

# Importance of the integrated purchasing for food businesses

## *Význam integrovaného nákupu pro podnikatelské subjekty na úseku potravin*

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**Abstract:** The paper describes the importance of integrated purchasing for agrarian businesses and for retail chains, i.e. on two opposite sides of the different economic and negotiating power. It points out the trends of the modern purchasing, economic benefits of long-term business relations, and the importance of objectively settled terms of payment for the purchased products. The paper emphasizes the specifics of sales cooperatives of farmers as a modern element of sales and purchasing activities of the agricultural primary production.

**Key words:** integrated purchasing, sales cooperatives, retail chains, agrarian sector, responsibility, evaluation, suppliers, trends of purchasing, dynamic approach, purchasing activity

**Abstrakt:** Příspěvek přibližuje význam integrovaného nákupu pro podnikatele v agrárním sektoru a obchodních řetězcích, tedy dvou protipólech různé ekonomické a vyjednávací síly. Ukazuje na trendy moderního nákupu, ekonomické přednosti dlouhodobě navázaných obchodních vztahů a na význam objektivně sjednaných termínů splatnosti faktur za nakoupené výrobky. Příspěvek vyzvedává specifika odbytových družstev zemědělců, jako moderního prvku prodejně a nákupní činnosti zemědělské prvovýroby.

**Klíčová slova:** integrovaný nákup, odbytová družstva, obchodní řetězce, agrární sektor, odpovědnost, hodnocení, dodavatelé, trendy nákupu, dynamické pojetí, činnost nákupu

Any business subject needs – based on its activity-focus – land, capital, labour and information in order to realize its business plan. Land is an unforgettable factor in agricultural primary production, but also in any other space-demanding businesses using it as a building and manipulation basis. Market economy requires entrepreneurs to behave with a maximum economic focus when buying the factors, and to use the principle of rationality and profit maximization. Capital is a specific factor. We can understand it as all financial means, no matter what is their source, and also tangible articles having their value, which were bought. Here also belong the profits of associates or members of a business.

Purchasing<sup>1</sup> represents a one-time (but very important one for any business) activity when buying all inputs and services. Its activity significantly influences the economic result of a business in a positive or a negative

sense. It is the only activity, which can save finance, keeping all criteria being set. Purchasing activity is a matter of the performed activity in coherence with the record in the business register (in the case of trade firms and cooperatives), or in the licence (in the case of individuals doing business based on the licence).

It is very simplified, though, to see purchasing as a mere procurement of inputs for realizing the production or sales process, in the globalizing market environment. Market economy requires the purchasing departments' personnel to know the essence of the resource diversification and specifics of purchasing places; to master the purchasing marketing and to be able to keep up with the world trends of the main streams of purchasing; to be able to negotiate the conditions of purchase which will be based on a rational way of spending money, fulfilling the requested amounts and quality.

<sup>1</sup> Purchasing has to be an objective, dynamic part of business management, if a firm wants to successfully compete. It influences not just its short-term returns, but also the long-term perspectives and prosperity (Tvrđík 1997).

Purchasing departments bear a high responsibility for the purchased goods. Unsold or unused stocks always represent financial losses – dependent on the unsold amounts. Therefore, the goods should be purchased in such amounts, which are necessary to satisfy the actual demand, or the repairs of machines and facilities. In retail, this will prevent financial losses resulting from overvaluation of stocks, especially before the end of the particular seasons in a year, or from the sales of stocks not corresponding with the upcoming trends.

## OBJECTIVES AND METHODOLOGY

The objective of this paper, as one of the outputs of solution of the research plan of the Faculty of Business and Economics “Czech Economy in the Process of Integration and Globalisation, and the Development of Agricultural Sector and the Sector of Services under the New Conditions of the Integrated European Market”, is to show the merit and importance of the integrated purchasing for sales of agricultural products purchased from the members of sales co-operatives of farmers and concentrated purchasing of wholesale organizations and retail chains as the decisive subjects of the market.

