

MASTER

Purchasing synergy through transparency and strategy at Royal Wessanen

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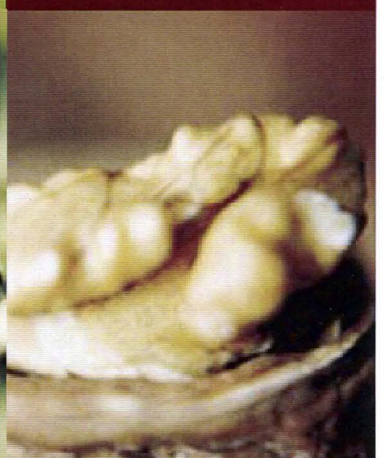
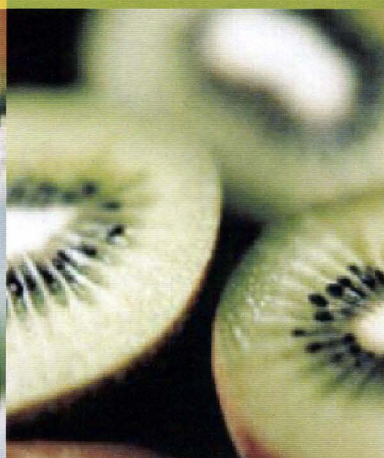
Final Thesis

Purchasing Synergy through Transparency and Strategy at Royal Wessanen

Sjuul van der Leeuw

April 2007

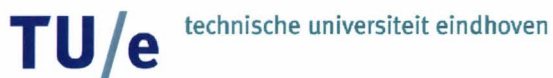
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Abstract

This thesis describes the development of a corporate Purchasing Process to control the purchasing function and identify purchasing opportunities at Royal Wessanen. The objective of the process is to monitor the purchasing organization and purchasing status, and periodically review the purchasing strategies for the different product categories. Therefore, a design of purchasing transparency is made to monitor the purchasing function and identify synergy and saving opportunities. Next, a purchasing strategy development process is designed to support the opportunities. Combined, these two designs form the requested corporate Purchasing Process.



Preface

This report describes the results of my graduation project carried out at Royal Wessanen in Utrecht and at the Eindhoven University of Technology. This graduation project is the final phase of the Industrial Engineering and Management Science master's program and is performed at the sub department Organization Science and Marketing.

Opportunities. These were not only what Royal Wessanen was initially looking for in their purchasing function, but also what they provided me with for my professional and personal development during the last months. I gained valuable knowledge and experiences in practice and learned how to combine these with academic literature. This resulted in a designed solution suitable for Royal Wessanen. Their intention to control the purchasing function from a corporate level and to find saving opportunities in the decentralized purchasing function, turned out to be a very inspiring challenge for me. Cooperation was always apparent for them and this stimulated my existing enthusiasm for purchasing and motivated me to maximize my efforts for the best result.

Therefore, I would like to thank all my colleagues at Royal Wessanen and the subsidiaries for their willingness to provide me with an insight in their daily business and an understanding of all its (in)feasibilities. I also appreciate their cooperation during the development and implementation of the project design immensely. Especially, I want to express my gratitude to Fons de Vries and Geert Reynders for making this internship possible, for their continuous support during this project as well as their interest and efforts for my academic and practical work.

I would like to thank my university supervisors, Prof. Dr. A.J. Van Weele and Prof. Dr. Ir. M.C.D.P. Weggeman for their support during this study. Their comments helped me highly to improve the quality of this thesis. I also appreciate the cooperative activities of the "Afstudeerkring" (Purchasing Graduate Circle), which assisted and motivated me during the project.

This thesis describes the development of a Purchasing Process to control the purchasing function and identify purchasing opportunities at Royal Wessanen. The objective of the process is to monitor the purchasing organization and purchasing status, and periodically review the purchasing strategies for the different product categories on a corporate level. Therefore, a design of purchasing transparency is made to monitor the purchasing function and identify synergy and saving opportunities. A purchasing strategy development process is designed to these initiatives.

Accepting this challenge of course has had its repercussions on my private life. I can happily say that the support from my friends, sister and parents in particular, has always been present. Finally, I would like to thank Claudia for always encouraging me, her traveling between Eindhoven and Utrecht and the corrective and critical eye for detail in this report.

Without further ado, I present the findings of this academic challenge. I hope you will enjoy it and find it to be valuable. I certainly did.

Sjuul van der Leeuw



Executive Summary

Royal Wessanen

Royal Wessanen is a multinational food production, trading and distribution company based in the Netherlands, which operates in European and North American markets. Royal Wessanen is specialized in identifying, developing and distributing premium foods that are authentic and true to their origins. Royal Wessanen has 16 subsidiaries that produce own brands at suppliers or partners, have an (exclusive) distributive function to the retail market and/or include plants that produce one or more own brands. This graduation project is conducted at the Corporate Supply Chain department in the field of corporate coordination of the purchasing function.

Project Assignment

The initial question in this project is how to control the purchasing function and identify purchasing saving opportunities at Royal Wessanen. A problem analysis is performed and this leads to the problem statements and the following project assignment:

Design a Corporate Purchasing Process, by which Royal Wessanen can continuously (1) monitor the purchasing organization and (2) purchasing status, and (3) periodically review the purchasing strategies for the different product categories, to identify purchasing saving opportunities and control the purchasing function.

Based on the initial purchasing development model analysis, three subjects are considered important to investigate further: Purchasing Synergy Coordination, Purchasing Transparency and Purchasing Strategy.

Analysis

(1) Monitor the purchasing organization

The subject Purchasing Coordination is further investigated to determine that the optimal degree of centralization, for the decentralized purchasing function of Royal Wessanen, is a combination of central-led and local-led purchasing coordination.

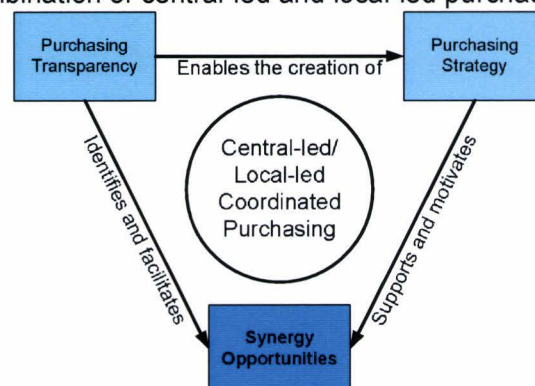


Figure A. Relations between Transparency, Purchasing Strategy and Synergy options

The subject of Purchasing Synergy is further investigated to identify the synergy types useful for Royal Wessanen and to develop a model how Royal Wessanen should manage them. Preconditions for purchasing synergy were Purchasing Transparency to identify and facilitate and Purchasing Strategy to support and motivate synergy initiatives.

(2) Monitor the purchasing status

The investigation of Purchasing Transparency, leads to the identification of all

information types necessary to monitor the purchasing status. These information types are also necessary to identify and facilitate synergy and saving opportunities. Categorization of purchased goods and a clear formalization of uniform roles and responsibilities are key information in the situation of Royal Wessanen.

(3) Periodically review the purchasing strategies for the different product categories.

For the last part of the Project Assignment and to support and motivate synergy initiatives, a suitable Purchasing Strategy must be part of the Purchasing Process. The main subjects regarding Purchasing Strategy and relevant for Royal Wessanen, are analyzed to find the essential steps for the Purchasing strategy set-up. Supplier strategies and strategy review are also important aspects in this development model for Royal Wessanen. Of the investigated “out of the box” supplier strategies and purchasing methods, only group/joint buying is a relevant and interesting option for Royal Wessanen at this point in time.

Design

Based on the Analysis, two parts of the purchasing process are designed, Purchasing Transparency and Purchasing Strategy. In the Purchasing Transparency design, all relevant information types are identified. These types can be divided in Static Information and Dynamic Data. Static Information represents the purchasing organizational aspects, including the categorization of purchased goods, functions, and roles and responsibilities. Also a Royal Wessanen IT tool for communication, monitoring/reporting and strategic steering is designed. Dynamic Data represents the current qualitative and quantitative status of the purchasing function. The design consists of selected practical data, relevant and possible to provide by the Royal Wessanen subsidiaries. With the Purchasing Transparency in place to monitor the purchasing function, the creation of Purchasing Strategy is enabled.

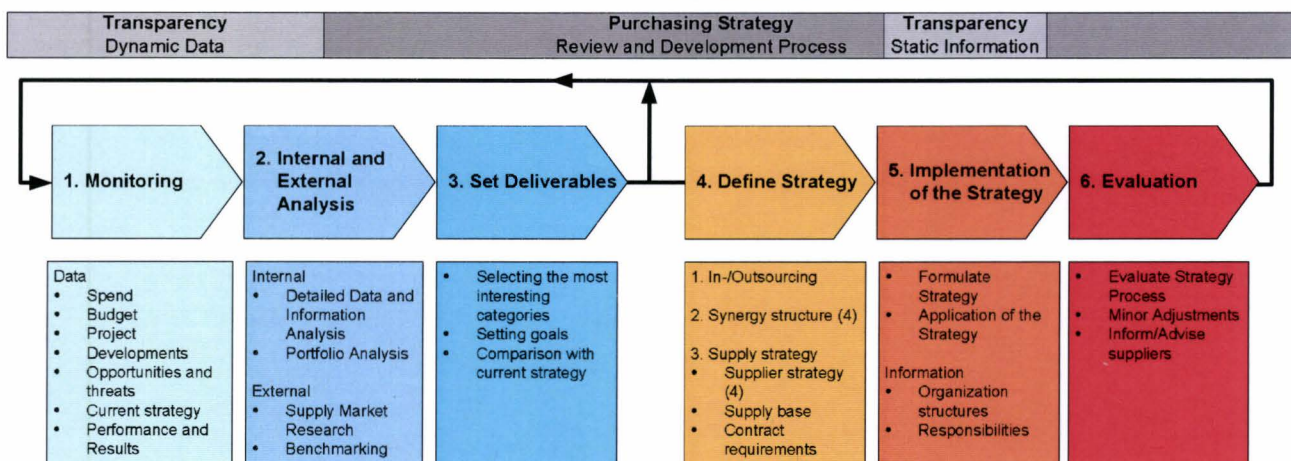


Figure B. Royal Wessanen Purchasing Process Design

A Purchasing Strategy Development process, consisting of 6 steps and using Purchasing Transparency, is designed. Roles and (Managerial) responsibilities regarding the Purchasing Strategy development are also designed. Combined, the Purchasing Transparency and Purchasing Strategy Development designs form the Purchasing Process as described in the Project Assignment.

The synergy structures to be selected when defining the Strategy per Category are crucial for Royal Wessanen. The roles and responsibilities of the four synergy structures (Knowledge Owner, Lead Buyer, Centralized Buyer and Outsourcing Buyer) are presented. These structures and linked responsible persons are the new central-led and local-led purchasing organization. They enable the designed

Purchasing Process to identify and analyze synergy saving opportunities and execute purchasing strategies. As a result, the Corporate Director Supply Chain can control the Royal Wessanen purchasing function.

Implementation

The implementation of the design consists of 9 steps:

1. Renew the focus on purchasing
2. Create top management commitment
3. Maintain commitment of purchasing professionals
4. Identify and design Static Information
5. Gather Dynamic Data
6. Develop the Transparency Tool
7. Communicate Purchasing Strategy Development
8. Train the people involved
9. Implement continuous review

These steps, accompanied by people responsible and timeframes, are presented in an implementation plan. There are also risks attached to the implementation. It might not be possible for Royal Wessanen to develop a suitable IT system and another solution with the same design functionalities has to be found. With an IT system in place, the input from local purchasers must be guarded. The initial input is vital to a successful start of the Purchasing Strategy process. The last main risk is that management decides not to allocate sufficient resources to act on saving opportunities. This will lead to a lower local commitment and effectiveness of the design.

Additional Recommendations

- **Invest in corporate purchasing**

An increase of strategic purchasing resources at a corporate level is recommended to stay focused on these subjects and benefit from a well organized purchasing function.

- **Evaluate process regularly**

This Purchasing Process must be evaluated regularly.

- **Link communication tool to SAP**

For the communication of qualitative information regarding purchasing, it is recommended that the presented design is used aside SAP for background information and, if possible, linked to SAP by an interface.

- **Use categorization for SAP**

The categorization of purchased goods presented in this project and further developed during the implementation must be taken as a basis for purchasing in SAP.

- **Asses further professionalizing of Purchasing Excellence**

It is recommended to asses the possibilities to further increase Purchasing Excellence (section 7.3.2) by using the following steps in the model.

Further Research

The scope of this research is quite broad and focused on all purchased goods except marketing spend. A uniform design useful for all purchasing categories leaves specific category characteristics to the background. More specific research to one or more main or subcategories, might lead to interesting and useful findings. The design in this project is a "tailor-made" for Royal Wessanen, limited by the currently existing and possible organization and available resources at Royal Wessanen.



In general practice it does not seem to be trouble-free to realize and materialize synergy and the related benefits as discussed in the literature. Further academic research can focus on consolidating methods and models provided in the purchasing synergy literature, supported by a quantitative research and a research focused on purchasing synergy implementation issues. Of specific interest may be the use of empirical data on performance improvements and linking these to the different approaches to realize purchasing synergies found in the literature.

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Abbreviations in this report

3PL	– Third Party Logistics
BCG	– Boston Consultancy Group
BEL	– Belgium
CIM	– Category Innovation Manager
CM	– Category Management
CP	– Central Purchaser
CPB	– Corporate Purchasing Board
EIB	– European Innovation Board
ERP	– Enterprise Resource Planning
EUR	– Europe
FG	– Finished Goods
FRA	– France
GER	– Germany
GM	– General Manager
HPT	– Health and Premium Taste
HFS	– Health Food Stores
HQ	– Headquarters
ITA	– Italy
KO	– Knowledge Owner
LB	– Lead Buyer
CEO	– Chief Executive Officer
CFO	– Chief Financial Officer
NA	– North America (US and Canada)
NL	– The Netherlands
NPR	– Non Product Related
NPD	– New Product Development
OP	– Outsourced Purchaser
PIM	– Production Innovation Manager
PT	– Premium Taste
RFQ	– Request For Quotation
SAP	– Systems, Applications & Products for data handling
SKU	– Stock Keeping Unit
TOL	– Tree Of Life
UK	– United Kingdom
US	– United States
VP	– Vice President
WES	– Wessanen

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PART 1

PART 1 ORIENTATION

1. Introduction

1.1. The Final Thesis Project

During the Final Thesis Project, a final year student of the department of Industrial Engineering and Management Science at Eindhoven University of Technology learns how to formulate, analyze and solve a problem in the field of industrial engineering and management science in a real-life company project. On top of this the student includes scientific and academic information to support the designed solution of an industrial problem. The experiences provide a new insight to the academic field. The Final Thesis Project lasts nine months and is partly carried out at the University, but mainly within the organization which is subject to the research.

This report gives the findings of the Final Thesis Project at Royal Wessanen in Utrecht, where the Head Office is located. The project has been conducted for the Corporate Director Supply Chain Management. The Corporate Supply Chain Management department is responsible for the leadership in the area of manufacturing, purchasing and supply chain management of Royal Wessanen Head Office and its subsidiaries. This project is mainly focused on the European activities of Royal Wessanen and started in September 2006.

1.2. Purchasing Management

This project is conducted within the sub department Organization Science and Marketing and in the research area of Purchasing Management. This area generates knowledge on the design and management of organizations and of their inter-organizational relationships with customers, suppliers, and alliance partners. The primary focus of research is innovation (both product and process innovation), with special emphasis on risks, knowledge and alliances.

1.3. Project Assignment

The initial question of this project is how the purchasing function of Royal Wessanen can be controlled by the Corporate Director Supply Chain. The project assignment is:

Design a Corporate Purchasing Process, by which Royal Wessanen can continuously monitor the (1) purchasing organization and (2) purchasing status, and (3) periodically review the purchasing strategies for the different product categories, to identify purchasing saving opportunities and control the purchasing function.

Purchasing Control at Royal Wessanen is defined in chapter 3.

1.4. Methodology

This Final Thesis project is a design research. The insights and data presented in this report are collected through different methods.

- Interviews and surveys
- Literature Research
- Royal Wessanen Data research
- Meetings, discussions and informal networking

All Methodology methods, used in this project, are explained *in section 3.6 Research Methods*. To secure a structured way of working during this project, two project management literature sources focused on graduation and (re)design projects were used;

- Kempen and Keizer (2000)
- Verschuuren and Doorewaard (2000)

1.5. Layout of This Report

This report is divided into four phases; **Orientation, Analysis, Design and Implementation** and **Conclusion**. The chapters in this report are organized as follows: In **Chapter 2** a general description of Royal Wessanen is given. In **Chapter 3**, the Research Project is presented with the Problem analysis, Project Assignment and Scope. In **Chapter 4** the Purchasing function of Royal Wessanen and its subsidiaries is further analyzed. From this analysis the main project subjects, Coordinate Purchasing Synergy, Purchasing Transparency and Purchasing Strategy, result. These subjects are studied from a literature and Royal Wessanen perspective in **Chapter 5 to 7**. **Chapter 8** and **9** present the Design of Purchasing Transparency Purchasing Strategy, and finally the Purchasing Process requested by the Project Assignment. The implementation of these designs is presented in **Chapter 10**. Finally, **Chapter 11** gives the main conclusions and recommendations for this project. Further Royal Wessanen and literature research can also be found in this final chapter. This report ends with References and a list of the Appendices. Appendices can be found in an additional document.

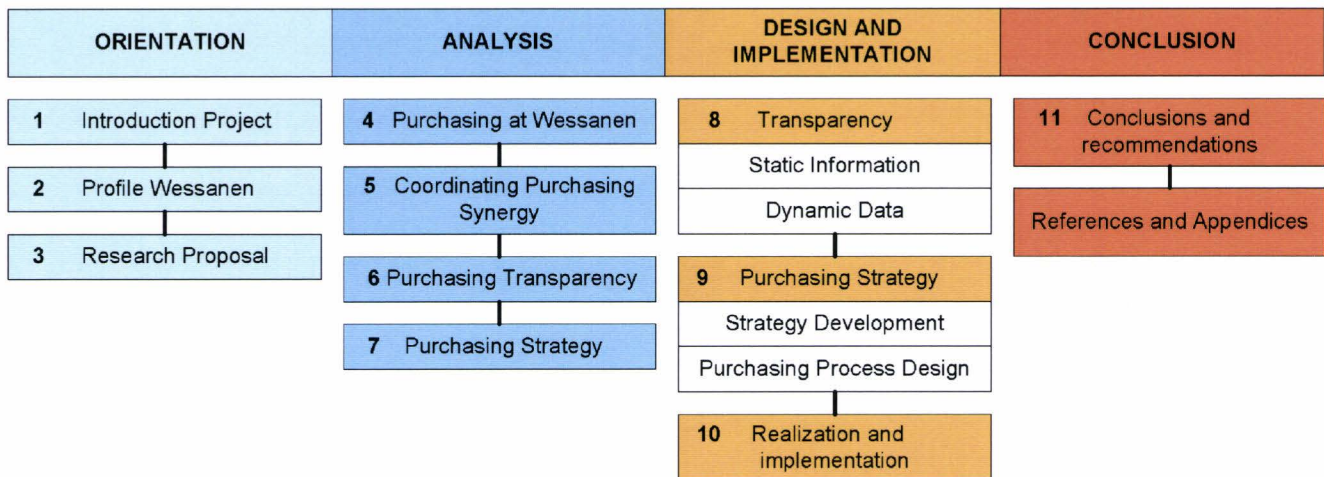


Figure 1.1. Layout of this report (based on Kempen and Keizer, 2000)

2. Royal Wessanen

2.1. Company Profile

Royal Wessanen is a multinational food production, trading and distribution company based in the Netherlands, which operates in European and North American markets. Royal Wessanen is specialized in identifying, developing and distributing premium foods that are authentic and true to their origins. Their brands and products are focused on two sectors: Health foods, most notably natural and organic foods, and Premium Taste foods, including specialties from around the world.

Royal Wessanen has subsidiaries in The Netherlands, Belgium, Germany, The United Kingdom, France, Italy, the USA and Canada. These subsidiaries can hold one or more of the following functions:

- One or more own brands that are produced by suppliers or partners
- An (exclusive) distributive function to the retail market
- Plants that produce one or more own brands

For example, Wessanen Netherlands is the Dutch subsidiary that produces its own brand Beckers, manages outsourced production of the owned brand Zonnatura, and exclusively distributes the brand Patak's. For an overview of all subsidiaries of Royal Wessanen in Europe and North America, please see **Appendix 1**. One of the characteristics of Royal Wessanen is the continuous acquisition and divestment of subsidiaries and companies.

2.2. History of Wessanen

In 1765, Adriaan Wessanen teamed up with his nephew Dirk Laan to trade in 'Mustard, Canary and other seeds'. The new company was called Wessanen & Laan. **In 1779**, the elderly Wessanen retired from the business and the company name was abbreviated to Wessanen.

In 1839, Wessanen bought the oil mill 'Het Fortuyn' and became active in industrial manufacturing. From that point in time the focus would be on processing raw material to semi finished products.

In 1857, a key step was taken with the built of the steam driven oil factory "De Tijd".

In 1910, a second oil factory was built. In this factory soybeans were processed.

In 1917, Wessanen started with the refinery of oils and a margarine factory was built. During the beginning twentieth century Wessanen entered and left many markets like the mash industry and cacao-oil sector.

After World War II, new production facilities were created in Germany, Belgium, France, Italy and Spain. Wessanen became a modern European company. It upgraded and extended production and storage and, after selling its flour mills in 1992, successfully transformed itself from bulk manufacturer to multinational marketer of consumer products.

In 1975, Wessanen entered the US market through the acquisition of Tree of Life and in 1977 Tree of Life entered the Premium Taste sector with the acquisition of Gourmet Foods in St Paul, Minnesota which had developed a significant business in marketing gourmet, ethnic and specialty foods.

In 1993, Wessanen joined forces with Bols, a Dutch spirits producer. Five years later, Wessanen became a separate company again in order to concentrate on developing and marketing natural health food products in Europe and North America.

Between 1972 and 2006, Wessanen acquired over 20 companies, mostly in Western Europe but also in the United States. All of them were engaged in the food

and beverage industry, either in production or distribution.

Nearly 250 years after Adriaan Wessanen and Dirk Laan set up their seed business by the River Zaan, the Wessanen name continues to stand for energy, industry and innovation.

2.3. Mission Statement

“Wessanen will be the leading transatlantic company for branded authentic Health and Premium Taste foods.”

Wessanen is a well-established company with a long heritage in the food business. In recent years, the company has been redesigned, restructured and rebuilt to create a highly efficient and cost-effective method of getting our products to our marketplaces, using state-of-the-art logistics and marketing techniques. The focus now turns to the products themselves. Wessanen has ready-made markets for the authentic Health and Premium Taste products in Europe and North America. These markets are predicted to grow significantly in the future, as discerning and knowledgeable customers insist on purity and authenticity in the food products they consume. Wessanen has set itself the task of finding new ingredients and flavors that will give a greater choice, without compromising on the adherence to authenticity that differentiates their products. (Annual Report, 2005)

2.4. Royal Wessanen Head Office

This project is performed at the Royal Wessanen Head Office in Utrecht. Here the management of Royal Wessanen is located. From this site the subsidiaries are led by the following activities:

- Developing the company strategy and policies, deploying them to the subsidiaries and managing their achievements
- Periodic and on demand consultancy to the Operating Companies related to the following disciplines: Strategy & Business Development, Finance & Administration, Quality, Human Resources, Supply Chain, ICT, Marketing Communications, Communications, Internal Audits and Treasury and Investors Relations;
- Support of the ICT network of the Operating Companies by providing necessary hard/software, solving incidents and executing backups;
- Advice on and execution of Treasury services (for example loans, funding, cash management and exposure management);
- Informing stakeholders about the company's performance via press releases, quarterly reports, annual reports, company website and intranet.

2.5. Brands and Products

For their brands and products, Royal Wessanen makes a distinction between Health and Premium Taste products (HPT), destined for supermarkets and Health Food Store (HFS) products for the health food stores. This is mainly because the HFS channel wants to differentiate itself, to compete with the mass markets.

The HPT channel is divided in a Health (H) and Premium Taste (PT) part. Another distinction can be made between brands that are owned by Royal Wessanen, owned and produced, and other brands that are only distributed. The last type can be

distributed with the subsidiary as a sole agency. For an overview of the main brand categories of Royal Wessanen, please see **Appendix 2**.

2.6. Consumers

Royal Wessanen focuses on “post modern consumers” with a high economic status. In western countries, this segment is growing in number of people, in the Netherlands by approximately 1% per year. Nowadays, people are better informed through media and globalization and people decide what they want more independently. The segment Royal Wessanen is focusing on, has better education, is better developed and has better jobs. They have an average to high income. For these people food is an important part of their life, they enjoy eating. They are willing to spend more money for added value and quality in food. Health and variety are important aspects. That is why they are open to natural products and premium tastes.

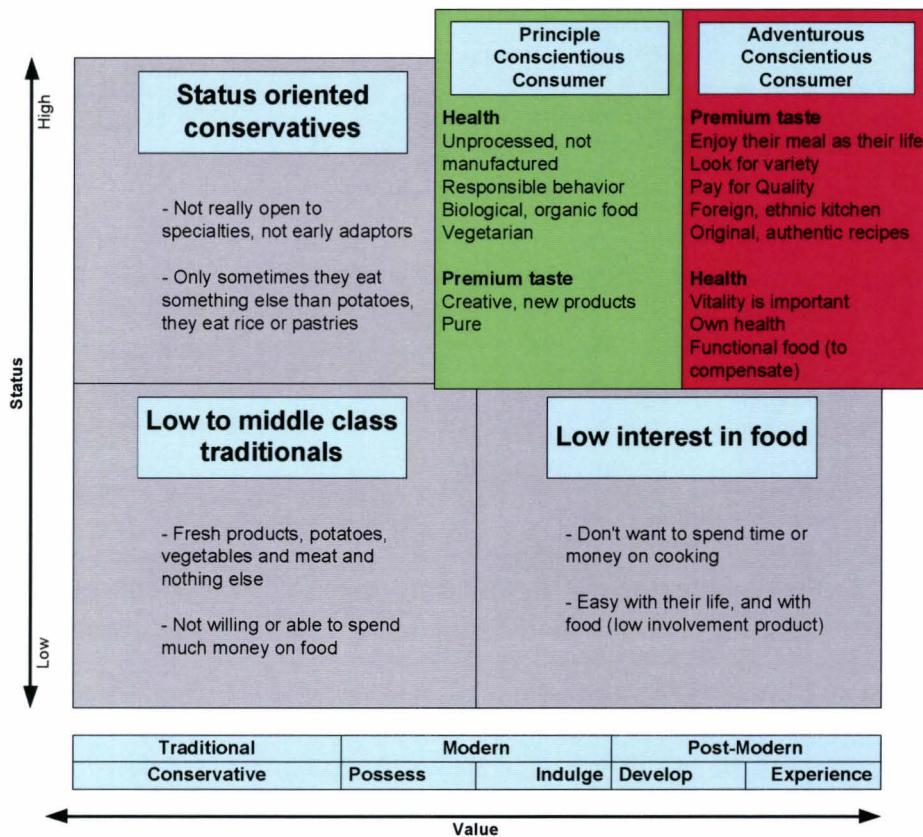


Figure 2.1. Consumers of products of Royal Wessanen

As can be seen in figure 2.1, Royal Wessanen has sub-divided this segment in two types of consumers, the **principle conscientious** and **adventurous conscientious consumer**.

- For the **principle conscientious consumer**, health is a very important issue, and means consuming natural products. Premium taste is somewhat less important, but they do like to try new products once in a while.
- For the **adventurous conscientious consumer** premium taste and variety are very important, they like to try new products (early adaptors) which are ethnic and authentic. Health products are important for them because of personal vitality aspects.

2.7. Distribution to Customers

To reach these consumers, Royal Wessanen distributes its products through several supply channels to different customers, using different distribution partners. As stated before, Royal Wessanen makes a strong distinction between Health and Premium Taste products (HPT), destined for supermarkets and Health Food Store (HFS) products for the health food stores. Three main types of customers/channels can be identified:

1. **HPT Retail:** Supermarkets and supermarket warehouses
2. **HPT Out of Home:** Hotels, restaurants, café's, hospitals, food retail companies, snack bars, etc.
3. **HFS:** Health Food Stores

For the distribution some Royal Wessanen subsidiaries use distribution partners (third party logistics (3PL)), others subsidiaries have their own distribution capacity.

2.8. Competitors

The main competitors of Royal Wessanen are companies that trade in the same retail segment or trade/produce products similar to products Royal Wessanen. These main competitors are:

- Van Geloven (Mora)
- Unilever (Slim Fast/Iglo/Becel)
- Nutrition & Santé (Céréal/Gerblé)
- Hain Celestial
- United Natural Foods, Inc
- Schneekoppe GmbH & Co, Seevetal
- Van de Moortele/Alpro Soja
- Valsoia S.p.A.
- Rapunzel
- KAHE
- Danone
- Douwe Egberts (Pickwick)
- Private Label manufacturers

2.9. Facts and Figures

Royal Wessanen has about 7,350 employees worldwide, and more than 6,500 are employed outside the Netherlands. Figure 2.3 shows the geographical allocation of these employees per country and Figure 2.2 shows the allocation per European and American activity.

Number of employees as at December 31

	Europe	of which in the Netherlands	North America	Total
2005 total current activities*	3,532*	705*	3,817	7,349*
North America Branded	-	-	508	508
North America Distribution	-	-	3,309	3,309
Europe Branded	2,314	326	-	2,314
Europe Distribution	379	175	-	379
Europe Private Label	778	143	-	778

Figure 2.2. Number of employees at Royal Wessanen (Annual Report, 2005)

Total revenues of 2005 were about 1.776 million euro. Figure 2.4 shows the revenue by group. The larger part of the revenues, 58.6%, was made in North America. The European revenues allocated per subsidiary can be seen in section 2.10. Products in Europe can also be divided into the product groups HPT and HFS. However, at the moment the reconsolidation of financial information, e.g. brand specific or product handling is not finished yet.

Employees per country

- 1 The Netherlands 9.6%
- 2 Belgium 21%
- 3 France 24.8%
- 4 UK 5.1%
- 5 Germany 5.6%
- 6 US and Canada 52.0%
- 7 Italy 0.8%

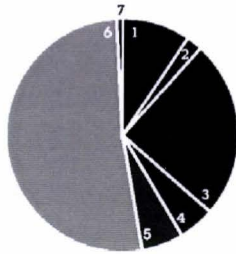


Figure 2.3. Employees per country (Annual Report, 2005)

Revenue by group 2005

- 1 North America Branded 7.1%
- 2 North America Distribution 51.5%
- 3 Europe Branded 23.5%
- 4 Europe Distribution 7.0%
- 5 Europe Private Label 10.9%

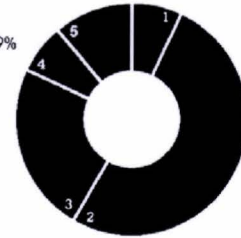


Figure 2.4. Revenues 2005 by group (Annual Report, 2005)

2.10. Subsidiaries

Currently, Royal Wessanen has 16 subsidiaries in Europe and North America. Corresponding brands and channels can be found in **Appendix 1**. The following figure 2.5 gives some purchasing facts and figures of all subsidiaries.

	Subsidiary	Approx. Turnover 2005 (000 €)	SKU's	# Finished Goods suppliers	# Delivery addresses
HPT COMPANY	Wessanen NL	167			
	Wessanen BE	3			
	KALLO UK	40			
	Righi ITA	7			
	Distriborg FRA	143			
HFS COMPANY	Natudis	72			
	Allos	23			
	Tartex	17			
	Tree of Life UK	50			
	Bio Slym ITA	0			
	Kalistera	27			
	Bonneterre	37			
	Private Label	205	DIVESTED	DIVESTED	DIVESTED
	Tree of Life US	760			
	Tree of Life CAN	102			
	ABC	96			
	Liberty Richter	37			
	Total	1900			

Figure 2.5. Fact and Figures of Royal Wessanen subsidiaries

2.11. Organization Structure Head Office and Subsidiaries

The Head Office of Royal Wessanen is located in Utrecht. Here, a number of corporate functions are executed. Subsidiary activities are first divided in European and US activities. Secondly a division by product group (HPT or HFS) for Europe and product handling (Branded or Distribution) for America is made. Figure 2.6 shows the organizational structure of Royal Wessanen. On a corporate level Fons de Vries, *Corporate Director Supply Chain Management*, is responsible for the process management of the purchasing function (i.e. total purchasing process) of Royal Wessanen. He should have an overview of the purchasing function and initiate process improvements. Geert Reynders is *Director Supply Chain Management Europe*, and responsible for purchasing and distribution in Europe.

