Results of a Ph D. research project on managing purchasing synergies in large multi-business corporations.

Creating Corporate Advantage in Purchasing

BRIEF SUMMARY

Increasingly companies show 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 in order to make the best contribution to the corporate goals and 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 management of value-adding linkages in the area of purchasing between different business units in a multi-business company. It summarises the findings from Ph.D. research and proposes for a model which may support management by formulating the right strategy and designing the best governance structure aimed creating corporate advantage.

KEY WORDS: *Purchasing and supply management, corporate synergy, strategic management, organisational structure*

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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, 1996; Spekman, 1994; Tully, 1995; Ellram, 1994; Brandes, 1994; Gadde, 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 chains. 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 increased, firms increasingly recognise the necessity of co-ordinating their overall purchasing efforts. Driven by the competitive pressures and the importance of purchasing, especially in the Retail-, Automotive-, Computer-, and Electronics business companies have implemented strategies and structures aimed at capturing purchasing synergies (Keough, 1992). 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'*). 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 governance structures aimed at capturing synergies, as currently implemented in several large companies, have not yet been the topic of scientific research. That is the major reason why we have initiated a Ph.D. research project aimed at generating knowledge on this subject. This paper takes a close-in look at the different approaches that can be used to capture potential purchasing synergy and create corporate advantage. This paper tries to answer whether purchasing synergy initiatives need to be crafted to meet the specifics of a company situation. Eventually, this paper aims at delivering practical guidelines that help management to choose workable interventions to address opportunities for purchasing synergy.

2. Methodology

In order to answer the research questions, we combined different research methods. The first step in the research has been to conduct a literature study and define a preliminary conceptual model. In the second step, a series of five explorative case studies was conducted to explore the topic in depth and test the constructs of the preliminary model and their relationships. In step three, an action research project was executed to test in practice our first findings from the cases and further evaluate the effect of our preliminary design principles and conceptual model. Finally, the design principles were tested through a survey among 46 large companies in The Netherlands. Additionally, a number of roundtables were organised in which our ideas were tested and developed further in close collaboration with the representatives from the participating companies.

3. Theoretical findings

In general, purchasing professionals do not speak of corporate advantage in purchasing or purchasing synergy, they rather talk about corporate cost reduction programs, leverage initiatives, standardization of specifications, co-ordination of (decentral) purchasing, negotiating corporate agreements or reduction of suppliers. However, to study corporate advantage in purchasing it is helpful to define clearly what it is and from what sources it can be derived. From our study it follows that corporate advantage can be regarded as the result of synergetic co-operation between two or more business units. If done properly, effective synergetic co-operation may result in different benefits to the group. These benefits consist of amongst others cost savings, a sustainable competitive position on supply markets, important gains in terms of productivity, better relationships with suppliers (e.g. better quality and delivery from suppliers) and a better use of the supplier's expertise (e.g. contribution to product innovation). The net effect of these benefits can be regarded as purchasing synergy. It is fair to conclude that if a corporation would create more synergies in purchasing than any of its rivals, this would lead to a corporate advantage in purchasing.

What are the motives behind corporate purchasing initiatives? Matthyssens (1997) described, based on some European case observations the usefulness of a co-ordinated purchasing approach as a strategic weapon. Not only to reach a stronger negotiation position by pooling the volumes purchased in the various units, but also to prevent mutually incompatible negotiating strategies.
Faes and Matthijssens (1998) summarise, based on a survey, the top five of perceived benefits of a co-ordinated purchasing approach. The number one benefit on this list was: Better internal exchange of information, followed by: (2) Improved market negotiation strategy, (3) Significant cost savings, (4) More impact on monopolistic supply markets, and (5) Improved insight in market and cost structures. Based on results of case studies at four large German companies, Arnold (1997) stated that the benefits of intra-company purchasing consortia are significant and can be realised without high(er) co-ordination costs. Essig (1998) summarised five major recommendations for purchasing managers wanting to establish 'Co-operative Sourcing' in their companies: (1) Find the right consortium partners and adopt a compatible target system, (2) Develop contractual (working) rules for the consortium, (3) Determine the organisational structure of the consortium, and its operations, (4) Develop a cooperative corporate identity to avoid staff problems and (5) Try to avoid an imbalance of incentives and contributions of members.

