



The Great Procurement Outsourcing Debate: Important or Core Business Function?

By Bill Huber, Partner & Director - CPO Services, TPI

In discussions about procurement outsourcing, a question that frequently arises is whether or not procurement is “core.” The fact is that after many years of being perceived as little more than a back-office function, newer competencies such as “strategic sourcing,” “supply chain management” and “strategic vendor management” reflect increased understanding of the importance of procurement to the health of a company.

When applied consistently, holistic, best-practice procurement can help improve speed to market and product and service quality, plus potentially have a significant impact on the corporation’s balance sheet. But, does this mean that it is core?

If only it were that simple. When TPI asked the question of business and sourcing leaders, responses varied. Denis Wolowiecki, former head of sourcing for Goodyear, pointed out, “the interface with suppliers represents 50 percent of a company’s supply chain relationships.” (Customers, of course, comprise the other 50 percent.) And Mike Adams, president of Bechtel’s civil division, agreed that procurement “is almost always a core function.”

While there is little debate that procurement is important, whether the function and profession in their current states are truly core is comparatively murky depending on whom you ask.

A sourcing executive from the biotechnology industry offers a counter perspective: “. . . procurement should be core, but in most companies, it is not.”

“There is an unwritten expectation that procurement groups must constantly fight for their existence, unlike other G&A functions like finance, legal, or HR. I also think that we sourcing executives are at fault

for this expectation because we have not erected barriers to entry to help increase the stature of our profession.”

Clearly questions exist even among procurement professionals as to whether we are adding as much value as we could to solidify the function as “core” in the eyes of our organizational counterparts. In the eyes of many insiders and observers, talent and investment should be top priorities to ensure that procurement is perceived as core to the business.

“Traditional procurement is a core capability, but not a core business function,” says Tim Cummins, founder and CEO of the International Association for Contract and Commercial Management (IACCM). “Its transactional, rules-driven nature makes purchasing a prime candidate for automation and outsourcing. However, the selection and management of trading relationships as part of an integrated supply chain is an emerging competence to which talented procurement professionals should migrate. It is an area requiring judgment, cross-functional coordination, proactive risk and change management.”

As you discuss the subject further, it becomes increasingly apparent that the difference between core and important business functions reflects the individual nuances of each business and what works best for their operations.

“Procurement is in general a core function, but not all of it; and the decision about treating it as such is situational,” says Gianni Giacomelli, head of BPO strategy and marketing with SAP. “Core function is something that brings distinctive competitive edge to a corporation and is something the corporation does distinctively better than the next guy.”

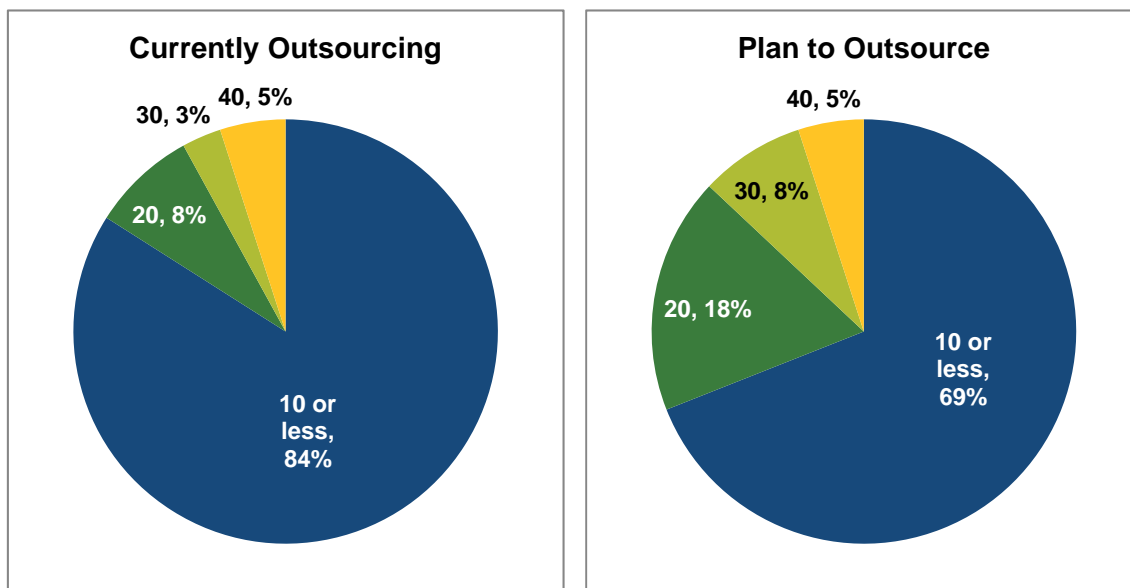


Giacomelli adds that while procurement can build significant advantage to product or service supply chains in procuring certain categories, not all product and service categories are core.

