When One Size Must Fit All: How a Large MNC Centralized Its Purchasing

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Abstract

In a world where customization has become commonplace, can companies still standardize their purchasing practices? The increasingly complicated and globalized nature of supply base suggests that standardization may not be so easy to implement. This article delineates how a European-based multinational corporation (MNC) implemented a common supplier segmentation initiative and established improved control over the purchasing operations of its globally dispersed divisions. The article identifies four contextual factors that contributed to the lack of synergy and describes how a "one-size-fits-all" supplier segmentation model helped the MNC to standardize its procurement efforts.

Introduction: Is Centralization Possible in a Global Context?

Over the years, researchers have cautioned against standardized "one-size-fits-all" solutions.[1,2] The principal argument against standardization is based on contingency theory, which suggests that there is no one way for an organization to act in response to its environment.[3] However, what if for this very reason, i.e., the need to accommodate contingencies, a one-size-fits-all solution does apply? This article describes how a global multinational corporation (MNC) was able to leverage its need to accommodate contingencies by developing and implementing a standardized one-size-fits-all supplier segmentation model. The article principally addresses supply management professionals in large corporations to facilitate decision making in purchasing.

Global sourcing and outsourcing have been recognized as key trends in purchasing, especially because they create competitive advantage.[4,5,6] A global sourcing strategy can reduce costs, improve quality, and increase the availability of purchased material.[7,8] An outsourcing strategy can improve efficiency and increase the focus on core competencies.[9,10] However, these are not challenge-free sourcing strategies. Indeed, for large MNCs, such sourcing strategies can lead to the dispersion and decentralization of purchasing units around the globe.[11,12]

The antidote to dispersed procurement is to improve integration and coordination of the purchasing function. In procurement, this is often referred to as centralization.[11,13,14] For many companies, the centralization of purchasing activities is elemental because of its direct impact on spending performance. Moreover, centralized purchasing increases control over purchasing volumes throughout the organization.[15] As a result, centralization not only offers cost savings, but also restricts unauthorized or maverick buying practices.[16,17] Furthermore, centralization makes it easier to align purchasing activities with the strategic objectives of the organization, an operating state that MNC executives strive to achieve.[14]

However, while many companies are convinced of the benefits of centralization, they struggle to implement centralized activities. Indeed, there are a number of roadblocks to implementing centralized purchasing, particularly in large corporations. First, there are challenges related to how different internal business units should coordinate and communicate with external suppliers. Second, there are often maverick buying practices among different subsidiaries. Third, particularly for MNCs, cultural issues and differences in procurement practices between subsidiaries operating in diverse contexts compound the challenge.[18]

Despite facing numerous challenges mentioned above, one large MNC was able to implement an effective centralized purchasing system. Among the unique challenges facing this MNC was the size of its supply base, comprising 8,700 direct material suppliers. To effectively implement centralization, the MNC had to identify its strategic suppliers among this large array of suppliers and build meaningful relationships with few of them. However, effectively identifying key suppliers was complicated because these

8,700 suppliers belonged to 200 subsidiary business units, scattered over 70 countries around the globe. Moreover, the subsidiaries were managed by five autonomous divisions, three of which were regional divisions (in the U.S.A, Europe, and Asia Pacific) and two of which were global product divisions. Finally, the product lines offered by the regional and global product divisions also differed. Whereas the regional divisions manufactured mechanical and electromechanical products, the global divisions manufactured security and entry solutions and electronic identification products.

As related to procurement centralization, the complexity and miscellany associated with the MNC's operations clearly concerned the top management team involved in procurement. For the executives, it was important not only to implement a centralized purchasing operation, but to do so while shrinking the supply base and developing meaningful relationships with the remaining suppliers.

This paper offers a thorough analysis of how the MNC was able to implement a centralized purchasing operation. The paper highlights the MNC's strategic approach, which was based on developing and implementing a supplier segmentation model. The model helped the MNC to standardize critical aspects of its procurement function and thereby enabled centralization. The research was conducted using a collaborative management research process.[19] The intensive collaboration between researchers and procurement professionals of the MNC provides insights into why and how a one-size-fits-all centralization solution can be beneficial in streamlining the MNC's procurement efforts.