Based on a survey, Faes and Matthijsssens (1998) defined some additional guidelines for the implementation of an effective co-ordinated purchasing approach. Firstly, they state that intra-company co-ordination is built up step-by-step (incrementally) and not by a revolution. Secondly, confidence building performance measures are needed to motivate the people involved. Thirdly, build trust by keeping one's word to suppliers and internal customers. Finally, clear communication lines are needed between the people involved. Hughes et.al. (1998) state that a structured (top-down) process for cross-business collaboration needs to be tailored to each business. In other words, the context determines the approach that can be used. They distinguish the following approaches: full centralisation, managed collaborative sourcing, and informal networking and loose collaboration. While informal networking has a role to play, successful capturing of purchasing synergies requires an explicit and well-structured implementation path. According to Hughes et.al. (1998) there are some preconditions that need to be in place. Based on a case study at a US based company, they state that there seems to be a close correlation between the potential value delivered and the level of active executive support. Senior management needs to be prepared to invest time and resources in ensuring that collaboration projects are defined, prioritised, selected, and driven forward. Expectations, outputs and results should be made explicit, and a manageable and agreed number of projects should be fully supported by management of each unit (business mandate). Teams are responsible for planning, organising and implementing a strategy incorporating the individual needs or each business. Progress should be reviewed by the teams and top management. Finally, training and development should be available and networking should be facilitated to enhance teamwork. It is our observation that though these pre-conditions described by various authors are valuable in it self, they are not linked with a specific context. The authors present them as general success factors for managing purchasing synergy. By conducting in-depth case studies we try to find out too what extent they are determined by the company context.

5. Empirical findings

In this section we describe some results from our empirical research (see table 1). Within the scope of this paper we will only highlight our key observations. In the table below we describe three cases along the dimensions: Business context, Strategic focus, Organisational context and Purchasing maturity. The business context differs over the three cases. In the cases Financial and Pharma, competitive pressure is limited (low price-erosion) and due to the fact that both are still very profitable, pressure to reduce costs is also rather low. At Electronics however, competitive pressure to reduce costs is very high (annual price erosion amounts more than 10%!). In the corporate context we also observed differences. Both Financial and Pharma are in the midst of a company-wide decentralisation process in which business units gain more autonomy and corporate involvement in day-to-day business is reduced. Electronics is also restructuring, but in the opposite direction. They are working towards increased integration of the three regional business units on a global scale.
If we take a closer look at the purchasing synergy initiatives, we see that they also differ over the three cases (see table 2). At case 'Financial' they formed a corporate sourcing platform aimed at exchanging information and look for opportunities for professional improvement and cost savings. However, after one year the results are very poor (no costs saved and value created). It is very difficult for Financials central purchasing group to gain more recognition because of the functionally oriented corporate structure, and the undervalued position of Purchasing in it. The initiatives taken by the purchasing director strand in political turf wars between the divisions. At case 'Electronics' we found that the high price erosion at sales markets forced the company to manage purchasing synergies to increase buying power. This buying power was also needed to motivate their most important suppliers into partnership relations aimed at speedy innovation and lowest cost. Electronics appointed a Chief Purchasing Officer with global responsibility for Supply

Table 1 Contextual factors

	Financial	Pharma	Electronics
Business Context			
• products	Banking and insurance	Pharmaceutical ingredients	Lighting electronics
• customers	Consumers + Business	Business-to-business	Business-to-business
• competition	Limited	Limited	Fierce
• business stage	Mature	Mature	Growth
• price erosion	Low	Low	Very high
Strategic focus	Customer value; differentiation	Customer value and diversification	Lowest cost, innovation speed and standardisation
Organisational context			
• structure	Bureaucratic and centralistic structure	Business unit structure	Matrix structure with cross functional teams
• trends	Decentralisation	Decentralisation	Globalisation
Purchasing maturity			
• status function	Low	Medium	High
• orientation	Transactional and commercial	Transactional, commercial and some co-ordination	Cross functional process and supply chain management
• purchasing quote	Low	Medium	High
• organisation	Central group combined with purchasing by internal users	Corporate group, business unit- and site purchasing	Global competence centre with CPO combined with regional groups
• main spend category	General expenses	Raw materials and general expenses	Bill of material (components, IC's)

