new variety be rolled out. All the different growers will take an equal piece to their areas and grow that variety. According to the owner of Rennie Farms’s: “Everyone knows about vegetables and everyone knows when a product will sell. For example, there is a black tomato which actually tastes pretty nice, but who wants to buy a black tomato? Not too many people”. Additionally, Rennie Farms measures production per quality (kilos of quality multiplied by price). Woolworths has one quality, the top quality; after this there is a first, second and third quality. The growers at Rennie Farms are paid a percentage of what is produced and they are also measured by costs of production. As the owner said: “Some growers produce cheap, some produce expensive; so those that produce cheap need to be incentivised”.

In terms of integrated financial measures, Rennie Farms never shares their profit margins with the retailer. Sometimes, for new developments, Woolworths will ask for the supplier’s return on investment, but these negotiations will be tense due to the very sensitive nature of the information that is managed at both sides. Rennie Farms will normally present historical data of their audited financial statements to negotiate margins and maximise their return on investment. On the other hand, Woolworths will also push to increase their margins and take a bigger stake of the pie. Due to the long term trust relation between retailer and supplier these terms will be agreed upon. At times, if the retailer considers it appropriate to pass the increase in cost to the consumer, a resolution on increasing the end retail price can also be agreed if market conditions permit. According to Rennie Farms, the supermarkets have more bargaining power but, as supermarkets in South Africa are running out of suppliers that can do the job, relations are now much better than they were before. Retailers realise that they need to be more inclusive; if they are too hard on the suppliers there aren’t going to be any left. Negotiations are tense because the risk of losing an account is normally too high for the supplier due to the exclusivity agreements that are in place. Diversifying to other retailers in South Africa like Shoprite Checkers or Pick ‘n Pay is an option, but can compromise supplier’s exclusivity ratings, so Rennie Farms is happy to supply Woolworths. Selling to the market will not compensate for their loss due to the high quality Woolworths requires. Ultimately, suppliers know that Woolworths has power because if Woolworths closes their account tomorrow their business is finished.
Secondly, Woolworths assesses the supplier in terms of technical infrastructure. Safety measures, quality, technical resources, audit and standards as well as technical innovation are in place. For example, in terms of quality, Woolworths checks that the amount of complaints received is lower than the complaints target, ensuring a downwards trend. In this sense, for a supplier to maintain a gold level, Woolworths requires a reduction of complaints by in excess of 10% year on year. Another aspect that Woolworths assesses is that a sophisticated benchmarking/internal audit system is in place at the supplier side. Rennie Farms does benchmarking against other retailers and suppliers. They also try to do financial benchmarking but sometimes they find it very difficult to get proper information as no one does what they do in a public form. All the suppliers in their business are private so no one is willing to exchange information about their costs and profit margins. Rennie Farms sometimes benchmarks themselves on cost (e.g. costs of fertilisers, labour used per hectare or trucks’ diesel usage). They look to benchmark themselves against other farms but sometimes they can’t find the cost information that they require for this exercise. Even banks can’t tell them what the correct spread of cost is (i.e. labour or machinery); they only provide a general credit rating (similar to Moody’s) for the whole agricultural sector. This is normally based on the supplier’s debt to equity ratio, cash flow, and current debt. Banks only take into account the sector in which suppliers are in. As the financial manager at Rennie Farms commented: “Traditionally, in South Africa, the agricultural sector has had a very poor sector rating, in contrast with property developers or transport companies who have better access to loans.”

Thirdly, Woolworths assesses the supplier in terms of new product development and innovation capabilities. Five summary measures are used for that purpose: ideas and innovation and their success rate on the new products that they launched; market; range and customer analysis capabilities; critical path management; and structures, people and succession. Specifically for assessing the success rate of the new products launched, in order to be considered as a gold supplier, 45% of the developed products need to achieve critical success criteria of newness. Moreover, 75% of the developed products need to achieve critical success criteria of upgrades with a 7% of sales uplift. Finally, they have to have an excellent understanding of good, better and best. For Rennie Farms, a tomato is a commodity, a non value added product. If a competitor moves their price, Woolworths will automatically move their price. Tomato suppliers don’t receive any benefit for producing better than the specifications, as price is based on supply and demand (i.e. market conditions or, in other
words, what the competitors are charging). For Rennie Farms, strategically developing new products with Woolworths allows them to obtain a price premium that would be unachievable in a commodity market like the one they are in. Rennie Farms participates in product development, for example baby tomatoes, and proposes new varieties to Woolworths. They work very closely with them to find new varieties that taste better, crunchier, as both of them have the same goal. For example, Rosa tomatoes, a product developed and launched by Rennie Farms currently makes up about 50% of Woolworths’s tomato sales. Rennie Farms continuously searches for better Rosa tomatoes and other value added products.

Fourthly, Woolworths assesses their suppliers on their track record of service. Summary measures for service are: accuracy, availability, risk management and exclusivity to Woolworths. Accuracy and availability are measured in terms of supply chain efficiency (e.g. on-time delivery to the DC, relationship with the DC, consistency of supply) and fulfilment of orders. For example, in order to become or maintain gold rating, like Rennie Farms, suppliers need to exceed 98% of order-fill target year on year. Regarding risk management, Woolworths requires from their suppliers comprehensive documentation in terms of business continuity, contingency plans and top management succession plans. Moreover, in terms of product risk management, Woolworths assesses the capacity in which their suppliers grow or source their produce from different regions and whether or not these regions are situated in ideal climates for the product type.

Finally, the supplier is additionally audited in terms of sustainability (i.e. the way they do business). Different aspects of sustainability are assessed during audits conducted by Woolworths at the supplier side. Starting with Farming for the Future (FFF), the environmental aspects of sustainability are assessed. Woolworths conducts FFF audits that include very technical measures about soil management, irrigation water management, pest and plant management, biodiversity management, waste and solid waste management and cooling and energy usage. As commented by Pullman and Dillard (2010), another example where structuration theory might be useful is where retailers, like Wal-Mart or Tesco, incorporate carbon footprint measures into their evaluation system for selecting vendors, labelling products for consumers, etc. Woolworths follows the same theory on their audits for Farming for the Future, a programme that started some years ago and is currently producing its first successes. As commented by the owner of Rennie Farms owner: “Farming for the Future is a philosophy of not making bad farming decisions and improving nature around
you. FFF is changing the way you farm and doesn’t add any other costs. It is farming better. So, if we leave this piece of land, this community, this people are going to be better in the future.” As a journey, this programme is intended for Woolworths’s suppliers to progressively adapt their farming procedures towards a more sustainable business. For that purpose, Woolworths set KPIs that suppliers need to improve year on year. For example, in order to become gold, suppliers need to conduct at least one step change project (aiming for impact reductions of 15%) in energy, water or waste. Moreover, suppliers need to trial new approaches for resource efficiency and share the knowledge. Examples of these approaches can be natural gas refrigeration, electronic expansion of valves for energy saving or floating suction. Regarding the social aspect of sustainability, Woolworths requires from their suppliers ethical trade consisting of comprehensive training and development programmes for their employees, performance management and equal opportunities. A proactive approach is required in order to become gold supplier. This might include a well established and mature industrial relations and championship in ethical standards; in other words, they must exceed expectations of the mere legal requirements for employment equity. Moreover, in terms of BEE, Woolworths expects their suppliers to have an industry-leading action plan in place and to comply with or exceed the legal requirements relative to the size of their business. Having a top rated BEE certificate in place, audited by an approved body, is a must-have for any supplier looking to achieve a silver rating level. Rennie Farms, being certified as BEE level 5, will qualify for a silver rating on this aspect.
5. Discussion

As found in the literature for vendor selection systems, many authors have focused their attention on two issues in particular: the identification of what measures (selection criteria) should be considered in the assessment of suppliers and the application of multi-attribute decision-making techniques to pass from the various selection criteria to summary measures allowing these suppliers to be ranked and thus selected (Masella & Rangone, 2000). Woolworths applies the same score card and audits to their new suppliers as they regularly do to their current suppliers. Both selection criteria and multi-attribute decision-making techniques are in place to rate suppliers on the gold, silver and bronze status. This allows consistency and integrity in the way they select their new suppliers as they are asked to comply with the same requirements as the current suppliers. In addition, Woolworths includes a “provisional status” that encompasses the minimum requirements needed for becoming a Woolworths’ supplier.

