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INDIRECT PROCUREMENT OUTSOURCING – CASE STUDY IN THE KRAFT HEINZ COMPANY

Floriane, Sylvie, Anne Lodé

Master in Management of Services and Technology

Supervisor:

Prof. Mario Lopes

September, 2021



BUSINESS
SCHOOL

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Abstract

The term “outsourcing” compiles several words: outside-resource-using, and means contracting a third-party to do a distinct, strictly precise part of a company’s business.

In the current market, there is a huge pressure on companies to be as competitive and flexible as possible. The cost of operating abroad is high due to cultural management. In order to enable companies to focus on their core competencies and to increase the cost efficiency, some companies decide to outsource, or offshore, part of their operations. Core activities and strategy are typically not candidates for outsourcing.

There is not a lot of literature, research and case studies existing on the topic of BPO, especially focused on the procurement department. This paper aims to understand why and how to outsource part of the indirect procurement department in a big company, such as The Kraft Heinz Company. A questionnaire will be written and sent to top management in the indirect procurement department in order to gather data from their perspective on outsourcing. The measurement model will also be analyzed in order to have answers on the benefits of outsourcing. The results of these analyses show are good so far, top management in the Kraft Heinz Company is satisfied with the project and benefits should appear shortly.

Concerning the KHC case study, the answers of Paulo Santiago to the questionnaire match the observations and presentation of the project by IBM. In order to perform a successful BPO, the preliminary stage is essential. The data has to be well collected and analyzed, to shape a good plan to follow during outsourcing. The Procurement Center project goes well so far and is on track to deliver the results expected and fulfill the objectives set.

Key words

Indirect procurement, business process outsourcing, organizational change, BPO implementation

Resumo

O termo "terceirização" compila várias palavras: O uso de recursos externos, e as maneiras de contratar um terceiro para fazer uma distinta e estritamente precisa parte dos negócios de uma empresa.

No mercado atual, existe uma grande pressão para que as empresas sejam o mais competitivas e flexíveis possível. O custo de operar no exterior é alto devido à gestão cultural. Para permitir que as empresas se concentrem em suas competências essenciais e aumentar a eficiência de custos, algumas empresas decidem terceirizar, ou no exterior, parte de suas operações. As atividades centrais e a estratégia normalmente não são candidatas à terceirização.

Não há muita literatura, pesquisas e estudos de caso existentes sobre o tema de BPO, especialmente com foco na área de compras. Este artigo tem como objetivo entender por que e como terceirizar parte do departamento de compras indiretas em uma grande empresa, como The Kraft Heinz Company. Um questionário será escrito e enviado para a alta administração no departamento de compras indiretas, a fim de coletar dados de sua perspectiva sobre terceirização. O modelo de medição também será analisado para se ter respostas sobre os benefícios da terceirização. Os resultados dessas análises mostram que até o momento são bons, a alta administração da Kraft Heinz Company está satisfeita com o projeto e os benefícios devem aparecer em breve.

No caso do estudo de caso KHC, as respostas de Paulo Santiago ao questionário coincidem com as observações e apresentação do projeto pela IBM. Para realizar um BPO bem-sucedido, o estágio preliminar é essencial. Os dados devem ser bem coletados e analisados para definir um bom plano a ser seguido durante a terceirização. O projeto do Procurement Center funciona bem até agora e está no caminho certo para entregar os resultados esperados e cumprir os objetivos definidos.

Key words

Aquisição indireta, terceirização de processos de negócios, mudança organizacional, implementação de BPO

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1 - Introduction

The term “outsourcing” compiles several words: outside-resource-using, and means contracting a third-party to do a distinct, strictly precise part of a company’s business.

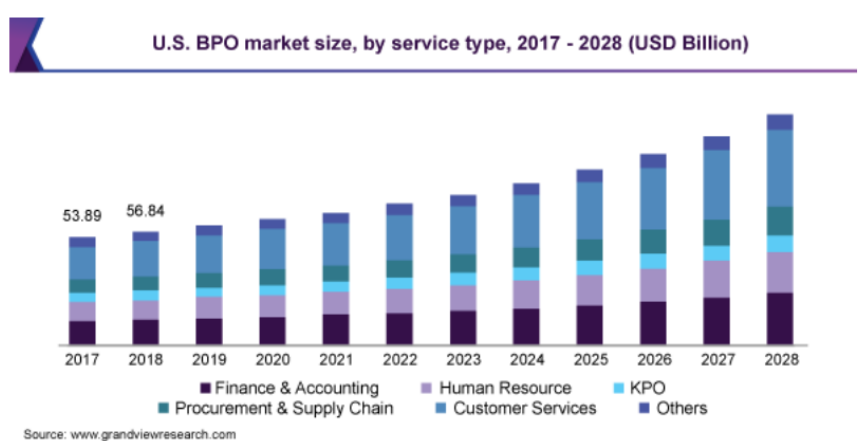
In the current market, there is a huge pressure on companies to be as competitive and flexible as possible. The cost of operating abroad is high due to cultural management. In order to enable companies to focus on their core competencies and to increase the cost efficiency, some companies decide to outsource, or offshore, part of their operations. Core activities and strategy are typically not candidates for outsourcing.

Indirect procurement is the activity of purchasing supplies and services that will support the business operations. It is a source of astounding untapped savings and value. Even though the indirect spend can represent 10, 15 or even 18 percent of revenue in some industries, it is generally not managed by an unique function or business owner, but is usually overlooked as “non-core” spend (Khushalani et al., 2020).

During the last decades, outsourcing has expanded from its roots in labor-intensive, lower-skilled jobs. Indeed, U.S. businesses, under pressure to raise profitability and productivity and to cut costs, found a new solution by utilizing new technology to outsource business processes. This new form of outsourcing, business process outsourcing (BPO), is defined as transferring non-critical, but essential business services and processes to other companies and/or markets (Schultz, 2010).

Outsourcing projects usually promise good financial savings in non-core parts of the business, which is an interesting/engaging proposition.

The global BPO market size has been valued at US\$232.32 billion in 2020. The market is expected to register a CAGR (compound annual growth rate) of 8.5% from 2021 to 2028 (Grand View Research, 2021)



According to Bose (2006), a firm focusing on processes promises competitive advantage through different types of benefits for the organization. While few case studies or conceptual exist in this domain, the benefits associated with BPO stand out: financial, operational and customer satisfaction.

Olshansky (2019) suggests looking at the business process as a process management approach and a set of continuous and interconnected measures aimed at achieving business goals. Management becomes more efficiency-oriented as it focuses on the customer's products (or services) and therefore its application contributes to the production of competitive products (or services) (Irtysheva et al., 2020).

Business Process Outsourcing provides more than just cost savings to firms using it. Indeed, BPO became a strategic business choice that might be leveraged for competitive advantage. When a firm decides to outsource a process to an outsourcing partner whose main competence is to manage this process, the firm is likely to experience service enhancements, leading to competitive advantage over competitors (Click et al. 2004).

Outsourcing non-core functions allow firms to focus their internal resources on their essential business functions and critical competencies. BPO enables organizations to react faster in case of changing market dynamics. Indeed, they will adapt their processes and techniques as the market changes. The Business Process Outsourcing industry is showing enhanced optimism about reduced regulations and market growth. Outsourcing providers are projected to use new technologies and innovations to successfully address market changes and challenges, improve product and services, and manage talent shortages (Soucy, 2018).

There is not a lot of literature, research and case studies existing on the topic of BPO, especially focused on the procurement department. This paper aims to understand why and how to outsource part of the indirect procurement department in a big company, such as The Kraft Heinz Company. A questionnaire will be written and sent to top management in the indirect procurement department in order to gather data from their perspective on outsourcing. The measurement model will also be analyzed in order to have answers on the benefits of outsourcing. The results of these analyses show are good so far, top management in the Kraft Heinz Company is satisfied with the project and benefits should appear shortly.

After a review of the existing literature on the topic, a plan for the research will be detailed going from the research hypothesis, which is here more of a case study, to the detailed methodology. The paper will end with the results obtained from the different analyses.

2 - Literature review

In order to remain competitive in today's market, companies must focus on their core business, minimize non-value-added operations or even delegate them outside the firm (Krysińska et al., 2018).

Henry Ford said in 1923: "if there is a thing that we cannot do more efficiently, cheaper or better than our competition, there is no point in doing it further – we should hire the one who do it better than we do". His approach was analyzed, evaluated and later, was the base of what we call today Outsourcing.

Van Mieghem (1999) stated that the term outsourcing was used first in 1982 in order to identify the decision by which some activities or processes needed to obtain a product, even an organizational function – originally initiated in-house – are entrusted by an organization to an outside firm, who will carry out the activity and sell the results to the former. According to the Dictionary of Business (Collins 2005), outsourcing is defined as "the purchase of components, finished products or services from outside suppliers rather than their production within the firms. In some cases, this is done because turning to outside suppliers lowers costs, because the outside suppliers have greater technical competencies, or because they offer a greater variety of products."

Organizations often have to take managerial decisions about outsourcing in order to maintain the firm's growth and viability. Outsourcing will support the organizational change in the managerial functions. Indeed, outsourcing will be the solution for the firm to concentrate its resources on the core process, allowing the key personnel to focus on more strategic tasks (Andrea, 2010).

Outsourcing is a management practice that is widely used and accepted and that consists of transferring one or more of the enterprise's business processes, such as enterprise services, operations, demand management, and supply management to an external vendor, provider, who in return will own, provide, and manage the processes following some predefined metrics (Perçin, 2008).

2A - A roadmap to outsourcing.

There are different steps in setting-up outsourcing:

1. Setting the objectives (Day, 1994). Here is the step where the firm needs to identify what in-house function is to be outsourced. The objectives will flow from it. It has to be clear and specified enough to be written in a contract;
2. Identify the most productive vendors (Tadelis, 2007). Indeed, outsourcing offers the chance to assign the operation to the most productive vendor. There are different ways to identify this vendor: request for proposal (RFP), request for quotation (RFQ), choose the lower bid, or have a tender;

3. Generate a learning process by coordinating the firm's activities (Day, 1994). This step is to define the governance process to be used, how the relationship will work and then, make it work.

A good *change management process* is conceived of as a “systematic approach and application of knowledge, tools and resources to deal with change. Change management means defining and adopting corporate strategies, structures, procedures and technologies to deal with changes in external conditions and the business environment” (SHRM).

In most cases, outsourcing provides companies a low overhead, low cost and quick to implement solution, helping them get rid of paperwork, as well as data-entry functions and mundane mailroom (Andrea, 2010).

A thoughtful balance between in-house capabilities and outsourcing will help companies to generate more value from an often-overlooked opportunity, and to focus on what matters the most in terms of strategy (Khushalani et al., 2020).

