

**IMPROVEMENT OF INDIRECT
MATERIALS' PURCHASING
CENTRALIZATION WITHIN BUSINESS
PROCESS SERVICE ENGAGEMENT**

Case: Company X

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ABSTRACT

This thesis documents the problems experienced in an indirect materials' purchasing centralization project, discusses the possible reasons relying behind them, and gives improvement proposals and recommendations on how to enhance the operational side of the project. The study was commissioned by company X, the case company.

The data used for this qualitative study was gathered through the author's own observation while working for the project, interviews had with four indirect procurement managers of company X, and subject-related literature. The study consists of theoretical and empirical section. The theoretical part supports the empirical study by reviewing the principles of indirect materials' purchasing centralization and examining its management-related challenges.

The results of the study appoint the difficulty of ensuring operative soundness in a purchasing centralization project that has multiple external stakeholders; suppliers of indirect materials and a business process service provider that comprise several separate teams. Business process service provider's effective leveraging in a purchasing centralization project requires careful planning, contracting and monitoring that many companies do not put focus on enough at the time when making such strategic decision.

The study proposes that the role of indirect materials' suppliers' collaboration in e-procurement remains underestimated although it is a prominent key factor for full operative functionality. Suppliers' motivation to guarantee operative accuracy in this kind of a project is based on congruent and cooperative supplier relationship management by the purchasing organization.

Conclusions showed that local project management, clarified division of responsibilities, re-engineering of operative procedures, leadership, effective communication, cross-organizational cooperation and internal customer-oriented approach are the key in-house factors which the purchasing organization must consider in order to ensure the success of the purchasing centralization project both in the short and long run.

Key words: indirect procurement, purchasing centralization, e-procurement, business process services, consulting, supplier management, project management

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TIIVISTELMÄ

Tämä opinnäytetyö dokumentoi epäsuorien hankintojen keskittämiprojektissa koetut ongelmat, tutkii mahdollisia syitä näille ongelmille, sekä antaa kehitysehdotuksia projektin operatiivisen puolen kehittämiseksi. Opinnäytetyön toimeksiantoi case-yritys X.

Aineisto tähän kvalitatiiviseen tutkimukseen on kerätty kirjoittajan havainnointiin pohjautuen hänen työskennellessään projektissa, yritys X:n hankintapäälliköiden kanssa pidetyistä haastatteluista, sekä aiheeseen liittyvästä kirjallisuudesta. Tutkimus koostuu teoria-, ja empiriaosasta. Teoriaosa tukee empiriaosuutta antamalla katselmuksen epäsuorien ostojen keskittämisestä sekä tutkimalla siihen liittyviä hallinnollisia haasteita.

Tutkimuksen tulokset osoittavat hankintojen keskittämiprojektin operatiivisen toimivuuden haasteet kun projektissa on mukana useita ulkoisia resursseja; liiketoimintaprosessin palveluntarjoaja ja epäsuorien materiaalien tavarantoimittajat. Liiketoimintaprosessin palveluntarjoajan tehokas hyödyntäminen hankintojen keskittämiprojektissa vaatii huolellista suunnittelua, sopimuksentekoa ja monitorointia, joihin yritykset eivät usein kiinnitä tarpeeksi huomiota kun tämänkaltaista strategista päätöstä tehdään.

Tutkimus ehdottaa että tavarantoimittajien rooli jää operatiivisen toimivuuden kannalta aliarvioiduksi käytettäessä omaa ostoportaalia. Tavarantoimittajan motivaatio operatiivisen eheyden takaamiseksi hankintojen keskittämiprojektissa aikaansaadaan hankintaorganisaation johdonmukaisella ja yhteistyö-orientoituneella toimittajasuhteen johtamisella.

Yhteenveto osoittaa että paikallinen projektinhallinta, selkeä työn, - ja vastuunjako, operatiivisten prosessien uudelleensuunnittelu, johtajuus, tehokas kommunikaatio, poikkiorganisatorinen yhteistyö ja sisäinen asiakas-suuntautunut lähestymistapa ovat erittäin tärkeitä tekijöitä joita asiakasyrityksen tulee harkita taatakseen epäsuorien hankintojen keskittämiprojektin kannattavuus sekä lyhyellä että pitkällä aikavälillä.

Asiasanat: epäsuora hankintatoimi, ostojen keskittäminen, ostoportaali, liiketoimintaprosessipalvelut, konsultointi, toimittajien hallinnointi, projektinjohtaminen

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1 INTRODUCTION

This thesis documents and analyzes the operative side of case company X's indirect materials' purchasing centralization project. The study also demonstrates improvement proposals on how to empower the functionality of the project's operative procedures between its stakeholders.

Company X is using the services and resources of consulting enterprise Y in running the project. This is referred as 'business process service engagement' or 'cooperation' in this paper. From here on the indirect materials' purchasing centralization project, case company X and consulting enterprise Y are also referred with their respective interchangeable abbreviations 'the project', 'company X' and 'enterprise Y'.

Business process service engagement in the purchasing centralization project

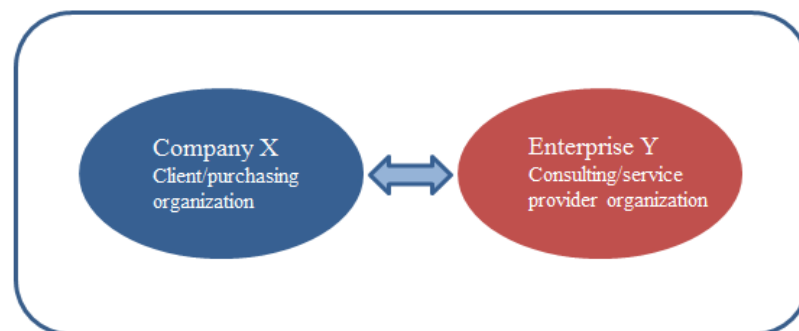


Figure 1. Business process service engagement between case company X and consulting enterprise Y in the indirect materials' purchasing centralization project

1.1 Background and objectives

The history of the project has shown that the personnel within it may change rapidly and the knowledge transfers from old employees to new ones can often be problematic. As there was no other documentation of the project, the importance of capturing its history and gathered experiences became clear in order to maintain its continuous development. Also an analysis on how to develop the noticed problematic operative areas was to be taken in place. Furthermore company X wanted to leverage this thesis to serve as an operational overview in order to ease the strategic decision making regarding the project's future.

One of the key objects of this thesis is to provide an overview and maintain the history of the project for its new forthcoming employees. The learning viewpoint is set on locating and analyzing the existing problems in the operative procedures. The utilization objective relies on demonstrating certain improvement proposals to develop these operative procedures, such as supplier management, service management, communication and project management. Ideally, the purpose is to generate a tentative e-procurement supplier management program for the project. The strategic perspective is to gather information of the project into one place for further decision making regarding the project's future.

The research objective can be formed into next questions:

- What problems have been experienced in the project?
- What are the reasons for the problems occurred in the project?
- How company X can improve the operational side of the project?

1.2 Limitations

The scope of this study is mainly focused on the operational issues of the project, excluding financial and deeper strategic matters. The procurement discussed in this thesis is indirect procurement, focusing on the acquirement of indirect goods in the form of purchasing centralization and e-procurement. Moreover, procurement of indirect services is covered as the business process service engagement between company X and enterprise Y is initially a strategic acquirement of indirect service. Further and detailed deepening in procurement is excluded due the purpose of this thesis is essentially to serve case company X and their project. For the same reason, the definitions for the terms used in this thesis are also selected to correspond with the context of the case-study and therefore they are not generalizable.

1.3 Research methodology

This thesis is a commissioned case-study relating to working life. The data for the case was gathered mostly by committed observation by the author when he was

working for the project at enterprise Y during fiscal year 2011. For further information interviews were held with company X's indirect procurement managers from the project's all three countries; Finland, Germany and the USA. The Finnish manager was interviewed twice frontally, and the rest of the managers once through telephone. Question forms were used as a preliminary tool for gathering information before the calls in order to detail the interview questions better. The theoretical information used in this paper is acquired from relevant literature and internet articles. In conclusion, the research methodology used in this study is qualitative. (Hirsjärvi, Remes & Sajavaara 2009, 162, 205).

1.4 Structure of the thesis

This thesis consists of literature review and case study. The purpose of the first one is to open the essential themes for the reader and support the conclusions made in the case by examining new ideas on how to develop the project.

The first theory chapter, 'procurement', stresses on the increasing importance of indirect procurement affecting organizations' profitability. The centralization of indirect purchases is reviewed altogether with its almost symbiotic relation with nowadays' indispensable electronic ordering; e-procurement. Most importantly, the usage of consulting and business process services in implementing these kinds of comprehensive procurement solutions is covered.

The second theory chapter examines management related topics that associate with purchasing centralization and the usage of business process services organizing it. Managerial questions are discussed and best practices are combined from several literature and internet sources to form benchmarks that suit the case study.

Ultimately, the case is studied. The history of the project is documented with a stress to report all inconveniences happened. The prominent operative areas are analyzed and improvement proposals are given for them, both applying the consolidated theoretical information and the author's own project-specific knowledge and experience.

2 PROCUREMENT

Lately organizations have started to develop their indirect procurement enthusiastically. An area that used to be perceived only as a sub-functional 'office task' in the past, has increasingly started to reveal its potential in affecting organizations' profitability during the evermore fastening competition. The potential profits that can be gained from indirect procurement are significant, but as the area is quite unknown for most organizations, its development is not of an obvious matter. (Hankintoimi 2012). Hence, more and more organizations acquire external consultancy and business process services with the aim of leveraging the benefits of their indirect procurement. (Capgemini 2013). In this chapter the key areas that relate to this trend are reviewed.

2.1 Procurement of indirect materials

Procurement is defined as the whole process and responsibility of acquiring goods, works and services for the production and operation of an organization from external suppliers. (Lysons & Farrington 2012, 6; Iloranta, Pajunen-Muhonen 2012, 49, 53). Every organization needs goods and services from external suppliers in order to execute their business. (Baily, Farmer, Jessop & Jones 1998, 3). The simplest key function of procurement is to enhance organization's profitability by minimizing cost prices. In other words, anything that can be saved goes directly to the bottom line of an organization. (Iloranta, Pajunen-Muhonen 2012, 25). Besides the cost prices, also the quality and timely supply of the procured materials are principal factors in successful procurement. (Van Weele 2010, 4-5).

It is important to notice that the terminology related to procurement is really imprecise, no official definitions really exist, and the terms are often used interchangeably. (Iloranta, Pajunen-Muhonen 2012, 49). Due to this, the key procurement terms are explained next in the way they are to be interpreted in this thesis. As the definitions vary a lot depending on the source, multiple literature definitions are combined to form a terminology that respectively suits the case.

Purchasing is a term that is often used interchangeably with procurement, but usually it refers more to the daily transactional procedures within procurement, such as the ordering of goods and services. (Cadenas 2012). Buying and ordering can be read as synonyms to purchasing. (Iloranta, Pajunen-Muhonen 2012, 49, 50).

