

WHITE PAPER:
ANALYSIS OF SUCCESSFUL
SUPPLY CHAIN
ORGANIZATION MODELS



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SUPPLY CHAIN ORGANIZATION MODELS THAT DRIVE SUCCESS

To ensure success in your supply chain operations, an important factor to consider is your organizational alignment. When the right organizational model is matched, for example, to the business model, strategy, culture, and governance, operational benefits will be realized. This document presents the different models along with both their merits and shortcomings. This white paper aims to provide you with information to help make decisions about your supply chain organization model and highlights factors to ensure success in choosing one.

SUMMARY OF SUPPLY CHAIN ORGANIZATION DESIGNS

Centralized Organization Model

In a centralized supply chain organization, a corporate-level purchasing department makes decisions and exercises control over purchasing throughout the organization. Centralized organizations are able to leverage corporate spend and drive standard sourcing, process, and technology decisions, resulting in economies of scale that improve spending power and enhance operational efficiencies and knowledge sharing. Other benefits include a streamlined purchasing organization, corporate purchasing expertise, and a consolidation of the supplier base.

However, in complex, distributed enterprises, complete centralization is not always practical or even desirable. Organizational politics, tax considerations or regulatory requirements often require local procurement of some categories of spend that logically could be centrally purchased. In addition, centralized procurement groups often report high incidences of unapproved (maverick) spending, process and policy circumvention, and uneven supply measurement and performance. A centralized supply chain organization is best suited for organizations with very similar business units where most of the requirements are common across business units.

Decentralized Organization Model

In a decentralized supply chain organization, sourcing decisions and procurement activities are executed at the business unit or local level. Spending is rarely leveraged company-wide and procurement personnel usually report to a plant or business unit manager. Decentralized organizations empower business units and sites with autonomy and control over supply, process, and technology decisions. This structure improves satisfaction at the site- and business-unit level and speeds process and issue resolution by avoiding much of the bureaucracy and “red tape” that comes with centralized procurement models.

The decentralized organizational model does have negative side effects. Decentralized models optimize to the individual site level, yet neither fully leverage corporate spend nor support the supply or business objectives of the organization. In such environments, there is little coordination or information sharing between divisions and sites. This model is often best suited for multiple function organizations that operate as independent entities with a high degree of autonomy.

Center-led Organization Model

A center-led supply chain organization focuses on corporate supply chain strategies and strategic commodities, best practices, and knowledge sharing while leaving tactical execution to the individual business units. This model provides the best of both worlds - the advantages of the centralized and decentralized models with fewer disadvantages. In a center-led structure, corporate spend can be fully leveraged on strategic commodity categories well suited for centralized sourcing and non-strategic categories not suited to centralized sourcing can be handled by the individual business units. Operational efficiencies are increased and overall procurement costs are decreased and the organization maintains the ability to react quickly to unexpected changes in supply or demand. Best practices can be shared easily throughout the enterprise, maverick buying significantly reduced, and performance maintained at a consistent level.

A center-led structure relies on cross-functional and divisional teams, flexible process and policy standards that can be tailored at the local level, coordinated metrics and incentives, and an integrated procurement information systems infrastructure that automates and aligns source-to-settle processes across the enterprise.