2B - Benefits, costs and risks of outsourcing

Outsourcing is driven by efficiency. It is a reasonably durable approach to solving resource shortages, but on the other hand, the same resource shortages might complicate the management of outsourcing (Dekker et al., 2020). Indeed, outsourcing might face constraints that will complicate outsourcing management, since limitations in IT skills for example might create evaluation and knowledge problems that can annihilate the benefits of outsourcing (Parmigiani and Mitchell, 2009).

Outsourcing can have important properties that enable a company to access the resource base of a business partner and benefit from their skills and competencies. For example, according to IBM, the outsourcing services they offer enable flexibility, cost reduction and simplified management.

Boudeau and Robey (1999) define business process as an integrated sequence of events occurring over time leading to an interesting organizational outcome. As for him, Garvin (1997) defines a business process as a bunch of coordinated activities that accomplish a singular business goal. Business Process Outsourcing (BPO) is described as the movement of a single activity or a business process or a collection of business processes encompassed in a business function from inside the organization to external service providers (Click and Duening, 2005).

According to Davenport and Short (1990), business processes concern the manipulation of either informational or physical objects. A business process should be analyzed based on its elemental attributes. Each business process is unique in its dynamism, analyzability, or interdependence with other organizational processes (Mani et al., 2010).

Nowadays, a lot of companies are specialized in BPO, providing back-office services. Organizations are outsourcing strictly defined activities and are controlling the results by agreed metrics, which are called Key Performance Indicators (KPI) (Krysińska et al., 2018).

In BPO, the organization requiring the outsourcing pays a fee for this service, which usually involves transferring assets and staff to the firm providing the outsourcing. This fee-for-service structure is working well for standardized and repetitive processes such as loan application or payroll processes. On the other hand, it does not fit well with processes that are customized, complex, or infrequent such as benefit advice, management development, or recruitment (Holweg & Pil, 2012).

There are different types of costs associated with outsourcing. The first one would be finding a vendor, investigate several ones, analyze their services and work quality, and then negotiate a contract or an agreement with them. There will then be additional costs for: 1) the development of internal processes such as logistical plans to track the project and the objectives; 2) the transition, which may include travel expenses and employee training, for example; and 3) the management of the projects with the vendor, including the review of the project and objectives as well as the negotiation of future projects. Besides the monetary costs of outsourcing, there might be HR costs as outsourcing might result in layoffs (Schultz, 2010).

BPO provides compelling productivity gains to the firms. The development of this market reflects the search for efficiency gains and the search for more efficient administrative structures by outsourcing services and integrating technological solutions from practically all economic sectors, whether in commerce or industry (Ponciano & Amaral, 2020).

Gao (2008) examines the competitive advantage of BPO providers. For the author, it is clear that BPO has grown globally, as evidenced by the proliferation of phrases such as "Made in China", "Support from India" and "Finance in the US". Among these activities, presently BPO, as the new catalog of outsourcing, is usually taken as a common mindset in the business world.

Existing literature related to BPO highlights outsourcing as a means of enhancement of a firm's business performance and furthering its strategic goals. Similar benefits of business excellence have been claimed through the outsourcing of knowledge-intensive business processes, thereby leveraging the investments and capabilities of external companies and their effective integration to achieve increased value and great flexibility of services based on these business processes (Quinn, 1999).

Without surprise, cost savings is often cited as the main driver for outsourcing. Some companies report that they realize cost savings of 60 to 90%, varying by the type of work outsourced (Paz-Frenkel, 2008). In addition, there can be cost savings on the wages, if a firm outsources work typically performed by a

secretary for instance, the firm might be able to eliminate the position which will generate savings. Marty Shively, Associate General Counsel and Director of Worldwide IP Operations has estimated that Microsoft saved around \$6.5 million by outsourcing patent work in 2007 (Morrison, 2008). However, according to Schultz (2010), there are not only monetary savings but also operational benefits that might be produced by outsourcing that can be even more significant than the monetary ones. Outsourcing helps in reducing management issues including finding, recruiting, evaluating, and retaining staff. Outsourcing in another country, or at least in a different time zone, will provide additional operational benefits. Indeed, if a company based in the U.S. outsources to India, the firm can take advantage of a time zone difference of over ten hours, according to the World Time Zone Map which means that a project can be sent to India at the end of an U.S. working day and be back completed by the next morning. This represents a huge time saving.

According to Perçin S. (2008), added to the costs and benefits of outsourcing, there is also a list of potential risks:

1. Hidden costs. They can come from communication and coordination with the BPO provider but also when transferring software licensing agreements and employees;
2. Information security and privacy (ISP). The BPO provider needs to meet all security requirements because a provider's slacking security practices might increase the risk of an ISP for the client;
3. Loss of management control. Indeed, if the assessment of which business processes are strategic to keep inside and which ones can be outsourced is badly performed, the client can become dependent of the vendor;
4. Vendor issues. The client needs to have faith in its provider's competences because it bears direct impact on the failure or success of a BPO project;
5. Business environment. Firms need a mature and stable environment for conducting suitable outsourcing;
6. Employees' morale problems. The human aspect of outsourcing is often overlooked. Indeed, outsourcing, with cuts in staff, can affect the morale of existing workers.

2C - Deciding whether to outsource

The outsourcing decision of an operation should start with a simple cost-benefit analysis, quantifying all the relevant and important costs that are associated with the perspective of outsourcing a function, and weighing them against the projected savings from having this same function outsourced and therefore, outside of the firm's control. In order to make an informed business decision, some parameters can be used to assess these costs and benefits, such as the time required for managing

and directing the contract, the costs of scoping the operation, and the foreseen growth of the activity's function (Tadelis, 2007).

There are different drivers to motivate an outsourcing decision. Deavers (1997) identified five principal drivers, based on a survey of more than 1,200 firms:

1. Need to focus more on the core competencies;
2. Have access to world-class competencies and capacities;
3. Accelerate the benefits from re-engineering;
4. Share the risks;
5. Possibility to free some resources to help focus on management of core competencies.

Two more drivers are added by Davenport (2005), which are continuous improvement and business process redesign. He states that BPO often happens as a result of firms reengineering and improving business processes.

Caroll (2019) added other reasons to why firms outsource some of their operations. Organizations decide to outsource in order to reduce and better control the cost. Indeed, she claims that BPO offer more competitive prices. Another reason is the lack of skilled employees. BPO organizations have experts, skilled and experienced human resources, and also knowledge resources needed to train new employees. BPO also offers staffing stability. The outsourcing company can reduce its staff and maintain only the experts and specialists needed for the core operations. By doing that, they will be able to focus on their core competencies, improve them and strengthen their position in the market.

Firms can outsource for numerous reasons. Although much is known about the reasons for the effectiveness of outsourcing, Dekker et al. (2020) showed that outsourcing can also play an important role in enabling an approach that makes it easier for organizations to cope with competence and financial constraints.

Sharpe (1997) stated that outsourcing occurs to reduce the costs that the organization is facing when responding to economic changes, which leads to creating flexibility. On the other hand, Abraham and Taylor (1996) believe that firms use outsourcing for service transformations and manufacturing in order to benefit from the specialization of other firms, but mostly to give stability to production cycles.

The outsourcing decision is complex and should not be considered as a simple make-or-buy decision based only on the costs' comparison (Heshmati, 2003). Outsourcing is not a solution to short-term problems but is part of the firm's strategy, so part of the long-term vision. According to Quinn and Hilmer (1994), from a strategic vision, outsourcing allows the firm to optimize its resources in four principal ways:

1. By developing the core competencies of the firm by setting up some barriers against potential competitors who might try to enter the company's areas of interest, and therefore, protecting the company's competitive advantages;
2. By reducing the risks from fast-evolving technology and continuously and quickly changing markets. The risks linked to R&D and technological updating costs are shifted outside the firm;
3. By utilizing the outside firm's investments, skills, innovations, and specializations. Indeed, it could be maintained in-house, but it would generate costs and investments for the outsourcing company;
4. By concentrating in-house investment and effort on what the firm "does best".

When a decision has to be made on where to outsource, one factor arises during the vendor selection, which is the location distance. This parameter is referring to the distance between the outsourcing firm's home nation and the location of the outsourced operation (Gerbl et al., 2016). There are different types of location distance options when outsourcing:

1. Local outsourcing is involving outsourcing to a vendor located in the same country than the outsourcing firm. (Steven et al. 2014);
2. Nearshore outsourcing refers to outsourcing to a foreign, lower wage country that is close in distance, culture, language, or time zone. (Oshri et al. 2015);
3. Offshore outsourcing involves outsourcing to a distant country, where the differences in terms of culture or language are significant (Jayaraman et al. 2013). In order to offshore, there are different elements to take into account and to discuss that might generate additional or "hidden" costs to the outsourcing firm: geographical distance, language and cultural distance, regulatory and policy distance, and legal distance. (Tadelis, 2007).

Tadelis (2017) distinguishes *Outsourcing* and *Offshoring*. For the author, outsourcing is the transfer of a business function or activity to an external vendor, who will take control of the activity's input, will perform that function from the firm's balance sheet, and will resell the activity's function to the firm. Offshoring is when a firm outsources a business function to a vendor abroad, because of foreign labor costs, global strategy, or even regulatory constraints (e.g., a firm might use offshoring to get around domestic drug and food laws). It is when a firm's operations are relocated to a vendor that has no corporate link with this same firm that the operations are considered outsourced, or when outsourced abroad, offshored.

Firms can influence the components affecting the location distance choice including developing outsourcing capabilities, modularizing business processes, and enriching internal skills in areas such as performance monitoring and cultural management (Gerbl et al., 2016).

The BPO decision involves several key elements such as making the decision to outsource, select and choose the vendor and the location distance option, and pick a governance model to manage the BPO relationship and arrangement (Stringfellow et al. 2008). There are different issues to take into account when making the BPO decision, including the capability of vendors to provide the operation, the capability in the process related to the competitors, potential workforce resistance, and the level of risk in the supply market (McIvor, 2009). Several governance options exist, such as the captive model where the outsourcing firm builds, owns, staffs, and operates the resources in the chosen location (Aron and Singn, 2005). As a more flexible option to the previous model, firms have been using independent vendors in both local and foreign locations for BPO, which might involve adopting a collaborative relationship with the vendor (Youngdahl et al. 2010).

Both outsourcing firm and vendor will need strong, complementary capabilities and competencies to make the relationship successful. Organizational culture is one of those capabilities as cultural distance between the outsourcing firm and the vendor hurt performance (Ponciano & Amaral, 2020).

The BPO governance structure can be defined as an ownership and control structure that is used to formalize the relationship and differentiate these structures by the level of hierarchical control, the duration, and the extent of formalization. Hierarchical factors in BPO governance include authority systems and command structures, control mechanisms, incentive systems, private ordering mechanisms that bypass courts, operating and change management procedures, and nonmarket pricing systems enabling rigorous compensation for changes in project specifications (Stinchcombe, 1985).

