

# Investigation of buying in retail companies

Understanding the effects of a central warehouse



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Master thesis in Industrial Engineering and Management (I09)

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## Abstract

- Title:** Investigation of buying in retail companies – *Understanding the effects of a central warehouse*
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- Background:** Company Green, a retail chain company in Sweden, has decided to establish a central warehouse. According to Abrahamsson et al. (2011) centralised warehouses and distribution centres are becoming more common among retailers. 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 a deeper knowledge about are what roles to include in the buying organisation, what activities to perform, where these activities are performed and if there will be a change in required skills and knowledge as a buyer. How these areas are affected by the establishment of a central a warehouse have not been found in literature, which make this study interesting from both a theoretical and practical point of view.
- Purpose:** The aim of this study is to investigate how the retail buying organisation is affected by an establishment of a central warehouse.
- Research questions:**
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?
- Method:** To be able to study how the retail buying organisation is affected by an establishment of a central warehouse, a systems approach has been used. The studied system has been the retail organisation and a multiple case study has been conducted to answer the research questions where the retail buying organisation has been the unit of analysis. The multiple case study has included three companies, Company Green, Blue and Yellow. The empirical data from the case companies has been analysed with the developed theoretical framework and compared between the cases to identify similarities and differences. From the analysis propositions of how the retail buying organisation is affected by the establishment of a central warehouse was developed and discussed with a logistics consultant.

**Theoretical framework:** The theoretical framework consists of theory about the main areas of this study: buying structure & roles, buying process and buying skills. In addition, the theoretical framework includes theory about retail and the distribution structure in retail. Theory has been gathered from both academic articles and books about retail and the authors have strived to use several sources of information to make sure that the presented theory is accepted by several authors.

**Conclusions:** This study has shown that the retail buying organisation is affected by the establishment of a central warehouse and has resulted in 11 propositions. The propositions show that the buying structure becomes more centralised and that new roles are needed in the buying organisation when having a central warehouse. Furthermore, the buying process is affected, both in the tactical and operational phases. Lastly, there is an indication that the need for logistic skills as a buyer becomes more important when having a central warehouse.

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

## Sammanfattning

- Titel:** Undersökning av inköp i detaljhandelsföretag – *Att förstå effekterna av ett centrallager*
- Författare:** Richard Lämsä och Sebastian Mattsson
- Handledare:** Ala Pazirandeh, Avdelningen för teknisk ekonomi och logistik, Lunds Universitet
- Bakgrund:** Företag Green som är en svensk detaljhandelskedja har beslutat sig för att etablera ett centrallager. Enligt Abrahamsson et al. (2011) blir centrallager och distributionscenter allt vanligare bland företag inom detaljhandeln. I och med etableringen av centrallagret är Företag Green intresserade av att få djupare kunskap i hur en inköpsorganisation påverkas. Områden som de är intresserade av är vilka roller som ska finnas i inköpsorganisationen, vilka aktiviteter som ska utföras, var dessa aktiviteter ska utföras och om det kommer ske en förändring i nödvändiga färdigheter och kunskaper hos en inköpare. Hur dessa områden påverkas av en etablering av ett centrallager har inte påträffats i litteraturen, vilket gör denna studie intressant ur både ett akademiskt och praktiskt perspektiv.
- Syfte:** Målet med denna studie är att undersöka hur inköpsorganisationen påverkas av en etablering av ett centrallager.
- Forskningsfrågor:**
1. Hur ser inköpsstrukturen & roller, inköpsprocessen och inköpsfärdigheter ut i inköpsorganisationen?
  2. Hur påverkas de av ett centrallager?
- Metod:** För att kunna studera hur inköpsorganisationen påverkas av etableringen av ett centrallager har ett systemsynsätt använts. Det studerade systemet har varit detaljhandelsorganisationen och en flerfallsstudie har genomförts för att besvara forskningsfrågorna, där inköpsorganisationen har varit analysenheten. Flerfallsstudien har inkluderat tre företag: Företag Green, Blue och Yellow. Den empiriska informationen från fallföretagen har analyserats mot det teoretiska ramverket och jämförts mellan de olika fallföretagen för att identifiera likheter och skillnader. Baserat på analysen så har propositioner gällande hur inköpsorganisationen påverkas av etableringen av ett centrallager har utvecklats och i sin tur diskuterats med en logistik konsult.

**Teoretiska ramverket:** Det teoretiska ramverket består av teori om de tre huvudområdena i studien: inköpsstruktur & roller, inköpsprocessen och inköpsfärdigheter. Även teori om detaljhandel och distributionsstrukturen inom detaljhandeln har inkluderats i det teoretiska ramverket. Teori har samlats in från akademiska artiklar och böcker om detaljhandeln. Författarna har strävat efter att använda flera informationskällor för att försäkra sig om att den presenterade teorin är accepterad av flera författare.

**Slutsatser:** Denna studie har visat att inköpsorganisationen påverkas av etableringen av ett centrallager, vilket har resulterat i 11 propositioner. Propositionerna visar att nya roller behövs i inköpsorganisationen då man har ett centrallager. Vidare, så blir inköpsstrukturen mer centraliserad. Det har också påvisats att inköpsprocessen påverkas både i de taktiska och operationella faserna. Slutligen finns det en indikation att behovet av logistikfärdigheter hos en inköpare ökar när man har ett centrallager.

**Nyckelord:** Inköpsorganisation, inköp, inköpsprocess, inköpsstruktur, inköpsfärdigheter, detaljhandeln.

## Preface

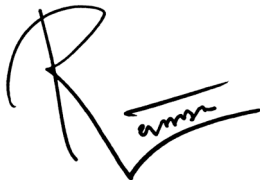
This master thesis has been written during spring 2014 as the final part of the Industrial Engineering and Management programme at the Faculty of Engineering at Lund University. The master thesis has been written in collaboration with Company Green and the department of Engineering Logistics.

We would like to express our gratitude to our supervisor and other employees at Company Green, who gave us the opportunity to write this master thesis and have provided us with useful help during the study. We are also very grateful for the participation of the other case companies and Pär Sandström, who have made this master thesis possible.

Furthermore, we would like to thank Ala Pazirandeh, our supervisor from the department of Engineering Logistics, for her feedback and support.

Lastly, a special thanks to our families and friends who have supported and encouraged us to keep on working during hard and tough times.

Lund, 16<sup>th</sup> June 2014.

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by the name 'Lämsä' in a cursive script.

---

Richard Lämsä

A handwritten signature in black ink, consisting of the name 'Sebastian Mattsson' in a cursive script.

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Sebastian Mattsson





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# 1 Introduction

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*The introduction chapter starts by addressing the practical challenges, explanation of important concepts used in the study and the theoretical background behind this study. Further on, the purpose and research questions are settled. The chapter ends with delimitations, target audience, structure of the report and an important note to the reader.*

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## 1.1 Prologue: Company Green

Company Green is a large retail chain company in Sweden with a network of franchise stores. During the last decade the company has grown rapidly. The driving force has been the different franchise stores, with an entrepreneurial spirit and focus on sales. The speed of growth is in line with Company Green's strategy and their plan is to continue to grow. However, the current ownership, buying and logistic structure create difficulties to continue to grow.

At Company Green the store concept is managed centrally, but each storeowner has the financial responsibility of their business. The Product department, i.e. the central buying organisation at Company Green, decides what suppliers each store is allowed to buy products from. Though, the Product department does not decide when and what quantities the stores order. In addition, the stores do not have a developed procedure for when to replenish products stocked in stores, which has resulted in an ad hoc replenishment. This makes it hard to coordinate purchases for all stores. It also makes it difficult to plan marketing campaigns since there is a lack of control of what is available in each store and because the owners have no obligation to take in products on marketing campaign. Thus, there is no opportunity to buy larger volumes and get economies of scale. In combination, there is a problem with long lead times from suppliers.

To take control of the situation and continue to grow Company Green has decided to move from franchise to fully owned stores. This change will move more power towards the central organisation. In addition, a decision to establish a central warehouse to supply the stores has been taken. The transformation is illustrated in Figure 1. With this change, Company Green needs to understand how the change in its distribution structure in terms of the establishment of a central warehouse can affect a buying organisation. Areas that Company Green is interested to gain deeper knowledge about are what roles to include in the buying organisation, what activities to perform, where these activities are performed and if there will be a change in required skills and knowledge as a buyer.

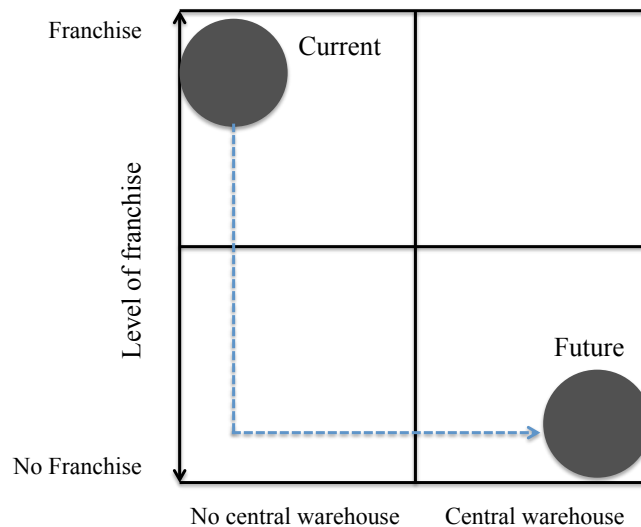


Figure 1: Transformation of Company Green

## 1.2 Concepts used in the study

In this section important concepts used in this study are presented and explained.

### Retail buying

Buying is referred to as when the “buyer” is a retailer. When the buyer is a manufacturer it is called purchasing (Nilsson & Høst, 1987). To reduce misunderstandings the words retail buying and industrial purchasing are sometimes used to clarify the difference.

### Retail buying organisation

The buying organisation is a part of the retail organisation, and is “*the entity within a retail organisation that carries out the essential task of bringing goods into the retail business from the supply base to be sold on to retail customers*” (Varley, 2001 pp. 19). The buying organisation is also referred to as the buying department or buying office in literature.

### Buying structure

Buying structure is referred to as the organisation of buying activities. Common buying structures are centralised and decentralised buying.

### Retail 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 this study the retail buying process is inspired by van Weele (2010) and Varley (2001). The retail buying process consists of tactical phases and operational phases (van Weele, 2010). The tactical phases are, in this study, need recognition, specification, supplier search and selection, and negotiation and contracting. The operational phases are ordering, expediting and receiving, and evaluation and follow-up.

### Retail buying skills

Retail buying skills are skills that are considered important to have as a buyer. The term buying skills in this study does also refer to relevant knowledge needed as a buyer.

### 1.3 Theoretical background

In a supply chain retailers are the last nodes acting as intermediaries between the producers and end users (van Weele, 2010). Thus, the retailers merge producers and customers into a single common point in the distribution channel (Varley, 2001). What identifies the retail industry is that there is no production of goods (Hansen & Skytte, 1998). Finished products are bought and are often sold directly to customers without any value added (Varley, 2001). Thus, buying is considered as an important function in retail and is often high up in the company hierarchy (van Weele, 2010). The value retailers add lies in e.g. sales and promotion, transportation, carrying risk and building up a product assortment (van Weele, 2010).

Retailers, acting as intermediaries in the supply chain, create many physical transactions, so logistics is becoming an important activity in retail companies (van Weele, 2010). According to Abrahamsson et al. (2011) centralised warehouses and distribution centres are becoming more common among retailers, which enable them to take control and ownership of the distribution of products and offer possibilities to coordinate goods from different suppliers to different retail stores. The change in distribution structure, in terms of a central warehouse, enables the retailer to buy larger product volumes from suppliers and can reduce the administrative costs related to ordering and transportation (Abrahamsson et al., 2011). Furthermore, Abrahamsson et al. (2011) mention that the choice of products for sale is often closely linked to buying and logistics and that the size of the total product assortment put demand on the central warehouse to handle large volumes. Since the buying organisation is responsible for deciding what products to sell and the size of the total product assortment (Varley, 2001), choices made by the buying organisation affect and are affected by the establishment of a central warehouse.

Abrahamsson et al. (2011) show that a central warehouse affects buying activities, but does not directly show how the retail buying organisation is affected in detail. Buying activities can be performed at different levels in a retail company, and the buying structure can either be seen as centralised or decentralised (Pradhan, 2009). In case of a centralised buying structure the main responsibility of buying activities lies within the central buying organisation, while in a decentralised structure the main responsibility is located at each retail store (Varley, 2001). Even though buying activities are centralised it is still common that order placement is decentralised (van Weele, 2010). To get an understanding of what buying activities that are performed, is to study retail buying as process. Johansson (2001) emphasises that retail buying could benefit from a process view, since it creates a holistic view of buying. Though, the literature on the 'retail buying process' is scarce and Johansson (2001) says that previous literature on retail buying has focused on the actual decision of whether to buy or not.

Centralised warehouses and distribution centres are becoming more common among retailers and buying is considered an important function in retail companies. Therefore, it is of interest to investigate how the retail buying organisation is affected by the establishment of a central warehouse. Since buying activities can be affected by the establishment of a central warehouse the buying structure might also change. If buying activities become more centralised new roles can emerge in the central buying organisation, which makes it

interesting to study the roles in the buying organisation. To capture what buying activities that are performed are to study these as process, which also contributes to the literature in this area. Furthermore, the establishment of central warehouse also shows that the buying organisation might have to reconsider their way of working when buying products, which might demand new skills.

#### 1.4 Purpose and research question

The aim of this study is to *investigate how the retail buying organisation is affected by an establishment of a central warehouse*. To be able to understand the effects of a central warehouse deeper knowledge about the retail buying organisation is required.

Hence, the research questions are as follows:

**Research question 1:** *How do the buying structure & roles, buying process and buying skills look like in the retail buying organisation?*

**Research question 2:** *How are they affected by a central warehouse?*

#### 1.5 Delimitations

It is of great importance to get a holistic view of the studied buying organisations. Therefore, all activities related to the buying process are included in the study. To make the study manageable, there is no focus on strategic issues. Furthermore, the investigation of the buying organisation is limited to three areas: buying structure & roles, buying process and buying skills. Finally, the study was limited to the methodology used within the 20 week timeframe of the master thesis studies, which required the authors to move on in the study even though more time would like to be spent on certain parts, such as including more companies in the case study.

#### 1.6 Target audience

The target audience of this report are Company Green and other companies in the retail industry pursuing more knowledge about the retail buying organisation and how a central warehouse affects the retail buying organisation. This report is also of interest for master students and researchers with knowledge in supply chain management and with an interest in retail.

## 1.7 Structure of the report

In this section the overlaying structure of the report will be described, see Figure 2. The different sections of the report are described more in detail below.

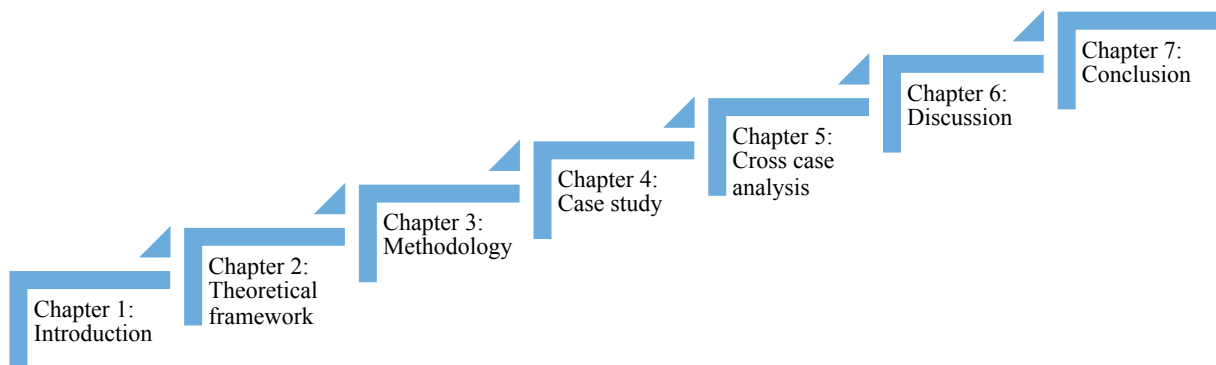


Figure 2: Structure of the report

The introduction chapter describes the practical challenges and the theoretical relevance of this study, which results in a purpose and research questions to be answered. In Chapter 2 the theoretical framework is presented, where literature connected to the research questions is gathered to create a deeper understanding of the studied subject. This chapter ends with a conceptual framework that summarises the areas of investigation. The methodology used in this study is found in Chapter 3, where the methodological approach and research strategy are described. In Chapter 4 the empirical data collected from the studied case companies are presented together with a single case analysis with identified theory from the theoretical framework. Further on, in Chapter 5 a cross case analysis between the different case companies in the study can be found. In the cross case analysis the case companies are compared in the areas of this study together with their thoughts on how the retail buying organisation is affected by a central warehouse. In Chapter 6 the findings from the case studies are discussed in relation to the research questions. The chapter begins with a discussion around RQ1 based on the single and cross case analysis to support or extend existing theory. Afterwards, RQ2 is discussed and leads to a number of propositions about how the establishment of a central warehouse affects the main areas of the study. The report ends with Chapter 7, where the research questions are answered together with academic contribution, managerial contribution, areas for future research and limitations of the study.

## 1.8 Important note to the reader

All case companies participating in this study wish to be anonymous. Therefore, their real company names have been replaced with fictive names. Information that compromises their anonymity has therefore been excluded from this report.



## 2 Theoretical framework

The intention with the theoretical framework is to give the reader an understanding of previous research on the studied subject. The chapter begins with an introduction to the retail industry followed by theory of retail buying and retail buying philosophies. Then theory related to the areas of investigation is presented. Further on, a description of distribution structures in retail is presented to understand the purpose of a central warehouse. The chapter ends with a conceptual framework, summarising the areas of this study and discussing in a predictive manner how they might be affected by the establishment of a central warehouse. The different areas of the theoretical framework is summarised in Figure 3.

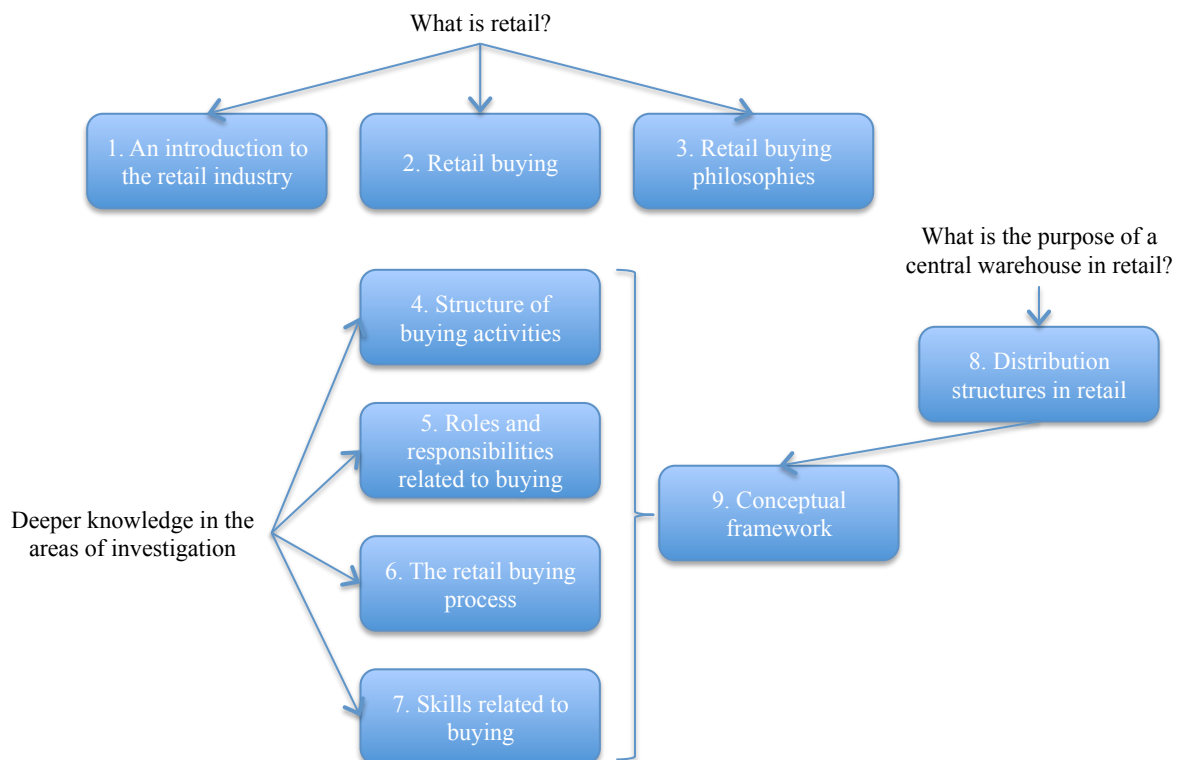


Figure 3: Outline of the theoretical framework

### 2.1 An introduction to the Retail industry

In an article by Peterson & Balasubramanian (2002) the term retailing is discussed thoroughly. However, their conclusion was that no clear definition of retailing could be found in literature and emphasised the importance of having a common definition for future research. Among the definitions of the term retailing, retailing was defined by Rosenberg (1993, pp. 291) as “*the activity of purchasing for resale to a customer*”. This definition reflected the historical focus of buying goods within retail (Varley, 2001; Zentes et al., 2011). Rosenberg (1993, pp. 291) also defined the term retailer as one “*whose primary activity is to sell directly to customers*”. The Dictionary of Business and Management, edited by Law (2009), has a more modern definition of a retailer as “*a distributor that sells goods or services to consumers*”, which captures the increased power of the retailer in the supply chain (Reynolds et al., 2004) and the importance of logistics activities within retail (Zentes et al., 2011).

Retailers are the last nodes in a supply chain that connect the manufacturers and end-users in a single point of the distribution channel (Varley, 2001; van Weele, 2010). The importance of retailing has become evident in economic terms when looking at the development in many countries and is taking a leadership role in the distribution channel (Zentes et al., 2011). Today retail is considered to be one of the world's largest industries and is constantly changing (Reynolds et al., 2004; Zentes et al., 2011). It is possible to trace the growth of the retail industry in the Fortune 500 list of the largest global companies. In 1990 there were no retailers on the list, but over 50 in 2000 and in 2002 Wal-Mart became the largest company in the world based on revenues (Reynolds et al., 2004). The growth is still strong and Wal-Mart holds the first place in 2014 (Fortune, 2014).

What identifies the retail industry is that there is no production of goods (Hansen & Skytte, 1998) and generally firms in retailing are selling products without any additional transformation. Though, there is a trend towards more private labels (Zentes et al., 2011). Since there is usually no value added to the physical product (Varley, 2001), the value retailers bring lies in the following main points (van Weele, 2010, pp. 368):

- **Sales and promotions:** Can reach many customers and positively impact the brand image
- **Product assortment:** Fit a specific product assortment to a specific group of customers
- **Bulk breaking:** Break large quantities and sell them to customers
- **Stocktaking:** Reduces the stock for the manufacturer
- **Transportation:** Providing the manufacturer with transportation
- **Carrying risk:** There is a risk for products to become obsolete, perish or get damaged
- **Market information:** Provide suppliers with changes in customer preferences
- **Marketing:** Help their suppliers market their products

The role of retailing as intermediaries in the supply chain has increased and many retailers have become dominant players. Some have achieved market leadership by developing own marketing concepts, some have even own logistics concepts and strive for logistics leadership. Logistics has traditionally been performed by the manufacturer, which is a clear sign of the increased power of the retailers. Key factors for the power shift are the growing size of buying volumes, the increased sophistication of retail management and the better availability of customer data. In addition, "*retail is one of the leading industries in the application of new technologies*" (Zentes et al., 2011, pp. 2).

The retail industry is very broad and consist of many business orientations. Standards of how to classify the business orientations to gather data and statistics have been made by governments. Common classifications are the ISIC (International Standard Industrial Classification of all Economic Activities) of the United Nations, the NAICS (North American Industrial Classification System) or the NACE (Nomenclature statistique des Activités économiques dans la Communauté Européenne) of the European Union (Zentes et al., 2011). Table 1 shows the NACE classification, where different business orientations of retail companies in retail trade are categorised.



Table 1: Classification of retail business orientations in retail trade according to NACE of the European Commission (2005)

<b>52: Retail trade, except of motor vehicles and motorcycles</b>		
<p><b>52.1: Retail sale in non-specialized stores</b></p> <ul style="list-style-type: none"> <li>• 52.11: Retail sale in non-specialized stores with food, beverages or tobacco predominating</li> <li>• 52.12: Other retail sale in non-specialized stores</li> </ul>	<p><b>52.3: Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles</b></p> <ul style="list-style-type: none"> <li>• 52.31: Dispensing chemists</li> <li>• 52.32: Retail sale of medical and orthopaedic goods</li> <li>• 52.33: Retail sale of cosmetic and toilet articles</li> </ul>	<p><b>52.5: Retail sale of second-hand goods in stores</b></p> <ul style="list-style-type: none"> <li>• 52.50: Retail sale of second-hand goods in stores</li> </ul>
<p><b>52.2: Retail sale of food, beverages and tobacco in specialized stores</b></p> <ul style="list-style-type: none"> <li>• 52.21: Retail sale of fruit and vegetables</li> <li>• 52.22: Retail sale of meat and meat products</li> <li>• 52.23: Retail sale of fish, crustaceans and molluscs</li> <li>• 52.24: Retail sale of bread, cakes, flour confectionery and sugar confectionery</li> <li>• 52.25: Retail sale of alcoholic and other beverages</li> <li>• 52.26: Retail sale of tobacco products</li> <li>• 52.27: Other retail sale of food, beverages and tobacco in specialized stores</li> </ul>	<p><b>52.4: Other retail sale of new goods in specialized stores</b></p> <ul style="list-style-type: none"> <li>• 52.41: Retail sale of textiles</li> <li>• 52.42: Retail sale of clothing</li> <li>• 52.43: Retail sale of footwear and leather goods</li> <li>• 52.44: Retail sale of furniture, lighting equipment and household articles n.e.c.</li> <li>• 52.45: Retail sale of electrical household appliances and radio and television goods</li> <li>• 52.46: Retail sale of hardware, paints and glass</li> <li>• 52.47: Retail sale of books, newspapers and stationery</li> <li>• 52.48: Other retail sale in specialized stores</li> </ul>	<p><b>52.6: Retail sale not in stores</b></p> <ul style="list-style-type: none"> <li>• 52.61: Retail sale via mail order houses</li> <li>• 52.62: Retail sale via stalls and markets</li> <li>• 52.63: Other non-store retail sale</li> </ul> <p><b>52.7: Repair of personal and household goods</b></p> <ul style="list-style-type: none"> <li>• 52.71: Repair of boots, shoes and other articles of leather</li> <li>• 52.72: Repair of electrical household goods</li> <li>• 52.73: Repair of watches, clocks and jewellery</li> <li>• 52.74: Repair n.e.c.</li> </ul>

## 2.2 Retail buying

Retail buying is considered as a special case of organisational buying (Bahng & Kincade, 2014; Hansen & Skytte, 1998), see Figure 4, and “*retail buying has historically been treated by academics as a sub-set of industrial or organisational buying*” (Johansson & Burt, 2004, pp. 802). The organisational buying has its origin in previous research from both Webster Jr. & Wind (1972) and Sheth (1973) whom present extensive models. Though, both models are aimed towards increasing the understanding of the industrial buying behaviour. The need for a theoretical framework for retail buying behaviour was further acknowledge and developed by Sheth (1981).

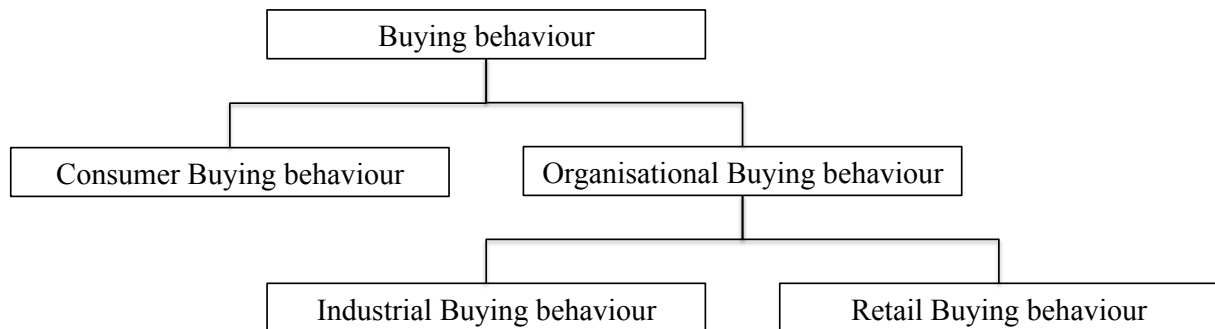


Figure 4: The buying behaviours in academic literature (Bahng & Kincade, 2014, pp. 2)

Even though there is theory of retail buying, much of it focuses on the actual and final decision whether to buy or not, and factors that influence that particular decision such as price, quality and delivery reliability (Johansson, 2001). Hansen & Skytte (1998) also identify that previous literature is focused on finding criteria affecting the buying decision. For example, Sheth (1973), Sheth (1981) and Webster Jr. & Wind (1972) focus on the single event of making the buying decision, but not the actual process before and after the decision. This means the factors taken into consideration restrict the understanding of what happens in the retail buying organisation. Instead, the buying decision could be viewed as a part of a buying process (Johansson, 2001).

The view of retail buying as a business process creates a different perspective. Rather than having focus on one single event or stage, it gives a more holistic view of e.g. the different individuals and departments involved in the buying organisation. Furthermore, Johansson (2001, pp. 333) defines a business process as a “*set of activities that used one or more types of inputs and produces an output that is of value to the customer*” and suggests that a retail buying process could be “*the set of activities that have to be performed to move a product from the manufacturer to the consumer*”. However, the literature on the ‘retail buying process’ is scarce. On the other side the process view can be seen as central within industrial purchasing (Johansson, 2001).

It is argued in retail buying literature that retail buying can benefit from knowledge of industrial purchasing, however, it is important to be aware of transferring the knowledge without taking the context into account (Johansson, 2001). Kline & Wagner (1994) point out that the decision making unit differs between retail buying and industrial purchasing. Within industrial purchasing there is often a group of members representing different departments of

the organization, while in retail buying the decision making unit is the individual buyer. Furthermore, Kline & Wagner (1994) emphasise that the position of the decision making unit in the supply channel differs. Industrial purchasers are positioned between producers of raw materials/components and retailers, thus, purchasing unfinished goods. The retailer is positioned between the manufacturer/wholesaler and the consumer, thus, buying finished goods. This means that buyers in the two different cases are exposed to different sources of information. The industrial purchaser is exposed to mainly technical information from sales representatives from the suppliers, while the retail buyer needs to take information about consumer demand into consideration (Kline & Wagner, 1994). In addition, the responsibility of industrial purchasers are often to control costs, which is the case for retail buyers as well, but the retail buyers are also responsible for generating sales by reselling the goods (Bahng & Kincade, 2014).

*“Logically, we can safely assert that a retailer is more like a consumer in what he buys, and more like a producer in how he buys his merchandise. In other words, the content of buying behavior should be similar to household buying behavior and the process of merchandise buying behavior should be similar to industrial buying behaviour.”* (Sheth, 1981, pp. 2)

Identifying the differences between industrial purchasing and retail buying will make it easier to distinguish what knowledge to apply and what to discard. However, it is also important to highlight changes in retail buying that might strengthen the connection between the two areas of knowledge. The relationship between suppliers and buyers was once considered to separate the industrial and retail markets. Industrial markets are characterised by long term orientation with interactions, complex products and system buying, which implies a view of the relationship as a continuous process. However, this view is increasing in retail markets (Johansson, 2001). With the increased interest of category management there is a change towards a group of members as a decision unit within retail buying (Varley, 2001). Furthermore, *“as relationships grow increasingly long-term, the focus on retail buying as a process seems increasingly relevant”* (Johansson, 2001, pp. 335).

### 2.3 Retail buying philosophies

During the 1980s buying was split into two roles, qualitative and quantitative buying. The buyer performed the qualitative role while the merchandiser was responsible for the quantitative buying decisions. The focus of the buyer was to get the right product specifications and to select appropriate suppliers according to predefined requirements of price, quality, capacity, terms of delivery etcetera. The merchandiser on the other hand primarily focused on forecasting, stock planning and product sell through. This philosophy was referred to as buying and merchandising-led or the Traditional approach (Varley, 2001), see Figure 5. During the 1990s the consumer-led approach evolved. This philosophy changed focus from forecasting to responding to consumers actual needs. From the consumer-led approach, see Figure 5, the category management role emerged, where category teams are responsible for different categories of products (Varley, 2001; van Weele, 2010).

Van Weele (2010) distinguishes two types of buying: functional buying and cross-functional buying. The functional buying structure, where the buying function works alone with minor

input from sales, distribution, etcetera, is similar to the traditional approach in Figure 5. In the cross functional structure, the buying function is more integrated with physical distribution, visual merchandising and so on. The cross-functional structure is often referred to as category management, see Figure 5.

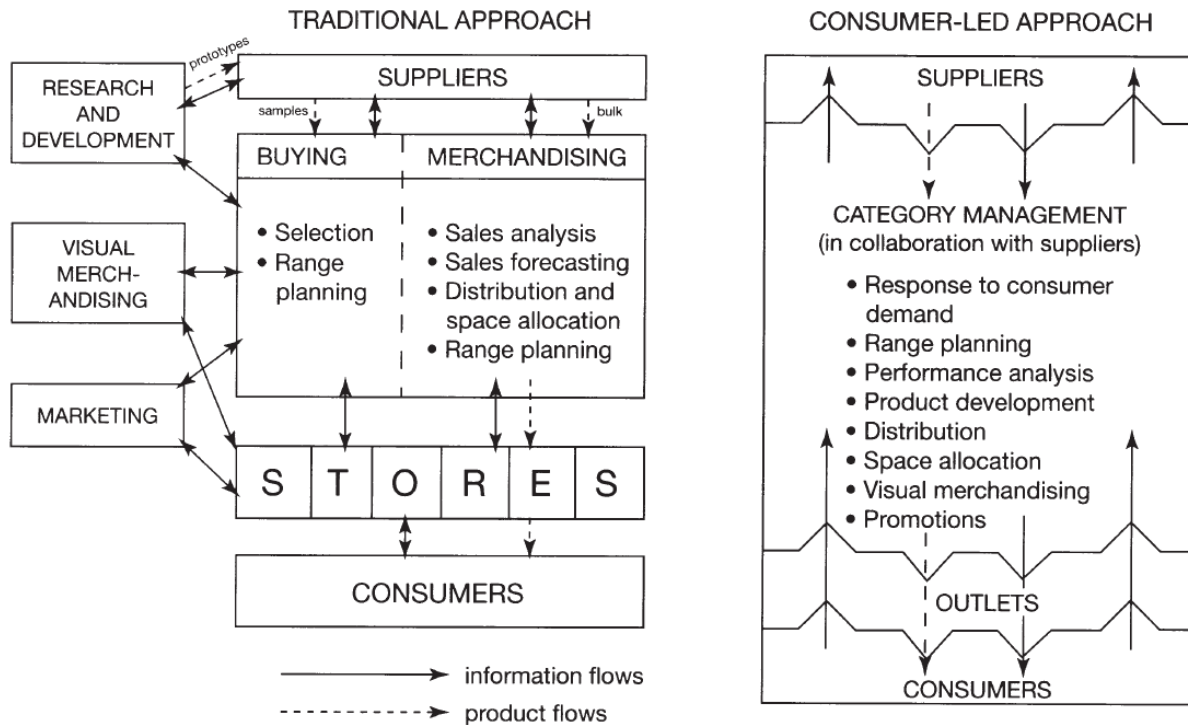


Figure 5: Retail buying philosophies (Varley, 2001, pp. 38)

Category management has its roots in the food industry, however the concept is relevant for other sectors (Dussart, 1998). The concept of category management “aims to optimise the range of products stocked in store and the efficiency of promotions, new product introductions and product replenishment” (Varley, 2001, pp. 45). The following definition is suggested by Kent & Omar (2003, pp. 283) “Category management aims to bring together the right mix of products, the most profitable brands and to minimise the selection of underperforming items...The process is consumer and product oriented rather than supplier and margin-focused”. The fundamental of category management is to offer the consumer the products he or she wants and only those products (Dussart, 1998). An important part of category management is supplier integration, where the suppliers performs the activities that they do the best and the retailer what he/she does the best. For example, if the suppliers are better at product development these activities should be left to the suppliers. Sharing these competencies leads to cost reductions, which is beneficial for both supplier and retailer (Varley, 2001).

## 2.4 Structure of buying activities

The structure of buying activities is dependent on industry adherence, organisational size and historical background (Mattsson, 2012). Van Weele (2010) also mentions company characteristics and product characteristics as factors affecting the structure of buying activities. Therefore, it is difficult to say how different companies should organise their buying organisations (Mattsson, 2012). Van Weele (2010) suggests two main ways of structuring industrial purchasing activities in multi-unit companies; decentralised and centralised purchasing structure. The structuring of the activities is based on a division of purchasing activities into three different levels: strategic, tactical and operational. In the decentralised structure all purchasing activities are executed by the local unit, while in a centralised structure a corporate office executes strategic and tactical activities and the execution operational activities are left to each business unit (van Weele, 2010). Pradhan (2009), Clodfelter (2013) and Varley (2001) make a similar division of retail buying activities, but refer to it as decentralised and centralised buying.

### 2.4.1 Centralised buying

Buying for multiple retail stores can either be centralised or decentralised (Pradhan, 2009; Varley, 2001). Together with multiple site retailing and large product ranges buying becomes more complex and requires specialised buying personnel. To handle the increased complexity multiple retailers have started central buying offices (Kent & Omar, 2003). In the case of centralised buying a central buying office makes buying decisions for all stores (Pradhan, 2009).

Clodfelter (2013) distinguishes three types of centralised buying: central merchandising plan, warehouse requisition plan and price agreement plan. A centralised merchandising plan means that the central buying office has the responsibility of the selection and buying of products to the retail stores. The central buying office order products and send them to the stores. The type of product and batch size sent to the store are based on inventory data and sales at each store. Thus, each store has nothing to say about what products to have in their store. To make this type of centralised buying work efficiently requires reliance on computer systems to handle the data.

The second type of centralised buying is the warehouse requisition plan, where the central buying office decides what merchandise to be carried at a warehouse and each store is free to choose what products to order from the warehouse. This plan is typically used for basic products and could be more difficult to handle for fashion sensitive products, where is there is a risk that product become out-dated (Clodfelter, 2013).

The third type of centralised buying is the price agreement plan, where the central buying organisation decides product assortment and what suppliers that the retail stores are allowed to order products from. The central buying office negotiates price and terms and each store place orders directly from suppliers. This allows the central buying office to control the product assortment to the stores and enables each store manager to buy the products that is best for his or her store (Clodfelter, 2013).

There are many advantages with centralised buying, especially with the central merchandising plan, such as (Kent & Omar 2003; Levy & Weitz 2004; Pradhan, 2009; Varley, 2001):

- Increased buying power/coordinated buying
- Aggregation of sales data to improve forecasting
- Economies of scale due to decreased costs for supplier search and selection
- Easier to control product quality
- The ability to offer a more consistent product assortment to facilitate promotions
- The same quality of buying and stock control at the retail stores
- The retail personnel can concentrate on selling activities, instead of buying
- Specialisation of full-time buyers for different categories, higher expertise for decision making
- Increased buying efficiency

However, there could be difficulties with centralised buying. A problem that can arise between the central buying office and the stores is that store personnel feel that the products sent from the head office are not what they want to sell. The communication between the retail stores and the central buying office is vital. Sales information and feedback from customers are typically important, together with product range feedback to understand what products that are less successful (Varley, 2001). Furthermore, centralised buying makes it more difficult to respond to local needs and one becomes more dependent on information systems (Levy & Weitz, 2004).

