

## Best Practice eXensys – Purchasing Models

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## Introduction

Today there are tremendous business pressures on the procurement department to meet three primary challenges viz. -

1. Identify opportunities for savings & deliver value
2. Identify optimal sources of supply
3. Reduce operational costs

To meet the above objectives, many organizations now use centralized purchasing. Through centralized purchasing organizations can achieve standardization and eliminate duplication of work and negotiate low prices because of volume buying. But, there are few disadvantages associated with centralized purchasing, the critical one being long lead times. Procurement responsiveness is faster when the purchasing is decentralized or distributed and the procurement department works very closely with the operations, but the costs are huge. Centralized and distributed purchasing, thus have their own advantages and disadvantages.

In centralized purchasing, an enterprise-level purchasing department makes critical purchasing decisions and controls the purchasing functions across the organization. In decentralized or distributed purchasing, individual business units are empowered to make purchasing decisions and purchase materials required by them. In a hybrid purchasing model, few items can be bought centrally and few items are purchased locally by the individual business units. A hybrid model is the most advantageous as it has the advantages of both centralized and distributed purchasing.

Advantages of centralized and distributed purchasing are listed in the following table.

Sl. No.	Centralized Purchasing	Distributed Purchasing
1	Greater control of the organization and the business units	Easy access to local and specialized vendors
2	High buying volume and greater negotiating power with the vendors	Empowers individual business units to take decisions – job satisfaction is more
3	Less no. of vendors	Works very closely with the operations
4	Easy to align with the organization strategy (in terms of budgets etc)	Purchases are driven by the customer needs and demands
5	Allows business units to focus on their core competencies	Faster lead times
6	Low order costing	Faster response to procurement requests

eXensys recommends a hybrid model by supporting centralized purchasing model for greater cost control, common products, and corporate leverage, and distributed purchasing for faster lead times, and specialized products. Further, eXensys will help enterprises

- Align purchasing structure with organization structure and strategy

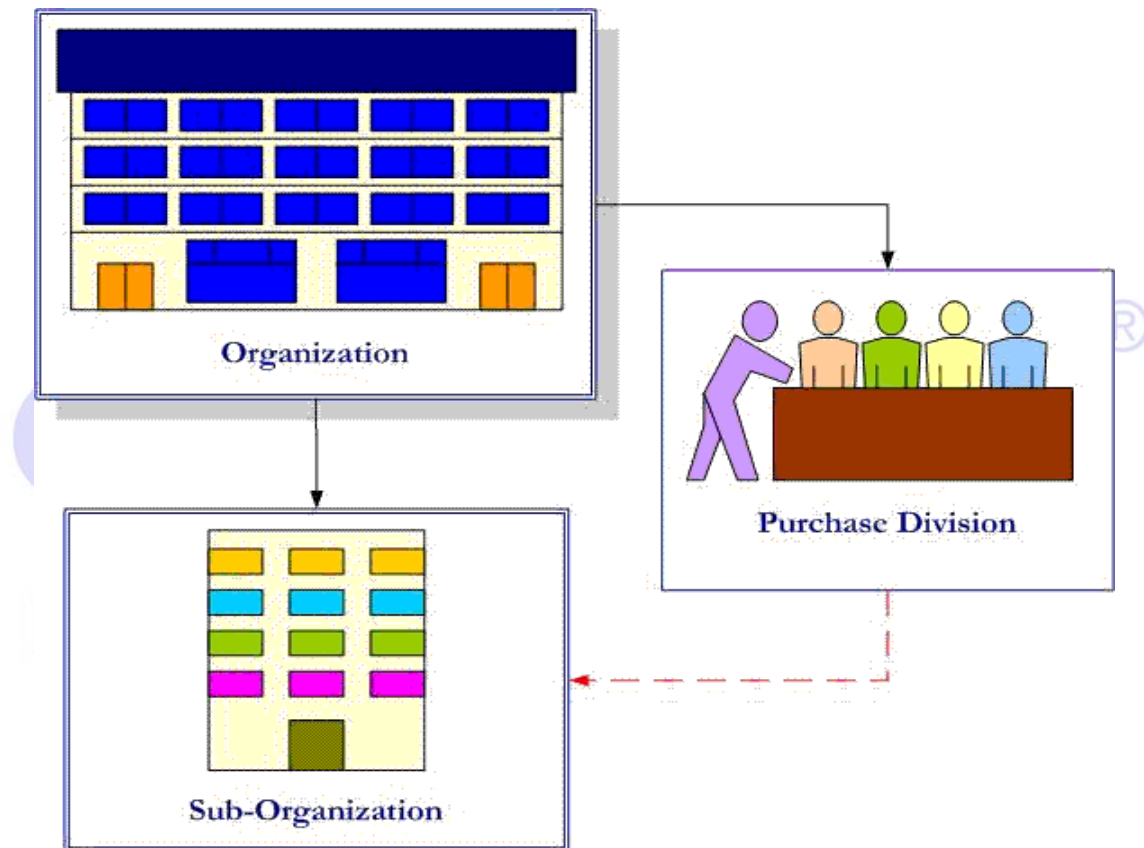
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- Configure centralization or distributed approach based on the nature and type of goods and services procured, and
- Customize the purchasing structure to suit the company's requirements