Another important term related to procurement is sourcing. Sourcing has more strategic stress than procurement, and it is often defined as the whole concept of the ever more internationalizing procurement. Sourcing contains the examination of the overall demand for goods and services within an organization, the analysis of the supplier market, and the seeking and selection of suppliers. (Iloranta, Pajunen-Muhonen 2012, 51). Sourcing also analyzes the spend data of an organization by establishing product categories. Product categories are rational groupings of products based on their similarity. The products within a product category share the same or similar sourcing strategy to be implemented. The product categories are also used to segment the overall spend into rational ensembles, which then generally help to manage the spend more effectively in procurement. (Van Weele 2010, 85; Iloranta, Pajunen-Muhonen 2012, 146-147). The following table demonstrates how the key terms purchasing, procurement and sourcing are to be interpreted in this thesis.

Table 1. Distinction between procurement terms and how they are to be interpreted in the thesis

Operational	In between	Strategic
Purchasing Daily processes of ordering/buying and receiving products and services ➤ Sub-function of procurement	Procurement Whole responsibility of acquiring products and services within the frames of current supplier contracts ➤ Core function	Sourcing Demand analysis, supplier market analysis, seeking, selection and contracting of new suppliers ➤ Extended function of procurement

Procurement of materials is divided into two major categories:

1. Procurement of direct materials and services, consisting of all goods and services needed directly to the actual end-product of an organization, for example raw materials. (Benton 2010, 138).
2. Procurement of indirect materials and services, which are all the materials and services not related to the actual end-product of an organization. These are all the goods that initiate the operation of a company, such as office supplies, working clothes, consultancy services and business process services. (Benton 2010, 138).

This thesis focuses into indirect materials, and more specifically into operating resource management materials (ORM). This sub-category contains the indirect purchases of small consumer goods and relatively low-cost physical items, such as office supplies and light bulbs. (Benton 2010, 138). Another important area in this thesis is procurement of indirect services, which will be discussed later in chapter 2.4.

In an industrial company today, the whole ensemble of procured resources comprises over 80% of the total annual costs; indirect materials and services dominating over half of this spend. As this is a notable amount of cost, its efficient management is a vital asset in maintaining a company's profitability. Nevertheless, the indirect procurement is still badly organized, reported and managed in most organizations. The indirect procurement is mostly seen as a supporting function in organizations. (Iloranta, Pajunen-Muhonen 2012, 62).

The reason for indirect procurement's moderate role is that the indirect spend is not simple to detect; in income statements it is mainly hidden under other expenses, and in internal spending reports it is spread between different departments and units. Typically in an organization the employees purchase indirect materials themselves based on their personal preferences, without the contribution or coordination of procurement professionals. (Iloranta, Pajunen-Muhonen 2012, 21-22, 64). This unregulated purchasing environment leads to considerable operational transaction costs, as the purchasing transactions are made in scattered and over-lapping manner. (Van Weele 2010, 86). This purchasing

environment is also vulnerable to ‘maverick buying’, which means all the buying that is incompliant to the procurement policies of an organization. In practice, it most often means the ordering of items off the agreed supplier contracts. (Chaffey 2011, 366).

All these mentioned facts in this chapter have made the indirect procurement in most organizations a scattered and invisible area. (Iloranta, Pajunen-Muhonen 2012, 21-22, 58, 62). Hence, “making this huge purchasing expenditure transparent may result in significant cost savings”. (Van Weele 2010, 85). The creation of transparency is a significant condition in order to obtain better control over the procurement of indirect goods. (Van Weele 2010, 85).

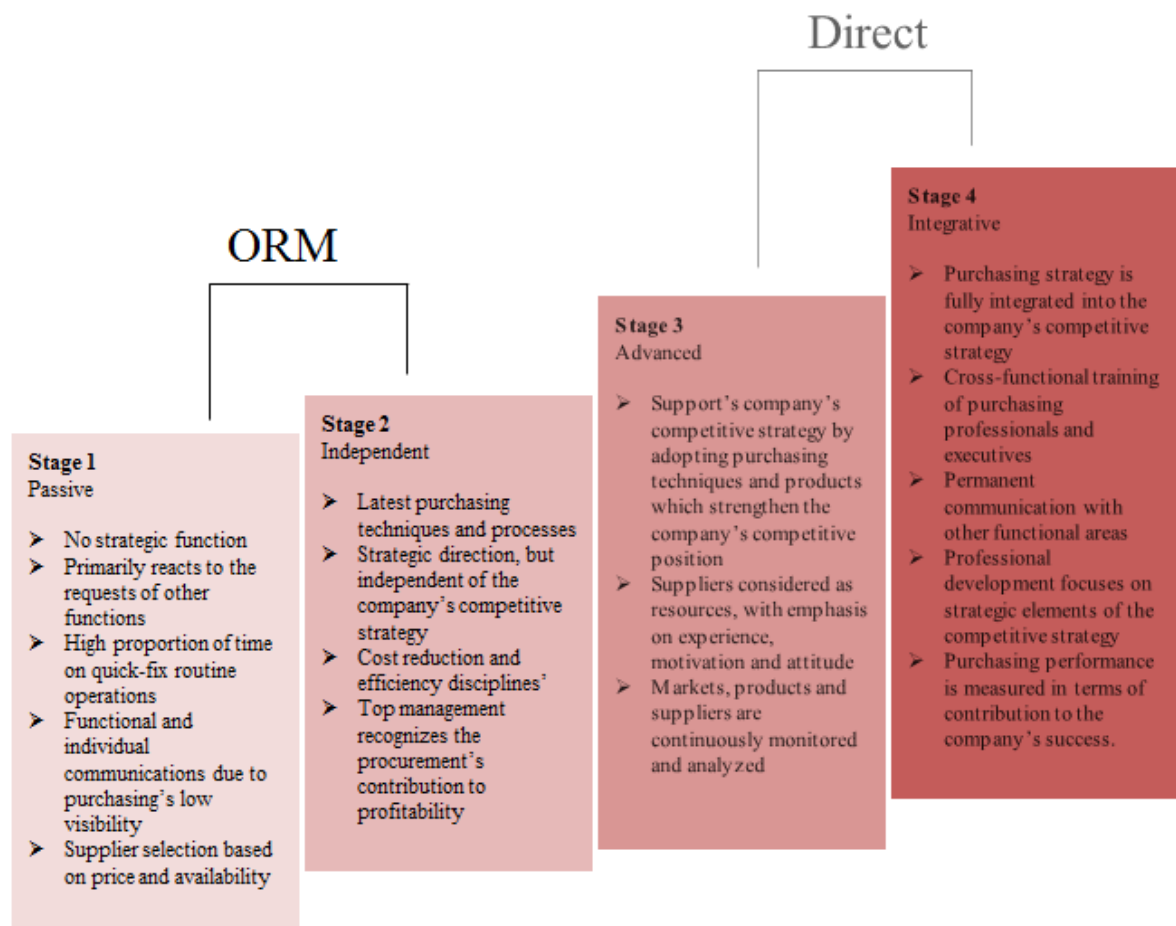


Figure 2. Organization's procurement maturity. (Lysons & Farrington 2012, 13; Iloranta, Pajunen-Muhonen 2012, 90).

Figure 2 shows the stages of an organization's procurement maturity. The definitions are selected and filtered from two different textbooks to match with the case study. In accordance to the case, a distinction is made that stage 1 and 2 are the only realistic stages of this figure that are applicable to the case study's purchasing centralization of ORM-materials. Stages 3 and 4 are mostly applicable for direct procurement and highly strategic indirect procurement, such as outsourcing.

2.2 Purchasing centralization

Purchasing centralization is nowadays a common way to leverage the benefits of indirect procurement in an organization. (Karjalainen 2009). In centralized purchasing, the purchasing is coordinated and regulated from the headquarters of an organization. The main aim of it is to capture the economies of scale by unifying the purchasing processes of an organization's different units. (Lysons & Farrington 2012, 164-165; Karjalainen 2009). Usually this involves that a corporate-wide frame agreement is set for all the purchases to be made from certain preferred suppliers, and the amount of suppliers per product category is kept low. (Karjalainen 2009, 4; Iloranta, Pajunen-Muhonen 2012, 98). Like this, the spend per a supplier can be maximized and hence the purchasing power of the buying organization increased. This can lead to a better negotiation position regarding prices, quality, compliance, and strategy with suppliers. (Van Weele 2010, 284).

Purchasing centralization should be considered especially when the needs for procured materials between different business units are similar. (Pajunen, Muhonen 2012, 320). Purchasing centralization also supports global approach in the procurement of an international organization. An organization can reach even more economies of scale by using same international suppliers in its different country units. Therefore the globally consolidated purchasing power can be leveraged to negotiate better prices with internationally operating suppliers. (Lysons & Farrington 2012, 165-168).

Purchasing centralization also lowers the amount of invoices due to the consolidated purchasing spend. Hence, it also reduces the workload for accounts payables and simplifies the whole invoicing process from the viewpoint of the purchasing organization. (Ritvanen, Koivisto 2006, 111).

Some of the most prominent benefits and disadvantages of purchasing centralization are summarized in table 2. The benefits and disadvantages here are filtered in order to correspond specifically with the procurement of indirect materials and the purchasing centralization represented in the actual case study.

Table 2. Benefits and disadvantages of purchasing centralization summarized (Iloranta, Pajunen-Muhonen 2012, 319).

Benefits of centralization	Disadvantages of centralization
<ul style="list-style-type: none"> ➤ Consolidation of purchasing volumes brings purchasing power and economies of scale ➤ Mutual purchasing prices ➤ Standardization of procurement practices ➤ More efficient purchasing organization ➤ Cumulative procurement expertise due to centralization of purchasing roles 	<ul style="list-style-type: none"> ➤ Can limit the decision making of business units ➤ Might gain resistance in business units ➤ Narrow focus of the procurement personnel ➤ Connection between procurement and other administrative functions can be weak ➤ The distance between the internal customers and procurement personnel can be large

Contradictory form to centralized purchasing is decentralized purchasing. In the decentralized model separate business units within an organization are responsible of their own purchasing. Hence, the business units have a profit-loss responsibility of their own in their procurement. (Van Weele 2010, 283). Business unit-driven organizations usually prefer decentralized purchasing model as the users of the procured materials can affect the decision making more and hence their needs are satisfied with higher probability. (Iloranta, Pajunen-Muhonen 2012, 317; Ritvanen, Koivisto 2006, 112). Secure local supply and overall internal satisfaction are also achieved more easily by these organizations due to the close buyer-seller relationship in the local business community. Hence, decentralized purchasing model supports local approach in procurement. (Lysons & Farrington 2012, 165-168). Consequently the great benefit of decentralized model is that the purchasing is executed in terms of supporting the organization's key business as well as possible.

The major disadvantage is that when the purchasing is decentralized, it is very difficult to perceive or control the organization's total spend for indirect materials. (Iloranta, Pajunen-Muhonen 2012, 319; Lysons & Farrington 2012, 165).

Decentralized purchasing should be considered when the needs between separate business units are significantly different. (Iloranta, Pajunen-Muhonen 2012, 320).

Some of the most prominent benefits and disadvantages of purchasing decentralization are summarized in table 3. The benefits and disadvantages here are filtered in order to correspond specifically with the procurement of indirect materials and the case company's earlier decentralized indirect procurement model.

Table 3. Benefits and disadvantages of purchasing decentralization summarized (Iloranta, Pajunen-Muhonen 2012, 319).