Literature for value based organisations claims that the long-term success of VBOs differentiating themselves on product and process attributes arising out of their core values depends on them infusing their products with value related attributes and transmitting and
communicating these attributes to the targeted end customer. Infusing products with value related attributes requires designing and implementing supporting supply chain process and management systems that embed the core values (Pullman & Dillard, 2010). While Woolworths maintains high standard of values internally and comprehensibly covers the product part by designing and infusing their products with value related attributes, it is lacking on the communication part. Conversely, as can be found on “Figure 4 - Woolworths’s values”, the customer is not an integral part of the channels in which values are transmitted through the supply chain, and they only participate in these through the product experience. Additionally, while these values are managed and controlled within Woolworths, no clear management control system has been identified at the supplier side for that purpose. Consequently, even the retailer looks for a cultural fit during vendor selection process, and adoption of some or all of these values at the supplier side remain an area of potential improvement for the retailer.

Regarding integrated performance management, during the case studies the indicators included in the general model of BSC were ranked on the basis of the opinion of executives and managers collected during the interviews. Subsequent reflections on these meetings provided a useful form of content and context analysis and were helpful in linking specific scorecard issues (i.e. retailer and supplier side) with remarks made by managers.

For Company 1 (Woolworths, the retailer), the consistent profit growth and customer perspectives are perceived to be the most important ones, followed by internal processes, sustainability and learning and growth perspectives (i.e. people perspective). As for the financial perspective, managers judged the indicators “Gross profit as percentage of sales” and “percentage increase in sales” as the most important, followed by “volume growth per units” and “asset turnover”. The typical financial indicator ROI was perceived to be less important, while the “net profit vs. productivity ratio” turned out to be not important at all. As far as the customer perspective is concerned, the indicators perceived as most relevant are “Rand sales on new product launches and upgrades”, “customer complaints received per 100k units” and “market share growth”. The remaining indicators assumed a rank variable from 15% to 5%, and were then considered in the final BSC model. As far as the internal processes perspective is concerned, the “progressive percentage of waste”, and “availability percentage” for both perishable and long life products are perceived as the most important indicators. On the contrary, “sales per trading square meter of growth” assumed a low
importance. Moreover, the sustainability indicator that was considered more important was “the Good Business Journey” (which includes Farming for the Future programme).

Finally, the most important indicators belonging to the learning and growth (i.e. people) perspective are all related to the perception of how healthy Woolworths is in terms of strategy, remuneration and values; that is “percentage Let’s Ask” (“Let’s Ask” at Woolworths is a survey that asks about how employees feel that the leadership lives the values), followed by “employment equity” and “skills development”. On the basis of the considerations described above, the BSC model depicted in “Figure 5 - Woolworths BSC retailer side” was derived.

As far as Company 2 (Rennie Farms, the supplier) is concerned, its perspectives and indicators evaluation are derived from Company 1’s KPIs, providing validation of most of the retailer’s KPIs proposed. While all measures are rated the same, commercial as well as service perspectives are perceived to be the most important ones, followed by technical and innovation measures as well as the sustainability measures. As regards to the indicators, managers suggested that “supplier track record of service” and “business planning and growth” are the most important ones when considering the commercial and service perspective, followed by “efficient manufacture” (e.g. continuous reduction of costs) and “contribution to Woolworths’s profit”. Also for Company 2, the “net profit vs. productivity ratio” ended up being not important at all. As far as the innovation perspective is concerned, all the indicators proposed were perceived as important, while “success rate of launched products” was perceived as especially important. As far as the technical perspective is concerned, “accuracy of forecasting techniques”, “quality”, “audits/standards”, and “technical innovation” are perceived as the most important indicators. Conversely, “safety” and “technical resource” assumed a lower importance although they are the main focus for Woolworth’s personnel such as the technologist or product development team.

Finally, we obtained contrasting opinions with regard to the learning and growth perspective (i.e. people). In fact, for Company 1, the most important indicators are “percentage Let’s Ask”, followed by “employment equity” and “skills development”, which turned out to be of little importance for Company 2. The BSC model for Company 2 is schematically depicted in “Figure 6 - Woolworths BSC supplier side”.
When comparing both scorecards it is interesting to see how Woolworths relies mainly on their suppliers to innovate. While innovation and new product development is an integral part of the supplier’s BSC, at Woolworths this is only scored as part of leading the customer. Conversely, supplier’s BSC only contemplates people measures on the way they conduct business, with little emphasis on skills development for their employees. As Rennie Farms’ owner commented: “We are always busy, we do not have time for appraisal meetings or development plans; although most of our growers go on training at least once a year and our employees are evaluated against objectives once a year.” Moreover, operational excellence at the retailer side is translated as technical and service excellence at the supplier side. As observed during this case study, Woolworths is obsessed with quality and this is transferred correctly to the supplier’s BSC. Finally, sustainability, while it covers different aspects at the supplier compared to the retailer, is an integral part of both scorecards.

Finally, as commented by Stewart (1995), key operational areas for the food retail business are:

1. Delivery performance including: delivery-to request date; delivery-to-commit date; order fill lead time.
2. Flexibility and responsiveness including: production flexibility; re-plan cycle; cumulative source/make cycle time.
3. Logistics cost including: total logistics cost; order management costs.
4. Asset management including: inventory days of supply; days of sale outstanding.

Companies that have historically outperformed the industry in the following four key operational areas have realised vastly superior revenue growth and stock appreciation.

The practices that the best-in-class companies employ to optimise their supply lines and improve flexibility include:

- Limited size vendor base.
- Working relationships with vendors to mutually develop quality, delivery and service.
- Supplier ability to support Just in Time system.
- Senior management visibility to key supply-line metrics.
- Well-integrated systems that allow real-time alignment of demand and production schedules.
- Emphasis on part commonality and design modularity.

As detailed during the case studies, all these areas are comprehensibly covered at Woolworths which demonstrates their operational best-in-class capabilities in terms of SCM.

6. Conclusions
Observation at Woolworths and Rennie Farms presents quite a comprehensive picture of management control systems for sustainable food supply in South Africa. While most of the areas found in research are covered, significant deficiency on communicating values to end customers from both the retailer and the supplier has been identified as an area of development. Within the context of South Africa, that might well be due to the information sharing capabilities of both companies and actually the higher level of insights in the food industry gathered by the companies in comparison to their customers.

Moreover, in terms of performance management, outcomes of the case studies provide validation of most of the KPIs proposed for the BSC model, which can be thus considered as suitable for use as a tool for performance measurement in the food supply chain. The learning and growth perspective represents an exception in this regard, as some diverging results were observed between the two companies. This is a current limitation of the study, and suggests the need to better investigate this perspective in future research activities.

We recognise that ranking is not new in the food industry: many retailers, for example, use this approach in their assurance schemes, such as the Global Good Agricultural Practice (formally known as EurepGAP) that utilises a scoring method as compliance criteria for farm assurance (Globalgap, 2009). An additional limitation refers to the research methodology adopted, which is based on a limited sample of case studies. Yin (1984) justifies the use of a single case study where a rare or unique event is explored to probe the how and why questions in greater detail. Furthermore, the application of data from just one particular industry clearly reduces the number of observations, but has the advantage in that firms are relatively homogeneous (Kraft, 1990).
Finally, the case studies were explored in this paper to validate the three components in which management control systems for sustainable food supply chain, but not to investigate its implementation in real cases. A further task is thus to apply the resulting model on a wide sample of companies, to test its suitability of adoption for sustainable food retail companies.
References


Appendix 1 – Interview Guide

Management Control Systems for Sustainable Food Supply Chain: Case Study

*Standardized, open-ended interview*

1. **Explain the purpose of the interview:** This interview is part of a qualitative research case study conducted for completion of my MBA studies. Interviews will be conducted at Woolworths, Rennie Farms and to Mark Botha (WWF) as external party.

2. **Address terms of confidentiality**
   i. Will conduct the project in a respectful, professional, and disciplined manner.
   ii. All information obtained during the project will be kept confidential and not used for any other purpose than meeting the academic requirements laid down by the GSB.
   iii. Any background company information and documents which senior management are willing to make available to the Researcher on commencement of the project, e.g. vision statement, mission statement, value system, organization strategy, strategic objectives, marketing strategy, operations strategy, key policies, product brochures, customer satisfaction surveys, staff satisfaction surveys, company accreditations, awards, achievements, etc will be kept confidently by the Researcher.
   iv. In addition, before releasing the report, you will have a chance to review and remove any sensible information you may consider inappropriate.

3. **Explain the format of the interview:** This is a standardized, open-ended interview (i.e. everyone will be asked the same open-ended questions and the interview will not interfere unless interviewee diverges from the main topics researched at this study.

4. **Indicate how long the interview usually takes:** Interview usually takes up to 1 and a half hours in 3 blocks of approx. half an hour each.

