

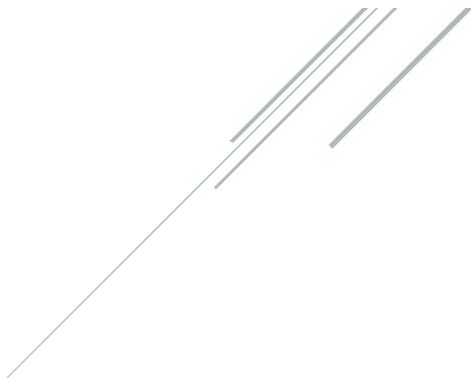


Free Whitepaper



The End of the Centralized vs Decentralized Procurement Debate

Technology Means No Longer Having to Choose



Supplier Management | Sourcing | Contract Management

ProcureWare is a modern sourcing platform for efficiently and transparently managing suppliers, bidding, and supplier contracts. eBid Systems has provided software solutions to public and private sector organizations for more than 16 years, and currently supports over 300 clients.

Table of Contents

Introduction.....	2
Decentralized procurement teams are nimble, but have a harder time syncing with the organization.....	2
Centralization offers cost savings and accountability, but may be out of touch with FLBUs.....	3
Hybrid models mean it’s not an either-or choice.....	4
Regional central procurement.....	5
Central-led decentralized.....	5
SCAN & CLAN.....	5
Technology supports development of just-right procurement organization.....	6
Change is daunting: How to change your structure successfully.....	8
Conclusion.....	10

Introduction

Organizations and enterprises in all sectors are feeling pressure from rising costs. An executive survey by Bain & Company found that the cost of procurement makes up between 25 percent and 60 percent of a company's overall costs.¹ Seventy-two percent of executives felt they could improve their procurement process.

Organizational leaders often wonder whether centralized or decentralized procurement offers greater advantages including cost efficiencies. In fact, this has become a longstanding debate in both the public and private sectors. There are certainly strengths and weaknesses to both traditional approaches, and some organizations may be a perfect fit for one or the other, although the right method for any one organization depends on its strategy, industry, and location.

However, due to significant cost savings, leading practitioners urge organizations to consider greater centralization, especially using e-procurement systems. One study estimated that median centralized performers spend 17 cents less per \$1,000 in purchases than median decentralized performers.²

But the advent of technology-driven solutions has opened the way for more leading procurement organizations to have the best of both worlds: hybrid models that reap the cost savings and other advantages of centralized systems while retaining the benefits of decentralized procurement.

With this in mind, we will review in this white paper the pros and cons of each approach, review the transformative role technology is playing in procurement and offer insights from industry leaders on procurement best practices.

Decentralized procurement teams are nimble, but have a harder time syncing with the organization

The decentralization of procurement is a traditional procurement model that is still popular in many organizations. Decentralized procurement occurs when each

¹ Bain & Company. 2012. A fresh look at procurement. <http://www.bain.com/publications/articles/a-fresh-look-at-procurement.aspx>

² APQC. Procurement: Centralization vs Decentralization. https://www.apqc.org/knowledge-base/download/31757/K00858_Procurement_percent_20centralization.pdf

individual department, unit or site takes care of its own procurement needs. This offers a number of benefits, including:

- Closer to customers/more responsive
- Reduced bureaucracy
- Ease of monitoring due to smaller programs
- Reduced opportunity for corruption and favoritism
- Better integration with local suppliers

However, no system is perfect and decentralized procurement is no exception. Drawbacks to decentralized procurement are often cited as including:

- Potentially insufficient expertise with large or complex purchases
- More complicated oversight
- Lack of internal alignment
- Duplication of efforts between departments
- Limited collaboration and knowledge sharing between departments
- Reduced cost savings

This risk of duplication, inefficiency, and increased procurement costs has led many organizations to centralize their approach to procurement.