The methodology of the paper comes from the above-set objective. It is based on the general methods of analysis, deduction and synthesis, which enables to form the acquired knowledge into the respective conclusions. We also use the method of comparison enabling to compare Czech sales cooperatives with the similar ones in abroad.

### Theoretical bases

When defining “food”, we come from the Direction of the European Parliament and the Council (of the European Community-EC) No. 178/2002 from 28<sup>th</sup> January, 2002. It defines the general rules and demands of the food law, establishes the European Office for Food Safety, and defines the procedures concerning food safety. Food, in the 2<sup>nd</sup> article of the above-mentioned direction, is defined as “any material or product – processed, partly processed

or not processed – which is determined for human consumption, or which is reasonably expected to be consumed by humans. Food includes drinks, chewing gums and any materials including water, which is intentionally added to food during its production, preparation or processing. Food includes water beyond the place of keeping the limits included in the definition in the 6<sup>th</sup> article of the Direction No. 98/83 of the European Community”<sup>2</sup>.

Act No. 110/1997 Coll., about food and tobacco products in the valid version states, that food is the “material aimed for human consumption in unchanged or adjusted state, as a meal or drink, if it is not a pharmaceutical, narcotic or psychotropic material. Food includes additive, helping or aromatization materials aimed for sales to consumers and their consumption”<sup>3</sup>.

Act No. 110/1997 Coll., abstracts from the term “consumable” as it is mentioned in the older literature. Food was understood as a basic material for life (proteins, glycid, fats), additive materials (vitamins and protective materials in fruits, vegetables and herbs), raw materials for food and light industry. It used to be defined, that food has nutrition value<sup>4</sup> and sensorial quality<sup>5</sup>.

When comparing the definitions of food in our and the Union legislature, we find out that the definition of food in the European Union is more ample, because it emphasizes that food is processed, partly processed or raw. According to the Act No. 110/1997 Coll., food is aimed for human consumption in unchanged or adjusted state as a food or drink. The EU direction sets, that it is aimed for human consumption, or that they will be consumed by humans.

The Diderot encyclopaedia (1999) defines food as “products of plant or animal origin suitable for human nutrition, containing in various amounts of nutrition materials (proteins, fats, saccharates), consumption of which is necessary for retaining life functions. They are consumed in raw state or adjusted by various technological interventions” (Diderot 1999: 220).

The above-mentioned definition does not correspond with the current trends included in the legislature. It is not sufficient to include only the products of plant or animal origin under food. The characteristic of Diderot encyclopaedia emphasizes nutrition values

<sup>2</sup> Source: Direction of the European parliament and Council No. 178/2002 from 28<sup>th</sup> January, 2002, which sets the general rules and demands of the food law, establishes the European office for food safety and sets the procedures concerning food safety.

<sup>3</sup> Act No. 110/1997 Coll., about food and tobacco products in the valid version.

<sup>4</sup> Nutrition value is judged from human viewpoint. For human nutrition, not only the presence of the main food components is important, but also their contents, mutual proportion and energetic value.

<sup>5</sup> Sensorial quality is characterized by a set of features perceived by human senses ([www.publikace.cz](http://www.publikace.cz)).

for keeping the functions of human organisms, but food has to be extended by water and food supplements, in order to comply with the currently valid legislature.

For the needs of teaching the Food-commodity Science and Commodity Science at the Faculty of Business and Economics in Brno, we have constructed

a diagram (Figure 1) describing the contents of the fundamental terms connected with food as they are defined by the Act No. 110/1997 Coll., about food and tobacco products in the valid version.

