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**Indirect Procurement Outsourcing:  
A Platform BPO Solution for  
Mid-sized Companies**

An enrich IT White Paper

Given the recent dramatic global economic downturn, an indirect procurement outsourcing initiative will position businesses to ride the wave of recession and create a strategic competitive advantage through sustained cost savings and increased cash on hand. Discovering the optimal mix of technology and subject matter expertise can transform a business into a best-in-class procurement organization. Done properly, a mid-sized enterprise can outsource its indirect procurement function in as few as two to three months, reduce their operating expenses and better manage the working capital, while harnessing the proven power and flexibility of an enterprise-wide software solution with no capital expenditure.

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We know that businesses can increase profit by cutting costs and / or increasing revenue. During a global economic recession the former may be easier to accomplish. Regardless of the type of business, purchasing is an unavoidable and important function. A typical firm spends at least half of its revenues on the external purchase of goods and services.

The purchasing function consists of various decentralized groups (business unit managers, IT professionals, category managers, etc.), who collaborate to improve efficiency and reduce costs associated with procurement. The current global economic recession is forcing mid-sized businesses to reduce costs on a sustained basis and improve compliance with corporate purchasing policies. With most of the processes optimized, procurement is one of the few areas in an organization that still provides ample opportunities to reduce costs and improve bottom-line profits.

An Aberdeen Group report about mid-sized businesses indicates that a typical mid-sized enterprise applies disciplined sourcing methods to only one-third of total spending. It further states that inadequate sourcing competencies cost mid-sized firms in the U.S. more than \$134 billion annually in missed supply savings opportunities.

### **Indirect procurement**

“Maverick buys are prevalent and account for an average of between 30% and 45% of all indirect spending.”

Indirect procurement involves the purchase of goods and services that are not directly involved in the delivery of the end product or service. Examples of indirect spend categories include office supplies, IT hardware and software, consumables and MRO, contract labor, professional and administrative services, facilities management, sales and marketing, and travel. Although indirect procurement comprises 80% of the total volume of transactions, various research reports indicate that it has been a low priority in organizations. Many businesses use ineffective, fragmented and largely manual procedures to execute the process and manage suppliers.

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The financial implications of this non-standardized approach can be enormous. An Aberdeen Group report indicates that companies have a 7-to-12 percent unrealized savings opportunity on their non-strategic spending, which translates to about \$10 million in potential savings for every \$100 million in spending. A \$1 reduction in procurement can equal between a \$5 and \$10 increase in sales growth. Moreover, any reduction in procurement costs directly equates to a corresponding increase in net profits.

### **Challenges and Characteristics of Indirect procurement**

Although the purchase of non-critical items consumes a lot of overhead, it has received far less attention at the organization level, resulting in a lack of standardization and control. Nelson Hall, a research firm has identified the following challenges faced by organizations in managing indirect procurement.

- A strong corporate requirement to reduce the cost of indirect goods and services
- Difficulties in managing large numbers of suppliers in the absence of adequate breadth of internal category management expertise
- Absence of common indirect procurement systems, processes and interfaces
- Lack of indirect spend visibility

Some of the characteristic features of indirect procurement:

- It comprises 80% of the total number of generated purchase orders with 20% of the total dollars spent
- It is not a strategic activity
  - Hence it has less focus
  - Little collaboration with suppliers
- Managed manually or in multiple system characterized by lack of control
- Minimal visibility of indirect spend
  - It is not known how much was procured from whom and how
  - Inability to identify the exact category spend due to the low value of the products

“Traditional companies spend \$33.00 for processing a single requisition to order cycle whereas the companies who outsource the procurement process incur only \$14.15 which is less than 50% of the original cost.”

“Many mid-sized companies are caught in a catch 22 situation when it comes to enterprise system adoption. They cannot cost justify investment for adopting a world-class system, and tier-2 solutions do not fit their business needs. “

- Maverick buys are prevalent and account for an average of between 30% and 45% of all indirect spending. A typical billion-dollar company will lose up to \$10 million each year in lost discounts alone. As a rule, the smaller the company, the less formal the process, and for non-manufacturing companies that do not see purchasing as a core competency, about 84% of indirect materials are purchased by employees visiting their local retail outlet.
- Decentralized purchasing
- Lengthy purchase cycle time
- Laborious
- Lack of e-enablement from suppliers

### **A comprehensive solution for indirect procurement**

Adopting enterprise solutions and re-engineering the business process is a good way to reduce procurement costs and improve bottom-line profits. However many mid-sized companies are caught in ‘catch 22’ situations when it comes to enterprise system adoption. They cannot cost justify investment for adopting a world-class system, and tier-2 solutions do not fit their business needs. Apart from technology, organizations will be faced with consulting, implementation and support costs.

