Do it yourself outsourcing case study samples

Business, Company

Purpose

Procurement outsourcing is usually utilized to reduce costs for goods and services. Acquisition of goods and services can be outsourced with the help of a third party, for example, a procurement outsourcing company. Outsourcing of business operations will result in cost reduction, efficiency of business processes, enhanced compliance, increased competitiveness, increased revenues, and offer an opportunity for the Company to focus on its core competencies.

According to Above the Standard Procurement Group Inc. (2012), many companies do not have enough internal staff or the level of expertise of internal staff engaged in procurement is low. Therefore, internal staff cannot conduct the necessary procurement processes forcing the companies spend billions of dollars instead of making savings. Some companies cannot afford to maintain a purchasing department. As the companies cannot afford having purchasing department, no price analysis is conducted, contracts with vendors are not updated, no cost reduction is performed, and no vendor negotiation takes place (Above the Standard Procurement Group Inc., 2012). Therefore, the necessity for reconsidering approach to procurement processes is obvious.

Current Situation

This case study relates small company Best Office Supplies (BOS) working in retailing industry involved in office supplies. The Company was founded 15 years ago and was quite successful till the competitiveness on the market of office supplies became too high. Financial analysis conducted by Accounting

Department of the Company showed that material and labor expenses tight to procurement function are extremely high. Besides, there was a necessity to increase revenues aiming to invest Company's growth. CEO of the Company tried several alternatives aiming to increase revenues. One of these alternatives was outsourcing. CEO got to know that the Company can save 5-20% of labor and material costs with the help of outsourcing in procurement (Above the Standard Procurement Group, Inc., 2012). According to Above the Standard Procurement Group Inc. (2012) both small and large companies can derive revenues from saving cost on procurement. This tendency is recently observed and is being used by many companies. The current paper is to assess whether outsourcing procurement can help this particular company and what the results of outsourcing will be.

Business Process Outsourcing Considerations

The following business processes in procurement area will be analyzed aiming to identify which elements of the process should be left in-house and which of the elements should be outsourced:

- Determining the needs in materials
- Checking the availability of the materials needed
- Finding another source of supply in case if the materials needed are not available
- Negotiation of terms and conditions of new contracts
- Creating supply sources (signing contracts with new vendors)
- Placing purchase orders
- Follow up with vendors for goods delivery
- Receiving the goods and warehousing

- Issuing the goods to Department of Indenting
- Paying for the delivery services (Halvey, 2007).

The functions that are supposed to be left in-house and outsourced are shown in the Table 1 below.

General advantages and disadvantages of outsourcing the elements of procurement function are outlined in the Table 2. Outsourcing options are evaluated in the Table 3 below.

The issues that may arise when completing this project are shown in the Table 4 below.

Contract Type

A Fixed-Price Contract (FPC) is used when the scope of work is clear. The main benefit of this type of contract is that both parties are aware of the scope of the work to be done and the price. The scope of a contract should be worked out in detail because deviation from the price stated in the contract can be significant (Halvey, 2007).

Cost Reimbursable Contract (CRC) is the type of contract that includes reimbursement for a seller in case of meeting of exceeding project objectives, i. e. completing the task before the deadline set or with less cost. This type of contract is usually used when the scope of the project is uncertain or if the risk is high. This type of contract should be used when there is a necessity to exercise better cost control when the scope of the project is not well-defined (Halvey, 2007).

Time and Materials Contract (TMC) is a contract that combines the features of FPC and CRC when the risk is distributed to both parties. The deliverables of TMC are tight to labor hours. Project manager of the organization provides the contractor with experience and expertise to be further transferred to the staff. TMC is used when there is a necessity to hire outside experts when the buyer can specify hourly rates and related limits (Halvey, 2007).

