Centralized Vs Decentralized Procurement:  
The Case Study of Coca-Cola Africa

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Presented by: John Karani,  
B.A-Econ (UoN), MBA (USIU), MCIPS (UK), MILT UK,
Objectives for today…

- Introduction
- Some theoretical concepts…
  - To Centralize or not to centralize
- The case for Decentralized Procurement
- The case for Centralized Procurement:
  - The case study of Coca-Cola East & Central Africa
- Some concluding thoughts…
Introduction & Brief Bio-data...

◆ Spiritual:
  ◆ Believer in God & in His Son Jesus Christ
  ◆ Passion for Men’s Ministry
  ◆ Passion for Married Couples Ministry

◆ Family:
  ◆ Husband to one wife
  ◆ Father of six children

◆ Academic:
  ◆ BA-Economics, University of Nairobi
  ◆ MBA-Strategic Management, United States Int’l University
  ◆ Pursuing MBA in Entrepreneurship Management

◆ Work:
  ◆ Coca-Cola Central, East & West Africa
  ◆ Wrigleys East Africa Ltd
  ◆ Glaxo-Smithkline Kenya Limited
  ◆ East Africa Breweries Limited
  ◆ Kenya Cooperative Creameries
  ◆ Kenya Meat Commission

◆ Professional:
  ◆ MCIPS, Chartered Institute of Purchasing & Supplies
  ◆ MILT, Chartered Institute of Logistics & Transport
  ◆ Consultancy

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Getting to know me and my clan...
Definition of a consultant...

The term “consultant” has become much maligned and in disrepute:

OR

WHAT TIME IS IT?
WHAT TIME DO YOU WANT IT TO BE?

OR

WHAT TIME IS IT?
CLIENT
CONSULTANT

OR

WHAT TIME IS IT?
CONSULTANT
GIVE ME YOUR WATCH AND I WILL TELL YOU.

THOSE WHO CAN... DO.
THOSE WHO CAN’T... TEACH (OR CONSULT).

My future career is clear...
Some thought starters...

To Centralize or Not to Centralize

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First Learning – Start with Pareto Analysis An Example of The Theory

Total Spend £22.5m

Top 100 Suppliers (7%) account for 82% of Spend
Top 20 Suppliers (1.3%) account for 59% of Spend
Top 10 Suppliers (0.7%) account for 48% of Spend
Top 5 Suppliers (0.3%) account for 38% of Spend

67% of Suppliers (1013) account for 2.4% of Spend
Average spend/Supplier: £533

Total Suppliers 1513

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55 suppliers. Top 20 make 80% of our spend
Supply Positioning determines decision…
Where do we place the Commodities??

STRATEGIC SECURITY
- Secure supply

TACTICAL ACQUISITION
- Minimise attention
- Make it easy
- Reduce transaction costs

STRATEGIC CRITICAL
Manage supplier

TACTICAL PROFIT
Drive ‘profit’

% of Total Company Expenditure

- Market difficulty
- Complexity of Change
- Business impact

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Transactional Vs Collaborative Relations determine ability to Centralize or not...

- **High Importance of Purchases**
  - **Low Value of Purchases**
    - **Transactional relationships**
  - **High Value of Purchases**
    - **Collaborative relationships**

Value of Purchases

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Supply Positioning: Is a key determining factor...

**STRATEGIC SECURITY**
- Longer term contracts
- Stockholding
- Alternative Products
- Indexation

**STRATEGIC CRITICAL**
- Medium/longer term contracts
- Detailed market knowledge
- Relationship management
- Contingency planning

**TACTICAL ACQUISITION**
- e-Procurement
- Purchasing cards
- Call-off contracts
- User purchases

**TACTICAL PROFIT**
- Shorter-term Contracts
- Market knowledge
- ACTIVE Sourcing
- Flexibility

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To Centralize or not to centralize...