### **SaaS or on-demand solutions**

Instead of buying software application on perpetual licensing, businesses can consider subscribing to the software application services on demand basis through SaaS model. Software applications still need to be configured and implemented. It just provides the technology platform and the organizations need to manage the business operations associated with indirect procurement on your own. Indirect procurement being non-core and non-strategic, will still be neglected and the organization may not reap the full benefit of the potential saving opportunities available.

“The P&L impact of procurement outsourcing can be about five times the benefit of other outsourcing offerings like HR or finance and accounting”

## Indirect Procurement Outsourcing

Organizations can consider outsourcing indirect procurement to a third-party service provider and focus their efforts on strategy, governance and those spend categories and supplier relationships that provide the company a unique and differentiating source of value. Procurement outsourcing utilizes several levers that can result in faster and more comprehensive cost savings than those within organizations.

### Traditional BPO

Most traditional procurement outsourcing ends up being a lift-and-shift model leveraging only labor-cost arbitrage. Meaning it shifts the buyers and transaction processors from within the organization to a third-party service provider that provides the same labor from a country with lower labor costs. When it comes to indirect procurement most customers end up using a manual process with disparate or no system even though they might have a good procurement system for direct materials. The reason being indirect procurement needs unique technology, which may not be all that necessary for procuring direct materials. At the same time most BPO vendors do not have their own tier-1 state-of-the-art integrated technology platform to run the source-to-pay process for indirect procurement.

“Most traditional procurement outsourcing ends up being a lift-and-shift model leveraging only labor-cost arbitrage”

Cost savings on purchased goods and services and cost reduction through improved operational efficiency is limited to the technology platform being used. Moreover, implementing any process change or causing a business transformation takes longer without a standard, enterprise-wide technology platform.

## Platform BPO

Platform BPO is a technology-integrated BPO that provides a complete business solution by optimally packaging a technology platform with the business process outsourcing from a subject matter expert. Platform BPO provider takes care of software licensing, hosting, implementation, application support and business process support for running indirect procurement operations resulting in no capital expenditure for buyer organization. They just need to pay a monthly fee based on usage of technology and BPO services (pay-as-you-use model). It allows businesses to convert fixed expenses into variable expenses, reduce their operating expenses and better manage the working capital.

“Platform BPO for procurement is an outsourcing solution that combines technology and procurement expertise to drive organizational transformation.

It allows businesses to convert fixed expenses into variable expenses, reduce their operating expenses and better manage the working capital”

Platform BPO requires a blend of IT, BPO, analytics and domain knowledge. It is delivered by applying the concepts associated with software as a service, Business process outsourcing / managed services, and knowledge process outsourcing.

### Role of technology in indirect procurement outsourcing:

- Technology enables the buying organization to be transformed into a best-in-class procurement organization in a short period
- Technology platform provides the buying organization the tools to gain control of their operations and supplier relationships
- Technology drives automation, process standardization and implementation of process changes across the enterprise any time
- Technology improves compliance and application of right business rules
- Technology provides unique tools that are specifically required to manage indirect procurement operations
  - Portal technology for self service requisitioning system, effective supplier collaboration etc

“Platform BPO provider becomes an expert in applying a technology platform to specific business function and bridge any gap through add-on solution or value added services”

- Spend visibility – tool to extract data from different system, cleanse, aggregate and analyse the data
- e-auction / reverse auction
- catalog management
- punch outs
- services procurement
- robust approval process
- p-card system and expense management

Technology platform could be developed by the service provider by themselves or through acquisitions or partnerships with major technology vendors. Sustainability and scalability of the platform BPO provider is high through partnerships with major technology vendors. This is because it helps the service provider to focus in delivering business solutions to customers rather than developing the technology platform. This drives the provider to become an expert in applying a technology platform to the specific business function and bridge any gap through add-on solutions or value added services.

