MERCER FOODS: A CASE STUDY

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By
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CERTIFICATION OF APPROVAL

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DEDICATION

I would like to dedicate this paper to my wonderful wife, Jessica, because when I am with her I feel like I can achieve anything I set my mind to. I would also like to thank my parents, Ed and Gloria, because without them I would not be here, and they have provided me with all the necessary tools and support to be successful in life.

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ABSTRACT

The focus of the case study is a critique of the current procurement strategy with recommendations for improvement to align with Mercer Foods' marketing plan. Mercer Foods is an industry-leading, freeze-dried food manufacturer located in the Central Valley of California. A critical dimension of the procurement strategy is negotiation with Latin American suppliers regarding price, quality, and quantity and how they affect Mercer Foods' ability to service customers. The marketing plan and procurement strategy are evaluated, and alternatives to the current procurement process are explored. It is clear that negotiation strategies and tactics are important components of the procurement strategy. The goal was to understand and recommend negotiation strategic and tactical options available to Mercer Foods, then recommend a negotiation strategy and operational plan that fits with Mercer Foods' procurement strategy and also aligns with the overall company strategy.

CHAPTER I

INTRODUCTION

Mercer Foods is a privately-owned, freeze-dried fruit and vegetable processor, which has benefited from a nearly year-round supply of raw materials sourced from North and South America. Managing the year-round supply comes with challenges in managing foreign suppliers and sourcing the correct raw material, in season, at the right price. While the company is strategically positioned in California (close to much of its fruits and vegetables, which it can then quickly process), Mercer Foods also sources raw materials from throughout Central and South America. The company is a top-five supplier of freeze-dried products in the industry, as it commands a strong market share, enjoys beneficial relationships with international producers, and takes advantage of competitive international prices from wholesalers. It is well positioned to increase sales throughout North America due to its well-developed supply chains, which provide a competitive edge against domestic producers and wholesalers. However, the company, in spite of its strengths and opportunities for growth, still suffers from some weaknesses and is not well prepared to meet some threats in the environment. Key issues are, (a) sourcing raw materials at a price point that allows Mercer Foods to produce at the lowest cost, while still providing a premium product at a price point that is attractive to customers in the North American market; and (b) working with the customer to provide the right product, at the right time, and the right price, while establishing sustainable supply chains for all products. What is the current procurement strategy and how does it align with the marketing strategy for Mercer Foods? What is the recommended procurement strategy and how can Mercer Foods utilize a better understanding of negotiation strategy and skills to improve its sourcing strategy from the Latin American market?

To answer these questions, this project is broken down into four main parts. The first part looks into Mercer Foods' marketing plan covering the company's strategic focus and plan, marketing SWOT analysis, market product focus, marketing program, and financial projections. The second part examines the procurement strategy with a focus on sourcing from Latin America and how it aligns with the marketing plan. The third section reviews the problems faced during negotiations, strategies and tactics of negotiation, and cultural difference effects on negotiation. This is followed by a review of alternative solutions to manage sourcing raw materials from Latin America. The fourth section provides a recommendation to align Mercer Foods' procurement strategy with the marketing plan.

The suggestions or findings of this case study include the recommendation that Mercer should continue to pursue its current hybrid marketing channels strategy of utilizing brokers to manage small volume and specialty items and establishing direct marketing channels by creating strong business relationships with the manufacturers of the individual quick-frozen fruits and vegetables. This procurement strategy emphasizes the company's overall raw material supply chain currently centered in North and South America. By sourcing internationally and shipping into the Central Valley of California, Mercer enjoys the ability to take advantage of the international supplier network and have high-quality frozen fruits and vegetables all year at competitive prices. The international supplier network includes the manufacturers of the frozen fruits and vegetables that supply Mercer Foods and inbound raw material logistics management of the product shipping to Mercer Foods. If Mercer Foods works with a broker, logistics management is handled by the broker. Logistics management is Mercer Foods' responsibility when working directly with the manufacturers of the raw material. These international supplier networks act as not only a strength providing price and seasonal availability flexibility, but also a weakness from the threat of external variables like weather damage and crop failures that can affect product availability and pricing of frozen fruits and vegetables globally. Either way, sourcing from South and Latin America provides ample opportunities to help Mercer Foods grow the business of selling freeze-dried fruits and vegetables in the United States. Additional strengths include continued long-standing relationships with some suppliers, while other opportunities include reducing costs, improving forecast accuracy, and reduced reliance upon brokers for foreign markets.

In spite of these strengths and opportunities, weaknesses and threats abound. A language barrier is an issue for Mercer, but can be quite easily overcome through an increase in bilingual Spanish and English-speaking personnel. Crop failures are a common problem, which can have a dramatic impact on supply. They can increase the price for suppliers, which inevitably has to be passed down to the customer of the wholesaler and in turn, the consumer. Additionally, raw material pricing is driven by demand, so different trends in the market can significantly influence sales. This is not only the case for specific fruits, but also freeze-dried products in general.

Overall, Mercer is well positioned for strong revenue and profit performance over the next five years. However, risks are lurking around several precarious corners of uncertainty, which inevitably is the nature of driving business ventures forward into the future. This case study provides recommendations to improve the negotiation strategy and skills of the procurement team when sourcing raw materials from the Latin American market to support Mercer Foods' marketing plan. In the end, the profitability of the firm going forward will depend on the ability of its employees to successfully implement Mercer's strengths, avoid risks from its threats, take advantage of opportunities, and mitigate its weaknesses.

CHAPTER II

FIVE-YEAR MARKETING PLAN

Company Description

Mercer Foods was founded in 1980 by James Mercer, and over the years, has become a leading freeze-dried fruit and vegetable processor located in the Central Valley of California, in the city of Modesto (Mercer Foods, n.d.a). The strategic location allows Mercer to quickly source, produce, and ship freeze-dried products to industrial users, retail stores, and foodservice locations throughout North America. The Modesto facility is a 240,000 square foot facility on a 20-acre campus, housing 32 freeze-drying chambers, along with warehousing for work in process and finished goods (Mercer Foods, n.d.a). This gives the facility the second largest freeze-drying capacity in North America, and it is also the most sustainable freeze drier in the world, hosting five acres of solar power cells in sunny Modesto, California. Two onsite freezers can hold in excess of 4 million lbs. of frozen fruits and vegetables. These in-house freezers are used to maintain an uninterrupted supply of raw materials during production. Mercer Foods manages freezer space at neighboring cold storage facilities where upwards of 10 million additional pounds of raw material can be stored and shipped to the facility as needed for production with no degradation of quality.

Strategic Focus and Plan

Vision and Mission

"Mercer Foods vision is to be the leading and most trusted sustainable North American supplier of quality freeze-dried product that make people's lives better" (Mercer Foods, n.d.b, posted). To achieve that vision the mission is to "Deliver satisfaction to all stakeholders always, through innovation, supply chain/operational excellence, and responsiveness to stakeholder needs" (Mercer Foods, n.d.b, posted).

Goals

For the coming five years, Mercer Foods seeks to achieve the following goals.

Nonfinancial goals.

1. To become an innovation leader and preferred supplier in the freeze-dried food category.
2. To develop a world-class, world-wide procurement system with a focus on developing strong relationships with international suppliers.
3. To grow the Retail/Snacks market segment with major retail chains throughout North America, by targeting retailers like Costco Wholesale Corporation, Safeway, and Save Mart Supermarkets.
4. To increase onsite production capacity by 30% to keep up with consumer demand.
5. To improve service levels through improved planning and inventory availability, targeting On-Time-In-Full (OTIF) of 98%.

Financial goals.

1. To double annual revenue, to a target of $160 million, in five years by maintaining and growing market share in existing categories and gaining new customers in those categories.
2. Reduce purchasing cash revolver by $10 million, from $30 to $20 million by arranging favorable payment terms with vendors and distributing large volume raw material purchases among various growing regions.

Core Competency and Sustainable Competitive Advantage

Mercer Foods identifies three areas as core competencies: new product innovation expertise, speed and flexibility bringing new products to market, and a superior quality product. A dedicated research and development (R&D) team with a lab located onsite helps Mercer Foods lead the way in innovation. The R&D team is led by a freeze-drying engineering expert. The engineer has over 30 years of experience in the industry designing and operating several freeze-drying operations in China. The R&D team develops new product opportunities with customers exploring new markets (e.g., cannabis-based products), improving internal manufacturing processes, and reducing production costs while maintaining product quality.

With 32 freeze-drying chambers in operation and six additional chambers expected to be commissioned by the first quarter of 2020, Mercer Foods has the largest freeze-dry production capacity for fruits and vegetables in North America.

The expansion of the facility was necessary to keep up with demand. Due to capacity constraints, in 2018, Mercer Foods began offering customers a 10-week lead time to meet orders, an increase of six weeks over previous years. The chambers are where the magic of freeze drying occurs. Each chamber is loaded with 3,000 to 5,000 pounds of frozen fruit or vegetables. Once loaded, the chamber door is sealed and a vacuum pump is turned on, creating a vacuum in the chamber lower than the air pressure of the outer space. The product is left in the vacuum chamber for approximately 18-24 hours before the product is ready to be taken out as a now freeze-dried product. Once complete, the product has less than 3% moisture retained, preserving the flavor and 95% of the nutritional value of the frozen fruit or vegetable. Currently, Mercer Foods has the ability to process approximately 90,000 lbs. of raw material a day while the next primary competitors, Chaucer Foods and Van Drunen Farms, have processing capabilities of approximately 60,000 lbs. per day. The capacity expansion will add six additional chambers that will allow Mercer Foods to freeze dry 30% more product daily to keep with up with the 7% average increase in consumer demand per year. The additional capacity allows Mercer Foods to react quickly in response to changes or increases in customer orders, and it provides the flexibility to service multiple customers at the same time, while providing short lead times and the high-quality product that consumers have come to expect.

To provide superior high-quality freeze-dried product, Mercer Foods follows the stringent food safety and quality controls of the Safe Quality Foods (SQF) Level 3

Certification and the Food Safety Modernization Act (FSMA). SQF is an accredited third party and globally accepted food safety certifying body that requires yearly audits of a facility to stay certified. Mercer Foods has maintained SQF Level 3 certification for over 10 years and has recently become FSMA certified, as certification has become a government requirement for all food manufacturers to be compliant with the rules of FSMA. Mercer Foods requires all raw materials suppliers to be third-party certified by the British Retail Consortium (similar standards to SQF) and their supplier farms to be Global Gap certified. Global Gap certifications cover food safety and traceability; workers' health, safety, and welfare; crop management practices; and pest control programs (GlobalG.A.P., 2019). Once the product is in house, the quality is monitored throughout the production process by the full-time quality assurance team and the help of innovative and unique automated technology in many steps of the process. This equipment includes laser optical sorters trained to see color defects and separate them from the good product, metal detectors to remove harmful metal pieces, and temperature and humidity control rooms that maintain the low moisture levels of the fruit.

To translate these core competencies into a sustainable competitive advantage, Mercer Foods works with raw material suppliers to build relationships necessary to provide the quality of product Mercer Foods' customers have come to expect. Quality product aligns with customers' specifications for microbiological testing and organoleptic evaluation (evaluation of taste, color, and odor) and is delivered on time in full. Mercer Foods checks physical requirements for compliance of size, shape, and moisture content. A microbiological test checks product for food safety risk and that it meets the microbiological requirements agreed upon with the customer. The organoleptic evaluation checks for flavor and color. It is the procurement team's responsibility to provide raw materials that, once they have gone through the freeze-dried process, align with the customers' finished good specification.

Situation Analysis

This situation analysis of Mercer Foods marketing plan begins with a SWOT analysis to provide a snapshot of the current environment in which Mercer Foods finds itself. After the SWOT, an evaluation will be performed to understand the details of the industry, competitors, company, and consumers. The objective of the SWOT analysis is to develop a cost effective, efficient, and reliable (in the short run, medium term and long run) procurement strategy that aligns with Mercer Foods' marketing strategy.

SWOT Analysis

Table 1 shows the internal and external factors affecting the market opportunities for Mercer Foods. Mercer Foods' procurement team can utilize the recommendations and conclusions drawn from the marketing plan and SWOT analysis to improve the ability to source raw materials at the right price, quality, and time to meet customers' needs while building strong business relationships with suppliers.

Table 1

SWOT Analysis for Mercer Foods

Internal Factors	**Strengths**	**Weaknesses**
Management	Private equity funding necessary improvement projects for facility. This allows Mercer Foods to take strategic long-range approach because they are not subject to quarterly earnings demands.	Private equity group interferes with management of operations. Graham Partners lack expertise in the freeze-drying operation, but they control the expansion project of the six new chambers.
Offerings	High quality, shelf-stable freeze-dried fruits and vegetables.	Lower cost alternative drying methods like air dried, drum dried or spray dried perform similar to freeze-dried for various customer applications.
Marketing	Product of the USA, four of Mercer Foods' customers require products of the USA. One of the four is Mercer Foods' top retail customer that purchases approximately $5 million of USA-only freeze-dried fruit yearly.	Only selling to domestic markets, missing out on growing foreign economies like China and South America.