BPO has become a highly competitive industry in the recent years, with many players in the market. The challenge faced by the BPO companies is to know how to build and sustain business with their client in such a competitive industry (Bharadwaj & Saxena, 2010). Some IT firms (e.g., Infosys) joined the outsourcing industry by acquiring BPO companies, which gives them the advantage of cross-selling to their existing customers. The service provider cannot only compete on cost arbitration. Indeed, BPO clients are getting more and more interested in the service provider's competencies, such as the efficient delivery of its solution, its availability or its expertise in the client's business (Golfetto and Gibbert, 2006).

The main objective of BPO, whatever definition used, is to support the organizations in achieving significant improvements in their business processes (O'Neill et al., 1999). Companies utilize BPO for an extensive range of business objectives, including innovation, business transformation, and cost reduction. For a successful BPO, the outsourcing firm must integrate its knowledge about the business process, the corresponding BPO requirements, and its needs with the outsourcer firm's knowledge

about the business process. They should work together on how to execute and manage the business process. BPO relationships are likely to be less well defined in terms of starting and ending point, and could last a long time with contract renewals. (Rai et al., 2012)

Tadelis (2007) proposes a list of “tips for success” in outsourcing in order to assist and accompany a firm in its outsourcing decision making. There is in this list *reasons* for outsourcing, *timing*, well-defined *contract*, *accountability*, *life cycle* of the project, and *selection* of the network/stakeholders.

Dibbern et al. (2004) said that the success in outsourcing can be viewed either as the realization of objectives (e.g., cost reduction or avoidance), satisfaction, or the performance of operations/processes that are outsourced.

Outsourcing can be an incentive for rapid change and cost reductions. Besides, the outsourcing of back-office operations, such as indirect procurement or payroll processing, promises to raise the service level and lower cost. This sector has seen tremendous growth over the past decade, with global revenues of over \$200 billion worldwide and an expected growth rate of 10% per year (Lacity, 2006).

For a successful BPO effort and successful organizational changes, top management commitment is essential. BPO never happens bottom-up, and the new process alone will not change the way employees work (Davenport 1993). According to Champy and Arnoudse (1992), the role, vision, skill, and attitude of leaders is necessary for a BPO to be successful. This process must be top-down driven because of its complete change requirement.

Traditional ways and processes are abandoned while new processes are added (Hayes and Jaikumar 1988). Corporations that are the most successful today are the ones continually searching for new and innovative technologies and processes, which will allow them to understand and to adapt to the continuously changing business environment (Andrea, 2010).

2D - Outsourceable activities

Outsourcing is a strategy broadly applicable to all industries. The first step towards effective procurement is to realize that every transaction, every activity is serving a function. The second step is to realize that the flexibility of contracting for the delivery of the said function will affect the efficacy of outsourcing, step needed in identifying operations most adequate for outsourcing. Finally, it is important to determine how difficult it might be to develop terms in a contract that will sufficiently cover the function (Tadelis, 2007).

Outsourcing has gained intensifying importance in today’s global market as firms have been transferring responsibility for complete functions such as logistics, human resources (HR), information technology (IT), accounting, and customer contact services to both offshore and local vendors (Gerbl

et al., 2016). Outsourcing is an important aspect of IT-enabled operations such as HR services and involves the vendor to take responsibility for executing an operation and handing it over to the client as a service (Mani et al. 2010).

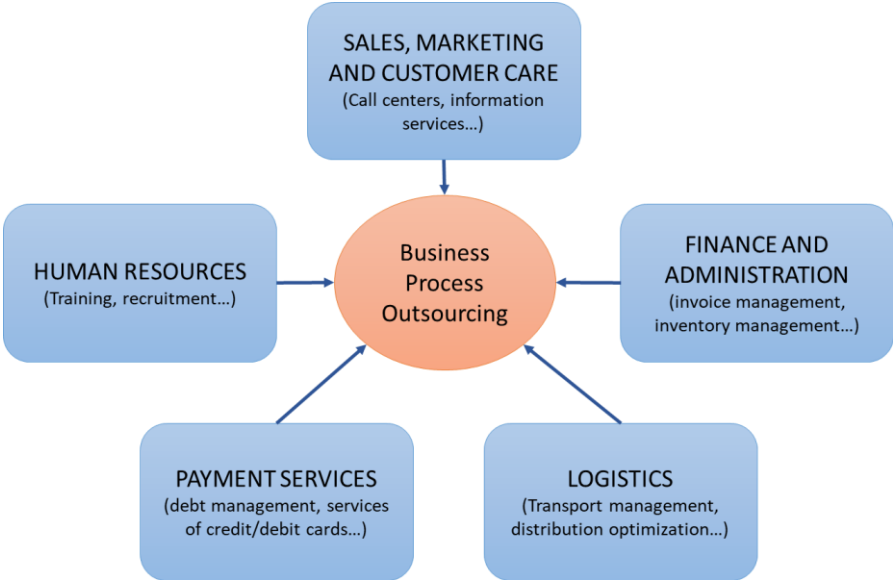


Fig. no 1 – The most typical processes outsourced. Adaptation from Gartner (2004)

In order to extract the full and best value from indirect sourcing, an integrated and well-thought-through approach is required. According to Khushalani et al. (2020), indirect sourcing serves three main value objectives:

1. *Value generation*, which uses demand management and commercial management in order to inform strategic sourcing. Commercial management adapts the best suppliers to the different needs of the business at the best possible prices and through the best available channels. Demand management is about optimizing what the firm purchases (carefully differentiating the essential - and non-essential - features of the solution through techniques such as value-added design), how much it buys, and when. Knowing the interests of stakeholders helps them make decisions that will optimize indirect purchases. However, this is difficult to achieve, which is why most indirect sourcing organizations do not do much with demand management.
2. *Value preservation*, which ensures savings up-front of the value chain to the end result. Leaks can take the form of mismatched orders, non-compliance with supplier regulations, and lack of pre-authorization. Value is maintained through robust procure-to-pay functionality and programmatic performance management of the supplier achievements.

3. *Value enablement*, which maximizes both value generation and value preservation through optimized processes, classified data, wide adoption of digital tools, together with effective governance, anticipating analytics, advanced capabilities, and a culture of endless improvement.

However, still according to Khushalani et al. (2020), it appears that some companies realize that they lack the expertise, infrastructure, talent, or systems to seek such an approach, so they have to make a decision: develop their competencies and capacities internally or outsource some or all of their indirect procurement. Indirect procurement outsourcing (or indirect procurement business process outsourcing, IPBPO) may look attractive concerning what providers can offer. Indeed, this offer includes category expertise, market intelligence, the latest sourcing applications and technology, risk mitigation, and cost advantages.

The decision to outsource indirect procurement cannot be an all-or-nothing decision. Indeed, outsourcing non-strategic procurement can allow stakeholders to free up some time to focus on systemic improvements that eventually generate more savings. The key is to sense and learn how to get the most out of the outsourcing relationship (Khushalani et al., 2020).

If a firm is missing the capacity, capability, or scale to invest in sourcing, or if a category has lower importance, outsourcing the corresponding element of indirect procurement might be the right choice (Khushalani et al., 2020).

Procurement outsourcing can be viewed as a strategic decision in the supply chain, it will help the firm to focus on the core resources and skills (Quinn and Hilmer, 1994). Brewer et al. (2013) support this view by saying that functional procurement is nowadays a key strategic element of supply chain strategies. Indeed, manufacturing is probably the most outsourced function, and contract manufacturers are now offering a variety of services going from straight manufacturing to procurement and distribution (Harrington, 2000).

Emiliani (2010) estimated that procured goods and services can account for 50-90% of an organization's Cost of Goods Sold, showing procurement's potential impact. On the other hand, outsourcing the procurement function is likely approached with caution, since procurement is by definition a crucial function, the linkage connecting the organization to the supplier base (Kerkfeld and Hartman, 2012).

Outsourcing procurement has shown to possibly reduce operational costs by 15-20% (Olson, 2010) and to reduce administrative costs by up to 75% (Hesketh, 2008). There are additional benefits of

procurement outsourcing, such as an increased behavioral and process discipline (John, 2003), and an enhanced contract compliance (Favre et al. 2003).

To facilitate their operations, many firms are looking out to outsource some activities that do not need to be managed in-house. If the firm determines that certain routine activities present in procurement fall into this category, then the procurement function can be a focus of the outsourcing efforts. The activities might include tasks such as improving and completing contracts involving little negotiations and that are not integral to the firm's overall business strategy. Many firms will see outsourcing as a win-win operation. Indeed, the firm frees up some employees to concentrate more on strategic duties while maintaining control over its procurement operations. Firms that are outsourcing basic procurement activities adopt more mature procurement practices over time than firms not outsourcing (Partida, 2015).

With many companies unable to take advantage of all the potential opportunities and take full advantage of optimizing indirect costs, outsourcing seems like an attractive option. Indeed, outsourcing providers can bring significant skills and strengths such as domain and functional competence, market knowledge, process discipline and current procurement technology to the table (Khushalani et al., 2020).

2E - Measurement model

Improving the quality of business process management is central to various quality management practices such as business process reengineering and total quality management. Two perspectives are taken into consideration in the construction of the measurement model for assessing BPO at intra- and inter-organizational level: managerial and organizational perspectives.

Movahedi et al. (2016) established a measurement model for assessing BPO which comes with a list of reasons and benefits associated with BPO. This list includes *financial benefits*: cost saving and increase in revenue; *operational benefits*: performance and efficiency, product/service quality, flexibility, avoiding conflict in performing tasks and cycle time; *customer satisfaction*: satisfaction with product/service and satisfaction with delivery of product/service.

Also according to Movahedi et al. (2016), the factors allowing an assessment of BPO can be grouped into two factors: one measuring BPO with respect to suppliers and one with respect to customers. According to their findings, organizations looking for greater financial and operational benefits should focus on becoming more process oriented internally. If the organizational objective aims to achieve higher customer satisfaction benefits, the results of their study show that this objective can be achieved through better management of business processes both internally (indirect effect) and externally (direct effect).

Business Process Management and Outsourcing in the food industry

The food industry is one of the components of the economic system based on the totality of the elements of the productive forces, due to property relations, and includes relationships at different levels. In the 21st century, the food industry is facing a global aggravation of the food crisis. This explains why the concept of food supply, which closely correlates with the well-being of the entire population, requires a constant research of key components at different levels. The need to develop the scientific basis for the design and management of business processes in the food industry is becoming increasingly important (Irtyshcheva et al., 2020).