### **Platform BPO combines economy of scale and economy of scope**

The SaaS model achieves economy of scale by offering the same product to many customers. Their focus is only on the supply side of the value chain. In addition to economy of scale, a Platform BPO model targets the demand side of the value chain, like procurement-transaction processing, catalog management, supplier management, etc. A platform BPO model achieves economy of scope by bundling together all related services in both the supply side and demand side of the value chain.

Bundling and packaging related services to specific business function or domain not only provides complete business solution to buyer organizations, they are also able to leverage economy of scale and economy of scope through the service provider

“Platform BPO is the next wave that shifts from transactional BPO to transformational BPO services.”

**Comparison Chart**

<b>Dimension</b>	<b>Software as a Service (SaaS)</b>	<b>Traditional BPO</b>	<b>Platform BPO</b>
Scope	Data and Information management (Technology only)	Business process management (Business only)	Knowledge Management combining both Data and Information management and Business process management (Technology + Business)
Nature of the relationship	Customer rents or leases the use of software application with hosting services	Customer outsources specific business function to a service provider	Customer leases the technology platform and also outsources specific business function to the same service provider
Components of expenditure incurred	Upfront professional services deployment cost. Periodic payments including fee for subscription, hosting and support all lumped into one payment  Additional cost for managing business operations	Fixed price contract and periodic payment for business process support  Additional cost for buying, implementing and maintaining IT hardware / software	Pay-as-you-use: recurring operating expenses for both technology and business process support services  It may also include upfront professional services deployment
Flexibility	Application configurability but limited customization	Mostly customized for each client	Mix of configurability and customization
Scalability and Value	High -- Focused on economy of scale	Medium -- Limited on economy of scale	Very High -- Focused on economy of scale plus economy of scope
Process Support	Limited process support because they predominantly provide only technology platform	Good process support but limited to technology on hand	Great process support by combining technology and business process

**Table 1**

### Does SaaS + BPO = Platform BPO?

Not really, using the analogy of a physical versus a chemical combination, we could say that Platform BPO is much more than a physical combination of SaaS from one provider and traditional BPO from another.

You can consider Platform BPO as the powerful result that resembles that of a “chemical” combination, where the end result is greater than the sum of the parts. It is the symbiotic combination of technology platform with business process support delivered by the same service provider, who is the subject matter expert in applying that technology to a specific business function. In Platform BPO, not only are technology and business operations tightly integrated and properly aligned, but changes in one are seamlessly propagated to the other.

In Platform BPO, service providers use the optimal combination of technology, process excellence and people to deliver high quality service to multiple organizations.

From the above explanation and as per the comparison chart shown in Table 1, one can identify the appropriateness of Platform BPO in providing a comprehensive solution, and it can be argued that Platform BPO is the next wave that shifts from transactional BPO to transformational BPO services.

The next section details Platform BPO solution architected by enrich IT specifically for indirect procurement.

“BPO has forever altered the landscape of HR, IT, Finance & Accounting, and other enterprise disciplines. But in the world of procurement, traditional BPO hasn’t been as widely adopted- in part because of hesitation to surrender direct control of an organization’s supply base

Organizations can leverage procurement platform BPO solution to gain control of their operations and supplier relationships, accelerate time to value, and get world class results”

## enrich IT Platform BPO Solution for indirect procurement – Powered by Oracle

enrich IT through its Tier-1 BPO partnership with Oracle provides a complete source-to-pay solution for indirect procurement using an Oracle e-business suite. enrich IT architected the platform BPO solution drawing from its deep expertise in Oracle e-business suite for many years combined with its focus on procurement and supply chain domain.

Figure 1 depicts the flow of information between the buyer organization (customer), Platform BPO provider (enrich IT) and supplier. It also depicts the strategic relationship customer will maintain with both supplier and BPO provider, so that it can retain control of their procurement operations and supplier relationships.