Attributes of Organization Models

	Decentralized	Center-Led	Centralized
Organization	<ul style="list-style-type: none"> Sourcing decisions and procurement activities executed at the business or local level Spending rarely leveraged across sites or business units Procurement reports to plant or business unit manager 	<ul style="list-style-type: none"> Sourcing coordinated across business units Spending leveraged across businesses and regions – especially for strategic categories Procurement reports to senior supply chain or C-level exec 	<ul style="list-style-type: none"> Sourcing decisions and procurement activities executed at central command and control center Spending leveraged centrally Procurement reports to senior supply chain executive
Process	<ul style="list-style-type: none"> Limited or no process standardization Process efficiency and effectiveness varies greatly by business unit or site Limited sharing of resources or best practices across sites 	<ul style="list-style-type: none"> Standardized processes and policies tailored and executed at local level Process compliance, efficiency, and effectiveness consistent across the enterprise Resources and best practices shared across sites 	<ul style="list-style-type: none"> Standardized processes and policies executed centrally Process compliance, efficiency, and effectiveness vary by business or site Resources and best practices controlled centrally
Knowledge	<ul style="list-style-type: none"> Skills and category expertise vary by business unit or site Limited visibility into spending, compliance, and performance 	<ul style="list-style-type: none"> Skills, category expertise coordinated across businesses and sites Visibility into spending, compliance, and performance at aggregate and local levels 	<ul style="list-style-type: none"> Skills and category expertise controlled centrally Visibility into spending, compliance, and performance at aggregate level Limited understanding of these factors at local level
Technology	<ul style="list-style-type: none"> Technology decisions and usage vary by business unit or locale 	<ul style="list-style-type: none"> Technology decisions and deployment coordinated across sites Technology deployment and usage coordinated across sites 	<ul style="list-style-type: none"> Technology decisions and deployment made at corporate level Technology deployment and usage vary based on schedule and budget
Performance	<ul style="list-style-type: none"> Metrics used vary by business unit or locale Cost and performance vary greatly across the enterprise 	<ul style="list-style-type: none"> Standard metrics used enterprise-wide, but support for local variances Metrics and incentives shared by procurement, functions and businesses Cost, compliance, and performance consistent across the enterprise 	<ul style="list-style-type: none"> Standard metrics used at corporate level Metric compliance varies across the organization Cost, compliance, and performance vary across the enterprise

Source: Aberdeen Group, Inc.

FACTORS ENSURING SUPPLY CHAIN SUCCESS

Based on interviews with practitioners in a variety of industries, as well as best practices and research findings, the following factors were found to support the success of a supply chain organization. Success of a supply chain organization is defined as the ability to create and sustain a corporate advantage and foster a collaborative environment for procurement and purchasing related functions. These factors remain the same whether an existing group is being restructured or a new organization is being assembled for the first time.

The Organization Model Fits the Corporate Strategy

Supply chain organizations that are universally successful are those that are designed specifically to best address where strategic decisions are made and where the knowledge needed for those decisions resides. The degree of centralization is a deliberate financial decision of where it is most cost effective to process transactional business vs. strategic business. However, successful supply chain organizations meet the corporation's financial and operational strategies by empowering groups with the knowledge needed to make strategic procurement decisions. Leading companies are also bold in either heavily centralizing procurement or in decentralizing key categories in search of efficiency gains. The important point is that the strategy to manage these functions/categories is supported by the right level of resources and attention.

The Organization Model Fits the Corporate Culture

Successful supply chain organizations are those that best fit the actual corporate culture – not the desired corporate culture. Corporate culture includes elements such as the degree of autonomy of business units and the degree of influence that the business units have in comparison with corporate leadership. Successful supply chain organizations match their structure to their level of autonomy and influence.

Another aspect of culture that has a significant impact on supply chain organization effectiveness and choice is the willingness of executive management to mandate a policy or a process. A corporate culture

Key Insight:

When considering changing your supply chain organization model, Spend Analysis can be used as a tool to quantify the current state of spend and baseline the degree of centralization/de-centralization there is in an organization. This provides an unbiased and quantitative way to assess and benchmark your organizational model.

Solution: For additional information or to obtain a complete spend analysis with the visibility to assist in your organization change efforts, contact Enporion.

of mandates enhances supply chain effectiveness in enforcing compliance for various business units or regions. Without the culture of mandates, a centralized or center-led supply chain's policy enforcement role may become contentious and ineffective. Leading companies in this situation empower their supply chain organization by making them equal partners in the financial and operating strategies development with the business units.

The Organization Model Accounts for Staff Skills and Expertise

Leading companies staff their supply chain organizations to make sure that the right people are in the right jobs/teams in the right numbers. Staff skills and backgrounds are systematically assessed before placement in the supply chain organization. This is done through staffing workshops that are conducted with the end state of the teams in mind, i.e., what their scope of responsibilities will be, where they will be located, etc. Furthermore, having the right number of resources is also important to ensure delivery of the desired level of service and support to internal customers. Teams that require deep technical or operational expertise are formed with experts from the supply chain organization or are effectively co-opted through cross-functional teams.