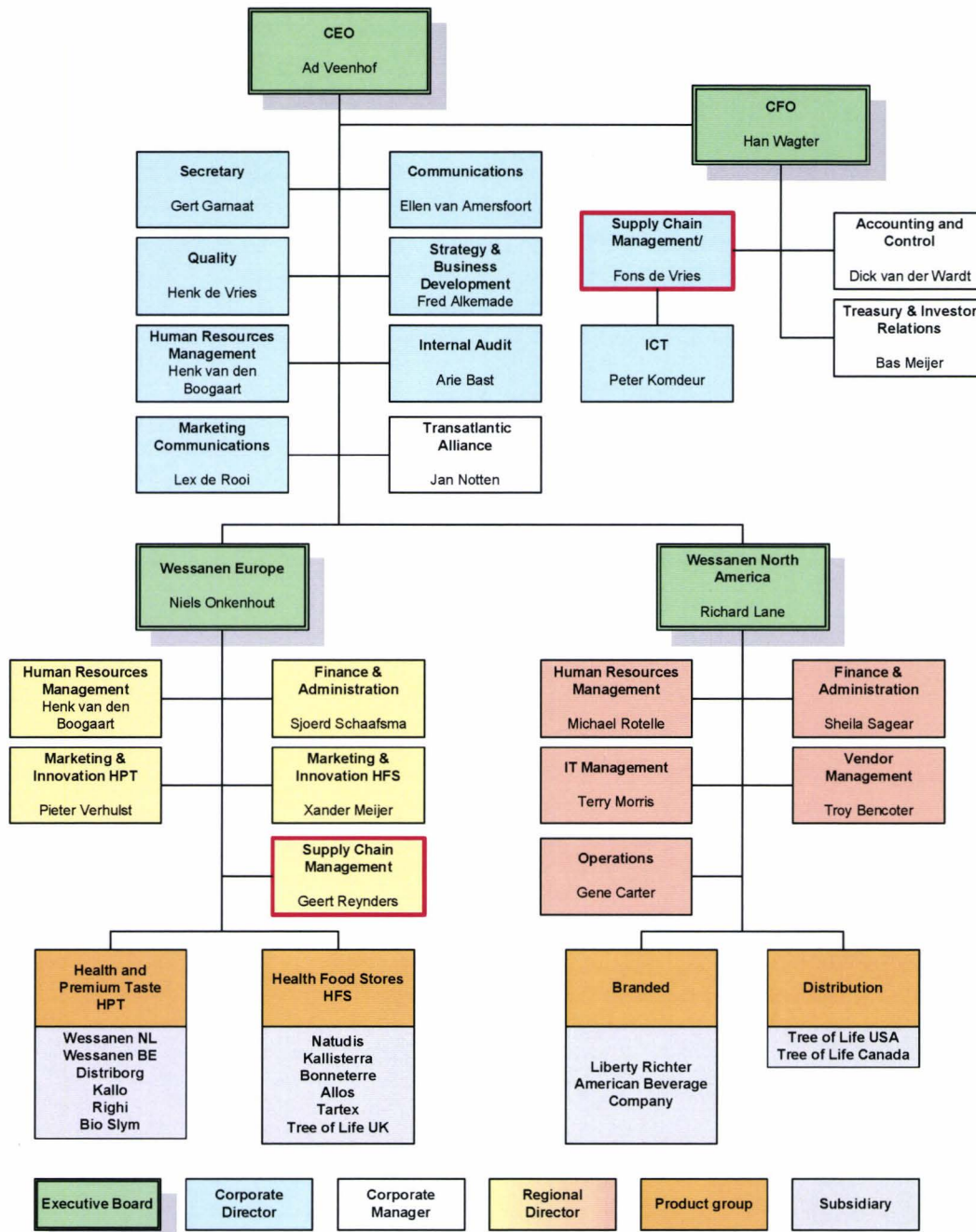


Figure 2.6. Organizational chart Royal Wessanen (Company supervisors are highlighted)

2.12. Recent Developments

- **Head Office Developments**

Only a few years ago a new executive board was installed and a new strategy for Royal Wessanen was defined. Last year, the Head Office moved from Amstelveen to Utrecht and the structure of subsidiaries was renewed. For example, Health and Premium Taste activities in the Netherlands were absorbed by Wessanen Netherlands BV. And Health Food Store activities for the BENELUX were joined in the subsidiary Natudis.

- **Boston Consultancy Group**

In 2003, the Boston Consultancy Group (BCG) was hired to investigate the

purchasing function and potential savings were proposed. BCG also proposed to implement a procedure to yearly review the purchasing function and identify potential opportunities and savings. Several projects proposed by BGC were executed and savings were realized. However, a clear overview of the purchasing functions of all subsidiaries or a purchasing review process on corporate level was never implemented.

- **ERP implementation**

An important internal development for this project is the companywide introduction of the ERP system SAP. The implementation starts in 2007 and will replace many of the existing systems, including systems used for purchasing. The possibilities and functionality resulting from this implementation influence this project.

3. Research Project

3.1. Introduction

The Corporate Director Supply Chain is responsible for purchasing process management. Operationally, he is responsible for the global Non Product Related (NPR) purchasing policies. This function also includes the responsibility for Manufacturing Management at Royal Wessanen. There are no other members in the Corporate Supply Chain Department and because the director's time is limited, he uses a virtual organization. Currently, many purchasing decisions and improvement actions are undertaken on a local level at the subsidiaries. However, the companywide strategic function of purchasing at the subsidiaries is limited, because there is minimal contact between subsidiaries and no purchasing overview available. This current situation does not lead to direct local problems, however, an absence of an overview of the total purchasing spend and actions of the subsidiaries can lead to the loss of strategic benefits on a corporate level. In this chapter the current problems are analyzed and the Project Assignment is presented.

3.2. Initial question

The Corporate Director Supply Chain states the following problem: *Within the purchasing function of Royal Wessanen many improvements and innovations have been made and still take place. However, these are neither structured nor visualized. There is no overview to show the purchasing spend or realized savings and no corporate purchasing strategy or review process exists to find new synergy or saving opportunities. Strategic purchasing responsibilities are also not structurally assigned or linked to functions. Therefore, the purchasing function is not in control.*

The initial question of this project is:

How can Royal Wessanen control the purchasing function and identify purchasing saving opportunities?

At Royal Wessanen, *Purchasing Control* is defined as follows. For a purchasing category to be in control, three requirements must be met:

- The corporate ability to monitor the spend and status per purchasing category
- The assignment and review process of a purchasing strategy per category
- A responsible assigned to execute the strategy and monitor and analyze the category spend and status

At this moment, no active purchasing review process is in place at a corporate level at Royal Wessanen. A periodically review process of the total purchasing function, like BCG suggested, would identify opportunities and savings. Currently, it is unclear if purchasing can be improved and no prospectus of future purchasing problems or solutions is available. Added to that, the companywide responsibilities of local purchasing departments and lead buyers are very divers. After a pre-study of orienting interviews, the initial problems can be stated as:

1. Purchasing status (qualitative and quantitative) of Royal Wessanen is not available and it is unclear if this purchasing information is available.
2. Potential money losses, because it is unclear what purchasing (synergy) savings can be realized.
3. Stakeholders and Executive Board need to be convinced that purchasing is continuously in control, no (synergy) saving opportunities are lost and, therefore, no new external purchasing scan is needed

3.3. Problem Analysis

For the initial problems a problem scheme is made, please see **Appendix 3**. Information was gathered from interviews at Royal Wessanen and Wessanen Netherlands. The main problem is: ***Purchasing Status and Saving Opportunities at the Royal Wessanen Corporate level are unclear.***

This is mainly because:

- Many numbers and figures and other purchasing information about current or finished actions are not available at the Head Office and between subsidiaries
- Synergy opportunities between subsidiaries are unclear
- Purchasing strategies per purchasing category are not or poorly assigned

At the right end of the problem scheme the effects of the main problem can be found. At the left side the main problem causes are shown. Together with the Corporate Director Supply Chain and Wessanen Netherlands purchasers, three relevant problem causes were selected. These three problem sources are marked in the scheme and are now further explained:

1. No clear purchasing structure, roles and responsibilities

At Royal Wessanen, the organizational purchasing structure of every subsidiary is different. It is the same situation for the purchasing roles and responsibilities. This is the result of years of acquisition and divesting companies and restructuring the subsidiaries. This has led to ambiguous purchasing roles; responsibilities are not always clear to the owners or roles or responsibilities are not assigned at all. In other cases, a person can have responsibilities that do not fit his or her function description or capabilities. This vagueness of structure, roles and responsibilities, leads to poor communication between subsidiaries and this leaves synergy opportunities unclear.

2. No clear, standard purchasing status reporting

To review and discuss the current purchasing function, current figures and numbers and relevant purchasing information must be up-to-date and available. Regarding the quantitative information, every subsidiary has its own information systems and standardized reports are very limited available. Some subsidiaries or product categories have no modern information system that holds all relevant data. In combination with poor communication and alignment of other relevant purchasing information between subsidiaries, this leads to the absence of a (quantitative and quantitative) purchasing status overview at the Royal Wessanen Corporate level.

3. No (periodical and/or structured) purchasing strategy review process

At the moment, evaluating purchasing processes is done by every subsidiary individually. For example, Distriborg Groupe in France has an advanced supplier review process that evaluates all key suppliers once a year. Some other subsidiaries do not have such a process. They mostly wait for a signal from the supplier or Marketing department, before reviewing their suppliers or strategy. Some local buyers review their suppliers by watching the market prices themselves or by tendering other suppliers.

On higher levels, the purchasing status is currently only reviewed strategically when a contract ends and a project needs to be started to pursue a new long term deal. There is no standardized or fixed periodical review available to evaluate existing contracts, and more important the execution of these contracts. For example, the Royal Wessanen long term travel contract is considered. However, the reservation characteristics of flights are never reviewed. A periodical review of travel expenses or

the implementation of a travel policy might lead to savings. Possible savings though synergy are also reviewed limitedly.

The absence of a purchasing review process in combination with the poor or no assigned purchasing roles and responsibilities, leads almost never to strategic purchasing discussions and decisions. As a result, often no or poor purchasing strategies are assigned to products or product categories. This leads to the main problem of an unclear purchasing status and vagueness about saving opportunities.

3.4. Project Assignment

The three selected problem sources are responsible for the main problem. To solve the main problem, these problem sources are part of the Project Assignment:

Design the Corporate Purchasing Process, by which Royal Wessanen can continuously (1) monitor the purchasing organization and (2) purchasing status, and (3) periodically review the purchasing strategies for the different product categories, to identify purchasing saving opportunities and control the purchasing function.

3.5. Scope

The scope of this Final Thesis Project is limited to the Supply Chain department, focusing on Purchasing. Traditionally, the Marketing and Purchasing department are tightly linked. This is especially the case at a trade company like Royal Wessanen. In some activities, like the exclusive distribution of finished goods these functions are almost the same on a strategic and even an operational level. Nevertheless, the project only focuses on the Marketing department where linked with the purchasing function and relevant for the Purchasing department.

Secondly, this project is mainly focused on Europe. This has no significant influence, because officially there are only one or two global purchasing categories under the operational responsibility of the Corporate Director Supply Chain. On a strategic level, however, the findings in North America are relevant for this project, because:

- Some goods are imported by both continents or imported/exported between Europe and North America
- Technical innovations and product information and other supply information can be exchanged between these continents
- Organizational structures and strategies can be compared

The following resources are made available within the scope of this project:

- Creation of a Corporate Purchasing Board, in which top management and purchasing professionals can be seated.
- The implementation of a companywide SAP system at Royal Wessanen
- Quantitative and qualitative information about the purchasing function

In the design phase of the project, the support of the management team of Royal Wessanen is made available. For the successful design in this project, the commitment of introducing a Corporate Purchasing Board, with functional and strategically focused members of the management team, is also made available. The design will also be supported by and contribute to the planned implementation of a companywide SAP system next year.

An important constraint in this project is that no centralized purchasing department can be installed, at the utmost centralized responsibilities. Another constraint is that all Marketing spend (Promotions and Advertising, New Product Development, etc.) is excluded from this project, due to the fact that it is not the responsibility of the Corporate Director Supply Chain.

3.6. Research Method

Data gathering is done according to the following methods:

Interviews and surveys

At Royal Wessanen and its subsidiaries, interviews and surveys are performed. Because of the large number of subsidiaries and the fact that every subsidiary has a specific purchasing organization and professionals, many improvement and saving projects are currently conducted on this level. All key purchasing departments of subsidiaries in Europe are visited, and local buyers, lead buyers and purchasing managers are interviewed. For the interview structures, please see **Appendix 4 and 5**. A list of interviewees can be found at the References. To validate the information collected in these interviews, the key elements of the answers are summarized at the end of each interview, allowing the interviewee to make changes and additions. Analysis and results of these interviews are validated in presentations and discussions with the Corporate Director Supply Chain, European VP Logistics and Subsidiary Purchasing Managers.

Literature Research

An extensive literature review is the basis of this report. The information searches are performed using several sources. The key search engines used are ABI/Inform, Emerald, Elsevier ScienceDirect, INSPEC, Harvard Business Review and Google Scholar. In total around 55 articles and other sources are reviewed, of which 42 are judged useful. 10 scientific books are used. However, this does not mean that the rejected articles and sources do not have a contribution to the total understanding and/or opinion of the subjects of the author. The academic literature, articles and acquired knowledge gathered during lectures, combined with data from Royal Wessanen support and provide the proper foundation for the (re)design of the current purchasing structure and review process at Royal Wessanen.

Wessanen Data Research

All necessary information, like spend and project information, is collected from the Wessanen subsidiaries and the Head Office. For the collection of some data, the approval of the CEO or CEO Europe is requested.

Meetings, discussions and informal networking

During presentations and meetings at Wessanen, information is collected to support findings found in the interviews and available data. The discussions and informal networking allows validating some qualitative information. It also gave direction to the design details and allows the creation of commitment for the project design.

Kempen and Keizer (2000)/ Verschuuren and Doorewaard (2000)

To secure a structured way of working during this project, two literature sources about project management focused on graduation and (re)design projects are used.

3.7. Research Model

In this project, 3 main subjects are essential to the design; Purchasing Transparency, Purchasing Synergy, and Purchasing Strategy. These subjects are studied by field

and desk research at Royal Wessanen and literature reviews. This results in a design and implementation plan of the Royal Wessanen Purchasing Policy. The research model (based on Verschuuren and Doorewaard, 2000) is shown in figure 3.1.

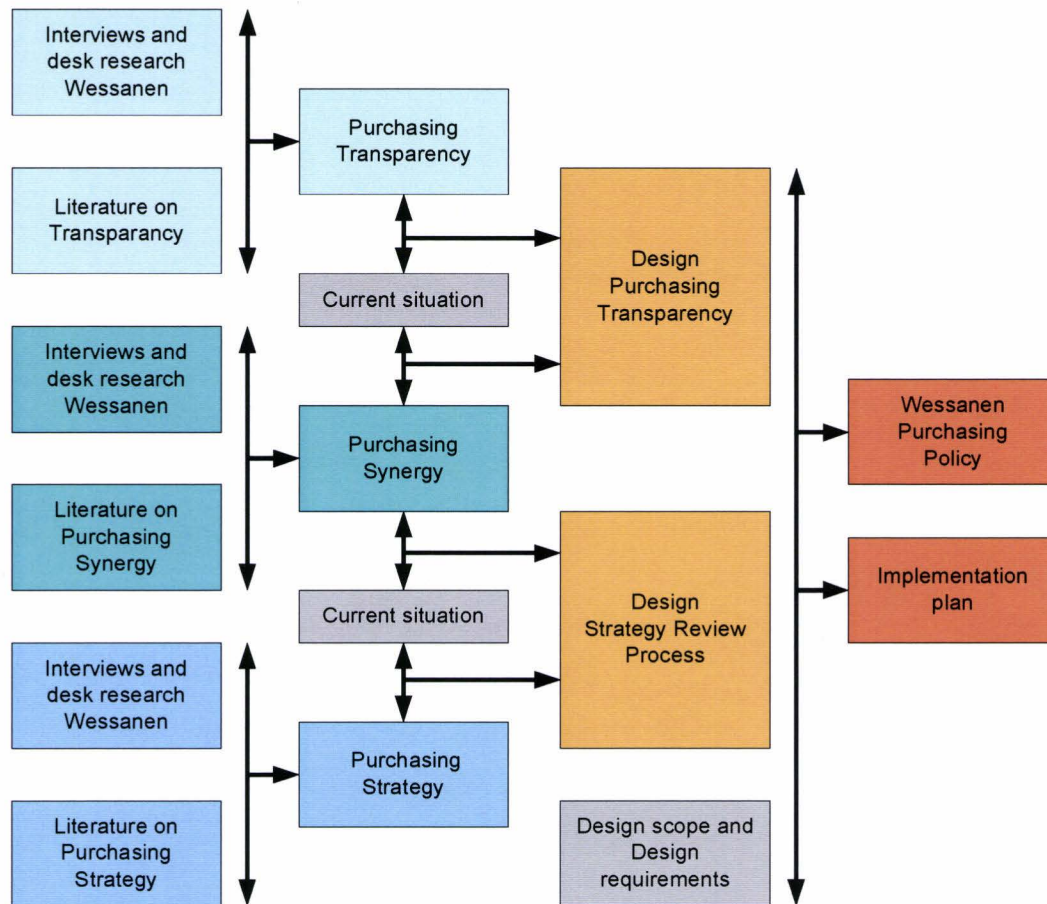


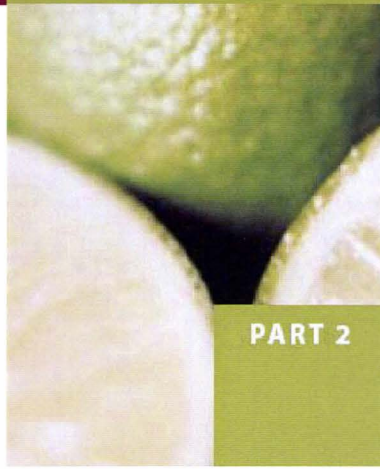
Figure 3.1. Research Model (based on Verschuuren and Doorewaard, 2000)

3.8. Deliverables

To fulfill the Project Assignment, a number of practical deliverables is agreed upon. The following deliverables for this project are set in accordance with Royal Wessanen, and supported by all stakeholders.

- Design clear structures, roles and responsibilities in the purchasing function, to monitor and steer the purchasing function with uniform processes
- Design a clear overview of purchasing status, to monitor developments and identify saving and synergy opportunities
- Design a purchasing strategy set-up/review process
- (Check the relevance of more “out of the box” supplier strategies)





PART 2 ANALYSIS

4. Purchasing at Wessanen

In the Analysis phase the Project Assignment is considered from the perspective of literature and Royal Wessanen stakeholders in this project. The information in this chapter is gathered by publications and documents from Royal Wessanen, data from the different (financial) systems and interviews and follow-up interviews as presented in **Appendix 4 and 5**. The results are reviewed by all stakeholders.

4.1. Supply Chain at Wessanen

For the distribution and warehousing of products in Europe, Royal Wessanen mainly uses 3PL partners like Zuidema BV. However, also own transport and/or warehouse capacity is available at multiple subsidiaries.

For every product, a make or buy decision is made. So products can be produced internally and externally. For external production of own brands, partners are usually preferred, because it mostly concerns long term commitments, occasionally with the acquisition of production capacity or production line alterations. For some products, the supply chain is designed with second tier suppliers. For example, volumes are combined at the second tier supplier to obtain volume benefits at the first tier suppliers and to lower the cost price.

For the procurement of NPR products, commitments with one or more suppliers are made. For raw materials this is similar, however, in many cases more suppliers are preferred. Some raw materials, like meat, are also purchased on a spot market or bought in bulk.

For the supply of goods destined for distribution, a great scale of suppliers is available and used. The HPT product group has a few hundred SKU's, and many of these are handled in large volumes. However, the HFS group has thousands of SKU's, due to their many types of products in low volumes. Therefore, the suppliers of this latter group are also numerous.

As already stated, every subsidiary has its own purchasing organization and strategy. Almost all activities with buyers and lead buyers are directed by a purchasing manager. This purchasing manager reports to a higher manager or directly to the director of the subsidiary. The different organization charts of the subsidiaries are shown in **Appendix 6**.

4.2. Purchasing at Wessanen

The subsidiaries and Head Office of Royal Wessanen purchase products in the following 4 main categories:

1. Non Product Related (NPR)

- Transport
- Warehousing
- Energy
- ICT (WAN, Computers, Telephone, Mobile)
- Travel
- Office supplies
- Machinery
- Maintenance
- Lease of buildings and equipment
- Etc

2. Finished Goods Branded

Outsourced production of own brands HPT and HFS

3. Finished Goods Distribution

(Exclusive) Distribution function of HPT and HFS

4. Raw Materials & Packaging

Ingredients of production of own brands, like:

- Meat
- Spices & Seasonings
- Soya Beans
- Cartons, Labels & Foils
- Pallets
- Etc.

For an initial overview of the categories please see **Appendix 8**. These main categories are further described in section 4.3.

4.3. Main Product Categories

• **Non Product Related**

For many subcategories of this category, the roles and responsibilities are very vague and unambiguous. Key subcategories like Transport, Warehousing, ICT and Office Supplies have a corporate purchasing strategy, managers and processes and are quite transparent. However, other subcategories, like Energy, Travel, Maintenance, etc. do not yet have a corporate strategy and are managed locally. Expected is that with improved and more efficient purchasing practices and strategies, savings in this category can be realized. Even so, it is important that an up to date status of all these categories can give much information of where the focus should be.

• **Finished Goods Branded**

The strategic purchasing function for this category is the responsibility of the Marketing Department. The Marketing Department is always Brand Owner and therefore responsible for e.g. the recipe and price of a product. However, the Corporate Director Supply Chain is responsible for the purchasing process status and the overview of all purchasing categories.

In the HPT product group an effective structure has been implemented a few years ago. For the key Health products, that generate the most revenues, seven European categories were set up. These categories operate on a European level and serve different brands, but of the same type of products. This structure can be seen in figure 4.1.

	Rice Cakes	Savoury Snacks	Cereals	Fruit Spreads	F & V Juices	Sweet-in-Between	Free 2 Enjoy
CIM	Jo-Anne Owens Kallo	Jo-Anne Owens Kallo	Adeline Muller Distriborg	Adeline Muller Distriborg	Menno Bax Wes NL	Menno Bax Wes NL	Lena Symonds Kallo
HPT Lead Buyer	Andy Stride Kallo	Andy Stride Kallo	Claudine Banzet Distriborg	J-Philippe Thevenet Distriborg	Richard Miedema Wes NL	Richard Miedema Wes NL	Andy Stride Kallo

Figure 4.1. Lead Buyers and CIM's per European Health category

In this structure the purchasing function, using a HPT Lead Buyer per category, is linked with the marketing innovative function by using a Category Innovation Manager (CIM). A team of the two described functions is responsible to secure an

effective and efficient way of working in both areas and a strong innovative power on a European scale. For products in these European categories, the Lead Buyer is in charge of the regional purchasing and supports the local buyers related to these products. For these European categories the Lead Buyer reports functionally to the Director Supply Chain Management Europe and the CIM reports to the Director Marketing and Innovation HPT. The CIM's, Director Supply Chain Management Europe, Director Marketing and Innovation HPT Health, Local Marketing Managers and Executive Board Europe are seated in the European Innovation Board (EIB). This situation is shown in figure 4.2. All other HPT and HFS categories are managed locally.

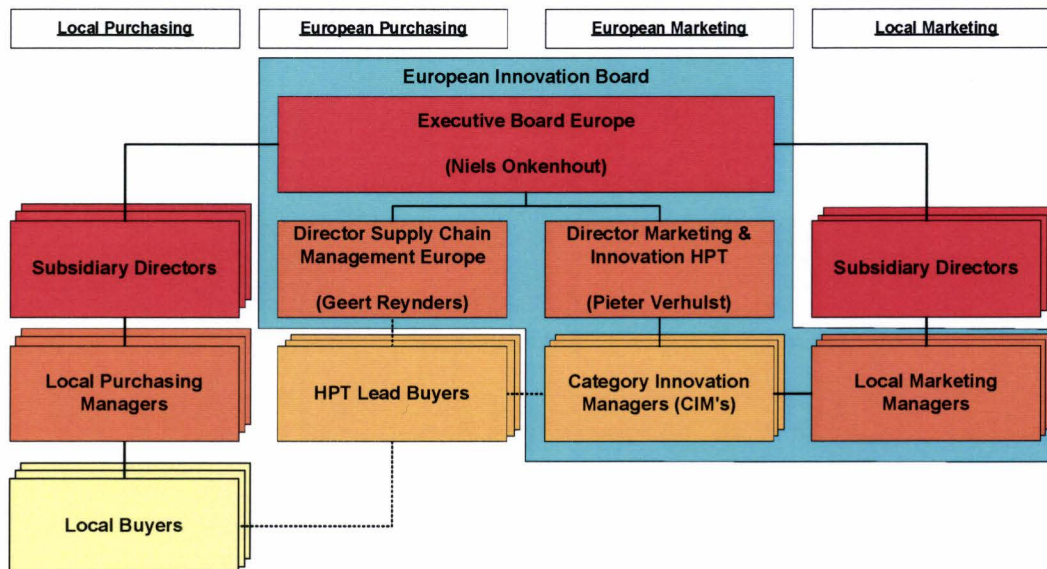


Figure 4.2. Structure with Lead Buyers and CIM's per European Health category

- **Finished Goods Distribution**

This is the distribution of other than own brands. Distribution can be normal distribution or a sole agency. When a subsidiary is a sole agent for a brand, it has the exclusive distribution rights for a region or county.

This category is also often the strategic responsibility of the Marketing department. Marketing identifies two different types of suppliers in this category, suppliers that requests much or little marketing support. In some subsidiaries, purchasers are functionally responsible for buying these goods. In other subsidiaries, for the purchasing of these goods is done by marketing people and are therefore called "Trade marketers". Some of these suppliers have contracts with multiple subsidiaries of Royal Wessanen. However, no or little information about these relations is exchanged between the subsidiaries.

In Europe, exclusive distribution is mainly a commercial activity, because the supplier or manufacturer decides which company is their sole agent. These suppliers can also set a fixed retail price. Therefore, for sole agency goods, purchasing negotiations are more focused on margin then on price. In North America, the subsidiary Tree of Life NA has a large distribution channel and only has the role of sole agent in Canada. Because suppliers desire to be in their assortment, Tree of Life NA can influence their exclusive suppliers more than in Europe.

- **Raw Materials and Packaging**

This category includes all raw materials and ingredients for the production plants as well as the purchasing of all packaging material. For the ingredients, this project is mainly focused on the purchasing strategy of the large subcategories. Currently, this

purchasing is mostly done on a local level and this might already be the optimal level. However, the purchasing strategy of biological ingredients needs a closer look, because quality and availability becomes an increasing problem. Current strategies might no longer be effective and problems can be prevented by using renewed approaches.

Packaging is an interesting subcategory, because not only all production plants use packaging material, but also all suppliers of outsourced production purchase this material. A new, more centralized purchasing strategy might lead to saving opportunities.

4.4. Global, Regional and Local

Royal Wessanen is a global company and therefore the Corporate Director Supply Chain is officially only operationally responsible for global purchasing categories. However, many of the (sub) categories only exist on a regional (Europe/America) or local (subsidiary) level. Therefore, a clear distinction of these levels should be made when (re)designing responsibilities and the purchasing structure.

4.5. Purchasing Roles and Functions

The (re)designed roles, responsibilities, structure and strategies should be applicable within all subsidiaries of Royal Wessanen. It is important that all roles are defined similarly through the whole company. An overview of the current roles on a local level and for the European categories can be seen in figure 4.3.

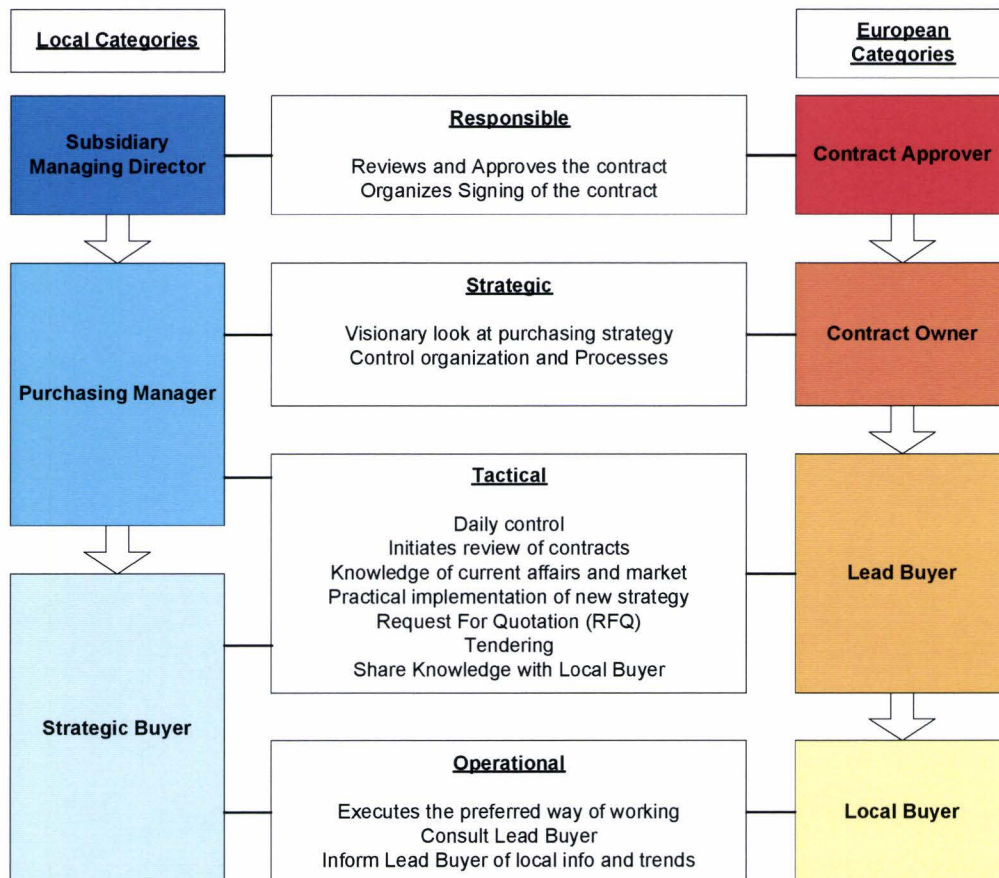


Figure 4.3. Purchasing roles and responsibilities

Some persons within Royal Wessanen can have multiple or combined roles. This is made clear in **Appendix 7**, which are examples of the structure of a local and European category. This example shows a strategic buyer from Wessanen Netherlands BV, who is also a Lead Buyer for a European category.

4.6. Position of the Wessanen Purchasing Function

To determine the position of the Royal Wessanen purchasing function in comparison to the general purchasing function development, several models were reviewed (Cavinato, 1991, Keough, 1994, Monczka, 2005, Van Weele, 2005). Much similarity can be found between these models. Every model has between 4 and 6 stages, starting from a very passive and reactive purchasing function, which only primarily serves the business process. All models lead to a highly innovative, cross functional purchasing function, with a high level of business integration. Over time, a movement towards a higher strategic and innovative purchasing function can be seen in more recent models. Also a development and expansion of description of the middle stages, around which Royal Wessanen can be placed, can be seen. Therefore, for the determination of the position of Royal Wessanen, the most recent model is used (Van Weele, 2005; adapted from van Weele and Rozemeijer, 1997). Analysis of Royal Wessanen Purchasing data, processes, and characteristics and information from the interviews are used to determine the position in this Purchasing and Supply Development Model. This model defines six different phases of a purchasing function. From a total decentralized purchasing function to a central-led purchasing function with a cross reference focus.

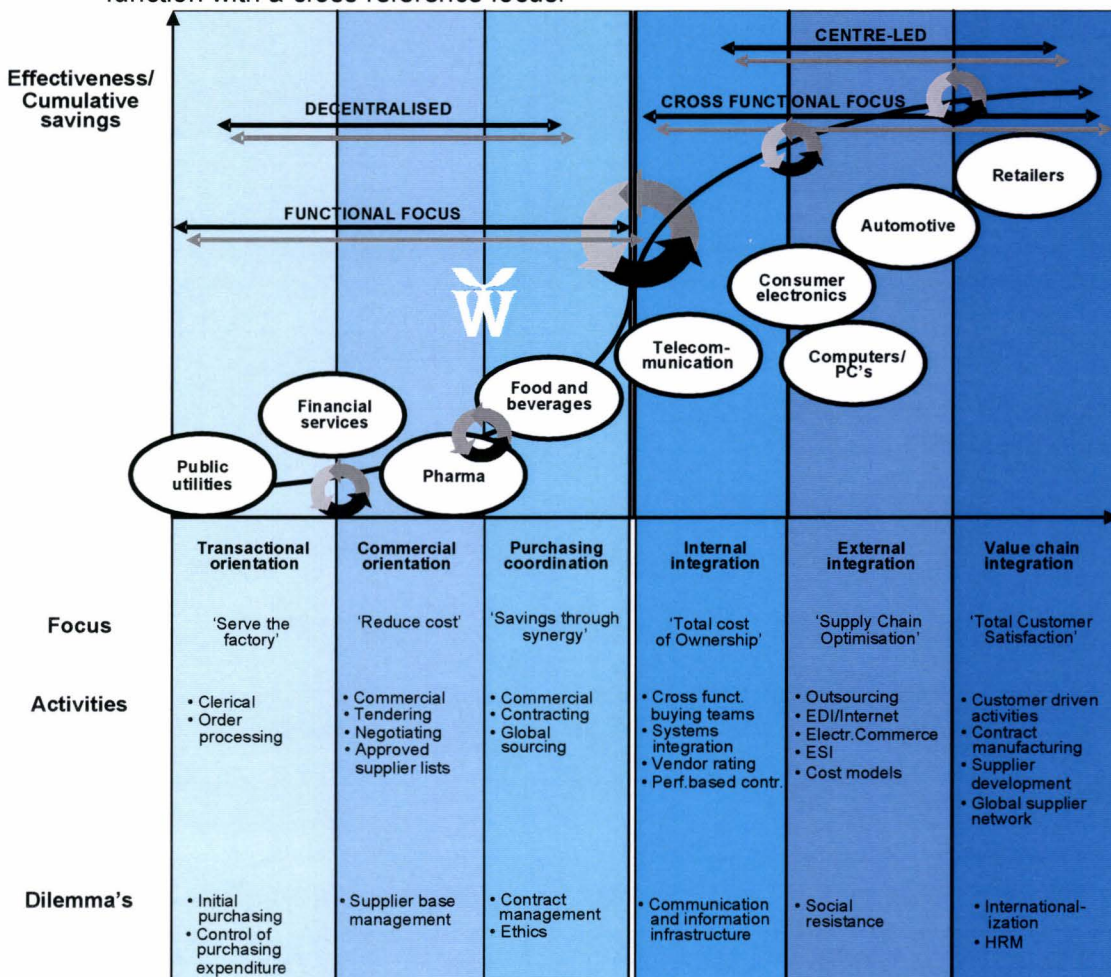


Figure 4.4. Purchasing and supply development model (Van Weele, 2005)

Bases on the interviews, Royal Wessanen can be placed between the second and third stage. The second stage, **Commercial Orientation**, is characterized with purchasing departments at plant level, reporting to the plant management. Purchasing becomes more a specialist function and buyers are organized around product groups and concentrating on negotiating and contracting 'good deals'. Management monitors low prices and savings. Purchasing staff consists of operational and initial buyers and negotiating skills are important. At Royal Wessanen, this situation is in place, however, the goal is and steps are undertaken to get at the next stage, Purchasing Coordination.