Table 1 (continued)

Internal Factors	**Strengths**	**Weaknesses**
Personnel	Core group of tenured supervisors and management knowledgeable of freeze-dried products and production process	High turnover of factory workers and rapid growth, requiring more employees to be hired meaning more inexperienced employees working on the production lines, which negatively effects the flow of production due to mistakes.
Finance	Excellent Growth in Sales Revenues, e.g., 30% average per year over past two years.	Mercer Foods must buy large quantities in one buy and then store them until processed, which requires a large cash outlay effecting cash flow.
Manufacturing	Globally sourced raw materials keep production flowing by providing a year-round supply and keep costs down by sourcing from countries with lower operating and production costs.	Only one manufacturing plant to supply customers increases lead times to ship to East Coast of US and creates a barrier for entry into foreign markets like China or Europe.
Research and Development	A track record of creating new products to keep company current with market trends, e.g., three new products created for the number one customer in last three years.	Difficulty launching products in development due to customers delaying or pausing launch. High cost of freeze-dried fruits and vegetables causes customers to look at alternative dried products available on the market.

Table 1 (continued)

External Factors	Opportunities	Threats
Consumer/Social	Ingredient manufacturers and retail customers want clean label (no artificial ingredients or preservative on the ingredient list), all natural, healthy ingredients	Premium Price may limit access to mass markets; consumer not familiar with freeze-dried brands
Competitive	Clean label, all natural, shelf-stable product. These are factors driving the increased sales in the past two years. Customers are replacing artificial ingredients with natural products.	Not patentable, competitors can produce same product, competitors have cost advantages with freeze-drying operations located in countries with lower operating and production costs. Mercer Foods must be aware of and compete with global freeze-drying prices to stay competitive.
Technological	Exploring other drying methods utilizing same supply chain of raw materials. There are other methods of drying that utilize the same raw material supply chain (e.g., air dried, spray dried, drum dried that) that produce products that can be used as alternatives to freeze-dried products, e.g., spray dried products make fruit powders with similar quality characteristics to freeze-dried fruit powders.	Competitors have adopted other drying techniques to create value and open themselves to new markets.

Table 1 (continued)

External Factors	**Opportunities**	**Threats**
Economic	Consumers paying a premium for natural ingredients, and industrial food manufacturers continue to replace artificial ingredients with natural ingredients.	The cost of freeze-dried snacks and ingredients is significantly higher than buying fresh fruits and vegetables, making it difficult for consumers to switch to freeze-dried fruits and vegetables.
Legal/Regulatory	Product of US is in compliance for domestic market meaning the product meets all the US Food and Drug Administration's requirements for food that is safe for human consumption.	Tariffs on imports from countries where raw materials are sourced

Industry Analysis: Trends in Freeze Dried

According to an A+ rated (Better Business Bureau) global market research and management consulting company, Global Market Insights, the freeze-dried fruit and vegetable market is expected to surpass $60 billion globally by 2025. Some of the key regions in the global market are Asia, North America, Europe, and Latin America. The North American market is the largest, controlling 35% of global sales (BusinessWire, 2018). The demand for prepackaged ready-to-eat foods is expected to increase because freeze-dried, all-natural fruit snacks are a product that most major grocery retail chains carry and they are also looking to expand the selection of freeze-dried fruit and vegetable snack options. The consumers and industrial ingredient manufacturers are becoming aware of the added benefits of the long shelf life and no refrigeration required for freeze-dried products. The three major market segments that are seeing the majority of the growth in the freeze-dried industry are fruit and vegetable retail snacks, industrial ingredients, and products for use in foodservice establishments.

Freeze-dried fruit and vegetable retail snacks. Freeze-dried fruit and vegetable snacks offer all of the nutrients and flavor of fresh fruits and vegetables, creating a convenient and healthy ready-to-eat snack for the health-conscious, on-the-go consumer. Freeze-dried fruit and vegetable snacks benefit from the long shelf life and no refrigeration required, which allows consumers to buy and store healthy, ready-to-eat snacks rather than having to buy fresh fruits and vegetables weekly. According to BusinessWire (2019), there has been a significant growth in the ready-to-eat foods market due to increasingly busy lifestyles of consumers. Ready-to-eat snacks are convenient for the busy schedule of the American consumer.

Freeze-dried industrial ingredients. Freeze-dried food manufacturers provide freeze-dried products that are ingredients for a finished product. This market segment uses the largest volume of freeze-dried product on a per pound yearly basis. Due to changes in consumer preference, food manufacturers are replacing artificial ingredients with natural ingredients. An example of this change can be seen in instant oatmeal. In the past, oatmeal manufacturers used artificially colored and flavored apple pieces for all types of fruit for instant oatmeal. In response to the change, instant oatmeal manufacturers are using real pieces of freeze-dried fruit instead of artificially flavored and colored ingredients. Freeze-dried fruits and vegetables are natural ingredients that work well as a replacement for artificial ingredients due to health benefits and minimal preparation required for use by the consumers.

Freeze dried use in food service. The foodservice industry comprises the making of, transporting, or selling prepared foods to restaurants, hospitals, school, and hotels (Food Service, 2018). Some examples of this would be a major food distributor like Sysco or a restaurant like McDonalds. The switch to all-natural, shelf-stable, ready-to-eat products has not occurred in the foodservice industry like it has in the snack and industrial food manufacturers. This will also likely change as consumers demand healthy options on the menus at restaurants, requiring the replacement of artificial ingredients with all-natural, freeze-dried products in entrees, beverages, and baked goods. Despite the lack of growth in the foodservice sector, Mercer's customer, Starbucks, has been one of the largest users of freeze-dried products with their "Refresher" beverage line. The Starbucks business has contributed to almost 60% of Mercer Foods' sales in the past five years. With the success of Starbucks, Mercer Foods is eager to find another restaurant chain that will utilize freeze-dried products.

Competitor Analysis: The Freeze-Dried Fruit and Vegetable Market

With industry growth comes growth in competition. As the market continues to grow, so do the number of freeze-drying operations opening globally. The exact count of freeze-drying operations is unknown, but as the procurement team has traveled globally sourcing raw materials, they have come across smaller, two- to four-chamber freeze-drying operations that do not sell in the North American market. These smaller operations are unable to compete with Mercer Foods for the large-volume customers like Starbucks and Kellogg's because they lack capacity to meet the customer demand. They have a competitive advantage on pricing for the freeze-dry customers looking for small, one-time purchases. Mercer Foods' overhead costs make it difficult to be competitive on small-volume runs.

Currently there seven major freeze-drying operations in the United States. These are freeze-drying manufacturers with a minimum of 10 freeze-drying chambers that are able to meet production capacity requirements of the largest segment of freeze-dried consumption, industrial ingredients. An example of an industrial ingredient user of freeze-dried product would be a cereal manufacturer such as Kellogg's. Of the seven major freeze-dried manufacturers, three—Oregon Freeze Dried, Mountain House, and Freeze-Dry Foods—focus on ready-to-eat meals for military, various proteins, and dairy products. A fourth freeze drier, Thrive, uses the majority of its freeze-drying capacity to supply its own online sales of freeze-dried products. This leaves only two competitors that are competing for the large industrial food manufacturer's business.

The two direct competitors to Mercer Foods, Van Drunen Farms and Chaucer Freeze-Dried, share a large portion of the freeze-dried fruit and vegetable market.

These two competitors share similar product mix and production capabilities and share a customer base with Mercer Foods. Van Drunen Farms and Chaucer Freeze-Dried are major industrial ingredient manufacturers of freeze-dried products.

Van Drunen Farms. Van Drunen Farms is currently the preferred supplier of one of Mercer Foods' key industrial ingredient customers, Pepsi. They became the preferred supplier after winning a majority share after a RFP (Request for Proposal) in 2018. They were able to edge Mercer Foods out of preferred status by offering a significantly lower price for the product. They share a similar global raw material procurement strategy to Mercer. They source globally to take advantage of the low-cost high-quality fruit available counter seasonally. The key point of difference is vertical integration. They have the ability to farm, process, freeze the fruits and vegetables, and freeze-dry products at their facility in Momence, Illinois.

Chaucer Foods. Chaucer Foods is currently the preferred supplier of one of Mercer Foods' key industrial ingredient customers, Kellogg's. Like Van Drunen, Chaucer has been able to maintain the preferred position through competitive pricing that Mercer Foods has been unable to match. Despite Mercer being the secondary supplier, Kellogg's makes up 20% of Mercer's annual revenue. Chaucer also acts as the secondary supplier for Mercer Foods' top customer, Starbucks. Mercer Foods became the preferred supplier for Starbucks because they developed a network of suppliers in Vietnam capable of meeting the volumes of dragon fruit to meet demand and deliver every order on time and in the full quantity ordered. They also share a similar global raw material procurement strategy to Mercer. Chaucer sources from many of the same regions globally, taking advantage of counter-seasonal products and reducing inventory holdings by purchasing the same product from different regions and seasons. Chaucer's key point of difference is multiple production facilities around the globe, giving them the largest total freeze-drying capacity in the world. The multiple production facilities allow Chaucer to take advantage of lower transportation costs due to shorter shipping distances and shorter lead times because the production facilities are located close to the suppliers of raw material.

Company Analysis

James Mercer founded Mercer Foods in 1980. The company's product lines and target markets are industrial ingredient sales (strawberry slices in cereal), ready-to-eat retail snack items (freeze-dried apple slices snack pouches), and the foodservice industry (e.g., major coffee chain sells a beverage that uses a slice of freeze-dried fruit). In 2017, the company was sold to Graham Partners, and the owners, who also acted as the management team, retired. Graham Partners is a private equity group, headquartered in Philadelphia, Pennsylvania. The new leadership at Mercer Foods, led by CEO Dave Schanzer, has over 100 years combined experience in the food manufacturing industry. This leadership group includes experts in food science, global supply chain, and lean manufacturing principles. This experienced executive management team is able to utilize their combined knowledge and experience to improve Mercer's operations.

The expertise does not stop with the leadership team at Mercer. Graham Partners focuses on investing in middle market manufacturing businesses with the goal to improve and grow the business. As of January 2019, Graham Partners (2019) had 14 manufacturing facilities in their portfolio. Since their inception in 1988, they have raised approximately $3 billion in capital. Graham Partners employs experts in sales, customer service, supply chain, production, technical, and operations that act as consultants to the onsite management team. Graham Partners also provides an influx of capital to fund the current six freeze-drying-chamber expansion project and all necessary onsite improvements to ensure Mercer Foods is able to produce a high-quality product and keep up with growing customer demand.

Customer Analysis

This section contains a description of the change in customer characteristics driving the increase in demand in the freeze-dried fruits and vegetables.

Customer characteristics. According to a freeze-dried industry analysis from a Berkshire Hathaway company, Businesswire.com:

> The increasing cases of obesity and related diseases are making consumers more health-conscious, and they are demanding natural, low-fat, and low-calorie food and beverage products. Players in the market are introducing freeze-dried foods with less fat and calories to cater to the changing demands of the consumers. The trend of leading a healthy lifestyle is gaining popularity among consumers, particularly young consumers aged 18-32 years. The

> number of consumers undertaking fitness activities is increasing globally. Consumers are ready to pay a premium price for products offering various functional benefits. The increasing demand for healthy food and beverage products will aid the growth of the global freeze-dried foods market during the forecast period," says a senior analyst at Technavio for research on food. (BusinessWire, 2019, para. 8)

Market-Product Focus

This section contains a description of the five-year marketing and product objectives for Mercer Foods and the target markets, points of difference, and product positioning for freeze-dried fruits and vegetables.

Marketing and Product Objectives

Mercer Foods' marketing objective is to focus on top-line growth by continuing to grow sales in the existing retail, foodservice, and industrial ingredients market segments.

Retail. The retail segment focuses on prepackaged freeze-dried fruit and vegetable snacks with the goal of distributing to all major grocery retail stores in North America. The plan is to continue to grow into this market by adding additional retailers that are not currently serviced by Mercer Foods. There is opportunity to increase the number of stores serviced for current retail customers. Market growth is expected to continue as consumer characteristics continue to drive change.

The marketing channel structure is a direct sale to the retailer who sells direct to consumers. Mercer Foods ships finished goods to a central distribution warehouse of the retailer's choosing. The retailer manages the distribution of product to individual retail stores.

Industrial ingredients. The industrial ingredient segment focuses on freeze-dried fruits and vegetables sold as ingredients to other food manufacturers that use freeze-dried products as ingredients to make a new finished product, e.g., freeze-dried strawberry slices in cereal. The market segment has seen growth from the same demand that drives the retail growth. Mercer Foods currently works with several major food manufacturers, such as Pepsi and Kellogg's, but the volume of production is currently shared with competitors, Van Drunen and Chaucer. The goal is to gain a majority share of production for all major food manufacturers. Industrial users move large volumes of product at a low margin, but are beneficial in keeping a positive cash flow to fund large raw material purchases. The marketing channel of distribution for industrial ingredients is an indirect channel. Two of the major industrial customers, Pepsi and Kellogg's, are supplied indirectly via brokers. The brokers represent sales and research and development for both companies. Mercer Foods works closely with the brokers to manage orders and deliveries, as well as development of new products.

