

**Procurement & Supply Chain**  
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## Chapter 12

### Purchasing Organization

# Learning objectives

- The underlying factors that determine the role, position and organizational structure of purchasing.
- The major tasks, responsibilities and competences of purchasing and how to organise these.
- How to get organized for purchasing in multi-unit companies.
- How to get organized for purchasing in single-unit companies.
- Which criteria to use in deciding on centralized versus decentralized purchasing.
- The most important job profiles in purchasing.

# Purchasing organizational structure

- Strongly depends on business characteristics and situational factors
- Level of centralized or decentralized structure
  - Centralized
  - Centralized hybrid
  - **Hybrid**
  - Decentralized hybrid
  - Decentralized
- Usually a mixed organisational form is chosen

# Supply organizational structure

**Table 12.1 Supply organizational structure by sector for 2011-2003**

Organizational structure	2011		2003	
	No.	%	No.	%
<i>Centralized</i>	58	23.40	72	25.35
<i>Centralized hybrid</i>	102	41.13	116	40.85
<i>Hybrid</i>	23	9.27	28	9.86
<i>Decentralized hybrid</i>	41	16.53	46	16.20
<i>Decentralized</i>	24	9.68	22	7.75
<i>Total</i>	248	100.00	284	100.00

Source: Johnson and Leenders, 2012.

**Table 12.2** CPO reporting lines for 2011–2003

CPO Reporting Line	2011		2003	
	No.	%	No.	%
Senior Vice-President/Group Vice-President	55	22.18	48	16.90
Executive Vice-President	42	16.94	43	15.14
CFO	42	16.94	46	16.20
President/CEO	32	12.90	41	14.44
Other	22	8.87	19	6.69
COO	21	8.47	21	7.39
Vice-President Manufacturing/Operations	16	6.45	19	6.69
Vice-President Corporate/Shared Services	9	3.63	17	5.99
Vice-President Administration	7	2.82	21	7.39
Vice-President Materials/Logistics	1	0.40	5	1.76
Vice-President Engineering	1	0.40	4	1.41
Total	248	100.00	284	100.00

Source: Johnson and Leenders, 2012.

These figures show that over the past decades purchasing has become more visible on the top floor of large corporations.

# TABLE 12.3 Factors influencing purchasing's reporting relationships

	<i>Purchasing reports to</i>			
	<i>General management</i>	<i>Production management</i>	<i>Logistics management</i>	<i>Financial management</i>
<i>Purchasing turnover ratio</i>				
<i>High</i>	X			X
<i>Low</i>		X	X	
<i>Technical complexity</i>				
<i>High</i>		X	X	
<i>Low</i>	X			X
<i>Logistics complexity</i>				
<i>High</i>		X	X	
<i>Low</i>	X			X
<i>Strategic impact</i>				
<i>High</i>	X			X
<i>Low</i>		X	X	

# Tasks, responsibilities and authorities

## Strategic purchasing decisions (long term impact)

- Outsourcing of activities and/or functions
- Establishing long term contracts with preferred suppliers
- Adopting a supplier strategy based on multi- versus single sourcing
- Major investments
- Deciding on financial participation in suppliers (backward integration)
- Formulating policies concerning transfer pricing and intercompany supplies
- Formulating policies on reciprocal arrangements, countertrade, etc.
- Development and issuing operational guidelines, procedures and task descriptions, which provide authority to the purchasing department
- Development and implementation of auditing and review programs

# Tasks, responsibilities and authorities

## ***Tactical purchasing decisions (medium term impact)***

- Agreement on corporate and/or annual supplier agreements
- Preparing and developing value analysis programs
- Adopting and conducting quality certification programs for suppliers
- Selection and contracting of suppliers in general
- Introducing a cross-functional, cross-business category sourcing structure

## ***Operational purchasing decisions (short term impact)***

- Ordering process
- Expediting activities related to released orders
- Invoice verification and payment
- Troubleshooting
- Monitoring and evaluation of supplier performance

## Table 12.4 Relationship between the three managerial levels of purchasing and some management positions

Task	Managerial level				
	Top management	Logistics management	Purchasing management	Senior buyer	Buying assistant/ materials planner
<i>Strategic level</i>	X	X	X		
<i>Tactical level</i>		X	X	X	
<i>Operations level</i>				X	X