In the world, there start to appear and come up the “three completely new fundamental trends of food production:

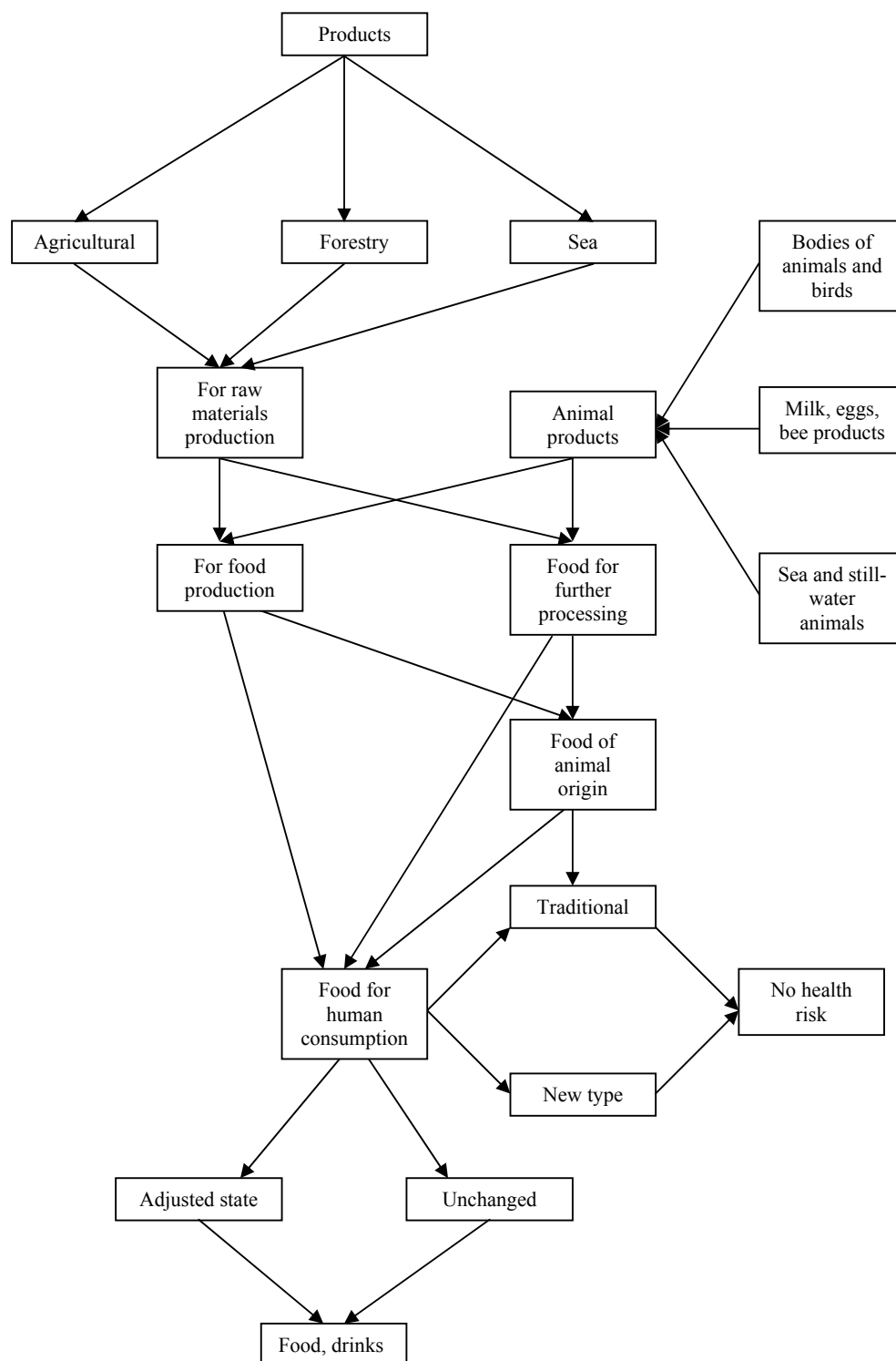


Figure 1. Structure of food

- the first trend enforces the knowledge of genetic engineering;
- the second trend focuses on enrichment of food by nutrients in a biologic way;
- the third trend focuses on fortification of food by food supplements or additives“ (Stávková 2003: 10–11).

