

# WHITE PAPER

## OFFSHORE PROCUREMENT MODELS

*The constantly evolving optimized state*



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### Abstract

In 2014 Infosys Portland, previously the Portland Group, conducted a series of interviews with 10 global companies for a client in the services industry who was exploring the opportunities and challenges of setting up a procurement hub in Asia. The extensive interviews gave us rich insights on offshore procurement models being utilised by global companies and we capture them in this paper.

Firstly, this paper lays out the different levels of offshore procurement models used by global companies. All these different state levels (e.g., tertiary state) can provide an optimal procurement solution for a company in its current level of global reach. The paper then provides the key takeaways from the interviews. It assists to provide a comprehensive set of tools that can be used to determine the best-fit procurement model when expanding the global reach of a company. For companies who are re-examining their current model, the balance of the paper assists companies when reviewing their 3-5 year strategic global procurement plan.

## Part 1 Definitions & Key Findings

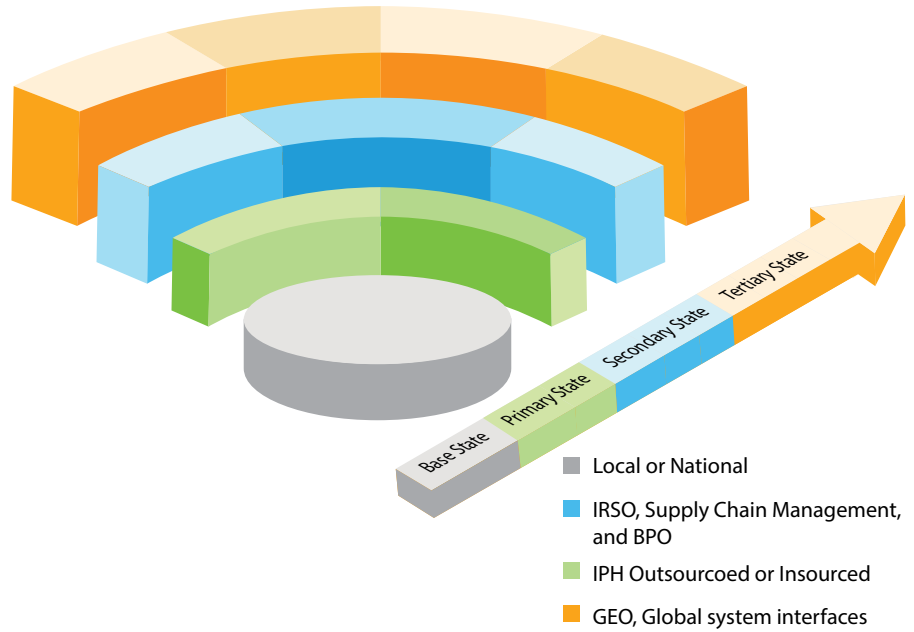
### The four states in the offshore procurement model evolution

The four levels of offshore procurement initiatives include: base, primary, secondary, and tertiary.

**Base State:** This is defined as enterprises with global suppliers and customers that have yet to establish offshore procurement operations.

**Primary State:** A natural progression from the base state is establishing an International Procurement Hub (IPH) which marks the transition to a primary state. This transition is often driven by a combination of factors including:

- Growth in offshore suppliers
- Strong growth in offshore customers
- Establishment of offshore business units