# Organizational structures within purchasing

- Structures for multi-unit companies
  - **Decentralised** purchasing: BU purchasing is responsible for all purchasing decisions.
  - **Centralized** purchasing: central purchasing department is responsible for all strategic and tactical purchasing decisions.
  - Line/staff organisation: both corporate purchasing and BU purchasing exist next to each other and divide responsibilities and activities.
  - **Hybrid structure**: combination of the previous three structures aimed at combining common requirements across operating units. There are different forms of pooling: Voluntary coordination, Lead buyership and Lead design concept.
  - **Cross-functional sourcing teams**: contracting is done centrally by a commodity team. However, all operational purchasing activities are decentralized.

# Organizational structures within purchasing

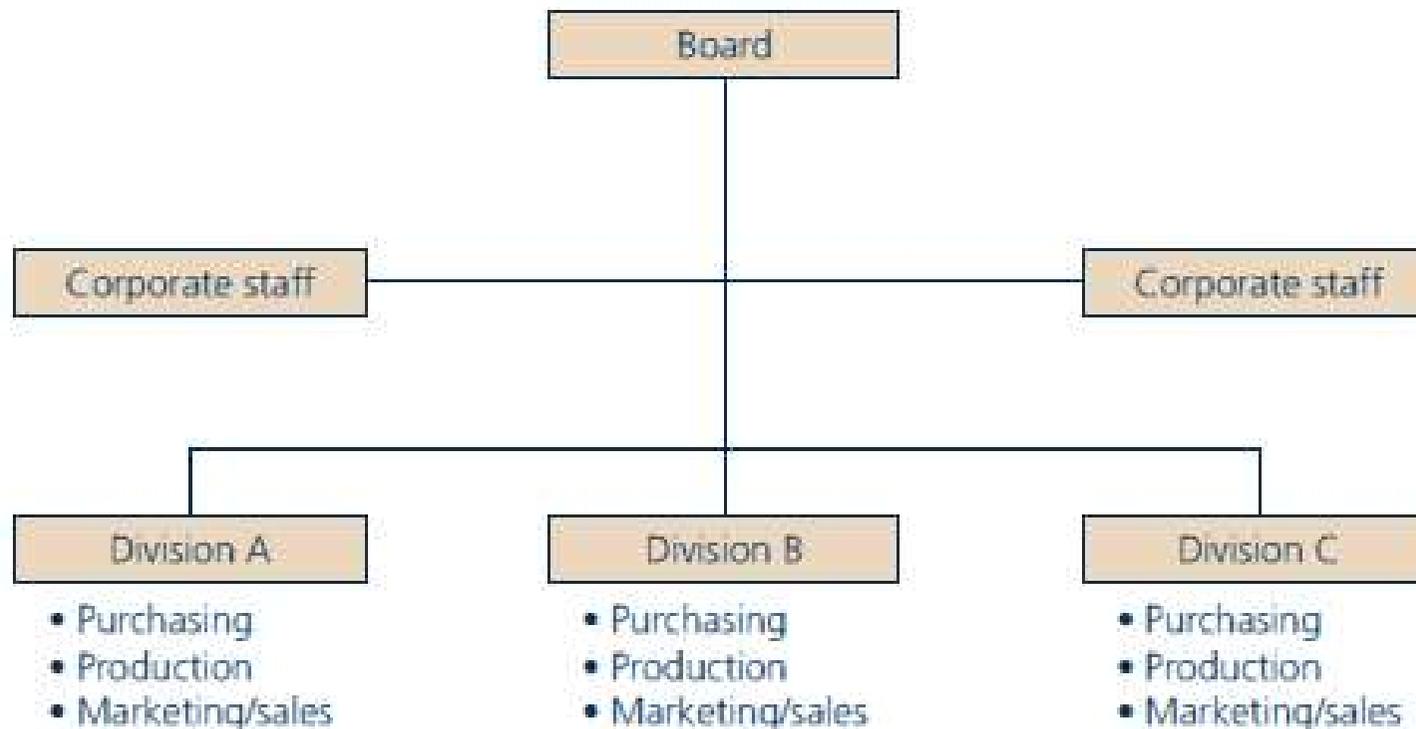
Centralised versus decentralised purchasing: criteria to consider:

- Commonality of purchasing requirements
- Geographic location
- Supply market structure
- Savings potential
- Expertise required
- Price fluctuations
- Customer demands

In practice these considerations appear to be decisive when deciding on buying products centrally or otherwise.

