

SIZE OF RETAIL BUSINESSES AND THEIR LEVEL OF ADOPTION OF GLOBAL SOURCING

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Abstract

This article uncovers the relationship between the size of retail businesses and their level of adoption of global sourcing and also discusses the challenges faced by shoe retailers in Cape Town, South Africa. A mixed method approach was used to collect and analyse data from a census group of 40 shoe retailers within and around Cape Town. The data was collected using questionnaires and in-depth interviews. The results of the study reveal that the size of the business plays an important role in the adoption of global sourcing. The results also reveal that smaller businesses find it difficult to acquire the resources required to execute an effective global sourcing operation.

Keywords: Global Sourcing, International Procurement, Offshore Outsourcing, Internationalisation

1. INTRODUCTION

The era of globalisation has formulated vast platforms for ingenuity. One such platform that has captured the attention of most companies around the world is global sourcing (Trent & Monczka, 2003). The essence of globalisation dictates the eradication of geographical boundaries and focus on bringing commodities, people and information closer together through the use of technology. Advanced technology has influenced companies to adopt global sourcing. In addition to that, extreme levels of competition brought to the fore the need for the creation of sustainable competitive advantage as one of companies' strategic priorities (Zeng, 2003). Cost saving has also been one of the major attributes that compelled most companies to consider global sourcing which has been documented to be capable of reaching cost savings of 10 - 40% compared to local sourcing (Frear, 1992; Minahan, 1996).

Global sourcing has also drawn great attention within the retail industry because of the cost saving benefits, which has seen an inspired renewed emphasis resulting in aggressive expansion and development within the areas of global sourcing (Jonsson & Tolstoy, 2013). Cho & Kang (2001) indicated that since business operation between production companies and retail companies are different, the same should apply to their global sourcing operations.

According to Trent & Monczka's (2005) global sourcing evolution diagram, businesses adopt different sourcing strategies (global sourcing has three distinctive stages which are further explained in the literature review below) of global sourcing based on their size and resources availability. The shoe retail industry in Cape Town has been heavily active in terms of adopting global sourcing in all its three stages (domestic sourcing, International procurement and global sourcing). According to the

Department of Trade and Industry (2013), the city has seen increased growth in imports, which indicates the rise of global sourcing strategies in the two international forms (global sourcing and international procurement). Trent & Monczka (1992) established that global sourcing is distinguished into three main categories, namely: domestic sourcing, international procurement, and global sourcing. All these categories have been successfully adopted by shoe retailers in Cape Town. The terms global sourcing will be used in this paper interchangeably to represent all three stages.

This paper aims to understand major components of global sourcing, particularly the establishment of relationships between sourcing strategies and the size of a business. Challenges faced by shoe retailers to adopting sourcing strategies will be discussed, as it is an area that has not yet been explored. Most literature discussed focuses on production challenges of global sourcing (Cho & Kang, 2000). The field of retailing has limited documented sources on global sourcing hence this paper aims to also satisfy this need and add more information to the body of knowledge.

2. LITERATURE REVIEW

Trent and Monczka (1991:4) define global sourcing as the collaboration and coordination of procurement necessities across "global business units, identifying common merchandise, supplier, technology and processes". Schneid (2004:3) concurs with the definition and posits that global sourcing is an organised purchasing, marketing and strategic orientation of supply-chain management on a worldwide scale. Vasudeva (2011:58) has a similar perspective on the definition of Trent and Monczka (1991:4) and Schneid (2004:3); he describes global sourcing as "proactively integrating and coordinating common items and materials, processes, designs, technologies and suppliers

across worldwide purchasing, engineering and operating locations”.