Centralization offers cost savings and accountability, but may be out of touch with FLBUs

The centralization of procurement has grown in popularity in recent years and is preferred by many organizations, both public and private. The centralization of procurement means all procurement takes place at the corporate/organizational level, and it offers such benefits as:

- Significant savings due to increased buying power, reducing the unit cost of goods and services
- Improved order cycle time
- Greater checks and balances/controls
- Improved accountability
- Reduced administration workload for front-line business users
- Enablement of center of excellence, development of expertise
- Stronger audit trail
- Deeper supplier relationships

However, centralized procurement faces criticisms too. Chief among them is the concern that a central procurement office lacks a genuine understanding of or alignment with the unique needs of the front-line business unit (FLBU), individual department or geographic region.

Detractors of centralized procurement structures say they can be hampered by such drawbacks as:

- Increased communication breakdowns
- A lack of understanding of local and regional supply markets
- Unsuitability to manage certain indirect commodities
- Increased staff and resource costs
- Increased bureaucracy
- Risk of maverick purchasing

While the data indicates that centralized procurement *on average* yields greater cost efficiencies, that may not hold true for all organizations. Three factors influence the desirability of centralization, including:

- Similarity of material usage among sites
- Size of front-line business units/sites and the organization as a whole (how much data will need to be dealt with on a daily/weekly/monthly basis)
- Geographic spread of sites
- Pace of business including length of product lifecycle, implementation of just-in-time inventory practices and unpredictability in customer demand

The drawbacks for both centralized and decentralized procurement models are significant. For this reason, many organizations are now looking at the possibility of implementing a hybrid procurement model that will adopt the best of both the centralized and decentralized models.

Hybrid models mean it's not an either-or choice

Hybrid models represent an attempt to reap the strongest benefits of both centralized and decentralized procurement. There are three main hybrid alternatives.

Regional central procurement

A regional central structure allows for a centralized approach to procurement, but the center of the procurement operation is not necessarily at headquarters. Instead, it is located in the most geographically suitable location, closest to the most significant manufacturing operations or where the bulk of the suppliers are located. The procurement team will use a corporate contract or master service agreement for purchases that are relevant across business units, but ultimately, all procurement decisions will be based on local supplier contacts and knowledge.

Central-led decentralized

This is a popular form of hybrid procurement. There is central procurement control that focuses on corporate-level supply chain strategies, best practices, strategic commodities, and the sharing of knowledge. However, at the crux of the model are cross-functional teams that represent the regional and departmental business units. These teams focus on their local or departmental needs, tailoring corporate strategies to suit local regulations and market conditions.

The central-led decentralized model allows for a decrease in corporate spend by leveraging strategic commodity categories but allows non-strategic categories to be managed at the local or departmental level. This method has been shown to have an increase of more than double the spend-under-management than that of decentralized procurement and 20 percent more than centralized procurement.³ In addition, companies using this model have experienced 5 to 20 percent cost savings per spend-under-management dollar.

SCAN & CLAN

SCAN (Strategically Controlled Action Network) and CLAN (Center-Led Action Network) are described by Peter Smith, writing for Spend Matters, as procurement networks that have centralized control.⁴

With CLAN, there is a small centralized procurement unit in the organization's center, but procurement operations are carried out on a unit-by-unit basis.

³ Limberakis, C. 2015. Center Led Procurement: An Introduction. Determine.
<https://www.determine.com/blog/center-led-procurement-an-introduction>

⁴ Smith, P. 2011. SCAN, CLAN, hard core procurement and cerebral whimsy. Spend Matters.
<http://spendmatters.com/uk/scan-clan-hard-core-procurement-cerebral-whimsy/>

Procurement staff report locally, but also to the CPO or equivalent management at the central procurement office. However, central management has only minimal control over procurement operations.

SCAN is similar to CLAN, but it allows central management more control over procurement that is conducted at the local and departmental level.