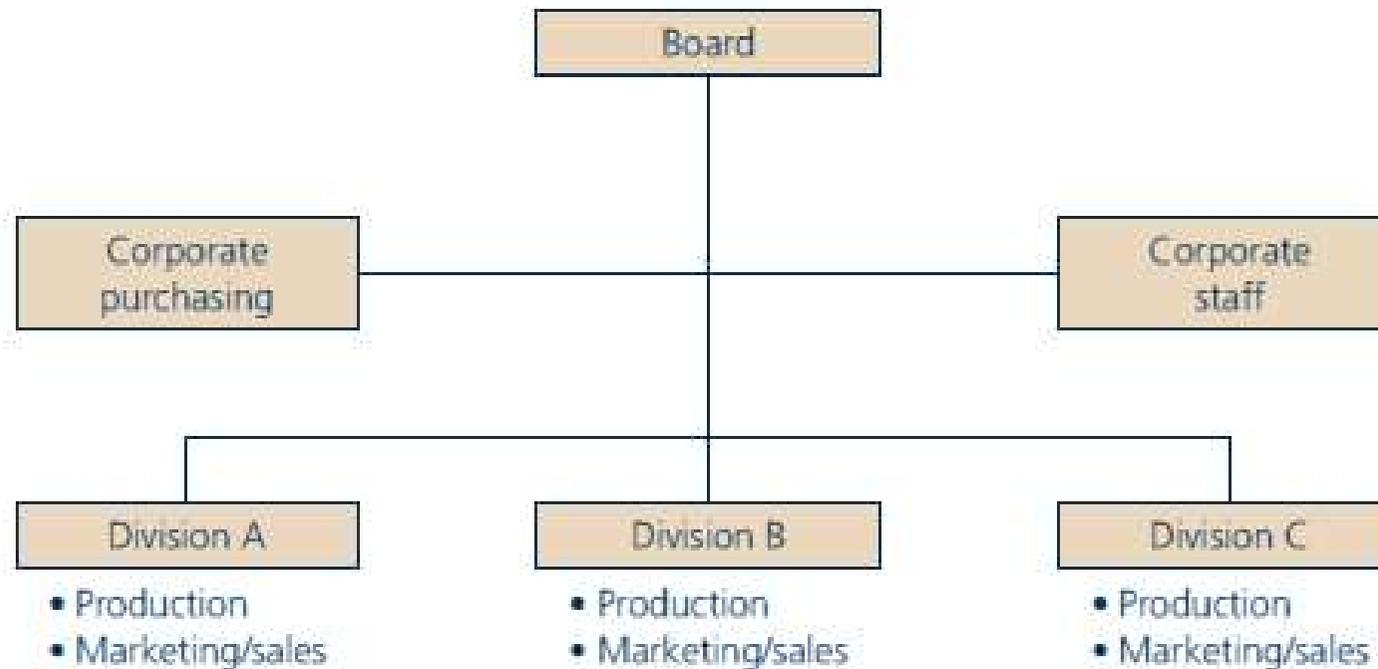
# Organizational structures within purchasing

FIGURE 12.1 Decentralized purchasing organization structure (example)

