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Purchasing structures in a sporting goods retail business:  
Case study: adidas Group Western Europe

Helsinki Metropolia University of Applied Sciences

Bachelor of Business Administration

European Business Administration

Thesis

19 December 2014

Author(s) Title Number of Pages Date	Katariina Valtimo Purchasing structures in a sporting goods retail business: a case study 41 pages + 5 appendices 19 December 2014
Degree	Bachelor in Business Administration
Degree Programme	European Business Administration
Specialisation option	Bachelor in International Business Management
Instructor(s)	Kaija Haapasalo, Senior Lecturer
<p>Abstract</p> <p>Purchasing is an important aspect on company's performance. It can directly or indirectly create savings and enhance competitive advantage. Increasingly companies have started to recognise this and focus their attention to purchasing structures. The case company had reorganised their purchasing structure in the European market. The change was driven by strategic changes in the sales This study assesses the implementation change by identifying the new structure, analysing the structure and performance and last gives recommendation for further research.</p> <p>The literature review introduces the basic concepts of purchasing, different purchasing organisational structures and how to evaluate the performance. This study combines both qualitative and quantitative approach and is exploratory in nature. The research was conducted by interviewing a purchasing coordinator at the department followed by a survey sent to the department. At last the company's first quarter financial results were compared to the corresponding results the year before to see the concrete effects.</p> <p>The case company was analysed based on the findings in literature, qualitative and quantitative research and financial data. The study identified that centralisation was not fully completed, few markets had still local purchasing activities. Sourcing and operational purchasing were separated and divided into two different departments. The case company was recommended to include all the Western European markets in to the centralised purchasing. Also, the company should establish a procedure to evaluate the financial impact of the restructuring.</p>	
Keywords	purchasing, purchasing structure

## Contents

1	Introduction	1
1.1	Objectives and scope of research	4
1.2	Research structure	4
2	Organisational structure in purchasing	5
2.1	Purchasing & Supply management	6
2.2	Strategic, tactical and operative purchasing	7
2.3	Purchasing structure	8
2.3.1	Centralised purchasing structure	11
2.3.2	Decentralisation	13
2.3.3	Hybrid purchasing structure	14
2.3.4	Federal purchasing structure	15
2.4	Measuring the performance of purchasing structure	16
2.4.1	Contingency model	18
2.4.2	DuPont analysis	20
3	Research Methodology	22
3.1	Data collection	23
3.2	Quality of research	25
4	The results of the empirical study	26
4.1	Qualitative results	26
4.2	Quantitative results	26
4.3	Financial data	28
5	Analysis	29
5.1	Qualitative study	29
5.2	Quantitative study	29
5.3	Financial data study	31
6	Conclusion	31
6.1	Research objectives	31
6.2	Recommendation for the case department	31
6.3	Further research	31

## Appendices

- Appendix 1. adidas Group Balance sheet Q1 2014
- Appendix 2. adidas Group Income statement Q1 2014
- Appendix 3. Research questions and interview questions
- Appendix 4. Questionnaire
- Appendix 5. DuPont ROA analysis adidas Group Q1 2014 & Q1 2013
- Appendix 6. Qualitative results
- Appendix 7. Qualitative study
- Appendix 8. Research objectives
- Appendix 9. Recommendation for the case department

## List of Figures and Tables

- Figure 1. Structure of the research paper 5
- Figure 2. Published articles on purchasing organisation by year (Glock & Hochrein 2011) 6
- Figure 3. Purchasing process model & related concepts (van Weele 2010) 7
- Figure 4. Example of centralised purchasing organisational structure (van Weele 2010) 11
- Figure 5. Example of decentralised purchasing organisational structure (van Weele 2010) 13
- Figure 6. Example of hybrid structure (van Weele 2010) 15
- Figure 7. Contingency model 18
- Figure 8. Relationship assessment diagram (Rozemeijer 2000b) 19
- Figure 9. Corporate purchasing organisational approaches (Rozemeijer et al. 2009) 20
- Figure 10. The research onion adopted from Saunders et al. 2009 22
- Figure 11. Employee experience at Western European purchasing department 27
  
- Table 1. Managerial involvement in levels of purchasing: relationship between the three managerial levels and some management positions (van Weele 2010) 8
- Table 2. Different corporate structures and their development over time (Rozemeijer 2000b) 9

Table 3. Pontential Advantages & Disadvantages of Centralisation (Gadde & Håkansson 2001; Iloranta & Pajunen-Muhonen 2012; Leenders et al. 2006; Monczka et al. 2011; van Weele 2010)	12
Table 4. Pontential Advantages & Disadvantages of Decentralisation (Gadde & Håkansson 2001; Iloranta & Pajunen-Muhonen 2012; Leenders et al. 2006; Monczka et al. 2011; van Weele 2010)	14
Table 5. Categorised survey responses	28

## **Glossary**

A&G = accessories/equipment

APP = apparel

CP = consumer product

DC= distribution centre

FTW = footwear

GOPS = global operations at adidas Group

P/SM = purchasing / supply management

ROA = return on asset financial ratio

RONA = return on net asset financial ratio

SCM = supply chain management

TCO = total cost of ownership

## 1 Introduction

Purchasing has become an important aspect to create a value for a company. Efficient purchasing department can provide competitive advantage and saving opportunities for companies. Often the purchased goods and services equal more than fifty percent of total costs (Degraeve & Roodhooft 1999: 5). The high impact on sales turnover ratio has developed purchasing into one of the key business drivers (van Weele 2010: 18). Purchasing function can improve company's competitive position indirectly by standardising product assortment, reducing inventory, product and process innovations, reducing quality costs such as repairs and shortening production lead times (van Weele 2002: 20-21). A research conducted by McKinsey & Company and the Supply Management Institute at the European Business School confirms the importance of purchasing for companies. The study proves that a high-performing company has a high performing purchasing department which is strongly correlated with both higher margins and earnings as well as reduced costs (Reinecke, Spiller & Ungerman 2007: 6-9).

Organisations have started to see the potential contribution of purchasing to the bottom line (Cousins, Lamming, Lawson & Squire 2008: 12). Today, creating competitive advantage through purchasing is well established in the literature, and the focus varies from managing supplier relationships (Lamming 1993; Olsen & Ellram 1997) to sourcing strategies (Alguire, Frear & Metcalf 1994; Cousins 2005; Gadde & Håkansson 2001). All this has caused reorganising of purchasing function and improving purchasing processes (Karjalainen 2011: 87).

The globalised trade, advancing information technology and increasing customer expectations are changing the international competitive landscape. Therefore companies have started to evaluate their business processes to position them at the right place within the value chain. The trend has been to divide the business activities into core and non-core activities. The first-mentioned are activities which the company considers to be in the key position to develop and offer a unique product or service for their target customers. Non-core activities are increasingly outsourced to specialist suppliers (van Weele 2010: 18). The case company of this thesis, adidas Group, operates in the global sporting goods industry in which the product development and design is seen as the core activity. Thus, the production is mostly outsourced to third-

party suppliers. The Group operates with over 1,200 independent factories in 65 different countries. Sporting goods brands are using the same suppliers as the global textile, clothing and footwear industry. This industry is featured by complex supply relationships which exist between different types of multinational corporations operating upstream and downstream in the labour process (Miller & Grinter 2003: 11). It is not uncommon that sporting goods brands are using the same suppliers to manufacture their products. For example both adidas Group and Nike use Taiwanese supplier Yue Yue for their athletic footwear production (Miller & Grinter 2003: 11).

Porter's value chain recognises procurement activities as one of the support functions to achieve sustainable competitive advantage (1985: 37-41). As stated sporting goods brands are not manufacturing their own products instead of they buy finished goods from selected suppliers. A finished product is an item which is purchased for resale or to be sold with another product (Iloranta & Pajunen-Muhonen 2012: 55-56). Porter's (1985: 4) five forces identify supplier bargaining power to affect industry profitability. Since the company is buying finished products from the supplier how can the company ensure a competitive pricing and not become too dependent on the supplier? Outsourcing has significantly increased the revenue percentage which is paid to the suppliers (Leenders, Johnson, Flynn & Fearon 2006: 7). This is seen to emphasise the importance of managing supplier relationships and creating a strong supplier base (van Weele 2010: 14). However the author argues that attention should also be given to the operational side of purchasing. The order function in a form of an inventory control has become even more crucial to the company's success.

adidas Group has been re-organising their sales strategy from a channel focus to an integrated omni-channel approach to achieve a globally consistent product offer, brand communication, availability and service across all channels and consumer touch points (adidas Group 2014). The omni-channel is a new concept in retail business to combine retail, wholesale and e-commerce into one channel and have a one shared inventory. It is more customer centric approach that is responsive to demand across every customer touch point. Basically the omni-channel consumer has an access to all products whether it is in a store or online via laptop, PC, tablet or smartphone. Orders are delivered to the chosen place such as home or work or customer can pick up the order from the selected store. The same policy applies to returns. Customer can choose a preferred return method; to the store or back to the distribution point (Strang 2014). The new strategy approach integrates all sales activities under one roof. It also includes a new market

structure for European markets: Central, North, South, France and Iberia was emerged into one market Western Europe. Starting from 2014 the European consumers are served with one integrated organisation.

