

WHITE PAPER

Redefining Low Cost Country Sourcing - *International Purchasing Offices on the horizon*



- Mayank Jain, Dan Alden

With the business ecosystem getting increasingly competitive and pressure on margins growing by the quarter, organizations look to 'Source' an increasing number of tasks to geographies that are competent while being competitive. A common reference to this activity has been Low Cost Country Sourcing (LCCS) also called Best Cost Country Sourcing (BCCS) – resulting in the emergence of BPOs or Business Process Management enabled offerings over the years.

This white paper views both the business models and offerings in conjunction - an exercise that could eventually lead to more value and benefits, offering a robust and proven end-to-end offering to the Sourcing and Procurement space.

Introduction

In today's dynamic BPO/ BPM paradigm, it's not pragmatic to just follow the traditional way of looking at overall sourcing and procurement value chain.

A fresh, innovative approach is needed to excite today's much aware and intelligent procurement professionals. More value can be achieved from the overall sourcing process by viewing the entire activity in an integrated manner. We treat LCCS or BCCS as a stand-alone offering for Source to Pay (S2P) enabled offerings. However, this could very much be part of the same gamut of S2P services as well. In-fact, we believe in treating LCCS as a more strategic kind of service or offering than a pure play BPO or BPM led service. If we look at the overall scheme of LCCS offerings any transformational or BPM service comes as a by-product of this very exercise of LCCS itself.

Challenges & Benefits

In envisaging the execution of LCCS, we think of key challenges and drivers associated with the global supplier development. Identifying and developing the right supplier(s) is the most important part of any LCCS modeling.

Here are a few challenges with global supplier development

- Interpretation of drawings, blue prints and specifications
- Knowledge of local laws
- Benefits available in the supplier's native geography
- Supplier audit, assessment, monitoring
- Knowledge of ground market realities in the supplier's geography
- On time delivery of quality parts
- Long term commitments from suppliers
- Communication with suppliers
- Issues of operational base location – away from growing / multi-cultural markets
- Currency exchange rates, shipping, language issues
- Government regulations

- Category development in view of operational supply bases
- Reduce supplier dependencies – creates alternate sources of supply
- Identified products for Low Cost Sourcing initiative --- Process Mapping with the S2P value chain
- Help identifying sourcing areas to contribute to set-up a Pro-active approach to any client
- Help in establish engagement models – e.g. long term outsourcing relationships, consulting projects

Benefits

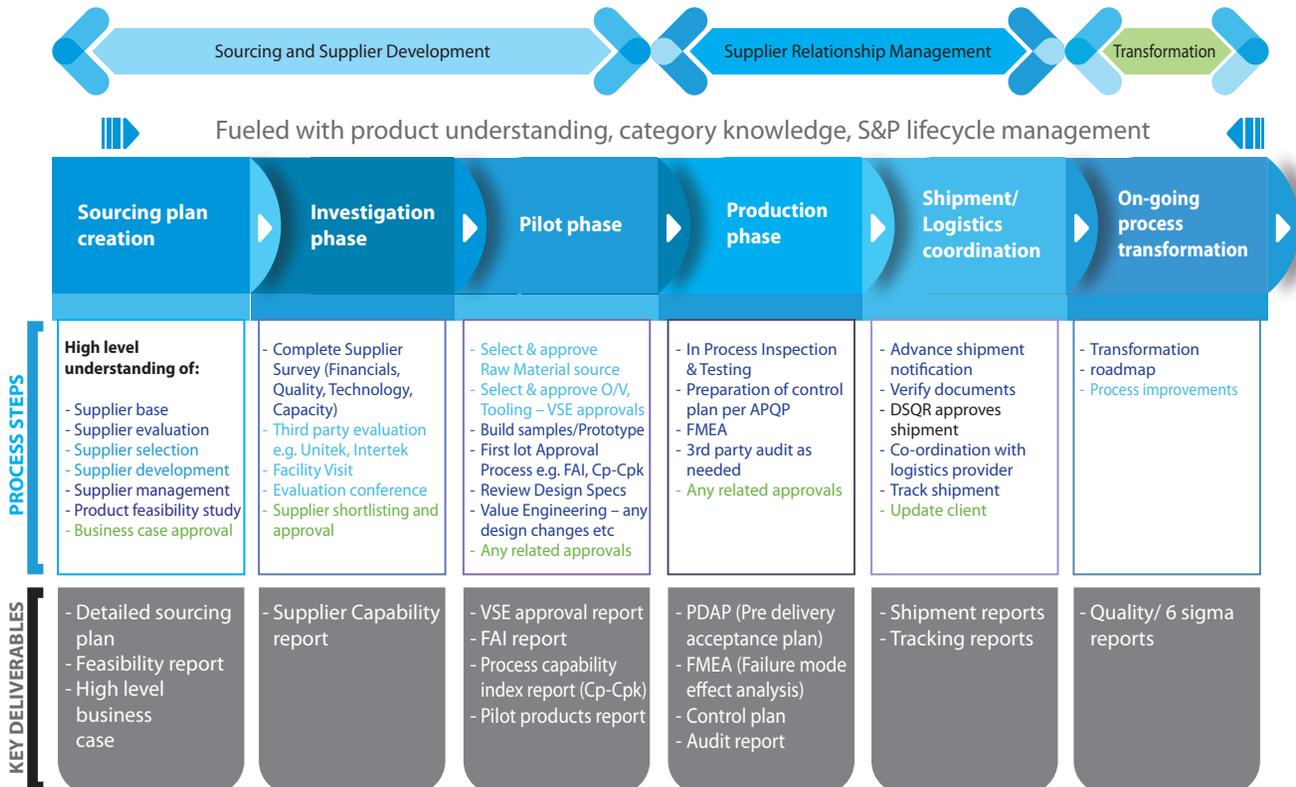
- Cost deflation (for specific product/ category/ commodity)
- Creation of alternate supply bases so to counter rising cost of skilled manpower
- Global sourcing techniques to counter global competition

