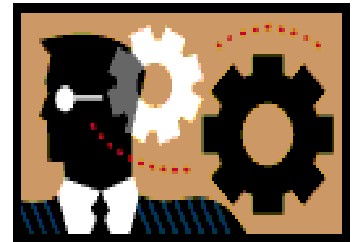




Tips & advice for purchasing professionals

Welcome to Transform, the source for comment, news and information for organizations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Strategic Outsourcing – Part 1

The ‘make or buy’ decision is still at the heart of business strategy

A guide for CEO’s, CFO’s and CPO’s on developing a formal outsourcing strategy to support their core business goals

What’s in it for you? Discover how to take control of outsourcing by developing a systematic outsourcing methodology as a core sourcing management tool in your organization.

Reading time: 10 minutes

Introduction:



Businesses globally are under pressure like never before to meet strategic goals, reduce costs, provide efficiency improvements and even survive. In response many CEOs are committed to outsource as many of their non-strategic operations as possible over the next few years. Yet most companies do not have a formal process by which to do so. CPO’s should therefore ensure they have an outsourcing strategy for their organization or risk having one imposed upon them.

Outsourcing deals can be highly complex and should not be treated as simple commodities. Outsourcing history is littered with failed projects and problems around the decision making process, loss of control, protection of IP rights, and underperforming suppliers. Like any organizational decision therefore, outsourcing requires effective management from the outset of the outsourcing evaluation and throughout the life of the contractual relationship. Again, we argue that CPO’s must take the lead in



today's business climate where the CEO is more likely to ask the CPO not **“have you got an outsourcing strategy?”** but **“why not?”** CPO's must therefore ensure they have an outsourcing strategy for their organization and consider not only **“whether there are”** corporate functions that could be outsourced, but **“how”**.

Formal Strategy

Most companies have no formal strategy on outsourcing. This means that a reactive response to events is a common driver for outsourcing as opposed to a systematic approach designed to identify and review outsourcing candidates. This is both an opportunity and a threat to those CPO's whose organizations have no formalized policy on outsourcing. On one hand the CPO is seen to lead by initiating such a strategy, presenting them as being at the heart of the business, whilst on the other hand the CPO can have such a strategy imposed upon them and is seen as fringe player or onlooker. Self respecting CPO's must therefore take the lead, and drive development of an outsourcing strategy for their organization.

An outsourcing strategy requires a detailed process to steer the outsourcing decision making process whilst recognizing the dynamic nature of the drivers, goals and motivations of outsourcing within their own organization. Defining such a process and incorporating strong governance measures will help organizations steer their way through the mine field of information, decisions and stakeholder pressures to ensure that decisions are reached which truly add value to the organization and provide a detailed methodology to ensure this value is realized.

Outsourcing Process:

Whilst the process of outsourcing can be broken down into logical steps, it must be remembered that the process is a dynamic one that takes place and is influenced by many factors, such as the business drivers for outsourcing in the first place and nature of the targeted goals and added value sort.

For Purchasing Practice there are three distinct phases of outsourcing, each with its own unique processes. (See Figure 1) These phases are:

1. Strategy and Planning
2. Sourcing and Selection
3. Transition and Implementation management

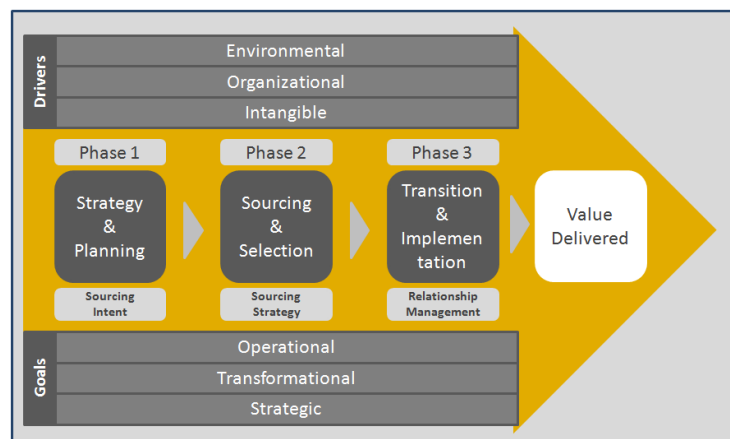


Figure 1



Evaluating the Business Case for Outsourcing

Outsourcing involves internal reorganisation, rationalisation of processes and reassignment of resources in order to achieve the desired outcomes. Most importantly, outsourcing will almost certainly touch employees, their employment status or benefits. Clear and honest communication is therefore critically important.

