

PEPSICO SUPPLY CHAIN MANAGEMENT

By [Name]

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1.0 Introduction

PepsiCo Company has embraced globalization strategy by expanding its network of operations across multiple countries. Mainly, the company has established supply chain strategy to drive international business growth and development in various regions. Furthermore, in a bid to enhance its growth and business sustainability, the company diversified into dealing with other products, including grains and fruit juices to meet the dynamic needs of the customers. However, the research established that the company could realize enhanced benefits if it restructured its global supply chains by aligning its communication approach and sourcing with procurement strategy. Most significantly, the company needs to acquire an information and communication technology infrastructure as well as decentralize its procurement activities to the regional level.

2.0 Global Network Management

The global network management is a strategy of business operations on an international platform due to the company's interests which includes expanding market share, sourcing for cost-effective input resources and highly skilled professionals on a global scale etcetra. Pepsi company has embraced globalization and therefore restructured its policies and strategies to take advantage of this development.

2.1 Application of Global manufacturing network and absorptive capacity in Pepsico

Global manufacturing network

Global manufacturing networks is a strategy inspired by a vast geographical operational base of a company. Therefore, the firm decides to establish subsidiaries where production and manufacturing can be conducted at the regional levels. By decentralizing its procurement activities to the regional level, Pepsi will establish a plant where manufacturing of the products at the stations will happen to benefit organization immensely from the expertise of the locals and other cost-effective resources. Therefore, the company will contract local suppliers and recruit professionals and laborers in the region to run the operations of the subsidiary. Also, the outsourcing of regional logistic function will be performed in compliance with the company's policies on procurement and supplier's appraisal, selection and management.

Pepsico absorptive capacity

Absorptive capacity is the ability of a firm to borrow essential knowledge from the external environment for its competitive advantage. Pepsi company in light of its information and communication challenges will outsource ICT function to a specialized firm to gain from its expertise and leverage its strengths. Partnering with this specialized contractor reveals the company subscribes to the policies and business concept of the partner and have confidence their services will add value to Pepsi. Also, the firm will contract regional logistic companies for transportation services thereby creating time to concentrate on core-business and gain from the firm's expertise and experience on road networks.

The firm also diversified its products to include grains in its categories in a bid to adjust to the dynamic market needs. Notably, the company uses market research and intelligence to tailor its services to the preference of the customers. Noteworthy, companies solicit information from the environment to formulate a superior strategy, policy or product through innovation.

2.2 Justification of Outsourcing Strategy and Its Implementation

The PepsiCo has a vast and expansive portfolio, thus being at risk of incurring various costs in its supply chain operations. An ideal strategy for the company to adopt is outsourcing since it would enable the firm to concentrate on its core businesses while assigning the of non-core business activities to other firms (Hilletoft and Hilmola 2010, p.50). The complex nature of the company requires ensuring expertise and efficiency in every sector of the industry, which can be achievable through outsourcing from companies that have competencies in the area.

PepsiCo Company would benefit from the access to resources and services due to contracting the job to a competent and specialized party. Consequentially, it will boost the company's performance by improving its chances of actualizing the corporate goals and objectives. The firm will obtain the opportunity to market its business.

Application for the Outsourcing

The costs of logistics to any given company can flare depending on the variables and complexity of operations (Whitelock 2012, p.430). For example, considering the expansive network of PepsiCo Operations, its nature will pose numerous cost risks to the company.

Therefore, outsourcing logistical services will pass all the risks and liabilities of the business, including accountability for losses or theft, time factor, and other emerging or unforeseeable costs because of the dynamics of the environment. The potential risks will include the risk of losing property due to weather conditions, poor road infrastructure, and burglary (Karthik and Kumar 2013, p.211). If this happens, the transporting company will bear the full responsibility for the losses because of the passage of liability in the contract, which will include critical deliverables for measuring the performance of the contracted firm so that payment would be tied to performance. Also, the clause and agreement in the contract on KPIs will serve to motivate the team, ensuring that the anticipated results are consistently achieved.

Importantly, the key performance indicators for the contracted firm will include timely deliveries and absence of breakages or damages, thus reducing the inconvenience experienced by the company's customers due to poor service delivery. Ultimately, PepsiCo will be engaged in its core activities, thus enhancing performance. Further benefits will accrue if the company outsources third-party logistics firm for every region it is operating in (Reimann and Ketchen 2017, p.7). Ideally, PepsiCo needs to contact transporting firms in the different areas to leverage their road network mastery and goodwill in the market.