Food service. The foodservice segment focuses on developing freeze-dried fruits and vegetable products that restaurants, hotels, or other hospitality establishments can use as ingredients in a recipe, or as a stand-alone snack item for their patrons. The foodservice segment is driven by Mercer Foods' number one customer, Starbucks, and according to feedback from Starbucks, they will promote cold beverages for years to come. This bodes well for Mercer Foods, as the three products they currently supply Starbucks are ingredients in cold beverages. The success of Starbucks' business is driving the push to expand into other major foodservice retailers like Subway and McDonalds. The marketing channel of distribution for Starbucks is an indirect channel. Mercer Foods ships orders directly to a central warehouse distribution center. In 2019, Mercer Foods hired a sales representative for the purpose of managing only the Starbucks account along with the goal of developing new customers in the foodservice segment to help reduce the dependence on sales from Starbucks.

Target Markets

The target market for Mercer Foods in the retail segment are health-conscious, active individuals who are concerned with the foods they and their families consume. The target market for the industrial ingredients segment are food manufacturers looking to replace artificial ingredients with a natural ingredient. The foodservice segment target market will vary depending on the needs of the customer. The R&D department will work closely with the foodservice customers to develop a product that meets their needs.

Points of Difference

The "points of difference" characteristics that make Mercer Foods unique relative to competitors fall into three important areas.

Long lasting and no refrigeration. Other forms of food preservation like air-dried, canned, or frozen do not offer the unique characteristics of freeze-dried. Freeze-dried is the only method of preservation that creates a long-lasting, shelf-stable product that requires no refrigeration and loses none of the original nutritional value of fresh.

Full time, onsite R&D team. Mercer Foods offers a full-time R&D team with lab to help clients develop the ideal product for their customers. Customers are always looking for new products to bring to market. The R&D department allows the sales team to create an effective marketing strategy focused around releasing new products or improving upon existing products in each market segment.

North American leader in freeze-drying capacity. Mercer Foods has more freeze-drying capacity than any other freeze-drier of fruits and vegetables located in North America. With the 32 operational freeze-drying chambers, Mercer Foods is capable of producing approximately 4 million lbs. of freeze-dried fruits and vegetables annually. This allows for large-volume production runs to be produced faster and more efficiently than the competition in North America.

Positioning

Mercer Foods positions itself as an industrial food manufacturer capable of producing bulk ingredients for other food manufacturers, retail snacks for grocery stores, and custom products for the foodservice segment. With the high-volume freeze-drying capacity, Mercer Foods is able to focus on the low-cost, high-volume market required to be competitive with the industrial ingredient manufacturers. Mercer Foods' target for the retail segments is to provide a high-quality premium product that stands out among the competing freeze-dry food manufacturers. In the foodservice segment, Mercer Foods' goal is to be an innovator working with new and current customers to develop new products to replace or add to offerings at foodservice establishments. With each segment, Mercer Foods' goal is to provide great customer service by responding to all customer inquiries within 24 hours and flexibility to changes in customer demand by offering no greater than a four-week lead time for all contracted orders.

Marketing Program

Mercer Foods services three market segments: industrial ingredients, foodservice, and retail. Industrial ingredients are freeze-dried fruits and vegetables sold to major consumer goods manufacturers for use in the commercial production of value-added food products. The foodservice market is freeze-dried fruits and vegetables sold as ready-to-eat products direct to wholesalers or distribution centers to sell or distribute to restaurants, hotels, or institutional food services (e.g., schools or nursing homes). The retail market is focused on ready-to-eat freeze-dried fruit and vegetable snacks direct to retail grocery stores.

To meet these market segment needs, Mercer Foods continues to develop long-term relationships with farmer and processors from the around the world. With consumers demanding more “clean label” (ingredients without additives or preservatives) options, freeze-dried fruits and vegetables make a healthy ingredient or stand-alone snack. Because the freeze-drying industry is short on capacity overall, Mercer Foods is in a good position to increase margins with existing accounts; enhance margins with new accounts; and focus on larger, strategic accounts. The increased margins are due to the limited supply and high demand for product throughout the freeze-dry industry. Thus, Mercer Foods can increase margins incrementally and still satisfy each customer’s requirements for price, quality, and delivery. The high demand and limited capacity allow Mercer Foods to take advantage of cutting low-margin customers and invest the saved time and money in higher-margin products and new customers.

Product Strategy

The product sourced should satisfy the customer and reflect the needs of the customer. With the exception of a few large industrial ingredients and foodservice customers that have dedicated in-house R&D departments, the customer approaches Mercer Foods to supply freeze-dried ingredients to an existing product they want to improve or a new product they are designing. Mercer Foods’ R&D team approve the source of raw material and develop a finished product specification to meet the customers' requirements. During this development process, a raw material specification is developed for the procurement team to use for sourcing the correct raw materials for the customer. Factors that may affect customer decision are use of processing aids during freezing (i.e., citric or ascorbic acid to prevent oxidation), organic or conventional, varieties, color, and flavor. These variables in product specification can increase or decrease the availability of suppliers for source. This is due to some suppliers not having the capabilities to include certain processing steps like adding citric or ascorbic acid. Organic frozen fruits and vegetables are desirable to health-concerned customers, but due to scarcity of supply and lower crop yields, the cost of freeze-drying organic fruits and vegetables may affect the customers' decision to purchase organic products. Conventional fruits and vegetables offer most of the same nutritional benefits of organic products but at a price point that is up to 40% lower than organic.

Price Strategy

A raw material price must be provided to the accounting department to determine a finished good price for the sales team to quote the customer. Several factors play a role when pricing the raw material for the customer. If the fruit or vegetable is not a common, industrially produced item and it has to be custom produced for Mercer, the cost of the raw material increases. Another factor that increases raw material cost is if the customer requires organic fruits and vegetables.

Organic fruits and vegetables are typically priced 20% to 40% higher than conventionally grown fruits and vegetables due to limited availability and high demand. Also, if the product is not being purchased in season and or the variety of fruit is not common, raw material costs may increase. These increased costs may be passed on to Mercer Foods' customer. It is in the procurement team's best interest to provide the sales team and customer with complete information regarding pricing. This information includes seasonality, scarcity of product, or alternative raw materials that are cheaper to produce but perform the same for the customer. The goal is to steer all customers toward a commonly produced product, which is available from multiple growing regions. There are benefits for both Mercer and the customer. Mercer Foods is ensured a low-cost consistent supply, and in return, the customer receives a consistent year-round supply of the product and quantities they need. If a customer selects a difficult to source raw material, it is the procurement team's responsibility to share with the sales department and the customer the risks involved. These risks may include lack of supply and high raw material cost.

Location of Processing Benefit to Marketing

Location of processing is a strength for Mercer Foods because the company is located in the United States and benefits from "Made in the U.S.A." branding. Mercer Foods freeze dries, processes, and packs all products in the United States. Several of Mercer Foods' competitors are Chinese-based freeze-dried food manufactures that pack and ship from China. "Made in the U.S.A." is identified as a sign of quality by the American consumer compared with Chinese-produced products known for producing imitation American brands and using harmful chemicals in products labeled safe for human consumption.

Physical Environment

The physical environment of Mercer Foods is held to high food safety and quality standards. Mercer Foods is currently SQF Level 3 certified (Safe Quality Foods, 2019). SQF is a third-party, industry accepted, certifying body that performs yearly audits of food manufacturing facilities. The sales team promotes this certification with customers. The SQF certification states that Mercer Foods is following all food safety rules and regulations and the product produced is safe for human consumption. The same high standards that Mercer Foods holds itself to, the procurement team must hold the suppliers to as well. The procurement team vets all potential suppliers to ensure they meet Mercer Foods and Mercer Foods' customers' food safety and quality standards. These food safety standards focus on safe food handling practices and monitoring for defects, proper facility maintenance, and proper equipment cleaning schedules. If one of the requirements for food safety is not met, the supplier cannot be approved for use. The food safety standards must also meet customers' standards because the customer may choose to visit the supplier from which Mercer Foods sources. It is the procurement team's responsibility to source from qualified reputable suppliers that exceed the customers' expectations.

Financial and Data Projections

Past Sales Revenues

Historically, Mercer Foods had seen a yearly increase in sales of 7-10% year over year since moving to the Modesto, California location in 1999. In 2018, Mercer Foods experienced a nearly 30% increase in sales over 2017, largely due to the launch of new beverages utilizing Mercer Foods ingredients from its number one customer, Starbucks.

Five-Year Projection

The five-year projection can be seen in Figure 1. With increased capacity capabilities, Mercer Foods is targeting a 10% sales revenue increase year over year for the next five years. Achieving $160 million revenue is probable, assuming Mercer maintains and grows share in existing product categories and gains new customers in existing categories.

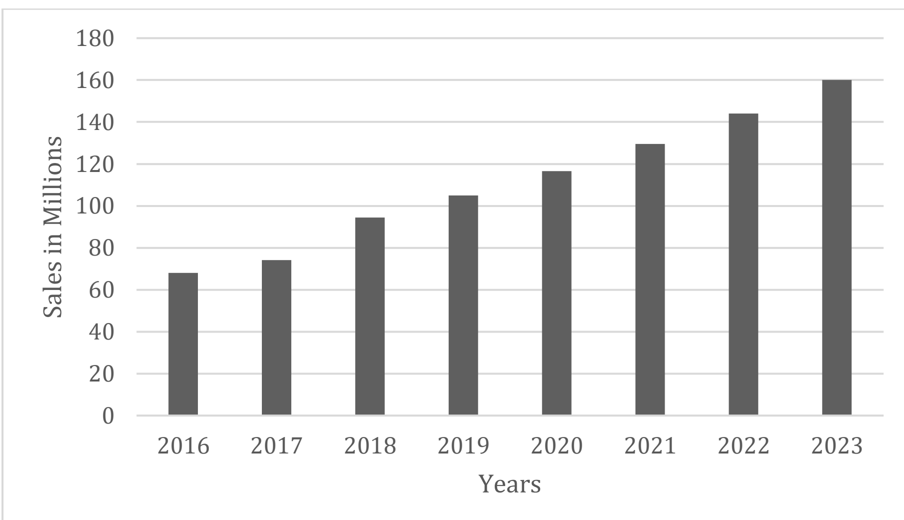

Figure 1. Five-year revenue projection.

CHAPTER III

PROCUREMENT OVERVIEW AND STRATEGY

The procurement strategy must support the marketing strategy when sourcing raw materials. With an understanding of Mercer Foods' marketing plan, an evaluation of the current procurement process and strategy is reviewed for alignment with the marketing plan.

Procurement Overview and Variables

Mercer Foods has a global procurement strategy for all the raw materials utilized in the production process that requires procurement to identify the most cost-effective countries to source raw material. Price and quality are important variables, but the different seasonal availability of fruits and vegetables from country to country also plays a vital part in procurement decisions. Sources of frozen fruits and vegetables include countries such as Vietnam, Thailand, China, Canada, Mexico, Chile, and Argentina. Because of the types of fruits available and the counterseasonal availability, Mercer Foods finds itself sourcing a large portion of its annual volume out of the Latin American markets, primarily Mexico and Chile. Counterseasonal availability occurs due to most of Latin America's location in the southern hemisphere. When North America is experiencing winter, South America is experiencing summer (see Figure 2). Hence, Mercer Foods can source the same raw material two different times a year, resulting in less inventory needed to be held to match customer demand.

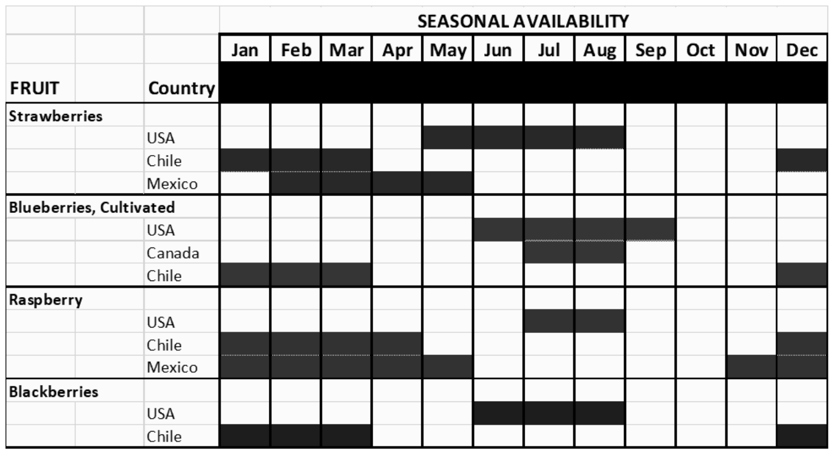

Figure 2. Seasonal availability.

During a typical production year January to December, Mercer Foods will source approximately 40 million lbs. of frozen fruits and vegetables from around the world. The required volume sourced is anticipated to increase at 10% per year aligning with the five-year revenue projection. Table 2 is the current breakdown of the top five raw material purchases by volume and country of origin in 2018.

Table 2

Top Five Raw Materials Purchased by Volume in 2018

Product	**Total Sourced (000 lbs.)**	**Countries of Origin**
Strawberry	20,000	USA, Mexico, Chile, Peru, Argentina, Egypt, Morocco, Turkey
Dragon Fruit	12,000	Vietnam, Thailand, China
Blueberry	2,500	USA, Canada, Chile, Peru, Argentina
Raspberry	2,000	USA, Chile, Mexico
Blackberry	2,000	USA, Chile

Of the raw material purchased, approximately 43% of product imported into the Central Valley comes from Latin American countries including, but not limited to, Mexico, Chile, Peru, Ecuador, Guatemala, and Costa Rica. With the purchases comes the challenge of negotiating optimal agreements for Mercer Foods while maintaining good relationships with suppliers. Mercer Foods' target is to source raw material that meets required Mercer Foods specification for the freeze-drying process; to deliver on time as scheduled; to be priced at a cost, which allows Mercer Foods to enhance margins with the customer; and to create a final product that exceeds each customer's expectation in quality, quantity, schedule, and price.