Strategic Security - (Tier 2)
- Ensure Supply = ✓ Supply x Cost

Nature Supply Market:
✓ High level operational risk
✓ High level supplier management
✓ Grow Alternatives
✓ Few supplier in market

Strategic Critical - (Tier 1)
- Ensure Supply & Maximize Cost = ✓ supply ✓ Cost

Nature Supply Market:
✓ Few selected suppliers / strong relationship
✓ Med / High level operational risk
✓ Careful attention cost
✓ High level supplier management

Tactical Acquisition - (Tier 4)
- Minimise Effort = x Supply x Cost

Nature Supply Market:
✓ High volume / Low transaction spend
✓ Simplify transaction (e-cat / proc card)
✓ Collaboration Agreements
✓ Minimum supplier management

Tactical Leverage - (Tier 3)
- Optimise Cost = x Supply ✓ Cost

Nature Supply Market:
✓ Aggregate spend & optimise cost
✓ Low level operational risk
✓ Auctions
✓ Low level supplier management

Nature Supply Market:
✓ High level operational risk
✓ High level supplier management

Level of Expenditure

HIGH
LOW

Nature Supply Market
& Service Failure
Risk to Org’n

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Supplier Preferencing: affects our ability to Centralize or not ...

- **DEVELOP**
  - Nurture customer
  - Grow business

- **CORE**
  - Maximum attention
  - Actively defend
  - Increase share of supply

- **NUISANCE**
  - Minimum attention
  - Lose without concern

- **EXPLOITABLE**
  - Maintain high prices
  - Accept risk of lost business

Account attractiveness:
- High
- Low

Relative Value:
- High
- Low

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Why decentralized Procurement?

The Case for Decentralization...
What is Decentralized Procurement...

- Decentralized Procurement is where the purchasing decision making process is “localized”

- Decentralized purchasing involves having the procurement managers, project, subsidiary, office or departments purchasing their own products or services.

- Decentralized purchasing normally has individuals attached to the project manager or office responsible for the purchasing needs of the project or office.
Advantages of Decentralized Procurement:

- Fast response and decision making process
- Reflective of local operating dynamics
- Nimble and flexible allows organizations to take advantage of division of labor
- Empowers employees and allows them to improve their performance timeously
- It encourages motivation and creativity
- It allows many minds to work simultaneously on the same problem
- Accommodates flexibility and individualization
Advantages of Decentralized Procurement...(cont’d)

- Materials can be purchased by each department locally as and when required.
- Materials are purchased in right quantity of right quality for each department easily.
- No heavy investment is required initially
- Purchase orders can be placed quickly.
  - Faster replacement of defective materials
  - Shorter approval process
  - Faster support
  - More secure and fault-tolerant
Advantages of Decentralized Procurement....(cont’d)

- Allows organizations to take advantage of division of labor.
- Empowers employees and allows them to improve their performance timeously.
- Allows managers of business areas to use first hand knowledge and experience to improve their areas.
- Better IT asset management
- Ensures quality and standards
- Better accountability
Disadvantages of Decentralized Procurement....

- Duplication of effort in buying, receiving, inspection and accounts payable
- Longer RFP cycles
- Longer support cycles
- Everything is in one place
- Unnecessary asset duplication
- Technology compatibility issues
- Difficult to manage

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The Case for Centralized Procurement....

- Centralized purchasing involves having a central location within the organization to buy goods and services for the organization.
- Centralized purchasing provides for less duplication of resources and processes.
- Centralized purchasing also provides for efficiency and effectiveness in contracting or purchasing.
- Centralized purchasing also brings about major bulk discounts because of volume purchases and economies of scale.
Why Centralized Procurement?

The Evolution of Centralized Procurement in Coca-Cola East & Central Africa
Introducing Coca-Cola Central, East and West Africa

<table>
<thead>
<tr>
<th>Franchise</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Africa Franchise</td>
<td>6</td>
</tr>
<tr>
<td>Central Africa Franchise</td>
<td>10</td>
</tr>
<tr>
<td>Horn, Islands and Mid Africa Franchise</td>
<td>12</td>
</tr>
<tr>
<td>Nigeria Franchise</td>
<td>1</td>
</tr>
<tr>
<td>(French) West Africa Franchise</td>
<td>11</td>
</tr>
</tbody>
</table>

715+ Million People
93 Bottling Plants
39 Countries
5 Franchises
There’s a Hierarchy of System Leverage...
Think Global, Act Local
Centralized Procurement should focus on enhancing ‘Partnership’ to deliver sustainable competitive advantage.