Czech food law (based on the Act No. 306/2000 Coll., about food and tobacco products) considers the food of the new type to include:

- 1) food including genetically modified organisms (GMOs or food produced of GMOs, which are not contained in the concrete food);
- 2) food renewing, with the new or intentionally modified basic molecular structure;
- 3) food consisting of micro organisms, mushrooms or algae or isolated of them;
- 4) food consisting or isolated from plants or animals with the exception of plants or animals achieved in a traditional way of reproduction or breeding and are considered safe from the viewpoint of healthiness;
- 5) food produced by so far unused technological procedures leading to significant changes in the structure of food or contents, influencing their nutrition value, metabolism or contents of undesirable materials.

Purchasing and purchasing activities are dealt with by Jindra (1995). He seeks answers to questions like Where to buy? How to transport? and How to order, how to pack and form manipulation units? How to deliver and how to manage the flow of goods? Hofman (Tomek, Hofman 1999) focuses his research on storage of goods, selection and equipment of warehouses, regulation of their climate and evidence of stock. Together with Tomek (Tomek, Hofman 1999), they discuss creation and management of modern purchasing. They notify that the “fundamental function of the purchasing department is an effective arrangement of the considered way of the basic, helping and servicing production and non-production processes by inputs, materials, and products and services in the desired amounts, assortment, quality, time and place” (Tomek, Hofman 1999: 17). They further state, that the “purchasing side is in a very defensive position in comparison with the sales side of an organization” (Tomek, Hofman 1999: 13). An important lesson from these authors is that “opposite to the foreign, especially a part of the German literature, we do not

include capital and labour force into purchasing (or procurement)” (Tomek, Hofman 1999: 17). Pražská has written, that “for the field of trade, voluntary chains play an exceptionally significant role. These are groups of retailers and wholesalers, who jointly realize a central purchasing and other activities” (Pražská 1995: 106).

Central purchasing secures connection with a number of different producers. Schulte has commented this issue in the following way: “Purchasing or procurement in the narrow sense, deals with surveying the markets and with the legal aspects of supplying. Procurement in the wider sense relates not only to materials, but also to purchasing, preparation and arranging facilities, capital, personnel and information” (Schulte 1994: 13). “Purchasing”, he continues, “secures selection of suppliers based on the results of a market research performed. Purchasing includes negotiations with suppliers, formulating and signing agreements. Purchasing should strain for saving purchasing costs through continuous price and value analyses. Purchasing also includes the tasks of administrative character, i.e. arrangement of orders, assessment of shipping orders, performing standard requests” (Schulte 1994: 31).

Čestnější (2004: 12–14) states, that for “purchasing goods, it is necessary to establish central storage facilities nearby the expedition ramp, which enables a quick delivery from the place of intake to the central warehouse. There are two main steps to establish a central warehouse:

- 1) calculating the maximum level (amount) of stock for every particular goods item;
- 2) setting rules for the central warehouse management”.

Plačková (1998: 33) describes the trends of concentrated purchasing in the retail chain Euronova. She wrote in her diploma thesis, that the “company Euronova, a.s., realizes central purchasing of goods, i.e. that it has a single purchasing office, which orders food and grocery goods for all four formula. The reason is a better negotiating power in relation to the suppliers. Concentration of purchasing for all organizational formula brings undisputable benefits. The company defines the main task of the central purchasing as securing the best conditions of the purchase and delivery of food and the basic groceries in coherence with the sales philosophy of the particular organizational formula”<sup>6</sup>.

Tvrdlík (1998) has defined the differences between the traditional and modern approach to purchas-

<sup>6</sup> Note of the authors: Currently, instead of Euronova and its four formulas, there operate the Ahold company with the Albert supermarkets and Hypernova hypermarkets.

ing. He included systematic choice of suppliers, global supply in free competition, long term partner relations, purchasing certified goods, functional integration of computing technic, focus on the total costs coming from production costs, costs of testing prototypes, order costs and quality of provided service among the modern trends. The trend of modern purchasing is defined by free exchange of information, quality improvement programs, joint product development using the know-how of suppliers, shortening the claims procedure, and introducing retail outlets in compliance with the ISO standards (Tvrdík 1998).