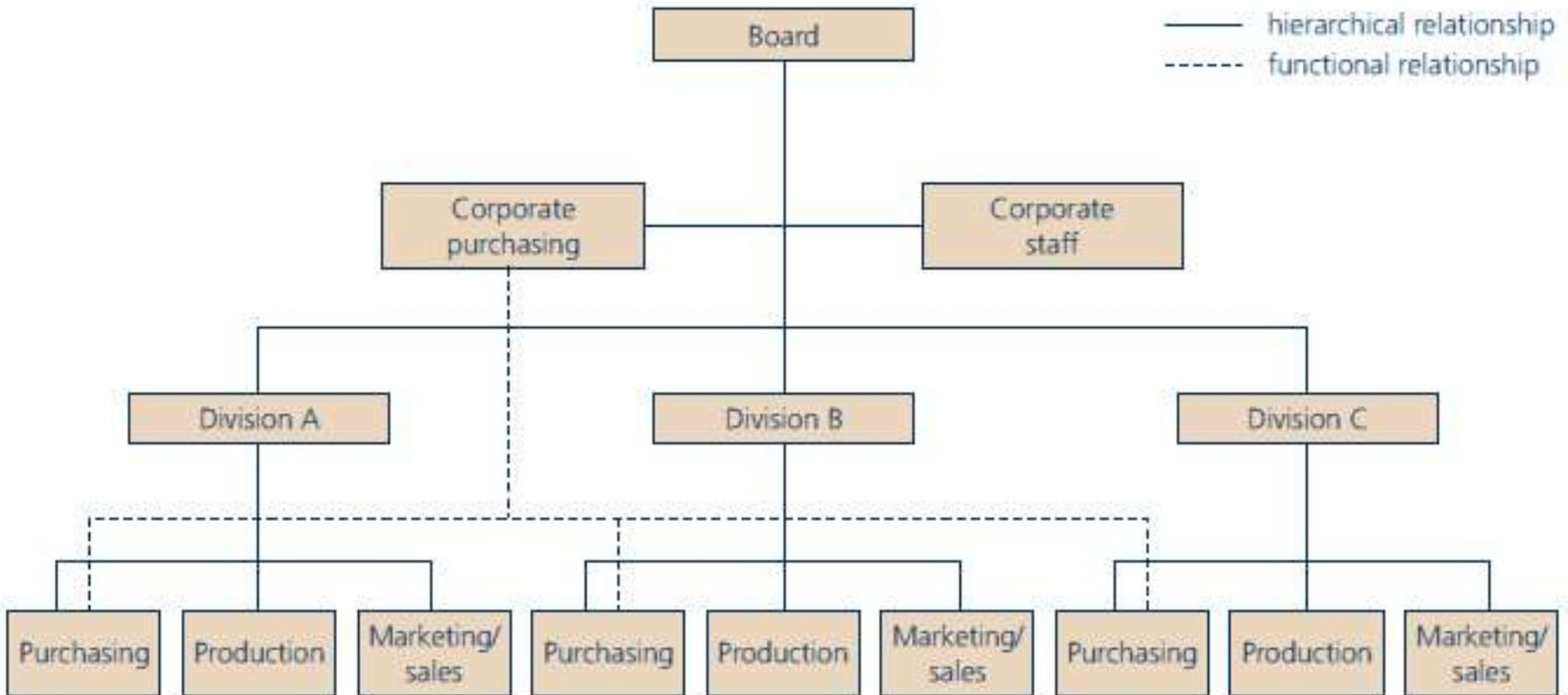


# Organizational structures within purchasing

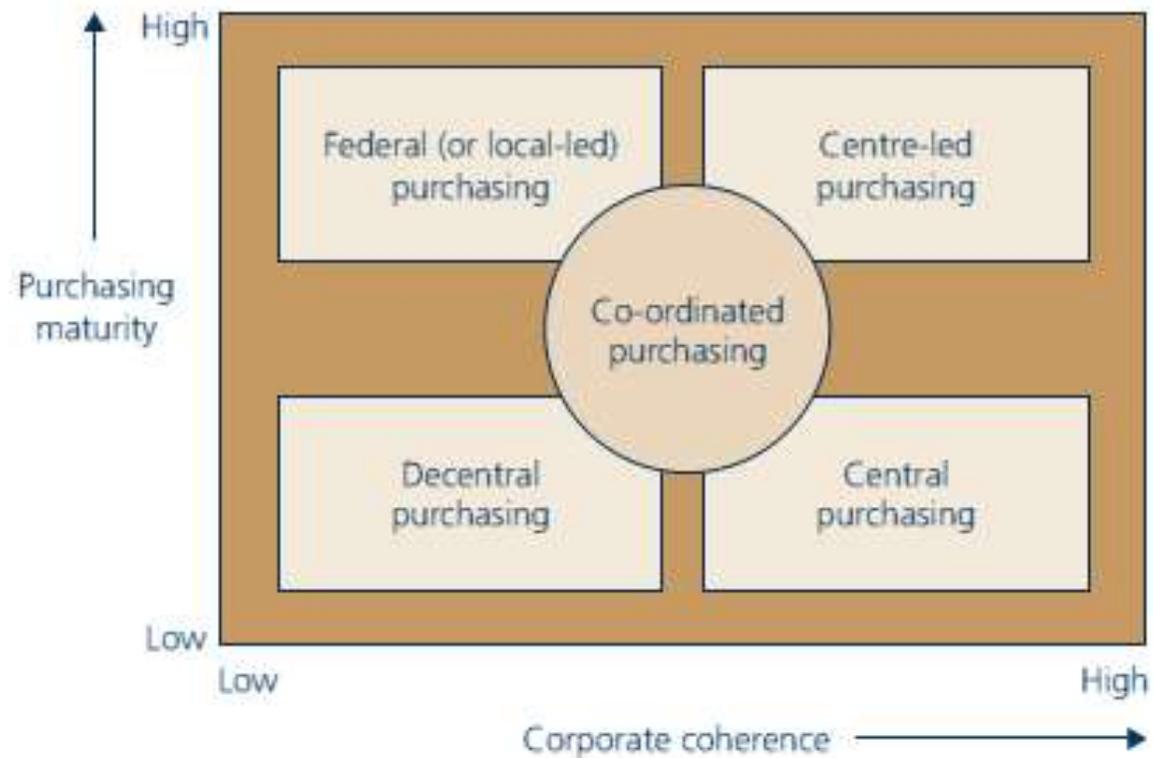
FIGURE 12.2 Centralized purchasing