As a result the supply chain organisation was modified to support the new market structure. Purchasing for European markets was restructured under a one centralised department located in Amsterdam. The interest towards the topic was arisen when the author was working in the Supply Chain Management project team from summer 2013 to June 2014. Her team was participating in the project to restructure purchasing in Europe.

Sporting goods industry is a big business. The global market value was € 213 billion in 2009. The same figure for the European market was € 63 billion (The Federation of the European Sporting Goods Industry 2011: 4-6). In 2013 adidas Group had net sales of € 14.492 billion. Forbes estimates that the current value of adidas brand is \$ 5.8 billion. Nike's value is worth of \$ 19 billion (Ozanian 2014). More money is involved in sports tournaments such as World Cup and Olympics. The last World Cup in Brazil 2014 generated \$ 3.66 billion in revenue for Fédération Internationale de Football Association (FIFA) (Gaines 2014). For example the official sponsor, supplier and licensee of the 2014 FIFA World Cup, adidas Group sold over 14 million balls with official match ball design brazuca.

adidas Group is one of the global leaders engaged in sports footwear, apparel and accessories. The company has four main brands: adidas, Reebok, TaylorMade-adidas Golf and Rockport. Other brands are adidas Golf, Adams Golf, Ashworth, Reebok-CCM Hockey and Five Ten. The Group operates in three segments: Wholesale Business, Retail Business and Other Businesses. The Wholesale Business segment comprises business activities with the adidas and Reebok retailers. The Retail Business segment comprises the own-retail and e-commerce activities of the adidas and Reebok brands. The Other Businesses segment includes rest of the centrally managed brands. The company has diversified its activities into six geographical regions: Western Europe, European Emerging Markets, North America, Greater China, Other Asian Markets and Latin America.



## 1.1 Objectives and scope of research

The main targets of this thesis are to provide an analysis and evaluation of the current structure of the Western European Purchasing department of adidas Group and to study how successfully purchasing organisational structure has been implemented in the Western European market. What type of benefits the company has achieved by changing their purchasing organisational structure? This paper adopted a single case study of mixed-method approach with an exploratory objective.

The research problem can be identified as: The adidas Group has changed its sales strategy to implement customer centric omni-channel approach. It affected the market structure in Europe. As a result the purchasing structure was reorganised. adidas Group wanted to enhance its position in the European market, align the product availability in the Western European market and create savings. The implementation took place at the beginning of the year 2014 and the effects are yet unknown.

In order to solve the above mentioned problem this thesis tries to find answers to the below mentioned research questions:

How is purchasing organised and structured at the case company?

What are the primary changes implemented in at the new purchasing organisational structure?

What are the benefits and potential disadvantages with the new structure?

How the change could potentially or has already affected purchasing performance?

## 1.2 Research structure

The thesis is structured by following the research outline and divided into five chapters as seen in Figure 1. The first chapter introduction presents the research questions and objectives and overall structure of the research paper. To obtain theoretical contextual evidence, the second chapter introduces the literature review. It starts by defining the key concepts purchasing and supply management. Prior to the organisational structures the thesis discusses the strategic, tactical and operative purchasing. The last part of the

literature review introduces the theories behind the organisational design and discusses the advantages and disadvantages of them.



Figure 1. Structure of the research paper

The evidence from the prior literature is followed by the empirical study introducing the nature of the case programme. The following chapter combines the evidence from the literature, the case study and quantitative and qualitative study addressing the research question. The final part presents a conclusion and recommendations for further research.

## **2 Organisational structure in purchasing**

In the research paper “Purchasing Organization and Design: A literature Review” Glock and Hochrein (2011: 149) present a literature review of purchasing organisations covering years from 1967 to 2009 as Figure 2 shows. Researchers selected and reviewed fifty different journals covering international business, international marketing management, operations and supply chain management and general management journals. However the view is not unanimous according to Monczka, Handfield, Giuniperro & Patterson (2009: 155) and Trent (2004: 4) organisational design excluding the topic of cross-functional teaming has not received a great attention from supply management researchers to improve procurement and supply chain objectives.

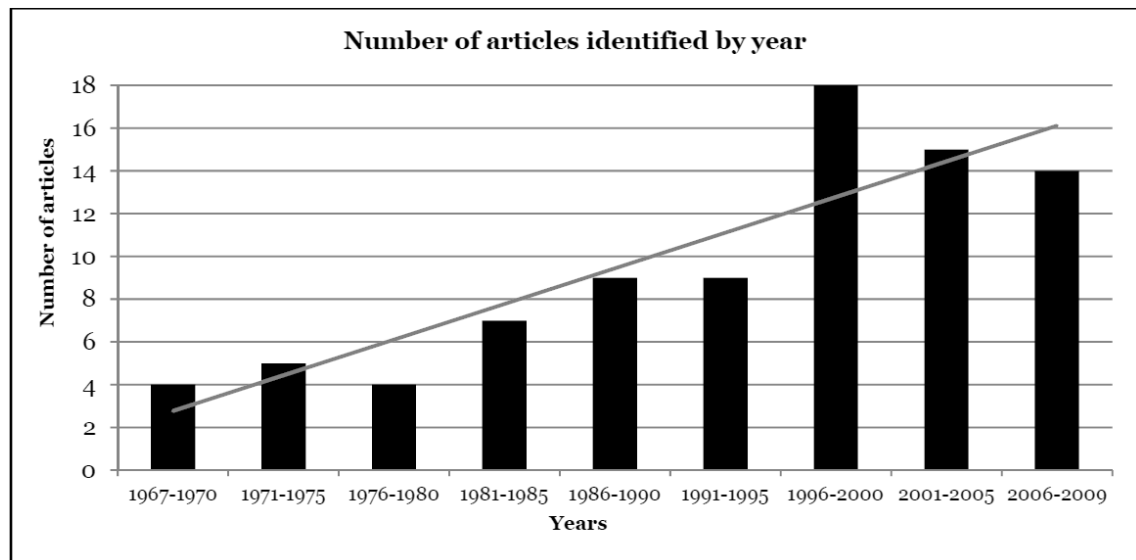


Figure 2. Published articles on purchasing organisation by year (Glock & Hochrein 2011)

## 2.1 Purchasing & Supply management

The terms used in purchasing literature do not have fixed definitions. Concepts such as procurement, purchasing, sourcing and supply chain management are used interchangeably (van Weele 2010: 8) and vary depending on the taken perspective and study. The traditional definition of purchasing objective is to buy materials of the right quality, in the right quantity from the right source and price delivered to the right place and time (Lysons and Farrington 2006: 6). However it could be argued that prior description is only considering purchasing as an operational activity since it does not consider purchasing policies and the continuous nature of buying. Monczka et al. (2011: 10) define purchasing as a functional group and activity. It is an organisational department as well as the activity of buying goods and services. This study is following van Weele's (2010: 8) view of purchasing to be: "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 favourable conditions". From above can be concluded that purchasing is acquiring goods and services for organisation with aspect of bringing value to the organisation. The definition of value is not fixed and agreed on within academics but it is seen as a positive contribution.

Supply chain management (SCM) is managing and coordinating the two-way movement of goods, services, information and funds from raw material to end user (Monczka et al.

2011: 12). In more detailed, SCM is the management of all the activities, information, knowledge and financial capital connected to the flow and transformation of goods and services from suppliers in a manner that the end customer expectations are reached or exceeded (van Weele 2010: 11). The purchasing process model Figure 3 illustrates the main activities within the purchasing function to better understand the overall concept.

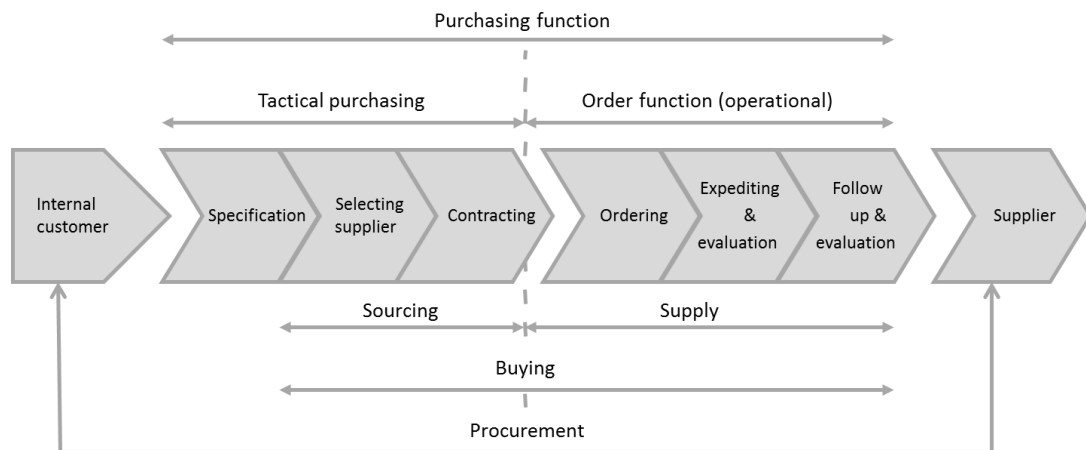


Figure 3. Purchasing process model & related concepts (van Weele 2010)

In Figure 3 van Weele differentiates purchasing and SCM by including all logistic activities under procurement and separating supply and sourcing (2010: 10-11). SCM controls the supply, production and delivery of the product. In his view supply comprises the operational activities and sourcing the tactical side. Later in chapter 6 purchasing process model is applied to the case company to demonstrate the purchasing structure within the Western European market.

