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**Should We Outsource Procurement?**

**BPO - the Latest Fad**

The quick fix used to be, “Increase productivity and profit by reducing the labor force.” Every financial executive understood that expenses have feet. Reduce the feet and you reduce your expenses. The result has been massive downsizing in corporate America.

The first to go were the lower level staff. Later, CEOs recognized that by flattening the organization you could reduce the more expensive middle management ranks. Expenses have feet.

Soon it became apparent that staff reductions could cut into quality and service levels. The next fad became automation solutions, re-engineering, process optimization, and Six Sigma. These efforts often resulted in less staffing requirements with higher productivity, quality, and service levels.

Recently, everybody is talking about business process outsourcing. All major functions are under review. Software programmers, financial analysts, call centers, graphic design, HR, and anyone possible are either being outsourced or being considered as fertile ground. How can you ignore paying \$10 per hour in India versus \$100 per hour in the United States?

With shareholder pressures, profit target pressures, and personal bonuses at stake, companies are continuing to search for how to improve profits and to not fall behind the competition!

The latest question is, “Why not outsource procurement?”

**Political Correctness**

To most companies, purchasing or procurement is a non-strategic tactical process that is viewed as a non-competitive advantage cost center. In these companies, outsourcing procurement will often result in better processes, systems, and service levels at a lower cost.

In other companies who understand the strategic value and competitive advantage of supply management professionals, they know better than wholesale outsourcing. Competitive advantages and profit contributions that astute companies currently have will often be lost or reduced to the same level as the crowd of companies outsourcing to the same procurement outsourcing provider.

The easy action is to outsource. The wisest action is to consider how to outsource correctly and what to outsource versus keeping functions in-house. Most companies will need help through this process. As a result, “Major consulting firms are migrating to this model, which is another reason procurement outsourcing is attracting attention.”<sup>1</sup>

The first question is, “On a total cost, total value, and competitive advantage basis, should I outsource or insource?” The second question is, “If I outsource, what should I keep in-house?” Most outsourcing firms are more interested in their clients outsourcing everything, rather than asking, “What is best for my client?”

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<sup>1</sup> “Procurement Outsourcing”, Sourcing Interests Group, 2003, pp. 1-3



### **Enhancing Competitive Advantage**

Would you totally outsource your sales department? Why not?

Most companies would state that sales is their life blood. That is where they succeed or fail as a business. You might outsource teleprospecting, in-bound telesales, or even outbound telesales for commodity products. You might even outsource tele-support to increase sales productivity but would you outsource the hunters and farmers? Probably not.

The same model is true for purchasing and procurement. Just as sales are the key to clients, supply management is the key to optimizing the total value of your supply chain. World-class supply management can offer significant value and increased profits; often 5 times the profit impact of a sales force! Supply Management use of Value Management techniques can team with sales to create significant competitive advantage and even marketplace dominance. Investing in internal, or external resource for purchasing and procurement should be a careful decision.

There are tactical processes and requirements that might benefit from outsourcing to the right solution provider. The key questions here are, "What should be considered?", "How do I go about it?", and "How do I manage the long-term process?"

### **Fad Reaction versus Thoughtful Discernment**

Each company situation is different. Most companies have historically ignored purchasing, procurement, and supply management. Knowledge and experience is often weak. A mistake can cost profit and competitiveness. Moving ahead with the right solutions help you optimize the balance between investing internally or outsourcing.

Interested in learning more? Give us a call. We want to help you mine the real gold – before your competitors do.

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