

# *Unilever Global Sourcing and Purchasing Strategies: A Case Study of Trade and Logistics between the EU and UK Post-Brexit*

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**Keywords:** Strategic procurement, supply management, enterprise, digitalization

**Abstract:** Strategic procurement and supply management play a crucial role in enterprises, helping them optimize the procurement process, reduce costs, improve product quality, and enhance market competitiveness. This article aims to explore the theoretical framework and practical methods of strategic procurement and supply management. Firstly, this article elaborates on the concepts of strategic procurement and supply management, pointing out that strategic procurement and supply management are a part of the overall strategy of enterprises. They not only focus on traditional procurement processes such as supplier selection, negotiation, and contract signing, but also involve multiple aspects such as supplier management, risk management, and procurement strategy formulation. Secondly, this article analyzes the advantages of strategic procurement and supply management, including reducing procurement costs, improving product quality, optimizing supply chain, and enhancing enterprise competitiveness. At the same time, this article also points out the challenges faced by strategic procurement and supply management, such as supplier instability, price fluctuations, delivery delays, and other issues. Finally, this article proposes some practical methods, such as establishing a stable supplier system, developing flexible procurement strategies, and strengthening risk management, to address the challenges faced by strategic procurement and supply management. At the same time, this article also explores the development trends of future strategic procurement and supply management, such as supply chain collaboration and digital procurement. In short, strategic procurement and supply management are one of the key factors for the success of enterprises. By optimizing procurement strategies and strengthening supplier management, enterprises can reduce costs, improve product quality, enhance market competitiveness, and achieve sustainable development.

## **1. Part A: SPSM Review**

### **1.1 Role of Purchasing in Value Chain**

Purchasing plays a critical part in the value chain by ensuring that products and services are priced correctly, in the required quantity, and with the ideal standard. The value chain is a collection of tasks companies complete before delivering a good or service to customers in the market (Dubey et al.,

2020). Distributing the finished good or service to the client is the last step in the value chain, which begins with acquiring raw materials. Purchasing is vital in the value chain because it is responsible for obtaining the materials, parts, and other inputs needed for production. In the value chain, purchasing is responsible for managing supplier relationships. Schiele (2018) urges that choosing suppliers, identifying them, and negotiating contracts are all necessary steps guaranteed by effective purchasing. Purchasing may ensure that the relevant products and services are bought at a reasonable price and that the suppliers adhere to the standards for quality and delivery. Managing inventory levels is another crucial function of purchasing in the value chain. Monitoring stock levels entails figuring out how much inventory is required to support production and logistics and ensuring inventory levels are kept at ideal levels (Singha and Verma, 2017). Purchasing can ensure that production is not hampered by stockouts or an abundance of inventory. Along the value chain, purchasing plays a part in cost management. Purchasing can assist in lowering the total cost of manufacturing by negotiating advantageous rates and terms with suppliers[1-2].

Additionally, purchasing can aid in locating potential cost-saving measures, such as finding substitute suppliers or securing better payment terms. It is the primary role of purchasing to cater to support activities like organizational infrastructure, technological innovation and management, and human resource management. Also, purchasing supports primary administrative activities like logistics, marketing, and sales and services in the value chain, see Figure 1. It is possible to ensure that production works smoothly and that goods are supplied to clients on time and at a competitive price by managing supplier relationships, inventory levels, and expenses effectively through purchasing.

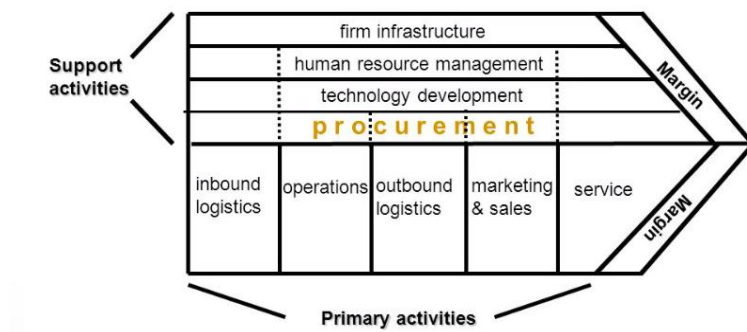


Figure 1: The role of purchasing in the value chain (Pitts, 2016)

