Achieving World Class Purchasing Through Solving the Centralized vs. Decentralized Organizational Dilemma

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Abstract. Adding to the perpetual issue of how to operate an effective strategic sourcing function when there are both centralized and decentralized staffing elements, is the ever increasing concern brought on by today’s numerous mergers and acquisitions. How to organize a procurement function is no longer solely a situation comprised of organizational silos within firms, but it is also the pressure to “fit in” additional purchasing units from newly incorporated entities. Instead of asking and answering questions related to who stays and who goes, the management of strategic sourcing organizations should be responding to what makes the best business sense to the corporation and the internal customers in terms of purchasing organizational format. This presentation will address strategic issues related to these concerns and offer some action plans to better position purchasing organizations to overcome these challenges and seize strategic opportunities.

Objectives and Opportunities. Purchasing professionals are continually faced with customers asking, “Why should I give up control to become a customer.” That situation is further magnified when sorting out the centralized versus decentralized organizational situations. The reason for this rests on defining who are the customers to be served by the development of a, hopefully, more effective procurement organization. Besides the traditional internal customers, we now must develop strategic actions that address a new type of customer, other purchasing professionals within the corporate entity.

While maintaining and improving customer satisfaction is an ongoing goal of procurement organizations, the challenge becomes one of optimizing the staffing in these organizations. The best way of doing so is to create a set of strategic objectives, by whose accomplishments can be a guiding influence in our staffing efforts. Some key objectives could include:

- Maximizing corporate spend
- Expanding the savings potential for customers
- Consolidating e-procurement systems and support packages
- Providing customers with a greater voice in procurement activities
- Increasing the role of strategic suppliers in buying and support functions

Faced with the ever growing situation of increased customer demands and savings opportunities, while having less staffing available, the achievement of these objectives is a must for successful purchasing organizations. We are now focusing on quality to a greater degree, at the expense of quantity, especially as it involves staffing. Procurement organizations know that the aforementioned objectives can best be completed with the right purchasing personnel involved. All of the strategic sourcing tools used today, such as e-procurement systems, reverse auctions, etc., are only as effective as the purchasing personnel that operate them.
Pitfalls. Before taking the journey down the procurement staffing highway some discussion is needed on potential potholes one may encounter. Some of the more strategic pitfalls that may develop consist of:

• Silo mentality- putting unit objectives over corporate objectives.
• Corporate culture- each business organization involved may have its own beliefs on the way operations should function.
• Lack of vision- each of the procurement organizations may be more transactional than strategic.
• Trust- having the customers and purchasing professionals believe in a new idea or concept that can significantly impact their operations.
• Job security- some (all) of the purchasing professionals may feel that their jobs are in jeopardy.
• Geography- the remote locations of various procurement operations might work against teamwork and improved customer service.
• The +/- of existing procurement organizations- despite all the potential strategic benefits of a new organization, the existing dispersed organizations probably have contributed some good results in the past.

Some, if not all, of these pitfalls may exist in all firms. They need to be addressed early and with a good deal of honesty. We are in fact talking about implementing a structure that will impact our customers and our own purchasing professionals. Discussions with customers and involved purchasing professionals will go a long way in minimizing any negative effects of these barriers. The full support of senior management is also essential, particularly when an impasse is reached. The good of the corporation may require the, hopefully, short-term sacrifice of some business units.

Action Plans. Integrating various purchasing units into one strategic sourcing function will not come easy. It will require much thought and hard work. There are many personal and business issues that have to be examined and responded to for success to follow. The following are suggested actions that may contribute to a unified and effective coordinated procurement function:

• Understand the different business and corporate cultures involved. Certain processes operate for a reason. It is important to understand the deeply rooted, in many cases, cultural aspects behind business decisions.
• Identify external and internal factors that could work for and against your effort. It is not only relevant to understand the operations current strengths and opportunities, but knowledge of potential threats and existing weaknesses are also valuable before creating an overall game plan. A SWOT analysis is a valuable tool in this step.
• Determine annual spend numbers. It is always helpful to have knowledge of your buying base. Besides trying to identify corporate spend figures, it will be beneficial to know spend by company, by customer location or division, and by supplier.
• Ascertain the percentage of spend currently under contract or obtained through strategic sourcing. As one of the objectives of developing a more effective procurement
organization is to increase savings, there is no greater opportunity than to enhance the percentage of spend bought through negotiated contracts.

