



Global supply chain: The consolidators' role



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ABSTRACT

Challenges and opportunities of the global market lead agro-food small and medium firms (SMEs) to focus their source of value on production of high quality goods and implementation of flexible and robust supply chains. Despite the relevance of consolidators in the supply chain, few articles demonstrate their role in internationalization strategies of SMEs. In order to fill this literature gap, this article shows factors that affect global success of SMEs and offers some advice to decision makers.

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1. Introduction

Agro-food is one of the main industries of the Italian economic system. Many Italian products are famous worldwide and some of them are globally recognized for their quality. This value leads Italian agro-food products (wine, pasta, tomatoes, oil, mozzarella-cheese, etc.) to be exported to many markets in Europe, USA, Russia and Asia. Recently, new markets characterized by high scale of imports, economic growth, level of development and distribution systems are becoming of great interest for the Italian agro-food industry [1]. Specifically, "The Italian Institute for Foreign Trade" [2] has conducted a study aimed to show a list of highly potential markets for Italian agro-food small and medium enterprises (SMEs). Starting from the 149 emerging countries identified by the International Monetary Fund, large markets near Italy have been identified. Among them, markets that according to UNCTAD, WTO and World Bank data present a good level of imports, absorption capacity, duties, quality of doing business, internal distribution system, level of GDP per capita and expected growth in 2020 have been selected. Thus, the analysis has identified United Arab Emirates, Chile, Malaysia, Qatar, Saudi Arabia, Mexico, Morocco, Serbia, Kazakhstan and Angola as the highest potential markets for Italian agro-food products.

Challenges and opportunities of these markets lead all participants of agro-food supply chain to interact to support diffusion of Made in Italy in them [3–6]. Specifically, firms that aim to

realize internationalization strategies have to develop a global supply chain that overcomes single country barriers [7–10]. However, while trans-national companies (TNCs) realize most of the whole process internally, small and medium enterprises (SMEs) have to create and manage a network with colleagues operating in several countries to implement their strategies. Thus, recent economic studies have emphasized the importance of supply chain management as a process of managing and coordinating activities from the extraction of raw materials to its end of useful life encompassing several organizational boundaries and many countries [11–13].

Specifically, in industries dominated by global companies like agro-food, TNCs operating in distribution sectors that provide services to small and medium enterprises (SMEs) such as logistics, distribution and informative services for exporting their products tend to achieve most of the added value [14–17,7]. For example, trans-national companies of coffee buy the raw product from SMEs of developing countries and then proceed to further process and market the product [18]. In doing so, they maintain control over the entire supply chain and achieve most of the added value [19,20]. In many cases the actual additional processing is rather simple such as in the case of coffee or olive oil, but regardless of the level of processing needed, the SME receives the smallest return of the entire channel.

Thus, small and medium-sized enterprises that want to adopt internationalization strategies in high potential markets by taking advantage of added value have to find a way to produce competitive goods and manage logistics and distribution activities by exploiting potential available space left unattended by the TNCs.

Consequently, agro-food small and medium enterprises have to produce high quality goods not subject to the effects of scale

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and interact with intermediaries able to provide a complex set of distribution and logistics services for exporting their products abroad [21–24]. Consolidators have to specialize in commercial brokerage, marketing and logistics with a good knowledge of both the point of origination as well as the ultimate market [25]. They have to interact with both producers of home countries and distributors of hosting countries buying products from the former and selling to the latter. Finally, policy-makers have to support both the SMEs' international promotion of their products and the consolidators' activity of global distribution for reinforcing the "Made in Italy" to the world [26].

Despite the relevance of this topic to both the SMEs and Italy's GNP, few studies have focused on it. To fill this literature gap, the article aims to both describe consolidators' role in SMEs' global supply chain and advise decision-makers on how to support "Made in Italy" to the world [27,28]. Thus, the next section provides an analytical investigation of the role of SMEs, consolidators and policy-makers for internationalization of Italian agro-food SMEs in high potential markets. The last section presents some conclusions and discussion.

