



## A Procurement Outsourcing Service for LBB Teams

*“Research to define which service LBB Teams can offer their clients for outsourcing procurement from Dutch companies to Southeast Asia”*

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*“Research to define which service LBB Teams can offer their clients for outsourcing procurement from Dutch companies to Southeast Asia”*  
  
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## Management Summary

LBB Teams is a company located in Kuala Lumpur who wants to provide a procurement outsourcing service to European companies. This led to the following objective of the research:

*Define which service solutions LBB Teams can offer their clients for outsourcing procurement from European companies to Southeast Asia (SEA).*

To align the size of the research within the time available, limitations had to be set. One of the limitations was to focus on Dutch companies which led to the following main research question:

*What is the Procurement outsourcing service LBB teams can offer to Dutch companies?*

To come to a structured answer on the research question the ABP methodology (TSM Business School, no date) is used. Within this methodology three sub research questions were used to come to the answer of the main research question.

The *first step* (and sub research question one) made in the research was to identify what the main problems are of Dutch companies with sourcing from SEA. To identify this, a theoretical framework is constructed about sourcing which led to global sourcing problems for Dutch companies which have been made specific for SEA. The potential global sourcing problems are:

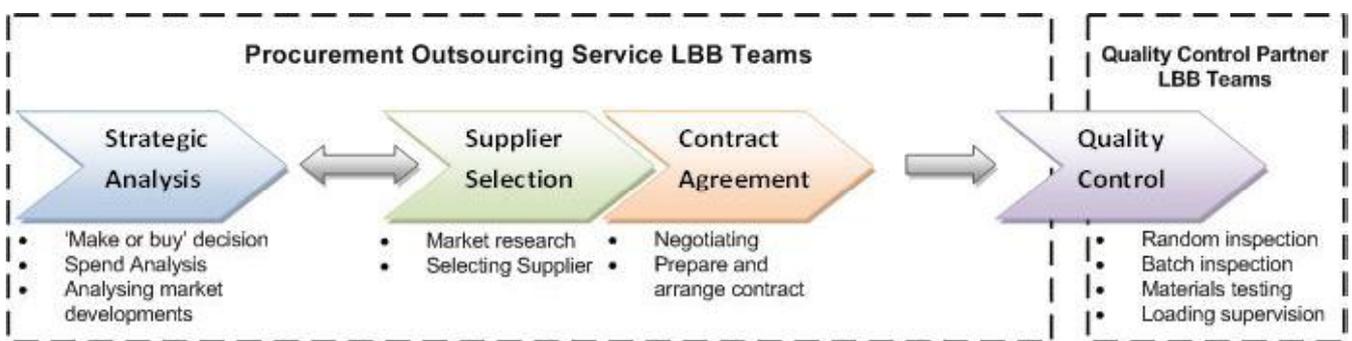
- Cultural issues
- Long lead times
- Additional inventories
- Lower quality
- Social and labour problems
- Higher cost of doing business
- High opacity
- Inexperienced or not qualified personnel
- Lack of understanding about documentation required

The *second step* (and sub research question two) in the research was to identify different procurement activities which can be outsourced to a third party in SEA to solve the problems with sourcing from SEA. During the research the model of van Weele (2002) is used as a basis for the procurement process. Especially supported by literature of Buter (1996) the connection could be made between the procurement activities and the question if these activities could be outsourced or not. The activities which could be outsourced have been connected to the global sourcing problems Dutch companies have. In the figure below is shown in **RED** which activities not solve global sourcing problems when they are outsourced to a third party in Malaysia. In **GREEN** the activities are shown which *do* solve the problems.



The third step (and sub research question three) was to identify for which procurement activities LBB Teams can offer outsourcing solutions to Dutch companies from Southeast Asia. To identify this four case studies have been done to compare this with the findings of previous steps. Together with an internal analysis of LBB Teams and conclusions about early involvement in the process, procurement activities which LBB Teams can offer could be defined. The results were that the two activities which LBB Teams can offer are *selecting supplier* and *contracting*. Also *Strategic purchasing activities* can be executed but LBB Teams does not have a big advantage of this activity. The specific activity *quality control* seems also a necessary activity to offer but LBB Teams is not capable of doing this yet.

The fourth and last step of the research was to design the product and therefore answer the main research question as stated above. The procurement outsourcing service as designed in the research is shown in the figure below.



The service can be customised to the client's needs. This means that as example only one part of the service can be executed. The building block Supplier selection can offer *market research* and *selecting supplier(s)*. Supplier selection can be offered together with contract agreement. The advantage of offering these together is that LBB Teams is already familiar with the suppliers and can still provide the contact with the suppliers.

Because of the experience of LBB teams on consulting in strategic procurement projects, it is possible to offer the client additional strategic services. Although the competition on this market is fierce, linking the strategic services with the specific services on selecting suppliers and contracting, can create opportunities.

During the research quality control appeared to be an important aspect when Dutch companies want to source from SEA. LBB Teams is not yet able to execute this activity, but again linking the quality control service with the specific services on selecting suppliers and contracting will add extra value for the customers. This is why LBB teams has to outsource this to a partner which can execute the mentioned activities.

The procurement outsourcing service as described in this research is not yet ready to implemented directly. Before LBB Teams can implement the suggested service it must be described in more detail.

Finally, recommendations are given organised according to the building blocks of the service and some general recommendations so that LBB Teams can finally implement the procurement outsourcing service.

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## 1. Introduction

In front of you lies the report of the research to define possible procurement outsourcing solutions LBB teams can offer to European companies. This research is done in order to finish the bachelor degree Industrial Engineering & management which is carried out at LBB Teams.

### 1.1. The bachelor thesis

The bachelor thesis is in principle the final part in completing the bachelor degree in Industrial Engineering & management at the University of Twente. The thesis consists of a research project in which skills learned during courses in the degree are used in order to research practical and real problems. The outcome of the research project is this report, in which an actual practical issue is analyzed using literature.

The research project was carried out during an internship of 14 weeks from September 2008 till December 2008. First preparations were made in the Netherlands, and the actual research was carried out in Malaysia. The research was carried out at LBB Teams Sdn Bhd, based in Kuala Lumpur.

### 1.2. LBB Teams

LBB Teams is based in Kuala Lumpur in Malaysia. LBB Teams is part of LBB international and was founded in 2002 by Ir. Marco Tieman. He is an alumnus of the University of Twente. He was as supervisor of the project during the stay in Kuala Lumpur member of the committee.

LBB Teams (Logistics Building Blocks) is a company which offers clients logistics consultancy, research and supply chain management solutions. LBB Teams is specialized in Halal Logistics. Part of the supply chain management solutions are supporting in- and outsourcing decisions. In this area the assignment will be undertaken. Figure 1 shows the divisions, services and focus markets. The SCM services are in the developing phase. Procurement Outsourcing is one of these services.

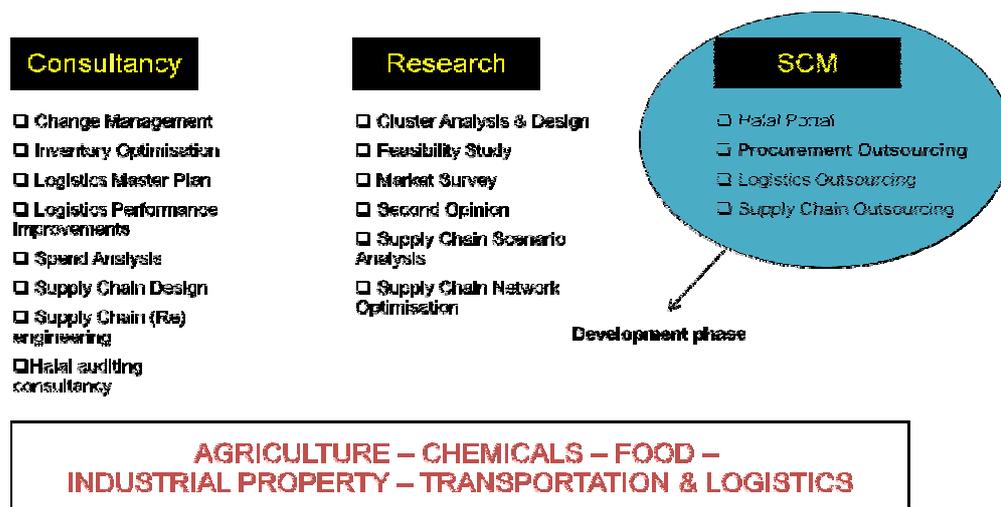


Figure 1: LBB Teams Services

LBB Teams is a company with 5 employees and a vision to grow in the coming years, particular into the supply chain solutions.

## 2. Problem identification and research approach

In this chapter the problem will be identified and the research approach described. This is done according to an existing methodology, the 'Algemene Bedrijfskundige Probleemaanpak (ABP)' (TSM Business School, no date). The ABP consist of seven phases:

1. Problem identification ( Section 2.1. )
2. Formulation of problem approach ( Section 2.2. )
3. Problem analysis ( Chapter 3 )
4. Formulation of alternative solutions ( Chapter 4 )
5. Decision ( Chapter 5 )
6. Implementation ( Chapter 6 )
7. Evaluation ( Chapter 7 )

### 2.1. Problem identification

The first phase addressed in the research is to identify the problem, formulate the research objective, its research questions and the research background.

#### 2.1.1. Present situation

European companies source a significant part of their requirements from Asia. When doing so, they encounter problems like quality control, unreliable suppliers, bad communication or the ignorance of agreements. LBB Teams sees the market opportunity in offering solutions in procurement outsourcing for European companies. In literature it is not a common subject. There are models about procurement activities and outsourcing and also about Malaysia as a sourcing market but this combination is not common. Only one book of the combination of this subject is found recently written by Plasier and Ekhart, but this is not specially focused on the Asian market (Plasier & Ekhart, 2008).

#### 2.1.2. Desirable situation

LBB teams offers solutions to European companies that provide complete solutions for the Asian sourcing needs and addressing key problems. LBB Teams would like to offer these solutions as a service so European companies can achieve better financial and purchasing performance.

#### 2.1.3. Key Problem

The difference between the present and desirable situation is unknown:

- which problems European companies have with procurement activities when they source from Asia
- which solutions LBB teams can offer to solve these problems
- to what kind of companies LBB Teams can offer these solutions
- if LBB Teams can add value with offering these solutions

The *key problem* following on the difference between the present and desirable situation is that *LBB Teams does not know which service exactly to offer and how to enter the market of outsourcing procurement activities.*

#### 2.1.4. Problem-Actors and their problem definition

European Companies: To create a competitive advantage certain activities can be better and cheaper sourced from Asia. However, when European companies source from Asia they encounter specific

problems, which can jeopardize the success of their efforts.

LBB Teams: LBB teams do not know which procurement outsourcing service they can offer to solve procurement problems of European companies in a profitable way. Also it is important to know what the value is LBB Teams can offer to European companies and how to offer it.

#### **2.1.5. Objective**

According to the problem definitions of the actors and the key problem the research objective is chosen. The problem definition of LBB teams is chosen as leading definition. The research objective is to:

*Define which service solutions LBB Teams can offer their clients for outsourcing procurement from European companies to Southeast Asia (SEA).*

On basis of the service solutions LBB teams can offer they can make a business and operations model. Because of limited time this is not covered in the research. The solutions LBB teams can offer are the input for the business and operations model.

#### **2.1.6. Relevance of the research**

The relevance of the research can be divided into scientific and practical relevance.

##### ***Scientific relevance***

In scientific literature information can be found about procurement like literature from van Weele (2002), Telgen (2007) and Monckza (2005). Van Weele made a procurement model with its activities (purchasing process model of van Weele) and the problems that occur. Outsourcing and global sourcing are also common topics in scientific literature like the literature from Ellram (1999), Burt (2004) en Lennartz (2000). A lot of opportunities are written but also lot of problems are stated. To combine these two subjects is not so common yet in literature, especially when Malaysia and its region is the target market. Buter (1996) wrote about this subject in general but also confirmed that there was not much additional information to find about. As already mentioned Plasier & Ekhart (2008) recently wrote a book about outsourcing product related sourcing for leading Dutch industries. About China and India more scientific literature is available like Axellson (2004) wrote about. Conclusion can be drawn that the scientific relevance can be big.

##### ***Practical relevance***

The assignment is done for LBB Teams and the relevance of the research for them can be very valuable. If the outcomes are positive, the recommendations and its possible procurement outsourcing solutions formulated during the research can be followed by LBB Teams to enter this market.

#### **2.1.7. Type of research**

It is an explorative research, in which the purchasing process model of van Weele (van Weele, 2002) functions as a basis. This model is combined with outsourcing literature and from there a model is made for the specific situation.

#### **2.1.8. Resources essential for the research**

The resources which are essential to make the research a success are:

- Working space situated in central Malaysia (Kuala Lumpur) close to information sources in Malaysia
- Proper guidance from experts from the University and LBB Teams to support the research
- Access to scientific literature and other valuable sources like useful and available material from within the company
- Access to people which can provide information for the research
- Cooperation of LBB Teams to get information about the company and to use network of people in Malaysia
- Good connection with the Netherlands to stay in contact with committee

### 2.1.9. Limitations during the research

Limitations must be set, to align the size of the research within the time available. It is not possible to do the research on all European companies and the whole Asian continent. Because the strength of LBB Teams is that it is a Dutch company and has Dutch speaking employees, the research will focus on Dutch Companies. Besides Dutch companies the Asian market must also have boundaries. The focus will be Southeast Asia (SEA) with starting point Malaysia, because Malaysia is centrally located in SEA and the research is executed in Malaysia. In SEA a lot of interesting resources are available and with its low cost structure it is an interesting region to focus on within this research. In Table 1 the SEA countries are listed. In Annex 1 a picture of SEA is given.

Brunei	Laos	Singapore
Cambodia	Malaysia	Thailand
East Timor	Myanmar	Vietnam
Indonesia	Philippines	

Table 1: Countries Southeast Asia (SEA)

If a third party wants to be an outsourcing partner you need to have expertise on the markets you want to focus on. LBB Teams has its expertise and track record mostly in three sectors namely Chemicals, the Food sector and the Agricultural sector. These are all related to Halal Logistics which is the specialisation of LBB Teams. Because the research will be focussed on the aspects of procurement, outsourcing and its environment and not on the products which can be sourced a choice is made for the rest of the research. The focus will be the food sector for Dutch companies because most references of LBB Teams are in this sector. Based on a cluster study LBB Teams has done about the food market (2006) the choice is made for three cluster within the food sector namely Food ingredients, Food additives and Functional foods. Additional information about these food cluster are described in Annex 2.

The Dutch companies can be divided into small & medium sized (not stock listed) companies and big companies & multinationals (in general stock listed). All the big companies and multinationals have their own global network of own offices, factories and suppliers ( e.g. case study Shell, see Annex 6). They have the power, ability, money and people to take care of their own procurement. *Small and medium sized companies* mostly do not have the advantages just described. Especially in this period where there is a lot of pressure on the price of products, consumers are critical on the quality and sustainable aspects (e.g. environmental issues). The focus for LBB Teams must be on small and

medium sized companies. Also a distinguish can be made between companies which are already source from SEA and have global sourcing problems or companies which want to source from SEA but have not experience in this area yet. When necessary during this research the assumption is made that LBB Teams can focus on both types of companies.