#### 2.4.2 Decentralised buying

Having a decentralised approach means that the store managers are allowed to make their own buying decisions (Pradhan, 2009). This approach offers the possibility for local stores to meet local demand and is most appropriate when having products with more stable demand patterns. For some products a decentralised approach is required e.g. newspapers (Varley, 2001).

The main advantages of decentralised buying are (Clodfelter, 2013; Varley, 2001):

- Respond to local variations in demand
- Respond to local product preference
- Avoid the problem with lack of communication between store manager and buyers

## 2.5 Roles and responsibilities related to buying activities

Buying has always been of great importance to the retail industry. The retail buyer must buy what the consumer wants and profit must be made directly on the products bought (Varley, 2001). The buying department in retail is often high up in the organisational hierarchy due to its importance to the business. Hence, the buying director often reports directly to management (Varley, 2001; van Weele, 2010).

The responsibility to run the buying department in retail is often split between buyers and merchandisers. The buyer is focused on supplier selection and negotiation, while the merchandisers focus on sales planning and stock control (Kent & Omar, 2003). The buying director has the overall responsibility of the buying department (Varley, 2001). A new emerging buying role is the category manager (Svensk Handel, 2011).

### 2.5.1 Roles in the buying department

The buying director manages the buying department and is responsible for setting strategic objectives and monitor the different product areas. He or she is also a member of the board. The buying director is likely to be involved in the following decision making situations: change of large suppliers, introduction of new product ranges, removal of product ranges, larger promotional campaigns, strategic range planning etcetera (Varley, 2001).

The role of the buyer differs between different retail sectors. For some buyers advanced market analysis, planning and specialisation are required. For others environmental audits, securing of supply and safety assessment are more important (Kent & Omar, 2003). The buyer often has the operational control over the buying department and carries out the retail buying process. The main tasks of the buyers are qualitative which include the understanding of product features and product market knowledge as well as price negotiations (Varley, 2001). The buyer is active in the merchandise selection, select suppliers and decides when the products should be available to consumers. Pricing of merchandise is also a responsibility of the buyer (Diamond & Pintel, 2001). Svensk Handel (2011) describes the role of a buyer as a job made in close collaboration with sales and marketing. Typical tasks for a buyer are, market analysis, design of contracts, evaluation of tenders and negotiation of marketing campaigns with suppliers (Svensk Handel, 2011).

The merchandiser performs activities related to the quantitative side of buying such as sales estimation, planning of deliveries and distribution of goods to the retail stores (Varley, 2001). The merchandiser is also involved in stock control (Kent & Omar, 2003). The merchandiser role can also be referred to as a stock planner or stock controller and are often responsible for the financial aspects of the department (Varley, 2001).

### 2.5.2 Other roles involved in buying activities

The category manager is a broadened buying role. The category manager is responsible for the management of product groups. They make sure that the product category is up to date and relevant for the customer. This requires skills in tracking market developments, knowledge about product functionality and content, together with assuring quality- and environmental standards. The category manager is responsible for the follow-up of sales and profitability on the product group. Hence, this role is focused on both sales and buying. The

category manager often collaborates with marketing and logistics, and develops close relationships with suppliers (Svensk Handel, 2011).

## 2.6 The retail buying process

In the Retail buying section of this report, it was mentioned that retail buying could be seen as a process but that the literature about the retail buying process is scarce. Furthermore, it was discussed that retail buying could benefit from knowledge about industrial purchasing. Many authors within industrial purchasing have discussed the industrial purchasing process, which varies depending on whom you ask. Xideas & Moschuris (1998) suggest four phases: initiation, search, selection and completion, where each phase represents a subset of activities. Brenner & Hamm (1996) argue that an industrial purchasing process is an interfunctional and interorganisational process, which pass through certain stages and cross several functional areas and propose, similar to Xideas & Moschuris (1998), four phases: identification of suppliers, supplier selection, ordering and evaluation of suppliers. Lilien & Wong (1984) present seven phases, though, they do not imply any completion/supplier evaluation phase. Van Weele (2010) identifies a purchasing process with six phases: define specification, select supplier, negotiation/contract agreement, ordering, expediting/receiving and evaluation/follow-up.

Comparing the different industrial purchasing processes by Brenner & Hamm (1996), Xideas & Moschuris (1998), Lilien & Wong (1984) and van Weele (2010) they are all more or less the same in the initial phases. However, van Weele's purchasing process defines later phases more explicitly and emphasise the differences in the order, expediting/receiving and the evaluation/follow-up phases. These three later phases are seen as the operational part of purchasing, while the three first phases are seen as tactical (van Weele, 2010).

The retail buying process, not to be confused with the retail buying *decision* process, found in the literature is suggested by Johansson (2001), and includes seven phases: need recognition, specification, supplier search, solicitation, supplier choice, order specification, receiving and review. Another retail buying process, adapted from the traditional organisational buying process, is presented by Varley (2001) with six phases: recognition of retail customer need, specification to satisfy need, supplier search, choose supplier, ordering and evaluation of performance of product and supplier. These two processes presented by Johansson (2001) and Varley (2001) are more or less identical. Johansson (2001) has included the phase *solicitation*, i.e. collecting information about the found suppliers in the search supplier phase. However, this could be seen as an activity in the subset of activities of the supplier search phase.

When looking at the industrial purchasing process by van Weele (2010) and the retail buying process by Varley (2001) most phases are similar. Though, van Weele's expediting/receiving is missing in Varley's process, and Varley's recognition of need is missing in van Weele's process. Still, the need is present in van Weele's process in terms of the input which starts the process, but is not seen as an active phase with an own subset of activities. Though, the fundamental need for a recognition of need phase within retail lies in the nature of retail buying, since tracking customer requirements is a part of a buyer's responsibility (Varley, 2001). The expediting/receiving phase in the industrial purchasing process includes activities



such as checking the status of placed orders, track goods sent, controlling received goods etcetera (van Weele, 2010). These activities must be seen as important for retailers who aspire to plan the business, reduce uncertainties and proactively reduce costs. Hence, a retail buying process ought to have an expediting/receiving phase. The supplier search and supplier selection phase is considered one phase by van Weele (2010) and Varley (2001) state this as two phases. Selecting a supplier is likely to include search for suitable suppliers. Therefore, the supplier search and selection could be seen as a single phase in the retail buying process. At, last the negotiation/contract agreement is considered as an important part of buying. Therefore, it could be seen as an own phase in a retail buying process.

The retail buying process for this study is further investigated as the following process: need recognition, specification, supplier search and selection, negotiation and contracting, ordering, expediting and receiving and evaluation and follow-up, see Figure 6.



Figure 6: The retail buying process, adapted from Varley, (2001) and van Weele (2010).

### 2.6.1 Need recognition

The success of any retailer lies in its ability to identify customer needs and satisfy that particular need. In other words, buying and selling products the customer wants to buy. Customer needs are, however, not an easy task to identify since it involves both physical and psychological factors. The responsibility of tracking customer requirement is therefore seen as important for a retail buyer (Varley, 2001). In order to collect relevant information to identify customer needs and trends, different information sources can be used:

- Internal sales data, trade publications, consumer publications, suppliers, market research (internal or external) and competitor analysis (Varley, 2001).
- Trade exhibitions or fairs, trade journals, suppliers' representatives, sales literature, market research reports and competitive shopping (Kent & Omar, 2003).
- Previous sales volume, published sources such as trade reports, customer information such as interviews and focus groups, shop competitors, vendors/resident buying offices (Levy & Weitz, 2004).
- Internal sources such as store records, management and sales associates and external sources such as customers, magazines and trade publications, vendors, trade associations, comparison shoppers, fashion forecasters, reporting services, the Internet and buying offices (Clodfelter, 2013).

In order to select the right products that reflect what the customer wants, the retail buyer must understand the sales pattern of individual products and product categories (Varley, 2001). A tool, to understand and predict future needs and demands, is the product life cycle. The rationale behind the product life cycle is the theory of diffusion and adoption of innovations, which is that units sold are low in the beginning since consumer recognition is low but

increases when the acceptance and awareness grows. The different stages in the product life cycle are often four: introduction, growth, maturity and decline (Rink & Swan, 1979).

The shape of the product life cycle is likely to be different depending on the characteristics of the product and market (Rink & Swan, 1979). Thus, it is important to understand the underlying trends that affect the rate of growth (Varley, 2001). These trend factors could be found in the macro environment of a firm and consists of the following six forces (Armstrong et al., 2009): demographic forces, economic forces, natural forces, technological forces, political forces, cultural forces.

In order to track and identify changes in customer needs the following stages are proposed by Varley (2001, pp. 64-65):

1. **Consumer trend analysis:** An analysis of demographic, economic, societal, technological, lifestyle and fashion trends in order to find changes over time and facilitate prediction of future needs.
2. **Product sector analysis:** An analysis of how an identified product category would change according the consumer trend analysis. It is important to include the action of competitors i.e. will they be proactive or reactive in response to a product market opportunity or threat?
3. **Catchment area analysis:** An analysis of how the changes in consumer trends and product sector will affect local levels such as individual stores in different geographical areas. In this analysis the catchment area, store size and store format is taken into consideration.
4. **Product range analysis:** An analysis regarding new product category additions, extensions and deletions.

### 2.6.2 Specification

When a customer requirement/need has been identified the next step in the retail buying process is to translate the needs and specify product criteria/features that satisfy the identified need. The specification of a product will include all criteria that are judged when deciding a product's ability to satisfy the customer. These criteria are physical properties, packaging, style, utility, product quality, brand and price (Varley, 2001), see Table 2 for further explanation of these criteria. Nilsson & Høst (1987) emphasise similar consumer evaluation criteria: physical characteristics, packaging, psychological characteristics, overall consumer value and retail price. Furthermore, it is also important to take into consideration the distribution strategy and the product assortment strategy in the specification (van Weele, 2010). In many cases suppliers approach the retailer with new product ideas, and the first phase of the retail buying process is then an analysis of the market opportunity. However, a refinement of the suggested product specification is often made (Varley, 2001).

Table 2: Consumer evaluation criteria

<b>Criteria</b>	<b>Description</b>
<i>Physical properties</i>	Tangible aspects such as size, weight and functionality of the product e.g. waterproofness (Varley, 2001).
<i>Packaging</i>	Should attract and catch the attention of potential customers, protect the product and act as a vehicle for promotions (Varley, 2001).
<i>Style</i>	The style focuses more on the appearance than the functionality and involves the blend of shapes, colours and materials. Often connected to trends (Varley, 2001).
<i>Utility</i>	“A product’s utility is concerned with how it performs in use” and is, like style, dependent on the interpretation of the individual (Varley, 2001, pp. 68).
<i>Product quality</i>	Product quality is in many ways affected by its physical properties, but it can also be seen as to what extent the features and characteristics are meeting requirements (Varley, 2001).
<i>Brand</i>	A brand is seen as an intangible product feature (Varley, 2001) and could be a name, term, design, symbol or other feature that distinguish the product (Zentes et al., 2011). For some customers the brand is everything and could signal the totality of the product and expected quality (Varley, 2001).
<i>Price</i>	Like style and brand, price is subject to customer interpretation and considered as a tangible feature where the price of a product signals the value (Varley, 2001).

### Distribution specifications

Specifications regarding the distribution include how a product should be delivered. It could either be delivered through a distribution centre or central warehouse, directly from manufactures to the store or directly from manufactures to the customer. Specifying if the product will be placed in stock or the usage of consignment stock is also included in the distribution specification (van Weele, 2010) and regarding the stock policy, the product availability is of interest (Kent & Omar, 2003).

Kent & Omar (2003, pp. 395) define product availability as “*the percentage of demand for a particular SKU that is satisfied*”. Factors connected to the availability are the safety stock, order quantity and the lead-time. Maintaining a higher availability will in most cases require a larger inventory investment. On the other hand, having a low availability could result in lost sales and future customers. Thus, it is important to find a balance (Kent & Omar, 2003).

### Product assortment specifications

Common decisions related to the product assortment concern the variety, i.e. the breadth or the number of different categories, and the assortment, i.e. the depth or number of SKUs within a category. When determine the variety and assortment the following factors could be considered (Levy & Weitz, 2004, pp. 392-395):

- **Profitability:** Since money and space often are constraints, adding, expanding or deleting a category could affect something else. Thus, it is important to consider the profitability of the whole mix of products.
- **Corporate philosophy:** The approach towards the product assortment is often determined by what the company stands for and the corporate strategy.
- **Physical characteristics of the store:** Products sold need to be displayed and require space in stores. Furthermore, the customer experience must be considered.
- **Balance between too much and too little:** Having too much to choose from could confuse the customer and lead to lost sales, but cutting too much could also lead to lost sales. Thus, a balance must be offered to the customer in line with their expectations.
- **The degree to which the categories complement each other:** Many products complement each other and generate more sales. In addition, if offering a specific product the customer could expect other kind of products.

### 2.6.3 Supplier search and selection

When the product to be bought has been specified the search and selection of suppliers are carried out as the third step in the retail buying process. There are several ways to come in contact with suppliers and techniques to select the appropriate supplier. A distinction is often made between active sourcing, where the retailer is involved in product development and product improvement, and passive sourcing, where the retailer buys what the manufacturer or wholesaler offer. The retail buying process for manufacturer brands is often related to passive sourcing, where the retailer is not likely to be involved in product development to a greater extent (Zentes et al., 2011).

#### Supplier search

The supplier search is often performed by the buyers, thanks to their product and market understanding. In the case where the product idea is generated by the retail organisation, van Weele (2010) emphasises that the supplier search phase is more comprehensive and similar to the industrial purchasing process. In many cases suppliers contact the retail buyers to inform them about existing and new products (Varley, 2001; van Weele, 2010).

Varley (2010), Zentes et al. (2011) and van Weele (2010) identify manufacturers and wholesalers as two major outside supply sources for retailers. To be able to buy directly from manufacturers often requires large volumes. Therefore, it is more likely that smaller retail chains interact with wholesalers instead, where there is a possibility of placing smaller orders. Wholesalers provide the retailers with products and services such as shipping, information, and storing. The wholesaler also enables the smaller retailer to select from a larger supplier base (Varley, 2001). Varley (2010) and Zentes et al. (2011) also identify agents as a third supply source. Agents work in-between manufacturer and retailer. The primary task of an agent is to collect orders from smaller suppliers and forward them to the manufacturer.

Common information sources where suppliers can be found are trade magazines, trade shows and trade directories. Suppliers can also be found through agents or buying groups that have

access to large supply networks (Varley, 2001). Furthermore, E-market places can be used to find suppliers (Levy & Weitz, 2004; van Weele, 2010). These online market places can be either open or private. Large retailers have created their own market places to develop close relationships with their suppliers. Open marketplaces are for example, World retail exchange and GlobalNetExchange. In the E-marketplaces aggregated industry product information together with industry news can be found. This information can facilitate supplier search and provides the retailer a single point of contact with multiple suppliers (van Weele, 2010).

### Supplier selection

Prior research emphasise that supplier selection is an important step in the retail buying process (Diamond & Pintel, 2001; Nydick & Hill, 1992; Wagner et al., 1989), and often involves large capital investments and many decision-making groups (Karthik et al., 2011). Wagner et al. (1989, pp. 58) emphasise that “*successful retail buying depends on the ability to select vendors who meet the needs and wants of the firm and its customers*”.

In order to select the right supplier more information about them is needed. The specifications provide a frame of the prequalification requirements. From these requirements a list of the identified suppliers that might do the job is created. These suppliers are sent a request for information, RFI, to provide the buyer with more information that would qualify the supplier. The first list is then reduced based on the information received and the most promising suppliers are contacted through a request for quotation, RFQ. The received quotations are then evaluated together with other important assessment criteria (van Weele, 2010).

To be able to select the best performing supplier the buyer assesses the supplier in different areas such as price, delivery, service, product range and product quality (Nydick & Hill, 1992; Varley, 2001). The price factor is e.g. whether the supplier is willing to negotiate and offers the product to the right price. Delivery is e.g. if the supplier can deliver according to the specification of time and quantity. It could also be aspects that could affect the delivery such as if the supplier has the right capacity. Service concerns what services the supplier offers to the retailer in terms of e.g. handling of complaints and new product introduction. Product range and quality is whether the supplier offers a variety of products and if they can guarantee product quality (Varley, 2001). Furthermore, criteria that also apply during supplier selection are supplier reputation, margin contribution, innovativeness, secure supply, brand name and marketability (Berens, 1971; Wagner et al., 1989). Ways to assess the suppliers could be through smaller trial orders or samples to see if the supplier meets given criteria, by visiting the supplier’s production facility and taking references from current customers (Varley, 2001).

After collecting the necessary information, the selection of evaluation method remains. Supplier evaluation methods differ between companies and there is a distinction between subjective and objective methods. Subjective methods are based on personal judgements and experience of the supplier and objective methods judge suppliers’ performance in quantitative terms (van Weele, 2010). One method suggested by Levy & Weitz (2004) is the Weighted Average Approach, where different criteria are ranked after importance and suppliers’ are scored on each criterion. The total score for each supplier is obtained by summing up the criteria importance, times the supplier score for all evaluation criteria. A second method for

supplier selection and evaluation suggested by Karthik et al. (2011) is the Analytical Hierarchy Process, AHP. This method is flexible and is not limited to a particular industry. AHP can be used both as a qualitative and quantitative method when selecting suppliers. This model includes both subjective and objective criteria, which makes the method suitable in a setting where different decision makers have different opinions (Karthik et al., 2011).

#### 2.6.4 Negotiation and contracting

Even though a customer need has been identified, a specification of product criteria has been drawn up and an appropriate supplier has been found, a contract or agreement needs to be established. Most often a contract or agreement is established through a negotiation to reach a deal where both parties are satisfied (Clodfelter, 2013).

In a negotiation knowledge is power, and the preparations and planning of the negotiation is vital for the outcome (Levy & Weitz, 2004). Preparation includes developing a negotiation plan, which could include negotiation goals, approach when negotiating, negotiation tactics and areas that need to be negotiated. In each area it should also be stated minimum/maximum constraints and what to ask for as an opening (Clodfelter, 2013). In addition of analysing your own position and setting up own goals, it is also important to understand the supplier's position and goals in order to reach a good outcome. It is also important to consider what has occurred between the retailer and the supplier before, or if there has not been a relationship before and what kind of relationship the retailer aspires for the future (Levy & Weitz, 2004).

Besides settling the product specifications, important subjects to negotiate are terms of payment, who pays for the transportation and how it should be delivered, will there be exclusivity of the products, how to communicate, who pays and takes care of promotions and will there be any return policies (Levy & Weitz, 2004). Another important subject to negotiate is of course the price, but also different discounts such as quantity discounts for buying large quantities, seasonal discounts for buying seasonal products in advance and cash discounts for paying early (Clodfelter, 2013).

Even the most thoughtful preparations can be ruined in the heat of a negotiation if parties get stuck and take positions or get intimidated and avoid the negotiation. Principled negotiation is a negotiation method by Fisher et al. (1999), which is defined in four basic points. The first, people, which is to separate the people from the problem. The second, interest, which is to focus on common interests not positions. The third, options, which is to invent options to expand the deal and think outside the box. Finally the fourth, objectivity, which is to use objective criteria to settle disagreements.

The negotiation and contracting phase is finalised when the negotiated terms have been settled in a contract. A contract can be stated in many ways, common formats are written and oral agreements. However, the two parties must be aware of that the law can differ between countries and under what premises a contract is binding (Carlson, 2009).

### 2.6.5 Ordering

Often there is a distinction between buying and ordering, which is seen in retail. The buying relates to the actual buying of the products, while ordering is considered as the actual placement of an order intended for a customer or to replenish the stock (van Weele, 2010). Ordering can therefore be seen as the completion of agreed terms and conditions, and as a contract between the buyer and supplier, which must be completed carefully to avoid misunderstanding (Clodfelter, 2013).

An order specification involves questions of what, how much, when and where to deliver (Kent & Omar, 2003) and Clodfelter (2013, pp. 440) presents a detailed description of what information to include.

There are many kinds of orders such as replenishment orders for previously bought items, single orders to satisfy the need of individual customers, advance orders for deliveries that are to be delivered later etcetera (Clodfelter, 2013). However, an order is often the result of a sales planning process (Kent & Omar, 2003), see Figure 7.

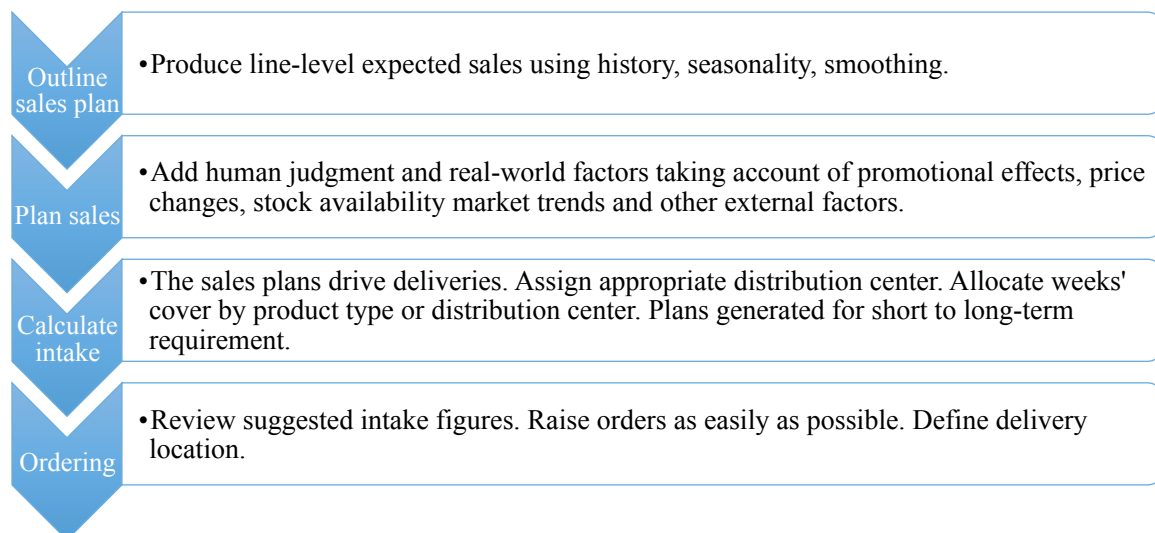


Figure 7: Retail sales planning process (Kent & Omar, 2003, pp. 285)

#### Methods of determining the order quantity and when to order

The question of how much to order and when it should be delivered are the two questions in an order specification that often vary from time to time. The order quantity depends on the rate of sales and the space allocation, while the order cycle, i.e. when to place an order, depends on the rate of sales and other factors that affect the suppliers' ability to deliver. Identifying the quantity and when to order can either be performed manually or automatically. Manual techniques include visual inspections of what is left on shelves, but is very time consuming, slow and could only be performed periodically. Automatic techniques work through early point of sales data. As soon as an item is bought, by a consumer, a signal goes into a store database and is processed by an ordering system. Orders are then generated via electronic data interchange, with the intervention of personnel or automatically, to external suppliers. The advantages of automatic systems is the elimination of manual data collection

and having integrated-computer based ordering systems which provide information useful for managing the stock e.g. promotions, trends and forecasts (Kent & Omar, 2003).

#### 2.6.6 Expediting and receiving

When an order has been placed the process of expediting starts. Expediting is defined by van Weele (2010, pp. 405) as *“following up on a purchase order to make sure that the supplier is going to perform as it has confirmed through the purchase order confirmation”*. Following up on an order is divided into three levels: exception expediting, routine status check and advanced status check. Exception expediting is when the buyer is informed by an internal customer about delivery problems and action is taken when the problem has occurred. The routine status check is a more preventive method than exception expediting, where the supplier is contacted on beforehand to check if the order can be delivered according to the order. Lastly, the advanced status check where the buyer check the supplier on a regular basis, for example by putting an inspector at the supplier’s production facility (van Weele, 2010).

#### 2.6.7 Supplier evaluation and follow-up

The final step in the retail buying process is measuring the performance over time for current suppliers such as price over time, delivered quantity, quality and delivery reliability. The supplier either delivers directly to the retail store or to a central point for distribution where the performance of the supplier is measured. Large retailers have implemented vendor rating systems to control and improve suppliers’ performance (van Weele, 2010). According to Mandave & Khodke (2010, pp. 40) *“vendor rating is a tool used by the organisations to assess the performance of their vendors to ensure efficient and effective upstream supply”* and allows the company to benchmark suppliers’ performance (Mandave & Khodke, 2010). Vendor rating measures quantitative data (Ray, 2009) with the objective to reduce large amount of data into manageable information (Mandave & Khodke, 2010) and requires a sophisticated IT-system to be handled efficiently (van Weele, 2010).

The evaluation of suppliers can be performed monthly, half yearly etcetera and the interval between evaluations is dependent on how the supplier performs (Ray, 2009). Monitoring suppliers’ performance is not a one-off exercise, rather a continuous process. It is also important to communicate to the supplier what they are measured on, since when the supplier has the understanding of what they are measured on they can strive to improve it. Thus, vendor rating can be a facilitator to improve and strengthen the relationship between supplier and buyer. The results from vendor rating can also be used to make decisions regarding termination of contracts with less successful suppliers (Mandave & Khodke, 2010). In addition to the previous measurements, the sell-through and the amount of returned goods can be important parameters used when evaluating the performance of the supplier (Varley, 2001).

#### 2.6.8 Buying situations and information technology in the retail buying process

The retail buying process described in previous sections explains the whole process. However, all buying procedures are not likely to follow all phases in the process, or not in the presented sequence (Varley, 2001). The information needed to gather from suppliers and customers and to share within the organisation is also likely to vary between different buying situations (Johansson, 2001).



## Buying situations

What phases of the buying process that are performed depend on the buying situation. Robinson (1967) identifies three different buying situations: new task, modified rebuy and straight rebuy. The characteristics of the buying situations can be seen in Table 3 and how each buying situation relates to the retail buying process can be seen in Table 4.

Table 3: Buying situations and their characteristics (Robinson et al., 1967, pp. 25)

<b>Type of buying situation</b>	<i>Newness of the problem</i>	<i>Information requirements</i>	<i>Consideration of new alternatives</i>
<b>New task</b>	High	Maximum	Important
<b>Modified rebuy</b>	Medium	Moderate	Limited
<b>Straight rebuy</b>	Low	Minimal	None

The new task buying situations is often a situation where a retailer is faced with a new need, and all phases are performed. An example of a new task buying situation is when a retailer has identified a new own-label product opportunity (Varley, 2001). In other words a new product supplied from an unknown supplier (van Weele, 2010).

The modified rebuy is the situation where a change in the first phases, regarding suppliers and products, are done. This could happen if a supplier has not performed well and need to be changed or if a new supplier is introduced. It could also be triggered by changes in product features or product problems. In the case of a modified rebuy, some phases need to be performed again but not all (Varley, 2001). Van Weele (2010) refers to modified rebuy as when a new product is supplied from known suppliers or an existing product from new suppliers.

The straight rebuy situation is considered as a routine in the retail buying process and involves the phases from ordering and forward (Varley, 2001). The situation is described as buying known products from known suppliers (van Weele, 2010).

Table 4: Retail buying process in different buying situation adapted from Varley (2001, pp. 33)

<i>Phases</i> \ <b>Buying situation</b>	<b>New task</b>	<b>Modified rebuy</b>	<b>Straight rebuy</b>
<i>Need recognition</i>	Yes	No	No
<i>Product specification</i>	Yes	Maybe	No
<i>Supplier search and selection</i>	Yes	Maybe	No
<i>Negotiation/contracting</i>	Yes	Maybe	No
<i>Ordering</i>	Yes	Yes	Yes
<i>Expediting/receiving</i>	Yes	Yes	Yes
<i>Evaluation/Follow-up</i>	Yes	Yes	Yes

## Information technology

As the buyer is faced with various buying decisions the amount and what kind of information needed is different. The information needed is likely to be more complex earlier in the buying process and is considered to be more commercial, i.e. include terms of trade, prices and sales. Later in the buying process the complexity decreases and the information needed is becoming more administrative and transactional, i.e. delivery times, ways of delivery and formal requirements. With the development of information technology, IT, the availability and access of information has increased, creating transparency and making it easier to make the right decisions throughout the buying process (Johansson, 2001).

Information is collected at different levels in the organisation. At a strategic level the information is often considered as more qualitative and is collected from external sources. When going down the buying process the decisions are becoming more tactical and finally operational, and the information needed and gathered is more quantitative. The information is generated internally by e.g. sales and a proper information system is vital in order to get it (Johansson, 2001).

Kent & Omar (2003, pp. 465) define a retail information system as “*an interacting organisation of people, machines and methods necessary for retailer’s problem-solving and decision-making activities*”. The general functions of a retail information system are to locate, gather, process and utilise relevant information with the purpose to gather information from both internal and external environments. Furthermore, they emphasize it has to be tailored to the needs of the retail organisation in order to be effective.

The effects of implementing an information system successfully and using IT could facilitate the co-ordination and integration of activities and different parts of the retail organisation (Johansson, 2001; Kent & Omar, 2003). Especially within the operational activities in the retail buying process the advantages of IT is clear since the number of operating options increases. However, organisational issues must be taken into consideration. Introducing an IT-system often centralises the decision making, thus the adoption among employees is important (Kent & Omar, 2003).

### 2.7 Skills related to retail buying

In the literature connected to retail buying there is a focus on personal skills that is important for the retail buyer (Diamond & Pintel, 2001; Varley, 2001). There has also been some research on what purchasing skills that are needed to be a professional industrial purchaser (Giunipero & Percy, 2000).

Varley (2001) together with Diamond & Pintel (2001) have identified a set of skills that is necessary for a retail buyer. Analytical skills are of great importance and related to data collection from several sources, making evaluations, data mining and data interpretation. The buyer must be good at communicating between different organisational levels in the retail company. Since buying is not a standalone function frequent communication both internally with marketing, sales, retail stores and externally with suppliers is needed. The buyer is responsible for negotiation with suppliers. Hence, negotiation skill is of course preferable to be able to negotiate terms of contract. Another skill that is of great importance is objectivity,

which relates to ignoring personal taste and to buy what is best for the retail company. The retail buyer must buy what the consumers wants. Varley (2001, pp. 27) explains that “*a retailer must buy what it sells, not sell what it buys*”. Product knowledge is an essential skill that the buyer must have and they are often given product training to understand the features of the product.

Diamond & Pintel (2001) and Clodfelter (2013) also mention market knowledge as a preferable attribute, which means that the buyer must understand both the consumer market and supplier market. The ability to create good assortment plans is linked to the understanding of the market. “*You must develop an assortment plan that best matches the needs of your customers without having an excess amount of inventory in stock*” (Clodfelter, 2013, pp. 273). The buyer must also have the ability to create forecasts. Forecasting is threefold, consumer demand, sales and inventory levels. Through improved information systems a lot of data will be accessible. However, the buyer must have the ability to combine forecasts with market knowledge. The interpretation of data from inventory control systems is also of importance to the buyer. This allows the buyer to correct inventory plans. Other important skills that the buyer need are relationship building with key suppliers and identification of the best possible suppliers (Clodfelter, 2013).

Giunipero & Percy (2000) have summarised prior research on purchasing skills. This research could be interesting to complement the existing literature on retail buying skills. Giunipero & Percy (2000) have identified a number of skills from existing research that is of importance for a purchaser. Apart from the identification of existing skills, Giunipero & Percy (2000) have categorised the identified skills into seven main categories, see Table 5.

*Table 5: Skills required of a world-class purchaser (Giunipero & Percy, 2000, pp. 11)*

<b>Strategic Skills</b>	<b>Process Management Skills</b>	<b>Team Skills</b>	<b>Decision making Skills</b>
<ul style="list-style-type: none"> <li>• Strategic thinking</li> <li>• Supply base research</li> <li>• Structuring supplier relationships</li> <li>• Technology planning</li> <li>• Supplier cost targeting</li> </ul>	<ul style="list-style-type: none"> <li>• Organization/time management</li> <li>• Tactfulness in dealing with others</li> <li>• Written communication</li> <li>• Problem solving</li> <li>• Conflict resolution</li> </ul>	<ul style="list-style-type: none"> <li>• Teamwork</li> <li>• Leadership</li> <li>• Managing change</li> <li>• Managing internal customers</li> <li>• Salesmanship</li> </ul>	<ul style="list-style-type: none"> <li>• Computer literacy</li> <li>• Ability to make decisions</li> </ul>
<b>Behavioural Skills</b>	<b>Negotiation Skills</b>	<b>Quantitative Skills</b>	
<ul style="list-style-type: none"> <li>• Interpersonal communication</li> <li>• Risk taking/entrepreneurship</li> <li>• Creativity</li> <li>• Inquisitiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation</li> <li>• Customer focus</li> <li>• Influencing and persuasion</li> <li>• Understanding business conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Computational</li> <li>• Technical</li> <li>• Blueprint reading</li> <li>• Specification development</li> </ul>	

The strategic skills are associated with supplier relationship management, supply base research and cost analysis to improve supplier performance. Process management skills relate to the improvement of existing processes and the ability to manage time wisely. Team skills

are the ability to connect the purchasing function both internally and externally to share knowledge. The capability to make decisions is important due to the decision making nature of the purchasing job. Behavioural skills are concerned with the capacity to communicate within the firm and with partners in the supply chain. Behavioural skills also relate to the ability of weighing risk and return. Negotiations skills are connected to the ability of establishing win-win situations with suppliers and final customer. An understanding of what is best for the whole business is important. Lastly, quantitative skills are related to computational, technical understanding and specification development, which is important for component purchasing for manufacturing (Giunipero & Percy, 2000). A remark from Giunipero & Percy (2000) is that analytical skills could not be classified in any of the categories since it is reflected in many of the categories. Though, it analytical skills was considered as important.

In Table 6, a comparison between buying and purchasing skills can be seen. Both similarities and differences can be found. However, it can be noticed that there seems to be a greater focus on understanding the final customer when buying goods for retail than purchasing for manufacturing. Purchasing skills found by Giunipero & Percy (2000) that could be useful to complement buying skills are quantitative skills, process management skills, team skills and decision making skills.

Table 6: Comparison of buying and purchasing skills from literature

<b>Buying skills (Retail context)</b>	<b>Purchasing skills (Industrial context)</b>
<i>Similar skills</i>	
<ul style="list-style-type: none"> <li>• Communicational</li> </ul>	<ul style="list-style-type: none"> <li>• Behavioural</li> </ul>
<ul style="list-style-type: none"> <li>• Negotiation</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation</li> </ul>
<ul style="list-style-type: none"> <li>• Analytical</li> </ul>	<ul style="list-style-type: none"> <li>• (Analytical)</li> </ul>
<ul style="list-style-type: none"> <li>• Identification of the best supplier/ supplier identification</li> <li>• Building relationships</li> <li>• Supplier market knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic</li> </ul>
<i>Different skills</i>	
<ul style="list-style-type: none"> <li>• Product knowledge</li> <li>• Create assortment plans</li> <li>• Create forecasts</li> <li>• Objectivity</li> <li>• Consumer needs/ Consumer market knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative</li> <li>• Process management</li> <li>• Team</li> <li>• Decision making</li> </ul>

## 2.8 Distribution structure in the retail industry

The structure of the distribution network depends on product characteristics, market structure as well as company objectives. There are four main types of distribution channels for consumer products: direct product flow from manufacturer to consumer, from manufacturer via wholesaler to consumer, from manufacturer through retailer to end consumer and from manufacturer through wholesaler via retailer to end consumer (Jonsson & Mattsson, 2005; van Weele, 2010). The different channels can be seen in Figure 8.

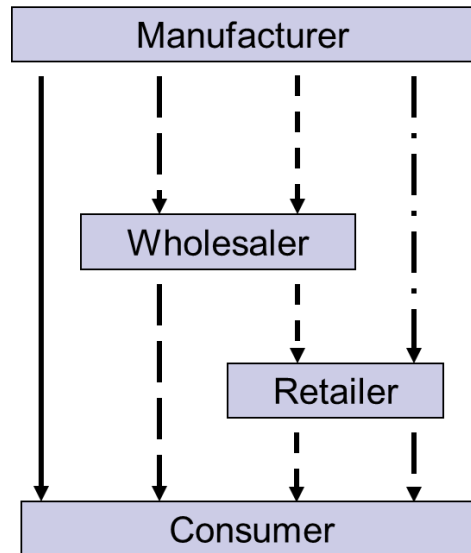


Figure 8: Illustration of distribution channels in the retail supply chain (van Weele, 2010)

The product flow in the distribution channel is diverging from manufacturer/supplier to customer; this means that products are delivered from a limited amount of manufacturers/suppliers to a large number of customers. Thus, the choice of distribution structure is vital for a company's profitability and competitiveness. Furthermore, the right choice of distribution structure can help the company offer short and secure delivery times to customers together with a high service level (Jonsson & Mattsson, 2005).

To be able to construct effective and efficient distribution networks it is of importance to understand what value the distribution structure adds to the product and what role distribution play in the supply chain. The distribution function offers time benefit, i.e. the products will be available at the right time, and location benefits, i.e. that the product is available at the right location (Jonsson & Mattsson, 2005).

Three common distribution systems are: direct deliveries, multi-terminal systems, one-terminal system (Lumsden, 2007). Direct deliveries are when the suppliers/manufacturers deliver directly to its customers, this set-up can be seen in Figure 9 to the left.

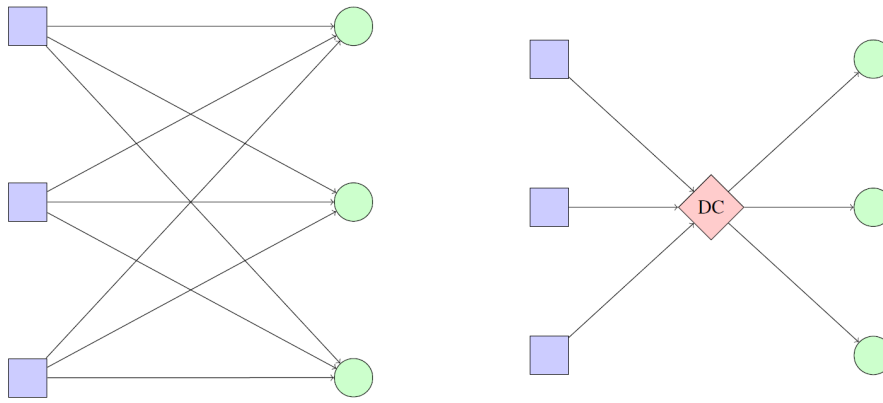


Figure 9: Left: Direct deliveries from supplier/manufacturer to customer.  
Right: One terminal connecting suppliers and customers

The direct deliveries set-up creates multiple connections between suppliers/manufacturers and customers, which demand much transportation resources. Problems that can occur in this case are typically: low resource utilization, low frequencies on each link and a high demand for transporting vehicles.

In the case where one terminal is connected between supplier/manufacturer and customer, the number of links in the distribution chain is severely decreased. The reduction of relations increases the average flow of goods in each relation. This means that service levels can be improved together with possibilities of economies of scale (Lumsden, 2007). A one-terminal system can be seen in **Error! Reference source not found.**, to the right. The multi-terminal system is an extension of the one-terminal system, with more than one terminal.

A distribution centre in a one terminal system can have different roles (Jonsson & Mattsson, 2005). Firstly, the aggregation role which means that large quantities of products are delivered from different suppliers/manufacturers to the distribution centre. From the distribution centre smaller quantities are delivered to the retail stores. The products delivered from the distribution centre can either be stock-kept items or customer orders. In the case of customer orders the distribution centre has more of a cross-docking role. Secondly, the role of spreading products geographically, which means that the suppliers/manufacturers deliver to the distribution centre which in turn further distributes the products to the retail stores with shorter lead time. Thirdly, the contact role, which means that the distributor handle customer support close to the customer market. Fourthly, the consolidation role, where the distributor represents many suppliers and deliver their goods to the final customer. These deliveries can both be directly from supplier to customer or via the distribution centre to customer. The main function is to offer a variety of products from one point of contact. The consolidation of orders is a way to increase product profitability (Lumsden, 2007).