organizational structure (example)



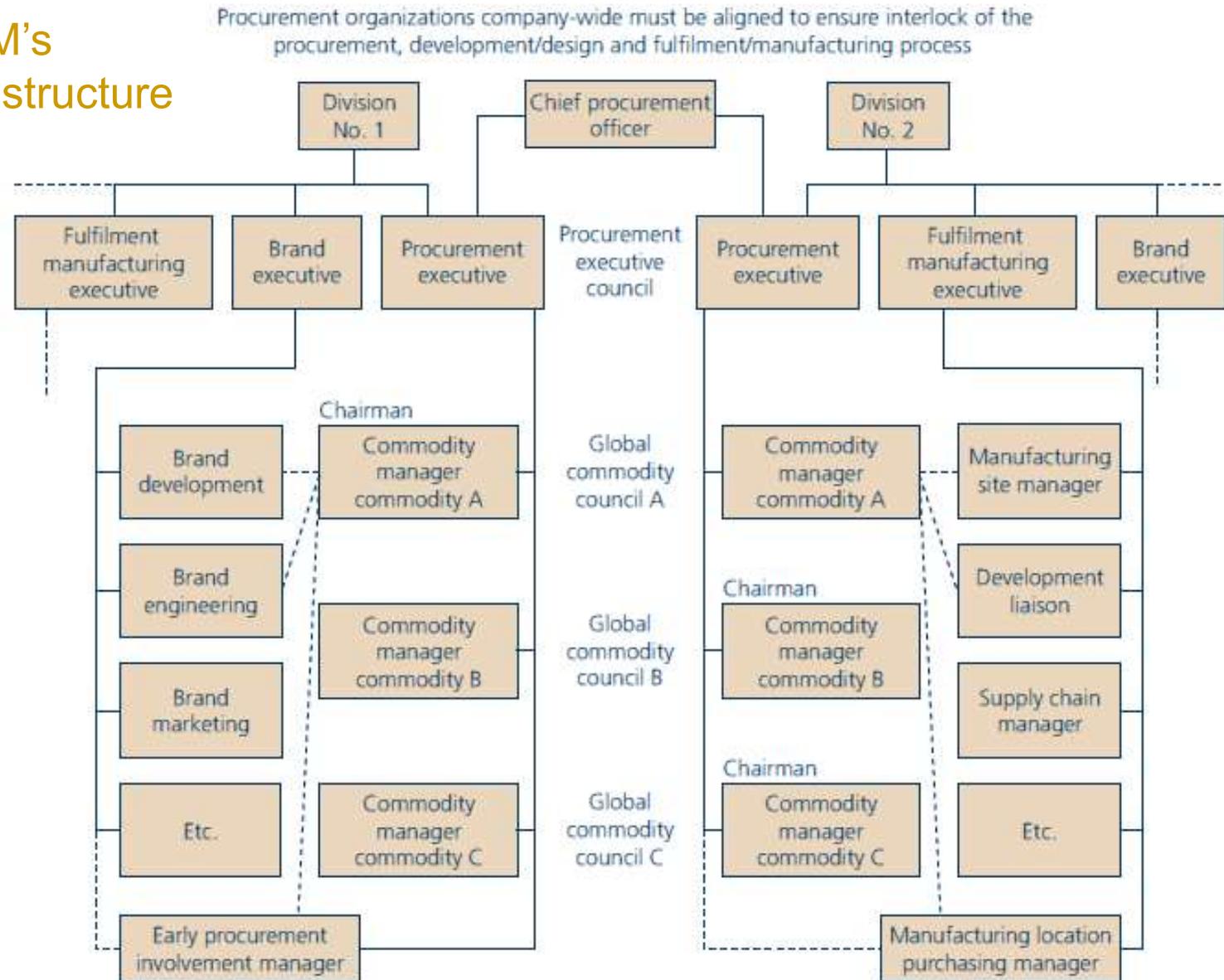
**FIGURE 12.3** Centralized/decentralized purchasing organizational structure (example)