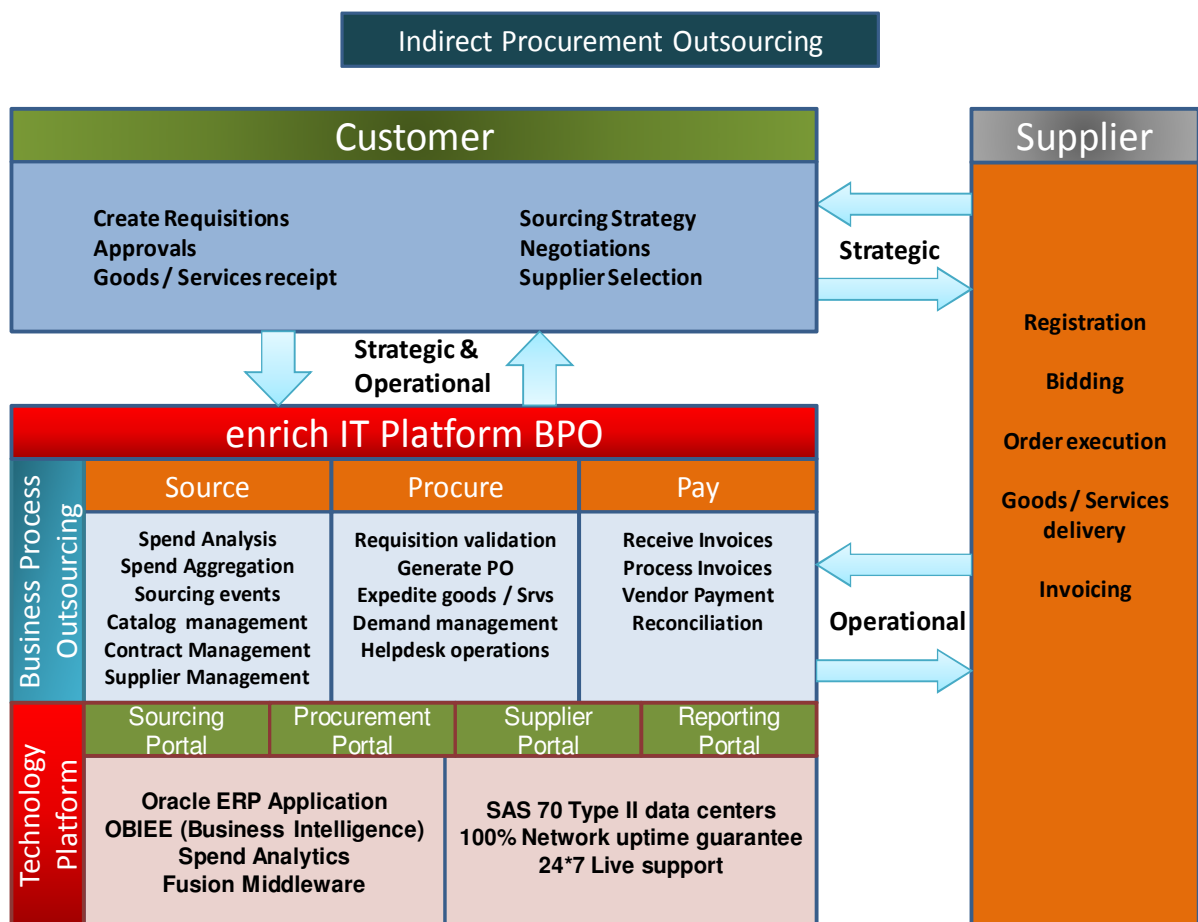


Figure 1

**Operational Solution description (procure to pay)**

enrich IT hosts a web-based Oracle e-business suite technology platform in a SAS 70 Type II certified data center. Any authorized user from the customer site can create a purchase requisition from any web browser using the hosted self-service procurement portal.

enrich IT executes the entire range of processes, including:

- validating and managing the requisitions
- generating purchase orders
- expediting goods and services from vendors
- processing invoices
- paying vendors and
- reconciling accounts payable.

At any time authorized users from a customer site (requestors or their managers) can access the self-service procurement portal to:

- monitor the status of their requisitions or purchase orders
- manage approvals
- receive goods or services

Suppliers can also concurrently use the self-service supplier portal to:

- maintain their profile,
- view and acknowledge purchase orders
- request change to delivery date
- enter shipment notification (ASN)
- enter invoices and view payment status

Suppliers can also leverage the Oracle Supplier Network for electronic transfer of purchase orders and invoices in addition to EDI and XML gateway capabilities.

A robust workflow process allows automation wherever required based on customer-specific business rules and to connect customer, enrich IT, and supplier in the entire procure-to-pay process.