Questions on the functioning and development of the food industry are extremely relevant today and are considered in terms of ensuring food security in each country. The food industry is also the basis for building consumer markets for food. It should be noted that many scientists are now studying these topics (Tran et al., 2020).

In their research, Irtyshcheva et al. (2020) have identified 5 methods, considered as appropriate to use in the business process management (BPM) of the food industry:

1. The Fast Decision Analysis Method

This method allows a fast decision-making, a focus on the client, a low-cost implementation but it also does not take into consideration the relationship and interdependence with the other business processes of the company. Using this method, the consequence might be eliminated but not the cause, the process is not analyzed deep enough;

2. The benchmarking process

There might be some errors or problems in the “reference” enterprises’ business processes, which would lead to erroneous decisions in the development of BPM;

3. The redesigning process

Using this method, there will be a simulation model developed to analyze the current state of the process. It allows a reduction of costs, and a reduction of the process cycle duration. However, it leads the business to focus on improving only certain business processes, providing certain management functions, strengthening the position of traditional structures without changing the content.

4. The engineering process

The idea of this method is to develop all existing operations. It does not bring big changes to the company and does not mean instant success, but it is essential for the business to be competitive.

5. The reengineering business process (BPR)

This method provides a new vision at the process essence and entirely ignores the existing process of the company. However, it is not suitable for all companies, for example companies near bankruptcy or leading companies needing to stay on top.

Studies have shown that there is no single method for evaluating and calculating the level of a regional potential or its components, in particular within the framework of a targeted approach.

To perform such tasks, the management of food businesses requires a process approach in which the object of management, in relation to the functional approach, defines business processes as "a set of different types of activities in which one or more resources are used at the input, and as a result of this activity the output creates a product of value for the consumer" (Hammer et al., 1993).

The formation in process management in the food sector will help to meet the consumers' needs for food products, the possibilities of a flexible reaction of food production to the change in the external and internal environment.

Irtysheva et al. (2020) developed a list of advantages of using process management and business processes within the food industry. The list includes:

- High adaptability and flexibility of the control system due to the natural orientation towards the consumer and the high self-regulation of the system;
- Transition of the organization towards clear and efficient processes that enable cost-optimized performance of tasks in the industry;
- Strong motivation to ensure the production of high quality and competitive food;
- Simplification of organization, coordination, control processes and deeply integrated automation option for food production;
- Strong dynamics of the system and its internal processes due to the high vertical integration of resource flows and a common interest in developing their circulation.

Business process management inside a company is essential for business process outsourcing. It represents the basis. Indeed, without business process management, a company can hardly proceed to business process outsourcing.

A company's profits are often subject to increased costs caused by, among other things, natural disasters, economic recession, regulatory changes, fluctuating commodity prices, and changing consumer demands. For example, the Food Safety Modernization Act (FSMA) has imposed a variety of food safety requirements on food businesses that can be costly to comply with. To overcome the cost of these barriers and protect their bottom line, food companies of all sizes are increasingly outsourcing

business functions (information technology, procurement, human resources, etc.) and manufacturing operations (research and development, packaging, testing, etc.). When well-planned and performed, outsourcing deals can prove to be very beneficial. However, as with any sourcing relationship, changing circumstances can render an outsourcing business ungrateful. When an entire manufacturing operation or a business function is outsourced, the possible risks of increased costs and business interruption rise (Shapiro, 2012).

What can a food business do to adequately protect itself against the risks inherent in outsourcing? In short, a food business must plan the outsourcing relationship well. Every aspect of planning is complex. In addition, given the complexity and variety of outsourced processes and operations and outsourcing relationships, special due diligence and risk management considerations might need to be considered depending on the relationship (Shapiro, 2012).

The preparation of the outsourced relationship is quite similar to the general one, described above. However, the plan should also consider the regulations linked to the food industry and make sure that the supplier understands the needs and practices of the industry. There is a natural tension between a food company's desire to reduce its costs and its obligation to meet food and consumer safety requirements. Therefore, the company should conduct sufficient external and internal due diligence to mitigate the risk of non-compliance of the outsourcing partners, to determine whether the company would benefit from outsourcing and whether these benefits would outweigh the risks (Shapiro, 2012).

2F - Case study of the application of BPO

i - The case on Karlstads Bostads AB (KBAB)

Karlstads Bostads AB (KBAB) is a municipally owned housing organization having around 140 employees and owning approximately 7,400 apartments. Christiansson and Rentzhog (2020) worked on a case study on this organization, aiming to analyze the BPO journey and to explore the learnt lessons from this journey, which lasted from 1998 to 2013. The study describes milestones and effects of BPO based on quantitative and qualitative data.

The Swedish organization was founded in 1942 and has different missions: 1) manage the properties; 2) ensure more security and less segregation in the municipality; and 3) reduce energy consumption and build more sustainable construction. The firm is focused on customer service and satisfaction and put in place processes to achieve this goal. The BPO journey was a top management initiative, materialized by a communication strategy to the employees and stakeholders. Customer satisfaction is an investment and KBAB understood that. Indeed, the CEO stated that satisfied customers are the ones staying in the neighborhood, they will become loyal tenants providing a good and safe environment where people enjoy living. Janitors for maintenance of the properties and public spaces

have been employed, and employees are working closely with customers. The firm surveyed the tenants and the rate of satisfied customers increased from 86% in 1996 to 95% in 2004, which shows that the performed business development had an impact on customer satisfaction.

KBAB adopted innovations during its BPO journey such as: 1) Strategic partnering, in order to purchase several projects in one acquisition, which leads to continuous improvements and development; 2) Low-energy house and floating homes, built by external partners, which attracted attention for their technical solutions; and 3) The garage project, where a garage was transformed into a cultural place gathering different types of arts and where numerous activities are organized. The cultural activities and programming are managed by an external firm.

- The company chose to distinguish between strategical and operational responsibilities and activities. The idea was to cooperate with the stakeholders. A duration of fifteen years represents a long time for a journey, which allowed several lessons to be learnt: **Strategic alignment**: mission statement and vision should be linked to the targets and expected outcomes for guidance to customer-orientated employees, which will contribute to the advancement of BPO. These employees are the ones facilitating skills to interact, identify needs, co-produce and care for consumer value;
- **Leadership**: confidence, trust in teams and roles, and defined responsibility contribute to the advance of BPO;
- **Competence** in the BPO foundation is a crucial part of the advancement. People understanding and acting with a holistic and horizontal mindset in business development and performance are using and identifying customers' ideas and needs;
- **Strategic partnership**: collaborative integration and close relations with external stakeholders (partners, customers and community) contribute to the advance of BPO;
- **Monitoring trends** in societal perspectives and industry together with consumer behavior are drivers for innovating and the data should be used in the advancement of BPO;
- **Layered management**: top management should be in line with the business processes management and work practices in order to implement BPO.

KBAB is driving its BPO in a profitable direction based on customer's needs. Modeling business processes is important to map the operational tasks to clarify and highlight work procedures and to draw up a job description to explain to new employees their new tasks and for them to be able to adjust to their new position better and quicker. In this case study, to have a clear strategy and vision for the firm together with established responsibilities and alignment between layers are considered to

be a success factor in the BPO journey. The business operations are constantly reviewed and evaluated in conversations between process owners and the tenant service management teams.

ii - "Business process outsourcing – A case study"

Due to the modern situation, Indian business houses are downsizing and outsourcing. By using outsourcing, firms are able to work 24 hours a day in the world. Successful BPO results in a win-win situation for the outsourcing firm and the stakeholders. The case study led by Gurav, A.M. (2006) focuses on a manufacturing unit based in Kolhapur, India, which will be referenced as "XYZ Pvt. Ltd." in the study for anonymous purpose. The selected unit produces auto spare parts, supplied to different types of manufacturers. The firm decided to outsource part of its Human Resources department and as a result, 6% of employees are on regular payroll and 94% are contractual employees, meaning managed by an external firm. It appears in the numbers that the production of units increased from 300k units produced before BPO to 600k units after BPO. It is accepted that other factors might affect the productivity, but it is inevitable to say that outsourcing has been helpful increasing the productivity. Indeed, BPO provides more efficient manpower.

The researcher suggests that continuous performance of BPO has to be evaluated. A good relationship with the partner is also a key point for success in BPO. Indeed, if there is a lack of effective communication, lack of skills, lack of loyalty and lack of professional management, BPO will not succeed. Outsourcing is an effective solution for reducing the costs of service and production, with better productivity and less workers.

iii - A Call Center case study

In the late 90s, outsourcing and offshore outsourcing of IT services became very popular due to the lack of in-house IT professionals with the requisite technical skills. With the availability of collaborative technologies and low-cost global Internet bandwidth as well as the development of specialization strategies based on their core competencies, firms are beginning to outsource the development and support of IT applications, to lease IT applications or platforms and to transfer various business tasks and functions to service providers. Many global firms choose to outsource part of their business such as call centers, customer support and service, production, procurement etc. The U.S.A. is recognized as the most mature and largest market of customer service/support for call centers. On the other hand, providing customer services and support is a new industry in Taiwan, which gives room for growth and development. The case study, led by Liou and Chen (2010), examines the business model and practices of a firm providing call center services. Data from the research has been collected through interviews and communications with employees at different levels and has been used to understand how the firm utilizes external opportunities and learns from the industry to be successful in BPO.

The case organization was founded in 2001 and its vision is to provide customer service expertise to help business customers gain competitive advantage. The services provided by the company are grouped into three categories: 1) small- to medium-sized business database marketing center; 2) customer service and technical support center; and 3) customer loyalty management center. The case firm has developed a concept of “virtual call center” and standard service processes, which will be reused across different industries, countries and/or product lines with some customization and adjustment. The firm can provide professional and streamlined services for their business clients.

Call centers play a major role in the value chain through applying knowledge of customer service and support and deploying advanced technology. The case firm is known for providing not only excellent services to its clients’ customers but also valuable insight of these same customers to its clients in order to help them become more profitable and develop new strategies. The case firm grew a lot since its creation and it seems that there is sufficient room for growth for the service industry in Taiwan to partner with a variety of industries (finance, travel, telecommunication etc.).

The case firm can serve different organizations in the same industry by taking advantage of the experience curve effects. It can also support call center operations and duplicate service processes for different products and for customers in different countries with only minimal tweaks and adjustments. The company is able to offer its business customers an optimized and professional service to maintain excellent customer relationships. In return, it maintains the competitive advantage and profitability continues to grow.

3 - The case study at Kraft Heinz

3A - The Kraft Heinz Company (KHC)

The Kraft Heinz Company (KHC) is an American food and beverage company co-headquartered in Chicago, Illinois, and Pittsburgh, Pennsylvania. The company has been formed in July 2015 by the merger of Kraft Foods and Heinz. KHC is known to be the fifth largest food and beverage company in the world with \$29 billion in annual sales as of 2019, and the third largest one in North America. The company is led by Miguel Patricio as CEO and counts almost 39,000 employees in 2020.