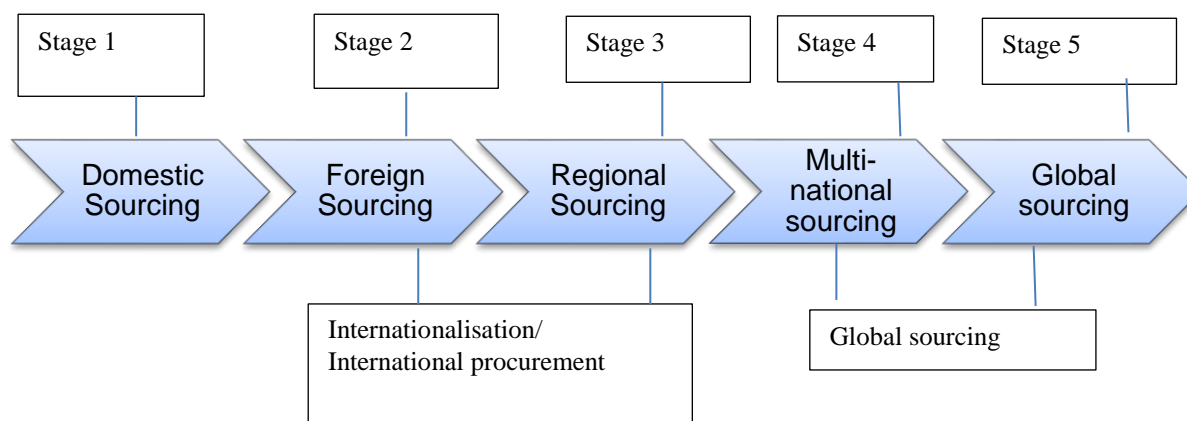
The above definitions highlight certain key areas that determine global sourcing. These include production and purchasing from foreign markets, advancement in technology, price economies and coordination of resources and information. These factors are the benchmarks for an effective global sourcing strategy. Trent & Monczka (2005) identified other factors which are equally crucial to an effective global sourcing operation; and they include executive commitment of global sourcing, rigorous and well-defined processes; availability of required resources; integration through information technology; supportive organizational design; and structured approaches to communication methodologies to measuring cost savings.

2.1. Global sourcing evolution

Trent & Monczka developed a well-recognised global sourcing diagram that depicts the five major stages of global sourcing. These stages compose of the essence of domestic sourcing, international procurement and global sourcing. The premise of this diagram is based on the belief that business growth also influence the sourcing strategy adopted by a business. The bigger the business, the more likely it is to possess vital resource for sourcing operations. Global sourcing comprises of different stages depending on the resources, the willingness of management and the size of the company. Trent and Monczka (1991:4) create a development process and mention the different characteristics within the stages.

Below is a structured diagram showcasing the buying evolution within companies, according to Trent and Monczka (2003:614). The diagram is recognised by Hong and Holweg (2005) as the commonly used explanation of global sourcing.

Figure 1. Global sourcing evolution diagram



Source: Trent and Monczka (2003:614)

According to Trent & Monczka (2003:613), a business goes through a development continuum of evolution. The authors further mention that most businesses start up from domestic sourcing and only internationalise when their businesses and operations expand. This point is supported by Rajagopal & Bernard (1993:4) who argue that sourcing evolves with the maturity of the business through a continuum and the significance of integrating resources within the organisation to ensure competitive efficiency. Trent & Monczka (2003:613) observe that there is a large number of companies at the early stages of development, specifically stages 1 and 2, which is the opposite of the last stages of development (stages 4 and 5) where companies are fewer. The authors postulate that, as the process matures, there are fewer and fewer firms that practise the upper levels of global sourcing. The reason for this decrease in number is that companies only reach the two stages when they have realised a worldwide sourcing position (Trent & Monczka, 2003:613).

Mohammad & Julien (2010:2) explain Trent & Monczka's (2003:613) model as developing from sourcing locally to an international strategically coordinated sourcing strategy. The authors' further

point out that domestic sourcing involves acquiring merchandise locally, which is within the boundaries of the country. Stage 2 encompasses both local sourcing and outside-border sourcing.

