



A RECIPE FOR MANUFACTURING CLIENT DELIGHT: THE HYBRID MODEL FOR INDIRECT PROCUREMENT OUTSOURCING

Abstract

This point-of-view draws on our experience with one of our client engagements, which involved a procurement outsourcing project with category-specific sourcing especially MRO. The paper articulates challenges common for projects of this nature as well as other challenges that were unique to this client. It also details our learnings and the frameworks we utilized to overcome these challenges and deliver a win-win solution.



Initial hiccups in offshoring

When it comes to outsourcing, every new relationship between a client and a service provider has its own share of unique challenges to address, going beyond just meeting the service level agreements (SLAs). Building a relationship for the long haul takes both time and close client-provider engagement, especially during

the initial months or the first year.

But typically, in contracts where a large chunk of work is managed offshore even meeting agreed-on targets can get challenging. This happens due to the differences in cultural or work mindsets and the lower levels of engagement due to

geographical distance.

So, while offshoring is generally used as a key lever to drive lower costs, many such projects face initial hiccups. This is especially true when it comes to strategic tasks involving multiple client stakeholders.

Typical challenges faced by service providers

It is often the case that the client has used ineffective category management methodology prior to outsourcing. This poses challenges for the service provider's ability to extract value from suppliers through effective parts lifecycle management and engagement, which in-turn leads to significant downstream process impacts.

Some such challenges the service provider needs to tackle include:

- a. Poor quality data** - poor visibility on demand and parts, unpopulated description fields, using different
 - b. Poor stakeholder engagement** - ineffective collaborative stakeholder engagements, no engagement with indirect procurement, no change management
 - c. Poor supplier relationship management** - no contracts with suppliers, evidence of poor supplier behavior, over pricing, poor service, no SRM in place or KPI monitoring
 - d. Poor catalogue management** - vendor numbers for the same parts, no Materials Replacement Planning solution, no inventory MIS and Min/Max levels not known, no abcxyz classification in SAP system, no provision for reviewing opportunities to leverage volume.
 - e. Immature indirect procurement** - catalogues not reflecting the business requirements along with dated pricing impacting the ease of procurement, uploading of a supplier's 'unspecified' catalogue content, many items bought from supplier not on catalogue, increased spot buy requests, instances of the same items from different suppliers with different pricing
- low organizational maturity level in relation to indirect procurement, inventory management, and equipment management. No interaction of the indirect procurement team with the business, and low awareness of how the departments work or who the key stakeholders are

