

WHITE PAPER

Outsourcing tactical procurement and category management support offshore

An effective strategy to reduce the cost and increase the efficiency of procurement departments



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Executive Summary

Globally, leading corporations are challenging all their functions to increase efficiency and effectiveness. Procurement departments are not immune to this demand. Procurement Outsourcing¹ (PO) can help procurement departments to face this challenge. Outsourcing tactical procurement and category management support offshore is a new effective strategy to reduce the cost and increase the efficiency of procurement departments. It stands between transactional procurement activities usually outsourced by mature procurement departments and end-to-end category management services typically retained “in-house”. The article highlights the benefits and challenges experienced by the authors in past implementation projects of tactical procurement and category management support services offshore.

Introduction

Procurement departments have typically focused their available resources on strategic categories, leaving secondary categories unattended and/or mismanaged. However, procurement departments are now expected to be more efficient, and achieve higher benefit targets by the in-depth management of all categories (including secondary

categories) at the lowest possible cost. Typical PO used to be focused on procurement business support services and process-driven activities, such as data maintenance, payment processing, or help-desk (refer to Procure to Pay activities in graph 1). However, market demand has recently led PO providers to develop additional capabilities and offer

a new range of services at a lower cost² from offshore delivery locations. This shift represents an opportunity for procurement departments to meet their needs and extend the reach of procurement managed spend in order to deliver more services to the business at a lower cost.

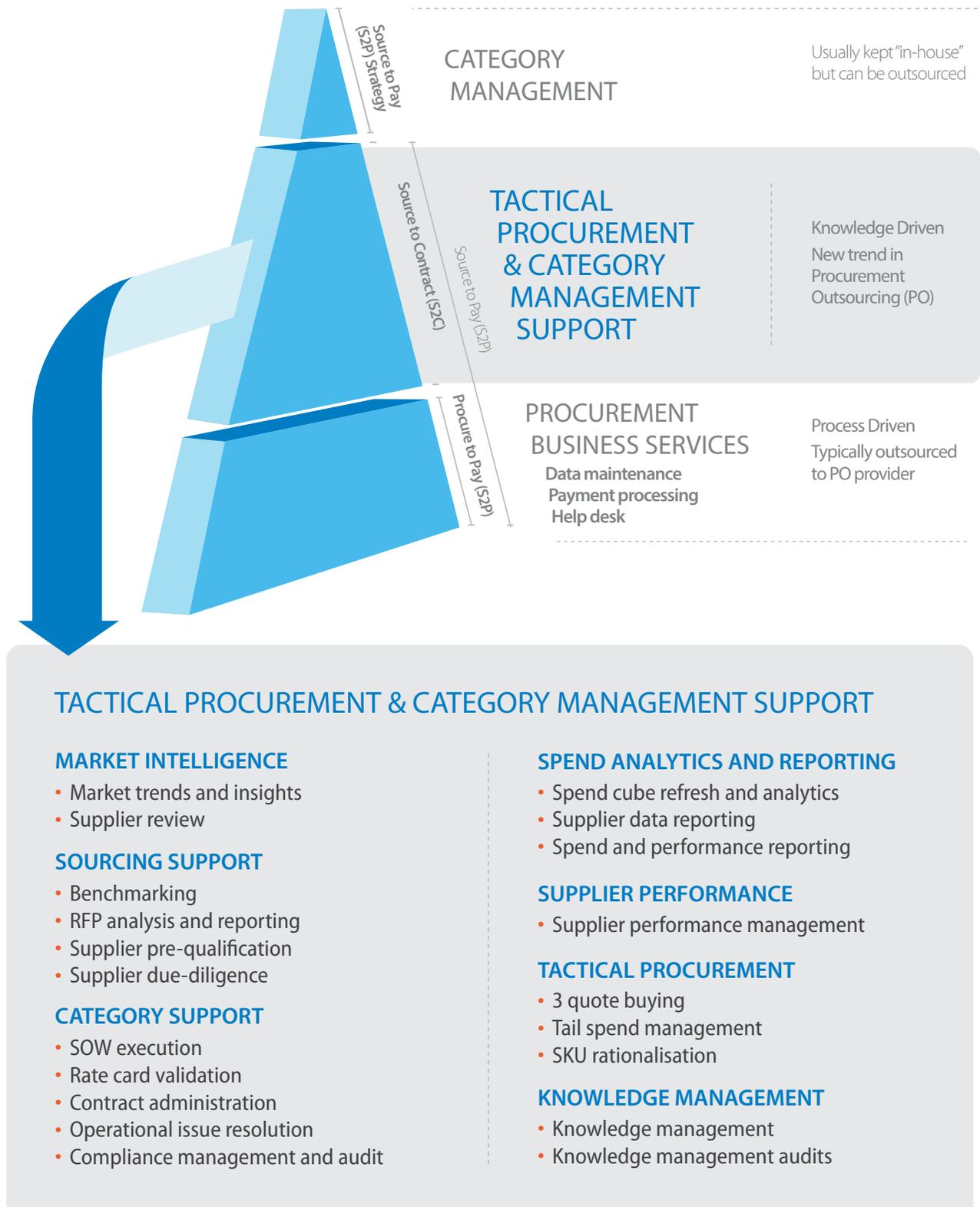
¹ Procurement Outsourcing (PO) is defined by the Everest Group Research (Top 10 Best Practices in PO - 2012) as the transfer of ownership of some, or all, procurement processes or functions to a service provider. The scope of PO is typically defined across two dimensions:

a) The process scope for PO covers end-to-end, Source to Pay (S2P) process that comprises Source to Contract (S2C) process and transactional Procure to Pay (P2P) process as illustrated in graph 1

b) The second dimension is the category scope. This includes the various spend categories such as IT/Telecom, marketing and sales, facilities management, travel, logistics, contract labor and maintenance repairs and overhaul (MRO).

² “Transactional elements of the PO value chain will first be commoditized, slowly expanding into the strategic sourcing elements of the value chain” - Hfs Blueprint Report on Procurement Outsourcing Services - 2013.

Graph 1. Procurement operations services³



³ Source: Portland Group. This graph is aligned with the "Procurement Pyramid" from the Everest Group Research

What are the benefits of outsourcing tactical procurement and category support services offshore?

The authors have identified several benefits that enable Chief Procurement Officers (CPOs) to meet efficiency and effectiveness targets. They range from “hard” benefits with quantitative financial savings to “soft” benefits, more difficult to calculate, but still providing qualitative value. affect any contracted arrangements.

Benefit 01

Better utilisation of onshore category managers’ time by supplementing with lower cost resources

PO providers offer analysts’ profiles with a high level of autonomy and skills at a lower cost than the Australian market to support the onshore category management teams. This then provides the “in-house” category managers with more bandwidth to increase the managed spend by coping with secondary or non-strategic categories typically unattended and mismanaged. Category managers are also more efficient as they are supported by additional resources. The key to decrease cost and improve efficiency is a balanced allocation of “in-house” and outsourced activities based on complexity and criticality of tasks. The goal is to give category managers more bandwidth for in-depth category management activities. In addition, outsourcing category support includes compliance management and audits. The responsibility for this time-consuming activity can be delegated by category managers (who remain accountable) as more resources are available to track and manage non-compliant spend.

Benefit 02

Improved category knowledge and access to Intellectual Property (IP)

Though category managers remain the primary category Subject Matter Experts (SMEs) as they also bring the client business context, the category support team brings additional category knowledge through selective recruitment and allocation of analysts based on their previous experience (which is a combination of procurement and category experience). Additional category knowledge is acquired “on the job” and through training provided by the PO provider. Working with outsourced procurement support teams also brings IP and “best practices” benefits, as analysts can tap into high-profile SMEs and IP built from other clients’ best practices.