Stage 3 is depicted by Mohammad and Julien (2010:2) as "worldwide buying as part of purchasing strategy". Instead of international procurement being a supporting tool to complement local procurement, in this stage it is the main sourcing tool for the organisation. Global sourcing is encompassed by stages 4 and 5 where there is an integration of resources and strategies on a worldwide scale. The difference between the two stages is that stage 4 includes both regional and worldwide purchasing strategies while stage 5 is dedicated to worldwide purchasing only.

2.2. Why global sourcing?

After understanding what global sourcing is, the next logical question is to ask: why global sourcing? This section will discuss the reason why companies are investing so heavily in resources to ensure that they fully benefit from the advantages of using global sourcing.

Global sourcing can implicate a cost reduction of 15 to 30% compared to local sourcing (Cho, 2001:542). This, amongst many, is the main reason why companies have been swayed to the idea of implementing global sourcing. PWC (2010:5) concur and points out that global sourcing is a solution to competitiveness and survival in the modern business world. This, amongst many, is the main reason companies are exploring the option of global sourcing compared to sourcing domestically. Platts (2010:320) agrees with this reasoning and is of the opinion that the likely destination for most companies that practise global sourcing is China and Vietnam. The reason why China is regarded as the most suitable location for global sourcing is the price advantage it offers its clients (Frear, 1992:2; Minahan, 1996:65; Mankino, 1999:42).

However, despite the opinion of Frear (1992:2), Minahan (1996:65) and Mankino (1999:42) who suggest that China is the most economic location to manufacture and acquire products, Platts (2010:320) and Peterson (2000:29) are of the notion that China is not the cheapest place to acquire products because an average of 50% of the quoted prices are additional costs, while companies perceive additional costs to be only 25%, hence indicating that companies do not comprehensively measure costs for global sourcing.

Global sourcing is adopted by most companies because it improves their competitiveness.

Companies that employ global sourcing are in a position to offer better products at affordable prices. Global sourcing also enhances a company's image as it attracts recognition from suppliers and the world of its existence and vision. Foreign markets offer better quality products and, in some cases, products which are scarce or difficult to acquire. Another factor which fuels buyers to acquire from foreign markets is the better delivery terms in which the suppliers offer competitive lead times (Frear, 1992:2).

According to PWC (2010:7), another reason why companies source globally is to access qualified personnel. There are products which can only be produced by skilled and trained personnel who are unavailable in local markets, so companies have no choice but to source products from foreign markets that have the skilled personnel. PWC (2010:8) go on to point out that global sourcing facilitates the fragmentation of interdependent business units by seeking strategic alignment.

2.3. Advantages and disadvantages of global sourcing

Jean (2008:266) illustrates advantages and disadvantages associated with implementing global sourcing. These advantages and disadvantages are depicted below.

Table 1. Advantages and disadvantages of global sourcing

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|--|
| Increased size of potential supply base | Have to deal with foreign institutions such as border law enforcement agencies |
| Lower production cost, especially for labour intensive production | Have to deal with foreign cultures which could affect communication |
| Increased technical experience, mostly for high technology production | Have to deal with foreign languages which could affect communication |
| More flexible to switch between supply sources | Need to pay import duties where applicable |
| Enjoy benefits of economies of scale | Increased transportation costs and supply chain uncertainty |
| Source of intermediate products closer to raw materials | Forward integration by foreigner suppliers, patent infractions possible |
| Raw materials only available from foreign sources | Quality problems |
| Focus on core competencies | Negative effects on employee commitments and legitimacy at home base |
| Reliance on independent suppliers, and decreased ability to keep abreast of emerging technical requirement | |

Source: Jean (2008:266)

A common but vital benefit of global sourcing is its ability to reduce costs; this is amongst the main reasons global sourcing has been a major priority for most companies (Liu et al., 2008:436; Monczka & Morgan, 2000:86; Tsai et al., 2008:415). Contrary to the perception of Zeng and Army (2003:367), Christopher et al. (2011:70), and Trent and Monczka (1991:4) that global sourcing facilitates cost saving in firms, other authors suggest that there is a need for a balance between outsourcing and insourcing. Jean (2008:266) argues that if a firm outsources (global source) all of their activities this can lead to a deficiency in innovation, bargaining power and a loss of identity of the firm.

