How to make buying processes more efficient –  
a study at Rottneros AB  
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Lund 2007

To be able to offer a competitive selling price to its customers and to defend its position in an increasingly competitive market, a company continuously needs to review its routines and costs associated to purchasing. It is imperative to have efficient purchasing processes to gain competitive buying prices. Many companies use centralized corporate purchasing for key products and services, since that often provides a short cut to lower prices. Today Rottneros AB has coordinated its purchasing of electricity, wood and chemicals. To further cut costs and save money the company wants to make use of its buying power to a larger extent in other areas.

Company presentation  
Rottneros AB is a world-leading producer and supplier of high quality market pulp, i.e. pulp that is sold on the open market, in contrast to pulp produced with integrated paper production. The company dates back to the 1600’s and today’s corporation is the result from a number of acquisitions. The corporation consists of the parent company Rottneros AB and the subsidiary companies Rottneros Rockhammar AB, Utansjö Bruk AB and Vallviks Bruk AB.

Problem and purpose  
The present situation in the purchasing organisation at Rottneros AB includes costs related to purchasing with substantial potential to be cut. In earlier purchasing projects the company has discovered great potentials to reduce costs and to make purchasing more effective through coordination. To cut costs and to increase the competitiveness a coordinated and effective purchase function where the company can benefit from the company’s full buying power will be necessary. The problem to be answered in this paper is how to improve and make the purchasing processes more efficient at Rottneros AB.

The purpose of the master thesis is to investigate the purchasing areas defined as Supply/Necessities and Services/Contractors. Within these specific areas we want to identify methods and ways of working that can reduce the company’s total costs related to the purchase as a total and also improve the purchasing organisation.

Method  
To answer the question above, literature studies have been conducted in order to identify thoughts, theories and models that can contribute to more efficient purchasing. Furthermore, other companies that face similar questions have been studied, in order to identify a best practice that can be applicable on Rottneros’ purchasing organisation.

Theory  
The theory presented in the thesis aims at creating a basis for understanding the purchasing area. It also aims at giving a fundamental and sufficient understanding for the coming analysis and conclusions.

The buying process  
To analyse different purchasing areas, van Weele’s model of the purchasing process has been used throughout the report. According to van Weele the buying process can be seen as a chain of activities that begins by specifying the need of a product/service and ends with receiving the product/service and evaluating the process. The intermediate steps in the process are to specify the product/service need, choose a supplier, negotiate and contract, develop order process and order and to monitor the delivery and reception.

Organisation  
According to van Weele, the organisational location of the purchasing function is strongly affected by the
management’s view of purchasing. If purchasing is seen as a purely operational function it will be placed relatively low in the organisational hierarchy. However, if the management admits the importance of purchasing and considers it a strategically important function, the purchase will probably be located higher in the organisational hierarchy. Rottneros AB clearly needs a more competitive purchasing organisation and a number of ways to organise the purchasing activities are presented in the thesis. Basically, purchasing could either be organised centralized, decentralized or in combinations of the two.

Centralized structure
In this type of structure purchasing specialists are working on a strategic and tactic level. Decisions concerning product specifications, supplier selection negotiations and contracts are typically taken at a central level, often in cooperation with R&D. The contracts are often conclusive for many years ahead and contain general and specific conditions as well as agreements for the purchase. The operational part of the purchase, governed by the corporate contract, is subsequently done by the local purchaser in the subsidiary company.¹

Decentralized structure
The basic idea with the decentralized purchasing structure is that purchasing is such an integrated part of the activities in a specific production unit that it could not be carried out centrally. The distance between those who purchase and the persons using the acquired product/service will be affected of the purchase and would be far too long with a centralized structure. In this structure purchasers need to be more general and possess a wider knowledge within purchasing.

Pooling structure
The pooling structure can be seen as a combination of a centralized and decentralized purchasing structure. This concept includes focused strengths to coordinate material needs from two or more units in order to leverage the company’s full purchasing power and thereby reduce the total costs and/or to improve the services from the suppliers. Many types of pooling structure can be found; however, in this case the structure includes distribution of responsibility for each of the purchasing areas to the buyers in the subsidiaries.

Measurements
The performance of the purchasing function can be measured quantitatively in order to initiate a discussion about the purchasing function. To measure purchasing often means that effectiveness and efficiency are quantified from historical data.

Four major beneficial areas have been identified from systematic measurement of purchasing:²

- Evaluation of the purchasing performance can lead to better decision making because the deviations from planned results are better identified. These deviations can later be analysed to prevent future occurrence.
- Measurements can lead to better communication with other units within the company. Payment procedures and the mutual understanding between the purchasing department and the administration department can be improved.
- Measurements make things more visible. Regular reporting of actual results compared to planned result makes it possible to verify that the expected result is achieved. This will provide constructive feedback to the purchaser and at the same time provide information to the management regarding the activity of the group/person and their contribution to the purchasing department and the company.
- Measurements can lead to better motivation. Well designed measurement systems can be used to set constructive targets and motivate the purchasers.