Benefits of decentralization	Disadvantages of decentralization
<ul style="list-style-type: none"> ➤ Procurement supports fully the key-business of a business unit ➤ Direct profit-loss responsibility for business units ➤ Suppliers and internal customers are in close connection with each other 	<ul style="list-style-type: none"> ➤ Purchasing volumes are scattered and negotiation leverage is lost with suppliers ➤ Supplier contracts, purchasing prices and conditions are different in separate business units. As a result overlapping work ➤ Difficulty of standardization ➤ Difficult to develop procurement expertise ➤ Total costs of procurement on enterprise level are difficult to perceive and control ➤ Main stress is in the usage of local suppliers; global opportunities are hard to utilize

2.3 E-procurement

A common way for an organization to implement purchasing centralization is to use e-procurement. (Karjalainen 2012; Benton 2010, 139). E-procurement suits especially well for the purchasing of indirect materials. (Benton 2010, 139). There are many types of e-procurement systems, but the system described in this thesis is a corporate procurement portal which enables the usage of private electronic supplier catalogues. (Lysons & Farrington 2012, 184). "E-procurement systems enable users within organizations to order directly from an electronic catalogue without interference of a purchasing department. Orders are acknowledged automatically by the supplier". (Van Weele 2010, 272). Hence, e-procurement

lowers significantly the administrative workload for the procurement department, leaving more time for strategic procurement planning. (Van Weele 2010, 271-272). Due to the same cause, e-procurement system can also significantly reduce the transactional costs related to indirect purchasing. This is because the electronic ordering is far more efficient than spending time on old-fashioned ordering maneuvers, such as paper-forms, making phone calls or sending faxes. (Van Weele 2010, 86; Benton 2010, 139). Furthermore, significant cost savings can be obtained if the e-procurement system is integrated to accounts payables. When a sound administrative system connects these two business functions, the suppliers' invoices can be matched electronically with corresponding purchase orders, delivery notes and goods receipts. This kind of order-to-pay solution can decrease the errors made in the payment of invoices and fasten up the whole transactional process. (Van Weele 2010, 48).

As earlier mentioned in chapter 2.1, obtaining the transparency into the purchasing of indirect materials is a very important condition in order to control the indirect spend. (Van Weele 2010, 85). Usage of e-procurement creates this transparency as the transactions done in the system are recorded and the auditing of the spend data becomes easily accessible. In addition, while the e-procurement system is administrated by procurement professionals, it provides improved control over the procurement processes, and the company's procurement policies can be implemented more easily. (Lysons & Farrington 2012, 184; Chaffey 2011, 360). Therefore e-procurement is also a useful tool for eliminating maverick buying. (Benton 2010, 139).

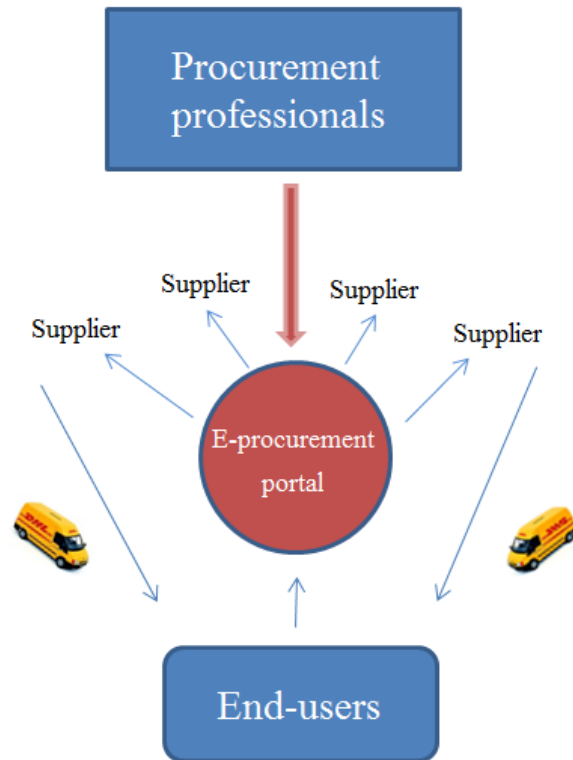


Figure 3. Centralized purchasing using e-procurement system

As seen in figure 3, the ordering of indirect materials is left for individual employees in e-procurement environment. The employees are referred interchangeably as ‘end-users’, or ‘requisitioners’. The ordering happens in a controlled e-catalogue based environment which is managed by procurement professionals. Orders made in the system transmit automatically to suppliers and the end-users receive the products they ordered. The goods received will be invoiced by the suppliers on a monthly consolidated basis directly from the accounts payable department, without interfering the requisitioner anymore. (Van Weele 2010, 272).

Though the potential benefits of using e-procurement might seem admirable, the implementation of it is far from an obvious matter. It demands excessive procurement expertise, clearly communicated purchasing procedures and a sound integration with other administrative systems of an organization. (Van Weele 2010, 273). The implementation of a new e-procurement system comes along with the normal change management dilemmas. The problem is how to get the stakeholders to change their way of operating and conducting their business.

(Chaffey 2011, 367). Change to purchasing centralization might result in a resistance from the business units who are used to take care of their own indirect purchasing. (Iloranta, Pajunen-Muhonen 2012, 101). Hence it is recommended that the old purchasing processes and roles of the persons involved in purchasing should be examined and re-engineered prior to the implementation of an e-procurement system. (Chaffey 2011, 367). Another downside in e-procurement is that the procurement professionals who are responsible of the whole new complex will not have wide enough focus to cover all the needs of their internal customers. The connection to other functions of the organization will be left low, and the distance between the indirect purchasing department and the end-users will end up being large. (Iloranta, Pajunen-Muhonen 2012, 101).

In conclusion, it is important to notice that the implementation of a procurement system is not a simple matter. “Whatever procurement solution the company goes for, they should match the internal operational processes and match the IT infrastructure that is present within the company”. (Van Weele 2010, 49). Moreover, e-procurement should only be seen as a tool among other things, and it should not be trusted as the only method in improving procurement procedures. It should be used for right and realistic causes. (Iloranta, Pajunen-Muhonen 2012, 101).

2.4 Consultancy and business process services

E-procurement solutions are provided by third party e-procurement service suppliers. (Benton 2010, 137; Van Weele 2010, 271). In addition to e-procurement, also procurement consultancy and business process services are used to improve organizations’ indirect procurement. (Iloranta, Pajunen-Muhonen 2012, 100; Van Weele 2010, 271). This is due to the fact that organizations’ indirect purchasing expertise and resources are generally low as a default. Therefore a growing number of organizations utilize external resources, such as consulting and business process services, in the development of their indirect procurement. In another words, instead of investing into the indirect procurement internally, the expertise and knowhow can be bought as an external service more inexpensively. Consultancy enterprises offer comprehensive indirect procurement

solutions where human resources, consultancy and e-procurement system are combined. (Chaffey 2011, 554). This kind of an alliance in indirect procurement, where a part of an organization's procurement is handled by a consulting organization, is referred in this thesis as an 'engagement', 'cooperation' or 'project'. The actual event of an acquirement of a business process service like this is classified as a strategic purchase of indirect service, which will be discussed next. (Iloranta, Pajunen-Muhonen 2012, 101).

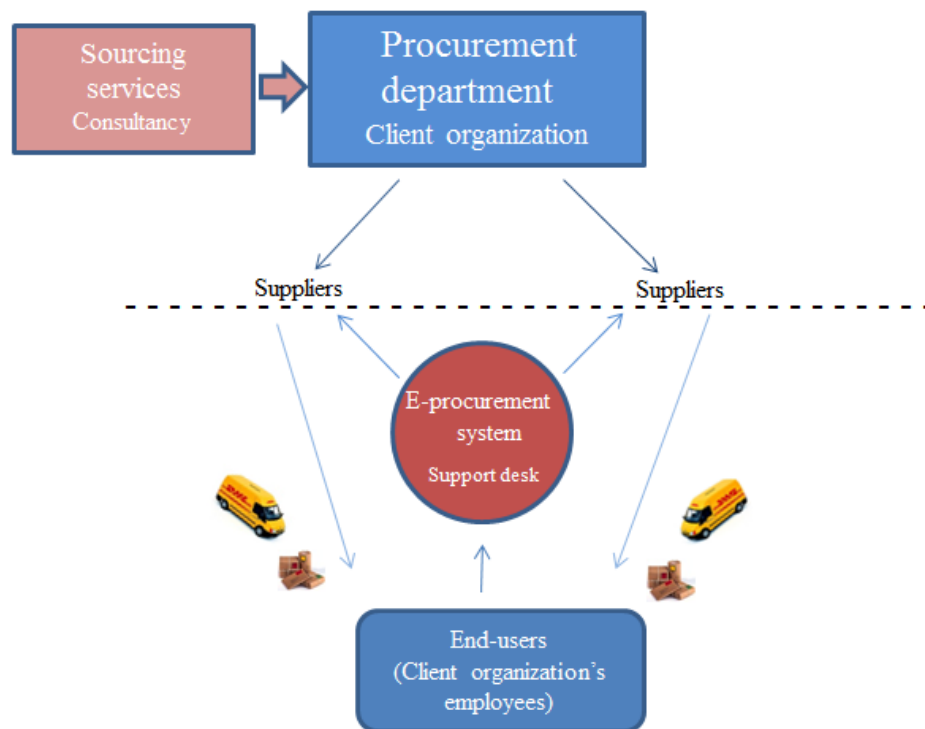


Figure 4. Usage of comprehensive consultancy and business process services in the development of an organization's indirect procurement

In Figure 4 a typical purchasing centralization project offered by procurement consulting organization is represented. This kind of a service solution can combine e-procurement, professional purchasing support desk and sourcing human resources. (Chaffey 2011, 554). In addition to the explanation of e-procurement in figure 3, the consulting organization offers human resources who support the solution. Sourcing services help the client organization with the sourcing strategy and project management. Professional support desk assists with operational issues and supports the users of the system with its use.

The procurement of services is often considered more difficult than procurement of materials. This is because a service is more difficult to evaluate than a product due to its non-physical form. As services are not physical, the evaluation of them contains easily subjective and opinion-based meters. When it comes to the acquirement of consultancy services, the dimension of expertise is an especially prominent matter to which traditional material-oriented purchasing practices do not apply to. The quality of a service usually depends on the expertise of the individual professionals involved in producing the service. This kind of a matter is really difficult to evaluate in advance before acquiring a service. (Iloranta, Pajunen-Muhonen 2012, 202, 209-210).

The acquirement of an e-procurement solution and indirect procurement consultancy service contain the same challenges as any purchase of a service. “Consultants and suppliers of these solutions have great expectations of the possible profits resulting from these solutions”. (Van Weele 2010, 271). Nowadays consultants offer actively their services in improving organizations’ procurement. They promote vigorously the results achieved in their previous projects in other organizations. The difficulty in acquiring consulting services to develop something is that the purchasing organization itself is not often able to picture the actual problem that they have. Business consultants then use this unawareness to their own benefit by demonstrating the excellence and financial benefits of their solutions. Hence, they guide the client organization forward to a quick implementation of their comprehensive costly solutions. This happens even though the consultants might recognize the problem and solution already during the first meeting with the client. This way the consultants are able to sell a longer-term project for the client organization. (Iloranta, Pajunen-Muhonen 2012, 217). It has been noticed that the activeness of the service supplier’s salesman has a strong influence on the final selection of the service supplier. It is clear though, that the most active service supplier selling their service is not necessarily the best option. It has been noticed that that some of the service suppliers allocate their best resources in the sales of their solutions, leaving the actual implementation of the solutions weak. (Iloranta, Pajunen-Muhonen 2012, 185).

