PERGAMON

European Journal of Purchasing & Supply Management 6 (2000) 5–12

European Journal of
PURCHASING
&
SUPPLY
MANAGEMENT

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How to manage corporate purchasing synergy in a decentralised company? Towards design rules for managing and organising purchasing synergy in decentralised companies

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Abstract

More and more organisations are showing interest in how purchasing strategy and structures may support their overall business strategies. More and more, therefore, the question prevails how to get organised at a corporate level to capture the potential purchasing synergies. The challenge is to generate knowledge regarding how to structure and manage effectively purchasing synergies between business units. This paper deals with the concept of purchasing synergy or more specifically: the management of value-adding linkages in the area of purchasing between different business units in a multi-business company. It summarises the intermediate results from Ph.D. research currently conducted at Eindhoven University of Technology. Based on the findings derived from in-depth case studies at three large multinational companies, we propose a model, which may support management by formulating the right strategy and designing the right structure aimed at capturing the potential synergies. © 2000 Elsevier Science Ltd. All rights reserved.

Keywords: Purchasing and supply management; Corporate synergy; Strategic management; Organisational structure

1. Introduction

It appears that during the past few years purchasing has begun to play an ever more important role in the strategy of the firm than was true in the past (Carter and Narasimhan, 1996; Spekman et al., 1994; Tully, 1995; Ellram and Carr, 1994; Brandes, 1994; Gadde and Hakansson, 1994). This trend cannot be viewed in isolation, but is related to the competitive challenges going on in the international business environment (Weele and Rozemeijer, 1996). In order to survive, managers rethink their competitive priorities and rethink their value chain. As they do this, they cannot but rethink the current role and position of their purchasing and supply operations and strategies. As the scope and importance of purchasing increases, firms increasingly recognise the necessity of co-ordination of their overall purchasing efforts. Driven by the competitive pressures and the importance of purchasing, especially in the Retail, Automotive, Computer, and Electronics sectors companies have implemented strategies and structures aimed at capturing purchasing synergies (Keough, 1993).

This paper concentrates on the initiatives taken to capture potential synergies in the area of purchasing. Capturing these synergies is a way of getting extra performance, or creating extra (shareholder) value, from an existing situation (e.g. '*doing more with less*'). Purchasing synergies can yield significant benefits and even play a vital role in some companies' corporate strategies (see the example of DaimlerChrysler below).

> "The DaimlerChrysler merger is considered to have great potential for synergy. By spreading Chrysler's production expertise to Daimler operations and merging both product development forces, the new company could cut costs by up to $3 billion annually — including $1.1 billion in purchasing costs, analysts say. Apart from increased negotiation power due to the bundling of demands,

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PII: S0969-7012(99)00034-9

they can share their best-practices in the area of purchasing. Chrysler, for its part, has the industry's best supplier relations, while Daimler still relies on strong-arm techniques to get lower prices from its suppliers (Anonymous, 1998).

Although it is generally recognised as one of the key issues today, the debate about the organisation and management of corporate purchasing synergy is somewhat neglected in current purchasing literature. Strategies and structures aimed at capturing synergies, as currently implemented in several large companies (Weele and Rozemeijer, 1996), have not yet been the topic of scientific research.

2. Objective

Both in the literature and in practice there is still limited knowledge on how to realise sustainable purchasing synergy on a corporate level, while maintaining the advantages of decentralisation. That is the major reason why we have initiated a Ph.D. research project aimed at generating knowledge on this subject. Based on research, this paper takes a close-in look at how purchasing synergy can be defined and what different approaches are used in theory and practice to capture the synergy. This paper tries to answer whether there is a link between different forms of synergy and different kinds of mechanisms, and whether purchasing synergy initiatives need to be crafted to meet the specifics of each situation. Eventually, this paper aims at delivering practical guidelines that help management to choose workable interventions to address particular opportunities for purchasing synergy.

3. Methodology

We started this research project with a literature study. Further, we conducted in-depth case research. Empirical validation of the insights presented in this paper is limited to three companies from the Financial Services, Electronics and Pharmaceutical sectors. This validation was carried out by reviewing existing and developing purchasing synergy initiatives. We have carried out this field research over a period of about one year. The three participating companies were examined through:

- the use of semi-structured interviews
- interviews with large number (10–15) of people from different functions and different hierarchical levels (general management and the management of purchasing, production, product development, and finance and accounting)
- direct observation of company behaviour
- examination of purchasing reports, notes from meetings, project documentation and other (general) company documentation

Additionally, a number of roundtables were organised in which the ideas presented here were tested and developed further in close collaboration with the representatives from the participating companies.

4. Theoretical findings

Our first research question for theoretical study was aimed at finding a proper definition for purchasing synergy. According to Goold and Campbell (1998) synergy is derived from the Greek word 'synergos', which literally means 'working together'. In business usage, synergy refers to "the ability of two or more units to generate greater value working together than each of them could by working apart". Often this is illustrated with the equation: $1 + 1 = 3$. Scanning our library system on the keyword "synergy", we came across a large number of articles and books describing initiatives to capture (purchasing) synergies. Based on the work of Goold and Campbell (1998) we state that most business synergies take one of six forms (see below).

Pooled negotiation power (*buying together*): By combining their purchases, different units can gain greater leverage over suppliers, reducing the cost or even improving the quality of the goods they buy. Companies can also gain similar benefits by negotiating jointly with other stakeholders, such as other companies, competitors, customers, governments, or universities. A lot of references to pooled negotiation power with other stakeholders can be found. The terms used for these kinds of co-operation differ with the business sector: Co-operative purchasing (public sector), Consortium purchasing (industrial companies), Group purchasing (health care) and Buying office (Retail) (Essig, 1998).

Sharing intangible resources (*knowledge and information*): Firstly, business units (BU) can improve their results by pooling their insights into a particular process (e.g. formulating purchasing strategies, applying state-of-the-art purchasing tools and techniques, developing purchasing skills and competencies, gaining access to world-class suppliers), function, or geographic area. Value can be created simply by exposing one set of people to another. The emphasis that many companies place on leveraging core competencies and sharing best practices reflects the importance attributed to sharing knowledge. Secondly, business units can improve their position by exchanging and sharing information about product specifications, company wide contracts, product prices, suppliers, purchasing procedures, and supply market developments.