According to the needs of BOS, CRC should be chosen because of several reasons namely: the scope of the project is not clear suggesting exploratory elements and this type of contract provides optimum value for time and money for the company (Halvey, 2007). This type of contract will help BOS comply with its procurement goals outlined. CRC will help save money on transactions because it allows paying for the amount of work done. The scope of the current project cannot be clearly outlined because BOS will use this type of services for the first time. As soon as the scope of future projects could be outlined, BOS can switch to FPC because the needs of the Company will be clearer when having some experience of working with specialized procurement organizations (Above the Standard Procurement Group Inc., 2012).

Evaluation Criteria

Vendors' evaluation criteria contain 15 components (Figure 1). The number of evaluation components was identified on the basement of the current needs of BOS. Thus, the most important evaluation components are quality, services provided by vendors, Just-in-Time management as it influences timely delivery of goods and services, and incentives of vendors. As BOS is planning long-term cooperation with its vendors, it is important for BOS its vendors maintain the same incentives BOS had developed. The second group of evaluation criterions includes production capability, warranties, attitude, and volume discounts. Production capability is important because

BOS needs to receive supplies in quantities that comply with the needs of the Company. Availability of warranties is an important factor of vendors' quality. Volume discounts can help lower purchasing cost by 2%.

Figure 1 Suppliers' Evaluation Criteria

The third group of evaluation criterions includes packaging quality, reputation, trade restrictions, and quality of communication system. Packaging quality will allow saving on occasional damage of goods. At the present time, up to 5% of cost of goods is written off. Thus, finding vendors that can offer good quality of packaging BOS can save up to 5% of cost of goods purchased. Reputation, trade restrictions, and communication system used by vendors will make an impact on longevity of conducting business with these vendors.

Vendors will be evaluated according to the categories outlined in the Table 4 below. All 50 potential vendors should be evaluated according to the suppliers' evaluation criteria (Figure 1) and top ten suppliers that meet BOS Company's criteria will be contracted. Table 5 shows and example of how potential vendors should be categorized.

Optimal number of suppliers depends on several factors namely: the needs for procurement, suppliers' incentives, budget available, and technologies used in procurement process (Kaila, 2012). Quantity of suppliers should be reduced if their quality is a concern. Increasing suppliers' base is recommended when there is needed when technologies used at the Company are obsolete. New technologies make procurement process more cost effective.

The number of suppliers depends on search costs available. The budget for searching vendors is $25, 000. BOS uses latest technologies, thus, the number of vendors should not be large. As the Company is not large, BOS will be choosing from 50 suppliers aiming to find 10 to satisfy the Company's needs. The suppliers will be chosen on the basement of their individual incentives because they have to comply with incentives of BOW Company (Industry Week, 2009).

Evaluation of number of vendors consists of six stages namely: audit, evaluation of benefits, evaluation of consistence with future goals, identification of options available, forming portfolio, and organizing negotiation with vendors. Audit of the current needs in procurement of goods will help identify the quantity and assortment of the good needed. Identification of the sources of value added in procurement area will help saving costs that could be used for future growth of the Company. For example, availability of volume discounts will help reduce purchasing cost by 2% and availability of quality packaging will help reduce cost by 5% making 7% of purchasing cost reduction in total. Setting purchasing procurement goals will help understand future procurement needs and plan future procurement expenses. Identifying alternative options will help BOS choose the best suppliers that meet procurement criteria outlined in Figure 1. BOS can form a portfolio of vendors to cooperate with and another portfolio for potential vendors in the case of unexpected problems with the vendors chosen.

Negotiation with vendors and regular review of options could help saving costs up to 6%. Many vendors are seeking long-term partners and compete for cooperating with volume customers that could be used as advantage of BOS. The scheme of identification of vendors' number is outlined in the Table 6.

Timeline

Timeline for the outsourcing project development is outlined in the Table 7. A detailed plan of procurement activities is shown in the Table 8 below. The overall project is supposed to take two months starting from February, 2014 and ending March, 2014. Also, additional two weeks can be provided in case if unforeseen events hamper meeting the deadline of March, 25. Any force majeure events should be discussed by all parties as soon as possible with appropriate adjustments to the deadline set. The general meeting of participants is supposed to be held at the end of the first part of the project to exercise necessary control over performance and tracking the compliance with the timeline.

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