To provide the best service to its customers, Mercer Foods' goal is to source all the raw materials as needed in the season they are available. Mercer Foods typically makes two to three large volume purchases of the top five raw materials a year, out of both North and South America to maintain a raw material supply to meet production and customer demand. On average, Mercer Foods maintains an inventory of over 10 million lbs. of raw material in outside cold storage facilities, all located within 30 minutes of Mercer Foods facility. The large volume purchases out of the North and Latin American markets are primarily for raw materials from four of the top five items Mercer Foods sources: strawberries, blackberries, raspberries, and blueberries. It is in the top five items that Mercer Foods has the most influence in the negotiation with a supplier.

The same procurement process is followed whether a customer places an order, inquiries about new product, or if Mercer Foods is looking to contract for large volumes while the product is in season (see Figure 3).

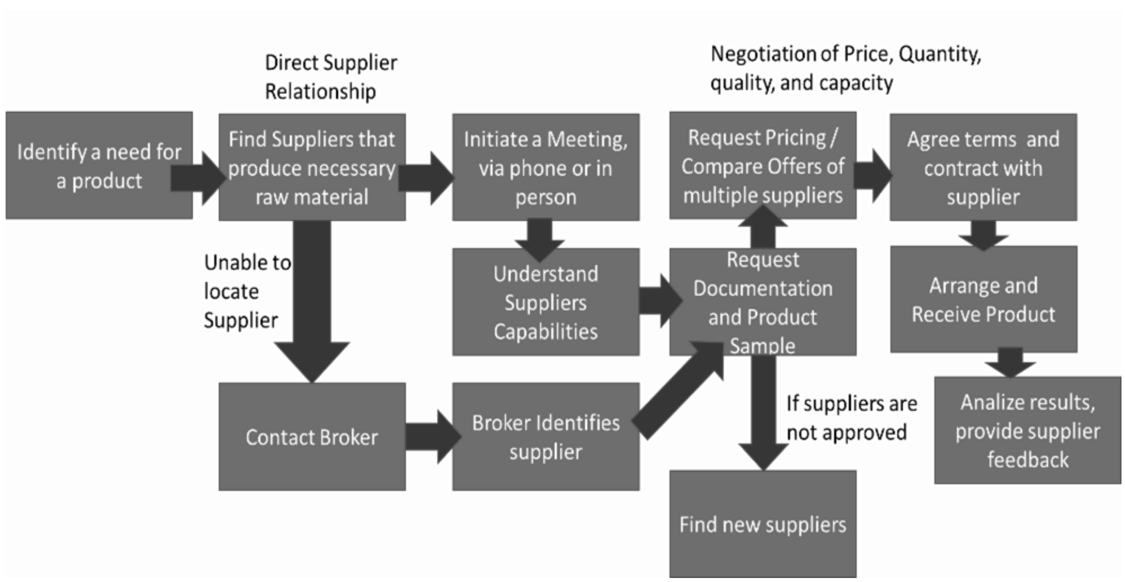

Figure 3. Procurement process flow.

Once a supplier is considered either by sourcing direct or through a broker, the conversation regarding procuring raw materials can begin. First, the procurement team must learn about the supplier's capabilities, processes, and products. This is a mutual evaluation process to see if the supplier and Mercer are the right fit for one another. A supplier must meet several criteria before Mercer will buy raw materials from them to begin a business relationship. The supplier must follow the laws of their governing bodies and meet all food safety requirements of Mercer Foods. This could include, but is not limited to, implementing a Hazard Analysis Critical Control Point plan (HACCP), a systematic approach to the identification, evaluation, and control of food safety hazards, backed by the Food and Drug Administration of the United States (U.S. Food & Drug Administration, 1997); Global Gap (internationally recognized farm standards); certification of the farms (GlobalG.A.P., 2019); and a third-party food safety audit from an accredited organization like the British Retail Consortium (BRC). These are standard industry compliance certifications required for all fruit and vegetable processors. A negotiation can be put on hold or cancelled if a supplier is unable to provide the required documents.

Production capabilities and capacity of the supplier must match the needs of Mercer. Suppliers may have already contracted their production volume with other customers. The supplier may not have the production capacity and capability to match Mercer Foods' requirements or may be unable to meet the quality that Mercer Foods and their customer requires. When Mercer Foods' raw material volume requirements were lower, Mercer's production volumes rarely surpassed the capabilities of the processor. In the past, Mercer Foods only required partial truckloads of raw material to meet demand. Now, production requirements for strawberries are over 300 truckloads per year and this number is expected to continue to grow over the next five years. With sales expected to increase 10% yearly, raw material requirements are anticipated to reach over 80 million lbs. a year. This is double the volume sourced in 2018. With these volume requirements, Mercer Foods has outpaced the production capability of a single supplier and needs multiple suppliers for each of the five major products to meet increasing demand.

Mercer's procurement team gathers market information by reading crop reports, obtaining price quotes from multiple suppliers from the same region, and visiting the suppliers in person. Conversations with brokers familiar with the product and region also help Mercer Foods get a feel for where the market should be. This price is a function of supply and demand and can vary from supplier to supplier, from region to region, and day to day. Crop reports are readily available from the U.S. Department of Agriculture's website (n.d.) for product grown in the United States. It can be a bit more difficult to obtain a crop report from the Latin American countries unless a supplier or broker provides one for Mercer Foods. Such crop reports are written by the brokers and suppliers of private firms who have a vested interested in the sale of the crops reported. It is not uncommon to hear of crop shortages from one supplier pushing to make a deal and another supplier telling Mercer Foods to wait because the price may drop due to high volumes of fruit available. Suppliers from the same region are known to share pricing strategy and corroborate stories to tell customers. Due to misinformation, market information about crops grown and processed in a target region market must be obtained from multiple sources to corroborate market information and identify true market conditions. The best way to corroborate information is to visit the facilities, fields, and suppliers in person to evaluate the status of the crops.

The logistics of importing raw materials into the country is an area that Mercer began dealing with internally in 2018. Before 2018, all imports Mercer purchased were handled by brokers through which Mercer Foods purchased raw materials. Brokers arranged the inland freight, exporting, ocean freight, and importing of raw materials delivered to Mercer Foods. Since 2018, Mercer Foods has taken on the management of the freight and has increased staffing to manage the additional paperwork and processing to manage all the steps in the process of delivering the raw materials. Now that Mercer Foods is handling the shipment of raw material, Mercer can have direct communication with suppliers about departure and delivery dates, which provides greater visibility of product in transit and helps control costs. When the freight is handled by a broker, costs are incurred on the price of the raw material purchased, but the liability of the shipment is the responsibility of the broker. This is advantageous in regions from which Mercer Foods does not have experience shipping. The brokers managing the freight are familiar with the laws, duties, and documentation required to export products, ensuring product will ship as scheduled without any delays at the port. When the buyer handles the freight, the raw material cost and freight cost may be reduced, but there are added internal staffing costs needed to manage the freight. The pros and cons of shipping duties, risks, and costs should be weighed when determining the optimal shipping methods.

Payment terms can play a large role in negotiations when working with countries around the globe. Many foreign suppliers will require cash up front when negotiating for better prices and priority shipping plans. Interest rates are not as favorable compared with the United States, so suppliers are less likely to finance the farmers to grow the crops. Suppliers will usually require cash up front from Mercer to secure raw materials from the farmers. The more cash up front provided, the better the finished good price will be. When Mercer Foods prepays for the product before it has been produced, suppliers are able to lock in the prices with the growers at the market rate or lower. Cash up front protects buyers from any fluctuations in the market that may cause raw material prices to increase. Mercer’s strategy is typically 20% to 30% deposit at the signing of contract and then payment in full when product is received at Mercer. Some brokers are known to finance 100% of the contract up front with the supplier to ensure on-time delivery, and the broker receives the product they contracted.

Current Procurement Strategy

The current raw material procurement strategy involves purchasing through two different marketing channels. The first distribution channel is via a producer that sells to a broker that, in turn, sells to Mercer Foods. The other channel is the more direct route of producers selling directly to Mercer Foods. In the current strategy, Mercer procures approximately 93% of raw materials sourced direct from supplier and 7% through brokers. This is a dramatic shift from the historical strategy that saw as high as 40% of raw materials being purchased through brokers (see Figure 4).

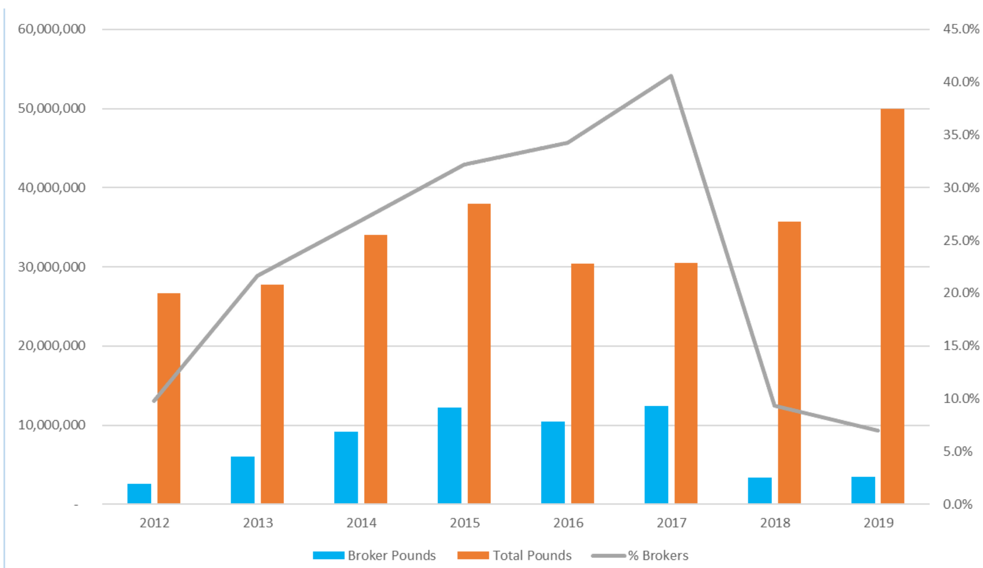

Figure 4. Broker strategy.

In the past, when Mercer Foods was a smaller company, the use of brokers to source raw materials from outside the country was standard procedure. By using brokers, a smaller company like Mercer Foods could source the bulk raw materials needed for production without having to meet a supplier's minimum order quantity.

Brokers also provided Mercer Foods an advantage by combining their smaller customers together to make one larger volume purchase. Mercer Foods benefitted from the broker's lower pricing of large volume purchases. Many suppliers have minimum order quantities that Mercer was unable to meet when it was still a start-up company. Brokers are still vital for Mercer to source raw materials in small quantities at competitive prices, and they help with locating hard-to-find products, financing large-volume international purchases, and handling the importation of products for their clients.

As Mercer has grown, the procurement team has moved toward purchasing directly from producers. When sourcing directly with suppliers, Mercer Foods' procurement team takes on all the same responsibilities the broker provides as part of their service. The advantage of working directly with the supplier is an immediate cost savings of 3-5% off the price of the raw material, which is the typical brokerage fee. Other advantages of a direct to supplier relationship are better tracking of shipments and clear communication between suppliers and the procurement team regarding quality and service. The verdict is still pending as to whether or not the cost savings from no broker fees are worth the extra labor and administrative work required to manage direct relationships. An analysis of the value of qualitative costs incurred would be beneficial to understand the true impact, good or bad, of working directly with suppliers rather than using brokers to manage the supplier network.

As noted in Figure 4, Mercer Foods' procurement strategy from 2014 to 2017 utilized brokers to source raw materials for the top five items: strawberries, raspberries, blueberries, blackberries, and dragon fruit. The plan is not to eliminate the use of brokers completely because they serve a purpose and benefit Mercer Foods. The current strategy is to utilize brokers for opportunistic spot market purchases, regional product expertise, and help with locating difficult-to-source raw materials. Brokers constantly monitor crops and market trends of a region, giving them in-depth knowledge of the product they source. A local broker may also provide on-site inspection for quality control and direct affiliations with local logistics providers to provide competitive freight rates.

The brokers that Mercer Foods utilizes provide sourcing for a large range of products and have expertise in regions all around the globe. They are able to increase their buying power and reduce product cost by combining purchase volumes of multiple customers that source the same raw material as Mercer Foods. Combining the planned purchase volumes of two customers can provide Mercer Foods with product pricing that is competitive in the market. When planning to source from an unfamiliar country like Latin America, utilizing brokers can help introduce Mercer Foods to suppliers in the new market. They help connect Mercer with suppliers with whom the broker already has established relationships. Due to their regional expertise, they are able to provide Mercer Foods with all the crop information and market history Mercer needs to be an informed buyer.