A "Hands-on" Research Approach

Collaborative management research (CMR) is a joint research effort conducted by multiple parties originating from both a practicing organization (in this case, an MNC) and an external research organization (in this case, a university).[20] In this study, the university researchers and the MNC representatives complemented one another's abilities in addressing the purchasing-related issues facing the company. The researchers contributed theoretical insights useful in developing and implementing a supplier segmentation model. The practitioners (in this case, procurement professionals) offered practical insights and helped to co-develop and tailor the segmentation model to practical needs. Combined, this collaborative effort not only made the final outcome more beneficial to the company, but also helped to reduce resistance among the model's eventual users, i.e., procurement managers across the MNC's scattered global locations and divisions.

How Context Affects Purchasing

In academic and practitioner circles, many believe that the best purchasing strategies are ones that are adapted to the firm's environment. Arguably, centralization is a decision that "should be made based on factors like process, talent and pace of the business," and the decision to centralize or to remain decentralized is far from a "clear-cut choice."[18] These comments, recently posted on a leading purchasing website, highlight the importance of context in understanding centralization initiatives. Specific to this paper, four overarching contextual factors contributed to the need for centralization. These were: (1) the complex and supplier-dependent nature of the MNC's supply base, (2) the MNC's growth through acquisition, (3) autonomy, and (4) variation in purchasing maturity across subsidiaries. An overview of these factors offers insight into how orchestrating and implementing centralization efforts can become challenging.

How the Complex Nature of the Supply Base Challenges Centralization Efforts

The first challenge facing the MNC in implementing a centralized purchasing effort was the size of its supply base. According to the MNC's chief technology officer (CTO), the large number of suppliers in the supply base made it difficult to recognize key suppliers for the organization. The MNC's supply chain director further explained the challenges that a diverse supply base caused. In his perspective, "objectives such as zero defects or a world-class supply base" were difficult to achieve because a large number of suppliers were spread across 70 countries. Moreover, the global nature of the supply base exposed the MNC to numerous country-specific risks. For instance, according to one category manager of a global products division, there were serious quality- and delivery-related risks in sourcing from China, particularly during the Chinese New Year period. At that time of year, many Chinese suppliers experience a peak in employee turnover, causing them to miss important delivery deadlines.

A related concern was the MNC's high dependence on its suppliers, attributable to two reasons: first, the MNC had outsourced 60% of its sales value and, second, many of the selected suppliers were single sources. Indeed, many in the company were well aware of the problems that single sourcing could cause. According to one purchasing manager, his manufacturing unit had once not received parts from a single-source supplier for over six months. Finally, localized sourcing was a third issue with the supply base. Indeed, many subsidiary business units relied significantly on local sourcing. In the eyes of several category managers, local sources created challenges, mainly because of their limited capacity and their inability to adapt their production to larger volumes in an expedited fashion.

These issues, as related to the nature and design of the supply base and its emphasis on localized purchasing, created efficiency- and effectiveness-related issues for the MNC. It was lucid that for a centralization initiative to be effective, a reduction in the number of suppliers and a shift away from local sourcing practices by subsidiaries would also be necessary.

How Growth through Acquisition Challenges Centralization Efforts

For the MNC, acquisition was a key determinant of its immense growth. For the past few years, the MNC had acquired 12–18 businesses per year. With this continuous acquisition strategy, the MNC had been able to modify its product portfolio from comprising purely mechanical locks, to including electromechanical locks and finally electronic access solutions. This allowed the MNC to create a global presence and better face its competitors. However, the addition of a diverse set of subsidiaries in group's portfolio created immense challenges in managing the supply base. Indeed, part of the reason for localized purchasing practices (referred to earlier) was the numerous new acquisitions in emerging markets. Moreover, few common suppliers were shared by the existing and newly acquired subsidiaries. In one product division, only 16% of the suppliers were common among the subsidiary business units. In the MNC as a whole, only 12% of suppliers were shared by two or more subsidiaries.