This white papers presents a detailed analysis of the purchasing structure of eXensys and the benefits of using eXensys to meet the procurement objectives.

## Overview

The purchasing structure of eXensys is represented in the following figure.



An organization represents a logical, legal entity, which has its own balance sheet and profit and loss account. A sub-organization represents a physical, operational business unit under an organization such as a head office, branch, warehouse, distribution center, etc. A purchase division represents a logical organizational unit, with a set of users responsible for purchasing a group of items or services (purchase groups) assigned to one or more sub-organizations. A single purchase division can be assigned to multiple sub-organizations, while the set of users can work on the sub-organization based on the security permissions. An item or service can belong to a single purchase group.

eXensys supports centralized, distributed and hybrid or semi-centralized purchasing models. For centralized purchasing, a single division can be assigned to all the sub-organizations. For

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distributed purchasing, each sub-organization is assigned to a distinct division and in a hybrid purchasing model or semi-centralized purchasing model, multiple purchase divisions can be defined, with each purchase division assigned to a group of sub-organizations.

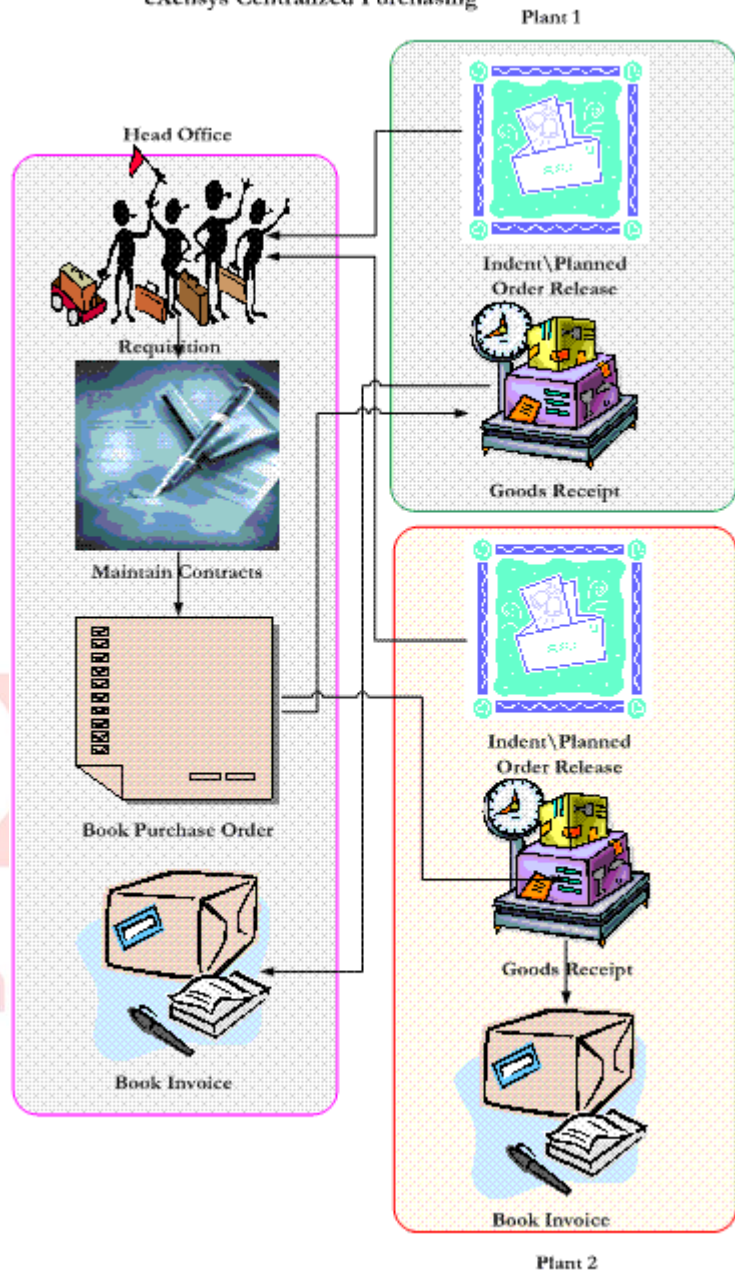
A detailed description of how the centralized, distributed and hybrid purchasing models are facilitated through eXensys is given below.

