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Abstract

Purchasing is a significant business function because it directly affects a company's profitability. Savings in purchasing costs directly increase the profits on the income statement. Purchasing also affects a company's financial position through working capital. Namely, inventory levels and accounts payable, which are components of working capital, can be influenced by different purchasing activities. This study describes and analyses the role of purchasing as a component affecting working capital in the two case companies that operate in the Finnish chemical industry. The goal is to discover means how purchasing can contribute to reducing the amount of working capital tied up in the business. This study only concentrates on the main raw material purchases because they influence the level of working capital the most.

The theoretical framework consists of theories relating to purchasing and working capital. First, the actual purchasing function, purchasing strategy, and purchasing decisions related to suppliers are discussed. The purchasing process is described based on the purchasing process model of van Weele (2000). Purchasing decisions related to suppliers include what kind of supplier strategy to develop, how to select and evaluate suppliers, and what kind of relationship to establish with suppliers. Supplier strategy is developed based on the purchasing product portfolio analysis of Kraljic (1983). The second part of the theoretical framework discusses working capital management and how purchasing affects the amount of working capital. Inventory management is particularly important in working capital management. Inventories are widely examined and three inventory control techniques – EOQ, MRP and JIT – are introduced.

The empirical study was conducted as a qualitative case study. Data was collected by interviewing and examining private and public documents. The purchasing processes of the main raw materials, the current purchasing strategy and practices, and the level of raw material inventories are described and analysed. Also, working capital and raw material inventories are compared to the main competitors of the case companies. It was discovered that the case companies have slack in their raw material inventories and therefore, they could reduce them and consequently working capital without interfering with production. The suggestion to accomplish this is to start purchasing the strategic main raw materials on JIT basis. This requires a new purchasing strategy that emphasizes co-operative long-term partnerships with the chosen strategic suppliers, relies on only one supply source for each strategic raw material, and prefers suppliers from close geographic location.

Key words	Purchasing, working capital, raw material inventories, chemical industry
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