Spend Matters™ UK/Europe

Centralise or devolve procurement?
Why not both?

How technology is enabling new operating models

Supported by **comensura**

Executive Summary

Peter Smith
Managing Director
Spend Matters UK/Europe

In this briefing paper, we will look at some fundamental issues for procurement organisations to consider. The first relates to how the procurement function is structured; in particular, the balance between centralised and de-centralised organisational models. The second and related issue is whether the procurement function devolves power, or tries to hold it within the function.

We will look at models for organisational structures, particularly the Centre Led Action Network (CLAN) and Strategically Controlled Action Network (SCAN) ideas, and discuss the pros and cons. Whilst it is attractive to think that procurement can operate in a centralised manner to maximise power, in large organisations this has proved difficult, yet devolving can mean a loss of control and ultimately value for the organisation.

Many organisations have swung between centralised and devolved models of procurement. However, there are two positive signs now. There is greater understanding that approaches must be specific to each organisation's own situation, and that different major spend categories may need different approaches even within the same organisations.

Secondly, technology is now potentially helping procurement to square the circle – to give stakeholders significant authority, whilst retaining the most important aspects of central control. Procurement can, via technology, retain access to the levers that enable the function to deliver value to the organisation. Control over key contractual conditions, access to spend information and data, and visibility of supplier performance can be maintained (or enhanced) from procurement's point of view, whilst much operational activity and an element of decision making authority can be safely devolved.

And in the final section of the briefing paper, we take a brief look at an example of this enabling technology; Comensura's c.net direct platform for management of contingent (temporary) labour expenditure. This is a good example of technology assisting procurement to take what we have termed a 'tight/loose' approach to spend management.

"There is greater understanding that approaches must be specific to each organisation's own situation"

1. Introduction – the great procurement centralisation debate

Ever since the business stone age, a couple of related topics are almost certain to come up whenever two procurement practitioners from larger organisations meet for a drink and a chat. Should their procurement function be centralised or decentralised? And, the related but not identical issue – should procurement seek to maximise and retain power within the function, or devolve it to their internal stakeholders, the users and budget holders?

These issues are connected because the whole reason for centralising procurement is usually in order to concentrate power and authority within the function. On the other hand, more structurally decentralised procurement organisations generally tend also to devolve power, whether that is to procurement staff operating at that devolved level, or to other users and budget holders in their organisation.

It is perhaps easier to see the potential benefits of centralisation than the drawbacks. Centralisation means control – being able to control the suppliers and contracts that the organisation uses. It means procurement can develop capability, and aggregate spend more easily. However, in larger, more complex organisations in particular, it has some problems too. For instance;

- centralised functions (including procurement) can be bureaucratic and perceived as major cost centres by the business, becoming an easy target for cost reduction themselves.

- the more complex the organisation, the more chance there is of central functions simply getting swamped by data and multiple priorities, and losing direction.

- the business focus can be lost with centralisation – *'they just don't understand my needs'* becomes the business user catch-phrase when describing procurement!

And ultimately, if the organisation is run in a reasonably devolved, de-centralised manner, it is simply unlikely to accept a highly controlling, centralised procurement function. So over the years, procurement executives and academics have looked at how strategy and organisational structures could address this dilemma. How can procurement gain some of the undoubted benefits of aggregation and control, without an unfeasibly centralised approach?

Now in the metaphorical stone age – around when I started my procurement career – the discussion was relatively uninformed and not rooted in any great analytical foundations. But over the years, the discussion between professional practitioners has become somewhat more sophisticated and informed. And as we'll see later, the last few years has seen the impact of technology changing the nature of the debate again.

"How can procurement gain some of the undoubted benefits of aggregation and control, without an unfeasibly centralised approach?"

Supported by comensura

2. So how should procurement organise – CLAN and SCAN

Perhaps the first significant attempt to answer the particular dilemmas around the centralisation paradox was made some twenty years ago, by Dr Richard Russill, who came up with the CLAN organisational concept – the Centre Led Action Network.

