

# Investigation of buying in retail companies

*Understanding the effects of a central warehouse*

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This article summarises the master thesis by Lämsä & Mattsson (2014). The aim of the thesis was to investigate how the retail buying organisation is affected by an establishment of a central warehouse. This article presents the background, theoretical framework, methodology and the conclusions from the study. The article ends with theoretical and managerial contribution followed by suggestions for future research.

**Keywords:** Retail buying organisation, retail buying, retail buying process, buying structure, buying skills, retail.

## Background to the study

Company Green<sup>1</sup>, a retail chain company with several franchise stores in Sweden, plans to move from franchise stores to fully owned stores. They have also made the decision to establish a central warehouse. An illustration of the transformation is seen in Figure 1. With the establishment of the central warehouse Company Green is interested in getting deeper knowledge of how a retail buying organisation is affected. Areas that they are interested to gain deeper knowledge about are:

- What roles to include in the buying organisation?
- What buying activities to perform?
- Where these activities should be performed?
- If there will be a change in required skills and knowledge as a buyer?

According to Abrahamsson et al. (2011)

<sup>1</sup> The participating companies in the study wish to be anonymous and have therefore been given fictive names.

centralised warehouses and distribution centres are becoming more common among retailers. Though, how a retail buying organisation is affected by the establishment of a central warehouse has not been found in literature, which makes the study interesting from both a practical and theoretical point of view.

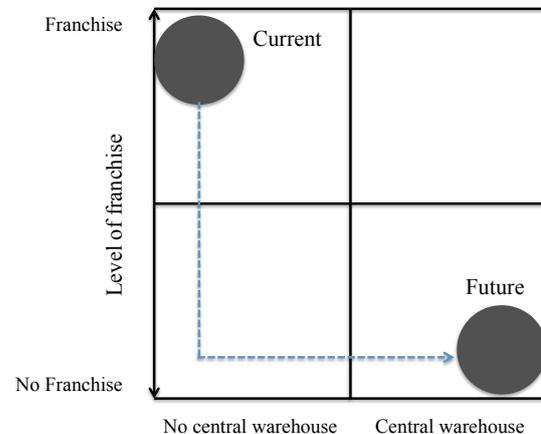


Figure 1: Transformation of Company Green

## Purpose and research questions

The aim of the study was to investigate how the retail buying organisation is affected by an establishment of a central warehouse. To reach the purpose the following research questions have been formulated:

1. How do the buying structure & roles, buying process and buying skills look like in the retail buying organisation?
2. How are they affected by a central warehouse?

## Theoretical framework

The theoretical framework of the thesis introduces the reader to what retail is in section 1-3: 1. *An introduction to the retail industry*, 2. *Retail buying* and 3. *Retail buying philosophies*. Furthermore, in section 4-7 deeper knowledge in the areas of the thesis is created: 4. *Structure of buying activities*, 5. *Roles and responsibilities related to buying*, 6. *The retail buying process* and 7. *Skills related to buying*. In section 8. *Distribution in retail* the purpose of a central warehouse is understood and the theoretical framework ends with a *Conceptual framework*, which summarises the areas of the study and discusses, in a predictive manner, how they might be affected by the establishment of a

central warehouse. Below the main areas of investigation are summarised.

### **Buying structure & roles**

Buying structure is referred to as the organisation of buying activities. The structure of buying activities is dependent on industry adherence, organisational size and historical background (Mattsson, 2012). Common buying structures are centralised and decentralised buying (Clodfelter, 2013; Varley, 2001). Clodfelter (2013) distinguishes three types of centralised buying: central merchandising plan, warehouse requisition plan and price agreement plan.

The two main roles identified in the buying organisation are the buyer, focused on the more qualitative activities, and a merchandiser, focused on the more quantitative activities (Varley, 2001).

### **Buying process**

The retail buying process is explained by Johansson (2001, pp. 333) as “*the set of activities that have to be performed to move a product from the manufacturer to the consumer*”. In the study the retail buying process is inspired by the industrial purchasing process by van Weele (2010) and the retail buying process by Varley (2001), see Figure 2. The retail buying process consists of tactical phases and operational phases (van Weele, 2010).

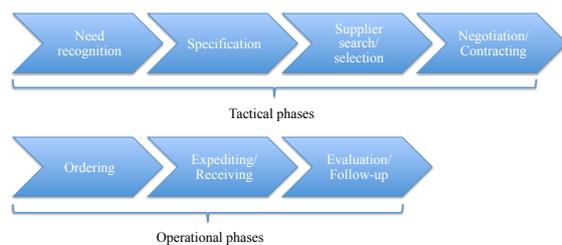


Figure 2: Adapted buying process

### **Buying skills**

Buying skills are skills that are considered important to have as a buyer. The term buying skills in the thesis does also refer to relevant knowledge needed as a buyer. Retail buying skills are summarised from literature by Diamond & Pintel (2001) and Varley (2001). Furthermore, skills needed as a professional industrial purchaser by Giunipero & Percy (2000) are also included in the study.