Base Management issues and implemented a very communication intensive (cross-hierarchical, cross-regional and cross-functional) team structure. The results of this purchasing synergy initiative are significant (e.g. measurable cost savings and better partnering with suppliers). Based on these cases there seems to be a relation between the contextual factors and the purchasing synergy initiatives. It further seems that the purchasing synergy initiatives need to be crafted to meet the specific situation. In table 2 we summarise the major similarities and differences of the purchasing synergy initiatives studied.

6. Towards a model for managing purchasing synergy

From our case research, it becomes clear that standardised solutions for improving corporate purchasing co-ordination practices do not exist. There is no one best way to organise for corporate purchasing, a process of cross-business co-operation needs to be tailored to each business. In other words, the firm specific context determines the measures that can be taken and the approach that should be used. Purchasing executives need to think deeply about implementation. What governance structure will be required to make purchasing synergy work in our company? Based on our theoretical and empirical research we have come up with a model indicating the approach to purchasing synergy that can best be used, given the level of corporate coherence and purchasing maturity in a specific company situation.

Ad) Purchasing maturity

The use of purchasing maturity as a contingency factor, was inspired by the work of Charles Perrow (in Daft, 1992, pp.126) He was the first to describe the relation between '*departmental technology*' (i.e. main characteristics of the work processes) and '*departmental structure*'. Studies have found that when structure and communication characteristics did not reflect the underlying departmental work processes, departments tended to be less effective (Daft, 1992, pp.126-139). In line with this work, we expect that when a firm's purchasing function develops from a traditional operational function towards strategic supply chain management function, the approach used to create corporate advantage in purchasing should adapt to that, in order to be effective. This hypothesis is supported by the work of amongst others Collins and Montgomery (1998:27), Keough (1992), Jones (1997) and Hughes et al. (1998). We expect that certain interventions require a minimum skill base in the business units and at headquarters. Campbell and Goold (1998) state that all corporate interventions require specific skills on the part of the parent organisation. The parent needs specialised knowledge of the particular synergy, the ability to make business managers pay attention and the processes and interpersonal skills to bring about the de-

Table 2 Characteristics Purchasing synergy

	Financial	Pharma	Electronics
Synergy initiative	Corporate sourcing platform	(Corporate) working groups	Global competence centre with CPO
Goal	Exchange of information and look for opportunities for professional improvement and cost savings	Exchange of information and opportunities for co-operation on specific spend categories	Global supply base management on BOM and non-BOM spend
Scope	Synergy within and over Divisions in the Netherlands	Synergy within and over Divisions and BU's in the Netherlands	Synergy within and over the four Regions of the global BU
Synergy form	Exchange of information no concrete actions	Pooled negotiation power and sharing information	Pooled negotiation power and sharing best practices and information
Synergy management	Poor (voluntary, no clear targets, no planning, etc)	Medium (voluntary, no targets, but facilitated by corporate group)	Strong (mandatory, clear targets, performance measurement, etc)
People involved	Only non-purchasing	Only Purchasing	Cross functional
Involvement of:			
• **CEO**	low	low	high
• **CPO**	n.a.	medium	high
• **BU Mgt.**	low	medium	high
• **BU Purchasing**	low	medium	high
Perceived success	Poor results	Varying results	Significant results

sired result. The idea of appointing a purchasing specialist to advise businesses on achieving benefits from pooled purchasing power may be excellent: but if the parent does not have the right person to do it, the new appointment will end up irritating and alienating the businesses. Alternatively, trying to achieve the same result through a wider sharing of purchasing information may, in theory, be sound: but if the outcome is simply indigestible mountains of paper which the businesses are unwilling or unable to wade through, the initiative will sink under its own weight. To measure the level of purchasing maturity, we developed a list of questions based on the results of the case studies and the action research (see Table below).