## 1.2 Relationship between purchasing and supply chain management

Supply chain management and procurement are two core aspects of business operations. According to Lu and Swaminatan (2015), the entire supply chain management process includes product creation, acquisition, planning and forecasting, manufacturing, distribution, fulfillment, and after-sales support. Procurement refers to the process of obtaining products or services in the supply chain, which involves supplier selection, negotiation, contract signing, and subsequent cooperative relationship management. The goal of procurement is to obtain the highest quality products or services at the lowest cost, while establishing long-term, stable, and mutually beneficial cooperative relationships with suppliers. Through effective supply chain management and procurement, enterprises can optimize business processes, reduce costs, improve efficiency, and thereby enhance market competitiveness. With the acceleration of globalization and the rapid development of technology, the position of supply chain and procurement management in enterprises is becoming increasingly important. Therefore, in-depth research and practice on supply chain management and procurement are crucial for the successful operation of enterprises.

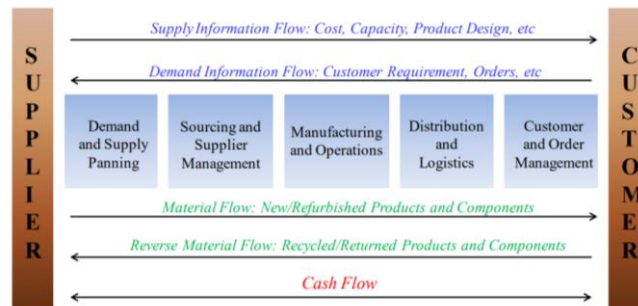


Figure 2: Supply Chain Process (Lu and Swaminathan, 2015)

Practical supply chain management includes managing essential supply chain components, including inventory management, demand projections, sourcing and supplier management, customer service and purchasing, distribution, and logistics, among others; see Figure 2. Purchasing refers to the business process of purchasing goods or services from outside providers. To guarantee a firm's supply of the essential products and services offered by other organizations, i.e., suppliers, purchasing is the role within a firm charged with professional oversight of a firm's relationship with the supply market. It involves strategically selecting and negotiating with external suppliers who offer the raw materials, services, and products needed by the organization, molding a responsive supplier platform, monitoring supplier performance, and negotiating and sustaining long-term contracts. Schiele (2018) notes that industrial businesses spend over fifty percent of their revenue on supplies. Thus, the purchasing operation has evolved into a crucial component of modern business success. To efficiently manage inbound supply costs, purchase and supply management uses several methodologies, including total proprietorship cost, supplier cost system review, and cost targeting (Johnson et al., 2021). The PSM operation is crucial in preserving the entire supply chain's effectiveness and efficiency since it ensures that the right products are acquired at the proper rate, standards, and time. Supply chain management and purchasing work together to help firms streamline processes, cut costs, and boost customer satisfaction. Schiele (2018) suggests that business organizations can effectively control the flow of products and services to maintain appropriate inventory levels, decrease stockouts, and accelerate delivery times using the two essential functions. Companies may enhance pricing, quality, and innovation by building strong connections with their suppliers through purchasing and supply chain management.

### 1.3 Challenges of purchasing and supply management

Organizations must overcome several purchasing and supply chain management challenges to perform at their best. These challenges range from supplier relationship management and cost management to sustainability. Establishing supplier relationships may be challenging, mainly when working with numerous suppliers across different locations. Strategic partnerships, marketing plans, and efficient business operations depend heavily on supplier connections. These components enable businesses to integrate with their critical suppliers to streamline order administration, inventory management, strategic sourcing, operational excellence, and other business processes (Teller et al., 2016). However, while collaborating with suppliers from various countries, managing suppliers can be difficult due to problems including language hurdles, cultural differences, and different legal and regulatory frameworks. As a result, delivering technical and accurate business information, cultural misunderstanding, and clarity on formal elements used in product packaging, labeling, and safety across countries can take time and effort. Also, risk and cost management issues are associated with

purchasing and supply management. Balancing price and quality is a significant difficulty in supply chain management and purchasing. Cost management entails gathering, analyzing, assessing, and reporting cost figures for budgeting (Hansen et al., 2022). Strategic planning, skillful negotiating, constant monitoring, and optimization are all necessary for efficient cost control in purchasing and supply chain management. Seuring (2010) suggests that organizations may increase their profitability, spend more on new product innovation and creation, and give their customers better value by cutting costs in the supply chain[3-4].

