



## Purchasing Structures and Models



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### Introduction

Purchasing structures/models should “be congruent with the overall organisation of the enterprise of which purchasing is part...” and are determined to some degree by an organisational external and internal environment (Lysons and Farrington, 2016).

Over the past decade purchasing models have gradually shifted from decentralised structures to more centralised models to capture the purchasing savings from consolidating organisational spend (Nellove and Soderquist, 2000; Steele and Court, 1996; Trautmann et al., 2009). Centralised purchasing implies that purchases are made from company headquarters or at a regional/divisional level (Lysons and Farrington, 2016). Its advantages include economies of scale, and greater coordination and control of activities (Lysons and Farrington, 2016).

Today centralised purchasing remains the most common structure, but there is a "growing recognition of the need to complement this with centre-led and embedded procurement models that draw procurement departments and their stakeholders closer together" (CIPS: Portland Group strategic procurement survey). More companies begin shifting towards designing hybrid procurement models which merge the most beneficial elements of centralised and decentralised structures (Neu and Brown, 2008; Trautmann et al., 2009). Affected by the changing business environment, hybrid models use a central team overseeing procedural compliance and governance, and decentralised business units to retain accountability for spend (CIPS: Visa business case for P-cards).

Purchasing structures are determined by several business factors: downsizing involves employing fewer staff, redesigning jobs, empowering employees and creating self-managed work teams; e-Commerce has replaced traditional paper-based systems, bureaucratic processes and multi-layered structures; globalisation called for the development of global sourcing with special teams report at a high organisational level and decentralised sourcing with offices in supplier countries; partnering arrangements involve the establishment of inter-firm interactions between many functional areas and the establishment of dedicated teams to develop relationships with partners; outsourcing leads to the elimination of supporting functions (Lysons and Farrington, 2016).

### Definition

Purchasing models/structures describe the design of the purchasing department or its function and the way it is linked to, and configured within, the wider organisational design and business model. Some examples of functions are: purpose, responsibilities, management and teams, and coordination and control of activities and resources (Lysons and Farrington, 2016).

### Successful Application

Organisations first need to understand when centralised and decentralised purchasing arrangements are appropriate and what the possible implications are. For example, a centralised structure can be implemented when the hierarchy is one of the main means of coordination within the firm and when the organisation's environment is relatively stable, allowing a handful of people at the top to be experts and to make most of the key decisions. In highly dynamic and complex markets, decentralised or hybrid decision-making authority can lead to greater adaptability and responsiveness (Neu and Brown, 2008).

## Hybrid structures

The centre-led action network (CLAN) (by Dr Richard Russill and Paul Steele.) posits a relatively decentralised model, with procurement staff sitting in the different business units in an organisation. Their main reporting line is to the local business, with a dotted reporting line to a small procurement “centre”, usually sitting in the corporate HQ.

This centre leads the network, setting standards, encouraging the spread of best practice and persuading the different elements of the network to co-operate, often through concepts such as lead buyers who might drive particular commodity-related activity on behalf of the whole network. However, a number of organisations are moving away from Clan to something more centralised.

This emerging model SCAN – “strategically controlled action network” has a small key difference from CLAN, but with major implications. In SCAN, most procurement staff report to the central procurement leader. They may have a dotted line to a “local” business manager, but their main reporting is to the functional head. So the centre or functional leadership has the chance to exert more influence on procurement strategy across the organisation and more control over procurement activities, policies, process and people.

A typical SCAN structure has three elements:

- A central core,
- A team of category managers,
- And business purchasing teams.

The central core has a functional head and a small team looking at strategy, policy, training and competence, exchange of good practice and performance management.

The team of category managers (or similar) is responsible for those goods and services that have a high degree of commonality across the organisation.

Business purchasing teams work closely with the business with three key responsibilities:

- To act as the general contact point for procurement in that business, including policy management;
- To ensure category managers understand properly what each business needs from their commodity;
- To handle the procurement needs that are specific to “their” business.

However, what works for one organisation might not work for another. (Smith, P., 2003)

Other key factors to consider are the age of the firm, organisational size and organisational culture, leadership and management (Lynch, 2006). Beyond this, other purchasing model elements to consider are cross-functional versus cross-organisational teams (Lysons and Farrington, 2016).

## Steps to Successful Application

- Consider the nature of the business. For example, centralisation drives economies of scale and can improve strategic focus and eliminate maverick spending.
- Look at the style of the CEO and senior leaders: dominant leaders tend to favour centralisation.
- Analyse the need for local responsiveness and whether being closer to users is imperative. If this is the case, a decentralised purchasing model is preferable.