While there are various hybrid models, the benefits are numerous and largely universal. Elaine Porteous, writing for Procurious, suggests hybridization of procurement offers the following benefits:⁵

- Centralization of procurement policy and strategy
- Application of best practices to direct and indirect procurement
- The replication of the central procurement management structure at the departmental and regional level
- The ability to offer departmental and regional support, recognizing the unique needs and challenges of each region or department within the organization
- Open two-way communication within the organization
- Increased innovation and agility
- Increased contract compliance

However, even the hybrid model of procurement can grow stale over time, plateauing in terms of savings and sustainability. Porteous points out that it is important to allow for transition within procurement, something that today's advances in technology offer.

Technology supports development of just-right procurement organization

Thanks to developments in the procurement model and the advancement of technology, procurement has evolved. It is no longer simply about cost management but includes risk management, sustainability, product development, contract compliance, and supplier performance.

⁵ Porteous, E. Is Hybrid Best? The Centralized vs Decentralized Debate. Procurious.
<https://www.procurious.com/blog/trending/hybrid-centralised-decentralised-debate>

Specifically, the adoption of technology in the procurement landscape has been outlined by an Xchanging 2015 survey of 830 procurement professionals.⁶ The most significant adoption of technology in procurement has been for savings tracking (77 percent) and spend analytics (76 percent). However, there is significant use of technology in other aspects of procurement, including:

- Automation Technology (68 percent)
- Reporting Dashboards (68 percent)
- Contract Management Technology/Software (67 percent)
- Supplier Performance Management Technology/Software (64 percent)
- Category/Market Intelligence (60 percent)
- eSourcing (59 percent)
- Procurement Solutions with the Internet of Things (54 percent)
- Predictive Analytics (54 percent)
- Supplier Financing Tools (48 percent)
- Online Auctions (37 percent)

More than 50 percent of those surveyed use technology for the majority of these procurement aspects. Accenture reports four key digital technologies that are leading the transformation of the procurement industry:⁷

- Cloud computing: Offers improved usability, increased engagement and productivity, and access to more procurement content
- Analytics: Available in real-time
- Industrial Internet of Things (IoT): Deep insights into the needs of individual departments and regions, leading to improved decision-making
- Cognitive systems: To handle transactional and strategic activities

These procurement technologies will allow for a smaller procurement team to oversee procurement on all levels. Organizations can gather real-time data and analyze that data to have a deeper understanding of the needs of the various departments and regions. This means a centralized procurement model will no

⁶ Xchanging. 2015. Xchanging 2015 Global Procurement Study. Chapter 3.

<http://www.xchanging.com/sites/default/files/attachments/pdf/xchanging-2015-global-procurement-study-chapter-3-infographic.pdf>

⁷ Noweosel, K., Terrill, A., and Timmermans, K. 2015. Procurement's Next Frontier: The Future Will Give Rise to an Organization of One. Accenture. https://www.accenture.com/t20161127T221524_w_us-en/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_14/Accenture-Procurements-Next-Frontier.pdf

longer be disconnected from the individual needs of departments and regions around the world. Instead, technology strengthens the organizations procurement maturity through benefits such as:

- Enables all stakeholders to have strong input
- Promotes the sharing of data across all departments and regions
- Promotes transparency in the procurement process
- Provides benefits of central control, with recognition of departmental and regional needs
- High degree of visibility and access to data and information
- Produces a solid audit trail

In light of this evolution in technology and the preference for the hybrid model, many organizations are making the shift to e-procurement. While this is no small task, there are steps that can be taken to make this shift easier and quicker.

Change is daunting: How to change your structure successfully

E-procurement technology has evolved at a rapid pace over the last few years. Early adopters of e-procurement in the late 1990s include General Electric, Wal-Mart, General Motors, Ford, and DaimlerChrysler.⁸ An Aberdeen Group survey cited shows that these early adopters of e-procurement experienced a 5 to 20 percent reduction in the cost of their operating resources.

More recently, between 2011 and 2014, there has been \$1 billion in funding infused into e-procurement companies.⁹ This growth stems from a major shift from B2C to B2B technologies and the global nature of business today, and it is paying off. The Purchasing and Procurement Center cites a 2014 Aberdeen Group study that found companies with e-procurement experienced:¹⁰

- 64 percent reduction in contract spend
- 7.3 percent reduction in prices for spend returned to contract
- 66 percent reduction in requisition-to-order cycles
- 58 percent reduction in requisition-to-order costs

⁸ Agheshin, E.A. 2001. *E-Procurement at Work: A Case Study*. Production and Inventory Management Journal. First Quarter, 2001. APICS.