Case studies
Many companies face similar questions as Rottneros AB within the purchasing area. Scientists have also done extensive studies where they have tried to identify different ways of work and methods that have been successful for companies in various lines of business. In the case studies’ chapter we examine how other companies work with centralization, coordination and other methods to reduce cost associated to purchasing. Examples of learning from these studies include:

- work closely with your suppliers,
- focus on the total cost,
- share information within the company,
- use suppliers that contribute to your success.

Conclusions
Considering that Rottneros’ four Swedish units have been managed independently with rather limited group efforts regarding purchasing, we imply that the corporation should be unified and to a larger extent cooperate as one company, in order to leverage from the potential buying power. Through a closer cooperation, the knowledge within different areas will be increased. This will favour the buyers within the corporation in e.g. negotiations and can result in lower buying prices. Furthermore, we think that Rottneros can reap significant advantages by organising purchasing in a pooling structure. This pooling structure will be the result of the divided and

¹ van Weele (2002): Purchasing and supply chain management – Analysis, planning and practice, p. 239
² Ibid, p. 256
distributed responsibility for each of the corporation’s purchasing areas to the buying managers. The responsibility of each buyer will include development of their respective area regarding supplier revision, identification of new ways to work in, identification of innovations and to develop and maintain the part of the knowledge bank included in the purchasing area.

By giving the former central purchasing manager a new role where he or she will be the gathering and unifying force for the entire purchasing organisation within Rottneros, we believe that the organisation will come one step further in order to reach the objective of effectiveness and optimization the company strives for. The work of the purchasing manager will also include the strategic part of the purchasing processes which enables the company to meet future competition in a better way. This person will therefore also be responsible for driving the development forward to further improve the purchasing processes within the corporation.

Internal benchmarking
Since our opinion is that Rottneros should be unified and cooperate to a larger extent, we think this will be facilitated if purchasing processes and routines are more standardized between the units. Besides getting inspiration from external businesses the management of Rottneros should also search within its own organisation to find superior processes. By finding the best internal practices and then implementing it in the other units, we think that a indisputable streamlining can be achieved.

The knowledge bank
The buyers’ vast experiences should be preserved in a structured knowledge bank to secure future survival of the knowledge. This will support the daily work and will be available for future co-workers to easily be brought into the company’s daily operations. In the knowledge bank information regarding suppliers, contracts and agreements, routines for new supplier cooperation, problems and ideas etc., will be stored; this will enable fast and efficient distribution of information. With a fully functional knowledge bank duplication of work can be avoided to a larger extent and that will result in a more effective purchasing.

The knowledge bank should also be a forum where purchasers and other involved employees can find and compare information between Rottneros’ units. The forum could also be a tool to support qualitative decision making, to enhance business intelligence as well as a place where the opportunity to influence purchasing is given. The knowledge bank should also provide a clear overview of the purchasing and give the buyers the opportunity to evaluate and improve coordinated purchasing between the units.

Recommendations
To make the cooperation within the purchasing organisation efficient and profitable it is essential to introduce a joint data system. This will be the first step towards an effective, efficient and competitive purchasing organisation within Rottneros. A recommendation we think that Rottneros ought to initiate as soon as the data system is installed, is to split the purchasing work into a pooling structure to make sure that the development is progressing in every purchasing area. While the responsibility for the purchasing areas is distributed, knowledge must be gathered to make sure that the buyers are up to date within their area. For this reason the development of the knowledge bank should be ongoing while the pooling structure forms. Simultaneously we think it is important to strengthen the role of the central purchasing manager to make this person the champion that the purchasing organisation within Rottneros needs.

When these steps are taken the work is anything but done. To make sure that the development within these areas never stops, it is important to continuously give these issues attention. By performing internal benchmarking and comparing the internal processes between the subsidiaries, the company can use the best processes found to form the purchasing function. When the work and the processes are more uniform throughout the corporation, measurements can be carried out to visualize the performance of each of the subsidiaries (but also to competitors).

Acknowledgements
We would like to thank Rottneros AB and the purchasers at the different production units, Gunilla Bergström, Stefan Larsson, Monica Lindahl and Erik Särnmark for letting us in to their world and made it possible to get the necessary information and understanding to carry through the thesis. A special thank to our supervisors Roger Persson at Rottneros AB and Robert Lindroth at the Department of Industrial Management and Logistics, LTH, for the encouragement and useful feedback and most of all for their sympathetic and helpful attitude during the entire way.

Many thanks also to the director of human resources at Rottneros AB, Jan Holm, who gave us the opportunity to conduct our master thesis at Rottneros AB.

Reference