

**Learn the Concept of Centralized and Decentralized Purchasing;**

Organization of the purchase function will vary according to particular conditions and ideas. Purchases may be centralized or decentralized. **This article explains about the centralized and decentralized purchasing and their point in PDF or PPT- meaning, advantages, disadvantages, and difference.** In centralized purchasing, there is a separate purchasing department entrusted with the task of making all purchases of all types of materials. The head of this department usually designates as Purchase Manager or Chief Buyer. Also, in decentralized purchasing, each branch or department makes its purchases.

**Here explains the Centralized and Decentralized Purchasing and their topics - Meaning, Advantages, Disadvantages, and Difference.**

If the branches of plants are located in different places, it may not be possible to centralize all purchases. In such cases, decentralized purchasing can better meet the situation by making purchases in the local market by plant or branch managers.

Centralized Purchase refers to purchasing all the requirements under the central point of the organization. Likewise, Decentralized Purchase refers to purchasing of requirements of each production center in an organization.

**Meaning of Centralized and Decentralized Purchasing:**

Centralization and Decentralization are the two types of structures that can be found in the organization, government, management and even in purchasing. Centralization of authority means the power of planning and decision making are exclusively in the hands of top management. It alludes to the concentration of all the powers at the apex level. On the other hand, Decentralization refers to the dissemination of powers by [the top management to the middle or low-level management](#). It is the delegation of authority, at all the [levels of management](#).

**What is the Centralized purchasing?**

Under centralized purchasing purchases are made at one central point for the whole organization and material is issued to respective departments or jobs as and when needed. Centralized purchasing is suitable in cases where the organization runs one plant. It will bring about economies of purchasing and buying in small lots will be avoided.

It ensures consistent buying policies in future and purchasing powers are concentrated in the hands of one person, the in-charge of the purchasing department. This type of purchasing is very helpful in quick implementation of decisions regarding purchasing. It also ensures bulk buying which ensures favorable prices. The staff requirements under this type are limited and specialists in buying may appoint.

Centralized purchasing is further helpful to the vendors since their selling costs are reduced as they can easily coordinate and supply goods to a single buyer instead of a large number of buyers. The most important benefit which can draw from centralized buying is that it keeps the inventories in control and checks the wasteful investment in [materials](#) and equipment etc. thereby ensuring overall economy in purchasing.

#### **What is decentralized purchasing?**

Decentralized purchasing is just the reverse of centralized purchasing. This is suitable for organizations running more than one plant. Under this type, each plant has its purchasing agents. In other words, every department makes its purchases. This also calls localized purchasing. Decentralized purchasing is quite flexible and can quickly adjust following the requirements of a particular plant.

More attention can pay by the departmental head on buying problems as he will be carrying the limited number of activities in his department and he can hold responsible for the purchase of goods and the overall performance of the plant. The serious drawback which emerges from this type is the lack of uniformity in purchasing procedure in the organization.

At the same time, uniformity in prices cannot ensure and moreover, every departmental head may not possess the caliber of an expert buyer. This method also poses the problems of coordination among various departments of the organization and usually leads to unplanned buying. In comparison to centralized buying, this method involves a lesser economy in purchasing.

#### **Advantages and Disadvantages of Centralized and Decentralized Purchasing:**

*The following advantages and disadvantages of centralized and decentralized purchasing below are - PDF;*

#### **Advantages of Centralized Purchasing:**

*A centralized purchasing system generally prefers because of the following advantages of it;*

- Specialized and expert purchasing staff can concentrate on one department.
- Better layout of storage space.
- Utilization of high technical skill.
- A firm policy can initiate which may result in favorable terms of purchase, e.g., higher trade discount, easy terms of payment, etc.
- Standardization of quality of raw material facilitates.
- Minimum finance required.
- Better supervision of materials usage, and.
- Also, better control over purchasing is possible because reckless buying by various individuals avoid. Keeping all records of purchase transactions at one place also helps in control.

**Disadvantages of Centralized Purchasing:**

*A centralized purchasing system generally refuses because of the following disadvantages of it;*

- The high cost of internal transport.
- The creation and maintenance of a special purchasing department lead to higher administration costs which small concerns may not be in a position to afford.
- Non-availability of materials for production in time.
- Greater risk of obsolescence, and.
- Centralized purchasing is not suitable for plants or branches located at different places which are far apart.

**Advantages of Decentralized Purchasing:**

*A Decentralized purchasing system generally prefers because of the following advantages of it;*

- Materials can purchase by each department locally as and when required.
- Timely availability of materials.
- Materials are purchasing in the right quantity of the right quality for each department easily.
- No heavy investment requires initially.
- Less cost of internal transport.
- Lower chance of obsolescence.

- Purchase orders can place quickly, and.
- The replacement of defective materials takes little time.

**Disadvantages of Decentralized Purchasing:**

*A Decentralized purchasing system generally refuses because of the following disadvantages of it;*

- Organization losses the benefit of a bulk purchase.
- Poor layout of space.
- More finance required.
- Duplicate purchase of materials.
- Specialized knowledge may be lacking in purchasing staff.
- There is a chance of over and under-purchasing of materials.
- Fewer chances of effective control of materials.
- Less technical skill obtains.
- More clerical work, and.
- Lack of proper co-operation and co-ordination among various departments.

**Differences between Centralized and Decentralized Purchasing:**

*Learn and understand the points given below are noteworthy. So far as the difference between centralized and decentralized purchasing concerns;*

- Control on buying exercise effectively, Effective control is not possible.
- The economy in large scale purchase is possible, large scale benefits are not available.
- Skills of the purchasing officer are high, purchasing skill is available from the purchaser or purchasing officer.
- Purchasing specialization obtains, purchasing specialization not obtains.
- Uniformity in the purchase follows, there is a lot of difference in the purchase.
- Standard materials are purchased, Quality of the material is questionable.
- There is a misunderstanding between the production center and purchase department, There is no such misunderstanding since the concerned department purchases the materials.

***The comparative advantage and disadvantages of the two systems are as below:***

**Meaning:**

Centralized is the retention of powers and authority concerning planning and decisions, with the top management, known as Centralization. However, decentralized is the dissemination of authority, responsibility, and accountability to the various management levels known as Decentralization.

**Terms of Purchase:**

Centralized is Due to the large scale order, better terms of purchase may be available, but Decentralized in Less favorable terms may be available.

**Nature:**

Centralized is usually involves two people; a manager and his subordinate. But decentralized involves the entire organization; from the top management to individual departments.

**Advantage:**

Centralized is proper coordination and Leadership, but decentralized is sharing of burden and responsibility.

**Control:**

Centralized is controlling by the manager or the delegator controls it. But decentralized control rests with the respective departments or classes.

**Need:**

Centralized need all organizations to need delegation to get things done, Delegating authority is essential to assign responsibility. But decentralized is an optional mode of working, Organizations can also work in a centralized manner.

**Responsibility:**

Centralized Responsibility is the delegator can delegate authority but the responsibility remains with him, the delegator is accountable for the task. However, decentralized is the head of the departments responsible for the activities performed under him, therefore, responsibility is fixed at the department-level.

**Involves:**

Centralized is involves in Systematic and consistent reservation of authority. Similarity, decentralized involves in Systematic dispersal of authority.

[www.ilearnlot.com](http://www.ilearnlot.com)