## 2.2 Strategic, tactical and operative purchasing

Industrial buying occurs in the context of a formal organisation, and it involves in budget, cost and profit consideration. The decision making process is usually influenced by individuals, interactions between them and organisational goals (Webster Jr & Wind 1972: 12).

Purchasing activities can be divided into three different levels based on the allocation of purchasing tasks, responsibilities and authority: the strategic level, the tactical level and the operational level. Strategic level includes purchase decisions of top management that influence company's long-term market positioning such as outsourcing activities,

major investments or policy decisions about transfer pricing and inter-company supplies. Tactical level decisions have more medium-term impact (from 1 to 3 years) and involve in the purchasing function affecting product process and supplier selection. For efficient decision making, tactical level decisions require cross-functional co-ordination and -operation with other business functions such as engineering, manufacturing, logistics and quality assurance. Operational level comprises more day-to-day activities and includes all activities relating to the ordering and expediting function (van Weele 2010: 282-283).

Table 1 presents the correlation between the different levels and managerial involvement with task division.

Table 1. Managerial involvement in levels of purchasing: relationship between the three managerial levels and some management positions (van Weele 2010)

Tasks level	Managerial level				
	Top management	Logistics management	Purchasing management	Senior buyer	Buying assistant/materials planner
<b>Strategic</b>	x	x	x		
<b>Tactical</b>		x	x	x	
<b>Operations</b>				x	x

### 2.3 Purchasing structure

"Organizational design refers to the process of assessing and selecting the structure and formal system of communication, division of labor, coordination, control, authority, and responsibility required to achieve organizational goals and objectives, including supply management objective" (Gordon cited in Monczka et al. 2011: 157).

Foremost, a formal organisation structure details the work assignments with corresponding responsibilities and authority. Secondly it defines the how the company communicates and coordinates decision making across the different organisational levels (Monczka 2011: 167). The organisational purchasing structure and location is

strongly dependent on business characteristics and situational factors (van Weele 2010: 279).

Companies are showing increased attention to the purchasing structure to support overall business strategy by capturing potential purchasing synergies. In business context, synergy refers to the capability of two or more business units to achieve greater value by cooperating than separately (Goold & Campbell 1998: 133). This is traditionally shown with equation:  $1+1=3$ . In purchasing, synergy can be defined: “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” (Rozemeijer 2000a: 6). However it should be noted that synergy can have a negative effect as well if efforts attempting to capture synergies is poorly executed (Ansoff 1988: 79-99).

In multi-unit companies purchasing structure can be centralised, decentralised, hybrid (van Weele 2010: 283) or federal (Cousins et al. 2008: 139). Monczka et al. (2011: 158) suggest that the most critical aspect of organisational design is the decision between centralised or decentralised purchasing authority. Table 2 adopted from Rozemeijer (2000b: 6) shows the development of corporate and purchasing organizational structure in recent decades. Studies have indicated that most of the P/SM organisations choose hybrid purchasing structure to manage their purchasing activities (Giunipero & Handfield 2004: 40-41; Johnson & Leenders 2004).

Table 2. Different corporate structures and their development over time (Rozemeijer 2000b)

Period	Corporate structure	Corporate management focus	Crisis	Purchasing function
1950's	Functional	Vertical synergy	Co-ordination overload and bureaucracy	Centralised?
1960's	Divisional	Financial control	No co-ordination	Decentralised?
1970's	Hybrid/Matrix	Horizontal synergy	Too much co-ordination, too little results	Centralised?
1980's	Business unit	Financial control	Focus too much on BU results, too little synergy	Decentralised?
1990's	Centre-led	Synergy and financial control	??	Centre-led? (cross functional and cross business)

There are several factors or criteria which determine organisational purchasing structure and whether it should be more centralised or decentralised (van Weele 2010: 289):

- Commonality of purchase requirements. Centralisation or co-ordinated approach is more beneficial when the purchased products and services are similar. This is a reason for large companies to concentrate their buying of raw and packaging materials under a one corporate location.
- Geographic location. Business units located across borders or regions create challenges for successful cooperation.
- Supply market structure. Dominant suppliers drive companies to adopt a co-ordinated purchasing approach to balance the bargaining power and improve negotiation position.
- Savings potential. Some raw materials are extremely price sensitive to volume and buying large quantities can create immediate cost savings.
- Required expertise. Certain products such as high-tech semiconductors, microchips or software and hardware require specific expertise for efficient buying. Furthermore, prices are strongly correlated with the laws of supply and demand. This type of products favour centralised purchasing structure.
- Price fluctuation. Centralised purchasing is suitable when the price of the commodity item (e.g. fruit juices, wheat, coffee) is highly sensitive to the political and economic climate.
- Customer demands. Sometimes customers have a strong say which products manufacturers should purchase. A good example is the aircraft industry. The buying conditions are agreed on with the business unit responsible for manufacturing the product. This practise will not leave any opportunities for purchasing coordination.

The research findings of Johnson and Leenders (2001: 4-11) indicate that organisational changes in the supply structure are caused by overall corporate structural changes. The key driver for corporate organisational change is the attempt to improve cost structure which is driven by external environmental factors such as competitive pressures, global influences, technology and continuous improvement. Purchasing structure affects processes, procedures, systems and relationships. Despite the chosen structure employees must focus on maximising the advantages of the structure and minimising the disadvantages (Leenders et al. 2006: 38).

### 2.3.1 Centralised purchasing structure

Centralised purchasing structure refers to a central purchasing department where corporate contracting specialists operate at the strategic and tactical level. The Figure 4 illustrates an example of centralised purchasing organisational structure. Decisions on product specification and supplier selection are executed centrally. Supplier contracts are often long-term agreements with pre-selected suppliers stating the purchasing terms and conditions. The operational purchasing activities are handled by centralised operations (van Weele 2010: 284). Centralisation refers where the spending decisions are done instead of the geographical location of the purchasing and supply employees. In centralised structure authority and responsibility for most supply-related functions are led by central organisation (Leenders et al. 2006: 36). In centralised purchasing structure a common headquarters manages procurement operations for different business units (Gadde & Håkansson 2001: 12). The case company's Western European market has a centralised purchasing structure which is presented in more detail in chapter 4.

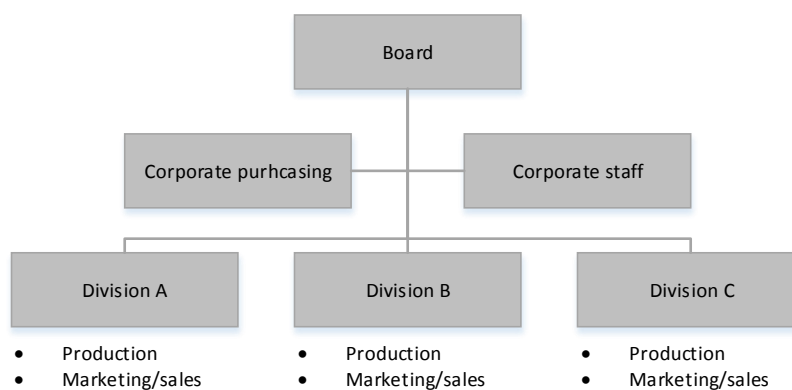


Figure 4. Example of centralised purchasing organisational structure (van Weele 2010)

From a global sourcing perspective, (de-) centralisation is the variation of purchasing elements (departments, procurement processes, responsibilities) within the global sourcing system (Arnold & Essig cited in Arnold 1999: 168). It can be concluded that the degree of centralisation is low if no accumulation exists between these elements (Arnold 1999: 168). Purchasing centralisation generates potential synergy benefits which can be categories into three sub dimensions: (1) economies of scale, (2) economies of information and learning, and (3) economies of process. The first refers to obtaining lower unit costs by increasing market power through volume bundling and category standardisation. The second category is the sharing of information and knowledge such



as experience, specific requirements and new technologies across the business units and locations. The last, economies of process relates to the achieved advantage through a common way of working and exchange of best purchasing practice procedures across the organisation (Arnold cited in Trautman, Bals & Hartmann 2009: 196).

Table 3 summarises potential advantages and disadvantages a company with centralised purchasing department may have to confront.