Heinz started its history with ketchup. Indeed, ketchup was among the H.J. Heinz Company's first products and is now Heinz's most iconic and eponymous brand. Heinz Tomato Ketchup represents more than 50% of the market share for ketchup in the U.S. On the other hand, Kraft began with cheese, and is known for its famous mac & cheese.

In addition to the brands Kraft and Heinz, KHC can count under its umbrella more than 200 household brands, such as Bénédicta in France or Plasmon in Italy, and over 20 other global brands, including Planters, Philadelphia Cream Cheese, Maxwell House, HP Sauce, Capri Sun, and Jell-O for example.

3B - Procurement Center Project

Within KHC procurement department, a new project called "Procurement Center Project" has been launched in beginning of 2021. The main goal of this project is to reduce costs and generate savings in indirect procurement by outsourcing to IBM, for KHC to be recognized as a "best in class procurement organization", which will become the competitive advantage for the company. The project simplifies, standardizes, and leverages the buying process for Indirect Procurement. The focus will be more on the strategy rather than on the transactions (automated process). The Category Strategy Leadership will be retained by KHC. Strategic sourcing will be delivered by IBM for some categories (others will still be led by KHC). Rapid Sourcing Support will be entirely delivered by the outsourcing partner. The estimation of savings, including cost reduction and cost avoidance, is of 25% of procurement savings commitment for the next 5 years. The amount of expenditure handled by IBM for this project represents around \$1 billion and the savings would represent around \$300 million over five years.

There are several steps in the plan:

1. Drive insights (predicting demand and designing better results)
2. Digitize processes (automating and eliminating transactions and powering marketplaces)
3. Amplify talent (high value contribution).

Does it make sense for a big company like KHC to move to BPO? Indeed, big companies have a huge procurement department and/or procurement system, which generates a lot of costs. Would outsourcing help the company generate savings? And if yes, how?

There are some questions to be answered in this paper, specifically on outsourcing based on the Procurement Center Project. How would BPO impact the business? What are the expected results? What are the pros and cons of outsourcing?

4 - Methodology

4A - Questionnaire

A questionnaire is a research instrument, that can include either open-ended questions or close-ended questions. A good questionnaire has three main characteristics: 1) uniformity in the questions; 2) an exploratory nature; and 3) a sequence between all the questions. The things to do when writing a questionnaire are to keep in mind the target respondents (their age, level of education, etc.) in order to speak the same language and maintain their interest. It is also important to write an introductory paragraph providing an idea about the main purpose of the research project and how their answers would help the research. Finally, the questionnaire should include a part where respondents can give additional information, they did not have the chance to give in their answers to the questions. On the other hand, there are some things not to do when writing a questionnaire, such as use too technical or too vague terms, which would make it difficult for the respondent to understand and answer the questions. Also, no absolutes or literally questions should be used, as well as too long questions. Indeed, it is better to use short questions to keep the respondents' interest and not to distract them (The Academic Papers, 2019).

When proposing a questionnaire on paper or online, it is important to pay attention to how it looks, the same way it is important to pay attention to how it would sound if the questions were asked by the interviewer directly. It is also important to give the respondent instructions on how to answer, keep the questionnaire short and to keep the question order in mind. Indeed, the respondents will be influenced and impacted by the previous questions, the context is also important. Usually, it is best to begin with an introduction and then start the questionnaire with more general questions and to keep the more sensitive questions near the end. The ideal question accomplishes three objectives, which are: 1) measuring the underlying concept it is intended to identify; 2) not measuring other concepts; and 3) meaning the same thing to all respondents (Harrison, 2007).

A questionnaire to be asked to top management in a big company's indirect procurement department has been formulated (cf. Appendix 1). Open-ended questions have been chosen in order to have more complete answers and to let the respondents to give their opinion and the maximum information they

can give. This questionnaire will help understand how the different stakeholders perceive the importance BPO has and what it can bring to the company. The respondents will give their opinion on BPO in their company, as well as their reasons for outsourcing and how they measure the success of the operation. By using an open-ended questionnaire, the respondents will be free to explain their point of view and give as much information as they can share.

4B - Measurement model

The measurement model used in this research paper will be based on the list of criteria that Movahedi et al. (2016) established. Their model has been used to assess BPO and they established a list of reasons and benefits associated with outsourcing. This list includes financial benefits: cost saving and increase in revenue; operational benefits: performance and efficiency, product/service quality, flexibility, avoiding conflict in performing tasks and cycle time; customer satisfaction: satisfaction with product/service and satisfaction with delivery of product/service.

This list will be discussed with top management from KHC in order to understand what their motivation and drivers for BPO were. KHC procurement management will give its input and share what was important in their decision. The idea is to see if their list matches the one from Movahedi et al. (2016), and if they add anything to the list.

5 - Research and Discussion

5A - Insights from experience in KHC

The procurement department in KHC has around \$14 billion spend with \$5 billion of indirect spend, including 15,000 suppliers. The downsides of this structure are that a lot of suppliers are representing a small spend. Indeed, 94% of the suppliers support 20% of the spend. Also, the process of purchasing is not robust. KHC does not have a smart way and structure to buy for indirect services.

North America represents the most spends, which explains why the project will be implemented there first. The project is planned to last 5 years, there will be \$1 billion outsourced to IBM and cost savings, cost reduction and cost avoidance, of \$300 million are expected. In the future, the plan is to roll out to all the zones where KHC operates.

KHC states that the procurement department is centralized, but it is not really the case, so the Procurement Center Project aims for the Indirect Procurement Department to be more centralized, such as the Ingredients department in KHC. Some categories are more advanced in the process than others, such as IT or Consultancy. With the project, KHC works on a collaboration model with IBM to know how the spend will be managed.

KHC's goal with the Procurement Center Project is for the firm to be recognized as a best-in-class procurement organization and having procurement becoming the competitive advantage for KHC. It will be accompanied by a strong talent pool, who will help deliver outstanding top- and bottom-line growth.

The different steps of the project are:

1. Develop best-in-class talents, with the culture and the drive to lead the firm to the next level.
Expected results of this step: to have a strong brand for talent attraction and retention, to unlock additional value through enhanced team competences, and to have a solid talent pipeline;
2. Catalyze operational excellence, by maximizing the impact of procurement with strong process, tools and structure.
Expected results of this step: to gain a clear alignment and governance with the business in order to enhance value creation, to maintain streamlined processes with a transparent and clear compliance management, and to get more technology as facilitator to maximize processes and efficiencies;

3. Drive top and bottom-line growth, by aligning with business priorities, while having a solid operating model to drive great results.

Expected results of this step: to deliver short- and mid-term results, while building strategies and capabilities for the long-term, and to have a direction focused on promoting sustainability and fostering innovation.

There are four principal issues that limit indirect procurement performance in KHC. First, there is the **challenging user experience**, with more than 730 active indirect procurement buyers in Operations and a lack of structured guidance. Then, there is the **limited market intelligence**, with the external and internal data which does not capture or is not used enough in supplier negotiations resulting in limited cost savings. The third issue is the **lack of process standardization**. There are multiple procurement systems in place, with limits in terms of visibility and analytics, and a process variability and manual workarounds. Finally, there is a **strategic capacity limited**. Indeed, the procurement department in KHC would require more indirect category expertise, and the procurement time requires focus on transactions.

The new procurement model will help improve workflows, user experience, and compliance with:

- Digital buying experience: simplified guided buying experience;
- Cognitive analytics & insights: market intelligence combined with AI-based analytics will drive to supplier value opportunities;
- Digitized processes: automated, streamlined, and standard process will enable an intelligent and smooth workflow;
- Centralized process control;
- Amplified talent, with KHC procurement resources focused on strategic high-value activities.

IBM commits to \$300 million in cost savings, more than 90% of contract compliance, 60% hand-free transaction, and an enhanced user buying experience.

The Procurement Center Project standardizes, simplifies, and leverages the buying process for indirect procurement, firstly in NA. In terms of purchasing process, the situation will go from de-centralized to centralized. In terms of customer experience, it will go from slow, complex, and fragmented to fast and user friendly. About the standardization and leverage part, there are now different service providers for the same scope among the different US plants (8% of catalogs and 70% of purchase orders) and the goal is to go to a situation with leverage scale and automation with outsourced procurement center (allowing 70% of catalogs and 90% of PO). Finally concerning the tracking, analytics, and tools, it will go from low visibility and hard to manage, to high visibility on tracking, monitoring and analytics insights.

Procurement value will be unlocked by focusing on strategy rather than transactions. Today, KHC focuses more on the transactional part which means manual processing, high cycle times, varying processes and policies, organizational gaps, redundant activities, limited savings contribution etc. With the KHC Procurement Center, the department will be more focused on the strategic part, meaning hands-free transactions, automated processes, effective governance, analytics reporting and insights etc.

The *category strategy leadership* will be retained by KHC in all cases. This part is about defining the strategy with business stakeholders, and it links the business direction to how categories are managed and sourced. The *strategic sourcing* will be on one hand retained by KHC, for some categories such as IT for instance, and on the other hand delivered by IBM for target categories such as Facilities for example. The *rapid sourcing support* will be entirely delivered by IBM, for all KHC categories. These two last parts are about aligning KHC's procurement strategy with the market opportunities and is about executing the procurement strategy.

The project will allow a Procurement Reinvention by driving insights, meaning instead of reacting to demand, the company will be able to predict it and instead of focusing on cost savings, the company will be able to design better results in terms of negotiation. The processes will be digitized with automation and the talent pool will be amplified, allowing a higher value contribution. The inefficient analog activities will be removed and replaced through automation, which will give room for teams with new skills, methods, and assets. The idea is to take traditional, linear source-to-pay processes and to apply automation, and data to deliver agile processes.

There are a lot of value drivers for the Procurement Center in NA:

- Tactical sourcing, allowing standard and automated processes, market intelligence, and an expanded supplier base;
- Strategic sourcing, allowing category expertise, multi-clients agreements, and cognitive analytics;
- Cognitive insights, allowing category-specific AI;
- Contract compliance, allowing standard and automated processes, and AI-based tools;
- KHC productivity, allowed by Ariba guided-buying, and an enhanced catalog/contract usage;
- E-auctions;
- Expanded strategic sourcing value, through more time spent on strategic.

An analysis has been made by IBM on 2019 KHC purchases to illustrate how they can help on cost savings. They took as an example the safety glasses bought and used in the different North American plants. They analyzed the unit price variation for the same safety glasses and compared KHC lowest

price to IBM benchmarks. The results show that KHC prices differ for the same items across all the NA plants (25% on safety glasses). Also, IBM benchmarks generate additional savings below KHC lowest price (10% on safety glasses). Finally, market intelligence and compliance enable significant aggregate savings. If these results apply to safety glasses, it can apply to a lot of items in KHC, and IBM used this example to illustrate their impact.

