

# WHITE PAPER

## How Procurement BPO is Changing the Game for Mid-Tier Organisations



– Bruce Stevenson & Warren Smith

## Introduction

Over the last 10 years procurement has evolved into a function that provides a competitive advantage for many large organisations in Australia. Senior executives have seen strategic procurement teams deliver significant cost reductions, a high performing supplier base and reduce risk in their supply chain. In contrast, procurement in many mid-tier organisations (MTOs) is less mature and does not maximise its potential contribution to overall business objectives.

In this White Paper, we will outline the major challenges facing MTOs and explore a new option for these companies to deliver an effective procurement function via Business Process Outsourcing (BPO). A procurement BPO operator brings proven procurement processes, leading IT systems, category knowledge and a flexible cost structure. Recent experience suggests MTOs can achieve 10-20% savings on addressable supplier spend through a procurement BPO arrangement. This model has helped establish procurement firmly on the agenda for many senior executives of MTOs looking to reduce cost, improve supplier performance and lower risk.

## MTO Challenges and Constraints

We have defined a MTO as having 3rd party supplier expenditure of between \$50M - \$300M and a procurement team of less than 10 people. Given the fragmentation of their supplier spend combined with limited head office resources and investment, MTOs face a number of unique procurement challenges compared to large organisations, which include:

- Difficulty recruiting and retaining experienced procurement staff due to a limited career path
- A broad and shallow supplier spend profile that requires access to specialist category knowledge to deliver an acceptable ROI for procurement
- Poorly defined strategic or operational procurement processes

- Limited access to supply market information or pricing benchmarks
- Insufficient capital or IT resources to implement critical procurement systems such as spend analytics, category management tools and P2P systems

## Driving Value from Procurement BPO

A procurement BPO solution can address many of the challenges faced by MTOs in building a high performing procurement function, through enhanced efficiency and effectiveness. An experienced BPO provider brings a proven procurement process that is delivered through a combination of on-site category managers, off-site subject matter experts and potentially offshore analytical resources. The combination of these capabilities allows organisations to reduce procurement operating costs per \$ of spend under management (efficiency). In addition, leveraging BPO category expertise, supply market data and leading IT systems can deliver higher benefits at an accelerated rate (effectiveness).

## Efficiency Benefits from Procurement BPO

BPO Effectiveness
Proven and efficient processes
Flexible resource structure
Global delivery model



Client Benefits
Certainty in project delivery and quicker benefit realisation
Scalable operating costs and broad expertise
Access low cost offshore resources for support activities

Although clients often focus on the more obvious operating cost benefits of BPO such as labour arbitrage, the major efficiency driver is best practice processes. Labour arbitrage benefits diminish over time with rising wages, whereas continuous process improvement can deliver year on year operating cost reductions and deliver benefits quicker. For an MTO to develop a best practice process, build the related tools and train their staff can take 12 months for a simple process like supplier performance management. Conversely, a BPO provider brings proven processes on Day 1, along with standard tools and trained staff; so they just need to tailor the process to the particular needs of the client.

Due to the scale of their operations, a procurement BPO also provides enhanced flexibility by allowing clients to access a broad range of resource types and expertise over time. This allows the matching of task complexity with the appropriate resource level, experience and cost. For example, an experienced procurement director could be utilised for a short period to set up the procurement operating model, a senior category manager employed part time to manage supplier relationships, while low cost offshore resources undertake data analysis and reporting. Furthermore, a BPO model allows procurement resources to be quickly deployed for discrete periods of time to address urgent requirements such as major sourcing programs. This is particularly relevant for MTOs which find it difficult to recruit and retain experienced procurement professionals.

In many cases a BPO model also facilitates access to offshore resources, decreasing the operating costs per \$ of spend under management. Given the scale of their spend it would be impractical for an MTO to establish an offshore procurement team, however many BPO providers have already established offshore centres with staff trained in standardised procurement processes.

Offshoring administrative activities like spend analysis and reporting can not only reduce procurement operating costs but also improve effectiveness as staff can become experts in a process across multiple clients. For many MTOs, leveraging offshore resources can provide a sufficient ROI to implement end to end category management activities which would not be worthwhile through onshore teams.