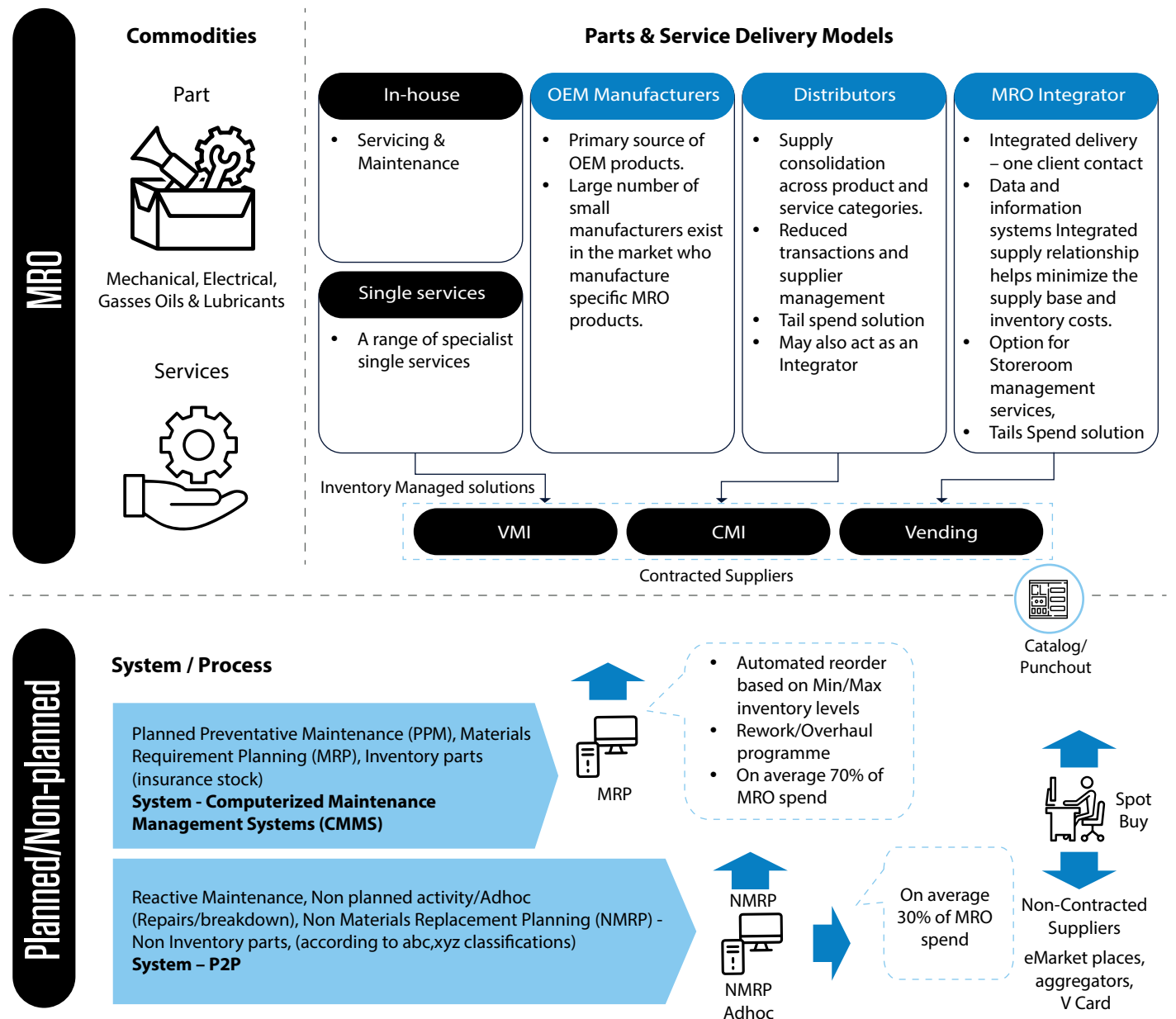
MRO complexities and the MRO Maturity Assessment Model

MRO complexity in a manufacturing environment often cannot be understood, unless the provider team closely engages with the client. Typically, to generalists in the client organization, MRO commodities are low value items to be purchased. Though there is much more to this complexity than can be envisioned offshore, such as culture, behavior, and maturity of the organization, clients

typically expect that such learning is actively managed by the offshore team. The fact remains that no matter how difficult, the provider's understanding of all the complexity plays an important role in its ability to deliver value. For example, understanding how the site is set up, can lead to opportunity identification. The importance of having the right parts at the right time cannot

be overestimated. A halt in production has significant cost consequences in a manufacturing set-up, running into several £1,000's. Using the MRO maturity model below, providers can assess how the site is set up and its maturity, and if components are missing then these can become potential savings opportunities. Remember each site is different!




MRO Maturity Assessment Overview



Comparing and contrasting the client site's ways of working (WoW) with the maturity model, helps in understanding how inventory of parts is managed, such as:

- If the MRP % is less than 70%, this can be increased by using data analysis, and more pushed in to the MRP system, which reduces the need for spot buy
- If suppliers are not providing consignment managed inventory, there may be an opportunity. PPE is a good example, with reported savings of between 25% - 45%.
- Though challenging, offshore teams need to understand the client's QA processes, assess the site maturity, and enhance their awareness of other factors influencing success.