The different steps of the discovery part of the project, and of the data approach, are really important to start well the project. It begins with the data capture, cleansing, classification, review and validation. These first steps will be performed by IBM and KHC analytics teams in order to create a clear and standardized data base, and review and interpret the data. Then, there will be the steps of high-level categorization, category review and prioritization, and finally category spend profiling. These steps are helpful in order to categorize, establish savings potential and create category wave plans.

IBM bridges the complexities between how the world views spend, how a sales professional monetizes spend, and how customers communicate and get along internally; *“all in sync – all the time”*. For that, there are different types of classifications established: reference classification, commercial classification, and descriptive classification.

The reviewing and validation of the different savings methodologies will also be crucial during the discovery part. There will be project charters, which will accompany the project, and which will include project summary & specifics, sourcing strategy & spend baseline, supplier information & selection record, and negotiated savings documentation. These charters will evolve as the project evolves. IBM and KHC established two types of savings methodologies:

1. Cost reduction, illustrated by previous price paid comparisons, rebates, non-procurement productivity, etc.
2. Cost avoidance, illustrated by first time buy, compliance desk recovery (invoice audit for example) etc.

The governance of the project focuses on joint goals and priorities. Concerning the operational activities, the program team, composed of functional leaders in KHC and team leaders in IBM, will meet on a weekly basis. They will discuss about change impact, user engagement, and they will resolve issues. The steering committee, composed of procurement operations leaders in KHC and the project & delivery executives in IBM, will meet monthly, and will discuss about the process management and tracking, contract management and will resolve the escalated issues. Finally, concerning the strategy, the executive committee will meet on a quarterly basis, and will be composed of the senior leadership in KHC and the senior relationship executives in IBM. Their key points to discuss are the strategic

imperatives and direction, the scope of commercial and service, the customer satisfaction, and the strategic issue resolution.

The expectations on the change journey are to mobilize the KHC/IBM change team, to conduct alignment, to change the impact capture, to develop communications, training enablement, and enable strategy, to amplify stakeholder voice, align and enable the new delivery model.

5B - Results of the questionnaire

Questions have been asked to a member of the steering committee of the project.

Paulo Santiago was the manager selected to answer the questionnaire (cf. Appendix 1). He has been the Global Head of Indirect Procurement in KHC for 2 years and was the one initiating the Procurement Center Project.

He explained what drove the decision to outsource indirect procurement. Indeed, there are a lot of transactional activities within this department and these transactions could be better performed by using outsourcing, meaning outsourcing to an expert. The situation within the procurement department in KHC was represented by 80% of operational activities and only 20% of strategy. The idea with outsourcing is to turn those numbers around and to get a more strategic scope. Paulo Santiago also highlights that the synergy with the BPO partner helped making this decision. Indeed, IBM represents a force of \$300 billion. When KHC hands IBM a \$1 billion budget, added to the already existing one, it would leverage the bargain power of the BPO. It will get easier for IBM to negotiate contracts with their \$301 billion force than for KHC with its \$1 billion force. Added to that, IBM is an expert in BPO, they are more exposed to the market, they know what they are doing, and they are doing it well, so using the best practice from the supplier is another reason to outsource.

KHC chose IBM as it is one of the top 3 players in area of indirect procurement outsourcing, the two others being Accenture and GEP. Moreover, IBM brought the most beneficial offer in terms of savings, deliverables, and commitment. Indeed, they are holding a significant portion of the risk. In terms of location, as the most indirect procurement spending is based in the U.S., the stakeholder will be located in the U.S. as well for the main activities, and the transactional activities will be located in India (less costs, more efficient, better tools). The governance model is also very structured. KHC and IBM will have regular meetings and if there is a big disagreement between the two partners that they are not able to solve on a lower level, they will escalate the issue and have a senior meeting to solve it.

It has been six months since the project began, they all have been working on the launching part and the project will go live in August, kicking off the new structure then. According to Paulo Santiago and his team, the experience has been very positive so far. They feel they are going in the right direction

even though they do not see results or benefits yet. They are in line with what was expected for the first year: they did not expect benefits but to have resources in place, a strong structure, and a good plan for implementation. There is a new system in place for each purchase. They did the necessary changes (in management for example), and they are now ready to launch the Procurement Center Project.

This project is huge and there was no time to test it somewhere with a pilot region, KHC went directly for the U.S., which is very challenging for the company. The expectation for the future is to make sure everything is in place in this first region, and then to expand to other ones. Paulo Santiago expects an evolution in terms of agenda. Indeed, KHC is now building the relationship with IBM, which will become a strategic partner in the coming years.

Their methodology to evaluate the savings is to divide them into three categories, which were established prior to the contract signature: cost reduction, cost avoidance and value added. When a new procurement project/contract takes place, either from KHC's initiative or IBM'S, there will be a chart and an evaluation of what are the drivers for what savings' category. They will identify what is material for cost reduction, what is material for cost avoidance and what is material for value added. This chart will be then validated by procurement and finance before the beginning of the project. When the project represents more than \$1 million/year, it will be tracked on a monthly basis to make sure the savings are being delivered.

Paulo Santiago says he is satisfied with this project. The project is really focused on the deliverables, and Paulo Santiago nuances his answer on this point as he thinks that maybe the contract should include more details on the structure, such as the resources attributed, while still focusing on the deliverables. He really thinks that this is the right strategy for the company, as there is a lot of transactional activities in indirect procurement, so the processes need to be clear.

5C - Reasons to outsource

Within the list of reasons and benefits to outsource proposed by Movahedi et al. (2016), Paulo Santiago answered that the pertinent points, helping KHC to make its decision to outsource, are:

- **Cost savings**
- **Performance and Efficiency**
- Product/Service quality
- **Flexibility**
- Conflict in performing tasks
- Efficient and improved product cycle times/process
- Satisfaction with Product/Service

- Satisfaction with delivery of Product/Service.

In his list, he highlighted “Cost savings, “Performance and Efficiency”, and “Flexibility” as the three main and important reasons to outsource. The only point he did not see as pertinent is “Increase in revenue”.

5D - Discussion

The BPO decision involves several key elements such as making the decision to outsource, select and choose the vendor and the location distance option, and pick a governance model to manage the BPO relationship and arrangement.

STEPS IN SETTING-UP OUTSOURCING FOR THE CLIENT

1. Setting-up the objectives

- Identify what in-house function to outsource
- Clear objectives to avoid potential future confusion
- Specified enough to be written in a contract

2. Identify the most productive vendors

- Different types of strategies to identify the vendor:
 - Request for Proposal (RFP)
 - Request for Quotation (RFQ)
 - Lower bid
 - Tender

3. Generate a learning process

- Coordinating the firm’s activities
- Define governance process and how the relationship will work and evolve

There are a lot of potential vendors on the market, which is very competitive. When the objectives are well defined, when the function and the “what to be done” are well described, the vendor can be looked for and chosen. It can be a vendor with superior production methods, or with the lowest costs, or it can even be the most productive vendor for instance. Whatever vendor is chosen, it has to be able to pass on its competitive cost advantage to the client through an outsourcing agreement. In order to identify the most efficient and productive vendor, the outsourcing company needs to well define the function to be performed. Outsourcing allows to allocate the function to the most efficient vendor on the market, which can become costly. If the objective is to be the best on the market and to make cost savings on the long term, it could be interesting to go for the better vendor on the market. However,

if the initial objective is to reduce the costs, and save money from the beginning, the strategy might be to go for the vendor with the lowest costs. Having a clear and well-defined function, with the most details as possible, will allow the outsourcing company to receive a responsive and meaningful bid from the vendor.

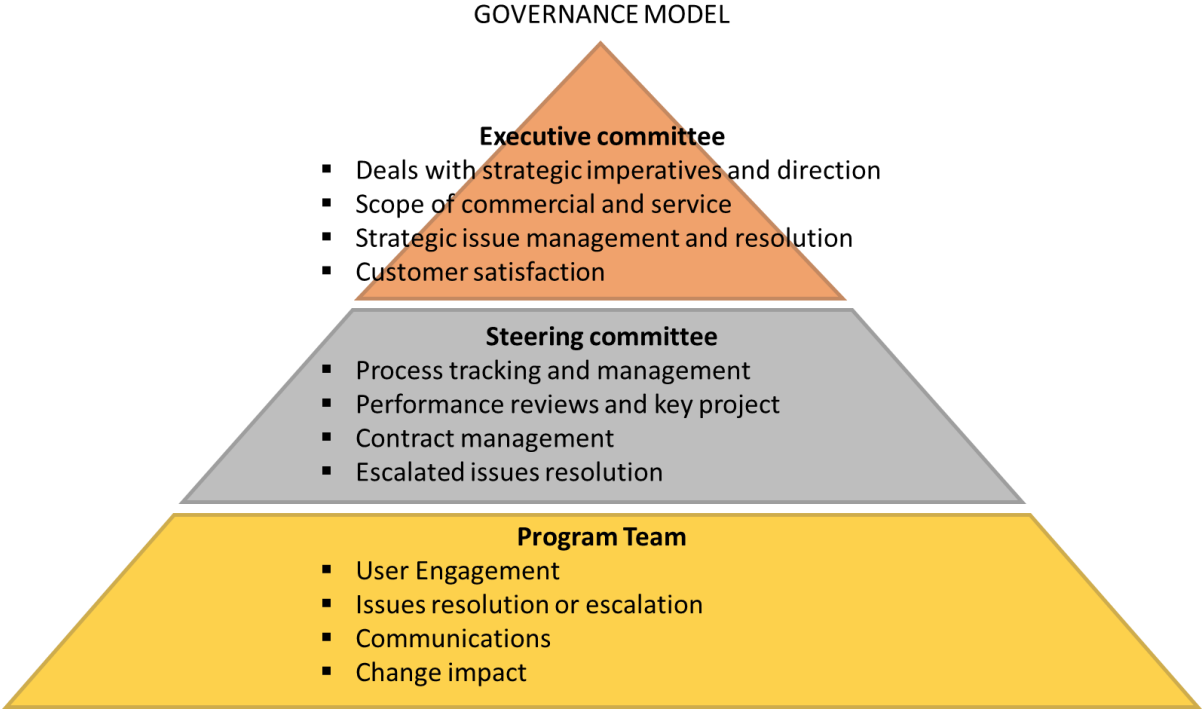
There are different types of strategies and steps to identify a vendor on the market:

- **Request for proposal (RFP).** It must be written by the outsourcing company and must be comprehensive and detailed. If the description of the function is too vague, a skillful vendor might identify the gaps, which would let room in the bidding process to win it. With this type of request, the vendor will offer its best fitting solution to the situation and will answer with the same level of details to win the bid. If a vendor stands out by its answer compared to others, a decision can be made at this stage, but further investigation is also possible and in most of cases, the final decision is not taken at this stage.
- **Request for quotation (RFQ).** Here, numbers are coming into the discussion. The vendor will give clear metrics, as defined for the function, in terms of wages, fixed costs, variable costs, production, instruments, plants... There can also be an estimation on the potential costs savings, what is feasible or not. This request will give the outsourcing company more details on the vendor, helping to make the decision.
- **Lower bid.** At this stage, the outsourcing company can either choose to go for the lower bid (different types of bids and auctions) or can decide to go for negotiation to get the preferred vendor to offer the lowest bid. If it works, the client can go for the preferred vendor with the lower costs. Otherwise, the client can choose between the lowest bid or the preferred vendor.
- **Tender.** The purpose of a tender is to be transparent and fair towards the vendors. It is a structured process, going from the request to the evaluation. Each tender is different depending on the contract and how the buyer wants to evaluate the vendor. It gathers different steps, including RFP, RFQ and negotiation. The bidding companies will be evaluated on both price and quality of the service; therefore, they need to provide information on how they intend to deliver the contract, including technical aspects and pricing proposals. Then, the company who will submit the highest quality response at the best price will be the shortlisted and awarded company.