Key Insight:

Consider outsourcing the category sourcing and management of non-core areas of spend to allow your team to focus on high impact direct materials spend that requires extensive experience and knowledge of your products.

Solution: Leverage spend analysis and reporting as a service; manage portions of spend through pre-negotiated existing Enporion Sourced Agreements for quick wins and very favorable prices; utilize Enporion forward & reverse auctions to supplement your team and technology capabilities.

The Time Horizon for Program Change is Long Term

Companies with successful supply chain organizations take a long term view of the new program implementation (such as a transformation effort or organization redesign). In almost all cases, a multi-year timeline is used to ensure all the organizational and process changes take effect. Throughout the multi-year process, progress from a savings or efficiencies standpoint is monitored and reported. Where the organization model is being dramatically altered, a phased approach is used to get from starting state to the end state with the inclusion of a transitional "middle state." Also, a formal change management program is launched via a Program Management Office or dedicated change management staff on the implementation team. Successful companies have spent as much time (6 months in one case) in vetting the organization with internal stakeholders as they have invested in designing an organization structure.

The Governance Structure Elevates the Supply Chain Function

Leaders of successful supply chain organizations have a seat at the executive table when strategic decisions are made. This is especially true of centralized, center-led, or hybrid type organization structures where procurement of strategic materials and services is centralized. The financial success of the operations/business units is closely linked with the performance of the supply chain procurement initiatives and elevation of the procurement function in leading companies emphasizes this connection. There is a positive relationship between the achievement of supply chain objectives and the reporting level of the highest supply officer. Regular strategy/performance presentations by the CPO to the president/CEO and formal procurement and supply strategy coordination and review sessions with business units are especially effective. Companies whose supply offices report to levels closer to the highest executive are more likely to believe their organization design is effective. It is not the formal supply position, rather the visibility and resources associated with such a position in the corporate hierarchy, on par with other functional executives, that make this position important.

Formal and Informal Mechanisms Enable Collaboration and Communication

Leading companies prioritize communication and collaboration. Regular communications through established channels such as cross-functional teams, category teams, supply councils, executive supply committees, etc., are “required” attendance for team members. In addition, supply chain staff are placed in close physical proximity to operations and the business units. Co-location is not about simply working in the physical presence of other groups, rather, it is about embedding the purchasing professional into the planning systems of the business unit.

Where mandates are not the norm, successful supply chain organizations prepare a document describing the value proposition of supply chain to executive management using financial and accounting metrics. Moreover, a collaborative environment is fostered by rotations of business unit and operations staff in supply chain functions that exposes procurement processes and policies to the eventual customers of this service. Customer involvement is also incorporated in all aspects of new organizational developments, savings target setting, and achievement of these savings targets.

IMPACT ON INFORMATION SYSTEMS

When planning for organizational change, understand that technology may need to change also. Along with people and business process change, the technology should change to mold the new organization. That can mean needing more features in company software to enforce compliance. Software that has approval routing capabilities, hierarchy of permission levels, and approval amount privileges may be necessary. The change may require software flexibility such that it can be quickly rolled out, and easily configured, to new users. Then there is the ability to leverage web technology for access from disparate geographic locations, and possible integration with older legacy systems. Software-as-a-Service (SaaS) solutions solve several of the challenges mentioned. Not only that, by using a software service option, a company needing to implement a better solution won't have to face high upfront costs or long implementation schedules.

CONCLUSION

Choosing the most appropriate supply chain organization model is critical for effectiveness in managing the procurement of the vast amount of direct and indirect materials needed to operate and sell products. Many of the points discussed in this paper are often overlooked, and yet each has an impact on the level of supply chain management excellence achieved.

To make a change of this magnitude, will require almost as much planning time as transition time. In a merger, this is required planning and management that must take place. On the other hand, it's an excellent opportunity to make changes that matter. If the change can be effectively managed, the outcome of a truly aligned organization will benefit the company for years.

For information about Enporion's full suite of Software-as-a-Service supply chain management applications, contact marketing@enporion.com or visit www.enporion.com.