5. **Contact information of Researcher:** Sergio Rodriguez, rdrser002@gsb.uct.ac.za, M: 0795449920

6. **Any question before starting?**

7. **START RECORDING**
## Topics to cover:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Detail</th>
<th>Covered?</th>
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<tbody>
<tr>
<td><strong>Supplier-customer relationship management through vendor selections systems (VSSs)</strong></td>
<td>Supply chain members (producer, packer, stager, retailer)</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>How suppliers are selected at Woolworths</td>
<td>□ Yes □ No □</td>
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<tr>
<td></td>
<td>Cooperation and integration between retailer-supplier</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>Contribution of supplier on the overall performance of the retailer</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>Differences between short-term Vs long-term suppliers</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>Differences between logistic Vs strategic suppliers/partners</td>
<td>□ Yes □ No □</td>
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<tr>
<td></td>
<td>Measures used for selection criteria</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>Multi-attribute decision-making making techniques used (e.g. weighting point method, utility theory, analytic hierarchy process, vendor profile analysis) to summary measures</td>
<td>□ Yes □ No □</td>
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<tr>
<td></td>
<td>CRM (customer relationship management) systems</td>
<td>□ Yes □ No □</td>
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<tr>
<td></td>
<td>Audits or certifications required</td>
<td>□ Yes □ No □</td>
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<tr>
<td><strong>Values based supply chain management for values based organizations (VBOs)</strong></td>
<td>Woolworth’s values &amp; behaviours and management’s personal values</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>How values are transpired from your value system through the food supply chain</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>How these values are communicated to the end customer</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>How the products are infused with value related attributes (product design)</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>How the critical product attributes are communicated to the end customer (product differentiation)</td>
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<td></td>
<td>Traceability and transparency through supply chain management (rely on operations). Systems, processes and methods.</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>Cooperative holistic values reflected on your management model</td>
<td>□ Yes □ No □</td>
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<td></td>
<td>Non-profit sustainable food certification organizations</td>
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<tr>
<td><strong>Integrated performance measurement systems (PMS)</strong></td>
<td>BSC components (financial and non-financial)</td>
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<td></td>
<td>BSC application. 4 perspectives:</td>
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<tr>
<td></td>
<td>- Customer (e.g. satisfaction, focus)</td>
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<td>- Internal processes (e.g. conformance with customer requirements, efficiency, ...)</td>
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<td></td>
<td>- Learning and growth (infrastructure for long-term goals)</td>
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<td>- Financial (ROI, IRR, NPV, Payback Period)</td>
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<tr>
<td>HR performance management according to objectives (both operational and value based?)</td>
<td>Yes □   No □</td>
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<tr>
<td>Price as a measure of performance. Price transmission through the food supply chain</td>
<td>Yes □   No □</td>
<td></td>
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<tr>
<td>Market power of retailers Vs suppliers</td>
<td>Yes □   No □</td>
<td></td>
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<tr>
<td>Sustainability performance indicators and application on the overall KPIs</td>
<td>Yes □   No □</td>
<td></td>
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<tr>
<td>Benchmarking</td>
<td>Yes □   No □</td>
<td></td>
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<tr>
<td>Systems for Integration with other parties (supplier, retailer, certifier, …)</td>
<td>Yes □   No □</td>
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Notes:
Appendix 2 – Interview Transcribes (subset of most relevant)

Interview 1: Tom Mclaughlin (Project Manager GBJ at Woolworths)

Vendor Selection

It starts by somebody offers something, they got something to offer, there will be quite a long courting: discussion, audits, farm visits, ethical audits that is what I’m involved in (treatment of workers, payments ...).

If is something quick, like fixing wages, it can be done in a month. If is something that they need to build a wash basin, we will give them 6 months they might not do it on that timeframe by some reason but eventually they will run out of time.

I never hear a case that we started, normally we see side people very well before we started. They might fail the first audit but normally they pass the second. If they don’t pass I’m very surprised. There is a serious problem if they don’t pass.

The audit is about 90 something questions that they asked, is an independent person asking these questions and then it meets with a panel of the workers, no management involved and he selects which workers he wants to talk to, it will interview them and will have access to the administration of the business and see how much people are getting paid. The passed mark for any of this kind of audits is about 91%.

There are different players in the supply chain.

- Transportation will be owned by Woolworths. If you are a farmer you put your products into a truck and deliver to our distribution centre. If you do not have a truck we will send a truck. If you have a truck but is not according to specifications, let’s say is not refrigerated and is supposed to be refrigerated, we won’t accept the goods at the receiving DC. We own the distribution centre and we take ownership of the product we it arrives to the DC. From there is distributed to our shops. Because the perishable nature of some of the products, products that got very short shelve life, like some fruit, our computer will run at night and tell us that, for example pine apples have been sold more in some shops so, when pine apples arrive, we will distribute more to these shops that sold more. We only decide where the pine apples are going later at night after they had been delivered during the day and we will deliver them on the next morning. The farmer is not a dictator ship, they know they need to deliver their produce to the DC at an specific time and if they miss the slot produce will not be accepted because the eventually our truck left the DC already to the stores. They want to ensure that happening and having an external transportation company adds risk to the
supply chain because the truck might break down so, 95% of the times is either Woolworths truck or the farmers truck.

- Packing is done by the farmer we specify how it should be packed. He will propose that he will pack it in a specific way but we will tell them no, we wanted packed that way, this is where you get the items from and this is how we label it because most of our products got their own label.

- There will only be stages between the farmer and the distribution centre if the farmer doesn’t have packing facilities, some farmers don’t have packing facilities in which case we will do a deal with a pack shelt but most big farmers got packing facilities and the small farmers may collaborate with the big pack shelt and share it. If Woolworths is to provide packing facilities, these vendors will be audited and following our guidelines. We will make sure they follow the guidelines we had set. Pack shelf are normally refrigerated, automated and have normally a lot of people working in. We normally define high risk products (i.e. potato salad) and low risk products (i.e. potato because is not likely that there will be anything inside the potato). In the case of the potato salad, there will be more rules and regulations.

In terms of the selection process, I think they will look at the philosophy and the culture of who are they doing business with to make sure that the fit is right. They will look at the potential to grow with us, the competitive edge (i.e. does this guys produce for other retailers?) because we like to keep exclusivity. They will be looking at its financial record: how much investment is put in the place ... there will be a lot of checks and balances and the best one will be selected.

Cooperation and integration: we got the full spectrum, from exclusivity arrangements to some that provide us and the market (i.e. they give us the first harvest and they might sell the second to the market). In terms of relationship, these that produce only for Woolworths have better understanding of what happens on a retailer and what happen to their products. They have access on how their products sell on the store, so there is this type of ownership: “they like to think that they are almost retailers and we like to think that we are almost factories” so there is great sense of ownership and that leads to greater innovation, I think “the ones that played well do well” they grow their business with Woolworths all the time as long as they don’t get too greedy and then they think they can do it with everybody.

Suppliers play a big role for the overall performance of the retailer. Back to the analogy, they are a factory without selling in retail but it is as it almost does when it deals with us. We are as their extension of the business as well as he is the reverse extension of ours, we are part of the same system. There are a lot of experts at Woolworths which the supplier would not necessarily have, we have about 50 technologists, they are all graduates, but some of them have been in many factories while the supplier must have a very limited view, they might be producing the same product all their life. Through Marks and Spencer and all this technical people the supplier can get great advice on what to do next, what are the opportunities.

Most of our suppliers are long term, I don’t think we like short-term suppliers. We may start a relationship and ended in 6 months but we don’t like these relationships, they do not work for us. Is too difficult to get a supplier into Woolworths why would you waste all these checks and balances? Is not clever to just grab an opportunity, there is a desire for the long term sustainability not short
term. I know suppliers that had come in and gone out, you take the risk, they provide us with tomatoes but six months down the line they start providing us with tomatoes that are not Woolworths quality, then we check and find out that he is doing things that he shouldn’t be doing. Then you stop this supplier.

In terms of measures there are different types: hygiene measures, ethical measures, availability measures, quality measures, a whole score card with on time, how many complaints we got in the past. The product developer, the buyers and the planners sits together and analyse if this business is capable to give us what we need. The product developer wants innovation, the planner wants accessible suppliers and the buyer wants low prices. The tension between the three of them have to be right, all three needs to be satisfied to start the relationship.

The decision making is done through score cards, its easy to check their track record in innovation and evaluate it separately from the track record in price and the ability to plan the sales and check that we have continuous availability.