### 1. eXensys Centralized Purchasing

For centralized purchasing, define one purchase division for each organization and assign the same purchase division to all the sub-organizations under the organization. Further, in centralized purchasing, Procurement function will be applicable to only one sub-organization. Multiple purchase groups can be assigned to the division and multiple users across the sub-organizations can be assigned to the division. User permission on the division will work in the transactions based on the function applicability, division-sub-organization mapping and the user permissions on the sub-organization.

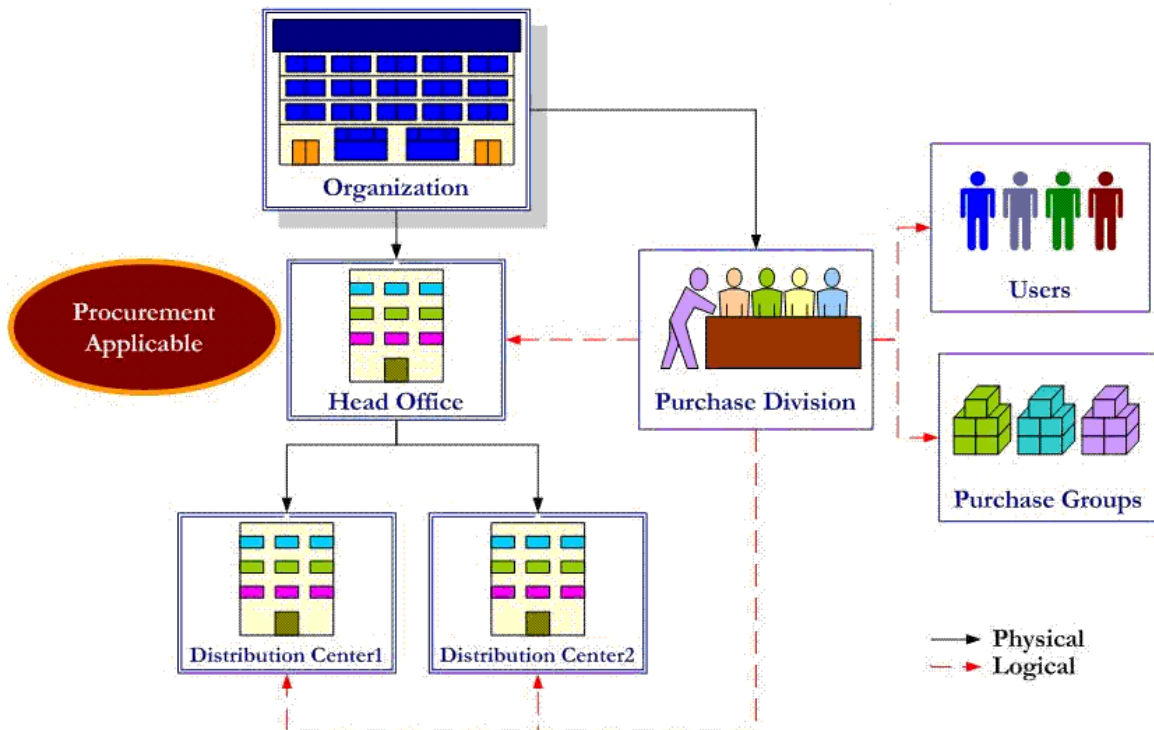


eXensys Centralized Purchasing



1.1 Centralized Purchasing - Single User Group

### eXensys Centralized Purchasing Structure – Single User Group



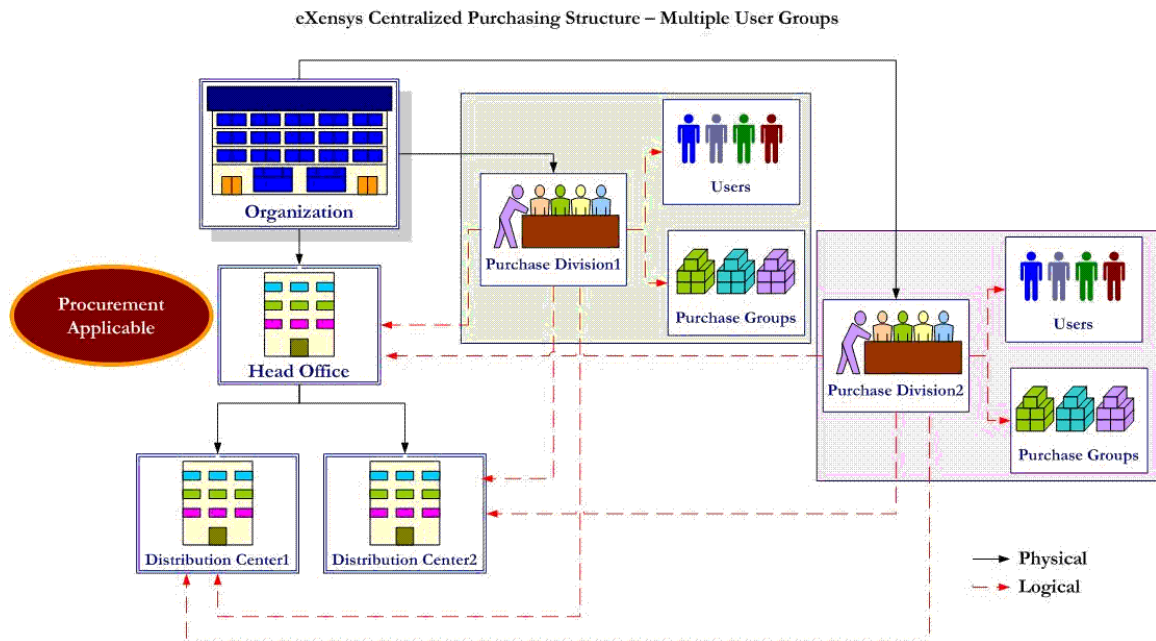
Across the purchase cycle, the transactions are booked at head office against the purchase division, but the delivery locations could be head office, distribution center or warehouse or a combination of these. Back orders and indents generated at the distribution center can be converted into purchase requisitions at the head office. The head office and the purchase division will maintain all the contracts and blanket agreements with the vendor. However, these global contracts can be used for procuring material for distribution center, warehouse or the head office itself.

Further, the purchase division can be configured to raise contracts or orders only for those items that are assigned to the purchase groups. Request processing, contract management and order processing will all happen from the head office, while the goods receipt and invoice can be processed at the head office, distribution center or the warehouse. A single order can be configured to deliver items partially to the distribution center and partially to the warehouse. Goods receipt and invoice can be captured at the respective locations.

## 1.2 Centralized Purchasing – Multiple User Groups

This will work similar to single user group scenario, but there will be multiple divisions created to support multiple user groups and different purchase groups. However each division will be mapped to all the sub-organizations. This scenario works when the user groups are different or some specialized products need to be purchased. Requisition consolidation will happen at head office, based on the division and purchase groups mapping. Further, the users mapped to different divisions can be different so that the user security on the division can be built. However, a single user can work in more than one