In this third stage, **Purchasing Coordination**, traditionally a strong central purchasing department is in place to implement uniform buying policies and systems. The emphasis is on cross unit coordination. For the first time, some kind of strategy is formulated, aimed at capturing the benefits from internal coordination and synergy. Apart from price and costs, the purchasing function is seen as having an important influence on the quality level of purchased goods. The importance of the non product related goods is recognized. Slowly the purchasing function is getting more attention from top management. However, the rest of the organization is still not convinced of the value adding potential of the purchasing function. Royal Wessanen is also partly in this latter stage. This current project is aimed to formulate a first purchasing strategy, set up uniform purchasing processes to stimulate communication and benefit from purchasing synergies. The top management of Royal Wessanen is starting to focus on purchasing and uniform buying policies and systems are set up for the most important categories.

	Coordination Level	Reporting	Savings	Strategy formulation	Synergy	Attention from
Stage 2: Commercial Orientation	Plant	Hierarchical	Reduce costs	No	Informal	Local Managers
Current Royal Wessanen	Mainly Plant	Functional and Hierarchical	Reduce costs and Synergy	No	Informal	Top Management
Goal Royal Wessanen	Plant and central-led process	Functional and Hierarchical	Reduce costs and Synergy	Initial	Uniform buying policies and systems	Top Management
Stage 3: Purchasing Coordination	Cross unit	Functional	Synergy	Initial	Uniform buying policies and systems	Top Management

Figure 4.5. Positioning the Royal Wessanen Purchasing function

Supplier management is an important issue at this third stage and looking for synergy by bundling purchasing power over the different divisions is key. Formalization of the purchasing process and procedures is at full speed, but the purchasing organization is still product oriented. Important cultural aspects are the focus on communication and the intention to cooperate more internally between business units. Computerized information systems are in place but not integrated yet.

In the interviews, stakeholders in the Royal Wessanen purchasing function describe the current need and usefulness of this transition to the next phase. According to them, many of the current local practical problems (e.g. knowledge loss and limited resources) can be eased by introducing more functional synergy coordination between subsidiaries and from corporate management. A clear decision from corporate management, to either support synergy initiatives or not allocate resources to an initiative, is requested. This commitment can be expressed through a clear purchasing strategy per purchasing category confirmed by top management. The stakeholders agree that uniform buying policies and systems can be used to share

purchasing information and identify new synergy and saving opportunities. However, sharing employee names linked to functions, supplier data and technical purchasing information regionally, would also be of great use. It would maximize purchasing effectiveness, according to the local, regional and corporate management interviewees and stakeholders.

4.7. Conclusion

When the project assignment is combined with the analysis in section 4.6, it can be concluded that Royal Wessanen should develop its purchasing function to the next stage of the purchasing development model. This step is already partly set in motion, however, not in a structured corporate purchasing process or strategy. This step is also supported by the purchasing stakeholders at Royal Wessanen. To design a Royal Wessanen process defined by the project assignment, the following characteristics of this Purchasing Coordination Stage are important to address:

- How to **Coordinate Purchasing** and set up uniform buying policies and systems for some categories. The focus is on savings through **Synergy**; looking for synergy by bundling purchasing knowledge and power over the different Royal Wessanen subsidiaries.
- **Transparency** of the purchasing function at Royal Wessanen, the emphasis is on:
 - Internal communication
 - Computerized information systems
 - Contract management
- First **Purchasing Strategy** formulation, aimed at capturing the benefits from internal coordination and synergy. This includes:
 - Cross unit coordination
 - Supplier management
 - Uniform buying policies and systems
 - Formalization of the purchasing process and procedures

These three subjects, **Purchasing Coordination and Synergy**, **Transparency** and **Purchasing Strategy**, are the next subjects of the analysis phase, and investigated further in the next three chapters.

5. Coordinating Purchasing Synergy

5.1. Introduction

Like Royal Wessanen, more and more companies start to show interest in how purchasing strategies and structures can lead to savings and benefits for the total organization. After consolidation in areas of marketing, research and development and even production, corporate board members and shareholders are putting greater pressure on the purchasing function. In this time of growing possibilities of information and communication technology, purchasing is thought to be the next substantial source of savings. As a result, an increase of purchasing professionals, new to the world ideas, and purchasing success stories emerge in the business world (Van Weele et al. 2003). Different kinds of hypes, like total centralization and e-auctioning, have either sustained all criticism or have been proven to be unsuccessful. Many of these new purchasing strategies fail to prove their success, because these are implemented too fast without careful thinking and adaptation to the characteristic situation of the specific purchasing and business areas. Purchasing in this project is defined in **Appendix 8**.

For decentralized international companies, like Royal Wessanen, the discussion of centralized versus decentralized buying has either led to a great deception or a valuable insight of how to find the ideal balance (Van Weele et al., 2003; Faes, Matthyssens and Vandembemt, 2000; Arnold, 1999). The calming of this hype-like discussion has made place for a well considered view of purchasing strategies in this area. In a company with multiple international subsidiaries, corporate staff members are becoming more careful regarding centralizing purchasing functions, but more eager to find saving by strategic international sourcing using purchasing synergies. A purchasing strategy stimulating purchasing synergies between subsidiaries without much support and interfering of the corporate staff is considered valuable (Arnold, 1999; Goold and Campbell, 1997). Local buyers are supported and motivated to perform their jobs with maximum results and the corporate staff can benefit from a strong purchasing function with the accompanied savings. In this chapter the optimal degree of coordination for purchasing at Royal Wessanen and possible purchasing synergies are determined.

5.2. Optimal Degree of Centralization

5.2.1. Centralized and Decentralized Purchasing

One of the major risks is to centralize purchasing categories that are actually not suitable for centralization. Today, some authors are still confident that a well-structured implementation of centralized purchasing can always be a success (Atkinson, 2006; Teague 2006). However, many writers have their doubts and assign restrictions to the success factors of centralization (e.g. Prema, 2005). It has been argued many times in the literature (e.g. Kraljic, 1983; Van Weele, 2005; Monczka and Trent, 1991; Arnold, 1999) that in purchasing an optimal degree of centralization, accompanied by a proper strategy, should be identified. Therefore, the first step before managing purchasing synergies is to select the optimal degree of centralization. Two concepts, Arnold (1999) and Van Weele et al. (2003), are used to determine the optimal degree of centralization for Royal Wessanen.

There are many arguments in favor of both centralized and decentralized purchasing. Faes and Matthyssens (1997) summarized these arguments.

Arguments in favor of decentralization	Arguments in favor of centralization
<ol style="list-style-type: none"> 1. Local management responsible for all costs including purchasing might become frustrated if they lose control over such an important item 2. Close cooperation between local buyers and users. Good fit with local requirements. 3. Choice of suppliers: <ul style="list-style-type: none"> – better and faster service – shorter delivery times – sometimes better items – goodwill to local community 4. Local buyers more motivated 	<ol style="list-style-type: none"> 1. Stronger negotiating position versus suppliers, hence better prices and items 2. Construction of a group purchasing and procurement strategy. Uniformity leads to economies of scale 3. Acquisition of better, more profound knowledge of the market. Establishment of a global view. 4. Efficient use of available purchasing skills 5. Less administrative work and reduction of purchasing organization expenses

Figure 5.1. Arguments for decentralized and centralized purchasing (Faes and Matthyssens, 1997)

5.2.2. Arnold (1999)

Sourcing and mainly global sourcing is one of the most discussed aspects of supply chain management. After a period in which “going global” had the focus, Arnold (1999) focuses on the optimal degree of centralization. According to Arnold (1999), the degree of centralization and internationalization of the purchasing function is closely related to the degree of centralization and internationalization of the company in general. Combining the results of these four dimensions, leads to a classification tool which can be used to show what form is likely to be suitable for the degree of centralization for the Royal Wessanen purchasing function. This method is described in detail in **Appendix 9**.

Using discussions and questionnaires from the purchasing staff this and the next model are used to determine the optimal degree of centralization for Royal Wessanen. According to the model of Arnold (1999), the internationalization and centralization of the company in general and of the procurement has to be determined. Royal Wessanen has a high degree of internationalization of company and procurement, centralization in both areas is on the low side. This results in the classification of a Global Player with an Atomized Structure, leading the position of the **Coordination model**.

This form, the **Coordination model**, makes use of economies of scale. Instead of a strong hierarchy another steering system is used. This efficient model for centralization refers to the idea of cooperation among the regions/ business units. It combines the advantages of independent regional business units with best market know-how and the advantages of demand bundling in purchasing. It creates high commitment to coordinated purchasing in all subsidiaries.

5.2.3. Van Weele, Rozemeijer, and Weggeman (2003)

In the model of Van Weele et al. (2003), two terms are very important. The first, Corporate Coherence, describes the corporate attitude toward synergies. The second, Purchasing Maturity, is the level of professionalism of the purchasing function, including technology, work processes, and organizational structure, and communication characteristics. These two factors are applied in the model, see figure 5.2. Van Weele et al. (2003) suggest that when a purchasing function is highly mature, companies will use a different and more advanced approach to arrange their purchasing organization.

- **Decentralized purchasing**

In cases where both purchasing maturity and corporate coherence are low, decentralized purchasing is most likely to be found. In this case, central efforts will be hardly sustainable. Little homogeneity in specifications across business units is expected. (Van Weele et al., 2003). Exchanging information on prices, suppliers, etc. are opportunities to realize (Rozemeijer, 2000b).

- **Centre-led purchasing**

When both factors are high, a centre-led structure is most likely to be successful. In this structure cross-functional/cross-business teams conduct coordination activities with active support of the business units, while strongly managed by a corporate purchasing staff (Van Weele et al., 2003). A fully centralized approach will not work, since decentralized purchasing managers will not accept a takeover of their key activities (Rozemeijer, 2000b).

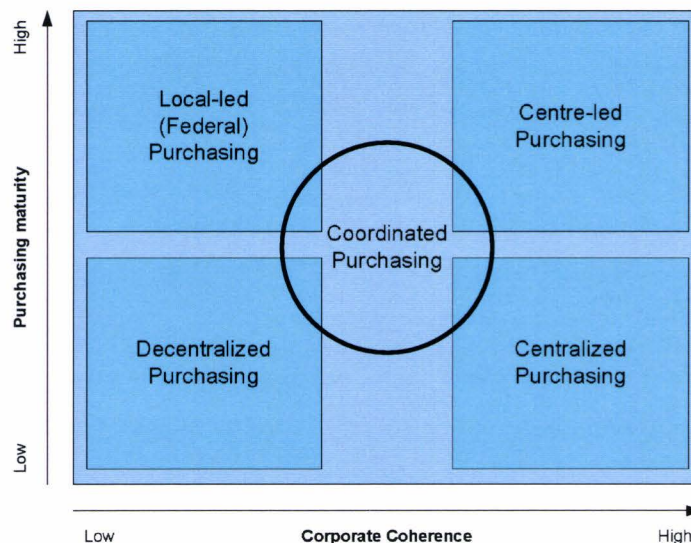


Figure 5.2. Corporate Purchasing Organizational Approaches (Van Weele et al., 2003)

- **Local-led (Federal) Purchasing**

In this case, a corporate competence centre is in place and best-practices are being shared (Rozemeijer, 2000b). The competence centre is a small corporate staff that supports a number of autonomous decentralized purchasing units in their voluntary efforts to exploit potential synergies (Van Weele et al. 2003).

- **Centralized purchasing**

The central purchasing structure represents a classical central purchasing situation (Rozemeijer, 2000b). This is a situation in which most strategic commodities are contracted from a corporate purchasing department. This is only feasible in organizations where purchasing at the operating company level is hardly developed and corporate coherence is high (Van Weele et al., 2003).

- **Hybrid structure/Coordinated Purchasing**

If both parameters have a medium value, a hybrid structure with both central purchasing and voluntary coordination activities is likely to be found (Van Weele et al., 2003). This structure only makes use of sharing information and process knowledge and focuses on how to purchase most effectively (Rozemeijer, 2000b).

Rozemeijer (2000b) developed questionnaires to identify the levels of corporate coherence and purchasing maturity. To determine the position of Royal Wessanen in

the model of Van Weele et al. (2003), these two questionnaires are filled out. More questions answers with “yes”, lead to a higher degree of purchasing maturity or corporate coherence. The questionnaires and the results can be seen in **Appendix 10**. In these questionnaires, Royal Wessanen scores average on corporate coherence and just one question above average in purchasing maturity. This results in the classification of **Coordinated Purchasing towards Centre-led and Local-led Purchasing**.

5.2.4. Conclusion Optimal Degree of Centralization

There is quite a lot of literature available about centralizing and decentralizing business activities and purchasing in particular. There is also a broad academic discussion about the advantages and disadvantages of both organizational directions. The two models presented in the former two sections show how to position the purchasing function of Royal Wessanen and to find the optimal degree of centralization. Arnold (1999) focuses on a comparison between the internationalization and centralization of the total organization versus the procurement of that company. Van Weele et al. (2003) also compare the organization, by terms of Corporate Coherence, versus the status of the purchasing, by the term of Purchasing Maturity. Van Weele et al. (2003), however, describe the different structures in more detail and more in line with this report. Arnold's Coordination model can be largely compared to the Coordinated Purchasing structure of Van Weele et al. (2003). These tools give a direction in which Royal Wessanen is likely to be structured and which structure is expected to be successful. However, top managers do not add value by only choosing a certain approach. They need to create a clear fit between the approach used, and the level of corporate coherence and purchasing maturity (Van Weele et al., 2003).

Royal Wessanen should organize their purchasing function as Coordinated Purchasing and combine central and local-led purchasing. In the former chapter is shown that the purchasing function of Royal Wessanen is moving towards the Purchasing Coordination phase in the development model. This concurs to the average score on purchasing maturity. Next to that, the top management of Royal Wessanen is focusing on creating more synergy between subsidiaries. Purchasing departments of the subsidiaries cooperate more and more to benefit from these synergies and this concurs with the average score on corporate coherence. According to Rozemeijer (2000), in this model a central coordinator determines the policies and functions regarding cooperation and promotes professionalizing the purchasing function. The current structure is a virtual organization centre-led by the corporate director Supply Chain, to monitor the purchasing performance and review the strategic purchasing. This is a suitable base for the coordinated organization structure. Adding local-led purchasing on a more operational level enables Coordinated Purchasing. The next sections take a closer look at purchasing synergy, which is an essential part of the Coordinated Purchasing phase and very relevant for the Royal Wessanen situation. How to manage and organize these purchasing synergies central-led or local-led is also discussed.

5.3. Purchasing Synergy

The next four sections describe what preconditions are of key importance when implementing purchasing synergies in a company with a decentralized purchasing function like Royal Wessanen. The first precondition is a clear transparency that gives the correct and current information overview about all centralized and decentralized purchasing activities. The second is a well defined purchasing strategy supporting and motivating the set up and use of purchasing synergies.

The main subject is how to capture and realize potential synergies in the area of purchasing. In international decentralized companies, purchasing is mostly performed on a local level. This decentralized purchasing has many advantages like e.g. responsible local management and a good supplier relation (Faes and Matthyssens, 1997). However, decentralized purchasing does not benefit of the scale and knowledge of the total purchasing function of the company. Building corporate purchasing synergies can create corporate advantage (Van Weele et al. 2003). Often it seems that these intra-company synergies logically exist, however, these synergies are very difficult to materialize (Rozemeijer, 2000a). In the literature and in practice, there is limited insight in how to realize purchasing synergies on a corporate level while maintaining the advantages of decentralization (Rozemeijer, 2000a).

5.3.1. Definition

This first step is aimed to define purchasing synergy and its characteristics. Faes, Matthyssens and Vandenbempt (2000, p.540) define business synergy as *“Two or more units of a company share know-how or resources, coordinate strategies, pool negotiation power, etc.”* Van Weele et al. (2003, p.5) define purchasing synergy as *“any benefit resulting from cooperation between two or more business units belonging to the same organization”*. Rozemeijer (2000a, p.7) defines purchasing synergy more specifically; *“the value that is added when two or more business units (or purchasing departments) join their forces (e.g. combined buying) and/or share resources, information, and/or knowledge in the area of purchasing.”* This latter definition is used in this project. However, a small addition must be made due to the focus on large decentralized companies; the added value that Rozemeijer uses in his definition must be a total resulting benefit to the whole organization. This neutralizes the fact that some subsidiaries or business units, in some cases, may encounter disadvantage due to a synergy, to let the total organization gain benefit from it. Therefore, this in this project corporate purchasing synergy is defined as *“The value that is created at the corporate level, when the purchasing functions of business units join their forces and/or share resources, information, or knowledge.”*

5.3.2. Benefits

Synergy is supposed to lead to a corporate advantage (Goold and Campbell, 1997; Eisenhardt, 2000). It is clear that the cooperation between multiple business units or subsidiaries of one company can lead to benefits. Van Weele et al. (2003) describe the following benefits:

- Cost savings
- A stronger position vis-à-vis suppliers and/or supplier markets
- Important gains in terms of productivity and lead-times
- Better relationships with suppliers (e.g., better quality and delivery from suppliers)
- And a better use of the supplier's expertise

Faes, Matthyssens and Vandenbempt (2000) partly share this list of benefits. Naturally the cost benefits and the growth in influence on the market are important benefits; however, they also add some important benefits. This is their top five perceived benefits of purchasing synergy:

1. Significant cost savings
2. More impact on monopolistic supply markets
3. Improved market negotiation strategy
4. Improved insight in market and cost structures
5. Better internal exchange of information

The latter benefit mentioned is the stimulation of a better internal exchange of

information. However, this is more a precondition for the realization of purchasing synergies, as will be explained later. The benefits can only be achieved when resources are spent on coordinating the synergies. The total benefit is the net effect of the benefits minus the total costs of the coordinating activities (Van Weele et al., 2003).

Next to these benefits, Rozemeijer (2000a) states some other major motivating factors for companies to establish stronger purchasing functions and move towards intra-company synergies:

1. Coping with supply shortages and assuring long-term availability
2. Responding effectively to a changing business context
3. Responding to a need for increased professional development in purchasing, and for more efficient use of scarce human resources in its several functional and business units

The two last motivation factors might be an improvement of the innovation power of a company and lead to the guarantee of quality in a difficult supplier market.

5.3.3. Risks

Corporate executives have strong biases in favor of synergy, and those biases can lead them into ill-advised attempts to force business units to cooperate. Goold and Campbell (1997) define 4 types of biases:

1. **Synergy bias**; executives overestimate the benefits and underestimate the costs of synergy
2. **Parenting bias**; the belief that synergy will be captured only by persuading or forcing business units to cooperate
3. **Skills bias**; the assumption that whatever know-how is required to achieve synergy will be available within the organization.
4. **Upside bias**; so hard concentration on the potential benefits of synergy that executives overlook the possible downside risks.

In combination, these four biases make synergy seem more attractive and more easily achievable than it truly is. As a result, corporate executives often launch initiatives that eventually waste time and money and sometimes even severely damage their businesses. To avoid such failures, executives need to subject all synergy opportunities to a clear-eyed analysis that clarifies the benefits to be gained, examines the potential for corporate involvement, and takes the possible downsides into account. Such a disciplined approach will inevitably mean that fewer synergy initiatives will be launched. But the initiatives that are implemented will be far more likely to deliver substantial gains.

Faes, Matthyssens and Vandenbempt (2000) state some additional risks of poorly implemented purchasing synergies:

- Buyers and purchasing managers at local level feel angry because of their loss of buying authority over their most valuable products. So, as a retaliation they feed headquarters/centralized purchasing department with minor operational details and small problems regarding deliveries
- Confusion at suppliers because they are negotiating with purchasing headquarters while at the same time solving multiple problems at local level
- Loss of control due to poor coordination, leading to high coordination costs and growing frustration.

A final risk is selecting the wrong degree of centralization, centralizing too much purchasing categories or centralizing purchasing categories that are not suitable for centralization. The centralization/decentralization of the purchasing function and the accompanied benefits and risks are discussed extensively in the literature (Faes and

Matthyssens, 1997; Baily et al., 2005; Arnold, 1999; Van Weele, 2005). Methods to determine the optimal degree of centralization are discussed in section 5.2.

5.3.4. Conclusion

Decentralized purchasing has many clear advantages, so it is important to manage these synergies on a corporate level without losing these advantages. Purchasing synergies can raise gains and add value to Royal Wessanen; however, there are risks. Many risks are related to implementation in an unsuitable situation. Therefore, important preconditions are discussed in section 5.5. Deciding on the right degree of centralization is also an important issue, but already discussed in the section 5.2.

5.4. Types of Synergy

Many international organizations today have a medium level of synergy between business units on contracts and functional resources, and a lower level of exchanging and sharing information and knowledge (Van Weele et al. 2003). There are several approaches to classify the types of synergy. Five of those approaches to identify purchasing synergy types are now discussed to determine the relevant types of synergy for Wessanen.

5.4.1. Schotanus and Telgen (2005)

The main objective of the research of Schotanus and Telgen (2005) is to “identify and classify the current forms of cooperative purchasing”. Their research is limited to horizontal purchasing cooperation between independent organizations, where this project focuses on purchasing cooperation (synergies) between dependent subsidiaries of Royal Wessanen. However, Schotanus and Telgen focus on cooperative purchasing in the public sector. Because entities of the public sector belong to the same government and have no intent to be competitors, they are not explicitly independent. Additionally, their willingness to support each other (possibly in a moderate way) makes a review of this model valuable for this project. This categorization method is explained in detail in **Appendix 11**. Schotanus and Telgen called this highway matrix and use road transport as a metaphor to have practical labels for the forms.

1. Hitchhiking

In this form, large organizations establish contracts on their own specifications and this contract may be used by other (smaller) organizations. The smaller organizations do not have influence on the specifications or supplier choice, like a hitchhiker cannot influence the final destination of its ride.

2. Bus rides

This form mostly involves long term hitchhiking organized by an external profit or nonprofit organization. Using the purchasing expertise of the external party, an auction for specific commodities with an (expected) combined volume can be useful for an unlimited number of participants

3. Carpooling

When carpooling, the procurement process of common commodities is outsourced to one of the group members. Each commodity is purchased by the most suitable organization according to their expertise, resources or purchasing volume. This form is also known as lead buying.

4. Convoy

A convoy is a more intensive form of cooperative purchasing and suits well with one shared exceptional purchasing project. Supply risk can be shared and shared knowledge can be used to deal with uncertainties.

5. F1-team

This cooperation form is quite similar to the carpooling form; however, it is focused on a much higher level of independency of the participating organizations. It is an intensive purchasing form in which representatives of the management teams of the different organizations regularly meet in a steering committee

Sub Conclusion

This categorization explains 5 clear forms of purchasing cooperation. The categories are described according to (and named after) the relation between members. This is necessary for this model, because the characteristics and composition of members is important for cooperative purchasing in the public sector. However, for synergies between subsidiaries at Royal Wessanen, the characteristics of the members are not of major importance. All members are part of Royal Wessanen and every synergy leading to a corporate benefit or advantage will realize a benefit for all members. For that reason, this research excludes the specific characteristics of the members. Another categorization, also approached by the form of synergy, but disregarding the specific characteristics of the members, is the classification by Hughes et al. (1997)

5.4.2. Hughes et al. (1997)

Hughes et al. (1997) define three 3 types of synergy, without considering the characteristics of the members:

1. Informal networking and loose communication

Synergies on different scales emerge from unstructured communication lines within the company and are not formally supported

2. Managed collaborative sourcing

This type of synergy is formalized and supported. However, compared to the other classifications, all types interesting for purchasing synergy are included in this single term

3. Full centralization

This synergy is the merger or combining of one or more purchasing activities of a business unit or more purchasing departments into a central purchasing department. Some of the benefits of synergy might be achieved; however, the implementation will be very difficult.

Sub conclusion

A positive point of this research is the start towards a classification by functional description. Similar to the highway matrix of Schotanus and Telgen (2005), this classification is still mostly described according to the form of the synergy. However, because the members of corporate purchasing synergies at Royal Wessanen are of the same company, the form is not a major issue, but merely specified after a type of synergy is selected. The possible synergy benefits (section 5.3.2) are of much more importance in the selection of a type of purchasing synergy. Faes, Matthyssens and Vandembemt (2000) categorized purchasing synergies according to these possible benefits.

5.4.3. Faes, Matthyssens and Vandembemt (2000)

In their research Faes, Matthyssens and Vandembemt categorized purchasing synergies with a benefit approach. The most related benefit(s) from section 5.3.2 is (are) mentioned after the description of each type:

1. Economies of information and learning

Sharing all available purchasing knowledge on suppliers, new technologies, markets, internal users, applications, the prevention of mutually incompatible

negotiation strategies, the prevention of colleagues from depriving one another of the limited available resources in times of scarcity, etc. **Benefit 1:** Improved insight in market and cost structures.

2. Economies of process

Establishing a common way of working, showing worldwide one line of conduct to suppliers, benchmarking procedures and results, joint training and development. **Benefit 2:** Improved market negotiation strategy.

3. Economies of scale

Pooling volumes to enforce purchasing power, reducing the number of global suppliers, standardization a synchronizing requirements. **Benefit 3 and 4:** More impact on monopolistic supply markets and significant cost savings.

Sub-conclusion

The categorization in the research of Faes, Matthyssens and Vandembemt (2000) focuses on their four major benefits described in section 5.3.2. The focus on possible benefits is a more suitable categorization for corporate purchasing synergies at Royal Wessanen. However, in this categorization the functional description of the possible synergies is not sufficiently captured. A more detailed approach combining the possible benefits and the functional description of purchasing synergies is given by Goold and Campbell (1997).

5.4.4. Goold and Campbell (1997)

Goold and Campbell (1997) defined six forms of business synergies:

1. Coordinated strategies

Coordinated strategies cover benefits that arise from aligning strategies of two or more businesses.

2. Sharing intangible resources (knowledge and information)

Shared know-how covers the benefits associated with the sharing of knowledge and competences across the portfolio. It may involve sharing of best practice in certain business processes, or leveraging expertise in functional areas, or pooling knowledge about how to succeed in specific geographical regions. The know-how may be written up in manuals, policies and procedures, but very often it is less formally documented.

3. Sharing tangible resources

Shared tangible resources include the benefits from economies of scale and elimination of duplicated effort when physical assets and resources are shared

4. Vertical integration

Vertical integration consists of the benefits available from managing trading relationships between other business units, with the objective of improving capacity utilization, price realization and market access

5. Pooled negotiation power

Pooled negotiating power contains the cost or quality benefits that can be gained from purchasing scale. It also covers the benefits from joint negotiation with other stakeholders such as customers, governments, etc.

6. Combined business creation

Combined new business creation is the creation of new businesses by combining know-how from different units, by extracting activities from different units to put into a new unit, and by internal joint ventures or alliances between units

Sub conclusion

This latter categorization combines the function and benefits of the possible synergy. However, for the reason that it is too detailed for Royal Wessanen and does not have

all positive points of the classifications mentioned, a definitive classification is now presented.

5.4.5. Conclusion

In the literature, multiple different categorizations of synergy types can be found. However, much overlap between these categorizations can be seen. For a classification of purchasing synergy, each type should cover the possible benefits and a functional description. For Royal Wessanen, the following types of synergy are used, resulting from combining literature sources, focusing on the most logical types and classifications relevant for purchasing synergies.

- 1. Information sharing**
Sharing information about suppliers, status, saving projects, suppliers' quality, prices, delivery and legal terms, conditions, etc.
- 2. Contract and resource sharing**
Unrestrained usage of contracts and discount or payment term agreements from another subsidiary.
- 3. Volume bundling**
Adjust specifics and join purchasing volumes to tender suppliers and find a better contract.
- 4. Shared innovation power**
Combined purchasing power supports joint innovation power through multiple business units or subsidiaries.
- 5. Centralized purchasing**
Select relevant categories to be purchased by a centralized purchaser, purchasing department or third party.

The first strategy alignment step of Goold and Campbell (1997) is left out, because the commitment for a strategy that favors synergies can be enforced by (top) management. Their "vertical integration" type is combined with the "sharing contract and resources" type into "contract and resource sharing".

When realizing purchasing synergy at Royal Wessanen, the objective is to select the appropriate synergy type per purchasing category. Regarding the current needs set by the circumstances of the organization, different synergy structures for every pursued synergy type must be designed. However, all synergy types mentioned need the same preconditions to ensure a substantial chance of success. These fundamental preconditions are described in the next section.

5.5. Preconditions for Synergy

As already stated, an increase of synergy between business units can have a positive effect on the purchasing performance of a company. Therefore, many purchasing managers agree that it is valuable to increase the level of synergy. However, this seems to be difficult because of several reasons. The most important reason is that critical preconditions are not in place.

Today in many cases, synergies are mainly the result of informal networking (Hughes et al. 1997). However, to set up synergies structurally, two preconditions are important. First, the synergy initiatives should be supported by the current business structures through formal organizational mechanisms and information and communication infrastructure. A lack of this type of support increases the chances that the current purchasing synergy initiatives will not be succeeded by new ones. Secondly, corporate management should be heavily involved in the synergy initiatives. There should be a management tool or control in place to support and

monitor these initiatives (Van Weele et al., 2003). An important management tool to support synergies and to commit management and available resources to the synergy initiatives is the set up of a purchasing strategy.

The preconditions to materialize synergies found in the literature are classified in these two preconditions, purchasing transparency and purchasing strategy. Purchasing transparency is needed to identify and facilitate synergies in a structured way, purchasing strategy to support and motivate synergies initiatives.

5.5.1. Purchasing Transparency

Before synergies can be realized, purchasing transparency is needed to identify and facilitate purchasing synergies. Without a clear image of the purchasing structure, processes and status, synergies are destined to be implemented without success. (Christensen, 2002). From his empirical research, Rozemeijer (2000a) concludes that purchasing transparency stimulates the realization of synergies and is in many cases the basis for synergies. Facilitating networking and communication is a useful instrument for stimulating intra-company synergies. However, more clear formalized structures and information sharing are required.

The precondition purchasing transparency can be divided into two categories; fixed organizational characteristics called static information and constantly changing quantitative and qualitative data, called dynamic data (Degraeve, Roodhooft and Doveren, 2006). Regarding the human resource aspect, processes and tools, purchasing transparency must consist of the following **static information**:

1. **Structural design** (Rozemeijer, 2000a; Faes, Matthyssens and Vandenbempt, 2000). Structural design consist of standardization of purchasing functions, hierarchy, capabilities and roles and responsibilities of all people involved in the set up, support and execution of synergy initiatives.
2. **Networks of people** (Rozemeijer, 2000a; Faes, Matthyssens and Vandenbempt, 2000). Create synergy teams or functional groups, and clear functional vertical and horizontal links through the organization. Develop a cooperative corporate identity to avoid staff problems.
3. **Information and communication infrastructure** (Rozemeijer, 2000a; Faes, Matthyssens and Vandenbempt, 2000). Clear communication lines and protocols, fixed data and information formats are important parts of the information and communication infrastructure.
4. **Processes and operations** (Faes and Matthyssens, 1997; Faes, Matthyssens and Vandenbempt, 2000; Hughes et al., 1997) Develop and define clear executable processes, (working) rules and methods. Also the categorization of process entities like, purchasing categories, product groups or commodities should be made clear.
5. **Facilitation of networking**
Facilitation of proper ICT Networking Tools, meeting facilities and time from employees. Networking should be facilitated to enhance teamwork (Rozemeijer, 2000a; Hughes et al., 1997).

Regarding **dynamic data**, purchasing transparency should exist of:

6. **Project status and information**
Current qualitative project information should be stored to provide all members with the proper supporting and background information (Hughes et al., 1997).
7. **Deliverables and results**
Expectations, outputs and results should be made explicit. This can be done by budgets, realized savings and current spend numbers. This Data and

progress should be reviewed by the people involved and top management (Hughes et al., 1997).

All aspects of setting up a clear transparent purchasing organization are not as simple as many organizations think (Christensen, 2002) and should be stored and represented in a structural way. Regarding the implementation of an information system, the issues identified in the first category (1 to 5) provide the static structure and application of the system (communication and access right protocols, process and data definitions, etc.). The second category (6 and 7) is the dynamic and actual data (structurally) stored in the system. This last type of data can be divided into qualitative (6) and quantitative (7) data. This is further described in chapter 6.

For the quantitative data support, the implementation of the ERP data system SAP at Royal Wessanen can be of great help. This system enables collection and representation of (spend) data and can be a suitable tool to turn purchasing transparency into an important and value adding factor (Carbone, 2006). Implementing SAP will also result in a standard way of working, which contributes to the uniformity of the purchasing transparency. Currently Royal Wessanen does not have an ERP system. So for all qualitative (6) data, another company wide information system is needed. The system must allow exploiting all information needed to create purchasing transparency. Such a system can also be used for defining purchasing strategies, subject of the next part of this section (Degraeve, Roodhooft and Doveren, 2006).

5.5.2. Purchasing Strategy

Purchasing Transparency presents the Royal Wessanen purchasing structures and facilitates the synergy initiatives. Van Weele et al. (2003) state that the following aspects are major roadblocks when implementing and managing corporate synergies:

1. Lack of integrated corporate structure (part of purchasing transparency)
2. Lack of clear corporate strategy
3. Weak corporate culture regarding synergies

The latter two roadblocks confirm that a strategic process must be in place to formulate a purchasing strategy, which supports and motivates these synergies. This is needed at the highest level, the Royal Wessanen company strategy, in which a preference regarding value adding synergies is mentioned. Also on a lower level, the strategy by purchasing category can help increase motivation for all stakeholders and generate a support for synergies within the whole company. Without a clear direction set by a purchasing strategy, many synergies are not sufficiently supported and condemned to a slow ending. Important aspects of the purchasing strategy process regarding synergies are:

1. **Top management involvement and commitment** (Rozemeijer, 2000a)
 - Local and corporate (senior) management needs to be prepared to invest time and resources in ensuring that collaboration projects are defined, prioritized, selected, and driven forward (Hughes et al., 1997). A manageable agreed number of projects should be fully supported by management of each unit (business mandate) (Hughes et al., 1997). Top management faces three important tasks (Rozemeijer, 2000a):
 1. Explicit synergy projects should be identified, prioritized and decided on.
 2. Appointing of a senior management problem owner or development of a cooperative corporate identity to avoid staff problems.
 3. Setting a clear and measurable target (based on detailed purchasing information).

