

# Centralized Purchasing Versus De-Centralized Purchasing

Presented by ... Pam Roeding, ISM-CPM, CPSD  
Procurement Specialist with the City of Longmont

## **Agenda**

- Introduction
- Definitions for Centralized and Decentralized Purchasing
- Centralized Purchasing
- Decentralized Purchasing
- Hybrid Centralized/Decentralized Purchasing
- Centralized Pros and Cons
- Decentralized Pros and Cons
- Generalizations of Structural Arrangements
- Questions

## **NIGP**

### The Institute for Public Procurement Terms



### **Centralized Purchasing**

An organizational structure in which the rights, powers, duties, and authority relating to procurement are vested in the chief procurement officer (CPO). While the CPO may delegate some of these powers to others, the final authority resides with them.

### **Decentralized Purchasing**

An organizational structure in which designated personnel/operating departments from within the organization have the delegated authority to select the sources of supply and contract directly with suppliers without consulting or receiving approval from the chief procurement officer (CPO). It should be noted that the scope and degree, if any, of decentralized procurement varies from agency to agency.

Centralized purchasing system- all purchases are managed by a single team, department, or branch. Any employee or team purchase must be submitted, reviewed, and approved through a single purchasing process.

Decentralized purchasing- individual stakeholders make purchases for their departments. Unlike centralized purchasing, where all purchasing is conducted by a central procurement team.

Technology has enabled businesses to deploy a hybrid purchasing model that helps create a balance by allowing stakeholders to exercise their authority while retaining vital aspects of centralized control.

## **Centralized Purchasing**

1. A centralized purchasing system does not enable or attempt to purchase every good/service utilized by agencies of the city.
2. The responsible and reasonable delegation of purchasing authority is an essential component and a “best practice”.
3. Centralized purchasing ensures consistency and integrity of the procurement process, policy and procedure empower citywide procurements to maintain the essential “good government” principles of “due diligence” providing checks and balances on city purchases.

The use of centralized purchasing is recommended by:

- National Institute of Governmental Purchasing (NIGP),
- the National Association of Purchasing Management (NAPM),
- by the American Bar Association through its Model Procurement Code,
- by the National Institute of Municipal Law Officers (NIMLO) through its Model Procurement Ordinance
- and by the National Association of State Purchasing Officials (NASPO).

## **Decentralized Purchasing**

1. Decentralized purchasing allows individual stakeholders to make purchases for their departments.
2. Purchasing processes are defined and administered uniformly and service delivery managers are required to follow the rules, but they are afforded administrative discretion to develop unique solutions to their problems.
3. Behavior is controlled and to system integrity is maintained through enabling legislation.
4. Often credited with enabling service delivery managers to respond rapidly to changing conditions.

## Hybrid Centralized/Decentralized Procurement



A hybrid model gives your team the best of both worlds.

At a time when the future is more uncertain than usual, this combination is not just advantageous- it is a necessity to thrive long-term.

To function efficiently you need elements of both.

Striking the right balance will differ greatly between organizations as there is no one size-fits-all approach .

An organization's all-embracing approach, needs and preferences combined with staff capabilities will help shape what your hybrid mode looks like.

The optimal “balance” will likely shift over time to accommodate new initiatives as well as advance the growth of the organization.



**Centralized Pros and Cons**  
– all goods and services  
are purchased at through  
purchasing

PROS

- ✓ Opportunity for more savings
- ✓ Transparency
- ✓ Standardized purchasing processes at a centralized location
- ✓ Improved- supplier relationships, risk mitigation, and inventory management
- ✓ Less maverick spending
- ✓ Central location for purchase orders, contracts and spend data/reporting

CONS

- Delays can occur becoming costly
- Decreased access to discounts can occur
- Decreased access to supplier diversity may be limited
- Individual location's unique needs may not be met


## Decentralized Pros and Cons - purchasing is managed by different business units

### PROS

- ✓ Increased supplier diversity
- ✓ Increased knowledge of local contacts
- ✓ Faster decision-making
- ✓ Shorter turn-around times and fewer bottlenecks
- ✓ Increase involvement and engagement among decentralized teams

### CONS

- More suppliers
- Miss volume discount opportunities
- Siloed and invisible spend data
- Duplication of effort
- Higher risk exposure
- Increase maverick spend and non-compliance
- More RFP's, contracts and workload



**In sum, the following generalizations can be made regarding the structural arrangements (centralization/decentralizations) of the purchasing process in local governments:**