## RESULTS

The entrance of multinational trade companies has caused major changes of our market and the trading network of the Czech trade. Their demonstration was the speed of reaction in the delivery of the demanded goods, flexible approaches to consumer, powder and even frontal entry used in including particular places in regional markets. In 1993, the retail turnover of the TOP 10 multinational trade companies in the Czech Republic was about CZK 6 billion, but in 2004 it was already CZK 222 billion. The most dynamic was the development of the trade firm Makro Cash & Caryl ČR s.r.o.

Farmers and food businesses should be interested in the share of the food sold in the total turnover. Research of the results has shown that the trade turnover of the particular retail chains has been varying in the range of CZK 10 to 38 billion, from the 90ies of the past century to 2004. Significant, though, is the share of the goods sold in the total turnover, which varies between 60 and 90%. On the other hand, the Jednota and other cooperative retail groups record just CZK billion turnovers and some of them even less than a billion per year, but the share of the food sold is higher than 95%. The amount of food sold in the independent retail outlets is influenced by the number and age-structure of the rural inhabitants, different demands of customers in terms of assortment, and thus also of prices for which they purchase food. And another important factor is the limited size of purchases. We think that neither the pricing policy nor the motivation factors of the cooperative trade supporting purchase of goods are sufficiently competitive and flexible in comparison with retail chains.

## Importance of sales organizations

To create an effective opposition to the strong and concentrating firms in the domestic food market, but also the use of the possibilities of selling in the foreign markets, is the option only sales companies established based on the initiative of farmers can think of. Their substance is that they will be mostly influenced by their members, who will also benefit from their profits.

Establishing unions of producers of agricultural products (sales cooperatives) and their associations is a new thought. To substantiate their establishment we come from the wider context of particular provisions of the European Union directions. They state that "common regulation of the market can include all measures necessary for reaching goals of the Common Agricultural Policy, especially price regulations, subsidizing production and sales of various products, storage and vault measures and common mechanisms for stabilization of imports and exports. The common regulation is limited to reaching the goals of the Common Agricultural Policy and will eliminate any discrimination among the producers or consumers within the community"<sup>7</sup>.

Legal regulations of the European Union about establishment of unions of producers and their associations can be divided into two groups:

- 1) Legal acts defining the rules for establishment and activities of these organizations on horizontal level.
- 2) Legal acts defining the rules for establishment and activities of organizations on vertical level.

The importance of these organizations can be demonstrated on the exemplary statute for sales cooperatives of producers in the sector of fruits and vegetables in the federal land of Rheinland-Pfalz. The 2<sup>nd</sup> paragraph, 2<sup>nd</sup> article defines the subject of activities in the following way:

- a) "Common valorisation of fruits and vegetables and other agricultural and horticultural products.
- b) Assuring planned production corresponding with the demand in terms of volume and quality.
- c) Support of concentration of the supply of fruits and vegetables and other agricultural and horticultural products, and trade with all goods, machines and tools necessary for operational activities of the members"(Zíka et al. 2002).

Except for these activities, the central bodies can authorize sales cooperatives in certain commodities

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<sup>7</sup> 2<sup>nd</sup> Paragraph, No. 34/ex-40, Agreements, the Ministry of Foreign Affairs of the Czech Republic.

to perform significant tasks for realizing the rules of the Common Market Organization. In this connection, we emphasize the absence of “price setting”, “price regulation”. Such a definition of activities is in a contradiction with the rules of competition and is legally punishable.

On the horizontal level, marketing organizations of agricultural producers are established, which specialize in commodities of fruit and vegetables (they have their own legal regulations and obvious support from the European Union) and marketing organizations with the activities in trade with multiple commodities.

