



Controlling Outsourcing Partners
Making Procurement a Priority
Summaries of A.T. Kearney Studies

ERPS – European Center for Research in Purchasing and Supply

c/o ÖPWZ, Rockhgasse 6, A-1014 Vienna
e-Mail: secr@erps.at

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Controlling Outsourcing Partners

Experience of Microsoft

Summary of an A.T. Kearney Study

Microsoft as a multinational company was forced to find ways to control its 45 outsourcing partners.

Questions were: How can savings be achieved if the outsourcing partner has 100 % more employees than Microsoft? Who takes responsibility? How many persons from their own staff should be engaged in controlling tasks?

The experience in India was that Indian engineers knowing less of high sophisticated software products must be educated and trained before a new product could be developed.

The aim of A.T. Kearney was to decide a qualified controlling system for outsourcing partners – in design, production and distribution.

After analysing the tasks and activities of the supply chain, problems could be solved by brainstorming teams, together with the outsourcing partners.

At the end, functions were divided into 4 categories: portfolio management, products research, introduction of new products and management of the life cycle of products.

Looking at the different processes the statistical controlling of processes could also be outsourced, but a minimum of control has to be necessarily kept in-house. It is important to support the interaction of involved persons thinking on the same level and following the same aims.

Controlling is all the more necessary with new outsourcing partners. It is a process of learning by doing and benchmarking with other companies could be helpful.

The Microsoft examples have shown very different levels of education and equipment at the different outsourcing partners, with strong impact on the quality of products. Therefore, controlling measures had to be adequate according to the situations.

During the time of cooperation it was possible to reduce the extent of controlling activities depending on the development of the outsourcing partners. Also, a part of quality control could be successfully transferred to adequate outsourcing partners.

For the transfer of controlling it was necessary to set criteria for all product lines, the product control and quality control.

In any case, a minimum of activities remain in-house.

For this minimum 3 criteria are important: costs, advantages and risks.

- Costs:

Cost-savings by transferring in-house controlling functions, but costs increase for the outsourcing partner.

- Advantages:

Cost-savings in-house.

- Risks:

If the controlling carried out by the outsourcing partner is not sufficient, it can have a negative impact on the whole business.

The Control Level Assessment of A.T. Kearney developed a RASIC-Chart:

Responsibility, Acceptance, Support, Information and Consulting

If all employees are involved in the process, a flexible and immediate reaction in different situations could be expected.

The example of Microsoft was successful because the management of both sides were sensibly aware of changing situations, the staff cooperation worked well and the business partners gained knowledge and confidence in the partnership.

Making Procurement a Priority

Summary of an A.T. Kearney Study

Since 1992 A.T. Kearney has been working in research of procurement and presented now this study.

During the research 45 big retail companies in North America, Latin America and Europe were contacted.

In the different branches procurement became a strategic weapon in competition.

As a result 6 core competences are existing:

1. Development of strategy
2. Alignment of organization
3. Category management and strategic sourcing
4. Supplier management and development
5. Day to day activities
6. Performance management

These functions are often used in combination. Strategic development and organizational alignment are always used together with the top management. Category management was introduced only by 45% - mainly without the top management. The aim of all companies is to expand category management up to 65% of their total procurement volume. Managers want to define category management from the customer perspective and to give category management more responsibility with a bonus system. Category managers must be educated in strategy and analysis. An overall lean organization is necessary.

For the analysis technology, process, financing and organization models had to be found because 60% of company owners are actually not satisfied with their profit situation.

A good new development can save 2%-4% of the costs if the support of new technologies will be used.

An increase of profitability can be achieved by development of category management and better strategic supplier collaboration.

Market leaders have more collaboration with their suppliers than other companies:

64% (25%) category management

82% (42%) product design and development

57% (31%) strategic buying

45% (21%) tactical buying

64% (33%) supply chain and logistics

60% (15%) automated inventory management processes

60% (20%) automated procure-to-pay processes

75% (12%) use of RFID

For a development of RFID a remarkable price reduction for the chips is expected and will help to use more RFID-systems.

The attractiveness of organizational models:

Centrally located

Purchasing owned by individual business units.

Central sourcing group responsible for:

- Training
- Systems development
- Coordinating sourcing initiatives

Central sourcing group is not involved in any transactions.

Centralized

Sourcing and purchasing are performed centrally as services for each individual business unit.

Central sourcing group owns all strategic and transactional buying activities.

Business units pay for the service provided by the sourcing group and demand customer satisfaction in return.

Center-led (hybrid)

Competency center for training, systems development, policies and procedures.

Central group owns the categories that are not deemed core competencies by business units such as administrative services.

Other categories are owned by the business units, with subject-matter expertise and coordination supplied by the central sourcing group.

To increase the importance of procurement the following is necessary:

Clear calculation, controlling, transparency, reduction of complexity within business, maximized leverage across business units and geographic boundaries, maximized material leverage capabilities.

80% of all company managers from leading firms have one procurement strategy which was used. The portion in the smaller companies was significantly lower.

Inclusion of indirect purchasing and procurement in the companies strategy produced a hybrid model.

Retail leaders employ a balanced approach to procurement to ensure that margins remain high and operating costs are low. Retailers should use the full arsenal of sourcing strategies to achieve cost leadership.

To achieve better margins and to reduce costs A.T. Kearney analyzed some possible tasks:

Introduction of separate brands, cost analysis for brand products, demand oriented procurement and storage (with aim of volume reduction, cost savings of perhaps 10%-20%), intensify education and training, investments supported by technology, optimization of profit by better organization of category management.

All these proposals are qualified for retail companies to strengthen their market position.