Besides all already mentioned limitations the assumption is made that there are solutions for outsourcing procurement LBB teams can offer to European companies. This because of the knowledge LBB Teams already has of the procurement market and their interest in these solutions.

## 2.2. Research Approach

Now the problem is identified the approach can be defined how to solve the problem. In this sub paragraph the approach of the research is defined.

### 2.2.1. Key definitions used in research

#### *Outsourcing*

Outsourcing is defined in many ways. The outsourcing institute has defined outsourcing as: the strategic use of outside resources to perform activities traditionally handled by internal staff and resources (Baily et al., 2005). The simplest and maybe clearest way to define outsourcing is in dictionary, "outsource: to contract out"( Flexner S.T. et al, 1987). To most applicable definition is the '*management strategy by which an organization let fulfil major non-core functions to specialized, efficient service providers*' (Lyons et. al., 2003) .

#### *Procurement or purchasing*

In the research procurement is used as a term to outsource but the term purchasing also often is used. Procurement and Purchasing are often used interchangeably, but there are differences between these two definitions.

There are many definitions of purchasing, but most of them are incomplete. Monczka stated purchasing as a functional group as well as functional activity. The purchasing group performs many activities to ensure it delivers maximum value to the organization (Monczka et al, 2005). This looks more like the procurement function defined later and is not clear enough. Van Weele defines purchasing as this covers all activities for which the company receives an invoice from outside parties (van Weele, 2002). In this research the definition *everything associated with an incoming invoice* (Telgen et. al., 2007) is most applicable.

Procurement is a somewhat broader term. *It includes all activities required in order to get the product from the supplier to its firm's destination.* It encompasses all the purchasing activities, but also stores, traffic and transportation, incoming inspection, and quality control and assurance. Some firms also consider salvage and environmental issues as a part of the procurement (van Weele A.J.; 2002). To be clear we will not consider salvage and environmental issues into our definition.

In Figure 2 the basis of the purchasing process model (van Weele A.J.; 2002) is reflected where the differences made visual. The model will be explained in section 3.2.

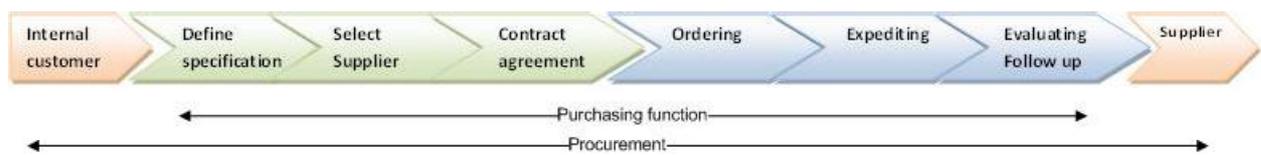


Figure 2: Basis of purchasing process model (van Weele, 2002)

To be sure to be complete the term 'outsourcing procurement' is used in the research. Within procurement there is the purchasing function with its activities (Section 3.2).

### ***Procurement outsourcing***

When combining the definitions of outsourcing and procurement a new definition can be made for Procurement outsourcing. Poisson defined procurement outsourcing as 'transferring the operation of sourcing and spend management to a third-party service provider' (Poisson, 2003). A similar but more detailed definition is 'the transfer to a third party of all or part of a range of sourcing-to-settlement processes including sourcing, tactical buying, requisitioning, accounts payable and supplier management' (Hanson et al, 2005). The definition which is chosen for this research is a combination of the definitions of Lyons and van Weele with a small change. This research will try to show in what way it is possible to outsource only a few procurement activities or clusters of activities and not necessary *all* activities. According to this addition the following definition will be used:

*Management strategy by which an organization transfers 'activities required in order to get the product from the supplier to its firms destination' to specialized, efficient third-party service providers*

### **2.2.2. Research Questions**

To solve the key problem we must find an answer on the following main research question and its sub research questions

#### ***Main research question***

*What is the Procurement outsourcing service LBB teams can offer to Dutch companies?*

To answer the main research question a few sub research questions must be answered.

#### ***Sub research questions***

1. What are the main problems Dutch companies have with sourcing from SEA?
2. What are the different procurement activities which can be outsourced to a third party in SEA to solve the problems with sourcing from SEA?
3. For which procurement activities can LBB Teams offer outsourcing solutions to Dutch companies from Southeast Asia?

To answer these questions the following approach has been followed.

### **2.2.3. Approach**

The approach of the research is according to the ABP divided into seven phases. The first two phase are already treated. The last five phases are shown as the approach of the research. In Figure 3 the approach of the research is given schematically.

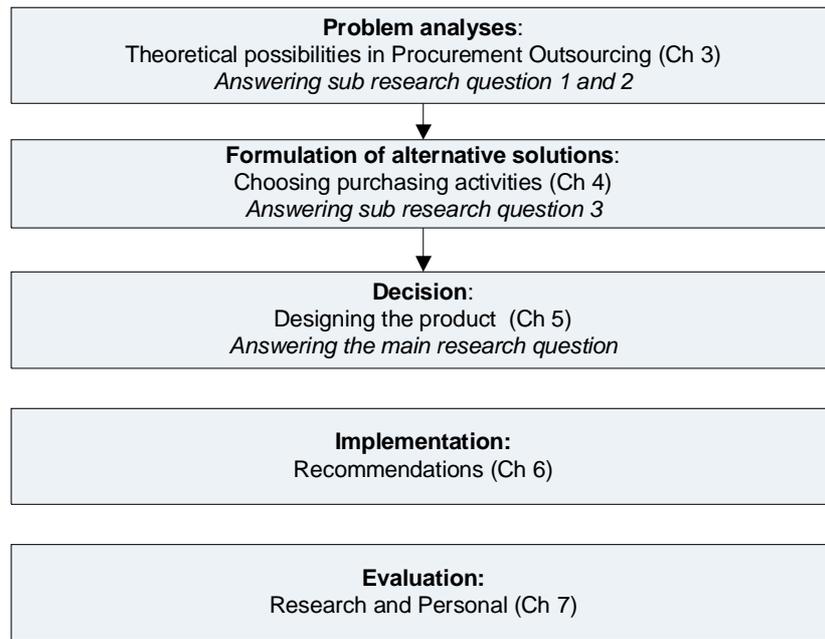


Figure 3: Approach of the research

**2.2.3.1. Problem analysis: Theoretical possibilities in Procurement Outsourcing (Ch. 3)**

In chapter 3 a theoretical framework is outlined to define possible solutions as a basis of the research. In this phase research question 1 and 2 will be answered and all relevant theory described based on available literature and interviews with experts. When sub research questions 1 and 2 are answered a shortlist can be created with possible procurement activities which can be outsourced to solve procurement problems which exist when a western company is outsourcing activities, and the effects it can have.

**2.2.3.2. Formulation of alternative solutions: Choosing purchasing activities (Ch. 4)**

In chapter 4 the purchasing activities which can be outsourced to LBB Teams are formulated and sub research question 3 is answered. This is done by doing 4 case studies with companies active in Malaysia. Together with the findings of chapter 3, an internal analysis of LBB Teams and Theory about early involvement purchasing activities which LBB Teams can offer are identified. The internal analysis is done according to interviews and the theory about early involvement during desk research.

**2.2.3.3. Decision: Design of the product (Ch. 5)**

In chapter 5 the product is designed according to the formulated alternatives in chapter 4 and the analysis in chapter 3. In this chapter the main research question is answered.

**2.2.3.4. Implementation: Recommendations (Ch. 6)**

In chapter 6 recommendations are given what the follow up steps must be for LBB Teams to implement the procurement outsourcing service. The recommendations are on organisational level for the short and long term.

**2.2.3.5. Evaluation: Research and Personal (Ch. 7)**

In chapter 7 the research is evaluated. Besides the research also a personal evaluation is given by the author about the research and learning objectives about executing the research.

### 3. Problem analysis: Theoretical possibilities in Procurement Outsourcing

To define which solutions LBB Teams can offer their clients for outsourcing procurement from European companies to SEA first relevant theory is described and a shortlist is created with possible activities LBB Teams could offer to solve procurement problems. In Figure 4 the approach for the theoretical framework is given schematically.

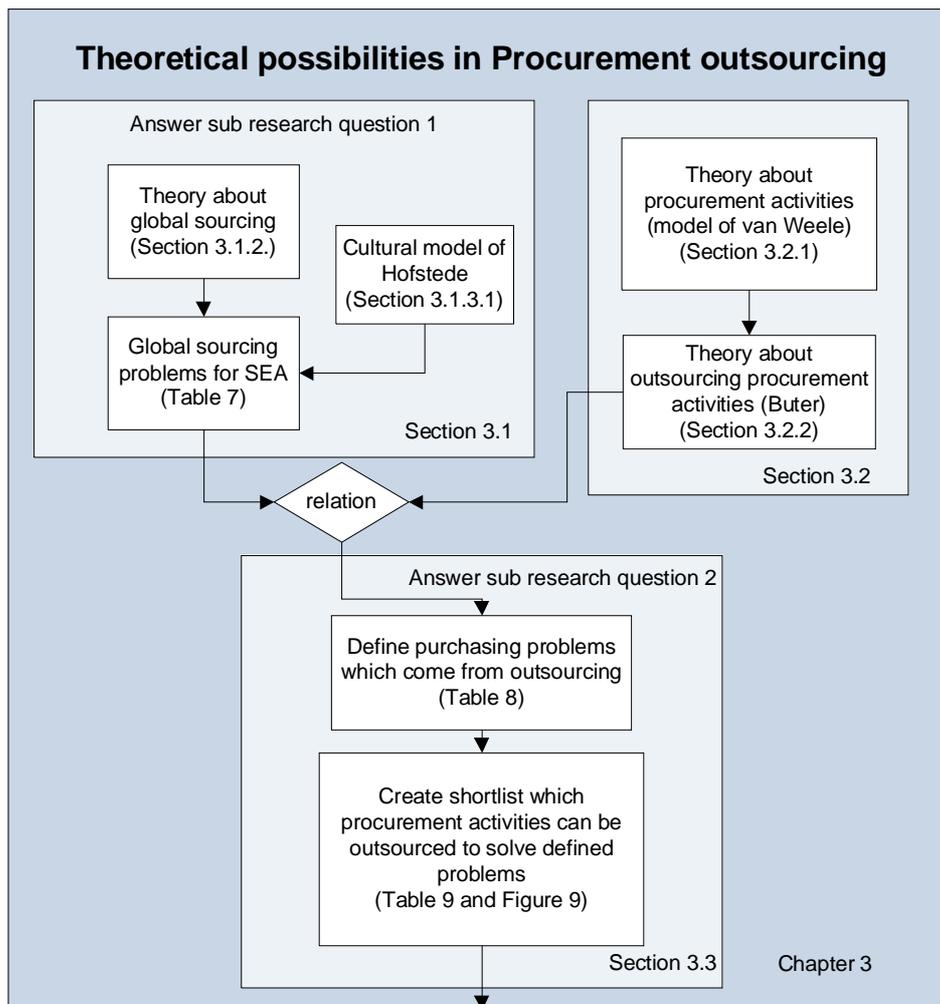


Figure 4: Overview of chapter 3

#### 3.1. Outsourcing

Outsourcing is as defined in section 2.2.1. a *'management strategy by which an organization let fulfil major non-core functions to specialized, efficient service providers'*. In this sub graph outsourcing is explained, reasons and problems occur with outsourcing and global sourcing and advantages of SEA. At the end of this sub graph sub research question 1 is answered.

##### 3.1.1. Outsourcing: a Make or Buy decision

Outsourcing also is called a 'Make or Buy' decision, because it is the choice between making it within the company or buying external resources. As stated in the definition outsourcing contains major

non-core functions. For strategic non-core functions within the company it is better not outsourcing this and will almost never be outsourced because it is the right of the existence of a company and the risk is too high to give this responsibility to an external provider. So when outsourcing is mentioned it always contains non-core functions of the company. This does not mean that the activities are unimportant. The outsourcing decision can have great impact on an organisation and therefore it is a strategic decision. 'The 'Make or Buy' decision continues to be one of the key strategic issues and options confronting the purchasing function (Ellram et al, 1999).

### *3.1.1.1. Reasons for outsourcing*

Reasons organisations choose outsourcing are linked to business performance and improvement. Initial decisions to outsource expected to be financial benefits but this is not the only reason. An internet survey by the Outsourcing institute of global business executives identified the 10 following reasons for procurement outsourcing (The outsourcing institute, 2008):

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Functions difficult to manage/out of control
8. Make capital funds available (from outsource provider)
9. Share risks (multiple sourcing)
10. Cash infusion (when internal investments are constrained)

Additional reasons can be (Lennartz et al, 2000; Burt et al, 2004) :

- Small volume requirements
- Suppliers' research and know-how(quality insurance and brand name to make it more interesting for final customer)
- Maintaining long-term technological and economical viability for a noncore activity

### *3.1.1.2. Potential problems of outsourcing*

Companies have their reasons to outsource certain activities but there also can exist problems. In Table 2 the dangers of outsourcing in general are mentioned.

Potential problems of outsourcing	explanation
Loss of Control	Entrusting an entire process to an external provider may cause loss of control and of skills, resulting in overdependency. Also there can be high conversion costs
Loss of Client focus	The goals and objectives of the selected external provider may differ from the firm's goals.
Lack of clarity	Failure to clearly articulate the responsibilities of the selected external provider
Lack of cost control	If outsourcing contracts does not include long-term pricing with appropriate incentives, the outsourcing provider will not be motivated to control costs or maintain quality. This also can lead to unexpected fees or extra usage charges
Ineffective management	The external provider may not perform the outsourced function better

	than the client organization
Loss of confidentiality	A company has to share lot of valuable information with outsourcing partners. The company never knows how save this information is
Double outsourcing	This type of arrangement, be a subcontractor of an outsourcing contract, can backfire if the client does not manage the agreements with both companies
Higher exit barriers	Once a company outsourced to a third party it is very difficult to make it yourself again because lack of new technologies and experience
Attention required by senior management	Outsourcing is a strategic decision and this acquires time of senior management to control it
Possibilities of being tied to obsolete technology	Some suppliers will not achieve same development as the company itself

Table 2: Dangers of outsourcing (Burt et al, 2004; Lennartz et al, 2000)

### 3.1.2. Global sourcing

Companies can source from other companies within their own country but they also can source from foreign companies. This is called *global sourcing*.

Globalization is the increased interrelation and interdependency of countries, governments, societies, individuals and businesses all around the globe. Five broad groups of industry globalization drivers can be distinguished all based on change. These drivers are political, technological, market, cost, and competition. Together, these five sets of drivers cover all the major critical industry conditions that affect the potential for globalization (Brake et al. 1995). In Annex 3 a more detailed figure is shown of the globalization forces. This are also the drivers for global sourcing as described in the next section.

#### 3.1.2.1. Reasons for global sourcing

Global sourcing requires additional efforts when compared with domestic sourcing, but can yield large rewards. To buy goods and services from foreign countries the wide variability among the producing countries in characteristics such as quality, service and dependability makes it a complex process. In addition to reasons for outsourcing reasons for global sourcing are mentioned in Table 3.