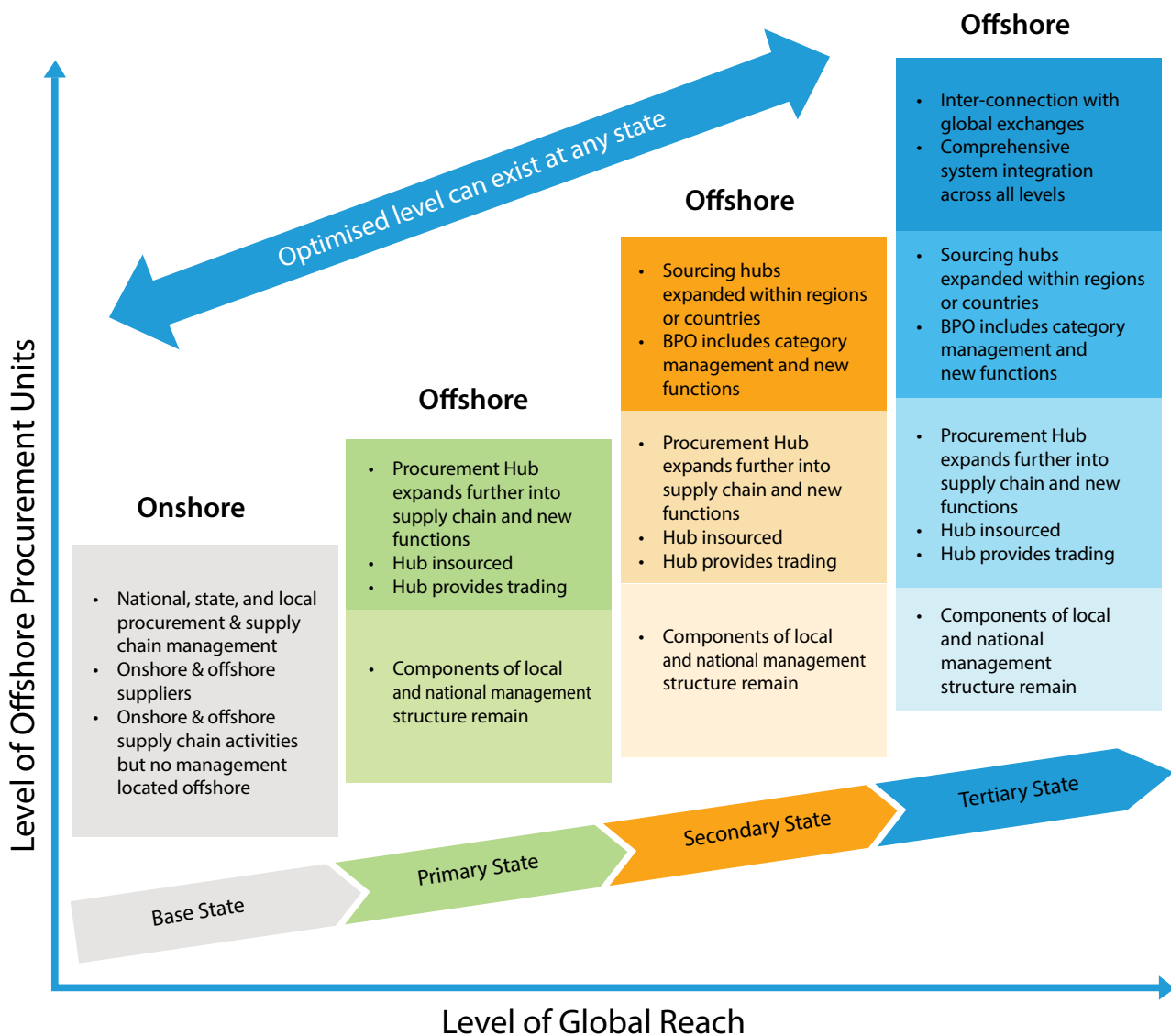
**Secondary State:** An IPH delivers lower costs with better leverage of global purchasing power, lower labour costs in some countries, and attractive government incentives (such as tax). However, these benefits can be quickly eroded if the design is overly driven by financial engineering factors. A company may experience higher operational costs in the IPH and increased process inefficiencies from having to redirect procurement activities via the IPH to support its viability without much commercial benefit. But when strong alignment is maintained with suppliers and customers and a thorough due diligence is carried out to determine the categories and functions that should fall in the IPH's purview, then the IPH is supported by operational factors rather

than financial engineering factors. Companies that have pursued these fundamentals have moved to the secondary state where they have achieved efficiency improvements and new supplier advantage. These benefits translate to supply chain improvements by connecting into global purchasing organisations (GPOs), or outsourcing transactional procurement activities via business process offices (BPOs), or tapping suppliers directly through international regional sourcing offices (IRSOs).