<https://pdfs.semanticscholar.org/2f0b/c0b868b770445222825225ad079a2b301207.pdf>

⁹ Magister Advisors. 2014. *Why e-Procurement may be the Hottest B2B Investment Sector*.

<http://www.magisteradvisors.com/blog/why-e-procurement-may-be-the-hottest-b2b-investment-sector>

¹⁰ Purchasing and Procurement Center. *E Procurement - Challenges and Opportunities*.

<http://www.purchasing-procurement-center.com/e-procurement.html>

- 20 percent increase in total spend-under-management of procurement group

Deloitte reports that 40 percent of companies surveyed in 2016 have a digital strategy for procurement.¹¹ Close to half of respondents (45 percent) are investing in cloud-based solutions to support their procurement initiatives, while investments are also being made in mobile technologies (42 percent) and social media (16 percent). Clearly, organizations are committing the resources needed to leverage e-procurement.

As such, any organization contemplating a change in procurement structure must first ensure that every level of management is onboard, including getting executive-level buy-in. All stakeholders must understand and commit to the rationale for a new strategy.

The Chartered Institute of Procurement & Supply suggests a process for assessing readiness for a move to e-procurement and making the transition:¹²

1. Create corporate goals and objectives and ensure senior management is onboard. Align the e-procurement strategy with these goals and objectives.
2. Ensure the value chain and primary processes, both business and procurement, are well defined.
3. Ensure there is agreement on clear processes and objectives with suppliers and customers.
4. Identify the data and messages that will be utilized.
5. Identify all databases, computers, and apps that will be utilized.
6. Ensure there is sufficient infrastructure, both hardware and software, in place to support the e-procurement system.
7. Ensure that the new e-procurement system is compatible with any existing Enterprise Resource Planning and Management (ERP) system.
8. Ensure adequate security is maintained.

¹¹ Umbenhauer, B. and Gregson, J. 2016. *The Deloitte Global CPO Survey 2016 Procurement: at a digital tipping point?* Deloitte.

<https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/operations/deloitte-nl-operations-global-cpo-survey-print-pdf.pdf>

¹² CIPS Knowledge. 2013. P&SM: Eprocurement.

<https://www.cips.org/Documents/Knowledge/Procurement-Topics-and-Skills/5-Strategy-and-Policy/Procurement-Policy-Development/POP-eprocurement.pdf>

9. Ensure the new e-procurement system is compatible/can integrate with or adequately replace any existing legacy systems.

As with any organization-wide shift in processes and methods, switching to e-procurement can seem daunting. Organizations can accomplish a shift to e-procurement with an in-house team, using vendor support or partnering with a consultancy.

Conclusion

In working with hundreds of customers across industries and sectors, eBid Systems has seen firsthand how the shift to a hybrid model supported by advanced technology solutions can yield a more resilient and effective procurement organization.

This trend is part of an evolving procurement landscape that offers resources for further transformation and optimization such as:

- Cloud-based applications provide technology infrastructure and the ability to share business processes
- Community-based services and features
- Networks between business and trade partners that facilitate agility and flexibility and promote collaboration and innovation at all levels
- Improved use of data and an increase in complexity, speed, and diversity of data collection and analysis
- End-to-end automation of procurement offers opportunities for customer self-service

Ultimately, the relationship between the procurement team and the rest of the organization is evolving. With the help of a good e-procurement system, those in procurement will not only connect the rest of the organization to the world of procurement and supply chains but will become integral partners in planning along the entire product lifecycle.

If you're wondering whether you have the best structure in place to support your procurement needs today and in the future, get in touch with us at **206-855-8430** or email sales@ebidsystems.com to learn how innovative solutions can streamline your procurement process and maximize your organization's potential.