On the other hand, firms that insource all of their activities run the risk of failing to utilise the powerful incentives supplied by markets (Jean, 2008:266). As the company does more offshore outsourcing the highlighted disadvantages above become more and, inversely, if a firm insources all

of its activities the advantages highlighted above become less (Jean, 2008:266).

According to Jean's (2008:266) Table, global sourcing influences the advancement in technology through exposure. Trent and Monczka (2003:609), Monczka and Morgan (2000:86) and Fagan (1991:23) all concur with Jean (2008:266) and explain that newly discovered technology is used to explore new markets and enhance the company's ability to source globally.

Through global sourcing the quality of products also improves (Trent & Monczka, 2003:608; Humphreys et al., 1998:176) as firms enjoy diversity in options (Jean, 2008:266). According to Fagan (1991:23) the availability of a big supply base also makes it possible for sourcing firms to acquire scarce or rare materials or products.

Despite the advantages mentioned above, global sourcing exposes users to vast challenges such as a decrease in earnings due to hidden costs (Fagan, 1991:23; Tsai et al., 2008:416). Other

challenges include hyping transport costs and supply-chain risks due to the potential breakdown of modes of transportation (Jean, 2008: 266). This also leads to longer lead times which disrupt the company's plans and the firm's competitive strategy as well as customer expectations of the business (Fagan, 1991, Fitzgerald 2005:16).

According to Trent and Monczka (2005:25) and Jean (2008:266), global sourcing faces cultural difference challenges. These authors further point out that when different people with different backgrounds and cultures meet to trade this usually complicates the process of trade - especially if the trading parties have little information on each other's customs and cultures - and results in misunderstandings or even no trading at all.

Not only can cultural difference hinder sourcing operations but so can political instability (Liu et al., 2008:437; Fagan, 1991:23; Fitzgerald, 2005:17; and Manuj & Mentzer, 2008:133). Developing countries are commonly affected by political instability and to conduct global sourcing in such regions is very difficult.

Lui et al. (2008:435); Fagan (1991:24); and Trent & Monczka (2005:25) all agree that exchange-rate fluctuations are another limiting factor to global sourcing because they make the activities very unpredictable. The global sourcing budget is mostly affected by this challenge and it forces most companies to formulate pragmatic means to ensure minimal damage to budgets set. Budgets enable companies to know their cost savings through global sourcing but this is not possible if the budget is constantly disrupted. This also affects the expected trading costs of companies because they have to pay for any budget variances encountered (Fagan, 1991).

As mentioned earlier by Jean (2008:266), global sourcing involves an increase in rules and regulations that involve abiding by foreign and local laws on imports and trade. According to Trent and Monczka (2005:25), these rules and regulations involve acquiring and filling in the necessary paperwork both foreign and domestic; this is known to be very tedious and time-consuming in the event of the company performing the process itself.

3. METHOD

The sample groups for this research were derived from major shoe retail clusters within the city which included areas in and around Cape Town CBD; Woodstock, Salt River, Parow, Paarl, Kenilworth and Lansdowne. The research implemented a census sampling technique to select participants which ensured high volumes of data and improved reliability of information.

A case study format was selected as the best research strategy to use as it involved the analysis of "units" in the form of different shoe retailers with different business formats and operations. Baxter and Jack (2008) explained that for a case study to be one, it involves a unit of analysis known as a case hence supporting the selection of a case study for this research. Yin (2003) recognized that case studies are flexible and they can be easily manipulated to suit a research depending on case, context and type of research. This influenced the decision to select a single-embedded case study as it

best suited this type of research with multiple units within one major case.