### **Strategic Sourcing Solution description**

Strategic sourcing begins with Spend visibility which is provided by Spend Analytics tools that come with the technology platform. The enrich IT analytics team uses that tool to deliver a structured, 360-degree view of the customer's spending and compliance, empowering stakeholders to identify quick-hit savings opportunities and implement optimal sourcing strategies to sustain long-term cost savings.

Based on the action plan, enrich IT conducts sourcing events (RFX, e-auction) using the sourcing portal. The customer negotiates and selects appropriate suppliers based on recommendation from enrich IT and bidding information available in the sourcing portal.

enrich IT works closely with the supplier to:

- execute and manage the contract
- create a supplier profile in the system
- manage supplier registration through the supplier portal
- load supplier catalogs into the procurement portal

### **Approach:**

Outsourcing procurement is not an all or nothing proposition. Customers can start small by outsourcing few spend categories / processes and increase the scope with time. We work within that scope to deliver value. As such most organizations are leaning towards a phased approach (incremental outsourcing) rather than a big bang approach (full outsourcing). Our Platform BPO model provides a unique roadmap for customers to follow a phased approach by first adopting the technology platform and then incrementally outsourcing their indirect procurement operations by spend categories (low risk; less complex categories first), activities and business

process support (resource intensive; repetitive) as listed in Table 2. For each spend category customers can decide which activities and business process support they need.

Spend Categories	Activities	Business process support
Office Supplies Equipments IT and Telecom Office Supplies Consumables & MRO Sales and Marketing  Professional Services Contingent workers HR Expenses Facilities Management Travel Utilities	Spend Analysis Sourcing Contract Procurement Payables	Transaction Processing Services <ul style="list-style-type: none"> <li>- Buyer Support Services</li> <li>- Payables Service</li> <li>- Contract Management services</li> <li>- Conduct sourcing events</li> </ul> Help Desk Services <ul style="list-style-type: none"> <li>- Internal buying help desk</li> <li>- Supplier help desk</li> <li>- Sys admin and application support help desk</li> </ul> Data Management <ul style="list-style-type: none"> <li>- Supplier data</li> <li>- UNSPSC or Commodity codes</li> <li>- Org Hierarchy and approval limits</li> </ul> Catalog Management  Spend analytics <ul style="list-style-type: none"> <li>- Spend aggregation and spend visibility</li> <li>- BI / Reporting</li> </ul>

**Table 2**

Figure 2, below, depicts how a customer can start by deploying a technology platform first and then at their own pace outsource various business process support activities over time along with various spend categories and functions. As customers outsource incrementally to their service provider, they can release budget and key resources that can be focused on strategy, governance, and supplier relationships and truly achieve strategic sourcing using our technology platform and spend analytics.