### **Importance of sales organizations in the Czech Republic**

The importance of sales organizations of Czech farming businesses established within the food verticals can be seen in:

- 1) forming a concentrated offer of plant and animal products reaching a multiplied negotiation power towards the business partners with whom the sales of agricultural products are negotiated, but also the purchase of inputs as a necessary premise of reaching the goals of agricultural business,
- 2) mediating the sales or direct sales of products bought from its members to the processing businesses, or – in case of fruits and vegetables – directly to the retail network,
- 3) guaranteeing a timely purchase of the whole agreed production, its sales for prices respecting the importance of the cashed products regarding the market demand and ability of a flexible intervention to support the seasonal plant products, in case of animal products outreaching the marginal costs per production unit,
- 4) continuous mapping the development trends of marketing in the food market, their processing and interpretation. Therewith, we can not talk only about knowing the needs of the current consumers, but also the future needs as a necessary prognosis for qualified decisions of the member-businesses about their production focus,
- 5) limiting the activities of mediators purchasing agricultural products for wholesale and storage businesses, i.e. other trade mediators. In terms of prices, these wholesale and storage businesses look like economically and legally independent businesses, with which the agricultural producers negotiate agreements concerning the sales of the necessary inputs. In fact, those businesses are governed by other, capitally strong organizations, which have a higher or lower influence on

the business strategy (depending on their share on ownership),

- 6) the need of forming a sufficiently strong economic basis, which will serve as a back-up for its members in case of their financial insufficiencies,
- 7) helping to partly regulate the cash flow of member businesses, depending on realizing their production through the sales organization, in correlation with the necessary level of liquid cash for a timely fulfilment of agreed obligation thus creating goodwill in trade-commitment relations,
- 8) forming an effective counterbalance of gradually concentrating processing capacities in food industry and strong production-economic and trade excellent business subjects, which – thanks to the vertical integration – can influence the primary agricultural production.

Except for these fundamental sales activities, we see a substantiation of sales organizations in mediating the purchase of inputs for realizing production program of their members, thus strengthening “their importance and partly decreasing the economical dependence on their members” (Stávková 2003).

A lot of our agrarian businesses have understood the importance of building high-capacity warehouses, not to be forced to sell products, especially grains, immediately after their harvest. In the district of Prostějov, nine firms are interested in building such a capacity. The expected costs of construction reach CZK 68 million, of which 50% will be covered by subsidies. In Rostěnice (the district of Vyškov), they have built a desiccator and storage with the total capacity of 17 000 tons.

### **Lessons from Austria**

In Austria, there operate 31 approved producer organizations. These were established gradually since 1966. Feeding pigs in order to stock the market is done by only three federal lands – Upper Austria, Lower Austria and Steirland. The capacity of three producer organizations specialized in feeding pigs satisfies almost the whole market production. The way of financing is divided among two sources, regional and federal. On the regional level, two sources are used, again: provisions from processors and provisions from members.

On the federal level, finance is gained in the following way: 50% from the federal budget and 50% is paid by members associated in regional organizations. Trade with the production is done in the way that members sell all produced sucking pigs to the sales organization, and sales of fat-pigs is not limited. The

sales organization, though, motivates its members to sell the highest possible volume of the produced pigs. They refer that 60% of members deliver 100% of their pig production to the producer organization, 20% of members deliver 90 to 100%, and the remaining 20% deliver a varying amounts. Most of the sales organizations are focused on sales of grain production (7) followed by sales of beef (4), pork (4) and vegetables (4). Potatoes are sold by 3 sales organizations, eggs and hops by two organizations.

Producer organizations in Austria are established based on the free decision of producers producing the given product. They can have various legal forms. Organizations established according to the Directive of the European Council No. 952/1997 have to fulfil the criterion of the minimum number of members, minimum turnover or volume of sold production. In the fruits and vegetables sector, the conditions of establishment and acceptance of producer organizations are extended by the condition related to the minimum volume of production in the respective federal land.