Purchasing and supply chain management also involve risks, such as supply chain interruptions, quality problems, and compliance hazards. Finally, sustainability is becoming crucial in supply chain management and purchasing decisions as many customers and consumers demand more sustainable products and services. However, due to the complexity of many supply networks and the involvement of numerous suppliers, ensuring that sustainable practices are being used throughout the whole supply chain can be challenging, making sustainability an issue in purchasing and supply chain management (D'Eusanio et al., 2019). Furthermore, sustainable goods and services might be costly since they may demand more infrastructure investment, which could reduce their marketability.

## 2. Part B: SPSM Critical Analysis

### 2.1 Purchasing Strategy

A purchasing strategy is the company's plan of operation for obtaining products and services from outside suppliers. The method entails selecting the most suitable suppliers, bargaining over costs and agreement terms, and maintaining connections with suppliers to guarantee prompt deliveries of high-quality goods. A sound purchasing strategy should consider several variables, including the company's budget, supply chain requirements, the desired product or service quality, and the dependability of the suppliers (Egyetem, 2021). Following the Brexit decision, the purchasing segments of the supply chain were most volatile concerning Unilever. Unilever stock prices significantly dropped in 2016 following the Brexit vote. See Figure 3. Unilever's choice to raise its supply and stock price of essential supplies and processed products is how the company responded to Brexit. Gemba (2016) notes that due to Brexit, Unilever pressed for a 10% price rise on well-known brands like Marmite and Pot Noodle to make up for the increased price of imported goods and ingredients.



Figure 3: Unilever stock prices (ProThinker, 2018)

The corporation invested in alternate supply lines and sources outside the European Union in response to Brexit. Unilever sought to lessen its dependence on EU-based sellers and reduce the possible effects of Brexit on its business by expanding its supply base (Niv, 2017). Nevertheless, Unilever has made an effort to reduce risk in its supply chain by collaborating with distributors to

ensure adherence to any new laws or standards that may be established due to Brexit. For instance, the business has been making efforts to make sure that its suppliers can adhere to new regulations on border inspections and customs regulations.

### **2.1.1 Unilever Purchasing Strategy**

Unilever is one of the major players whose businesses have been impacted by Brexit shifts. Unilever has been devoted to sustainability and ethical sourcing since its founding in 1929. The company has set lofty objectives for lowering its ecological footprint and enhancing the lives of those in its supply network. The "Partner to Win" concept underpins Unilever's purchasing strategy, which entails working closely with suppliers to promote innovation and raise the economic value of the supply chain. According to Egyetem (2021), the health and happiness of Unilever's clients, staff members, and the environment are directly related to its performance. The firm holds that effective collaborations with suppliers are crucial to attaining its goals and generating long-term value for all stakeholders. Unilever has created some objectives that direct its operations and decision-making to fulfil its mission: to meet basic needs for nutrition, hygiene, and self-care with products that allow individuals to look good, feel good, and get more out of life (Unilever, 2023). One of the objectives of Unilever's purchasing strategy is to ensure its products meet the most stringent quality and safety criteria while promoting supply chain innovation and competition. Hafez and Sara (2015, p.732) note that the purchasing strategy aims to strengthen connections to suppliers based on trust and respect and enhance the sustainability and efficiency of its operations. The goals and mission of Unilever are tightly tied to its purchasing strategy. With a strong emphasis on sustainability, the company interacts actively with its purchasing partners to guarantee that they uphold its high ethical and social standards. The company's general objectives of enhancing sustainability and encouraging ethical business practices are all supported by Unilever's activities in supplier diversity, technological advances, and sustainable procurement.

### **2.1.2 Potential Sourcing Risks**

Unilever regards sourcing as an essential activity supporting its corporate goals and the stability of its supply chain. By concentrating on suppliers' key competencies, and aspirations and ensuring that they correspond with the demands of the business, Jermisittiparsert and Rungsrissawat (2019) highlight that strategic sourcing aid in the development of cooperative and mutually beneficial partnerships with suppliers. A wide variety of raw materials and components are sourced by Unilever, including chemicals, packaging materials, and agricultural products. However, there are also risks associated with sourcing that could impact Unilever's business. Key sourcing concerns for Unilever include the following:

### **2.2 Disruptions in the supply chain:**

Unilever's supply chain is intricate and includes vendors spread out around the globe. Essential raw materials and products may be delayed or in short supply due to any supply chain disruptions, including natural disasters, political unrest, or transportation issues. For instance, due to Brexit, Unilever's supply chain experienced a lot of volatility (Niv, 2017). The financial viability of products was immediately impacted by a sudden increase in input costs for raw materials from suppliers, and Unilever responded by temporarily raising prices.