- Highest Quality, Lowest System Cost
- 100% Continuity of Supply
- Supply Chain Strategies to support TBC
- Operate as a Model Corporate citizen
- Preferred Access To Innovation
- Supplier Alignment & System Leverage

Competitive Advantage
Linkages into Corporate Procurement via Regional Forums to promote agility

The majority of the interaction is done through Corporate Commodity teams.
Negotiations process reinforces accountability and empowerment

#1

Establish Baseline Cost & Negotiation Goals

Group Commodity Teams

#2

Carry Out Negotiation

#3

Communicate Results To Bottlers

#4

Bottlers: Contract With Suppliers
Release to Demand
Validate Savings

Bottler CPO
Factors determining “Centralizable” commodities

For each Spend Category, Review Procurement Improvement Levers

Procurement Levers

Questions to ask...

- Do we know the spend for each category?
- Can we align with low-cost producers?
- Can we reduce costs by consolidating volumes?
- Can we reduce costs through unbundling and up-streaming?
- Can we hedge commodities?
- Can we leverage innovations through an aligned global supply base to differentiate with consumers or reduce cost?

- Can we reduce cost by changing specifications?
- Can we reduce cost by using alternative materials?
- Can we allocate business to minimize freight cost?
- Can we reduce cost through backhauls?
- Can we reduce inventories?

Strategic Sourcing
- Demand aggregation
- Supply base optimization
- Unbundling/Up-streaming
- Hedging

New Technologies
- Joint developments
- Global reach & volume

Specification Optimization
- Standardization
- Harmonization

Supply Chain Cost Reduction
- Logistics optimization
- Demand planning, forecasting/inventory reduction

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Centralized Procurement must focus on leveraging the Collective Genius of the supply chain system...

- **Eliminating** system inefficiencies by improving our continuity and quality of supply.
- **Working** with all key stakeholders to ensure suppliers will meet elevated and increasingly precise quality specifications.
- **Transferring** expertise and knowledge to our suppliers increasing their capability to eliminate their own cost inefficiencies, passing the benefits on to our system.
- **Leveraging** “unbundling” and “up-streaming” to ensure our scale advantages are leveraged at every level of the supply chain.
- **Working** with other stakeholders to develop new products/package designs that will improve quality and efficiencies.
- **Identifying** and developing single-source or “anchor” suppliers. By methodically ratcheting up our procurement levels with these suppliers, we will gain consistent, enduring improvements from suppliers.
- **Fully leveraging** the scale of our system to continue enhancing our ability to profitably manufacture and market our products.
Benefits of Centralized Procurement…

The Coca-Cola Experience…

- Leverage Volume at the highest possible level
- Operate as an aligned collaborative team
- Extract value from the supply chain base
- Share knowledge and best practices/processes
- Build a high level of trust and confidentiality
- Optimize spend across our organizations
- Utilize commodity risk management and all available procurement strategies in all appropriate categories
- Negotiate from a superior level of knowledge
- Develop world class transactional and sourcing business systems
- Develop professional procurement management routines
- Build support internally and externally towards procurement initiatives
Collaborative Procurement: expectations.... The Coca-Cola Experience

- Local strategies should dovetail strategies as adopted by Corporate;
- It aims to strengthen the Partnership that exists between The Coca-Cola Company and its local Bottling partners;
- Fair representation is advocated across all the Bottlers, for smaller Bottlers who can’t be present: mandate is to be obtained;
- Transparency is key: No confidential rebates or discounts to exist outside of the agreement;
- Suppliers should view us as a United front;
- Tender process to be done on a centralised basis – [opportunity for e-source tools];
- SLA agreements can be Bottler specific;
- Volumes to be aggregated in order to secure best possible price;
- Quarterly updates should be followed by Group discussions;
- Business Plan or strategy must be supported by all members;
Challenges in Centralized Procurement...