**FIGURE 12.4** Creating corporate advantage through purchasing: five organizational models



**FIGURE 12.5 IBM's commodity team structure**



Source: van Weele and Rozemeijer, (1996, p. 142) 272 SECTION 2 STRATEGY AND PLANNING

# Organizational structures within purchasing

## Advantages and disadvantages of decentralised purchasing

### *Advantages*

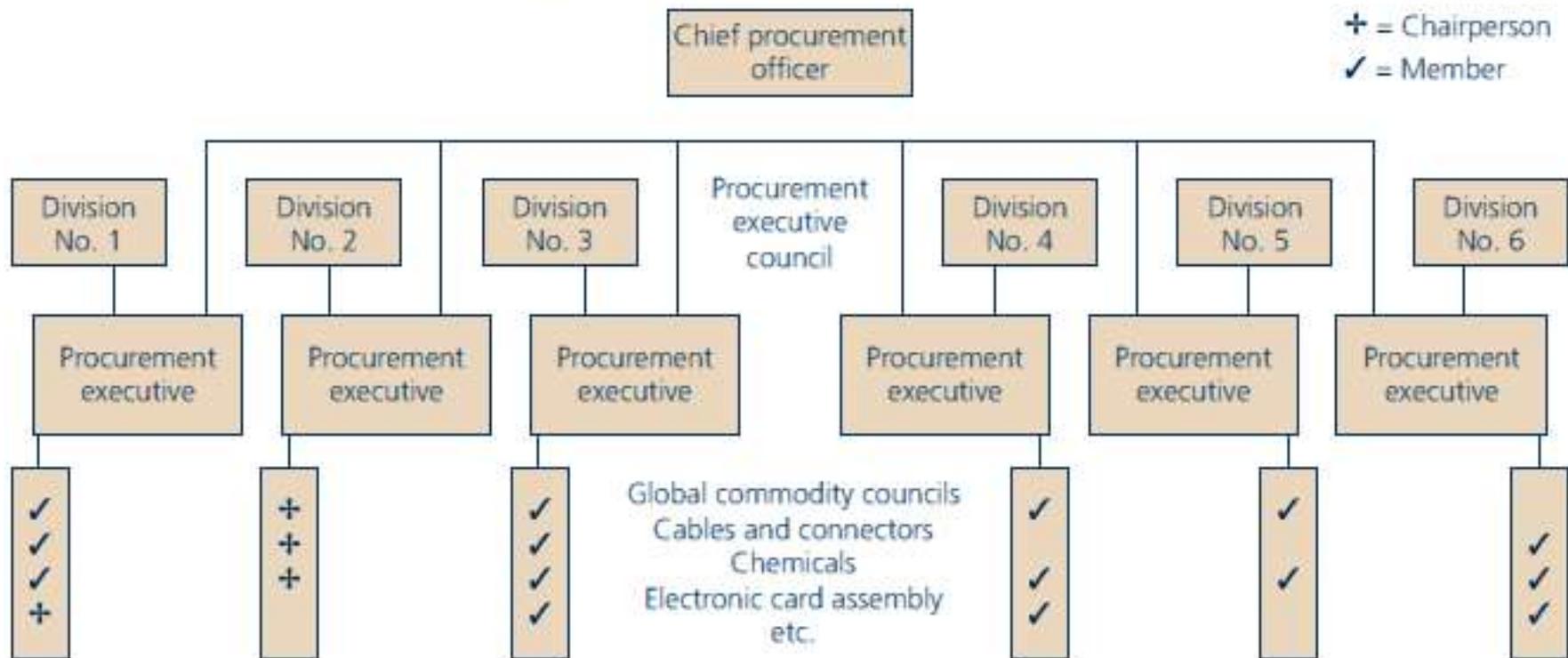
- Direct responsibility of operating companies
- Stronger customer orientation towards internal user
- Less bureaucratic purchasing procedures/higher operational flexibility
- Less friction costs due to coordination
- Direct communication with suppliers