### **2.3 Cost inflation**

In a highly competitive market, Unilever competes with businesses like Colgate-Palmolive, Johnson & Johnson, and Nestle. The high competition may lead to increased raw materials or components prices, thus affecting its sourcing strategy and profitability. External factors like currency



fluctuations, trade tariffs, or shifts in the world's supply and demand might worsen the cost inflation risk. For instance, Cheng (2021) notes that the uncertain situation of Brexit and the outbreak of COVID-19 subjected Unilever to different restrictions and trading policies caused by shifts in supply chains and a decline in the global economy.

Unilever has utilized several risk management strategies in its supply chain. The company has built a thorough supplier risk management program that involves supplier selection, assessment, and continuing supervision to reduce these sourcing risks (Kleindorfer and Yucesan, 2009). Also, the company has established initiatives to support ethical and sustainable sourcing methods. It collaborates extensively with its suppliers to guarantee that they uphold its sustainability and ethical sourcing standards[5-6].

### **2.3.1 Purchasing strategies of Unilever competitors**

#### **2.3.1.1 Procter & Gamble (P&G)**

P&G battles with Unilever in many commercial segments. Also, the purchasing strategy of P&G emphasizes sustainability and ethical sourcing. Like any other industry in The United Kingdom, the purchasing strategy of P&G was affected by Brexit as the company focused on sourcing for materials from local suppliers and non –EU countries. However, Brunsman (2019) points out that some NGOs have accused P&G of not doing enough to combat deforestation and human rights violations, forced labor, and human trafficking in its supply chain.

#### **2.3.1.2 Nestle**

Another international producer of food and drinks that compares with Unilever in various sectors is Nestle. The company has set a target to reduce carbon gas footprints in the coming four decades and has a purchasing strategy emphasizing sustainability and ethical sourcing. However, the decision by the United Kingdom to leave the EU has made it more expensive for Nestle to source supplies and materials from EU member states. The company have revised their purchasing strategies due to increased expenses linked to Brexit and weakened pound. Unfortunately, Nestle has also come under fire for not taking sufficient action to stop child labor and other human rights violations in its cocoa production process.

## **2.4 Global Sourcing**

Supply management and businesses engaged in worldwide trade are placing more emphasis on global sourcing. It can provide businesses with less regulation, low-cost trained labor, and affordable logistics in emerging economies. Using corporate-wide standards and benchmarking, a central buying organization seeks economies of scale as part of a global sourcing strategy for multinational corporations. According to Jiang et al. (2009), global sourcing entails strategically integrating and coordinating related products, materials, workflows, designs, technologies, and suppliers across international procurement, engineering, and operational locations. It is the process of looking for products, services, or essential resources from suppliers in many nations worldwide. The global strategic sourcing process should be critical and evaluated to ensure ethical and sustainable sourcing. The figure 4 below briefly explains the sourcing process.

Brexit has made it more difficult for international sourcing, especially for UK-based businesses like Unilever (Cumming and Zahra, 2016). Brexit-related foreign exchange rate fluctuations have presented Unilever with difficulties. For instance, the cost of importing raw materials and completed goods increased for Unilever due to the weakened value of the pound after the Brexit vote. Regulatory changes brought on by Brexit have impacted global sourcing. For instance, the General Data Protection Regulation (GDPR) of the EU is no longer in effect in the UK, which may influence how Unilever sources and uses data from EU countries (Kuner et al., 2016). Brexit has complicated

Unilever's worldwide sourcing strategy, especially in exchange rate volatility, supply chain disruptions, and legislative changes. For the company to continue sourcing products and services successfully and efficiently, Unilever had to modify its international sourcing strategy effectively, mostly from European Union nations.