**Tertiary State:** This state is where technology and systems deliver the highest combination of efficiencies and effectiveness. Technology and systems overlap all procurement and supply

chain activities and can help tap into Global Exchange Organisations (GEOs) to create the highest level of efficiencies not only within the company but within the industry which it participates in. In addition, system integration covers sales, expenditure, and costs. It should be noted that not all industries have readily available GEOs to improve efficiencies.

Infosys Portland has assisted several clients with these complex offshore structural changes using the global office network of its parent, Infosys, and its own offshore subsidiaries and partners. With deep dive analysis and careful planning, we have identified solutions to address these challenges in a way that both operational and financial benefits can be delivered.





## Key takeaways from interviews

We interviewed companies from a wide range of industries who have implemented or are implementing primary, secondary, and tertiary states of international procurement solutions. Key takeaways include:

### Commercial factors

- **Ensure the procurement hub's viability is supported by commercial factors alone before considering tax advantages**

This will help avoid implementing sub-optimal management structures simply to obtain tax benefits where the management costs could quickly erode all tax benefits and threaten the long-term viability of the offshore procurement hub.

- **Look at your suppliers for talent**  
It can help address lack of talent in some locations or intense competition for talent in others, such as Singapore.

- **Examine both the location of your supplier's manufacturing bases and their regional or global sales and account management**

This is essential to determine the most suitable location for a procurement hub. These personnel are the key decision-makers for global deals.

- **Category support does not need to be co-located with your global category management**

Some clients have implemented external BPOs which provide category support to the IPH which is domiciled in another country.

### Financials

- **Savings.** Target savings of more than 5% have been achieved by most clients who established IPH or BPO through amalgamating spend, streamlining processes, and using favorable regional pricing to benchmark globally with multinational companies.
- **Trading operations can be routed through an IPH and supply chain management**  
This provides further net income to be earned by the IPH which could be located in a tax-effective jurisdiction. These activities need to be strongly



supported by factors such as proximity to supplier warehouses and global trading hubs; for example, diesel out of Singapore.

### Technology, systems, and audits

- **IPHs should tap into technology enablers such as global exchanges if available**

An example is the Global Healthcare Exchange in the U.S. and Europe used by IPHs and GPOs to transact, trade, and improve supply chain processes and contract management for healthcare products.

- **System upgrades are required in an IPH but not necessarily in the base system technology (e.g., SAP, Oracle)**  
Upgrades required are normally in the overlay reporting systems across all platforms to enable improved catalog usage. Infosys Portland delivers this service with their procure-to-pay (P2P) system.

- **New systems.** In cases where the IPH includes new trading activities, new systems need to be implemented.
- **Regulatory scrutiny**  
This can be an efficient process if the right advice is sought upfront and strong planning and implementation delivers robust policies and procedures.
- **Your IPH may not only serve the objectives of your own company but they may also serve some of your "friendly peers"**  
Whether it is in the form of an IPH or a GPO, you may find a new source of revenue that can be driven through the international office by providing a service to some of your own suppliers or partners. This would require amalgamating expenditure across companies including your own for mainly indirect spends.

## Part 2

### Identifying the best-fit offshore procurement model

#### Background

Historic data of the past seven years shows that apart from commercial drivers, global economic events have played an important part in establishing an IPH. The global financial crisis reduced or eradicated growth in many markets. Companies responded by driving down costs with their suppliers. International companies sought improved buying power by amalgamating regional and global spends.

With manufacturing moving more and more to Asia and the financial meltdown, many IPHs were established in Asia during 2008–2009 with either a regional or global focus. Additionally, BPOs were established

mainly in India and the Philippines to reduce transactional costs. Furthermore, GPOs and GEOs were established mainly in the U.S. and Europe to amalgamate expenditure within certain industries to obtain lower prices and reduce supply chain costs.

Expansion and development initiatives by the Chinese government fueled a commodity boom during 2010–2011 which led many major mining companies to establish IPHs in Asia. For most of these companies, operational and procurement benefits were the key factors with tax reduction providing further advantages.