A close correlation between the potential value delivered and the level of executive support is recommended (Hughes et al., 1997).

2. **External influence**
External issues like market, technology and competitive environment should influence the decision regarding the selected strategy
3. **Allocation of all necessary resources** (Rozemeijer, 2000a)
Within the entire company the strategic direction should be supported with all resources needed.
4. **Strategy for specific (synergy) categories**
Involved people or teams are responsible for planning, organizing, formulating and implementing a purchasing strategy for their specific categories or projects (Rozemeijer, 2000a). The purchasing strategy should also incorporate the individual needs of each business (Hughes et al., 1997).
5. **Training**
Training and development should be available for all involved people and/or teams (Rozemeijer, 2000a; Hughes et al., 1997).
6. **Review**
Evaluations, feedback and improvements are initiated where necessary (Rozemeijer, 2000b).

Faes and Matthyssens (1997) state that confidence building performance measures are needed to motivate the people involved. Depending on the Royal Wessanen subsidiary and corporate culture can be decided if this is desired and feasible. If implemented, it can be a part of the strategic direction of the purchasing synergy concept within the company.

5.5.3. Conclusion

The found relation between Synergy and the two preconditions, Transparency and Purchasing Strategy, is presented in figure 5.3. The Royal Wessanen organizational coordination structure is also added to the figure.

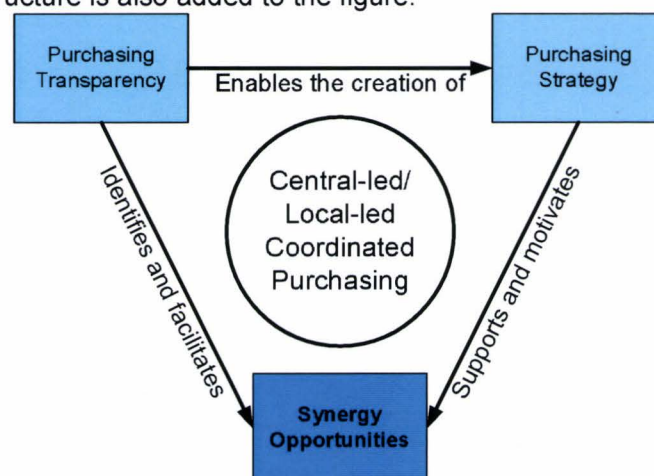


Figure 5.3. Relations between Transparency, Purchasing Strategy and Synergy options

This classification of preconditions can be seen in many forms, in different models in the literature. This also becomes clear when addressing two models of purchasing synergy management in the next section. The classification of the preconditions in this section, however, contains all important aspects found in the literature and needed for a suitable setting to realize purchasing synergies at Royal Wessanen.

Because the preconditions mentioned in this section are so crucial to managing purchasing synergies, they can also be seen as an initial part of purchasing synergy

management. Therefore, these preconditions also have a place in the proposed management model in the next section.

5.6. Managing Purchasing Synergy

In this section a purchasing synergy management model for Royal Wessanen is proposed. This model is based on models found in the literature, the identified preconditions and other issues from the former sections. After that the managerial responsibilities and some practical implementation issues are addressed.

5.6.1. Vizjak (1994)

In 1994, Vizjak proposed a five-step approach to synergy management. Vizjak (1994) created a 5 step model to manage synergies between business units.

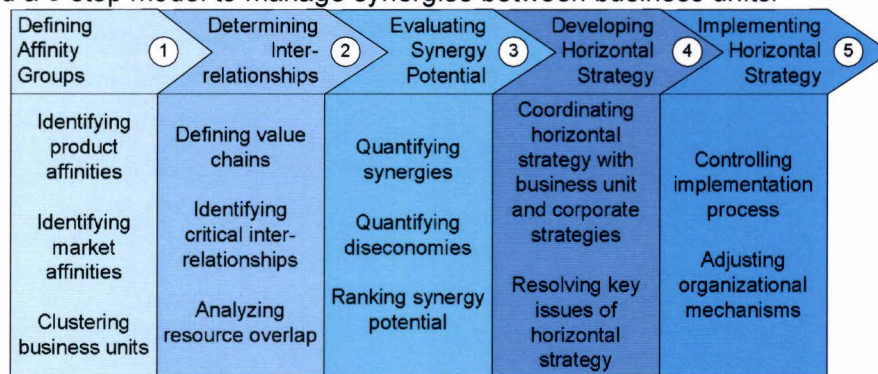


Figure 5.4. 5-Step Approach (Vizjak, 1994)

These steps are:

- 1. Defining Affinity Groups;** these are groups of business units with common or similar markets. In this case, this is preset by the limitation of the purchasing function. A second defining step can be toward purchasing categories or even purchased commodities.
- 2. Determining Inter-relationships:** existing tangible and intangible relations between business units, shared activities and structures between these networks.
- 3. Evaluating Synergy Potential:** the benefits should be balanced against diseconomies and the synergy potentials must be quantified and prioritized. The decision deriving from this step is also influenced by managerial qualities.
- 4. Developing Horizontal Strategy:** horizontal strategies are dedicated to realizing the synergy potential. They are formulated on affinity group level and have to be coordinated with business unit and corporate strategy.
- 5. Implementing Horizontal Strategy:** this is the last step, dedicated to ensuring the exploitation of synergy potential. The start-up phase is the crucial step of the implementation. Clear organizational structures in combination with proper facilitation of the synergy processes are needed. Practical issues like managerial responsibilities and implementation barriers are part of this last step.

Almost all of the analytical activities described by Vizjak, mostly represented in step 1 and 2, can be adjusted to the precondition purchasing transparency in this chapter. Step 3 partly and step 4, contain the strategic factors presented in the former section. Although this model confirms the findings earlier in this chapter, Vizjak (1994) also stresses that the implementation is a crucial step in the realization of synergies. He addressed the managerial and implementation issues in step 3 and 5. These issues have to be addressed in the proposed model and are described later in this section.

5.6.2. Van Weele, Rozemeijer, and Weggeman (2003)

When managing corporate purchasing synergies, van Weele et al. (2003) consider 4 important aspects important to Corporate Purchasing Synergy Management and influencing purchasing performance:

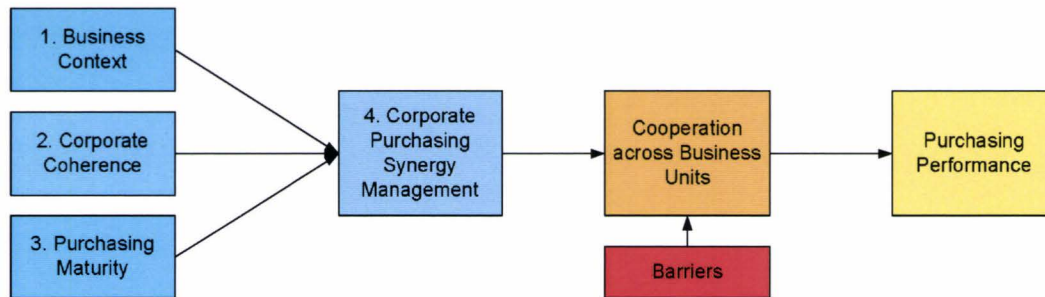


Figure 5.5. Research model on purchasing synergy (Van Weele et al., 2003)

1. External Business Context

Companies depend on pressure that they experience in their market, technology, and competitive environment.

2. Corporate Coherence

The corporate attitude toward synergy, mostly through strategy

3. Purchasing Maturity

The level of professionalism of the purchasing function, including technology, work processes, and organizational structure, and communication characteristics

4. Corporate Purchasing Synergy Management

Interaction between the major stakeholders and management is needed to realize purchasing synergy.

Additional influences are the internal barriers, of which the risks are already described in section 5.3.3. Three of these four aspects were already described in the former section. The Purchasing Maturity was captured by the term Transparency. The External Business Context and Corporate Coherence were captured by the term Strategy.

5.6.3. Corporate Wessanen Purchasing Synergy Model

After evaluating the two models (figure 5.4 and 5.5) and combining them with the choice of preconditions in the former section (figure 5.3), a new adjusted model on purchasing synergy for Royal Wessanen is proposed.

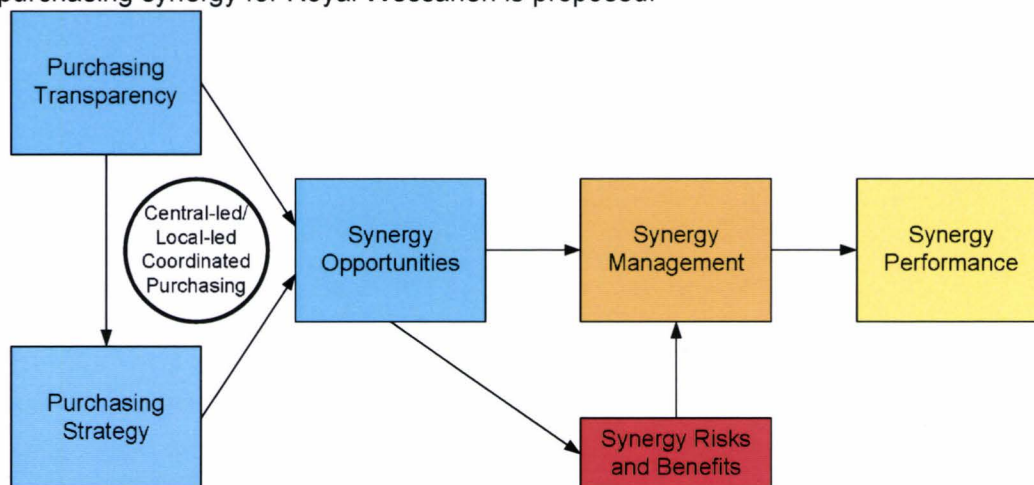


Figure 5.6. Royal Wessanen model on managing purchasing synergy

The fifth implementation step from Vizjak (1994) and Corporate Purchasing Synergy Management aspect of Van Weele et al. (2003) are added in this model under Synergy Management.

Synergy management consists largely of regular issues of change management and implementation management. In this case, the specific synergy risks should be managed properly to gain from synergy benefits and positively affect synergy performance. There are five main managerial aspects that are of influence of purchasing synergy management.

- Determine the optimal degree of centralization (section 5.2)
- Deal with Synergy Risks (section 5.3.3)
- Identify and select a proper type of synergy (section 5.4)
- Identify managerial responsibilities (section 5.6.4)
- Take implementation issues into account (section 5.6.5)

The latter two issues, influencing synergy performance, are now explained further.

5.6.4. Managerial Responsibilities

One of the most important issues in managing purchasing synergies is the issue of responsibility. Rozemeijer (2000b) states that in the end the CEO should be responsible, but that there are other stakeholders. Rozemeijer designed a diagram to address this issue. For managing purchasing synergy there are four parties that are important: CEO, CPO (Chief Purchasing Officer), Business Unit management and Business Unit purchasing management. They all have their specific roles and responsibilities. Communication between these participants is crucial. The arrows in Figure 5.7 show the nature of the different relations. These relations should be formally structured and all parties involved should interact very frequently to discuss issues related to purchasing synergy. They should jointly conduct tasks with regard to managing purchasing synergy. In the diagram, all arrows are two-ways and the intensity is equal. However, at Royal Wessanen relations are one way, and/or more intensive in terms of involvement and communication (CPO > Business unit Purchasing Management) than others (CEO > Business unit Purchasing Management). The better the relationships are formally and informally structured, the more successful the purchasing synergy will be (Rozemeijer, 2000b).

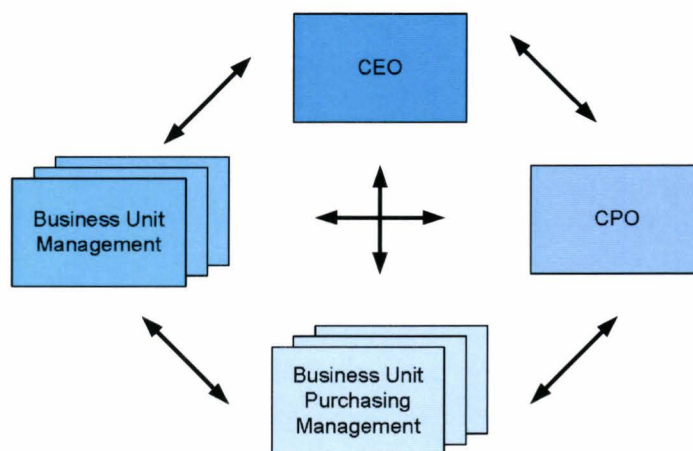


Figure 5.7. Communication lines between stakeholders (Rozemeijer, 2000a)

5.6.5. Implementation Issues

Regarding realizing purchasing synergies, Faes, Matthyssens and Vandenbempt (2000) state that intra-company coordinated purchasing is built up step by step (incrementally) and not by a revolution. As stated before, they are also supporters of

the implementation of confidence building performance measures to motivate the people involved. Building trust by keeping one's word to suppliers and internal customers is another very important issue during the implementation. While implementing synergies, managers should avoid an imbalance of incentives and contribution of all people involved in the purchasing synergies; it is important to protect the positive image of the corporate synergies (Essig, 1997). Van Weele et al. (2003) state the following crucial factors when implementing purchasing synergies:

- **Align purchasing synergy initiatives with corporate and business line strategies.** When synergy initiatives are in line with the corporate strategy, these initiatives will help business unit managers to achieve their own objectives. This will help corporate management 'sell' the corporate purchasing strategies to business unit managers.
- **Do not focus exclusively on negotiating corporate contracts for common commodities and services.** Business unit managers do not want to become too dependant on others for their purchasing decisions. Despite potential gains, these initiatives will therefore usually meet resistance.
- **Involve business management and local purchasing management early in the process.** Soft issues can play a major role in realizing purchasing synergy. Implementation should be very careful regarding taking away purchasing responsibility from the business units. Early involvement of business unit managers is needed, because in most cases, corporate purchasing initiative should be led by these executives.
- **Plan and monitor benefits and savings that have been obtained.** This has already been stated shortly by the precondition purchasing transparency, because it is an issue of insight and overview for the corporate management. But what not yet has been mentioned is that without this monitoring, the supporting corporate manager is not able to give this insight and, therefore, will gradually suffer from lack of credibility. This is a second reason to have a formal reporting procedure in place.

5.7. Conclusion

This chapter describes the motion towards a more mature corporate purchasing function, in which Royal Wessanen can benefit from purchasing synergies. First is determined that Royal Wessanen should organize the purchasing function as Coordinated Purchasing and combine central and local-led purchasing. This is the best suitable organization for Royal Wessanen to coordinate synergies. Although many managers and academics agree that a higher level of purchasing synergy can add great value to a business, in practice this seems not so simple to realize. This chapter provides some descriptions and guidelines how to successfully materialize corporate intra-organizational purchasing synergies.

This chapter defines a clear classification of synergy types. The preconditions purchasing transparency and purchasing strategy, needed for a successful implementation of purchasing synergies, are identified. According to the literature, the preconditions can be classified in multiple ways. However, the classification of purchasing transparency and purchasing strategy in this chapter contains the major success factors that should be in place when materializing purchasing synergies. Royal Wessanen should have these in place when realizing and managing purchasing synergies. Lastly, some guidelines for managing synergies are described, a method to assess synergies is given, and some additional important issues from literature are stated. The preconditions Purchasing Transparency and Purchasing Strategy at Royal Wessanen are subject of the next two chapters.

6. Purchasing Transparency

6.1. Introduction

In the former chapter the relation between synergy, purchasing strategy and purchasing transparency was presented. This chapter analyzes the precondition purchasing transparency further. As stated, purchasing transparency is the first precondition to identify and facilitate synergies, and also enables the creation of a purchasing strategy. This because purchasing transparency supplies the information needed for synergy and purchasing strategy. Purchasing strategy and its development is subject of the next chapter.

Currently, the available purchasing transparency at a corporate level at Royal Wessanen is minimal. The local purchasing functions are known and used as a virtual organization. However, monitoring qualitative and quantitative purchasing information is poorly or not in place. Purchasing Transparency, as described in this project, should give a correct and up to date information overview about all centralized and decentralized purchasing activities.

6.2. Purchasing Transparency Defined

Transparency in this project is defined as *a clear and structured sharing of information and data*. When purchasing transparency is in place, proper information and data sharing can be used to make sound decisions (Hatch, 1997), in this project regarding the purchasing function. An overview of the internal purchasing function is presented accurately and the external supplier environment becomes more predictable. The importance of purchasing transparency needs to be stressed (Tapscott and Ticoll, 2000). In chapter 5 a clear division is made between *static information* and *dynamic data*.

The sharing of too much information can also occur, making the situation complex and overwhelming (Hatch, 1997). Therefore, purchasing transparency is not defined as sharing as much data and information as possible, but only the data and information needed to support and identify purchasing synergies and to enable the development of purchasing strategies.

6.3. Types of Purchasing Information

In chapter 5.5.1 a list of information types, extracted from the synergy literature, is presented. Purchasing transparency should provide a clear overview of the following 7 information types:

Static Information

1. Structural design
2. Networks of people
3. Information and communication infrastructure
4. Processes and operations
5. Facilitation of networking

Dynamic Data

6. Project status and information
7. Deliverables and results

Point 1 to 5 present the static information needed to be communicated; however, the actual contents of these points can be directed by managerial aspects or information resulting from the purchasing strategy. Points 6 and 7 represent the dynamic data,

quantitative and qualitative, of the current situation. Practical issues regarding information systems etc. are already discussed in section 5.5.1.

6.4. Categorization of Purchased Goods

A main issue in creating transparency in the Royal Wessanen purchasing function is identifying the different product categories. The first categorization can be made according to 'similar products'. The next step is to select criteria for the categorization. Finally, there must be homogeneity between products in the same category, but heterogeneity between products in different categories. Important criteria can be:

- **Current organization structure**
Use the already existing categorization at Royal Wessanen HQ and subsidiaries
- **Product characteristics and function** (Van Mal, 2000)
Products with similarities in characteristics or function can be categorized
- **Company data**
Current spend or volumes can be selection criteria

6.5. Roles and Responsibilities

The current roles and responsibilities at Royal Wessanen differ greatly within the many purchasing departments. This does not have to be a problem; however, all purchasing responsibilities have to be assigned to a person or function. Also, the level of training and capabilities must be made clear (Van Weele, 2006). A uniform terminology for all purchasing functions must be in place to communicate effectively and standard responsibilities accompanying the defined purchasing functions can be provided and communicated (Van Weele, 2005). It does not have to be a problem when a certain purchasing department deviates from the preset roles and responsibilities, as long as the uniform guidelines are clear to identify gaps in this area.

6.6. Conclusion

As has been shown in the former chapter, purchasing transparency is essential for enabling the creation of the purchasing strategy and identifying and facilitating purchasing synergy at Royal Wessanen. Purchasing transparency can be divided into 7 information types and in *static information* and *dynamic data*. Static information gives a clear picture of the organization of the purchasing function and a current categorization of purchased goods. Information about current processes, strategies and required roles and responsibilities are also part of the static information. Facilitation of networking and communication, e.g. an IT application, consisting of an information and data overview, should be designed for the Royal Wessanen subsidiaries as well.

Dynamic data gives the current status of the purchasing function in terms of project, spend, budget and other qualitative and quantitative relevant data. Collecting and sharing this data is essential when evaluating the purchasing status and reviewing the purchasing strategy.

The design should identify what practical static information and dynamic data must be collected and shared at Royal Wessanen. This must be limited to only the most valuable information and data to be collected from the subsidiaries, to keep their workload minimized.

7. Purchasing Strategy

7.1. Introduction

As argued in chapter 5, a purchasing strategy is important to support synergy initiatives resulting in benefits. As concluded in chapter 4, the first development of a purchasing strategy is necessary to enhance Purchasing Maturity and reach the Coordinated Purchasing stage in the development model. This chapter describes the development of a purchasing strategy. First, the definition of strategy and purchasing strategy is provided, followed by strategy development aspects that are important basics for the design of a Royal Wessanen purchasing strategy.

7.2. Purchasing Strategy Defined

7.2.1. Strategy in General

According to Weggeman, Wijnen and Kor (1997, p.72), strategy can be defined as 'the way and means with predetermined goals can be pursued; an action plan'. A strategy is a plan to reach the desired goal and deals with the reaction of an organization to the environment over a longer period of time. Van Aken (2002, p. 113) defines strategy as "the pattern of choices within an organization, regarding the realization of the goals, the ways by which this should happen and the means used to achieve this for the total organization". A strategy helps an organization to coordinate and allocate the organization's resources based on internal competencies, weaknesses and influences from the environment, to achieve their predetermined goals. By choosing one of the possible ways to realize these goals and committing to that choice an action is created. (Weggeman et al., 1997)

7.2.2. Purchasing Strategy

Ellram and Carr (1994) state that the literature describes purchasing strategy from three perspectives:

- Specific strategies used by purchasing function. Strategy as a planned approach for the purchasing function to execute the responsibilities and act more effectively in the supply market.
- Role of purchasing in supporting strategies of other functions in the organization. Strategic planning of purchasing supports the general strategy of the organization and all functions that contribute to that.
- Purchasing as a strategic function of the organization. The role of purchasing developed from passive to a more (pro-) active one. This is a result of the acknowledgement of the purchasing function to the success of the organization.

These authors make a clear distinction between "purchasing strategy" and "purchasing as a strategic function". In this report the purchasing strategy is mainly related to the first and third perspective; the development of specific purchasing strategies per category and stating the total purchasing strategy process for Royal Wessanen. In the second perspective the purchasing strategy is linked much tighter to the company strategy. When stating the Royal Wessanen purchasing strategy, this has to be in sync with the Royal Wessanen general strategy. However, integrating the purchasing strategy into the general company strategy is not of key relevance to this project (Van Weele, 2005).

Van Weele (2005, p.77) provides a general purchasing management process in which the relation between objectives, strategy, planning and policy implementation is presented. In this model the purchasing strategy is based upon Purchasing Objectives, resulting from a purchasing (market) research. The purchasing strategy is the basis of a purchasing planning and policy implementation. In this model the objective-means hierarchy described by Van Aken (2002) is followed.

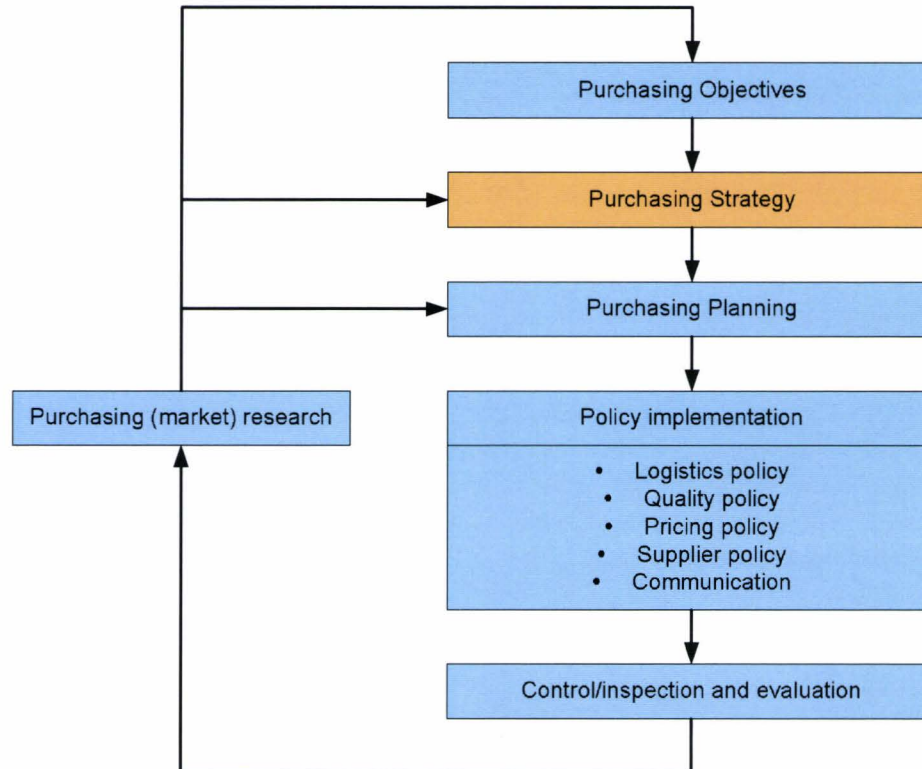


Figure 7.1. The purchasing management process (Van Weele, 2005)

About criteria for a purchasing strategy little is written in the literature. Most literature describes how to develop a specific strategy per category or commodity (Monczka et al, 1997; Van Weele, 2005). This is the subject of the next section.

Purchasing Strategy, as developed for Royal Wessanen in this project, is a defined pattern of choices as described by Van Aken (2002). This includes the ways by which this should happen and the means used to achieve purchasing goals. The goal of purchasing strategy in the purchasing process of this project is to control the purchasing function and identify and select saving opportunities to benefit from them (through synergy). As a result, *Purchasing Strategy* in this project is defined as:

“The continuous strategy development process, including ways and means, to control the purchasing function and reach the predetermined goals”.

Here, purchasing is seen in the perspective as a strategic function of the organization, the third perspective of Ellram and Carr (1994), combined with the strategy definition of Van Aken (2002).

7.2.3. Purchasing Strategy per Category

The purchasing strategy per category is the actual strategy formulated for a specific category and is therefore the result of the process defined in the purchasing strategy. The definition is a combination of the first perspective of Ellram and Carr (1994) and the strategy definition of Van Aken (2002).

Purchasing Strategy per Category is defined as “a category specific purchasing strategy, used by the purchasing function to act more effectively in the specific supply market, resulting from the pattern of choices as defined by the Royal Wessanen purchasing strategy”.

7.3. Purchasing Strategy Development

7.3.1. Introduction

Now that purchasing strategy is defined, this section describes how a purchasing strategy is developed. Important aspects of purchasing strategy regarding synergy are already stated in chapter 5. However, the actual development of category specific synergy strategies is handled in this chapter.

In the literature many strategy development models can be found. There is also much overlap to be found in these models (Nagel, 1994; Hatch, 1997; Mintzberg et al., 1998; Weggeman et al. 1997; Van Aken, 2002). The following steps can be found in all models:

- Internal analysis, Strengths and Weaknesses of a organization
- External analysis, Opportunities and Threats from the environment
- Goals of the organization
- Current strategy
- Determination of strategy gap
- Development and choice between alternative strategies
- Implementation of the chosen strategy

7.3.2. Purchasing Excellence

As the recognition of purchasing as a strategic function grows, the interest for purchasing performance increases. The NEVI (Nederlandse Vereniging voor Inkoopmanagement – Dutch Association for Purchasing Management) defined the Purchasing Excellence program to compare the purchasing performance of Dutch companies with best-in-class global purchasing processes. For this program the Michigan State University Model (MSU-model) developed by Monczka (1999) was used. In his research of best-in-class purchasing processes, Monczka defined a

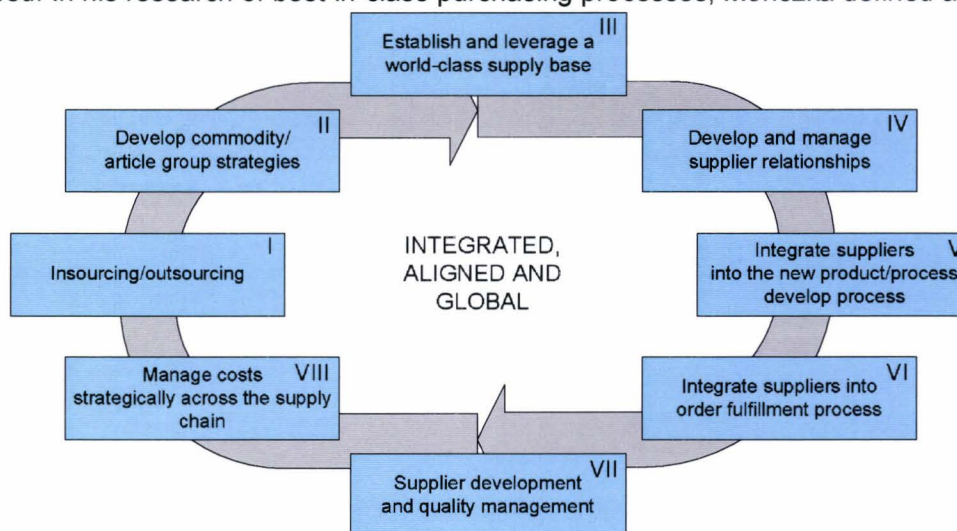


Figure 7.2. Purchasing Excellence (MSU) model (Van Weele, 2005, adapted from Monczka, 1999)

model of 7 strategic processes and 6 supporting processes that lead to Purchasing Excellence. These 7 strategic processes are aimed at long-term improvements.

- I. The first step defines the make-or-buy decision. During this step the company needs to decide what activities to handle inside or outside the company.
- II. During this step the products to be purchased are categorized into article groups, for which specific strategies are developed. In this step the focus is on: the value of the purchasing categories, the characteristics of the supply market, the possible and available suppliers, purchasing strategy, supplier strategy, synergy structure, etc.
- III. In this step the supply base management is further realized in the supplier selection process, resulting from the developed strategies per categories.
- IV. to VIII. These are supplier specific steps like managing supplier relations (IV), supplier involvement (V) and supplier evaluation and development (VII)

Regarding Royal Wessanen, the development of specific purchasing strategies per category is the main subject. Naturally, the other steps are important for the next phase of increasing the purchasing function at Royal Wessanen. However, for a first phase to control purchasing spend and identify saving opportunities at Royal Wessanen, step I and II are sufficient. Important and basic aspects of the steps III to VII will be part of the specific strategies per category.

Monczka also developed a supporting model, containing 6 steps. These processes enable the 7 strategic processes in the Purchasing Excellence Model. (NEVI, 2002)

- I. The first step states that purchasing strategies must be subtracted from the general corporate strategy. The purchasing strategy should support the company goals.
- II. This step defines the organization and networking within the company to support the performance of the strategies.
- III. It is necessary to create a clear view over what the level of global allocation of the purchasing function is. The identification of local, regional and global markets will support the development of an appropriate strategy.
- IV. and V. Define the implementation of a clear IT monitoring system with clear measurements. This helps to establish a clear representation of the deliverables and results.
- VI. This step represents the process to establish clear roles and responsibilities and making training and personal development available.

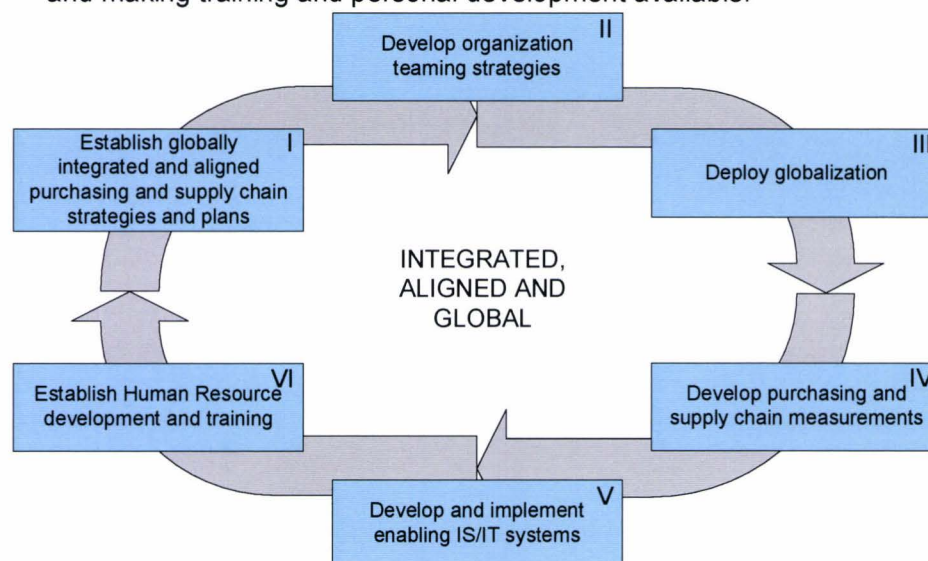


Figure 7.3. Supporting Model, (NEVI, 2002, adapted from Monczka, 1999)

The preconditions for purchasing synergy, as presented in chapter 6, purchasing

transparency and purchasing strategy, and their sub-parts, can be compared with the steps in this model. The creation of a purchasing strategy and implementation of the supporting processes of measurements (which can be compared to the precondition purchasing transparency) increases the purchasing maturity. It allows Royal Wessanen to gain control over their purchasing function and identify saving opportunities. It also allows the choice to implement a specific strategy per category to capture the potential benefits, using the development of purchasing synergies or other strategic implementations. NEVI also states many of the same important managerial aspects as presented in section 5.6.

For the development of specific strategies per category the two main development processes are described; Monczka et al. (2005) and Kraljic (1983).

7.3.3. Strategy per Category Development

Monczka et al. (2005) define 7 steps in the strategy development process for commodities. This model can also be used for the development of specific strategies per purchasing category.

- 1. Define business unit requirements**
Higher level corporate or subsidiary strategies are the basis for a specific purchasing strategy per category. These strategies serve certain goals; the specific strategies should serve the same goals.
- 2. Define strategic importance by portfolio analysis**
Monczka et al. use the Kraljic portfolio to determine the strategic importance. This portfolio is described in the next section.
- 3. Determine business and purchasing requirements and conduct supply market research**
This is the extended analysis of the purchasing category. It contains an analysis of the category spend, supply base, strategy and goals.
- 4. Set goals and conduct gap analysis**
During this step specific goals are formulated. These can be used to measure and evaluate progress and performance. These goals should be specific, effective and contain all value drivers.
- 5. Develop sourcing strategy and objectives**
The developed strategy should contain details about:
 - Supply base (number and characteristics of suppliers)
 - Preferred suppliers
 - Local, regional or global sourcing
 - Contract requirements
 - Supplier strategy
- 6. Execute the strategy**
This step is the implementation of the strategy. Responsibilities and tasks should be appointed, processes and communication should be clear to all stakeholders and a clear time table must be made. All resources should be made available and alternatives should be developed.
- 7. Monitor results and review performance**
This last step is the evaluation to confirm that the developed strategy leads to the determined goals. Using discussions, feedback and evaluation of the results, step 1 to 6 can be repeated periodically to maximize the purchasing performance.