The distribution centre in a one terminal system can be used as a storage location i.e. a central warehouse. Central warehouses have become more common among retailers and the retailers often take control and ownership of the distribution of products (Abrahamsson et al., 2011). The concentration of material flow through a central warehouse saves time and money (Svensk Handel, 2011). A central warehouse reduces the number of stock points in the supply chain and facilitates the retail store to get a higher service level with less stock. The non-value

added activities such as unloading and loading could also be reduced with a central warehouse. Furthermore, the central warehouse reduces the risk of out-dated products and wrong stock composition (Jonsson & Mattsson, 2005). Having a central warehouse makes it easier to respond to changes in demand and buy larger quantities to a lower price to be stored for later sale. A central warehouse also offers protection against unreliable demand, such as supplier capacity shortages (Bartholdi & Hackman, 2006). There are also opportunities for pricing and labelling in the warehouse instead of out in the retail stores (Abrahamsson et al., 2011; Bartholdi & Hackman, 2006). However, what products to be stored at the central warehouse are dependent on product characteristics. Hence, the same level of centralisation cannot be used for all products in the company (Jonsson & Mattsson, 2005).

## 2.9 Conceptual framework – effects of a central warehouse on the retail buying organisation

A central warehouse has an important role in a retail supply chain and many retailers have established a central warehouse and taken control of the distribution channel. According to theory the centralisation provides economies of scale, higher service level with lower inventory levels, reducing the risk of having out-dated products, faster response to demand with shorter lead times, opportunities to consolidate goods etcetera.

A direct affect of a central warehouse on the retail buying organisation has not been found in the literature. From the gathered literature in the theoretical framework an understanding of the importance of a central warehouse and deeper knowledge of each area of investigation has been created. In Figure 10 a conceptual model is shown, which summarises and clarifies the areas of investigation in this study. Below each area of investigation is summarised and shortly discussed in a predictive manner in how they could be affected.

### 2.9.1 Retail buying structure & roles

In theory, buying structures are divided in centralised or decentralised buying. A benefit of having a decentralised buying structure is the opportunity to adapt to local demand, but will create difficulties to create a coherent store concept and product assortment. The benefits of having centralised buying are many e.g. economies of scale, buying can be performed by specialist, increase buying efficiency and that store personnel can focus on selling activities. Abrahamson et al. (2011) mention the standardisation of store concept and product assortment as factors affecting the logistics efficiency when having a central logistic platform. If products are handled within a common logistic frame, economies of scale can be achieved. Hence, when establishing a central warehouse there will be more incentives to move towards higher level of centralised buying, since a higher level of centralised buying is likely to create a more standardised store concept and product assortment.

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. If the buying structure is becoming more centralised when establishing a central warehouse, more responsibilities will be put on the buying organisation. These responsibilities might be put on a buyer or a merchandiser, but new roles could also emerge since the establishment of a central warehouse will create a central responsibility of logistics activities. Varley's (2001, pp. 19) explanation of the buying organisation as "*the entity within a retail organisation that*

*carries out the essential task of bringing goods into the retail business from the supply base to be sold on to retail customers*” indicates that someone needs to be responsible for products going in and out of the central warehouse. Thus, someone responsible of replenishing the central warehouse and managing the orders to the store could be needed in the retail buying organisation.

### 2.9.2 Retail buying process

In the theoretical framework a retail buying process has been adapted from an industrial purchasing process suggested by van Weele (2010) and a retail buying process by Varley (2001), see Figure 11. Theory about different buying activities have been gathered and connected to each phase of the retail buying process. This adapted retail buying process will be used to investigate and map buying activities performed by retail companies. Mapping the buying process of retail companies with and without a central warehouse, could tell what phases and activities of the buying process that are more emphasised or performed differently when having a central warehouse. The change in distribution structure, in terms of a central warehouse, allows the retailer to buy larger product volumes from suppliers, which implies that better prices can be negotiated in the negotiation phase. In addition, the ordering phase is likely to be affected since smaller volumes can be ordered from the central warehouse. Furthermore, the establishment of a central warehouse implies that new operational activities will be performed e.g. ordering to the central warehouse. To make good and coordinated ordering decisions, such as deciding what quantities to order, the need for information of stock levels in the stores are needed. Thus, a well-developed information system, which facilitates the operational phases of the buying process, is likely to increase.

### 2.9.3 Retail buying skills

In the retail buying literature examples of skills related to buying have been identified such as negotiation skills, market and product knowledge and communication skills. Similar skills have been identified in the industrial purchasing literature, but the industrial purchasing literature also emphasise e.g. decision making and team skills. The establishment of a central warehouse is likely to change how buying is performed, which could require different or new skills. Investigating what skills that are seen as important as a buyer in the retail companies with and without a central warehouse could show what new skills that could be required. In addition, the establishment of a central warehouse changes the flow of products and how they are handled, so it is likely that a buyer needs to have logistics skills to understand the holistic effects of various decisions.



## Retail buying organisation

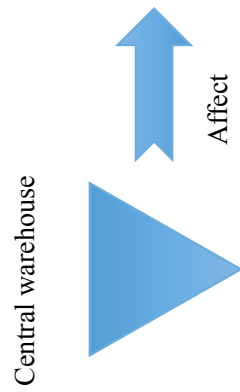
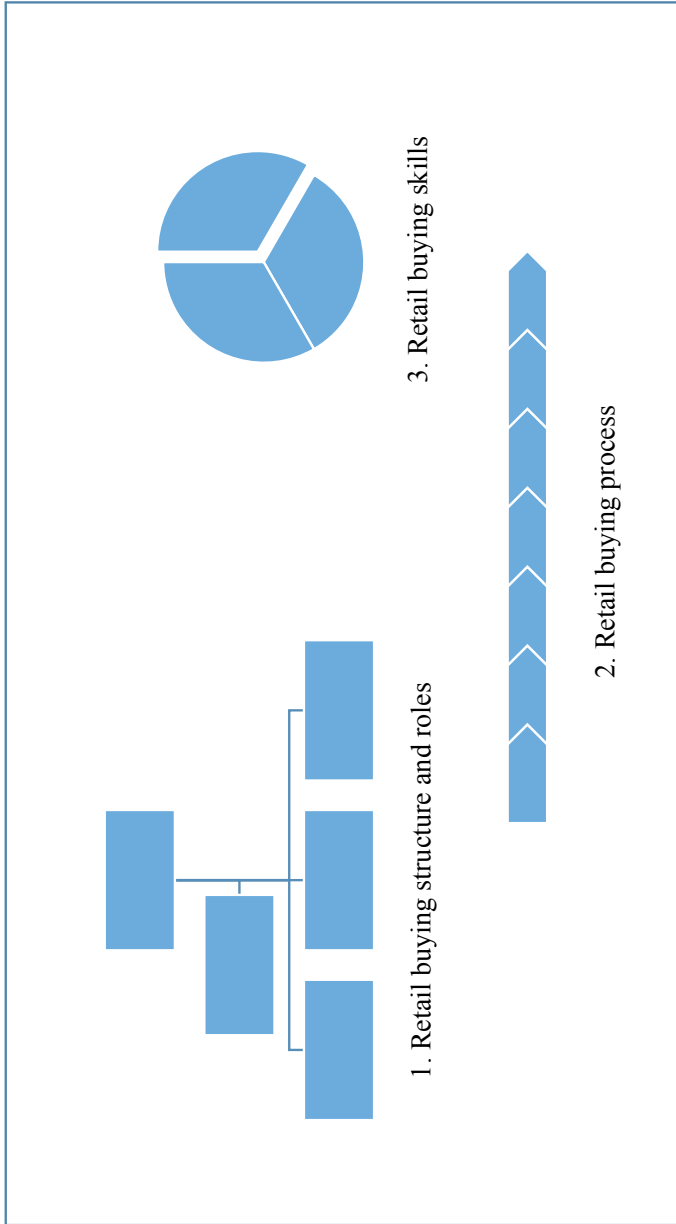


Figure 10: Conceptual model

Figure 11: Identified retail buying process



## 3 Methodology

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*The methodology chapter begins with an explanation of the methodological approach of this study to help the reader to understand how the authors have influenced this study. The research ambition is presented and is followed by a motivation of the research strategy. The case study strategy is further discussed and the outline of the performed case study is described. How the underlying theory for this study was gathered is described in the theory development section followed by a description of how data was collected. The analysis section aims to help the reader to understand the underlying thinking of the analysis and how data was coded. The methodology chapter ends with a presentation of how quality has been ensured in this study and a summary of the strengths and weaknesses with the chosen research strategy and data collection methods.*

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The insight of methodology creates understanding of how previous research was conducted and how future research could be done. It also ensures that the selected approach is not taken for granted (Gammelgaard, 2004). Therefore, it is important to put emphasis on choosing the right methodology to attack the research problem. Arbnor & Bjerke (2009, pp. 11) view methods as “*guiding principles for the creation of knowledge*”.

### 3.1 Methodological approaches

How a researcher understands, explains and improves things differs and is affected by certain presumptions. These differences in presumptions can be categorised in three methodological views and each view has its own approach: the analytical approach, the systems approach and the actors approach (Arbnor & Bjerke, 2009).

#### 3.1.1 Analytical approach

When applying the analytical approach, related to positivistic research, “*there is an objective reality, in which patterns and causal relations can be investigated and disclosed through research*”(Gammelgaard, 2004, pp. 480). The effort is to find explanations, generalize results and predict future events. A basic assumption is that everything can be analytically decomposed, with each concept standing alone. Thus, the way to approach reality is to “*decompose reality into the smallest possible “elements”, transform the elements into concepts and finally try to reveal cause-effect-relations by hypothesis testing*” (Gammelgaard, 2004, pp. 480-481). A presumption is that the theory describing the reality becomes better the more verifying hypotheses there are. Hence, it is always possible to extend studies of a new problem with previous research within the same problem area (Persson, 1982).

#### 3.1.2 Systems approach

The systems approach is more about the holistic thinking where the whole differs from the sum of parts, implying that there is a value in the interrelationship between the parts, creating synergies (Persson, 1982). Within systems thinking there is no search for an absolute truth, but rather something that works in practice (Gammelgaard, 2004). Thus, “*the researcher’s task is to create an understanding of a given part of the world, to identify the system parts, links, goals and feedback mechanisms in order to improve the systems.*” (Gammelgaard, 2004, pp. 481).

### 3.1.3 Actors approach

With an actors approach the reality is seen as a social construction, where the human creates the reality but at the same time the reality creates the human (Persson, 1982). Thus, the reality is not objective (Gammelgaard, 2004) and *“the descriptions of the reality takes form in how different actors experience, judge, and act in the reality”* [Translated] (Persson, 1982, pp. 74).

### 3.1.4 The methodological approach of this study

Historically the analytical approach has been predominant within logistics, however, it is argued that logistics research will benefit from other methodological approaches (Gammelgaard, 2004; Persson, 1982). In addition, *“the dominating organizational perspectives within supply chain management (SCM) are firmly based in a methodological position of holistic systems thinking”* (Johannessen, 2005). Hence, the understanding of the retail buying organisation, would benefit from a systems approach where the different entities interact and creates a whole. Therefore, the systems approach has been the approach used in this study.

Recalling that methods are viewed as *“guiding principles for the creation of knowledge”*, Arbnor & Bjerke (2009) highlight three principles to think of when applying the systems approach when creating knowledge:

**Principle 1:** *“... importance to stress the totality of a complicated world ... , no matter how a picture of this complexity is created, every picture becomes relatively limited.”* (Arbnor & Bjerke, 2009, pp. 112). Two types of delimitation must be made: external delimitations and internal delimitations. The external delimitations limit the picture of the system and marks *“the systems relation to and from this environment”* (Arbnor & Bjerke, 2009, pp. 112). The internal delimitations limit the degree of detail in the picture (Arbnor & Bjerke, 2009).

**Principle 2:** Since every system model is a limited picture, *“every delimitation can be questioned.”* In addition, *“there are no absolute systems delimitations, only more or less useful ones in relation to a certain purpose.”* (Arbnor & Bjerke, 2009, pp. 112).

**Principle 3:** *“... every systems picture becomes partly dependent on the one who construct it.”* (Arbnor & Bjerke, 2009, pp. 113). This means that the systems picture depends on the creators' frame of reference (Arbnor & Bjerke, 2009).

The system for this study can be seen in Figure 12. The outer border of the system is the border of the retail organisation. In the retail organisation there exist several areas of responsibility, such as buying, logistics, sales & marketing, finance etcetera. These areas of responsibility are interconnected. This emphasises that the retail organisation must be understood from a systems perspective. Furthermore, the retail buying organisation is the part of the retail organisation that will be studied.

The three principles mentioned by Arbnor & Bjerke (2009) have been considered when illustrating the system. Relating to the first principle, the external delimitations have been set to the boarder of the retail organisation and the internal delimitations are the areas of the retail buying organisation in the systems model. These areas are the buying structure & roles, the buying process and the buying skills. Relating to the second principle, the illustrated system

has been created with the purpose in mind. Thus, with another purpose other delimitations could be made. Relating to the third principle, the reader of this report must bear in mind that the system modelled in this report is influenced by the authors' frame of reference, thus this system could have been modelled in another way with another frame of reference.

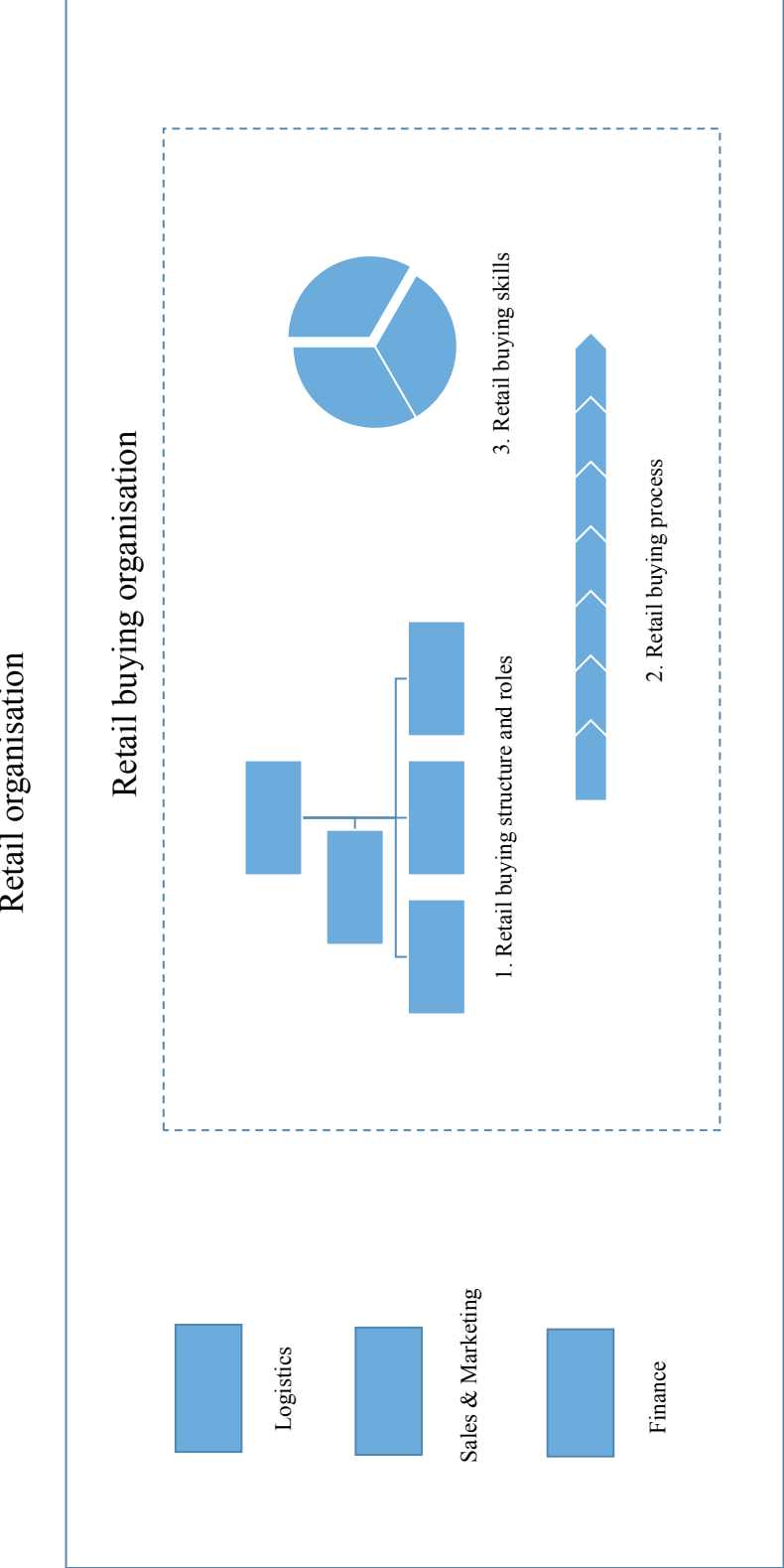


Figure 12: Studied system, retail organisation

## 3.2 Research ambition

A researcher/investigator can have different purposes and ambitions with a study. According to Persson (1983, pp. 81-82) a researcher/investigator within a system approach can have three different ambitions: system analysis, system construction and general system model development, see Figure 13.

**System analysis:** *“to depict a real system in a system model without changing the real system. Thus, the system work has a descriptive purpose.”* [Translated] (Persson, 1982, pp. 81)

**System construction:** *“to depict a potential real system in a system model. This model can later be the base for a construction of a new real system. The new real system could be a development of another real system, which has been depicted in a systems analysis.”* [Translated] (Persson, 1982, pp. 81-82)

**General system model development:** A system model could be valid for more than one real system and belong to more or less defined categories. The analysis and construction of a system are a part of the process of developing new system theories.

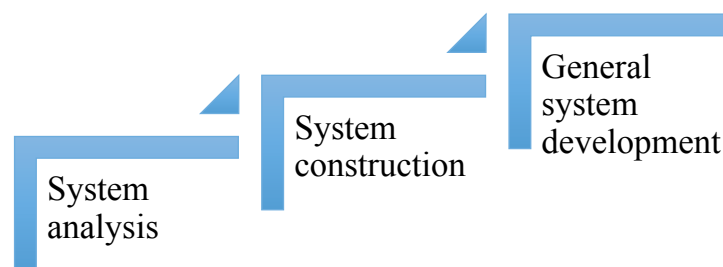


Figure 13: Level of ambition in a system study

### 3.2.1 Research ambition of this study

The aim of this study is to investigate how a retail buying organisation is affected by an establishment of central warehouse. This involves depicting the current system to understand how the retail buying organisation looks like. Hence, the ambition for this study has been set to a system analysis.

It could be argued that the ambition has been towards the general systems model development, since the depicted system model of the retail buying organisation could be applicable for other retail organisations. However, the organisation of retail buying is highly dependent on the characteristics of the market, industry and the product bought (van Weele, 2010). Thus, there is no guarantee that the system model will become general enough.

## 3.3 Research strategy

To be able to produce genuine research results one have to choose a suitable research strategy. The choice of research strategy is often driven by the special circumstances for the study such as problem situation and investigation aspects (Denscombe, 2009). The selection of research strategy can also be affected by the goals of the research study (Höst et al., 2006).

Researchers face decision-making situations where strategic choices have to be made of how to proceed and progress. The awareness of that each choice has both up- and downsides are vital. Denscombe (2009, pp. 21) stated that “*vital for good research is that the choices made are sensible and explicitly stated in the report*” [Translated] and has been seen as a guideline throughout this research study. It is emphasised by Kotzab et al. (2005) and Denscombe (2009) that there is no right or wrong when choosing research strategy. However, one should be aware of the pros and cons with each research strategy. When the project time is limited, as in the case of this study, the choice of research strategy becomes even more important since there is little room for changing the strategy as the study progresses (Denscombe, 2009).

### 3.3.1 Different research strategies

There are several research strategies available and three strategies mentioned by Höst et al. (2006), Denscombe (2009) and Yin (2003) are the survey method, case study and experiments. The survey method is mainly used to describe the current situation for an object or phenomena from a broad perspective. The case study is concerned with studying one or more cases in depth to understand and compare a certain phenomenon. Lastly, the experiment strategy, where one under controlled circumstances tries to understand linkages between different factors. There also exist strategies where one uses a combination of strategies such as a survey within a case study or the other way around (Yin, 2003).

Yin (2003) mentions three different factors that affect the choice of research strategy:

- **Type of research question:** Different research strategies become more applicable depending on the formulation of the research question.
- **Extent of control over behavioural events:** This relates to if there is a need to manipulate behaviours in the study.
- **Degree of focus on contemporary as opposed to historical event:** This factor is concerned whether the research study is focused on historical or current events.

In Table 7, the relation between different research strategies and the three upper mentioned factors can be seen.

Table 7: In what situations different research strategies are preferable, adapted from (Yin, 2003)

<b>Strategy</b>	<b>Type of research question</b>	<b>Control over behavioural events</b>	<b>Focus on contemporary events</b>
<i>Survey</i>	Who, what, where, how many, how much?	No	Yes
<i>Case study</i>	How, why?	No	Yes
<i>Experiment</i>	How, why?	Yes	Yes

Ellram (1996, pp. 98) uses a similar table to clarify what research strategy that is preferable for certain research objectives and questions.

### 3.3.2 Research strategy in this study

The research questions in this study were formulated as ‘How?’ questions and there were no need to control behavioural events and the focus of the research were on contemporary events, which implies a case study (Ellram, 1996; Yin, 2003). Finally, according to the systems approach it is preferable to use a case study (Gammelgaard, 2004). Therefore, the research strategy for this study was set to a case study and is described more thoroughly in the upcoming section.

## 3.4 The case study strategy

The case study strategy is the study of one or more cases in depth to understand a phenomenon, or as stated by Ellram (1996, pp. 94) “*Case studies as a research methodology explain, explore or describe a phenomenon of interest*”. When the research strategy has been set to a case study it is important to decide the unit of analysis, i.e. what to study, and the design type, i.e. to study a single case or multiple cases (Yin, 2003).

### 3.4.1 Unit of analysis

The decision regarding the unit of analysis in a case study is very important and is the basis for the study. However, it could be troublesome to define since it is related to the fundamental problem of defining what the case is. Often the unit of analysis relates back to the research questions associated with the study. Though, if the research questions are either vague or too numerous, it will be hard to distinguish the unit of analysis. Further on, more than one unit of analysis could be used and is referred to as an embedded case study. Using only one is referred as holistic study and is advantageous when there is no logical subunits or the case study is more of a holistic nature (Yin, 2003).

### 3.4.2 Unit of analysis in this case study

As stated in the introduction chapter, the research questions in this study are:

**Research question 1:** *How do the buying structure & roles, buying process and buying skills look like in the retail buying organisation?*

**Research question 2:** *How are they affected by a central warehouse?*

Hence, it is evident that the unit of analysis is the retail buying organisation. As depicted in the studied systems, see Figure 12, the unit of analysis relates to the dashed square. To emphasise, the retail buying organisation is investigated in terms of the buying structure and roles, the retail buying process and required retail buying skills. Furthermore, more than one unit of analysis was not needed since this study is more of a holistic nature.

### 3.4.3 Design type

The design type comprises the decision of whether to study a single case or multiple cases. The rationale for conducting a single case study is when: having a critical case in testing a well formulated theory, a case represents an extreme or unique case, a case is representative or typical, a case is revelatory, i.e. previously inaccessible, or having a longitudinal case, i.e. same case at different points in time. Generally a multiple case study is considered more robust and the result is more compelling. However, a multiple case study is also more likely



to require more resources and time. In the situation of an unusual and rare case, a critical case and a revelatory case, a single case is often used by definition (Yin, 2003).

In case of a multiple case study, the cases should be used to “either predict similar results among replications, or to show contrasting results, but for predictable, explainable reasons” (Ellram, 1996, pp. 102). Yin (2003) explains the replication logic in a multiple case study in two terms: literal and theoretical replication. The logic behind a literal replication is to predict similar results among replications. In contrast, theoretical replication is to predict opposing results for logic reasons. The case study method with multiple cases by Yin (2003) is illustrated in Figure 14. The first part is the design of the case study, which consists of theory development followed by case selection and the design of a data collection protocol, i.e. what data to be collected and how. The second part is to collect data and analyse each case. It is important to emphasise that each case needs to be treated as an own study. The results and conclusions in each case is the information needing replication by the other cases. Finally an analysis and a conclusion across cases are done.

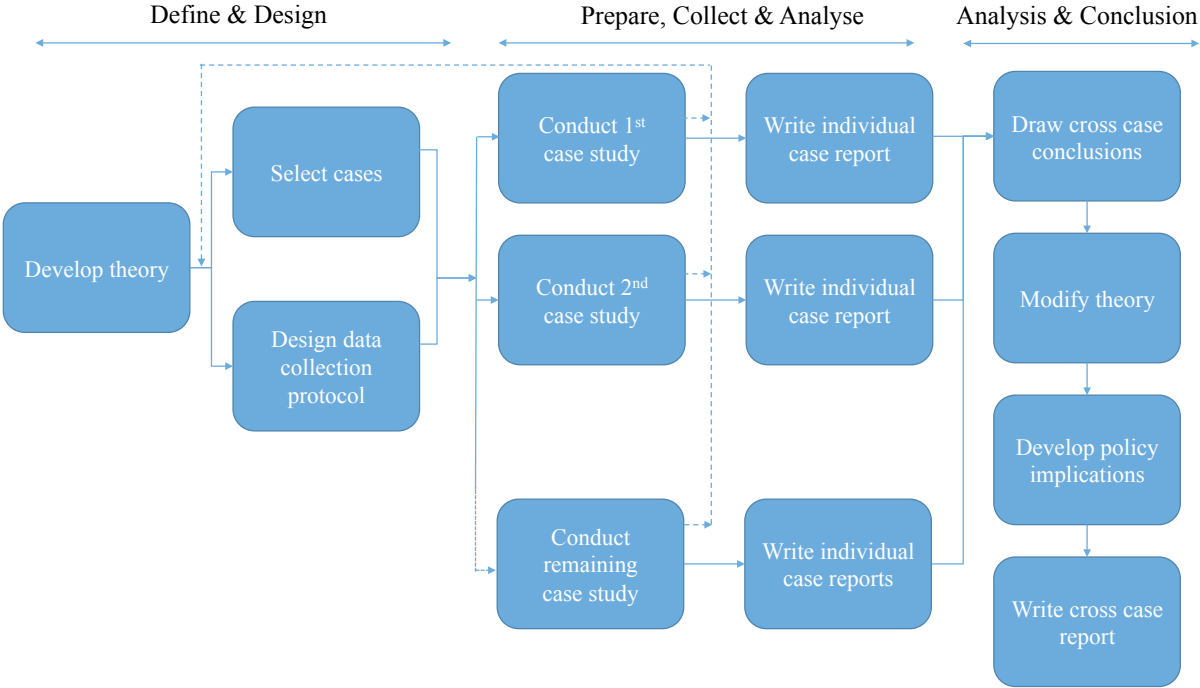


Figure 14: Case study method with multiple cases (Yin, 2003, pp. 50)

3.4.4 Design type in this study – a multiple case study

In the decision of whether to conducting single case or a multiple case study, a multiple case study was chosen. The reasons mentions in theory, that a multiple case study is more robust and that the results would be more compelling, combined with the motivation of doing an ambitious work moved the design type towards the multiple case study.

Based on the case study method with multiple cases proposed by Yin (2003) a model of the case study was illustrated, see Figure 15. The aim of the study was to investigate how the retail buying organisation is affected by the establishment of a central warehouse, and the case study was following the logic of showing contrasting results for predictable and explainable reasons, where each and every case is treated as an own study with a case description and

single case analysis. Later the cases were analysed across and propositions of how a central warehouse affects the retail buying organisation were developed.

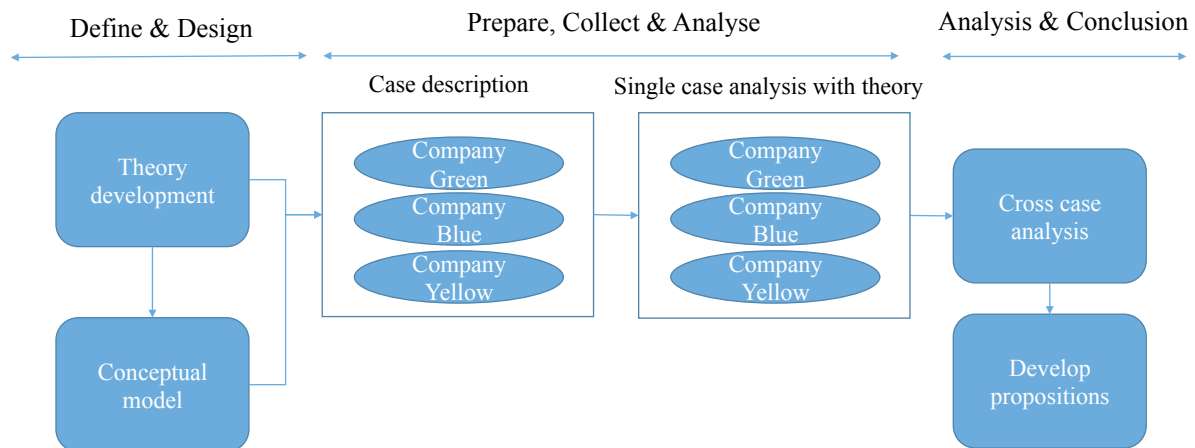


Figure 15: Illustration of the multiple case study

### Case selection

The choice of conducting a multiple case study implies a selection of appropriate cases to include in the case study. The basis for this study was the practical challenge at Company Green, who has no central warehouse and a franchise structure, which they plan to leave. Hence, the rationale behind the selection of case companies was to search for companies similar to Company Green but with a central warehouse and a different owner structure. The criterion with a difference in owner structure aims to capture a part of Company Green's transformation.

The search for suitable companies with a central warehouse and different owner structure was based on the following criteria:

- Main business in the non-food retail industry
- Focus on buying of finished goods to be further sold
  - No own production
- Retail chain with several retail stores
- Buying organisation in Sweden

The reasons for setting the criterion of having the main business in the non-food retail industry was because food products are very different in the way of being perishable, and there is also a clear distinction between food and non-food retailers in theory. It is also important to emphasise that having an own production is likely to have a different buying structure and roles, buying process, and required buying skills. The reason for including retail chains with several stores was to get companies with a considerable business that would be interesting to study. To make this study manageable a selection criterion of having the buying organisation in Sweden was set.

The search for suitable companies was conducted through searching the web in search engines. Brainstorming with supervisors was also helpful to find companies to contact. Over 20 different companies was contacted to participate in the study and was done through e-

mailing and calling customer service, managers and staff at the companies. Personal connections were also used to come in contact with companies. In total two companies accepted the invitation and information about how the case companies fulfilled the criteria are shown in Table 8, including Company Green. The case companies are considered to be comparable since they are all within the same NACE classification 52.4 (retail sale of new goods in specialised stores), have no own production and a considerable number of retail chain stores.

Table 8: Case companies and information about the selection criteria

<b>Case company</b>	<b>Within the non-food retail industry (NACE classification)</b>	<b>Own production (Yes/No)</b>	<b>Purchasing office in Sweden</b>	<b>Retail chain stores S: 10-30, M: 31-60, L: 61-100</b>
<i>Green</i>	Yes (NACE 52.4)	No	Yes	M
<i>Blue</i>	Yes (NACE 52.4)	No	Yes	S
<i>Yellow</i>	Yes (NACE 52.4)	No	Yes	L

The companies have been categorised based on whether they have a central warehouse or not and the level of franchise, see Figure 16. The categorisation between having a central warehouse and not having a central warehouse is central in the study. The companies having a central warehouse will provide information about the retail buying organisation when having a central warehouse, while Company Green will provide information about its situation when not having a central warehouse. The second categorisation, the level of franchise, is important to have in mind because it is a factor that affects the whole retail organisation. What can be seen is that Company Blue has a mix of centrally owned stores and franchise stores, and is therefore placed in the middle of the figure regarding level of franchise. Company Blue is also placed in the middle regarding the central warehouse, since they are not currently working with a central warehouse at full scale.

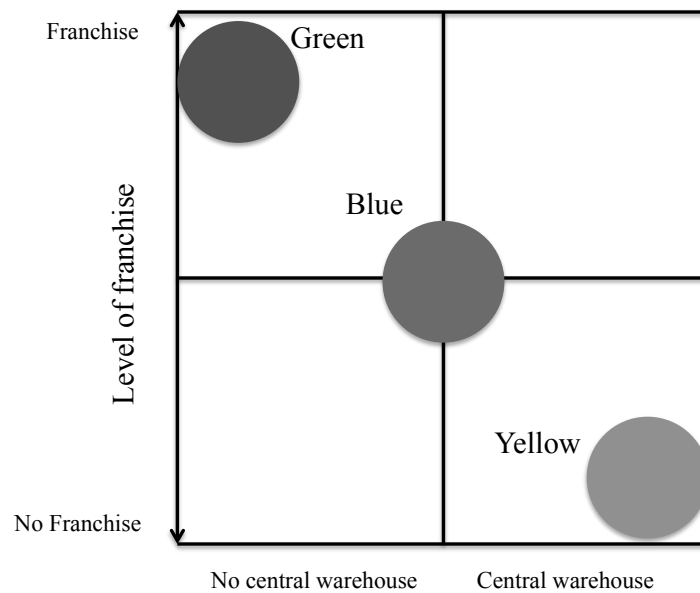


Figure 16: Categorisation of the studied companies

### 3.5 Theory development and literature study

Before any data collection can be started in a case study there is a need for theory development. The theory development is an important part of the case study and a facilitator of the data collection (Yin, 2003).

In this study the theory development is summarised in a theoretical framework. The theoretical framework for this study has been constructed by searching relevant literature on retail buying and industrial purchasing. Different search engines have been used such as LUBsearch, which is Lund University's libraries search engine where one can find scientific journals, dissertations, books etcetera. Databases such as Emerald, Science direct and Google scholar have also been used to find relevant literature. The keywords that have been used in the search for literature are: *retail buying organisation, retail buying, retail buying process, retail buying skills, retail supply chain, retail management, industrial purchasing, industrial purchasing organisation, industrial purchasing process, industrial purchasing skills, central distribution, central warehouse etcetera*. Combinations of these words and synonyms have also been used. Furthermore, an iterative method to find relevant theory has been used where an interesting article or book found on the subject have been a link to other interesting sources of information.

The primary base for the development of the theoretical framework in this study has been books where retail buying is described. Some books on industrial purchasing have also been used to extend theory on retail buying. The main reason why books have been used instead of scientific articles are that they describe retail buying and retail buying organisations more extensively. After a relevant book was found a smaller background check about the author and its academic record was performed to ensure the trustworthiness of the presented theory.

The secondary source of information for the theoretical framework has been scientific articles, which have been used to extend and support the theory found in books. The main criterion for

the search for the scientific articles is that they have been peer-reviewed, which means that the article have been reviewed by an expert in the field of research before being published.

The collected theory from books and scientific articles has been merged into a theoretical framework. The different sections of the theoretical framework have in most cases been developed based on several sources of information to make sure that the presented theory is accepted by several authors.

### 3.6 Data collection

In this section the sources of information is presented and can be categorised into primary and secondary information sources. The main source of information in this study has been interviews.

#### 3.6.1 Primary information sources

Information that has not undergone any transformation is referred by Arbnor & Bjerke (2009) as primary information, such as experiments, direct observations and interviews. An interview is more of a guided conversation, where the leader of the interview needs certain knowledge of the area being discussed. There are three main types of interviews: unstructured, semi structured and structured interviews (Denscombe, 2009; Höst et al., 2006; Yin, 2003). An unstructured interview is associated with an interview where the researcher for example introduces a theme or a wide question and the interviewee is free to elaborate on the answer. While a semi structured interview has more distinguished questions that should be answered, however there is room for the interviewee to give more comprehensive answers. Lastly, the structured interview is more related to a survey where answers within a specific frame are expected (Denscombe, 2009; Höst et al., 2006).

The main data collection method in this study was interviews. The main interview type that was used in this study was semi structured. An interview guide has been developed in a semi-structured manner to be able to match theory identified in the literature with the gathered information from the interviews. The interview guide used in this study can be seen in the Appendix and is inspired by Höst et al. (2006). The interview guide starts with a short description of the context and the purpose of the interview. Then some short questions regarding age, job position and company was asked to be able to categorize the interviewee. After this information has been filled in an introduction question was asked to the interviewee to make him/her feel comfortable. Then the main questions were asked related to the study. Before each interview a copy of the interview guide were sent to the interviewee. Each interview has also been recorded to ensure that there were no misunderstandings. Each interview was later either transcribed or summarised. In Table 8-11 the different interviews can be seen.

#### Company Green

At Company Green four interviews have been conducted, see Table 9. The Product department manager has six years of experience of working at Company Green. The Assistant product manager has three years of experience of his role, but also has experience from working in the stores. They are the ones who are responsible for and perform buying activities at Company Green. The Store manager has 17 years of experience at Company Green and the

interview was conducted to confirm how ordering to the stores was performed and to get an understanding of the situation. A continuous dialog has been kept with the Assistant product manager through conversations and e-mails. The company description was sent to the Product department manager and the Assistant product manager, to confirm what was written.

*Table 9: Interviews at Company Green*

<b>Date</b>	<b>Position</b>	<b>Time</b>	<b>Recorded</b>	<b>Transcribed/ Summarised</b>	<b>Interview type</b>
2014-01-23	Assistant product manager	1h	No	Summarised	Unstructured
2014-03-26		1h	Yes	Summarised	Semi-structured
2014-03-12	Product department manager	2,5h	Yes	Transcribed, 28 pages	Semi-structured
2014-03-20	Store manager	1h	Yes	Summarised	Semi-structured

### Company Blue

At Company Blue one group interview was conducted with two people from the managing board. They hold the positions as a Controller/Planner/IT-manager, with responsibilities of logistics, and as a Concept and product assortment manager. The Controller has three years of experience of work at Company Blue and the Concept and product assortment manager has 15 years of experience of work at Company Blue. These two are involved in buying decisions and have a good overview of how things work at Company Blue. The company description was sent to the Controller, who had a few minor comments of what should be clarified or what was considered as sensitive information.

*Table 10: Interviews at Company Blue*

<b>Date</b>	<b>Position</b>	<b>Time</b>	<b>Recorded</b>	<b>Transcribed/ Summarised</b>	<b>Interview type</b>
2014-03-27	Controller/ Planner/IT- manger and the Concept and product assortment manager	1,5h	Yes	Transcribed, 14 pages	Group interview Semi-structured

### Company Yellow

At Company Yellow one interview was conducted, see Table 11. The interviewee is the Logistics manager at Company Yellow, but has five years of experience in Company Yellow and has previously been a buying analyst and a category manager. More people were contacted but could not give an interview, but the Logistics manager has a good understanding and knowledge of how product are bought at Company Yellow. The company description has been sent to the Logistics manager, but no feedback has been received.

Table 11: Interviews at Company Yellow

Date	Position	Time	Recorded	Transcribed/ Summarised	Interview type
2014-04-23	Logistics manager	2,5h	Yes	Transcribed, 20 pages	Semi-structured

### Additional

An additional interview with Pär Sandström has been conducted to discuss the proposed propositions of the effects of a central warehouse on the retail buying organisation. Pär works as a logistics consultant and has 20 years of experience of Supply Chain Management in the retail industry from work at Unilever and Stadium. At Stadium he was a key player in the establishment of a central warehouse. The information from the interview was processed and sent to Pär, who had minor comments.

Table 12: Interviews with additional interviewees

Date	Position	Time	Recorded	Transcribed/ Summarised	Interview type
2014-04-14	Logistics consultant	1h	Yes	Transcribed, 11 pages	Unstructured

### 3.6.2 Secondary information sources

Secondary information is information that has already been collected or transformed. Yin (2003) mentions documents such as mail and newspapers, and archive materials such as information from internal systems and annual reports, as typical sources for secondary information. Secondary information used in this study is presented below:

- **Company Green:** An organisational chart of Company Green was received and used in the company description.
- **Company Blue:** A description of positions in the central organisation was received and used in the company description.
- **Company Yellow:** An organisational chart of Company Yellow and chart of the buying organisation was received and used in the company description. Furthermore the annual report was read to confirm parts of the information.