Approach

Addressing these issues needs an approach that includes packaging LCCS as a proven concept as well as taking along its benefits, effectively implementable only by an executioner. This is exactly what an International Purchasing Office (IPO) does.

Here is what an IPO model looks like- diagram shows the various stages in a LCCS process (Example of an automotive/ aerospace industry).

LCCS/ BCCS (IPO model – International Procurement Office) Key Solution/ Approach steps



VSE - Vendor Substantiation Engineering, FAI - First Article Inspection, O/V - Outside Vendor, Cp-Cpk - Process Capability Index

■ We/ Supplier ■ Client ■ Joint (We + Client)

A typical IPO model runs in two folds:

- **Sourcing and supplier development**
- **Supplier management**

These two aspects clearly cover a majority of the sourcing and category work, the core of any strategic sourcing process. The process starts with a formal feasibility study of a particular product (or category/ commodity) and subsequently developing suppliers accordingly. It begins with an investigation, pilot and production phase with multiple steps and eventually developing a particular supply base

for a designated category. This journey constitutes end-to-end sourcing and by the time a supply base gets developed or supplier gets identified, the entire process gathers relevant information which forms a solid foundation for the BPM offerings. Sourcing/ Supplier development and Supplier management eventually paves way for a robust BPM which is our typical BPO model.

This IPO model and the subsequent activity thereof could be offered as a package or as a standalone offering depending on the client situation and how the overall business case pans out. The best part of this model is that it is modularized to an extent that it has the ability to accordingly form a niche offering to the overall S2P value.

In-addition, below herewith an end-to-end view of the key activities executed under an IPO model which runs hand in hand with the overall S2P value chain.



LCCS (IPO model) should be more seen as an extensive category management exercise for selective categories which lays foundation for BPM or (BPO) processes in a more systematized and structured manner.

The Way Forward

While sourcing and procurement still views LCCS/ BCCS as a separate entity perhaps tangential to BPM, we see a strong synergy that would benefit the client while working in conjunction. International Purchasing Office can act as a separate Business Unit (BU) and outsourcing service providers could even position themselves as an extended arm of their clients sourcing and purchasing group.

LCCS enabled category management will (by the virtue of its connectivity with Transactional Procurement and other processes) provide enough offerings e.g. PR to PO management, master data management, contract administration etc.

To summarize, here are key highlights of a BPM / BPO enabled offering glued with IPOs in view of LCCS:

- International purchasing offices - part of S2P or global sourcing strategy of a firm
- Take prime responsibility in identifying and developing key suppliers across key sourcing categories (direct and indirect)
- Address periodic sourcing requirements of the parent organization
- Provide focus in country-based sourcing efforts similar to near-shore model in a typical outsourcing BPM model
- These IPOs could grow up to be complete procurement organizations (or a separate BU as mentioned earlier) over time
- Fully engaged/ deployed category experts and quality assurance teams as similar to a BPM engagement to address end to end category management
- Flexibility to offer a category or supplier management solutions, product delivery management, and an end-to-end solution as well

Therefore it is important that firms clearly define an integration and scale-up plan for the IPO with LCCS as a foundation. This will not just enhance the overall S2P/ BPO/ BPM value chain but also offer a unique proposition that could be modular when needed thus delivering more value to clients.

About the Authors



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Mayank is an outsourcing/ shared services Senior Practitioner with combined experience of approximately 16 years. His overall experience covers outsourcing, management consulting and manufacturing. Mayank has worked extensively in the space of Low cost country sourcing predominantly for North America and European clients. Currently, as a Principal Consultant in the Solution Design team he is leading outsourcing solutions for the potential clients and work towards developing clients from pre-sales and practice standpoint. Mayank is a mechanical engineer and post graduate in operations and supply chain.



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Dan has 23+ years of management experience in construction, facility operations, real estate, capital equipment, manufacturing, engineering, and quality assurance. He has experience managing construction projects and sourcing of paper internationally. Dan was the project manager for construction of Shared Service Center in Budapest, Hungary and sales offices in Sao Paulo, Brazil. He has also managed real estate internationally. Dan has a Bachelor of Science in Industrial Technology and Construction, and a Certified Purchasing Manager (CPM) from Institute for Supply Management (ISM).

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