When procuring a service, the most important matter in the process is a careful evaluation of the actual needs and objectives for the service. The needs and objectives should be mirrored with the possibilities of the supplier market. Cross-organizational teams should be formed and heard in order to find the optimal solution for the organization when choosing a service solution. (Iloranta, Pajunen-Muhonen 2012, 215). To conclude, the most important thing in successful acquirement of a business process service is the selection of the right service supplier. This is especially inevitable when the cooperation between the organizations is to last for a longer time period. (Iloranta, Pajunen-Muhonen 2012, 185). Detailed process of procuring a service is presented on the following page.

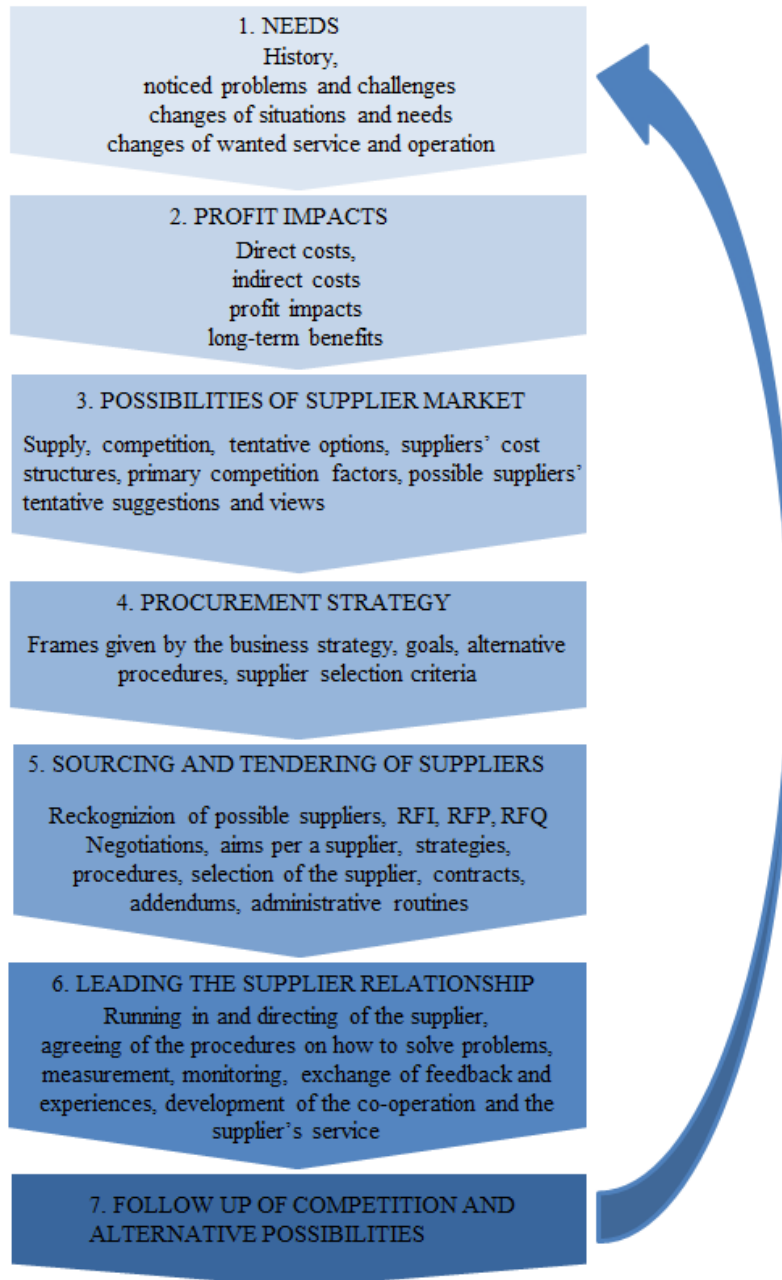


Figure 5. Procurement process of a service (Iloranta, Pajunen-Muhonen 2012, 216).

Figure 5 represents the procurement process of a service with its most important steps. After the service is acquired it has to be led and the follow up of alternative supplier possibilities is to be started. If necessary, the steps have to be repeated again with a new supplier candidate when changing the service supplier. (Iloranta, Pajunen-Muhonen 2012, 216).

3 PROJECT MANAGEMENT

As concluded in main chapter 2, purchasing centralization and e-procurement are powerful methods in developing an organization's indirect procurement. While indirect procurement departments are fairly small in organizations, the needed new technology and expertise is often bought as a cost-effective service from an external service provider. According to Crandall and Chen, a bought service of this extent and complexity is to require a project management oriented approach. (Crandall, Chen 2010, 284). Therefore the prominent management-related topics that relate to the purchasing centralization project of the case study are selected to be reviewed in this chapter.

3.1 Service management

When a business process is bought from an external service provider instead of managing it internally, the belief tends to be that the external organization will take it over fully and no more attention has to be paid for it. It is common that the bought business process is forgotten practically immediately after the contract with the service provider is signed. The truth is though, that when a business process is bought instead of performing it internally, it transforms into an external resource that has to be directed and managed effectively. However, no service supplier really wants to be directed. (Iloranta, Pajunen-Muhonen 2012, 188, 196).

When agreeing on the service with the service provider, it is wise to agree on the quality of the service instead of using only the traditional service level agreements. (Iloranta, Pajunen-Muhonen 2012, 221). Service level agreements define the required minimum service of the service supplier, but they do not tell anything about the actual quality of the service. (Van Weele 2010, 171; Iloranta, Pajunen-Muhonen 2012, 221). "Right quality means that the service provider has met the specifications or requirements which were laid down for the service on the basis of the customers' demands and needs, and that the customers' expectations have been fulfilled". (Edvardsson, Thomasson, Øvretveit 1994, 2).

As consulting organizations' sales personnel's sales work is fierce when it comes to foisting their services, it is extremely important that following things are

analyzed and documented in order to underlay a good base for a successful service cooperation; what is needed, what are the expectations towards the service provider, how the service is measured and monitored, how accomplishments are rewarded and how failures are sanctioned. Therefore the determination of key performance indicators which indicate the quality of the produced service is the most important thing regarding the results. It is also vital that all these precautions are understood in the same way in both organizations. (Iloranta, Pajunen-Muhonen 2012, 100, 221). "Prevention rather than inspection indicates that service quality is not a matter of controlling quality afterwards. Instead, it is a matter of preventing poor quality at the earliest point". (Edvardsson, Thomasson, Øvretveit 1994, 3).

However, in addition to a good service contract, the ensuring of a service's success requires that the purchasing organization monitors the quality of the procured service regularly. Therefore it should be determined already in the procuring process how the monitoring will be organized in practice and what kind of a feedback will be given in escalating situations. (Iloranta, Pajunen-Muhonen 2012, 100, 223). Besides, the client organization has to understand that the responsibility of the management and leadership of the cooperation is also on their side. They have to ensure that their management and directing of the service provider is continuous. (Iloranta, Pajunen-Muhonen 2012, 201).

The effort and cost of monitoring is often a surprise for organizations who procure business process services. The coordinating expenses of the cooperation with the service provider can often end up being even higher than the estimated benefits of the alliance. Commonly the executive board of an organization overestimates the achievable cost savings and underestimates the costs and difficulties involved in maintaining a good quality in procured business processes. (Pajarinen 2001, 17). Usually this becomes clear to the executive board at the point when the first problems start to escalate and disturb other business processes. (Iloranta, Pajunen-Muhonen 2012, 188).

According to Iloranta and Pajunen-Muhonen, their experience and research have shown that the main reasons relating to a failure in a cooperation like this are

among other things; lack of trust between the parties, insufficient investment in the development of the cooperation, problems relating to communication and data transmission and imbalance in the power relation between the counterparts. (Iloranta, Pajunen-Muhonen 2012, 184).

In summary, when a business process is acquired instead of doing it internally, it requires totally new capability of leading operations over the borders of an organization. (Iloranta, Pajunen-Muhonen 2012, 198). Carefully designed service contract, continuous monitoring, active leadership, and open communication are key factors in successful service cooperation. (Iloranta, Pajunen-Muhonen 2012, 200-201).

3.2 Supplier management

Using an external resource in organizing procurement might be dangerous. If the client organization is not aware of the management of its suppliers even itself, the involvement of a new third party middle-hand, such as a consulting enterprise, cannot be expected to enhance the situation any better. (Iloranta, Pajunen-Muhonen 2012, 102). Thus, the establishment of an e-procurement system may gain negative perception from suppliers. The creation and maintenance of a separate B2B-catalogue can be a long and costly process for them. E-procurement project disrupts the old comfort zone by issuing new policies and control over the buyer-seller relationship. The suppliers may also have the resistance to renew processes simply due to their inflexible organization culture. (Chaffey 2011, 366-367). The compatibility of the e-procurement system with the suppliers' administrative systems might result into tedious technical challenges in the implementation process as well. (Van Weele 2010, 273).

In any supplier relationship, the pre-requisite for all collaboration is that the supplier knows what the client organization wants. In addition to contracts, the continuous directing of suppliers is essential in ensuring operative soundness with them. Many times the reasons for suppliers' late deliveries and errors are inadequate instructions. Therefore the basic principles of efficient communication are a prominent part in supplier management. Specific contact persons and roles

should also be established for all kinds of issues in both the client's and supplier's side. These matters are good to discuss and establish in a written form already in the beginning of the supplier relationship. The lining should live and be modified according to the changes that will come a long during the relationship. (Iloranta, Pajunen-Muhonen 2012, 301).

According to a recent doctoral dissertation by Sanna Nieminen, a lot of the supplier's will to collaborate with its customer's needs relies on the supplier's individual employees' level. According to her study, the competence, attitude and motivation of the individuals are very important factors influencing the extent of supplier relational effort in the buyer-seller relationship. (Nieminen, S. 2011, 77). Therefore the client organization needs to increase its attractiveness as a business partner in order to motivate the supplier and its individuals in some form for better cooperation. (Iloranta, Pajunen-Muhonen 2012, 294). According to the social exchange theory, both counterparts need to feel that the relationship is in line with the both parties' interests. (Nieminen, S. 2011, 17). In another words, spare collaboration does not form if it does not benefit both the supplier and client organization in some extent. The common ways for a client to increase its attractiveness are large spending volumes and easiness of cooperation. (Iloranta, Pajunen-Muhonen 2012, 294).

However, the purchasing organization's role usually remains reactive in the supplier relationship. Reactive purchasing approach means that the purchasing organization reacts to things after they have happened, and usually at this point it is already too late to affect. Reactive purchasing is considered old-fashioned because it is very cost-oriented. The problems are usually thrown on the shoulders of the suppliers and also the negotiations with them are imposingly only about pursuing benefits for the company's interests in an implicit manner. (Ritvanen, Koivisto 2006, 109-110).

“At the stage of delivery, problems occur: suppliers deliver too late, deliveries are not complete, products are damaged or do not meet quality requirements, packaging is unsound, and information labels cannot be read by bar code systems.” (Van Weele 2010, 48). One of the primary reasons for these delivery

problems may be that suppliers are not systematically evaluated, as a result of which bothersome suppliers stay on board and delivery problems happen time after time. In accordance to prevent delivery problems, an organization needs clear guidelines regarding procurement governance. These guidelines have to be then efficiently communicated to the suppliers (Van Weele 2010, 48).