In the Procurement Center case, KHC went for a tender, gathering data from different suppliers and decided to go for IBM, placing itself in the top 3 in this area, and bringing the most beneficial offer for KHC in terms of deliverables, savings, commitment and their capacity and willingness to put themselves at risk in this partnership.

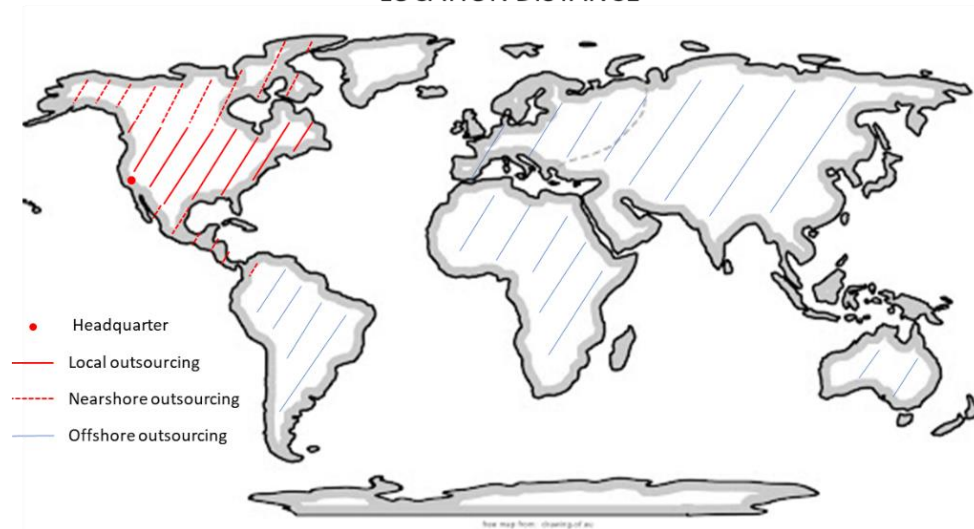
The buyer needs to have trust in the vendor to delegate the technical tasks, to let go of these routine activities and to focus on the core ones and on the strategic projects. In order to build this relationship, this partnership, the vendor needs to be well chosen. There are parameters to take into consideration in the decision-making process, such as the governance model, the location distance and the understanding of specifics of the market, here the food market.

For a successful BPO effort and successful organizational changes, top management commitment is essential. BPO never happens bottom-up, and the new process alone will not change the way employees work. A food business must plan the outsourcing relationship well in order to succeed. The BPO governance goes by ownership and structure, which can be differentiated among others by the level of hierarchical control, duration, and the extent of formalization. Each level of governance has its tasks and responsibilities, and each project’s participant must act according to its role for the project to be a success. Here is an example of governance model that a company could apply:



Location distance is also a parameter to consider when outsourcing. There are different possible strategies to adopt in location distance. There is *local outsourcing*, meaning outsourcing to a vendor located in the same country than the outsourcing firm, *nearshore outsourcing* referring to outsourcing to a foreign, lower wage country close in distance, and *offshore outsourcing*, meaning outsourcing to a distant country where differences in terms of culture are significant.

LOCATION DISTANCE



Above is an illustration of the location distance decision. For a company headquartered in Los Angeles U.S.A., local outsourcing would be to stay in the United States (continuous red lines zone). Nearshore outsourcing would be to outsource in the area around the United States, including Canada and Central America (dotted lines zones). Finally, offshoring would mean to relocate activities further away (blue zones). KHC decided to go for local outsourcing, so the BPO firm, IBM, shares the same culture, time zone and language, which makes business easier. It also helps building trust and a good partnership. A part of the activities will be then offshored by IBM to India, allowing to have lower costs, more efficiency and better tools.

Defining who is best placed to take on the outsourcing business will depend on the relative cost advantages and the difficulty or ease of managing the relationship. The outsourcing company needs to be careful as there can be “hidden costs” in outsourcing that are not related to the ones discussed above. There are different types of distances to take into consideration when choosing a vendor:

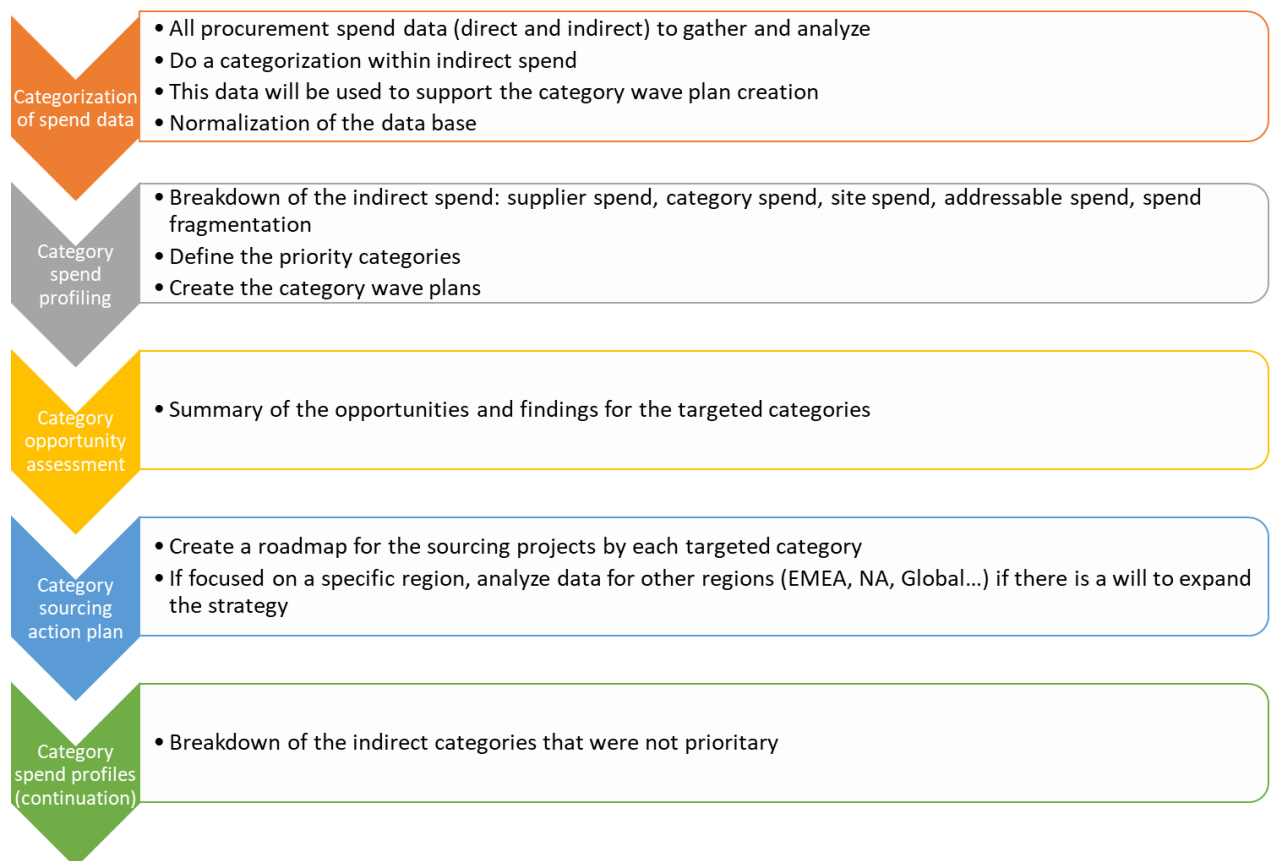
- **The geographical distance.** As explained above, the location distance parameter is important to consider in the decision-making. When nearshore outsourcing or offshoring, there might be costs of transitioning knowledge and work abroad, costs of staffing and managing the partnership, and costs of traveling for face-to-face meetings for example. The transition period can easily become expensive.
- **The cultural and language distance.** It is way harder to quantify this type of costs than travel costs for instance, but it exists and is worth paying attention to. It is often an underestimated part, if considered at all. It can be costs related to infrastructure, management, trainings etc. There is also a risk and an uncertainty about the language and cultural barriers, which can be amplified when the tasks are complex.

- **The policy and regulatory distance, and the legal distance.** Depending on the country, doing business can be under different rules. It is important to spend time, and money, in understanding what the foreign policies are before going into a partnership there, to prevent unexpected costs. At the same level, it is important to understand what the practices and rules of the other jurisdictions are before writing a contract. It can lead to misinterpretation, illegal clauses, and/or lawyers' costs if any problem arises.

These points are to be considered before making a decision on the location distance parameter, to decide whether to go abroad or not.