## **Methodology**

When studying how the retail buying organisation is affected by an establishment of a central warehouse, a systems view has been used. The studied system has been the retail organisation, which the retail buying organisation is a part of. As research strategy, a multiple case study has been selected with the retail buying organisation as unit of analysis. The design of the case study can be seen in Figure 3. The reason for selecting a case study is that the research questions require in-depth information to be answered, which characterises a case study.

The multiple case study has included three companies, Company Green, Blue and Yellow. The selection of case companies has been based on several criteria. The main criteria are that a participating case company should be similar to Company Green, but working with a central warehouse and with a different owner structure of stores. The criterion with difference in owner structure aimed to capture a part of Company Green’s transformation. Other selection criteria have been:

- Main business in the non-food retail industry
- Focus on buying of finished goods to be further sold
- Retail chain with several retail stores
- Buying organisation in Sweden

Based on the theoretical framework an interview guide has been developed to collect the necessary empirical information from the case companies. The interviews were recorded, transcribed and coded into different information areas. The coded information has then been condensed into case descriptions. The case descriptions consist of four main areas: retail buying structure & roles, retail buying process, buying skills and the effects of a central warehouse on these areas.

The empirical information from the case description has been analysed with the developed theoretical framework in a single case analysis, to find similarities and differences with existing theory.

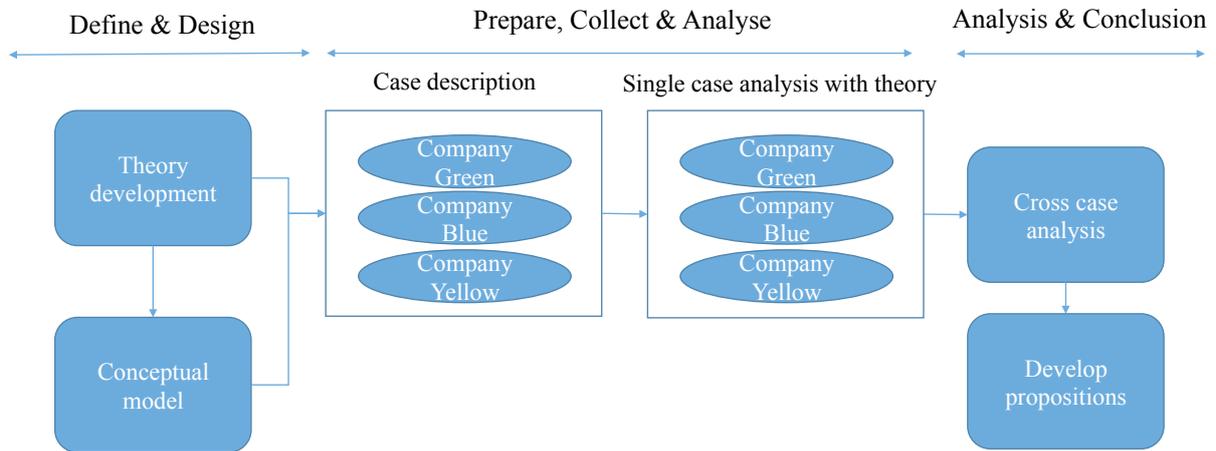


Figure 3: Case study design of the thesis

Important information from the case descriptions has been summarised in case tables for each main area in the thesis, which have been used as the basis for the cross case analysis. In the cross case analysis the information from the tables have been compared to find patterns which creates an understanding of how the buying organisation looks like and provide answers to the first research question. Furthermore, the cross case analysis aims to identify differences between companies with and without a central warehouse, and helps to answer the second research question. To finally answer the second research question of how the main areas of the thesis are affected by a central warehouse, a number of propositions were developed. The development of propositions are based on both perceived effects from the case companies and identified effects from the cross case analysis. The propositions were reviewed by a professional who has commented on the propositions' relevance.

## Buying structure & roles, buying process and buying skills in the buying organisation

### *Buying structure & roles*

The thesis shows that the buying structure is centralised in retail companies consisting of several stores that strive to offer a similar store concept and product assortment. The level of centralised buying is also dependent on the owner structure of the stores, where the level of centralisation is higher when having fully-owned stores since ordering to the stores can be centralised.

Considering the roles in the buying organisation it can be concluded that there are similar roles in the buying organisation among the case companies, and that a central warehouse and centralised ordering require new roles. What also can be seen is that when having a larger organisation there is a higher level of specialisation for each role.

In all case companies there is a main responsible for the buying organisation and someone working with all the tactical phases of the buying process for a specific product. Connected to the buying activities is the registering of product and supplier information. This activity is either performed by someone responsible for the tactical phases of buying or by a separate role. If there is a central warehouse the transportation and replenishment connected to the central warehouse lies within the buying organisation, on a logistics team. At last, if ordering is centralised an ordering team to replenish the stores is a part of the buying organisation.

### *Buying process*

Buying activities identified at the case companies could to a great extent be mapped by the buying process identified in theory, which shows that this is a suitable process to describe retail buying. The buying activities performed in each phase were not always consistent between the case companies, which makes it hard to say exactly what activities to include in each phase and how they should be performed. Since, some phases were more emphasised and depend on certain factors such as if the company focuses on buying

brands or private labels, the characteristics of the supplier market, the owner structure, if there is a central warehouse and how developed the IT-systems are.