### **Trends of modern purchasing in retail chains**

Trends of modern purchasing in retail chains develop in two major directions. The first direction is characteristic by strengthening the control and organization functions of management on all levels. The second direction focuses on forming strong trade organizations and establishing central distribution and purchasing. Thus, there concentrates the strength of the mutual trade and cost savings. The management functions especially include identification of strengths and weaknesses of suppliers, elaborating a SWOT analysis in order to use the results for the differentiated approach to trade contacts. They also include using computing technology and modern data processing technologies, often called computer managed support of purchasing processes. Another feature is a purposeful regulation of purchasing activities. Intuitive purchasing is definitely left because reaching goals requires a goal oriented purchasing. The trade transfers from the passive role of waiting for offers of particular producers within their assortment policy to initiating the demand and consistent judgment and evaluation of all aspects of suppliers. Purchasing management becomes an important co-creator of trade assortment sales. It bears a full responsibility for purchasing. Therefore, it strains for purchas-

ing a standard high quality of particular deliveries. Decision-making process is necessary to be based on multi-criterion selection aimed on fulfilment of assortment needs of particular chains.

The second trend is characterized by full overtaking the responsibility for the previous activities of wholesales by the central purchasing. This qualitative change implies the following duties of the trade centre: it bears a full responsibility for the selection and evaluation of suppliers, for the agreed conditions of purchase, selected method of distribution, formation and actualizing the goods database. It assures the requested width and quality of the purchased assortment, sales support with regard to guarantees of the particular types of goods and private labels as they are defined by the particular formula. It is necessary to emphasize, that monitoring the guarantees and also the amounts of goods in stock is a necessary condition of keeping the purchasing effective. Together with the logistics department, it is responsible for the level of purchasing, transportation and storage processes.

In connection with introducing the private retail labels, the trade department seeks more potential suppliers assuring production or delivery of goods in sufficient amounts and high quality standards. From the offers, it selects the suppliers fulfilling most of the set criteria. Sometimes it decides between the product recipe, packaging, weight of a pack and other attributes, according to which customers evaluate the offered goods. When selecting suppliers, especially the unit prices, offered or kept quality, the extent of the offer and regularity of the particular deliveries are considered. Some of the retail chains demand such amount of goods from one supplier that will suffice for stocking all outlets in the demanded amounts.

When negotiating the purchasing conditions, it is intensively dealt about the terms of payment, marketing support of the delivered goods, times and terms of the minimum amounts. The co-responsibility of the central purchasing for distribution methods represents the decisions about how the goods will be transported, whether directly, through direct deliveries (whole wagon or truck deliveries), or through supplies from distribution centres of the particular retail chains. Central purchasing is also responsible for the formation and extension of goods database in all indicators as it is required by the law on food and the supplementary directions to this law.

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<sup>8</sup> The authors know of a case, when from a specialized food business producing one product, the buyer was purchasing 90% of produced goods. The buyer has stopped the cooperation, which forced the food business to stop the production and reorient into another activity.

Modern trends of purchasing use diversified purchasing options, long-term mutually profitable trade relations, when purchasing is oriented on several decisive<sup>8</sup> and reliable suppliers. Individual negotiations are characteristic by openness, honesty and precise definition of demands, production of products in compliance with ISO standards. The partners keep mutually informed about the current state of preparation of deliveries, suppliers work based on quality improvement programs. They often cooperate on product development (it is very obvious in some types of food). The retailers use the supplier's know-how in promotion.

## DISCUSSION

The volume of trade turnovers of the particular retail chains and the concentration of sales to a single centre shows the necessity of disposable stock in the assortment of the goods sold. The research conducted by the Incoma Research and the GfK Praha proved, that hypermarkets represent the main place of purchasing food for 35% Czech inhabitants. 20% of respondents buy food in supermarkets. Differences between these two types of stores can be seen in the assortment-width of goods offered. Hypermarkets sell a wider variety of goods thanks to the sales area, which can be differentiated according to the interests and needs of customers.

Promptness, attractiveness, depth and width of the assortment depend on the time customers spend in the shop. The research of the Incoma has confirmed, that a quarter of customers need 2 hours per one shopping, in average, half of the respondents need 1–2 hours. Only 20% of respondents stay less than one hour in a shopping centre. The research proved that whereas the frequency of shopping did not change, the amount spent has significantly grown to the current average of CZK 1 640.