A related issue was the type of acquisitions. Because of the nature of the business (i.e., lock and key manufacturing), the acquired companies were primarily small family-owned firms. These companies typically come with a supply base founded on tightly coupled relationships (e.g., due to the high investment in tooling and intellectual property issues) with the buyer firm. These tight relationships increase dependency on existing suppliers and make it difficult to separate the acquired businesses from their suppliers. At the same time, these suppliers are also difficult to integrate into the MNC's overall supply base because of their small size and limited capacity. To summarize, the corporate strategy of growth through acquisition and its effects on the supply base have driven the need for centralization.

How Autonomy and Purchasing Maturity in Subsidiaries Challenge Centralization Efforts

A third issue facing the MNC in implementing a centralized purchasing effort was its decentralized corporate structure. While corporate personnel consisted of 70 people, the rest of the workforce (42,930 employees) worked in various subsidiaries and divisions around the world. The autonomy and independence offered to the subsidiaries clearly made it difficult to implement initiatives taken by supply management professionals at the corporate headquarters. These numerous subsidiaries also displayed diverse maturities in their use of procurement practices. For instance, whereas category managers in some subsidiaries were familiar with applying purchasing portfolio models, others were not. Indeed, even the number of category managers varied among subsidiaries. For instance, the division in Europe had seven category managers. In comparison, the division in the U.S.A had no category manager while the division in Asia had a single category manager. Interestingly, the maturity of the purchasing functions in different subsidiaries seemed to be reflected in the number of category managers appointed. Those with more category managers also applied purchasing portfolio models and better understood their respective categories.

In short, according to the top management of the group, various factors related to the MNC's structure and culture raised challenges for the procurement function. First, the supply base was large, globally dispersed, and relied on local sources. This large size made it difficult for divisions to scrutinize the supply base or to build meaningful relationships with suppliers. The global nature of the supply base exposed the MNC to various risks (e.g., employee turnover risks). The local nature of sources was problematic because of the inability of these local suppliers to deliver large volumes of materials when necessary. Second, the acquisition strategy added a number of undesirable complexities to the supply base. The supply base was in constant flux because the suppliers of newly acquired companies were routinely added to the mix. While the MNC was primarily focused on acquiring small family-owned businesses, consolidating these businesses' suppliers proved to be difficult because of their tight coupling with the subsidiaries. The existing practice of local sourcing by subsidiaries was complicated by the addition of small local suppliers. Third, the decentralized corporate structure of the group created the need for stronger control of the purchasing activities of subsidiaries, mainly because top management believed that it was important to run certain central processes across all decentralized divisions. Fourth, the absence of category managers in two divisions meant that no one was responsible for aggregating volumes across the subsidiaries in these divisions. A lack of purchasing maturity in some divisions also emphasized the need to drive centralization from corporate headquarters.

Developing and Implementing a One-Size-Fits-All Solution

The MNC was able to orchestrate a successful centralization initiative with the help of a one-size-fits-all supplier segmentation model. It was called a one-size-fits-all model because it had to encompass a great many requirements from the MNC's diverse divisions. The development and implementation of the supplier segmentation model followed a stepwise approach. In step 1, the parties involved developed a thorough understanding of the rationale for segmentation. In step 2, a preliminary model was established. In step 3, a standard set of criteria was created for each supplier segment. In step 4, the model was pretested. Finally, in step 5, the model was institutionalized across the MNC.

Step 1 – Understanding the Rationale for a Common Supplier Segmentation Model

The supplier segmentation model was the brainchild of a group of managers at MNC's corporate headquarters. Having a common supplier segmentation model across the MNC was deemed important by these managers in order to better recognize critical suppliers at each MNC division. The common model was also expected to increase supplier sharing among these diverse divisions. This is because, after acquisition, the business units with small local suppliers were expected to release their suppliers and instead source from the global suppliers of the division. According to the chief technology officer, if a common supplier segmentation model were adopted by all divisions, it could establish a common mode of communication across all divisions. In his words:

> We don't have a common language across divisions. We realize we need to source from common suppliers, and to make this transformation, we

> have to speak the same language. We need to have a framework for supplier relationship management.