During 2011–2013, the banking sector improved, in particular in Australia, which provided further impetus for IPH and BPO growth in Asia and Europe for a number of banks.

In 2014–2015, more CEOs are shifting their strategies to global growth rather than just organic growth. Many companies are advanced in their global growth objective adding further pressure to existing procurement structures. These companies are driving demand for IPH, IRSO, GPO, and BPO solutions in all regions.



## Characteristics of an optimal offshore procurement structure

The best global procurement structure for a company requires sustainability, flexibility, and elasticity. Often, procurement teams are tasked with quickly delivering cost efficiencies from local or global acquisition. Sometimes even before one acquisition is absorbed, another acquisition changes the playing field. Hence, a further capability is required – scalability.

The progression of a global procurement structure is as follows:

Model Types	Driving Factors	State
Local / regional hub	<ul style="list-style-type: none"> <li>Main suppliers only have a regional footprint</li> <li>Company operations are heavily weighted to the local market</li> <li>Global suppliers managed via local / regional offices to meet local market needs</li> </ul>	Base
Regional and global deals in certain categories	<ul style="list-style-type: none"> <li>Main suppliers have a global footprint</li> <li>Supplier manufacturing bases are concentrated in global regions</li> <li>Company operations are growing offshore</li> </ul>	
Selective external (outsourced) IPH	<ul style="list-style-type: none"> <li>Used when first establishing global procurement offshore</li> <li>Most external (outsourced) IPHs are based in the US and Europe</li> <li>External models in Asia mainly cater to indirect spends</li> </ul>	Primary
Commodity-based internal IPH	<ul style="list-style-type: none"> <li>IPH established with main aim being to access global deals</li> <li>Often deployed when a select number of strategic commodity-based spend categories are available with trading market in proximity to IPH; e.g., diesel in Singapore</li> </ul>	
Internal IPH with 'surgically' selected categories with regional sourcing (IRSO)	<ul style="list-style-type: none"> <li>IPH established with the main aim being to achieve better global deals for selected strategic categories</li> <li>Surgically selected categories and/or sub-categories</li> <li>Often supported by local sourcing teams in key manufacturing regions for selected categories; e.g., China)</li> </ul>	Secondary
Internal IPH, regional sourcing and supply chain	<ul style="list-style-type: none"> <li>All of the above with supply chain management activities added (e.g., control of 3PL / 4PL partners for global categories)</li> </ul>	
Internal IPH , supply chain connected with a GPO and an External BPO	<ul style="list-style-type: none"> <li>All of the above plus addition of global BPO partner(s) for selected processes, e.g., PR-PO, tactical buying, analysis &amp; reporting, Master Data Management (MDM)</li> <li>Wider category management feasible in BPO but for selected non-core spend categories (e.g., indirect)</li> <li>IPH uses GPOs for selected spends and price tracking</li> </ul>	
Global insourced IPH with CPO governance role, GPO usage for certain spends, and external (outsourced) BPO. The IPH could use the services of a GEO if it exists in its industry	<ul style="list-style-type: none"> <li>Addition of global procurement governance roles (e.g., Chief Procurement Officer (CPO))</li> <li>Often involves 'hard line' reporting from procurement teams in other geographies globally to drive compliance</li> <li>All major spends are managed from IPH</li> <li>GPO is used for certain spends where internal amalgamation does not realise sufficient purchasing power</li> <li>Main aim is to pass as much expense through BPO to obtain labor and efficiency benefits</li> <li>GEO used if available for supply chain, price-tracking, and working capital management</li> <li>System enhancements providing efficient and effective commercial integration between procurement and supply chain and sales, both globally and locally</li> </ul>	Tertiary



To determine the right mix of procurement model, a filter process is needed that can be moulded over time to fit a company's ever-changing corporate structure.