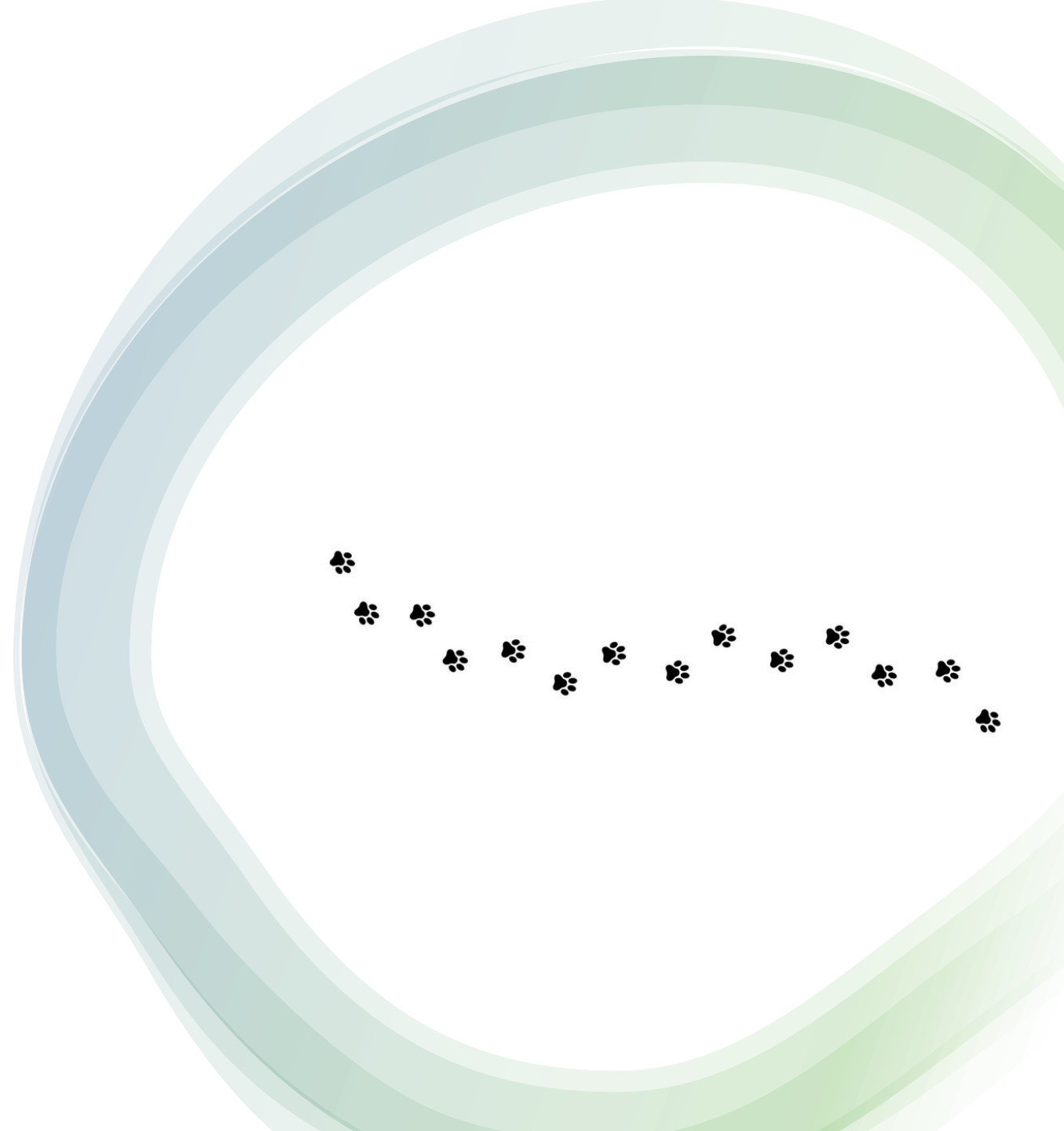
- **Efficiency**
- **Control**
- **Accountability**



## ***Efficiency -***

Under the centralized model, where efficiency is a major organizational objective, the primary assumption is that authority and decision-making responsibility must be concentrated in the purchasing agency.

In a decentralized system it is assumed that service and sub-service delivery managers are more intimately familiar with their unique programmatic needs and therefore efficiency is increased by reducing the number of reporting channels necessary under a central system.



## ***Control-***

In a centralized structure, purchasing professionals are assumed to meet the needs of service delivery managers within a system that values control over flexibility.

In a decentralized purchasing system, bureaucratic control (concentration of power through “red tape”) is minimized to provide service delivery managers the flexibility to adapt to their environment. It is assumed, in turn, that these managers act in the best interest of the organization, are knowledgeable in the purchasing process, and that external forces (mainly technology) provide the administrative support to conduct their affairs according to established purchasing processes.



## ***Accountability-***

Emphasis is placed on accountability, controlling individual behavior and locating authority in the hands of the purchasing professionals under a centralized purchasing process.

While under decentralized purchasing processes, service and subservice delivery managers are charged with the responsibility of articulating the right mix of goods and services that are to be consumed, when they are to be consumed, and that service delivery managers have the skill and knowledge to execute the public needs within code and legal constraints.



**QUESTIONS/COMMENTS????**

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