In terms of CRM with suppliers I think there is a 6 monthly and annual reviews but like a performance review, everyone will sit together twice a year or more often if necessary and have a good discussion about what is right and what is wrong or what needs approving.

When the supplier makes an offer people will be promoting what they are good at. It will certainly be a sort of document with a record of the suppliers’ capabilities. I don’t think that happens very often and they are offering something that we already have. Sometimes we receive an offer from an existing supplier to provide us with a product that we already have and then, because risk wise is better to have 2 suppliers rather than one, we will analyse and if the sales of this product is rising, why not? Is a good idea.

If we got 5 suppliers for a given product we will like to have one to be very strategic and another the “low cost” supplier, and one different we like to have a mix but all five must be of the quality of Woolworths, what they give us must be exactly the same. But having

*Value based organizations*

Woolworths have got 7 values, they are pretty well anchored. In other words you have to be very strong if you wanna push one value at the expense of another value. Can be done, it has been done by some people who wanted to change specifically in one way but, eventually the balance between those values will pull you back to line. Integrity, quality, service, innovation, sustainability ... They are all there, but the values are open to interpretation, I think that’s the important part about them. If something sells but is not sustainable should we be selling it? But we find that there are decisions taken (e.g. we don’t sell cigarettes, foods with MSG) under our own brand but we will sell somebody else brand. Whether is right or wrong, I believe is wrong but there are other people that believe is right because the sales are more important and the customers wanted and don’t seem too concern about, but that’s their right. But I’m more as a purist, I think it must meet all the values and not being picky about the ones you want to apply which ones you want to leave out but it happens. Manager’s values are in general the same like the traditional Woolworths values but I think there are cases when people are not treated with respect and integrity but I don’t know the background for
those. It happens everywhere were things goes out of the place, especially when there is a problem and we need someone to blame but they eventually get resolved.

Values are transpired to the supply chain at the moment is through reputation, Woolworths comes along with their audits, we say we need things done in that way so there is a great deal of understanding upfront from the suppliers. Woolworths is expected to work this way and the values are not that different from what most of the people consider good values so might had just verbalize them and spell them out and many small business don’t have a set of values so it’s easy to fit with them and is aspiration values as well so everybody likes to do better business and it think it works. I know there are many stories in hygiene, they don’t do what they are supposed to do and we end up with quality problems. I know there are people who behave unethically, they say they are supplying this quality or quantity of product and they substitute by something else. Things like that happen but they get find out quickly because the audits and all checks and balances. Then the reaction is pretty strong and you will have to explain why it went wrong and if you cannot explain then you cannot get any more business.

We will like to know what’s going on even on the part of the supply chain that isn’t controled by Woolworths because the costs of audits aren’t worth it. We will not take any change specially in food. We got a list of approved suppliers, for example eggs is an ingredient that you can get poisoned quickly so we will tell them where they can supply eggs from and these suppliers will be audited by Woolworths to make sure the eggs are produced to a high standard and there is no likelihood of danger (e.g. hygiene: place is clean and trucks are cleaned enough). Wherever we consider there is a risk we will manage it but we don’t consider every risk. There is a list of critical ingredient that we will specify where they need to be sourced from. You might not have a relationship with that supplier but we will have checked it out carefully. Palm oil is a good example because is an ingredient of many products so on these products we will be deeply involved but if you ask us where is the sugar coming from, we will not know as factories can buy sugar from anywhere. The sugar is a commodity so it can be bought from anywhere. In terms of sustainability we want full traceability and we got audit to check on that but we cannot control everything, is too expensive.

The consumer understands our values when they buy our products. They understand what quality innovation and value is. When it comes to sustainability they can understand that we are a high quality supplier of food. We don’t advertise that we are ethical, it is implied on everything that we do. If you look at FFF that we do alot of TV advertising now, we promote the food but we also show where it is coming from: this is the farm, this is the people that grow it or make it and they care. We do brand advertising so they know the brand stands for modern, you can trust it. There is a lot of stuff that builds up on the consumer mind that end up on consumer trust. And that’s why we went out and we won the most trusted retailer award. If you buy something from us and you don’t like it, you can bring it back to us. We will not ask question we will change it without an issue. With food people will not bring it back but will write and tell us that they didn’t enjoy it, we will launch an investigation and we will report back to them and put systems in place for that not happening again. We might also send them a gift voucher to say sorry. I think our business is about, the all idea of values is to build trust, to get in top of mind so you need to buy good top of mind. That give you an automatic program so you do not need to think about which of the 5 retailers to buy from the beginning.
Products are infused with values, especially for FFF, and communicated during customer focus groups and talks. We do talks to see if what we are saying, offering and doing make sense all along. Even the name FFF was one of a hundred names that were tossed about. The customers selected that one for the meaning, not us.

FFF Products are differentiated by the sticker. The other way the consumer can see it is in the packaging, they will see tomatoes in a bag without FFF which looks cheap and then you will see 6 tomatoes on a tray with FFF sticker. It is noticeable when you shopping, we want in the future that all the products are FFF product. These conscious consumers can read about FFF in magazines as audncy or simple green to programs in TV that they are not really ads but they talk about Woolworths.

We got systems that the suppliers upload the specifications and we got instant access of what the supplier is using. There is a team that checks that they actually use the ingredients that they suppose to us. We are in touch with the entire manufacturing process. They are web based systems, PathFinder and we got TQM, just introduced. Is a R14m system. It captures everything, you will be able to see all specs, minutes from meetings ... Searchable, you will be able to slice it and dice it. The information that goes on to TQM we are already experiences it with our audits and they become accessible to Woolworths. Nearly every year we have systems trainings, conferences, supplier reviews, lots of ways the suppliers get involved with Woolworths and vice versa. At the moment we are running a milk suppliers workshop. At this one we will talk about difference topics like: animal welfare, big issues that are non competitive, where we will see milk in a couple of years, the carbon footprint in milk, how we grow the grass ... These discussions will be a daylong event (e.g. cut horns of cows).

Cooperative environment and cooperative values: Between the suppliers there is a lot of competition. In the common interest we hold different meeting about the future asking about what are the next big things: new varieties, irrigation, pesticides. There the guys will quite freely share, maybe not. And people come forward and tell you: next year I want to supply you with more of this product. Can I plant more of this product? Should be growing more of this product or not? How is the future looking like? For example, they discuss about growing plans that while there are not binding, Woolworths offers them as a matter of estimate. Is an indication of intent and I believe it makes well for Woolworths and the supplier. Sometimes suppliers consider them to conservative and add another 20%, but is on the common interest to reach good estimates as Woolworths do not wanna get out of stock. These can depend on weather patterns. Our model says: deal with the supplier and eliminate the middle man so we always buy direct from farmer rather that middleman.

We are working with non-profit sustainable food certification organization couple green choice because is a WWF and conservation agriculture standard. They normally come to us, then we go out and have a look, we talk about things but we are not actively looking at NGO to help us. We use them to either confirm/deny what we see. I don’t think NGOs have the technical capacity to tell us what to do. There is an organization called the “Landmark foundation”, they don’t like animal being killed unnecessarily. They do small studies and present these to us because they think it works but then we test it on bigger samples and see if it really works. We work with them and collaborate with them trying to understand and learn from them.
If the suppliers’ values are different from ours it won’t be a supplier for long. Most things brake down because values are different. I think our values are very strong. I think there is something about them that is holistic and religious (not in the secular sense) on the spiritual sense. I work for Woolworths because the values. I tried other companies but that doesn’t work for me.

Interview 2: Imraan Hatia (Finance Manager for Food division at Woolworths)

Vendor Selection

Just in terms of context, I been in this role now for 2 months, I’m quite new in this role as a Finance Manager for foods, however I been involved with Woolworths for 5 years now. So, in that context, I got knowledge about Woolworths but not particularly for food. The finance role on choosing a supplier is actually small in this business. Suppliers at Woolworths, in the main, are selected by the operational team. The select vendors from customer feedback and product need, so whatever the need is, they will go and find the supplier. After that, under my understanding, they will ensure that the relevant quality controls are in place. When done, they will make sure that the other relevant barriers that they need to look at had been catered for. For example, is it in line with our other strategies likes the GBJ, do they have the capacity to deliver to us. Depending on the type of product, grocery or produce (i.e. fresh vegis) we normally ask for exclusivity which is the competitive edge that Woolworths have. That being said, when dealing with the supplier we will push for having exclusivity.