- Calculate the savings potential through developing a new procurement organization. The savings should be identified as coming from several sources: staffing, systems, process improvements, and strategic sourcing initiatives.

- Establish personal and team credibility. The new organization effort will impact numerous operations within a company. The various stakeholders will cooperate better if there is a trust in the purchasing leaders and staff implementing the new organization.

- Develop customer and purchasing personnel involvement. The biggest factor as to why new concepts or strategies fail is lack of buy-in on the part of major players. A major reason for implementing a new procurement organization is to improve customer service. With this concept in mind it is strongly recommended that customers be included in all aspects of the new organization's development. The same goes for having the procurement personnel become active participants in the planning and testing of their new organization.

- Survey all existing procurement related systems. With the growth of M&A’s comes the proliferation of systems, particularly e-procurement systems. Not only do you have to consider the integration of purchasing personnel from different companies or operations, but their systems as well. It is important to analyze not only the most suited e-procurement system for the new organization, but discussions are necessary with other major users of systems, such as A/P and HR, that could interact with purchasing systems.

- Create a business case. This document will serve as the lightning rod for your new organization. The business case gives all parties, such as senior management and customers, an opportunity to react with their comments. From the feedback received here, both of a positive and negative nature, you can develop a final draft for submission to the powers that be in your firm.

- Develop a strategic vision statement and schedule. Once the new organizational format has been approved it is very helpful to issue a vision statement, describing in a few sentences, the future objective of this organization. This serves as a rallying cry behind your efforts. In addition to a vision statement, there is an urgent need to create a tight schedule. Using a tool like Project, the schedule should define functions and responsibilities, as well as when critical tasks are expected to be completed. Without a meaningful schedule tasks tend to slide, time-wise, as will related costs.

- Evaluate existing procurement staffing skills. The key factor that will ultimately decide whether the new procurement organization will succeed or not will be the purchasing professionals, themselves. As there could be numerous staff members that you are unfamiliar with in the total organization, it is important to take an inventory of the skills of each person. These skills should be associated with areas related to purchasing practices, computers, customer service, communications, and business. It is helpful to be open-minded concerning the value of all personnel, regardless of their current corporate affiliation or location. Once this inventory has been completed the roles and responsibilities of existing staff members can be discussed.
• Role of suppliers. In most procurement organizations the role of suppliers, particularly strategic suppliers, has changed noticeably in the past five years. There are more suppliers onsite performing support or outsourcing functions. It is not enough to maintain a status quo situation with these suppliers but some thought should be given to future proactive opportunities.

• Involvement of senior management. As the new procurement organization should have a significant impact on the firm’s bottom line, senior management should be included early and often on the development of this new organizational concept. Their support could be a big help, particularly when turf issues arise.

• Implementation of strategic plan. It is important not to do too much too soon, especially if there are radical changes involved. The analysis of all pertinent data that has been gathered will help in identifying which strategic steps require immediate action.

• Formulating metrics to track the results achieved by the new procurement organization. Besides creating a meaningful reporting mechanism, it is important to gather feedback to determine if the project is on target. These measurements can determine if adjustments are required to the original objectives and schedule.

Phases of Implementation. The various action plans need to be implemented in a coordinated manner. While several of these actions can be underway at the same time there is an essential need to seek closure on some of these actions, before others can begin. Information gained by some actions, particularly those that are initiated earlier in the process, will be beneficial to the later action plans. A suggested implementation schedule can cover four main phases:

• Fact gathering- which would include understanding corporate culture; identifying external and internal factors; determining annual spend numbers; ascertaining the amount of spend under contract; calculating potential savings from the new procurement organization; establishing credibility; developing the involvement of key stakeholders; analyzing all current systems; evaluating the skills of the staff; defining the new role for suppliers; and engaging senior management.