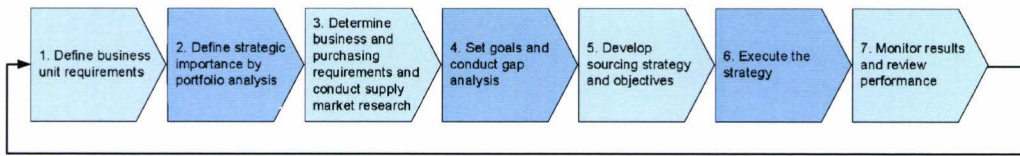


Figure 7.4. Strategy Development Process (Monczka et al., 2005)

This model can lead to many different strategies for a category. To support some form of uniformity, the design phase focuses on some preset structures that can be chosen by Royal Wessanen during the strategy development process. Naturally, adjustments to these standard structures can be made.

7.3.4. Portfolio-analysis

Van Weele (2005) states that the Kraljic portfolio analysis (1983) can be a first strategy development step for purchasing categories. This analysis also supports the development of a suitable supply base. Many of the same aspects that Monczka et al. (2005) describe are to be found in this model. It consists of 4 phases.

Phase 1. Classification

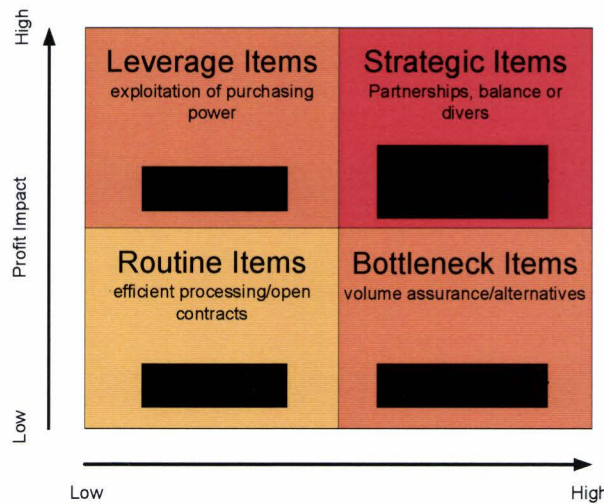


Figure 7.5. Purchasing matrix, Kraljic (1983)

In the first phase, for all purchased products or product categories the Supply Risk and Profit Impact are determined. Using these two variables, the strategic level is determined using a two by two matrix. Every strategic level has its own tasks, supplier management and decision level. The main tasks and some products purchased by Wessanen are placed in figure 7.5. For product categories resulting in the level Strategic Items, the next 3 phases can be performed. These are, however, seldom used in practice. Usually only the first step is used, resulting in 4 possible strategies. All 4 phases are further described in **Appendix 12**.

7.3.6. Strategy Review

Royal Wessanen is not only interested in setting up strategies combined with the benefits of possible synergies, but also wants to ensure the continuous process of reviewing the performance of the current strategy. Monczka et al. (2005) describes a clear evaluation step in the strategy development process. The Kraljic portfolio analysis describes fixed strategies per product type. However, through the years additions to this portfolio analysis have provided strategies focused on either keeping products in a specific part of the matrix or shifting it to another one (Gelderman and Van Weele, 2003). This results in 9 strategies.

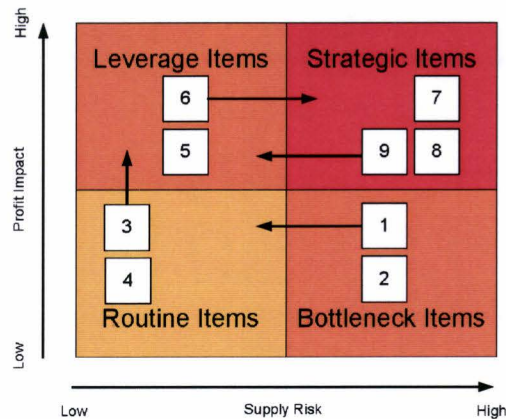


Figure 7.6: Overview of strategic directions for all categories (Gelderman and Van Weele, 2003)

1. Reduce dependence and risk, find other solutions
2. Accept the dependence, reduce the negative consequences
3. Pooling of requirements
4. Individual ordering, pursue efficient processing
5. Exploit buying power ('partner of convenience')
6. Develop a strategic partnership
7. Maintain strategic partnership
8. Accept the locked-in 'partnership'
9. Terminate partnerships, find new supplier

During a review or evaluation, one of these strategies may be selected to shift a product category to another position in the Kraljic Matrix.

7.4. Supplier Relations

7.4.1. Supply Base and Contract requirements

To determine the supply base in the Purchasing Strategy per Category, two methods relevant for Royal Wessanen are presented. Van Raaij (2004) provides a list of strategic purchasing decisions per purchasing strategy. These decisions are preceded by an internal and external analysis and provide more details related to the supply base and contract requirements per Purchasing Strategy per Category.

1. Internal make and develop, or buy external?
2. Specific or regular product
3. Purchase locally or global?
4. Purchasing with or without contract?
5. Purchasing on price or performance criteria?
6. Single or multiple sourcing?
7. What are the Supplier selection criteria?
8. What is the negotiation strategy?
9. What is the order strategy?
10. Possible supplier strategies?

7.4.2. Supplier strategy

Van Weele (2005) defines four basic types of supplier strategies. Basic characteristics of these supplier strategies are presented in figure 7.7.

Strategies	Partnership	Competitive bidding	Secure supply	Category management and e-procurement solutions
Characteristics				
Objective	<ul style="list-style-type: none"> • Create mutual commitment in long term relation 	<ul style="list-style-type: none"> • Obtain 'best deal' for short term 	<ul style="list-style-type: none"> • Secure short- and long-term supply • Reduce supply risk 	<ul style="list-style-type: none"> • Reduce logistic complexity • Improve operational efficiency • Reduce number of suppliers
Suitable for	<ul style="list-style-type: none"> • Strategic products 	<ul style="list-style-type: none"> • Leverage products 	<ul style="list-style-type: none"> • Bottleneck products 	<ul style="list-style-type: none"> • Routine products
Activities	<ul style="list-style-type: none"> • Accurate forecast requirements • Supply-risk analysis • Careful supplier selection • 'Should cost' analysis • Rolling materials schedules • Effective change-order procedure • Vendor rating 	<ul style="list-style-type: none"> • Improve product/market knowledge • Search for alternative products/suppliers • Reallocate purchasing volumes over suppliers • Optimize order quantities • 'Target-pricing' 	<ul style="list-style-type: none"> • Accurate forecast of future requirements • Supply-risk analysis • Determine ranking in supplier's client list • Search for alternative products/suppliers 	<ul style="list-style-type: none"> • Subcontract per product group/product family • Standardize product assortment • Design effective internal order delivery and invoicing procedures • Delegate order handling to internal user
Decision level	<ul style="list-style-type: none"> • Board level • Cross functional approach 	<ul style="list-style-type: none"> • Board level • Purchasing 	<ul style="list-style-type: none"> • Purchasing • Cross-functional approach 	<ul style="list-style-type: none"> • Purchasing • Cross-functional approach

Figure 7.7. Basic characteristics of the four supplier strategies (Van Weele, 2005)

Due to the request of Royal Wessanen to investigate the relevance of new-to-the-world/out-of-the-box purchasing strategies and methods, the issues regarding Electronic Marketplaces and E-procurement and Joint/Group buying are discussed in the next sections.

7.4.3. Electronic Marketplaces and E-procurement

Electronic marketplaces and E-procurement are modern information technology applications that can help companies to communicate and trade both with their customers and suppliers faster, more efficient, and on a larger scale. The various internet applications in the field of purchasing are rapidly growing and gain interest of top management. However, anticipating and using these means are far from easy and require thorough studies and a clear designed corporate strategy. (Van Weele, 2005)

There is a difference between electronic marketplaces and E-procurement. Electronic marketplaces can have many forms, like e-auctioning. However, using these is only profitable when purchasing on a large scale and mainly known products. For Royal Wessanen, purchasing is not focused mainly on commodities and making recipes or strategic products public is not an option as well at this moment. E-procurement means using technical solutions for the procurement applications. However, these technical solutions will only work, when the purchasing function is working already quite modern. Otherwise, the introduction of these modern techniques will only bring more problems. (Van Weele, 2005) For Wessanen it is already concluded that the purchasing maturity level is medium and not very advanced. In addition, this project will only make a first start with communication techniques and intergraded information systems. For this and reasons above, Royal Wessanen should be very reserved regarding these new to the world strategies. If these modern techniques

should become to be interesting for some categories, an intensive corporate study regarding the possible competitive advantage is recommended. Another way, however, to profit indirectly from these new techniques is group or joint buying; buying consortia supported by market places and e-procurement.

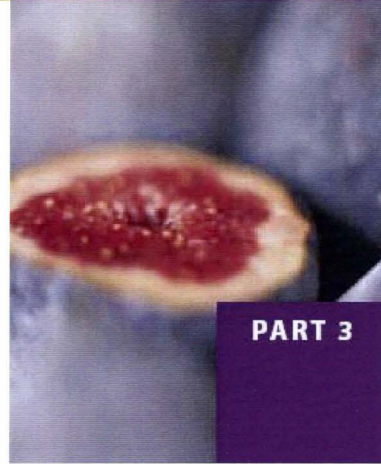
7.4.4. Group/Joint buying

Group or joint buying is a synergy of buying power outside the company. Forms and benefits are already discussed with the highway matrix in section 5.4.1 (Schotanus et al., 2005), because this model was based on synergies between independent organizations. One of the main benefits of members is the added value of the purchasing service of a purchasing group. (Nollet et al, 2005). This service consists of supply base management, developing supplier relations and negotiating with suppliers. The performance might increase when a low purchasing power of a company can be added to a high purchasing power of a group. However, the trade-off between the performance of this service and dealing with the various challenges of the members is made by the group. There are many cases which illustrate this trade-off to be negative for the (smaller) members. A purchasing manager should determine the value added, and study the concept to make a proper decision. The purchasing manager should also keep in mind that a purchasing group is nothing more than structure helping to get the best fit with the purchasing strategy. So, a purchasing strategy should be in place and the group buying strategy should provide value rather than hinder the strategy. (Nollet, 2005) For Royal Wessanen, group buying is now only possible for small routine categories like office supplies. However, again the added value should be secured and the activities must be in line with the chosen strategy.

7.5. Conclusion

There is much literature to be found regarding strategy and strategy development. Main learning point for Royal Wessanen is that strategy is not only goal setting, but also consists of ways and means used to achieve these goals. The literature about purchasing strategy development is more limited. The established perspectives and models of Monczka, Van Weele and Kraljic are still highest valued and most applied. A purchasing strategy per category development process design combining basic parts of these models, adapted to the specific situation of the Royal Wessanen, is most likely to be successful. Purchasing Synergy is a key characteristic in the Royal Wessanen situation.

Purchasing synergy between multiple subsidiaries of a decentralized company, as presented in chapter 5, is almost never found in the strategy development literature. Purchasing synergy is very relevant at Royal Wessanen and due to the presented benefits of purchasing synergy, it is essential that purchasing strategy structures combined with the different synergy types are part of the design. Finally, this chapter can conclude that e-procurement and electronic marketplaces are not relevant for purchasing at Royal Wessanen at this moment. Group or joint buying might be considered for some categories. This option is therefore also part of the purchasing strategy development process. The Purchasing Transparency design combined with the Purchasing Strategy development design form the Corporate Purchasing Process, requested in the Project Assignment.



PART 3 DESIGN AND IMPLEMENTATION

8. Design of Purchasing Transparency

8.1. Introduction

In this part of the project, the design of the Royal Wessanen Purchasing Policy is presented. This design consists of two important parts; purchasing transparency and purchasing strategy. In this chapter, the first design subject, purchasing transparency, is presented. Purchasing transparency consists of the following types of information and data to share, provided in section 6.3:

Static Information

1. Structural design
2. Networks of people
3. Information and communication infrastructure
4. Processes and operations
5. Facilitation of networking

Dynamic Data

6. Project status and information
7. Deliverables and results

Purchasing transparency can be divided into two types; **Static information** about the organization and structure of the purchasing function to enable Purchasing Strategy and facilitate Synergy (**1 to 5**). And **dynamic data** about the current status of the purchasing function to identify opportunities and review the current Purchasing Strategy (**6 and 7**).

8.2. Goal and Scope of the Design

In the Analysis phase the basis and criteria for the design were presented from two perspectives: Royal Wessanen and the literature. In accordance with the literature and the different buyers and purchasing managers, a design for purchasing transparency is now made. Van Aken, Van der Bij and Berends (2003) give three categories of requirements for the design phase.

- **Functional requirements**
The goal of this design is to enable a first companywide purchasing transparency to stimulate communication, synergy initiatives and information gathering about possible opportunities. The purchasing transparency must enable the identification of opportunities and the creation of purchasing strategy.
- **Boundary conditions and user requirements**
Design Criteria, set up together with top management and stakeholders at Royal Wessanen, are:
 1. Roles and Responsibilities for the different functions at Royal Wessanen subsidiaries must be clear and uniform
 2. Use existing Roles and Responsibilities as much as possible to keep changes minimized
 3. Keep the categorization logical and on a medium level of detail
 4. Create a uniform categorization for all subsidiaries
 5. The categorization must be complete to be useful for the SAP implementation. However, for the pilot a limited number of data can be requested from the subsidiaries.
 6. Use existing classifications as much as possible to keep changes

minimized

7. Create an initial, easy to develop overview, with the option to extend the system in the future
8. Select a minimum of valuable information to be gathered and shared
9. The overview has to be user-friendly and easy to install and update

- **Design limitations**

In case of the Roles and Responsibilities and the categorization of purchased goods, the literature does not give much support. This part of the purchasing transparency design is, therefore, quite pragmatic.

8.3. Static Information

The static information, points 1 to 5 in the first section of this chapter, represent the organizational purchasing structure of people, networks or groups and their functions and operations. It also contains the categorization of process entities, in this project: purchasing categories. Finally, the facilitation of networking, in this case proper ICT Networking Tools and communication protocols, are an important part. These three subjects are discussed in this section. Facilitating communication, resources, operations and responsibilities regarding Purchasing Strategy are designed in the next chapter.

8.3.1. Functions, Roles and Responsibilities

Currently, every Royal Wessanen subsidiary has different purchasing functions and the purchasing responsibilities are divided differently over these functions. For this design, all functions and responsibilities found are presented and linked in figure 8.1. In this figure, only the functions and roles and responsibilities focused on purchasing transparency and daily activities are given. Roles and responsibilities regarding the purchasing strategy development process are presented in the next chapter. Then also the strategic function and organizational importance of the Knowledge Owner (KO), Lead Buyer (LB), Centralized Buyer (CB) and Outsourcing Buyer (OB) are further explained.

Corporate/Regional Purchasing Function	Role and Responsibilities
Top management (Corporate and Regional)	<ul style="list-style-type: none"> • Regional Contract Owner (Approve and Sign) • Decision making on Corporate and Regional level • Business Development
Purchasing Management (Corporate and Regional)	<ul style="list-style-type: none"> • Purchasing Process owner • Visionary look at purchasing • Control global and regional organization and processes • Managing purchasing transparency • Managing the purchasing strategy process • Create commitment for the processes from top management and subsidiaries • Identify saving opportunities • Support Lead Buyers and Knowledge Owners • Consult Lead Buyers and Knowledge Owners
Lead Buyer Centralized Buyer Outsourcing Buyer (Per Category)	<ul style="list-style-type: none"> • Manage internal communication in the category • Manage the information gathering in the category • Identify saving opportunities • Holds the category internal and external knowledge • Establish detailed plans • Assign responsibilities

	<ul style="list-style-type: none"> • Tendering and RFQ • Select suppliers or third parties • Negotiate contracts • Manage Supply Chain
Knowledge Owner (Per Category)	<ul style="list-style-type: none"> • Manage internal communication in the category • Manage the information gathering in the category • Identify saving opportunities • Holds the category internal and external knowledge
Local Purchasing Function	Role and Local/Regional Responsibilities
Subsidiary Purchasing Manager	<p>Local</p> <ul style="list-style-type: none"> • Manage the local Purchasing Function • Local strategies • Local Contract Owner (Approve and Sign) <p>Regional</p> <ul style="list-style-type: none"> • Create commitment for regional purchasing function tasks • Support regional and global strategies
Local Purchaser	<p>Local</p> <ul style="list-style-type: none"> • (Determine local purchasing strategy) • Execute local purchasing strategy • Daily control • Tendering and RFQ • Select suppliers • Negotiate contracts • Manage Supply Chain • (Local ordering) <p>Regional</p> <ul style="list-style-type: none"> • Share local knowledge with LB or KO • Consult LB or KO • Execute regional and global strategies
Purchasing Assistant	<ul style="list-style-type: none"> • Support Local Purchasing function

Figure 8.1. Roles and responsibilities regarding daily tasks and purchasing transparency

This uniform representation does not have to be implemented at all subsidiaries but can function as a Royal Wessanen standard. This standard is useful for comparison between subsidiaries and communication clarity. Therefore, all names of local buyers and regional responsible people and functions are communicated. The capabilities of each purchasing professional should match his or her role and responsibility. Maintaining a high level of capabilities is the responsibility of all direct hierarchical managers.

8.3.2. Categorization of purchased goods

In this section the categorization of the different purchased goods is established. Chapter 6 presented that categorization can be based on different criteria:

- **Current organization structure**
There is already a general categorization at corporate level, but also on a detailed level in the subsidiaries. Unfortunately, this detailed categorization is not uniform and differs over all subsidiaries. The goal is to stick as much as possible with the categorization currently used by the different purchasing departments, to minimize the practical changes.
- **Product characteristics and function**
The general categorization is already based on characteristics and function. On lower levels the most logical and useful categorization can be made based on these product criteria or on the type of product handling.
- **Royal Wessanen data**
While creating the overview, conclusions of the gathered data can provide a

basis for categorization. A product group with much similarity, already responsible for a large part of the purchasing spend is likely to form a category.

By using these criteria, a categorization can be made. This development has to be an iterative process. The initial categorization set-up is a communication process. In the future, however, a change or specification of the categories may be necessary or useful to identify synergy opportunities. In that case, the owner of this process must change it in accordance to all users and stakeholders. The initial categorization can be seen in **Appendix 13**. All categories must be clearly identified and the description also has to be communicated.

8.3.3. Communication Tool

In order to share the overview of data and information among all subsidiaries and purchasing management, an easy to use IT application is used. The already available IT platform at Royal Wessanen, Lotus Notes, can be used. By using this platform the developed application can be easily installed and used by all Purchasers from all subsidiaries. The functional description of the system can be found in **Appendix 14**. Screenshots of the tool can be found in **Appendix 15**.

As long as Corporate Supply Chain department is responsible for this design, the process, evaluation, process updates and maintenance of this system are supervised there.

8.4. Dynamic Data

The dynamic data (Information types 6 and 7), gathered from the subsidiaries, can be divided in 2 types; qualitative and quantitative. A Royal Wessanen user requirement is that the amount of data gathered must be kept to a minimum.

8.4.1. Qualitative information

Qualitative information per category possible to gather from the subsidiaries is:

- Current purchasing strategy (if already available)
- Local buyer for this category
- Current issues and developments
- Project and Budget background information
- Contracts, supplier audits and other relevant documents
- Supply base characteristics (e.g. number, names, supplier characteristics or issues)

8.4.2. Quantitative information

At the subsidiaries of Royal Wessanen, spend numbers of purchased goods showed to be the only uniform quantitative indicator for purchasing. Indicators like volumes, weight, etc. are too differentiated over the countries and subsidiaries to make a straightforward comparison. The following quantitative information can be gathered:

- Actual spend numbers (2005/2006)
- Budget spend numbers (2007)
- Year to date spend numbers (2007)
- Run rate savings (2007)*

* “Run rate savings” is a term at Royal Wessanen to quantify and compare savings caused by actions. The effect of such a saving action is calculated to the total saving it would have created in that specific year, assuming the action was implemented from January 1st.

8.5. Conclusion

This chapter presented the design of purchasing transparency in the purchasing function of Royal Wessanen. Purchasing transparency can consist of 7 information types, divided into static information and dynamic data. Static information about roles, responsibilities and functions are created in accordance with Royal Wessanen. The static information, possible to gather from the subsidiaries, is identified in accordance with top management and purchasing managers and purchasers. The information types 1 to 7 are translated into shared information in practice. This information is stored and shared by the IT communication tool in the existing platform Lotus Notes. Other live meetings or ways of communication may also be useful in practice. However, this managing issue as well as maintenance of the system is the responsibility of the design/process owner, for now this is Corporate Supply Chain. With this design, the purchasing transparency is in place to identify and facilitate synergies and enable the creation of a purchasing strategy. This is the subject of the design in the next chapter.

9. Design of Purchasing Strategy

9.1. Introduction

In the former chapter the purchasing transparency design has been presented. In this chapter, the second design subject, purchasing strategy, is presented. Combined, these two designs form the Corporate Purchasing Process. After setting the Goals and Scope of the design, this Royal Wessanen Purchasing Strategy development is presented. Next, the details of every separate step are discussed.

9.2. Goal and Scope of the Design

Similar to the previous chapter, this design is restricted with requirements. Again the three categories of requirements of Van Aken, Van der Bij and Berends (2003) are presented, now for the design of Purchasing Strategy:

- **Functional requirements**
A Strategy per Category must be developed structurally to enhance Purchasing Maturity and support synergy initiatives. A generic model must be developed with all crucial strategic aspects. In the literature, many authors support several similar development processes, this is a good basis for the design. The addition of synergy structures to the process is an essential part for Royal Wessanen and quite new in the purchasing literature.
- **Boundary conditions and user requirements**
This design, identifying synergy opportunities and purchasing strategy development, must be based on the purchasing transparency (mostly dynamic data) created in the former chapter. Purchasing transparency (static information) is also used to facilitate synergies and therefore implement the purchasing strategy.

Other criteria set up together with top management and stakeholders at Royal Wessanen are:

1. Keep the Strategy Development Process logical and on a medium level of detail
 2. Select predetermined purchasing strategy structures to keep the pattern of choices leading to the strategy as uncomplicated as possible
 3. Identify needed resources and allocate them clearly
 4. The design must survive developments over time
- **Design limitations**
Subjects like supplier selection, designing the supply chain, etc. are not further elaborated. Not all strategic choices found in the literature are admitted in this design, only the most important and relevant decisions in the Royal Wessanen situation.

9.3. Royal Wessanen Purchasing Strategy Development

This design is based on the literature and models presented in chapter 7. These models are adapted to Royal Wessanen. The steps presented in this design are frequently reoccurring in strategy literature. The design consists of 6 steps, and is an iterative process. Periodically this process is evaluated to update the defined Strategy per Category.

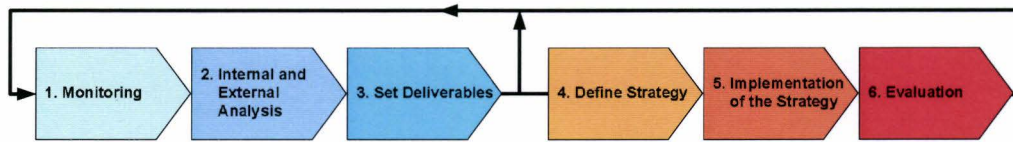


Figure 9.1. Initial Royal Wessanen Purchasing Strategy Development

The 6 steps are further explained in the next sections.

9.4. Step 1: Monitoring

In this first step of the Royal Wessanen Purchasing Strategy development, the purchasing function is monitored. This is facilitated by the created purchasing transparency described in the previous chapter. The categorization and other information give a clear framework, process and responsibilities. The dynamic data presents the status and trends of the purchasing categories. Performance, results and the current purchasing strategy can also be displayed.

The objective of this step is to identify opportunities. On one hand these can be found by studying trends in spend or budget data. On the other hand the added quantitative information and comments about supply market developments, issues, threats, opportunities etc. from Knowledge Owners or Lead Buyers may be reason to select a category for further analysis.

9.5. Step 2: Analysis

This step of the Purchasing Strategy development is to analyze if the categories focused on are real opportunities. In some cases this step may require a decision-making moment to appoint and commit resources to an intensive analysis. The analysis step consists of two parts, Internal and External analysis.

9.5.1. Internal Analysis

The internal analysis of a category includes the following parts.

- **Detailed Data and Information Analysis**
The category should be investigated in detail to see if it is really an opportunity. Possible synergy benefits must be studied in more detail, because products in the same category can still differ greatly on a lower level. Possibilities to alter products in categories to create uniformity between subsidiaries must be investigated. The marketing point of view is important when an alteration in the product design is needed.
- **Portfolio Analysis**
Kraljic's (1983) Portfolio Analysis described in chapter 7 can be used to identify the strategic level of the category. It can conclude if further investigation is useful and give a preliminary idea about a change in purchasing strategy.

9.5.2. External Analysis

For the external analysis it is important to perform:

- **Supply Market Research**
Developments in the supply market and future expectations are important aspects that can influence the purchasing strategy of a category. A decision to

change a purchasing strategy per category, or goals and vision of that specific purchasing strategy must also be based on this information. One way to perform supply market analysis is to tender multiple possible suppliers. At Royal Wessanen, parts of this information must come from the Marketing Department.

- **Benchmarking**
Benchmarking other companies can give an idea about the performance of the own purchasing function. It can also give an interesting result about alternative possible suppliers.

9.6. Step 3: Set Deliverables

In this step the goals based on visions are created. It is a clear decision point to select the purchasing opportunities and what their new goal is. This contains the steps:

- **Selecting the most interesting categories**
Based on a combination of results from the Analysis phase and vision of the decision makers, the categories likely to be major opportunities are selected. For these categories new strategies need to be defined. For selection of these categories, the limiting factor is the allocation and division of resources.
- **Setting goals**
With the selection of a category and assigning resources to it, an expected result must be set. This is the goal of the strategy change and must be clearly set and formulated. If the goal is to change the strategic level of the category, one of the 9 change strategies in section 7.3.6 can be selected.
- **Comparison with current purchasing strategy**
Performing this step allows to get a clear idea in what way the new strategy must be defined or what must change to the existing one. It can also help to identify why a possible former strategy did not have the desired result so far.

9.7. Step 4: Define Strategy per Category

The Strategy per Category consists of several aspects described in chapter 7. For Royal Wessanen, this strategy development design holds the following parts:

- **Insourcing / Outsourcing**
- **Synergy Strategy**
- **Supplier Strategy**

9.7.1. Incourcing/Outsourcing

The first step of the strategy per category development is the choice whether the purchased goods can be sourced inside Royal Wessanen or externally. From a company wide perspective, this is a make-or-buy-decision. For some very strategic categories even an acquisition of a purchasing subsidiary is a possible option at Royal Wessanen.

9.7.2. Synergy Structures

In this section, the different types of synergy, presented in chapter 6, are put into 5 different synergy structures. These structures function as a standard list from which an appropriate one can be selected when developing the Strategy per Category. The 5 Synergy types identified in chapter 6 are:

1. Information sharing
2. Contract and resource sharing
3. Volume bundling
4. Shared innovation power
5. Centralized purchasing

The lowest level of synergy within Royal Wessanen is information sharing on a regional scale. The synergy structures are appointed on a medium level of detail in the categorization of the purchased goods. The appointed synergy type manages the regional communication functionally. On a higher level the synergy structure manages and supports local purchasing. Every category has a synergy structure and a number of local buyers responsible for the local purchasing need. The 4 designed synergy structures are now explained.

- **Knowledge Owner (KO)**

This synergy structure is related to synergy type number 1: Information sharing. It is the lowest possible form of synergy within Wessanen, because every category must have one responsible person to periodically check the synergy potential. The Knowledge Owner structure is selected for a category when no or little possible synergy opportunities are expected. This can be due to a large differentiation of requirement between subsidiaries or a too small purchasing volume. The Knowledge owner can even be the only one purchasing in the category. However, market information or the internal situation can change over time, making the category potentially interesting for more synergy initiatives. The Knowledge Owner keeps the information of the category up-to date, manages communication with the local buyers of the category and can be asked for advice during a purchasing strategy review. (Note that the KO can be the only one purchasing in a category)

- **Lead Buyer (LB)**

This synergy type is linked to all synergy types 2 to 4; Contract and resource sharing, Volume bundling and Shared innovation power. The moment a category becomes interesting for one of these synergy initiatives, the Lead Buyer is responsible for the communication, information sharing and managing the (potential) synergy initiative.

The scope of the Lead Buyer can be as big as global purchasing as long as the Lead Buyer function is held by a purchasing professional from a subsidiary. When a person at the Head office becomes responsible for a regional or global contract in a category, purchasing becomes central led and is therefore called centralized purchasing

- **Centralized Buyer (CB)**

As stated in the literature, Centralized Purchasing is not a suitable solution for Royal Wessanen at the moment. Royal Wessanen has no intention to create a central purchasing department, except for the existing central IT department. However, there are people at the regional or corporate Head Office responsible for the purchasing of a category. These people are not lead buyers but Centralized Purchasers, because they are not related to a subsidiary. Consequently, there are already unofficial Centralized Purchasers for the different IT subcategories. This synergy structure is chosen when a category requires the attention of a central person and is only selected for categories where the synergy potential is high.

- **Outsourcing Buyer (OB)**

When outsourced purchasing is selected as the category purchasing strategy, the purchasing of goods is outsourced to a third party. This is the case with Joint or Group Buying. A person, locally or at the head quarters, is responsible for the contact with this third party. This person is also responsible for the internal purchasing

information and communication in this category. This purchasing strategy can be selected for non strategic straightforward products, uniform in many subsidiaries and for which an outsourcing solution is available and valuable.

9.7.3. Supply Strategy

In this project, supply strategy is divided into 3 parts: Supplier strategy, supply base and contract requirements.

- **Supplier strategy**

In chapter 7, the four basic types of supplier strategies were presented (Van Weele, 2005). For specifications of these supplier strategies, please see figure 7.10. Group buying/Joint buying was also discussed. Depending on the strategic level of the category one of these can be selected.

1. **Partnership**
Create mutual commitment in long term relation
2. **Competitive bidding**
Obtain 'best deal' for short term
3. **Secure supply**
Secure short- and long-term supply and Reduce supply risk
4. **Category management and e-procurement solutions**
Reduce logistic complexity, Improve operational efficiency and reduce number of suppliers
5. **Group/Joint buying**
Outsource the total purchasing activity to a third party to benefit from their volume and expertise

- **Supply Base**

For the supply base the following questions must be answered based on chapter 7:

1. Purchase locally or global?
2. Single or multiple sourcing?
3. What are the supplier selection criteria?
4. Purchasing on price or performance criteria?
5. Purchasing with or without contract?

- **Contract requirements**

In case of purchasing with a contract, the second set of questions are part of the Strategy per Category:

6. What is the negotiation strategy?
7. What is the contract period?
8. What is the contract review period?
9. What are the payment terms?
10. What is the order strategy?

9.8. Step 5: Implementation of the Strategy per Category

For the implementation of the strategy per category two things are important; Formulation of the strategy and practical appliance.

9.8.1. Formulation of the Purchasing Strategy per Category

Formulating the strategy per category is done in the designed communication tool. The current purchasing strategy per category becomes transparent to all stakeholders and available for review. In the communication tool, it will be formulated

structurally as described in the former chapter. This is done using an easy and quick to fill in form.

9.8.2. Practical Appliance

With a strategy in place and resources appointed, the Regional responsible can act. Now the purchasing transparency aspect becomes important again. Static information about structures, functions and responsibilities, described in the former chapter, support the responsible purchaser of a category to execute the new purchasing strategy. The execution of the new strategy naturally depends on the defined strategy in combination with the roles and responsibilities also described in the former chapter.

9.9. Step 6: Evaluation

The last step of the Purchasing Strategy development process is evaluation. During this step the process and execution for a category is evaluated. Also inconsistency with the higher level strategies can be checked. If this is the case, the purchasing strategy must be altered. An evaluation with all stakeholders of the strategy can be useful. Minor adjustments can be made and suppliers can be advised or informed. After the process is concluded with an evaluation the process moves to the monitoring step. Monitoring is logically a constant process, and when from this step new threats or opportunities arise the process starts again.

9.10. Managerial Responsibilities

In this chapter the Purchasing Strategy development process has been presented. With this design, new strategy related tasks are introduced. As stated in the roles and responsibilities in the former chapter, local purchasing managers and/or purchasers are responsible for their local purchasing strategies. For the regional purchasing strategy development process, the tasks are allocated to a responsible function or level in the company. These are presented in the following table

Responsibility	Local Manager or Buyer	Regional KO, LB, CB or OB	Regional and Corporate Purchasing Management
1. Monitoring			Lead
Updating data and information	Info supply	Lead	Support
Identifying opportunities and treats		Lead	Monitor
2. Analysis			Lead
Internal Analysis		Lead	Support
External Analysis		Lead	Support
3. Set Deliverables		Advice	Lead
Select interesting categories		Advice	Lead
Goal setting		Advice	Lead
Compare with current strategy		Advice	Lead
4. Define Strategy		Support	Lead
5. Implementation of Strategy		Support	Lead
Formulate the strategy		Support	Lead
Application of the strategy	Execute	Lead	
6. Evaluation	Comment	Adjust	Lead

Figure 9.2. Allocation of Strategy development tasks.