Table 3. Potential Advantages & Disadvantages of Centralisation (Gadde & Håkansson 2001; Iloranta & Pajunen-Muhonen 2012; Leenders et al. 2006; Monczka et al. 2011; van Weele 2010)

<b>Advantages</b>	<b>Disadvantages</b>
Leverage purchase volumes	Lack of business unit focus
Substantial bargaining power	Potential organisational silos
Reduce Duplication efforts	Lack of recognition of unique business unit needs
Coordination of purchasing strategies, policies & plans	Increased bureaucracy
Development of specialised expertise	Customer segments require adaptability to unique situations
Standardisation of products & processes	Employee orientation & attitude problems
Common suppliers	Corporate strategic requirements instead of business unit
Brand recognition & stature	High initial costs when implemented
Purchasing function easier to manage, measure & recognise	Distance from users
Better conditions: price, costs, service & quality	Narrow specialisation and job boredom

Centralised approach should be adopted when purchases are fairly similar across the organisation to exploit the leverage to reduce purchasing and logistics costs. When the tangible size of the expenditure increases, the pressure to centralise is high. New developments towards more strategic purchasing function aligned with corporate strategy is promoting a more centrally led group responsible for developing purchasing strategy at the top-management level (Monczka et al. 2010: 160-161). External factors such as the nature of the industry or strong suppliers can favour centralised approach (Iloranta & Pajunen-Muhonen 2012: 320).

### 2.3.2 Decentralisation

In the decentralised structure authority and responsibility for supply-related activities are applied across the organisation (Leenders et al. 2006: 36). Figure 5 illustrates an example of decentralised purchasing structure. All units negotiate their own contracts or potentially even without a long-term contract on a need basis. Each unit is also responsible for maintaining its supplier base. The number of suppliers varies but typically the supplier base is large since the units can select their own suppliers (Karjalainen 2009: 9-11). According to Gadde and Håkansson (2001: 113) decentralised structures are applied often in a project based companies in which the purchasing is strongly integrated with the operations. These purchasing practitioners are responsible for multitude components and systems bought with lower volume than in centralised organisation.

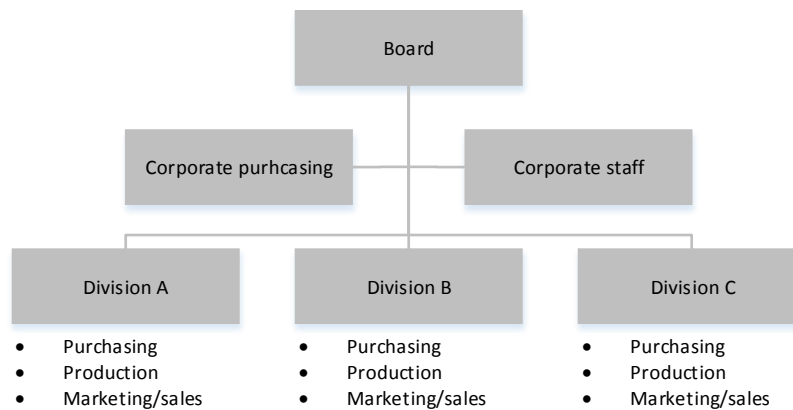


Figure 5. Example of decentralised purchasing organisational structure (van Weele 2010)

Decentralised purchasing authority has often greater responsiveness and support to user and customer requirements (Leenders et al. 2006: 37; Monczka et al. 2011: 162). The purchasing procedure is less bureaucratic (van Weele 2010: 290) which reduces coordination and communication barriers. Decentralization can encourage internal competition between business units (Arnold 1999: 168). Often decentralised purchasing organisations have low e-procurement adaptation and usage because the investment is not cost-effective due to low volumes and poor coordination efforts. Further, the investment is not economically justified from supplier side either (Karjalainen 2009: 11).

Table 4 illustrates advantages and disadvantages to obtain decentralised structure for purchasing tasks.

Table 4. Potential Advantages & Disadvantages of Decentralisation (Gadde & Håkansson 2001; Iloranta & Pajunen-Muhonen 2012; Leenders et al. 2006; Monczka et al. 2011; van Weele 2010)

<b>Advantages</b>	<b>Disadvantages</b>
Close contact with suppliers	Operational versus strategic focus
Direct responsibility for profit centres	Sub-optimisation
Stronger customer orientation towards internal user	Dispersed bargaining power, lack of economies of scale
Speed of response	Difficult to form clear external overview
New product development support	Difficult to build specific expertise on purchasing & materials
Reporting line simplicity	Substantial contact costs
Less bureaucratic purchasing procedures	Reporting at low level in organisation
Easier coordination with operating department	Lack of standardisation
Business unit autonomy	Focus on local sources potentially ignores better supply opportunities
Effective use of local sources	Limits functional advancement opportunities

Decentralised approach should be adopted when customers have strong influence on purchasing decisions. Business unit structure and location promotes decentralisation when they are in different continentals and big enough to exploit economies of scale (Iloranta & Pajunen-Muhonen 2012: 320).

### 2.3.3 Hybrid purchasing structure

Hybrid structure represents a combination of centralised and decentralised structure. It is also referred as a pooling, co-ordination (van Weele 2010: 285) or centre-led structure (Monczka et al. 2011: 159). The idea behind is to combine a common material requirements between two or more operating units with the objective to improve the leverage of the company by reducing overall material costs or enhance the service obtained from external suppliers as seen in Figure 6 (van Weele 2010: 285). A hybrid structure is a flexible organisational design to meet corporate goals and objectives in a changing business environment taking advantage of common spend categories across

various business units (Monczka et al. 2011: 137). Gadde and Håkansson describe a hybrid structure as the buying company's response to try to obtain the benefits of one form and then minimise its corresponding disadvantages (2001: 113). Other authors are referring to a combined organisational structure which is trying to capture benefits from both centralised and decentralised approach (Iloranta & Pajunen-Muhonen 2012: 320-321; Leenders et al. 2006: 38; Monczka et al. 2011: 159).

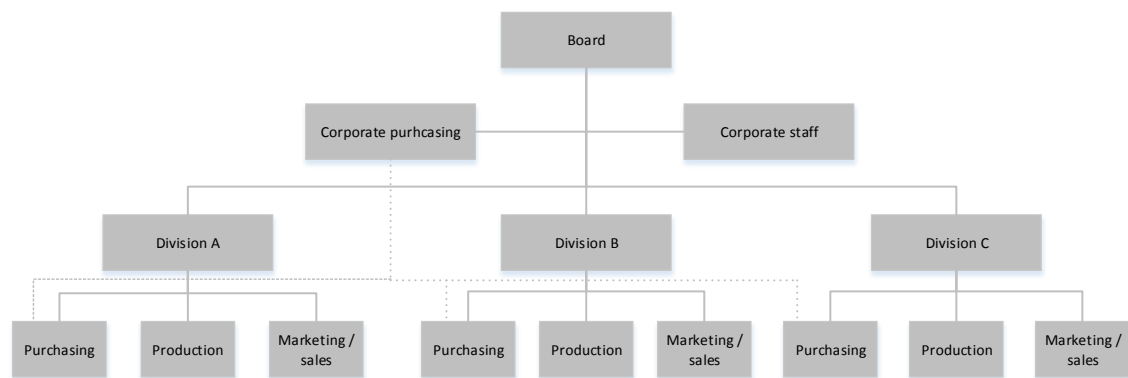


Figure 6. Example of hybrid structure (van Weele 2010)

According to van Weele the theory differs from practice. Depending on the purchased product, purchasing co-ordination can be organised upon the business units or have more voluntary character. He differentiates three pooling structures to illustrate major characteristics of hybrid approach: voluntary coordination, lead buyer ship and lead design concept (2010: 285-286). Monczka et al. (2011: 163-165) specifies eight enabling mechanism of centre-led organisations: strategic sourcing groups, lead division buying, business unit leaders, regional buying councils, global sourcing councils, corporate purchasing councils, corporate steering committees and consortiums and group purchasing organisations. With all of them is common that business units have combined their buying volumes, knowledge or negotiation power to cooperate together to achieve better purchasing conditions.

#### 2.3.4 Federal purchasing structure

In a federal hybrid structure business units or divisions give power to the central purchasing office to develop policies and provide them essential services with specific mandates. The role of the federal central office is to serve the divisions, not control them. Adapted from Charles Handy's book *The Age of Unreason*, Cousins et al. identifies the

three basic rules of federalism. The first rule is common rules and procedures to prevent conflicts with the corporate policies and strategies. The second is a dual citizenship. The organisational culture emphasises the success of both individual departments and corporate as a whole. Divisions are in close constant contact with one another sharing sourcing information and maintaining dual perspective. This common interest should prevent employees to alienate from the headquarters. The last rule is called subsidiary. Activities and decisions are executed at the lowest possible level and the centre is acting as a coordinating device that reports to the divisions (Cousins et al. 2008: 139-140).

According to Cousins et al. (2008: 139-140) federal structure is not an easy organisational design since it is difficult for one division to be set against another in the need to decide, for example, which plant to invest in and close (especially if the two are located in different countries). Other disadvantages are its complexity, unclear hierarchies, central bureaucracy and risk of instability.