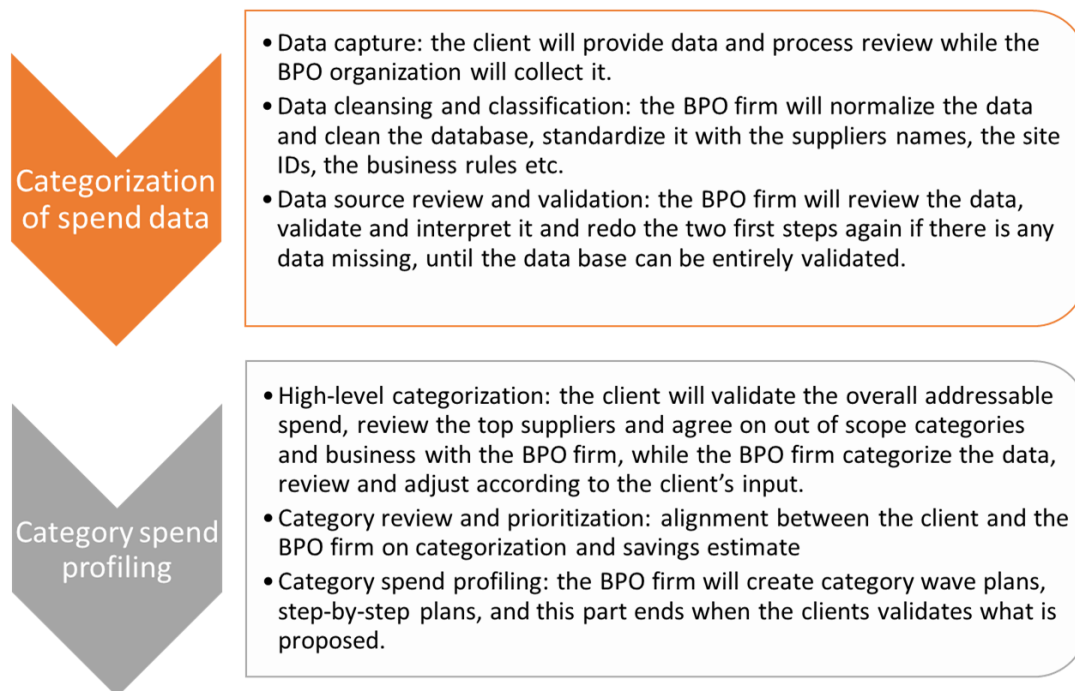
Once a vendor is found, and the contract in place, the BPO process can begin. In order to start well working on a BPO with a business partner, there are steps to follow:

STEPS TO FOLLOW TO START A BPO FOR INDIRECT PROCUREMENT WITH A BPO PARTNER



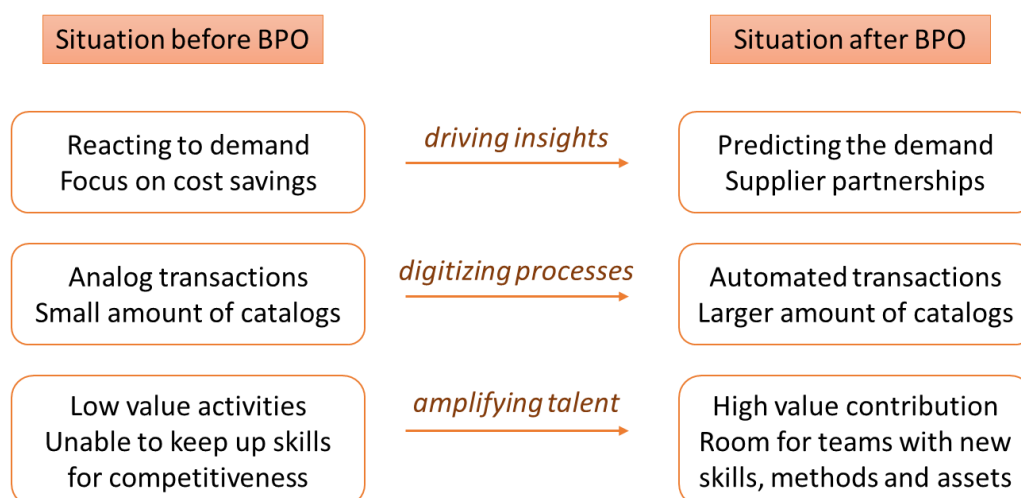
The two first steps are critical to establish the basis of the project. During those steps, there are no results or benefits to expect but all the preparation of the project to make. The rest of the project will be based on the data collected, cleaned and categorized during those two first steps.

ZOOM ON THE CATEGORIZATION SPEND DATA AND CATEGORY SPEND PROFILING STEPS



The main objective of BPO, whatever definition used, is to support the organizations in achieving significant improvements in their business processes. The BPO firm offers category expertise, market intelligence, the last sourcing applications and technology, risk mitigation, and cost advantages. The firm also provides a reinvention, and in the case of this paper, a procurement reinvention.

PROCUREMENT REINVENTION



The way of buying within a partly outsourced procurement department will evolve, and the team will be able to focus more on strategy rather than low added-value activities.

The first step towards an effective procurement is to understand that each activity in the business serves a function. The second step is to get the importance of contracting in a partnership.

Tadelis, S. (2007) proposed a list of “tips for success” in order to assist the company’s executives in their outsourcing decision. The list has been rearranged, adding information gathered in this paper, which will help the top management to make an informed decision:

- **Identify the reasons.** There are many different reasons to outsource, including reducing distraction for non-core activities, cost-effective deals, or flexibility. Whatever the reason, it cannot be to move a problematic activity outside of the company; it is not possible to outsource the problems, it would be a bad reason for outsourcing.
- **Timing is everything.** For a company to understand the need to outsource early, before its competition, is a driver for innovation. Also, to analyze the company’s direction over time will help to differentiate the contextual activities from the core ones.
- **Clear contract.** To have a well-defined contract in terms of responsibilities, activities and expectations is essential. There is also a need to have a good evaluation system in place, and financial boundaries.
- **Life Cycle of the project.** It is a parameter important to consider and will differ from project to project. For example, if the transition costs are high in a project, it would be better to put in place a long-term contract, so the length of it will balance with the costs.
- **Selection of the vendor.** If the outsourcing company knows what is wanted from the partnership and has a solid contract, it would be best to use the market mechanisms, including RFP, RFQ, lower bids and tender. It can also be useful to appeal to a network of companies who have already experienced outsourcing, preferably similar activities, here indirect procurement, to help in identifying who the most qualified vendors are.

These framework and guidelines described here would result, if followed, in better business decisions for companies wishing to outsource part of their business, here indirect procurement. Outsourcing is a valuable tool for innovation among the business leaders, who would like to create value and develop their competitive advantage.

6 - Conclusion

There is not a lot of studies and research done on outsourcing, especially on indirect procurement outsourcing. It was interesting, during a professional experience, to witness the emergence of an outsourcing project in a big international company. It made questions arise, as well as a will to understand how such a project can work.

Sourcing has proven to be a valuable tool in innovation and in the arsenal of innovative business leaders, who are wishing to keep up with the market and technology, and to create value.

While outsourcing might provide operational benefits and cost savings, the benefits should be evaluated considering the expenses and all issues surrounding outsourcing.

Concerning the KHC case study, the answers of Paulo Santiago to the questionnaire match the observations and presentation of the project by IBM. In order to perform a successful BPO, the preliminary stage is essential. The data has to be well collected and analyzed, to shape a good plan to follow during outsourcing. The vendor decision, including location distance and governance model, is important to have a good basis to start BPO.

The Procurement Center project goes well so far and is on track to deliver the results expected and fulfill the objectives set. The project will go on in time after the redaction of this paper, and it would be interesting to continue the research, to see where the project goes and how it will evolve.

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Appendices

Appendix 1 - Questionnaire

This questionnaire is part of a Master thesis on Indirect Procurement Outsourcing. Big companies have a huge procurement department / system, which generates a lot of costs. This paper aims to evaluate how outsourcing part of the indirect procurement department would allow the company to generate savings and what are the pros and cons of outsourcing.

You have been selected to receive and answer this questionnaire because you are part of the top management of a big company's indirect procurement department, using outsourcing as a procurement strategy. Your answer will be treated as completely confidential and will be released only as a part of an analysis.

This questionnaire will provide information helping the research in several ways: 1) it will help understand the outsourcing decision, the vendor choice and the location distance decision; 2) it will also help understand how it worked and how was the experience; and 3) it will provide more information on the savings estimation method.

In blue are Paulo Santiago's answers, collected during an interview with him via Microsoft Teams.

1. What is your position in your company and since when are you working there?

Global head of indirect procurement, 2 years

2. Outsourcing is part of your strategy, what drove this decision to outsource indirect procurement?

Few reasons:

- Lot of transactional activities within proc and these transact could be better performed using outsourcing
- As a factory, could delegate part of procurement. Before: 80% of operational and 20% of strategy inside company, turn that around, more strategical scope
- Synergy with BPO partner. 300 billion indirect for the supplier, leveraging the bargain power the BPO has, use this power to leverage savings.
 - o IBM has 300 billion in their company, we "give" them 1 billion more from KHC to manage, which will leverage... They have more power to negotiate with their 301 billion than KHC with 1 billion
- Use best practice from the supplier, they have been doing this, this is their job, know how to do (how to negotiate, who to work with...) + expertise, they are more exposed to the market

3. How did you choose the vendor? How did you decide about the different factors of outsourcing such as the location distance, the governance of the relationship etc.?

IBM is one of the top3 in this area (Accenture...), brought the most beneficial offer on terms of savings and deliverables, commitment, put themselves at risk

Location: most spend in US, so US to be close to stakeholders + transactional activities based in India (less costs, more efficient, better tools)

Governance: steering meetings, very structured, regular meetings, if disagreement IBM/KHC (change in contract...), if not able to solve it on lower level, then senior meeting

4. How was (or still is) the experience? Since when does it last and do you already see some results (positive or negative)?

The experience has been so far very positive, right direction, not really results/benefits yet but make sure they'll be delivered soon

In line with what was expected for the first year (no savings expected for the first year but resources in place, structure, implementation, launch Proc Center, change in management...)

Now each purchase there is a new system

Contract on 5 years, it's been 6 months it began working on the launch etc. and go live in August, kick off of the new structure, 100% working in August

5. What are your expectations for the future? How do you expect this relationship to evolve?

Huge project, didn't have the time so go for US directly, very challenging

Everything is working well and then expand to the other regions

Evolve in terms of agenda: now building the relationship, IBM is a strategic partner in the coming years

6. How are you evaluating the savings? What is your method to estimate those savings?

Methodology: broke down in 3 different categories established prior of contract signature: Cost reduction, Cost avoidance, Value added

If new project (from IBM or KHC), chart, what is the baseline/ drivers for what category? This as cost avoidance, this as reduction... This chart must be validated by proc, finance before the beginning of the project. If the project is big (more than 1million/year), track this on a monthly basis to make sure it's been delivered

7. Are you satisfied by this outsourcing strategy? Would you keep it as it is or is there anything you would like to change?

Satisfied yes

The project is really focused on the deliverables, so maybe have a contract still focused on the deliverables but add more details on the structure, the resources attributed, how are they going to deliver that?

8. Finally, do you have anything to add on this topic?

Right strategy for the company, lot of transactional in indirect procurement, process must be clear. Do not have a lot of strategic suppliers in indirect, commodity so has to be clear.

Thank you very much for answering this questionnaire and for helping in this research.