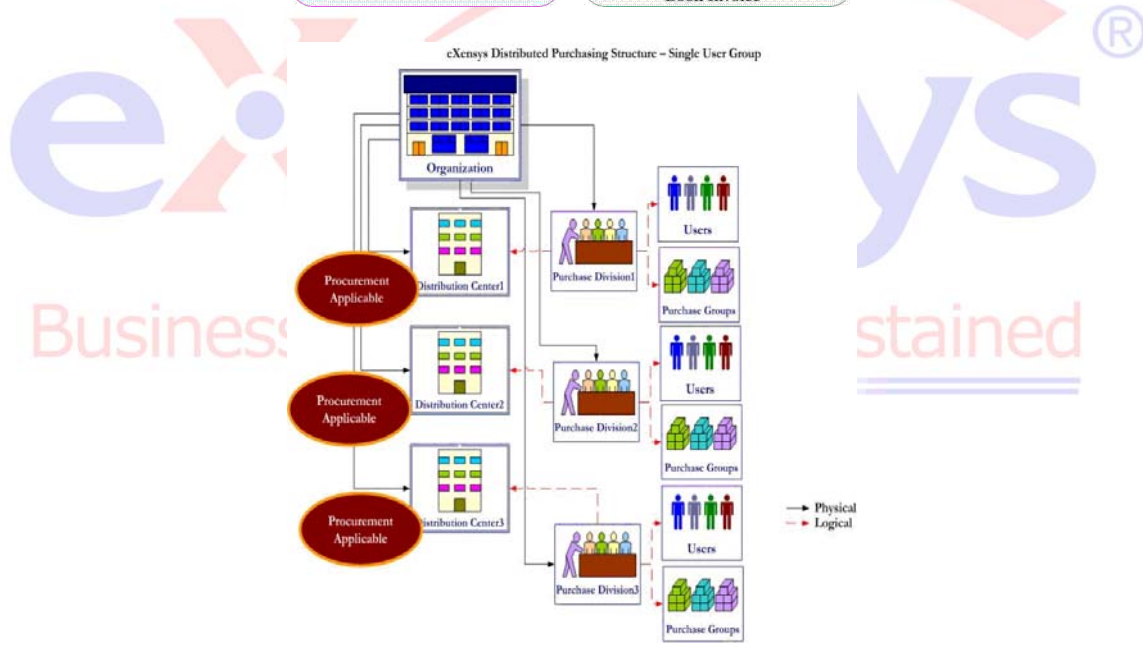
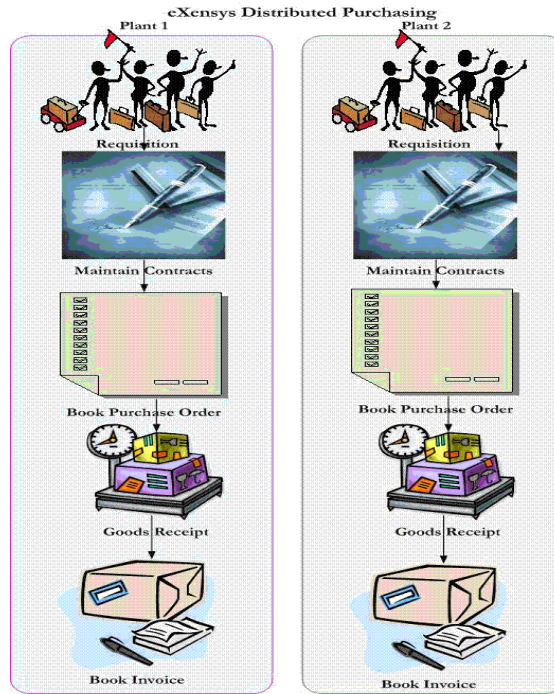
division. The crux here is that the user groups belong to the same sub-organization, but their permissions on division and purchase groups will be different.



## 2. eXensys Distributed Purchasing

In case of distributed purchasing, each sub-organization will be assigned to a distinct division (if single user group) or to a set of divisions (if multiple user groups). Procurement function will be applicable for each distribution center and each distribution center will be assigned to a distinct or set of divisions. Each division will have a logical grouping of users and the purchase groups. Planned orders, back orders and indents are all converted into requisitions for the same distribution center. The distribution center processes requisitions, defines its own contracts with the vendors and manages all the orders, goods receipts and the invoice processes. There will be no consolidation of indents or planned orders or requisitions from across sub-organizations. Across the follow, a single sub-organization handles the entire purchase cycle right from requisition to invoice and payments. Further, the order can be delivered at the ordering sub-organization only i.e. order, goods receipt and invoice will all happen from the same sub-organization. Delivery locations in this case will be the ordering locations by default and cannot be modified.

If the user groups are different within the same sub-organization for different purchase groups, multiple divisions are mapped to each distribution center. However, no division in this case will be mapped to more than one sub-organization. Requisitions through order and GRN cycle will be executed within a single sub-org based on the sub-organization-division, division-user and division-purchase group properties or mapping.



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### 3. eXensys Hybrid or Semi-Centralized Purchasing