#### 2.4 Measuring the performance of purchasing structure

The chapter 2.3 introduced the synergy concept in purchasing and how to utilise its potential but also that poorly managed, it will have an opposite effect. Further the chapter discussed the different options for position the purchasing department in the organisational hierarchy to capture synergies. How can the companies ensure to structure their purchasing in a manner to reap potential synergies? According to Rozemeijer, van Weele and Weggeman (2003: 4-13) the purchasing organisational structure can be determined by the level of purchasing maturity and corporate coherence. The next chapter presents the theory behind the model and how to apply it.

The earlier chapters have demonstrated the importance and increasing focus on purchasing in companies. In view of this, a financial literacy is an important attribute. Purchasing executives are required to demonstrate the advantages of purchasing actions and strategies across the company (Croom 2014: 120). Academics and business managers appear to agree on that purchasing centralisation will bring savings. Less attention has received the fact how to quantify cost effects optimised through centralisation (Karjalainen 2009: 4).

As Cousins et al. (2008: 45) claims companies are not aware of the true costs of procurement. He differentiates three types of costs:

- Operational costs. These are arisen from running the day-to-day activities such as production cost, invoicing etc.
- Managerial costs. These are costs of supplier management, e.g. problem solving, travelling to visit the supplier, quality workshops, supplier conferences etc.
- Strategic costs. These can be seen as a strategic risk i.e. the ability for a supplier to act opportunistically. The risks/costs are relatively low when there is large number of suppliers. Correspondingly, fewer suppliers mean relatively high risks/costs.

There are five major factors affecting purchasing measurements: inflation, volume changes, technological improvements, market changes and lack of accounting interest (Leenders 1998: 336-350). Axelsson, Laage-Hellman and Nilsson (2002: 53-62) are addressing the similar topic in their article 'Modern management accounting for modern purchasing'. They are discussing the challenges of implementing new management accounting concepts in purchasing and supply management. Depending on the chosen management control system, it can either support or restrain the implemented changes in the purchasing function. Due to the research limitation, resulting lack of available resources including accessible data, the author decided to use DuPont model to analyse the purchasing performance.

DuPont analysis is a financial model that can be used to demonstrate the impact of purchasing to the company. It was developed by a company DuPont in 1920s. The model is still considered to be an efficient measure of company performance (Duncan 2006: 32). DuPont model combines different financial ratios to perform an analysis. It uses financial information from both income statement and balance sheet. DuPont analysis can be used to demonstrate the effects of purchasing savings on the company's performance and profitability (Iloranta & Pajunen-Muhonen 2012: 30). The author identified three ways of calculating DuPont by using: ROA (return on asset) (Iloranta & Pajunen-Muhonen 2012: 31; Leenders et al. 2006: 7-8), RONA (return on net assets) (Croom 2014: 120-121; Duncan 2006: 114-115; van Weele 2010: 12-14) or ROE (return on equity) (Brigham & Houston 2009: 100-101; Dragun 2004: 153-156). The chapter 2.4.2 DuPont model will introduce a deeper knowledge of DuPont models based on ROA and RONA since they are more crucial in purchasing perspective compared to ROE.

### 2.4.1 Contingency model

In 2003 Rozemeijer et al. introduced a contingency model to determine organisational structure based on two contingency factors: the corporate coherence and purchasing maturity as seen in Figure 7. The corporate coherence defines the level of integration between different parts of the corporation (business units) in which extent to they are operated and managed as a one entity. High diversification between different business units in management style, vision, strategy, culture and structure reflect a low corporate coherence, and create significant challenges in the integration of the purchasing function. Purchasing maturity identifies the level of professionalism in the purchasing function as expressed in status of the purchasing department, available information technology, skills level in the purchasing department and level of collaboration with suppliers (Rozemeijer et al. 2003: 10).

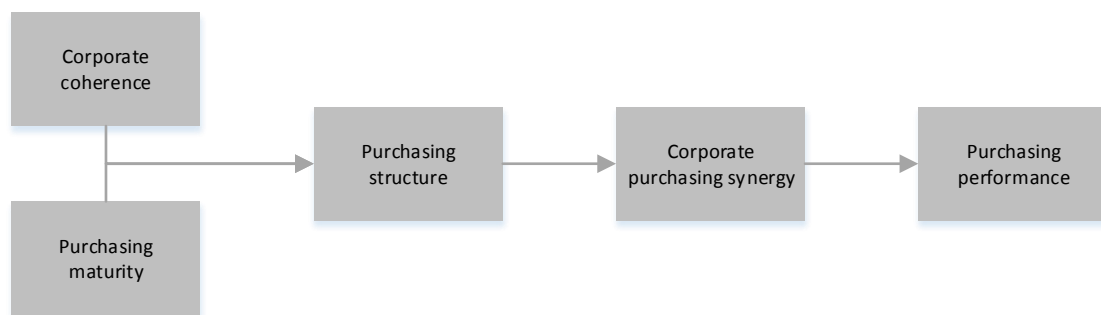


Figure 7. Contingency model

The basic of this model is to describe how to effectively structure and manage corporate purchasing synergy by considering the firm-specific contingencies (Rozemeijer et al. 2003: 6). In their view sustainable corporate advantage in purchasing is achieved only if all the corporate purchasing initiatives are in the line with the overall level of corporate coherence and purchasing maturity. Therefore the authors consider that top managers do not add value by adopting a certain approach to create a corporate advantage in purchasing if it is not aligned with the level of the contingency factors.

Further, they argue that without established formal organisational mechanisms or other measures to support the interaction between main stakeholders (see Figure 8), the corporate advantage in purchasing cannot be sustained (Rozemeijer et al. 2003: 11). The authors (Rozemeijer et al. 2003: 6) defined the four main stakeholders to be: CEO

(or top-management), CPO (or corporate purchasing coordination group or individual), business unit managers and business unit purchasing managers (or purchasers). The interaction between the main stakeholders is the key requirement for reaping the benefits of purchasing synergies. The interaction can be facilitated by using formal organisational mechanisms or informal networking mechanisms or through advanced corporate wide purchasing information and communication systems or advanced management and control systems. The chosen mechanism or system is related to the contingency factors: business context, corporate coherence and purchasing maturity.

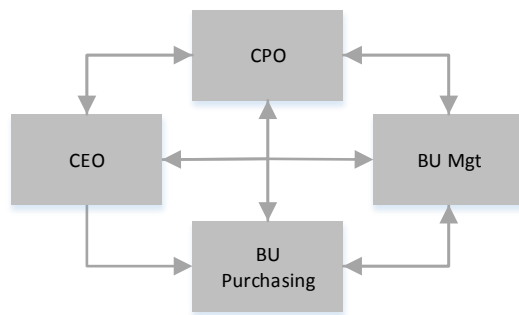


Figure 8. Relationship assessment diagram (Rozemeijer 2000b)

Research findings suggest that when the purchasing function is highly mature, companies adopt a different and more advanced approach to manage corporate purchasing synergy than in a case of a low purchasing maturity. The Figure 9 demonstrates the correlation between the corporate coherence and purchasing maturity towards the corporate purchasing synergy. The X-axis shows corporate coherence and the Y-axis purchasing maturity. In a situation where both purchasing maturity and corporate coherence are low, decentralised purchasing is the most likely structural option. Rozemeijer et al. (2003:10) argue that efforts to create central coordination will not be sustainable since the similarity in specifications across business units is low. They recommend increasing the interaction between business units by using voluntary working groups to exchange information on supply markets, suppliers, and prices.



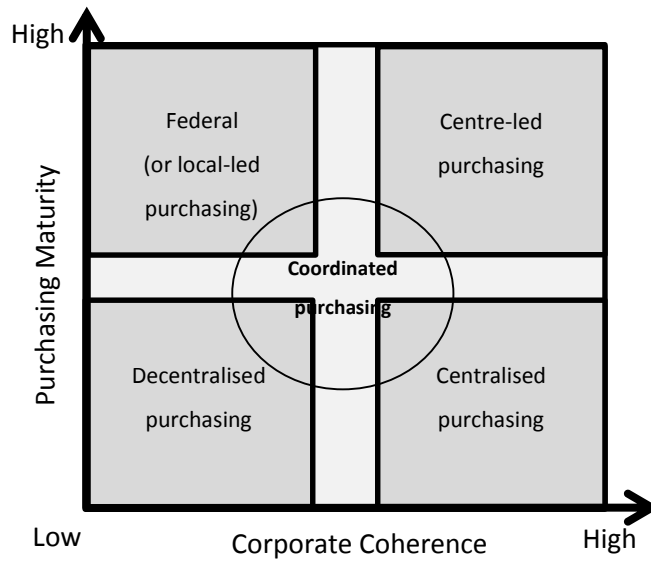


Figure 9. Corporate purchasing organisational approaches (Rozemeijer et al. 2009)

The central purchasing model is a feasible option in organisations where purchasing at the operating company level is hardly developed and corporate coherence is high. Most of the strategic commodity contracts are managed by a corporate purchasing department (Rozemeijer et al. 2003: 10-11). Centre-led structures are expected to be successful when both constructs are high. If both contingency factors have a medium value, a common approach is hybrid structure with both central purchasing and voluntary purchasing coordination activities. The federal structure is applicable to organizations with high purchasing maturity but low corporate coherence. In this structure purchasing consists of a small corporate purchasing staff supporting several autonomous de-central purchasing units in their voluntary efforts to exploit potential synergies (Rozemeijer et al. 2003: 10).