Reasons for global sourcing	Explanation
Superior quality	Although this factor is declining, in a variety of industries still look to global sources to fulfil their most critical quality requirements.
Better timeliness	Improve the certainty of the supplier in meeting time schedule requirements
Lower costs	Reduce total costs of supply
More advanced technology	Global sources in some industries are more advanced technologically than their domestic counterparts
Broader supply base	Sourcing globally increases the number of possible suppliers from which the buying firm can select
Establish presence in a foreign market	Sourcing globally can create opportunities to sell in countries where the buying firm's suppliers are based
Create Competition	Some buyers source globally to introduce competition to domestic suppliers
Access to only source available	No domestic supplier can adequately meet the requirements of purchasers
React to buying patterns of competitors	A purchaser may try to duplicate the factors that provide an advantage to a competitor, which may mean sourcing from the same supplier or region a competitor uses
Exploit tax benefits	A company can have tax benefits in foreign countries

Table 3: reasons for global sourcing (Burt et al, 2004; Monczka et al, 2005; eye for procurement, 2008)

### 3.1.2.2. Potential problems of global outsourcing

When a company sources worldwide, especially when they have little or no international experience they often have to face a lot of problems. The potential problems are listed below in Table 4.

Potential problems Global sourcing	Explanation
Cultural issues	Can issue problems because of wide variety of approaches and habits to conducting business in different regions of the world
Long lead times	Variable shipping schedules, unpredictable time requirements for customs activities, etc. can cause longer lead times
Additional inventories	The quantity of additional inventory needed when purchasing from foreign sources can be difficult to determine.
Lower quality	Besides better quality it also can provide lower quality because of feeling less responsiveness and transportation damage
Social and labour problems	Risks to have no social responsible suppliers and can cause damage on brand name
Higher costs of doing business	Need for translators, communication problems, distance involved in making site visits and so on add costs of doing global business
High opacity	Doing business in other countries brings risks of conducting business like corruption and economic policies
Inexperienced or not qualified personnel	More complex logistics and currency fluctuations require measuring all relevant costs before committing to a worldwide source.
Lack of understanding about documentation required	International documentation requirements include letters of credit, multiple bills of lading, dock receipts, import licenses, certificates of origin, inspection certificates, certificates of insurance coverage, packing lists and commercial invoices

Table 4: Potential problems global sourcing (Burt et al, 2004; Monczka et al, 2005)

Problems that exist of global sourcing as described in Table 4 are also applicable when a company want to source from SEA. Most of the potential sourcing problems can and exist everywhere. To be able to give a qualitative judgement in what way these problems exist in SEA the next section describes the advantages and disadvantages of SEA.

### 3.1.3. Advantages and disadvantages of SEA

In this section the strengths and weaknesses of Malaysia and SEA are described to connect this to the global sourcing problems. This data is collected by desk research and interviews. Desk research is done on the website of Outsourcing Malaysia, MDEC, MSC and ASEAN. Interviews are done with

- K.C. Lee, Project Manager Dutch Embassy
- Bobby Varanasi, Head Marketing & Branding Outsourcing Malaysia
- Marco Tieman, CEO LBB Teams
- Nani Baharin, Personal Assistant LBB Teams
- Grace Kenneth, Sales director LBB Teams

#### 3.1.3.1. Cultural dimensions

In SEA there are a lot of different cultures, religions and languages. Only in Malaysia there are already three major ethic groups namely Malaysian, Chinese and Indian people. These people also have different religions like Islam, Hinduism and Christians. These differences take care of different approach, language and habits.

For SEA this is the same, only there is even a bigger distinguish between people. There are more languages to identify like Thai or Vietnamese and more believes like Buddhism and different habits.

To explain what the major differences are and why these differences are so difficult to understand the Model of Cultural Dimensions of Hofstede is explained below.

### *Cultural Dimensions of Hofstede*

Hofstede conducted a comprehensive study of how values in the workplace are influenced by culture. He analyzed a large data base of employee value scores between 1967 and 1973 covering more than 70 countries (Hofstede, 2008). From the additional results and later additions (recently in 2001) he developed a model that identifies five primary dimensions to assist differentiating cultures:

1. Power Distance (PDI)
2. Individualism (IDV)
3. Masculinity (MAS)
4. Uncertainty Avoidance (UAI)
5. Long Term Orientation (LTO)

The five cultural dimensions describe how power is distributed within a company (PDI), how individual employees want to be (IDV), the segregation between men and women (MAS), how much people like it to deal with uncertainty (UAI) and in which way they are long or short time orientated (LTO). In Annex 4 the Cultural dimensions are explained in more detail.

If a comparison is made between The Netherlands and Malaysia the differences between the cultural dimensions are shown very clearly. In Figure 5 the comparison is made. For the last cultural dimension LTO there is no data available yet from Malaysia.

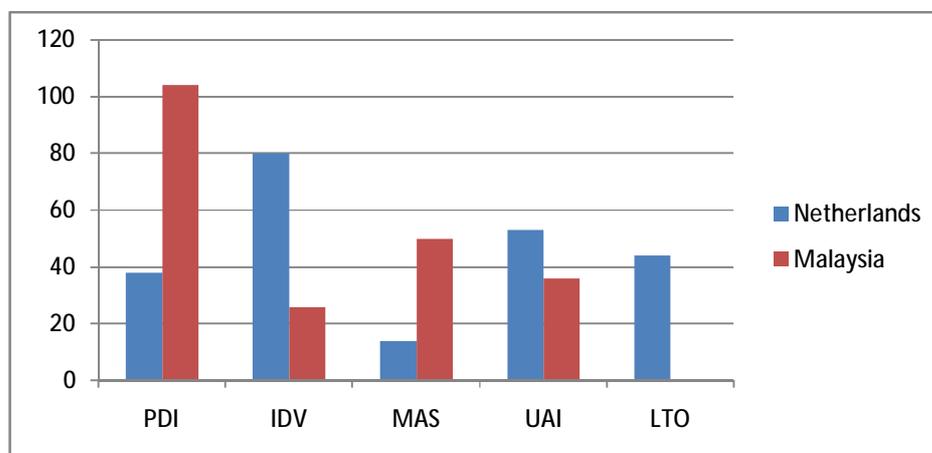


Figure 5: Cultural Dimension of Netherlands and Malaysia

When the comparison is made between these two countries it's obviously that there are a lot of cultural differences between the two countries. The PDI shows that in the Netherlands the power is more divided because the companies empower their employees (daft, 2000). Malaysia has the highest PDI in the world together with Slovakia what means that there is a huge inequality in power distribution within Malaysian companies. If a Dutch company want to do business with a Malaysian company they must know how to handle this big difference (e.g. show a lot of respect) otherwise they can never do business with them. IDV shows that the Netherlands are individualistic (top 5 highest DVI) and not so attached to groups, family or organizations as in Malaysia. Because this big difference, people who want to do business in Malaysia have to be careful in communication and

approach. MAS is very low because the Netherlands is a very feministic country. Malaysia is more focussed on Masculinity because as example of their religions and traditions. When UAI is compared a small difference can be recognized. Malaysia is officially still a developing country which means that a lot of people want to have more certainty. In the Netherlands the circumstances and environment are very stable so people are less afraid for uncertainty. All these differences in cultural dimensions cause a lot of issues when doing business with each other.

The cultural dimensions between the countries are also related to religions. The International Business Centre did a research to explore this relationship. The result as shown in Table 5 was a relatively close correlation between each of the world's religions and one, or in some cases two Hofstede dimensions. Therefore a culture, society or country is inextricably linked with its religious foundation, and these socio-religious links make change in any society very difficult.

Religion	Cultural Dimension
Atheist	Power Distance
Hindu	Power Distance
Muslim	Power Distance
Buddhist	Uncertainty Avoidance & Long Term Orientation
Catholic	Uncertainty Avoidance
Jewish	Uncertainty Avoidance
Christian	Individualism

Table 5: Hofstede Cultural Dimensions by Religion

There is a high level of correlation between a country's predominant religion and one of the Hofstede dimensions. The conclusion of the research is that for those individuals who work in international business, it is paramount to clearly understand and accept the deeply ingrained ideas, beliefs and attitudes of each country and culture. Religion is a system that cannot be challenged or changed with any form of logic, education or training (International Business Centre, 2003).

### 3.1.3.2. ASEAN

The Association of South East Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand to promote political and economical cooperation and regional stability. In 1984 Brunei joined and in 1990 Vietnam, Laos, Burma and Cambodia became members of ASEAN as well (Burt et al, 2004). From the SEA countries only East Timor is not a member of ASEAN, but became a candidate member in 2006.

The objectives for ASEAN nowadays which are described in Vision 2020 are (ASEAN Website, 2008):

- To Accelerate economic growth, social progress and cultural development in the region
- To promote regional peace and stability through abiding respect of justice and the rule of law in the relationship among other countries in the region and adherence to the principles of the United Nations Charter

ASEAN is a platform which is the conversation partner for the European Union, the North American Free Trade Agreement (NAFTA), Mercosur (South America) and the Asia Pacific Economic Cooperation and in this case besides the objectives earlier stated important for the members of ASEAN (Burt, 2004). The platform makes it easier for members to trade around the world but also within the ASEAN countries. It stimulates to invest in the developing countries and takes down a lot of barriers (website all business, 2008).

### 3.1.3.3. Opacity Index

The Milken Institute defines an opacity index every year. The opacity index measures the costs and preponderance of high-frequency, low impact risks resulting from corruption, a lack of due process, poor regulatory enforcement and non standard reporting practices each of which adds substantial costs to global business. While these costs are often hidden, they are operate like sand in the gears of commerce ( Milken Institute, 2008).

The opacity index is measured on five different categories:

- Corruption
- Legal System
- Enforcement policies
- Accounting and disclosure standards
- Regulatory quality

These five elements, which form the acronym CLEAR, constitute the underlying components of the opacity index. In Table 6 the opacity index of Malaysia, available SEA countries (excluding Brunei, Cambodia, East Timor, Laos, Myanmar and Vietnam) and to compare The Netherlands, India and China. The comparison with India and China are made because they are the leading sourcing countries.

Country	C	L	E	A	R	Opacity score	Opacity ranking
Singapore	13	17	22	14	5	14	3
Malaysia	44	29	38	29	18	32	25
Thailand	61	40	41	21	23	37	31
Indonesia	50	46	51	31	28	41	35
Philippines	66	49	54	39	28	47	43
The Netherlands	13	23	37	32	19	25	16
India	56	45	58	29	33	44	40
China	58	43	49	41	33	45	41

Table 6: Comparison of the Opacity Index (Milken Institute, 2008)

Singapore is way in front of the competition with a third ranking. They achieved this by 'over-controlling' everything by regulations. This is not a good comparison for the rest of SEA.

The comparison between Malaysia and The Netherlands shows that there is no big difference in Enforcement policies, Accounting and disclosure standards and Regulatory quality. The big differences are the Legal system and especially Corruption. This is still a big problem in SEA. All other countries in SEA are ranked lower than Malaysia, with bigger problems with Corruption and Legal system but also within Enforcement policies, Accounting and disclosure standards and Regulatory quality.

India and China are huge sourcing countries but within these countries there exist a lot of problems around their opacity. Malaysia is compared with these countries much more clear and stable in all five measurements. Compared with the other SEA countries they are average in most of the subjects.

### 3.1.3.4. Strengths of Malaysia

As shown in Table 6 Malaysia has a lot of strengths or advantages in Enforcement policies, accounting and disclosure standards and regulatory quality, comparable with Dutch standards. In Figure 6 potential strengths in terms of outsourcing are given. This figure is compound by using multiple sources. The sources are:

- K.C. Lee, Project Manager Dutch Embassy
- Bobby Varanasi, Head Marketing & Branding Outsourcing Malaysia
- Marco Tieman, CEO LBB Teams
- Websites (Outsourcing Malaysia, 2008; MSC, 2008; MDEC, 2008)

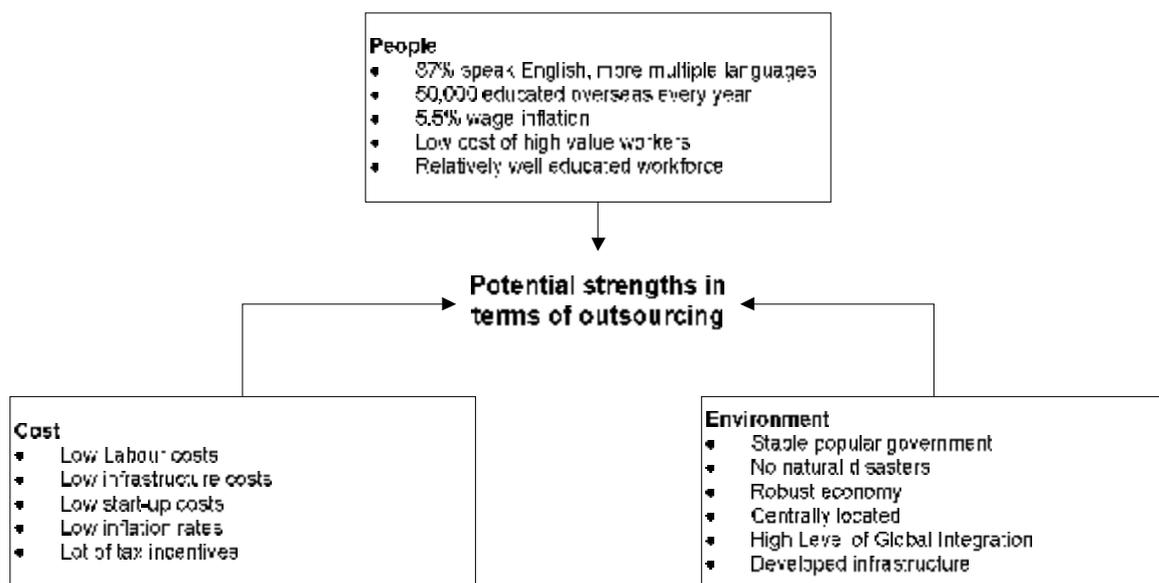


Figure 6: potential strengths in terms of outsourcing

#### People

The working people in Malaysia come from multiple countries like Malaysia itself, China and India and also quite a big group of educated people from overseas. The inflation on wages is stable and not too high, especially when it is compared with India. India and China are the biggest 'competitors' in terms of attractiveness as an outsourcing country but Malaysia is increasing and India is losing its

competitive advantage because of extreme wage inflation up to 15% each year (EWeek, 2008; Interview Outsourcing Malaysia). In annex 5 the ranking of the Global Services Location Index is showed (AT Kearney and McKinsey, 2007). Malaysia is ranked after China and India as the 3rd most attractive investment destination.

#### Cost

In Malaysia there are low labour costs, low infrastructure costs, low start-up costs and stable inflation rates. There are also lot of tax incentives like the Labuan area which will not be discussed further during this research.

#### Environment

The Malaysian environment is stable. It has a stable government although there is a Prime Minister transfer now which causes some commotion. Malaysia has a stable economy, in where the government plays an important role. They are stimulating economic growth and global integration to become an attractive country for doing business. Malaysia is well located because its central location in SEA.

#### 3.1.4. Global sourcing problems specific for Malaysia and SEA

The potential global sourcing problems can be made specific for SEA. On the basis of the information from section 3.1.3. Table 7 is established.