The MNC's supply chain director expressed similar sentiments. In his opinion, given the decentralized structure of the MNC, a common process and standard terminology were required in order to achieve better coordination. In his words:

> If we have common processes, dedicated divisional people, and a common terminology, then we can coordinate ourselves in a good way. If we do not have a common terminology, we cannot coordinate ourselves in our [existing] structure.

Step 2 – Establishing a Preliminary Model

The diverse and autonomous nature of the MNC's structure dictated the need for a preliminary model that could be reviewed and critiqued by the 200 supply management professionals of the group. This preliminary model was shared with sourcing personnel from the divisions in a series of meetings. Company divisions voiced concerns and requirements that were not captured in the preliminary model. When combined, the feedback from sourcing personnel fell into two categories: one related to the extent and nature of the supplier segmentation model, and another concerning how the supplier segmentation would be implemented.

Interestingly, the divisions with no category managers wanted a more simplistic portfolio model for segmenting suppliers. For instance, the sourcing vice president of the U.S.A division was of the opinion that suppliers should be categorized using a simple model with three or four segments, such as sustain, develop, and exit. In her words: "I recommend that we keep it very simple with only three to four categories, such as sustain, develop, exit."

In contrast, divisions with well-established category managers wanted more sophisticated supplier segmentation models, often with five category segments. In the end, since most divisions preferred a more elaborate segmentation model, the MNC's corporate managers agreed on a five-segment segmentation model.

The next concern was how to differentiate the five segments. Indeed, opinions varied as to the segment differentiations. The European divisions preferred segmentations that highlighted partnership and the preferential standing of suppliers. Their categories were partner, preferred, standard, transactional, and eliminate. In contrast, other divisions wanted segments categorized based on how well the suppliers met the organization's needs, for instance, preferring categorizations based on "approved" and "conditionally approved" suppliers. Moreover, these divisions preferred segments that allowed standard and transactional types of suppliers to be differentiated.

Interestingly, category managers in European divisions strongly opposed having a supplier segment called "approved," believing that this label would convey very little information about the type of suppliers included in the segment. In their opinion, segment labels such as "standard" and "transactional" would be better because they could easily be related to segments such as "leverage" and "non-critical" in the Kraljic (1983) model.[20] However, the vice president sourcing of the U.S.A division preferred not to have segment labels that could be confused with segments of the Kraljic (1983) model.[20] All other divisions seconded her opinion, so the categories of the supplier segmentation model were established as partner, preferred, approved, conditional, and eliminate.

Step 3 – Creating a Standard Set of Criteria for Each Supplier Segment

After developing the preliminary form of the model and establishing the number and type of categories, it was necessary to develop a thorough as well as shared understanding of the suppliers in each of the five segments. Here again, different sourcing directors representing different divisions articulated different criteria for each supplier segment. For instance, according to the sourcing director of the U.S.A division, a *partner supplier* should work to reduce the cost of the purchased materials on a yearly basis. In comparison, the sourcing director of the European division believed that a *partner supplier* should be deeply integrated into the division. According to the sourcing director of the Asia Pacific division, a *partner supplier* should be a top performer in terms of cost, quality, and delivery. For the sourcing directors of the two product divisions, a *partner supplier* had to be part of their long-term strategic plans and should co-invest with the divisions in new-product development. These differences were ultimately resolved and a table with descriptions of each supplier segment was created. Table 1 summarizes the model.