#### 2.4.2 DuPont analysis

ROA and RONA ratios have a similar approach to demonstrate efficiency of the company. DuPont RONA analysis shows the hierarchical connection between purchased material cost and return on net assets (Croom 2014: 120). It is a financial model to compare the company revenue to the net assets of the company (Duncan 2006: 32).

DuPont ROA is the same formula as RONA except it excludes the cost of capital. Instead of net assets ROA uses only total assets. ROA demonstrates the relationship between sales, expenses, profits and total assets. It reflects the changes in cost reduction, sales increase and inventory reduction. ROA measures the combined impact of profit margins and asset turnover.

Both ratios take account for fixed and current assets. The former are long-term investments to produce revenue. The latter are investments in working capital and assets required for sustaining ongoing operations. It includes product inventory which is strongly linked with purchasing (Brigham & Houston 2009: 56). DuPont analysis shows the effect on the company's bottom line (Duncan 2006: 114). Both purchasing and operations are sharing a common interest towards improving operating profit and purchasing expenditures (Croom 2014: 121).

According to van Weele (2010: 12-14) DuPont analysis demonstrates in three ways how purchasing can be used to improve company's RONA:

- Through reduction of all direct material costs. This will improve company's gross margin which further improves RONA. Direct material costs can be decreased by reducing the supplier base, improving product standardisation, enhance the tendering process and finding potential substitute materials.
- Through a reduction of the working capital employed by the company. This will positively affect equity turnover. There are several actions to be taken to lower capital employed such as longer payment terms, reducing inventories with just-in-time management or supplier quality improvement and favour subleasing over buying equipment.
- Through improving the company's revenue generating potential. Collaborating with suppliers to develop processes and new innovations to generate more customer value and as a result improving gross margin.

RONA & ROA are commonly considered to be one of the most reliable indicators of general health of a business regardless of the industry (Duncan 2006: 119).

### 3 Research Methodology

This chapter explains the methodology of this research which is the mode of thinking and acting. It contains different concepts, which aim to describe the several steps and relations needed in the process of creating and searching for new knowledge (Arbnor & Bjerke 2009: 3). Research philosophy is a term which refers to the development of knowledge and the nature of that knowledge (Saunders, Lewis & Thornhill 2009: 107). The Figure 10 shows the selected research design for the paper. The research approach chosen was inductive to understand better the nature of the problem by using a flexible research structure (Saunders et al. 2009: 126). The research objective described in chapter 1.1 was decided to pursue through an exploratory study: "An exploratory study is a valuable means of finding out what is happening: to seek new insights, to ask questions and assess phenomena in a new light" (Robson cited in Saunders et al. 2009: 139). The advantage of the exploratory study is the flexibility and ability to adapt to a change (Saunders et al. 2009: 140).

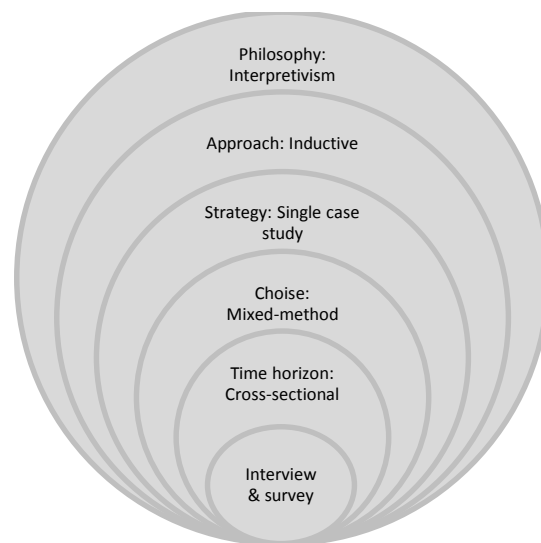


Figure 10. The research onion adopted from Saunders et al. 2009

Strategy used for the paper was a single case study. A case study is both the process of learning the case and the product of our learning. Case studies can be classified into a three categories: intrinsic, instrumental and collective. An intrinsic case study describes the chosen research. It is defined as a study of a case which the case itself is the primary focus of the examination. The study is creating knowledge of the case and not trying to build up a new theory or generalisation between other cases (Stake 1994: 237). As

mentioned in chapter 1.1 in this thesis the case is the purchasing department of adidas Group in charge of Western European purchasing and the subject of the research organisational structure of the department.

### 3.1 Data collection

The author used multi strategy design also known as mixed method to address the research questions (Robson 2011: 161). The study combined both qualitative and quantitative elements in the research. Mixed methods approach allowed focusing on different but complementary research questions within study (Robson 2011: 385) thus providing a more comprehensive picture of the research problem. The research data was gathered both from primary and secondary sources. The former describes the data which is collected only for the purpose of the research. The latter is the data which is originally produced for other purposes but is utilised in the research (Malhotra & Birks 2006). The secondary data consisted of material from adidas Group website such as income statement, balance sheet and press releases. The financial data was used to perform a DuPont analysis. The primary data collection consisted of three steps: a search of the literature, interviewing specialist of the subject followed by a questionnaire.

To gain an insight how the purchasing department is organised and to determine a research frame, a qualitative research was conducted. Data was gathered by using an in-depth interview because of the complex nature of the questions. Further, an unstructured approach was adopted to avoid predetermined format of explanations (Saunders et al. 2009: 324). The author interviewed a purchasing coordinator at the case company. The interviewee was encouraged to speak freely about the subject but within the guided framework (Malhotra & Birks 2006: 180). The interview questions were developed after the literature review. The author followed Kvale's (2007: 58-59) example to convert research questions into interview questions to acquire thematic information as well as support a natural conversation (see appendix 3). The interview was held via Skype and it was recorded to utilise for later research. The interview was used for initial exploratory work and was followed by a quantitative study.

The quantitative research was conducted in a form of a survey. The questionnaire administered with self-completion questions referring to questionnaire completed by the respondents. It was implemented as an internet based form (internet-mediated questionnaires) accessed remotely via web address by the respondents. Each

completed questionnaire created a record in the system database. The questionnaire consisted of eight questions and six of them were closed questions. Close questions had a number of different answers for respondent to choose. Five out of closed questions were category questions. Respondents were able to choose only a one response from a given set of categories. Category questions are convenient when collecting data about behaviour or attributes (Saunders et al. 2009: 374-375). The questionnaire was sent out to the whole Western European purchasing department which consists of approximately sixty employees at the beginning of week 43. The respondents had 5 days to response to the survey seen in appendix 4.

To secure the response rate of the questionnaire, the author followed recommendations of Robson (2011: 259). The beginning of the questionnaire included a covering letter to state the aim of the research, its importance and assurance of confidentiality to encourage reply. The author worked on the appearance of the questionnaire by making it easy to fill in. To make it respondent friendly she paid attention to the wording and design. Questions were structured by first starting with general questions focusing on attribute variables followed by questions about the organizational structure and design. This way the initial questions were easy for the respondent to fill in to further encourage reply. Clear instructions were given following each question. The author used tick boxes since it is a familiar in questionnaires.

Using a questionnaire allowed the author to reach the whole research population; purchasing department of the Western European market to develop a general sense of their perceptions about the organisational design at their department. The survey was sent out to sixty people and 33 employees responded giving 55% response rate. The research was also assessing the level of the success of the new structure. The literature review identified purchasing maturity to have an effect on the organisational structure and how well the organisation captures potential synergies to achieve competitive advantage. Through the initial interview the author had the knowledge that roughly forty percent of the employees in the department are new. The author considered it to be important to measure the level of professionalism in the purchasing department to address the performance of the function. The general questions in the survey (seen in appendix 4) are focusing on the previous experience of the respondent. Further, it was vital to reach the whole research population since employees' attitudes and job satisfaction have an effect on company performance. Change management plays an important role when restructuring organisational design. When the change management

is not handled well, it can potentially lead to a lower employee motivation and affect efficiency and overall performance (Robbins & Judge 2012: 69-88, 577-608).

### 3.2 Quality of research

Validity is referring to the level of accuracy of the research results (Robson 2011: 85). In this research validity is the degree to which the questionnaire reflects the reality of the Western European purchasing department. Reliability is the consistency of the measurements (Robson 2011: 85). In other words, in which extend the qualitative interview and questionnaire will produce the same results if they are repeated. Reliability are often measured through generalisation in social science i.e. are the research findings transferable to other subject and situations (Kvale 2007: 122). The purpose of this research is not trying to make generalisation and the results are applicable solely to the case company. Using a questionnaire has its potential advantages and disadvantages. The strength is the standardisation. All respondents are responding to the same set of questions. This will improve reliability of the study. Questionnaire allows reaching large sampling frames. However the obvious weakness is how to ensure the sample group will respond to the survey. Another aspect is the reading comprehension. Has the respondent understood the questions as the survey planner intended. To reduce the external validity risk the author performed steps described earlier to ensure good response rate. Also, the survey was viewed by a purchasing coordinator to receive feedback and ensure the clarity of questions.