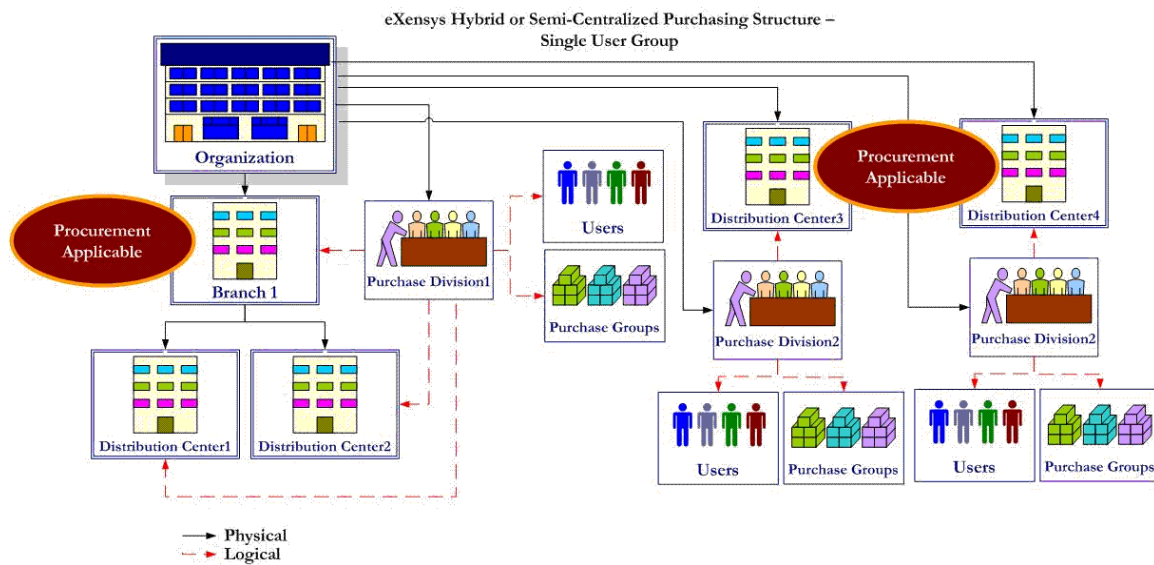
This is the most efficient and cost-effective model of all the purchasing models and one of the distinct features of eXensys. eXensys Hybrid or Semi-Centralized Purchasing model enables organizations to benefit from the best of cost reduction and lead time options. This model facilitates the highest flexibility in designing the purchasing structure of the organization enabling enterprises to have a mix of both centralized and distributed purchasing simultaneously. eXensys supports centralized purchasing for a group of sub-organizations where cost control is required and the products purchased are common. Simultaneously, eXensys allows distributed purchasing for few sub-organizations where lead times play a critical role and the products purchased are highly specialized.

This model will not only allow enterprises to customize the purchase structure to suit distinct purchasing practices, but will also enable them to align it with the organization structure and strategy without compromising on processes or finances.

Similar to centralized and distributed purchasing, this model also supports single-user group and multi-user group scenarios. However, in this model few sub-organizations are assigned to distinct divisions, while a group of other sub-organizations are assigned to a single division. In case of multi-user group scenario, a single sub-organization is mapped to multiple, yet distinct divisions, while a group of other sub-organizations are each assigned to a distinct set of divisions. Procurement process thus will be applicable at more than one sub-organization in the enterprise structure.

For the set of sub-organizations mapped to a single distinct division or a set of distinct divisions, contracts and orders are booked, goods and invoices are received at the same sub-organization, single or multiple divisions based on the item or service purchased. For the set of sub-organizations mapped to a division or set of divisions, contracts and orders can be booked at one sub-organization, while the goods receipt and invoice are done at a different sub-organization mapped to the same division.

Hybrid or semi-centralized purchasing model will be of high importance when the number of business units is more and they are spread across geographical locations, including across states. In such a case, it may not be feasible to either have totally centralized or distributed set up and it may be partially centralized, partially distributed and partially semi-centralized. eXensys handles these complex scenarios with ease providing security and driving the process with a single time configuration of the divisions, users, purchase groups and sub-organizations.



## Benefits

1. Highly efficient procuring
2. Cost-effective
3. Low lead times
4. Assured end-user satisfaction
5. Alignment with corporate strategy & enterprise structure
6. Buy products at competitive prices, quality and lead time

## Conclusion

- eXensys facilitates enterprises to take all the advantages of centralized and distributed purchasing viz., cost control, lead times, specialized product purchases, faster responses and low ordering costs.
- eXensys is a single stop solution which gives flexibility to synchronize the purchasing structure with the enterprise structure with ease of use.
- eXensys supports hybrid or semi-centralized models with simple configurations, which are very complex to handle manually.
- eXensys implements best purchasing practices for specialized product purchases, and to reduce lead times, operational and ordering costs, due to which significant savings can be done.
- eXensys supports dynamic purchasing structures to ensure that they align with the enterprise structure.
- eXensys facilitates high levels of flexibility where an enterprise can have only centralized purchasing model or distributed purchasing model or a mix of both.