### **Buying skills**

In the theoretical framework various skills needed as a buyer was identified. Some of these skills were emphasised by all case companies and could be considered as general buying skills: Negotiation, Communication, Product knowledge, Supplier identification and Supplier market knowledge. Furthermore, the study shows that skills needed as a buyer were dependent on the work performed and what focus or emphasis there was on certain activities.

### **Effects of a central warehouse on the buying organisation**

In total 11 propositions have been developed that demonstrate how the buying organisation is affected by the establishment of a central warehouse. The propositions are organised and presented in the three main areas of the thesis.

#### **Buying structure & roles**

Proposition 1-3 describe how the establishment of a central warehouse affects the retail buying structure & roles.

***Proposition 1:** The establishment of a central warehouse requires the retail buying organisation to include a stock controller/central planner focused on stock control, planning of deliveries and distribution of goods.*

***Proposition 2:** The establishment of a central warehouse will likely move the retail buying organisation towards more centralised controlled buying such as centralised merchandising plan and warehouse requisition plan.*

***Proposition 3:** The importance and responsibility of the retail buying organisation increase when establishing a central warehouse.*

#### **Buying process**

Proposition 4-10 describe how the establishment of a central warehouse affects the buying process. What can be seen was that all but one phase in the adapted buying process was affected. The phase where no affect could be identified was the need recognition phase.

***Proposition 4:** The establishment of a central warehouse will increase the importance of the distribution strategy in the specification phase of the retail buying process.*

***Proposition 5:** The establishment of a central warehouse enables the buying organisation to choose between more suppliers than before and affects the supplier search/selection phase in the retail buying process.*

***Proposition 6:** The establishment of a central warehouse affects the power balance between the retailer and the supplier in the negotiation and contracting phase, regarding transportation price and product price.*

***Proposition 7:** The establishment of a central warehouse splits the operational phases of the retail buying process, for products at the central warehouse, into two operational flows: one internal and one external operational flow.*

***Proposition 8:** The establishment of a central warehouse increases the flexibility in the ordering phase of the retail buying process and allows individual stores to place and receive orders in appropriate quantities from different suppliers in one order.*

***Proposition 9:** The establishment of a central warehouse concentrates the main flow of products through one point of contact, which facilitates the expediting/receiving and evaluation/follow-up phases in the retail buying process.*

***Proposition 10:** The establishment of a central warehouse will increase the need for a well-developed IT-system, which will affect how activities in the operational phases of the retail buying process can be performed.*

#### **Retail buying skills**

What can be seen in the study was that the buying skills identified in theory were not clearly affected by the establishment of a central warehouse. However, it could be concluded that the need for logistics skills were increased.

***Proposition 11:** The establishment of a central warehouse increases the need for logistics skills as a retail buyer.*

#### **Theoretical contribution**

Theory related to how a central warehouse affects the retail buying organisation has

been limited. The benefits of a central warehouse is described but not directly connected to how the retail buying organisation is affected. The thesis has created an understanding of how the establishment of a central warehouse affects the retail buying organisation related to the three main areas of the study and developed 11 propositions, which is a contribution to theory. Furthermore, theory about the retail buying process is scarce, but there is a lot of theory about retail and retail buying. The thesis has managed to organise fragmented theory about retail and retail buying into a retail buying process. The empirical information from the studied cases has also strengthened that retail buying can be studied as a process.

### **Managerial contribution**

In the thesis 11 propositions have been outlined, which emphasise how a retail buying organisation is affected by the establishment of a central warehouse and provide managers with important aspects to consider and reflect upon. The propositions were developed based on empirical data, which emphasises their relevance for managers.

Furthermore, the thesis has gathered relevant theory to understand the retail buying organisation in three main areas: buying structure & roles, buying process and buying skills. Especially the theory about the retail buying process can work as a baseline for future work and help managers to organise buying activities and create a holistic understanding of their buying. The retail buying process will help to create a clear structure of what phases and activities to perform. In addition, the thesis provides managers with information of how different retail companies work with buying, which could be seen as a source of inspiration.

### **Future research areas**

The authors have seen that a study of this kind has been hard to find. Therefore, it is of interest to perform a similar study on other companies in the non-food retail industry to see if the proposed propositions can be identified and strengthened by other

companies' experiences and way of working.

What has been identified in this study is that all case companies have centralised buying. It would be of interest to investigate what level of centralisation that is most common in the Swedish retail industry and whether it can be classified as a price agreement plan, warehouse requisition plan or centralised merchandising plan.

Another interesting finding is that logistics can be a part of the retail buying organisation, which emphasises a strong connection between logistics and buying. Whether it is common that logistics is a part of the retail buying organisation cannot be answered by this study and is an interesting area for future research.

Lastly, it has been seen that the phases of the retail buying process are not only affected by the central warehouse. Other factors that also affect are e.g. product type and how the supplier market looks like. It would be interesting to investigate if there are other factors influencing the different phases of the retail buying process and categorise if some factors are more common in certain retail sectors.

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