### 3.7 Analysis of the empirical data

*“The analysis of case study evidence is one of the least developed and most difficult aspects of doing case studies.”* (Yin, 2003, pp. 109). Much is dependent on the presentation of the evidence, consideration of alternative interpretations and the investigator’s own style of thinking. In order to use tools and make manipulations in the right way it is essential to have a general analysis strategy. The most common analysis strategy is to follow the theoretical propositions that led to the case study. The logic behind the strategy is that theoretical propositions were the base for the objectives and design of the case study. Thus, affecting what data to collect and how it should be collected and should therefore continue to influence the analysis. To summarise, the aim is to link the objectives, the research question and the review of the literature (Yin, 2003).

Coding, or indexing, is a common way to start qualitative data analysis and is seen as a mechanism for thinking about the meaning of the data and reducing the amount of data. Gathered data is sorted and marked with different codes in order to organise data. A piece of information can be coded in many ways and one should not worry about generating too many codes early in the analysis. It is important not see the coding as the analysis, but as a part of the analysis. After coding the data an interpretation of the findings must still be done. In addition, it is important to reflect on the findings in relation to the research questions and the research literature that have driven the data collection. When collecting data it is good to start coding it as soon as possible and review the codes in relation to the gathered data (Bryman, 2012).

3.7.1 Analysis in this study

The analysis strategy used in this study was to use the logic of following theoretical propositions where the aim is to link the objectives, the research questions and the review of literature. The objective/purpose of this study resulted in two research questions:

**Research question 1:** *How do the buying structure & roles, buying process and buying skills look like in the retail buying organisation?*

**Research question 2:** *How are they affected by a central warehouse?*

How theory and collected data was connected to the research questions in the analysis is illustrated in Figure 17. First of all, each case company was described in a case description where information from the data collection was coded into the main areas of the conceptual framework. Later each case company was analysed in a single case analysis with theory. Further on, to arrive at the first research question a cross case analysis was conducted to look for common patterns within the three main areas i.e. buying structure & roles, buying process and buying skills. To arrive at the second research question identified patterns of how a central warehouse affects the retail buying organisation from the cross case analysis was further developed into propositions.

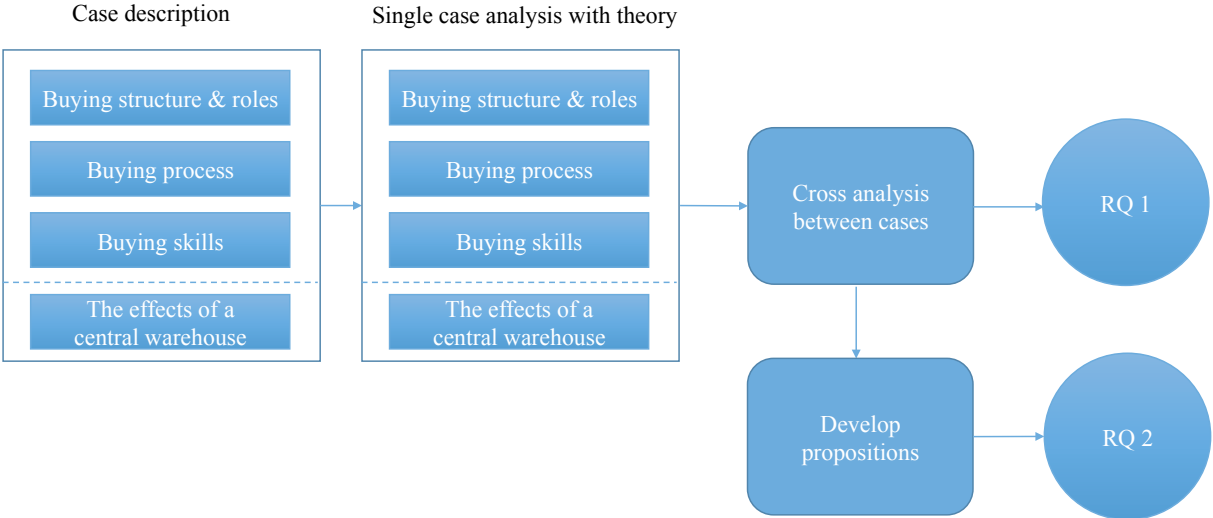


Figure 17: Illustration of analyses



## Case description

The aim of the case description was to create an understanding of each case company in the areas presented in the conceptual framework. The primary data collection was performed through interviews, which was transcribed afterwards. From the transcriptions the data was organised and structured with the help of several coding categories, see Figure 18. Further on, each main area was further condensed and reviewed to create the final case description.

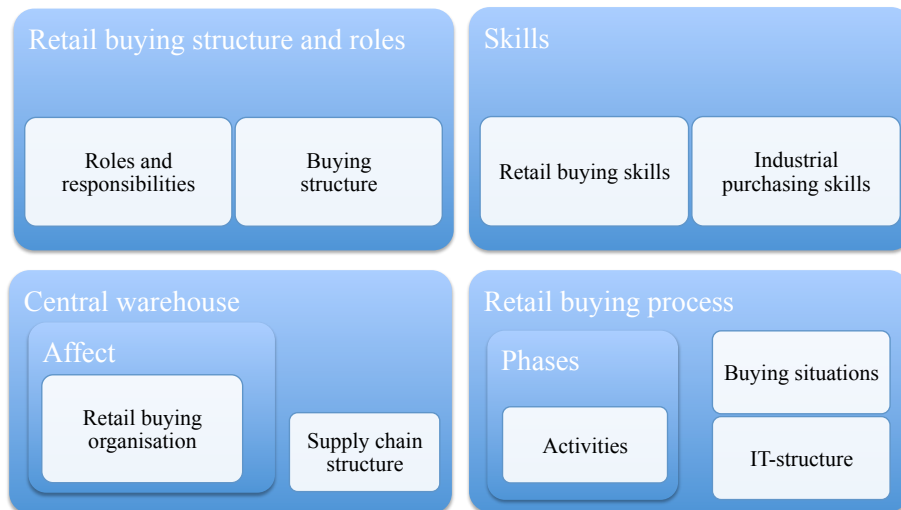


Figure 18: Coding categories

## Single case analysis

With the single case analysis the aim was to compare the work in practice described in the case description with identified theory and has been divided and merged into the same section as the case description. For each section three different relationships were taken into consideration, see Figure 19. The first relationship is described by the first dotted arrow, where the single case analysis provides input to practice of what could be done in another way. The second dotted arrow describes that practice provide input to theory of how it could be done. The third and last arrow describes that theory and practice match, and confirm theory's view of how to work in practice. From the case description and single case analysis a summary for each area of investigation was conducted to catch the most important information. These summaries were later used in the cross case analysis.

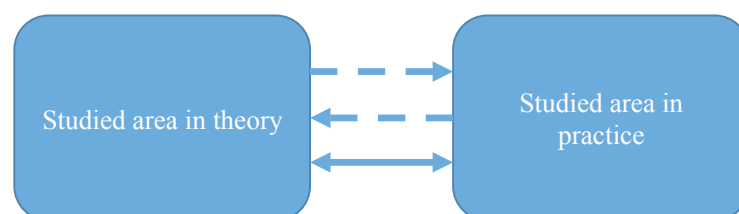


Figure 19: Illustration of relationships analysed in the single case analysis

## Cross case analysis

The aim of the cross case analysis was to compare the cases in order to find patterns, which creates an understanding of the retail buying organisation in retail companies related to the three main areas of this study. Thus, answering the first research question. Furthermore, the cross case analysis helped to identify differences between companies with and without a

central warehouse. Thus, helping to answer the second research question. The basis for the cross case analysis was the three main areas i.e. buying structure and roles, buying process and buying skills. In addition, for the companies with a central warehouse a cross case analysis of their perceived effects of a central warehouse was done.

The cross case analysis was performed with aid from the tables of the summarised data presented in the case description and single case analysis. The cross case tables was used to create an overview and to be able to easily compare the cases, for an example table see Table 13. From this cross case table a comparison was made for each area of investigation. In the comparison common patterns and differences were identified and further analysed to find an explanation for the pattern or difference.

Table 13: Example of cross case analysis table

<i>Area of investigation</i>	<b>Company Green</b>	<b>Company Blue</b>	<b>Company Yellow</b>
<i>Buying structure and roles</i>			
<i>Buying process</i>			
<i>Buying skills</i>			

**Development of propositions**

To reach the second research question further discussion was made and resulted in a number of propositions of how a central warehouse affects the retail buying organisation. The discussion leading to the propositions was based on the identified effects in the cross case analysis. From this discussion a number of propositions were formed that relate to how a central warehouse can affect the retail buying organisation. These propositions were then discussed with a professional within the retail industry with experience and knowledge from working with a central warehouse. The relevance of the propositions was discussed in an interview where the proposed propositions were presented. The feedback from the interview was taken into consideration and concluding propositions was made as a final step of the development of propositions. The process of the development of the propositions is described in Figure 20.

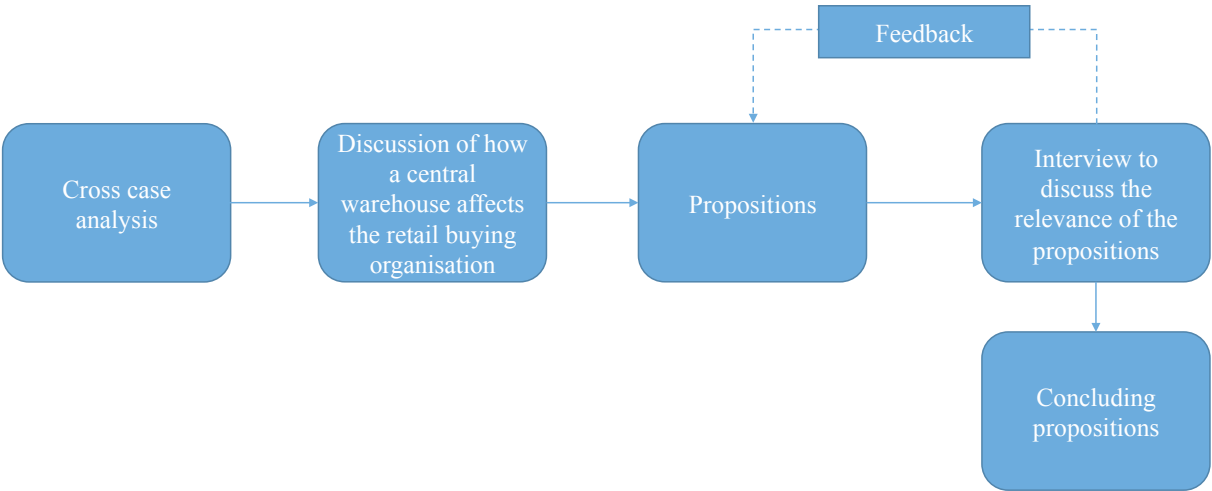


Figure 20: Illustration of the development of the propositions

### 3.8 Quality of the case study method

One of the main concerns about the case study method is that it is perceived as not giving satisfactory results if not designed properly (Ellram, 1996). Da Mota Pedros et al. (2012, pp. 277) say that there is a lack of quality criteria to ensure high quality research for quantitative research methods such as case studies and emphasises that “*researchers need to explicate the design and methods in detail so that the reader can judge their adequacy and relevance*”. Ellram (1996) and Yin (2003) emphasise four parameters that create quality when using the case study method: reliability, external validity, construct validity and internal validity.

#### 3.8.1 Reliability

This criterion focuses on ensuring that the study can be reproduced with the same results. To meet this criterion documentation of the research procedure is a necessity (Ellram, 1996; Yin, 2003). To ensure reliability and that the study can be reproduced, a case study database has been developed where all documents have been stored. In the database all empirical information, recorded interviews, summaries and transcriptions, company documents and interview guide for this study has been stored. A project log and project plan is also available to help other researchers to reproduce the study.

#### 3.8.2 External validity

External validity concerns whether the results from the study can be generalised to other contexts (Ellram, 1996). Yin (2003) says that case studies rely on analytical generalization where it is important to apply the replication logic, but Denscombe (2009) also mentions that it is partly up to the reader to judge the generalizability of the results and to what context it is applicable. To increase the external validity a multiple case study has been used, where a theoretical replication to predict opposing results for logic reasons has been used as suggested by Yin (2003). Furthermore, to increase the generalizability of the results the cases representing those who have a central warehouse are not in the same retail sector. In addition, they do not have the same owner structure, which could have limited the result to just one kind of owner structure. The authors have also had in mind to include enough details without going too deep, in order for the reader to judge the generalizability.

#### 3.8.3 Construct validity

Construct validity is concerned with the “*establishment of the proper operational measures for the concepts being studied*” (Ellram, 1996, pp. 105). The first step in the process to construct validity is to use multiple data sources. This involves using for example more than one interviewee from each company in the case study and back-up the interviews with other documented sources. Doing this relates to the concept of triangulation. The second step to construct validity deals with establishment and maintenance of a chain of evidence, which relates to the easiness to follow the report from research questions to conclusions. The third and last step in the process to construct validity relates to a draft review by key informants (Ellram, 1996).

To construct validity in this study more than one interviewee from all but one company has been interviewed, see section 3.6.1 Primary information sources. For the company with only one interviewee the annual report has confirmed the validity of the information. Furthermore, secondary information such as organisational charts have confirmed some parts of the

information gathered from the interviews. To create a chain of evidence there have been a focus of having a clear structure in the report and external reviewers have been used to ensure that the study has a logic flow, see Table 14. At last, the case description has been sent to each case companies to reduce the risk of misunderstandings and inaccurate facts.

*Table 14: Reviewers for this report to construct validity*

<b>Name of the reviewer</b>	<b>Title of the reviewer</b>
Ala Pazirandeh	Doctor, supervisor
Andreas Norrman	Professor, examiner
Opponent group	Master students

#### 3.8.4 Internal validity

Internal validity becomes important when the research ambition is explanatory and the need for internal validity is considered less important in descriptive or exploratory research studies (Ellram, 1996). Since the aim of this study is not to prove that an event  $x$  leads to an event  $y$ , this study is more descriptive and exploratory in nature. However, a part of this study is to explore/describe how a central warehouse can affect the retail buying organisation. To answer this pattern matching has been used to see if there exist commonalities between the suggestions from the different cases in the study, which increases the internal validity (Yin, 2003). Apart from this no further measures were taken regarding internal validity.

### 3.9 Strengths and weaknesses with the strategy and data collection methods

To summarise the methodology chapter a summary of the strengths and weaknesses with the chosen strategy and data collection methods are presented, see Table 15.

Table 15: Strength and weaknesses of the chosen strategy and data collection method

	<b>Strength</b>	<b>Weakness</b>
<b>Strategy:</b> <i>Case study strategy</i>	<ul style="list-style-type: none"> <li>• Can be used for explanatory, exploratory and descriptive purposes (Yin, 2003)</li> <li>• Allows combination of different methods (Denscombe, 2009)</li> <li>• Possibility to focus on the holistic view in special settings (Denscombe, 2009)</li> <li>• Possible to use several data sources (Denscombe, 2009)</li> <li>• Suitable for smaller research projects, where one can concentrate on few cases (Denscombe, 2009)</li> </ul>	<ul style="list-style-type: none"> <li>• Takes long time to conduct (Yin, 2003)</li> <li>• Risk that the results are biased (Yin, 2003)</li> <li>• Observer effect, risk that the study is affected by the presence of the researcher (Denscombe, 2009)</li> <li>• Difficult to generalise the results (Denscombe, 2009; Yin, 2003)</li> <li>• Not statistically generalizable (Dubois &amp; Gadde, 2002)</li> </ul>
<b>Data collection method:</b> <i>Interviews</i>	<ul style="list-style-type: none"> <li>• Detailed in-depth information (Denscombe, 2009; Yin, 2003)</li> <li>• No need for advanced equipment (Denscombe, 2009)</li> <li>• Flexibility to change the interview when it is conducted (Denscombe, 2009)</li> <li>• High respondent rate (Denscombe, 2009)</li> </ul>	<ul style="list-style-type: none"> <li>• Interviewee effect, “<i>Data from interviews are based on what people say rather than what they do</i>” [Translated] (Denscombe, 2009, pp. 269)</li> <li>• Risk for subjective information (Denscombe, 2009; Yin, 2003)</li> <li>• Reflexivity, “<i>interviewee gives what interviewer wants to hear</i>” (Yin, 2003, pp. 86)</li> <li>• Resource demanding (Denscombe, 2009; Yin, 2003)</li> </ul>
<b>Data collection method:</b> <i>Documents</i>	<ul style="list-style-type: none"> <li>• Unobtrusive, “<i>not created as a result of the case study</i>” (Yin, 2003, pp. 86)</li> <li>• Data availability, easy access to much data (Denscombe, 2009)</li> <li>• Less resource demanding (Denscombe, 2009)</li> <li>• Often controlled and valid (Denscombe, 2009)</li> </ul>	<ul style="list-style-type: none"> <li>• Risk for subjective documents (Denscombe, 2009; Yin, 2003)</li> <li>• Trustworthiness of the source (Denscombe, 2009)</li> <li>• Secondary information (Denscombe, 2009)</li> </ul>



## 4 Case studies

*In this chapter the empirical data collected from the studied case companies is presented. It starts with a short introduction of each case company followed by areas investigated in this study; the buying structure & roles, the buying process and buying skills. These topics are analysed and compared with presented theory. Lastly, for those companies who have experience of a central warehouse their view of the effects of a central warehouse on the retail buying organisation is presented. Each section is summarised in a table, which is later used in the cross case analysis.*

### 4.1 Company Green

Company Green is a Swedish retail chain company with several stores located in Sweden focusing on selling well-known brands. Each store has its own owner, who runs the business and pays a monthly fee to the franchise organisation, Company Green, to be a part of the concept and use Company Green's brand name. The owner of each store is responsible for the financial result of his or her business. Furthermore, Company Green offers each storeowner the possibility to buy extra services to support their business such as financial services.

The concept and brand name of Company Green are owned by the Vice President. The central organisation of Company Green is divided into three main areas: Marketing, Operations and the Product department. Marketing is responsible for all kinds of advertisement and brand management. Operations is responsible for the management of store operations. In turn each store has a store manager who is responsible for the operations in each store. The store manager reports to a regional manager, who is the owner of one or more stores. To support the regional managers a sales manager is available within the central organisation at Company Green's head office. The third area in the central organisation is the so-called Product department. They are responsible for the management of suppliers and the product assortment. In addition, the Product department updates all information about products in the information system. The organisational structure of Company Green is seen in Figure 21.

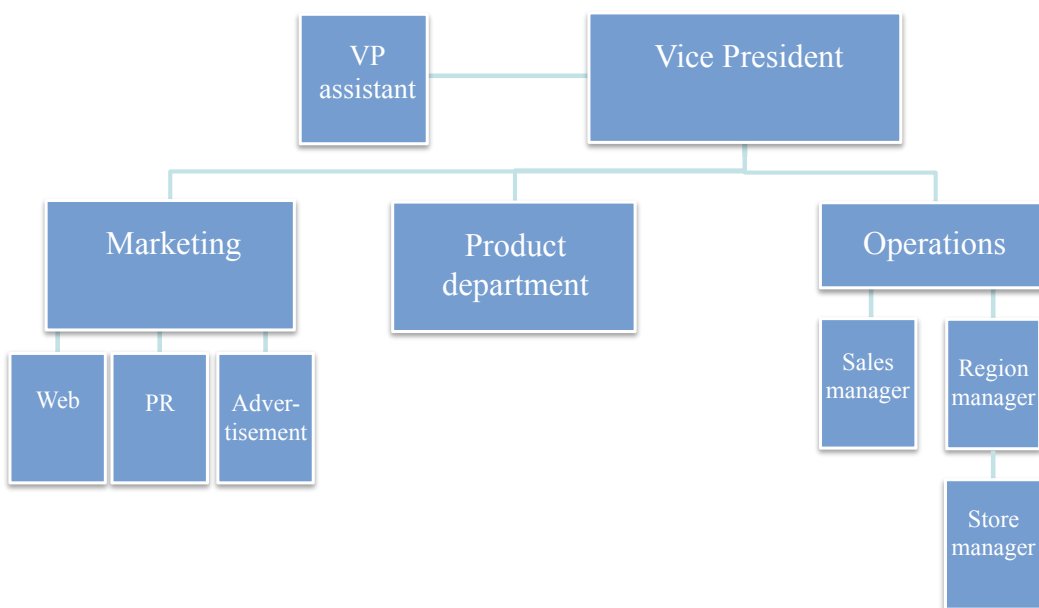


Figure 21: Organisational structure at Company Green

The product assortment decided by the Product department at Company Green is divided into two main product groups, where product group one, PG1, is make-to-order products and considered bulky. PG1 makes up for 85% of Company Green’s total turnover. Product group two, PG2, consists of accessories to PG1. These products are make-to-stock products. The two different product groups have separate channels of distribution. Products in PG1 are not stocked at the stores. These products are ordered by store personnel upon customer demand and is referred to as a customer order. A customer order is delivered directly from supplier to one out of three hubs owned by Company Green. These hubs are located in southern, western and eastern Sweden. From these hubs Company Green delivers the products to the customer with their own fleet of trucks. Products in PG2 are stocked at the stores and replenishment orders are sent to the suppliers from each store. These products are delivered directly from supplier to the stores. The product flow from different suppliers to the stores and the customers of Company Green are seen in Figure 22.

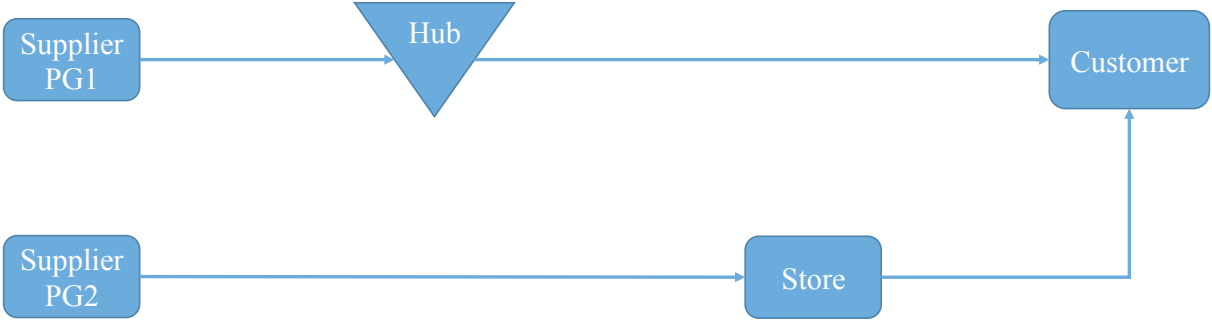


Figure 22: Product flow between supplier, stores and customers at Company Green

4.1.1 Buying structure & roles

The Product department, i.e. the buying organisation, is located at Company Green’s head office and is responsible for negotiations, contract agreements and product assortment decisions. The responsibilities in the Product department are divided into two product groups, where the Product department manager is responsible for PG1 and an Assistant product manager is responsible for PG2, see Figure 23.

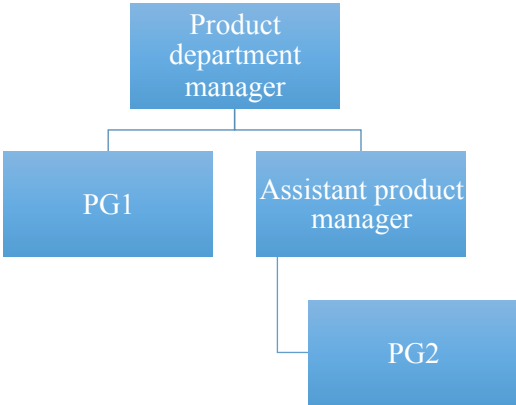


Figure 23: Product department at Company Green

The Product department contracts different suppliers that the stores are able to order products from. There is a minimum product assortment each store must include in their stores. Though, the final assortment differs between stores and is dependent on store size and location. In



many cases the product assortment and store presentation are discussed between the Product department, suppliers and storeowners to find the best solution. Another reason why the final product assortment can differ between stores is that the stores are allowed to order products from contracted suppliers that are outside the minimum product assortment.

The work at Company Green is driven by periodical marketing campaigns. These marketing campaigns are planned and decided by the Product department in collaboration with suppliers. During a marketing campaign a specific part of the product assortment is on discount in all stores is launched at the same time.

Every store is responsible for its own business and owns all products ordered. Therefore, the responsibility of ordering products from contracted suppliers is placed at each store. The Product department does not interfere in decisions of what, when and how much to order. Thus, there is no opportunity to aggregate orders from different stores and benefit from buying larger volumes from suppliers.

*Analysis*

The buying structure at Company Green can be seen as the third type of centralised buying, price agreement plan, according to the definition by Clodfelter (2013). In a price agreement plan each single store is allowed to place orders from contracted suppliers within a predefined merchandise assortment decided by the central buying organisation (Clodfelter, 2013), which is similar to Company Green’s ways of working.

The Product department manager and the Assistant product manager at the Product department have divided the responsibility of the product assortment between each other in two product groups. The Product manager position at Company Green has similarities with the definition of a Buying director defined by Varley (2001), since he has the main responsibility of the Product department. Furthermore, the Product manager’s work has similarities with the work of a buyer as described by Varley (2001), which includes supplier selection, price negotiation, etcetera. The Assistant product manager is managing PG2, which also corresponds to the definition of a buyer. A summary of the buying structure and roles at Company Green can be found in Table 16.

*Table 16: Summary of buying structure and roles at Company Green*

	<b>Company Green</b>
<i>Buying structure</i>	<ul style="list-style-type: none"> <li>• Price agreement plan</li> <li>• Centralised Product department who decides a minimum product assortment and suppliers the stores are allowed to order products from.</li> <li>• Stores are responsible for placing orders.</li> </ul>
<i>Roles</i>	<ul style="list-style-type: none"> <li>• Product manager who has the overall responsibility of the Product department and PG1.</li> <li>• Assistant product manager who is responsible for PG2.</li> </ul>

#### 4.1.2 Buying process

At Company Green there is no explicit or written buying process. Their buying is driven by various marketing campaigns during the year and is affected by the limited number of suppliers available and their work with Nordic brands. Furthermore, Company Green’s focus is to build close and long lasting relationships with their suppliers. A summary of the buying process identified at Company Green can be seen in Figure 24.

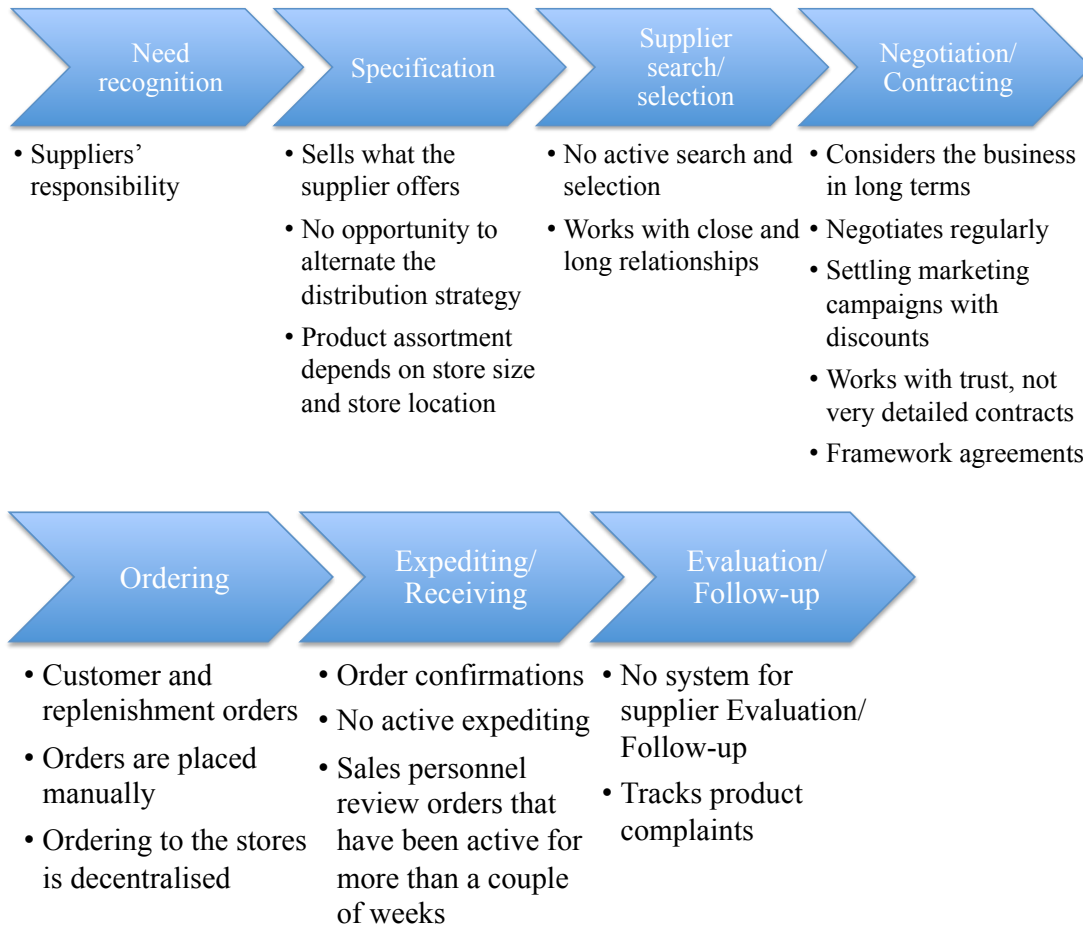


Figure 24: Summary of the buying process at Company Green

#### *Analysis*

The identified buying process above shows that not all phases are emphasised or active at Company Green. As mentioned by Varley (2001), not all phases are always performed and depend on the situation, which is more or less confirmed. Company Green’s focus on buying brands eliminates the need recognition phase since it is up to each supplier to do this, which implies that there is no new task situation described by Robinson (1967) and Varley (2001). The focus on brands does also limit Company Greens decisions of specifying the product. Furthermore, since Company Green has established suppliers, and there are a limited number of suppliers in the Nordic countries, there is no active supplier search and selection phase. The situation that often occurs is a modified rebuy situation, which starts with brand-suppliers providing new products leading to a negotiation. Another kind of modified rebuy does also occur, starting with a negotiation regarding marketing campaigns and changed agreements.

Finally, there is a clear ordering phase at Company Green, which implies a straight rebuy situation explained in theory. Though, no clear expediting or active evaluation and follow-up could be found at Company Green.

### Need recognition

There has been a decision of how to prioritise work to manage the total workload in the buying organisation at Company Green. Therefore, Company Green has made the decision to not actively work with the first phase of the buying process. Since Company Green works with brands, tracking customer needs is something that is left to the suppliers. Consumer trend analysis and product development are suppliers' areas of responsibility. Basically, Company Green sells the products the suppliers offer to sell.

### *Analysis*

At Company Green it is clear that this phase is not performed since they work with brands. An interpretation is that the supplier is the major source of information about customer needs and trends. The phase could have been present if Company Green tracked customers' need for new brands.

### Specification

Since Company Green works with brands and sells the products the suppliers offer, there is no specification of the product features and design. Company Green points out that not all products offered by the suppliers are sold in all stores. The products offered in the stores is something that the Product department and each storeowner discuss, but there is also a close dialogue with the suppliers for valuable input. The product offer differs between stores, and depends on the size of the store and the store's geographical location. The goal is to specify a product offer customised to the size of the store and suitable for the customers in the area at the same time. Though, in the end the storeowner has the final word of what products that are offered in the store, especially for products in PG2.

With the current logistic setup, Company Green does not have many alternatives to specify distribution specifications. The decision of what to keep in stock and what product availability to have is up to each store and are hard for the Product department to specify.

### *Analysis*

Company Green's focus on working with brands eliminates the need for specifying any consumer evaluation criteria mentioned in theory. However, specifying a brand is one of the criteria, which Zentes et al. (2011) say distinguishes the product and could be the only thing needed. In addition, the brand owner is likely the one taking the risk if something is wrong with the product and reduces the need for the buyer to specify consumer evaluation criteria. Of the two other areas of specification, distribution strategy and product assortment strategy, Company Green seems to focus more on the product assortment strategy. The suppliers' of each brand has a range of product that they offer to Company Green, but not all products are sold in each store. As Levy & Weitz (2004) mention, the physical characteristics of store is taken into consideration and it is clear that the corporate philosophy of working with contracted brands is present. In addition, Company Green thinks of the demographical characteristics of the geographical location, which is not mentioned by Levy & Weitz (2004).

It could be argued that this is similar to as what Levy & Weitz (2004) call balance between too much and too little.

### Supplier search and selection

There is no active search and selection of new suppliers since Company Green have a strategy of working with brands and keeping close and long relationships with current suppliers. The focus has been to have suppliers from the Nordic countries, which has limited the available sources of supply. The reason for the limitation of suppliers from the Nordic countries is because these suppliers are considered to be the best in class. Furthermore, Company Green's customers look for brands from these countries. Most of the available suppliers from the Nordic countries are in the current supplier base of Company Green. Company Green puts tough demands on their suppliers and those who are not in their supplier base are those who cannot match their demands. It is emphasised that suppliers are evaluated on how much they would like to have a partnership, how flexible they are and how much they would like to develop the business together with Company Green.

### *Analysis*

As said by Company Green, they do not actively search for new suppliers and knows about the suppliers in the Nordic countries. Those who are not in their supplier base are those who cannot match their demands, which could be seen as a subjective way of selecting suppliers by the literature. Furthermore, the way of working with brands and not actively searching for suppliers and not getting involved in product development is considered as passive sourcing in literature.

### Negotiation and contracting

The majority of work performed by the Product department is driven by various marketing campaigns during the year. These marketing campaigns are planned together with the suppliers and involve negotiations about how much discount the supplier can provide. In return Company Green will reduce the price towards its customers with the same amount of discount. For example if the supplier provides 10% in discount, Company Green will match that and gives 20% in discount in total to the customer. In this way Company Green and its suppliers work together to increase sales. Since the suppliers also work with competitors, a discussion whether the supplier will provide better marketing campaigns for them is carried out. It is important for Company Green to know, when a marketing campaign is live, that there will be no better price for that product from competitors.

During times when products are not involved in any marketing campaigns, framework agreements are used. Terms for these are often renegotiated when Company Green has reached certain sales volumes and margins to motivate a better agreement. In addition to these agreements, they have negotiated with suppliers to support Company Green financially for their marketing campaigns related to the supplier's products. Other important areas that are negotiated are payment terms, margins and freight limits, i.e. when to pay for the freight. The contracts written with many suppliers are usually not very detailed, much is built on trust with the goal of doing a good work and build business together.

For seasonal products, often in PG2, a negotiation is carried out around six months in advance. Personnel from the buying organisation and sales meet suppliers to discuss what products the suppliers have to offer. Furthermore, most of the suppliers for seasonal products are much smaller, and Company Green points out the importance to build the business together with the supplier and prioritise the relationship. The focus during these negotiations is less focused on price pressure unless it can be motivated by rational arguments.

### *Analysis*

Company Greens way of working with discount was not explicitly mentioned in theory, but Clodfelter (2013) mentions discounts as a common part in a negotiation. Other important subjects to negotiate identified in the literature, such as payment terms, who takes care of promotions and transportation are also discussed with suppliers at Company Green.

The strategy of building a long and strong relationship with suppliers is reflected in Company Greens negotiation. They take their own position and the supplier's position into consideration, but do not take advantage of a superior position to pressure down the price. Rational arguments regarding increased sales and margins are used to motivate a better agreement and pressure down prices. The importance to consider your own and the supplier's position and what has occurred between the parties before is emphasised by Levy & Weitz (2004). The way of focusing on a close and long relationship indicates an alignment of common interest, which is mentioned by Fisher et al. (1999) as a part of principled negotiation.

### *Ordering*

Generally ordering is either a customer order or a replenishment order. The customer order is an order for a product bought by a customer, which is not stocked in the store. The customer order is placed in the business system, Pyramid, and sent electronically to an external business unit who checks the order before it is sent to the supplier. The work of controlling the order is not something that needs to be done, and is a paid service that is offered to the storeowners. Some of the large owners have own people controlling these orders. Afterwards the order is sent to the supplier as a PDF in an e-mail. Often a confirmation e-mail is sent from the supplier when the order is received. When the customer order has been completed by the supplier, it is sent to one of the hubs to for home delivery to the customer.

The other type of order, the replenishment order, is an order to replenish products that are stocked at the store. The stock levels in Company Green's business system are not always accurate, which forces the sales staff to manually count what quantities that are available on the shelves. When the products have been counted a replenishment order of what is needed is created in Pyramid and converted to a PDF, which is sent as an e-mail to the supplier. In this case many of the suppliers are small and do not have an own system and a confirmation is not always received. The replenishment orders from the supplier are delivered directly to the stores.

### *Analysis*

As mentioned by van Weele (2010), ordering is commonly performed locally in each store. Generally ordering at Company Green is either a customer order or a replenishment order,

which are two types of orders identified in theory by Clodfelter (2013). Regarding products that are stocked in the store a replenishment order is created manually. Sales staff visually checks the shelf and order the quantity that is needed. This manual technique is identified in literature by Kent & Omar (2003), who also mention automatic replenishment systems as an alternative. Even though Company Green has an information system that provides information about stock levels, it is not fully utilised as an automatic replenishment system. Furthermore, Kent & Omar (2003) mentions that an order is a result of a sales planning process. A clear and stated plan could not be found at the stores of Company Green, where most of the intake is ad hoc.

### Expediting and receiving

Company Green trusts their suppliers to inform them if there are any troubles to deliver the products. For customer orders there exists a procedure at the stores where all customer orders, which have been active for a couple of weeks and not yet delivered, are reviewed. The sales person who placed the customer order is responsible for this procedure and is followed-up by management at the store. Customer orders are received at one of the hubs where the products are checked for damages and manually registered in Pyramid. This is the time when Company Green is possible to plan the home delivery for the customer. For replenishment orders there is no expediting. When the replenishment order is received at the store it is checked against the consignment-note and manually registered in Pyramid.

### *Analysis*

Company Green's way of working in this phase could be seen as exception expediting according van Weele (2010), where action is taken when the problem has occurred. Though, it could even be seen as routine status check since the stores review customer orders after a certain time.

### Evaluation and follow-up

At the moment there is no clear procedure for evaluation or follow-up of the performance of the suppliers. As long as the suppliers deliver what they should, Company Green is satisfied and nothing is done to improve the suppliers' performance. Something that is tracked are the number of product complaints and the response time for these complaints. The product complaints from customers was previously handled by each storeowner and sales staff, but are now handled by Company Green's head office in order for the storeowner and the sales staff to focus on sales. Though, the product complaints are not the responsibility of the Product department. When a product complaint occurs, the central organisation takes care of all contact and communication with the customer. If there is a valid complaint, the supplier pays for the amount of time that Company Green has spent working with the product complaint.

### *Analysis*

As mentioned by Company Green they do not have a clear procedure for evaluation and follow-up of the performance of the suppliers. Though, van Weele (2010) points out that a sophisticated IT-system is needed to measure performance efficiently, which is not in place at Company Green at the moment. What are tracked in the system at Company Green are the number of products complaints and the reaction time from the suppliers. Varley (2001)

identifies the amount of returned goods as a parameter to evaluate the suppliers, which indicates that product complaints are of interest to follow.

### *IT in the retail buying process*

The business system used is called Pyramid. This system is used by all parts in the organisation and is a common platform where information is shared. Within the system users connected to the buying process have different authorities. Users in the Product department have more authority than storeowners and employees in the sales organisation at the stores. The system is used by the Product department to spread information about current marketing campaigns and store information about all products in the product assortment. Information available in the business system also covers the acquisition price for a product, the consumer price, stock levels etcetera. The system is used by the sales staff at the stores to create both customer and replenishment orders. Furthermore, the system is used to keep track of financial numbers such as sales and profits, but also information about product complaints. To analyse data from Pyramid a business intelligence system QlikView is used. With QlikView most information becomes easy to get and can be visualised in an understandable way.