## Reviewing the offshore restructuring initiative

The traditional steps undertaken to review any offshore restructuring are as follows:

### Strategic alignment

- Examine the strategic objectives and current initiatives of the company and identify the changes needed in the current procurement framework to align and support these objectives
- Review the suppliers, organization framework with regard to sales and manufacturing bases

### Geographic spend assessment

- Determine the spend (including capital items) that can be managed offshore, regionally, or globally, leaving other spend to be managed nationally or locally

### Procurement assessment suitability

- Determine the quantum of expenditure that can be managed globally for each category
- Complete price benchmarking on a global basis and review supplier profitability
- Estimate the improved total cost outcome (TCO) that can be achieved from this amalgamation

### Function assessment

- Identify which functions of procurement should be managed offshore – sourcing (IRSO), category management (IPH), contract management, transactional processing (BPO), supply chain (GPO), and technology improvements (GEO)
- Identify the enablers



### Location assessment

- Assess the alternative locations of the offshore procurement activities using the following criteria with your preferred weightings:
  - Skills, talent, culture, and language
  - Proximity to supplier sales hubs
  - Proximity to key internal stakeholders
  - Political and regulatory stability
  - Establishment and running costs
  - Sustainability and ethical standards
  - Government incentives (e.g., labor rebates, taxes)
- A more expansive list provided by the Journal of Procurement and Supply is worthy of consideration. "International purchasing offices: Literature review and research directions" (2012), Sartor, et al.

### Internal (in-house) or external (outsourced) solution

- Determine the TCO of internal and external solutions in that location

- Identify the components of procurement and their location and map out the projected timescale of implementation