Table 3

Broker fees and additional Mercer staffing

Year	2017		2018		2019	
	Broker	Direct	Broker	Direct	Broker	Direct
Raw Material Purchased in Lbs.	12,379,867	30,505,423	3,332,650	35,712,142	3,500,000	50,000,000
Broker % of total Purchase	29%		9%		7%	
Broker Fee % of Purchase	3%		3%		3%	
Raw Material Cost Avg. $/lb.	$ 1.00		$ 1.00		$ 1.00	
Broker Fee Paid	$ 371,396		$ 99,979		$ 105,000	
Cost Variance Year over Year			$ (271,416)		$ 5,020	
Additional Mercer Staffing			2		3	
Avg. Salary in Supply Chain	$ 60,000		$ 60,000		$ 60,000	
Total labor overhead			$ 120,000		$ 180,000	
Net Savings in 2018-2019			$ (151,416)		$ 185,020	

The strategy of utilizing brokers as support and working directly with suppliers for the top five required items has been working for Mercer Foods, but the process has benefits and drawbacks. There has been an increase in internal staffing to handle the increase in freight management, unclear communication with suppliers due to a language barrier, and cash flow issues due to shorter payment terms and prepayments for foreign suppliers. Difficulties with Mercer Foods managing the importation of products through North American shipping ports have caused product delays. With an experienced broker managing the importation of raw materials, the delays at port could have been avoided. The shorter payment terms of Net 7 (payment within 7 days of a supplier sending shipping documentation to Mercer Foods) versus Net 30 (payment 30 days after product is received at Mercer Foods) and 30% deposits for large volume purchases of raw material created shortages in operating cash flow. Using brokers to manage large purchases requires no 30%

deposit and payment terms of Net 30 upon receipt of goods. Thus, payment of the raw materials could be spread over several months, making the cash flow easier to manage for the financing department. A simple view of purchasing strategy from 2017 to 2019 in Table 3 shows that from 2017 to 2018, there was a cost savings of \$151,416 despite the additional labor cost. This is a simple metric to compare year-over-year savings and show the effect of moving toward a more direct supplier relationship. It does not consider the qualitative costs, like changes in broker relationships if they are only used for short-term opportunities, reputation with Latin America suppliers if Mercer Foods is difficult to work with directly, and stress levels of the Mercer Foods procurement team as they manage increasing administrative duties in the rapidly growing supply chain.

CHAPTER IV

NEGOTIATION PROBLEM, CULTURE, TACTICS AND ALTERNATIVES

Negotiation Problem

Mercer Foods can utilize two types of negotiation strategies during the procurement process to help align the procurement strategy with the marketing plan. These strategies are distributive and integrative bargaining. Distributive bargaining "accepts the fact that there can only be one winner given the situation and pursues a course of action to be that winner" (Lewicki, Saunders, & Barry, 2015, p. 16). Integrative bargaining "attempts to find solutions so both parties can do well and achieve their goals" (Lewicki et al., 2015, p. 17).

A distributive negotiation strategy involves viewing every negotiation as an opportunity to get the biggest piece of the pie. Distributive bargaining negotiators withhold information critical to reaching an agreement because they believe the information could be used by the other negotiating party as leverage. For this strategy to work, negotiators have tactics they use to force a decision from the opposing party. These tactics include offering a price lower than target, setting a negotiation deadline, and openly discussing alternative options. There is much less trust in this form of negotiation, so information is withheld because it is assumed the other side will use the information against them. In Mercer Foods' case, the pie includes all resources in the bargaining mix. These resources can include freight management, price, quality, quantity, availability, payment terms, and lead time. Every negotiation is approached with two choices: “(1) reach a deal with the other party or (2) reach no settlement at all” (Lewicki et al., 2015, p. 39). To be successful sourcing raw materials using a distributive strategy requires the negotiator to have several other suppliers willing to negotiate as backup. It also requires Mercer Foods to have a best alternative to a negotiated agreement (BATNA) because the negotiation may not end in agreement. A BATNA is important if a supplier does not accept Mercer Foods’ terms and conditions (Lewicki et al., 2015, p. 11). If a negotiator for Mercer Foods runs out of suppliers willing to negotiate, this could result in no product available to source. With the distributive approach, Mercer Food’s BATNA has been to find another supplier that will agree to their terms for price, quantity, and quality. If they did not have a BATNA, Mercer Foods would have to either agree to the terms offered by the supplier or be unable to buy raw materials. The distributive strategy has worked well in the short term as Mercer Foods develops new sourcing regions. Price reductions have been sustainable in the short term due to the number of new suppliers Mercer Foods has established as approved suppliers.

The distributive negotiation strategy has been used to establish a network of suppliers in Mexico and Chile. The procurement team has looked at every negotiation as an opportunity for Mercer Foods to get a better deal for Mercer, with a focus on lowest cost. This push for lowest possible cost does not sit well with many suppliers in the Latin American markets, but they will usually honor a price once to start the business relationship. Low-cost fruit for suppliers means low margins for them and even lower prices paid to the farmers producing the fruit. The only winner in this strategy is Mercer Foods. If Mercer pushes suppliers to drop the price too low, suppliers may choose to sell their inventory to a customer willing to pay a higher price and tell Mercer they are unable to supply the contract. This is a problem stemming from aggressive distributive negotiation tactics; the supplier agrees, but they do not always comply with the agreed terms of the contract. When the next contract season starts, that supplier may choose not to do business with Mercer.

An integrative negotiation strategy counters the distributive strategy with the goal of making the pie bigger and being transparent about dividing the pie. The integrative strategy aims at keeping both companies successful and coming back to the same negotiation table every year with the goal of developing trust so they can share more information and find ways to creatively problem solve (Lewicki et al., 2015, p. 80). Several tactics can be utilized to achieve an integrative solution with suppliers. Integrative tactics explored in the recommendations include logrolling, expanding the pie, and cost cutting. With integrative bargaining, information and communication are shared openly, allowing both parties to focus on finding common ground and working together to create shared value. The value comes from agreeing on a product and price that keeps the supplier and Mercer Foods working together long term. Utilizing an integrative strategy guarantees business for the supplier and consistent, quality products at the right price every season for Mercer Foods.

Despite risks involved with a distributive negotiation strategy, from 2017 to 2019 this strategy has resulted in Mercer Foods reducing strawberry raw material prices from a $1.05/lb. to an average of $0.93/lb. for the year of 2019. This strategy is not best for building long-term, trusting business relationships with suppliers. Large contract volumes were promised to new suppliers to drive down price. The suppliers met Mercer's price request in 2018 with hopes of continuing the business year over year. At the start of the new season in 2019, some of the suppliers that offered price concessions to win Mercer's business in 2018 were not willing to concede on price again. Fortunately, Mercer Foods found new suppliers to work with. A reputation for being low-cost driven in the Chilean market has already spread in the industry, and there have been difficulties attracting new suppliers to supply Mercer Foods in 2019. Chilean suppliers are looking for long-term business partners. Many of the suppliers are uninterested in establishing relationships with a company that may leave for lower price fruit elsewhere after only one year of business. There is no way to build up consistency in service, quality, or supply of product when Mercer Foods is constantly jumping from one deal to the next, dumping suppliers for the next best deal.

Mercer Foods has seen a large influx of new suppliers from the Latin American markets as the procurement team continues to search for the best deals. This is where ineffective communications and a distributive, bargain-focused strategy may have caused Mercer Foods more harm than good. When establishing a relationship with a new supplier, Mercer Foods must go through the process of vetting each new supplier. The process of vetting a supplier is costly, and no matter how thorough the vetting, success is not guaranteed. The vetting process requires effort from both the procurement team and R&D. Procurement must meet with the supplier to learn about the processor's capabilities, quality, and capacity. The R&D department must evaluate samples of new suppliers' product for compliance to raw material specifications and customer specifications. Weeks of time may be spent traveling to meet with new suppliers, and hours of evaluation by the R&D department may be wasted if the supplier does not meet requirements. If a supplier is approved, there is still a chance that the quality of the product may not meet expectations, adding additional unplanned costs to the vetting process.

Even after a supplier has been vetted and approved, miscommunication may still occur. Miscommunication during the vetting and negotiation process may lead to additional costs or unforeseen issues when packing and shipping. These issues include: Who is responsible for freight and customs? What are the established payment terms? Which product specification is the supplier packing to? Does the product quality packed by the supplier meet Mercer Foods quality standards? These are common issues experienced with many first-time suppliers, but communicating these issues is more difficult when there is a language barrier and a "common ground" barrier stemming from cultural differences. Along with the communications issues, some new suppliers may be unwilling to offer assistance because they know it could be a one-order-and-done customer.

As Mercer Foods continues to expand its sourcing strategy globally with a heavy focus on the Latin American markets, they continue to have miscommunication with suppliers, causing issues with sourcing a consistent quality supply, which impacts their ability to purchase raw materials to align Mercer Foods' production and marketing plan. Along with communication and cultural differences, Mercer Foods' current distributive bargaining focus in negotiation strategy has put them in difficult situations with suppliers. Miscommunication during the negotiation process has caused issues with shipping products that did not meet Mercer's specifications and affects both Mercer Foods and the supplier. When product is not shipped according to specification, the product is either rejected or purchased at a discount. Mercer Foods does not receive the needed raw material, and the supplier potentially loses a sale. These issues could have been avoided had there been clear communication from all parties involved in the negotiation process; instead, the load must be rejected and Mercer Foods was unable to service their customer. The distributive-focused negotiation style has negatively affected Mercer Foods' ability to establish long-term supplier relationships, which is an important aspect of Latin American business culture. If a business relationship is damaged with one supplier in one region, it could ruin Mercer Foods' reputation in the Latin American market. One of Mercer Foods' main competitors is not welcome in Chile due to mishandled past relationships. A better understanding of how international business cultures have an effect on Mercer Foods' ability to conduct business efficiently and effectively may have prevented errors from occurring.

Is the direct procurement approach and current negotiation strategy the ideal strategy for Mercer Foods' procurement team? What is the recommended strategy and how can Mercer Foods utilize a better understanding of negotiation strategy and skills to improve the sourcing strategy from the Latin American market to compliment the marketing strategy?

Negotiation Tactics

To achieve a sourcing strategy for Mercer Foods, there are integrative and distributive bargaining tactics that should be practiced, depending on the situation. These situations include working directly with suppliers or buying through a broker. Other factors that can affect the tactics include product type, volume, and availability. The integrative tactics that should be utilized when working to establish long-term direct supplier relationships are logrolling, expanding the pie, and cost cutting. The distributive tactics that should be utilized when sourcing include schedule manipulation, exaggerated opening offers, and alliance with outsiders. Neither integrative nor distributive strategies are perfect. For Mercer Foods to achieve optimal results (quality, quantity, price, on-time delivery terms are met), a mix of both strategies should be used to prevent suppliers from taking advantage of Mercer Foods and Mercer Foods from damaging relationships with suppliers. These tactics will help Mercer Foods achieve its goal of developing a negotiation strategy and operational plan that fit with the procurement strategy and also align with the overall company strategy.

Before exploring the tactics that can be utilized by Mercer Foods, it is necessary to understand the difference between strategy and tactics and their roles and how they work together. Some of the primary differences are the "scale, perspective and immediacy" (Lewicki et al., 2015, p. 116). Tactics are short-term, adaptive moves designed to enact or pursue broad strategies (Lewicki et al., 2015). For example, Mercer Foods' negotiation strategy should focus on a fundamentally integrative strategy, to build long-term supplier relationships by using a joint problem-solving approach. "In pursuing this strategy, appropriate tactics include describing interests, using open-ended questions and active listening to understand the others' interests, and inventing options for mutual gain" (Lewicki et al., 2015, p. 116). Negotiation tactics are used to support whichever strategy, integrative or distributive, Mercer Foods may choose to utilize, depending on the situation.

The primary situation in which the integrative negotiation tactics should be utilized is when Mercer Foods is looking to establish long-term supplier relationships for large volume purchases. The outcome Mercer Foods wants in this scenario is a mutually beneficial relationship that allows both sides to achieve their best alternative to a negotiated agreement through tactics such as logrolling, expanding the pie, and cost cutting. These are great ways for Mercer Foods to establish a strong long-term supplier relationship.

"Successful logrolling requires the parties to find more than one issue in conflict and to have different priorities for those issues" (Tajima & Fraser, 2001 as cited in Lewicki et al., 2015, p. 85). To begin the negotiation process, "The parties then agree to trade off among these issues so that one party achieves a highly preferred outcome on the first issue, and the other person achieves a highly preferred outcome on the second issue" (Lewicki et al., 2015, p. 89). This requires open and trusting communication with the other negotiator. The norm of reciprocity pushes both sides to reciprocate the value of concessions or favors to the other side. With a logrolling strategy, the negotiator for Mercer Foods must be prepared with a list of highest to lowest priority requirements in a negotiation. For Mercer Foods, the highest priorities are quality of product and quantity available from the supplier. Pricing, shipping schedule, and payment terms are lower priorities that would be variables worth making tradeoffs to come to an agreement. These trades may include paying a slightly higher price, working with long lead times, and fast payment. If a supplier cannot meet the quality or quantity requirements, they are not the right supplier.