The challenges for off-shore – Building site knowledge

 Quality Assurance (QA)	 Assess Maturity	 Awareness
<p>1. How is QA managed Examples of whay could be included:</p> <ul style="list-style-type: none"> • Process materials (Contact with product) IMDS – Automotive Ind. • Premium brand – Acceptance of alternatives • Lubs, Oils & Coolants – QA process 	<p>1. How well established / mature on-site?</p> <ul style="list-style-type: none"> • Indirect Procurement/Engineers • SR with Engineers/Procurement • Inventory Management <p>2. Understand data limitations</p> <ul style="list-style-type: none"> • Poorly classified • Limitations of taxonomy if not standardised UNSPSC 	<ol style="list-style-type: none"> 1. Warranties & Equipment/Parts 2. Specialist Tooling – Niche suppliers 3. Systems used (MRP/Inventory) 4. Data wont indicate: 5. Limit Orders/Blank PO's <ul style="list-style-type: none"> • Whether CMI/VMI on site, will impact utilisation oversight 6. Existing Services onsite 7. Challenging stakeholders 8. Employee Union involvement – likely to impact employees in anyway (e.g. PPE)
<p>Impact</p> <ul style="list-style-type: none"> • Increased costs/time • Unable to change supplier readily • Approval required from business 	<p>Impact</p> <ul style="list-style-type: none"> • Level of difficulty • How to communicate 	<p>Impact</p> <ul style="list-style-type: none"> • Warranty invalidation • Avoidance of high risk opportunities identified during engagement

The IMDS (International Master Data System) is the automobile industry data system, initially it was a joint development of Audi, BMW, Daimler, DXC, Ford Opel, Porsche, VW and Volvo