Personal relationships may be also one of the reasons for keeping problem suppliers on boarded. Products are ordered from a supplier with whom the requisitioner has a friendly unprofessional relationship. In fact this is one prominent factor why long relationships with suppliers may exist. “As a result such suppliers may not be as competitive as the internal customers think they are”. (Van Weele 2010, 47). Inadequate contracts are also a common reason for the misbehavior of suppliers. “Contracts, when available, are stated in general terms, they are not complete, and have not passed legal scrutiny, and a clear description of the product or supplier requirements may be missing”. (Van Weele 2010, 47).

After the buyer-supplier relationship has been established, it is crucial to monitor and assess the supplier's performance. The purpose of the monitoring is to improve the collaboration and thereby control performance. (Burt, Dobler & Starling 2003, 492; Östring 2004, 16). Key performance indicators (KPIs) are the parameters that can be used to measure supplier performance, operations and internal customer satisfaction. (Van Weele 2010, 216). As its simplest, the measuring of a supplier can include only the monitoring of the price, quality, quantity, delivery time and operative soundness. In an uncomplicated supplier relationship, it is also good to monitor the suppliers' attitude, will to serve, and communication with the client organization. (Iloranta, Pajunen-Muhonen 2012, 316).

A wider concept is supplier relationship management (SRM), “which is defined as a comprehensive approach to managing an enterprise's interactions with the organizations that supply the goods and services the enterprise uses. The goal of SRM is to streamline and make more effective the processes between an enterprise and its suppliers. SRM is often associated with automating procure-to-

pay business processes, evaluating supplier performance, and exchanging information with suppliers". (Crandall, Chen 2010, 278).

Key supplier manager-concept (KSM) is proven to be effective tool in supplier management. In this model one key supplier manager is appointed to manage most of the company's collaboration with a supplier. The KSM-model is especially suitable for large companies whose purchasing environment is scattered. The key supplier manager is the coordinative contact person between both the buying organization's different units and with the particular supplier. The primary task for the key supplier manager is to leverage the company's total consolidated spend and optimize the procurement for the supplier on corporation level. The key supplier manager obtains the expertise on the particular product category and hence he or she knows what is bought and how the purchasing volume can be managed. (Iloranta, Pajunen-Muhonen 2012, 322).

The active directing of suppliers towards better performance demands many kinds of tools. Notorious aspects for active supplier development are shown in table 4.

Table 4. Tools for active supplier performance development (Iloranta, Pajunen-Muhonen 2012, 297-298).

Tools for active supplier performance development
<ul style="list-style-type: none"> ➤ Creation and leveraging of competition pressure ➤ Modeling of the supplier's and supply chain's cost structure ➤ Development and leveraging of social powers and dependencies ➤ Development of attractiveness ➤ Building of trust ➤ Creation of open atmosphere ➤ Evaluation and measurement of supplier's performance ➤ Regular open feedback and guiding ➤ Development discussions with the supplier ➤ Incentive,- sanction and reward structures ➤ Immediate involvement in the actions taken by the supplier

Table 4 summarizes most of the issues discussed earlier in this chapter. The first two bullets; creation and leveraging of competition pressure, and the modeling of the supplier's and supply chain's cost structure appoint more towards strategic direction. The rest of the bullets stress that the client can make the supplier aware that it does have the ability to measure the supplier's performance in many

dimensions. Used in rightly manner, these tools can direct the supplier towards better service and efficiency. (Iloranta, Pajunen-Muhonen 2012, 298).

3.3 Project management

The perception, management and leadership of an ensemble that contains multiple organizations are far more complex and demanding instead of having only one business partner to manage. Especially when operating with a consulting organization, the following things have been noticed as some of the key problems;

1. How the division of work and cooperation can be achieved simultaneously in an effective manner in a network that comprises of multiple organizations?
2. How the loosely bound network containing a consulting organization can be managed to produce services that effectively fulfill the needs of the internal customers? (Hakanen, M., Heinonen, U., Sipilä, P. 2007, 29).

According to a recent globalization study, the development of abilities to direct multicultural and network-based organizations is nowadays one of the biggest question marks for an executive board of a company. (Iloranta, Pajunen-Muhonen 2012, 199). As business processes are bought instead of executing them internally, the scattered complex functions have to be lead without full power as they are not anymore under the legislative power of the home organization. Thus, the management of external resources and supply network can be compared to the management of a large enterprise, but with limited tools for effective leadership. (Iloranta, Pajunen-Muhonen 2012, 198).

As stated earlier by Crandall and Chen, project management oriented approach can be applied for the management of complex service entities. Project management is inevitable especially when the parties of the service entity are located in different countries (Crandall, Chen 2010, 284). In general, a project can be described as a set of activities to change something or create something new. (Boddy, D. 2002, 4). Project management then refers to the guidance of the project team for them to acknowledge and attain the project's planning,

scheduling, procedures, communication, decision making and completion. (Hyväri, I. 2007, 9).

Project manager is needed to lead the project effectively. The project manager is the specific person who has the big picture of the project, and whose main task is to direct the whole ensemble. If the project manager does not have a solid presence and status in the project, the interests of individual team members may start to lead the project to a false track. (Berkun, S. 2006, 10). Hence, the project manager's dedication and actions taken towards the project and its planned goals are some of the most important factors in a successful project. (Berkun, S. 2006, 310).

Leadership in today's cosmopolitan business world is far more challenging than in one local homogenous working culture. Many companies have found out that the principal problems comprise of failures in effective management of their people in a global setting. "Leaders and their employees are often puzzled by behaviors that are hard to interpret from their own paradigm". (Schmidt, W.V., Conaway, R.N., Easton, S.S., Wardrope, W.J. 2007, 128). As important as sole leadership is in a global setting, teams do also a big part of the overall decision making. Hence, a principal critical competency of leadership is being able to direct a team effectively. Therefore cosmopolitan leaders have to nowadays manage teams and their issues in a multinational and multicultural context, the primary tool of communication being technology. "This challenge includes managing cultural diversity, differences, and conflicts; handling geographic distances, dealing with coordination and control issues; maintaining communication richness over distances; and developing and maintaining a team identity among members". (Schmidt, W.V. 2007, 128).

Communication plays a major role in change initiatives. The larger the organization is, the more vital it is. Operational side of work will not work in a scattered international environment without proper communication. Therefore good leaders have to communicate well. There is nothing more harmful than confusing messages; hence communication has to be direct and as simple as possible. Independent of what the message is about; it should be repeated as often

as possible if an impact is wanted on a cause. Repetition is a simple tool for adding clarity and focus on issues until the corresponding stakeholders know the issue by their heart, and start to act for it. (Cambié, S., Ooi, Y.M. 2009, 72).

As already noted in previous chapters, procurement is seen more and more as a function that influences all the other functions in an organization. Therefore cross-organizational cooperation is a crucial asset in order to manage procurement effectively. (Iloranta, Pajunen-Muhonen 2012, 93). Thus, this approach can also be applied into project environment based procurement effectively as well. Cross-organizational cooperation involves that every business department plays its own role in supporting the organization's procurement. (Burt, Dobler & Starling 2003, 106). In means of a tool that could be leveraged to enhance cross-organizational collaboration and communication in a project environment, an enterprise blog might be the answer. (CIO 2007).

“Too many enterprise users get lost in storms of reply-all e-mails while trying to manage projects or collaborate. Blogs make a better answer.” (CIO 2007). Email itself is not anymore an effective communication medium in project management. Enterprise blogs can replace long and tangled email threads and bring transparency to all stakeholders that could not be other ways possible. To change people from using email in project environment will not be easy. It will inevitably happen in the future though when blogs will become a vital communication method in managing projects. (CIO 2007).

4 CASE: ANALYSIS AND IMPROVEMENT OF THE PROJECT

In this chapter the origin for the case company's indirect materials' procurement development project is represented. Furthermore the cooperation with consulting enterprise Y is demonstrated. The problems that have emerged during the project are summarized, reasons and consequences are discussed and improvement proposals are given for the found prominent operational issues.

4.1 Case company and the project

The case company X is a large international Finnish industrial company and it is one of the market leaders in its businesses. The company operates in several countries around the globe and its headquarters are located in Southern Finland. The spend for indirect materials is noteworthy in the operation of the company. The company's consumers of indirect materials, the staff, can roughly be divided into two subgroups; factory employees and office employees. Factory labor works in the production, manufacturing and maintenance services of the company. They need numerous indirect materials, such as tools, working clothes and working safety items in order for them to execute their job. The other subgroup, office employees, includes all the normal business personnel that a large company has. For this subgroup, the spend for categories such as office supplies, mobile phones and small IT-products is steady. Overview of the company's prominent indirect product categories and their principal division of usage among the employees is represented on the next page in table 5.

Table 5. Prominent indirect materials' categories in company X and their principal split of usage between the factory and office employees

Indirect materials	Factory employees	Office employees
Tools & equipment	X	
Non-critical raw materials	X	
Working clothes	X	
Safety items	X	
Office supplies		X
Promotional products	X	X
Small IT-products	X	X

Table 5 demonstrates the prominent operating resource management categories in company X and their principal split of usage between the employees.

Even though the spend for indirect materials is inevitable within company X, the indirect procurement is mostly seen as a supporting function to their business as it usually is among companies. The indirect procurement in company X is organized by a small amount of people, where one procurement manager in each large country unit is allocated to manage it on a country level. Before the launch of the indirect procurement development project, the country managers used to negotiate wide frame-agreements with their local suppliers. While the frame agreements were set on a country level, the responsibility of ordering was left for individual profit centers of the company.

Important fact to be noticed here is that company X is a largely decentralized organization, where each profit center has a profit-loss responsibility of their own. In practice, this means that each profit center is eligible to order almost any indirect materials they need from any supplier they want, in order for them to perform successfully. Overall, the company's headquarters seldom does decisions that would affect the organization's internal procedures as a whole. This also makes the indirect procurement difficult area to manage pervasively in the company. In this challenging environment the buying of indirect materials was scattered, ordering transactions were overlapping, and countless suppliers were

used through many ordering channels. Maverick buying was common in many product categories. In conclusion, the buying was mostly decentralized even though the needs for indirect materials were mostly similar throughout the whole organization. Thus, all the potential benefits of indirect procurement were not yet fully leveraged. The purchasing of indirect materials was passive, as demonstrated in figure 6.

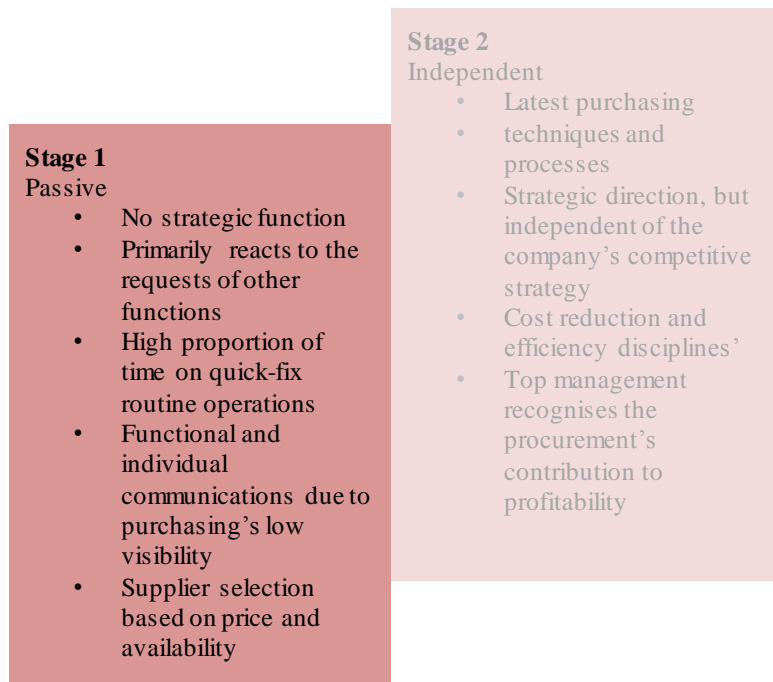


Figure 6. Company X's indirect materials' procurement maturity (Lysons & Farrington 2012, 13; Iloranta, Pajunen-Muhonen 2012, 90).