The sub-units comprised of 80 shoe retailers who operate within the above mentioned areas. Logistics managers, retail buyers and executive management (owners, directors or functional department heads) were the primary respondents aimed to answer the research questions which were administered through a research questionnaire and in-depth interviews. These two data collection tools represented two different types of research philosophy, interpretivism and positivism. According to Lin (1998), these two schools of thought were once regarded as incompatible due to their comprehension of the area under study. However, he further outlines that the two compensate one another's flaws and improves the output of the research.

This reasoning highly influenced the research philosophy adopted for this study. A mixed method approach was employed, also known as triangulation, involving the use of both qualitative and quantitative means of data collection. As indicated earlier, in-depth interviews (which are qualitative in nature) and survey questionnaires (quantitative in nature) were administered to respondents. The use of triangulation also aided in asserting the validity and reliability of the information obtained through cross referencing information (Golafshani, 2003). 80 survey questionnaires were distributed to the target respondents through the implementation of the snow ball effect and pick and drop system. Irawati (2012) explains the snow-ball effect as process of inquiring richly informed research participants or people about locating prospective respondents based on the premise that they know the industry or people in that field of interest.

The data was analysed differently since they represented two very different paradigms. Survey questionnaires (quantitative data) were processed using Statistical Package for Social Science (SPSS) which provided descriptive statistics of the findings, in the form of mean, frequencies, standard deviation and percentages. Qualitative data was analysed through content analysis which involved coding the findings and presenting them in graphs, charts and percentages.

4. RESULTS, DISCUSSION AND CONCLUSION

The study focused on 40 shoe retailers within and around Cape Town. A total of 80 questionnaires were administered to different functional managers within targeted shoe retail companies. However, 62 questionnaires were brought back contributing to a response rate of 77.5%. According to Ray (2012:333), Mugenda & Mugenda (2003) a response rate above 75% should be regarded as 'fortunate' as it is very rare to achieve such a feedback rate. The results comprise of findings from both qualitative and quantitative methods incorporated into this research. They are used to complement each other through substantiating findings from either paradigm.

4.1. Size does matter

The study also aimed to evaluate the relationship between sourcing strategy and size of business. Trent & Monczka (1992; 2002; 2005) have continuously pointed out that as the business grows bigger, so does the development of sourcing strategy. However, very little has been documented on the relationship between the two above mentioned variables. This section explains the effect

of size of business to the sourcing strategies selected within a shoe retail format.

Stimpson & Farquason (2015) emphasise that there is no rule of thumb when evaluating the size of a business. However, there are some ways which can be used to distinguish or compare businesses. The use of number of employees as a determinant for organisational size has been considered as fairly accurate, which as a result was used to for this section.

Table 2. Cross tabulation between number of staff and sourcing strategy

| Employee * Sourcing strategy used Cross tabulation | | | | | |
|--|-------------|------------------------|---------------------------|-----------------|-------|
| Count | | | | | |
| | | Sourcing strategy used | | | Total |
| | | Domestic sourcing | International procurement | Global sourcing | |
| Employees | 5 and below | 27 | 4 | 1 | 32 |
| | 6- 15 | 0 | 5 | 2 | 7 |
| | 16-50 | 0 | 6 | 0 | 6 |
| | 51 or more | 0 | 2 | 15 | 17 |
| Total | | 27 | 17 | 18 | 62 |

| | Value | Df | p-value (2-sided) | Exact p-value (2-sided) |
|--------------------|---------------------|----|-------------------|-------------------------|
| Pearson Chi-Square | 75.566 ^a | 6 | .000 | .000 |
| N of Valid Cases | 62 | | | |

There is a significant relationship between the size of a company, represented here by the number of employees, and the sourcing strategy used by the companies ($\chi^2 = 75.566$, d.f. = 6, p-value < 0.001). The results support the findings of Trent & Monczka (1992, 2002, 2005) as there is an evident relationship between the variables, and importantly the similarity of the premise to the shoe retail industry. 5 of the 32 respondents who have 5

employees and fewer adopt IP and GS while all 17 of the respondents with 51 and more employee implement global sourcing.