Ad) Corporate Coherence

Table 3 Questions to determine the maturity of the purchasing function

The more questions are answered with yes, the higher the purchasing maturity...
1. The purchasing spend with outside parties is high and increasing.
2. Top management recognises Purchasing as an important contributor to the competitive position
3. In our company the purchasing function reports directly to top management.
4. In our company purchasing relates to strategic and truly cross-functional processes, with high involvement of line management.
5. In our company, purchasing's main goal is achieving the lowest total cost against highest value.
6. In our company there is a high degree of homogeneity in purchasing needs across the BU's.
7. There are no significant differences in the role and position of the different purchasing departments across the BU's of our company.
8. The skills and capabilities of purchasing personnel in the different BU's are more than adequate for participating in formulating corporate purchasing strategies.
9. The purchasing departments in the different BU's operate on comparable levels of professionalism.
10. The skills and capabilities on the corporate level are adequate for managing corporate purchasing synergy.

This concept, which describes the *ability* of a multi-product, divisionalized corporation *to generate and explore synergies of various types*, was first introduced by Teece et.al. (1994). This ability is often measured in traditional management literature by the proxy concept of 'relatedness' in terms of products and/or underlying resources and capabilities, the underlying rationale being that such relatedness indicated the presence of economies of scope. The use of corporate coherence as a contingency factor followed from our fieldresearch. Seemingly obvious interventions that worked well for one company appeared to be wholly inappropriate for other companies. In some cases, it appeared that even when opportunities for corporate advantage were high from a purchasing perspective (e.g. homogeneous specifications across business-units), initiatives to materialise these opportunities were not taken. It turned out to be that no corporate coherence was created in these companies. These companies, lacked a *clear corporate strategy* (e.g. no strategic focus on related businesses, conglomerate growth strategy, no emphasis on cross-business synergies), an *integrated corporate structure* (e.g. high level of BU autonomy, small size of corporate staffs) and a had a *weak corporate culture* (e.g. low level of trust among business units, no group identity). This low corporate coherence appeared to be a major roadblock for successfully implementing a corporate strategy to create corporate advantage in purchasing.

As we learned during our case studies and action research, corporate coherence has two sides: a structured ('hard') side and a behavioural ('soft') side. The structured side comprises components that can be 'arranged' by management (e.g. making plans together, designing a structure that encourages communication and solves its own conflicts, a good information and communication system, a corporate identity expressed in a house-style, a published mission statement, corporate advertising, office parties and so on). The behavioural side comprises what is usually termed corporate culture (e.g. shared values, management style, communication intention, trust across business-units, learning organisation). In the Table below we describe some of the items we came across in our research and were used in our survey to determine corporate coherence. The results of our survey indicate that different levels of corporate coherence influence the means that will be used to pursue purchasing synergies. The Corporate Purchasing Approaches Matrix (see Figure 1) can be a useful tool to reduce a confusing range of possible purchasing design options to a few generics. It identifies two dimensions – the level of purchasing maturity and the level of corporate coherence – and it describes five generic corporate purchasing designs: decentral, central, co-ordination, federal (or local-led) and centre-led purchasing. Top managers can use this matrix to define an approach that fits their specific situation.

Table 4 Questions to determine corporate coherence

The more questions are answered with yes, the higher the corporate coherence…

1. Our company only concentrates on strongly related business areas.
2. Our company has grown mainly through internal growth (instead of through mergers and acquisitions).
3. Our company is not structured around completely autonomous and stand-alone business units (BU)
4. In our company, BU managers are compensated for participation in corporate synergy initiatives.
5. Co-ordination and co-operation between business units is strongly encouraged and supported by corporate staff groups in other areas than purchasing.
6. Our company has a corporate culture that encourages co-operation across business units.
7. In our company the national organisations have only a limited amount of authority which is combined with global efficiencies through co-ordination (transnational organisation).
8. Our company has a uniform and strong corporate identity.
9. In our company there is little (political) conflict between the different 'blood groups' (e.g. hierarchical levels and functional departments).
10. Our company management information systems are compatible.