The researcher followed a triangulation strategy by using multiple sources to improve the research accuracy (Robson 2011: 158). Denzin (1989: 236-247) differentiates four types of triangulation: data triangulation, investigator triangulation, theory triangulation and methodological triangulation. This research followed three triangulation types to ensure validity. Data triangulation was ensured by using several data collection methods: both primary and secondary data. The research combined both quantitative and qualitative approaches which is the methodological triangulation to reduce the threats to validity. The last adopted triangulation was theory. The author was applying different theoretical frameworks in the research. The bachelor level of the research limited the study into one observer. However the methodical considerations described in this chapter are perceived by the author to provide a reliable research outcome to answer the research questions. The research conducted and its results are described in the latter chapters.

## 4 The results of the empirical study

The idea of the research was to define the effects of the new purchasing structure. The research combined qualitative and quantitative research approach. The qualitative study was used to define the research frame. At last the company's first quarter financial results were compared to the corresponding results the year before to see the concrete effects.

### 4.1 Qualitative results

#### Appendix 6

### 4.2 Quantitative results

The first section of the questionnaire was collecting general information from the respondents focusing on the attribute variable i.e. respondents characteristics. Most of the respondents (94%) had a degree in business and 6% in engineering. The respondents were able to choose a third option other but no responses were received in that category. The next question was establishing the degree level by giving three options bachelor's degree, master's degree or "other". Based on the questionnaire most of the department had bachelor's degree. Out of the 33 respondents 61% had bachelor's degree. One respondent equalling 3% had a higher professional education (HBO). HBO is a Dutch higher educational degree equalling a bachelor's degree obtained in four years<sup>1</sup>. Therefore, the percentage with a bachelor's degree after adjusting the data is 64%. Rest of the respondents 36 % had a master's degree. The next two questions were focusing on the experience in purchasing and at adidas Group. Only 9 (27%) of the respondents had less than 1 year working experience as a buyer. Most of the respondents 48% had experience from 1 to 5 years. Over 5 year experience had 24% of the respondents. From 33 respondents 10 (30%) were new employees at adidas Group and had less than 1 year experience. The largest respondent group 52% had experience from 1 to 5 years in adidas. Six of the respondents had worked over 5 years at the company.

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<sup>1</sup> <http://www.government.nl/issues/education/higher-education>

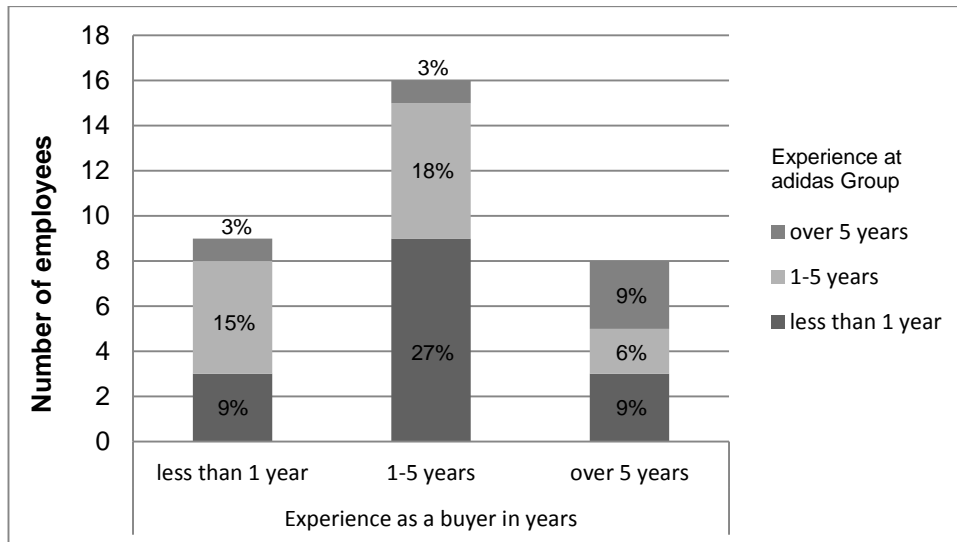


Figure 11. Employee experience at Western European purchasing department

The next four questions were focusing on the purchasing organisation and structure. This section recorded opinion variables i.e. respondents' thinking and feeling towards the department organisation. The opinions were relatively unanimous; 94% of the respondents were agreeing on with the statement that purchasing is a strategic function at the company. Only 6% was disagreeing. In the next question the respondents were asked to evaluate in the scale from 1 to 5 how well the current purchasing structure is working at the company. One indicated extremely poor performance and five extremely good. No negative responses were recorded; 48% indicated 3 which equals neutral, 42% was in scale 4 and rest 9% considered the performance as extremely good.

The last two questions were focusing on the advantages and disadvantages of the structure. Both questions were open-ended and respondents were asked to list up to three points. It should be noted that the last questions were not marked as required. Two blank responses were recorded for both questions. Also, not all respondents listed three advantages and disadvantages instead of they gave only one or two advantages/disadvantages. Responses were coded into five categories to present the data in a simple form for statistical analysis. It was done following the research objective and ensuring a minimum relevant information loss (Robson 2011: 267). First all responses were viewed to seek for common factors and coded i.e. category A = centralised. The third step was to count responses of each category and divide it by total number of different responses. Table 5 demonstrates the coding categories and corresponding percentages.



Table 5. Categorized survey responses

<b>Advantages</b>	<b>%</b>	<b>Disadvantages</b>	<b>%</b>
Centralised	26%	Lack of flexibility	33%
Inventory management	25%	Disconnection from other departments & functions	30%
Exploding leverage	19%	Communication barriers	12%
Collaboration & knowledge transfer (IT)	19%	Standardisation of work tasks	5%
Alignment (processes, product range)	11%	Complicated IT systems	20%

The categories were defined as:

- Centralised = efficiency and visibility of buying.
- Inventory management = better control over the inventory since all the countries part of Western European market have the same stock.
- Exploding leverage = improving cost effectiveness with high purchasing volumes.
- Collaboration and knowledge transfer (IT) = reduced barriers to cooperate including information systems and communicate within the department and other functions.
- Alignment (processes, product range) = same way of working and same products across the market.
- Lack of flexibility = no flexibility, dependent on other functions to do their part i.e. markets to provide accurate forecast, GSP team, marketing etc.
- Disconnection from other departments and functions = focus only on purchasing activities, no output from other departments
- Communication barriers = previously the local markets took care of the buying
- Standardisation of work tasks = because of standards processes and procedures it is harder to adapt to a change.
- Complicated IT systems = high dependents on IT systems

#### 4.3 Financial data

Secondary data was collected from adidas Groups income statement and balance sheet. The financial data was used to conduct a DuPont ROA analysis on first-quarter (Q1) results 2014. The new purchasing structure has been implemented starting from 2014 and when this research was conducted, other financial data for year 2014 had not yet

been released. The first Quarter results were compared to corresponding financial results the year before i.e. Q1 2013 results to avoid seasonal variances. Q1 comprises financial results from January, February and March. The data was gathered from adidas Group's Balance sheet can be seen in appendix 1 and Income statement seen in appendix 2. Sales and cost of sale figures are from income statement referred as 'Net sales' and 'Cost of sales'. Total expenses have been gotten by reducing 'Other operating income' and 'Royalty and commission income' from 'Other operating expenses' i.e. total Expenses = (Other operating income + Royalty and Commission Income) - Other Operating Expenses. Figures for current and fixed assets are taken from the balance sheet. Fixed assets equal to the total of all non-current assets. Other current assets is the number of 'Total current assets' minus 'Inventories' and 'Accounts receivable'.

The net sales had decreased 5.8% in 2014 compared to the year before. The cost of sales reduced 3.8% from 2013 to 2014. The other operating income affecting total expenses increased 177 %. Inventory assets increased by 6.8% from 2013 to 2014. The DuPont ROA results were 2.6% in 2014 and 3.7% in 2013 as seen from the calculations shown in appendix 5.

## **5 Analysis**

### 5.1 Qualitative study

Appendix 7

### 5.2 Quantitative study

Surveys have four sources of error which can lead to a failure to achieve the research objective: sample error, coverage error, measurement error and nonresponse error (Dillman 2007: 10). The study excludes sampling error because of the census approach (Salant & Dillman 1994: 17). A census is known as a data collected from everybody in the population of interest (Robson 2011: 238). A census is an option when the population is so small that a sample group would not provide accurate estimates of the general population (Salant & Dillman 1994: 6). Since the coverage error is connected to the sampling, the author disregards this error as well. The third error occurs when an inaccurate response is received and it will become invalid for the research usage

(Robson 2011: 238). The author considered carefully this factor when designing the survey to avoid unclear instructions and questions as explained in chapter 3.1.