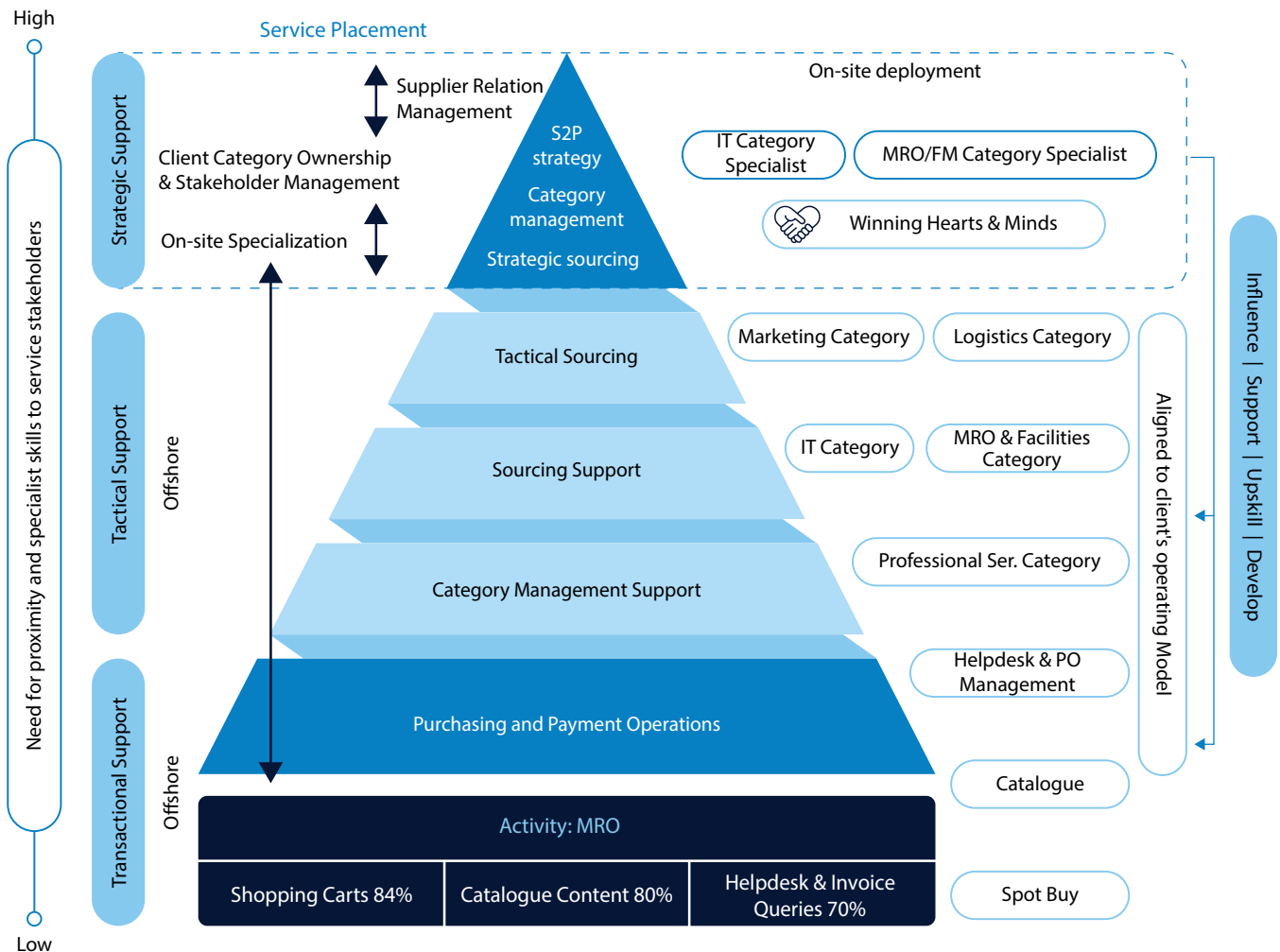


Deploying the Hybrid model for better client engagement

A good relationship with the client is key to better understanding the complexities of their ways of working, and hence crucial for successfully identifying and delivering on savings opportunities. This is even more so in strategic procurement outsourcing, given the nature of the work and the support required from the business. The business needs to have trust in the provider's capability before it will accept any identified opportunities.

The quicker the provider relates to the business culture and demonstrates worth, knowledge, and understanding, the quicker the relationship grows. For this, it is essential for the provider team to meet all the key stakeholders in their place of work, listen, learn, demonstrate capability through understanding their processes, share knowledge and experience, and target communications to the key stakeholders based on their needs. In short,

they need to win hearts and minds. A hybrid model that leverages a mix of onsite and offshore approaches is best suited to achieve these objectives. The figure below is our recommended hybrid model framework in a manufacturing MRO setup. Using this framework and best-in-class category management methodologies, we have successfully delivered significant savings opportunities for our clients.



Here, two specialist category managers are deployed onsite. One specialist is dedicated for the MRO category, while the other specialist is responsible for all other business needs. The offshore team provides transactional and tactical support through the category managers, who are otherwise primarily focused on “winning hearts and

minds” within the client organization. The category managers deployed onsite can “win hearts and minds” by engaging with the client, forming emotional and intellectual bonds through understanding the client organizational culture and their ways of working. They do this by working with stakeholders on site, meeting them

face-to-face, building relationships all around by physically walking around the work sites, and making the most of the opportunities that present themselves. The resulting understanding gained disseminates to the offshore team and enables them to deliver value in all areas.

Prescriptions for client delight with the hybrid model

Maintaining only an offshore team for outsourced procurement is an oversight that can jeopardize the effectiveness of a project. Enhancing the engagement and creating a close bond through the onsite deployment of specialist category managers is therefore a key element in delivering value. The hybrid model with its due emphasis given to understanding cultural gaps and the maturity of the client organization in various dimensions, enables the offshore team to adapt to the clients' ways of working, and thus ensures its success.

Here are some learnings from some of our successes using the hybrid model:

1. There is no "one size fits all" strategy nor any "silver bullet" for MRO – the hybrid model strategy will need to be unique for each client.
2. True opportunities do not present themselves, unless one spends time on the manufacturing site
3. Apart from data, offshore teams have limited tools to identify where the savings opportunities lie.
4. Many savings opportunities involve being run as projects; start with a business case, and then adopt a dogmatic approach to see it through to successful conclusion
5. Buy-in from business and key stakeholders can be difficult but needs to be pursued to its logical end

The bottom-line? A successful partnership is built by winning the hearts and minds of the client. Real opportunities are identified and delivered onsite with offshore support!



Author



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Phil is part of our solution design team for Sourcing & procurement with over 30 years of experience with a proven track record of success specializing in strategic sourcing, MRO and supply chain management. His areas of expertise include sourcing, contract management, process mapping, and cost reduction. Prior to joining Infosys BPM, had a successful career in the British Armed Forces (Royal Engineers) for 24 years and during this time was a team leader instrumental in the development of the MRO business processes, sourcing, procurement and roll out of an equipment management MIS for the British Army in, UK and Germany.

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