

Total Cost of Purchasing at Duni AB: Development of a Cost Model

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Professional purchasing should look beyond the purchase price and include more aspects in order to take strategic purchasing decisions. Aligning purchasing to the corporate strategies will play an important role for achieving business results.

This is what the sourcing team within Duni Meal Service had in mind for this project. Instead of only focus on getting the lowest purchase price possible they wanted to broaden their purchasing cost perspective. Therefore the purpose with this thesis was to develop a cost model that Duni Meal Service can use in sourcing and economic life cycle decisions, showing a holistic view of the total cost of purchasing.

To fulfill this purpose, a purchasing cost model was created. The cost model will provide the sourcing team within Duni Meal Service with information about the total cost of a purchase. The model will calculate the total cost based on a number of input parameters filled in by the users. By altering these input parameters the user will see how the total cost vary. Thus, the cost model can for example be used to compare two potential suppliers. Given their different offers, the cost model will show how the total cost will differ between them.

By comparing the total cost with the sales estimation, the cost model will also give a direct indication on whether the deal is profitable or not. Moreover, the sourcing team within Duni Meal Service will now have a tool in hand to support purchasing decisions. The cost model will also make sure they make these decisions based on a holistic view of the cost situation, being aware of potential trade-offs.

The information provided by the model can also be used to take economic life cycle decisions on already existing products in the assortment. The cost model will show if a product is profitable or not and thus, support a decision about phasing out a product from the assortment. Other actions for a non-profitable product could be to increase the sales price or reduce the cost in potential areas.

Regardless of what actions Duni Meal Service will take on the outcome, the cost model brings transparency. Together with the holistic view of the true cost situation the cost model will hopefully help to increase the cross-functionality at Duni as well. The users of the cost model will gain better understanding for how their decisions affect other parts of the supply chain, and thereby other departments at Duni. That awareness will probably improve the collaboration and that will in turn increase the employees' knowledge for the holistic picture. With gained knowledge and better communication the cross-functional work will be improved. The conclusion is that the cost model will help to increase the cross-functional work, but that will in turn have a positive impact on the outcome of the cost model. This virtuous circle will benefit the employees to make the most suitable decisions for the whole organization.

In order to develop a purchasing cost model suitable for the needs at Duni, empirical data was gathered through an interview study. The interviews were held with several employees within different departments at Duni. By spreading over a wide range of information sources, the aim was to get a holistic perspective on the situation and issues of today. Theoretical knowledge was also gained by searching through existing literature within the fields of purchasing management, contextual aspects and measuring of purchasing performance. Literature regarding cost management, and in particular purchasing cost models, was also examined. Four, already existing, purchasing cost models were studied and included in the theoretical framework. These were Total Cost of Ownership, Activity-based Costing, Landed Cost and Life-cycle Costing. The theoretical framework lied as a foundation for the continued study but also for the analysis of the empirical findings. When analyzing the findings at Duni with the theory, we found out that the cost model developed specifically for Duni also could be seen as a limited landed cost model.

In order to validate the cost model four separate workshops were held with users and other stakeholders, where it was tested and evaluated. Furthermore a sensitivity analysis was conducted, making sure that the cost model was built correctly.