Benefit 03

Increased flexibility and decreased team management costs

The recruitment, training and career development costs of outsourced teams are managed by the PO provider. The knowledge management activities are not reliant on individuals anymore, but on an organisation and remain consistent throughout employee attrition and organisational change. Procurement departments also benefit from better accountability and flexibility for service and outcomes, as outsourced services are defined against Service Level Agreements (SLAs) and Key Performance Indicators (KPIs). The variable cost structure of such service is also an advantage as the resourcing can be adjusted (up or down) to reflect changing business needs. Having outsourced procurement support teams is an advantage for global organisations working in different time zones. Different shifts can be organised, in order to offer extended and “live” coverage support during the Australian working hours as well as staggered support, to have resources providing outputs when the “in-house” category managers kick-off a new day.

What are the challenges and the mitigation activities to overcome them?

The authors have implemented offshore tactical procurement and category support teams across a range of industries (including financial services, telecommunications and mining) for Australian organisations with global operations. These experiences helped them identify the following key challenges and recommend mitigation strategies.

Challenge 01

Long implementation lead-time

In case of dedicated resources, the implementation lead time varies between three to six months, depending on the size and nature of operations to be outsourced. It includes lead-times for service delivery definition, recruitment and/or transfer from other teams, training and preparation for the go-live of the service.

Recommended mitigation strategy: Kick-off as soon as possible the recruitment of the team as most often this activity is on the critical path. In parallel, use a blended team mixing onshore resources and offshore existing employees from other accounts to seed the core team with experienced professionals.

Challenge 02

Lack of readiness assessment

In order to build a performing team, roles, responsibilities, requirements and expectations must be clearly documented and signed-off by both parties. An operating model clarifies a number of critical processes, including but not limited to communication, scoping of new requests, quality control and escalation of issues. It is critical to assess the readiness of the outsourced team and test all processes before the go-live of the service.

Recommended mitigation strategy: Have a robust operating model and do a readiness assessment with senior stakeholders.

Challenge 03

Enabling effective communication

Working with remote teams sometimes working in different time zones can be challenging. Communications processes and channels are paramount to ensure that category management and support teams are working efficiently together.

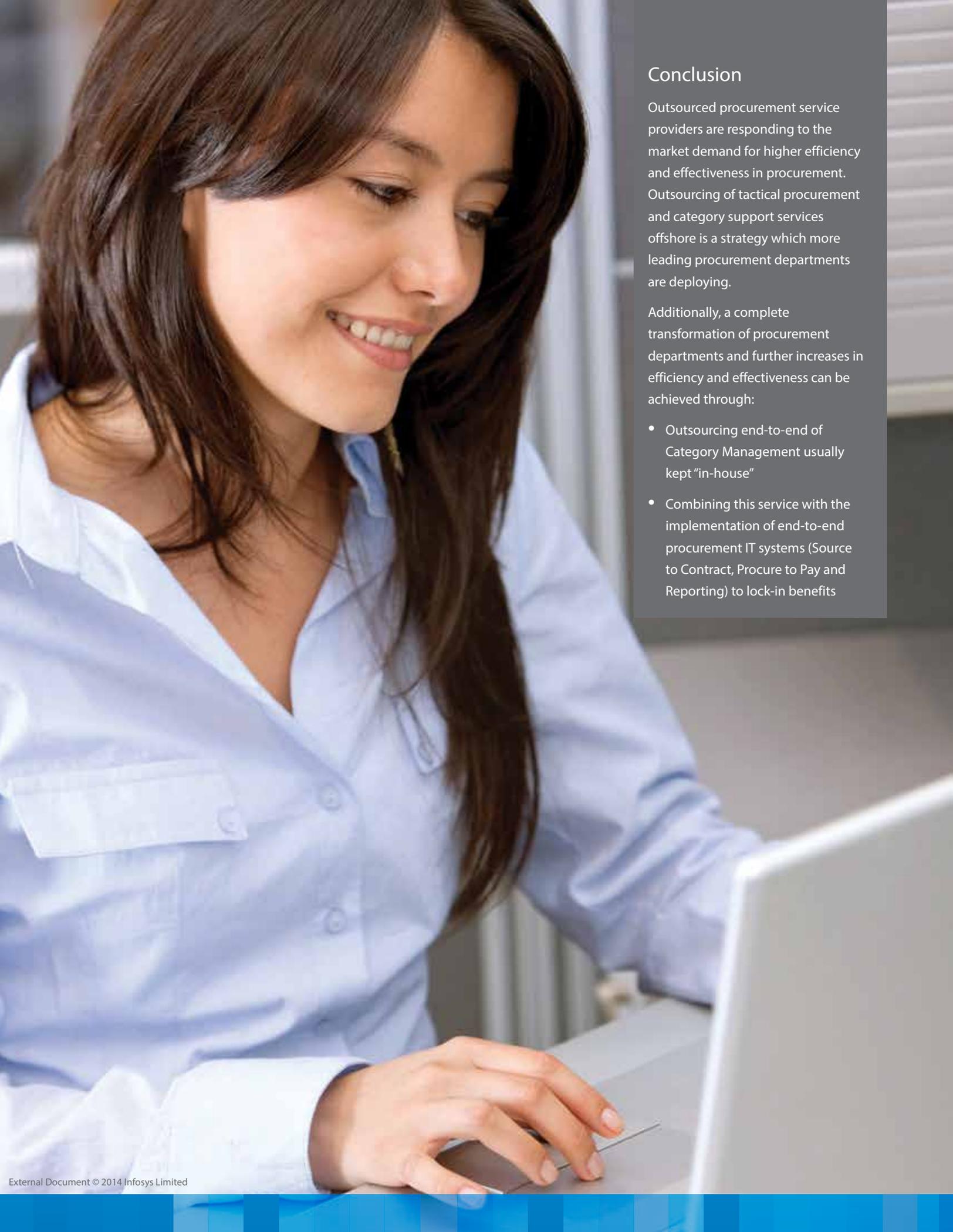
Recommended mitigation strategy: Implement communication tools facilitating effective communication (chat, videoconference). Recruit analysts with excellent communication skills and equip them to work in virtual teams to improve communication with onshore category managers.