Potential problems Global sourcing	Specific explanation for Malaysia and SEA
Cultural issues	Malaysia is a mix of different cultures (Islam, Hinduism, Christian) and Languages (Malay, Chinese, Indian) with all different Cultural Dimension of Hofstede
Long lead times	It is a huge distance (around 1200 km) so there can be problems with long lead times, especially because delivery times are not reliable in Malaysian region. This also has to do with the Cultural Dimensions of Hofstede
Additional inventories	No specific additional information applicable on SEA
Lower quality	Malaysia tries to get in competition with China and India. On price they cannot beat them, so they try to do this on quality. Additional information in Figure 6
Social and labour problems	In Malaysian Region Corporate Social responsibility is not such a hot topic as in Europe. This also has to do with Cultural Dimensions of Hofstede.
Higher costs of doing business	In Malaysia lot of people can speak English but in the region it is not so common. The cost of visits are high and time zone difficult
High opacity	According to Opacity index Malaysia has differences in Corruption and Legal system
Inexperienced or not qualified personnel	Malaysia has a relatively well educated workforce as stated in Figure 6
Lack of understanding about documentation required	In Malaysia lot of paperwork must done, but government supports contracting procedures

Table 7: Global sourcing problems specification for Malaysia and its region

#### 3.1.5. Specific global sourcing problems Dutch companies

According to research done by the Erasmus University in Rotterdam and published in Trouw (2008) Dutch companies have a lot of problems with staying innovative.

From the 10.000 Dutch companies which are investigated 30% is sourcing globally and 85% is not satisfied with it. Set goals are not reached and the revenues are disappointed after outsourcing. One

of the biggest problems they achieve come from a problem already described in Table 2 as possibilities of being tied to obsolete technology.

Sharing knowledge with foreign employees often is more difficult than they expect. Ideally Dutch companies and foreign suppliers share knowledge to increase their innovation power. In this situation new products and services can exist. Sharing this knowledge mostly not happen caused by failure of senior management. The cultural aspects described in Table 4 and Table 7 appear difficult to handle. Dutch companies do not have enough multicultural experience to collaborate with foreign suppliers. Innovation often is the strength of a lot of Dutch companies and is the dupe of it. To solve the innovation problem Dutch companies do not have to invest extra money in technology but invest in sharing knowledge with the production department, in this case in sharing knowledge with global suppliers (Trouw, 2008).

### **3.1.6. Answer sub research question 1**

Together with this information the first sub research question 1 can be answered as formulated in section 2.2.2.:

*What are the main problems Dutch companies have with sourcing from SEA?*

All the global sourcing problems mentioned in Table 7 can be potential problems for Dutch companies. On top of these problems is staying innovative a problem especially for Dutch companies. This is caused mostly by cultural issues and the way they communicate with them.

All the problems exist within Dutch companies because of global sourcing mostly are problems within the procurement function and its purchasing activities. In section 3.2. the procurement function and its purchasing activities is defined.

## **3.2. Procurement**

Procurement is as defined in 2.2.1. *all activities required in order to get the product from the supplier to its firm's destination* like Supplier selection or ordering a product. In this sub graph procurement and its purchasing activities are explained and their possibilities of outsourcing discussed.

### **3.2.1. Procurement function or activity**

As already described procurement and its function is comprehensive. It is the generic term for all activities which influence external relations and for which an invoice have to be paid. Every organisation which delivers products or services has to deal with procurement.

Looking at the Procurement function and its possibilities to outsource, conclusion can be drawn that outsourcing the complete procurement function is not possible because there will always be procurement activities which have to be fulfilled by the company (Buter, 1996). As an example, if in an extreme form all procurement activities are outsourced to a different party they still must be contracted and controlled which again are activities which contain the procurement function. So it is not the procurement function which can be outsourced but perhaps some (clusters of) activities.

According to the Purchasing process model described in Figure 7 the activities can be divided into strategic, tactical and operational activities (Buter, 1996). According to this model the possibilities which purchasing activities can be outsourced theoretically will be discussed. To describe it clearly only the main activities are clarified.

In this research the actual activities are described below in each purchasing activity block of the Model of van Weele. Because there are time limitations for the research it is not sure all activities which exist are covered. The activities which are described are the activities according to Van Weele and Buter. It is not the intention to be complete in this case but to give a good overview of the activities.

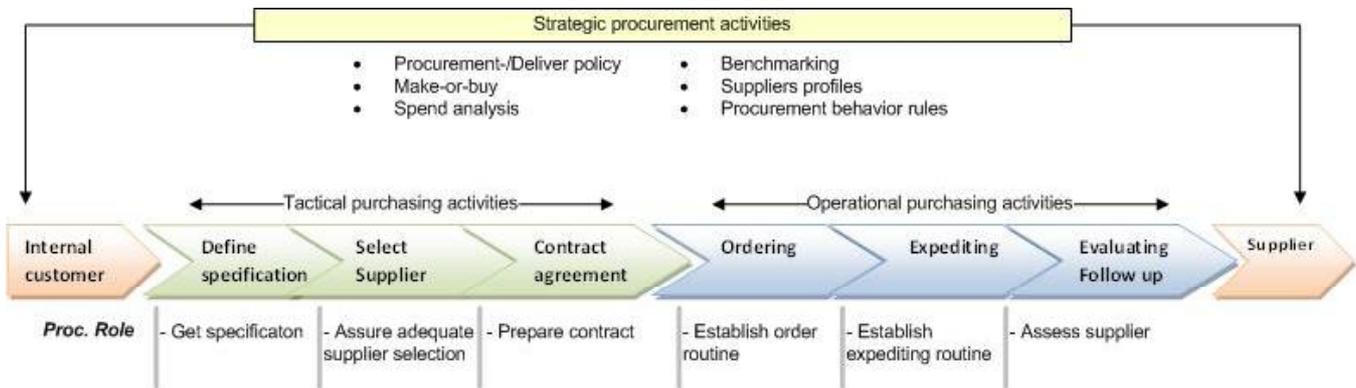


Figure 7: Purchasing process model (van Weele, 2002)

### 3.2.1.1. Strategic purchasing activities

Strategic purchasing activities are activities on a management level. These activities influence the strategy and policy of the company and have great interest within the company. Main activities according to Buter are:

- Making & control general procurement/deliver policy of the company
- Decision making about 'Make or Buy'
- Spend analysis
- Analysing developments/innovation (e.g. benchmarking)
- Formulation of procurement behaviour rules( values of the company)
- Formulate and control procurement policy (e.g. supplier profiles)

These activities take care of the boundaries of the purchasing function. Within these boundaries tactical and operational activities can be executed.

### 3.2.1.2. Tactical purchasing activities

Tactical activities filling in the procurement policy and give boundaries for the operational purchasing activities. The purchasing process model divides tactical purchasing activities into three groups: Define specification, Select supplier, Contract agreement. The main activities divided into these groups are (van Weele, 2002; Buter, 1996):

- Define specification
  - *Functional specification* describes the functionality which the product must have for the user
  - *Technical specification* describes the technical properties and characteristics of the product as well as the activities to be performed by the supplier.
- Select supplier
  - Do market research
  - Selecting suppliers
- Contract agreement
  - Negotiating about contract
  - Prepare and make contract with external party
- Another activity which contains the overall tactical purchasing activities is
  - Execute supplier management. Besides selecting this also contains control and if necessary revise, improve or change suppliers

The tactical purchasing activities and decisions are necessary to take during the purchasing process. The earlier the activities are indicated in the purchasing process, the more impact they have on the total costs. This can make these activities more strategic. In the research (for now at least) this separation is used but this shows that this is not a static separation (Buter, 1996).

### **3.2.1.3. Operational purchasing activities**

Operational activities are the executive activities within the boundaries of the purchasing process which are set on the tactical level. These activities are also divided into three groups: ordering, expediting and evaluating & follow up. The activities are (van Weele, 2002; Buter, 1996):

- Ordering
  - Announce contracts
  - Order handling
  - Register supplier performance
  - Quality control
- Expediting
  - Expediting
  - Trouble shooting
  - Pay invoices
- Evaluating & follow up
  - Supplier evaluation
  - Supplier rating

### **3.2.2. Possibilities of outsourcing purchasing activities**

Now the purchasing activities are divided into strategic, tactical and operational activities an opinion can given about what can be outsourced logically. As already stated not the complete procurement function can be outsourced. The choices are made according to the outsourcing literature described in section 3.1., the literature of Buter and interviews with:

- Bobby Varanasi, Head Marketing & Branding Outsourcing Malaysia

- Gabriel M. State, Business Developer TradeOneAsia
- Marco Tieman, CEO LBB Teams

Strategic purchasing activities initially cannot be outsourced logically because of the strategic importance for a company. These decisions must be made by the management of the company itself. But within the strategic purchasing activities are options to outsource *some* activities, only the decision cannot be outsourced. The possibilities which can be outsourced are:

- Market analysis 'make or buy' decision
- Spend analysis
- Analysing market developments / innovation options

After outsourcing these activities decisions can be made by the management of a company.

Tactical purchasing activities can be outsourced together in a cluster or separately more easily but still some decisions must be made by the company. Dependent of the problems or difficulties a company has they can choose to outsource one or a cluster of activities. The activities which cannot be outsourced completely are:

- Defining specification; as described specification is divided into functional and technical specification. Functional specification cannot be outsourced because the result must be set by the company. Technical specification can be outsourced if the company has the functional specification.
- Contract agreement can be done in two ways:
  - Not outsourcing: Allowance to or Signing the final contract must be done by the company. The rest can be outsourced but the responsibility stays at the company.
  - Outsourcing: Outsourcing the complete contract to a third party which fully take the responsibility of delivering the product or service. This is possible but also has the consequence to outsource all the operational activities. This often happens at big outsourcing partners like IBM or Accenture.

Operational purchasing activities can be outsourced most easily. One activity or cluster of activities can be outsourced. Important when outsourcing operational purchasing activities is the connection with the primary process will be guaranteed. In Figure 8 all activities which can be outsourced are set into the model including strategic procurement.



Figure 8: Activities which can be outsourced (Buter, 1996)

### 3.2.3. Desirability of outsourcing purchasing activities

Outsourcing of certain purchasing activities can be possible, but the question than is if it is desirable. The desirability of outsourcing purchasing activities is primary determined with the question in which way outsourcing of purchasing activities positively influences the core business of the company. Outsourcing of purchasing activities is desirable if core businesses are strengthened by outsourcing the purchasing activities. If the core businesses become in danger it is not desirable (Buter, 1996). The desirability of outsourcing purchasing activities will not be discussed in more detail during this research.

Now the purchasing activities which *can* be outsourced are identified (Ch 3.2.2.) and the problems which exist when a company wants to source from SEA(Ch 3.1.4.) a connection can be made between these factors. The outsourcing problems to Asia cause procurement problems and it is possible that these problems can be solved if these procurement activities are outsourced as well.

### 3.3. Connection between purchasing activities and sourcing problems

If we look at the general outsourcing problem as stated in Table 2 the conclusion can be drawn that these problems still occur when you will outsource some or all purchasing activities. A third party can have more knowledge or experience but still the outsourcing problems can occur. As example a company will always have loss of control. Entrusting an entire process to an external provider may cause loss of control and of skills, resulting in overdependence.

#### 3.3.1. Purchasing activities and its global sourcing problems

If a company wants to source from Asia, a lot of other problems can occur for the European companies even if the procurement function is working well as shown in Table 4. Because a lot of global sourcing problems affect more than one purchasing activity first the global sourcing problems are discussed in Table 8. These potential problems are clarified specific for Malaysia and SEA. Besides that potential solutions are given by a third party. The third party is a company located in Malaysia and has knowledge and capabilities in procurement outsourcing, about the culture and about doing business with Dutch companies. The data of Table 8 is an extension of Table 7 and based on the data of section 3.1.3. and interviews which are already mentioned there.

Potential problems global sourcing	Specific for Malaysia and its region	Possible solutions a third party can offer
Cultural issues	Malaysia is a mix of different cultures (Islam, Hinduism, Christian) and Languages (Malay, Chinese, Indian)	Third party which knows Malaysian culture, knows how to deal with Cultural Dimensions and speaks languages can solve the cultural issues, also according to innovation.
Long lead times	Long distance (1200 km) between SEA and NL must be adapted in lead time forecast. Communication about lead times and find a reliable supplier are difficult in Malaysia	The distance cannot be solved but when a third party understands the causes of the long lead times they can adapt this in their expectations and search for reliable suppliers
Lower quality	Communicate and address requirements about quality gives lot of problems. Suppliers feel distance and less responsibility to deliver good quality. When send overseas it is expensive to send back and takes a lot of time	Quality control is an important aspect in getting good quality. If the third party is closer to supplier it is easier and cheaper to control this
Social and labour problems	In Malaysian Region Corporate Social responsibility is not such a hot topic as in Europe	When the third party understands what the social and labour standards are (cultural dimensions of Hofstede) they can find suppliers how fulfil these standards more easily
Higher costs of doing business	In Malaysia lot of people can speak English but in the region it is not so common. The cost of visits are high and time zone difficult	When the third party is located in both the Netherlands as SEA, a lot of travelling expenses can be saved. Working in the same time zone as the suppliers solve lot of communication problems
High opacity	According to Opacity index Malaysia has differences in Corruption and Legal system	When third party in Malaysia knows the legal system and is more familiar with corruption they can recognize problems earlier and act to that (Cultural Dimension PDI). The supplier is also more reliable when it knows it deals with a Malaysian party
Inexperienced or not qualified personnel	Malaysia has a relatively well educated workforce	This problem can only be solved when the third party has employees which have knowledge about the more complex logistics and global trading.
Lack of understanding about documentation required	In Malaysia lot of paperwork must be done, but government supports contracting procedures	For the third party it is easier to understand paperwork and can get easy support (also from government).

Table 8: problem solving when outsourcing to third party

After the description of Table 8 it is known how global sourcing problems could be solved by a third party when a purchasing activity is outsourced. Now the potential global sourcing problems can be connected with the purchasing activities to see if the problems really can be solved by outsourcing certain purchasing activities. These connections are showed in Table 9.

In the last column of Table 9 is shown if the global sourcing problem can be solved when outsourcing it to a third party in Malaysia. There are three possibilities:

- 'x' means it does not solve a global sourcing problem
- 'v' means it can solve a global sourcing problem
- 'possible' means that special requirements are needed to solve the global sourcing problem

Based on the information of Table 8 and all other previous information and theory the outcomes are given in the last column of Table 9.

Purchasing Activity	Specific activities	Global sourcing problems	Problem can be solved when outsourcing
Strategic activities	Market analysis 'make or buy' decision	no specific global sourcing problems	x
	Analysing market developments / innovation options		
	Spend analysis		
Define Specification	technical Specification		
Select Supplier	Market research	Cultural issues	✓
		Higher cost of doing business	✓
	Selecting suppliers	Cultural issues	✓
		Higher cost of doing business	✓
		Inexperienced or not qualified personnel	possible
		Lower quality	✓
		Social and labour problems	✓
Contracting	Negotiation	Cultural issues	✓
		Higher cost of doing business	✓
		Inexperienced or not qualified personnel	possible
		high opacity	✓
	Prepare and arrange contract	Lack of understanding about documentation	✓
Ordering	Announce contracts	Cultural issues	✓
	Order handling	long lead times	possible
	Register supplier performance	Cultural issues	✓
		Higher cost of doing business	✓
Quality control	Lower quality	✓	
expediting	Expediting	no specific global sourcing problems	x
	Trouble shooting	Cultural issues	✓
		Higher cost of doing business	✓
Evaluation & follow up	supplier evaluation	No specific global sourcing problems	x
	supplier rating		

Table 9: Purchasing activities and its general global sourcing problems

### 3.3.1.1. General comment

If purchasing activities are outsourced to a third party in Malaysia it is important that the third party has knowledge about the purchasing process and its difficulties. The third party must be aware of all the problems that can exist. If the third party is not capable to do this and only has the advantage as example of understanding the cultural differences this third party will not be able to solve the problems as stated in Table 9 and it is not wise to outsource any purchasing activity to this third party at all.