The number of branches retailers have was also used as a determinant of organizational size. Most successful retail establishments are normally chains and from these chains stores, one can grasp an overview of the size of a business hence the reason of using it as a factor in this research.

Table 3. Cross Tabulation between number of store and sourcing strategy

| Crosstab | | | | | |
|------------------------------|---------|------------------------|---------------------------|-----------------|-------|
| Count | | | | | |
| | | Sourcing strategy used | | | Total |
| | | Domestic sourcing | International procurement | Global sourcing | |
| Number of branches available | 1-5 | 26 | 4 | 1 | 31 |
| | 6-20 | 1 | 6 | 1 | 8 |
| | 21-more | 0 | 7 | 16 | 23 |
| Total | | 27 | 17 | 18 | 62 |

| Chi-Square Tests | | | | | | |
|---|---------------------|----|-------------------|-------------------------|-------------------------|-------------------|
| | Value | Df | p-value (2-sided) | Exact p-value (2-sided) | Exact p-value (1-sided) | Point Probability |
| Pearson Chi-Square | 53.305 ^a | 4 | .000 | .000 | .001 | |
| a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is 2.19. | | | | | | |
| b. The standardized statistic is 6.468. | | | | | | |

There is a significant relationship between the number of branches and the sourcing strategy used by shoe retailers in Cape Town ($\chi^2 = 53.305$, df = 4, p-value < 0.001). Shoe retailers with less branches mainly source domestically, evidenced by 26 of the 31 shoe retailers practising domestic sourcing (83.87%). Of the 23 participants who have 21 or more branches, 16 indicated that they source globally, while 7 indicated international procurement and none sourced domestically. The opposite was true, with only 1 respondent indicating

they source globally, 4 practiced international procurement and 26 sourced domestically. This shows that the number of branches does indicate the sourcing strategy adopted by the retailers.

The level of investment management is prepared to make for global sourcing has been highlighted as crucial to an organization that is pursuing advancement in IP and GS (Trent & Monczka 2005). However, similar to organizational size, it is speculated rather than tested, the relationship between investment and sourcing

strategy implemented. Therefore, this section aims to unveil the relationship of the two within a shoe retail based format.

Table 4. Cross tabulation between sourcing strategy and level of investment in global sourcing

| Crosstab | | | | | |
|-------------------------------|-------------------|------------------------|---------------------------|-----------------|-------|
| Count | | | | | |
| | | Sourcing strategy used | | | Total |
| | | Domestic sourcing | International procurement | Global sourcing | |
| Investment in global sourcing | Strongly agree | 1 | 6 | 12 | 19 |
| | Agree | 3 | 4 | 6 | 13 |
| | Neutral | 9 | 6 | 0 | 15 |
| | Disagree | 10 | 1 | 0 | 11 |
| | Strongly disagree | 4 | 0 | 0 | 4 |
| Total | | 27 | 17 | 18 | 62 |

| Chi-Square Tests | | | | |
|--------------------|---------------------|----|-------------------|-------------------------|
| | Value | Df | p-value (2-sided) | Exact p-value (2-sided) |
| Pearson Chi-Square | 38.298 ^a | 8 | .000 | .000 |

a. 10 cells (66.7%) have expected count less than 5. The minimum expected count is 1.10.

There is a strong relationship between level of investment and sourcing strategy ($x^2 = 38.298$, $df = 8$, $p\text{-value} < 0.001$). Table 3 above highlights a total of 18 respondents who source globally and feel that their global sourcing operation is well funded. This indicates that global sourcing and international procurement require investment, which is what shoe retailers are doing to support their sourcing operations.