This was an attempt to define an organisational model and procurement strategy that would cope with the growth of large, devolved business organisations. The idea was to have a small procurement centre, leading a network of organisations (business units, regional factories or offices, etc). Those would have their own procurement staff, full or part time, with reporting lines into their respective business unit. They would also act as a network, with designated buyers taking the lead on certain spend categories across the network.

There was much to admire in the concept, but practical experience highlighted some issues with CLAN. For instance, the idea that staff in devolved business units would put wider interests first as 'lead buyers' for the whole organisation came up against the realities of their daily, local priorities. And the small 'procurement centre', with only the loosest of controls, and often lacking real data or information about what was going on around the network, did not always stand up to the rigours of corporate life.

Indeed, in devolved operations, it often was (and still is) not even procurement professionals who engage with suppliers, but Human Resources, IT or operational line managers who interact regularly with markets. How could a small procurement centre hope to 'lead' these people?

In 2003, I therefore proposed a variation of CLAN – the SCAN, or Strategically Controlled Action Network. The idea here was that the centre needed to exert more direct strategic control, without going as far as a fully centralised procurement structure. So the centre would require more in the way of data and compliance from business units, and would look to lead key categories more directly. Procurement managers around the network would hold a primary reporting line to the centre rather than locally.

However, this requires more resource in the centre, and also assumed that devolved units would allow the centre to hold more direct power.

There is also of course the option of a fully centralised procurement structure. But our experience suggests that this has rarely worked in large organisations. Assuming that a team sitting in London, Geneva or Mumbai could buy and control everything for a large multinational just hasn't proved feasible.

It is also worth noting that procurement as a function can't buck the trend. If an organisation is fundamentally devolved and de-centralised, any central function that tries to exert 100% control stands very, very little chance of succeeding. And even in less dispersed organisations, gaining buy-in from stakeholders to highly controlled and centralised procurement models has proved challenging.
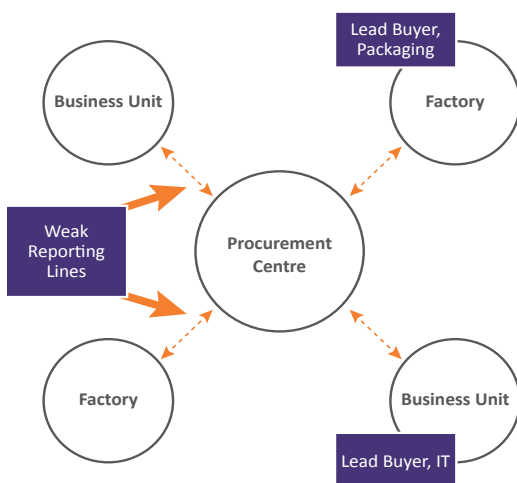

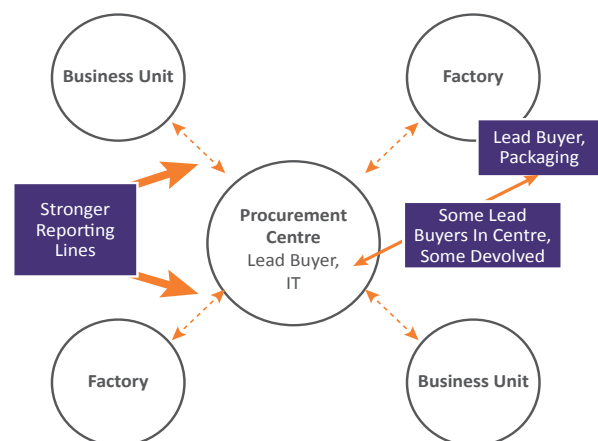*Figure 1: The CLAN model for procurement organisation and strategy*

Figure 2: The SCAN model for procurement organisation and strategy

Supported by comensura

3. Where are we now – and how technology is changing the perspective

So ten years and more on from CLAN and SCAN, where are we now in terms of good practice thinking about organising procurement, and how can procurement exert influence in devolved organisations?

We still see conflict between centralised and de-centralised approaches to procurement, and indeed many organisations swing back and forwards. Central government in the UK is going through a swing towards greater centralisation; but last year a major UK based energy firm devolved power away from a central procurement group and dispensed with their group Chief Procurement Officer, placing power back with business units.