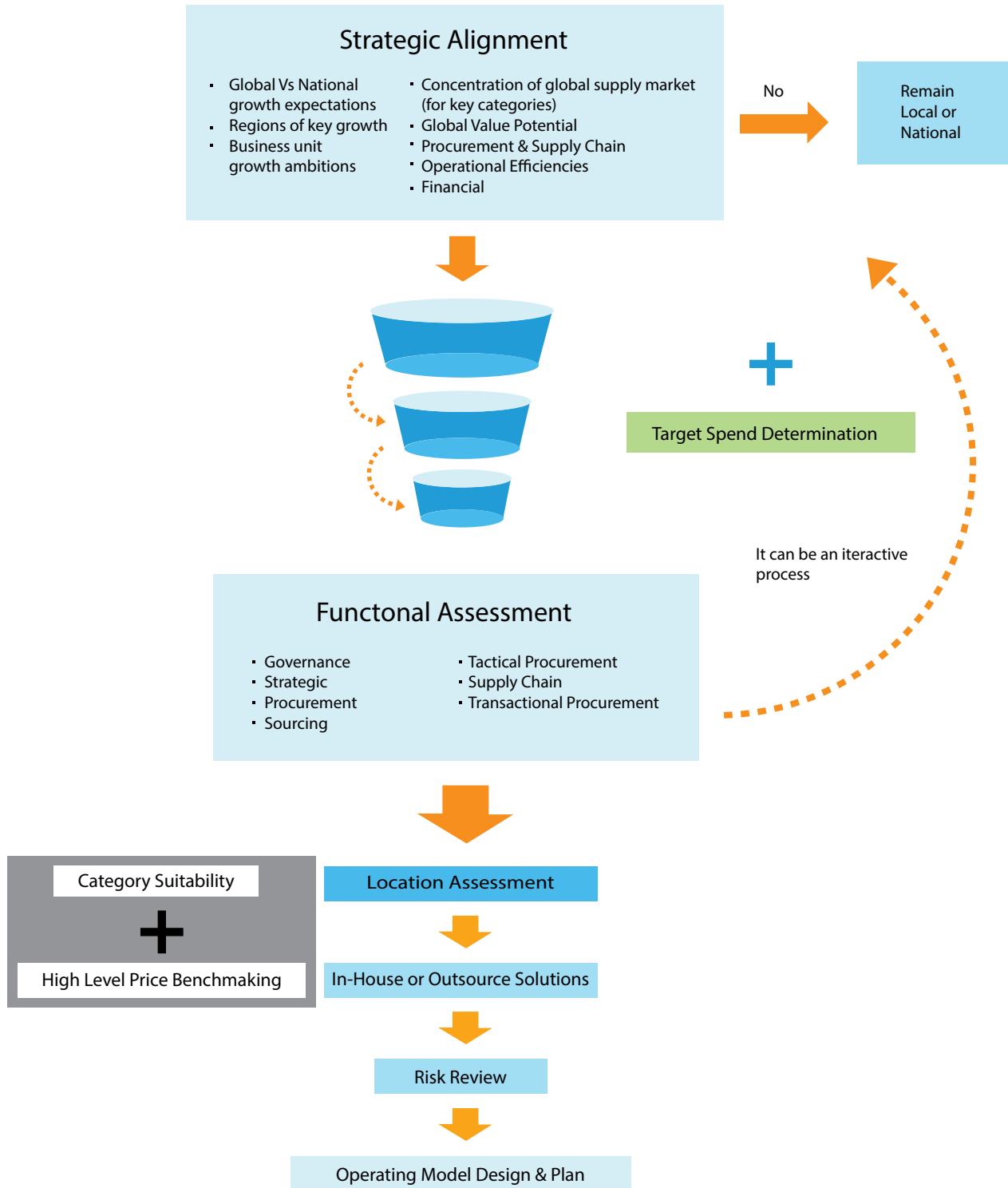
### Risk review

- Identify the risks and determine the risk mitigation strategies

### Operating model design and plan

- Identify any other uses for the IPH or BPO besides traditional procurement activities, e.g., acquisition vehicle
- Compare TCO against the total benefits delivered under your model and determine whether there is sufficient profitability
- Map out a timescale for these activities, e.g., set up an IPH in Years 1 and 2 in Singapore and follow this by establishing a BPO in India in Years 3 and 4
- Determine your system requirements. Infosys Portland's P2P system provides a complete overlay across all systems which extract data for diagnostics and assist global companies in assessing their expenditure across a number of regions

This filter process can be depicted in the following diagram





## Functional assessment and design

The offshore procurement office can perform several functions as follows:

- An internal IPH:
  - With focus on governance, category strategy, and category management for certain spends
  - Whose activities include the above plus trading services and supply chain
  - Whose activities include the above plus support services such as contract management, data analytics, and reporting
- An IPH with some of the above outsourced; most companies prefer governance and major direct category management to be internally managed
- An IRSO, normally co-located in the country where supplies are manufactured to enable closer management of the sourcing activity in that country or region
- An internal GPO whose sourcing activities are regional or global which can have a trading delivery mechanism (they offer a buy / sell price whose margin is embedded within the price) or a more procurement-orientated service where they charge a commission for the time devoted to completing the sourcing
- An external GPO whose sourcing activities are regional or global; the

