

To centralise purchasing of consultancy and temporary labour services

- A multiple case study

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This article is based on a multiple case study conducted at the companies ABB, IBM, SEB, and Systembolaget. The purpose of the study was first to investigate how possible purchasing functions and purchasing processes can be designed after centralisation of the purchasing of consultancy and temporary labour services, but also to examine the centralisation process and the challenges that come with such a change. In order to fulfil the purpose, both single case analysis of each company and cross case analysis of the companies, were conducted. The most important findings that have come out of these analyses are presented in the article.

Introduction

Indirect spend, which refers to purchases of goods and services that are not directly incorporated into a product being manufactured, has historically been less frequently discussed in the academic literature than direct, revenue generating, spend. This is the case even if the indirect costs often account for more than 20 percent of all purchases (by value) and 70-90 percent (by number) of the purchase orders (Cox, Chicksand, Ireland & Davies 2005).

In recent years, however, interest has increased and studies have been conducted on the purchase of indirect materials and services (Cox et al. 2005; Selviarides, Agndal & Axelsson 2010; Selviarides & Spring 2011). Furthermore, many companies have recognized indirect spend as a major area of potential improvement, where more coordinated purchasing of indirect materials and services can deliver significant cost savings (Cox et al. 2005).

When it comes to purchase of services, the departments using the service are often referred to as category experts and should therefore handle aspects such as: specifications, supplier selection, contracting as well as the ordering process. For example, the management team often handles the purchase of management consultants, and the marketing department handles the purchase of advertising agencies. Thus, getting these departments to work towards more standardised and coordinated purchasing processes can be challenging (Beer & Giacomini 2010). Moreover, according to van Weele and van der Valk (2010), the abstract nature of services makes it more difficult (than for direct material) to measure and to specify the quality of service; and the risk related to the purchase of services is greater than the purchase of physical products and raw materials. This is especially true when purchasing so-called professional services (e.g. consultancy and temporary labour services) which represent a complex task, and where

purchasing often takes place without the involvement of purchasing professionals from the central purchasing function (Mitchell 1994; Perner & Werr 2007).

Purpose and problem formulation

Due to the fact that purchasing consultancy and temporary labour services represent a complex task and is a relatively unexplored research area, it is an interesting field to study from an academic perspective.

The purpose of this master thesis was therefore to investigate how possible purchasing functions and purchasing processes can be designed after a centralisation of purchasing consultancy and temporary labour services. Furthermore, the thesis aimed to examine how the centralisation process was conducted and to understand the challenges that come with such a change.

The study has focused on the following research areas: consultancy and temporary labour services (definitions, categorisation, etc.), centralisation (purchasing before centralisation, centralisation process, current purchasing function), the purchasing and ordering process of consultancy and temporary labour services, and the challenges of a centralisation process.

Methodology

In order to fulfil the purpose, the method multiple case study was used. Case studies were conducted on four companies: ABB, IBM, SEB, and Systembolaget, as well as on the pilot study company Sandvik. The outcomes of the case studies resulted in case descriptions from each company. Each

description was analysed using the theoretical framework (see the paragraph below), which is also known as single case analysis. The single case analyses were then compared with each other to detect possible similarities and differences in a cross case analysis.

Theoretical framework

The theoretical framework consists of theory about the main areas; consultancy and temporary labour services, centralised purchasing structure, transformations of organisational structures, and purchasing processes for services focused on consultancy and temporary labour services. The theory has mainly been retrieved from academic articles and established purchase literature (van Weele (2010), Axelsson (1998) and Axelsson and Wynstra (2002)).

The framework resulted in a research model, which was used throughout the thesis. The model illustrated the areas, which were the focus of the study. It also formed the basis of the interview guide that was used for the case companies.

Findings and conclusions

In the purchasing function of indirect materials and services there is, for the case study companies, a category often referred to as Professional Services. In this overall category, consultancy and temporary labour services are subcategories.

Drawing the line between consultancy and temporary labour services has been proved unclear and the problems seem to mainly concern IT services. Therefore, a proposal on how a

purchasing function may be designed after centralisation is that the overall category of consultancy and temporary labour services can be referred to as Professional Services. In such a set-up; consultancy, temporary labour, and IT services (which is a combination of the previous two) function as subcategories.

The purchasing process for consultancy and temporary labour services follows, for all case study companies, a similar process, which is shown in Figure B. The process is similar to the traditional purchasing process, illustrated by van Weele (2010). However, there is a difference in the phase ordering (Phase 4 in Figure B). This difference includes the addition of a process, called the ordering process, which involves the purchase of an individual consultant or temporary staff. For the case study companies the current purchasing function is centralised on a strategic and tactical level, and includes most of the purchasing process. However, for the majority of the companies, the additional ordering process is mainly conducted locally but with support from the central purchasing function.

When purchasing consultancy and temporary labour services, all case study companies have signed a framework agreement with the

suppliers that they wish to have a strategic and long-term collaboration with. Furthermore, the companies that have the highest degree of centralisation also use a so-called vendor broker that handles most of the operational purchasing for their consultancy and temporary labour services. By using a vendor broker, the ordering process goes from a client (e.g. a hiring manager) to the broker, and then out to the service consultancy and temporary labour firms. Thus, it is the broker that contacts the possible service suppliers, but the process of selecting which staff to hire is still done by the manager of the buying company. Moreover, the vendor broker can assist in the follow-ups and evaluation phases (see Phase 5 and Phase 4c in Figure B) in the purchasing and ordering process.