However, there are two signs of hope, in terms of organisations understanding better how to become more effective. The first is the growing realisation that structures and operating models need to be carefully chosen and specific to each organisation - and even for different spend categories. So, for instance, some large organisations control certain areas of spend very tightly, even to the point of global centralisation, whilst devolving decision-making very widely for other categories.

The second development that is changing terms of this debate is the advance of technology, which is giving us the opportunity to change the balance and combine the advantages of centralised and de-centralised models. So this is the crux of the matter, and a key point of this briefing paper - the realisation that 'devolved' does not necessarily mean out of control, and 'decentralised' doesn't necessarily mean unstructured.

The result is that organisations are moving to what we might term a blended or 'tight/loose' approach. There is scope for procurement to retain control of key decisions whilst letting go of other activities. That might mean handling some spend areas in a very centralised, controlled manner, whilst letting others be handled very locally or by non-procurement people.
It means procurement keeping control of key elements of the procurement strategy and process, whilst devolving day to day operations within the category.

We see this as a major and growing trend in terms of procurement strategies in leading organisations. To get to grips with this, we need to consider what really matters to procurement and indeed to the business. For example, procurement may be relaxed about the user's specific choice of supplier – as long as all the potential options are approved, acceptable contracts are in place, and the pricing is fixed or based on an agreed benchmark.

Keeping control of what really matters, whilst letting go where it does not, will increasingly be the procurement strategy of choice in large complex organisations, and technology is allowing procurement executives to achieve this. Technology can ensure that users have the right information about the processes they need to follow. It can relay real-time data about who is engaging with suppliers to the procurement manager. It enables spend analytics to examine further opportunities for driving benefits – or indeed it can highlight where there are compliance issues.

Indifferent markets and industries, solution and services providers are now developing technology and service approaches that enable procurement functions to operate in this more de-centralised manner, whilst retaining influence over key decisions. This trend will only increase; the combination of control where it matters alongside user flexibility and ease of use is a very powerful one.

"'Devolved' does not necessarily mean out of control, and 'decentralised' doesn't necessarily mean unstructured"

A Spend Category example - Contingent Labour

We are seeing procurement leaders thinking hard about which elements of the end to end procurement process they really need to control in order to generate value (see Figure 3 below). Some of those factors will be common to most categories, but there will be different drivers for different categories.
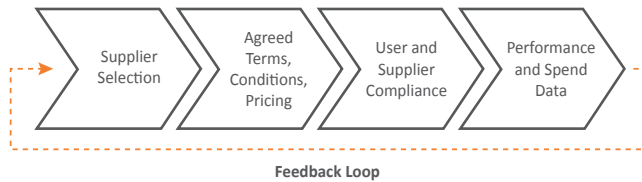

Feedback Loop

Figure 3: What does procurement really need to control?

For example, let's look at contingent (temporary) labour as a spend category. What would the category manager really want to control in order to influence spend in this category and deliver value? They certainly do not need to manage every detail of the process, even if they had the resource to do so. We would suggest these aims would be a good start:

- The ability to ensure that budget holders use appropriate suppliers who meet the standards required.

- Control over the key elements of the contracts (agreed terms, conditions and pricing) with those suppliers.

- The ability to enforce negotiated prices for different types of contingent staff and indeed other terms and conditions.

- Visibility of orders placed and data about what has been bought, rates paid, by whom, with whom, etc.

- Controls and supplier performance information (such as success rates in terms of filling roles) to help ensure that suppliers deliver what they say they will.

Comensura, a supply management specialist who provide a vendor neutral managed service for contingent (temporary) labour, now offer customers their c.net direct platform, a good example of how technology enables procurement to utilise this 'soft control'. Suppliers are approved and chosen, usually by Comensura working with their customer to identify their existing supply chain, and are set up on the platform with contractual terms, rates for different types of contingent (temporary) labour and other key details embedded in the system.