From a finance perspective, as long as they got a bank account so we can pay them and they can invoice us we will engage. 95% of the process is business case and only 5% finance case in terms of the admin; is not a big deal. My sense is that we will not like to engage with a supplier that isn’t making money because that only causes problems for us in terms of the relationship, that’s just bad for the relationship both sides. My sense is that we should be checking that the company is profitable, whether they will continue to survive and they will meet our demand, seasonality and whatever else.

In terms of handling different kind of suppliers (short term/long term, logistic/strategic), the financial system currently in place at Woolworths have wide variety of suppliers terms. Before we implemented our new financial system which is Oracle, we had 180 supplier terms in place, that’s way too many different terms. When we implemented Oracle we adapted in order to conform with a handful of supplier terms and get our suppliers online so it’s easier to manage. What we found out after 2 years with Oracle is that we still have a lot of supplier terms, not as much as 180 but still.
Woolworths have a very very flexible relationship with our suppliers; we bend the rules to suit our suppliers. For example, there are suppliers that are distressed with cash flow problems and we assist them adjusting the terms, paying them sooner, help them out with the cash flow, we won’t take discount, in occasion we give them loans to help them out. I think there is a loyalty element which Woolworths have with some of their suppliers and it could be for strategic reasons. If we impose exclusivity on our supplier, I think morally and ethically make sense to help them out. Also, for strategic reasons, within our Entrepreneurship Development Program we will fund starting businesses with the idea of them running on their own feet on a period of time. We do give them initial funding (i.e. loans, soft loans) which they will not got if they were asking to a bank. We provide them business, so we will buy from them so they can grow and become bigger and eventually move on to bigger things. So yes, there is flexibility in processes for suppliers for strategic reasons versus other reasons.

We got both logistics and strategic suppliers but the thing is that the weighting is more inclined to strategic. The difference in Woolworths is really the quality aspect and doing things differently. For a given product is difficult to have different suppliers that give us the same product and the same quality that Woolworths provide so that bring us the difference so, for that reason, these suppliers are very strategic. If you look at our business, 30% or so is produce. So there is a very big component of our business that it’s linked to the farmers. In terms of logistic suppliers, if you compare us with our competitors we are a small part of their business, these terms are standards.

We got a very open relationship with our suppliers, particularly the strategic ones. We got a strong trust factor between us and our suppliers. Our suppliers know what price we are selling their products at so they know how much we must be getting from them. We work together in partnership in order to agree on a margin that we make in a product and how much they make of a product as well. So I think there is very much of relationship on these terms, being a partnership more than a retailer-supplier normal relationship.

We organize an annual supplier conference, at this event we give out awards for the most innovative supplier. There is about 10-15 awards (i.e. highest quality supplier, best hygienic standards ...)

Value based organizations

My understanding of our current values, the most important value that speaks to me is quality. That should be consistent across the supply chain as well within the supply. Then it will be service and then reliability. Our other values care for the environment, which is sustainability is very important, is part of our GBJ. Those are the big ones to me as well as trust and integrity.

Values are transpired to the supply chain. It’s apparent, the first one that you will see in all the shops is the quality and that is synonymous with Woolworths now. Have become so pervasive across our market, anyway you go, anyone you ask when they think Woolworths, the first one they will think is quality. Besides suppliers, in the market we are in everyone knows that Woolworths is about quality. So think that’s a given. There have been cases in which suppliers were unable to supply Woolworths with the required quality and consequently lose some of their revenues. For us, the cost that we invest in quality is significant. We took a nok recently with our yogurt products that the label wasn’t
according to the content. We took it off our shelves, which cost us money, but Woolworths is fanatic about quality. And our suppliers are well aware about it. We got penalties with our suppliers: if we pick up items that lack quality (i.e. sub standard) then we charge them penalty for that.

The other values are more difficult to put in place because you can really measure. Like integrity, i guess it come out from your daily interaction with them. Service and reliability for me are almost the same, we expect our suppliers to deliver to us when we ask them, so they cannot deliver to us a day late, that is short, that’s unacceptable and we charge them for it. 2 days earlier non either, for us is about delivery on time and the quantities should be exactly as specified. Practically is not really the same, is not something that our suppliers conform. Is a relationship, you try to work together in the partnership but are ongoing. Is not because you have it into an agreement will work, practically don’t have it like that.

With our suppliers is something different, is not as if you employ someone and you can check that they follow our values. We check values during the recruitment screening process, we also do some reference check but when you work with suppliers in exclusivity they can only supply you. But at the end of the day, the way to check this box (i.e. values) is by a working relationship, there is nothing better than that. Woolworths take a risk with their supplier and I guess that is what business is all about, taking risk. You may do the necessary background checks and all this things but at the end of the day is the relationship that last. And we got this checked with our current suppliers; we only need to do for the new ones: we will check their plants, review their products we will do all we can on our side in order to deal with new people in order they do not damage our brand, for us is the most valuable thing at Woolworths.

Values are maintained by shared knowledge between our traditional suppliers (i.e. long term suppliers) with the new ones that come in and need to adapt to Woolworths culture. All products that are designed by our buyers go to our central quality check department where they actually test the products (i.e. ingredients, packaging ...) for consistency and all these good things. Only then the products are checked by the central department is when these products are put into the shelves.

We work very close with our Marketing department to make our products infused with quality, integrity ... and all our values. In terms of sustainability, we work with them in order for them to achieve their targets.

In terms of traceability, for example sandwiches, we got a handful of suppliers. We can have two types of sandwiches: these that are produced in one level of quality and these in another (e.g. with higher sustainability marks). At the end of the day, in product design it ends up on the question of do we need to have a product that is 100% green? If yes then we will work a product that meets these requirements. One of our strong values is leading our customer, I know it might sometimes sound arrogant, but what we want to say is that we should own this “good food” space, sustainability and saving the planet. We need to lead these initiatives with our suppliers because it is aligned with our corporate strategy. In summary is a 2 way think: in one hand we need to listen at our customers and provide them with what they need but on the other hand, we need to provide them with something that is healthy, taste the same as the one they want using knowledge that we got inhouse. As an example, if our customer wants a pack of chips which got MSG and preservatives and all this kind of things, we will not stock these products on our shops and we will work with these suppliers (i.e.
Simba) to design a product that is healthy. If they cannot design an equivalent for us, we will work our own product for this (i.e. pack of chips that doesn’t have the MSG component).

*Performance Management Systems (BSC)*

We assess our suppliers in terms of profitability. We rank our suppliers on how much profit we make from them and that is very useful for them because they can see which suppliers we are making the most money from versus those that aren’t and then using these as a basis for engaging with them. You should be spending more time with these suppliers that actually bring you more revenue. We look at volume, we look at sales, selling margin (which is very important), waste, adherence to our terms (quality, on time delivery, rebates). We give suppliers non financial rewards in order them to do what we want them to do. But they know, in order to keep the relationship they have with us, they need to follow our standards, that’s part of our relationship. So, for example, if we are doing a new initiative and are going to cost them money to bring them up to speed, it will end up as a negotiation. We can improve the payment terms, reduce the discount ... so how we can work together so we can continue doing money and you get what you want. Because we got such a close relationship with our suppliers, we are able to do that. And we also have flexible systems which allow us to do that.

We are constantly looking at what our competitors are doing. Internationally not only locally and we look at how other companies and we investigate in order to understand where the differences are and how other companies are doing specifically. That’s where the benchmarking occurs, benchmarking happens when visiting our suppliers, visiting our stores, seeing what they doing and trying to bring this knowledge back to our suppliers. This is what happens oversees, how you can do that here in South Africa. We use international baseline, we have a sister relationship with Marks and Spencer in the UK and we utilize that intellectual capital. We work closely with them and we share knowledge, we are a company that ensures that we are at a global level. Internationally we are as competitive as any other, empower as the rest of the world is doing.

With our new financial system that we put on board which is Oracle we now have what we call a supplier portal. This is a single communication portal with our suppliers (i.e. documents, invoices ...). All happens in one place, if there is information they need to send us, they send it though the portal. We are also moving to a system for electronic invoicing, this is a financial system in which ours talks to theirs. We want to achieve a paperless environment. We work with them in order to find out how much it cost, how much they need to invest, and we work together with them. There is a cost factor and depends on the supplier depending how much they are willing to invest, it is a negotiation. Motivation comes from reducing paperwork at our side and their side.