### *Analysis*

What can be seen is that Company Green has an information system in place. Pyramid keeps track of all transactions and can provide information such as stock levels and sales, which is considered more quantitative data. Qualitative data in the system could be information about marketing campaigns and messages in customer orders. The information system has no connection to external parties, and external information from negotiations such as product information, prices and marketing campaigns are manually updated. The same system is used in all stores and it can be seen that the information system used at Company Green is focused on facilitating and coordinating the operational phases of the buying process. In addition, Company Green mentions QlikView, a business intelligence system, used to visualise the data from Pyramid and facilitates decision making on a more tactical level.

### *4.1.3 Buying skills*

Company Green has developed close relationships with their suppliers, and sees this as an important part of their success. They have always had an open dialog with suppliers, built on trustworthiness and respect. Company Green puts a lot of demand on their suppliers, which can be perceived as tough. However, most of the contracted suppliers are positive to the pressure from Company Green, which pushes them to improve their way of doing business. The tight collaboration with their suppliers has allowed Company Green to develop their suppliers' ability to do business and grow together with them. An example of their successful relationship development with suppliers is in marketing. Where Company Green together with selected suppliers invested in marketing of their products, which led to greater sales. The marketing together with suppliers has been a standard the last years.

Company Green says that there is a lack of policies and procedures to structure the buying of products. There has not been anyone working with this at Company Green. The focus of the Product department has instead been to facilitate the sales of products and negotiate contracts with suppliers, which has developed these skills.

It is emphasised by Company Green that it is important to have knowledge of what the consumer wants as a buyer. This knowledge is present for most of the products in the product assortment at Company Green. However, it could be even more professionalised, since the knowledge of the latest fashion and design is not present at the moment. Today some of the decisions regarding the product assortment are based on gut feeling, which is not considered to be suitable.

Skills such as the understanding of connections, patterns and different situations are available in the Product department at Company Green. These skills are related to the understanding of the market and sales patterns to set the right marketing campaigns. Furthermore, to have the understanding of how different parts of the product assortment affect each other is also of great importance. For example, what happens if one product is on marketing campaign, how does that affect the rest of the product assortment? Company Green also emphasises that logic reasoning or analytical skills are important to have as buyer.

### *Analysis*

It can be seen from the description above that the employees at the Product department have relationship building skills as described by Clodfelter (2013). In addition, Company Green has carefully chosen what suppliers to collaborate with, which is a sign of supplier market knowledge and supplier identification skills as described by Clodfelter (2013). Furthermore, they possess communicational and negotiation skills as described by Varley (2001) and Diamond & Pintel (2001). It can also be seen from the description above that Company Green considers process management skills, described by Giunipero & Percy (2000), as important. Though, the process management skill is not present in the organisation at the moment. Skills regarding product knowledge and customer needs, which are described by Varley (2001) and Diamond & Pintel (2001), can also be found in the Product department. However, they want to improve the knowledge connected to these areas even more for some products.

Analytical skills are present in the Product department at Company Green, which are identified in literature by Varley (2001) and Diamond & Pintel (2001). It can also be seen that the skill to create good assortment plans as mentioned by Clodfelter (2013) are important skills in Company Green's Product department. A summary of the buying skills can be seen in Table 17.



Table 17: Summary of buying skills at Company Green

Skills <i>found</i> or <b>emphasised</b> by Company Green, existing in literature	Skills not found or not emphasised by Company Green, existing in literature	Skills found at Company Green, not existing in literature
<ul style="list-style-type: none"> <li>• <i>Building relationships</i></li> <li>• <i>Identification of the best supplier/ supplier identification</i></li> <li>• <i>Communicational</i></li> <li>• <i>Negotiation</i></li> <li>• <b>Process management skills</b></li> <li>• <i>Product Knowledge</i></li> <li>• <i>Analytical</i></li> <li>• <i>Consumer needs/Consumer market knowledge</i></li> <li>• <i>Create assortment plans</i></li> </ul>	<ul style="list-style-type: none"> <li>• Objectivity</li> <li>• Create forecasts</li> <li>• Quantitative</li> <li>• Team</li> <li>• Decision making</li> </ul>	<ul style="list-style-type: none"> <li>• None identified</li> </ul>

#### 4.1.4 The effects of a central warehouse on the buying organisation

Company Green has not worked with a central warehouse before and the effects of a central warehouse on the buying organisation from Company Green was more thoughts of what can happen. The thoughts are not included in the study since they cannot be categorised as perceived effects.

## 4.2 Company Blue

Company Blue is a retail chain company with several stores in Sweden. Most of their products are private labels, but they also have some branded products. Two thirds of the stores in the retail chain are centrally owned and the rest are operated by independent storeowners under a franchise agreement. Company Blue has the same concept in all stores, which is determined by the head office. The concept concerns usage of Company Blue's name, store layout and product assortment. Overall, the centrally owned stores are considered easier to control than the independent stores.

At Company Blue the CEO is the owner of the concept and the organisation is very flat. Since there are only a couple of people working at the head office they have multiple roles. It is also very common that they help and influence each other since much work and many decisions overlap. A description of the positions and areas of responsibilities in the central organisation at Company Blue can be seen in Table 18.

Table 18: Positions and areas of responsibility in the central organisation at Company Blue

<b>Position</b>	<b>Areas of responsibility</b>
<i>CEO</i>	Overall business, Product and assortment, Store establishments
<i>Concept and product assortment manager</i>	Concept, Product and assortment
<i>Controller/Planning/IT manager</i>	Planning, Budgeting, Control, Statistics, Reporting, IT, Logistics
<i>Order process manager</i>	Order processing at the central warehouse
<i>Article manager</i>	Managing articles, Statistics, Webpage, E-commerce, Control of orders from stores
<i>Accountant manager</i> <i>Accountants assistant 1</i> <i>Accountants assistant 2</i>	Accounting and reporting
<i>Marketing</i>	Advertisement and PR, Webpage, E-commerce

Company Blue has several suppliers around the world. Some products bought are delivered directly to stores from the supplier, in this case the supplier is responsible for the transportation. These products are the ones that could be handled efficiently from a transportation point of view. All products that are difficult to handle efficiently through direct deliveries to stores will in the near future be delivered to the central warehouse. The central warehouse is still in the implementation phase, and is not running at full scale yet. Products stored at the central warehouse can be ordered by the stores when these products are needed to be replenished. The last mile transportation between the central warehouse and the stores are executed by a third party logistics provider. Some products are also available for home

delivery, and are managed by Company Blue’s own fleet of trucks from store to customer. An illustration of the distribution structure at Company Blue can be seen in Figure 25.

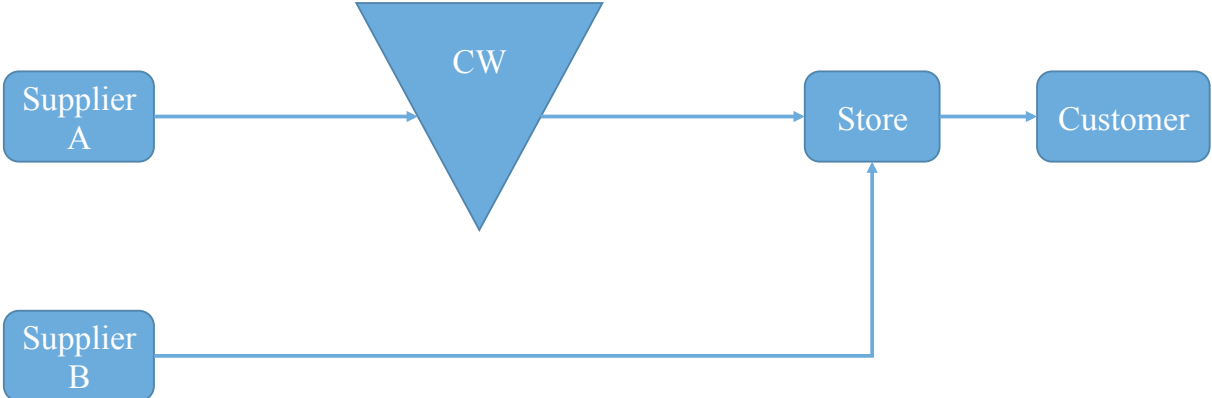


Figure 25: Product flow between suppliers, stores and customers at Company Blue

#### 4.2.1 Buying structure & roles

At Company Blue there is no explicit buying organisation, but there exists areas of responsibilities connected to a buying organisation, which are illustrated in Figure 26. The main responsible of buying at Company Blue is the CEO. The product assortment is divided into two main product areas. Product area one, PA1, is make-to-order products and covers 80% of the sales value. These products can be considered as bulky. Product area 2, PA2, consists of products sold from shelves at the stores. The responsibility of the product areas has been divided between the CEO and a Concept and product assortment manager. The Concept and product assortment manager is also responsible for shop floor planning at the stores. The buying organisation also includes an Ordering process manager, who manages the replenishment of products to the central warehouse and place orders to suppliers. Furthermore, an Article manager is responsible for updating information about products in the information system. The Ordering manager and the Article responsible reports to the Controller/Planner/IT-manager who is responsible for logistics at the central warehouse and transportation from the central warehouse to the stores.

The responsibilities of the CEO and the Concept and product assortment manager involve specification of products, negotiation with suppliers and contracting in the cases where a contract is needed. Furthermore, they decide what products to be stocked at the central warehouse. The product assortment available for the stores are decided on a central level by the buying organisation, but other employees could partly be involved in the buying decisions, such as Marketing. All articles in the product assortment are included in the cashier system and each article is connected to a supplier that the stores can order the product from. If a store tries to sell a product outside the product assortment it is denied. In some cases the buying organisation decides to buy products centrally in large batches. These products are then distributed to the stores. Products bought centrally can easily be distributed to the centrally owned stores, but in the case of the independent stores the buying organisation must ask whether the store would like to have the product or not. Thus, the independent stores can to some extent neglect products included in the central product assortment.

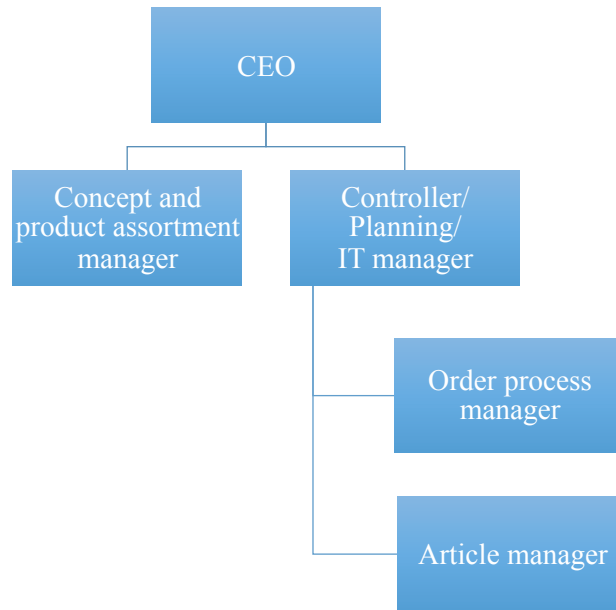


Figure 26: Buying organisation at Company Blue

### *Analysis*

The buying structure can be seen as centralised, which is described by Clodfelter (2013). Though, it is hard to distinguish a clear type of centralised buying. The buying structure has signs of a centralised merchandising plan, warehouse requisition plan and price agreement plan. This could be explained by the mix of centrally owned and franchise stores. The role of the CEO at Company Blue has similarities with the role of a buying director mentioned in literature by Varley (2001). He also has responsibility of PA1, where he selects products and negotiates with suppliers, which corresponds to the role of a buyer defined by Varley (2001). The Concept and product assortment manager, with responsibility for PA2 and shop floor responsibility, can also be referred to as a buyer described in literature by Varley (2001). The roles of the Controller/Planner/IT manager, the Order process manager and the Article manager have not been found in theory. A summary of the buying structure and roles at Company Blue can be seen in Table 19.

Table 19: Summary buying structure and roles at Company Blue

	<b>Company Blue</b>
<i>Buying structure</i>	<ul style="list-style-type: none"> <li>• Mix of price agreement plan, warehouse requisition plan and central merchandising plan</li> <li>• Centralised buying organisation who decides what products and suppliers the stores are allowed to order products from. They also establish contracts with suppliers where it is needed.</li> <li>• The centralised buying organisation buys products in larger batches and distributes them to the stores. They also order products to the central warehouse.</li> <li>• Stores are responsible for placing orders.</li> </ul>
<i>Roles</i>	<ul style="list-style-type: none"> <li>• CEO who has the overall responsibility of the buying organisation and manages PA1.</li> <li>• Concept and product assortment manager responsible for PA2.</li> <li>• Controller/Planner/IT-manager</li> <li>• Order process manager</li> <li>• Article manager</li> </ul>

#### 4.2.2 Buying process

There is no explicit or documented buying process at Company Blue. The way of buying is affected by the division of centrally owned and franchise stores, where it is not always possible to push products out to the franchise stores. The flat organisation, where everyone has more than one function and responsibility, implies that a lot of work is divided and discussed between people at the head office. Company Blue says that it is important to get the response from other parts of the organisation and buying decisions could therefore involve other people. Lastly, the buying process is affected by the limited number of suppliers for some products and the fact that they work with private labels. A summary of the buying process at Company Blue can be seen in Figure 27.

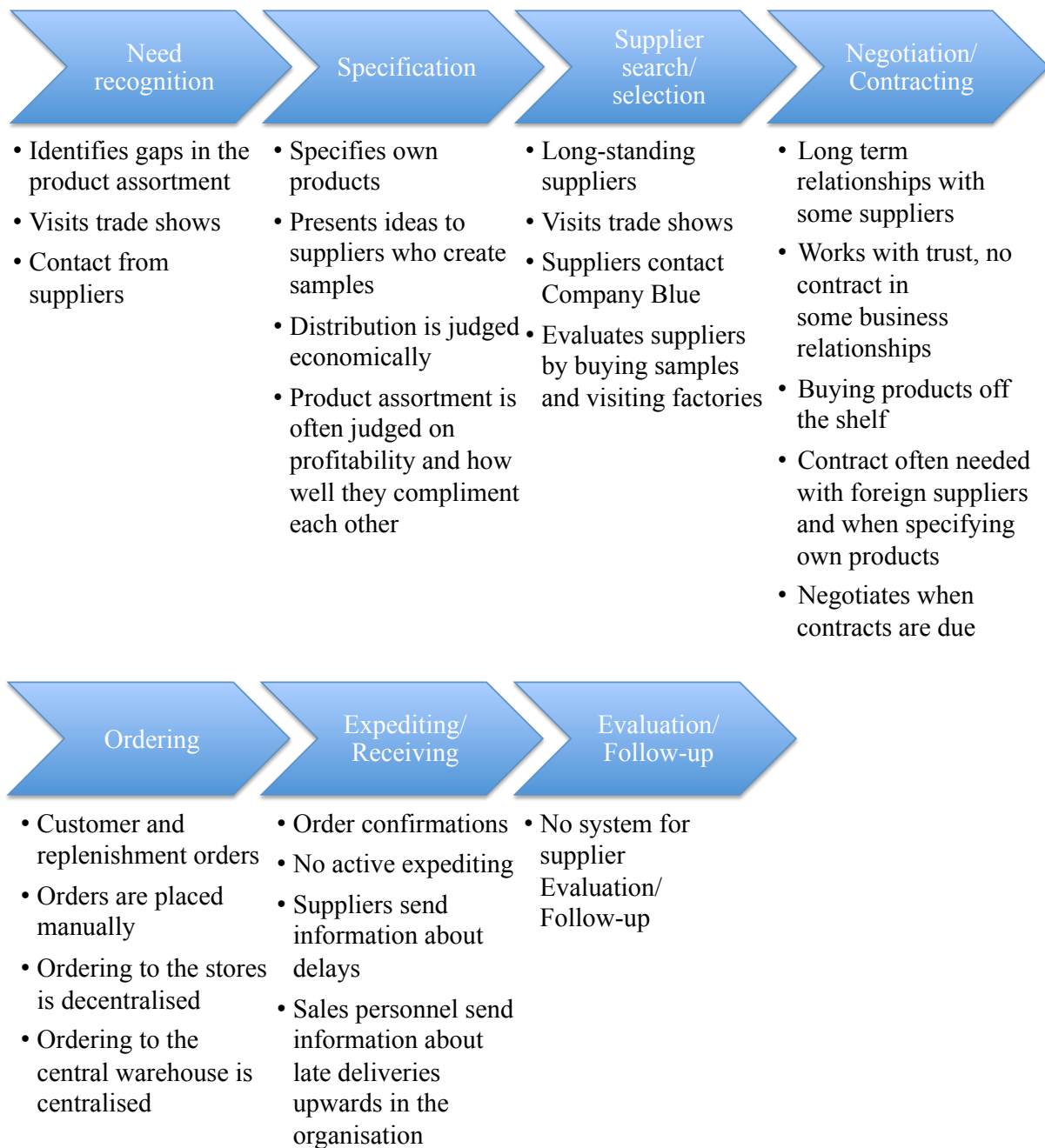


Figure 27: Summary of the buying process at Company Blue

### *Analysis*

From the identified buying process above it can be seen that there are elements to support all three buying situations described by Robinson (1967) and Varley (2001). Company Blue might not perform market analyses to identify customer needs but they are e.g. visiting trade shows, which recalls a new task situation when identifying a new product from a new supplier. In the specification phase they set specifications, especially for private label products, and later they search for and select appropriate suppliers. This leads to a negotiation and in some relationships a contract. Thus, a modified rebuy situation is present at Company Blue. Furthermore, Company Blue has a clear ordering phase, which is the beginning of a

straight rebuy situation. In the next phase expediting and receiving, no clear expediting was performed. The final phase, evaluation and follow-up, was not performed at Company Blue.

### Need recognition

At Company Blue there is no specific procedure of how to identify potential customer needs. They say that the identification of customer needs could be difficult since customers' knowledge of the products sold is limited and customers are unaware of their own needs, especially for PA1. However, Company Blue sees the identification of customer needs as continuous work in their job. Often a new need is recognised in the product assortment when reviewing the store exhibition and could be related to e.g. a gap in a price range or related to product characteristics. Ways to collect information about trends and the current market are by visiting trade shows where suppliers present various products or through suppliers that contact Company Blue.

### *Analysis*

Company Blue's way of identifying gaps in their product assortment is considered by Varley (2001) as the last stage of four when identifying and tracking changes in customer needs. Furthermore, Company Blue visits trade shows to collect information about what is going on and gets suggestions from suppliers, which is presented by Kent & Omar (2003) as sources of information.

### Specification

There are few brands in the assortment at Company Blue and specifying the product features of the no-branded product is commonly done. Often Company Blue has an idea and presents it to a supplier who makes a trial, which is evaluated. In another situations, often when buying from foreign suppliers a more clear description of what they need is required. In addition sometimes a supplier might approach Company Blue and presents a product, which is discussed and maybe changed to fit into the product assortment. In order for a potential product to be marketed, Marketing reviews the product specifications to ensure it looks good in advertisement.

Company Blue is in the beginning of determining how the products should be distributed. Historically all products have been shipped to the stores, but in the near future it will only be done where it is economically justified. Otherwise, products will be distributed through a central warehouse.

Regarding the product assortment Company Blue has demands on the profitability of the products. If they have found a need for a product but cannot find one with sufficient profitability the project is cancelled. It is also important to consider the current products and the display area available. Furthermore, Company Blue considers different price ranges and product characteristics. Work connected to the product assortment is discussed with sales to ensure products are able to sell and catch impulses from customers. In addition, statistics of what is sold is taken into account.

### *Analysis*

Specifying the product is something that is present at Company Blue, and they seem to vary the level of detail depending on whom they buy from and what they are buying. Style and size

are mentioned by Company Blue to be important to specify, which are also emphasised by Varley (2010) as two of the consumer evaluation criteria. Furthermore, the situation that a supplier presents a new product, which is discussed and maybe changed to fit into the product assortment is a situation identified in literature as well. A clear specification about the distribution strategy is not in place at Company Blue, but they mention that direct deliveries are only used where it is economically justifiable. Regarding the product assortment strategy Company Blues thinks of the profitability, which is mentioned by Levy & Weitz (2004). Furthermore, Company Blue considers the available display area, different price ranges and product characteristics, which could be interpreted as taking into consideration the physical characteristics of the store and the degree to which the categories complement each other mentioned by Levy & Weitz (2004).

### Supplier search and selection

Company Blue has been working with some suppliers for a long time and the number of suppliers is somewhat limited for some products. According to Company Blue it is a small world they operate in and there are a lot of brands, but few suppliers where everyone knows each other. Company Blue knows about most suppliers but does not cooperate with all of them at the same time. To identify potential suppliers trade shows are often visited. In addition, suppliers also contact Company Blue.

When searching and selecting suppliers Company Blue has the product in mind and believes it is hard to evaluate the supplier without reviewing the final product. Setting up a requirement specification is not always a way to ensure terms are followed, since the suppliers often say there is no problem to meet these requirements. Thus, small trial orders are bought to test the supplier. The suppliers are evaluated on product quality, delivery reliability and transportation mode used. Furthermore, to ensure that the supplier can be trusted and make sure satisfactory working conditions are met and that hazardous materials are not used, a visit to the factory is done.

### *Analysis*

Zentes et al. (2011) describe active and passive sourcing as two different ways of sourcing. In the case of Company Blue, they are not totally passive and ordering what the manufacturer offers but they are not actively involved in product development. Company Blue sets requirements or specifications of their products, thus somewhat in between passive and active sourcing. Company Blue's way of searching for suppliers, is to visit different trade shows, which is also mentioned in the literature.

When evaluating suppliers Company Blue uses samples and factory visits, which are identified by Varley (2001) as two common ways of evaluating the supplier. Furthermore, these evaluation methods when selecting supplier could be seen as subjective according to the literature.

### Negotiation and contracting

Company Blue does not have a contract in all relationships. With some suppliers, who they have worked with for a long time, there is a mutual understanding and interest in the business relationship and no contract is used. This is also the case when buying products off the shelf



from suppliers. In other cases where Company Blue specifies the product, a contract is often used. In these cases Company Blue is committed to buy a certain number of products, but the supplier is also committed to produce these according to what has been specified.

When negotiating, the previous relationship is important to take into consideration and there is a respect for the business relationship. During a negotiation price, mode of transport, volumes and lead times are discussed. In many cases Company Blue has negotiated so that the suppliers must keep a certain number of products in stock to ensure fast delivery. Where there is a contract, it is renegotiated when the contract time is due. At last, in some cases Company Blue provides marketing for suppliers' products and has negotiated for a marketing contribution in these business relationships.

### *Analysis*

As mentioned by Clodfelter (2013) a contract is often a result of a negotiation, where both parties are satisfied. In the case of Company Blue, they do not have a contract with all suppliers, but still a negotiation can be done to discuss terms of the relationship. According to the literature these negotiated terms could be seen as oral agreements, which are as binding as written contracts in Sweden. As emphasised by Levy & Weitz (2004), Company Blue takes into consideration the previous relationship and focus on trust in the business with many suppliers. When negotiating Company Blue discusses price, mode of transport, volumes, lead-times, and promotions, which are also mentioned in theory. In addition, Company Blue has also negotiated for the suppliers to keep a certain number of products in stock to ensure fast delivery, which was not explicitly mentioned in theory as a subject to negotiate.

### *Ordering*

Ordering does not differ between centrally owned and independent stores. The stores have two kinds of orders, customer orders and replenishment orders. Both orders are placed in a retail point-of-sales system. Customer orders are later sent to the supplier as a PDF in an e-mail. Replenishment orders are placed locally in each store. There is a function in the system to alert when a replenishment order is needed, but it is not always used. In many cases an order is triggered when sales staff identify an empty shelf. The replenishment order is sent to the central warehouse if it is stored there. Otherwise it is sent to the supplier as a PDF in an e-mail. For centrally owned stores the orders pass through a central control unit that checks the order. This is not the case for independent stores. Orders to replenish the central warehouse are placed by the Order process manager and are based on information from the warehouse management system. In addition, information about the stock levels in the stores is taken into consideration before placing the orders.

### *Analysis*

Company Blue differs between two kinds of orders: customer orders and replenishment orders. These kinds of order are identified in theory by Clodfelter (2013). According to Kent & Omar (2003) an order is often a result of a sales planning process. Though, this cannot be found at Company Blue. Replenishment orders are placed when an empty shelf is identified. Furthermore, the way orders are placed in the system and sent to suppliers could be seen as a manual system according to the literature, even though there is a function for a replenishment order to be generated automatically.

### Expediting and receiving

When an order has been sent a confirmation from the suppliers is received via e-mail including quantity and price. In many cases a delivery date is included in the confirmation. After the confirmation, no expediting is performed. Generally, in nine out of ten times a message is received if there are any problems. If late deliveries are not communicated by the suppliers or very late, stores are generally quick to pass information upwards in the organisation. The delivery to the stores and the central warehouse is managed by the supplier. The deliveries from the central warehouse to the stores are in many cases managed by a third party logistics provider. When the products arrive at the store or at the central warehouse the number of packages are controlled, checked for damages and the consignment-note is signed.

#### *Analysis*

As mentioned by Company Blue there is no active expediting and stores communicate upwards in the organisation if there are any problems. According to van Weele (2010) this is seen as exception expediting where internal sources inform about the problem and action is taken when the problem has occurred.

### Evaluation and follow-up

Company Blue has no system for evaluating the performance of the suppliers. If there is a problem with a supplier it is noticed at the store and communicated upwards quickly. This could be late deliveries or quality problems. If there have been a lot of problems with a supplier a discussion is taken with that supplier. Generally, the suppliers in the business Company Blue works in are not those who adjust and improve their performance from year to year.

#### *Analysis*

Theory suggests an evaluation and follow-up phase to increase the knowledge of how suppliers perform and to enhance their performance. A reason why there is little focus on this phase is that it might be considered less important than other phases.

### IT in the retail buying process

Company Blue uses a retail point-of-sales system, which is a cash and ordering system at store level. The system keeps track of all customer orders, how much of the order that is paid, current stock and what is needed to be ordered. The system is not connected to any suppliers. Information, such as an order, is transformed into a PDF and e-mailed to suppliers. In the system all article numbers, prices and information about the products are stored. The same system is connected to the website, to add or remove products in a simple way, and to a warehouse management system, to connect products between the central warehouse and the stores. At last, all systems are connected to the financial system.

To gather and spread information in the organisation along the buying process such as marketing campaigns, an intranet is used. Different users have different authorities and access to information.

#### *Analysis*

What can be seen is that Company Blue has several business systems in place. A retail point-of-sales system to handle the stores with cash management, stock levels and customer orders,

a warehouse management system to monitor the central warehouse and a financial system. In addition, Company Blue has an intranet to spread information internally. It could also be seen that both quantitative and qualitative data is available in the information systems used. Furthermore, the systems in place focus on facilitating operational phases and are not connected to external parties.

#### 4.2.3 Buying skills

Company Blue emphasises that the understanding of what the consumer wants is very important. The buyer must see one step above the sales representative. Often the sales information from the seller is influenced by his or her view. The sales responsible sometimes say that the customer ask for one kind of product, however there might only have been few customers asking for it. This must also be foreseen by the buyer.

The work as buyer at Company Blue involves much contact with people from other parts of the organisation. It is important to be able to communicate with marketing, sales, IT and logistics since many decisions overlap.

Company Blue says that suppliers will always try to sell their products and as a buyer you must be able to critically assess their offer. To reach a good deal the buyer must also have the ability to negotiate. Furthermore, Company Blue mentions that communication with suppliers must be clear. One must make sure that you speak the same language, and sometimes it is better to ask some extra questions to make sure that both parties understand and not take anything for granted. It is even more important to be clear when dealing with suppliers far away. Company Blue has learned from the issue of lack of understanding and communication when they contracted a Mexican supplier. A full container with products having the wrong measurements was delivered, which was devastating for Company Blue. Furthermore, as a buyer you must have the understanding of the product you are buying in terms of price, trends, shapes and colours. Knowledge about shipping limits is also needed when buying products.

#### *Analysis*

From the description above skills related to product knowledge and consumer needs are found, which is emphasised in theory by Varley (2001) and Clodfelter (2013). Communicational skills, which are mentioned by Varley (2001), Diamond & Pintel (2001) and Giunipero & Percy (2000) can also be identified in Company Blue's buying organisation. The importance of objectivity described by Varley (2001) is also mentioned by Company Blue.

Negotiation and identification of the best supplier are skills that are of importance to possess as a buyer stated in literature by Diamond & Pintel (2001), Clodfelter (2013) and Varley (2001). These skills were also mentioned as important by Company Blue. The identification of the best supplier can also be connected to supplier market knowledge, which shows that Company Blue possesses this skill as well. Lastly, it can be seen that Company Blue emphasises that a buyer must have knowledge about shipping limits, any similar skill has not been found in literature. A summary of the buying skills can be seen in Table 20.

Table 20: Summary of buying skills at Company Blue

Skills found or <b>emphasised</b> by Company Blue, existing in literature	Skills not found or not emphasised by Company Blue, existing in literature	Skills found at Company Blue, not existing in literature
<ul style="list-style-type: none"> <li>• <i>Communication</i></li> <li>• <i>Product knowledge</i></li> <li>• <i>Customer needs/ customer market knowledge</i></li> <li>• <i>Objectivity</i></li> <li>• <i>Negotiation</i></li> <li>• <i>Identification of the best supplier/ supplier identification</i></li> <li>• <i>Supplier market knowledge</i></li> </ul>	<ul style="list-style-type: none"> <li>• Analytical</li> <li>• Building relationships</li> <li>• Create assortment plans</li> <li>• Create forecasts</li> <li>• Quantitative</li> <li>• Process management</li> <li>• Team</li> <li>• Decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Shipping limits</li> </ul>

#### 4.2.4 The effects of a central warehouse on the buying organisation

Historically, Company Blue has been pushed to order large batches to reduce transportation costs. Freight limits are often measured in volume and small orders would not qualify for free shipping. Furthermore, from some suppliers the smallest batches are too big for each store to stock. For example, from suppliers in China you often need to order whole containers. As a result, each store has often ordered more than necessary. The establishment of the central warehouse allows Company Blue to order large batches to the central warehouse and then distribute smaller orders to each store. Furthermore, the tied up capital in the supply chain has been reduced and the stores can now easily combine products from different suppliers. With a central warehouse each store can order more products from one place instead of several suppliers.

Before the establishment of the central warehouse, when all suppliers delivered directly to the store it was hard to know when the deliveries would arrive. Company Blue had to have extra workforce at the stores to be able to unload goods when it arrived. In addition, a truck full of goods could arrive before the opening of the store and had to wait since no one could unload the goods, which led to extra transportation costs. With the establishment of the central warehouse Company Blue can now manage the deliveries to the stores more easily, and products are delivered once a week from the central warehouse. As a result, they can manage the workforce much better and reduce transportation costs. Furthermore, with the establishment of the central warehouse Company Blue finds it easier to control the goods at one point instead of in each store.

Company Blue mentions that with a central warehouse they are now able to avoid wholesalers when buying products, which leads to lower prices. The central warehouse will also increase negotiation power since suppliers can deliver larger batches to one single point, thus reducing the suppliers' transportation and administration costs. In addition, for products at the central warehouse the stores do not need to wait to place an order until the need reaches a certain volume.

For Company Blue it is important to have control of their product assortment and a central warehouse help a lot. For example, some products are selling slower than others, and the slower products are selling, the higher the risk is of losing control of the product assortment. With the establishment of the central warehouse Company Blue sees the opportunity to manage these slow selling products by avoid having large volumes at each store and keep them at the central warehouse. Thus, increasing the control of their product assortment.

Company Blue also mentions that they have become more dependent on IT and has improved their IT-systems with the establishment of a central warehouse. Furthermore, since the central warehouse is managed by Company Blue someone needs to be responsible for managing the operations, which is done by a Logistics manager. In addition an Order process manager to manage the replenishment of the central warehouse was needed. A summary of the effects of a central warehouse on the buying organisation at Company Blue is seen in Table 21.

Table 21: Summary of the effects of a central warehouse on the buying organisation at Company Blue

	<b>Effects of a central warehouse on the buying organisation of Company Blue</b>
<b><i>Buying structure &amp; roles</i></b>	<ul style="list-style-type: none"> <li>• A role of a Logistics manager who manages the central warehouse operations was needed</li> <li>• A role of an Order process manager to replenish the central warehouse was needed</li> </ul>
<b><i>Buying process</i></b>	
<i>Supplier search/ selection</i>	<ul style="list-style-type: none"> <li>• Could avoid wholesalers</li> <li>• Have products that would not be possible to have without a central warehouse</li> </ul>
<i>Negotiation/ Contracting</i>	<ul style="list-style-type: none"> <li>• Price negotiations with suppliers regarding transportation and volumes</li> </ul>
<i>Ordering</i>	<ul style="list-style-type: none"> <li>• Possible for the stores to order smaller product batches</li> <li>• Easier to combine products from different suppliers when a store orders product</li> <li>• Do not have to wait until the order from supplier has reached a certain volume</li> </ul>
<i>Expediting/ Receiving</i>	<ul style="list-style-type: none"> <li>• Control of products from the supplier can be performed at the central warehouse</li> <li>• Easier to plan receiving at the stores</li> </ul>
<i>IT in the buying process</i>	<ul style="list-style-type: none"> <li>• Needed to improve their IT-systems</li> </ul>
<b><i>Buying skills</i></b>	<ul style="list-style-type: none"> <li>• No effects identified</li> </ul>

### 4.3 Company Yellow

Company Yellow is a Swedish retail company noted on the Swedish stock exchange market. They have several fully owned stores in Sweden, Norway and Finland. Their product assortment is focused on non-branded products but also consists of some well-known brands. The product assortment is roughly the same throughout the year and there are few new product introductions. Each store has around 1500-2000 articles stocked. The main products in their product assortment are considered as basic commodities, which are not especially sensitive to trends and fashion.

Company Yellow has a clear organisational structure with four main areas: Stores, Finance, IT and Marketing and Buying. All reports directly to the Vice President. The stores are responsible for the sales of products and have three main tasks: receiving of goods, selling of goods and staffing the stores. Finance is responsible for the financial activities and is very transaction oriented. IT is responsible for the IT-support to the stores, in terms of cash systems and handheld computer devices to scan incoming goods. Marketing is responsible for advertisement, commercials and flyers. The last part of the organisation is buying, which is fully responsible for all bringing products from the supplier to the stores. Between buying and marketing there is a sales steering function which makes sure that the marketed products are placed at the right location in the store to make these products sell. The organisational structure of Company Yellow can be seen in Figure 28.

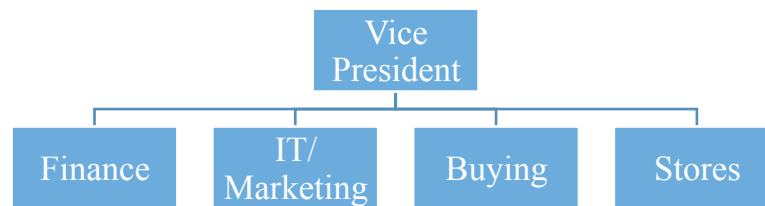


Figure 28: Organisational structure at Company Yellow

Company Yellow has two main incoming product flows to their stores, one directly from suppliers and one from the two central warehouses. The bulky and high volume products are supplied directly from supplier to store, and the supplier is responsible for the transportation. These products are supplied directly to the stores because they are delivered in full truckloads and are difficult to handle at the central warehouses. The other products are supplied to the stores from two central warehouses. These warehouses are operated by two third party logistics providers on behalf of Company Yellow. The transportation of products between the central warehouses and the stores is managed by three forward agents, hired by Company Yellow. The transportation of products between the suppliers and the central warehouses is often managed by the supplier. The supplier sometimes leaves the transportation responsibility to Company Yellow, in these cases Company Yellow contracts a forward agent to manage the transportation to the central warehouses. The product flow between supplier and store at Company Yellow can be seen in Figure 29.

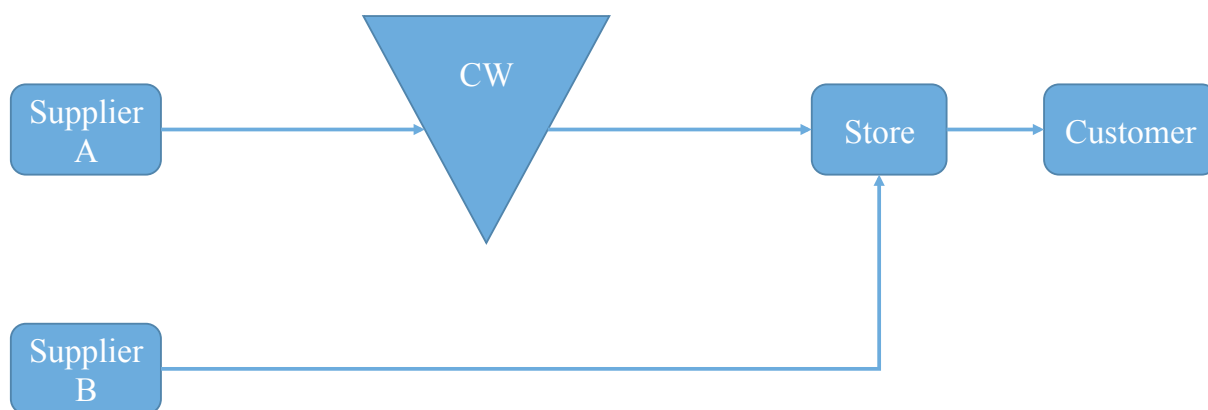


Figure 29: Product flow between suppliers and stores at Company Yellow

#### 4.3.1 Buying structure & roles

Around year 2000 the responsibility of the buying organisation at Company Yellow changed from only being responsible for contract agreements with suppliers to take care of ordering as well. This change moved all responsibility for the buying of products to the central buying organisation. Before, ordering was the task for the site manager at each store. This change led to a decrease in costs since a small number of persons could manage the same work as before.

The buying organisation at Company Yellow is divided into four main areas: Ordering, Strategic buying, Coordination and Logistics. The first area of the buying organisation is Ordering who is responsible for the replenishment of goods to the stores. Ordering either places orders directly from suppliers to the stores or order products from the central warehouses to the stores. The second area of the buying organisation is Strategic buying. They have the responsibility for the settlement of contracts and supplier relations. Strategic buying also decides what products to be included in the product assortment and has the responsibility of the product appearance. Their work includes much negotiations, price agreements and to secure sources of supply. The personnel working at Strategic buying are Category managers who are responsible for eight to ten product categories. The Category managers have responsibility related to sales, in terms of setting prices to the customer market. Furthermore, they make sure that the products are profitable, which is measured on contribution margin. The third area is the Coordinators who make sure that all administrative data related to buying are updated in the business system. The fourth area of the buying organisation is Logistics, who controls and monitors the work at the central warehouses. The Logistics team places orders from suppliers to the central warehouses and make sure that the service levels towards the stores are met. They also have the responsibility to manage and follow-up the forwarder agents that are contracted for the transportation services. Each area of the buying organisation has an own manager who reports to the Sourcing supply chain manager, who in turn reports to the Vice President. The structure of the buying organisation at Company Yellow can be seen in Figure 30.