- Assess the need for local service and explore if a specific understanding of cultural, political and social environments is highly beneficial. If so, decentralisation is more suitable than centralisation.
- If a mixed picture emerges, consider hybrid/centre-led procurement models.

*CIPS: Visa Business Case for P-cards; Lynch (2006)*

### Hints and Tips

- Centralised decision-making works best in conjunction with defending strategies (Andrews et al., 2009).
- Decentralised decision-making is more suitable in organisations that emphasise prospecting strategies (Andrews et al., 2009).
- In decentralised organisations, empowerment philosophies and practices need to be given careful consideration, so that decision making authority and roles are clear (Boxall and Macky, 2009; Vandenberg et al., 1999).

### Potential Advantages

- In comparison to divisional purchasing, the centralised purchasing structure has greater strategic focus due to its proximity to major organisational decision-makers (Lysons and Farrington, 2016).
- A better understanding of local needs is an advantage of decentralised purchasing (Lysons and Farrington, 2016).
- There are incentives for suppliers dealing with centralised purchasing departments as they are driven to compete for a 'preferred supplier status' (Lysons and Farrington, 2016).

### Potential Disadvantages

- Decentralised purchasing models decrease leverage when consolidating purchases (Lysons and Farrington, 2016).
- Decentralised purchasing structures can overemphasise local needs and neglect the importance of corporate demands (Lysons and Farrington, 2016).
- In flat/horizontal purchasing structures there are fewer promotional opportunities available to employees (Lysons and Farrington, 2016).

### Case Studies

- The Limited Brand, a famous owner of many well-known clothing brands, centralised its purchasing department in a bid to save US\$200m over five years. The company's actual savings reached almost US\$350m in four years (Atkinson, 2006).
- Following a 75% profit decline over two years, Textron, a conglomerate that includes Bell Helicopter, E-Z-GO, the Cessna Aircraft Company and Greenlee, began its centralisation in 2001. Autonomous units, previously unaware of each other's activities, were ordered to cooperate and share resources. Bonuses were linked to company-wide, rather than division, performance and over 100 data centres were merged into a handful. As a result the firm's performance dramatically improved and its CEO, Lewis Campbell was declared 'a turnaround artist' (Daft, 2010).

- Decentralisation at Hewlett-Packard included stripping out the time-heavy administrative layers and giving the head of each division more power and control over their own salesforce. The transformation resulted in an 8% sales and 8% profit increase in a single quarter (Strategic Direction, 2007).
- In Britvic, the introduction of category management was a key milestone. This started to pave the way to strategic think and strategic sourcing. Stakeholders were proactively pursued on important business matters as opposed to being the ones making requests of the procurement team. Market information was provided to them to guide them on the correct business choices and they were also asked to be decision makers on long term strategies. (Bailey et al 2015)

## CIPS Source Downloads

- CIPS Australia: Visa business case for P-cards

## Further Reading/References

### Web Resources

- Assessment of centralised purchasing <http://www.supplymanagement.com/news/2009/centralised-strategy-finds-favour-with-procurement/>
- Report on the Highland Council procurement structure <http://www.highland.gov.uk/NR/rdonlyres/89EDFD32-58F5-4398-A674-D40D66EEC560/0/res4907.pdf>
- Purchasing strategies: using procurement decision models <http://www.cimaglobal.com/Thought-leadership/Newsletters/Insight-e-magazine/Insight-2012/Insight-February-2012/Purchasing-strategies-using-procurement-decision-models/>
- Models for Procurement <http://acuityconsultants.com/wp/2011/12/5-models-for-procurement-organisation/>
- The Kraljic Portfolio Purchasing Model [http://www.mindtools.com/pages/article/newSTR\\_49.htm](http://www.mindtools.com/pages/article/newSTR_49.htm)

### Books

- Purchasing and Supply Chain Management, Dr Kenneth Lysons & Dr Brian Farrington ISBN 978-0273694380
- Organization Theory and Design, Richard L. Daft, Jonathan Murphy & Hugh Willmott ISBN 978-1844809905
- Purchasing and Supply Chain Management, Moncza, ISBN 978-1408017449
- Purchasing and Supply Chain Management: Analysis, Strategy, Planning and Practice, Arjan Van Weele, ISBN 978-1408018965

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- Strategic Direction (2007) A Fast Turnaround at Hewlett-Packard: Quick, easy wins or long-term promise? Strategic Direction, Vol. 23 (2), pp.25-27.
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### Video

Control vs. flexibility: Supporting the decentralised organisation

[https://www.youtube.com/watch?feature=player\\_embedded&v=VNaZx20T-W0](https://www.youtube.com/watch?feature=player_embedded&v=VNaZx20T-W0)