Figure 6 demonstrates the level of company X's indirect procurement maturity before the development project. The indirect procurement was passive, and the purpose was to reach independent stage and obtain state-of-the art indirect procurement methods.

The indirect materials' procurement development project was started in 2010 when company X wanted to utilize their indirect procurement's untapped possibilities. Company X wanted to consider a global perspective on their indirect procurement by utilizing and contracting mutual international suppliers in different country units whenever possible and profitable. Moreover company X

wanted to establish a new mutual ordering channel which would improve the ordering processes and capture the buying behavior of company X employees. The aim of all this was to gain more savings, control, transparency, economies of scale and quality on their indirect procurement. In short, the purpose was to increase the efficiency of buying process. As the indirect procurement organization was small in the company, new resources and knowhow were needed to implement this project. Company X needed consulting in determining what would be the best solution for them. Additionally, new human resources were needed to assist with the increased need for sourcing work and management of the new complex project. Moreover company X needed the technology, knowhow and personnel in order to establish and administrate the new mutual ordering channel. As the indirect procurement's role was to serve as a supporting function for the company's key business, its internal growth was not planned. Instead company X decided to use an external resource in order to actualize this procurement development project.

4.2 Cooperation with consulting enterprise Y

Case company X decided to use the services of consulting enterprise Y with the purpose of actualizing the development project. This decision itself was a strategic acquirement of indirect service, which will be discussed further in chapter 4.4.1 Consulting enterprise Y is a big international corporation specialized in consulting and business process services in many fields of business, including procurement. It markets itself to have the global scope, high expertise and resources needed to provide quality procurement and sourcing services for large international clients who operate in multiple countries. It also claims to bring significant additional reduction to its clients' purchasing prices through its big footprint and purchasing power in the area of indirect procurement. Business process service engagement between the companies was set, where consulting enterprise Y would provide the systems, resources and knowhow to streamline company X's procurement and sourcing. The agreed service package of enterprise Y can be roughly divided into two:

1. E-procurement
2. Sourcing services

Table 6. Division of enterprise Y's services and summary of their expected benefits for company X

E-procurement	Desired benefits	Sourcing services	Desired benefits
<ul style="list-style-type: none"> ➤ Purchasing centralization ➤ Electronic ordering ➤ Purchasing support desk ➤ Spend reporting ➤ Invoice consolidation 	<ul style="list-style-type: none"> ➤ Consolidation of volumes ➤ Efficiency and compliancy ➤ Operational support ➤ Transparency ➤ Simplified payment of invoices 	<ul style="list-style-type: none"> ➤ Multinational sourcing ➤ Consulting ➤ Increased purchasing power ➤ Management resources 	<ul style="list-style-type: none"> ➤ Fast quality contracts and global reach ➤ Strategic support ➤ Lower purchasing prices ➤ Project management, product category and catalogue management

4.2.1 E-procurement

Company X wanted to harmonize the ordering of indirect materials within the company in order to be able to consolidate, control and direct the overall volume of it. Additionally, transactional cost savings and increased efficiency were desired by unifying and optimizing the ordering processes in an electronic form. E-procurement purchasing centralization, a service solution offered by consulting enterprise Y, was chosen as the tool to actualize this. Enterprise Y recommended an e-procurement system that had been in the use of one of its other clients; very similar European company to company X. Enterprise Y guaranteed transactional optimization and cost savings through simple and user-friendly electronic ordering. Moreover enterprise Y promised a seamless invoice consolidation process which would decrease the workload for the accounts payable department of company X.

The plan was to start using e-procurement first in the three biggest country units of company X where the indirect spend is the biggest. After one to two years of running the purpose was to expand its usage to other country units. While the buying of indirect materials was largely decentralized during the time before the project, the coverage and implementation of the system was wanted to be started carefully on a country level as well. This is because, as earlier mentioned, company X is a business-unit driven organization where the units have their own decision making power. Only a strict command itself from the headquarters would

not make the business units comply with a new holistic procedure. Instead, e-procurement was let to sell itself to the employees by coming across as an excellent tool for indirect purchases.

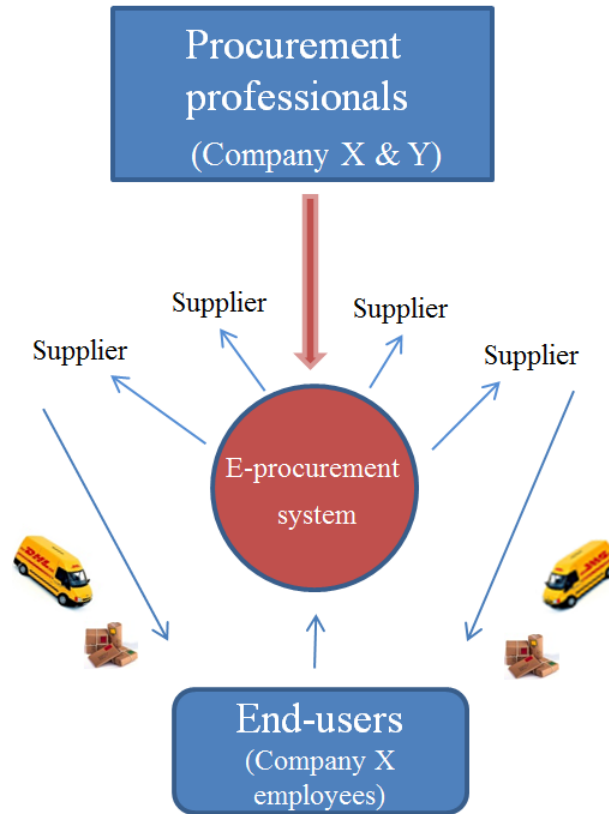


Figure 7. Centralized buying via E-procurement system

As seen in figure 7, through the e-procurement system every company X employee would be able to find the most indirect materials they need from one single place. This would simplify the whole ordering process for them and reduce the working time used for it. Due to the electronic ordering system, the transactional costs would decrease and transparency to the indirect buying would be obtained. Ordering would be compliant as the overall content of the system would be regulated by the indirect procurement managers. The e-procurement system would also reduce the workload for the accounts payable department by transmitting the necessary accounting data to the suppliers' invoices automatically, instead of the accounts payable personnel having to do it themselves.

In addition to the automated accounting information, company X wanted to simplify the payment of the invoices of the goods ordered through the system even more. Special arrangement was established with company X's suppliers, where the goods ordered through the e-procurement system would be invoiced from company X by the suppliers in a monthly consolidated form. This arrangement also included each supplier to generate a monthly spend report, showing both the purchase orders made through and outside of the e-procurement system. This report was to create more transparency and help the procurement personnel in analyzing the spend better.

In addition to the e-procurement system, consulting enterprise Y offered a professional purchasing support desk that would administrate the system and help its users in each country unit where the system would be in use. The support desk would also take care of supporting operational procedures, such as reporting, invoice validation, catalogue validation, user management and technical issues. From the viewpoint of company X's indirect procurement managers, the e-procurement system with its support desk would significantly decrease their time used for operational routines, and therefore it was to leave more time for strategic procurement work.

4.2.2 Sourcing services

Consulting enterprise Y's sourcing services consisted of sourcing personnel who would assist and consult company X with their sourcing. These activities would include assistance in company X's sourcing strategy, supplier selection, price negotiations and spend management. As consulting enterprise Y operates world-wide, company X was left to presume that it would have regional procurement professionals with the local supplier markets' expertise in most of the countries where company X operates. This was important, as company X especially needed human resources who would have the ready expertise and global reach to quickly bind quality contracts with suppliers in different countries. Additionally company X was left to expect that enterprise Y would be actively involved with the project's overall management. Moreover, it was agreed that enterprise Y would take care of category management, meaning also that they would keenly

participate in the e-procurement catalogue management. As stated in the introduction of this case chapter, enterprise Y promised that by cooperating with them company X's purchasing prices would decrease. This was to be possible with the extensive supplier pool, relationships and purchasing power that enterprise Y claims to have with many indirect materials' suppliers world-wide.

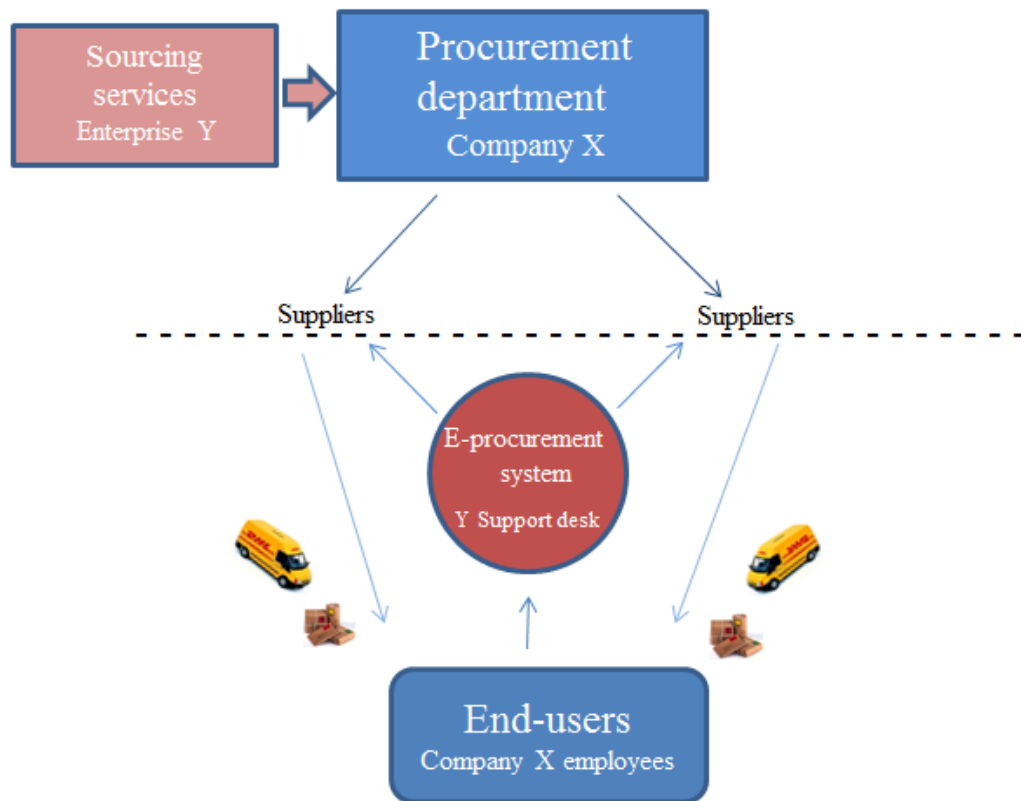


Figure 8. Cooperation between enterprise Y and company X

As demonstrated in figure 8, company X employees order their indirect materials in a centralized manner using E-procurement system. Selected suppliers are onboarded in the system. Procurement department manages the e-procurement tool with its content, maintaining a regulated purchasing environment. Enterprise Y support desk administrates the tool and its users. Sourcing services of enterprise Y consult and assist the indirect procurement department of company X in sourcing strategy with suppliers and overall project management.