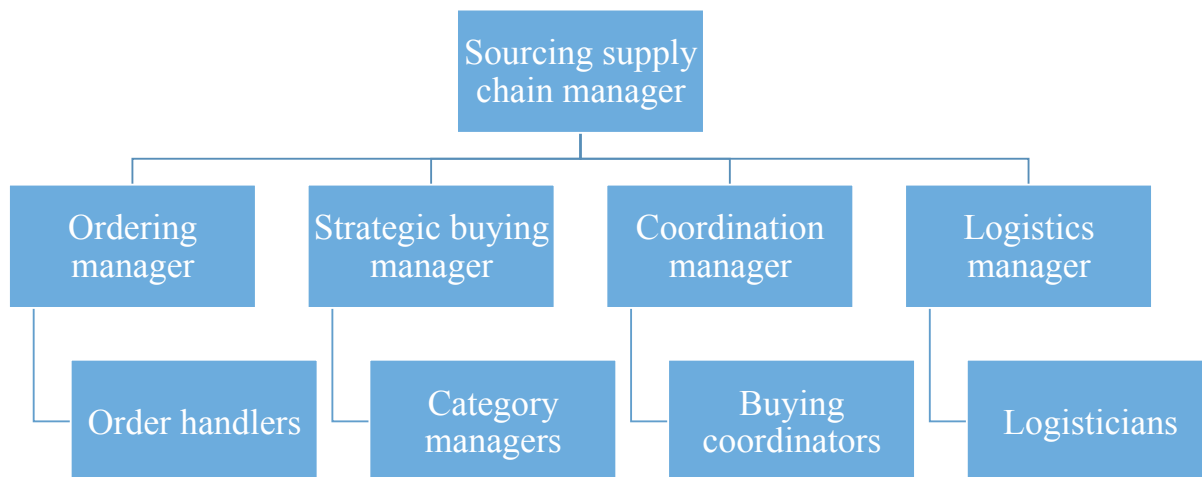


Figure 30: Buying organisation at Company Yellow

### Analysis

From the description of the buying organisation at Company Yellow it can be seen that they have a strong centralised organisation. The level of centralisation can be referred to as a centralised merchandising plan according Clodfelter (2013), where the buying organisation decides exactly what products each store should have in their assortment and send these products to the store. Van Weele (2010) says that ordering often is the responsibility of the stores. The buying organisation at Company Yellow has the responsibility of the ordering and replenishment of products to the stores, which shows the opposite.

The Sourcing supply chain manager has the overall responsibility of the buying organisation and can be referred to as a buying director explained in theory by Varley (2001). The employees at Ordering show similarities with the role of a merchandiser, who places orders and plans deliveries to the stores, defined in literature by Kent & Omar (2003) and Varley (2001). In Strategic buying the employees are called Category managers, which is along with the definition of a Category manager proposed by Svensk Handel (2011). The employees at Logistics and Coordination are hard to categorise as any of the roles presented in the theoretical framework. A summary of the buying structure and roles at Company Yellow is seen in Table 22.

Table 22: Summary of buying structure and roles at Company Yellow

	<b>Company Yellow</b>
<i>Buying structure</i>	<ul style="list-style-type: none"> <li>• Central merchandising plan</li> <li>• Centralised buying organisation who decides everything</li> </ul>
<i>Roles</i>	<ul style="list-style-type: none"> <li>• Sourcing supply chain manager how has the overall responsibility of the buying organisation.</li> <li>• Category managers</li> <li>• Order handlers</li> <li>• Logisticians</li> <li>• Buying coordinators</li> </ul>



### 4.3.2 Buying process

Company Yellow has a buying process in place, but cannot share it due to confidentiality. The buying process at Company Yellow is facilitated by having centrally owned stores, a well-developed IT-structure and a central warehouse. It is possible to push products out to the stores, keep control of information in the supply chain and alternate the way product are bought and distributed. Company Yellow aims to standardise as much as possible to create a natural flow, which is seen in their standard contracts and operational phases. A summary of the buying process at Company Yellow is seen in Figure 31.

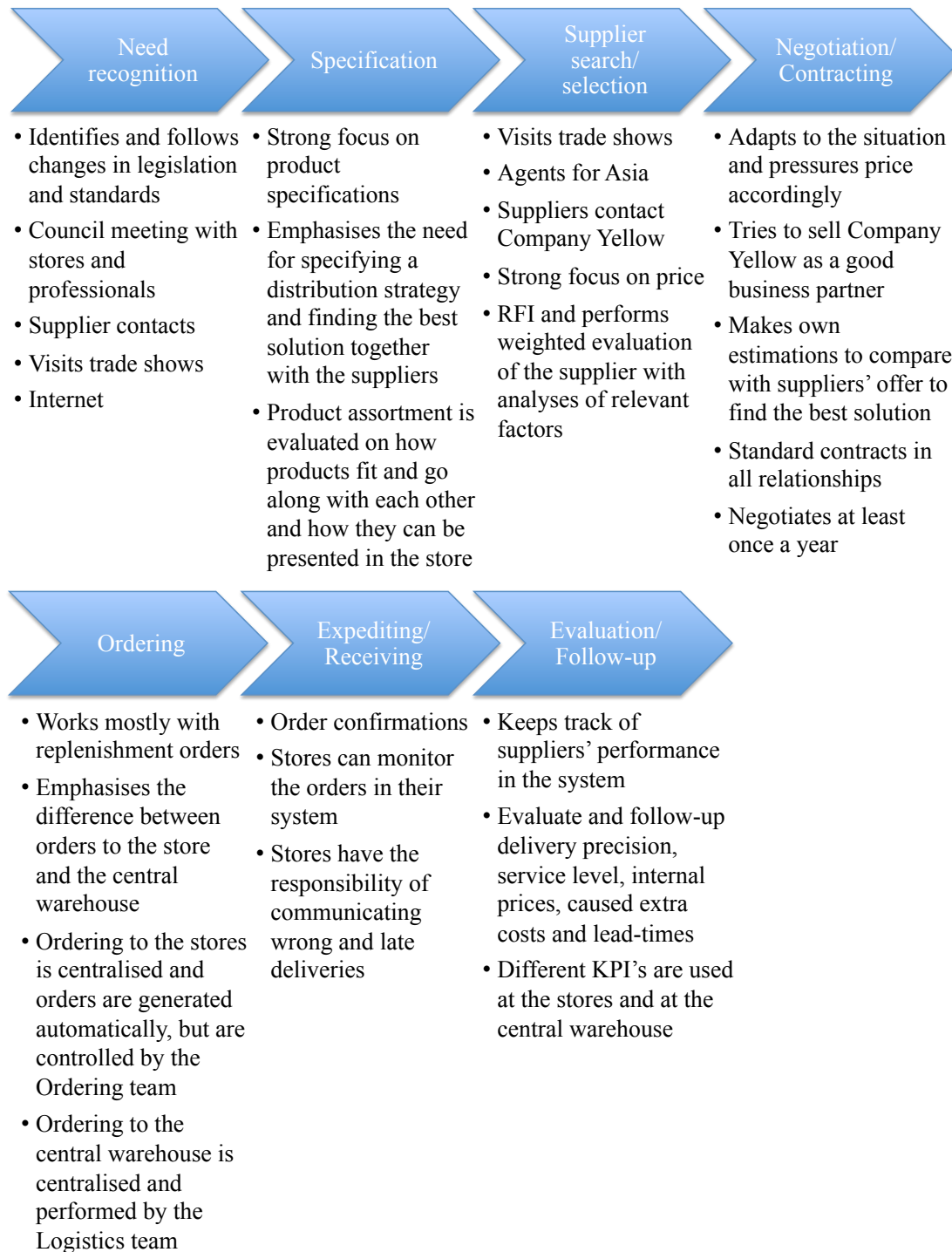


Figure 31: Summary of the buying process at Company Yellow

### *Analysis*

From the identified buying process above it is clear that the three buying situations are present at Company Yellow. Even though no market analysis is carried out and a quite fixed product assortment is used, various sources of information are used to keep track of e.g. changes in legislation and standards. The new task situation does not occur very often but it exists. Company Yellow emphasises the need for clear specifications and they search and select suitable suppliers. There is much focus on price during the negotiation and it is very important with standard contracts in each business relationship. A situation that can occur is sourcing a known product from a new supplier, which implies that a modified rebuy is present at Company Yellow. A straight rebuy situation is present where the operational phases are all clear, and facilitated by a well-developed IT-structure.

### *Need recognition*

Company Yellow is not actively performing any marketing analysis to recognise customer needs. The products Company Yellow sells are not very sensitive to trends since the products fulfil basic needs and are regarded as commodities. They work with a very fixed product assortment, where 80% of the items are more or less the same every year. Even though the products in Company Yellow's product assortment are not sensitive to trends, a change in legislation or standards is a game changer for many products. The legislation and standards controls what is allowed to be sold by Company Yellow and what the customers are allowed to use. A recent change in legislation, that all products sold must be CE-marked, forced Company Yellow to buy other products in some categories.

To get ideas of what changes, Company Yellow has a council meeting each year where thoughts from stores and people with knowledge of their business are taken into consideration. The council meetings are important since the skills and knowledge the council holds complements the knowledge and skills of the Category managers. The influences and ideas from these meetings are later discussed and further developed with suppliers. Usually the suppliers manage most of the product development and Company Yellow trusts that their suppliers keep track of changes in legislation and changes in the market. Ways to come in contact with new ideas and products are through visiting trade shows and standard meetings with existing suppliers, but searching the Internet is also done.

### *Analysis*

As Company Yellow mentions, the products they sell are not very sensitive to trends and they have kept a fixed product assortment, which could be a reason for not actively performing any marketing analysis to recognise customer needs. The changing forces seem to be changes in legislation and standards, which could be referred to as political and technological forces by Armstrong et al. (2009). The council meeting held each year seems to be enough to keep Company Yellow on track. The council meeting involves people from sales and professionals within their industry, which are mentioned by theory as sources of information. Furthermore, Company Yellow visits trade shows and discusses with suppliers, which are also mentioned in literature as information sources.

## Specification

Specifying the product is something Company Yellow emphasises. When setting up specifications; dimensions, functionality, packaging and labelling are important. They believe that if you want to buy quickly and know what you are buying, you need to have a clear product specification. In addition, if you know what you want and have it specified, you can easily go to any supplier and ask them to make it.

How to bring the products from the supplier to the stores is something a buyer at Company Yellow needs to think of. The main goal is to create as little administration as possible and thereby reduce costs. This is achieved by finding a solution to deliver the products as cheap as possible to the stores together with the supplier. If there are enough volumes to each store it is beneficial to get direct deliveries, otherwise it is necessary to get it delivered to the central warehouses. Company Yellow makes internal estimations of what it could cost to deliver to the stores and to the central warehouses, which the buyer uses to compare the offers provided by the suppliers and identify potential solutions. In some cases the supplier has a very developed distribution system and it is more beneficial that the supplier takes care of it. In other cases, e.g. buying from a factory, the supplier only leaves the products on the loading dock for Company Yellow to get. In this situation, where more advanced logistics planning becomes important, the Category manager cooperates with the Logistics team to find a solution. The goal is always to find the best alternative. In addition to specify how to solve the distribution of the products, the Category manager needs to specify what and how much to keep in stock. This requires the Category manager to estimate the product turnover, think of service levels and tied up capital.

Important aspects when specifying how new products are to be included in the product assortment, are the current legislation and common standards. This involves looking at how the new product fits and go along with existing products, in terms of measures, materials and function, and how it will affect other products. Another important part is to see how the product can be presented in the stores. Company Yellow emphasises the limited space in stores, and the situation is often that if one product is coming in, another needs to go out.

## *Analysis*

It is very clear that Company Yellow works with specifying dimensions, functionality, packaging and labelling, which are relevant consumer evaluation criteria according to Varley (2001). It is also clear that they do it in order to get what they want, and to the right price. Specifying a distribution strategy is also something Company Yellow works with actively and their way of working with it is undoubtedly well developed. The Category manager at Company Yellow also thinks of what and how much to keep in stock, which is emphasised by Kent & Omar (2003). Regarding the product assortment strategy when introducing new products, Company Yellow's way of thinking is in line with Levy & Weitz (2004) by considering the degree to which the categories complement each other and physical characteristics of the store.

### Supplier search and selection

For many product categories in their product assortment, Company Yellow knows about and is in contact with more or less all suppliers on the market. This means that many large suppliers already are a part of their supplier base. The work of searching for suppliers often include visiting trade shows and for many product categories there exists large trade shows for that product category, where all available suppliers are represented. Otherwise, suppliers often contact and invite the Category manager for a discussion. Especially non-contracted suppliers tend to call or e-mail. For suppliers far away e.g. Asia, Company Yellow works with agents who work with identifying suitable factories and suppliers.

When Company Yellow selects suppliers to negotiate with, there is much price focus. This can only be done if a proper specification of what you aim to buy has been developed. The selection procedure is often that the Category manager sends out contact information and information about what volumes to buy next year to suppliers. In return the suppliers send a price proposal. Company Yellow use different analyses where the base is a price comparison, where volumes and prices are weighted together to create different indexes between the suppliers. Other factors that are considered are if the supplier has the production capacity, if they can handle the volumes, are they able to deliver and will they follow the demands set in the contract. Company Yellow also focuses a lot on if the supplier can label the products in the right way, what lead-time that is necessary and how the products should be packed and delivered.

One of the more extensive search and selection procedures was when Company Yellow was about to launch a new brand. They asked all suppliers they knew of in the product category and from the price proposals they received, six to eight suppliers were selected. Then a sample from each supplier was tested by professionals in a blind test to judge the quality. After that the quality and price were weighted together to make a final selection.

#### *Analysis*

Company Yellow's way of identifying potential suppliers by visiting trade shows, agents and by suppliers contacting the company are all identified by Varley (2001) as common supplier search techniques. The selection at Company Yellow is similar to what van Weele (2010) describes. Identified suppliers are sent initial information of the deal and requested a quotation, followed by a collection/estimation of information to make the final evaluation. In addition, Company Yellow mentions they use different analyses where different factors are weighted together, which is mentioned in theory. Company Yellow's way of selecting suppliers could be interpreted as more objective than subjective, with a strong focus on price. The supplier search and selection example provided by Company Yellow confirms what van Weele (2010) says, that the work of supplier search and selection is more comprehensive when the product idea is generated within the organisation.

### Negotiation and contracting

Negotiations are often performed once a year, in fall, for the next season and according to Company Yellow the negotiation vary a lot from time to time and is dependent on who you meet. Overall, there is a lot focus on price pressure when negotiating. Company Yellow sees this as natural if you aim to have the lowest price out to the customer, then you need the

lowest price in. To be able to pressure price it is important as a buyer to work as a seller. This means selling the concept of Company Yellow and that Company Yellow is a good buyer, to persuade the seller to sell at a low price. This could involve creating an understanding that it is easier to sell to Company Yellow than to competitors, e.g. by showing calculations. Pressuring price could also be achieved by persuading the seller that the cost estimations they have are inaccurate and that Company Yellow's estimations are more accurate. Many times the seller adds a lot to the price for things that are hard to estimate, such as the cost of risk. As a buyer it is important to create an understanding between Company Yellow and the seller, to find what is shared and common ground in the deal. Company Yellow mentions that it is important to work efficiently as a buyer, and emphasises the importance to understand the situation. If there are a lot of suppliers, the product is not complex and the cost of changing supplier is low, then there is a good opportunity to negotiate and pressure the price a lot.

In each relationship it is very important for Company Yellow to have a contract in place. This helps them to have control and keep track of things. Company Yellow works with standard contracts and those who do not accept the general buying terms are not allowed to deliver product to Company Yellow. The focus of having standard contracts in all relationships is because they work a lot with lean and standards to create a natural flow. It is important for Company Yellow that things work and come in the same way, all the time. Orders shall look the same and be confirmed in the same way, invoices should look the same and handled in the same way etcetera. Everything needs to be slim and everything needs to be standardised in their way. Furthermore, the contract regulates a lot around how to distribute the products to Company Yellow, such as when the supplier needs to deliver and what lead times that are acceptable. A part of the contract also concerns marketing and bonuses for marketing. Marketing is sometimes negotiated where Company Yellow and the supplier discuss different ideas of marketing campaigns.

### *Analysis*

The strong focus of having a standard contract in each relationship is a good way to ensure the validity of a deal, which is emphasised by Carlson (2009). The standard contract can also be seen as a way of reducing uncertainty and the negotiation of unnecessary parts. The negotiation described by Company Yellow indicates that they are aware of what Levy & Weitz (2004) point out, that knowledge is power and that preparation and planning is needed. Company Yellow also shows that they analyse their own and the suppliers position in order to judge whether they have the opportunity to pressure price in a hard way or by building common ground and provide evidence. Thus, Company Yellow seems to have thought of their negotiation approach and tactics, which is mentioned by Clodfelter (2013) as important preparations.

### *Ordering*

All ordering at company Yellow is performed centrally and replenishment orders stand for the majority of orders. Though, they emphasise that there exists two different replenishment orders with different processes: one to replenish the stores and one to replenish the central warehouse. The replenishment of the stores can either be through a delivery directly from a supplier or from the central warehouse. Deliveries directly from a supplier stand for 80% of

the order value but deliveries from the central warehouse represent two thirds of the number of articles. Replenishment orders for the stores starts with in an automatic demand planning system, which is connected to the business system and controlled by the Ordering team. The demand planning system calculates the demand for each article in each store and iterates ordering proposals through different algorithms. The algorithms take current stock levels, estimated sales, planned deliveries, and parameters such as min/max stock levels and order quantities into consideration. The ordering proposals are then checked and adjusted by the Ordering team and sent to the suppliers as a PDF in an e-mail or by EDI. Around 50% of the suppliers are connected to Company Yellow through EDI. In some cases the orders generated by the demand planning system are considered very accurate and sent automatically to the supplier without any interference from the Ordering team.

Ordering intended to replenish the central warehouse is not performed by the Ordering team, but by the Logistics team. The Logistics team summarises information about predicted sales and place orders when the demand is close to the safety stock and required stock during lead time. These orders are later sent in an e-mail or through EDI to the suppliers. The replenishment to the central warehouse differs from the replenishment of the stores in two ways. First of all, the planning horizon is much longer and more complex at the central warehouse. For many products the lead time is around two to six weeks, and from Asia the lead time is three to six months. In addition, the deliveries do not always go straight from the supplier to the central warehouse, which require planning. Secondly, the demand and the amount of goods ordered differ. At the stores the demand is going up and down, and orders are often based on estimations of the future customer flow. The stores need orders to be accurate to supply a specific demand. At the central warehouse the demand is aggregated and is handled in truckloads rather than single units or pallets.

### *Analysis*

As identified in theory, Company Yellow works with replenishment order and the replenishment orders are generated automatically in a similar way described by Kent & Omar (2003). In addition, the automatic ordering system combines several smaller orders into one big order through iterations, thus coordinating the delivery. The automatic algorithms also take into consideration expected demand and plan the deliveries, which an Ordering team reviews. This way of working is related to the sales planning process suggested by Kent & Omar (2003).

### *Expediting and receiving*

When an order is sent to a supplier a confirmation is received and a delivery date is set. The Ordering team checks the confirmation, but no further expediting is performed centrally. Each store can see which orders that are on its way, and if the delivery ends up late it is the responsibility of each store to raise the flag. Orders delivered to the central warehouse are the responsibility of Logistics team. When orders are received the control of orders at the stores and the central warehouse is much the same. The number of packages are checked against the consignment note and visually controlled for damages. Then a control that the right articles have been delivered and that labels are all right is done. At the receiving handheld computers are used and stock levels are automatically updated.

Company Yellow mentions that it is much more important to follow-up orders to the central warehouse than to each store. Order confirmation is very important and late orders are identified in the information system. If an order to a store is late, there will be lost sales. But, if an order is late to the central warehouse the lost sales is multiplied with the number of stores. Thus, the need for control is considered bigger at the central warehouse.

### *Analysis*

As described by Company Yellow, they seem to have good control of what and when products are delivered in their IT-system, and the way of working is considered as exceptions expediting by van Weele (2010). Though, it could be argued that Company Yellow has a routine status check, since stores are able to follow the order in their IT-system.

### *Evaluation and follow up*

Information collected about suppliers' performance is used in yearly negotiations. In the future Company Yellow sees that weekly reports about the suppliers' performance are sent automatically to the suppliers. Those reports could for example include the service level of the supplier's products at each store. Today much information about suppliers' performance is available in their business system IFS and little data processing is needed.

Company Yellow mentions that depending on where in the product flow you look there is a difference in what KPIs that are in focus. For deliveries to the stores, the lead time is not so much in focus but rather the delivery precision, which is measured thoroughly. The stores are run by few people, and if a delivery is not on time there will be problems. Furthermore, between the store and the central warehouse additional KPIs are monitored such as the service level at the store and at the central warehouse, the amount of articles supplied by the central warehouse that actually are available in the store and internal prices. The internal prices are the price for products that are delivered from the central warehouse to the stores. These are important to follow-up to ensure that the costs for handling the products in the supply chain are taken into consideration. The internal prices are also important for tax and customs reasons.

Between the central warehouse and the supplier the delivery precision is of importance, but not as much as it is at the stores. Suppliers' lead times are followed-up at the central warehouse, but the focus is what extra costs a supplier causes. This could be if the labels are wrong and need to be changed and if the packaging is bad and need to be repacked.

### *Analysis*

As described by Mandave & Khodke (2010), Company Yellow have a tool in place to assess the performance of their suppliers and are able to benchmark different suppliers. Furthermore, the system in place at Company Yellow gathers data continuously and is used for decision making and negotiation with suppliers and could be seen as vendor rating described in the literature.

### IT in the retail buying process

Company Yellow uses IFS as their main business system, which handles all financial transactions, buying orders and invoice handling. IFS is connected to Company Yellow's cashier system and all data connected to receipts is available in IFS. With this system they are able to monitor and control their processes and coordination of buying and warehouse handling. IFS also allows Company Yellow to follow-up KPIs on a store and article level. In addition, Company Yellow uses QlikView, a business intelligence system, to support decision making. QlikView gathers data and allows the user to make reports, analyses and graphs to present the data in an understandable way.

The IT has expanded a lot at Company Yellow and they see the opportunities to adapt reports and create them quickly. They emphasise the importance of insight, in order to have control and this is what a developed IT brings. A well-developed IT-system will allow the user to make regular checks of the business, be able to continuously coach the operations and always know what is happening. Especially in their daily operations with suppliers the IT-system provides help. Examples of information that can be shared with suppliers are sales volumes, which can be communicated via EDI. In this way the supplier can make decision whether to produce more or investigate if an order is missing.

#### *Analysis*

As can be seen Company Yellow has two information systems in place. The main system is IFS, which is connected to the cashier system. All information needed is stored in IFS, which Company Yellow seems to utilise to a wide extent. They mention that various reports are created and processes can be monitored to facilitate both tactical and operational decisions. In addition, QlikView is used to support the decision making. IFS is also connected to external parties such as suppliers via EDI. The systems used at Company Yellow focus to facilitate both operational and the tactical phases.

#### 4.3.3 Buying skills

At Company Yellow the Category managers' main tasks are to negotiate and set-up contracts with suppliers and are responsible for more than one product category at once. To be able to efficiently manage different product categories require different skills. Some product categories need long term planning, e.g. when dealing with foreign suppliers, and some products require specific product knowledge. Since the Category managers are responsible for product sales in each category they must have knowledge regarding product appearance to make sure that the product looks good in the eyes of the consumer. In addition, some products must be thoroughly specified in terms of dimensions, colour, carton colour, carton quality and labelling. A Category manager at Company Yellow must have the ability to create a clear product specification to be able to get the right product price. Some products have certain standards that the Category manager must consider and have knowledge about. Furthermore, they must know if the different products can be handled in Company Yellow's stores.

Another important part of a Category manager's job at Company Yellow is to discuss with the supplier about how to get the product from supplier to store and according to Company Yellow the skill to understand the supply chain structure is important. The question whether the product should be delivered directly to store or via a central warehouse is always



considered. In the cases when there are difficulties regarding the choice of transportation the Category manager contacts the Logistics team to get advice of how to transport the goods. Furthermore, when a new product is brought into the product assortment the Category manager makes suggestions of minimum stock levels that should be held at the central warehouses and need to make rough estimations of the turnover rate of that product.

An important responsibility as a Category manager is to follow-up the suppliers to make sure that they can deliver as promised. In addition the role as Category manager at Company Yellow involves frequent communication and relationship building with suppliers. Apart from this communication they have close contact with the Coordinators in the buying organisation at Company Yellow to continuously update the business system with relevant data related to supplier contracts.

It is emphasised by the representative from Company Yellow that it is important to have analytical skills when buying products together with business acumen. Decisions-making skills are also needed and the confidence to trust these decisions.

### *Analysis*

Negotiation skills are emphasised in literature by Diamond & Pintel (2001), Giunipero & Percy (2000) and Varley (2001). These skills are important for the Category managers at Company Yellow. Furthermore, the Category managers at Company Yellow possess product knowledge mentioned in theory by Diamond & Pintel (2001) and Varley (2001). Another skill that the Category manager has is consumer market knowledge as described by Diamond & Pintel (2001) and Clodfelter (2013). Hence, they know about certain market standards for each product that is important. Sometimes the product must be clearly specified to get the best product price, the skill to create specification is much like quantitative skills mentioned by Giunipero & Percy (2000).

The Category managers also have communication skills as defined by Diamond & Pintel (2001) and Varley (2001). Since, they have frequent communication within Company Yellow's organisation and with suppliers. Skills to build relationships and identification of the best supplier (Clodfelter, 2013) can also be found in Company Yellow's buying organisation. In addition, Company Yellow has shown signs of supplier market knowledge, since they are aware of what suppliers that are available.

Company Yellow also mentions analytical and decision making skills as important to have when buying products. Varley (2001) and Giunipero & Percy (2000) mention these skills in literature.

The Category manager does also decide how products should be distributed and what minimum stock levels that should be held at the central warehouses. A part of the skills to create forecasts concerns inventory levels, but this does not include how products are distributed. This might be referred to as logistics skills. A definition of this set of skills has not been found in the investigated literature. Company Yellow also mentions business acumen as important, a term for this skill has neither been found in literature. A summary of the buying skills is seen in Table 23.

Table 23: Summary of buying skills at Company Yellow

Skills found or <b>emphasised</b> by Company Yellow, existing in literature	Skills not found or not emphasised by Company Yellow, existing in literature	Skills found at Company Yellow, not existing in literature
<ul style="list-style-type: none"> <li>• <i>Analytical</i></li> <li>• <i>Decision making</i></li> <li>• <i>Communication</i></li> <li>• <i>Product knowledge</i></li> <li>• <i>Consumer needs/Consumer market knowledge</i></li> <li>• <i>Relationship</i></li> <li>• <i>Negotiation</i></li> <li>• <i>Quantitative</i></li> <li>• <i>Identification of the best supplier/supplier identification</i></li> <li>• <i>Supplier market knowledge</i></li> </ul>	<ul style="list-style-type: none"> <li>• Create assortment plans</li> <li>• Create forecasts</li> <li>• Process management</li> <li>• Team</li> </ul>	<ul style="list-style-type: none"> <li>• Business acumen</li> <li>• Logistics skills</li> </ul>

#### 4.3.4 The effects of a central warehouse on the buying organisation

According to Company Yellow the establishment of the central warehouses has facilitated the work for the Ordering team in the buying organisation. Before the establishment they needed to have contact with around 200 different suppliers on behalf of the stores. Afterwards the number of supplier contacts was reduced since many products were supplied via the central warehouses. The responsibility for the replenishment of products became the responsibility of the Logistics team in the buying organisation, which emerged with the establishment of the central warehouse.

Company Yellow emphasised that the central warehouses has turned them into a more easily managed customer from the suppliers' point of view and reduced the suppliers' transportation and administration costs. With the central warehouses the suppliers can deliver large volumes to one point instead of small batches to each individual store. This has increased Company Yellow's power towards the suppliers and enabled them to pressure and decrease the acquisition prices.

Furthermore, the central warehouses have enabled Company Yellow to coordinate goods internally, deliver more precise volumes and more frequently to the stores. Before the establishment of the central warehouses many products were supplied from wholesalers where minimum orders must reach above 10 000, 20 000 or sometimes 50 000 SEK to be delivered free of charge. The central warehouses have also enabled Company Yellow to use other suppliers. Before they were limited to suppliers that could distribute their products in the Nordic countries. Now Company Yellow can contact almost any supplier around the world, which has enabled them to buy products that they could not buy before. Furthermore, the central warehouses have enabled Company Yellow to buy goods directly from manufacturers

instead of wholesalers, who add extra costs to the products. This change of suppliers have decreased their costs and thereby improved their contribution margin.

The central warehouses have also facilitated the control of incoming products from suppliers, since they have created one point of contact. They can now make sure that the products delivered to stores are in desired quality and avoid customers to come in contact with defective products. The central warehouses have enabled the receiving and quality inspection of goods to be more efficiently executed, which was previously performed out in each store. The routines and standards for these activities have been developed by the Logistics team, who has also decided how products should be labelled and delivered to the central warehouses. A summary of the effects of a central warehouse on the buying organisation at Company Yellow is seen in Table 24.

Table 24: Summary of the effects of a central warehouse on the buying organisation at Company Yellow

	<b>Effects of a central warehouse on the buying organisation of Company Yellow</b>
<i><b>Buying structure &amp; roles</b></i>	<ul style="list-style-type: none"> <li>• A role of a Logistics team within the buying organisation, responsible for transportation, stock management and replenishment of goods at the central warehouse was needed</li> </ul>
<i><b>Buying process</b></i>	
<i>Supplier search/selection</i>	<ul style="list-style-type: none"> <li>• Enabled them to use new suppliers</li> <li>• Moved from wholesalers to manufacturers</li> <li>• Buy products they could not do before</li> </ul>
<i>Negotiation/ Contracting</i>	<ul style="list-style-type: none"> <li>• Company Yellow has become a more easily managed customer</li> <li>• New negotiation possibilities with suppliers thanks to larger volumes, less transportation costs and fewer delivery points</li> </ul>
<i>Ordering</i>	<ul style="list-style-type: none"> <li>• Less contact points with suppliers for ordering</li> <li>• Coordinate goods internally</li> <li>• Deliver more precise volumes and more frequently to the stores</li> </ul>
<i>Expediting/ Receiving</i>	<ul style="list-style-type: none"> <li>• Facilitate the control of goods e.g. quality at the central warehouse</li> </ul>
<i><b>Buying skills</b></i>	<ul style="list-style-type: none"> <li>• No effects identified</li> </ul>



## 5 Cross case analysis

*In this chapter the different case studies are compared with each other. The aim of the cross case analysis is to find patterns, but also to identify differences between the cases. The patterns and differences are further analysed to find explanations. The basis for the cross case analysis is the summary tables from the case studies.*

### 5.1 Buying structure & roles

In this section the three case companies are compared on buying structure and roles. The comparison between the cases are based on the information from Table 25.

Table 25: Cross case table of buying structure & roles

	Company Green	Company Blue	Company Yellow
<i>Buying structure</i>	<ul style="list-style-type: none"> <li>Price agreement plan</li> <li>Centralised Product department who decides a minimum product assortment and suppliers the stores are allowed to order products from.</li> <li>Stores are responsible for placing orders.</li> </ul>	<ul style="list-style-type: none"> <li>Mix of price agreement plan, warehouse requisition plan and central merchandising plan</li> <li>Centralised buying organisation who decides what products and suppliers the stores are allowed to order products from. They also establish contracts with suppliers where it is needed.</li> <li>The centralised buying organisation buys products in larger batches and distributes them to the stores. They also order products to the central warehouse.</li> <li>Stores are responsible for placing orders.</li> </ul>	<ul style="list-style-type: none"> <li>Central merchandising plan</li> <li>Centralised buying organisation who decides everything.</li> </ul>
<i>Roles</i>	<ul style="list-style-type: none"> <li>Product manager who has the overall responsibility of the Product department and PG1.</li> <li>Assistant product manager who is responsible for PG2.</li> </ul>	<ul style="list-style-type: none"> <li>CEO who has the overall responsibility of the buying organisation and manages PA1.</li> <li>Concept and product assortment manager responsible for PA2.</li> <li>Controller/Planner/IT-manager</li> <li>Order process manager</li> <li>Article manager</li> </ul>	<ul style="list-style-type: none"> <li>Sourcing supply chain manager who has the overall responsibility of the buying organisation.</li> <li>Category managers</li> <li>Logisticians</li> <li>Buying coordinators</li> <li>Order handlers</li> </ul>

When comparing the case companies it can be seen that their buying structure corresponds to centralised buying as explained by Clodfelter (2013) and Pradhan (2009). Why all the case companies practice centralised buying could be explained by their focus of having stores with the same concept and product assortment. Having decentralised buying, where each store makes their own decisions in the tactical phases of the buying process, creates difficulties to have a coherent product assortment in the stores. Other possible reasons why all practice centralised buying is that it reduces the administrative costs for the tactical phases of the retail buying process and that buyers in the central organisation can be specialised on the products that they are buying.

Company Green’s and Blue’s stores place individual orders to selected suppliers, which implies that the product assortment can differ to some extent between stores. An identified reason why the stores are responsible for placing orders is that the majority of products sold are make-to-order products, which are not stocked in store. Further on, since stores already are responsible for ordering of make-to-order products it comes natural that they also are responsible for the replenishment of the products stocked in store. Though, the main reason why ordering is the responsibility of the stores is that many of their stores are franchise where the owner has the financial responsibility of products stocked in store. This implies that the owner wants to decide what products to order and have in the store. On the other hand, the ordering is centralised at Company Yellow where an Ordering team in the buying organisation handles the replenishment of stores. One reason why Company Yellow can have central ordering is that all stores are centrally owned, which does not create difficulties with the ownership of products. Another reason that ordering can be done centrally is that their products are basic commodities, which are not manufactured on the request of a customer. This shows that if one strives for a common stock policy in the stores and full control over the product assortment centralised ordering is preferable. To point out, the ownership of stores and product characteristics seems to affect whether ordering is decentralised or not.

What can be identified, that strengthens the upper findings, is that dependent on whether the stores in the retail chain are fully-owned or managed as franchise different levels of centralised buying are used, see Table 26. Common for the franchise stores at Company Green and Blue are that the franchise stores are controlled under price agreement plans. The price agreement plan could be considered necessary since it gives more freedom to the independent franchise owner to decide what and how many products that should be ordered to the store. Furthermore, it can be seen that in the cases of fully owned stores central merchandising plans can be used.

*Table 26: Level of centralised buying at the case companies in comparison with store ownership*

	<b>Company Green</b>	<b>Company Blue</b>	<b>Company Yellow</b>
<b>Franchise stores</b>	Price agreement plan	Price agreement and Warehouse requisition plan	-
<b>Fully-owned stores</b>	-	All levels	Central merchandising plan

Considering the roles in the buying organisations, all companies have a main responsible of the buying organisation, which shows that it is of importance to have someone who has the main responsibility. Though, these people also have other areas of responsibility both within the buying organisation and in the retail company. The differences in the responsibilities of the main responsible at the case companies might be explained by the size of the buying organisation. At Company Yellow, who has the largest buying organisation, the main responsible for the buying organisation has a more coordinating role than at Company Green and Blue, who has a smaller buying organisation. At Company Green the main responsible is the Product department manager and who is also involved in buying activities. At Company Blue the main responsible for the buying is the CEO who are involved in buying activities but is also responsible for the development of the whole company.

Further on, all companies have people in the buying organisation who are responsible for the tactical phases of the buying process, which strengthens that this “buying” role is needed and seen as important to have. Furthermore, it seems relevant to have one role responsible for these phases since they are connected and overlapping. For example, the specifications are used in the supplier search/selection phases and are later negotiated and contracted. However, there is no coherent name for this “buying” role, which might be explained by that companies name roles in different ways. What can be seen is that the “buyer” is either named after the name of the department, the areas of responsibilities or how the buying is performed.

The registration of product and supplier information in the information system at the case companies is the responsibility of the buying organisation. This indicates that the registration of products is closely coupled with buying. Important information to be registered is sales prices, acquisition prices, what suppliers that the product can be ordered from, supplier information etcetera. The information facilitates the ordering and sales of products, which explains why this is a part of the buying organisation. What can be seen is that the one who has the responsibility of the registration of information differs between the companies. At Company Yellow a team is dedicated to this task, but in Company Green it is the responsibility of the ones performing the buying and at Company Blue it is done by an Article manager who has many other responsibilities. This indicates that the responsibility of registering information could require enough resources to become a single and specialised role in a larger company.

It has been identified that both Company Blue and Yellow have areas of responsibility connected to the replenishment of the central warehouse and logistics activities in the buying organisation. These areas of responsibility do not exist at Company Green. This can be explained by that, Company Green leaves the transportation responsibility to its suppliers and that they do not have a central warehouse. This indicates that these areas of responsibility emerge with the establishment of a central warehouse. Especially the responsibility connected to the replenishment of the central warehouse, which is done by an Order process manager at Company Blue and a Logistics team at Company Yellow. The role can be seen as important since it ensures that products are available at the central warehouse and thereby available to the stores. Special knowledge could also be needed for this role since it requires knowledge

about planning, stock control and transportation to make sure that the right quantities are ordered and that orders arrive in time.



## 5.2 Buying process

In this section the buying process of the three case companies is compared. The comparison is based on Table 27 to Table 29.

Table 27: Cross case table 1 of the buying process

	<b>Company Green</b>	<b>Company Blue</b>	<b>Company Yellow</b>
<b>Buying process</b> <i>Need recognition</i>	<ul style="list-style-type: none"> <li>Suppliers' responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Identifies gaps in the product assortment</li> <li>Visits trade shows</li> <li>Contact from suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Identifies and follows changes in legislation and standards</li> <li>Council meeting with stores and professionals</li> <li>Supplier contacts</li> <li>Visits trade shows</li> <li>Internet</li> </ul>
<i>Specification</i>	<ul style="list-style-type: none"> <li>Sells what the suppliers offer</li> <li>No opportunity to alternate the distribution strategy</li> <li>Product assortment depends on store size and store location</li> </ul>	<ul style="list-style-type: none"> <li>Specifies own products</li> <li>Presents ideas to suppliers who create samples</li> <li>Buys products off the shelf</li> <li>Distribution is judged economically</li> <li>Product assortment is often judged on profitability and how well they compliment each other</li> </ul>	<ul style="list-style-type: none"> <li>Strong focus on product specifications</li> <li>Emphasises the need for specifying a distribution strategy and finding the best solution together with the suppliers</li> <li>Product assortment is evaluated on how products fit and go along with each other and how they can be presented in the store</li> </ul>
<i>Supplier search and selection</i>	<ul style="list-style-type: none"> <li>No active search and selection</li> <li>Works with close and long relationships</li> </ul>	<ul style="list-style-type: none"> <li>Long-standing suppliers</li> <li>Visits trade shows</li> <li>Suppliers contact Company Blue</li> <li>Evaluates suppliers by buying samples and visiting factories</li> </ul>	<ul style="list-style-type: none"> <li>Visits trade shows</li> <li>Agents for Asia</li> <li>Suppliers contact Company Yellow</li> <li>Strong focus on price</li> <li>RFI and performs weighted evaluation of the supplier with analyses of relevant factors</li> </ul>

Table 28: Cross case table 2 of the buying process

	<b>Company Green</b>	<b>Company Blue</b>	<b>Company Yellow</b>
<i>Buying process</i> <i>Negotiation and contracting</i>	<ul style="list-style-type: none"> <li>• Considers the business in long terms</li> <li>• Negotiates regularly</li> <li>• Settling marketing campaigns with discounts</li> <li>• Works with trust, not very detailed contracts</li> <li>• Develop framework agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Long term relationships with some suppliers</li> <li>• Works with trust, no contract in some business relationships</li> <li>• Buying products off the shelf</li> <li>• Contract often needed with foreign suppliers and when specifying own products</li> <li>• Negotiates when contracts are due</li> </ul>	<ul style="list-style-type: none"> <li>• Adapts to the situation and pressures price accordingly</li> <li>• Tries to sell Company Yellow as a good business partner</li> <li>• Makes own estimations to compare with suppliers' offer to find the best solution</li> <li>• Standard contracts in all relationships</li> <li>• Negotiates at least once a year</li> </ul>
<i>Ordering</i>	<ul style="list-style-type: none"> <li>• Customer and replenishment orders</li> <li>• Orders are placed manually</li> <li>• Ordering to the stores is decentralised</li> </ul>	<ul style="list-style-type: none"> <li>• Customer and replenishment orders</li> <li>• Orders are placed manually</li> <li>• Ordering to the stores is decentralised</li> <li>• Ordering to the central warehouse is centralised</li> </ul>	<ul style="list-style-type: none"> <li>• Works mostly with replenishment orders</li> <li>• Emphasises the difference between orders to the store and the central warehouse</li> <li>• Ordering to the stores is centralised and orders are generated automatically, but are controlled by the ordering team</li> <li>• Ordering to the central warehouse is centralised and performed by the logistics team</li> </ul>

Table 29: Cross case table 3 of the buying process

	<b>Company Green</b>	<b>Company Blue</b>	<b>Company Yellow</b>
<i>Buying process Expediting and receiving</i>	<ul style="list-style-type: none"> <li>• Order confirmations</li> <li>• No active expediting</li> <li>• Sales personnel review orders that have been active for more than a couple of weeks</li> </ul>	<ul style="list-style-type: none"> <li>• Order confirmations</li> <li>• No active expediting</li> <li>• Suppliers send information about delays</li> <li>• Sales personnel send information about late deliveries upwards in the organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Order confirmations</li> <li>• Stores can monitor the orders in their system</li> <li>• Stores have the responsibility of communicating wrong and late deliveries</li> </ul>
<i>Evaluation and follow-up</i>	<ul style="list-style-type: none"> <li>• No system for supplier evaluation and follow-up</li> <li>• Track product complaints</li> </ul>	<ul style="list-style-type: none"> <li>• No system for supplier evaluation and follow-up</li> </ul>	<ul style="list-style-type: none"> <li>• Keeps track of suppliers' performance in the system</li> <li>• Evaluate and follow-up delivery precision, service level, internal prices, caused extra handling costs and lead-times</li> <li>• Different KPI's are used at the stores and at the central warehouse</li> </ul>
<i>IT in the buying process</i>	<ul style="list-style-type: none"> <li>• One main business: Pyramid</li> <li>• Uses a business intelligence system to analyse data</li> <li>• Facilitating operational phases of the buying process</li> </ul>	<ul style="list-style-type: none"> <li>• Several systems</li> <li>• Facilitating operational activities</li> </ul>	<ul style="list-style-type: none"> <li>• One main business system: IFS</li> <li>• Separate cash system</li> <li>• Uses a business intelligence system to analyse data</li> <li>• Facilitating operational and tactical phases of the buying process</li> </ul>

### Need recognition

The focus on the need recognition phase at the case companies could be seen as low or even none. Market analysis is not regularly performed, and the major source of information is suppliers whom contact the buyer or the buyer visits tradeshows where major suppliers are present. The reason for not focusing on need recognition at Company Green is understandable, since they have made an active choice of letting their suppliers do it. Though, working with established brands ought to move a part of the responsibility of need recognition to the supplier since it lies in their interest to make sure that their brand offers the right products. Even though Company Blue and Yellow focus less on brands they do not work actively with need recognition. Reasons for not focusing so much on need recognition seem to be related to the kind of product that is sold and that there is little risk of not having the right products from season to season. Company Yellow's products are considered as basic commodities, which do not change very much and are not sensible for trends. In addition, Company Blue says that their main products, PA1, do not to change very much over time either. Thus, the risk of having wrong products is little and also the need for need recognition.

