

Report on Central Purchasing Policy

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Introduction

This report addresses branch managers' concerns with the central purchasing policy, which have arisen following a steady decline in regional sales. It has been suggested that the previous purchasing system be reintroduced to prevent a further drop in sales: this report will assess the current situation and make recommendations as to appropriate action.

Method

Interviews were carried out with each of our 20 branch managers within the last month. They were questioned as to their objections to the central policy and asked to identify its main failings.

Research into our main competitors' practices and sales was also undertaken by personal visits to stores and assessment of sales figures in the trade press.

Findings

1. Existing situation

The central purchasing policy was implemented in January 2009. It replaced the previous system whereby regional managers were responsible for purchasing and could select lines likely to appeal to customers in their area. Since the central purchasing policy was implemented there has been a steady reduction in regional sales (see Appendix A) and a subsequent demand from our branches to return to the previous system.

However, the central purchasing policy has proved to be efficient and cost-effective over the past year, especially in terms of reducing storage overheads (see Appendix B.)

2. Branch managers' concerns

Interviews with managers indicated that dissatisfaction with the existing policy reached a peak after the Christmas 2010 period, when regional sales were significantly lower year-on-year as managers had predicted.

In every store, managers highlighted lines that were previously stocked because they had a specific appeal for customers in their area but which had not been ordered by central purchasing this year because they were unlikely to do well across the country as a whole. Managers also reported that many customers had requested such lines, especially over the Christmas period. Conversely, there were many examples of stock received by branches that were of no interest to customers in their area and which subsequently remained unsold.

3. Competitors' practice

Visits to competitors' stores revealed that they all held stock with a regional appeal. A review of sales figures for these lines in the *Monthly Trade Journal* during the period July 2009 to January 2010 shows that we have missed out on a sizable amount of revenue by not stocking such items. (Statistics are attached in Appendix C.)

Conclusions

While savings have been made, the existing situation is unsatisfactory and could seriously damage the company's market share if allowed to continue. Action should be taken to address managers' concerns and prevent a further decline in sales. There are three possible courses of action:

1. Continue with the central purchasing policy.
2. Modify this system to address its drawbacks.
3. Return to the former system of regional buying.

Recommendations

1. Given that the central purchasing policy, although cost-effective, has resulted in a decline in sales, it would appear that continuing with this system without modification is not advisable.
2. Consideration should be given to allotting regional managers a small proportion of the annual budget to allow them to buy in lines with known local appeal. This could be trialed and sales could be monitored for a fixed period, following which the situation could be reviewed again if necessary.
3. A return to the previous system of regional buying would seem undesirable, given that the central purchasing policy is both efficient and cost-effective.