## Incremental Outsourcing Road map to Best-In-Class

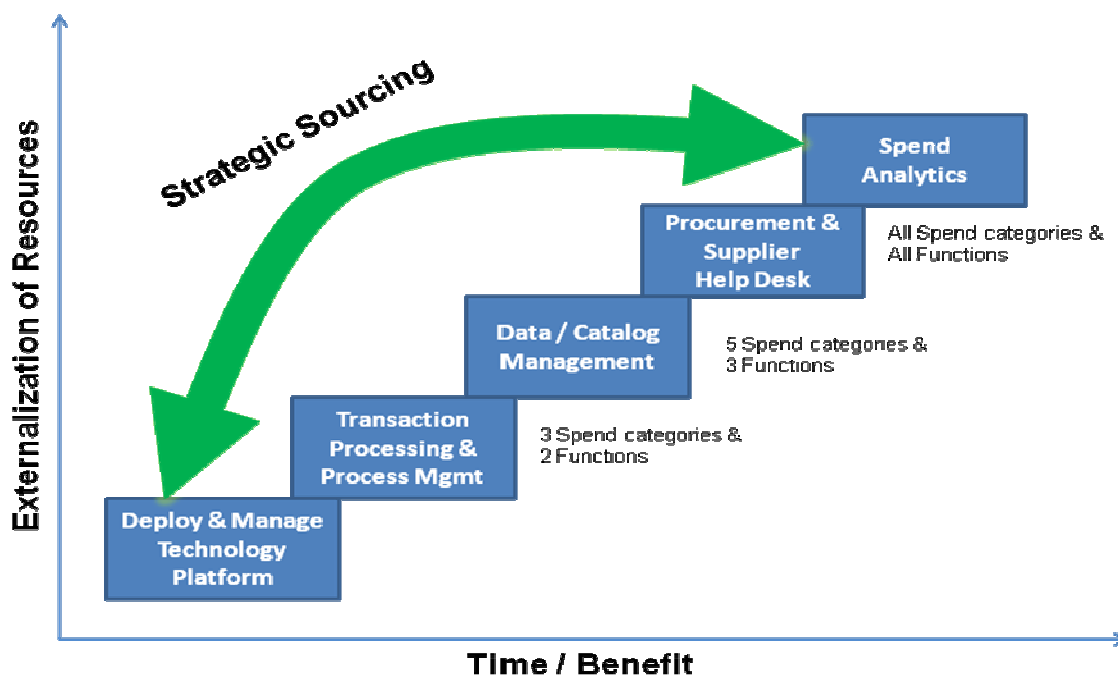


Figure 2

### Rapid Deployment through Pre-configured solution

enrich IT has created a pre-configured solution template with:

- seeded data,
- standard migration programs,
- plug-and-play interfaces and
- pre-determined testing cycles

Oracle multi-org architecture and business accelerators enable us to create and configure customer solutions with business-specific rules and to onboard them in as few as two to three months.

### Why Oracle:

- Most proven, comprehensive, scalable, integrated application across processes
- Used by thousands of enterprises (small, medium and large) worldwide
- Leader in procurement, supply chain, financials, HCM and CRM applications

- Easy to deploy and easy to use
- Reliable and solid company -- undisputed long-term viability
- Great support for BPO partners

### **Business Benefits**

- Sustained cost savings (12% to 20%)
  - 10% to 15% cost savings on purchased goods and services
  - Cut procurement operational cost by 50% through improved operational efficiencies (automation, productivity improvement and error reduction) and labor-cost arbitrage.
- Improved Compliance
  - Increased spend under management and reduced maverick spending by 80%
  - Adherence to purchasing policies, procedures and SOX Compliance
  - Reduced requisition cycle time
  - Contract compliance
  - Improved change management
- Facilitates business transformation
  - Shared Service center with integrated procure-to-pay function
  - Center-Led Procurement Organization

### **Immediate ROI**

enrich IT Platform BPO delivers the preceding business benefits with little or no capital investment – No licensing cost, IT infrastructure cost, implementation cost and support cost. Customers can replace fixed capital expenses with predictable monthly operating expenses, resulting in an almost immediate ROI.

### **Conclusion**

Procurement Platform BPO provides an immediate and sustained cost savings solution that can be deployed in a short period with no upfront capital investment and at the same time helping buyer organizations gain control of their operations and supplier relationships

## About enrich IT

We are procurement and IT services firm specializing in extending Oracle solutions. We provide procurement Platform BPO, application services, talent sourcing and software licensing. As our name states, we are about enriching your IT, applying proven and flexible Oracle solutions to transform your business, and assisting you to outpace your competition. Our offshore development centers in Chennai and Hyderabad enable us to provide our clients high standards of quality at very competitive pricing

## Awards and Recognitions:

- Inc. 500: Ranked Top 5 in IT services; Top 10 in Minority owned business
- 2008 Pacesetter award from Atlanta Business Chronicle
- Deloitte 2008 and 2007 Technology Fast 500 award (North America)
- Deloitte 2007 Technology Fast 50 raising star award (Georgia)

Visit enrich IT online at [www.enrichit.com](http://www.enrichit.com)

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**Arul Murugan** is the founder, President and CEO of enrich IT, procurement and IT services firm specializing in extending Oracle solutions. He has 15 years of global expertise in procurement, sourcing, supply chain, business consulting and ERP implementations. He architected the procurement Platform BPO solution specifically designed to assist mid-sized companies.

He was an E&Y entrepreneur of the year finalist for the Southeast region in 2008. He also serves as a board member for TAG Global sourcing society. Under his leadership enrich IT has experienced extraordinary growth, which earned the company various awards from Inc. Magazine, Deloitte, E&Y and Atlanta Business Chronicle.

Arul earned a Bachelor's degree in mechanical engineering; he also holds a CPIM certification from APCIS.

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