Expanding the pie is the tactic of adding resources so both parties can meet their objectives in the negotiation (Lewicki et al., 2015). This tactic should be utilized to gain interest from the supplier in working with Mercer Foods. If a supplier has been identified as a viable source of raw materials, but negotiations are unable to end in agreement on price, quality, or quantity and the supplier appears uninterested in working with Mercer Foods, this would be an opportunity to "expand the pie" for the supplier. The offers may include increasing the volume of the raw material purchased from one truckload of product to five truckloads of product, faster payment options like reducing 30-day payment terms to 7-day payment terms, or a long-term, multiyear agreement, which guarantees business for the supplier and raw materials for Mercer Foods. As Mercer Foods continues to expand its sourcing into the Latin American market, this is a great technique to garner the interest of new suppliers.

The cost-cutting tactic is an agreement between two parties where one party achieves its objectives and the other party achieves reduced costs (Lewicki et al., 2015). It is a tactic that can be effectively utilized by both suppliers and Mercer Foods and should be explored with a supplier regarding adjustments to specifications and payment terms. Open communication is critical, and this strategy is recommended after a relationship has been established and the supplier understands Mercer Foods' business and Mercer Foods understands the supplier's capabilities. The adjustment of a raw material specification can be beneficial to both parties. If a specification allows for more variability in quality, it means there will be more product from the farms that will fall within Mercer Foods' specifications, providing more raw material for the supplier to pack at a lower price. That lower price is then passed on to Mercer Foods in the form of lower raw material costs, which would achieve the objective of the supplier selling their product and Mercer Foods receiving a reduction in the raw material purchase price. Payment terms can affect the price, depending on how fast Mercer Foods pays the supplier. The faster Mercer Food pays, the better the raw material price. The supplier benefits from faster payment by being able to pay their growers faster, and Mercer may receive up to a 2-3% discount on the raw material price. In both scenarios, objectives are met and costs are cut.

These integrative tactics are recommended for use with the goal of achieving long-term direct supplier relationships, but should not be limited to only those suppliers. These tactics can be utilized when working with brokers and other opportunistic spot market purchases, but due to the nature of the deals with brokers and one-time buys, it is recommended to utilize distributive negotiation tactics for those occasions.

The primary situation in which the distributive negotiation tactics and having a good BATNA should be utilized is when Mercer Foods is working with brokers and making spot-market purchases of raw material. These tactics will ensure Mercer Foods gets the right product at the right price and is able to service their customers. Although this is not a long-term relationship focused strategy, the goal is to get the best deal for Mercer Foods without hurting any potential relationships with the broker or supplier. As with the integrative approach, the outcome Mercer Foods wants in this scenario is a mutually beneficial relationship that allows both sides to achieve their best alternative to a negotiated agreement. It is not uncommon for brokers or spot-market suppliers to utilize hardball tactics, such as lowball/highball and offering raw material pricing far above market price and chicken, e.g., threatening the offer will expire soon to push the other party to make a decision. To counter hardball tactics, schedule manipulation and exaggerated opening offers are effective ways for Mercer Foods to achieve the goal of getting the right product at the right price to service customers, but having a good BATNA, which includes walking away from the negotiation, is the best way to handle these tactics.

When Mercer Foods wants to make a small volume purchase, e.g., one truckload of product once a year, brokers and suppliers will often use high-pressure hardball tactics to push Mercer Foods to make a decision to buy. The tactics include pricing product far above market and claiming it is the only load of product left to buy. Alternatively, they will play games of chicken by stating the purchase needs to be made today because there is another customer that is interested in purchasing the product. The broker or supplier wants the buyer to believe that waiting too long will result in missing out on the only load of raw material left in the world. To avoid these traps, it is important that buyers come prepared with information regarding the product they are sourcing. This information should include market pricing, seasonality, and country of origin of the product. The buyer should never accept a one-time deal without talking to other brokers and suppliers first.

Schedule manipulation can be used to put time pressure on negotiations (Lewicki et al., 2015). Schedule manipulation can also work in the negotiator's favor when the other party is pressuring for a decision. When a broker or supplier is pressuring for a decision, delaying the decision can often work in favor of Mercer Foods. The seller will try to sell the fear that if the deal is not done, there will be no other loads available. The global production of frozen fruits and vegetables plays in Mercer Foods' favor. There is a good chance there is another truckload of the exact same raw material somewhere in the world. By delaying the deal or acting uninterested, the pressure is put back on the broker or supplier to make a counter offer. The supplier may stick to his original offer, but the delay allows time to seek out other offers or sources if needed. If the product must be purchased and the price is slightly higher than market, it is recommended to make a counteroffer that aligns pricing to the market price. It is easy to become lazy and take the first offer a seller offers, but it is important to remember that time is not always on the buyer's side, so it is important to have both distributive and integrative negotiation skills to manage all situations.

Exaggerating opening offers is one of the most common tactics used in negotiation of raw materials. A negotiator attempts to establish a high anchor and move the bargaining range in the exaggerator's desired direction (Lewicki et al., 2015). Sellers will often quote pricing based on small quantities at the highest market price. The best defense against this tactic utilized by brokers and suppliers is to counter with an equally low and exaggerated, lower offer, never revealing what the target price is. As a reminder, it is important not to get into a negotiation like this without knowing the market. Too low of a counteroffer could easily offend or even end the negotiation, leaving Mercer Foods without any raw material and a damaged reputation. There is no guarantee of success, and due to the risk of no deal being made, it is necessary to have other suppliers available that are willing to negotiate. This negotiation tactic can result in fast agreements, which may leave the buyer or supplier wondering if they were the winner or loser of the deal. It is known as the "winner's curse," or the "tendency to settle quickly on an outcome and then feel discomfort about a negotiation win that comes too easily" (Lewicki et al., 2015, p. 206). This thinking can result in the buyer or supplier losing trust in the relationship for future shared business opportunities.

Both integrative and distributive negotiation tactics are important as Mercer Foods expands it sourcing, targeting Latin American markets. The Latin American market has been identified as the region that provides the best value in terms of availability, quality, quantity, and price of the raw materials produced. The recommended integrative tactics will help build Mercer Foods' reputation in a region and culture that focuses on building long-term relationships. It is in Mercer Foods' best interest to continue to grow into this region as it aligns strategically with its procurement strategy and marketing plan.

Culture's Effect on Negotiation for the United States and Latin America

To better understand the effects of cultural differences and their effects on the distributive bargaining focused strategy, it is important to understand the differences between business cultures in the United States and Latin America. How are the business cultures of the United States and Latin America affecting the negotiation strategy throughout the negotiation process? The communication and negotiation strategy issue is evaluated from the viewpoint of the U.S. culture and Latin American culture based on the 10 ways culture can influence negotiation as outlined by Lewicki et al. (2015). The 10 ways are defined as negotiation, negotiation opportunity, selection of negotiators, protocol, communication, time sensitivity, risk propensity, groups versus individuals, nature of agreements, and emotionalism (Lewicki et al., 2015). Each factor will reflect attributes of the individual culture's negotiation style. For the purpose of this review, only those affecting Mercer Foods' strategy are discussed.

Negotiation is how each culture defines what it will agree to in the bargaining process and the determination of the terms for mutual agreement. This definition can range from a contract-focused negotiation on one side of the spectrum to a relationship-focused negotiation on the other. The U.S. falls into the category of a more contract-focused definition of negotiation (Katz, 2013). U.S. negotiators typically see each deal as a competition to get the best deal for themselves. Latin American countries like Mexico and Chile lean toward a relationship-focused definition of negotiation. Latin American cultures prefer to establish a relationship with those with whom they are conducting business before they begin the actual negotiation process (Katz, 2013).

The Chilean and Mexican cultures share many similarities in their view of a business relationship. Both cultures view the relationships between people as the most important part of the deal. They prefer to do business with only the people they know, respect, and trust (Katz, 2013). It may take several meetings for a trusting business relationship to be established. After relationships have been established between businesses, those relationships are not seen as business-to-business relationships, but person-to-person. If one of the individuals involved in establishing the relationship between businesses is gone, the relationship between the two businesses may also be viewed as gone. New relationships between individuals will need to be established to continue business (Katz, 2013).

The U.S. culture's view on relationships is more transaction-based, when comparing it to Latin American cultures. The relationship between businesses is often valued over the individuals who established the relationship. Even though individualism is valued in this culture, most positions, even the highest-ranking individuals in a company, are seen as replaceable (Katz, 2013). The individual assigned to manage established business relationships should be just as competent in the task as the last individual to fill the position. Financial benefit is the key driver of this mentality for the United States because "American businesspeople tend to focus on the near-term benefits of their business engagements and may drop even a long-term partner if they believe they will get 'a better deal' elsewhere" (Katz, 2013, p. 2). The U.S. view of business relationships is transactional and replaceable, which contrasts with the Latin American culture.

The negotiation opportunity is how a culture influences the way negotiators perceive an opportunity as distributive versus integrative (Lewicki et al., 2015). Do the individuals negotiating see the process as a win-lose or a win-win process? A win-lose, or distributive negotiator, thinks one negotiator will come out a winner and the other a loser. Negotiators in North America are predisposed to perceive negotiation as being fundamentally distributive (Lewicki et al., 2015). The distributive style is not common outside of the United States, but it varies from culture to culture. The win-win or integrative approach is the negotiating style that will create long-term, lasting business relationships. In a quest to increase margins on sales to customers and reduce raw material purchase price, Mercer Foods has quickly gained a reputation in the Latin American markets as a hard negotiator looking for the lowest cost fruit, due to the distributive approach to negotiating. This is not the best strategy for building long-term supplier relationships in Latin America.

The risk propensity is the willingness of a culture to take risks during a negotiation. The willingness to take risks can range from a high-risk taking to a low-risk taking culture. Negotiators from the U.S. tend to be risk takers partly due to their desire to make quick decisions (Lewicki et al., 2015). High-risk negotiators will often find themselves closing deals without having all the necessary information. A low-risk or risk-avoiding culture will not make decisions until all the facts have been laid out on the table. Chileans and Mexican cultures will often avoid sharing important details in a negotiation for fear it will give their counterpart the upper hand in negotiations (Katz, 2013). The low-risk approach will often extend negotiations much longer than planned, which U.S. negotiators may find frustrating due to their time sensitivity and willingness to make a deal. Mercer Foods has utilized a high-risk approach, while sourcing out of the Latin American market. This contrasts with the Latin American approach to slowly establish business relationships. Mercer Foods presses suppliers for price, quality, and delivery. This does not give a lot of time for the supplier to establish an understanding of exactly what Mercer Foods is sourcing. This willingness to take risks has led to several issues with suppliers not being able to meet the quality and delivery schedule that Mercer Foods requires of them. When there is a risk in supply, there is risk of Mercer not meeting customer orders.

The cultural differences discussed group entire countries into one style, but do not define every individual in that culture. Different individuals from the same country may have different negotiation styles that are contradictory to their cultural norms. There is not one culture that is better than another in negotiation; there are only different styles, and understanding those differences will help make Mercer Foods better in negotiations when sourcing raw material to meet the marketing plan.

Alternative Procurement Strategies

The current Mercer Foods sourcing strategy does not align perfectly with the marketing strategy as outlined. Attempting to work directly with suppliers in Latin American countries has created issues in the procurement process that have led to raw materials not delivered in time to meet customers' orders. Improvements can be made to the current procurement strategy of raw materials from the Latin American markets. Here are a few alternative strategies Mercer Foods may utilize.

Alternative One

Use brokers to handle all importing, exporting, and negotiation with suppliers from Latin American countries. Mercer Foods can identify and utilize brokers who are experts in Mercer Foods' primary sourcing regions in Latin America. These regions include Mexico, Chile, Ecuador, and Peru. As volumes grow and requirements change, the brokers may change as well. The goal would be to work with brokers who are familiar with the country, the people, the culture, and the products available in each sourcing region.

Utilizing an all-broker procurement strategy for Latin American markets would increase raw material purchasing costs from 3-5%, but that fee includes several services currently being managed in-house at Mercer Foods. These benefits include dealing with the import risk of product being held up at the ocean port, managing freight, negotiating pricing and quantities, and providing cash flow-friendly payment terms. With all of these services being managed by a separate entity, Mercer Foods' procurement and logistic team is free to focus on value-added tasks in the supply chain versus the additional administrative duties that come with managing direct supplier relationships.

One of the weaknesses in the current procurement strategy in foreign countries is the unfavorable payment terms. When working directly with a supplier in Latin American countries, it is expected that product be prepaid or paid within seven days of shipping. A broker acts as a bank for Mercer Foods; they handle the pre-payment to the supplier and Mercer Foods pays the broker Net 30 after the product is received at Mercer Foods. Net 30 payment means Mercer pays the broker 30 days after receipt of product at Mercer Foods, which aligns with all North American payment terms and most Mercer Foods customers' payment terms. This is a benefit to cash flow and ensures all suppliers ship as planned so Mercer can meet the demands of their customers.

Brokers managing import risk and freight take a burden off Mercer Foods' procurement team, allowing Mercer Foods to focus on inland U.S. freight and procuring raw materials from the North American regions where they have established long-term supplier relationships and have expert knowledge of the grower/processor market. Since the procurement strategy has gone to a more direct approach, two employees have been added to the supply chain department to handle the increased document control and management of freight. With a broker-focused strategy, there would be an opportunity to reduce staffing in the supply chain department or utilize the extra talent in another department at Mercer.