An additional finding from the multiple case study was an apparent correlation between the level of centralisation and initiation of centralisation (see Figure A below for an illustration of the correlation). The companies with the highest degree of centralisation (e.g. which have centralised a large part of their operational purchasing) were the companies that started their centralisation process of consultancy and temporary labour services first.

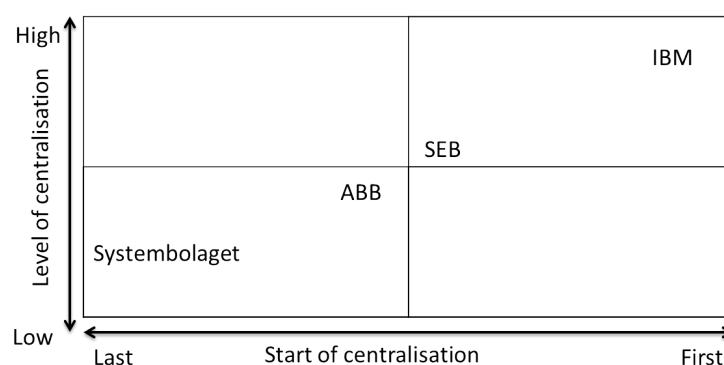


Figure A – Level of centralisation versus Start of centralisation

To reach out to the internal organisation about the transformation and the new structures and processes were big challenges in the centralisation processes of the case study companies. To be able to encounter these challenges systematic change management work needed to

be conducted. Credibility during the process, top management support, and continuous communication throughout the internal organisation, are crucial factors for a successful centralisation process.

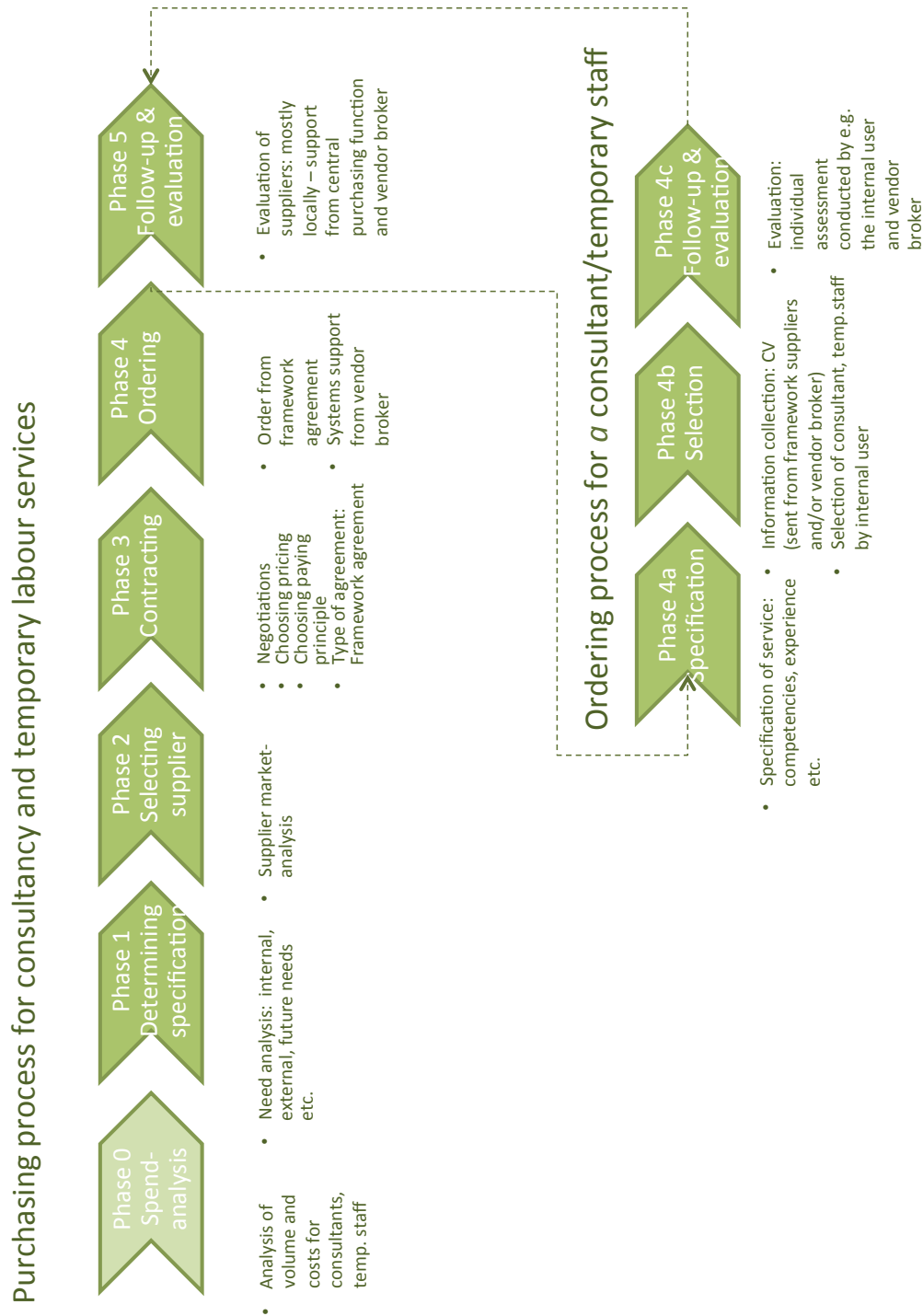


Figure B - Purchasing and ordering process for the case study companies

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