Woolworths sets the prices on some of their product. It varies from supplier to supplier, product to product. All the branded staff that we sell in our stores we set the prices but products as Coca-Cola, we are not really a price setter, we are price takers. We try as much as possible to negotiate with the supplier to get better prices on these products but at the end of the day we are not a price setter we are price taker on these items. Just because the volumes we stock, we stock much less volumes of these products than our competitors do.
Interview 3: Linda Wallace (Human Resources at Woolworths Foods)

Vendor Selection

Value based organizations

Woolworths have seven values. These are: quality and style, service, integrity, innovation and sustainability. These are the values that the business had put together and penetrates on every aspect of what we do. From people living them out and from the people point of view we train and ensure that they understand what these values are and also interpret them for the different business units. We have what we call “Let’s talk”, we train manager on how to conduct these meetings referring back to our strategy and our 7 values. We also make sure that we recruit against all these values, people that we bring to the organization. I’m sure that’s the same for buyer and the suppliers that work with us. As part of our recruitment questionnaire we will be asking competence based questions. We will be recruiting against the competencies that we need for that specific job and then we will also look at the fit of the person. And by understanding what their values are and what they interpret our values. We want people that are able to live this values, it needs to be something inherent on them instead of something on which we torture them. We have interview guides and psychometric assessments (which tell us about personality) but what we also do is reference checking. We also have “Let’s ask”, this is a survey that ask about how they feel that the leadership lives the values. We want to check how healthy our organization is in terms of strategy, remuneration and values.

Performance is separate from the survey. Survey gets us a feeling on how employees feel about the business, how healthy their department. In terms of communication, they will show these values on the stores, they will put posters and visuals about sustainability and looking at often interviewing suppliers to see what happens in the whole value chain, that doesn’t stop on the head office. From my sense is sort of factored into the whole communication strategy, I never seen them communicate the directly saying: “These are my 7 values” but obviously is on our website so people have access to that and it is also in our monthly booklet that goes to customers. We don’t advertise a lot, I think that’s something we can do more often; it’s a sense that we can continuously do that. It is well known in Willies even is not well known offside.

Products are designed according to these values. For example, in foods they will go to the nth degree for quality when they look for a supplier or audit current suppliers. Also, clothing and food collaborate in terms of assessing if some suppliers can produce different products to Woolworths.
We have two reviews. We will set goals around August-September each year, because our financial year runs from July to June, where we will assess what this job requirement needs me to do but also how I behave. They will come from their manager’s objectives in different categories: dealing with suppliers, or in terms of people (aligned and consistent to our values), and leadership capabilities that we expect at the different levels. We will review six-monthly so, in February we will have a review, an individual performance discussion where people will be rated. Individuals will rate themselves and also by their line managers, 360 degree feedback. You will get 7 people that you work directly with and rate you: is normally the line manager who will tell you who is the key suppliers, colleagues, leadership and if you have any direct reports. The leadership team will set the targets for their people and then people will be rated accordingly. That way, people knows upfront what is expected from them and then there will be a consistent way of measuring them. 60% will be against the hard measures (operational objectives) and 40% against the behaviours. Because is a hard thing to say that you have achieved all my objectives but you might have brake some relationships or suppliers do not want to work with you, etc. So it is around the values and behaviours that you play out. This rating up to now was 1 to 5 and going forward is going to be 1 to 4. When rated, depending on the severity of it, we will identify areas of development and offer guidelines around how to do it and/or we will offer support or training. This is part of the performance management; if ones performance does turn around in a reasonable time then it will go into hearing. From HR perspective we look at how different departments look at ratings, what a 3 means and we will give them a definition. But one manager to the next could rate people differently so we look across and investigate if any rating has been unfair. Because it also affects on our pay rise increases so we look that there is consistency on that in terms of if you are rated as 3, this is your increase. It is much more scientific now in opposition of being subjective. Promotions are also linked to performance, line managers will propose promotions, and then we will have what we call remuneration committee who will validate that this is warranted. Again is not only one person, is against different criteria. We have a Talent management system were managers can check records of their employees in terms of performance, we also have a talent metrics were we meet together and assess who are the top guys and the leadership succession plans. Then we find out: a) what we need to do to retain them, b) how we move them throughout business. On the other side, who are the people that are not performing and what we do with them. That happens four times a year were we would go back as a leadership team and then we assess if everything remains the same or it have shifted. Is it important for us to constantly check that the job levels and the remunerations are always aligned properly with the business.

In terms of suppliers, during our 360 assessments they also participate in our performance. They have also supplier agreements and standards that they need to comply with. Normally the technical guys will enter in conversations with the suppliers in order to understand, not only how they maintain the relationship with Woolworths but how they manage their own people. They will audit them if they find people issues (as employing children). Also, depending on the kind of job we will look for some experience on the subject. For someone as a Technicians, they will all have farming or agribusiness experience when, for example, a planner will not require this experience. But we also have mentorship and training programs in-house so we will be able to up skill people that might not
had have the experience. Sending them to suppliers if they need to be trained there so they have different exposure if they never had it.

In order to attract the right talent, people from the central office will look for the right people to come to Woolworths (i.e. very successful farmers, or BBEEE candidates). Diversity forms part of the sustainability value and that’s why they added it. How we make sure that we sustain and our company grows. Diversity is always measured from an Employment Equity perspective to work with suppliers that have a BEE rating, so we work towards our BEE rating. We got an office here that the only purpose they have is that diversity is created.

The benchmarking is done centrally against our competitors. We do salary benchmarking, jobs, policies, practices, targets (e.g. BEE rating).

Generally the company is living the values and there is a big focus now around the whole BEE thing and diversity. It is a big driver for us. I also thing that the way we spread our values into our supply chain is quite significant. Right from the whole concept of what we want, to work out the product with our suppliers and get the product into the shelves. It takes the right kind of person to leave on a company with high standard of values as Woolworths. And I think it pay out on the products.

**Interview 4: Kobus Pienaar**

**(Technologist at Woolworths)**

**Vendor Selection**

We looked what are required from the customer side. We always work backwards from what our customers demand; otherwise you would never be able to sell the product. Then we check if our existing vendors can supply what we need. If they cannot make a plan, we look for a new vendor. In terms of systems we load them in RMS (Ops system), Oracle (Financial system) and TQM (Tech system), we need to look at the legal compliance, BEE status, if they can do the job (i.e. research, benchmarking) and deliver what we need. Pathfinder is another system that comes later when is already a supplier; there is where you load product specifications. This system is product related and we only load product related suppliers.

Our supply chain members include ARC (Agricultural Research Council), Universities, people from the industry in farming, chemical companies, seed companies, education, private individuals (experts in their fields) and then farmers. We also got stagers (e.g. Lebombo) which they are suppliers but they do staging for us too. We do our Fast&Fresh who does the transport for us.

With our suppliers we got a relationship like a marriage where divorce in not an option. The dating stage is very critical, when you open a supplier to make sure they got the same values and ethos that we have. From there on is very rare that we close a supplier, at most we will close one or two in a
year but we will open four or five in a year. The average time a supplier stays with us is in the order of 15 to 18 years. So our food produce is about 17 to 18 years old so it is quite an achievement.

As in every business we got around 20% of the suppliers that give us 78% of the business. So we focus on these suppliers and also invite new suppliers with great potential to our supplier conferences. In produce we got one big supplier conference were we share our produce strategy with them, we will also have soon our big conference for the whole Foods. Only the big suppliers go to that conference, you need to show that you are worth before you get invited to that type of conference. Suppliers are measure in terms of: the values of Woolworths, commercial, innovation, technical and people relationships. With all that we can see which guys are making progress, some of our suppliers remain the same (i.e. APEX 6% year on year) because they produce commodities for us and they are happy there. They do not want to develop product with us, you have to be clear where you want to go with your suppliers, some of them don’t want to grow with us, they just use us as a cash flow.

Relations with the non-strategic suppliers are different. They know who they are and they got their review every year, we talk for about 6 hours strategically. We do not comment on number of complaints and so on. Out of that we decide what the way forward is. We have very good relationships B2B. Product wise, specifications are loaded into Pathfinder and suppliers are bench marketed weekly (against other suppliers in WW and other competitors) so we can identify, for example, who provide us with the best quality. If the quality of one supplier is going down, we will cut on our request next week. Then there is trading terms with the buyer: are we still the leaders in terms of quality at the marketplace? And, within our supplier base, who is the best. Every week our suppliers get a report from us showing them how they are they doing according to specs (i.e. size, taste, appearance, shelf life ...). Are volumes are growing, we are 25-30% of the South African produce retail and in food we are 10%, reality is that we don’t have more space to plant in this country because we don’t have water. So for us to grow at that rate, we need to take supply from other retailers. Something we do is that we give the opportunity to our suppliers to source from other farmers instead of only growing his own. We do import about 8% but if we could we will only grow in South Africa as import takes quite a bit risk (i.e. exchange rates and strikes at airports and ports). My measures are: 1. food safety, 2. Quality, 3. Ethical measures (e.g. how they treat their people), 4. Sustainability (i.e. People, environment ...) and 5. Price. Examples of KPIs (shared with the supplier) are: customer complaints (we need to go by 5% or lower), grow incentives, payment terms.