The periodical interval of these tasks, momentarily feasible for Royal Wessanen is 3 months (quarterly). This, however, depends on the resources and results over time. The corporate tasks are approximately a medium workload. For the specific allocation of the corporate tasks, 3 resources are available:

- VP Supply Chain Management Europe
- Corporate Director Supply Chain
- Corporate Purchasing Board (CPB), consisting of the above and Executive Board members

9.11. Developments over Time

At Royal Wessanen, the total design will encounter 4 major developments over time:

- **Periodical review with Purchasing Board**
To ensure that the developed strategies are well committed to by top management and the strategy development process is kept up to date, a periodical review must take place. This review is executed by the Purchasing Board, a council consisting of multiple Executive Board Members. During this review, major decisions regarding the Purchasing Strategy per Category and the allocation of resources can be made. Also the strategy development process and owners can be reviewed.
- **Acquisition and divestment of new subsidiaries**
Over time Royal Wessanen will acquire or divest subsidiaries. When such a change takes place, the purchasing volumes may change and the relative division of the volume of the subsidiaries can alter. In this case, all relevant categories must be reviewed and this can result in a change in the Strategy per Category. Also a change in structural design might be necessary. With the purchasing transparency available, it becomes much easier for new subsidiaries to adapt their purchasing function to the rest of Wessanen.
- **Change in structural design, people or categories**
Internal or external developments can lead to necessary changes in the structural design of Purchasing Transparency or a change in the Purchasing Strategy development process. These and all other changes must be handled and communicated by the process owner and can be changed in the system by the IT department.
- **Knowledge base development**
When this design is in place, a clear knowledge base is build up. This consists of technical purchasing knowledge and a growing market insight, available for the total purchasing function in the whole company. This growth of knowledge and managing it, will contribute to the Purchasing Maturity over time. This knowledge base will also be useful for other disciplines in the company, for example marketing in the New Product Development process. It is directly clear what knowledge is present, and if present, who to consult.

9.12. Conclusion

In this chapter the Wessanen Purchasing Strategy design was presented. The design is a 6 step model that identifies the strategy development process. Some steps are enabled by creating purchasing transparency. Combined with the purchasing strategy development steps it forms the Purchasing Process as described in the Project Assignment.

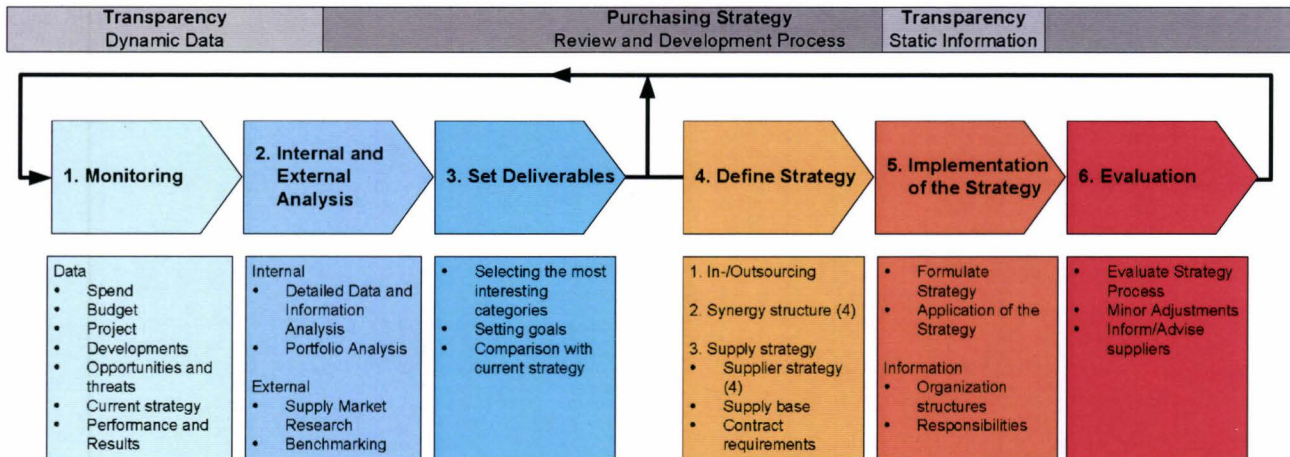


Figure 9.3. Royal Wessanen Purchasing Process Design

Dynamic data (purchasing transparency) reveals the current status of the purchasing function and identifies (synergy) opportunities and threats. Therefore, it is the basis to enable the creation of a Purchasing Strategy per Category. Analysis and the decision-making about the desired goals are the first steps towards a suitable Category Purchasing Strategy. For a decentralized company like Royal Wessanen, the selection of a synergy type is a crucial choice when defining the Strategy per Category. The Strategy per Category stimulates and motivates the synergy type, because commitment is obtained. The implementation of the Category Purchasing Strategy, and with that the selected synergy type, is supported by the static information (purchasing transparency). Static information gives information about the preset responsibilities, structures, etc. This information is used to facilitate the Purchasing Synergy opportunities.

It can be concluded that this design helps Royal Wessanen to control their purchasing spend and review their purchasing strategies. In the next chapter the implementation of the design is further explained.

10. Implementation and Realization

10.1. Introduction

In this chapter the implementation of the design is presented. Van Aken, Van der Bij and Berends (2003) identify two results of the Analysis and Design phase, the designed new situation and change plan. The designed new situation is presented in chapter 8 and 9. In this chapter the change plan is described. Implementation issues are presented and practical execution of the implementation is given in the form of an implementation plan.

10.2. Implementation Aspects

According to Kempen and Keizer (2000), an implementation plan consists of the following aspects:

- A. Change issues to enable implementation of the design
- B. Content of the organization change
- C. Stakeholders and involved parties
- D. Person/function responsible for the change
- E. Start and end date for the implementation phase.

In this project, Purchasing Transparency and Purchasing Strategy were designed to increase purchasing maturity, monitor spend, control the purchasing function and coordinate purchasing synergy. This design for Purchasing Transparency and Purchasing Strategy must be implemented by Royal Wessanen. Aspects **A** and **B** are described in 10.3., aspects **C**, **D** and **E** are described in section 10.4.

10.3. Implementation Steps

The implementation of the design consists of the following 9 implementation steps. These steps are divided into aspects A and B from section 10.2.

- A. Change issues to enable implementation of the design

1. Renew the focus on purchasing

During this project and while presenting it to purchasers, purchasing managers, top management and other stakeholders, a renewed focus on purchasing has grown. Issues, gaps and inconsistencies in the purchasing function are identified more clearly and several discussions regarding a corporate purchasing strategy rose. This enables a more visionary debate over purchasing and creates a first commitment to a corporate project to develop purchasing at Royal Wessanen.

2. Create top management commitment

Top management of Royal Wessanen must be committed to the changes in the purchasing function. This project creates a new vision regarding the purchasing function and this need to be taken seriously. The design creates commitment by top management by providing them with specific tasks and category deliverables. Expectations, resources and results must be made available and explicit. Results must be evaluated and follow-up actions must take place if necessary.

3. Maintain commitment of purchasing professionals

As stated before many local purchasers acknowledge the existence of opportunities and the need for a corporate process to benefit from them. The commitment of these

purchasing professionals is, therefore, quite high. This must be maintained by straightforward support, communication and evaluation of the process. A periodical review of the process with the different groups of stakeholders is important to keep the process effectively and efficient. Problems, issues, miscommunication, etc. can then be avoided.

4. Identify and design Static Information

The creation of purchasing transparency is a main aspect of this project. It starts with the creation of a purchasing function overview. This is done using static information from all purchasing stakeholders. The provided information enables the categorization of purchased goods and identifies important purchasing information. Structures, roles and responsibilities are identified more precise and the design presents a more standard way of organizing and working in all subsidiaries.

5. Gather Dynamic Data

The purchasing dynamic data must be gathered to create the status of the several purchasing categories in different subsidiaries. An accordance from top management is needed and the support of local purchasing.

B. Content of the organization change

6. Develop the Transparency Tool

The creation and installation of the IT transparency system is done in cooperation with the IT department, purchasing management and future users. In this tool all necessary functionality for purchasing transparency and purchasing strategy development is build in.

7. Communicate Purchasing Strategy Development

To implement the new Purchasing Strategy development design, clear and concise communication about this design is needed. This allows all stakeholders to get acquainted with the new standard way of working. All steps of the Purchasing Strategy development design are supported by an IT transparency Tool. This tool follows the Purchasing Strategy development steps and stores the current strategy in a standard format.

8. Train the people involved

When the facilitation of the corporate virtual purchasing function is in place, all users are trained to acknowledge their roles and responsibilities regarding purchasing transparency and purchasing strategy development. All defined categories get a first official synergy structure and strategy. Consequently, local, regional and central purchasers get official synergy tasks. For the training of these tasks, multiple solutions are externally available. However, because the design is specifically made for Royal Wessanen, a first internal training is recommended. In a later stadium, local buyers may be trained further in strategy development capacities. Training of the new managerial synergy responsibilities and capabilities may be useful for purchasing managers.

9. Implement continuous review

After the first 8 implementation steps, the Royal Wessanen Corporate Purchasing Process must work continuously. Next to the new, continuous transparency and strategy tasks described in sections 8.3.1 and 9.10, a periodical review by top management is organized to execute the Purchasing Strategy development steps.

10.4. Implementation Plan

The implementation plan is presented according to Kempen and Keizer (2000). In

this implementation plan the following aspects from section 10.2 are enclosed:

- C. Stakeholders and involved parties.
- D. Person/function responsible for the change
- E. Start and end date for the implementation phase.

Step	What	Who (Responsible is highlighted)	When
1	Purchasing Graduation Project	Corporate Supply Chain Sjuul van der Leeuw	Sep 2006-April 2007
2	Project Presentation Accordance Pilot Purchasing Transparency Tool	Corporate Supply Chain Sjuul van der Leeuw Corporate Purchasing Board	1 st Purchasing Board Meeting, 21 Nov 2006
3	Presenting Project and draft Purchasing Transparency Tool	Sjuul van der Leeuw Supply Chain Europe European (Lead) Buyers	European Buying Meeting, 6 Dec 2006
4	Identify and Design Static Information	Sjuul van der Leeuw Central and Local Purchasers	Dec-Feb 2007
4	Categorization Purchased Goods	Sjuul van der Leeuw Central and Local Purchasers	Dec-Feb 2007
5	Gathering Dynamic Data	Sjuul van der Leeuw Central and Local Purchasers	Jan-Mar 2007
6	Development Purchasing Transparency Tool	IT department Sjuul van der Leeuw	Jan-Mar 2007
7	Communicate Purchasing Strategy Development	Sjuul van der Leeuw Central and Local Purchasers	Feb-Mar 2007
8	Develop Training Material for Purchasing Strategy development	Sjuul van der Leeuw Corporate Supply Chain	Feb-Mar 2007
8	Pilot Training European Buyers	Corporate Supply Chain Sjuul van der Leeuw European Buyers	Mar 2007
1	Evaluation first results and Accordance Strategy training Accordance Expansion to NA	Corporate Supply Chain Sjuul van der Leeuw Corporate Purchasing Board	2 nd Purchasing Board Meeting, Mar 2007
8	Training European Buyers	Corporate Supply Chain Sjuul van der Leeuw European Buyers	Mar-April 2007
9	Evaluation with stakeholder groups	Corporate Supply Chain Buyers	May-June 2007
9	First Strategy Review	Corporate Supply Chain Corporate Purchasing Board	3 rd Purchasing Board Meeting, May 2007

Figure 10.1. Implementation plan

10.5. Risks

The implementation has some risks as well.

- **IT system not available**

During the implementation it may become clear that the development of the IT system is not available. The system can then be build more manually, however, this requires much more manual work from the users. This can lower the commitment of the users. The functionality regarding purchasing transparency can over time be partly taken over by the implemented SAP system; however, this is only partly and will take much time.

- **Lack of local input effort**

At the first set-up of the design, local dynamic data must be put into the IT transparency tool. These local efforts and execution of the process by local purchasers is crucial for the successful use of the design. Because the IT

transparency tool must be filled with information first, before people can gain benefits from it. This process must be guarded closely by the process owner.

- **No resources to act on opportunities**

The strategy development process can periodically result in a number of opportunities. The right priorities must be set and resources to act on them must be made available. This includes local, regional and global resources. When the Royal Wessanen (top) management decides not to make these resources available, the strategy development process will lose commitment and effectiveness.

10.6. Project Results

10.6.1. First general results for the 4 main categories

This Corporate Purchasing Process provides Purchasing Strategies per (sub) categories on an appropriate level for that category. In this section the main drivers and considerations in the strategy development are summarized per main category. The results overall are also summarized.

- **Non Product Related**

Most of the subcategories in the NPR category are used by many or all subsidiaries. Drivers in this category are potential cost benefits and level of service. The drives must be compared to the needed resources to set the right priorities. Therefore, the NPR categories must be monitored and analyzed by the regional purchasing synergy function (KO, LB, CP or OP). The synergy development of a subcategory is expected to grow towards a central level of synergy and the purchasing responsibility is quickly placed at the regional or corporate management. The ICT department is highly centralized and also for other subcategories (for example, insurance and some other services) there are Central Purchasers responsible. Group Buying is likely to be suitable for one or more NPR categories.

- **Finished Goods Branded**

The drivers of this category are mainly the responsibility of Category management and Marketing. Large potential synergies are already realized in the European Health Categories. Next to these and other possible Lead Buyer strategies, the purchasing in this category can greatly benefit from Knowledge Sharing. Information sharing about alternative techniques, ingredient pricing, suppliers and supply strategies can support purchasers working on similar projects. This may lead to a strategy of volume bundling and shared innovations as exist in the European Health categories.

- **Finished Goods Distribution**

Purchasing drivers of these products are mainly the sales realized by Category management and/or Marketing. The purchasing expertise is mostly the commercial negotiation over price margins and creative Supply Chain Management to optimize profit. A Knowledge Owner structure can identify similarities between products or suppliers. Such a strategy of sharing distribution information and a focus on supply strategies, gives purchasers in this category a much better knowledge base to buy more efficiently.

- **Raw Materials and Packaging**

Strategic and Leverage products are the main types of products in this category. Products destined for manufacturing at Royal Wessanen are mostly strategic because drivers like availability, quality, traceability etc. For these products a strategy of sharing knowledge is a first priority. Knowledge Owners can manage the communication of investigated supply strategies and supply market. However, to

secure supply, a Lead buyer strategy is very suitable to set up partnerships and benefit more of shared knowledge. For the leverage products in this category, a local-led synergy strategy can lead to the selection and analysis of potential saving opportunities.

10.6.2. Overall Project Results

For the Corporate Supply Chain department, the main results of this project are:

- The renewed focus and gained insight in the purchasing function and purchasing status
- Virtual organization and the structured processes to monitor and manage purchasing spend and savings (no crash action by board needed)
- Standard way of working and categorization, also useful for SAP
- Improving purchasing capabilities by educating purchasers
- The acquired continuous control over the purchasing strategies (set-up and review)
- Structured identification, development, management of (synergy) saving opportunities
- The practical tools to implement the designed processes (e.g. transparency tool and strategy development training)

The absence of these results can lead to the situation described in the next section.

10.7. Importance of the design

The initial reasons for this project are made clear in chapter 3 to 5, where the project problem statement and research question were formulated. However, it is useful to describe the expectations for the currently unmanaged purchasing categories at Royal Wessanen in an unchanged situation. This clarifies the importance of the design. The following negative developments are avoided by implementing the design presented in this project:

- **Lose of control over the Purchasing function**

At this moment there is little insight in the total purchasing function and this will drop more over time. Local purchasing will become more and more autonomous and will not benefit from synergy opportunities. The corporate control over nearly all local purchasing functions will drop until the SAP system enables creating purchasing transparency partly. Without implementation of the design, the structuring of the purchasing function in the kernel phase of implementing SAP will cost much time and effort. This is because little corporate insight exists and purchasing processes are not uniform (one way of working) over the subsidiaries.

- **Lose possible savings**

Because there is no corporate purchasing transparency, synergy opportunities can not be identified and facilitated structurally. Incidentally identified synergy opportunities will not be supported by a strategy or standard way of working. SAP can provide the data needed for the purchasing transparency partly. However, without a structured purchasing strategy development approach as presented in this project, SAP will not lead to synergy and saving opportunities.

The impossibility to benefit structurally of existing saving opportunities is a loss of money. It can also lead to much double efforts in the subsidiaries, an ineffective total purchasing function and stop combined purchasing maturity growth. Exploitation of suppliers that sell to multiple subsidiaries can also take place. Cost increases over time cannot be prevented by strong synergies between subsidiaries. Subsidiaries might even cooperate and share benefits with outside parties instead of their Royal

Wessanen counterparts.

- **No knowledge sharing**

Purchasing knowledge gathered by a subsidiary is not shared within Royal Wessanen. Similar projects regarding e.g. technical and purchasing knowledge will be performed concurrently in multiple subsidiaries.

- **Lose local commitment**

Local buyers will lose commitment for corporate purchasing, because synergy initiatives are not identified or supported. The absence of regional or global strategies to support their synergy initiatives and solve purchasing issues using synergy, will lead to a change of priorities. In that case, the highest priority will no longer be Corporate but Local purchasing strategies.

- **Crash action needed**

The need to hire an external party to investigate the purchasing function to capture the saving opportunities can rise. Such a crash action is expensive and will not provide the needed continuous insight in the purchasing function for Royal Wessanen.

10.8. Conclusion

The new situation is described in the design in chapter 8 and 9. For the implementation of the design, the following steps were described in detail in this chapter:

1. Renew the focus on purchasing
2. Create top management commitment
3. Maintain commitment of purchasing professionals
4. Identify and design Static Information
5. Gather Dynamic Data
6. Develop the Transparency Tool
7. Communicate Purchasing Strategy Development
8. Train the people involved
9. Implement continuous review

These steps, accompanied by people responsible and timeframes, are presented in an implementation plan. There are also risks attached to the implementation. It might not be possible to develop a suitable IT system and another solution with the same design functionalities has to be found. With an IT system in place the input from local purchasers must be guarded, this start is vital to a successful start of the Purchasing Strategy process. The last main risk is that management decides not to allocate sufficient resources to act on saving opportunities. This will lead to a lower local commitment and effectiveness of the design.

For the 4 main purchasing categories a first strategic result is provided by identifying lead drivers and initial results of the design per category. For the Corporate Supply Chain department, the main practical results of this project are:

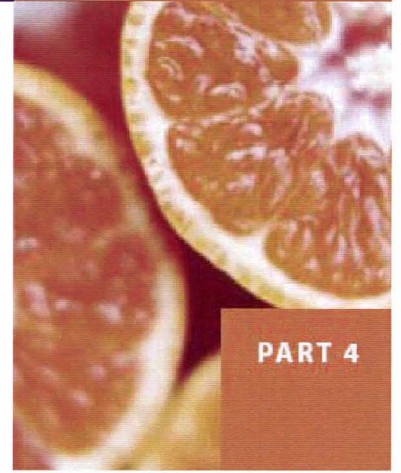
- The renewed focus and gained insight in the purchasing function and purchasing status
- Virtual organization and the structured processes to monitor and manage purchasing spend and savings (no crash action by board needed)
- Standard way of working and categorization, also useful for SAP
- Improving purchasing capabilities by educating purchasers

- The acquired continuous control over the purchasing strategies (set-up and review)
- Structured identification, development, management of (synergy) saving opportunities
- The practical tools to implement the designed processes (transparency tool to identify potential synergy opportunities and strategy development training)

The importance of the design is presented by providing the expectations in case the current purchasing situation is not changed. Corporate Supply Chain control over the Purchasing function drops and possible saving opportunities are not identified and exploited. Knowledge gained in the company will not be shared, leading to double work. Local commitment will drop, because corporate steering in the purchasing function gives local purchasing the highest priority. Finally, an expensive crash action by an external party is needed to capture all potential savings.



PART 4 CONCLUSION



11. Conclusions and Recommendations

11.1. Introduction

In this chapter the conclusions and recommendations are presented. This is done using the Project Assignment and research deliverables. Furthermore, a general conclusion is provided and suggestions for further research are made.

11.2. Project Assignment Conclusions

The initial question in this project was to control the purchasing function and to identify saving opportunities at Royal Wessanen. In order to gain more insight in this subject, an initial problem analysis of the current Royal Wessanen purchasing process was performed. Through discussions with representatives of all stakeholders, the main problem areas in the current purchasing process were identified. Next, the developments that had an influence on these process issues were investigated, and the findings were combined into a problem scheme. Eventually, this led to the problem statements and the following Project Assignment:

Design the Corporate Purchasing Process, by which Royal Wessanen can continuously (1) monitor the purchasing organization and (2) purchasing status, and (3) periodically review the purchasing strategies for the different product categories, to identify purchasing saving opportunities and control the purchasing function.

11.2.1. Analysis Phase Conclusions

Based on the initial purchasing development model analysis, three subjects were considered important to investigate further: Coordination Purchasing Synergy, Purchasing Transparency and Purchasing Strategy.

(1) Monitor the purchasing organization

The subject of Purchasing Coordination was further investigated to determine that the optimal degree of centralization for the decentralized purchasing function of Royal Wessanen is a combination of central-led and local-led purchasing coordination.

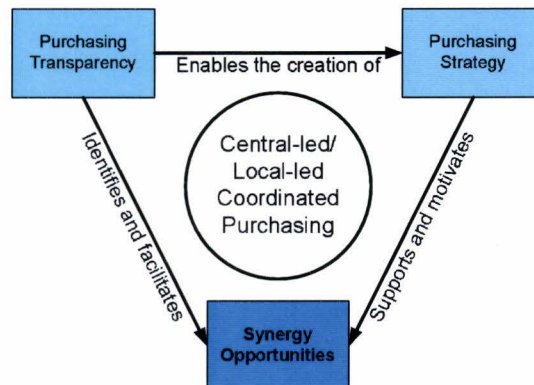


Figure 11.1. Relations between Purchasing Transparency, Purchasing Strategy and Synergy

The subject of Purchasing Synergy was further investigated to identify the synergy types useful for Royal Wessanen and to develop a model how Royal Wessanen should manage them. Preconditions for purchasing synergy are Purchasing

Transparency to identify and facilitate and Purchasing Strategy to support and motivate synergy initiatives.

(2) Monitor the purchasing status

The investigation of Purchasing Transparency, led to the identification of information types necessary to monitor the purchasing status. These information types are also necessary to identify and facilitate synergy and saving opportunities. Categorization of purchased goods and a clear formalization of uniform roles and responsibilities are key information in the situation of Royal Wessanen.

(3) Periodically review the purchasing strategies for the different product categories.

For the last part of the Project Assignment and to support and motivate synergy initiatives, a suitable Purchasing Strategy development must be part of the Purchasing Process. The main subjects regarding Purchasing Strategy and relevant for Royal Wessanen, were analyzed to find the essential steps for the Purchasing strategy set-up. Supplier strategies and strategy review are also important aspects of this development model for Royal Wessanen. Of the investigated “out of the box” supplier strategies and purchasing methods, only group/joint buying is a relevant and interesting option for Royal Wessanen at this point in time.

11.2.2. Design Phase Conclusions

Based on the Analysis phase, two parts of the purchasing process were designed; Purchasing Transparency and Purchasing Strategy. For these designs, goals and scopes, including user requirements were first established by follow-up interviews and discussion with representatives of all stakeholders. In the Purchasing Transparency design, all relevant information types were identified. These types can be divided in Static Information and Dynamic Data. Static Information represents the purchasing organizational aspects, including the categorization of purchased goods, functions, roles and responsibilities. Also a Royal Wessanen IT tool for communication, monitoring/reporting and strategic steering was designed. Dynamic Data represents the current qualitative and quantitative status of the purchasing function. The design consists of selected practical data, relevant and possible to provide by the Royal Wessanen subsidiaries. With the Purchasing Transparency in place to monitor the purchasing function, the creation of purchasing strategy is enabled.

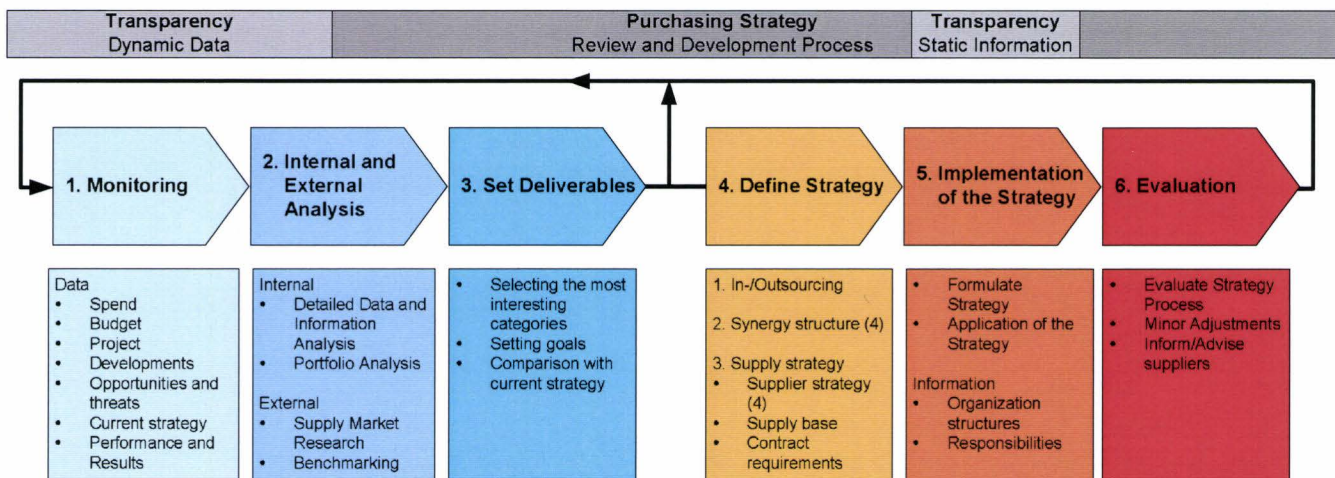


Figure 11.2. Royal Wessanen Purchasing Process Design

For the Purchasing Strategy Design, goal, scope and user requirements were also set up. A Purchasing Strategy Development process, consisting of 6 steps and using Purchasing Transparency, is designed. These steps are Monitoring, Analysis, Set

Deliverables, Define Strategy per Category, Implementation of the Strategy per Category and Evaluation. Roles and (Managerial) responsibilities regarding the Purchasing Strategy development are also designed. Combined, the Purchasing Transparency and Purchasing Strategy Development designs form the Purchasing Process as described in the Project Assignment.

The synergy structures to be selected when defining the Strategy per Category are crucial for Royal Wessanen. The roles and responsibilities of the four synergy structures (Knowledge Owner, Lead Buyer, Centralized Buyer and Outsourcing Buyer) were presented. These structures and linked responsible persons are the new central-led and local-led purchasing organization. They enable the designed Purchasing Process to identify and analyze synergy saving opportunities and execute purchasing strategies. As a result, the Corporate Director Supply Chain can control the Royal Wessanen purchasing function.

11.2.3. Implementation Phase Conclusions

The implementation of the design consists of 9 steps:

1. Renew the focus on purchasing
2. Create top management commitment
3. Maintain commitment of purchasing professionals
4. Identify and design Static Information
5. Gather Dynamic Data
6. Develop the Transparency Tool
7. Communicate Purchasing Strategy Development
8. Train the people involved
9. Implement continuous review

These steps, accompanied by people responsible and timeframes, were presented in an implementation plan. There are also risks attached to the implementation. It might not be possible for Royal Wessanen to develop a suitable IT system and another solution with the same design functionalities has to be found. With an IT system in place, the input from local purchasers must be guarded. The initial input is vital to a successful start of the Purchasing Strategy development process. The last main risk is that management decides not to allocate sufficient resources to act on saving opportunities. This will lead to a lower local commitment and effectiveness of the design.

11.3. General Conclusion

With the implementation of this design, the Project Assignment is fulfilled. The design is ***a Purchasing Process by which Royal Wessanen can identify purchasing saving opportunities and control the purchasing function by:***

- (1) ***Continuously monitoring the purchasing organization***
Static Information (Purchasing Transparency) gives information about the preset responsibilities, structures, etc.
- (2) ***Continuously monitor the purchasing status***
Dynamic Data (Purchasing Transparency) reveals the current status of the purchasing function and identifies (synergy) opportunities and threats.
- (3) ***Periodically review the purchasing strategies for the different product categories***
Purchasing Transparency is the basis of the Purchasing Strategy development process that enables the creation and review of the Purchasing Strategies per Category. The use of Synergy Structures enables an optimal degree of coordination, enables to profit from these saving opportunities and is stimulated

and motivated by the Purchasing Strategy per Category. Static Transparency supports the implementation and execution of the Purchasing Strategy per Category.

11.4. Further Recommendations

In this section some recommendations are made that could not be (fully) mentioned in the previous chapters.

- **Invest in corporate purchasing**

This project was a first structural corporate purchasing project concerning the total Royal Wessanen Purchasing Function since some years. As stated extensively in this report, monitoring the companywide purchasing process at Royal Wessanen can lead to competitive advantage, identified (synergy) savings and prepare for threats or opportunities in the food supply market. An increase of strategic purchasing resources at a corporate level is recommended to stay focused on these subjects and benefit from a well organized purchasing function.

- **Evaluate process regularly**

The design presented in this project is a first structural approach for the companywide purchasing function. During the implementation and further use of the developed communication tool and strategy development process, this Purchasing process must be evaluated regularly. Reallocation of responsibilities, professionalizing of the process, etc. are developments that can take place over time.

- **Link communication tool to SAP**

As stated in this report, Royal Wessanen is currently in the first phase of the implementation of the ERP system SAP. In the future, a part of the functionality of the transparency tool might be taken over by SAP. Especially the quantitative and contractual data will be much earlier accessible. SAP will also allow Royal Wessanen to standardize on metadata. For the communication of qualitative information regarding purchasing, it is recommended that the presented design is used aside SAP for background information and, when possible, linked to SAP by an interface.

- **Use categorization for SAP**

The categorization of purchased goods presented in this project and further developed during the implementation must be taken as a basis for purchasing in SAP. The categorization is the result of a practical assessment and matches the current classification requirements of all purchasing departments at Royal Wessanen.

- **Asses further professionalizing of Purchasing Excellence**

With the implementation of the presented design the first three steps of the Purchasing Excellence model, presented in 7.3.2 are covered. It is recommended to asses the possibilities to further increase Purchasing Excellence by using the following steps in the model.

11.5. Further Research

In this project, an insight in creating corporate purchasing synergies was provided. As the findings were based on a combination of literature review and the practical situation at Royal Wessanen, there are evident limitations to this study. The scope of this research was quite broad and focused on all purchased goods except marketing spend. The research was not focused on one of the main product groups, but on a

more uniform basis and design useful for all purchasing categories. This left specific category characteristics to the background. More specific research to one or more main or subcategories, although already to some extent part of the presented design, might lead to interesting and useful findings. However uniform for all purchasing categories, the design in this project is a “tailor-made” for Royal Wessanen. With that, design was limited by the existing and possible organization and available resources at Royal Wessanen.

In general practice, it does not seem to be trouble-free to realize and materialize synergy and the related benefits as discussed in the literature. Therefore, academically this report should be considered more a proposition and invitation to further research than as definite prescription. Further academic research can focus on consolidating methods and models provided in the purchasing synergy literature, supported by a quantitative research and a research focused on purchasing synergy implementation issues. Of specific interest may be the use of empirical data on performance improvements and linking these to the different approaches to realize purchasing synergies found in the literature.

Postscript

These last words are intended to provide some reflection on my graduation project. Looking back on the past eight months, I can conclude that it has been a very instructive time. Of course there were struggles, however, in general I can be stratified by the set and followed path. The project has brought me valuable insights and learning moments, for the benefit of my professional and personal development.

Despite eight months is a long period of time, I always had to focus and narrow my scope to refuse my eagerness to explore all interesting aspects of my surrounding at Royal Wessanen. Gladly I was provided with a much freedom and resources to explore the opportunities of my project and learn much outside the scope of my assignment. Maybe therefore, it was a challenge to convey all my experiences, learnings and thoughts concisely to paper (and I hope this succeeded to some extend). All in all I am glad with the results of this project. I think the combination of academic theories and practical information has been one of the most valuable learning experiences, not only in this final project but also on many other moments throughout my studies.

Although this thesis has approached the problem conceptually, I am convinced that the outcome is not merely theoretical. On the contrary, I was given the opportunity to implement my design, and the realization is fairly underway. It is with regret that I must leave parts of my current work into the hands of my colleagues, due the end of the project time, but I am confident that it will be completed successfully.

Royal Wessanen granted me with a huge opportunity, greater than I ever expected when I first walked into the Head Office. Visiting the European subsidiaries, meeting so many interesting people and being so easily provided with all requested resources and more, has made this project to an unforgettable and joyful experience.

So, this was it. The project has been finished, my studies have been completed, and a new era in my life will commence shortly. Again, I like to express my gratitude to everybody who contributed to my project. Let's move to a new challenge!

Sjuul van der Leeuw

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Interviews and Cooperation

Royal Wessanen

- Alphons J. de Vries, Corporate Director Supply Chain
- Geert Reynders, Vice President Supply Chain Management Europe
- Ad Veenhof, CEO Royal Wessanen, Executive Board
- Han Wagter, CFO Royal Wessanen, Executive Board
- Niels Onkenhout, CEO Wessanen Europe, Executive Board
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- Pieter Verhulst, Director HPT Marketing & Innovation
- Henk de Vries, Corporate Director Quality
- Marlotte Herweijer, Quality Consultant
- Wim Prins, Corporate Risk & Quality, Facility Services Manager
- Peter Komdeur, Corporate Director Information & Communication
- Martin Wilstra, Manager Infrastructure
- Mark Williams, ICT Network Manager and Programming
- Mariet Rekers, Manager Compensation & Benefits
- Jan Notten, General Manager Transatlantic Alliances

Wessanen Netherlands BV

- Arwin Kieboom, Purchasing Manager
- Richard Miedema, Senior Strategic Buyer and Lead Buyer Europe
- Ronald Bongers, Strategic Buyer
- Jan Guijt, Buyer, Buyer Raw Materials (meat and seasoning)
- Jan van Overvelt, Buyer Raw Materials (packaging)
- Bernard Goethals, Director Operations
- Sybe Sijbesma, Buyer Energy, Maintenance and Technical

Distriborg FRA

- Jean-Dennis Bellon, Director Purchasing, Marketing and Quality
- Claudine Banzet, Purchasing Manager Distriborg Groupe and Lead Buyer Europe
- Jean-Philippe Thévenet, Strategic Buyer Distriborg Groupe and Lead Buyer Europe
- Christophe Vallin, Buyer Distriborg Groupe
- Ludivine Court, Buyer Distriborg Groupe
- Ghislaine Dubois, Buyer of Services Distriborg Groupe

Kallo Foods UK

- Andy Stride, Purchasing Manager and only Purchaser and Lead Buyer Europe

•

Natudis BENELUX

- Xander Meyer, General Manager Natudis and Director HFS Marketing & Innovation
- Dik Goorhuis, Director Marketing & CM
- Thea Carpay, Purchasing Manager and Purchaser
- Sjoerd Schaafsma, Purchaser
- Harry Dullemond, Purchaser
- Jelte Gaastra, Packaging Purchaser
- Daniele Koek, Packaging Purchaser Assistant

Tartex GER

- Matthias Koch, former Purchasing Manager
- Marcus Heidler, Purchasing Manager
- Patricia Gorgol, Packaging Buyer
- Adriana Gorgoi, Ingredients Buyer
- Mayer Heike, Buyer Co packing and Printed Material
- Wiese Manuel, Buyer Finished Goods

Allos GER

- Frank von Glan, Managing Director Allos and Tartex
- Patrick Dießel, Supply Chain Manager
- Boris Rohmann, Ingredients Buyer
- Carina Scheer, Packaging Buyer

Tree of Life UK

- Richard Hilton, Purchasing and Operations Manager and Purchaser

I like to thank all colleagues and partners who supported this project for all their kind and professional time and efforts.