The whole project was launched first in three country units of company X where the indirect purchasing volumes were the largest and most exploitable. After successful implementation in these countries, the project was to be expanded later

to other country units of company X. The project functions mainly in the same way in each country unit and therefore no more focus is put on the separation of company X's country units in this thesis.



Figure 9. The countries where the indirect procurement development project between company X and enterprise Y was launched

4.3 Experienced problems in the project

The problems started already at the point when consulting enterprise Y sold the project to company X. In short, the sales and consulting personnel of enterprise Y let company X understand that anything is possible with them within the engagement. The preparation for the project was started in 2010 after the deal was official between company X and consulting enterprise Y. Consulting enterprise Y assured that the project would be set-up and running in three months in Finland, Germany and the USA. The project was then to be expanded to other country units after one to two years of running in the first three countries. This promise was very attractive for company X as their strategic management wanted to establish the project quickly as well. Enterprise Y advised to start the project by implementing the e-procurement system using already existing contract suppliers of company X as the initial platform suppliers. Hence, the main stress in the beginning of the project was put on the configuration and launch of the e-procurement system. The actual sourcing cooperation between the companies, which would include the lower purchasing prices and other prominent strategic benefits, was to be followed then afterwards. According to the indirect procurement manager 1 of company X, a notable mistake was made at this point.

As the launch of the cooperation was done in this order and in a rush, negative consequences were followed.

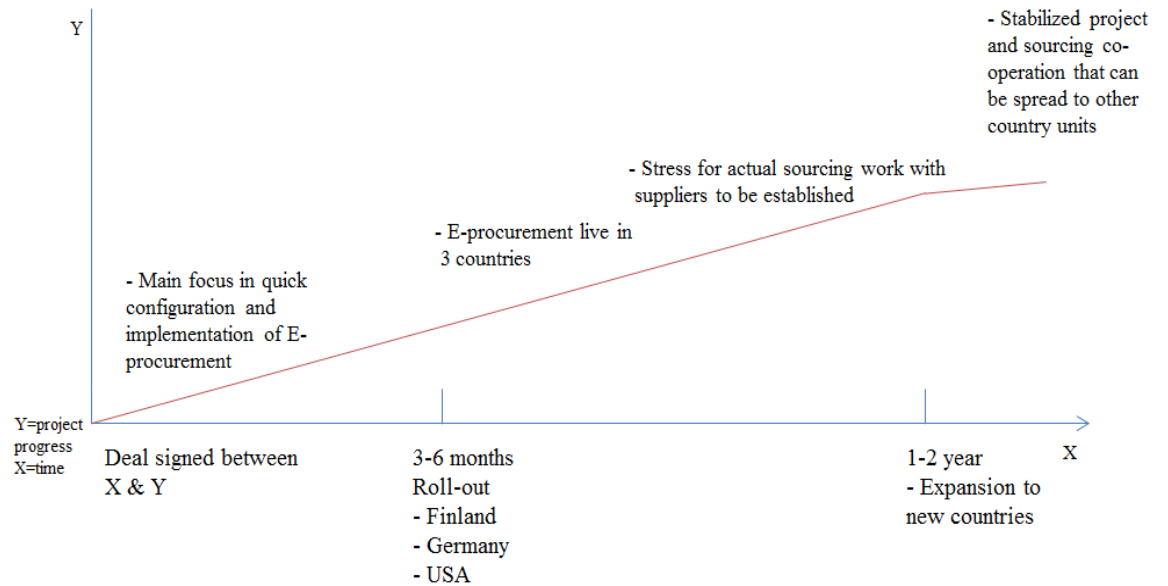


Figure 10. The planned progress of the project between company X and enterprise Y in a simplified form

The e-procurement system was taken in use with a minor amount of suppliers, covering only a small part of the whole need for indirect materials within company X. Hence, the product selection was focused only into certain product categories. While the technical configuration of the e-procurement system was done in a rush as well, the system's features were not optimal from the viewpoint of the company X employees. The English language which the system uses has also proven to be a challenge to work with for the Finnish users. Thus, the system was not given its best potential to sell itself immediately as an effective ordering channel of indirect materials for its users in company X. These mentioned facts have had their indisputable stake in the low usage of the system by company X employees. A detailed list of the system-based problems is represented in table 7 on the next page.

Table 7. E-procurement system based problems and their consequences

E-procurement system based problems	Immediate consequences	Long-term consequences
➤ Complex system	➤ System generally perceived as difficult to use	➤ Demotivating for users
➤ System is occasionally unstable	➤ Occasional disfunctionality	➤ Reliability of the system in question
➤ System provider's personnel is not co-operative	➤ Slow fixing of technical problems	➤ Slow development of the system
➤ System uses English language in Finland	➤ Negative perception from the senior Finnish users	➤ System is difficult to use for senior Finnish users
➤ Disintegration with other administrative systems of company X	<ul style="list-style-type: none"> ➤ Invoices not matchable automatically to purchase orders ➤ User data does not update automatically in E-procurement system 	<ul style="list-style-type: none"> ➤ Lots of manual work ➤ Wrong user data in the system ➤ False information on purchase orders and invoices is possible ➤ Blind payment of invoices is possible ➤ Incorrect posting is possible

The project indicated many changes for the cooperation with the suppliers. Several new things were demanded from them; participation in the onboarding to the system, creation and maintenance of a new separate e-catalogue, new purchase order handling process, monthly spend reporting and invoice consolidation. Since the project started there have been obvious problems in all of these processes till this day, which have resulted into repetitive delivery delays, invalid catalogue contents, incompliant spend reporting and false invoicing. A detailed list of the supplier based problems is represented in table 8 on the next page.

Table 8. Supplier based problems in the project

Supplier based problems	Immediate consequences	Long-term consequences
➤ Incompliant catalogue contents	<ul style="list-style-type: none"> ➤ Too wide or too narrow catalogue contents ➤ Incomplete product descriptions, missing pictures 	<ul style="list-style-type: none"> ➤ Inadequate catalogues ➤ Bad end-user experience
➤ Suppliers' incompliance in updating the catalogues	<ul style="list-style-type: none"> ➤ Products off-stock will remain orderable in catalogue ➤ Supply does not adjust fast enough to the changing demand 	<ul style="list-style-type: none"> ➤ Delivery delays, or ordered products will not be delivered at all ➤ Bad reputation for the whole system ➤ New products are not in the catalogue when needed
➤ Incompliant invoicing	➤ Separate invoices instead of consolidated invoicing as agreed	<ul style="list-style-type: none"> ➤ Unnecessary workload for accounts payable and E-procurement support desk ➤ Slow invoicing and payment processes
➤ Technical incompatibility with suppliers' systems	➤ Slow and incomplete purchase order processing	<ul style="list-style-type: none"> ➤ Demotivating for suppliers and end-users ➤ Delivery delays
➤ Suppliers' overall unwillingness to co-operate with the project	➤ Difficult co-operation in all areas	➤ Bad base for developing procurement and sourcing

In addition to external problems, company X has also had internal problems in adapting to the usage of the e-procurement tool. The company culture of company X has stood out as one of the major problems in each interview conducted for this thesis. According to the indirect procurement managers of company X, the employees are skeptical about anything new that breaks their old procedures in their working environment. It is really hard to convince them to use something new, especially if there are such problems as earlier stated in this chapter. Based

on the interviews and the author's own observation, the internal communication in company X could be better in order to utilize the e-procurement system more extensively. A detailed list of the company X based problems is represented in table 9.

Table 9. Company X based problems

Company X based problems	Immediate consequences	Long-term consequences
➤ Company culture	➤ Resistance to change old procedures	➤ Slow change, slowly increasing utilization of E-procurement
➤ Internal communication	➤ Some incongruence in communication	➤ Stakeholders not necessarily well-informed
➤ Low amount of personnel assigned for the project	➤ Extensive workload ➤ No full-time focus for all areas of the project	➤ Possibly inefficient project management
➤ Unclear division of responsibilities	➤ Not fully clear procedures	➤ Procedures slowed down

Consulting enterprise Y's performance overall has not been what company X originally wanted it to be. The expertise and trustworthiness of their sourcing personnel in the project has been questionable. It was noticed that the initial savings opportunities that enterprise Y let company X understand were overstated, and their way of calculating the savings was not in line with company X's calculation standards. Also the increased purchasing power that enterprise Y promised never came true. It has also been noticed that enterprise Y's sourcing personnel's' operative daily work, such as reporting has not been trustworthy. Furthermore enterprise Y's sourcing and consulting services have been stained by compulsive changes of personnel which have been a major setback for the project. When enterprise Y was expected to have local procurement professionals in most of the countries where the project would be running, it turned out that the same procurement personnel from one country were used in all cases in every country. Therefore it was noticed that enterprise Y did not have the desired wide country-specific supplier market knowledge which company X desired them to have. In

brief, consulting enterprise Y's sourcing services have not been active nor dedicative, and therefore they have not brought many benefits for company X. The strongest stakeholder from the side of enterprise Y has been the support desk team, which has performed as well as it could have in the prevalent circumstances throughout the whole project. A detailed list of the enterprise Y based problems is represented in table 10.

Table 10. Enterprise Y sourcing services based problems

Enterprise Y sourcing services based problems	Immediate consequences	Long-term consequences
<ul style="list-style-type: none"> ➤ Lack of expertise and activeness 	<ul style="list-style-type: none"> ➤ No desired help from sourcing services 	<ul style="list-style-type: none"> ➤ Lack of trust ➤ Company X better to work themselves than involve enterprise Y
<ul style="list-style-type: none"> ➤ No project management ➤ No category management 	<ul style="list-style-type: none"> ➤ Scattered and inefficient co-operation, project and procedures 	<ul style="list-style-type: none"> ➤ The responsibility of project and category management left only to company X
<ul style="list-style-type: none"> ➤ Compulsive changes of personnel ➤ Insufficient knowledge transfers 	<ul style="list-style-type: none"> ➤ Start from scratch again ➤ Non-cumulative learning 	<ul style="list-style-type: none"> ➤ Major setback for development of the project
<ul style="list-style-type: none"> ➤ Enterprise Y management personnel, sourcing services and support desk are all located in different countries 	<ul style="list-style-type: none"> ➤ Lack of teamwork and face-to-face meetings 	<ul style="list-style-type: none"> ➤ Inefficient service as a whole ➤ Bad communication within enterprise Y's different cells
<ul style="list-style-type: none"> ➤ No personnel in Finland and USA 	<ul style="list-style-type: none"> ➤ Lack of face-to-face meetings with company X in Finland and USA 	<ul style="list-style-type: none"> ➤ Bad communication ➤ No sufficient knowledge of local supplier market
<ul style="list-style-type: none"> ➤ Savings and volumes opportunities overestimated ➤ Savings calculation model not in line with company X 	<ul style="list-style-type: none"> ➤ Disappointed stakeholders ➤ Sourcing co-operation is difficult 	<ul style="list-style-type: none"> ➤ Desired savings not achieved ➤ Misunderstandings ➤ Slow development of sourcing co-operation

4.4 Operative analysis and improvement proposals

In this chapter the most prominent problematic operational areas are analyzed and improvement proposals are represented. As it can be determined already from the previous chapter, many of the operative problems can be tracked back to the launch of the project and the time before that. Therefore it is important to start by examining the actual procurement process of the project itself from enterprise Y.