## Effectiveness Benefits from Procurement BPO

BPO Effectiveness
Category experts
Supply market data and IP
Access to leading technology



Client Benefits
Sustainable benefits, driven by continuous improvement
Negotiate lower supplier pricing and total cost
Proven IT systems with no capital outlay

A procurement BPO model also allows clients to access specialist category expertise which is critical in driving sustainable cost reductions and supplier service improvements. For example, rather than hiring an experienced category manager for categories such as Travel, Marketing and Facilities Management these skills can be accessed where required through a BPO on a part-time or project

basis. This is particularly relevant for MTOs who often manage a large number of categories within a modest procurement budget. As it is impractical to hire experts for all procurement categories, most MTOs hire resources with general procurement or operational experience providing mixed results. However, a BPO provider facilitates access to category experts who have a deep understanding of the category value drivers, suppliers and market dynamics as they are dedicated to managing this category for a range of clients.

Leveraging supply market data across clients can also provide a significant advantage for BPO providers. Given supplier contracts are typically only reviewed every two to three years, it is difficult for internal procurement functions of any size to build meaningful supply market information. Therefore, having access to current market data such as pricing benchmarks, emerging suppliers or regulatory changes can be extremely valuable. This ensures that the procurement team is credible when dealing with internal stakeholders by bringing expert market knowledge, while having an understanding of the key suppliers in the marketplace and their capabilities can speed up the tendering process. Alternatively, a market exercise could be avoided altogether by using credible pricing benchmarks to conduct a direct negotiation to bring savings forward.

Given the process and data intensive nature of procurement, IT systems are critical to sustaining procurement benefits over the long term. Spend analytics and contract management tools are vital in delivering effective sourcing programs and ongoing category management. In

addition, eSourcing, supplier management and procure-to-pay systems can significantly improve process times and internal compliance. However these systems are expensive to purchase, difficult to implement and require substantial user training to deliver sustained results. Therefore, MTOs are understandably reluctant to invest the capital or time to implement these systems. However, a BPO provider allows an MTO to access these systems as part of their operating model and annual fee structure. The implementation time and risk are also reduced as the systems are already in operation with other clients.

## Results from Procurement BPOs

A procurement BPO model can involve the outsourcing of a process, category or entire procurement function. Given the scale of their supplier spend a procurement BPO for many MTOs will involve all or a large proportion of their procurement function. This allows an MTO to move to best practice procurement in a short timeframe.

Portland Group has successfully implemented procurement BPO arrangements within MTOs across a range of industries. Typically, savings of 10-20% can be achieved on addressable supplier spend. Building a capable internal procurement function to achieve this level of saving would be cost prohibitive for most MTOs given the investment required in systems, best practice processes and category expertise. However the efficiency benefits of a BPO model can lower the operating cost and increase benefits resulting in a typical 5-10x return on investment.

## Procurement BPO Case Studies

Client	Engagement Type	Results	Qualitative Benefits
Retail Company	Scope included HR, office supplies and facilities spend. Sourcing delivered immediate cost savings and further reductions were delivered via category management	<b>Spend:</b> \$25M <b>Savings:</b> 10-15%	✓ Improved supplier performance
Mid-tier Insurer	Scope included all property and motor claims spend. Sourcing conducted to establish preferred suppliers and supplier management to drive further claim cost savings	<b>Spend:</b> \$55M <b>Savings:</b> 10-15%	✓ More efficient order and payment process ✓ Lower risk as contracts on client terms
Medical Service Provider	Scope included medical consumables, office supplies, IT hardware, facilities and travel. Services included a diagnostic, sourcing program and category management	<b>Spend:</b> \$85M <b>Savings:</b> 15-20%	✓ Increased visibility and control of BU spend

## Conclusion

Through enhanced efficiency and effectiveness, procurement BPO provides a compelling value proposition for many MTOs that want to enhance their procurement capability in a short timeframe. A procurement BPO model addresses many of the constraints faced by MTOs in transforming their procurement function from transactional purchasing to a strategic business partner. The results achieved in improved cost, service and risk outcomes are compelling. Therefore, a procurement BPO presents a real opportunity for MTOs looking to rapidly improve their procurement capability and the value it delivers to overall business objectives.

### About the Authors



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### About Infosys Portland

Infosys Portland is a subsidiary of Infosys BPO Ltd., a part of Infosys Ltd. Our mission is to make our clients successful by increasing their profitability through procurement and supply chain improvements. We are unique in providing services to improve efficiency and effectiveness across our clients' complete procurement and supply chain functions, ranging from innovative, high-end strategy through to effective, low-cost operations and transactional processing. The resulting transformational benefits for clients include lower costs, reduced risk and improved service from client suppliers.



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