• Developing a strategic plan- focuses on the creation of a business case to justify the need and role for the new procurement organization, as well as formulating a vision statement.

• Implementation of strategic plan- now begins the hard part, making the plan work. The move from transactional functions to strategic activities on the part of purchasing personnel can be quite significant both physically and emotionally. We may be asking folks to become involved with completely different commodities and services, suppliers, customers and systems. The people skills analysis will be very helpful here.

• Feedback and adjustments- all plans need to be revised. The difficulty lies in determining when and how to make any necessary alterations in the original plan of operation. Adjustments should be the result of strategic factors entering into the picture. Too many “transactional-based” revisions will destroy the integrity of the new organization’s objectives.
**Roles and Responsibilities.** At the very core of the organizational dilemma is the question of who will do what. Many firms have as many as three levels of personnel doing the buying or strategic sourcing activities: a corporate entity or entities, remote purchasing units (working for departments or affiliates of the main firm), and customers (such as I/T, HR, or Telecommunications), themselves. In many cases each of these buying functions feel they are best serving their customer base, so why should they agree to work for a different procurement organization. Just as business operations often do not want to give up “control” to become a “customer” of a purchasing unit, procurement personnel may have serious questions about their loss of “control”.

Having worked on this monumental situation at three companies I can attest that it is a very solvable undertaking. Once you have gathered all of the numbers (spend, contracts, savings potential, etc.) and absorbed feedback from key stakeholders (customers, senior management, suppliers, and purchasing personnel) developing an outline for a new procurement organization becomes how to best fill the needs of the customers and the corporation, with the appropriate staffing.

Traditionally, centralized or corporate buying units were responsible for such tasks as negotiating major (global and national) contracts; developing policies and procedures; overseeing strategic supplier management programs (such as supplier recognition and diversity); establishing standards on a broad base level; and processing an amount of spend. On the other hand, decentralized or remote buying units often were charged with dealing with customer service; negotiating regional and local contracts; interacting with suppliers; and a heavy amount of transactional buying functions.

In the past five years two major elements have caused us to rethink this type of functional breakdown. These factors were strategic sourcing initiatives and e-procurement systems.

Most firms are looking at procurement organizations to identify key areas of cost reductions. This has brought on a greater emphasis on moving away from transactional processes and towards high value strategic projects. The outstanding savings and service benefits resulting from the effective use of both strategic sourcing initiatives and e-procurement systems require a coordinated effort. This has given us the opportunity to break down most, if not all, of the purchasing silos.

How procurement organizations respond to these opportunities is key to determining our future impact on our firms. Staffing should be based on the best use of existing talent regardless of where people are located and what duties they currently perform. So in developing a new organizational format identify what projects are strategic and when they need to be performed or completed. Then select the best persons to work on these projects. The people’s skill inventory should have given some indication as to who would better be suited for such activities as: systems, customer service, supplier management, contract negotiations, strategic sourcing initiatives, and what remains of transactional work.

As previously mentioned, geography should not be considered an obstacle but rather a potential benefit in the utilization of purchasing personnel. Email and video conference calls are only two of the ways of staying in touch with staff in dispersed locations. There will be a core of activities (such as contract negotiations, standards, and systems support) that should
be coordinated regardless of where the purchasing personnel are located. The avoidance of a
duplication of effort on the part of the purchasing personnel will help reduce expenses and
allow for job enrichment opportunities for the purchasing folks.

**Final Thoughts.** There is no question that the development and implementation of a
coordinated procurement function will cause staffing adjustments and revise the way some
customers are serviced. Change can and should often be considered a positive element into
today’s business world. Being in control of one’s destiny is vital, especially when it involves
such a strategic function as purchasing. The bringing together of all of a firm’s procurement
personnel can in the long run only help the corporation and indeed the purchasing
professionals staffing the procurement function.