The global sourcing problem *additional inventories* cannot be connected to a purchasing activity and for this reason not be solved.

### **3.3.1.2. Strategic activities**

Within strategic activities there are three specific activities but none of them can solve global sourcing problems when they are outsourced to a third party. A strategic *'make or buy' decision* is not fixed to a location and does not deal with global sourcing problems. To make such a decision it is even better to be close to the source. A *spend analysis* is an internal analysis of the procurement flows and logically this does not solve any global sourcing problems when outsourcing this to a third party in Malaysia. In the case of *analysing market developments/innovation options* it depends on which market must be analysed. When the global market is mentioned, the third party does not have an advantage to be on a specific place.

### **3.3.1.3. Define specification**

*Technical specification* is a specific activity which can be outsourced for two reasons: the company is not capable to do it or it want to stimulate innovative input from a third party (Section 3.1.5.). If technical specification is outsourced no specific global outsourcing problems can be solved. The only problem could be communication but the assumption is made when a company is capable to define technical specification, this will not give much communication problems.

### **3.3.1.4. Supplier selection**

When doing *market research* on a tactical level you have to be close to the market, to visit actors and interview actors to understand it. When this is a SEA market, this can cause the problem of communication problems because of *cultural issues* to understand the market and *higher cost of doing business*. This problem can be solved when this activity is outsourced to a third party who is close to the market.

When a company want to *select a supplier* lot of global sourcing problems can exist. Select a supplier is an intensive and important process (van Weele, 2002 ). When visit suppliers *cultural issues* can be a problem, as well as *higher cost of doing business* because of all the visits (Burt et al, 2004 ). For a lot of people it is difficult to deal with global suppliers because the people are *not experienced or qualified* to do so. Circumstances and the way of negotiation are completely different in this case. This problem is not solved immediately when this is outsourced to a third party. The third party must have knowledge and experience about technical specification about the product where they have to select a supplier for. *Lower quality* and *social and labour problems* also exist when selecting the wrong supplier. The focus is often only on minimizing costs (van Weele, 2002) where the quality often decreases, same as when it is not a reliable supplier. Besides minimizing cost there is a differentiated way of selecting a supplier according to Kraljic which is described in section 5.1.. *Social and labour problems* can exist when the supplier does not stick to the values in the agreement. These problems can be solved by a third party who is closer to the supplier and control these problems.

### **3.3.1.5. Contracting**

When a company wants to *negotiate* about a contract it has to deal with *cultural issues* and *higher cost of doing business* because negotiation mostly is done personally. Cultural issues have influence on how doing business, especially on negotiating. A possible problem which can be solved is the *inexperienced and qualified personnel* which is not familiar with negotiating, especially within another culture (Monczka et al, 2005) . A third party can solve this, *if* it is experienced with

negotiating. A difficult problem for a company to deal with is the *high opacity*. As example, it is difficult to deal with corruption especially when it is unknown (section 3.1.3.3.). The contract must be reliable and good formulated to avoid problems. To *prepare and arrange a contract* it often requires a lot of different paperwork. If a company is not familiar with the paperwork and legislation of a country or region ( or global trading papers ) this causes a lot of problems ( Monczka et al, 2005). A third party can solve that problem because the easy accessibility to this knowledge.

#### **3.3.1.6. Ordering**

When *announce contracts* a relationship can be build which is more difficult with *cultural issues*. These cultural issues can be solved by a third party. In the case of *order handling* the *lead times* can be controlled by the third party but they are always dependent of the supplier. Before the process is started the third party can analyse the production process and give their own estimation about the delivery time but this is a difficult job. To *register supplier performance* involvement of the supplier is necessary. This causes *cultural issues* and *higher cost of doing business*. The biggest part of the measurement happens by looking at the results during the process and the satisfaction over a longer period (van Weele, 2002). *Lower quality* can be caused when the *quality control* is not done right which is difficult and expensive to do from a huge distance. The third party can secure the quality control to avoid lower quality.

#### **3.3.1.7. Expediting**

*Expediting* or monitoring the operational purchasing activities does not solve any specific global sourcing problems because most of the expediting happens at the company unless the company needs 'field expediting'. Assumption is made this is not necessary (van Weele, 2002) . *Trouble shooting* can happen near the supplier or the buyer or even other suppliers. This can cause *cultural problems* and *higher cost of doing business again*. To *pay the invoice* a company does not have to be near the supplier to pay it. This causes no global sourcing problems (when a right contract is set up).

#### **3.3.1.8. Evaluation & Follow up**

Within the last step of the purchasing process there are no specific global sourcing problems when *evaluating suppliers* and *rating them*. Most common is to rate them on their performance over the whole year what not causes global problems. Collect the data, register the performance and vendor rating happens within the company (van Weele, 2002).

### **3.3.2. Answer sub research question 2**

The conclusion of section 3.3. can be drawn and the answer can be given on sub research question 2:

*What are the different procurement activities which can be outsourced to a third party to solve the problems with sourcing from SEA?*

According to Table 9 conclusion can be drawn that outsourcing *strategic procurement activities* and the purchasing activities *Define specification* and *Evaluation & follow up* to a third party in Malaysia not solve any global sourcing problems. There is no advantage of execute these activities in Malaysia. A company can be incapable to solve the problem their selves but then a more logical approach is to outsource this in the Netherlands. Another possibility is that a third party provides a complete service where this activities are part of and for that reasons outsource it.

In Figure 9 is shown in RED which activities not solve global sourcing problems when they are outsourced to a third party in Malaysia. In GREEN the activities are shown which *do* solve the problems.



Figure 9: Activities which solve global sourcing problems when outsource to third party

In chapter 4 the design of the product is described. This describes the service LBB Teams can offer to Dutch companies. It is not necessary that this only will be activities which solve the global sourcing problems because it is also dependent on the strengths and weaknesses LBB Teams has. Figure 9 will be the starting point because it is proven that companies mostly have global sourcing problems within these activities.

## 4. Formulation of alternative solutions: Choosing purchasing activities

To design the procurement outsourcing service LBB Teams can provide to Dutch companies four case studies are done to compare this with the findings of chapter 3. Together with an internal analysis of LBB Teams and conclusions about early involvement procurement activities which LBB Teams can offer are defined and sub research question 3 answered. In Figure 10 an overview is given.

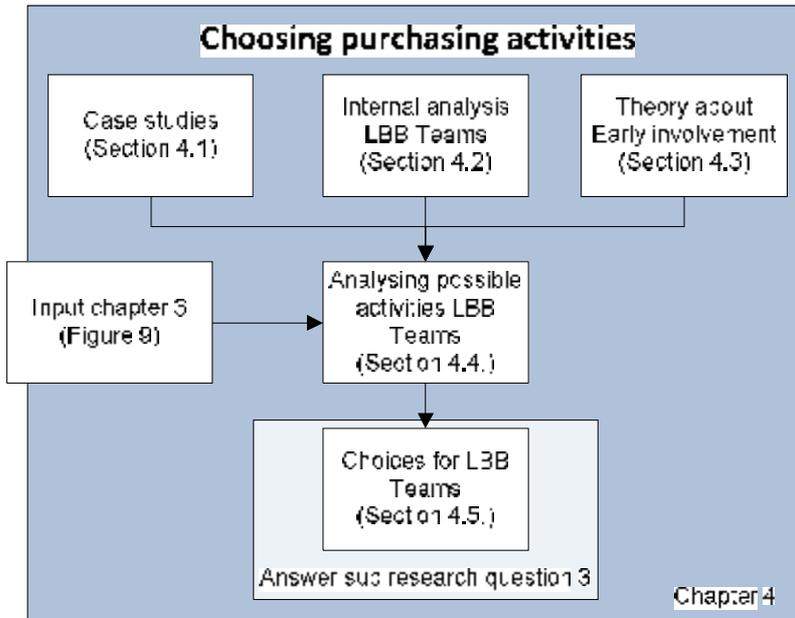


Figure 10: Overview of chapter 4

### 4.1. Case studies

Four case studies have been done to get a better view on the practical problems companies experience with outsourcing, suppliers and quality. Four companies were selected and interviewed to get a varied view on procurement outsourcing within all different business and experience and have practical examples. The case studies and interviews are done with:

- TradeOneAsia (Medium sized company focused on procurement outsourcing services)
  - *G. M. State, Manager regional business development*
- PFT - component line (Small sized company focused on sourcing and assembly from Asia)
  - *F. Adams, Owner and Director*
- Tonasco (Small sized company which focuses on sourcing steel product from Malaysia to the Netherlands)
  - *T. Moors, Owner and Director*
- Shell - retail (Multinational with huge supplier networks on local and global level)
  - *M. Dalhoff, Convenience Retailing*

The question for the case studies which have to be answered is:

- What are the most important aspects when providing an outsourcing service and how to deal with according to the experience of the selected companies?

During the case studies a few same aspects were mentioned which are important if a procurement outsourcing service want to be done in a successful way. The interesting aspects are summarized in Table 10. The more detailed case studies can be found in Annex 6.

Subject	Explanation
Supplier Selection	<ul style="list-style-type: none"> <li>- Supplier Selection is very important and intensive. Visit them and build a relationship are important and takes time.</li> <li>- Finding a <i>reliable</i> supplier is difficult</li> <li>- Detailed agreements with supplier can avoid problems</li> </ul>
Quality Control (QC)	<ul style="list-style-type: none"> <li>- QC is mentioned in every case as most important aspect of sourcing</li> <li>- QC you have to do yourself or hire an expert for this. But always make sure it happens ( before using or shipping it)</li> <li>- QC can be done few times during process but always at delivery</li> <li>- SGS can be a good inspection partner</li> <li>- A letter of credit is good insurance for quality</li> </ul>
Lead time Control	<ul style="list-style-type: none"> <li>- Make good agreements and contracts to control lead times</li> <li>- Make own estimation of lead time when select a supplier</li> </ul>
Product focus	<ul style="list-style-type: none"> <li>- Must focus on specific products to start up</li> <li>- Must focus on Small/Medium sized enterprises</li> </ul>
Others	<ul style="list-style-type: none"> <li>- Because of the financial crisis there is lot of pressure from consumers on cost and competition high so good quality against low cost is a need for</li> </ul>

Table 10: Summary of the Case studies

#### 4.1.1. Conclusions Case studies

The answer to the question for the case studies as stated in section 4.1 is that Supplier Selection and Quality Control are crucial when offering a sourcing service to Dutch companies. This must also be important aspects in the procurement outsourcing solution LBB Teams is going to offer.

#### 4.2. Internal analysis LBB Teams

This internal analysis is done to find out what the strengths and weaknesses from LBB Teams are according to the procurement outsourcing service. This is important when decisions have to be made when the procurement outsourcing service is designed. After all the objective of the research is to define which service solutions *LBB Teams can offer* their clients.

To organise and structure the internal analysis of LBB Teams the value chain model of Porter (Porter, 1985) is used as a basis to be sure all internal aspects of LBB Teams are covered. The value chain model of Porter describes important activities inside a firm. More info about this model see annex 7. Together with additional literature of Johnson & Scholes (2002) and Hill & Jones (1989) about internal analyses in strategic management a clear list of activity-categories is composed suitable for LBB Teams. Not included in the list are In/outbound logistics, procurement and information system because these are not applicable on LBB Teams. With this list of internal activities the strengths and weaknesses are clarified. The Strengths and weaknesses are based on interviews with the CEO of LBB

Teams Marco Tieman and the Sales Manager Grace Kenneth. The analyses is summarised in Table 11 and Table 12.

Internal activity-category	Strengths
Operations	<ul style="list-style-type: none"> <li>-CEO has a lot of experience in consultancy &amp; research : <i>Last ten years responsible for 50 projects in agricultural, food and chemicals sector</i></li> <li>- Experience with consultancy projects on strategic level : <i>Last five years 10 procurements projects done in Malaysia. LBB Teams developed own spend analysis method(used 4 times in Malaysia)</i></li> <li>- Large track record in Food, agricultural, chemicals according to logistics : <i>Last ten years CEO responsible for 50 projects in agricultural, food and chemicals sector</i></li> <li>- Specialized in Halal Logistics : <i>CEO is fulfilling PhD about Halal logistics. Beside that LBB Teams facilitates a new International Halal Logistics Standard and several other projects</i></li> <li>- Lot of contacts in network of companies : <i>During the last five years build up a network of companies where did business for and build up name in Halal Logistics</i></li> </ul>
Marketing & Sales	<ul style="list-style-type: none"> <li>- LBB Teams know as a specialist of (Halal) logistics: <i>by market LBB Teams as international company with local face in a logistics consultancy market (less competition) in Malaysia it has strong brand name</i></li> </ul>
Human Resource management	<ul style="list-style-type: none"> <li>- Good language skills of staff</li> <li>- Committed leadership : <i>LBB Teams want to achieve next two years a five time growth of revenues</i></li> </ul>
Company infrastructure	<ul style="list-style-type: none"> <li>- Offices located in Holland, Malaysia and Thailand : <i>representative office in Holland and Thailand, Operational office in Malaysia</i></li> <li>- Flexible approach toward people and product : <i>Not stuck in procedures and fixed boundaries</i></li> </ul>
Financial resources	<ul style="list-style-type: none"> <li>- Low cost structure : <i>because low cost of labour, accommodation etc.</i></li> </ul>
Service	<ul style="list-style-type: none"> <li>- Can speak multiple languages: <i>Dutch, Malay and English</i></li> <li>- Fast reaction &amp; Personal treatment to customers : <i>Because it is a small company there is personal approach where lines are short to react</i></li> <li>- Understands Cultural issues : <i>Both European as Asian Culture because of mix of staff which grew up in these regions and Europe</i></li> </ul>
Technology development	<ul style="list-style-type: none"> <li>- focus on development of new services(e.g. <i>Procurement outsourcing service</i>)</li> </ul>

Table 11: Strengths of LBB Teams

Internal activity-category	Weaknesses
Manufacturing/operations	<ul style="list-style-type: none"> <li>- Less economies of scale : <i>LBB Teams miss some financial advantages because of small size</i></li> <li>- Staff almost no experience and education in/for consultancy and research : <i>Company dependent of one person</i></li> <li>- No experience with advising clients a 'Make or Buy' decision : <i>Never did a project on this subject</i></li> <li>- No experience in Procurement outsourcing on tactical and operational level</li> <li>- No experience with long term contracts : <i>Only experience with project based approach</i></li> </ul>
Marketing & Sales	<ul style="list-style-type: none"> <li>- Not one clear M&amp;S policy</li> </ul>
Human Resource management	<ul style="list-style-type: none"> <li>- Limitation in speaking Dutch : <i>There is only one employee which speaks Dutch</i></li> <li>- Limited education of staff : CEO has European master degree. <i>Further no equal or similar level of education yet</i></li> </ul>
Company infrastructure	<ul style="list-style-type: none"> <li>- limited executing power : <i>Operational office in Malaysia is very small. Netherlands &amp; Thailand only passive activities</i></li> </ul>
Financial resources	<ul style="list-style-type: none"> <li>- Less financial sources for investments : <i>Cannot take too much risks or invest to much because it is a start up company</i></li> </ul>
Service	<ul style="list-style-type: none"> <li>- not applicable on LBB Teams yet</li> </ul>
Technology development	<ul style="list-style-type: none"> <li>- not applicable on LBB Teams yet</li> </ul>

Table 12: Weaknesses of LBB Teams

### 4.3. Early involvement in the purchasing process

Early Supplier Involvement (ESI) is an approach in supply management to bring expertise and collaborative synergy of suppliers into the design process. ESI seeks to find 'win-win' opportunities in developing alternatives and improvements to all aspects of the product. ESI helps in developing trust and communication between suppliers and the buying firm (Burt et al, 2005).