### Specification

The specifications regarding the product, i.e. consumer evaluation criteria in theory, seem to vary between the cases and depend on whether brands or private labels are bought, kind of the product and what benefits that are seen in specifying the product. Company Green's focus on brand reduces their need for specifying the product since the products are bought from the supplier as they are. The supplier that provides the brand is responsible for the product characteristics and a brand signals what is expected of the product. If the branded product is bad and not sold it is a risk for the retailer who bought it, but the risk is even larger for the supplier since it is the perception of their brand that is affected. Concerning private labels, the need for a product specification is considered higher since the retailer takes a larger risk. There is a need to know what is bought, especially when buying from foreign suppliers since there are different measures and standards used. With foreign suppliers it is also harder to correct mistakes and products are often bought in larger volumes at the same time, which increase the impact of an error. The kind of products does also seem to affect the emphasis on the product specification. Company Blue's products are more close to style than Company Yellow's commodity products. Style could be a combination of e.g. pattern, shape, materials and colour, which might be hard to specify and little benefit is seen in specifying it exactly. If it is difficult to specify the product samples could be used to confirm that the product bought is satisfying. On the other hand, Company Yellow see the benefit in making specifications of their commodity products to keep low costs of their products.

Considering specifications of the distribution strategy it is more emphasised when having a central warehouse, and further emphasised when ordering is centralised. Company Green, who does not have a central warehouse, do not have much distribution alternatives today and the buying organisation cannot set stock levels at the stores since it is the storeowners who have financial responsibility. It becomes clear that the establishment of the central warehouse raises the question of how to distribute the products and increases the need for specifying the distribution strategy. The central warehouse also creates at stock point that needs to be managed e.g. specifying stock level and product availability. Furthermore, if ordering is done

centrally, as in the case of Company Yellow, seems to affect how much the distribution strategy is emphasised. When the ordering is centralised it is vital to set stock levels and product availability centrally to keep control of the stock in the stores.

The third area connected to the specification phase is the specification of the product assortment strategy. This is present at all case companies in one way or another and shows that this is important to think of. Common for two of the cases were that the characteristics of the store and how products are combined were considered when specifying the product assortment.

### Supplier search and selection

A common way to get in contact with suppliers is by visiting tradeshow or that the supplier contacts the buyer. In addition, agents could be used for identifying suppliers far away. What affects the supplier search phase at the case companies is that they all have good knowledge of the available suppliers in some product groups. This means that they often know which supplier that can offer or produce the right product, which could indicate that the supplier search activity is not that extensive within retail. As a result, there is an emphasis for longer business relationships in those product areas and Company Green is saying that they do not have an active search and selection phase because of their focus on long relationship with selected suppliers.

In order to select suppliers for negotiation the procedure seems to differ among the case companies, where Company Blue's selection is somewhat more subjective than Company Yellow's. The difference between Company Blue and Yellow could be reflected in the kind of product and the size of the buying organisation. The products bought by Company Blue are more towards style and could vary between suppliers e.g. exact colour and pattern, which emphasise the need for samples to judge the product before selecting a supplier. The products bought by Company Yellow are considered as basic commodities and are easier to specify, which open up for a more objective selection based on price. Furthermore, the buying organisation is much larger at Company Yellow and is more professionalised, which could explain the more developed objective selection.

### Negotiation and contracting

The negotiation and contracting phase is a phase that is clearly present in all case companies. Common aspects that are present in negotiations are e.g. price, freight limits, mode of transportation, volumes to buy and lead-times. In addition, marketing is often discussed. The focus of the negotiation at the case companies could be reflected in their different strategies. Company Yellow focuses a lot on pressuring the price, which is in line with their strategy to offer customers the lowest price. In contrast, Company Green have a more mentioned emphasis on the business relationship in long terms. This is seen in their focus on how to increase the sales in collaboration with suppliers and how they plan marketing campaigns together with their suppliers. These patterns are also seen in how the companies set up contracts. When building on trust and long business relationships less detailed contracts are used. On the other hand, the more focus there is on cost the more control and detailed contracts are needed. In addition, if specifying own products the need for a contract is further increased. The retailer would like to buy products according to the specification, and the

supplier wants an assurance that the retailer buys the products manufactured. The need for a contract is even more important when buying products from foreign suppliers, which could be explained by the difficulties to correct an error.

### Ordering

Each case company has a clear ordering phase, which is more developed at Company Yellow with a high utilisation of IT and an EDI connection to many suppliers. At Company Green and Blue the ordering is done manually in their business system at each store, while ordering at Company Yellow is more or less automatic and centralised. The difference in the ordering could be explained by the kind of product and the owner structure. Working with make-to-order products implies that ordering is done at the stores. Though, products stored on shelves in the stores could still be ordered centrally. Why products stored on shelves are also ordered by the stores at Company Green is because each store is responsible for their financial result. Whereas in Company Yellow each store is centrally owned and ordering can be done centrally. Company Blue, who has a mix of centrally owned and independent stores, could have had central ordering to their own stores. Though, this is not the case, which could be explained by that the make-to-order products are their main products and that there is a need for a certain volume to motivate central ordering of products stored on shelves in the stores.

Furthermore, Company Blue and Yellow place orders centrally to replenish the central warehouse. These orders are emphasised by Company Yellow to be very different from the replenishment orders to the stores and are two different processes. To the stores, the order needs to be precise and match the specific demand with a short planning horizon. To the central warehouse, the order is based on aggregated demand, with a much longer and more complex planning horizon. What has been identified is that having a central warehouse facilitates the replenishment of the stores. The central warehouse reduces the lead time, which makes it easier to adapt to a shorter planning horizon, and each store can receive smaller orders, which matches the demand much better.

### Expediting and receiving

Among all the case companies an order confirmation is often received after placing an order. Common practice is that it is each store's responsibility to signal if anything is wrong with the deliveries. When products are received they are checked for damages and the quantity is controlled and registered in the business system. The activities do not differ much across the cases but the difference that can be seen at Company Yellow, is that the utilisation of IT facilitates the monitoring of orders on the way and that the usage of handheld computers enables the staff to automatically update the stock levels upon receiving. The expediting to the stores are considered reactive, but with orders to the central warehouse Company Yellow seem to be more active and emphasises the need to make sure the orders to the central warehouse are on its way. The explanation for this is that a late order to the central warehouse can cause larger problems and is more costly. Thus, expediting should be used when an impact is considered large.

### Evaluation and follow-up

The evaluation and follow-up phase is not directly present at Company Green and Blue. On the other hand, this is something Company Yellow actively works with. A reason that Company Yellow works more actively with this phase could be connected to their focus on standardisation and costs. For them it is important that their suppliers perform according to what is agreed and that no extra costs are caused by their suppliers. In order for Company Yellow to have a good evaluation and follow-up they need accurate information. The collection of information is facilitated and done continuously by their well-developed IT-system. Without it, the work might have been much more troublesome and the utilisation of IT seems to be an important aspect that distinguishes Company Yellow from Company Green and Blue in the evaluation and follow-up phase.

### IT in the buying process

The IT-systems used at the case companies are not the same but the IT-systems in place fill the same functions. The difference is more in how developed and how utilised the IT-systems are. Especially in the operational phases of the buying process the affect of the IT-systems can be seen, where Company Yellow is able to have automatic replenishment, monitor orders and gather data about suppliers' performance. Company Green and Blue have the opportunity to monitor e.g. the stock in each store, though they mention that it is hard to trust the figures. This implies that it is not only how developed the IT-system is, but the operations connected to the IT-system that must work as well, such as registering incoming products in the right way to ensure an accurate stock level.

### 5.3 Buying skills

In this section the three case companies are compared based on buying skills. The comparison between the cases is based on the information from Table 30.

Table 30: Cross case table of the identified buying skills

	Company Green	Company Blue	Company Yellow
Skills found or emphasised, existing in literature	<ul style="list-style-type: none"> <li>• Communication</li> <li>• Product knowledge</li> <li>• Consumer needs/consumer market knowledge</li> <li>• Negotiation</li> <li>• Identification of the best supplier/ supplier identification</li> <li>• Supplier market knowledge</li> <li>• Building relationships</li> <li>• Analytical</li> <li>• <b>Process management skills</b></li> <li>• Create assortment plans</li> </ul>	<ul style="list-style-type: none"> <li>• Communication</li> <li>• Product knowledge</li> <li>• Consumer needs/consumer market knowledge</li> <li>• Negotiation</li> <li>• Identification of the best supplier/ supplier identification</li> <li>• Supplier market knowledge</li> <li>• Objectivity</li> </ul>	<ul style="list-style-type: none"> <li>• Communication</li> <li>• Product knowledge</li> <li>• Consumer needs/consumer market knowledge</li> <li>• Negotiation</li> <li>• Identification of the best supplier/supplier identification</li> <li>• Supplier market knowledge</li> <li>• Building relationships</li> <li>• Analytical</li> <li>• Decision making</li> <li>• Quantitative</li> </ul>
Skills not found or not emphasised, existing in literature	<ul style="list-style-type: none"> <li>• Create forecasts</li> <li>• Team</li> <li>• Objectivity</li> <li>• Quantitative</li> <li>• Decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Create forecasts</li> <li>• Team</li> <li>• Quantitative</li> <li>• Decision making</li> <li>• Create assortment plans</li> <li>• Process management</li> <li>• Building relationships</li> <li>• Analytical</li> </ul>	<ul style="list-style-type: none"> <li>• Create forecasts</li> <li>• Team</li> <li>• Objectivity</li> <li>• Create assortment plans</li> <li>• Process management</li> </ul>
Skills found, not existing in literature	<ul style="list-style-type: none"> <li>• None identified</li> </ul>	<ul style="list-style-type: none"> <li>• Shipping limits</li> </ul>	<ul style="list-style-type: none"> <li>• Business acumen</li> <li>• Logistics skills</li> </ul>



What can be seen from Table 30 is that most skills connected to the theoretical framework are found in the different case companies, however all skills are not found or emphasised in every case. An interesting pattern is that communication, negotiation, product knowledge, consumer needs/market knowledge, identification of the best supplier/supplier identification and supplier market skills are found and emphasised at all case companies. Finding these skills in all case companies emphasises the importance to possess these as a buyer. What can be seen from the cases is that the buyer is involved in frequent communication with suppliers and internally within the organisation, which explains why communication is found as an important skill. The other skills mentioned are clearly coupled to the responsibilities of the buying organisation and the tactical phases of the buying process, which explains why all case companies consider these skills as important.

Another pattern that can be found is that the skill to create forecasts is not found or mentioned as important in any of the case companies. A possible reason why this skill is not mentioned in Company Green and Blue is that the ordering phase, where most forecasting of sales quantities is performed, is done by the stores. This means that these skills are not directly connected to the buying organisation. Company Yellow has an advanced planning system that generates order forecasts, which partly explains why forecasting skills might not be stressed in the buying organisation at Company Yellow. Another skill that has not been emphasised in any of the cases is team skill. A possible reason for this is the focus of the people responsible for the tactical phases of the buying process. Since they are responsible for different product groups or categories alone, their way of working has no direct focus on team work, which might be a reason why this skill has not been emphasised among the other more vital skills that are directly connected to the work of a buyer.

Furthermore, it is difficult to see other patterns among all case companies. Though, what can be seen is that there seems to be a relationship between the way of working with buying in the companies and what skills that are found. For example, an important skill mentioned by Company Green and Yellow is relationship building. This can be explained by their focus on relationships with suppliers and what benefits a good relationship might bring. A possible reason why Company Blue does not consider this skill as particularly important might be that they have a mix of relationships with their suppliers, where the relationship might not always be in focus. Another example is quantitative skills, which are connected to technical understanding and specification development, which are emphasised by Company Yellow. A possible reason why similar skills are not in focus at Company Green is that they usually do not work with product specifications, since they buy brands where they let the manufacturer handle the development of products, which makes it obvious that quantitative skills are not found at Company Green.

Lastly, logistic skills are found as important at Company Yellow. These skills have not been found in the theoretical framework and were not emphasised by the other case companies. Why Company Yellow emphasises that a buyer need these skills could be connected to that they have a central warehouse and further explained by the work as a Category manager. The Category managers at Company Yellow are involved in deciding whether products should be distributed via the central warehouse or not and focus on finding the best logistics solution

which requires an understanding of the flow of products. In addition, the Category managers are involved in deciding product availability and setting stock levels, which makes it clear why Company Yellow see logistics skills as necessary. The reasoning shows that the central warehouse affects needed buying skills, but also points out that skills are dependent on the way of working in companies.

## 5.4 The effects of a central warehouse on the buying organisation

In this section the two case companies having a central warehouse are compared based on how they perceived that the buying organisation was affected by the establishment of a central warehouse. The comparison between the cases are based on the information from Table 31.

Table 31: Cross case table of the effects of a central warehouse on the buying organisation

	<b>Company Blue</b>	<b>Company Yellow</b>
<b>Buying structure &amp; roles</b>	<ul style="list-style-type: none"> <li>• A role of a Logistics manager who manages the central warehouse operations was needed</li> <li>• A role of an Order process manager to replenish the central warehouse was needed</li> </ul>	<ul style="list-style-type: none"> <li>• A role of a Logistics team within the buying organisation, responsible for transportation and replenishment of goods at the central warehouse was needed</li> </ul>
<b>Buying process</b>		
<i>Supplier search/selection</i>	<ul style="list-style-type: none"> <li>• Could avoid wholesalers</li> <li>• Have products that would not be possible to have without a central warehouse</li> </ul>	<ul style="list-style-type: none"> <li>• Enabled them to use new suppliers</li> <li>• Moved from wholesalers to manufacturers</li> <li>• Buy products they could not do before</li> </ul>
<i>Negotiation/ Contracting</i>	<ul style="list-style-type: none"> <li>• Price negotiations with suppliers regarding transportation and volumes</li> </ul>	<ul style="list-style-type: none"> <li>• Company Yellow has become a more easily managed customer</li> <li>• New negotiation possibilities with suppliers thanks to larger volumes, less transportation costs and fewer delivery points</li> </ul>
<i>Ordering</i>	<ul style="list-style-type: none"> <li>• Possible for the stores to order smaller product batches</li> <li>• Easier to combine products from different suppliers when a store orders product</li> <li>• Do not have to wait until the order from supplier has reached a certain volume</li> </ul>	<ul style="list-style-type: none"> <li>• Less contact points with suppliers for the Ordering team</li> <li>• Coordinate goods internally</li> <li>• Deliver more precise volumes and more frequently to the stores</li> </ul>
<i>Expediting/ Receiving</i>	<ul style="list-style-type: none"> <li>• Control of products from the supplier can be performed at the central warehouse</li> <li>• Easier to plan receiving at the stores</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate the control of goods e.g. quality at the central warehouse</li> </ul>
<i>IT in the buying process</i>	<ul style="list-style-type: none"> <li>• Needed to improve their IT-systems</li> </ul>	
<b>Buying skills</b>	<ul style="list-style-type: none"> <li>• No effects identified</li> </ul>	<ul style="list-style-type: none"> <li>• No effects identified</li> </ul>

#### 5.4.1 Buying structure & roles

With the establishment of a central warehouse, new areas of responsibility emerged. One common area of responsibility was the replenishment of products to the central warehouse. This responsibility was given to a new role within the buying organisation. At Company Blue this is the responsibility of an Order process manager and a Logistics team at Company Yellow. The responsibility of replenishing the central warehouse could have been the task for someone performing the tactical phases of the buying process. A reason why a new role emerged could be that the responsibility of placing orders demands a lot of resources that were not available in the organisations. Furthermore, this role could be seen as an important role. Missed deliveries to the central warehouse can create problems with product availability at the stores, which affect sales for many stores at the same time. In addition, the replenishment orders to the central warehouse need to be planned and be in the right quantity to avoid under- and overstocking situations. Thus, the responsibility of replenishing the central warehouse could require a more specialised role.

#### 5.4.2 Buying process

What can be identified is that the establishment of a central warehouse has enabled the case companies to buy products directly from manufacturers instead of expensive wholesalers, thanks to the opportunity to buy larger volumes. A prior limitation in the distribution network of the suppliers can also be identified as a reason why they could not come in contact with more suppliers before the establishment of a central warehouse. This shows a clear affect on the supplier search/selection phase in the retail buying process.

Another pattern that can be identified is that the case companies can buy products that they could not buy before. Before the establishment of the central warehouse the products were delivered directly to the stores, which means that a certain volume must be reached to avoid losing product profitability. The volume was hard to reach for an independent store, which made it unbearable for the store to offer that product. Though, when demand from several stores can be aggregated at the central warehouse and bought in a large volume, it makes the product profitable.

Comparing the cases it can also be found that the establishment of a central warehouse has changed the transportation of products stored at the central warehouse, which in turn has impacted the negotiation with suppliers. The suppliers can deliver products to the central warehouse instead of to each store, which means that the transportation become less costly and complex from the suppliers' point of view. By the elimination of this complexity, transportation costs are severely decreased, which opens up for price negotiations regarding transportations costs. The batch sizes to the central warehouse can also be increased and offer an opportunity to negotiate better prices and benefit from quantity discounts, since larger product volumes can be bought at the same time.

A common pattern that has been identified is that the replenishment of goods to the store has been facilitated with the central warehouse. The possibility to combine products from different suppliers at the central warehouse is a major reason why the replenishment is facilitated. What is seen is that products from several suppliers are delivered to the central warehouse in larger quantities. The products are then combined and delivered in appropriate

quantities to the stores. It can also be seen that it opens up for more frequent delivery of products to the stores.

The last pattern that has been identified is that the control of bought products from suppliers can be performed more efficiently at the central warehouse. Controlling products out in each store makes it less resource efficient. The control of products at the central warehouse also implies that defect products seldom reach the stores and thereby the end customers, which is good from a customer satisfaction perspective.

Finally, the establishment of the central warehouse indicates that a well-developed IT-system is needed. Company Blue mentions that their IT-systems needed to be developed with e.g. a warehouse management system. This makes sense since to be able to plan the replenishment of products at the central warehouse it would benefit to e.g. know both stock levels at the stores and at the central warehouse. In addition, an IT-system could also help to generate order proposals automatically. Company Yellow already had a well-developed IT-system before the establishment of the central warehouses, which could explain why they did not see the need for a more developed IT-system.

#### 5.4.3 Buying skills

Company Blue and Yellow cannot identify how skills needed as a buyer have been affected with the establishment of a central warehouse.



## 6 Discussion

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*In this chapter the findings from the case studies are discussed in relation to the research questions. The chapter begins with a discussion around research question 1 based on the single and cross case analysis to support or extend existing theory. Afterwards, research question 2 is discussed primarily based on the cross case analysis due to the lack of existing theory on the subject. The discussion around research question 2 leads to a number of propositions about how the establishment of a central warehouse affects the main areas of the study. Each proposition ends with experiences and opinions from a professional within retail and logistics.*

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### 6.1 Research question 1 – How do the buying structure & roles, buying process and buying skills look like in a retail buying organisation?

#### 6.1.1 Retail buying structure & roles

The analysis shows that decentralised buying is not present in any of the cases, which indicates that when having several stores striving to have a similar store concept and product assortment, centralised buying preferable. Theory by Clodfelter (2013) and Varley (2001) support that centralised buying is used to control the product assortment to stores, which can also be seen in the cases. The usage of centralised buying is also supported by theory, since Varley (2001) describes decentralised buying as common when buying local products for local needs, which is not the case for any of the companies. It can also be seen in theory that there is a greater focus on centralised buying compared to decentralised buying, which gives an indication that this is more commonly used for buying products for a number of chains stores.

The comparison between the cases shows a difference in how stores are operated, i.e. franchise or owned by the central organisation, and level of centralised buying. There is no direct indication from theory that shows that different levels of centralised buying is more suitable for different store ownership. However, van Weele (2010) says, that the buying structure is dependent on company characteristics, but gives no deeper explanation of the meaning of company characteristics. Though, the owner structure of stores seems to be something that fits under this term. It also logical that the local storeowner wants to be involved in decisions regarding order quantities since it is his or her money that are invested in the products stocked in the store. In other words, it is hard to apply a central merchandising plan when having franchise stores. Furthermore, the analysis of the case companies shows that a make-to-order product is more likely to be ordered from the local store, and implies that product characteristics could have an affect whether ordering is the responsibility of the store or not. This strengthens what is said by van Weele (2010), that product characteristics affect the buying structure.

The cross case analysis shows that the roles present in the buying organisations compared to theory vary to some extent among the case companies. According to Varley (2001) there are two main roles within a buying organisation, buyers and merchandisers. The role of a buyer is clearly present in all companies, with a clear responsibility of e.g. product assortment decision, supplier search and selection, and negotiation. Hence, the empirical information

from the cases strengthens theory regarding the buyer. However, a merchandiser described by Kent & Omar (2003) and Varley (2001) who works with sales estimation, sales planning, stock control in stores, planning of deliveries and distribution of goods to the stores was hard to find in any of the case companies. The closest to a merchandiser among the case companies are the employees in the Ordering team at Company Yellow. They plan deliveries and place orders to suppliers intended to replenish the stores. The closest to a merchandiser at Company Green and Blue are the store personnel who place orders to refill the shelves. Though, this is done on a more ad-hoc basis with little planning and is not as sophisticated as the work of a merchandiser. Even if it was hard to find an exact match of a merchandiser in the studied case companies it can be considered as an important role to have in the buying organisation to make sure that the stores have products on the shelves and that no under- or overstocking situation occurs. To be able to work sophisticated with tasks of a merchandiser it could be of importance to have this as a separate role.

A role in the buying organisation of Company Yellow that was not emphasised in the theoretical framework is the role of the Logistics team. It could be argued if the Logistics team should be a part of a buying organisation but as Varley (2001, pp. 19) explains, the buying organisation is *“the entity within a retail organisation that carries out the essential task of bringing goods into the retail business from the supply base to be sold on to retail customers”*. The Logistics team manages the stock, places orders to the suppliers and plans deliveries to the central warehouses. Thus, they are carrying out considerably essential tasks of bringing goods from the supply base to be sold on to retail customers. These tasks are also similar to what a merchandiser does, but less focused on sales. Including the Logistics team in the buying organisation shows a strong connection between buying and logistics in retail. Considering Company Blue, they have similar areas of responsibilities connected to the central warehouse that corresponds to what the Logistics team does at Company Yellow, which further emphasises the need for these roles in a buying organisation.

The role of updating product and supplier information in the information system is a part of the buying organisation in the studied companies. What could be found in theory is that there is no emphasis on the update of product and supplier information as a responsibility of the buying organisation. It can be emphasised that it should be a part of the buying organisation since the update of product and supplier information is connected to buying activities and requires frequent contact with buyers. For example, the negotiated acquisition prices from suppliers must be updated in the system so that orders can be placed to supplier with correct acquisition price. This strengthens that it could be beneficial to include this role as a part of the buying organisation.

### 6.1.2 Retail buying process

What can be seen when studying each case is that buying activities performed can be connected to the different phases of the retail buying process described in the theoretical framework. Thus, the cases support that retail buying could be viewed as a process. The cases also clarify that there exists a process before and after the actual buying decision and strengthen that retail buying could be studied from a process point of view, where the buying decision is a part of that process as suggested by Johansson (2001). It is also clear that the



process view gives a more holistic view, where different individuals with different roles are involved.

The retail buying process used in this study was adapted from a retail buying process by Varley (2001) and an industrial purchasing process by van Weele (2010). The differences between the processes were discussed in the theoretical framework and are worth to discuss in the light of the case study to strengthen the chosen buying process. To start with is the need recognition phase that Varley (2001) emphasises as a start of the retail buying process, which van Weele (2010) does not include in the industrial purchasing process. From the case companies it could be seen that in their need recognition phase there is no active analysis of the market. But, there exist activities to identify customer needs to some extent through different activities and sources of information, such as visiting tradeshows and council meetings. Furthermore, suppliers were identified as an important part in the suggested need recognition phase. Therefore, a need recognition phase ought to be a phase in a retail buying process.

Further on, among the tactical phases a difference between the retail buying process suggested by Varley (2001) and the industrial buying process by van Weele (2010) was that Varley (2001) has separated the phases for supplier search and selection. In addition, the negotiation phase seemed to be included in the selection phase. Van Weele (2010) has a combined search and selection phase, and a separate negotiation and contract agreement phase. Among the case companies there was no need to separate search and selection into two phases, which strengthens that these activities can be seen as one phase. On the other hand, negotiation was identified as a clear and often important phase in the case companies buying process. Thus, a separate negotiation phase in a retail buying process is emphasised.

Lastly, in the operational phases of the industrial purchasing process by van Weele (2010), expediting and receiving proceeds the ordering phase, but was not found in Varley's (2001) retail buying process. Receiving was present in all cases and ought to be included in a retail buying process. On the other hand, expediting of orders to the stores was not very emphasised by the case companies, and was a responsibility placed at each store. Why an expediting phase is present in the industrial purchasing process could be because the delivery of purchased goods is needed further down in the chain in e.g. the production. If a delivery is missed or late there is a risk of a production stoppage, which could be very expensive. The low focus on expediting of orders to the stores among the case companies could be explained by that a missed order for the store is not a large cost and not vital for further progress as in industrial purchasing. Though, Company Yellow points out that it is important to know that an order to the central warehouse is on its way, because multiple stores in the chain are dependent on these deliveries. As they said, the cost is multiplied by the number of stores. The focus on expediting is higher when the impact is larger and it can be concluded that an expediting phase can be included in a retail buying process.

The identified retail buying process in this study describes different phases carried out in sequence. However, it is emphasised in literature that not all phases are always carried out and that the sequence they are performed in might vary. Robinson (1967) identified three different buying situations, which Varley (2001) clarifies by showing how the retail buying process is

carried out in the different buying situations. Different buying situations are something that can be found among the case companies. It could also be found that the different phases were emphasised and performed differently. Company Green's focus on buying brands implies a low focus on the three first phases of the buying process and the focus is shifted directly to the negotiation. On the other hand, Company Blue specifies own products or provides suppliers with an idea, buys samples and then negotiates. Company Yellow mentions that they more or less know about all suppliers in some categories and might set clear specifications and then send request for quotations. Thus, there are some factors affecting the tactical phases, such as buying brands or private labels and supplier market characteristics. Furthermore, it is clear that there are some factors that affect the operational phases. Ordering is centralised at Company Yellow, much because all stores are centrally owned. A well-developed IT-system and a central warehouse also allow them to have an automatic replenishment system. At last, their IT-system facilitates their evaluation and follow-up.

With the previous discussion it is realised that it is hard to depict a general retail buying process in detail with specific activities in each phase. Though, the identified phases are very clear. Seen in a wider perspective the identified phases act as a basis to further develop a more detailed and specific retail buying process. The activities performed by the case companies could more or less be identified in the literature, which imply that literature can provide good suggestions of activities to perform in the different phases. What activities to perform are up to those who work within the buying organisation to decide, and customise the retail buying process to their particular situation.

### 6.1.3 Retail buying skills

When studying buying skills it can be seen that almost all skills mentioned in theory are mentioned by at least one of the case companies in the study. This emphasises that the presented theory has captured what skills that are necessary to have when buying products. However, the findings from this study shows that some skills seem to be more general for all buyers. These skills are for example communication, negotiation, product knowledge, consumer needs/market knowledge, identification of the best supplier/supplier identification and supplier market skills, which are found and emphasised in all case companies. Since these skills are clearly connected to the tactical phases of the buying process that is performed by the buyer, it is not a surprise that these are found and emphasised in the cases.

What the analysis of the cases shows is that there seems to be a relationship between the way of working and skills found in the different cases, which is not odd. Since, if you are very focused on a specific phase in the buying process and are less focused on others, the skill needed to perform the phase in focus is of course more important to have than skills related to other phases, such as quantitative skills for the specification phase. This is strengthened in theory by Kent & Omar (2003) who say that different situations require different focus. Therefore, it seems logical that a different focus emphasises different skills.

Skills that are only mentioned by Company Yellow are logistic skills, which could be connected to their work with a central warehouse. The reason why these skills are mentioned might be that they have had a central warehouse for a long time and have realised that it is of importance for the Category manager to have these skills. As can be seen the Category

mangers at Company Yellow focus a lot on the distribution strategy in the specification phase mentioned by van Weele (2010) and Kent & Omar (2003). This shows that logistic skills are of importance for a buyer to have, since they are responsible for that. Other skills are clearly connected to other phases of the buying process e.g. negotiation skills in the negotiation phase, which makes it questionable why logistic skills are not mentioned in theory, since these skills are clearly needed in the specification phase.

## 6.2 Research question 2 – How are they affected by a central warehouse?

### 6.2.1 Retail buying structure & roles

Within the area of the buying structure & roles three propositions have been developed.

#### Proposition 1

Retail stores keep products in stock and on shelves, and a merchandiser in the buying organisation could be responsible for planning the stock and deliveries to the store (Kent & Omar, 2003; Varley, 2001). The establishment of a central warehouse implies that a new stock point is introduced. Logically this stock also needs to be monitored and replenished as any other stock point. A role responsible for replenishing the central warehouse has not been identified in the theoretical framework. At Company Yellow the establishment of the central warehouses led to an expansion of the buying organisation in terms of a Logistics team. They got the responsibility to maintain stock levels at the central warehouses and to ensure that the stores can be supplied by the central warehouses. Furthermore, they became responsible for the replenishment of products to the central warehouses and the transportation between central warehouse and stores. At Company Blue an Order process manager became responsible for placing replenishment orders to the central warehouse. This leads to the following proposition:

***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.*

Sandström (2014) confirms that the role described in the proposition is important and necessary when having a central warehouse. It is also a role that is not likely to be present before the establishment of a central warehouse. Sandström (2014) explained that within fast moving consumer goods, FMCG, from his time at Unilever, it was often the market responsible that had the buying authority. The market responsible understood the market needs and defined the product that should be available. The decision regarding how much of the products that should be available was made together with the logistics department. The person from logistics decided what quantities to order while the market responsible/buyer decided what to be offered to the market. According to Sandström (2014) it is preferable to keep decisions of what to buy apart from decisions regarding quantities and stock control. The buyer that has selected the product believes that the product will generate great sales. Therefore a more neutral logistician is needed to set-up the logistical parameters. In the retail industry it is often the same person, the buyer, that decides these parameters. This was the case for Stadium as well, where the buyer was responsible for placing orders from the central warehouse to suppliers. This resulted in capital losses and unnecessary large stocks. Even though the buyer was responsible for the stock the centralisation at Stadium resulted in a

decrease in total stock value from 1 billion SEK to 700 million SEK. However, Sandström (2014) believes that the stock could have been decreased even more if more logisticians were present in the buying organisation. According to Sandström (2014) buyers within retail are seldom schooled logisticians, which means that they are unfamiliar with the Wilson formula and Economic order quantity. For example they go to China and buy products, then everything is delivered in large batches instead of continuously throughout the year. While, buyers in the FMCG industry are often more sophisticated, continuous and mathematical when buying products.

It can be concluded that the role explained in the proposition is important to have in a buying organisation when establishing a central warehouse. It is also beneficial for this role to be separated from the buying role who decides what products to be bought. The explanation by Sandström (2014) strengthens the outlined proposition.

### Proposition 2

From the cross case analysis it can be seen that Company Yellow already had a strong central buying organisation responsible for all activities in the buying process before the establishment of the central warehouses. With the establishment of the central warehouses the buying organisation also decided what products to be distributed via the central warehouses. In the case of Company Blue it was noticed that a warehouse requisition plan will be used for some products distributed from the central warehouse, which means that the stores can place orders to the central warehouse for products distributed from the central warehouse. Comparing Company Green with Company Blue and Yellow it can be seen that they do not have the forms of centralised buying as described in the other two cases. For both Company Blue and Yellow products are bought to the central warehouse which are then further sold to each store, which means that someone must be the owner of the products. According to Clodfelter (2013), having a warehouse requisition plan means a risk for the owner of the products since the store is free to select what products to be ordered from the central warehouse. Hence, there could be a risk that products become out-dated, since the stores are not obliged to order them. Therefore, it might be considered more appropriate to have a central merchandising plan when having a central warehouse to make sure that products bought to the central warehouse are displayed and sold in the stores. Having a price agreement plan with suppliers where each store places orders would not be suitable for products distributed via the central warehouse, then it would not be possible to benefit from buying large volumes from suppliers to the central warehouse. From the discussion above the following proposition has been developed:

***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.*

Sandström (2014) says the above outlined proposition is obvious from his point of view. The establishment of a central warehouse emphasises the decision that has been made to centralise the business. The decision making authority is moved from the stores to the central buying organisation, although there exist hybrids. The central warehouse also facilitates the centralisation. However, when the decision to establish a central warehouse has been made

the decision to centralise buying comes natural and vice versa. This leads to a discussion of what happened first e.g. the hen or the egg? It is not always clear what occurred first, the two decisions are intertwined. Before the centralisation strategy and establishment of the central warehouse at Stadium, the stores decided what to buy and regarded themselves as buyers. They were not completely free to decide assortment and there existed some central guidelines, but the stores influence on the assortment pushed the total assortment to around 30 000 different articles for Stadium. Around 50 per cent of the articles at Stadium were common among the stores. When the products were moved into the central warehouse it was obvious that some articles were not efficient to keep. For example it was insane to have an article that was sold 20 times in total in one year distributed over 100 stores. This became obvious with the central warehouse and led to a decrease in the product assortment from 30 000 to around 17 000 articles (Sandström, 2014).

It is apparent from the illustrated examples above that the establishment of a central warehouse and the decision to centralise go hand in hand. A centralisation of the product flow implies a centralisation of buying, if this has not been done prior to the establishment of the central warehouse. It can also be seen that the product assortment is more tightly controlled when having a central warehouse together with the buying of products. This strengthens the outlined proposition that a central warehouse moves the buying organisation towards more centralised controlled buying.

### Proposition 3

With the establishment of the central warehouses it can be seen that the buying organisation at Company Blue and Yellow got more areas of responsibility. At Company Yellow the Logistics team were introduced and the Category managers became involved in distribution decisions and estimation of stock levels. Furthermore, the buying organisation also became responsible of the products stocked at central warehouses. Comparing Company Blue and Yellow with Company Green, shows that their areas of responsibility are different, which proves that the establishment of a central warehouse affects the buying organisation. This leads to the following proposition:

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

According to Sandström (2014) Proposition 3 is obvious. When establishing a central warehouse at Stadium the buying organisation took the responsibility of placing orders away from the stores. This means that the stores no longer had influence over what products to have in their stores. Furthermore, the product assortment was more tightly controlled and the buying organisation at Stadium decided what products to buy, what quantities and when to buy. In addition, the buying organisation at Stadium owns the products bought to the central warehouse, which gives them an even larger responsibility.

As can be seen, the central buying organisation evolves or grows stronger with the decision to establish a central warehouse. The buying organisation became in the case of Stadium responsible for selection of products, how much and when to buy. In addition, they became the owner of the bought products. This strengthens the proposition that the buying

organisation increases in importance and get more areas of responsibility with the establishment of a central warehouse.

### 6.2.2 Retail buying process

Within the area of the retail buying process seven propositions have been developed.

#### Proposition 4

Setting up specifications involve three different specifications according to theory. Specifying the distribution strategy is one of them and involves deciding how to get the products to the stores and the stock policy. The three case companies show differences in how much the specification of the distribution strategy is emphasised. What could be seen is that it is most emphasised at Company Yellow and least at Company Green. This could be explained by that Company Yellow has a central warehouse and centrally owned stores, which Company Green does not have. The decision of whether to distribute products directly to the stores or to the central warehouse comes naturally when establishing a central warehouse and so is the stock policy to use at the central warehouse. This is something the Category manager at Company Yellow is responsible for. Furthermore, the Category manager sets the stock policy at the stores, which can be drawn to that Company Yellow has centrally owned stores. Though, specifying a good stock policy at the central warehouse ought to include an estimation of the sales at the stores and what kind of product availability that needs to be kept at the stores despite what owner structure there is. To summarise, when establishing a central warehouse the physical flow of products can be alternated and it creates a new stock point, which leads to the following proposition:

***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.*

Sandström (2014) provides an example about canoes that highlights the importance of communication but also emphasises the importance of thinking of a distribution strategy, as a retail buyer, when establishing a central warehouse. One morning Sandström, as a logistics manager at Stadium, received a call from the central warehouse telling him that 1100 canoes were just delivered in 40 containers. When he called the buying manager, Sandström was told that they got a good price and took a decision to introduce canoes in the product assortment this season. How to store the products at the central warehouse and distribute these to the stores was not thought of. Sandström wondered how this could be possible, until now they had only handled smaller products like bags, ice-skates and hockey sticks at the central warehouse. However, Sandström (2014) points out that there is usually a good communication between the buyers and the logistics team at the central warehouse.

According to Sandström (2014) the establishment of a central warehouse enables the centralised buying organisation to manage the stock at stores more precisely. However, it requires that the stock is managed the right way and it is important that the parameters such as reordering points and order quantities are thought through. At Stadium, these parameters were set by the buying organisation.