Alternative Two

The second alternative is to hire an expert in the Latin American market to handle the procurement strategy when sourcing products from Latin America. This individual would need to be an expert in the target sourcing region just like the brokers. They would need to have previously established relationships with suppliers, and they must have intimate knowledge and experience in sourcing from the Latin American countries. They would also be responsible for arranging the exporting and freight out of the Latin American countries, utilizing their experience and business relationships to provide Mercer Foods with low-cost freight and quality products that meet Mercer Foods' customer requirements. The only differences are this individual would be on Mercer Foods payroll working out of the Mercer Foods office in Modesto, California and they would not provide improved payment terms.

Having an in-house Latin American expert would allow Mercer to have direct communication with the supply chain team and the VP of supply chain. They would also be acting in Mercer Foods' best interest, unlike brokers who may only be looking out for their own financial gain. The Latin American sourcing expert would be required to travel to the sourcing regions several times a year to gather information about crop expectations, market pricing, and product availability. He or she would also be responsible for managing vendor relationships. With an intimate understanding of the culture in Latin America, they would be better able to communicate Mercer Foods' vision of the future. In the SWOT analysis, one of the opportunities listed was to establish long-term relationships with Latin American suppliers. Having a Latin American expert would help Mercer Foods get closer to achieving that objective.

Alternative Three

A third alternative approach to the current procurement strategy is to bypass the suppliers and go with direct sourcing to the growers and utilize the processors to process Mercer Foods' fresh raw material from the farms. The cost savings in this alternative are substantial, as Mercer would have more control over grower pricing. This is acting in the same manner as the processors that supply Mercer Foods currently. Setting up the supply chain where Mercer Foods is paying the farmers for the product grown is by far the most complex. This alternative requires grower management of the farms producing Mercer Foods product. Properly managing the growing operations would require a team of individuals with boots on the ground in the region. This process would also require Mercer Foods to utilize every piece of fruit that comes from the field because they own the whole crop. This adds further complexity to sourcing because there will be fruit that Mercer Foods has no use for. Mercer Foods' procurement team now must become salespersons to find buyers for the unused product from the fields.

Although the third alternative is complex, it provides an interesting opportunity for two reasons. First, it gives Mercer Foods the opportunity to have complete control of the costs, from growing the raw material to delivery to Mercer Foods. Second, it allows Mercer Foods to control what farmers grow and how they grow it and would facilitate them having the farmers grow a product that is perfectly suited for Mercer Foods' process. They would be in control of the variety planted, the maturity harvested, nutrients and pesticides applied, and size of the fruit. These variables could result in a higher yielding, higher quality product for Mercer Foods and their customers.

CHAPTER V

RECOMMENDED SOURCING STRATEGY AND RECOMMENDATIONS FOR IMPROVEMENT

Recommendation for Sourcing Strategy

Mercer Foods should continue with a strategy to focus on establishing direct integrative long-term relationships with suppliers, while building a positive reputation in the frozen fruit and vegetable industry as a buyer that suppliers want to work with. With a focus on sourcing out of the Latin American markets, Mercer Foods believes it will be able to source a consistent supply of raw material that will meet their demand and customers' expectations of quality, availability, and price. The current supply chain team has the experience and capacity to effectively manage the current sourcing plan to meet the objectives of the marketing strategy. Brokers will be utilized for niche items, but focusing on direct supplier relationships should provide Mercer Foods with the greatest ability to manage the growth of the company, while still matching the procurement strategy with the marketing strategy and infusing more integrative negotiation tactics with the current distributive approach.

Maintaining the current direct relationship focus is a proven strategy that has been successful with supplier relationships, which Mercer Foods has developed in North America. These direct relationships have allowed Mercer Foods to create a positive reputation in the food industry that makes suppliers willing to work with them. These long-term relationships have provided several benefits, such as helping to reduce costs, improve communications, and stabilize pricing volatility. Multiyear contracts often result in cost reductions in raw materials and more importantly, increase stabilization of sources of supply. This is especially important in a growing market, such as freeze-dried fruits and vegetables. When a long-term relationship is established with a supplier, communication is direct and clear. The parties learn about each other, adapt to each party's communication style, and have broader and deeper common ground. Most importantly, greater levels of trust develop which allows for a more robust exchange of information that enhances creative problem-solving. Creative problem-solving leads to more win-win outcomes, where each side achieves more of their objectives that they would have using distributive or win-lose bargaining tactics that restrict open exchange of information. For example, as a result of integrative negotiation tactics that built trust, a long-term supplier of U.S. strawberries familiar with Mercer's needs and production process was able to develop a strawberry specification that improved defect tolerances, which increased raw material availability for the supplier and Mercer, decreased price, and still aligned with the level of product quality required by Mercer. The specification adjustment resulted in a \$0.02/lb. price reduction on strawberries, which equated to a \$200,000 savings from a 10,000,000 lb. purchase. A long-term relationship between Mercer Foods and the supplier established a trust that led to the open communication necessary to develop a custom product that benefits both parties.

Thanks to long-term relationships, suppliers and buyers are more likely to settle on a price range that keeps the business viable long-term to protect against market volatility. Long-term supply agreements eliminate surprises of price increases and reduce the need to source and renegotiate with new suppliers, giving both sides time to focus on building better relationships and improve performance and efficiencies. This means the suppliers are making a profit, Mercer Foods is making a profit, and Mercer Foods is able to provide a product that meets the customers' requirement for price, quality, quantity, and timeliness.

The same successful long-term direct supplier relationships Mercer Foods developed in North America should be developed with Latin American suppliers. Due to the volume of raw materials sourced, Mercer Foods should develop a secondary region to source several of the key raw materials, such as strawberries, blueberries, blackberries, and raspberries. Mercer Foods should develop long-term direct supplier relationships with producers of the key raw materials noted. This will protect Mercer Foods from any crop or market issues that may affect the supply of raw materials from North America. Latin America offers Mercer Foods the benefit of counterseasonal raw materials that meet Mercer Foods' customer requirements and that are priced competitively, due to reduced labor costs. A key component of developing these supplier relationships is greater utilization of integrative negotiation tactics. Mercer should use an effective blend of integrative and distributive negotiation tactics with a goal of developing effective and profitable long-term relationships with the appropriate Latin American suppliers.

Sourcing out of the Latin American market allows Mercer Foods to purchase high quality fruit at a price point approximately 5-10% lower than offered by the North American suppliers. For example, in 2018, U.S.-produced strawberries were $0.92/lb. delivered to Mercer Foods, while Mexico-produced strawberries were $0.82/lb. delivered. One contributing factor to the competitive pricing relative to the U.S. is the lower labor costs, e.g., the U.S. minimum wage is 5.5 times higher than Mexico's and twice as high as Chile's. The tending of the fields, harvesting of the crops, and processing of the fruit are all labor-intensive processes. There are machines to aid in tending the fields and harvesting the crops, but strawberries, Mercer's number one sourced raw material by volume, is difficult to harvest by machine, resulting in most farmers hand picking the crop. To combat rising labor costs in the U.S., the processors of the individually quick-frozen fruit have invested heavily in equipment to reduce the number of employees needed on the processing lines. This has helped the United States stay competitive in the global market despite rising labor costs. Without heavy investment in equipment to make the process more efficient, North America would be at a disadvantage compared with Latin American processors, as can be seen in Table 4.

Table 4

Minimum Monthly Wage in Latin American Countries and USA, 2019

Country	Min. Monthly Wage in U.S. Dollars
Chile	$431.70
Argentina	$297.90
Peru	$275.70
Mexico	$156.90
USA	$870.00

Source: Statista (2019)

Counterseasonal availability allows Mercer Foods to keep reduced inventory holdings, which equates to reduced storage costs and improved quality of raw materials because the product quality begins to degrade after more than 6 months in the freezer. Without counterseasonal availability, Mercer Foods would have to source the entire year's volume requirement of strawberries in the four-month window the crop is available in North America. This would lead to Mercer Foods having to hold inventory for a minimum of eight months a year to keep up with production requirements. Without a Latin American source, raw materials cost would increase up to $.09 per pound due to the increased length of storage, and a decrease in product quality would result as inventory holdings degrade over time in storage. A $.09 per pound increase on 2018's strawberry purchase would result in a nearly $2 million increase in raw material costs. Counterseasonal availability makes it advantageous for Mercer Foods to not limit the direct channel strategy to North and Latin America. By expanding the strategy globally, they will be able to reduce inventory holdings by sourcing from countries that grow, harvest, and process in the months the U.S. and Chile do not, e.g., Mexico's strawberry season begins when the Chilean season is ending and ends when the U.S. season is beginning.

The expansion of sourcing into the Latin American markets faces cultural barriers that Mercer Foods will have to manage. Mercer Foods' procurement team is not bilingual; the only language spoken is English. In the Latin American countries where Mercer Foods does a majority of its sourcing, e.g., Mexico and Chile, the primary spoken language is Spanish. Fortunately, for Mercer Foods, most Latin American suppliers speak both Spanish and English so they are able to manage the exporting of raw materials into the U.S. A cultural barrier on which Mercer should focus is developing relationships, not just business relationships, but personal relationships, with suppliers. One of the primary differences between North American and Latin American business cultures is the view of business relationships. With the current distributive negotiation focus, Mercer Foods has a transactional view of the relationship with Latin American suppliers which does not value personal, long-term relationships. A transactional view of business relationships is not an ideal strategy to develop long-term supplier relationships in Latin America and other cultures that value strong personal relationships versus a competitive task orientation. Latin American business culture stresses the importance of building strong relationships with the people who are buyers and sellers, not just focusing on a transaction between companies. If Mercer Foods jumps between multiple suppliers trying to find the lowest pricing, they will never have the time to build the strong personal relationships that Latin American cultures prefer. More importantly, it is a strategic and tactical decision to build long-term relationships because they will allow Mercer Foods to better achieve their procurement and marketing goals in the medium and long term.

To achieve a successful, sustainable expansion in the Latin American markets, Mercer Foods cannot expect to win every deal with suppliers. Winning cannot only be about lowest price. Winning can include establishing a long-term relationship and supplying a customer at the right price, quality, quantity, and time. Winning is also about one side making a concession on an important point for the other side with the expectation that the concession will be reciprocated in the future when the conceding side needs a favor. This is utilizing the norm of reciprocity to build strong long-term relationships. Mercer should adjust its distributive bargaining approach to negotiations to a more integrative approach. There will remain situations when Mercer Foods should approach a negotiation with a distributive bargaining focus, but for large-volume, long-term, direct relationships, they should use a mix of integrative and distributive negotiation strategies and tactics. Both Mercer Foods and the supplier need to be more integrative and work out norms for how to effectively use distributive tactics so that they will not damage relationships. Aggressive distributive tactics are very hard on relationships. If one side feels taken advantage of or mistreated because the other side used aggressive distributive tactics, the relationship is in trouble as the aggrieved side will not comply with an agreement, walk away entirely, or begin to bargain very aggressively Some distributive tactics are necessary in every negotiation when it is time for the parties to divide the resources. However, overuse of hard distributive tactics is very hard on relationships and can have serious negative consequences. An effective blending of integrative and distributive negotiation tactics will help Mercer Foods develop strong, mutually beneficial relationships with appropriate Latin American suppliers. The goal should be to develop long-term supplier relationships that provide trustworthy and accurate information, and thus an effective blending of integrative and distributive negotiation strategies and tactics will be critical for Mercer Foods to be successful. With the current distributive bargaining focused strategy, Mercer Foods risks losing suppliers and damaging its reputation in Latin America. Mercer Foods' volume requirements can provide significant influence on product pricing when negotiating a contract. The procurement team has taken the approach of, "the supplier must match the price or they do not get Mercer Foods' business." This distributive approach has led to several supplier visits ending prematurely due to the disinterest from the supplier because the price Mercer Foods was planning to pay for product was too low for a negotiation to start. A better approach would have been to begin to build a relationship first rather than take such a hard approach as "provide the price we want, or go home." If price is the major area for contention, focus first on building the relationship and getting to know the other side and what their needs and wants are and then focus on other items in the bargaining mix besides price. Build agreement on these other items, which also enhances the relationship, and then tackle the most contentious issue, price.

A focus on an integrative bargaining strategy with suppliers would also provide Mercer with some opportunities. Mercer Foods would be able to develop a long-term relationship with suppliers and reduce their reliance on brokers. Suppliers are interested in establishing long-term business relationships that benefit Mercer Foods and the supplier. If the supplier has a customer that will be back year after year for repeat business, they will do their best to provide the best product and service for Mercer Foods, resulting in price smoothing and a more consistent raw material supply with less chance of supply fluctuation as the relationship grows stronger. With the current strategy, a large portion of purchases from brokers comes from spot market purchases. With a consistent supply, Mercer Foods will not have to reach out to brokers to find raw material when the approved supplier failed to deliver as contracted. This situation usually results in Mercer Foods paying a high price for product from a supplier or broker in the spot market with whom Mercer Foods has no familiarity. Brokers will continue to have opportunities to supply Mercer Foods, but they will act as secondary suppliers that will provide information on markets and crops and help sourcing difficult-to-find products. Mercer Foods may be able to take advantage of the opportunistic spot market buys from brokers, but brokers should not be used for sourcing large-volume items. Large-volume purchasing is the ideal way to build relationships with suppliers by showing trust in the suppliers' abilities to meet Mercer Foods' needs.