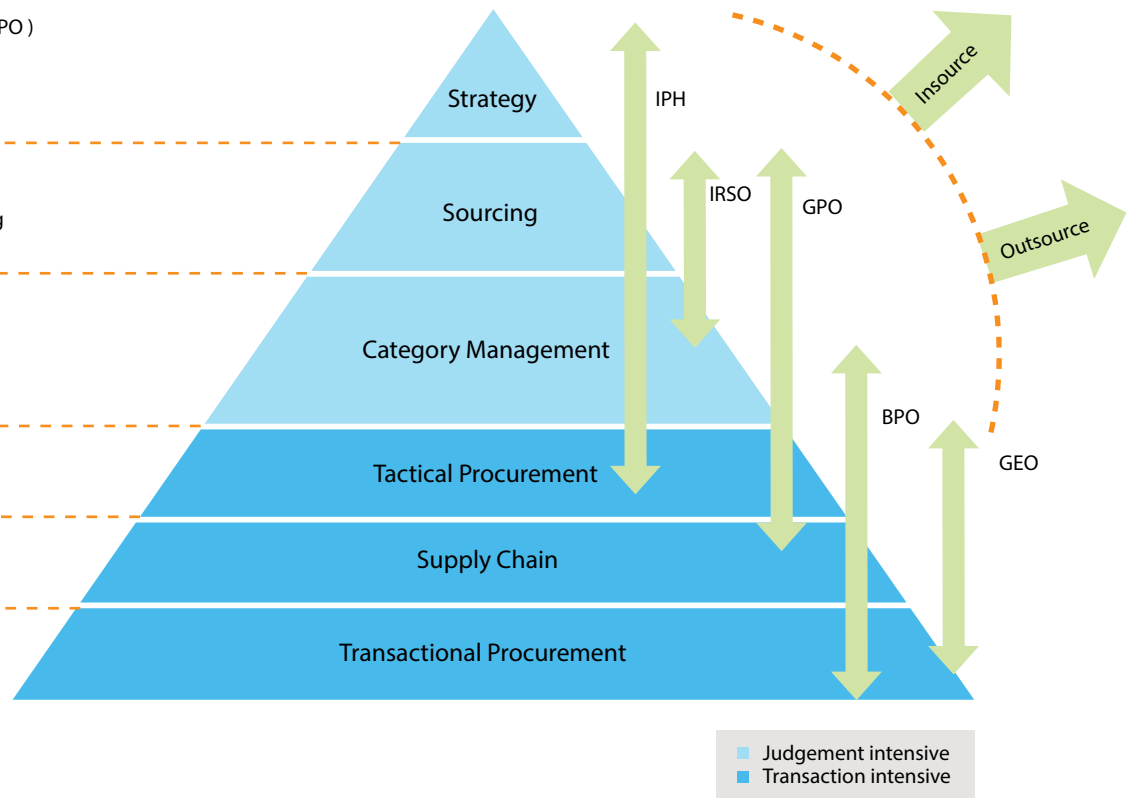
GPO can simply have a purchasing focus or additionally assist with supply chain activities or provide a technological exchange for both these activities (GEO)

- An external BPO which provides support services to the IPH in some or all of category management, data analytics, spot buying, or transactional support. Many companies are prepared to embrace a higher form of BPO outsourcing with one of the key drivers being labour cost savings

Functional design and coverage is best depicted in the following diagram

### Functional Scope

- Functional Governance ( CPO )
- Business Strategy
- Geographic Strategy
- Technology Strategy
- 
- Strategic Sourcing
- Tender Management
- Group Raw Material Buying
- Offshore Trading Partners
- 
- Category Management
- Vendor Management
- Demand Management
- Spend Data Management
- 
- Spot buying
- Contract Mangement
- Tail Spend Management
- 
- DIFOT
- Inventory Management
- Demand Mangement
- 
- Purchasing & Payment
- Contract Administration
- PR to PO Conversion
- Invoice Matching & Processing



## Internal and external models

A global model should consider both internal and external (outsourced) procurement structures and the way they interlink in their design. Outsourced solutions exist in all areas of offshore procurement –from sourcing to category management, supply chain, and business processing. The challenge is finding the right sustainable fit.

The right offshore model not only applies to category management strategy but also to sourcing, supply chain, and transaction processing strategy. It can also create a positive ripple effect on the other side of the fence – revenue collections and processing. Therefore, careful review of both internal and external solutions is needed, some of which may change your risk profile, e.g., alignment with sourcing entities can deliver more of a trading solution rather than a purchasing solution.

IPHs tend to be outsourced mainly for indirect categories. Infosys Portland provides this service for both direct and indirect categories in Australia and Singapore through its Managed Services Division.

IRSOs can be external or internal and can provide a trading service (buy / sell pricing offered) or an advisory service (where a fee is paid). Infosys Portland established an advisory arm in China in 2007 which

is now managed by external parties and rebranded under the banner “Fonssino”.

BPOs are outsourced across most functions of procurement and at many levels. Transactional procurement can be outsourced fully. As the level of judgement intensiveness increases in the procurement functions, the level of outsourcing tends to reduce with governance normally not included. Infosys Portland provides its BPO service from Pune, India.

GPOs, in this paper, represent an offshore vehicle which identifies the suppliers from which it will source goods and services and capital equipment. It inevitably involves some form of supply chain management. If an outsourced GPO model is adopted (an external vehicle is engaged), it is expected that some form of aggregated purchasing power is achieved by combining the volume of several companies.