Situation 1) Low Corporate Coherence / Low Purchasing Maturity

When corporate coherence is low and purchasing maturity is low, a decentral purchasing approach with moderate voluntary co-operation is appropriate. In this situation, there are not many best practices to share across business units, and also we expect little homogeneity in specifications across business units. However, there are some opportunities to realise purchasing synergy through exchanging information of supply markets, suppliers and prices by using voluntary working groups. A corporate purchasing group may circulate data on the purchasing terms and conditions being achieved by each business unit, while top management maintains strong pressure on the business units to reduce their individual costs. This approach leaves the business units free to determine whether and how they wish to work with other businesses to improve their purchasing power, but gives them no direct help or guidance about what to do and how.

Situation 2) High/Low

When corporate coherence is high and purchasing maturity is low, a central purchasing approach is appropriate. In this situation, companies may set up a central purchasing department with purchasing experts and insist that all purchases of certain items are handled by this department. The main focus is on bundling volumes of similar inputs and mandatory corporate agreements, and not so much on sharing resources, information, or knowledge. Business units have limited autonomy and limited purchasing resources in this centrally driven approach.

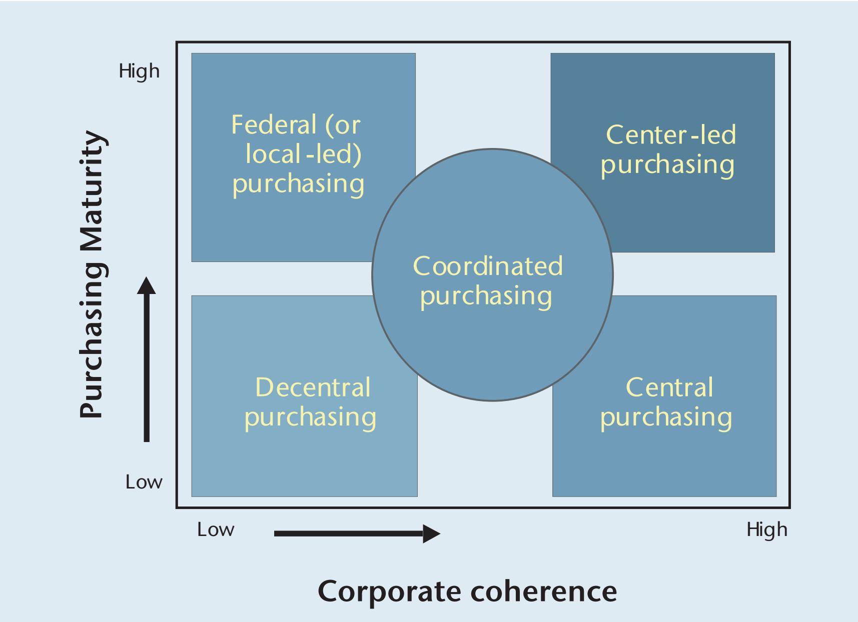
Situation 3) Low/High

When corporate coherence is low and purchasing maturity is high, a federal (or local led) purchasing approach is most appropriate. In this situation, the corporate culture contains a belief that business unit (purchasing) managers should have complete control over their day-to-day operations. Also, there will be a culture of resisting standardised corporate (purchasing) policies as intrusions on local autonomy, and any attempt to impose best practices is likely to be resisted vigorously. In these circumstances, a centrally led intervention will probably have low chances of success. This corporate context will make it hard for even the most skilled purchasing director (or co-ordinator) to have an impact. Maybe the answer here is to motivate voluntary adoption of best practices. The federal approach consists of a small central core, flat in structure, supporting and co-ordinating a number of autonomous purchasing units. These units are interrelated in some way due to shared facilities or services. The power of the purchasing function resides equally with these units, instead of being delegated downwards by the corporate centre. The units have a reporting line to the business unit managers, not to the central purchasing core. There is only a professional relationship between the federal purchasing unit and the central core (see also Chapter Three).

Situation 4) High/High

When corporate coherence is high and purchasing maturity is high, a center-led purchasing approach is most appropriate. In this situation, a fully centralistic approach will not work. The decentral purchasing managers will not easily accept a central purchasing group telling them what to do, or even executing activities for them. However, given the high corporate coherence, it will be sensible to investigate opportunities for purchasing synergies (e.g. harmonisation of specifications, platform sourcing, etc). In this quadrant, we suggest to use a centre-led purchasing approach to capture the purchasing synergies. This structure consists of a network in which purchasing action (i.e. the actual buying) takes place in fully empowered decentral purchasing units or cross business teams, but purchasing accountability and functional excellence is led from the corporate centre by the Chief Purchasing Officer.