Users, who may be line or HR managers, can then access the platform through an easy to use interface. They issue their requirements to one, some or all of the suppliers (their choice), and manage the process of engaging the appropriate temporary staff. The workflow around sign-offs, approvals and cost codes is also embedded in the system to give control over spend. Procurement (or other authorised groups, such as central Human Resources) can then access key data concerning which suppliers are being used, which location or business unit, the type of workers being sourced, or spend by supplier or user.

The platform also allows supplier rating by users, so a pattern of performance and identification of 'favourites' can be developed. In addition, reporting of usage and spend by supplier can feedback into future choice of suppliers, so the best performing can be given greater preference when it comes to future requirements.

The technology platform puts a useful and user-friendly tool into the hands of front-line managers, enabling them to operate without routine input (or what they might perceive as interference) from procurement, whilst ensuring the key controls are still in place in terms of effective procurement and supplier management. And the balance between central control and devolved operations is maintained.

Supported by comensura

Conclusions and three key take-aways

After many years of debate about the best way to organise procurement within complex organisations, and the way in which procurement executives interact with their stakeholders, technology is now opening up new opportunities for what we might call a 'tight/loose' model. Procurement is beginning to understand that devolved does not mean out of control; decentralised doesn't mean unstructured.

Technology can provide tools to ensure that users work in the right way, without close control from procurement; and technology can provide the information to ensure both users and suppliers play the appropriate roles to ensure good value is delivered to the organisation. So we expect to see more tools and technology available that address this opportunity, and Comensura's c.net direct platform is just such an example in the contingent labour spend category.

And a final thought, going back to the structures and terminology. Although there were arguments against CLAN (indeed, I made many of them), perhaps now the idea of the small procurement centre and a networked strategy is indeed feasible? Technology is certainly enabling greater control and influence to be exerted without needing huge central teams. So perhaps CLAN is the future, after all.

Our three final take-aways are these.

1. **The way your procurement organisation is designed must reflect you organisational goals, culture and operations.**

2. **Consider what procurement really needs and wants to control - it is probably not feasible for the answer to be 'everything', so focus on what is truly important.**

3. **Be aware of emerging technology, tools and ideas that can help procurement control what really matters but let other stakeholders manage much of what is important to them.**

"Technology can provide tools to ensure that users work in the right way, without close control from procurement"

Supported by comensura

About Peter Smith and Spend Matters

Peter Smith
Managing Director
Spend Matters
UK/Europe

Peter has over 25 years experience in procurement and supply chain as a manager, procurement director, consultant, analyst and writer. He edits Spend Matters UK / Europe, and with Jason Busch, the founder of Spend Matters in the US, has developed it into a leading web-based resource for procurement and industry professionals.

Peter worked as Procurement Director for the NatWest Group, the Department of Social Security (the DSS), and the Dun & Bradstreet Corporation, and held senior positions in the Mars Group during his management career. He has an MA in Mathematics from Cambridge University, is a Fellow and was 2003 President of the Chartered Institute of Purchasing and Supply, and his first (co-authored) book, "Buying Professional Services", was published by the Economist Books in June 2010.

Further information on this topic and others can be found at the website *www.spendmatters.co.uk*, or we can be contacted at *psmith@spendmatters.com*.

About Comensura

comensura

Comensura is a supply management specialist who manages the supply of temporary and contractor labour into large organisations in the public, private and not-for-profit sectors. Established in 2001, we are a market leader with an extensive customer base in both the United Kingdom and Australia.

Our managed service approach creates a bespoke and controlled marketplace in which your hiring managers and recruitment agencies interact. We achieve all your labour requirements by better managing your existing recruitment agencies and procuring the services of others, as necessary. We place all onto standardised contracts. We also continuously contract manage them, audit their levels of compliance and report overall performance to our customers.

All transactions, from purchase-to-pay are controlled through our web-based marketplace management technology:

- **c.net** - a fully systemised procure-to-pay system, typically used for our neutral vendor managed service

- **c.net direct** - a preferred supplier management tool

www.comensura.co.uk
enquiries@comensura.co.uk
01582 542700

Supported by comensura