

Some Generic Models for Structuring the Purchasing and Supply Management Function

There are an infinite number of models for structuring the P&SM function, all of which lie somewhere along a continuum between centralised and decentralised. This paper uses a simple model to help the CPO make the right decision.

One of the key roles for an organisations' CPO is their involvement in organisational design and the structuring of the purchasing and supply management (P&SM) function to support the business objectives. There are an infinite number of models for structuring the P&SM function, all of which lie somewhere along a continuum between centralised and decentralised. The choice of model really depends on a number of interrelated factors including:

- The maturity of the P&SM function within the organisation
- The size of the organisation
- The number of P&SM professionals in the organisation
- The resources allocated to the P&SM function such as the funding available for staffing, training, travelling etc
- Whether budgets are devolved and the managerial implications of this i.e. where the decision resides
- What countries the organisation functions within ie UK based or several business units scattered across the globe
- The culture of the organisation i.e. autocratic, supportive etc
- The status and perception of P&SM by senior management/ the board
- The nature of the business ie manufacturing, services, utilities
- The sector in which the organisation operates i.e. public, private, retail
- The IT/e-solutions in operation ie integrated finance systems; purchase order processing; e-procurement/ e-sourcing etc.

These factors enable the Chief Purchasing Officer within an organisation to determine the most appropriate model. The single variable which has the most impact on determining the right model is the responsibility that P&SM has within the

organisation. The activities carried out by the P&SM function vary widely from one organisation to another. Different styles and approaches mean that the function may focus on the pre-contract work such as sourcing, tendering and negotiation of contracts or on supply base management such as key supplier relationship management (SRM). The emphasis will probably vary, but either approach may be right for the organisation concerned so where does that leave the role of a central P&SM function. N.B. The CIPS P&SM model (See www.cips.org) has been deliberately generically developed for this reason.

In practice, a vast majority of organisations have some kind of decentralised P&SM structure. It is very rare to find organisations which place all orders and contracts through a centralised department. If this is the case and orders are being placed remotely by buyers and also end-users through framework agreements, procurement cards, e-procurement etc, the question which needs to be asked is how is all this being managed by the central P&SM team? An interesting point to note is that if supply base management is undertaken by end users or business units who are not line managed from the centre then does this mean that P&SM is not centralised even though all the sourcing and contracting is done at the centre

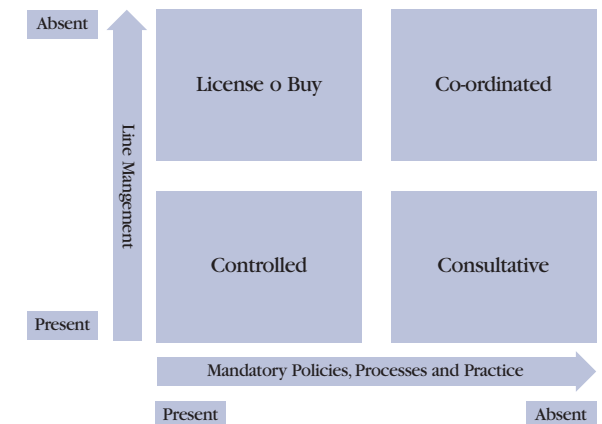
Another somewhat confusing factor is the variance in job titles and the level of authority which is represented by them. How different is a senior buyer from a commodity manager or a Chief Purchasing Officer from a Head of Procurement. This is further confused by the use of different expressions in the title such as Procurement, Purchasing, Category, Supply Chain, Strategic Sourcing etc all used interchangeably. CIPS has offered our definitions for these in our Jargon Buster which is on the CIPS website www.cips.org. There is nothing to say

that in one organisation an assistant buyer may be handling a spend in excess of £10million and in another the Chief Buyer has a spend portfolio of only £750,000. Furthermore, a £100 million spend in a decentralised public sector organisation may be harder to manage than a £1billion spend in a fully centralised private sector manufacturing company.

In order to establish the type of P&SM structure which is likely to be operating in your organisation, there is a need to establish two key variables:

- The extent of line management responsibility
- The existence of mandatory policies, processes and practices

The following diagram simplifies the different models of structure into four models:



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Line management and mandatory policies both present (controlled)

In this model, buyers across the business are line managed by a central P&SM team. These buyers are treated as though they are members of the P&SM team. They are positioned with their immediate customers and stakeholders to support relationship management, allow for the benefits of proximity and ease of delivery.

Line management, but no mandatory policies present (co-ordinated)

Buyers are situated within business units as an extension to the central P&SM team, but they cannot dictate that their customers/ colleagues comply with what they and central P&SM state is good practice. Together they must sell in their skills and methodologies to their customers in a consultative and persuasive manner.

No line management and mandatory policies (licence to buy)

In this model, all those involved in P&SM within the organisation must comply with centrally developed policies and procedures. However, those that actually place the orders and contracts are not part of the central P&SM team and are granted a 'licence to buy' on behalf of the organisation. Typically, this licence will have been gained by demonstrating how they comply with the policies and also proving their competence in P&SM matters.

No line management and no mandatory policies present (co-ordinated)

This is an extreme model which allows for a total freedom of choice. The central P&SM function will have to work especially hard to win the trust of internal customers and other colleagues. The Central P&SM team will be unlikely to be able to insist on anything and instead will have to sell their services and advice as though they are a supplier.

A recent article in the CPO Agenda (Winter 2005 issue), Jon Hughes argues that a more sophisticated approach to the structural design of the P&SM function is now called for. He suggests an analytical assessment of the business and financial contribution from restructuring the P&SM function in line with business processes, categories and suppliers. Jon states "The lower the scope for value and commonality, the greater the case for complete centralisation. Conversely, high value and cross business commonality argues for centre-led aggregation"

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