### *Disadvantages*

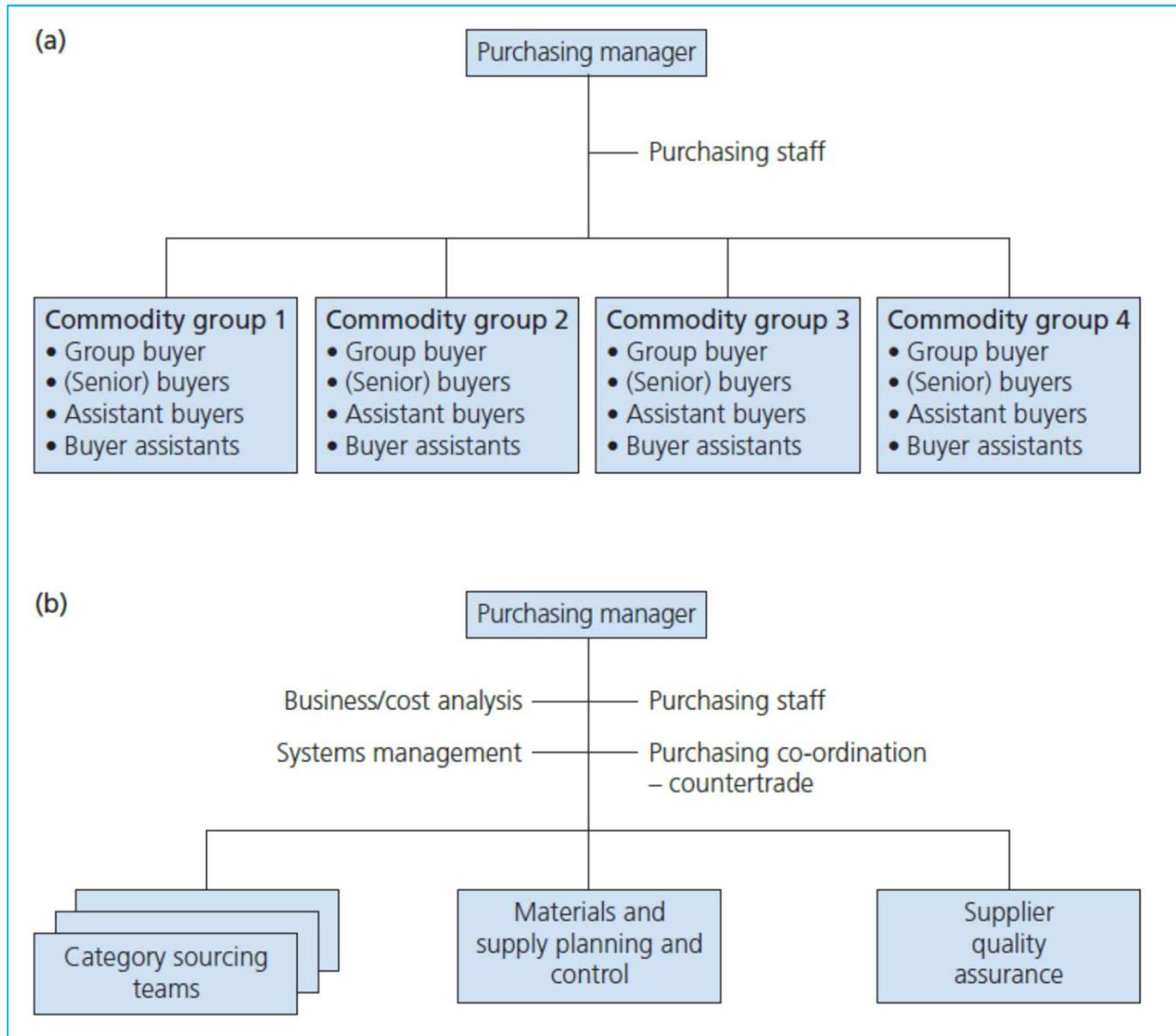
- Dispersed purchasing power, lack of economies of scale
- No uniform way of handling towards suppliers
- Scattered supply market research
- Limited possibilities for building up specific expertise on purchasing, supply markets and components
- Different commercial purchasing conditions among different operating companies