GEOs are technology platforms which maximise automation in supply chain, contract management, quality assurance, price tracking, and inventory tracking. GEOs are used by GPOs and IPHs to ensure probity and accuracy on high-volume transactions and as a source for price benchmarking. They are mainly available in the U.S. and Europe, an example being the Global Healthcare Exchange (GHX).

## Risk review

Key risks that require mitigation strategies include:

- Key procurement resources possess insufficient skills to develop and manage categories globally from the offshore hub
- Key internal stakeholders are not fully engaged
- Business procurement behavior does not change within the company locally or regionally, so full benefits are not achieved
- Suppliers do not provide improved pricing on amalgamated spend
- IPH and BPO operational costs increase
- Higher foreign currency exposures arise
- Tax office scrutiny occurs

Infosys Portland can assist with solutions to mitigate these risks.



## Conclusion

The longevity of offshore procurement models such as IPH, IRSO, GPO, or BPO can be assured if they deliver sustainable commercial savings and profitability from procurement and operational drivers alone - before any financial engineering benefits are included.

Of course, the strategic direction of one's own company and potential structural change is the first factor to consider when examining a preferred location.

However, a key due diligence activity in determining the preferred location is to closely examine the organizational structures of suppliers with a focus on their sales and account management structures as well as their manufacturing bases. Ideally, their future structural changes and developments (e.g., new manufacturing bases) should be understood. This analysis will ensure longevity with sustainable operational benefits flowing from supplier

innovation, process improvement, and simply proximity to key decision makers. You just might find that your suppliers are a source of talent as well!

Infosys Portland's global network of offices and expertise can deliver the best-fit procurement and system solutions to cater to your global expansion plans and address the omnipresent challenge of finding the optimal state.





## About the Authors



### Paul Millett

*Director, Infosys Portland*

Paul Millett is a Director with Infosys Portland and manages key relationships in developing, selling, delivering consulting and BPO services and solutions to key clients across all industry sectors.

Paul has over 17 years of experience with the FMCG industry and has held supply chain consulting roles across blue chip organizations globally, including Mars Europe, Accenture UK, WCI Group UK, AT Kearney, and Portland Group. He has developed supply chain and procurement strategies and delivered sustainable solutions in grocery, retail, FMCG, financial services, building materials, construction, telecoms, distribution, aerospace, healthcare, government, refining, and steel and mining industries for clients including J Sainsbury (UK), Cadbury Schweppes, Telecom NZ, Qantas, British Airways (UK), Rolls Royce (UK & Asia Pac), Boral, CSR, Onesteel, Caltex, Virgin Australia, World Bank, Westpac, and various NSW government agencies.



### Adam Crowe

*Healthcare Practice Lead, Infosys Portland*

Adam Crowe joined Infosys Portland to lead its Healthcare Practice. He is a non-executive Board Director of Holdsworth Community Services which provides services to the aged and people with disabilities. He is also a non-executive Director of Two Sides Aust. which is a sustainability advocate which dispels the myths and presents the facts on paper-based products

Adam has over 20 years' experience in international procurement, sustainability, and treasury management. He has led a consulting review of a \$1B offshore procurement hub for one of the leading service providers in Australia and a smaller procurement hub for a leading Australian vitamin company. He was General Manager, Procurement & Sustainability, at PMP Ltd., for 11 years managing \$800M of global procurement exposure, covering paper, chemicals, logistics, energy, media services, property, and labor. He was a key contributor to PMP having one of the world's highest print margins in FY12. Prior to PMP, he ran the global treasury for P&O out of London managing \$5B of treasury and commodity risks. His experience in sustainability covers forestry and water treatment management.

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## About Infosys Portland

Infosys Portland is a subsidiary of Infosys BPO Ltd., a part of Infosys Ltd. Its mission is to improve the efficiency and effectiveness of its clients' procurement and supply chain activities. We achieve this by providing thought leadership, specialist subject matter expertise, a global delivery model, and best-in-class technology solutions. By increasing the value delivered and improving the efficiency of procurement and supply chain operations, our clients are able to achieve more for less.



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