The Coca-Cola Experience

Opportunities...
- Fully leveraged the procurement programs
- Economies of scale
- Flexibility
- Supplier’s buying power
- Knowledge and skills transfer
- Eliminate duplication of resources and processes
- Optimized Inventory Management leading to...
- Stock reduction and minimized write-offs/obsolescence

Challenges...
- Formal Metrics for Commodity teams
- Need for formal contracting and commitments to suppliers/SLAs
- Benchmarking process intimidating
- Trust issues abound
- Short-term leverage view
- Separate, uncoordinated approaches
- “Sleeping in the same bed...dreaming different dreams”
- Co-ordination and communication may be slow and difficult
- Competitive issues: Monopolies Acts in RSA
- Lack of system commitment
- Suppliers threatened by joint purchasing programmes
Success through centralized procurement...

- Needs formal procurement structure & process to be implemented through commodity teams
- Needs Aligned System contracts in all key spend categories
- Needs a united front and consistent approach to Supply Base
- Calls for the entrenchment of Team-based approach with well-defined roles and points of contact
- Calls for Improved internal and external communication
- Calls for the entrenchment of a logical, systemic approach to Supply Management
- Calls for improved utilization of all available resources and knowledge bases local and global
- Needs improved procurement expertise/capability

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The journey we have travelled towards centralization…

From…

→ Centralised Procurement (source, negotiate, contract SLA, allocate) for Major Strategic Commodities / Categories / Suppliers
→ Ensure System Continuity of Supply and Access to Technology
→ Leverage and Optimise System synergies
→ Provide region access to TCCS wide programs and support to achieve better Leverage, Information and Value
→ Provide System Supplier Interface
→ Participate in Sugar Lobby and Commercial Initiatives
→ Facilitate Cost Forecasting.
→ Support New Product/Package launches
→ Arrange and Lead Supplier and Procurement Forums

To …

→ Strategic Procurement advise and centralisation for Major Commodities / Categories / Suppliers i.e. facilitate and oversee Commodity Team activities
→ Ensure System Continuity of Supply and Access to Technology
→ Provide Functional Leadership, sharing Subject Matter Expertise, Best Practices and Knowledge to Bottlers
→ Conduit into GP&T Atlanta and CEPG, provide Company and TCCS wide program support to optimise Leverage, Information and Value
→ Provide guidelines and support on how to organise Best-Practice Procurement Solution
→ Lead Supplier and Bottler Procurement Forums
→ Facilitate Benchmarking & Cost Forecasting
→ Harmonise and co-develop Packaging standards & procurement solutions across all spend categories
→ Supplier Development, Evaluation & Rationalization
→ Facilitate Procurement Training and Development Programs

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Some concluding thoughts...

Which way forward???
Summary: Decision-Making Structures under Centralized Vs Decentralized systems....

<table>
<thead>
<tr>
<th>Decision-Making Structure</th>
<th>Communication Cost*</th>
<th>Individualization and Ability to Use Many Minds Simultaneously</th>
<th>Ability to Resolve Conflicts</th>
<th>Autonomy, Motivation, and Creativity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralized Hierarchy</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Loose Hierarchy</td>
<td>Medium</td>
<td>Medium</td>
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<td>Medium</td>
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<tr>
<td>Democracy</td>
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<td>Medium</td>
<td>Medium</td>
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<tr>
<td>Market</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

*Note: In the Communication Cost column, low costs are desirable, and high costs are undesirable. In all the other columns, “high” is desirable, and “low” is undesirable.
Conclusion: Which way forward???

- Some organizations adopt a hybrid system that combines both centralized and decentralized purchasing.
- Centralized purchasing is suitable for larger organization-wide contracts; individual business units need autonomy to make small purchases for their departments or subsidiaries.
- The Case of IBM under Lou Gerstner, who, faced with the tough choice of either to centralize or decentralize IBM.
- To Centralize or not Decentralize depends on many dynamics and variables in an organization.
CHANGE

A Bend In The Road Is Not The End Of The Road...
Unless You Fail To Make The Turn.
QUESTIONS & ANSWERS