When the Purchasing Process model of Van Weele is observed a distinguishing can be made between the influence of the activity and the total costs for the company. The relation between the total cost and the purchasing process is shown in Figure 11. When a mistake is made in specification, it will influence all other follow up steps. This is why it has the biggest influence on total costs. This decreases exponential through the whole purchasing process.

The conclusion which can be drawn according to Figure 11 is the earlier LBB Teams can be involved into the purchasing process of their client, the more value they can add for the client.

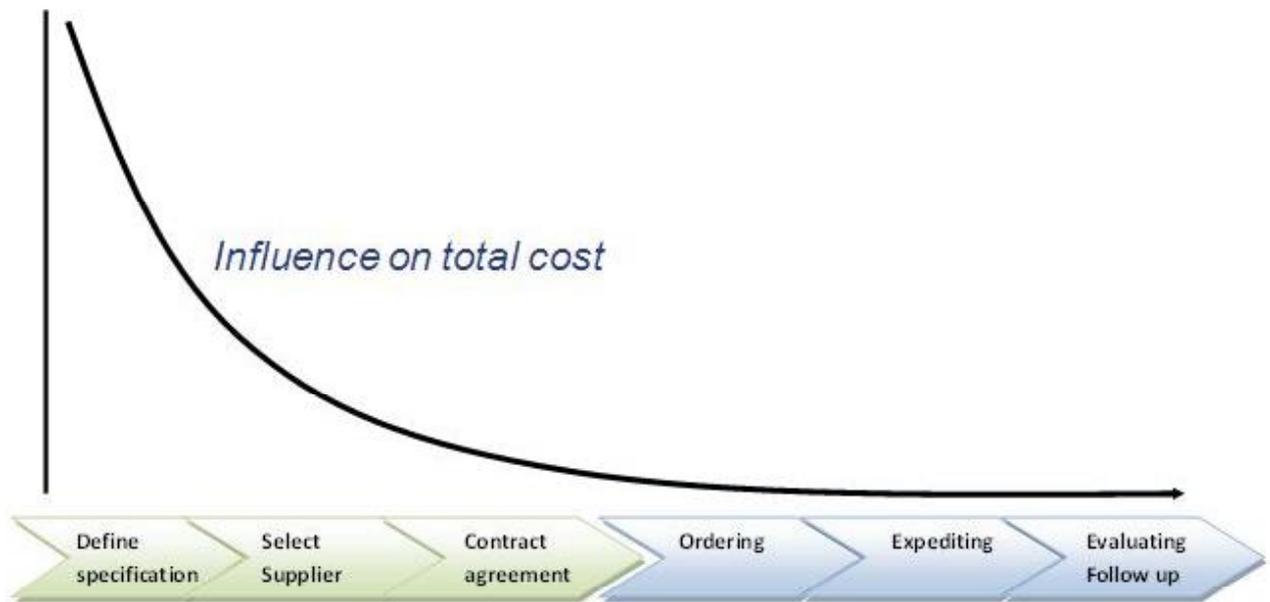


Figure 11: Influence on total cost of purchasing process (Telgen, 1988)

#### 4.4. Analysing possible activities for LBB Teams

Together with the conclusions drawn in Figure 9 in chapter 3 and the case studies, internal analysis and conclusions about early involvement decisions can be made what could be suitable activities for the procurement outsourcing service LBB Teams can provide. Below every activity is assessed on possibilities for LBB Teams. When added value is analysed it means the extra added value LBB Teams can have in comparison with a third party situated as example in the Netherlands.

##### 4.4.1. Strategic procurement activities

Strategic procurement activities can be outsourced to a third party as stated in Figure 8. Figure 9 shows that these activities not solve any global sourcing problems so the extra added value of LBB Teams is limited. When looking at strengths and weaknesses (Table 11 and Table 12) of LBB Teams conclusion can be drawn that LBB Teams is able to execute strategic procurement activities. They have experience with it and already developed a standard method for a spend analysis. As a consultancy company LBB Teams is experienced with execute subjects like this on a project base. Early involvement (figure 11) is not really applicable on the strategic procurement activities because these activities have less influence on designing the product. An advantage for LBB Teams is when they can get early involved into the procurement process they can create follow up activities for the rest of the purchasing process (like selecting supplier). Conclusion can be drawn that LBB Teams can execute these activities but the added value is not higher than another third party. The value can increase compared with other parties when clusters of activities are offered in the final product.

##### 4.4.2. Define specification

In Figure 9 is shown that technical specification can be outsourced, but not solve any global sourcing problems. The value LBB Teams can add will be minimal. According to the strengths and weaknesses of LBB Teams, they are not able to fulfil this activity but it is important to understand the specifications. When looking at Figure 11 the earlier LBB Teams can be involved the better it would be. At this moment only conclusion can be drawn that LBB Teams cannot execute this activity.

#### 4.4.3. Select supplier

As concluded in section 3.3.1.4 and Figure 9 the activities of selecting a supplier can solve a lot of global outsourcing problems when outsource it to a third party like LBB Teams. LBB Teams can have the advantages as described in Table 8. When looking at the conclusion of the case studies in Table 10 supplier selection is a crucial aspect for the total purchasing process. The value LBB Teams can add is very high. When looking at the internal analysis LBB Teams has experience with doing market research on tactical level. Selecting a supplier is a new subject but with the mix of people from different cultures (communication with suppliers and client), the knowledge of the CEO and the existing contacts in the food industry they must be able to fulfil this task. Select supplier is also an activity which has significant influence on total cost (Figure 11). This implicates that LBB Teams gets a 'shopping list' because they are not able to define specifications and can go out 'shopping'. The conclusion can be drawn that this activity can be executed by LBB Teams and can add a lot of value to the purchasing process of Dutch companies within the described limited sectors (section 2.1.9).

#### 4.4.4. Contracting

Contracting is also a purchasing activity which can solve several global sourcing problems as shown in Figure 9. Within negotiating and preparing and arrange contracts LBB Teams can add a lot of value as already explained in section 3.3.1.5 and Table 8. According to the strengths and weaknesses LBB Teams has no experience yet with negotiating with suppliers but the CEO has experience with negotiating in this culture in general about all the projects he executed. The influence on the total cost has still significant impact. Conclusion can be drawn that LBB Teams is capable to execute this activity and can add value to the purchasing process of Dutch companies.

#### 4.4.5. Operational Activities: Ordering, Expediting and Evaluation & Follow up

Only ordering is a purchasing activity with a lot of specific tasks which can solve several global sourcing problems (Figure 9). The conclusions of the case studies in Table 10 show that quality control is a big problem when source from suppliers from SEA. A lot of companies try to reduce costs by sourcing from SEA but have a lot of problems and make a lot of additional costs when the quality is not sufficient. The risk that there is something wrong with a food product and damages a brand name cannot be taken. Especially when companies source from Asia more problems exist with quality of products. Quality control is a very crucial part within the operational activities of the procurement process. Within expediting only troubleshooting can solve global sourcing problems but is less important than quality control.

When looking at the internal analysis it can be said that LBB Teams do not have any experience at all with ordering, expediting and Evaluating & Follow up. Besides that it is a time intensive and long term service process where LBB Teams not have employees available for yet. Early involvement has no significant difference anymore on the total cost. Conclusion can be drawn that the operational purchasing activities are difficult to execute (because no experience and expertise) and not so interesting as the tactical activities for LBB Teams, because the added value is lower. Quality control is an exception in this area.

#### 4.4.6. Summary of the analysis

A summary of the analysis is given in Table 13 below. Added value is stated in terms of solving global sourcing problems. It also shows if LBB Teams is able to execute it based on the internal analysis and requirements needed for the activity. It is evaluated in a range from '++'(high or very capable) till '- '- (low or not capable). Why it is evaluated as showed in Table 13 is already explained in the previous

sections (4.4.1-4.4.5). This table is only to see easily what the conclusions are of this section for the next section (4.5.) and next chapter (Ch. 5).

Purchasing activity	Added value	LBB Teams able to execute
Strategic purchasing activities	--	++
Technical specification	--	--
Selecting supplier	++	++
Contracting	++	++
Ordering (quality control)	++	--
Expediting	--	--
Evaluation & Follow up	--	--

Table 13: Summary of the analysis

## 4.5. Choices for LBB Teams

In this section the choices for the activities which LBB Teams must offer are described and sub research question 3 is answered. Besides that the supportive choices for the service are clarified. This are choices for market and company focus.

### 4.5.1. Choices of activities

When making the choice which activities LBB Teams can offer to Dutch companies sub research question 3 is answered as well:

*For which procurement activities can LBB Teams offer outsourcing solutions to Dutch companies from Southeast Asia?*

The two activities which LBB Teams can offer are *selecting supplier* and *contracting*. Also *Strategic purchasing activities* can be executed but LBB Teams does not have a big advantage for this activity. The specific activity *quality control* looks also a necessary activity to offer but LBB Teams is not capable to do this yet.

## 5. Decision: Designing the procurement outsourcing service

In this chapter the procurement outsourcing service (the product) is designed and the advantages LBB Teams has to offer with this product are described. In section 5.1. first movements in the Kraljic matrix are explained and what the influence is on the product which is designed in section 5.2. In section 5.2. the main research question of the research is answered as formulated in section 2.2.2.:

*What is the Procurement outsourcing service LBB teams have to offer in SEA to Dutch companies?*

### 5.1. Products with different strategies

Products can be divided into categories which are different for every firm. If the movement within these categories can be identified it can be assessed in what kind of way LBB Teams can add value with their procurement outsourcing service to the clients company and their purchasing strategy. This is done according to the Kraljic Matrix (Kraljic, 1983). Kraljic based the framework on two dimensions for classifying a company's purchased materials or components: *supply risk* and *profit impact*. The explanation of the Kraljic Matrix and the properties of the quadrants are given in Annex 8. In this section different portfolio based strategies are described and the relevance for the procurement outsourcing service.

In Figure 12 the nine different strategies are shown. Within each category of products two different kinds of strategic directions can be distinguished:

- i. Actions to hold the same positions in the matrix (2,4,5,7,8)
- ii. Actions to pursue other positions in the matrix (1,3,6,9)

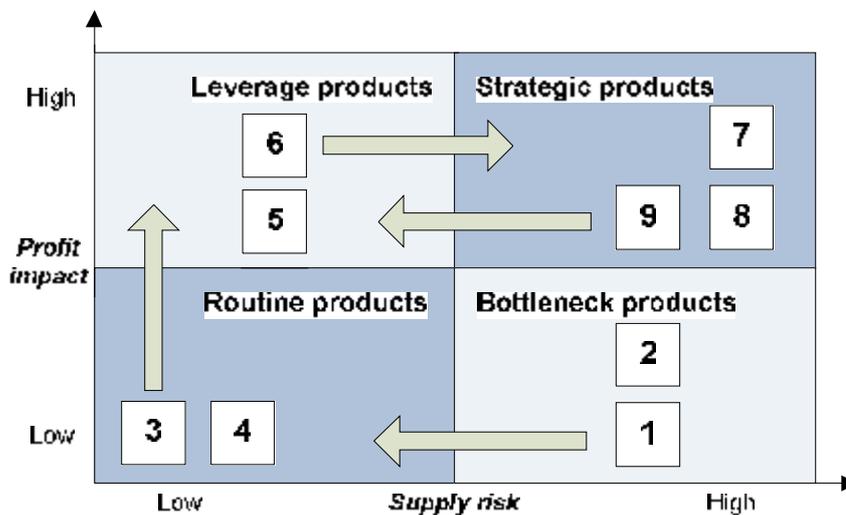


Figure 12: directions for all categories in the Kraljic Matrix (Gelderman & van Weele, 2003)

When looking at the bottleneck and the strategic quadrant at the right side of the matrix, those movements are pursued that reduce the supply risk. In terms of the matrix, this means moving to the left. Routine products are moved upwards, leverage positions could be exchanged for strategic position. All strategic directions are elaborated below.

1. *Moving from bottleneck to routine position: Decomplex the product, find a new supplier*  
Bottleneck items or of low value and high risk, and therefore it should be interesting to search for other solutions. These refer to product (broadening specifications/Decomplex product) or supplier (searching, managing and developing suppliers)
2. *Holding bottleneck position: Accept the dependence on a supplier, assurance of supply*  
Reduce and deal with risk as much and best as possible with e.g. risk analysis and assurances.
3. *Moving from routine to leverage position: Pooling of requirements*  
Non-critical items are put together in large quantities to increase the buying power of the firm and to reduce direct and indirect purchasing costs.
4. *Holding routine position: Individual ordering, efficient processing*  
When pooling requirements is not possible, only efficient processing to reduce the indirect purchasing costs like administrative activities is an option.
5. *Holding leverage position: Exploit buying power*  
The generally preferred leverage position can be used for a rather aggressive supplier management. Competitive bidding and short-term contracts are feasible options.
6. *Moving from leverage to strategic position: Develop a strategic partnership*  
Exceptionally, the leverage position is abandoned in search for a more strategic partnership with a supplier which can contribute to the competitive advantage of a firm.
7. *Holding strategic position: Maintain a strategic partnership*  
Long-term relationships with key suppliers should always contribute to the competitive advantage of the firm. This includes mutual trust, commitment and exchange of information.
8. *Holding strategic position: Accept a locked-in partnership*  
A position in the strategic quadrant may be due to not chosen, unfavourable conditions like patent, monopoly or high switch costs. This causes involuntary stay at the strategic quadrant.
9. *Moving from strategic to leverage position: Terminate a partnership, find a new supplier*  
A partnership may develop in an undesirable way. The firm will have to search for another supplier(s), while bringing the relationship with the non-performing supplier to an end.

The portfolio approach is very helpful in positioning commodities in the different segments and in developing differentiated purchasing strategies despite there is no simple, standardized blue print for the application of the portfolio analysis. For the procurement outsourcing service it is important to understand the different strategies and to know what the role of LBB Teams can be in each strategy. Besides helping a company to position its commodity in the matrix, the procurement outsourcing service can add value to the clients company to reduce supplier risk and increase the profit impact. Most of the value LBB Teams can add in strategy 1,3,6,9 where movement to another quadrant must be achieved, especially when new suppliers must be searched or contact with suppliers is important. When the strategy is to stay in a quadrant the role of LBB Teams becomes smaller or almost zero as e.g. in strategy 8. With taking this into account the procurement outsourcing service can be described. When it is clear what the service will be, LBB Teams can make its own approach for each strategy.

## 5.2. The procurement outsourcing service

The activities and conclusion mentioned in Section 4.5. are used as input for the procurement outsourcing service (the product) LBB Teams can offer to Dutch companies. It is clear that supplier selection and contracting must be offered. Strategic procurement activities and quality control are

not so clear, concluded from section 4.5. Strategic activities does not solve global sourcing problems and quality control cannot be executed by LBB Teams itself.

