

Structuring the Purchasing Function

Many organisations aren't capitalising on the benefits of supplier relationship management. Helen Gilbert examines what can be gained and asks why some buyers are missing out.

There is an on-going debate as to the most effective and efficient way to structure the purchasing function within an organisation. Many approaches have been developed over the years and for many organisations the structuring process is a cyclical one. The following articles were written in 2003 and featured in Supply Management Magazine.

The first article was written by Peter Smith, a former CIPS president and argues that in some circumstances there are real benefits to having a centralised structure whereas the second article has been written by Dr Dick Russill, founder of the Clan and argues that any return to centralisation will undermine the future of strategic procurement.

Have a read and make up your own mind as to whether the comments made are still relevant today.

Return to centre

As a model for organising procurement, the centre-led action network (Clan) has become an article of faith. But, argues Peter Smith, some of its followers now appear to be returning to a more centralised approach

Organising the procurement function sounds like a fairly straightforward task. "Andrea, you can buy factory materials; Javid, you can handle IT procurement; Paul, you can sort out the strategy. That should work."

But then, in large organisations, the doubts and issues start. The production manager thinks Andrea should work for him and be part of the production planning team, IT has declared independence and won't even talk to Javid, and Paul's strategy is looking a bit pointless if no one takes any notice of it.

The internal dimension of procurement and the supply chain - issues such as organising and marketing the function - continues to receive less attention than external activities such as market strategies, negotiation and supply chains. However, as

I talk to procurement professionals as part of my day job and as CIPS president, I find there is considerable interest in how procurement operates and succeeds within the jungle of politics, intrigue and competing priorities that is most large organisations.

As I talk to senior people in these organisations, my observation over the past year or so indicates that something fundamental is happening in terms of how procurement is organised and positioned in many large public and private-sector procurement functions. It is not happening everywhere, and it won't be right for everyone, but it is challenging what has become an almost standard article of "good practice" faith in the profession.

This article of faith- the centre-led action network (Clan) - is an excellent concept, invented and described by Dr Richard Russill and Paul Steele of PMMS. Clan 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.

Dun & Bradstreet operated such a model across Europe. I was the one-man band at the centre of its network with procurement people (both professionals and part-timers with other responsibilities) working in and reporting to around 12 separate businesses in 20 European countries. My role was to encourage good practice, get people working together where there were synergies, and do the occasional "group deal" myself.

Clan had, and has, strong benefits and it has been

successfully implemented in many places. It is still the best structure for many organisations, particularly if they are complex, diverse and geographically spread.

New model purchasing

However, over the past year or two, I have seen a number of organisations moving away from Clan to something more centralised. These organisations include one of the UK's largest financial services companies, a "top three" government department, a major fast-moving consumer goods manufacturer and marketing company, and a big utilities company.

Maybe it is just coincidence, or the eternal swing between centralised and decentralised structures that keeps strategy consultants gainfully employed. But there is evidence that it may be a more fundamental and long-term shift.

In homage to Clan, I call this emerging model Scan - "strategically controlled action network". Its key difference from Clan is a small one, but it has 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, processes 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) are responsible for those goods and services that have a high degree of commonality across the organisation. These staff have clear and unambiguous commodity responsibility across the organisation.

Indeed, it may be that the growth in Scan structures has been driven partly by the growth in category managers (or similar titles) as a procurement concept.

These people do not act as lead buyers, trying to get buy-in from their procurement colleagues across different business units before they can act corporately. Rather, they have clear responsibility and accountability for procurement of their goods or services. They rarely hold budgets and still have to get stakeholder buy-in from budget holders and technical experts.

But they are not spending time persuading three, six or 26 procurement colleagues in different units that a single stationery contract, packaging specification review or consultancy framework is worth doing. This can happen with Clan before stakeholders can even be approached.

Business purchasing teams work closely with the business. They have 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; and to handle the procurement needs that are specific to "their" business.

However, Clan and Scan both have advantages and drawbacks. As Russill points out, Clan is not suitable for every situation. But for many organisations, the benefits probably outweigh the drawbacks, and the alternatives - local purchasing or centralisation - are not that attractive.

In Clan, procurement is identified closely with the local business and can react quickly to business needs. It is politically acceptable to heads of these local business units, yet it can obtain benefits of leverage by having different parts of the network co-operate.

On the other hand, there is a potential loss of leverage and Clan needs constant energy from the centre to drive co-operative activity. It can also be difficult to get a standard approach across the network to issues such as staff

development.

I have run the function in a couple of Clan environments. It has many advantages, but it can be frustrating. You can waste so much time and energy in trying to get even the procurement people in the network to work together, which you have to do before you can tackle getting the other key stakeholders to do so.

Some organisations also took the concept of the small centre to extremes; two people to manage a Clan network with a multi-billion pound annual spend can't really achieve that much. For example, one organisation had a "best-practice" self-assessment with about 40 key criteria of procurement excellence. Each unit within procurement assessed itself annually.

