

Centralized vs Decentralized Purchasing



What's the better process, a centralized approach or a decentralized approach to corporate procurement? Structuring the company purchasing model is an issue many businesses struggle with, and poorly structured purchasing systems are one of the primary reasons companies have trouble controlling their costs.

The Purchasing Dilemma

Large companies may have dozens of departments, each with its own purchasing protocols. Decentralization may be an expedient choice with clear advantages in some cases, but is it the best cost management choice for a large business?

In cases where local sourcing is key, this level of autonomy may be preferable. However, decentralized procurement for large organizations can be inefficient

and risky. In order to control budget and provide the resources the company requires to operate, centralization is often the answer.

Comparing Centralized and Decentralized Purchasing

Establishing purchasing protocols for a growing business is an important decision. Before you decide whether to implement centralized or decentralized procurement, let's take a deep dive into the pros and cons of each model.

Pros and Cons of Centralized Purchasing

With a centralized procurement system, all purchasing goes through one central department. Department managers submit requests for approval, and the procurement staff retains control of the budget.

Pros:

Centralized purchasing has a lot to recommend it. With a company-wide financial picture, a comprehensive spend analysis is always at your fingertips. Your data is clean, up-to-date, and available. You know how much money is being spent, where the supplies are going, and who is ordering.

When all purchases require approval, maverick spending is eliminated, or at least minimized.

Using centralized data has the advantage of allowing budget experts to compare suppliers and make advantageous deals based on volume, even across multiple locations.

Purchases are made by specialists armed with comprehensive information about

suppliers, their history, and their competitors. They have the knowledge and skills to negotiate better deals.

With the information stored in a centralized database, procurement managers are better able to improve supplier risk management, ensure supplier diversity and comply with corporate social responsibility initiatives.

Today's e-procurement systems offer tremendous advantage over the manual paperwork of yesteryear. The request process is at least partially automated, and repeat orders can be fully automated, either with an inventory management system or on a time schedule.

Cons:

Corporate procurement adds a layer of bureaucracy to every transaction, and removes decision autonomy from local managers, which can result in job dissatisfaction.

Supply chain issues, such as lagging processing and delivery times may occur when a purchasing department makes strategic buying decisions over local suppliers, or when an emergency situation arises for which a department needs immediate supplies.

Pros and Cons of Decentralized Purchasing

With decentralized systems, each office, division, or project manager has purchasing power to order supplies at their own discretion without seeking approval.

Pros:

Supplies are purchased by each department on demand to meet immediate and long-term needs. Local managers are in the best position to understand the needs of their divisions.

Order processing is fast and easy, with no wait for approval. If a need arises, it can be sourced and filled immediately. Replacements for defective or damaged shipments can be initiated immediately, without routing through the company procurement process.

Cons:

Opportunities for bulk purchasing across departments, and for negotiating better terms based on bulk are lost.

Orders are typically made by administrative staff, and not purchasing experts who have the knowledge and skill to evaluate suppliers, consolidate orders, and negotiate better deals.

A decentralized system often means disorganized data. Compliance issues may arise as managers order or reorder for the greatest expediency as opposed to strict protocol adherence.

Performing a spend analysis is far more difficult with a decentralized system. Data in different systems is rarely standardized.

There is no single answer. Companies need a comprehensive understanding of their supply chain to meet the specific needs of their business at every level.

Switching to Centralized Purchasing

It's rare that a company contemplates switching from centralized to decentralized purchasing. The decision usually centers around consolidation. Despite the level

of budget control afforded by a centralized structure, the advantages and disadvantages are not always clear. Department managers are often understandably reluctant to relinquish budget control. Centralized organizations require buy-in from stakeholders. To gain their support, focus on the primary objectives of the company, providing the best value to the customer while maximizing profits; the formula for a healthy, growing company.

To make a successful switch to a centralized structure, first make sure the procurement department is well funded, staffed by top-notch talent, and has the processes in place to deliver the goods in a seamless and efficient manner. With a solid center-led procurement model in place, present the idea to stakeholders as a benefit, one that will allow them to concentrate on the important aspects of their departments without the added responsibility of price negotiations and supply-chain oversight.

The Hybrid Approach

Centralized or decentralized purchasing are not the only options. Depending on the nature of the company, a hybrid approach, where some purchases are centralized and others are locally sourced. The hybrid approach allows businesses like grocery or restaurant chains to take advantage of locally-grown produce and fresh fish while still leveraging company wide purchasing power for staples such as flour and sugar.

It may prove cheaper and more efficient for electronics companies with global manufacturing to locally source components in China or Japan while purchasing cases from a central source.

There is no single answer. Companies need a comprehensive understanding of their supply chain economics and logistics, suppliers, and department needs before they can craft the optimal purchasing strategy designed to meet the

specific needs of their business at every level.

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