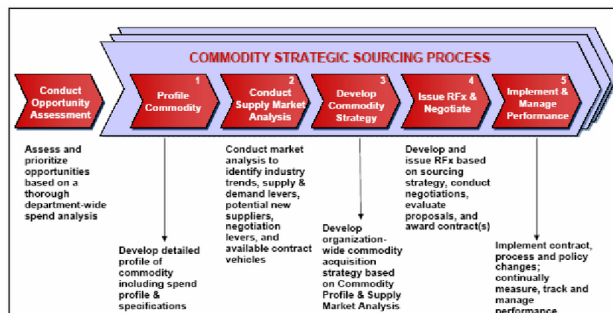


Figure 4: Strategic Sourcing Process (Rendon, 2005)

### 2.4.1 Outsourcing

A corporation may outsource some of its business operations to cut costs, increase operational effectiveness, and concentrate on its core capabilities. Ishizaka et al. (2019) define outsourcing as contracting out a company process or function to a third-party source rather than managing it internally. However, Smith and Krivacek (2019) highlight that Brexit has greatly affected global outsourcing, mostly in industries that relied much on business relations between the UK and EU. Outsourcing may take several forms, like business process outsourcing, manufacturing, knowledge process, and facilities outsourcing.

### 2.4.2 Offshoring

Offshoring, in contrast to outsourcing, is essentially a geographical activity. In offshoring, a company process or function is moved from one state to another, usually to one with cheaper labour rates or additional financial advantages. Ashizaka et al. (2019) also define offshoring as the strategic process of moving a commercial operation, such as production, or an auxiliary function, such as accountancy, from one nation to another. Companies can benefit from offshoring by accessing specialized skills and enterprise, reduced labour expenses, increased business flexibility, and time zone advantages. However, offshoring may involve critical issues like cultural and language barriers, intellectual property control, and political and economic shifts.

### 2.4.3 Unilever Global Sourcing Strategy

With its food, home care, and beauty & personal care offerings, Unilever has become one of the top worldwide consumer brands. P&G is Unilever's main competitor, and the consumer products sector has evolved into one of the most versatile in the world. Unilever has outsourced work to numerous companies and locations worldwide, mostly away from Europe following Brexit (Niv, 2017). The reasons Unilever outsources include globalization, quick technological change, and a need for more knowledge within the company. Around 400 businesses are now under its umbrella thanks to its international dominance. Ninety thousand factories were developed globally, reaching 190 countries through networking with 25 million retailers (Reza, 2020). Unilever's outsourcing strategy embraces several outsourcing types: professional outsourcing, information technology, manufacturing, process-specific and operational outsourcing. For instance, Unilever has contracted Accenture to manage its global HR operations.

Finlaw and Johns (2006) highlight that the business process outsourcing agreement between the two parties enabled Accenture to successfully finalize arrangements to offer Unilever a wide variety of human resources services, from hiring to processing payroll and achievement management, in 100

countries. As part of the company's "One Unilever" effort, the agreement was created to change Unilever's HR operations and services through increased efficiency and effectiveness. Unilever received a range of learning services from Accenture as well. The work's scope included Unilever's continents of Europe, the Americas, Asia, and Africa. The four steps that Unilever uses while outsourcing are prioritizing, selecting, trusting, and monitoring (StudySmarter, n.d). Building trust through open communication between stakeholders is achieved through the trust process. The monitoring stage ensures that assessment procedures are in place for assessing the effectiveness of the outsourced service. Prioritization criteria indicate which functions need to be outsourced. Select process specifies the criteria for choosing a provider and considers how well the two institutions' principles and values align[7-8].

#### 2.4.4 Competitors' engagement in Global Sourcing

After Brexit, Unilever's competitors have actively implemented new strategies and methods to manage their supply chains and purchasing strategies. Establishing strategic alliances with suppliers who can deliver high-quality inputs at scale while promoting their dedication to sustainability and ethical sourcing is one method that Unilever's rivals frequently employ to participate in global sourcing. According to Bee et al. (2014), to secure a sustainable and ethical supply of cocoa for its products, Nestle, for instance, has ties with cocoa suppliers in West Africa, and Procter & Gamble collaborates with palm oil producers in Southeast Asia to advance ethical and sustainable palm oil production. Unilever competitors also engage in global sourcing, but they do so by utilizing digital technology and cutting-edge analytics to streamline their supply chains and increase productivity. For instance, Colgate-Palmolive forecasts product demand and optimizes inventory levels using statistical analysis and machine learning. At the same time, Procter & Gamble employs blockchain technology to increase supply chain transparency and traceability (Wierzbowski, 2018). Companies can benefit significantly from global sourcing with quality, affordability, creativity, adaptability, and risk reduction. However, careful oversight and evaluation of numerous aspects, including cultural distinctions, language challenges, and legal adherence, are also necessary to achieve success.

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