But the centre had no resources to validate, audit, or even drive an exchange of ideas from the assessment. I spoke to some of the procurement units confidentially. "We just tell the centre what we think it wants to hear," they said. "We claim a small improvement over last year and that keeps it out of our hair for another 12 months!"

So there have always been issues with Clan, some of which might be getting more relevant, but it was still better than the alternatives in most cases.

Unresponsive image

However, there are drawbacks with Scan as well. Centralised models for procurement could be seen as unresponsive to the business (assuming you could even get the organisation to agree to handing over procurement to the centre), inefficient, slow and bureaucratic. They were controlling instead of empowering.

And all of this is potentially true. I am certainly not arguing for an old-fashioned central procurement department, processing requisitions (as slowly as possible) and carrying out

a role that "mostly involves preventing people from getting stuff they need to do their jobs" (the immortal words of Scott Adams in *The Dilbert Future*). But while some problems still exist with more centralised approaches, it may be that recent developments - technological and conceptual - have at least partially overcome them.

For example, as centralised functions are bureaucratic, they used to need lots of paper, forms, sign-offs and so on to operate. This was partly because of the difficulty of controlling a large, possibly physically dispersed organisation. There is no doubt that technology has helped to make this much more manageable. Now I can have a direct report in Manchester or Montreal and speak to them daily on my mobile, send e-mails with my BlackBerry, video conference, or share information on the internet or intranet. I don't need a lot of paper or intermediaries to manage it.

Also, central functions have a tendency to get swamped by data and either give up even trying to do anything with it or grow in order to manage it all. Similarly, the data management challenges of a more central function have been greatly eased by technology. To name a few recent developments, such systems as enterprise resource planning, e-procurement and enterprise spend management are not perfect, but they make it much easier for "the centre" to have a reasonable and manageable view of all the procurement activity across the organisation.

In the past, the business focus was lost with centralisation. Perhaps this is no longer true - there is a much stronger understanding in the procurement profession of stakeholder management, how to work in multi-functional teams and the key behavioural skills that our professionals need. We can report to procurement without losing business focus, and keeping procurement physically within the business helps enormously.

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Another potential barrier is to think the organisation will never accept such approaches. Well, my observation is that many are accepting them. This could be cyclical. Organisations need the benefits that procurement can bring now, when times are hard, and will give up some power or autonomy to ensure their spend is properly managed.

My experience is that the more decentralised the function, the greater the risk is of amateur buyers spending large amounts of money without procurement input. And, perhaps at the risk of flattering ourselves, businesses have realised that procurement does deliver, can do this better when it has some real authority and power, and in a professional yet business-focused and driven way. It would be nice to think so, anyway!

So, where the Scan structure is appropriate to the culture and requirements of the organisation, it can enable rapid response to events or delivery of benefits. The procurement team can be engaged directly and quickly through management lines. Clearly, stakeholders still need to be involved, and the business procurement people need to stay close to their business clients, but a greater singleness of purpose from the procurement function helps to apply leverage across the organisation.

People matters

Scan also helps to achieve a consistent and positive approach to people issues, such as training, development and career or succession planning. The functional head can drive this without worrying about appraisal processes in different businesses or how to persuade a business to release a star procurement manager who needs an internal move to develop their longer-term career.

I saw the staff benefits at NatWest, when some procurement staff from the smaller business units initially regarded our partial "centralisation" with caution. But in general, they quickly realised

that being part of a procurement community of 80 gave them more opportunities for progression, variety and development than being in a team of four or five.

Such a move also allows the development of real expertise in category areas, which is an increasingly important point given the continuing shortage of top-quality procurement people in some sectors.

The "new" Scan model, which has picked up elements of Clan while using technology and our professional learning of the past few years to avoid the pitfalls of centralisation is, for some at least, stronger in terms of control and benefits delivery, while remaining business-focused and acceptable to key stakeholders.

But Scan will not be suitable for every organisation. It probably depends on a couple of key factors, such as how much similarity of spend there is in the organisation and how much commonality of purpose, culture and geography there is.

These are distinct issues. The D&B Group when I worked there included Nielsen, DataStream, Thomson Directories, Gartner and others. They had similar commodity spend profiles but different cultures and geographies. I don't think Scan would have worked, but Clan did. On the other hand, the divisions of a large financial services company are probably similar enough on both dimensions to justify the Scan approach.

It does come down, as it often does, to appropriateness, as Professor Andrew Cox and Jon Hughes would rightly argue. What works for one organisation might not work for another.

But you should consider the options. How the function is organised and structured has a huge impact on long-term successful delivery of value to the organisation, so it is worth spending some time and thinking to get it right.

*Taken from a Supply Management archived article written by Peter Smith, former CIPS president
Cover Story 10th April 2003*

The clan strikes back

Dick Russill, founder of the centre-led action network concept, argues that any return to centralisation is likely to undermine the future of strategic procurement

Oh dear, we're centralising procurement again are we? Is the pioneer spacecraft Clan really being ordered to return to the corporate mother ship? Will Luke Skywalker be tied once more to his desk merely placing orders?