“If the corporation is not able to apply better processes and skills to the procurement of those categories that matter to it, then procurement is not core to that specific corporation. This may also mean that slivers of procurement people, process, and/or technology can be treated as ‘non-core’ and outsourced to someone for whom those are core, provided that the integration into the retained organization does not result in diseconomies.”

Recent TPI research conducted in conjunction with the Sourcing Interests Group supports this statement and indicates that the level of procurement outsourcing is likely to double in the next two years.

Outlook for Procurement Outsourcing



Source: TPI/SIG Procurement Survey February/March 2010



Offering a service provider perspective, Infosys' Aniket Maindarkar believes that procurement can increase its value by focusing on bringing intangible experience and skills to the table that compel a front-seat role at the executive table. "Procurement being considered 'core' versus 'back-office' is a function of having the right strategy, execution skills, credentials — and, most importantly, relationships — so as to drive innovation and value within an organization," Maindarkar asserts.

The procurement imperative is to distance itself from a transactional orientation, according to Tim Brown of ICGCommerce. "... Sourcing initiatives for non-strategic or indirect purchases are generally infrequent, and companies find it difficult to justify building this level of expertise and real-time market intelligence across all buying categories when they are in the market once a year at best. Outsourcing service providers have made the business of indirect procurement their 'core' business model."

Professor Robert Handfield of the University of North Carolina, who specializes in supply chain management, underscores the dichotomous nature of the question. His response to the issue is, "I would have to say a resounding yes!" But then he referred us to his Web site where he lists these common reasons why companies outsource:

- Reduce and control operating costs
- Improve host company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- A function is time-consuming to manage or is out of control
- Insufficient resources are available internally
- Share risks with a partner company

The answer to the core versus non-core question is not and may never be unanimous, but, in a way, it is beside the point. We should instead ask ourselves what strategy will deliver the strongest procurement capability for the company within the practical limitations of available funding, and what it will take to execute this strategy.

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Looking for a strategic partner? Contact **Bill Huber**, Partner & Director, CPO Services, TPI, at **+1 540 318 0124** or bill.huber@tpi.net.



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Bill Huber is a Partner in TPI's Business Process Services organization. He leads strategy and transaction and transformation initiatives across multiple business processes including Finance, Customer Care, Procurement, and Analytics, and also leads TPI's procurement advisory services, responsible for assisting procurement organizations in internal optimization and in establishing outsourcing competency centers.

Since joining TPI Bill has led strategy and implementation initiatives for top corporations in the automotive, heavy equipment, building products, financial services, printing, consumer goods manufacturing, life sciences, electronic media, utility, high tech, printing and logistics industries. He has worked with these companies in developing and implementing multi-function strategies comprising Finance, IT, Procurement, HR and Facilities Management, and including both outsourcing and internal transformation. Additionally, Bill has led transaction initiatives in Finance, Procurement, Logistics, IT Applications, Banking Processes and Facilities Management.

Bill joined TPI in 2006 following a successful career as a sourcing leader spanning four Global 500 companies with responsibility for all areas of outsourcing and procured services. At Wachovia, he was a Senior Vice President and served in various leadership positions including Chief Procurement Officer, Head of Strategic Sourcing, Director of Outsourcing Strategy and Governance and Head of IT Sourcing. His accomplishments included completing an enterprise offshore strategy resulting in five major agreements comprising multi-process HR outsourcing, IT Outsourcing, and establishment of a large virtual captive offshore BPO solution for finance, banking and investment operations, leading a comprehensive procurement transformation comprising implementation of an enterprise shared services organization and attainment of over \$300M in annualized savings, and multiple merger and acquisition integrations. Earlier in his career, Bill served in leadership roles at American Express, United Technologies Corporation and GEC/Marconi Aerospace and was responsible for program management of major system design, development and integration suppliers.

Bill holds a Bachelor of Arts in Government from Dartmouth College, and a Master of Business Administration in International Business from the University of Bridgeport, and has also completed post-graduate work in Accounting at Western Connecticut State University. He is a graduate of the Wachovia Executive Leadership Development program at UNC Chapel Hill. Bill was recently two-term Chairman of the Board of the International Association for Contract and Commercial Management (IACCM) and currently serves on the Advisory Board for the Sourcing Interest Group (SIG). He writes and presents frequently on procurement, shared services, change management and sourcing strategy.

ABOUT TPI: TPI, an Information Services Group company (NASDAQ:III), is the founder and innovator of the sourcing advisory industry, and the largest sourcing data and advisory firm in the world. We are expert at a broad range of business support functions and related research methodologies. Utilizing deep functional domain expertise and extensive practical experience, our accomplished industry experts collaborate with organizations to help them advance their business operations through the best combination of business process improvement, shared services, outsourcing and offshoring. In 2010, the International Association of Outsourcing Professionals ranked TPI no. 1 in its Global Outsourcing 100: World's Best Outsourcing Advisors. For additional information, visit www.tpi.net.

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