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- <http://www.ambev.com>
- <http://www.libertyrichter.com/>
- <http://www.treeoflife.com/>

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- <http://www.cereal.fr/>
- <http://www.gerble.tm.fr/>
- <http://www.hain-celestial.com/>
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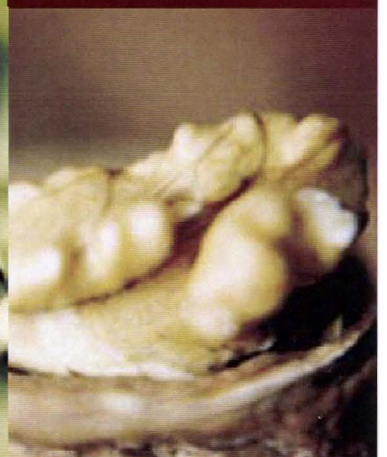
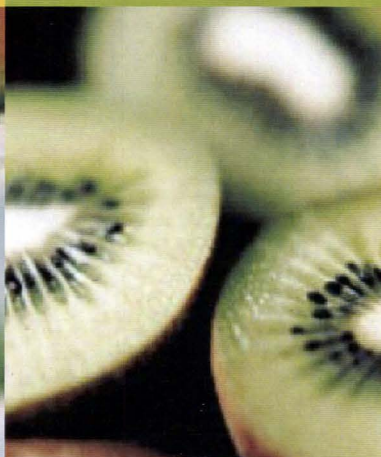
Final Thesis **Appendices**

Purchasing Synergy through Transparency and Strategy at Royal Wessanen

Sjuul van der Leeuw

April 2007

TU/e





“Purchasing Synergy through Transparency and Strategy at Royal Wessanen”

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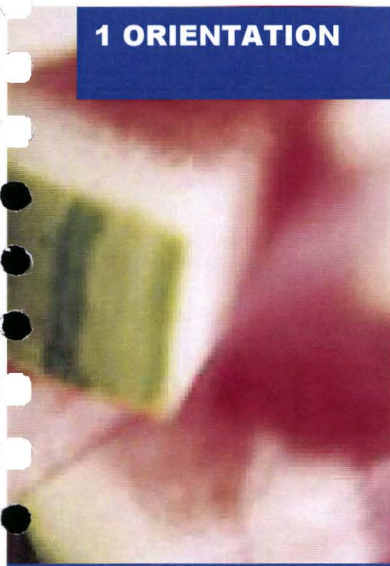
First company supervisor: Ir. A.J. de Vries
Corporate Director Supply Chain
Second company supervisor: Drs. G. Reynders
VP Supply Chain Management Europe

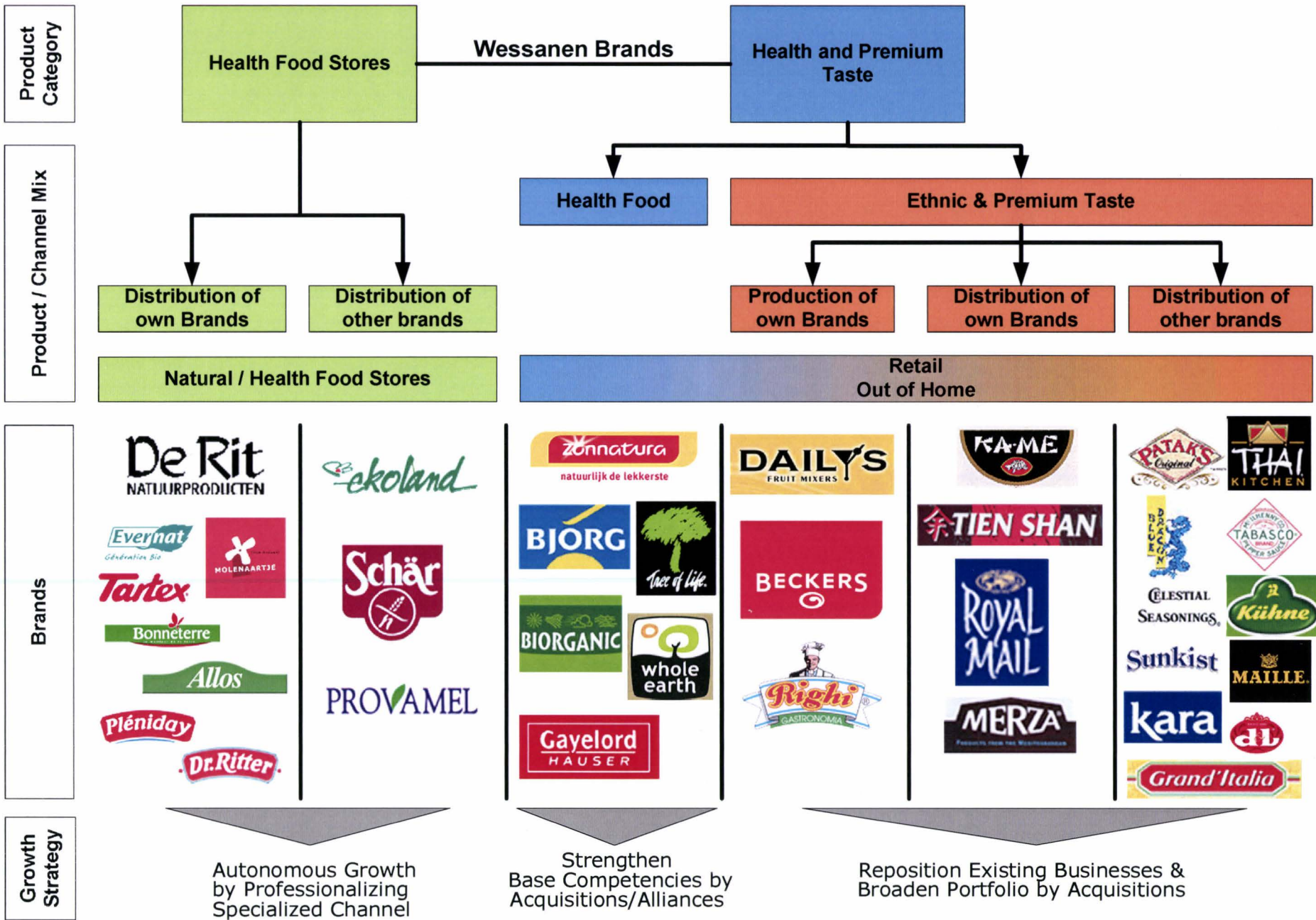
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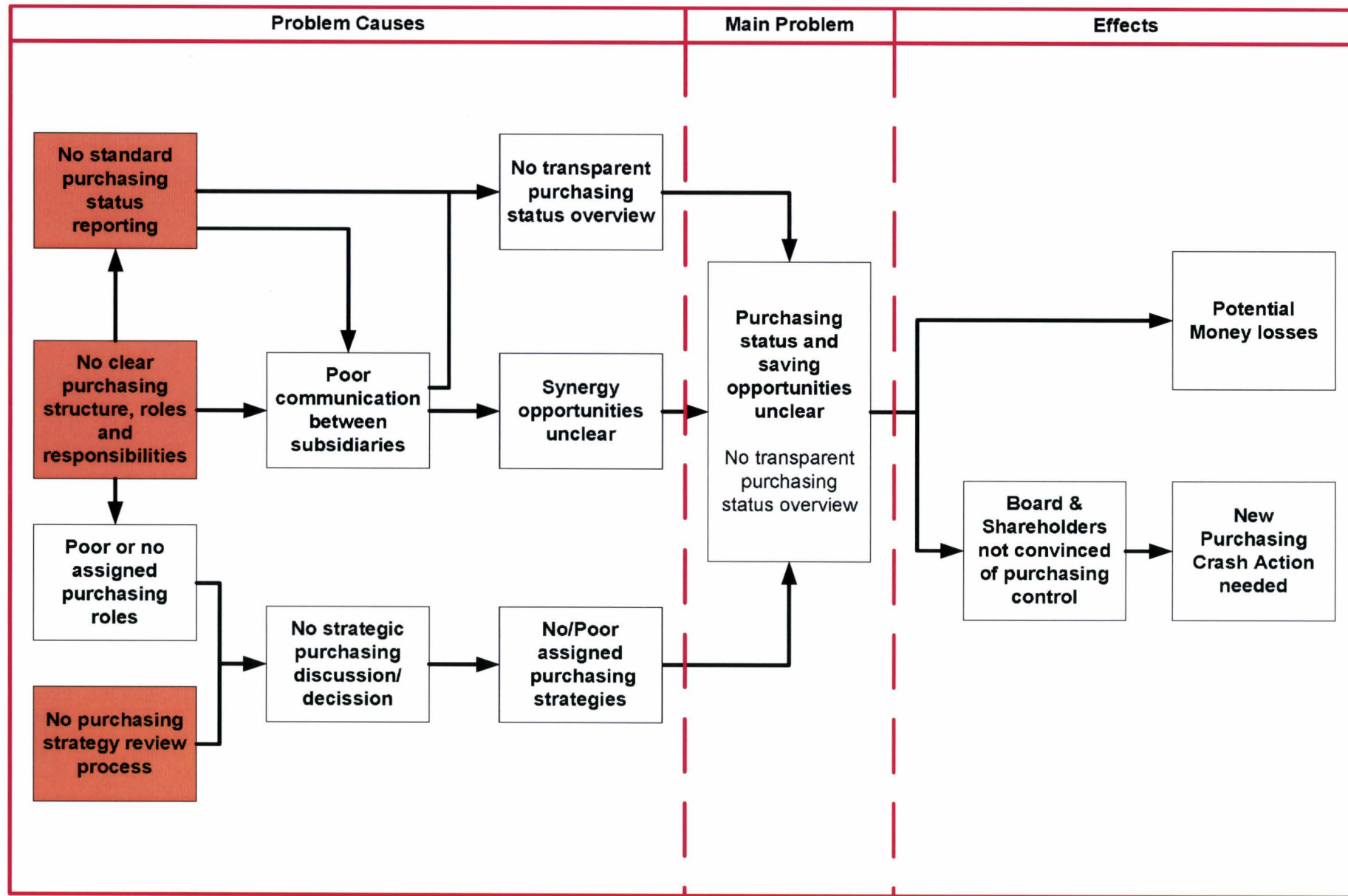


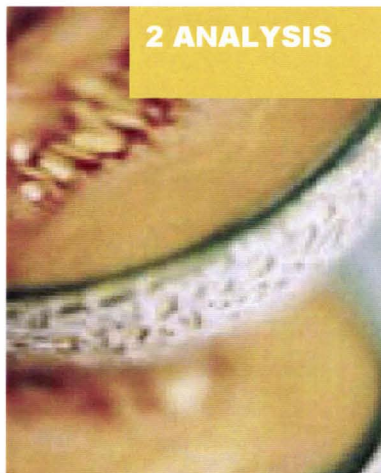
1 ORIENTATION





Appendix 3: Problem scheme





Appendix 4: Interview scheme for the Orientation and Analysis phase

The interview will take about one hour and at the end the interview is summarized so adjustments can be made. Everything said will be handled confidentially.

Personal Introduction and Project Information, consisting of

1. Name, Study, University, Sub department, Graduation Subject
2. Graduation project, company supervisors, project assignment, problem statement
3. If possible or valuable a project status and some findings so far to save time

Trigger question to keep in mind during the interview

1. What is the benefit of having more companies within Wessanen?

Introduction Interviewee and Subsidiary

2. What is your name, function and function description?
3. How long are you working for this subsidiary and in which functions?
4. Can you give me an introduction of your subsidiary?
5. What is the organizational structure of the subsidiary?
6. What are the main products and activities?
7. What are key issues for this company?

Purchasing Department

8. What is the structure of the purchasing department?
9. Which purchasing activities and categories is this purchasing department responsible for?
10. What are your purchasing categories and subcategories?
11. Which department is responsible for the other purchasing categories?
12. Who is responsible for which category in the purchasing department?
13. What are the roles and/or responsibilities of each purchasing function?
14. Are the purchasing responsibilities on a strategic, tactic and/or operational level?
15. Is strategic information available for the purchasing categories?
16. Are any second or third tier supply chain constructions negotiated?

Purchasing Issues

17. What are the current saving projects in purchasing?
18. What are your current supply problems/issues?
19. What are the weak and strong points of purchasing for this subsidiary?

Synergy

20. Do you have purchasing contacts within Royal Wessanen?
21. What are your current synergies with other Royal Wessanen companies?
22. Do you have synergies outside Wessanen?
23. Can you see possible synergies between your company and one or more other Wessanen companies?
24. Were you involved in earlier synergy initiatives/projects?

Design

25. Would you be prepared to invest time and resources in setting up synergies?
26. How would you like to see new synergy initiatives be supported and facilitated?
27. Can you give me spend and saving information about your categories?
28. Can you provide information about projects and issues?
29. What are your comments?

Conclusion

30. What is your personal opinion about this project to create a Royal Wessanen Purchasing strategy?
31. Do you have any other remarks or comments?

With each interviewee the key elements of the answers are summarized at the end of the interview, so that changes and additions can be made. Thank the interviewee for the time and cooperation.

The interview will take about one hour and at the end the interview is summarized so adjustments can be made. Everything said will be handled confidentially.

Short Introduction, consisting of

1. Personal information
2. Project information and findings from the orientation phase
3. Introduction interviewee
4. Current developments

First Findings

1. What is your reaction to the first document stating the first findings?
2. Do you have comments on the general or purchasing information presented in this first report?
3. Did any of your colleagues have comments or remarks?

Goals

4. What is your opinion of the presented goals?
5. Are the presented goals feasible and realizable in your opinion?
6. Will the presented goals solve the main problem statement?
7. Do you have any suggestions regarding these goals?

Purchasing Strategy

8. If strategic information is available, what are the accompanied processes?
9. How do you feel about more strategic control from Corporate?

Developments

10. What are the current supply market developments?
11. Are there any new threats or opportunities?
12. What are your current supply problems/issues?
13. Can you go further into the stated purchasing problems/issues?

Synergy

14. Did you already start synergy initiatives?
15. Which initiatives you think will work and which not and why?

Design

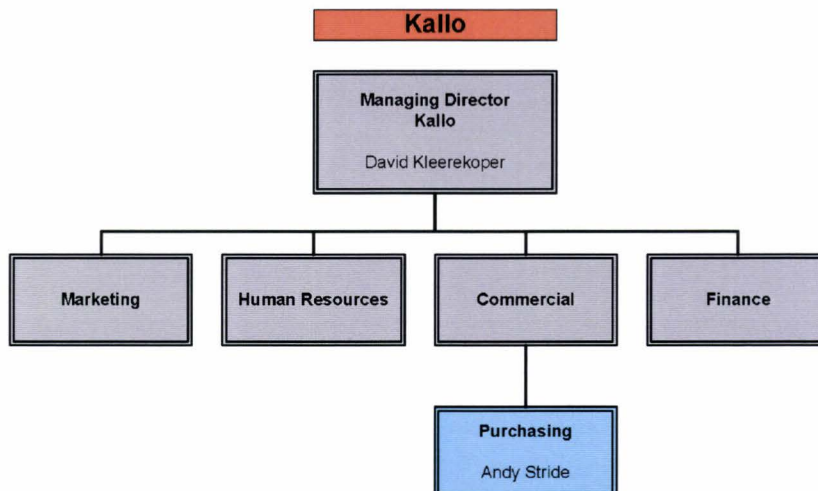
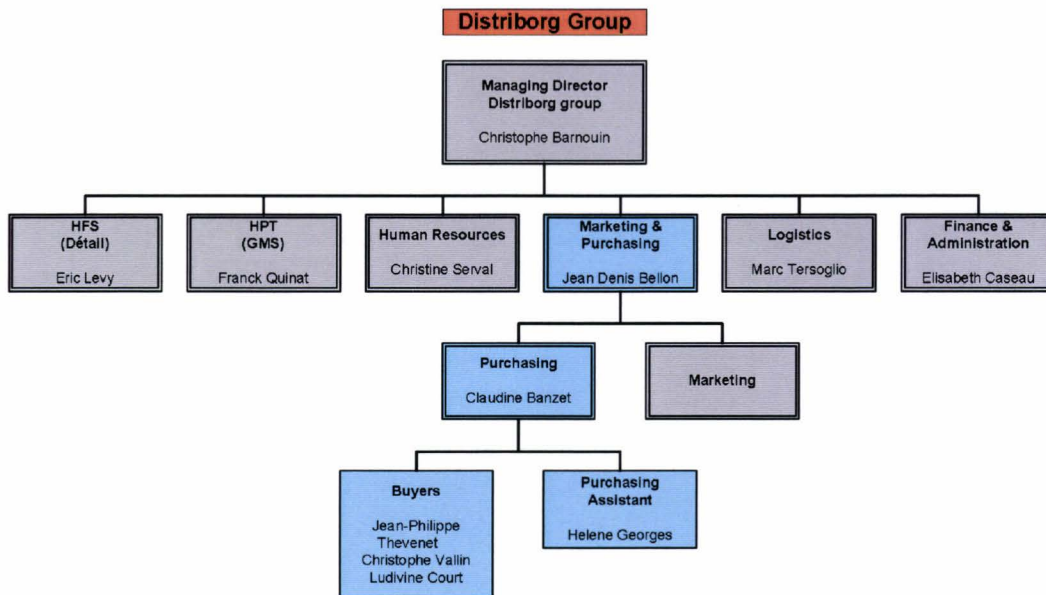
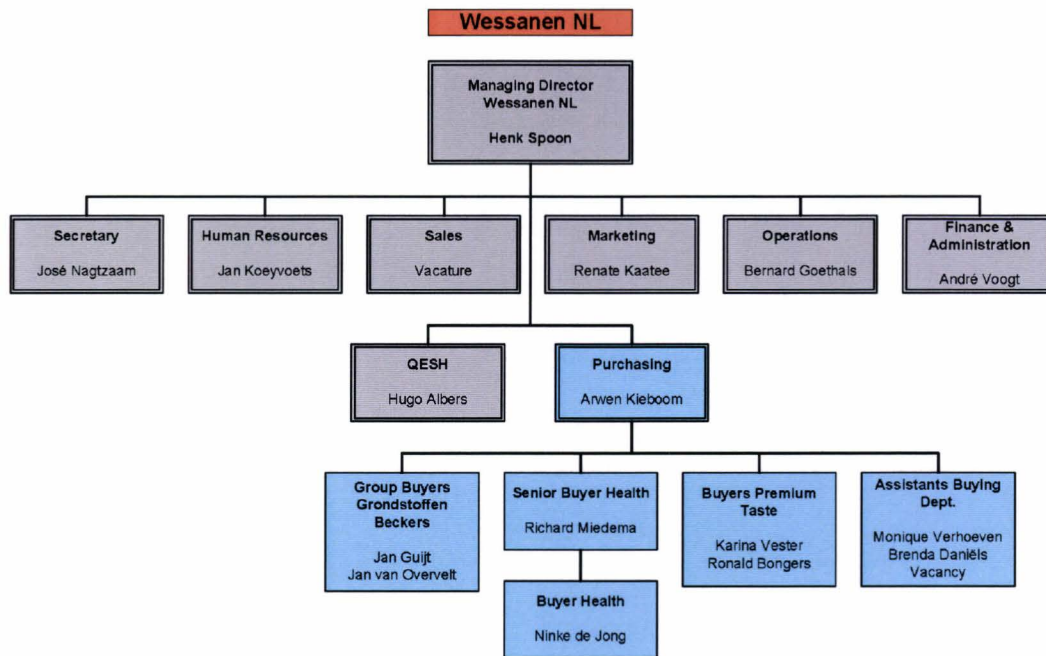
16. How valuable will the implementation of the presented goals be?
17. How would you categorize the purchased goods?
18. Which purchasing information from other subsidiaries would you consider valuable?
19. Which information is not useful or (almost) impossible to collect?
20. Are there any issues regarding the information requested about these categories?
21. What would be possible implementation issues?
22. What are your suggestions for the design?
23. What do you think about this preliminary design? (If ready and given)

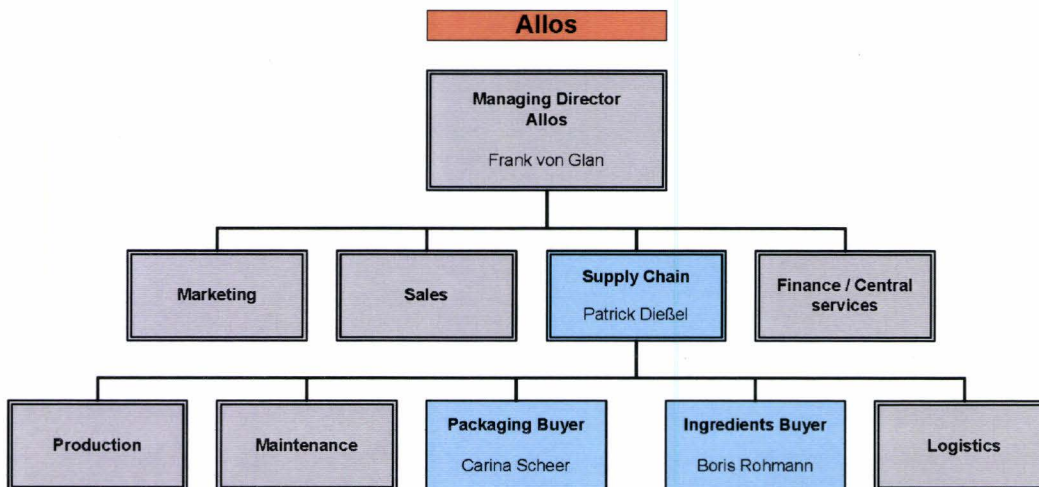
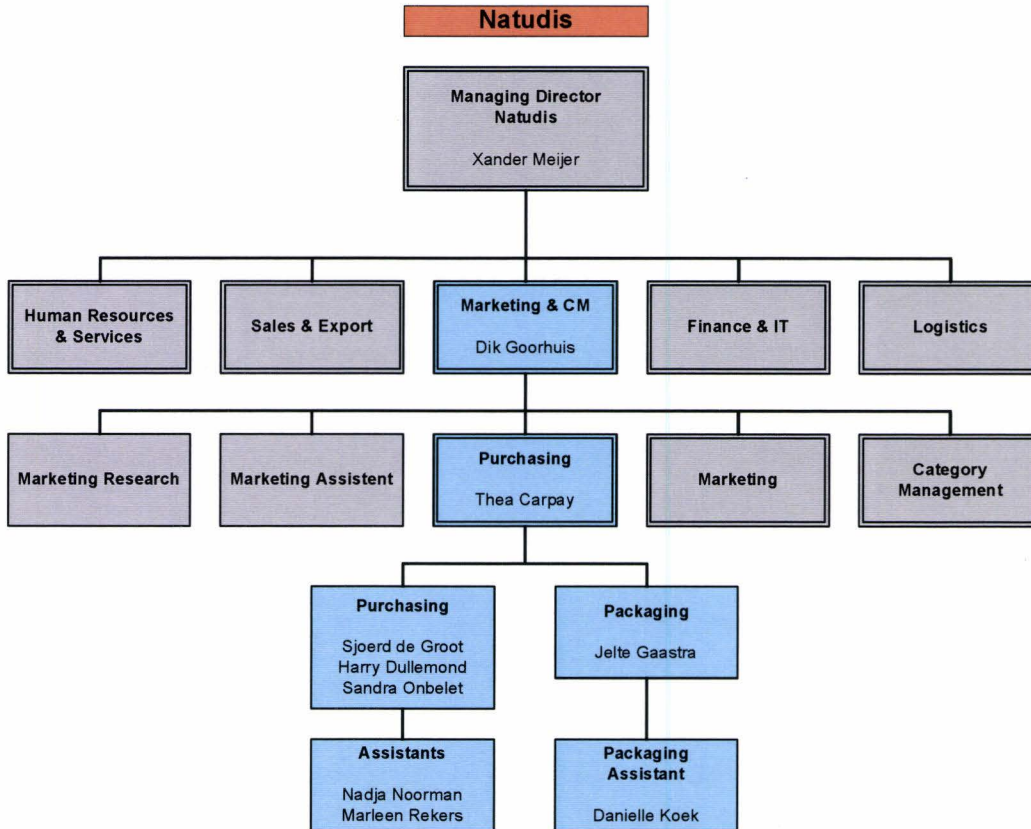
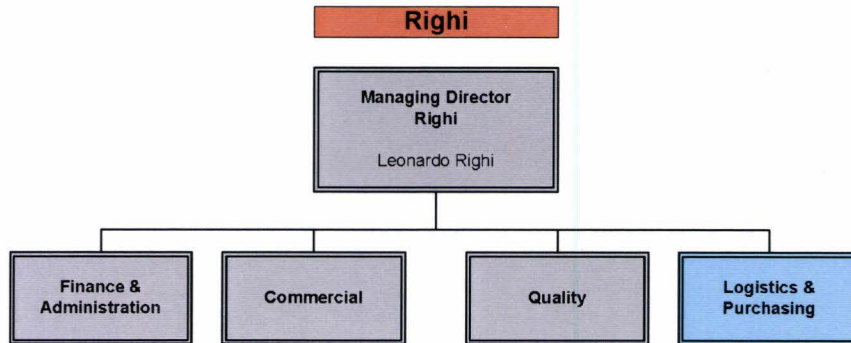
Conclusion

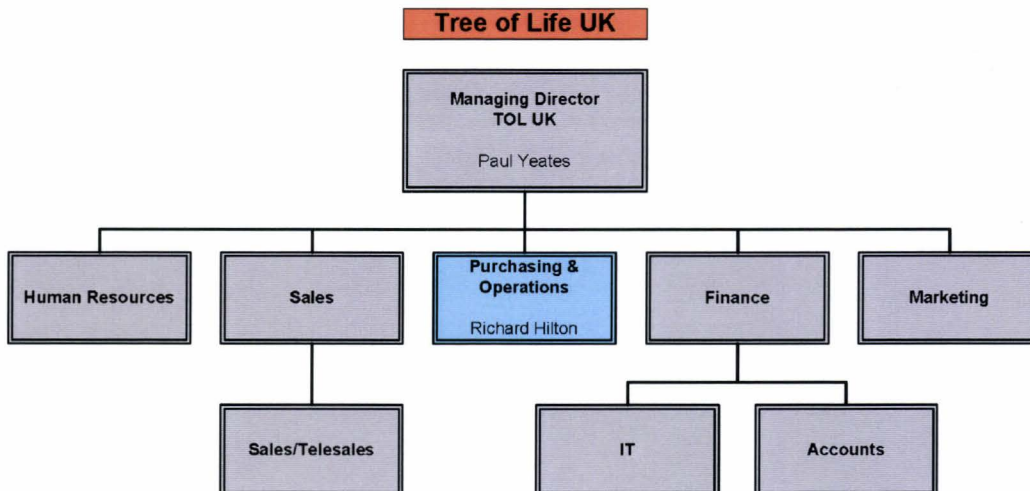
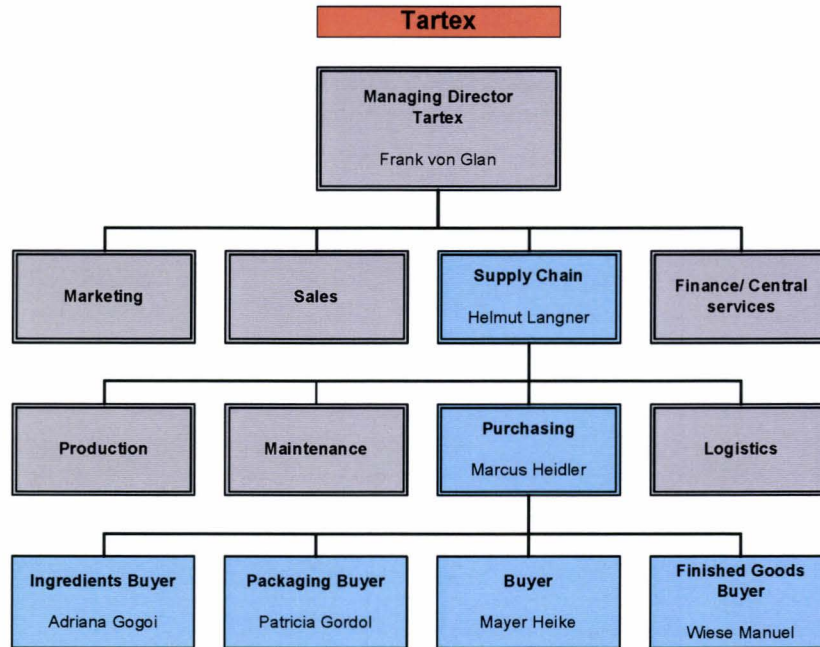
24. Can you fill in the questionnaires? (Rozemeijer, 2000b)
25. Do you agree with the outcome and conclusions of your questionnaires and the findings in the literature so far?
26. Do you have any other remarks or comments?

With each interviewee the key elements of the answers are summarized at the end of the interview, so that changes and additions can be made. Thank the interviewee for the time and cooperation.