Challenge 04

Cultural misalignment and lack of acceptance by organisation

Working with an outsourced team requires a specific attention to cultural differences and cultural fit between individuals and the organisation. The offshore team can also be seen as a threat by onshore teams and traditional power structures.

Recommended mitigation strategy: Change management, strong leadership, sponsorship from Executives and ongoing governance are key acceptance enablers. Cultural differences between countries can be overcome by alignment of business and corporate cultures as well as with recruitment, team building activities, face-to-face induction and travelling of analysts and category managers both ways.



Conclusion

Outsourced procurement service providers are responding to the market demand for higher efficiency and effectiveness in procurement. Outsourcing of tactical procurement and category support services offshore is a strategy which more leading procurement departments are deploying.

Additionally, a complete transformation of procurement departments and further increases in efficiency and effectiveness can be achieved through:

- Outsourcing end-to-end of Category Management usually kept “in-house”
- Combining this service with the implementation of end-to-end procurement IT systems (Source to Contract, Procure to Pay and Reporting) to lock-in benefits

About the Authors



Dave Gardiner

Dave is recognised as one of the leading procurement thought leaders in Australasia and is regularly invited to present at industry conferences and advise to Executive Teams on procurement transformation. He is co-founder and Managing Director of Portland Group, the leading procurement and supply chain advisory business in the Asia Pacific region. Prior to launching Portland Group in 2002, Dave held management positions in both strategic consulting and manufacturing with A T Kearney, Mars and Shell. He holds a Masters Degree in Engineering from Cambridge University.



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Jonathan Dreyfus-Schmidt is a Senior Consultant in Portland Group's Sydney office. Jonathan has led several procurement teams and projects across a wide variety of industries and has a deep level of expertise in outsourced procurement operating models. Prior to joining Portland in 2012, he completed 10 years of project and change management consulting, and managed the business development and project's portfolio of a high-tech company in Montreal. He holds an MBA from Laval University in Quebec and a Masters degree from EDHEC Business School in France.

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