The spaceship-illustrated and stimulating feature on the centre-led action networks (Clan) by Peter Smith hinted at recentralising procurement with, ultimately, a central function managing the big deals where commonality and standardisation make it appropriate. He called these structures, in homage to Clan, strategically controlled action networks or Scans. This exploration of life after Clan begs the bigger question "Is there life after Clan?"

But wait: next comes Richard Parsons, arguing in favour of the decentralised approach, specifically of the Clan variety. And other companies are now lifting off for Clan orbit, not leaving it.

So who's right? My original piece on Clan in January 1991 promoted the benefits of the network approach as the means of stopping the pendulum swinging between centralisation and decentralisation. But Clan also has a more profound impact - to sustain at board level a high visibility for procurement's role in business success both now and in future.

However, some hitherto successful Clans are reverting to centralised procurement. This sometimes coincides with a change of leadership, often to someone who worryingly sees procurement only in terms of minimising cost rather than as the means of influencing those external resources on which the business depends. What we also see with recentralisation is a return to traditional procurement "react" mode. We get a functional few handling the consequences of business

decisions made by others.

This is one reason why my answer to "is there life for strategic procurement after Clan?" is "probably not". Sadly this can also manifest itself at the personal level. One senior procurement executive in an international company, having saved millions of dollars in costs through intelligent procurement, has just lost his job in the name of cost reduction. He is not alone. Companies where this happens seem to believe that supply costs are an undesirable consequence of being in business, rather than enabling them to be in business in the first place.

So what do leading companies want from their procurement process, and how do they organise to do it?

One increasingly used statement of procurement's purpose goes like this: "to ensure access to, and responses from, a high-value, cost-effective supply community that enables our business to succeed, now and in future." This requires procurement considerations to be on the agenda of everyone rather than just the functional few.

Organisational choices then follow, recognising that structure is the servant of purpose. Often the company is a galaxy of autonomous businesses held together by the gravitational pull of head office. This federal model is found in public and private sectors and may be local or global. However, left to its own devices, the natural state of a federal company would be extensive decentralisation of all activity, perhaps verging on chaos.

So how do you control it, especially to ensure the value of the whole is greater than the sum of its parts? The choice is between centralisation of task or energised, guided networking. This depends on a number of factors and Peter Smith rightly observes that Clans are not always the answer.

Likewise, neither are central functions.

The chart opposite shows how to make the choice. Make an assessment against each of the criteria (only a selection are shown). The side on which most of your conclusions fall shows whether the next step is to centralise to get control, or to expand it via Clans.

Centralised functions are primarily justified as a way to overcome organisational problems. They are legitimate next steps en route to Clans but, in total quality terms, still have inherent defects as they deal with the symptoms rather than the causes of organisational unruliness.

Many centralised approaches do allow a measure of procurement action to take place out in the businesses, but this delegated procurement model is not Clan. In both cases, a lead buyer or category manager may be appointed to develop a strategy on behalf of others also having an interest in it.

A Clan differs fundamentally from conventional lead-buyer approaches by also having at its centre, and at a high level in the company, a senior executive accountable for providing leadership and focus for the networking process. As a principle, they do not engage in the procurement task because the job is about sustaining procurement's visibility and performance.

Having said this, the Clan leader may engage in direct procurement activity, but only when authority to do so has been delegated from the business back to the centre. Charles Handy's excellent book *The Empty Raincoat* offers a characteristically lucid explanation of this reverse delegation, or "subsidiarity". This is entirely appropriate for federal organisational structures and is in marked contrast to the traditional centralised procurement approach where authority is taken by the centre, rather than delegated back to it.

Any company that believes in procurement's key role will certainly be adopting the tools and techniques of better

practice to ensure that any deal done today is the best possible. But what the chart shows is that the choice between a central function or a Clan does not depend on the nature of the deal (as suggested in "Return to centre"), but on the fundamentals of the company climate at the time.

Ignoring this perpetuates the idea that big-ticket purchases can only be handled by a central function, albeit avoiding the pitfalls of old-fashioned procurement departments. But if task is the *raison d'être* of the central team then it is easy to see what it is there for. What is more painful is to understand why a central "presence" is there - not to push on prices, but to drive process and performance. It's the pain of learning "why" that makes the rediscovery of procurement's fundamental role all the more effective.

That some recentralising is happening is not perhaps a move towards better practice, but more a sign that we have still not done enough to persuade chief executives to see procurement as anything other than the means of relieving the business of its external cost burdens. Centralising the bucks, and getting a bigger bang for them, certainly catches the eye - but only for a while.

A well-researched business survey recently predicted that "by 2008, at least half of all Global 2000 firms will have a chief procurement officer reporting directly to the chief executive". My bet is that most of these people will be Clan leaders, not centralised task functionaries. Not least because five years will see the recentralising pendulum well on its way back in the opposite direction!

Taken from a Supply Management Magazine archived article by Dr Richard Russill, the originator of the Clan model - Features, 8 May 2003