Noteworthy, the process of outsourcing will be conducted with due process of ensuring that the most suitable and compatible suppliers are contracted to offer services to the firm. Important considerations include engaging a supplier with a common culture and business concept to avoid conflict of ideologies and hiring ethical suppliers to eliminate risks of tarnishing the company's image. Also, close monitoring should be provided to ensure that the project is aligned, and any emerging issues are resolved instantly to avoid ripple effects to the company's operations. Additionally, the PepsiCo will have to preserve its confidential information from reach by external stakeholders.

Outsourcing Information and Communication Technology

PepsiCo will also outsource information and technology function from a market leader in the region. Equally, the process will propel the company towards the achievement of its goals and objectives due to the enhanced focus on core business activities and the process benefits of technology. The outsourced firm will have to study PepsiCo existing systems and process as well as establish a system which would add value to the operations and enhance the efficiency. Notably,

the outsourced firm will be cautious not to trigger the arising problems, ensuring a smooth transition to the new digital system instead.

The ICT system will meet the communication and data exchange needs of the company. Notably, the current arrangement of the workers meeting on a weekly basis is not sufficient for sharing and updating the members of information. Mostly, data and communication are essential when shared to prompt decision-making and aligning the process and system before the organization incurs costs. Moreover, the new ICT infrastructure needs to be user-friendly and prevent hitches occurring in the existing system (Mol and Brewster 2014, p.26). Therefore, the contracted firm will need to undertake an analysis of the potential users and customize the product accordingly. Furthermore, the contracted company needs to introduce and implement the project strategically to gain the attraction and endorsement of the users, thereby improving its prospects of meriting. Otherwise, the project may face such resistance which can amount to sabotage

The outsourced firm will have to establish the ICT system and run it to ensure it delivers the anticipated value of real-time visibility of accessing and sharing information. The system will support communication system through audiovisual media, including video conferencing, skype calls, emailing, and chats between the stakeholders, thereby eliminating the need for weekly meetings for updates (Tachizawa and Wong 2015, p.23). The implementation of the new communication infrastructure would save the company considerable, costs including time and expenses needed to fix the emerging issues.

Another critical aspect of the ICT system is the need to enhance security against the possible breach of privacy by cyber attackers. The outsourced firm will be in a better position to provide back up and continuous maintenance of the system, thus ensuring the efficient operation and management. Lastly, the firm will organize and conduct training sessions of the new system and align the users accordingly so as not to affect individual performances. Another important step to take includes formally launching the new system by the contractor and aligning the users or employees on the critical aspects they need to know.

3.0 Global Procurement Change

PepsiCo will perform several changes in the procurement function to align with the targeted goals and objectives. Notably, the company will be seeking to embrace sustainability and increase engagement with the local suppliers consequently benefiting the firm.

3.1 The Proposed Changes of Procurement department and justification

The company will contract global suppliers in a bid to restructure its procurement strategy, through which the organization will identify cost-effective regional locations for its sourcing, manufacturing, and operations (Chakravarty, Grewal, Sarker and Sambamurthy 2014, p.19). Thereby, Pepsi will enjoy many benefits, including saving on costs of services and leveraging the skills and competencies of the region, thus enhancing the company's performance. PepsiCo will need to design some steps to guide the firm towards drafting and implementing an ideal strategy for the multiple-national organization. First, conducting preliminary research is highly advisable to ensure that the company knows which materials are less critical and sensitive (Li and Shi 2017). Furthermore, at this stage, PepsiCo will research the competitors in the region and learn about the potential suppliers and the PESTLE factors, which are likely to have an impact on the business. The company will hence develop a list of possible suppliers by using a standard benchmark.

Choice Justification

There are numerous justifications for the company to partner with global suppliers, including cost-efficiency, reduction in lead-times, and availability of different modes of transportation. Global sourcing will also take advantage of the skills and competencies of people from the regional levels improving cultural competencies and diversity in the company. The firm will also enjoy the opportunity to market itself on a global scale and search for value-adding partnership in a bid to make its processes efficient.

3.2 Decentralization of Procurement Activities and its Benefits

The current procurement strategy of PepsiCo is based on a central place, whereby material inputs are purchased from a centralized location and are consequently transported to the various regional branches for processing activities. The company follows a well-developed tactics to contain carbon footprints due to its logistics activities, which do not outweigh the costs the company is incurring (Whitelock 2012, p.430). The following are important factors for an organization operating or seeking to operate on a global scale.