Table 1. Supplier Segmentation Model

Supplier segments	Descriptions
Partner	Partner suppliers are suppliers that work as extensions of group/divisions/regions/business units. These suppliers have long-term strategic agreements (i.e., ≥3 years) with the organization. They meet one or more goals regarding innovation, cost reduction, product development, and technological advances. These suppliers display exceptional operational performance in terms of cost, quality, delivery, and responsiveness. These suppliers may co-invest with the division/group to develop capacity, capability, and operations. These suppliers strive to achieve full integration with the group/divisions/regions/business units. The difficulty of replacing them would be highest because of this close integration.
Preferred	Preferred suppliers are the next choice for the business after partner suppliers. These suppliers have short- to medium-term (i.e., 1–3 year) agreements. They are important for the business and have high operational performance in terms of cost, quality, delivery, and responsiveness. The group/divisions/regions/business units spend a great deal with them; they are difficult to replace because of this high spending.
Approved	These are the suppliers that have passed audits (e.g., codes of conduct, sustainability audits, and quality audits). They meet expectations on cost, quality, and delivery and have acceptable responsiveness. The group/divisions/regions/business units have business relationships with these suppliers and may or may not have contracts with them. These suppliers are easy to replace because of the substantial availability of comparable suppliers in the supply market. These suppliers are potential replacements for preferred or partner suppliers.
Conditional	These are suppliers that have not fully complied with the code of conduct. Suppliers in this segment may have failed an audit (e.g., a sustainability or quality audit). These suppliers perform poorly in terms of cost, quality, delivery, and responsiveness. Suppliers that are entirely new to the group (i.e., no other divisions/regions/business units have tried them before) can also belong to this segment.
Eliminate	This segment is for suppliers that need to be removed for any commercial (e.g., not cost efficient), technical (e.g., technically incompetent), or legal (e.g., fraud and bankruptcy) reason. These suppliers normally account for very low annual spending with the group. They can be replaced by a current partner or preferred supplier. These suppliers have failed to develop from the conditional to the approved segment.

Step 4 – Pretesting the Model

In the pretesting step, the model was circulated to the divisional managers (e.g., sourcing directors or category managers) so that they could test it and use it to segment their supply bases. This pretesting phase helped to reveal the implementation challenges of a one-size-fits-all model. According to the chief technology officer, the biggest challenge is to make people understand the benefits of supplier segmentation. In the group supply chain director's opinion, it is always difficult to convince people to use "one" model.

In this step, it was understood that it is difficult to implement a supplier segmentation model when the maturity of the purchasing function of a division was low. For instance, the division with no category managers was the most resistant to adopting a supplier segmentation model, whereas divisions with two or more category managers started applying the model with ease. Moreover, it was also difficult to categorize many of the suppliers into the five segments, as it was time consuming to review every supplier of a division. Therefore, most divisions focused on categorizing only their top 20 or 30 suppliers. These top suppliers were identified based on factors such as total spending, supply risk, supply market characteristics, and switching cost/difficulties.

Step 5 – Diffusion of the Model

In this step, the model was diffused throughout the MNC. The category managers were appointed to train purchasing managers on how to segment suppliers using the model. Gradually, the model was implemented and adopted by all divisions in the group.

Orchestrating Purchasing Synergy Using a One-Size-Fits-All Supplier Segmentation Model

In this MNC, the one-size-fits-all model enabled centralization and established the desired top management control over purchasing units in several ways. First, it facilitated category integration among divisions. With each division having a particular type of supplier in each segment, it was possible to identify the strategic suppliers of each division. This identification facilitated the sharing of suppliers between divisions, because it made it possible to combine the purchasing volumes of two divisions and source from the strategic suppliers of one division. Pooling the purchasing volumes across the divisions resulted in increased purchasing power for the group.[12]

Second, it was also possible to eliminate a great many suppliers deemed unnecessary by top management. Every purchasing manager of every subsidiary had to justify why they were putting a particular supplier in a particular segment. For instance, purchasing managers were required to justify why a supplier was a partner supplier or why a subsidiary would like to keep a supplier that was very small or inefficient. The supplier segmentation model allowed for this enhanced top management (e.g., sourcing directors and category managers) scrutiny over the supply bases of subsidiary business units.

Third, a common one-size-fits-all model helped the organization to establish a common organizational language for segmenting the suppliers. Standard segment labels (i.e., common terminology) along with a standardized way to categorize suppliers allowed the organization to create shared know-how or economies of information about its suppliers.[11]

Fourth, a common supplier segmentation model implemented throughout the MNC's diverse divisions also made it possible to have standard contracts and assessments for each segment. Such standardization increased administrative efficiencies and created economies of process by reducing tendering efforts needed for the purchased materials.[21]

Finally, the model allowed category managers to invest time in the most important suppliers, such as the partner and preferred suppliers of their respective categories. As a result, price negotiations with suppliers could now be carried out from a central location (i.e., from division) to ensure better control over purchasing commitments.[22]

To summarize, developing and implementing a one-size-fits-all model was a standardization procedure that assisted in centralizing purchasing activities among the MNC's diverse divisions. The one-size-fits-all model was established in order to include the various criteria of divisions operating in diverse contexts. The inclusion of these varied divisional requirements facilitated the implementation and adoption of the model among its users, because the divisional managers could identify and use their own set of requirements that defined their respective supply base.