Audits, ethical and hygiene first. Then environmental audits, that’s how farming for future came into play as these audits are no so strict and we want them to join the journey.

*Value based organizations*

The values are in the KPI form. They just made them custom made for produce, for food. All the buying teams will have the same headings but the details will depend on the type of issues every buying team have and need to address. Everybody gets their own discipline and accounts for it. For example if there is any issue with food safety or quality, that’s my part (technologist). If there is problem with pricing, the buyer will account for this issue and finally if there is any problem with the
packaging or labelling, the product developer will respond to it. So we are a multidisciplinary team and we meet every Monday and go through all the products and suppliers and address all the issues.

I feel sorry for the Marketing team in terms of communicating values to end consumer because they have a big job to do but don’t have enough budget. We are very poor communicators, that is one field that I feel we are way short if we do a benchmarking against competitors in this country, we cannot market. In terms of product differentiation and design we use: sub branding (i.e. flavour based, super sweet, limited edition ...), “exclusive to Woolworths” and we got “good, better, best” with different colour identifying these lines of products.

All our suppliers comply with global GAAP, and administration as well as traceability is part of these requirements. We use a code for traceability that told us everything we need: seed used, chemicals used, field where it was grown ... Brand integrity will randomly take product from the shelf and test traceability. Experience plays a big role on these tests (i.e. don’t check pesticides in broccoli in winter because there isn’t any). Traceability is controlled at the supplier side, bigger growers got IS and smaller suppliers got a paper system. These systems get audited by global GAAP and our own auditors.

Performance Management Systems (BSC)

We got a customer complaint system where a customer can go to a store or phone into their office and complaint about a product that gets locked and goes to the relevant technologist. Again, if is a quality issue or taste problem is the technologist and the product developer but if it is a price complaint it goes to the buyer. Customer complaints are measured by volume. Also, all audits are in the scorecard (environmental, ethical ...) plus rejections experienced at the DC. We got a team at the DC that checks the product when the truck arrives. They can’t check everything but we normally tell them, according to the complaints received which products they need to focus on and make a detailed review. There is also a weekly QC I do at the stores because, even it was right at the DC, it can become a problem in the shop so then I release and ITC. Everything is put together at the scorecard and the one that gets the best score will get the bigger business.

In terms of finance, we do some measures but it is pretty much private. For example, when we see that the truck that is supposed to pick some stuff is very old then is when we start realizing that they might have some financial stress. Not all the suppliers is doing 100% of their business with WW, but we told them that they are free to talk with us if they are in financial problems to invest CAPEX. If they are running out of business you will realize that quality goes down, availability goes down, they starting picking up quality issues. On our supplier meetings we define our margins and theirs but how these are set depends on what they tell us. If they keep quiet, that can be good or bad. If they suffer big damage and they tell us, look this will cost me XYZ to get back on track, we will assist them by not taking full margin but we need to cover costs, we have a shareholder out there to service.

In terms of human resources, in my mind the 360 is watery, there is no flavour in it, and is not objective. If I got a problem with you I wouldn’t give you a good 360. Sometimes we don’t even do that. Within the suppliers we got continuous 360s between them and us. In house, not much is happening. We got an integrated performance management system (IPM), the board will set goals in
all the categories and then they will be negotiated with the persons that are involved on this product line. HR did a great job with the integrated performance management system, the only problem with that system is the managers understanding of the different points because is different from one to the other. I got the experience of setting goals with one and review them with another and they are two different worlds. If you don’t start and end the process with the same manager, it is confusing. In my 5 years in WW, is getting better and better. Evaluating suppliers is easier and it can actually be measured but how I evaluate my behaviour? That’s more difficult.

In terms of price, we evaluate whether we are providing a better product to the market. If the product is the same than competitors (i.e. Shoprite, PnP, Checkers ...) the price must be in line with their prices. We do weekly visits to shops and evaluate whether our prices are too high or low according to competitors and quality provided. Out of these visits some promotions might take place.

In terms of sustainability, you can take the indicators from the document provided.

We do benchmarking in terms of innovation, quality, price, supply chain, ethical ethos ... If we find that they are not scoring best in class we put corrective actions so we got them where we want them to be. In produce there is always a moving target.

Finally some other integration systems that we used are: we recently adopted the IDC scorecard for BEE and TQM which is in his phase 2 of implementation. The idea of TQM is to have a live system with my suppliers and not a filing system for documentation and status of suppliers. The purpose of the system is traceability, benchmarking, certification, hygiene status etc. That way if I leave, the new guy does not need to start all these files he can open up the latest status with the suppliers, our plans with them, what is delivering, what are the issues, compare against other suppliers plus is a 2 way systems for audits in the mediation phase. On that system you can make your recommendations and check on due dates (i.e. closed on the system).

Interview 5: David Rennie (Owner of Rennie Farms)

Vendor Selection

We started with Woolworths 1975, normally they are approach by a vendor then they look at their professionalism and the quality product that they produce and how you doing. If you are coming to their standards they are interested in you. They check your availability to deliver, seasonality...

We do not participate in the selection of new vendors. Woolworths have technical and sales personnel; we cooperate in R&D and production programs. They give us indications of what they want, when they wanted but they don’t give us indications on how much they are going to pay. It is
a market related business (i.e. if at this moment what you produce is cheap, that’s what you are getting for it). We agree with them in a growing program six months in advance.

We look at Woolworths sales of our product compare to their plan. That give us an indication of what we need to plant for the future. From the system we can see the price and volumes that they are selling of our product. We are also integrated in terms of varieties; we are always prompted by Woolworths to search for new varieties. They also search for new varieties and present them to us so we can make a trial and see if they can commercialise them.

We cooperate with other suppliers, with some yes with some not. If they are direct competitors we do not. Woolworths are 60-65% of our business and is risky to get higher because any fluctuation on their sales affects us too much. The Cape is around 25% percent of their business so we must be around 20% of their tomato business.

There is definitively a difference between us that has been with them long than that short term. But, you are as good as your last delivery. We got over 30 years experience they know we supply them with good quality product. Supermarkets go through phases; different managements decide sometimes to spread the risk (i.e. we need more suppliers). At the moment they decided to focus on their better suppliers so that is playing in our eyes because we are one of their main suppliers so our business is growing exponentially higher that Woolworths is. They are growing 15% ours is growing 20%. Mainly the advantage of being a long term supplier is that they give you better volumes.

Farming for the future is a philosophy of not making bad farming decisions and improve nature around you. FFF is changing the way you farm, that doesn’t add any other costs. It is farming better, if we leave this piece of land, community, people ... is going to be better. We have twice audit reviews a year. So now they got a defined set of measures whether you are gold, silver or bronze. You got technical, pack shed facilities, growing facilities, attitude, relationship, and delivery performance ... measures.

In order to put all these measures together, they didn’t explain us how much if of these weight but I can imagine some of these indicators are weighted more than others. They normally do not tell us where to focus on in case, for example, we got 2 silvers that we want to improve to gold.

In terms of customer relationships, there is a system in place for Woolworths to check whether last delivery was good or bad. We are also graded on the number of rejections we got. Dave said: “Depending the higher the person who phones you know how badly you screwed”, normally the technologist phones you and told you have a problem. Normally you know before you send it but quite often you haven’t had a problem and then are when you start looking. We can identify where the product comes from looking at the code. 24 is Rennie Farms and the letter that goes after tell us which of the farms the product comes from. There are certain things that they are flexible (e.g. colour) but some not. Quite often they tell you please select the better quality.

Value based organizations

Their values are basically good value at a fair price. Best flavour, best quality, delivery on time for a fair price to the customer. In their values, they value their suppliers like we value them as a
customer and we try to be honest as well as we can. We deal with other customers as well and not everybody treat you in the same way. Their system is so good, for example they will tell you we cut your order from 200 to 100 because we are full, when another retailer will take it and try to tell you that there is something wrong with it. Their values from this point of view are more upfront.

Woolworths communicate their values to the end consumer by advertising them. In produce is depending on what you put on the shelves. Is one of our customers that historically haven’t communicated enough, now they are communicating the Good Business Journey.

We participate in product development, for example baby tomatoes. We work very closely with them to find new varieties that taste better, crunchier ... we and they got the same goal. For example Rosa tomatoes are about 50% of Woolworth’s tomato sales so now they are looking for better Rosa tomatoes. We also produce different value added products as tomatoes on a trash.