The service LBB Teams has to offer is shown in Figure 13.



Figure 13: Procurement Outsourcing service LBB Teams

Figure 13 shows the answer on the main research question of the research. In sections 5.2.1. – 5.2.5. the procurement outsourcing service is described in more detail. An explanation is given why it is designed like this, what the interaction is between the activities and what the advantages and added value of LBB Teams is. The service can be customised to the client's needs. This means that as example only one part of the service can be executed.

### 5.2.1. General advantages LBB Teams

LBB Teams is a company with a mix of European and SEA culture, standards, knowledge and language. This makes it easier to offer a service to the Dutch market (and later on rest of Europe) which operates in SEA. Because LBB Teams is located in Malaysia, it is close to the sourcing market and has lower cost of doing business (visit suppliers, low cost for employees). There must be a sales team in the Netherlands which can communicate easily with the operations in Malaysia and they can execute the projects. Because LBB Teams understands the corporate values of Dutch companies they can deliver suitable service which fulfils the requirements of the Dutch companies.

### 5.2.2. Supplier Selection

The activities which can be offered are *market research* and *selecting supplier(s)*. Market research can be done in different kind of ways. It can be done on a project base (as LBB is used to) or on a continuous market monitor. Because LBB Teams knows the market and the region very good they have advantages to have lower costs of doing business (close to market, low cost for employees) and can understand the expectations within both cultures.

Selecting suppliers is a difficult aspect for Dutch companies. LBB Teams can execute this in SEA by doing desk research, visit them and finally advise companies about the possibilities and recommendations. Finding reliable suppliers is difficult so in the beginning it will not be easy for LBB Teams to execute this. When selecting suppliers the Dutch company must inform LBB Teams very detailed about the specifications of the product. An important aspect LBB Teams has to focus on for Dutch companies is to stimulate innovation (Section 3.1.5.) and take care of a good relationship between supplier and buyer. The firms increased dependence on its environment (especially in terms of technology) and the more strategic status of purchasing have led to an increased attention for the role of purchasing in technological innovation (especially in technical cooperation with suppliers).

The purchasing development role is an important aspect in this case (Wynstra, 1995; Wynstra, 1998). This is not further taken into account in this research. All these aspects within supplier selection are useful for the purchasing portfolio strategies 1,6 and 9 because there is movement taken into place which needs supplier selection (see section 5.1). LBB Teams can also play a role in the other positions in the matrix but this is not covered directly by this procurement outsourcing service yet. For further research when the service will be developed further or when the service is running a while, it is wise to look at the different strategies and to define for each strategy what value LBB Teams can add.

Supplier selection can be offered together with contract agreement. The advantage to offer this together is that LBB Teams is already familiar with the suppliers and can still provide the contact with the suppliers.

### **5.2.3. Contract Agreement**

Contract agreement consist of two parts namely negotiation and prepare and arrange contracts. Finally LBB Teams will not sign the contract their selves but leave the responsibility to the Dutch client. They can provide the quality control, but this is explained in section 5.2.5.

Prepare and arrange the contract and negotiating must be carried out simultaneously. The advantages of LBB Teams are again that they are familiar with how to build a relationship in a different culture, lower costs of doing business and with opacity like corruption. All paperwork and regulations around contracts can be achieved by LBB Teams because for them it is easier to handle. Also organising the letter of credit can be a possibility. Organising contract agreements with suppliers is new for LBB Teams but they are able to gain these necessary qualities.

### **5.2.4. Strategic Analysis and the interaction**

Because of the mentioned experience of LBB teams on consulting in strategic procurement projects, it is possible to offer the client additional strategic services as mentioned in Figure 13. Although the competition on this market is fierce, linking the strategic services with the specific services on selecting suppliers and contracting, can create opportunities. Offering a bundle of procurement services, both tactical, and with relevant strategic service will add extra value for the customer. It creates opportunities for LBB Teams when first execute the strategic analysis and then the operational services but also the other way around. On a strategic level analyses and decisions can be made according to the purchasing portfolio a company has. The position in the Kraljic matrix can be identified and a strategy can be chosen (as described in section 5.1.) which can cause follow up actions in selecting suppliers.

### **5.2.5. Quality Control and the interaction**

During the research quality control appeared as an important aspect when Dutch companies want to source from SEA. LBB Teams is not able yet to execute this activity but again linking the quality control service with the specific services on selecting suppliers and contracting will add extra value for the customers and can be a reason to build up a long term relationship with a Dutch company which is an advantage for LBB Teams. There are two ways LBB Teams can offer the quality control to their clients. First LBB Teams execute it their selves. When LBB Teams wants to achieve this it must invest a lot of money into people (must hire experts in different specific areas) and technology (Lab and testing equipment). Because the service has to start up and the investments will be too high for LBB Teams this is not a suitable option. The second and chosen option is to outsource this to a partner which can execute the mentioned activities in Figure 13 for LBB Teams. The indication of

activities are based on the case studies from section 4.1. and an interview with Mr. C.P. Tin, Division Manager of SGS Group. SGS Group is a global independent Inspection, verification, testing and certification company which can be a suitable partner (Annex 6), but also its biggest competitor Intertek can be a possible partner. The activities mentioned in Figure 13 cover the most important aspects but this can be customized to the needs of the sourced product and demand of the customer.

### **5.3. Problems solved with the procurement outsourcing service**

When LBB Teams offer the procurement outsourcing service to Dutch companies from SEA a lot of global sourcing problems can be solved as described in Table 9. The problems which LBB Teams can solve are:

- Cultural issues
- Higher cost of doing business
- Inexperienced or not qualified personnel
- Lower quality
- Social and labour problems
- High opacity
- Lack of understanding about documentation

Solving these global sourcing problems of course must reduce total purchasing costs for a company so the company at the end increases its profit.

Before the service can be executed it must be described in more detail and the methodology must be developed. The outcome of this research is a concept description of the procurement outsourcing service where choices are made which activities LBB Teams have to offer within this service as stated in the research question. Before the service can be implemented the service has to be developed further. In the next chapter recommendation are given how to come to the implementation.

## 6. Implementation: Recommendations

The procurement outsourcing service as described in chapter 5 is not yet ready to be implemented directly. Before LBB Teams can implement the suggested service it must be described in more detail. Recommendations are given organised according to the building blocks of the service and some general recommendations so that LBB Teams can finally implement the procurement outsourcing service.

### General recommendations

To be able to implement this service further research must be done. What must happen, before it is implementable is specified according to every building block later on in this section. In general the service must be specified in more detail to make it practical. Standard methods and procedures must be developed so that LBB Teams can be efficient and can be clear to its potential customer about what they can offer.

When further research is executed permanent staff must be hired to execute service. *Invest in people* is very important for LBB Teams to succeed. Besides all the different knowledge and skills LBB Teams needs for every building block, it is necessary to get a diverse team of experts with different nationalities, languages and cultures to execute the service. When they attract people, they must be trained to execute the service but also to provide additional knowledge on this specific subject.

An important role to start up the service is to *sell the service*. To sell the service to Dutch companies a sales team must become active in the Netherlands. Besides the Dutch market LBB Teams can try to start to sell some parts of the service (e.g. strategic analyses) to companies located in SEA. Therefore they need a sales team in Malaysia as well.

Within the further research attention must be paid to the *innovation problems Dutch companies* have. This is a complex and difficult problem but theory is available. Besides that important aspects like *social responsible buying* and *secure sustainable procurement* must get extra attention especially with focus on sales. These are important aspects for Dutch companies besides the main objective *good quality sourcing against low costs*.

To become profitable a *suitable price model* should be set up for the whole service, but also for every building block. To build up track record, they make it more interesting for Dutch companies to let LBB Teams execute the service by giving them *discount*. LBB Teams first has to *prove itself* in being able to execute certain activities within the service. A suggestion is to do this for free until they achieve results. When they achieve these results, they will get a good bonus and a long term contract.

### Strategic analysis

Strategic analysis is a building block where LBB Teams can *start with almost immediately*. When they develop some standard methods for these activities (e.g. they already have a method for the spend analyses) they can start with these activities in Malaysia to get experience but it is wisely to execute these activities to Dutch companies as soon as possible.

It is important for LBB Teams to be *early involved* into the purchasing process. According to Figure 11 the earlier LBB Teams can be involved into the purchasing process of their client, the more value they can add for the client. To achieve this it is important that this building block is an important aspect

for the sales the team, especially in the beginning, when track record has to build up for the complete service.

#### Supplier selection

To implement the procurement outsourcing service it is necessary to *describe the purchasing activity Supplier selection in more detail* and develop a method to execute these activities. There is a lot of theory available about difficulties and important aspects when selecting a supplier. For every strategy mentioned in chapter 5.1. *different methods can be developed and procedures can be standardized* together with the additional theory on this subject.

When LBB Teams wants to select suppliers they can make a *pre-selection on different criteria*. For example a criteria could be corporate social responsibility, so they can quickly find suitable suppliers which fit to the values of a company so the added value is higher and profit can increase.

#### Contracting

The most important aspect within the building block contracting is to *get knowledge about this subject* within LBB Teams. It is wise to hire somebody with experience and knowledge about Malaysian law but also international law. The combination of this expert and theory about contracting standard procedures must be made (checklist) so that contracts are always save and profit can increase.

#### Quality control

To implement and execute necessary quality control a *partnership or collaboration* must be organised. When LBB Teams grows explosively there is a future possibility of executing this themselves. But for the five years, collaboration seems necessary. SGS Group and Intertek are suitable partners for this building block.

## 7. Evaluation: Research and Personal

In this last chapter the research is evaluated based on the research itself and a personal evaluation of the author.

### 7.1. Research evaluation

The research has shown the procurement outsourcing service which LBB Teams has to provide to Dutch companies when they want to enter this market and want to provide a service in this specific area. During the research there was enough literature available about procurement and outsourcing. A difficulty was the limited literature about which procurement activities can be outsourced to a third party. Together with the literature of Buter and the interviews done this connection is tried to make clear as a basis of the research. During the research a lot of people were willing to cooperate in the research by giving interviews or exchange ideas, inside as well as outside the company. This made it a very pleasant research to execute.

A difficult part during the research was to connect the purchasing activities to the global sourcing problems. Supported by the literature this connection finally could be realized and could be used as a basis for the service which is developed.

During the research is noticed that a difficult and important aspect is the purchasing involvement in product development. This is a very complex, difficult but interesting aspect. This subject does not fit directly into the scope of this research but is closely related and is an interesting topic to study further on.

At the end it is important for the research that the objective is achieved. LBB Teams supports the design of the procurement outsourcing service and based on the recommendations they designed a new research to finalize the service and make it operational. With taking this into notice conclusion can be drawn that the objective is achieved which was of course the main purpose of the research.

### 7.2. Personal Evaluation

*During the research I learned a lot about the procurement process and the opportunities there are with the procurement function within a company. Besides the topic of procurement also outsourcing was a interesting topic, especially because it is an important method for companies and has a lot to do with international business which is very divers. In doing international business there are so many aspects which influences organisations and its people which makes it very dynamic.*

*Besides 'learning by doing' a research on a certain topic I also learned a lot by being and acting in a different environment and culture, business related but also outside the company. You start to understand different opinions, beliefs and habits which you could not understand in the first place. Being as a western guy in such a country on your own, meeting new people from all over the world and having a lot of fun is an amazing experience which I could recommend to everybody.*

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Annex  
Annex 1: SEA



## Annex 2: Focus on food clusters

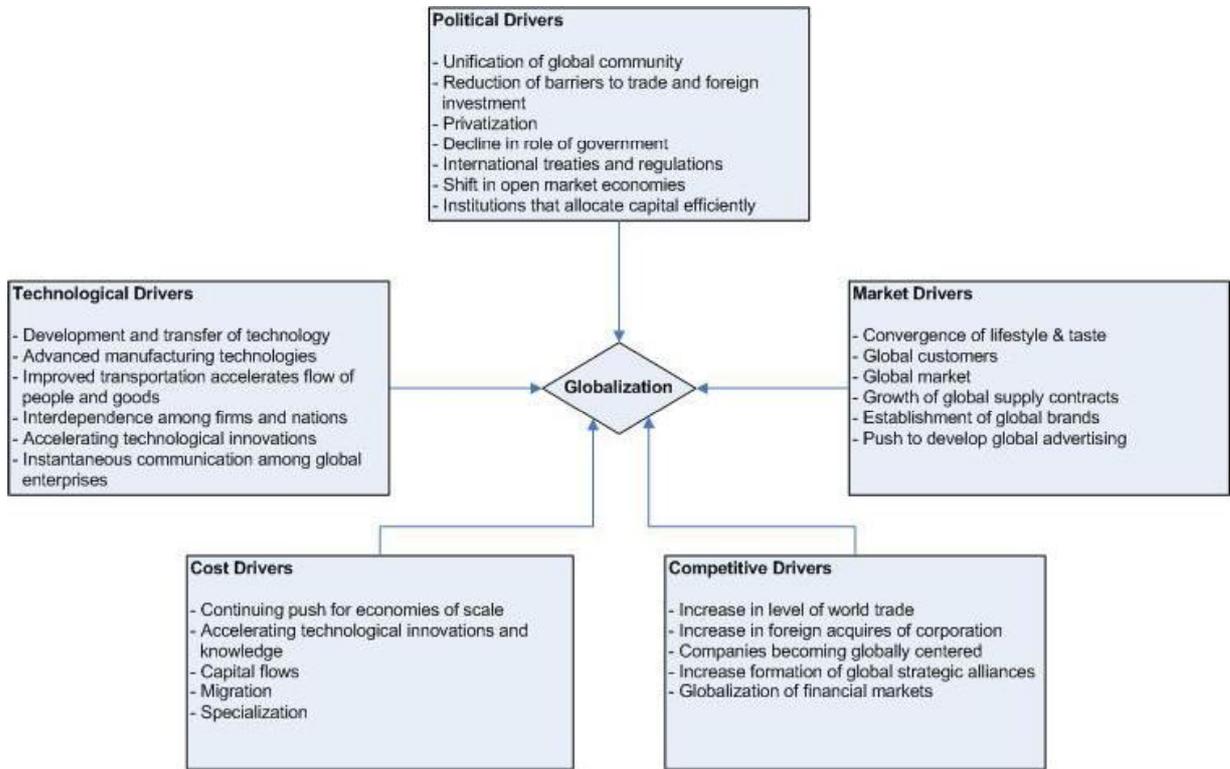
The product clusters are based on the Cluster study LBB Teams has done in 2006.



Annex figure 1: Product focus procurement outsourcing service

LBB Teams is an expert in Halal logistics and has therefore a lot of knowledge about Halal food. To deliver procurement outsourcing solutions for products as mentioned in Fout! Verwijzingsbron niet gevonden. specific for the Halal industry will even be a better market focus but at the moment the market is too small to limit it so specific. That is why LBB not only has to focus on as example Halal certified Food ingredients but also without Halal certification.

### Annex 3: Globalisation forces



Annex figure 2: Five major drivers of globalisation (Brake et al. 1995)

## Annex 4: Explanation Cultural dimensions of Hofstede

### Large versus Small Power Distance

The Power Distance Index shows how less powerful members of organisations and institutes accept and expect that power is distributed unequally. Power and inequality are extremely fundamental facts of any society. All societies are unequal, but some are more unequal than others.

