The Why and How of Centralized Procurement Organizations

Best practices to help you build the business case, design for success, and avoid common pitfalls
Centralized procurement organizations (CPO)—also known as international procurement companies (IPC)—have been gaining in importance as enterprises struggle with the dual reality of more geographically extended supply chains and the pressing need to control such complex trading partner networks. In fact, as global competition becomes fiercer, the need to control costs through better supply chain visibility and collaboration becomes even more critical. This eBook discusses the business case for establishing a CPO, design and scope considerations that lead to success, and best practices for implementing the required processes and technologies to make it all come together.
What is a CPO, and Why Build One?

At E2open, we helped build our first centralized procurement organization in 2004. At that time, companies were just beginning to work with contract manufacturers globally. Since then, managing supply chain operations profitably at a global level has become even more critical—and more challenging. And as supply chains have become more global and strategic, so must the procurement function. Enter: the centralized procurement organization, or CPO.

Transformed from a traditional back-office function, a CPO is a strategically oriented group that works globally and cross-functionally to manage supplier relationships and total cost of ownership for the brand owner. The cost savings can be significant, typically achieved through a combination of leveraged spend, supply assurance, and process and tax efficiencies.

Historically, we’ve seen companies embark on CPO initiatives specifically to support spend consolidation or tax optimization; but what we’ve found is that the success of a CPO can’t be tied to a single goal. CPOs must be strategic efforts, designed to achieve measurable business benefits that are closely aligned to corporate and supply chain goals. Oftentimes, CPOs are created to support a broader initiative, such as a supply chain control tower; but ultimately, a CPO should provide the visibility and collaboration needed to rapidly resolve problems in the extended supply chain.
Designing Your CPO: 7 Principles for Success

Turning the vision of a CPO into reality can be a complex undertaking. But, based on our experience, adhering to this core set of design principles will put you on a path to success.

1. **Set a clear vision and strategy for the role of the CPO within the supply chain.** Aligning your CPO implementation with your overall corporate strategy or operational excellence initiatives and having a strong governance model are critical.

2. **Carefully evaluate needs to select the optimal business model.** Will it be a buy-sell, VMI-consignment-based, or a discrete PO-based execution model? Get your trading partners across multiple tiers of the supply chain involved to make informed tradeoff decisions.

3. **Be cognizant of the business case and benefit levers** to focus the CPO design to ensure end goals are achieved. Again, getting external constituents involved in early discussions and bought into the value of the CPO will speed acceptance and adoption.

4. **Don’t wait to consider tax implications.** Regardless of the perceived importance of tax optimization, integrate tax advice into your design from the very beginning.

5. **Consider carefully the location of the CPO.** Study all critical internal and external factors, from taxes to staffing. Key decision-making executives will need to manage assets owned, functions performed, and risks assumed by the new company.

6. **Prepare for organizational change.** Proactively manage that change by making restructuring and relocation decisions to maximize organizational alignment and commitment.

7. **Plan for new collaborative business processes and systems.** Enabling best-in-class, multi-enterprise business processes with best-in-class tools and technology is key to realizing the benefits of a CPO.
Supporting Your CPO: Systems & Processes

In today’s global economy, for any CPO to be successful, information needs to be quickly gathered, formatted, normalized, analyzed, and acted upon—no small feat. Given the number of external entities that need to interact with the CPO and their many diverse systems and processes, the task of synchronizing information and processes can be quite daunting. And as more systems are involved, the complexity increases.

The systems that support sourcing, buying (procurement), payment, and reporting processes are not only geographically diverse but architecturally diverse as well. Success of a CPO will depend on how well these systems are integrated, with the overarching goal of fulfilling the CPO objectives. Getting these disconnected systems to come into one common information (technology) platform is key. Strong consideration must be given to using a cloud-based platform for integrated supply chain planning and execution that enables appropriate levels of visibility, collaboration, and control.

Through the B2B connectivity, process management, and analytical capabilities that the E2open Business Network provides, our customers have unlocked significant business value from their CPO initiatives—for their own enterprise as well as their extended trading partner network.

- **Source**: 3-7% reduction in purchase costs
- **Buy**: 25%-90+% reduction in shortages
- **Pay**: 20%-40% reduction in process costs
- **Report**
Implementing Your CPO: Common Pitfalls

Whether it is a net-new procurement function or an extension of an existing one, a CPO will change the way your company and its trading partners do business. Learn from others’ mistakes: avoid these common pitfalls that cause many CPO initiatives to fail.

1. **Lack of leadership and top-down support**: The establishment of a CPO has to be driven top-down, from the executive level, with the organization bought into the reasons for why it is being done.

2. **Poor change management**: In particular, poor planning around change management will create additional risk. The creation of a CPO strategy can’t be done in a vacuum, and procurement, logistics, tax, and legal functions should be involved early on in the design and implementation phases.

3. **Disregard for external sensitivities**: Implementing a buy-sell model, for example, may remove your contract manufacturers from part or all of the procurement process and, hence, affect their purchase price variance efforts. Contract manufacturers must be brought in early and often, and understand how supporting the CPO helps them in return.

4. **Slow or no adoption**: You can build the world’s best CPO, with the best technology and processes, but if the people responsible for its day-to-day efforts are not properly motivated and incented to use and embrace it, your CPO is at risk.

5. **Too much focus on spend consolidation**: In our experience, CPO organizations that focus more on the goal of supply chain control (vs. spend consolidation) tend to be more successful, with a greater ability to measure specific KPIs.
What are you waiting for?

Establishing a centralized procurement organization (CPO) is a complex endeavor but one with tremendous upside. Why do some companies manage to successfully implement a CPO and use it as a driver for better supply chain performance while others struggle to turn their business case into reality with tangible benefits? Contact us today to learn the keys to success.