Conclusions

This research sets out to describe how a standardized purchasing framework was designed and implemented in a large MNC. It discusses how four contextual factors, namely, supply base characteristics, growth through acquisition, decentralized corporate structure, and difference in purchasing maturity, impelled the centralization of the procurement function. This is because such factors created lack of synergy in the procurement function, so that managing the supply base as well as steering it from corporate headquarters became difficult. The one-size-fits-all solution was required for two purposes: (1) to accommodate the diversity created by different contextual factors and (2) to standardize the procurement function.

Diversity was accommodated by listening to divisional managers positioned in diverse contexts (e.g., countries, continents, and regions) for identifying and compiling the various requirements of different supplier segments. It was critical to do these exercises because the requirements to be a partner supplier in Europe were not same as those of a partner supplier in Asia or in the U.S.A. The final supplier segmentation model therefore had to include the entire range of requirements articulated by the divisional managers. This inclusion allowed the managers to carry out supplier segmentation in their own divisions using their own understandings of each supplier segment.

Standardization of the procurement function was achieved through creating common/standard terminologies for each segment. This was required in order to develop a shared understanding of each supplier segment among the divisional managers, so that they could recognize the strategic suppliers and start sharing them when sourcing purchased materials.

MNCs in general are reportedly torn between centralized and decentralized approaches. Mainly because, a decentralized structure is suitable for companies with diverse businesses or stronger geographic needs that require local knowledge, whereas a centralized structure ensures better control and monitoring.[23] Organizations strive for centralization because it can translate into benefits such as increased purchasing power, greater negotiating power, reduced transaction costs, minimized duplication of purchasing processes, and improved best practices in procurement.[18,24] The present research provides insights into when centralization initiatives are necessary and how MNCs can successfully orchestrate such initiatives.

Three concrete conclusions can be drawn from this research, especially for MNCs that by their very nature operate in diverse contexts. First, context does matter, so understanding the context of an MNC is critical. The supply base management of the studied MNC had become difficult because its supply base was large, globally dispersed, and replete with local sources. Moreover, the corporate strategy of growth through acquisition had made the supply base dynamic because of the constant addition of new suppliers with each newly acquired subsidiary. Furthermore, a decentralized corporate structure made it impossible to establish control over the subsidiaries, and lack of purchasing maturity in certain divisions increased the need to structure the procurement function. It was therefore precisely because of the diversity of contexts that a one-size-fits-all solution was relevant to the studied MNC.

Second, in large MNCs it is important to establish common language and terminology, because as MNCs' contexts diversify, so do their supply management practices. A diversity of supply management practices can hinder a centralization initiative orchestrated from headquarters in order to establish corporate control over subsidiaries. The one-size-fits-all supplier segmentation model presented here enabled the group to have a common language among its diverse divisions by establishing a standard set of principles for categorizing, assessing, and dealing with suppliers. Establishing this common language or standardization enabled the group to achieve the necessary purchasing centralization.

Finally, in large MNCs, such standardization of processes, practices, and models can enable centralization only if these processes, practices, and models are developed so as to accommodate a great many criteria or requirements. This is mainly because such broad requirements are direct implications of the diverse contexts of large MNCs. Hence, if one-size-fits-all solutions are developed by and for MNCs, these solutions must accommodate the requirements created by the diversity of the contexts in which such solutions will be applied.

To conclude, in large MNCs, there are still places where a one-size-fits-all solution can be beneficial. Contrary to the conventional wisdom that customization is the key to accommodate contextual diversities, the present article demonstrates that diversity may also require implementation of a single common and broad solution. Therefore, one size must fit all on occasions when there is a need to tackle the contextual diversities of MNCs.

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Endnotes

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