### Individualism versus Collectivism

Individualism is the degree to which individuals are integrated into groups. On the individualist side we find societies in which ties between individuals are loose and on the collectivist side we find societies in which people are integrated into strong groups, often extended families with continue protecting them in exchange for unquestionable loyalty.

### Masculinity versus Femininity

Masculinity versus its opposite, femininity, refers to the distribution of roles between genders. The women in feminine countries have the same modest, caring values as the men. In the masculinity countries they are somewhat assertive and competitive, but not as much as the men. In these countries there is a gap between men's values and women's values.

### Strong versus Weak Uncertainty Avoidance

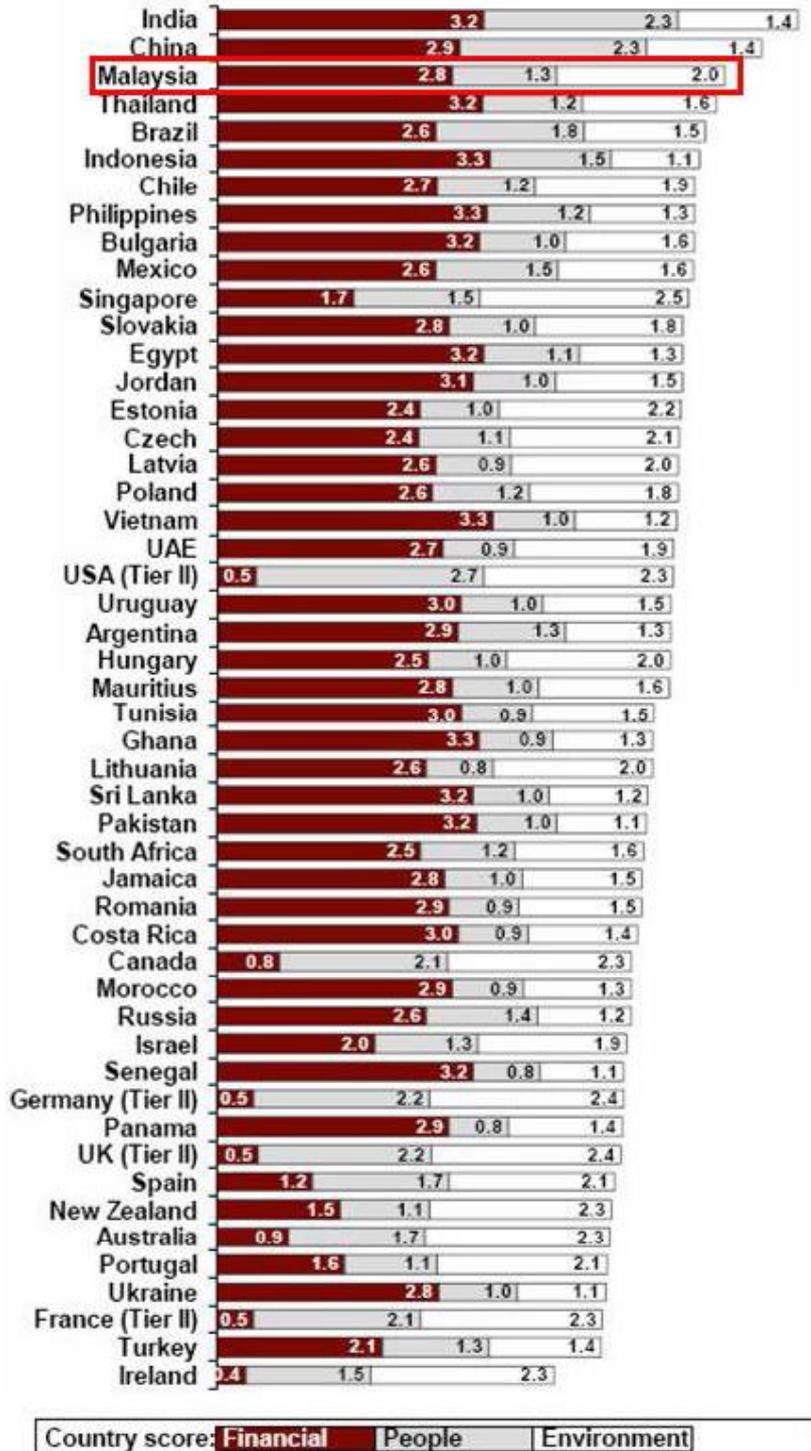
the Uncertainty Avoidance Index deals with a societies tolerance for uncertainty and ambiguity. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Strong uncertainty avoidance means the prefer lot of rules and control.

### Long term versus short term orientation (recently added)

Values associated with Long term orientation are thrift and perseverance. Values associated with short term orientation are respect for tradition, fulfilling social obligations and protecting one's face. Mostly it is the thought behind an action to think in Long or Short term.

## Annex 5: Global Services Location Index

### Ranks 1-50



Source: (AT Kearney and McKinsey, 2007)

## Annex 6: Case studies

### A 5.1. TradeOneAsia

TradeOneAsia is a majority-owned subsidiary of Keppel Corporation with 25 people and is located in Singapore. TradeOneAsia helps companies to improve their cost structure through consultancy expertise, professional procurement services and customisable technologies.

#### *Product*

TradeOneAsia provides Customized solutions for global as well as local companies in a wide range of sectors, like chemicals, packaging and steel. They do not have set their boundaries on direct or indirect purchasing. Their service can be one-off but also for longer contracts and building a relationship. When looking on the model of van Weele they provide strategic, tactical and operational solutions. The main focus lies on the strategically and tactical solutions but also provide some operational solutions. The Operational solutions are born to support Keppel logistics to build a dedicated infrastructure. Besides that they also make use of some E-bidding and negotiation tools.

#### *Selecting Supplier*

TradeOneAsia has a team of 25 employees where they also select their suppliers with. When a client has a request they set out a few procurement experts to select a group of suppliers which fit to the companies needs and values. They visit a lot of potential suppliers and finally they select them. Then the client can decide which supplier it wants to use or they can make use of an E-bidding tool.

#### *Quality Control*

To make sure quality of the products is according requirements TradeOneAsia uses a few methods to control this, if this is part of the customized service. When selecting a supplier it is very important that the focus is on quality of the product and not only at price. They can also provide quality control during the procurement process by control products at random when they leave supplier before transportation.

#### *Lead time control*

To control the lead times for their client TradeOneAsia analyses the production process and the company when they select the suppliers. Suppliers give their own lead time, but often this is too short. TradeOneAsia makes sure that the lead time which is given is more realistic.

### A 5.2. PFT-Component line

PFT - component line is a company in Kuala Lumpur which sources lot of components out of Asia and assembles this together till machine equipment. The company has a lot of experience with sourcing, the problems and solutions they use.

#### *Selecting supplier*

According to PFT it is not difficult to find a product or material and mostly there are plenty of suppliers which can deliver this. The biggest problem is to find a reliable supplier which can deliver quality, on time delivery and stick to his agreements. Selecting a supplier takes a lot of time. At least, if you want to select a good and sustainable supplier. You have to visit them and finally make good agreements.

### *Quality control*

Quality control is one of the most important things. You have to do it yourself and if you are not able to do it, you have to outsource this to a good reliable partner. Every batch or shipment must be controlled by an expert. There is an institute, SGS group, which takes care of inspection, verification, testing and certification of companies all over the world. They could test the products before they are shipped or send. With the SGS certified authorization and a letter of credit ( detailed bank agreement between the buyer and sellers bank ), outsourcing will be a very sustainable and save operation.

### *Choice for product*

Products which contain a lot of labour are often interesting for Dutch companies. High technology products mostly are not interesting to outsource because competing on price is very difficult. To look for opportunities a niche market must be find to approach companies in the Netherlands.

### **A 5.3. Shell (Retail)**

Shell is a Multinational company original from The Netherlands. Their core business is to sell fuel at gas stations. At most of the gas stations there is a retail facility with has a variety of products and suppliers. At the moment all suppliers deliver straight to all the different retailers. They are centralising this to one third party where the suppliers have to deliver to. From there the third party will deliver the combination of products to retailers in once to simplify the total chain.

### *Suppliers*

To make sure that suppliers from Shell stick to the values of Shell they have very detailed contracts (e.g. drivers are only allowed to drive maximum eight hours each day). This is very hard to negotiate but as a big player Shell can achieve that. Even when you are a big partner suppliers can be very unreliable. If Shell want to do a promotion the forecast that the supplier must deliver more and often they cannot deliver it. Often they are out of stock.

### *Small en medium sized companies*

All the big multinational companies like Shell have their own network of people and offices around the world and do not outsource procurement activities. For the medium sized companies which are not stock related or related to the smaller stocks there are opportunities, especially in this time. These companies are under pressure by the consumers to set a good price and deliver high quality. They are not able to manage their sourcing from SEA their selves so need a partner in this case.

### **A 5.4. Tonasco**

Tonasco is an international sourcing company, with offices in the Netherlands and Malaysia. they specialise in fabrication and assembly of high precision engineering products and services. Their clients are mainly European-based engineering companies that design and build production and test equipment.

### *Product focus*

Tonasco focuses on a specific market for machine parts, material for it and testing it. According to Tonasco become an expert within an area you have to focus to specific products. Tonasco focuses on low volume and specialized products. Because he has proven itself as a reliable supplier lot of customers coming back to the company. He provides the same standards as in Europe, only against Asian price. European companies approach him with the requirements and according that he sources that.

### Suppliers

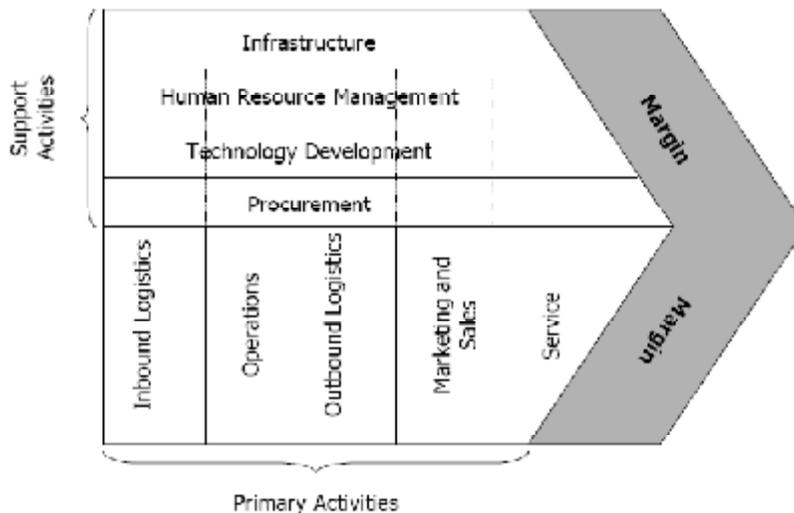
Tonasco has a large supplier network and goes often back to the same suppliers. The suppliers deliver to Tonasco and then they are responsible for the product to their customers in the Netherlands. Because of the economic crisis there is a lot of pressure on the price in Europe which makes it more interesting to source from Asia.

### Quality control

Tonasco does quality control their selves and states this as one of the most important things. If a supplier knows you control the quality he is more triggered to deliver good quality as well. Because Tonasco wants to deliver high quality they only source from Malaysia because most suppliers from China and India are not reliable in quality, delivery time and stick to agreements.

## Annex 7: The Value Chain of Porter

The value chain in Annex figure 3 is composed of value activities and a margin which is achieved by these activities. Value activities can be divided into physically and technically different groups of activities. Porter differentiates primary activities and support activities. Primary activities are those which are directed at the physical transformation and handling of the final products, which the company delivers to its customers. Support activities enable and support the primary activities. They can be directed at supporting one of the primary activities as well as supporting the whole primary process.



Annex figure 3: Value chain of Porter (Porter, 1985)

## Annex 8: The Kraljic matrix

The Kraljic Matrix from Peter Kraljic was first described in 1983. The Kraljic matrix can be used to analyse the purchasing portfolio of a firm. Recently, purchasing portfolio models have received considerable attention from academic and business world, where lot of discussion appeared about the usefulness of a purchasing portfolio model. Based on research done by Gelderman & van Weele movement within the matrix can be described depending on different strategies ( Gelderman & van Weele, 2003 ). In Figure 14 the Kraljic Matrix is shown ( Kraljic, 1983 ) .

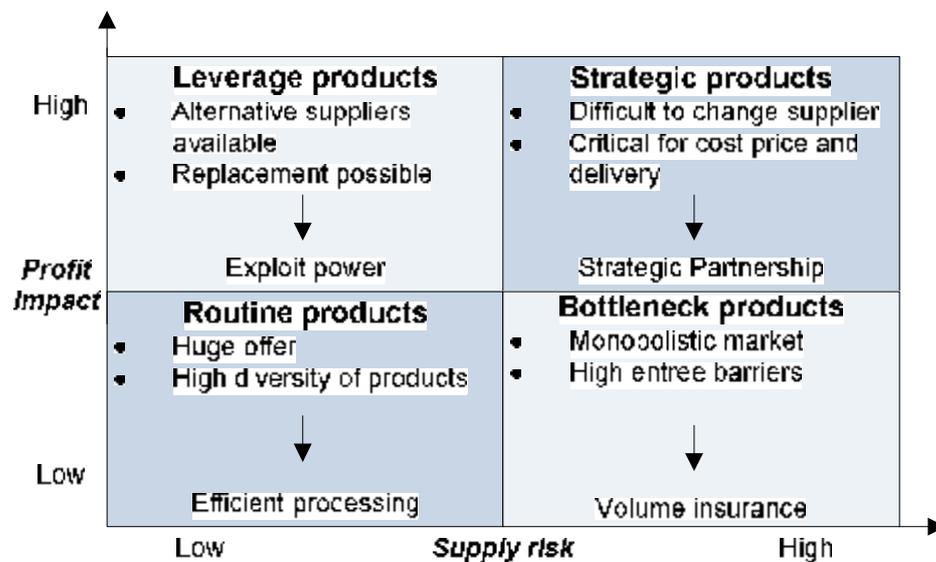


Figure 14: Kraljic matrix ( Kraljic, 1983 )

Kraljic based the framework on two dimensions for classifying a firm's purchased materials or components: *supply risk* and *profit impact*. The result is a 2x2 matrix and a classification in four categories:

- *Leverage products* are products that represent a high percentage of the profit of the buyer and there are many suppliers available. It is easy to switch supplier. The quality is standardised.
- *Strategic products* are products that are crucial for the process or product of the buyer. They are characterised by a high supply risk covered by scarcity or difficult delivery.
- *Routine products (non-critical products)* are products that are easy to buy and also have a relative low impact on the financial result. The quality is standardised.
- *Bottleneck products* are products that only can be acquired from one supplier or their delivery is otherwise unreliable and have a relatively low impact on the financial results.

Each of the four categories requires a distinctive approach towards suppliers. Routine products require efficient processing, product standardization, order volume and inventory optimization. Leverage products allow the buying company to exploit its full purchasing power, for instance through tendering, target pricing and product substitution. Bottleneck products cause significant problems and risks which should be handled by volume insurance, vendor control, security of inventories and back up plans. Strategic products require additional research.

According to the research of Gelderman & van Weele the measurement issues and strategic issues are handled in different ways for each company. There is no standard blue print for the application of the portfolio analysis. That is the reason why the products mentioned in section 4.5.2. cannot be divided into the different categories. To understand how products can move within the matrix is more interesting. When understanding the possibilities of the movement this can be used in the procurement outsourcing solutions LBB Teams can offer.