Figure 1 Corporate Purchasing Approaches Matrix



Situation 5) Moderate/Moderate
When corporate coherence is moderate and purchasing maturity is moderate, a co-ordinated purchasing approach is most appropriate. In this intermediate situation, a corporate co-ordinator set up central policies to ensure co-ordination and promote professionalisation of purchasing (e.g. encourage the business units to hire new purchasing people). Further, companies can choose from a variety of possibilities, such as establishing joint purchasing teams with members from different business units, nominating selected business units to act as lead buyers for different items, centralising certain aspects of negotiation on terms and conditions but allowing each business unit to make its own buying decisions, and hiring central purchasing experts who are available to the business unit, but need only be used by them if they choose to. This approach may lead to a matrix structure in which the joint purchasing teams report to a corporate purchasing co-ordinator, as well as to their business unit managers.

7. Creating corporate advantage in purchasing in practice

The findings from our research suggest that interaction between four main stakeholders within the company (i.e. CEO, CPO, BU managers, BU purchasers) is crucial for reaping the benefits of initiatives aimed at fostering corporate purchasing synergy. Without a strong CPO capturing corporate synergies is seems almost impossible. However, we have evidence that it is very difficult for a CPO to change the behaviour of BU management without the mandate of the CEO. So there is also a role for the CEO. This role is mainly supportive, but can also be initiating and monitoring. Is it the responsibility for the CEO? We think that in the end the CEO should be responsible, but there are other important stakeholders, like the BU managers and the BU purchasing managers. They all have their specific roles and responsibilities. The question is whether or not the four parties all show the highest possible interest and spend a significant amount of time on issues related to purchasing synergy. Our study shows that there are large differences across different companies in this respect. Another important issue is the nature of the relationships between the four stakeholders. Are these relationships formally structured? Do all parties interact very frequently to discuss issues related to purchasing synergy? Do they jointly conduct tasks with regard to managing purchasing synergy? In practice we have found that these relationships vary from company to company. Some relationships are more intensive in terms of involvement and communication than the other. We state that the better the relationships are formally and informally structured, the more successful the purchasing synergy initiative will be. To facilitate the interaction between the stakeholders, we found that companies may use:

- *Formal organisational mechanisms* (e.g. corporate steering boards, commodity teams, working groups). When a corporate purchasing strategy requires more communication, interaction and joint decision making to implement than will occur naturally, formal co-ordination mechanisms can be used. Formal mechanisms are not a substitute for voluntary and natural processes; rather they are used in addition to them.
- *Informal* networking mechanisms (e.g. annual purchasing conferences through which purchasing managers from different business units can meet each other and establish relationships, recruiting only people that fit the current working culture, management development programs, and job rotation). Facilitating the informal networking of people can stimulate the developing a co-operative group identity and can enhance teamwork (Hughes et al., 1998).
- Coporate wide purchasing *information and communication systems* (e.g. intranet, corporate databases, GroupWare). It is important to recognise that technology can create the connection between people in different business units (e.g. electronic networks, virtual teams), but does not necessarily lead to co-operation. It only leads to more co-operation within interpersonal networks where people have some affinity for one another and share a common language (Galbraith, 1995:52). When people already have the relationships, then technology is a great facilitator.
- Advanced *management control systems* (e.g. plan-do-check-act cycle, working procedures, incentive rewarding joint efforts) The danger of not using management control techniques is that synergy initiatives can all too easily end up as a time-wasting talking shop. Without a clear target, a time limit and monitoring of the progress made, it is easy for managers to lose sight.

We have observed that companies may use different mechanisms at the same time. Further, we observed that the number and type of the mechanisms used differs across the different companies. Some companies prefer to use informal mechanisms others prefer formal mechanisms. The reasons behind this, not surprisingly, are related to the specific company context.