(i) Tools for international sourcing

The nature of international sourcing is mainly crucial because of the geographical, cultural and regulations difference between the engaging firms. Therefore, Pepsico will need to critically examine and appraise potential partners against their benchmark on several policies and practices for compatibility and value addition. Majorly, Pepsi company will perform cultural research in the foreign country to check for similarities and differences; and examine if the disparities can be bridged and whether they can have an adverse impact on the partnership. The company will also conduct a transportation time chart on the potential suppliers to identify the one with the least cost including shorter lead-time selecting them for the business.

A landed cost model will also be instrumental for Pepsico to compound the various costs of the suppliers and chose one who will be cost-effective to the company.

(ii) Selecting international suppliers

Selection of international suppliers will succeed their evaluation and ratings. The company will choose the top-rated supplier and proceed to the next stage of contract negotiation and reaching consensus. Primarily, the supplier to be selected will be assessed to be offering value for money and share ideologies and a common perspective on business.

(iii) Buying from Global suppliers

Pepsico has the potential to gain much from decentralizing its procurement activities to the regional locations. The associated benefits include cutting transportation costs from the headquarters to the local centers, improved response to emergencies, better stakeholder management, and enhanced opportunities for expanding the company's network and partnerships. The advantages are discussed:

Leveraging the Specialized Local Knowledge

PepsiCo needs to decentralize its procurement strategy to benefit from the potential highly skilled and competent human labor and expertise present in the region. Utilizing the human energy at the regional level will improve the performance of the company because of cultural competencies of the staff and their adept knowledge of the PESTLE factors, thus guaranteeing better performance.

Better Stakeholder's Management

Decentralizing procurement will improve stakeholder management due to the reduced proximity and frequent interactions with the stakeholders; therefore, the company will benefit from the improved relationships with both the suppliers and customers (Chakravarty et al. 2014, p.17). Furthermore, the firm can provide an employment opportunity to people from the region, thereby enhancing its reputation and the process of marketing the company.

Relationship Building

Engaging the local suppliers would also provide the opportunity for the company to market itself and improve its reputation. Essentially, sourcing from the local suppliers will trigger the feeling of reciprocity, thus leading to an increase in business from the suppliers and their networks. Additionally, the organization's social responsibility to the locals will serve to strengthen the ties between the company and the clients, thereby enhancing trust and cooperation.

(iv) Managing international suppliers

It is vital for the sourcing company to manage its suppliers ensuring their performance is up to standard and sustained. Pepsi company will employ various techniques to achieve supplier management which will include increasing the quality of communication using high technology infrastructures like ether-nets and multimedia technology including Skype and video-conferencing. Notably, improved communication will ensure that information is continuously shared updates on various issues, and decision-making process is optimal. Pepsi can also assign its employee to be based on the supplier plant or company for coordination and fast-tracking processes.

4.0 Conclusion

The challenges faced by PepsiCo include inefficient communication and data management system as well as ineffective procurement strategy. The research revealed that Pepsi Company incurs a massive opportunity cost of operating without a reliable digital communication and information system. The paper recommends Pepsico to adopt an outsourcing strategy, which will bring benefit to the firm by cutting costs and passing liability for maintenance and potential risks to the contractor. Additionally, the company will leverage the expertise and skills of the contractor positively impacting on the performance of the firm.

It is vital for Pepsico to restructure its procurement activities adopting a decentralized strategy. The proposed change will mean sourcing for global suppliers, particularly those in the regions where the firm operates and contracting their services. The benefits the business will gain include the reduction in lead-times, increased responsiveness to emergencies, and new marketing opportunities. Outsourcing of logistics to the regional logistical companies will also help the company to leverage the expertise and network knowledge of the region-based organizations.

Pepsi company will experience some challenges when implementing the changes. Majorly, the firm decentralizing its procurement activities to the regional level will occasion a problem of standardization of its inventory eventually impacting on the quality of its products. Secondly, the plan to outsource ICT services to a third party provider also risks the company's crucial and confidential information that might be a source of its competitive advantage. The company will also face resistance from its employees because of phobia linked to various reasons including job security and challenges in the mastery of the new system. Therefore, the management and implementation team will have to align the workforce with the benefits of the changes and provide the necessary training and support.

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