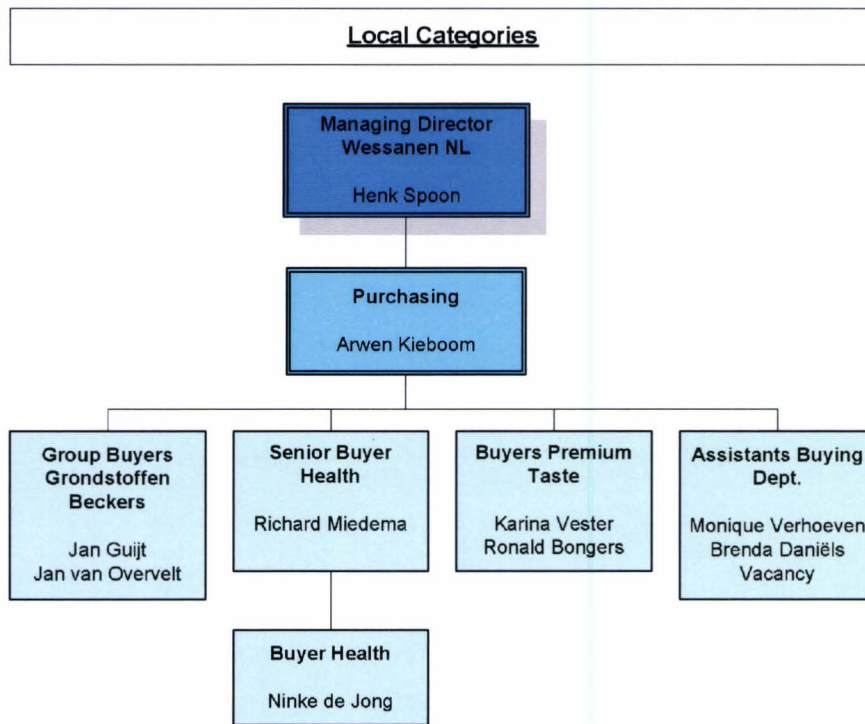
Appendix 6: Purchasing organization at the subsidiaries



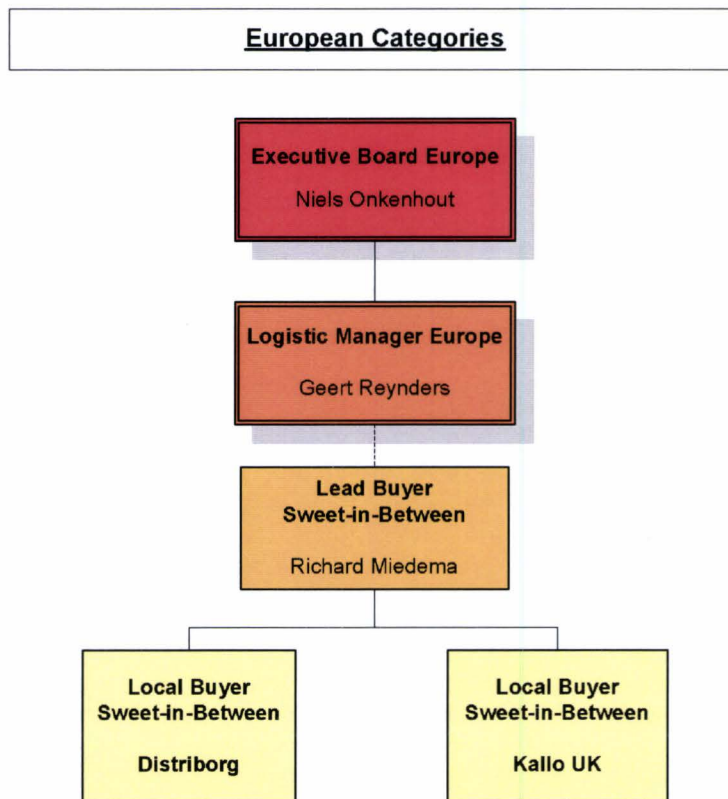




Appendix 7: Organizational chart Local and European Categories



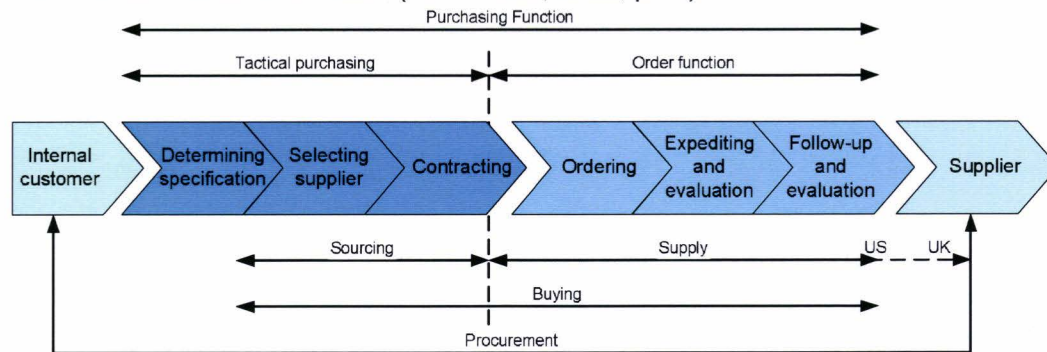
Appendix figure 7.1. Hierarchical structure Local HPT categories



Appendix figure 7.2. Hierarchical structure European Health categories

Appendix 8: Purchasing Defined

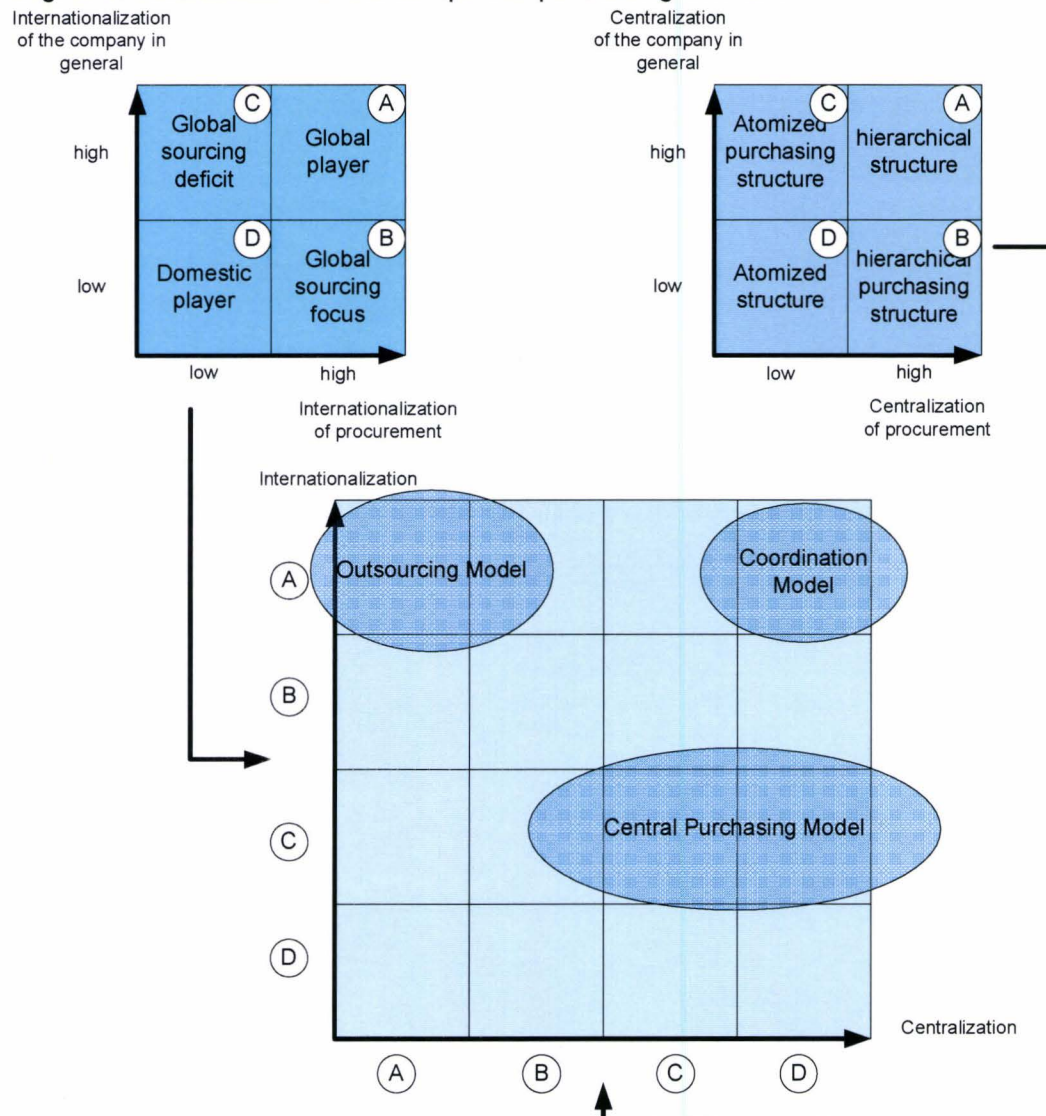
The research subject in this study, "Purchasing", has been defined as:
"The management of the company's external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and support activities is secured at the most favorable conditions." (Van Weele, 2005, p.12)



Appendix figure 8.1. Purchasing model and some related concepts (Van Weele, 2005)

The total purchasing process can be seen in figure 5.1. This figure schematically illustrates the main activities within the purchasing function (Van Weele, 2005). Procurement refers to all activities to getting the product from a supplier to its customer. In this project, customer and supplier relationships (the both ends of the model) will receive less attention. The strategic process of the connected parts of tactical purchasing will be the main focus of this report.

Sourcing and mainly global sourcing is one of the most discussed aspects of supply chain management. After a period in which “going global” had the focus, Arnold (1999) focuses on the optimal degree of centralization. According to Arnold (1999), the degree of centralization and internationalization of the purchasing function is closely related to the degree of centralization and internationalization of the company in general. Combining the results of these four dimensions, leads to a classification tool which can be used to show the different positions of analyzed companies. Next, the position in this classification tool shows what form is likely to be suitable for the degree of centralization for the companies purchasing function.



Appendix figure 9.1. Model for the purchasing organization (Arnold, 1999)

The three different forms are:

- **The central purchasing model**

This form is useful for organizations with generally low international/global sourcing activities and a high degree of centralization. Because of the low global sourcing ratio, a regionally decentralized purchasing structure does not make sense. This is why a central purchasing function within the company is responsible for global sourcing to realize economies of scale. In addition there is a high intra-structure-fit towards the generally centralized structure. A strong central purchasing department helps to realize economies of scale by bundling demand and economies of scope by establishing a central purchasing process. Centralization refers not necessarily to all

procurement functions but at least to a centralized supplier management and contract handling.

- **The coordination model**

This form also makes use of economies of scale. Instead of a strong hierarchy another steering system is used. This efficient model for centralization refers to the idea of cooperation among the regions/ business units. An example for such a coordination tool might be a European Sourcing Committee. This committee is responsible for all major purchasing decisions especially global sourcing. Every regional purchasing department, from all subsidiaries, sends a representative to this committee. This participation generates a strong coordination without too strong hierarchy. The coordination model is appropriate for centralized internationally active companies. It combines the advantages of independent regional business units with best market know how and the advantages of demand bundling in purchasing. It creates high commitment to coordinated purchasing in all regions.

- **The outsourcing model**

This model makes sense in a highly decentralized but very internationally oriented company. Its main idea is to enable the autonomous and decentralized business units and their purchasing functions to source globally. Therefore, a kind of outsourcing of their procurement function for international duties is established. Outsourcing in this case means to give a purchasing mandate for a specific foreign supply market to the business unit located there or to establish an international trading organization which acts separately in its market. The position of the global sourcing organization depends heavily on their ability to 'sell' global sourcing activities to the independent business units. Without their commitment, global sourcing could never be 'outsourced' successfully.

	The more questions are answered with yes, the higher the purchasing maturity	Wessanen
Q	1. The purchasing spend with outside parties is high and increasing	
A	Yes, purchasing spend is mainly with outside parties and due to the growth in outsourcing of, for example, logistics and Branded production, purchasing spend is increasing	Yes
Q	2. Top management recognizes Purchasing as an important contributor to the competitive position	
A	Yes, the Corporate Director Supply chain has initiated this project and is supported by the Executive Board	Yes
Q	3. In our company the purchasing function reports directly to top management.	
A	No, every local purchasing department reports within their own subsidiary and often not directly to top management of the subsidiary	No
Q	4. In our company purchasing relates to strategic and truly cross-functional processes, with high involvement of line management.	
A	No, this is only partly correct for the European Health Categories, however this is only a part of the total purchasing spend	No
Q	5. In our company, purchasing's main goal is achieving the lowest total cost against highest value	
A	Yes, main focus is on lowest costs; quality, availability, authenticity and traceability are an important indicators of value	Yes
Q	6. In our company there is a high degree of homogeneity in purchasing needs across the BU's	
A	Yes, in the NPR category many products are the same over the subsidiaries, also in other categories, almost solely focused on branded food production and distribution there is much similarity	Yes
Q	7. There are no significant differences in the role and position of the different purchasing departments across the BU's of our company	
A	Yes, the different purchasing departments have comparable roles and positions, however there is no uniform organizational structure	Yes
Q	8. The skills and capabilities of purchasing personnel in the different BU's are more than adequate for participating in formulating corporate purchasing strategies	
A	No, on a local level strategies are in place and many purchasing personnel is willing and capable to participate, however for a corporate purchasing strategy there is too little overview and recourses	No
Q	9. The purchasing departments in the different BU's operate on comparable levels of professionalism	
A	Yes, the professionalism of the different purchasing departments, aside from some recent acquired subsidiaries, is comparable	Yes
Q	10. The skills and capabilities on the corporate level are adequate for managing corporate purchasing synergy	
A	No, some purchasing synergies are set up and the intention to benefit maximally from possible benefits exists, however, the structures, recourses, overview and functionalities are not yet enough	No
	Result	6 Yes 4 No

	The more questions are answered with yes, the higher the corporate coherence	Wessanen
Q	1. Our company only concentrates on strongly related business areas.	
A	Yes , the focus is mainly on branded food production and distribution	Yes
Q	2. Our company has grown mainly through internal growth (instead of through mergers and acquisitions).	
A	No , the main growth is a result of acquisitions	No
Q	3. Our company is not structured around completely autonomous and stand-alone business units (BU)	
A	Yes , the subsidiaries are quite autonomous, however corporate staff decides upon investments, strategy and has a clear steering role	Yes
Q	4. In our company, BU managers are compensated for participation in corporate synergy initiatives	
A	No , this is not (yet) in place, mainly due to the young focus on synergies	No
Q	5. Co-ordination and co-operation between business units is strongly encouraged and supported by corporate staff groups in other areas than purchasing	
A	Yes , in the areas of finance, quality, logistics (warehousing and transport) and marketing, co-ordination and co-operation is encouraged	Yes
Q	6. Our company has a corporate culture that encourages co-operation across business units	
A	Yes , in the pursuit of savings the corporate culture encourages co-operation across subsidiaries, however, the structures and recourses are still limited	Yes
Q	7. In our company the national organizations have only a limited amount of authority which is combined with global efficiencies through co-ordination (transnational organization)	
A	No , national subsidiaries have a high level of authority which can obstruct global efficiencies through co-ordination	No
Q	8. Our company has a uniform and strong corporate identity.	
A	No , the corporate identity has a complicated business development strategy and corporate staff is limited	No
Q	9. In our company there is little (political) conflict between the different 'blood groups' (e.g. hierarchical levels and functional departments)	
A	Yes , this is also due to the limited number of responsibilities crossing these lines	Yes
Q	10. Our company management information systems are compatible.	
A	No , there are many different systems available in the multiple subsidiaries, however, the commitment to make systems compatible is proven by the current launch of a international SAP project	No
	Results	5 Yes 5 No

The research of Schotanus and Telgen (2005) has the main objective to “identify and classify the current forms of cooperative purchasing”. Their research is limited to horizontal purchasing cooperation between independent organizations, where this review focuses on purchasing cooperation (synergies) between dependent organizations, like business units or subsidiaries. However, Schotanus and Telgen are focusing on cooperative purchasing in the public sector. And because entities of the public sector belong to the same government and have no intent to gain profits, they are not explicitly independent. Additionally, their willingness to support each other (possibly in a moderate way) makes a review of this model valuable for this research.

Before categorizing synergy forms, Schotanus and Telgen describe the existence of a wide range of different hybrid organizational forms for cooperative purchasing initiatives. To start their categorization, they make the distinction between ‘coordination by hierarchy’ and ‘coordination by market’. The organizational form should lean to coordination by hierarchy when all participating organizations work together in a large exceptional purchasing project and all need to agree on the cooperative specification and supplier choice. In the case of coordination by market, the purchasing need is similar for all participants and they agree to outsource procurement to an external party or to one of the participants.

Schotanus and Telgen developed the highway matrix to be able to categorize and analyze the different forms of cooperative purchasing. They use road transport as a metaphor to have practical labels for the forms. The matrix uses two factors to determine the appropriate form of purchasing cooperation.

The first factor, the ‘intensiveness for members’, on the vertical axis is defined as the extent to which an organization is compelled to perform an active role in the cooperative initiative. This can be compared to Corporate Coherence in chapter 5. The higher the intensiveness, the more the organizational form usually leans to coordination by hierarchy. The lower this factor, the more the form leans to coordination by market.

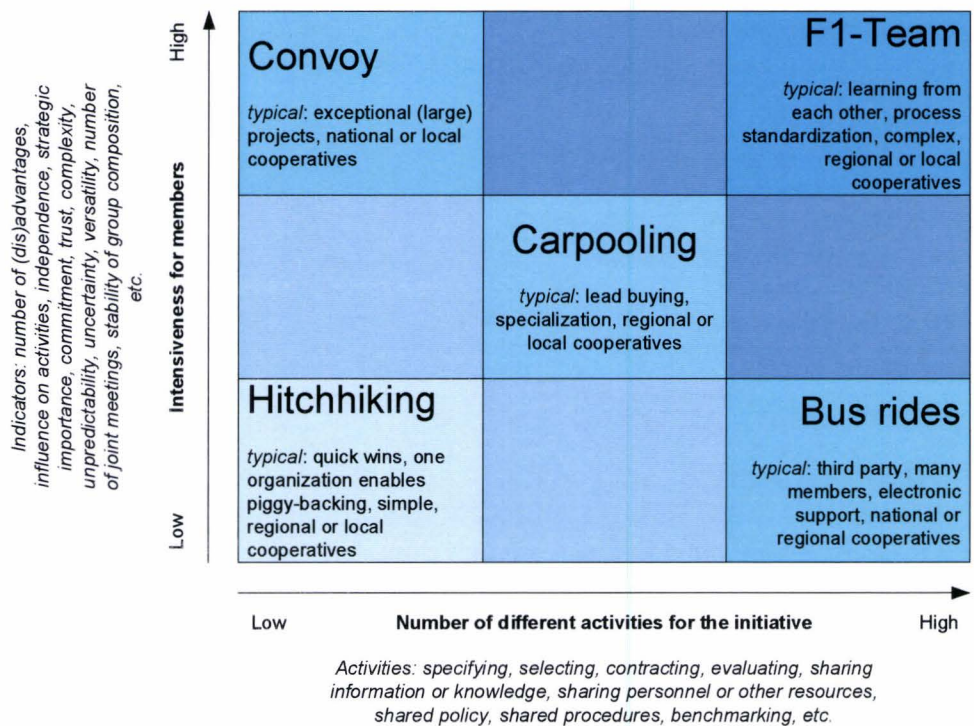


Figure 6.1. Highway matrix (Schotanus and Telgen, 2005)

The second factor on the horizontal axis is 'number of different activities for the initiative'. This factor ranges from 'one occasional cooperative activity' to 'contiguously undertaking different activities with the same cooperative initiative'. These activities can be carried out by an external party or by the members themselves. Combinations of forms apply when different members of the same initiative score differently on one or both factors.

Hitchhiking

In this form a large organizations establish contracts on their own specifications and this contract may be used by other (smaller) organizations. The smaller organizations do not have influence on the specifications or supplier choice, like a hitchhiker cannot influence the final destination of its ride. A difficulty can be that the suppliers will not allow the smaller organizations to hitchhike under the same conditions. This issue might be solved by a higher purchase price (with the same conditions unchanged) which is still beneficial for the smaller participant.

Bus rides

This form mostly involves long term hitchhiking organized by an external profit or nonprofit organization. Using the purchasing expertise of the external party, an auction for specific commodities with an (expected) combined volume can be useful for an unlimited number of participants. In most cases the participants have to pay a small fee to cover the costs made by the external party, like bus travelers do. Members have little or no control over the procurement process and therefore most bus rides are only suitable for non product related goods and services.

Carpooling

When carpooling, the procurement process of common commodities is outsourced to one of the members. Each commodity is purchased by the most suitable organization according to their expertise, resources or purchasing volume. This form is also known as lead buying. Members can share their best price agreements and benefit from benchmarking their own agreements. A disadvantage is the dependency on other members' skills and knowledge. To implement this form successfully, members should have some similarities in for example location, sector or network. Because trust is important carpooling mostly has a limited number of members.

Convoy

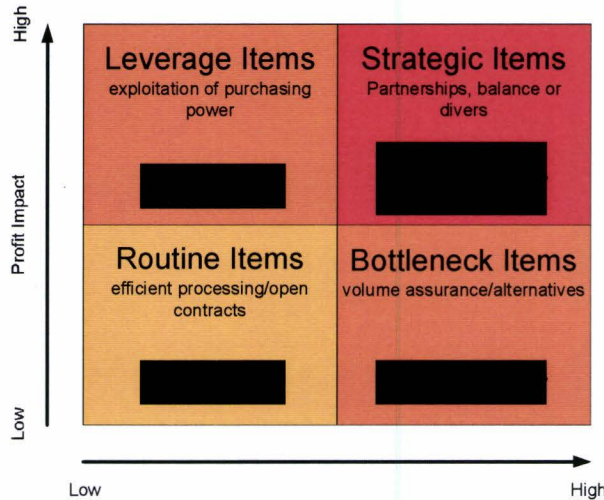
A convoy is a more intensive form of cooperative purchasing and suits well with one shared exceptional purchasing project. Supply risk can be shared and shared knowledge can be used to deal with uncertainties. A lot of communication and learning between participants is needed to bring specifications up to the same level and to agree on supplier choice etc. Convoys may be one-time events, but working with known partners might reduce difficulties. Free rider problems should be prevented.

F1-team

This cooperation form is quite similar to the carpooling form; however, it is focused on a much higher level of independency of the participating organizations. It is an intensive purchasing form in which representatives of the management teams of the different organizations regularly meet in a steering committee. Project groups of representatives set up to carry out several steps of the procurement process and the workload is allocated equally.

Van Weele (2005) states that the Kraljic portfolio analysis (1983) can be a first strategy development step for purchasing categories. This analysis also supports the development of a suitable supply base. Many of the same aspects that Monczka et al. (2005) describe are to be found in this model. It consists of 4 phases.

Phase 1. Classification



Appendix figure 12.1. Purchasing matrix, Kraljic (1983)

For all purchased products or product categories the Supply Risk and Profit Impact are determined. Using these two variables, the strategic level is determined using a 2 by 2 matrix. Every strategic level has its own tasks, supplier management and decision level. The main tasks and some products purchased by Wessanen are placed in figure 7.5. For product categories resulting in the level Strategic Items, the following 3 phases can be performed.

Phase 2. Market analysis

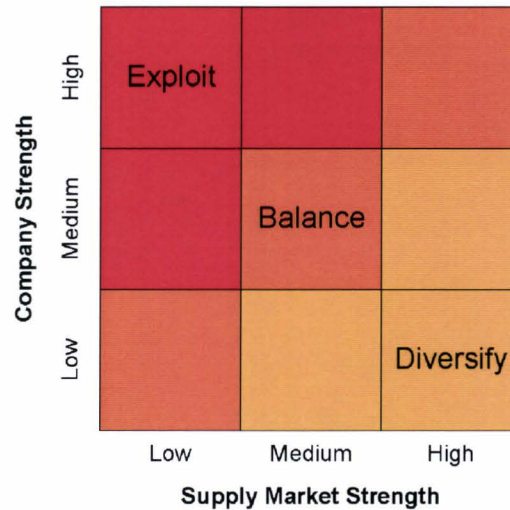
During this phase a SWOT analysis is conducted. The criteria used are presented in figure 7.6. However, these criteria also depend on the organizational context.

Supplier strength	Company strength
1. Market size versus supplier capacity 2. Market growth versus capacity growth 3. Capacity utilization or bottleneck risk 4. Competitive structure 5. ROI and/or ROC 6. Cost and price structure 7. Break-even stability 8. Uniqueness of product and technological stability 9. Entry barrier (capital and know-how requirements) 10. Logistics situation	1. Purchasing volume versus capacity of main units 2. Demand growth versus capacity growth 3. Capacity utilization of main units 4. Market share vis-à-vis main competitors 5. Profitability of main products 6. Cost and price structure 7. Cost of non-delivery 8. Own production capability or integration depth 9. Entry costs for new sources versus cost for own production 10. Logistic

Appendix figure 12.2. Purchasing portfolio Evaluation Criteria (Kraljic, 1983)

Phase 3. Strategic positioning

In this phase, using the relative strengths between company and supplier, a suitable strategy is identified. This is determined by the placing the outcome of phase 2 in a 3 by 3 matrix. The result can be one of the 3 strategies given in figure 7.7.



Appendix figure 12.3. Portfolio for strategic products (Kraljic, 1983)

Phase 4. Action plans

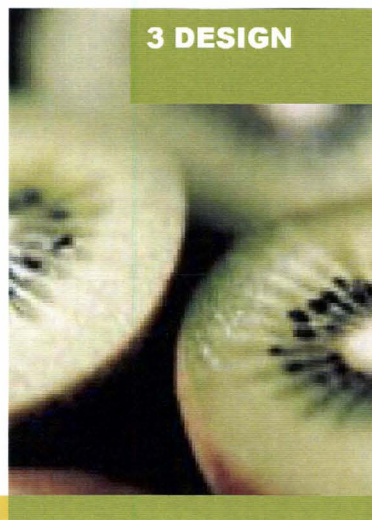
In this last phase, one of the three strategies for strategic products is determined; Exploit, balance or diversify). Every strategy has its own characteristics, presented in figure 7.8.

	Exploit	Balance	Diversify
Volume	Spread	Keep or shift carefully	Centralize
Price	Press for reductions	Negotiate opportunistically	Keep low profile
Contractual coverage	Buy Spot	Balance contracts and spot	Ensure supply through contracts
New suppliers	Stay in touch	Selected Vendors	Search vigorously
Inventories	Keep low	Use stocks as "buffer"	Bolster stocks
Own production	Reduce or don't enter	Decide selectively	Build up or enter
Substitution	Stay in touch	Pursue good opportunities	Search actively
Value engineering	Enforce supplier	Perform selectively	Start own program
Logistics	Minimize cost	Optimize selectively	Secure sufficient stocks

Appendix figure 12.4. Strategic implications of Purchasing Portfolio positioning (Kraljic, 1983)

The Kraljic portfolio as describe above is, however, seldom used in practice. Usually only the first step is used, resulting in 4 possible strategies.

3 DESIGN



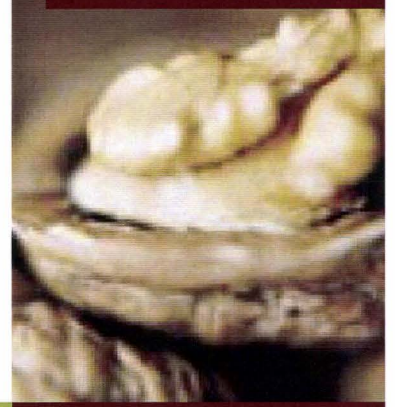
Appendix 13: Initial Overview of Purchasing Categories

Category 1	Category 2	Category 3
Non Product Related		
	ICT	
		Infrastructure
		Hardware
		Software
		WAN
		Telephone
		Mobile
	Insurance	
		Property Risk
	Travel	
	Office Supplies	
	Transport	
	Warehousing	
	Temp Labor	
	Machinery	
	Car Lease	
	Energy	
		Electricity
		Gas
		Water
		Oil
	Facilities	
		Cleaning
		Security
		Reception
		Catering
		Interior
		Lease Buildings
	Maintenance	
	Other	
Finished Goods Branded		
	HPT Europe Health	
		Rice Cakes
		Savory Snacks
		Cereals
		Fruit Spreads
		F & V Juices
		Sweet-in-Between
		Soy
		Tea
		Biscuits
		Other
	HPT Europe PT	
	HFS Europe	
		Rice Cakes
		Savory Snacks

		Cereals
		Fruit Spreads
		F & V Juices
		Sweet-in-Between
		Tea
		Soy
		Biscuits
Finished Goods Distribution		
	HPT Brands	
		Patak's
		Thai Kitchen
		Blue Dragon
		Tabasco
		Saint Dalfour
		Alpro
		Other
	HFS Brands	
		Schär
		Provamel
		Lima
		Voelkel
		Rabenhort
		Ecover
		Amaizin
		Bioidea
		Terschell
		Other
Raw Materials and Packaging		
	Packaging	
		Corrugated Carton
		Folding Cartons
		Foils and Flexibles
		Glass
		Caps
		Paper
		Stickers
		Etiquettes
		Pallets
		Tins
		Other
	Ingredients	
		Herbs, spices and Flavors
		Sauces
		Flour, Corn(products) and Bread
		Batters
		Additives
		Meat, Fish and Cheese
		Fruit, Vegetables and Potatoes
		Oil and Fat
		Rice and Pastry products
		Other
	Organic Ingredients	

		Fruit
		Vegetables
		Cereals, Grains, Seeds
		Spices, Oils and Fats
		Cacao, Chocolate
		Nuts & Kernels
		Honey
		Sweeteners
		Other
		For Private Label
	Indirect FG Deals	
		Fructose
		Caps

4 IMPLEMENTATION



Appendix 14: Communication Tool Functional Specifications

14.1. Introduction

Purpose

A request has been submitted to ICT to develop a solution, which assists the Supply Chain Department in organizing the purchase function, controlling the spend and identify purchase savings. The purpose of this document is to offer a solution for this request.

Scope

A solution within our Lotus Notes environment will be considered. Included in this consideration, code from team rooms and document handling.

From this assessment, we will have developed functional specifications that will be reviewed against the requirements in an effort to get a clear picture of what solution is the best one for the client.

Owner

Wessanen Corporate ICT.

Intended readership

Corporate ICT
Corporate Supply Chain Management

14.2. Document Structure

The proposal is to create a document collection database with some of the features of knowledge sharing and team room functionality. Wessanen subsidiary information will be an integral part of the document and will also contain structured meta-data fields as well as unstructured meta-data fields. The following meta-data is required for documents within this application. Part of the value sets of the meta-data should be maintained by the data administrator.

Meta-Data Chart

Field Name	Format	Description/Value set	Section_Area
Category_1	x(80)	Mandatory Choice List	Header
Category_2	x(80)	Mandatory Choice List	Header
Category_3	x(80)	Choice List	Header
Category_4	x(80)	Choice List	Header
Last Modified Date	dd/mm/yyyy	Generated Code	Header
Local Buyer	x(80)	Address book Lookup	Header
Purchase Structure	x(80)	Choice List	Header
Purchase Structure Responsible	x(80)	Address book Lookup	Header
Region	x(80)	Mandatory Choice List	Header
Status	x(80)	Choice List	Header
Subsidiary	x(80)	Mandatory Choice List	Header
Currency Type	X(80)	Choice list ISO standard	Financial Header
Year Table Format	dd/mm/yyyy	Date Format; CY; CY-1; Current Year - 2	Financial Header
Budget Table Format	99.99	Integer; CY Budget; CY-1 Budget; CY-2 Budget	Financial Header
Spend to date Table Format	99.99	Integer; CY Spend to Date; CY-1 Spend to Date; CY-2 Spend to Date	Financial Header
Spend Updated Table Format	dd/mm/yyyy	Date Format; CY Spend Update; CY-1 Spend Update; CY-2 Spend Update	Financial Header
RR Saving Target Table Format	99.99	Integer; CY RR Savings Target; CY-1 RR Savings Target; CY-2 RR Savings Target	Financial Header

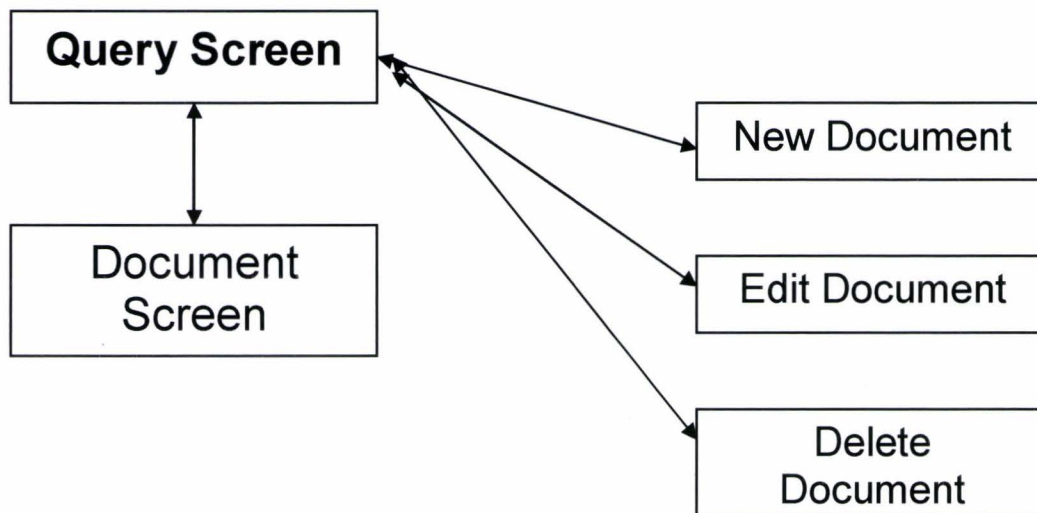
RR Saving to date Table Format	99.99	Integer; CY RR Savings to Date; CY-1 RR Savings to Date; CY-2 RR Savings to Date	Financial Header
Review Cycle	x(80)	Choice List (quarter, bi-annual, annual)	Strategy
Strategic Level	x(80)	Choice List	Strategy
Supplier Strategy	x(80)	Choice List	Strategy
Strategy Information	Free Format	Text	Strategy
Information	Free Format	Text	Supply Base Information
Names	Free Format	Text	Supply Base Information
Explanation of Figures	x(80)	Text	Background Information
Issues	Free Format	Text	Background Information
Trends and Development	Free Format	Text	Background Information
Audit and Performance	Free Format	Text	Contracts and Documents
Contracts	Free Format	Text	Contracts and Documents
List of suppliers	Free Format	Text	Contracts and Documents

14.3. Functions

- Crate Document
- Edit Document
- Delete Document
- Display document
- Retrieval via Search
- Retrieval via Meta-data
- Retrieval via Views
- View By Categories
- View by Subsidiary
- Navigation Pane
- Category Administration
- Field Change Administration

14.4. Screens

Chart



New Document Edit Document Delete Document

Search

	Subsidiary	Year	Spend	Local Buyer	Responsible
<ul style="list-style-type: none"> ➤ Finished Goods Branded ➤ Raw Materials and Packaging <ul style="list-style-type: none"> ➤ Ingredients <ul style="list-style-type: none"> ⬇ Packaging <ul style="list-style-type: none"> ● Packing general Wes NL OK 18 Lead Buyer Mr. Xenample ● Corrugated Wes NL Not OK 18 Lead Buyer Mr. Xenample 					
<p>Finished Goods Distribution</p> <p>Non Product Related</p>					

Views

Category

- Category 1
- Category 2
- Category 3
- Category 4

Region

Document Screen

Save & Close
Edit Document
Delete Doc

Last Modified Date DD/MM/YYYY

Subsidiary	{ x(80) }	Category_1	{ x(80) }	Local Buyer	{ x(80) }
Region	{ x(80) }	Category_2	{ x(80) }	Purchase Structure Responsible	{ x(80) }
Purchase Structure	{ x(80) }	Category_3	{ x(80) }	Status	{ x(80) }
		Category_4	{ x(80) }		

Financial Information

Year	Budget	Spend To Date	Spend Updated	RR Saving Target	RR Saving To Date
Current Year -2	CY-2 Budget	CY-2 Spend to Date	CY-2 Spend Update	CY-2 RR Savings Target	CY-2 RR Savings to Date
Current Year -1	CY-1 Budget -1	CY-1 Spend to Date	CY-1 Spend Update	CY-1 RR Savings Target	CY-1 RR Savings to Date
Current year	CY Budget	CY Spend to Date	CY Spend Update	CY RR Savings Target	CY RR Savings to Date

<p>Strategy</p> <p>Strategic Level { x(80) }</p> <p>Supplier Strategy { x(80) }</p> <p>Review Cycle { x(80) }</p> <p>Strategy Information { Free Format }</p>	<p>Background Information</p> <p>Explanation of Figures { Free Format }</p> <p>Issues { Free Format }</p> <p>Trends and Developments { Free Format }</p>
<p>Supply Base Information</p> <p>Names { Free Format }</p> <p>Information { Free Format }</p>	<p>Contracts and Other related documents</p> <p>Contracts { Free Format }</p> <p>Audit and Performance { Free Format }</p> <p>List of suppliers { Free Format }</p>

Access to this application should be structured within groups. There should rarely be explicit access within the access control list of a database. Explicit access is when a user id is directly added to an access control list. For users accessing this application, four types of access groups will be created. Also, a functional administrator from supply chain will be listed as a group administrator for the groups within this application.

Access Group Readers

This group will be given access to read documents only in this database.

Access Group Authors (Create Only)

This group will be given access to create documents. This group will not be permitted to delete documents.

Access Group Authors (Create and Delete)

This group will be given access to create and delete his/her own documents.

Access Group Editor

This group will be given access to create and delete his/her own documents as well as other documents within the database. This does not include deletion of configuration and/or profile documents, and/or fields within a document.

Access Group Functional Administrator

This group will be given access to manage the entire database. This includes creation of all types of documents (i.e. general documents, profile and configuration documents and entries in fields). This group will also be given the access to modify the members field in the other groups.