8. Conclusions and general recommendations

In our view, top managers do not add value by choosing a certain approach to create corporate advantage in purchasing as such. They add value by creating a fit between the approach used to create corporate advantage in purchasing, and the level of corporate coherence and purchasing maturity. In practice, this is not very often the case. In the case studies we came across a number of initiatives that were not aimed at creating long-term corporate advantage, but at short-term cost reductions. The results indicate that corporations, just like people with loosing weight, have difficulties to reduce their external costs. The majority of the corporations in our research show corporate purchasing synergy projects that could be characterised as 'crash diets'. These synergies result from spend area optimisation and are typically not sustainable. It appears that corporations have difficulty to fundamentally change their 'life styles' and realise sustainable purchasing synergies. We proposed for a coherent set of measures that corporations can take to change their 'life style' with regard to corporate purchasing synergies. Further, we described a matrix that can be used to determine which generic corporate purchasing approach is best in a given specific company situation. Because of the company specific nature, detailed directives on how and when to implement the mechanisms described earlier cannot be given. However, we can give some general recommendations related to creating corporate advantage in purchasing.

1. Creating corporate advantage in purchasing is a business issue, not only a purchasing issue. It often starts with a CEO (or top management team) setting a corporate business goal and stressing the important contribution the purchasing function can make in achieving this corporate business goal. The implication of this observation is that a CPO should focus his attention on corporate initiatives that originate from the business and should be well prepared to support these initiatives. 'Selling' corporate purchasing initiatives to business unit managers, will not have a significant effect as long as these managers do not perceive the initiatives as essential for achieving their business goals. Some examples of corporate initiatives that eventually may lead to changes in corporate purchasing strategy are: grouping previous separate business units, or national organisations, under one single general manager, mergers and acquisitions, corporate cost reduction programs, and rationalisation of the corporate product and brand portfolio.

2. Corporate purchasing initiatives should not only focus on negotiating corporate contracts for commodities and non-production goods and services. The most significant gains are to be made in consolidating purchasing in those spend categories that are really important for the business unit. However, despite the potential gains, corporate initiatives aimed at these spend categories, often directly related to the end product, will meet great resistance in the business units. Simply, because of the direct effect these spend categories have on the financial performance of the business unit. Since business unit managers are profit and loss responsible, they will be very careful to become too dependent of other business units for their strategic supply. A CPO that does not walk away from this challenge and persists in trying to achieve purchasing synergy through harmonisation and/or standardisation across business units will gain respect and credibility among business unit managers. This will pave the way for future corporate purchasing initiatives.

3. Creating corporate advantage requires more than just consolidate spend information and a few group meetings. Based on consolidated spend information, it is relatively easy for a corporate purchasing group to come up with a corporate purchasing strategy aimed at realising synergy, with or without the help of external consultants. However, implementing this corporate purchasing strategy requires changes in behaviour of the purchasers and internal users at the business unit level. When the corporate purchasing group does not have a detailed insight and knowledge of the world behind the consolidated numbers, they risk formulating an 'ivory tower strategy'. This can lead to both resistance at the operational level (e.g. "we do not want to change suppliers!") and to frustration at the corporate level (e.g. "business units do not use our contracts!"). To prevent this, we recommend early involvement of business unit managers (e.g. let them chair cross-business teams) and business unit purchasers (e.g. stimulate them to formulate annual purchasing plans) in the development of corporate purchasing strategies.

4. Recognise that soft issues play a major role in realising purchasing synergy. The CPO should be very careful with starting initiatives that take away purchasing responsibility from the business units. Business unit managers will perceive this as an attack on their autonomy. They accept this from their boss, the CEO, but probably not directly from a CPO or a corporate purchasing co-ordinator. Further, business unit managers might resists corporate purchasing initiatives because they do not like to become dependent on others for their supply, because the do not trust other business units or corporate support groups, or because they like to control their own purchasing. Workshops and informal group sessions through which the different BU managers learn to know each other and build some mutual trust can be very helpful to solve this issue.

5. Corporate managers should be aware of the (hidden) side effects of corporate purchasing initiatives (e.g. elimination of purchasing positions, reassignment of purchasers, increased need for training and recruitment, and the increased need for investments in ICT). Some of these side effects may cause resistance among business unit managers as well as business unit purchasers.

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