In the example about the canoes, the buyer saw the opportunity to order large volumes to the central warehouse. Though, the products ordered were bulky and the buyer did not think of

how the products should be handled at the central warehouse and distributed to the stores. The example emphasises the importance to think of the distribution strategy when buying products, which can be done in the specification phase. Furthermore, parameters to control the stock were set by the buying organisation and emphasises that the buyers need to think of the distribution strategy at some point in the retail buying process. The above reasoning strengthens the proposition about the increased importance of the distribution strategy in the retail buying process.

#### Proposition 5

From the cross case analysis it can be identified that both Company Blue and Yellow find that the central warehouse has enabled them to come in contact with more suppliers, which could be exemplified with the movement from costly wholesalers to deal more directly with manufacturers. Underlying reasons for the possible change of suppliers are the buying of larger volumes that the central warehouse offers, which qualifies the retailer to deal with other suppliers. Furthermore, the central warehouse creates one point of delivery for the suppliers and enables the retailer to distribute products to their stores by themselves. This means that the retailer is not bound to suppliers that offer distribution to several stores. It can be seen that the central warehouse enables the buying organisation to have more suppliers in mind during the supplier search/selection phase of the retail buying process. This leads to the following proposition:

***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.*

Sandström (2014) says that the number of suppliers that supplied Stadium with the 30 000 articles before the establishment of the central warehouse was very large. With the establishment of a central warehouse the number of articles reduced to 17 000, and the supply base was heavily reduced. Their focus was not to identify new suppliers, but Sandström (2014) says that the buying of larger volumes creates opportunities as stated in the proposition.

The comment from Sandström shows that there is an opportunity to source from other suppliers, but the decision to search for new suppliers still remains and is the decision of the buying organisation. Thus, the proposition is still relevant.

#### Proposition 6

An establishment of a central warehouse changes the flow of goods in the supply chain. With a central warehouse set-up, goods can either be transported to the central warehouse and further on to stores or directly from supplier to each store. This mix of transportation is used by both Company Blue and Yellow. They mention the possibility for suppliers to deliver products to one point of contact instead of many, which reduces the complexity and implies that less transportation resources will be needed to transport the same amount of goods. The less need for transportation resources from the supplier's point of view has made Company Yellow into an easier customer. This has increased their negotiation power and offered a possibility to negotiate the transportation fee that is charged by the supplier. Since negotiation

is the responsibility for a buyer and often includes discussions regarding transportation fees it can be understood that the changed transportation possibilities affect the negotiation and contracting phase of the retail buying process. Furthermore, Company Blue and Yellow mention the opportunities to buy larger volumes when having a central warehouse, which increases their negotiation power even more. This leads to the following proposition:

***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.*

Sandström (2014) explains that before the centralisation at Stadium many thought that “fritt levererat” (Translation: free delivery) meant that the deliveries were free of charge, but it does not. According to Swedish law “fritt levererat” means that the seller has the risk and could be seen as the incoterm Delivery Duty Paid, DDP. After the establishment of the central warehouse it became obvious how much money that was paid for deliveries. Sandström (2014) also points out that if you pay the supplier for deliveries it is almost certain that you pay too much. According to Sandström (2014) the changed power balance stated in the proposition is heavily understated. With the central warehouse in place Stadium was able to take care of the transportation from the central warehouse to the stores. Stadium could easily say that the cost of transporting products the distance from the central warehouse to the stores should be taken away from the price. In some cases it was a tough discussion, but in many cases the supplier had nothing to say. Sandström (2014) also agrees that it became much easier for the suppliers to transport to one single point and in larger quantities each time. In general the total transportation costs in the supply chain is cut in half when establishing a central warehouse.

As described by Sandström (2014) the establishment of the central warehouse allowed Stadium to take care of some part of the transportation between the stores and the supplier. This gave them more control and the opportunity to manage the transportation after their own needs. This made Stadium more powerful and gave them an insight in cost structure of transportation. The fact that they successfully managed to reduce the price from the suppliers is an evidence of the shift in the power balance between Stadium and the suppliers. Thus, the proposed proposition that the power balance in the negotiation and contracting phase is affected can be strengthened.

#### **Proposition 7**

In a supply chain set-up without a central warehouse, generally the order and product flows of replenishments go directly between the stores and the suppliers. When establishing a central warehouse the order and product flows for products that are stored at the central warehouse will change. Orders to replenish the stores are sent to the central warehouse and could be seen as internal orders since the products are supplied from an internal supplier. In addition another kind of replenishment order arises when establishing a central warehouse, which are orders that are intended to replenish the central warehouse. These orders could be seen as external orders since the products are supplied from an external supplier. Regarding the differences in the characteristics of the two replenishment orders, a clear distinction was made by Company Yellow, see Figure 32. Furthermore, at Company Yellow it is the responsibility of two



different teams and has two different processes. For the internal replenishment of stores Ordering has the responsibility and for replenishment of the central warehouses Logistics is responsible.

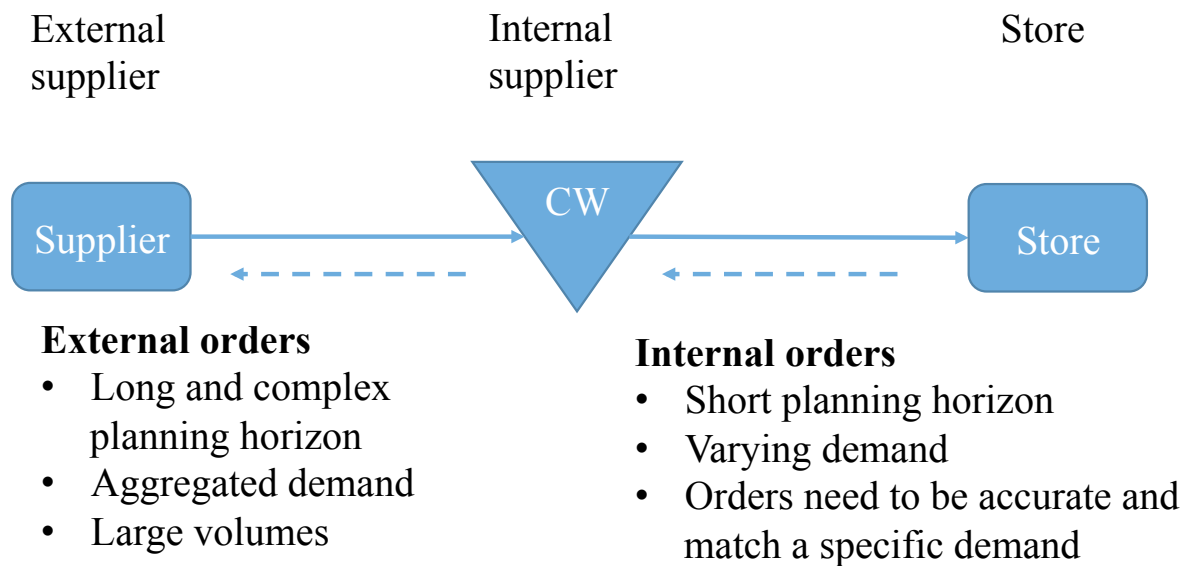


Figure 32: Order and product flow for products stored at the central warehouse

The phases after an order has been sent are the expediting/receiving and evaluation/follow-up phases. To point out, it is likely that there will be a difference in these phases depending whether it is an internal or external order. Company Yellow emphasises the importance that replenishment orders to the central warehouse arrive on time and ought to require more expediting. In addition, Company Yellow points out that different KPI's are in focus between the suppliers and the central warehouse, compared to between the central warehouse and the stores. To summarise, for products stocked at the central warehouse there is a difference between the ordering intended to replenish the stores and the ordering intended to replenish the central warehouse, leading to an internal flow and an external flow of information and products. Furthermore, the phases after ordering; expediting/receiving and evaluation and follow-up ought to be performed differently for internal and external orders. Therefore, it would be beneficial to separate the operational phases, for products that are stocked at the central warehouse, into two flows. The separation of the operational phases is illustrated in Figure 33, and leads to the following proposition:

**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.*

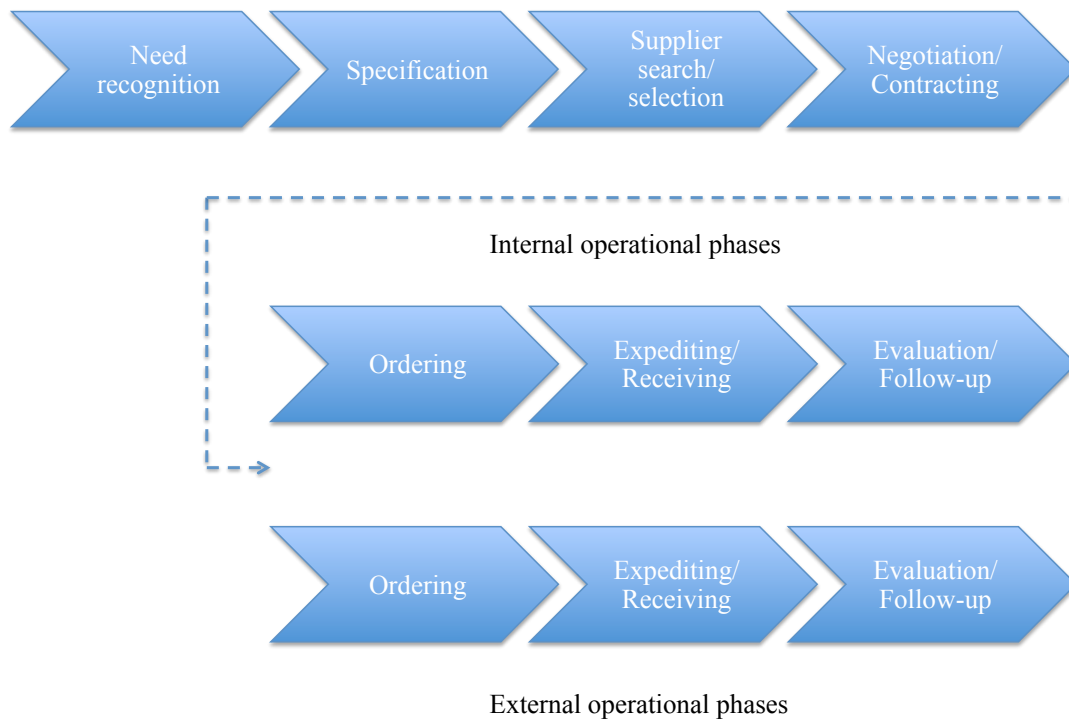


Figure 33: Illustration of the separation of the operational phases for products stored at the central warehouse into two flows

According to Sandström (2014) the supply from the central warehouse to the stores and the supply from suppliers to the central warehouse are two different processes and require separate control. Between the store and the central warehouse small and frequent orders are sent, but between the central warehouse and the supplier larger and less frequent orders are handled. Furthermore, the ownership of the products is changed when handling the orders from suppliers, which demand for better control of deliveries and receiving for external orders. With internal orders there are no change in ownership to the same extent, and it is not a problem if, for example, the quantity of eight was ordered and ten was shipped since the product come in a pack of ten (Sandström, 2014).

As mentioned by Sandström (2014) the establishment of a central warehouse resulted in two different order flows. One flow between the stores and the central warehouse and one flow between the central warehouse and the suppliers. He also emphasises that it is important to separate the control of these two flows. This strengthens the separation of the operational phases into two flows, one internal and one external. Furthermore, the change in ownership in the external flow implies that expediting/receiving and evaluation/follow-up will be different from the internal flow. This also strengthens the separation of the operational phases. The proposed proposition to separate the operational phases into one internal and one external flow is here by strengthened.

#### Proposition 8

A distribution centre has different roles emphasised in theory. One important role is the consolidation role, which is also a role achieved by a central warehouse. The consolidation role means that products can be bought from many suppliers and be consolidated at the central warehouse and then distributed to each store. This offers a possibility for a store to place

consolidated orders with goods from different suppliers. Theory also mentions the aggregation role, which means a central warehouse brings the opportunity to buy larger volumes at one point in time to one point of contact. The larger volumes allow the retail chain company to benefit from economies of scale together with the possibility to break the bulk-orders from suppliers and deliver smaller quantities to the stores. The way of using the central warehouse at Company Blue and Yellow support these roles of a central warehouse. Company Blue says that with a central warehouse the stores do not have to wait until an order reaches a certain volume before ordering and can combine several different products from various suppliers in the same order. Company Yellow says that a central warehouse gives the opportunity to buy large volumes and facilitates the coordination of goods internally, which means that the product from different suppliers can be sent together to each store. This has led to more frequent deliveries with more precise volumes to the stores. In addition, at Company Yellow automatic replenishment is used which ought to be facilitated by having a central warehouse. To summarise, a central warehouse facilitates ordering since smaller orders can be placed and deliveries from several suppliers at once can be done. This leads to the following proposition:

***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.*

Before Stadium had a central warehouse, orders from stores were placed by each store to the suppliers. With the establishment of a central warehouse they removed the responsibility of ordering from the stores and implemented automatic replenishment. Stock level parameters such as min and max levels were set centrally by the buying organisation and orders were automatically sent to the central warehouse. With the central warehouse the storage hold at each store was reduced with 70-80%, which Sandström (2014) says is mostly because of reduced lead times.

Furthermore, Sandström (2014) says that a centralisation and establishment of a central warehouse offers the opportunity to manage the stock held at stores more precisely. Before having a central warehouse at Stadium, the stores could get a delivery from a supplier once a month in best case. Sometimes, they could only get a delivery once or twice a year since the distribution was too expensive. He provides an example about sledges during the winter. Each store ordered e.g. 200 sledges, which were delivered all at once. The winter arrived early in some places and all sledges were sold out immediately. The stores could not order more sledges and transporting sledges from other stores would require special transportation. With a central warehouse it is possible to order a large volume and then let the stores order smaller orders when needed. This also reduces the risk of having out dated products spread out at different stores and increases the service level at each store (Sandström, 2014).

The opportunity to have automatic replenishment, as described by Sandström (2014), indicates that the each store is now able to order/receive what they actually need and imply an increased flexibility in the ordering phase. The reduced stock held at each store could also be an indication of increased flexibility in the ordering phase, since you can now order more often thanks to shorter lead times. Furthermore, the example about the sledges shows that the

establishment of a central warehouse increases the flexibility in the ordering phase and facilitates the control of the stock in stores. The provided examples strengthen the proposition that the establishment of a central warehouse increases the flexibility in the ordering phase.

#### Proposition 9

The expediting of orders to the stores did not differ whether having a central warehouse or not, and was the responsibility of each store at the different case companies. This could indicate that the central buying organisation finds it is hard to see benefits in expediting of orders going out from the central warehouse. Though, the establishment of a central warehouse reduces the number of contact points to perform expediting of orders and reduces the resources needed to perform expediting. For orders going to the central warehouse the expediting was performed centrally at Company Yellow, which indicates that there exists benefits in performing expediting of orders to the to the central warehouse centrally. Considering the receiving of orders, it did not differ much. What Company Blue and Yellow said was that the establishment of a central warehouse facilitates the control of goods such as quality, since it is performed at a single point and that it reduces the risk of getting defect products to the customer. In addition, the stores can focus more on selling than controlling deliveries, which saves time and resources. Company Blue also mentioned that the establishment of a central warehouse facilitates the planning of deliveries better and can adapt the work force more efficiently to handle the receiving of deliveries. Regarding the evaluation/follow-up phase, Company Yellow focus a lot on monitoring the performance of their suppliers. If this is because of the establishment of a central warehouse is hard to say, since it is related to their well-developed IT. This was something they had before the establishment of a central warehouse. Even though, concentrating the contact with supplier to one point ought to facilitate the collection of data used in the evaluation/follow-up phase since it can be done at one point and centrally. This leads to the following proposition:

***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.*

According to Sandström (2014) it is important to check the quality when products are received and that it is not optimal to have a person responsible for quality check at each store. A central warehouse provides the volumes for someone to become a specialist. Especially for new products it is much easier to have a group, located centrally at the central warehouse, which review e.g. the function and quality of the product, the weight, measures etcetera. Furthermore, a central warehouse facilitates the control of the performance of deliveries, e.g. was it on time and was it packed correctly, and communicating it to the suppliers. In this way it is possible to provide statistics and compare the suppliers. Performing expediting/receiving and evaluation/follow-up centrally brings it to another level and secure a professional way of working and quality management (Sandström, 2014).

As identified above the central warehouse provides the opportunity to centralise the expediting/receiving and evaluation/follow-up phases of the retail buying process. In addition, Sandström (2014) emphasises that the centralisation increases the quality and ensures

proficiency of the work. This strengthens the outlined proposition that the establishment of a central warehouse facilitates the expediting/receiving and evaluation/follow-up phases.

#### Proposition 10

When establishing a central warehouse the physical flow of products stored at the central warehouse is divided, so is the information flow. Furthermore, the central warehouse creates more physical transactions such as receiving, put away, storing, retrieving and sending of goods, but will also create more transactions of information. In order to coordinate and keep track of what is happening, an IT-system ought to be in place. Company Blue mentions that their IT-systems needed to improve with the establishment of the central warehouse. Though, Company Yellow said that their IT-level was already satisfying before the establishment of the central warehouse. What Company Yellow could say, is that without a well-developed IT-system it would certainly be harder to keep track of everything. Therefore, it could be said that the need for a well-developed IT-system will likely increase when establishing a central warehouse.

Theory discusses that the advantages of IT is more clear in operational activities since there are a lot of operating options and that information is more quantitative. What could be seen is that at Company Yellow, who has a well-developed and utilised IT-system, the ordering phase is more or less automatized and the expediting can be done live. In addition, receiving can be done with handheld scanners and information used for evaluation/follow-up could be gathered automatically and used with little processing. Thus, the operational phases are likely to be affected when establishing a central warehouse, since the need for a developed IT-system is increased. This leads to the following proposition:

***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.*

Sandström (2014) emphasises the need for a well-developed IT-system when establishing a central warehouse. He even points out that it is not worth to centralise the physical flow if there is no well-developed IT-system. The establishment of a central warehouse is a strategic decision, so is the investment in an IT-system. Furthermore, he says that it is beneficial to have a centralised IT-system, not divided into several independent systems. At Stadium they were able to view the orders from the stores, the stock level in each store, orders from central warehouse to supplier and stock level at the central warehouse in the same system. This was an advantage compared to many competitors. With the well-developed IT-system Stadium was able to have automatic replenishment and store/access information about supplier performance (Sandström, 2014).

What has been told by Sandström (2014) strengthens the proposition about the increased need for a well-developed IT-system, but also points out that activities in the operational phases are affected. Thus, the proposition can be strengthened.

### 6.2.3 Retail buying skills

Within the area of the retail buying skills one proposition has been developed.

#### Proposition 11

When asking Company Blue and Yellow whether the establishment of a central warehouse affect the skills needed as a buyer they could not point out any special skills. What can be seen from the cross case analysis is that the Category managers at Company Yellow are involved in the decision whether products should be distributed via the central warehouse or not. Furthermore, they are involved in estimating stock levels to be held at the central warehouse. Selection of how to distribute products and setting stock levels are clearly linked to the work of a logistician, which requires logistics skills. Comparing with Company Green, who does not have a central warehouse, these skills are not emphasised and necessary. They do not have the choice whether to distribute their products via a central warehouse or not and neither set stock levels. This leads to the following proposition:

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

Sandström (2014) describes that historically there has been a lack of logistics skills in retail. The buyers have often been good at selecting what products to have. However, they have lacked the skill and knowledge of setting stock levels and quantities to be ordered. Often their emotional attachment to the selected products has affected these decisions. Sandström (2014) points out that it is not obvious that setting stock levels and order quantities should be the responsibility of the buying organisation. The central warehouse can be seen as a powerful tool and it is of importance that someone acquire the skills and knowledge of how to fully utilise it. Sandström (2014) emphasises the importance for a buyer to understand the logistics consequences of their actions. The lack of understanding of logistics can be illustrated by the canoe example at Stadium in proposition 4, where the buyer ordered 40 containers of canoes, never handled before and delivered at the same time to the central warehouse. This created difficulties in terms of storage and handling of the products at the central warehouse.

The above comments from Sandström (2014) make it clear that logistics skills would be beneficial for a buyer to have. Even though the buyer might not be responsible for setting stock levels and order quantities, logistics skills would be beneficial, since the buyer will affect logistics. Therefore, the establishment of a central warehouse is considered to increase the need for logistics skills as a buyer and the proposed proposition can be strengthened.

## 7 Conclusion

*In this chapter the findings of this report are presented to answer the research questions connected to the purpose of this study. The research questions are answered in consecutive order. After the research questions are answered theoretical contribution and future research areas are presented. The chapter ends with a presentation of limitations.*

As stated in the introduction chapter the aim of this study was to *investigate how the retail buying organisation is affected by an establishment of a central warehouse*. To be able to understand the effects of a central warehouse deeper knowledge about the retail buying organisation was required. From the purpose the following research questions were formulated:

**Research question 1:** *How do the buying structure & roles, buying process and buying skills look like in the retail buying organisation?*

**Research question 2:** *How are they affected by a central warehouse?*

### 7.1 Research question 1

#### 7.1.1 Retail buying structure & roles

The studied case companies show 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 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 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. An illustration of the buying organisation is seen in Figure 34.



Figure 34: Illustration of roles in the buying organisation

### 7.1.2 Retail buying process

Buying activities identified at the case companies could to a great extent be mapped by the retail buying process identified in theory, which shows that this is a suitable process to describe retail buying, see Figure 35. The buying activities performed in each phase are not always consistent between the case companies, which make it hard to tell exactly what activities to be performed in each phase. Some phases are 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. From the studied cases it is shown that the theoretical framework developed in this study exemplifies what activities that can be performed in each phase of the retail buying process and can work as a baseline for the detailed development of each phase.

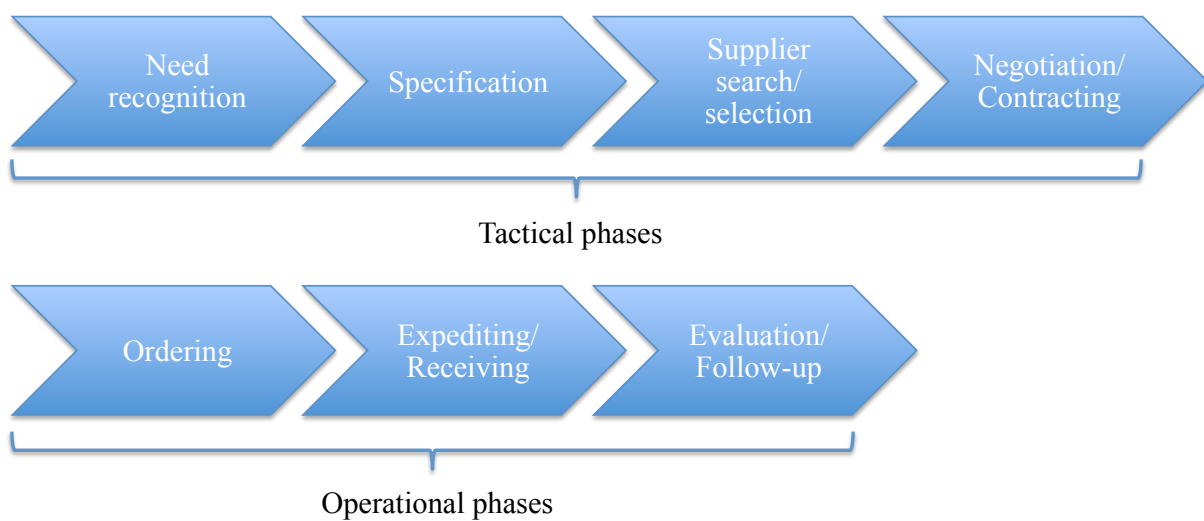


Figure 35: The retail buying process

### 7.1.3 Retail buying skills

In the theoretical framework various skills needed as a buyer was identified and in the case companies some of these skills were emphasised by all case companies and can be considered as general buying skills, see Figure 36. Furthermore, the case study shows that needed skills are dependent on the work performed and what focus or emphasis there is on certain activities.

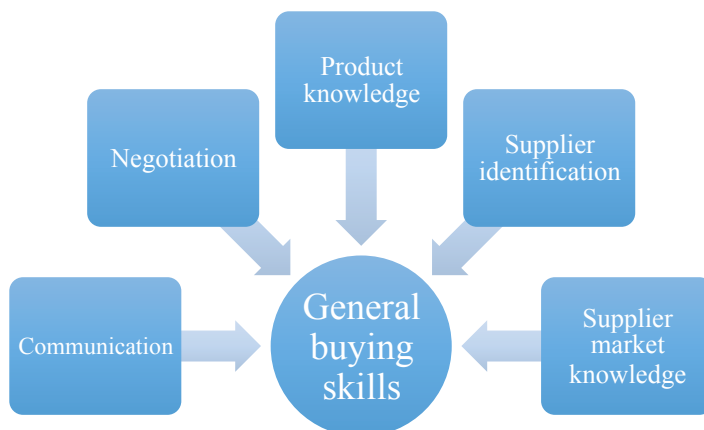


Figure 36: General buying skills



## 7.2 Research question 2

In total 11 propositions have been developed that demonstrate how the retail buying organisation is affected by the establishment of a central warehouse. Figure 37 shows an overview of what propositions that are connected to the three main areas of this study.

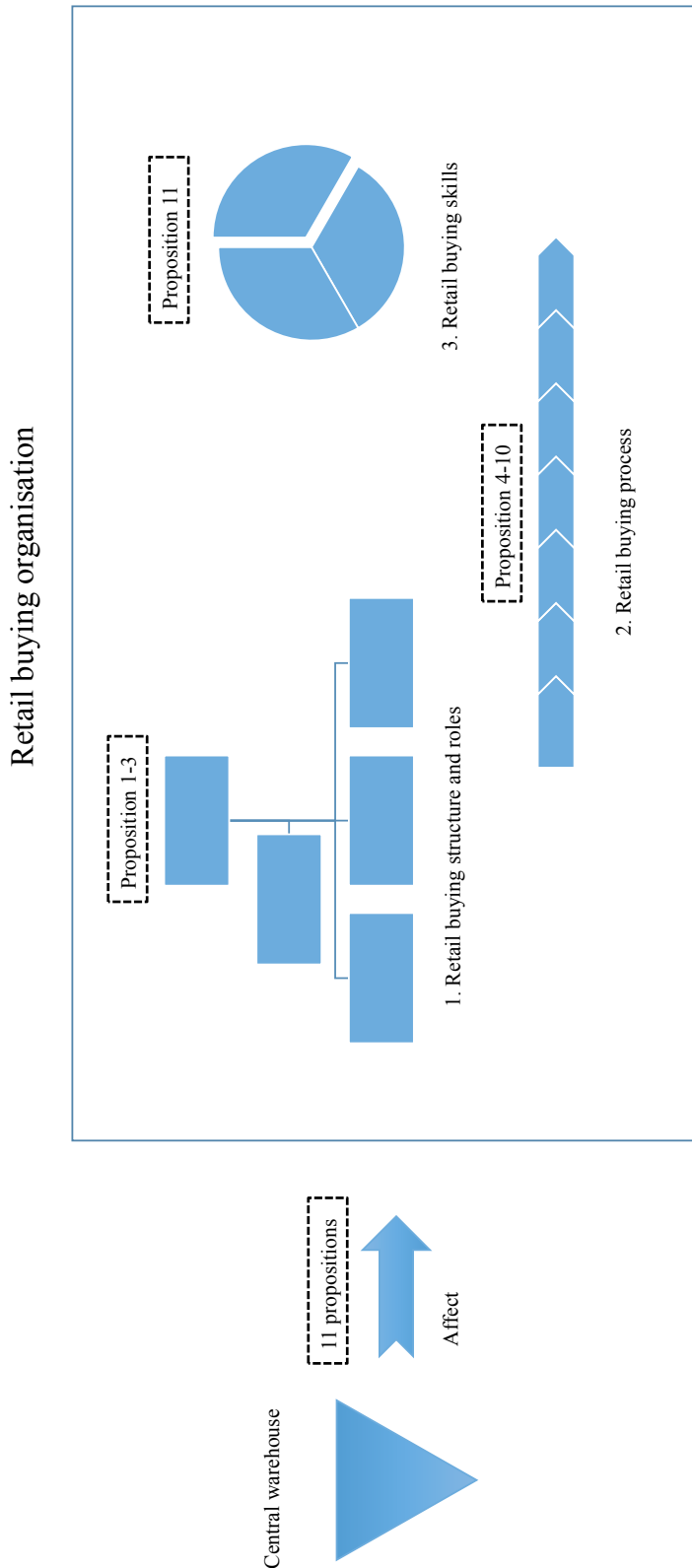


Figure 37: Overview of the effects of a central warehouse illustrated in the conceptual model

### 7.2.1 Retail buying structure & roles

Proposition 1-3 describe how the establishment of a central warehouse affects the retail buying structure & roles. The propositions are presented below:

**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.*

### 7.2.2 Retail buying process

Proposition 4-10 describe how the establishment of a central warehouse affects the retail buying process. In Figure 38, each proposition has been placed under the specific phases it concerns. What can be seen is that all but one phase in the adapted retail buying process is affected. The phase where no affect could be identified was the need recognition phase. The developed propositions are presented below:

**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.*

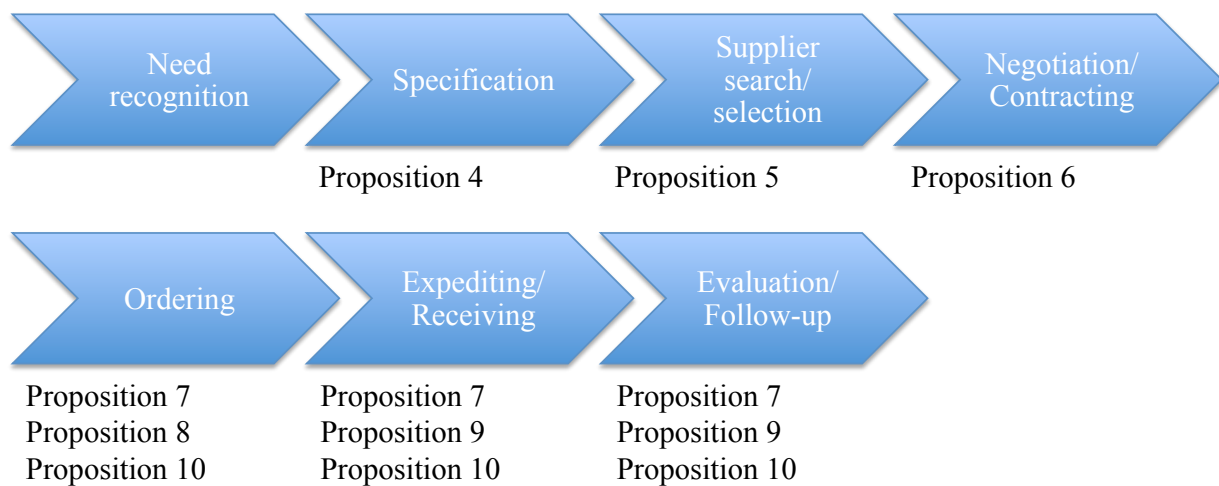


Figure 38: Summary of how the propositions are connected the different phases of the retail buying process

### 7.2.3 Retail buying skills

What can be seen from the cases is that the buying skills identified in theory are not clearly affected by the establishment of a central warehouse. However, it can be concluded that the need for logistics skills are increased, which has resulted in the following proposition:

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

## 7.3 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. Therefore, the authors have collected relevant literature related to the retail buying organisation and the function of a central warehouse in the retail industry. The presented theory in the theoretical framework has been used in combination with the empirical data from the case studies to understand how a retail buying organisation looks like. With this knowledge, the authors have 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. These 11 propositions are by themselves 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 authors have managed to organise fragmented theory about retail and retail buying into a retail buying process, with the support from theory related to industrial purchasing. In addition, this study has gathered empirical data about retail buying, which has strengthened that retail buying can be studied as a process with seven different phases.

## 7.4 Managerial contribution

Through this study 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 emphasise their relevance when managers are facing an establishment of a central warehouse.

In this study relevant theory has been gathered to understand the retail buying organisation in the three main areas: buying structure & roles, buying process and buying skills. This theory can help managers to get a deeper understanding and help them in their future work. Especially the theory about the retail buying process can work as a baseline for further work and help managers to organise buying activities and create a holistic understanding of their buying. The retail buying process will provide better control of what phases and needed activities to perform, and who does what and when. In addition, this study provide managers with information of how different retail companies work with buying, which could be seen as a source of inspiration.

## 7.5 Future research

### More similar studies

From this study it has been seen that the retail buying organisation is affected by a central warehouse. The presented propositions can be used as a guideline for future research within this topic. 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. Furthermore, a longitudinal study of Company Green could be of interest.

### Is Logistics a part of the retail buying organisation?

Another interesting finding is that logistics can be a part of the retail buying organisation. This 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, however it is an interesting area for future research.

### Investigate the level of centralised buying in retail chain companies

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 companies in the Swedish retail industry and whether it can be classified as a price agreement plan, warehouse requisition plan or centralised merchandising plan.

### Investigate factors that affect the retail buying process

It has been seen that the phases of the retail buying process are not only affected by the central warehouse, other factors also affect such as 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.

## 7.6 Limitations

The limited research on the studied subject made it hard for the authors to point out different areas of how the retail buying organisation could be affected by the establishment of a central warehouse. The focus of this study has been the effects on the buying structure & roles, buying process and buying skills, which were areas that Company Green was interested in.

Since the study has been limited to these areas all effects on the retail buying organisation might not have been captured.

The authors of this report are also aware of that the findings of this study are affected by the number of participating companies and their experiences with a central warehouse. For example Company Yellow is the only company with long time experience of a central warehouse. The findings from the study would likely have been stronger and more extensive if more companies with long time experience of a central warehouse had been included. The authors of this report have struggled to include more companies in the study, unfortunately no other participants have been found. To partly solve this issue the suggested propositions of how the retail buying organisation is affected by a central warehouse were discussed with an experienced logistics consultant.

Lastly, the authors found it hard to investigate the retail buying skills and the questions around this area became more unstructured than semi structured. Important skills was mentioned by the interviewees, but was from their point of view and quite subjective. In addition, the authors tried to identify skills related to their way of working, which is also considered subjective. To summarise, it was hard to be objective in the area of retail buying skills.



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## Appendix

Below the interview guide that has been used in the data collection phase of this study can be found. The interviews were conducted in Swedish, but since the report is written in English, a translated interview guide together with the original interview guide are shown. The translated interview guide is first presented followed by the Swedish interview guide.

### Appendix 1 - Interview guide in English

#### Interview guide

Name: \_\_\_\_\_ Time at the company: \_\_\_\_\_  
Age: \_\_\_\_\_ Company name: \_\_\_\_\_  
Working position: \_\_\_\_\_ Date: \_\_\_\_\_

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#### Background for this study

Our names are Richard and Sebastian and we are two students from the Industrial Engineering programme, Lund University. We are currently doing our master thesis at the division of Engineering logistics. The purpose of the master thesis is to investigate how the retail buying organisation is affected by the establishment of a central warehouse. We are grateful for your participation in this study and that you share your knowledge and work within the buying organisation

The interview is divided in the following parts:

- Introduction
  - Organisation
  - Retail buying organisation
  - Retail buying process
  - Skills and knowledge
  - Information systems in the retail buying organisation
  - Central warehouse
- 

#### Introduction

Introduce yourself and explain shortly about your career.

---

#### Organisation

Give a short introduction of the company.

- How is the owner structure?
- How many stores?
- Organisational structure (organisational chart?)

Are there any pros and cons with how the organisation is run today?

- What works well/bad?

---

## **Retail buying organisation**

How are you organised in the buying organisation?

- Roles
- Responsibilities

Are there any pros and cons with today's buying organisation?

- How do you measure if it works well or bad?
- 

## **Retail buying process**

Describe the buying process.

- What activities are executed?
- How are the activities executed?
- What is the reason for having the activities?
- Where in the retail buying organisation are the activities performed and by who?

Are there any pros and cons with the current retail buying process?

- How do you measure if it works well or bad?

Does the retail buying process differ between different kinds of buying situations?

- Low/High volume product
  - New/Existing product
  - Supplier dependent
- 

## **Skills**

What knowledge is needed to execute the retail buying activities identified above? *For example Market knowledge*

Which skills are needed to execute the retail buying activities identified above? *For example computer skills and analytical skills*

---

## **Information systems in the retail buying process**

Which IT-solutions are used to store/share the information?

What kind of information is shared in the retail buying process and with whom (internally/externally)?

What kind of sources of information are used in the retail buying process?

How is the information used and shared?

---

## Central warehouse

If the interviewee has a central warehouse:

- For how long have you had a central warehouse?
- Why do you have a central warehouse?
- Are there pros and cons with having a central warehouse?

Has the buying organisation been affected by the introduction of the central warehouse?

- Has there been added/disappeared?
    - Responsibilities
    - Roles
    - Activities
      - Who and where in the organisation are these activities performed?
    - Skills and knowledge?
  
  - Has the buying organisation been affected in another way?
-

## Appendix 2 - Interview guide in Swedish

### Intervjuguide

Namn:

Tid på företaget:

Ålder:

Företagsnamn:

Arbetsposition:

Datum:

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### Bakgrund till studien

Richard och Sebastian heter vi och läser Industriell Ekonomi vid Lunds Universitet. Vi genomför ett examensarbete vid avdelningen för teknisk logistik. Syftet med examensarbetet är att undersöka hur inköpsorganisationen påverkas vid införandet av ett centrallager. Vi är tacksamma för ert deltagande i studien och för att ni delar med er av er kunskap och arbete inom inköpsorganisationen.

Intervjun är uppdelad i följande delar:

- Introduktion
- Organisationen
- Inköpsorganisationen
- Inköpsprocessen
- Färdigheter och kunskaper
- Informationssystem i inköpsorganisationen
- Centrallager

---

### Introduktion

Berätta lite kort om dig själv och om din tid på företaget.

---

### Organisationen

Berätta kort om företaget.

- Hur ser ägandestrukturen ut?
- Hur många butiker finns det?
- Organisationsstruktur (organisationsdiagram?)

Finns det för och nackdelar med hur det är styrt idag?

- Hur ser ni att det fungerar bra/mindre bra?

---

### Inköpsorganisationen

Hur är ni organiserade inom inköpsorganisationen?

- Roller
- Ansvarsområden

Finns det för och nackdelar med nuvarande inköpsorganisation idag?

- Hur mäter ni för att se om det fungerar bra eller mindre bra?

---

## **Inköpsprocessen**

Beskriv hela inköpsprocessen

- Vilka aktiviteter utförs?
- Hur utförs de?
- Varför utförs de?
- Var i inköpsorganisationen och av vem utförs de?

Finns det för och nackdelar med er inköpsprocess idag?

- Hur mäter ni för att se om det fungerar bra eller mindre bra?

Skiljer sig inköpsprocessen mellan olika typer av inköpssituationer?

- Låg/Högvolym produkt
- Ny/Existerande produkt
- Leverantörsberoende

---

## **Färdigheter och kunskaper**

Vilka kunskaper krävs för att utföra de inköpsaktiviteter som identifierats ovan? *Exempelvis kunskap om marknaden.*

Vilka färdigheter krävs för att utföra de inköpsaktiviteter som identifierats ovan? *Exempelvis datorvana och analytisk förmåga.*

---

## **Informationssystem i inköpsorganisationen**

Vilka IT-lösningar används för att lagra/dela informationen?

Vilken typ av information delas i inköpsprocessen och med vem (internt/externt)?

Vilka informationskällor används i inköpsprocessen?

Hur används och delas information?

---

## Centrallager

Om den intervjuade har ett centrallager:

- Hur länge har ni haft ett centrallager?
- Varför har ni ett centrallager?
- Finns det för och nackdelar med att ha ett centrallager?

Har inköpsorganisationen påverkats sen ni införde ett centrallager?

- Har det tillkommit nya/försvunnit?
    - Ansvarsområden
    - Roller
    - Aktiviteter
      - Vem utför och var i organisationen de utförs?
    - Förmågor och kunskaper
  - Har inköpsorganisationen förändrats på något annat sätt?
-