The conducted quantitative research did not include invalid data. The last nonresponse error was the biggest concern of the author since receiving a good response rate to an internet survey is challenging (Robson 2011: 239). The questionnaire received 33 responses which equals 55% response rate. Thus approximately half of the purchasing department responded to the survey. Coverage error occurs when response rate is low and sample group has different characteristics compared to the respondent ones when these characteristics are relevant to the study (Dillman 2007: 10). Since the population Western European purchasing department is small and all of the respondents are working in the same function characteristics should not have great variance.

The survey questions were defined based on the qualitative results to define the maturity level and corporate coherence of the purchasing department. The Western European market has a centralised purchasing structure. Applied into the contingency model it would mean high corporate coherence but low purchasing maturity. For further research the study could be conducted as a qualitative interviews focusing on purchasing managers to better apply the contingency model. For example Rozemeijer's study (2000b: 187-190) provides research questions to determine the maturity and coherence level of the purchasing function.

Responses to the survey question to list up to three advantages and disadvantages of the current Western European purchasing department were similar with identified in literature i.e. exploit of leverage or inflexible structure. However 25 % of the responses mentioned inventory management as one of the benefits. When conducting a literature research the author cannot remember any source of mentioning inventory control as a potential advantage of centralised structure. It would be interesting in to compare results of another company with similar study to identify whether another purchasing department in another company would produce inventory control as an advantage of centralised structure.

### 5.3 Financial data study

In Q1 2014 inventory is approximately 22 percent of total assets. The inventory increase could have potentially reflected the structural changes in the market. Even though the sales had decreased the company had been able to improve their efficiency and reduce sales costs. In Q1 2014 purchases account approximately half of total sales. The corresponding figure last year was roughly 63 percent. The company is on the right direction to reduce costs but because of the corporate view it is not possible to track whether the changes in the Western European market were the reason for reduction.

## 6 Conclusion

### 6.1 Research objectives

Appendix 8

### 6.2 Recommendation for the case department

Appendix 9

### 6.3 Further research

While performing the research and looking into purchasing literature the author noticed the lack of research considering purchasing of finished products. This creates a gap and difficulties for organisations such as adidas Group which mostly purchases finished goods, because their procurement and purchasing have different principles and criteria than the purchase and procurement of raw goods. Supplier management becomes increasingly important when the company relies on outsourcing from suppliers.

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## adidas Group Balance sheet Q1 2014

## Consolidated Statement of Financial Position

.. / adidas AG Consolidated Statement of Financial Position (IFRS) (€ in millions)

	Mar. 31, 2014	Mar. 31, 2013	Change in %	Dec. 31, 2013
<b>ASSETS</b>				
Cash and cash equivalents	1,198	1,021	17.3	1,587
Short-term financial assets	5	84	[94.2]	41
Accounts receivable	2,176	2,328	[6.5]	1,809
Other current financial assets	159	233	[31.6]	183
Inventories	2,505	2,346	6.8	2,634
Income tax receivables	87	99	[12.1]	86
Other current assets	516	574	[10.0]	506
Assets classified as held for sale	11	11	1.0	11
<b>Total current assets</b>	<b>6,658</b>	<b>6,696</b>	<b>[0.6]</b>	<b>6,857</b>
Property, plant and equipment	1,313	1,092	20.3	1,238
Goodwill	1,203	1,301	[7.5]	1,204
Trademarks	1,419	1,529	[7.2]	1,419
Other intangible assets	156	161	[3.1]	164
Long-term financial assets	125	115	8.9	120
Other non-current financial assets	29	25	18.0	30
Deferred tax assets	507	535	[5.1]	486
Other non-current assets	77	107	[28.2]	81
<b>Total non-current assets</b>	<b>4,831</b>	<b>4,865</b>	<b>[0.7]</b>	<b>4,742</b>
<b>Total assets</b>	<b>11,488</b>	<b>11,561</b>	<b>[0.6]</b>	<b>11,599</b>
<b>LIABILITIES AND EQUITY</b>				
Short-term borrowings	801	69	1,066.4	681
Accounts payable	1,401	1,351	3.8	1,825
Other current financial liabilities	114	54	113.5	113
Income taxes	293	316	[7.2]	240
Other current provisions	440	513	[14.2]	450
Current accrued liabilities	1,105	1,135	[2.6]	1,147
Other current liabilities	347	386	[10.3]	276
<b>Total current liabilities</b>	<b>4,503</b>	<b>3,824</b>	<b>17.8</b>	<b>4,732</b>
Long-term borrowings	655	1,216	[46.1]	653
Other non-current financial liabilities	15	14	5.9	22
Pensions and similar obligations	259	256	1.3	255
Deferred tax liabilities	351	398	[11.8]	338
Other non-current provisions	17	59	[71.1]	25
Non-current accrued liabilities	56	36	55.1	64
Other non-current liabilities	28	28	2.0	29
<b>Total non-current liabilities</b>	<b>1,382</b>	<b>2,007</b>	<b>[31.1]</b>	<b>1,386</b>
Share capital	209	209	-	209
Reserves	239	772	[69.0]	321
Retained earnings	5,162	4,762	8.4	4,959
<b>Shareholders' equity</b>	<b>5,610</b>	<b>5,743</b>	<b>[2.3]</b>	<b>5,489</b>
Non-controlling interests	[7]	[13]	47.3	[8]
<b>Total equity</b>	<b>5,603</b>	<b>5,730</b>	<b>[2.2]</b>	<b>5,481</b>
<b>Total liabilities and equity</b>	<b>11,488</b>	<b>11,561</b>	<b>[0.6]</b>	<b>11,599</b>

Rounding differences may arise in percentages and totals.

## adidas Group Income statement Q1 2014

## Consolidated Income Statement

.. / adidas AG Consolidated Income Statement (IFRS) (€ in millions)

	First quarter 2014	First quarter 2013	Change
Net sales	3,533	3,751	(5.8%)
Cost of sales	1,797	1,870	(3.9%)
<b>Gross profit</b>	<b>1,736</b>	<b>1,881</b>	<b>(7.7%)</b>
(% of net sales)	49.1%	50.1%	(1.0pp)
Royalty and commission income	24	25	(1.8%)
Other operating income	50	18	177.2%
Other operating expenses	1,507	1,482	1.7%
(% of net sales)	42.7%	39.5%	3.1pp
<b>Operating profit</b>	<b>303</b>	<b>442</b>	<b>(31.4%)</b>
(% of net sales)	8.6%	11.8%	(3.2pp)
Financial income	7	4	46.8%
Financial expenses	20	19	4.2%
<b>Income before taxes</b>	<b>290</b>	<b>427</b>	<b>(32.2%)</b>
(% of net sales)	8.2%	11.4%	(3.2pp)
Income taxes	84	118	(28.6%)
(% of income before taxes)	28.9%	27.5%	1.4pp
<b>Net income</b>	<b>206</b>	<b>309</b>	<b>(33.5%)</b>
(% of net sales)	5.8%	8.3%	(2.4pp)
<b>Net income attributable to shareholders</b>	<b>204</b>	<b>308</b>	<b>(33.8%)</b>
(% of net sales)	5.8%	8.2%	(2.4pp)
<b>Net income attributable to non-controlling interests</b>	<b>2</b>	<b>1</b>	<b>30.2%</b>
Basic earnings per share (in €)	0.98	1.47	(33.8%)
Diluted earnings per share (in €)	0.96	1.47	(34.9%)

Rounding differences may arise in percentages and totals.

## Body of the interview questions

### Research questions

How is the purchasing organised and structured in the case company?

What are the primary changes implemented in the new organisational structure?

### Interview questions

Which other departments are cooperating with purchasing?

What is the difference between the sourcing and purchasing department?

What is the organisational chart of Western European purchasing department?

How was the purchasing structured before the new purchasing structure?



## Questionnaire

The following questionnaire is part of my Bachelor's thesis, studying purchasing structures in changing retail industry.

Your responses to this survey will be used only for research purposes of the thesis. All individual survey responses remain anonymous and used only as statistical information.

**\*Required**

### General information

#### What is your educational background? \*

Please tick ✓ the appropriate box.

- Business
- Engineer
- Other:

#### What is the level of your education? \*

Please tick ✓ the appropriate box.

- Bachelor's degree
- Master's degree
- Other:

#### How many years do you have a working experience as a buyer? \*

Please tick ✓ the appropriate box.

- Less than 1 year
- 1-5 years
- Over 5 years

#### How many years have you worked at adidas Group? \*

Please tick ✓ the appropriate box.

- Less than 1 year
- 1-5 years
- Over 5 years

### Information about the purchasing organisation and structure

#### For the following statement please tick ✓ the box that matches your view most closely \*

I think purchasing is treated as a strategic function at adidas Group.

- Yes
- No

**How well the purchasing organizational structure is working in the company? \***

Please choose a number in the scale that matches your view most closely.

1 2 3 4 5

Extremely poor performance      Extremely good performance

**What advantages you see in the in the chosen purchasing structure?**

Please list up to 3 advantages.

**What disadvantages you see in the in the chosen purchasing structure?**

Please list up to 3 disadvantages.

**Thank you for completing my questionnaire.**

Please remember to submit your answers.

Submit

**DuPont ROA analysis adidas Group Q1 2014 & Q1 2013**