The frequency of visits is an overall result of marketing activities including the realized motivation price actions. Retail chains monitor the indicator "average consumer". It is a quantification of how many times per year one customer visits the store. It is valid, that a lower number of visits represents higher amounts spent for a purchase, whereas a higher frequency of visits represents lower volumes of purchases. An advantage of more frequent visits can be the communication with the customer. E.g. the Jednota stores are visited 71 times per year in average, which means one to two visits per week.

Comparison of these numbers shows, how much the retail chains have to stock their stores, when

customers use the flyers when shopping. Apart from the amounts of centrally purchased goods, also the variety of assortment is important. The Makro Cash & Carry CR, s.r.o., operates 11 branches in the Czech Republic, and registers about 1 million customers. In the case of meat products, the assortment frequently changes, because the supplier network changes a lot. The research has shown that customers recorded the knowledge of multiple suppliers of potato chips, but the same ones. "They have requested to offer not only the classical straight chips of various firms, but also the kisses, grids, and other shapes. Managers of the Makro Cash & Carry CR, s. r. o., are considering this proposal, and if it is introduced, they will buy them from a lower number of firms, because they are limited by the sales area", says Cerman (1995).

The trade company Makro Cash & Carry CR, s. r. o., emphasizes the necessity of effective cooperation with suppliers. "Management of one product category is cooperated on with only one supplier. If there were more suppliers in managing one category or subcategory, the whole project will take a too long time. They are afraid that the competing suppliers will keep remarking their suggestions" (Cerman 1995). Therefore, they pursue to be objective before taking decision and signing a contract. They consistently discuss the success of the particular private labels with suppliers. "All recommendations of suppliers cooperating with us in particular categories come from the concrete number reflecting the sales of the particular private labels. When it shows, that the brand sells well, there is no reason for the category management not to provide a sufficient space on the sales area. The selected supplier is called "category captain". But when the products are not successful, they are taken from the market. Dissatisfied suppliers receive a good reasoning for these decisions" (Cerman 1995).

In another retail chain, the purposeful and continuous work with suppliers becomes the keystone of the central purchasing activities. The sense is in persuading the supplier of being a promising, perspective and stable source of sales. Advantages offered by the chain to its business partners include:

- long-term partnership (long-term development of relations based on openness, trust, and common activities in the field of cost cutting, e.g. by electronic interconnection of databases),
- solvency (ability of suppliers to get finance for the goods delivered in the agreed terms),
- stability being a term for both partners. It represents mutual assurance of agreement relations.

On the other hand, they request their suppliers to provide:

- acceptable economical conditions and a quality supply service based especially on keeping the agreed terms of quality, amounts and times,
- economic conditions including the level of unit prices influenced by the provided discounts and bonuses, performance evaluation and sales support agreements,
- exact times of delivery, which is the time when the supplier has to react. It differs according to the demands of a delivery from one to five days. The company tries to achieve three-days delivery terms,
- service level. It is understood, that there cannot exist an article, which the supplier would not be able to deliver. Service level represents the time, amount and quality,
- flexibility, meaning a flexible reaction of supplier to the additional requests of the retailer,
- equivalent relation and close cooperation. This principle is necessary for the concrete trade relations established.

## CONCLUSION

Integrated purchasing of agricultural sales organizations and multinational retail organizations ranks among important internal units. The importance of this unit is not based only on the fulfilment of its mission, but also by the fact, that the multinational retail chains are mostly managed by their vice-presidents. Importance of the centralized purchasing is seen mainly in the strong position of buyers towards suppliers, negotiating optimum conditions of purchase in coherence with the philosophy of the organization and its particular formulas, for which the goods is purchased. Successful purchasing requires close relations with the logistics department, qualified and strong team of people. Centralized purchasing places started to form also the alliances of trade cooperatives. They are driven by the strain to cut purchasing costs and to gain a better negotiating position. Integrated purchasing is a trend production has to quickly adjust to, and to seek all opportunities of strengthening the supplier position.

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