Woolworth’s policy is that they got their own brand so there is no much room for us to differentiate our product from other tomatoes that Woolworths might sell.

In terms of traceability, we can find out which farm, area and section the tomato come from. We don’t go down as far as houses but we know which area. From the area we can derive from our paper system with what it was sprayed, fertilizers used ... But normally most of the practices in an area are the same. But to reduce risk, we grow at different areas. The manager planner grower knows each time what is planted where. He plants what we want with Woolworths and know where is it.

**Performance Management Systems (BSC)**

We have grower manager per section which is responsible for his section. We measure production per quality (kilos and quality * price). Woolworths have one quality, the top quality that’s it. After WW quality there is a first, second and third quality. The grower gets paid a percentage of what he produces. We also measure costs of production, some growers produce cheap some produce expensive.

We are big in training; most of our managers go to training at least once or twice a year. Some of them are internal, some external.

By the end of the following months we will have our financial position for different areas. Risk of losing performance (i.e. trials of new varieties) is tested first and only when we are confident to grow it on a bigger scale (i.e. the product can be grown and sold), all different grower take a piece on their areas to grow that variety. Everyone knows about vegetables and everyone knows when a product will sell. For example, there is a black tomato, it actually taste pretty nice but who want to buy a black tomato? Not too many people.

In terms of human resources, I measure and look at the measurement of the managers and the managers look at the measurements of their staff. When it comes to labour, we count the number of hours they spend, if it’s more than last year is because is becoming less efficient. A reasonable manager will have an area ratio; they will check that they use a reasonable amount of fertilizer ...
etc. Our good guys they see it on their salaries and bonuses. Most of our measurements are financial per section. If a section is producing well and good quality it’s clear that the workers are doing something right and then they are rewarded.

In order to check quality, a part from the QC Woolworths perform in both DC and shops, in our pack shed we checked qualities (i.e. quality lady and QC manager) and managers are rewarded about these. There are checks and balances everywhere. We get a fair price for the quality we deliver to Woolworths, sometimes they think is very high or we think is very low but I think overall is a fair price. “They promote us to deliver good quality with a stick, not with money”. Price is not a reward for performance, you can be bronze, silver or gold, they might give you better volumes, but price remains the same.

Suppliers in South Africa are not as bad as Europe but we are getting there. Retailers are very strong, at the moment not unfairly so. We look all the time, we benchmark against other supplier’s product to Woolworths and also some other supermarkets.

In terms of integration, we use an electronic ordering system that they send us the order for the day as well as the orders for the next 10 days. Woolworths is the best supermarket in SA in terms of systems. They also have a system for the audits (i.e. TQM) so they can also look up. We don’t have access to their report system

**Interview 6: Jake Rennie (Financial Manager at Rennie Farms)**

*Vendor Selection*

For certain things you do not have a choice in suppliers in SA, mainly seeds and spray material. Secondly, Woolworths also requires you to use some vendors, not only for packaging but other things which make it difficult to negotiate price. We had found that people that Woolworths had presented are not price competitors so we have to pay higher prices than the market. Thirdly, for commodities we go out to the market and buy to the better price (i.e. cheapest) but sometimes you got an availability issue and then you have to buy from the one who got but generally we buy from the cheapest.

They send us orders via an internet systems, everything we need to know comes from an internet system between us and them: orders, delivery notes, pull statements so our business and their business is pretty much integrated by sales.

At the moment we supply 90% of the tomatoes and cucumbers and 100% of the herbs on the Western Cape. We have a 98% service record (i.e. 98 out of 100 audits are passed on time with the right quality). We also provide lots of cutting edge technology; we introduced certain products as Rosa into Woolworths.
In order to select vendors they got a supplier scorecard. It has developed across the years, it has become now more defined. They moved from a score that valued these suppliers that do supply at various prices to an objective score. Now is a clear cut on what they expect from you as a supplier. The top 30 suppliers got this scorecard but I think they are planning to roll it out to everyone, I think. I do not know the weighting of each of the measures, I did ask the question but I do not know.

In terms of interaction, we got quality meetings every Wednesday. We communicate with them on an ongoing basis. On top of that you got 2 meetings a year which is your summer and winter program and then you have your suppliers review meetings. In terms of audits you have your GAAP audit, your quality audit, your FFF audit and they have maybe a scorecard requirement.

Value based organizations

I think we do know WW values. WW claim to be ethical, you would like to think that they are fair with everyone. Overall their integrity is better than other retailers; they will not put any product on the shelves that is not standard (i.e. up to quality). If you cannot provide up to standard your account will be closed. If you cannot provide the integrity, qualities, safety that they require you are out of their business. They are quite strict on the staff you send to them, if is not up to standard it does get rejected. Some of their competitors, if there is a shortage, they will accept anything.

Woolworth’s philosophy is that if they got the best product, consumers will buy the product at a better price. I think they could be better at communicating their values to the end consumer. They started now with their good food journey ads. They do all these audits but they do not tell anybody that the tomatoes are grown in a certain way, or the meat ... they need to make more of an issue that their suppliers are the best suppliers in the country and that their food is better quality than the one you find on their competitors. If you open the newspaper on any day you can see that PnP and Checkers spend much more in marketing that WW do. You need to build your brand through advertising; it just seems to be that they are not as visible as other brands are. I think they are very worried about Checkers, about their fruits and vegetables.

Woolworths infuse their products with exclusivity and quality. For instance, their specs for tomatoes are the highest on the market compared to their competitors. The ingredients that go in it are of very high quality. In terms of packaging I don’t think it has been reduced at all. For product differentiation they use labels but there is a lot of confusion. I think they can communicate better even their consumers are informed consumers. They can use stands, displays, tastings (e.g. plates with pieces of cheese), and word of mouth ... that is expensive but is the most effective way of doing it.

We got full traceability in farms and sectors within the farm trace it by a code.

Performance Management Systems (BSC)

I never tell my profit margin and they never asked for it. Sometimes, for new developments, they asked us what our return on investment is. We do not know how much profit they got from us the
same they don’t seem to care if they screw us too much and we run out of business. For example, Woolworths increased by 4% their settlement discount which is 4% of my bottom line (i.e. more than R1m), they didn’t asked me just told me sign the paper or we are stopping you as a supplier. I said to them that a R1m of my bottom line is going to make me a very marginal business but they told me: “you should be running your business better”. I think they will keep pushing until we run out of business. We told them, here is 5 years of audited net profit, that if you take R1m from our bottom line there is no money left and they went tough. What WW has done is increasing the prices so, the change of margin has been passed to the customer.

Tomato is a commodity, is a non value added product. If PnP moves their price, Woolworths moves their price. You don’t get any benefit for producing better than the spec. If anything, the spec has gone down. The price is based by supply and demand, what the competitors are charging.

The supermarkets have more power but in SA the supermarkets are running out of suppliers that can do the job. There is a much better relation than before because the supermarkets realized that if they are too hard on the suppliers, they are going to be any left. There is normally no negotiation they tell you sign here or you don’t supply to us anymore. They know I cannot take the risk, I got 450 people out there and these volumes, I cannot sell to the market. I think now they are better than before, they realised that they need to be more inclusive. But ultimately, they know they have power because if WW close my account tomorrow this business is finished.

We also supply to Shoprite Checkers but not PnP. Is my understanding that is all or nothing (i.e. either supply PnP or WW as they are direct competitors) and we are happy being Woolworths suppliers. Woolworths push for exclusivity.

In terms of sustainability we do a FFF audit and you have to get a certain score. This includes: water recycling, more organic fertilizers, better crop, crop rotations, farm on the soil not in bags (at the moment we do hydroponics). We are level 5 in BEE (Woolworths is 6), our workers are owners of the business ...

We do benchmarking against other retailers and suppliers. We also try to make financial benchmarking but are very difficult to get proper information. No one that does what we do is a public company; everyone is private so no one is willing to tell you how much they do. We sometimes benchmark costs (e.g. costs of fertilizers, labour used per hectare, trucks diesel usage ...), we loved to benchmark ourselves against other farms but sometimes we can’t find the information. Even banks can tell me what is the correct spread of cost (i.e. labour, machinery ...), they only gave you a general credit rating (e.g. Moody’s) for the whole agricultural sector. This is based on your debt to equity ratio, your cash flow, what is your current debt. The only thing they take into account is which sector are you in. Traditionally, the agricultural sector has had a very poor sector rating. Property developers or transport companies have better access to loans.