4.2. Challenges faced by retailers when adopting global sourcing

Shoe retailers who identified themselves as major participants in GS and IP explained that despite the advantages, GS and IP have challenges which may hinder the entire procurement process of organisations. Such reasons have forced some retailers to remain sceptical about moving further with the GS evolutionary stages (Trent & Monczka, 2002). Some shoe retailers have based their procurement processes on sourcing intermediaries who absorb all the risk and ensure provision of comfortable debt payback periods. Since cash flow is a challenge for small to medium sized enterprises (Picard, 2002), most shoe retailers pursue opportunities where they can enjoy credit while continuing practicing business, and this as a result has made intermediaries very popular in Cape Town.

Retail establishments Stock Keeping Units (SKU) levels of most Cape Town shoe retailers are smaller to those of other global sourcing companies which significantly affects the production of the designs of shoes. Manufacturers and suppliers dictate that production only commences when a specific number of shoes is ordered for one range which in turn is not economically viable for most shoe retailers in the city. As a result, most shoe retailers are utilizing the services of intermediaries since they are still interested in the advantages associated from international procurement.

The activities of multinational companies in the GS and IP realm have created a difficult platform for smaller companies or retailers to also participate. Manufacturers and suppliers alike have set stipe standards which include paying a deposit of 50% of

the total cost of an order, which in a rational sense is difficult to achieve for most shoe retailers in the city. This is also accompanied by other design and sourcing costs which to most shoe retailers are considered unnecessary and inconvenient. This data is supported by Steinle & Schiele (2008) who identified the negative influence of suppliers on unwanted or list preferred clients who in this scenario are small to medium sized enterprises with very little spending budgets. They further explain that these customers are least prioritized since their contribution to their overall sales is minimum hence dedicating less effort to making sales with these establishments.

Juttner et al. (2003:198) explain that great distance pose a great risk when sourcing. This is also a challenge since there are multiple alternatives to sourcing, particularly shoes. South Africa has been very active in terms of clothing and footwear production and despite the great emergence of IP and GS, it remains a lucrative source of shoe merchandise hence the complicating global sourcing adoption. Sourcing domestically, according to retailers, serves as a symbol for patriotism for their country and importantly offers a peace of mind in terms of quality assurance. Retailers are under the assumptions that locally produced shoes are of better quality as compared to imports which as a result justifies the prices and cost associated with them.

5. CONCLUSION

As with global sourcing of production companies, shoe retailers abide to the same laws of global sourcing and international procurement with information sharing and collective decision making as the back-bone of the whole strategy. As mentioned earlier, this proves valuable to coordinate and formulate global logistical network and identify potential financial threats through analysing and tweaking processes to shorten the travelling distance as well as ensure that economies of scale are enjoyed through global network configurations.

It was also observed that there is significant relationship between sourcing strategy and level of

investment, number of employees and number of branches one company has. All these three factors determine the size of a retail establishment as they are normally the benchmarks used to distinguish or evaluate the size of a business. The results tested positive with regards to the relationship between the size of the business and its ability to implement global sourcing. This may be because the nature of global sourcing stipulates resource demanding operations which can only be supported by larger corporations and the same applies within the shoe retail spectrum.

An increase in human resource personnel in particular significantly influences the adaptation of global sourcing as the strategies require experienced and qualified people to execute them (Trent & Monczka, 2005). This has been supported by the results as there has been a significant relationship of the two variables. It also goes on to support how much dependency global sourcing has on human resource since it is vastly used within all major global sourcing activities.

The essence of the strategy remain the same despite different business formats, however its significance may not be as great as compared to production industries, particularly in Cape Town. The emergence and dependency on sourcing intermediaries has become very popular especially considering that most shoe retailers within the city are small to medium sized enterprises hence the need for their aid. The sourcing intermediaries' ability to offer credit in the form of 30-day payment plans, assortment of merchandise as compared to sourcing one single range from overseas and peace of mind as they absorb all risk and responsibility to get the merchandise from over-seas make them a better option for retailers.

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