The strategy and planning phase requires an open and honest review of the organizations strategy, competencies and cost and an assessment of the drivers for outsourcing, the goals to be achieved and what should and should not be considered for outsourcing.

Capability in this evaluation is best built by embedding this activity as a routine business as usual process to enable the organization to move beyond the reactive approach to outsourcing towards a systematic business process to identify candidates for outsourcing.

Know your organization:

Strategic outsourcing requires a detailed understanding of your company’s leadership, vision and strategy to understand the direction in which you are headed and how you will get there. Value chain analysis (See Figure 2) can be used to examine activities that create value for your organization and provide a framework for identifying core competencies both inside your organization and in its supply chain. In doing so, the value chain can be broken down into separate capabilities. By measuring these capabilities against world class standards, it is possible to identify the outsourcing opportunities to reconfigure your “to be state” value chain and reconfigured customer service delivery model (CSDM).

The following typical questions help to establish the organizational impact and potential risk:

- What is your core business?
- What are your key competences?
- What do you do well?
- What are your, strengths and weaknesses?
- What do your customers want?
- What don’t customers need?
- What are your competitors doing?
- How can you sustain your competitive advantage?
- Where will the next disruption to business-as-usual come from?
- What are the key trends in your business?

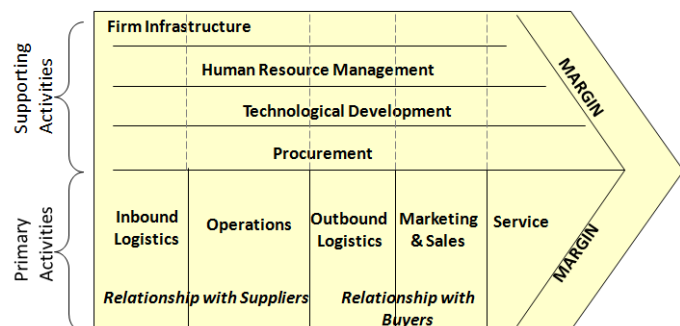


Figure 2



A robust CSDM clearly quantifies two critical components:

1. **Scope:** This covers functions, processes, geographies, and business units and must provide sufficient detail to ensure the organization fully understands what it intends to outsource and what it intends to retain in-house.
2. **Solutions:** These should describe, at the appropriate level, the “innovation” required to transform the process, acceptable delivery locations, technology platforms, etc to achieve an advantage.

Whilst flexibility is required in considering new ideas and innovation brought by outsourcing providers, it is important to start with your own CSDM vision. This will help to evaluate which outsourcing provider is best suited to deliver the vision and also help focus solution discussions on areas that add the greatest value.

Drivers for outsourcing

The drivers for outsourcing operate at a dynamic pace depending upon your particular industry and organization. Factors such as responding to a merger between competitors and industry consolidation, a need to revise your organizations cost structure or gain access to new technologies are all common drivers of outsourcing activity. Figure 3 shows three categories of drivers:



Figure 3

- **Environmental:** *events external to the organization which force a response to any changes.* These particularly impact the decision to outsource and include the intensity of the competitive environment, the political and regulatory environment, changes or issues surrounding technology, and influences from social dynamics.
- **Organizational:** *events internal to the organization* – A significant factor will depend upon whether the organization has a clear outsourcing strategy or not. Clear policies on issues such as the outsourcing of non-core activities, freeing up resources for other purposes, or seeking access to world class capabilities help define the process etc.



- **Stakeholder interest:** *individual or group goals and aspirations, political rivalry etc* – The CEO sets the scene here as he is responsible for setting the value system for the organization. Factors such as the CEO not wanting to lose loyal employees or other stakeholders such as senior managers wanting to run their own company can influence the business case.

The dynamic context of outsourcing therefore requires the process to take account of the unique challenges and context for each outsourcing situation.

Goals of outsourcing

The goals of outsourcing (See Figure 4) range from simple operational goals to complex strategic goals and so whilst improved financial performance is the most commonly cited goal for outsourcing, others include; access to world class capabilities, reduce risk, and increased innovation.