2. Methodology

Our empirical research is based on case studies of small and medium Italian producers of agro-food goods operating both in Italy and abroad. Data collection for these cases came from face to face interviews. In most instances, the interview was conducted with multiple managers from the host organization. All respondents were the main person in charge of strategy, generally being the founder or one of the directors. The average interview lasted over four hours with the shortest interview lasting a little over an hour and the longest taking over ten hours. All interviews were conducted face-to-face and promised confidentiality to facilitate candid responses. During each interview, a semi-structured interview guide was used. The guide was divided into questions on:

1. SMEs' internationalization strategies
2. Consolidators role in global supply chain
3. Policy-makers' actions.

The interviews and observations were transcribed and summarized, and the results were fed back to the respondents for validation and verification. Then these reports were coded according to the literature review summarized in the previous section. To address inter-coder reliability, each of the authors read the transcriptions separately so as to develop an independent point of view, and then a comparison among the authors was conducted. When evaluations by the authors were conflicting, a discussion among the discordant authors was conducted until a final agreement was reached.

3. SMEs' internationalization strategies

The analyzed companies reported that they export 60% of their production on average (quantity). Most companies had started their internationalization processes two decades before had their product going to the international market. This shows that the internationalization process is actually an established strategy of agro food SMEs. Reasons that have pushed companies to start an internationalization process are the need to find new markets for increasing profits, the need to defend the domestic market from foreign competitors and the possibility of taking advantage of Government incentives.

Most of the SMEs decided to go abroad exporting their products through commercial intermediaries. Many of them already operating are Switzerland (geographically close), several EU countries

(Germany, United Kingdom, Belgium, Netherlands), other northern Europe and Eastern Europe (Czech Republic, EU, non-EU, as both the Russia), and also some important other continents (USA, Canada, Japan, Australia, Republic of South Africa). More than half of the companies in the sample had planned to enter in new potential markets: United Arab Emirates, Chile, Malaysia, Qatar, Saudi Arabia, Mexico, Morocco, Serbia, Kazakhstan and Angola. These countries offer SMEs the opportunity to increase profits, exploit economies of scale, grow corporate size and obtain new and significant market share.

In planning to internationalize in these countries, most of SMEs identified the quality of their products as a success factor, which accompanies the importance of Made in Italy. The logistics and distribution service were identified as a second factor of great relevance. Companies providing these services can reduce internationalization obstacles due to difficulty in controlling prices, high distribution costs, lack of information about the target markets risk of unfair competition, difficulty of dealing with a cultural diversity and local barriers (tariff, currency, techniques, etc.).

However, of the companies that were analyzed, a large number were unable to operate in high potential markets because of the lack of availability of service providers for complex services such as logistics and distribution.

4. Consolidators' role in global supply chain

Consolidators are agents, export companies, consortium or brokers that provides a complex set of services to agro-food SMEs. These services are carried out by receiving orders from big foreign buyers, identifying local suppliers, consolidation, collection of many goods to be sent to the same market and placing of products on the market. The consolidator must, therefore, know the all issues related to both the origination and destination markets, have the trust of foreign buyers in order to ensure stable relations and have many contacts with local SMEs to ask for supplies of goods.

In order to enter foreign markets, the consolidators have to know the laws, regulations, rules and the culture of destination countries. Generally, major foreign buyers do not want to interact with a lot of SMEs, but are interested in a long-term relationship with a broker who is able to bring together many orders from a cross section of SMEs, guarantee the quality of required goods and take care of providing all documentation able to certify the quality of goods according to market standards. The compliance with the agreements in time creates a positive relationship with broker and consolidator thus increasing the probability that a buyer will contact the consolidator when they need additional goods. For example if a broker has provided an example of pasta to a foreign buyer, that buyer may ask for other products from the same broker such as salami. Therefore, in order to protect relations with large buyers, consolidators have to guarantee quality of products, support risk of transportation and replace goods that do not arrive intact at the destination.

Consolidators operate through web pages where buyers and sellers have to be registered. Once collected the orders through the web consolidators send the request to all SMEs registered as suppliers of food goods. Consolidators can use on-line procedures launching a purchase proposal to all the producers signed on their web page or use a direct call to local producers negotiating directly for the price and quantity of the goods.

Once consolidators have purchased the goods, they take care to ensure that products reflect the standards demanded by the buyers' markets by unifying the shipments in the same market, completing all the procedures and paying all fees for entry into the foreign market. The consolidated products are sent to one buyer or to several buyers in the same market. Goods collected from various producers are grouped in containers to be sent by air, sea or road to the destination market (Fig. 1).

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