With Mercer Foods' anticipated revenue growth of 10% year over year for the next five years, it is important for Mercer Foods to continue to grow the network of raw material suppliers to keep up with consumer demand and align with Mercer Foods' marketing demand. Building sustainable business relationships in Latin America is essential to support the growth of the company because of the need for a steady supply of raw material during seasonal variation in product availability. The supplier network will not be sustainable if Mercer Foods continues down the path of pushing their suppliers for the best price. There is a finite number of suppliers available in Latin America that can support Mercer Foods' needs. Mercer Foods must find common ground with suppliers to develop long-term relationships to support the anticipated growth of Mercer Foods. This is especially true if the market continues to grow at the current rate and it becomes more difficult for freeze driers to find adequate sources of supply to meet demand. Locking in long-term sources of supply is a very sound strategy when demand is growing and prices are rising.

Recommendations for Improvement

To achieve the proposed sourcing strategy, Mercer Foods must make improvements in the following areas. They need to develop the negotiating skills of key players involved in the negotiation processes because currently Mercer negotiators have an array of tools that are limited to distributive tactics. Some effective methods to enhance negotiating skills through mock negotiation role plays and attending negotiation workshops. Appropriate skill-building negotiation seminars should be identified and utilized. Executive negotiating for Mercer should utilize distributive and integrative negotiation strategies and tactics depending on the situation with the goal of consistent, repeatable outcomes that meet the goals of the procurement, marketing, and overall strategy of the firm. They should improve negotiation planning by identifying reliable, unbiased market information and developing key suppliers for large-volume, raw-material purchases. Mercer should also identify and develop relationships with suppliers of the top five raw materials by volume in each major fruit and vegetable growing and processing region in Latin America, e.g., Mexico, Peru, Chile, Ecuador and Costa Rica.

Recommendation One

Develop negotiation skills of the key executives involved in the negotiation process for procurement of raw materials. Mercer Foods' procurement team consists of only two people managing all the relationships and negotiations at Mercer Foods. These two people are not always in the same room together during negotiations so depending on who is negotiating, what they are negotiating for, and with whom they are negotiating, the outcomes may vary from one Mercer team member to the next. This variation is due to the varying level of experience of the two individuals. To get both team members on the same level, it is recommended that the procurement team hone their negotiating skills by holding monthly mock negotiations at Mercer Foods and attending offsite negotiation training workshops that are available locally.

These mock negotiations will build the skills of the less experienced staff member. Mock negotiations with the experienced and inexperienced negotiator in the same room will allow the procurement team to align their strategies and allow the inexperienced negotiator to make mistakes without risking Mercer Foods' money. Situations can be identified and steps to improve outcomes can be outlined. For example, the team could decide that, when a supplier asks for prepayment of raw materials, the team always counters with a predetermined payment term that was agreed upon during the mock training.

The training would develop consistency of negotiation strategies and tactics that the procurement team at Mercer Foods should utilize in real negotiations. In these mock trainings Mercer Foods should practice a blend of distributive and integrative negotiation strategies and tactics to improve the outcomes and consistency of negotiations. They should practice distributive negotiation techniques like hardball tactics, such as lowball/highball and chicken, which should be used when purchasing raw materials in the spot market and purchasing through a broker. Not only is it important to know these distributive tactics, but the procurement team should understand when these tactics are used against them and know how to deal with it effectively. They should practice integrative negotiation tactics, such as expanding the pie, logrolling, and cost cutting, to develop long-term supplier relationships, renew contracts with established suppliers, and establish new supplier relationships. The in-house training provides the added benefit of bringing a new employee up to speed much faster than letting him learn on his own through trial and error when negotiating with suppliers. Trial and error during a real negotiation can prove costly for Mercer Foods.

Offsite negotiation training workshops are a great way to work on improving negotiation skills and provide alternative skills and strategy than what might be discussed during the mock negotiations. Companies like Karrass (2019) which has been providing two-day negotiation training workshops to Fortune 500 companies for over 50 years and Mobus (2019), a company that has trained negotiation strategy at companies like Honda, General Motors, and Welch's, offer training workshops, the cost of which ranges from $800 to $1,500. This is a small fee to train a negotiator at Mercer Foods who may have the ability to save or lose hundreds of thousands of dollars during a negotiation. Preparation is the key to successful negotiations and in-house mock negotiations and offsite workshops are the ideal way to build a solid foundation of negotiation skills and tactics, while aligning the procurement team's strategy.

Recommendation Two

Improve negotiation planning by identifying reliable unbiased market information. Mercer Foods relies on an information gathering process that involves talking with suppliers, brokers, and growers familiar with the fruit and vegetable growing and processing region Mercer is targeting to develop supplier relationships. These individuals all share a common interest, to sell to Mercer Foods. It is difficult to determine if those sources have Mercer Foods' best interest in mind. As the volumes sourced from Latin America grow, it is important to develop a reliable unbiased information source. In the U.S., several government organizations, like the USDA, provide crop information. Mercer Foods must develop its own reliable source for crop and market information. With reliable unbiased information, Mercer Foods will be able to make more accurate sourcing decisions.

Finding a reliable source for crop and market data may require Mercer Foods to hire an expert in the target sourcing region if no third-party government entities are available to provide crop and market information. At this time, Mercer Foods is not familiar with and has been unable to identify a third-party source of information. As Mercer Foods continues to visit the Latin American regions, primarily Mexico and Chile, identifying an information source is key. If Mercer Foods had reliable crop information from an unbiased source in 2018, they could have avoided the risk of contracting with a Mexican supplier that had not mentioned the poor crop conditions. Mercer Foods was forced to react to the cancelled contract after the supply was no longer available, causing Mercer to purchase high-priced fruit in the spot market. Accurate crop information would have warned Mercer Foods of the crop risks, and the sourcing strategy could have been adjusted to protect from supply shortages.

Recommendation Three

Mercer Foods should identify and develop relationships with three suppliers of the top five raw materials by volume in each major fruit and vegetable growing and processing region in Latin America, e.g., Mexico, Peru, Chile, Ecuador and Costa Rica. To achieve this recommendation, Mercer Foods must develop specification requirements identifying what they are looking for in the three suppliers. These specifications should include quality of the production facility and process, production capabilities and capacity, quality of product produced, price of the raw material produced, and customer service. To evaluate a potential supplier's compliance to the specification, a representative from Mercer Foods' procurement team must visit the facility to start the process.

The three suppliers must be capable of keeping up with increasing volume requirements. The goal is to develop long-term relationships with suppliers that will help create a consistent, reliable supply, which allows Mercer Foods to service their customers. With a three-supplier focus, two primary suppliers will share a majority of purchase volumes. The third supplier will act as secondary supplier and as the safety net if one of the primary suppliers is unable to supply raw material. A small volume of raw material should be purchased yearly at a set amount to maintain a business relationship. Yearly purchase ensures the product stays in compliance with Mercer Foods' raw material specifications, and the processing facility maintains an approved supplier status.

To build a trusting relationship between Mercer and the three suppliers in each region of Latin America, Mercer Foods must visit the regions and supplier facilities yearly. These visits are an opportunity to build the personal relationship between Mercer Foods and the Latin American supplier. After the buyer has established that the supplier meets Mercer Foods' requirements, they should start with small volume purchases, one or two containers, to confirm product quality and provide feedback to the supplier. To fulfill Mercer Foods' end of the deal and continue to build trust, they must pay on time and stay in open communication with the supplier. An open dialogue should be maintained with the supplier throughout the year via phone, email, or in-person visits, using the time to discuss crops, market conditions, or cost-saving opportunities for future seasons.

Developing three strong suppliers in each major supplier region (Mexico, Peru, Chile, and Argentina) of Latin America protects Mercer Foods from potential crop failures or an increased import tax affecting one of those regions. It protects Mercer Foods from raw material price fluctuations meaning Mercer Foods is able to service their customers consistently without incurring cost increases. It helps to avoid spot market purchases of the top five raw materials, which can also lead to increased raw material prices. This strategy will provide Mercer Foods with a large supplier base to work with to meet the growing raw material needs of the company outlined in the marketing plan.

CHAPTER VI

CONCLUSION

The purpose of this case study was to analyze, explore, and critique the current procurement strategy of Mercer Foods; how it fits with the firm's marketing strategy and recommendations to improve the strategy with a special focus on how to improve negotiation strategy and tactics in the Latin American market. The findings, results, and recommendations of this case study provide strategies, tactics, and operations that Mercer Foods should implement to grow market share, increase profits and meet the goals of the company's strategic plan and move from being a top five manufacturer of freeze-dried fruits and vegetables to one of the top two firms.

Mercer Foods does not have a documented marketing strategy or a marketing plan. Therefore, the current marketing practices were documented and put into the format of a marketing plan and that plan was analyzed and served as a guiding document to determine if procurement and negotiation strategies and tactics fit effectively with what was essentially marketing operations. Recommendations for improvements in procurement strategy and negotiation strategies and tactics were then offered.

Mercer Foods' target market segments are retail, industrial ingredients, and foodservice. Mercer Foods is marketing to industrial food manufacturers and the food service industry that is marketing to health-conscious consumers replacing artificial with freeze-dried natural ingredients. A review of the procurement strategy and its ability to meet the needs of Mercer Foods marketing plan was evaluated. A cornerstone of the procurement strategy is Mercer Foods' success in developing direct supplier relationships to reduce raw material cost and reduce the reliance on brokers for sourcing in Latin America. Additionally, the analysis revealed the difficulties resulting from growing the number of direct supplier relationships in the Latin American market and reducing the number of brokers. These difficulties include miscommunication between Mercer Foods and suppliers due to a language barrier, cultural differences between North and South American businesspeople, and a strong focus on the distributive negotiation strategy that has alienated a number of potential suppliers and reduced options in sourcing product in a growing market.

To improve understanding of why Mercer's distributive strategy and tactics have alienated potential suppliers a review of cultural differences was undertaken. A recommendation was made to improve upon the difficulties faced when sourcing to support the marketing strategy. This review found that Latin American firms prefer to build long-term relationships with their business partners. This relationship orientation conflicts with Mercer Foods' procurement strategy and distributive negotiation tactics of looking for the lowest cost raw materials and quickly moving from one supplier to the next with no concern for long term relationship building. Both distributive and integrative negotiation strategies and tactics were reviewed in relation to how effective they would be in the short, medium, and long-term and improve the procurement strategy when negotiating with Latin American suppliers.

Mercer Foods' sales have nearly doubled in the past five years. The volume of raw materials purchased to keep up with the business has nearly doubled as well. During this time, the procurement team has been able to keep up with the growing business and reduce raw material spending, while adding only two additional team members to support the additional work load. The recommendations focus on building on the strategies and skills of the current procurement team, which has been in place since September of 2017 when Mercer Foods began significant growth in the freeze-dried industry and implemented the strategy of buying direct from producers and reducing the use of brokers. The strengths of this team are the knowledge of the raw materials needed to support production and the awareness that a global sourcing of raw materials is required to stay competitive in the industry. The weaknesses are varying levels of negotiation skills and the lack of knowledge of various negotiation strategy. There is an uneven level of negotiating skill across team members. Some team members have much more market knowledge, negotiating experience, and skill than others. All team members have inadequate levels of knowledge and skill relative to integrative strategy and tactics. This inadequacy extends to poor skill levels in how to blend integrative and distributive strategies and tactics in an effective mixed approach. The author recommends Mercer Foods provides comprehensive negotiation training for the entire procurement team to build knowledge and skills with one point of emphasis being the ability to read and adapt to the dynamics of a given situation and effectively blend integrative and distributive strategies to meet negotiation objectives. A second recommendation is to significantly enhance the amount, reliability, and validity of market information available to the procurement team to improve planning and negotiating for raw materials. This information will enable procurement team negotiators to detect opportunistic behavior (excessive exaggeration, misleading statements, hardball tactics, etc.) and develop strong BATNAs (Best Alternative to a Negotiated Agreement) and improve negotiation outcomes. The final recommendation is for Mercer to develop a long-term, sustainable procurement strategy that supports the marketing plan by identifying and developing strong business relationships with three suppliers in Latin American sourcing regions (e.g., Chile, Mexico, Peru). Properly trained negotiators with reliable market information and suppliers willing to grow with Mercer Foods creates a supply chain that becomes a competitive advantage, especially given growing demand in the manufacturing of freeze-dried fruits and vegetables.

In the past, Mercer Foods' business consisted of freeze-drying shrimp and herbs. Now Mercer Foods focuses on freeze-drying fruits and vegetables and there are numerous other uses for the technology like pet foods, pharmaceuticals, pesticides, and cannabis. These are all industries that Mercer Foods is capable of serving with its current production processes in place at the Modesto, California facility. Regardless of the product mix Mercer Foods sources and sells, it is important for Mercer Foods to build strong business relationships. Strong supplier relationships build a foundation for a solid supply chain that allows Mercer Foods to meet customers' needs and create a competitive advantage. Mercer Foods is competing with suppliers who have already established global sourcing and freeze-dry production capabilities. For Mercer Foods to grow sales and profit, it must compete on the same global stage. Expanding and improving the sourcing strategy with a focus on the Latin American market provides Mercer Foods with a foundation for a consistent, year-round supply of raw materials to service their customers' needs.

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