In support of the focus on cost savings a 2004 CAPS survey showed that the average cost saving from outsourcing was 13.2% and that 75% of respondents realized this saving within a year. However, the tremendous longer term strategic benefits of outsourcing should not be overlooked.

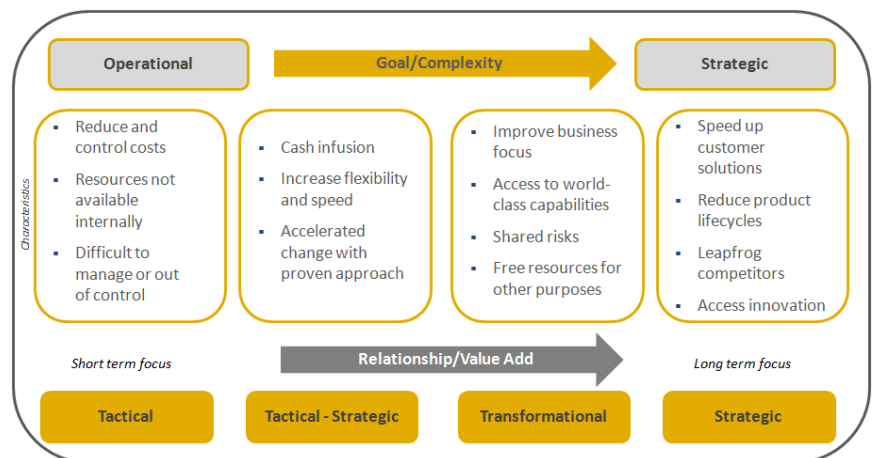


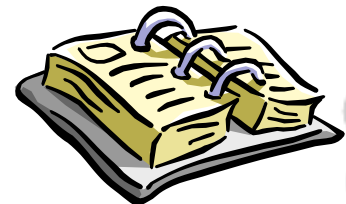
Figure 4

What should and shouldn't be outsourced

CPO's need to develop a continuous process to engage at the business level to consider which goods, services, functions and processes should be outsourced. This requires evaluating how the function or functions being evaluated for outsourcing fit into the organization. By asking key questions, the business can approach the question of "what to outsource?" from a wider perspective than just the core/non-core aspect. Equally important is the strategic importance and the depth of stakeholder impact as well as the impact on the customer.

Visit the Buying Magician blog: **"It's no longer a question of should you outsource but why haven't you outsourced?"**

<http://purchasingpractice.com/it-no-longer-a-matter-a-question-of-should-you-outsource-but-why-haven-t-you-outsourced/>





Beyond the strategy and planning phase the strategic sourcing process provides an ideal proven process for conducting the sourcing and selection phase and proven SRM practices are best suited for the transition and implementation phase. All this is gelled together by implementing effective governance; not just for the process up to implementation but also to cover management of the outsourced relationship. All too often outsourcing relationships fail due to poor relationship management which can be avoided by implementing effective governance structures, processes and tools.

Outsourcing Tools

Having a good set of management tools for outsourcing can help establish fact based decisions and control over the process. Such tools include:

- Value Chain Analysis
- SWOT Analysis
- Business case analysis
- Cost benefit analysis
- Risk Management

Tools cannot improve leadership, change the culture, fix a broken process, or relieve people of having to think. They do however; help provide the structure and foundations on which to make sound fact based decisions at key points throughout the outsourcing process to secure the desired output.

Conclusion

Those organizations who hang on to processes in which they don't excel will lose competitive advantage to those who do. Companies must therefore ensure their value chains are made up of world class capabilities to deliver their product or service to their customers. A more strategic view of outsourcing combined with a systematic outsourcing process is needed which account for the complex dynamic forces that can impact the outsourcing decision and process. The process itself is helpful in providing a logical process; however, this needs to be part of a broader review of environmental, organisational and stakeholder issues, which considers how these shape and influence the outsourcing process.

For More Information

Purchasing Practice Inc can work with your organization to develop a strategic procurement capability that will add value and positively affect your top and bottom line. To learn more, call 1-778-988-1052 to arrange a free consultation, or visit us at www.purchasingpractice.com



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Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.



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Opportunity Assessment: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Mergers & Acquisitions: We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

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Interim Procurement Solutions: We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

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