## FIGURE 12.5 IBM's commodity team structure

Enterprise-wide processes are interlocked at the procurement executive level for business strategy and 'virtual centralization' of commodity management



Source: van Weele and Rozemeijer, (1996, p. 142) 272 SECTION 2 STRATEGY AND PLANNING



**Figure 12.7**  
**External and internal changes may lead to significant changes in purchasing's organizational structure in business unit: (a) traditional structure; (b) revised structure**

Function	Responsibilities	Skills required
<i>Chief Procurement Officer</i>	Developing corporate sourcing strategies, systems and reporting	General management skills Leadership skills Communication skills
<i>Corporate buyer</i>	Strategic commodities	Commercial skills Long-term planning horizon Broad business orientation Communication skills
<i>Category sourcing manager</i>	Strategic commodities	All-round technical education Long-term planning horizon Business skills Communication skills
<i>Project buyer</i>	Investment goods and maintenance goods and services	Project management skills Technical education
<i>NPR buyer</i>	General goods and services	Generalist Business administration Communication skills
<i>Operational buyer/materials planner</i>	Materials planning Order handling Troubleshooting Supplier evaluation and supplier rating	All-round Pragmatic Customer-driven Stress resistant
<i>Business analyst</i>	Conducting supply market analysis, cost price analysis, spend analysis	Business orientation Analytical skills Reporting skills
<i>Contract manager</i>	Advice on contract models and contracts Support contract negotiations Monitor implementation of contractual arrangements Solve supplier disputes	Business orientation Commercial skills Communication skills Analytical skills Reporting skills
<i>Legal counsel</i>	Advise on contract models and contracts Support contract negotiations Solve supplier disputes	Legal orientation Analytical skills Reporting skills

Table 12.6  
Buyer profiles  
and their most  
important  
responsibilities  
and skills

# Memo 12.3 What buyers really do

Survey of 175 procurement professionals from all levels carried out in 2010 found that they were:

- Likely to be highly educated (62% to degree level and more than 50% to masters/higher).
- Likely to be new entrants (40% in procurement for 5 years or less, one third for 15 years or more).
- Unlikely to change suppliers but more likely to challenge specifications by non-procurement specialists.
- Likely to manage a high number of supplier relationships
- Likely to face serious challenges carrying out their role effectively
- Likely to achieve savings targets
- Likely to be trained in core skills
- Unlikely to use online sourcing technology (52% rarely or never, 44% hadn't in the last 12 months).

# Summary

- Purchasing organizational structures appear to vary greatly between companies, due to the different views which top managers hold towards purchasing and supply.
- Purchasing structures appear to be highly volatile: a period of centralized purchasing is often followed by a change to the other way around.
- Due to increasing international competition and the maturing of many end-user markets, the present trend is towards co-ordination and hybrid structures.
- Many companies try to reap the benefits of co-ordinated sourcing of common materials requirements, while delegating operational purchasing tasks to local business units.
- When designing purchasing structures in a single-unit environment, a number of parameters need to be considered. Managers may choose a totally integrated supply chain organizational model or decide on a partially integrated model.
- Changes in the business context and corporate structures are reflected in future profiles of purchasing positions. It is clear that the purchasing and supply arena provides significant challenges to those with an engineering and MBA background.