4.4.1 Procurement and management of a service

As stated by Iloranta and Pajunen-Muhonen, the key for successful service cooperation relies in the right choice of a service supplier. In this sub-chapter we will review some aspects of the purchasing centralization project's procuring process based on the interviews had with the indirect procurement managers of company X. Even though it is easy to suggest afterwards in a general fashion what could have been done other ways, it is still important to capture and analyze the events in order to remember these matters in the future when procuring similar indirect services from a consulting company.

The base for establishing a successful procurement and sourcing service cooperation with a consulting enterprise is to carefully analyze and measure the current state and processes of the indirect procurement and sourcing in the company before acquiring the business process service. This is crucial, because when the company is perfectly aware of its own processes, it is better able to communicate its needs to the consulting enterprise who will take over the duties of the company. Naturally this also leads to a better overall negotiation position with the consulting enterprise. Furthermore, service quality KPIs can only be established against the pre-analyzed processes in order to effectively monitor and evaluate the consulting enterprise's performance. As pointed out by indirect procurement manager 1 and 2, consulting enterprise Y never understood the disunity of company X's indirect procurement and overall company culture. Enterprise Y did not even bother to orientate themselves into these organizational structures affecting the indirect procurement in company X. Instead, they used their default methods which were not of a good use for company X.

According to company X, the sales work by consulting enterprise Y was really intense when they sold the service to them. Practically, enterprise Y promised company X that anything is possible with them; any implementation, change or renewal could be easily done with their extensive resources during the project. It is important to notice, that consulting enterprise Y is a very large and well-known corporation that has mostly a good reputation. This easily creates more trust in to the words of their sales and consulting personnel. As described by Iloranta and Pajunen-Muhonen, the sales work can have a major influence on the final decision of the service supplier. The experience has shown indeed that enterprise Y seems to have their major focus in the selling process of their procurement projects, leaving their work allocation for the actual sourcing services and project management shallow after the project's implementation. Hence the lesson to be learned is that the biggest service supplier who most actively sells and promotes their services is not necessarily the best option. Therefore when making a strategic indirect purchase, the supplier market has to be evaluated even more carefully, if possible. It is important to question the consultants how all of their promises will be implemented in practice, step-by-step.

A prominent factor for company X when deciding to ally with consulting enterprise Y, was the fact that enterprise Y had successfully run a similar project for another European industrial company; very similar company to company X. The indirect procurement manager 3 noted though in the interview that it has become clear that enterprise Y uses naturally only its best accomplished projects as benchmarks when promoting its services. Company X heard carefully this former client of enterprise Y, who convinced that their e-procurement and sourcing cooperation with enterprise Y had been excellent. Nevertheless, as recommended by Iloranta and Pajunen-Muhonen, it is also wise to investigate those other clients of which the service supplier does not mention about nor recommend contacting directly. The feedback heard from them might result to be very valuable when selecting the service supplier.

According to the indirect procurement manager 2, none of the desired transactional cost-savings and optimization by the e-procurement system has really been achieved. Due to the system's non-user friendliness, the ordering itself

is not as easy as it was desired to be. Moreover the accounts payable remains as a separate function to the indirect procurement due to the system's non-integration with the accounts payable department. As stated by Chaffey, cross-organizational team that includes IT experts should be formed, used and heard when selecting the e-procurement platform. This is inevitable if true transactional cost-savings are wanted. The base idea of transactional cost reduction relies in optimizing all aspects of procurement processes, and therefore a sound integration with other administrative systems of the company is very important. In the case of this project these systems include the systems of accounts payables and human resources data management. Therefore a careful planning, configuration and testing with a cross-organizational team should take place before taking e-procurement system in use. This way many basic technical problems can be avoided and the possibility for better adaption of the system increases within the company.

Based on the interview had with Finnish global indirect sourcing manager of company X, the e-procurement platform was established probably too hasty; one year after launching the project another procurement system was taken in use as well in the company. With a little bit more of a patience and evaluation the outcome might have been better integrated entity with one mutual and well functional procurement system that would have been better integrated with the other administrative systems of the company. The learned aspects of acquiring procurement and sourcing services are consolidated in a nutshell in table 11 on the next page.

Table 11. Acquiring of business process services in a nutshell

Lessons learned of acquiring procurement and sourcing services
<ul style="list-style-type: none"> ➤ Analysis of preceding procurement and sourcing processes ➤ Analysis on what is really needed and its efficient communication to the service supplier
<ul style="list-style-type: none"> ➤ Careful analysis of the service supplier market ➤ Supplier who promotes their services most is not necessarily the best ➤ Consultants to be questioned in detail how their promises will be filled in practice ➤ Size of the service supplier should not be let to bluff
<ul style="list-style-type: none"> ➤ Several ex-clients of the service supplier to be heard, including those which the supplier does not inform about
<ul style="list-style-type: none"> ➤ Cross-organisational teams should be formed and heard when implementing E-procurement system ➤ Careful configuration and testing of the system should take place before introducing the system to its users

As stated earlier in chapter 4.3 company X has been dissatisfied with enterprise Y's sourcing services and project management throughout the cooperation. Hence, the reasons and consequences for their weak performance are discussed next.

When company X bought the project from enterprise Y, they had the belief that enterprise Y would actively take over many procedures, and the workload for company X's indirect procurement and sourcing personnel would notably decrease. Company X expected enterprise Y to participate actively in strategic tasks such as project management and category management. This is also what enterprise Y promised to company X in their sales speeches and in the initial contract. But none of this really came true. Instead, after the project was sold to company X, enterprise Y has lowered more and more their participation for the management-related activities in the project. Additionally, their compulsive changes of personnel have been a major setback for the project. To be precise, it has been reported that most of the enterprise Y's individuals has stuck with the project less than a year. It has been learned that the knowledge transfers from the old consultant to the new one are nonexistent. Due to this, the gained knowhow on their side has been lost each time when one of their personnel has left the project.

As noted by Iloranta and Pajunen-Muhonen, it is important to notice that when a business process is bought instead of executing it internally, it transforms into an external resource that needs to be comprehensively directed and managed.

Constant monitoring of the service supplier is essential if good results are wanted to be ensured. Moreover, reward mechanisms and sanctions have to be thought and established for the service supplier. In order to be able to do this, key performance indicators for service quality should be established at the earliest point when negotiating and contracting with the service supplier.

In the project, service level agreements were established for the enterprise Y's support desk which supports the e-procurement system and its users. For this purpose the service level agreements are enough, as the procedures of the support desk are mostly repetitive and therefore measurable in a countable form. But for the enterprise Y's sourcing services and project management no key performance indicators were formed. As stated by Iloranta and Pajunen-Muhonen, traditional service level agreements would not apply in measuring consulting services while they would not tell anything about the quality of the produced service. Therefore the establishment of service quality key performance indicators would be essential in order to direct enterprise Y better.

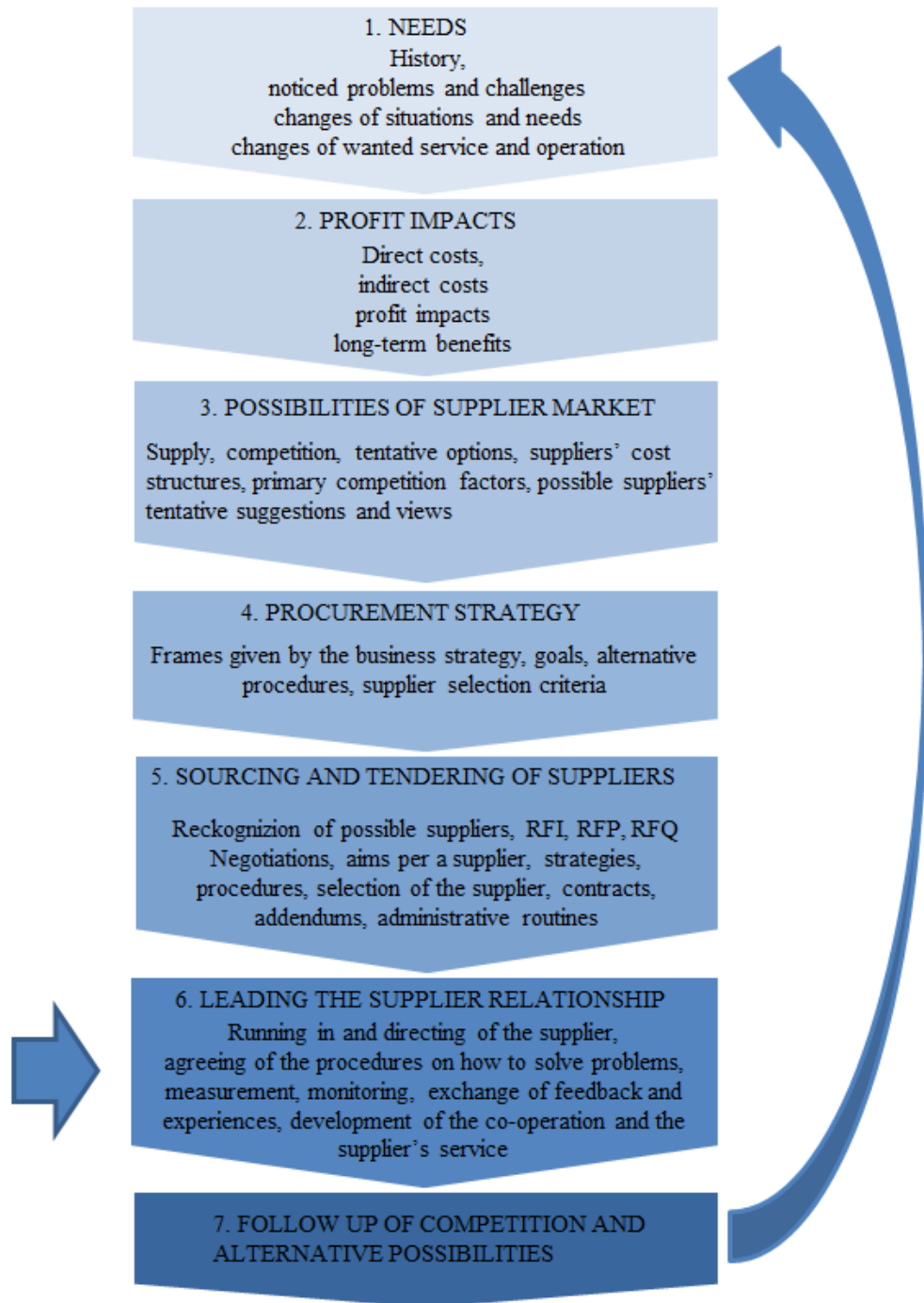


Figure 11. Procurement process of a service (Iloranta, Pajunen-Muhonen 2012, 216).

Figure 11 represents the procuring process of a service in a nutshell. The step 6 is highlighted to underline the importance of leading enterprise Y from the beginning for a better cooperation.

To conclude, when company X acquires a business process instead of managing it internally, it requires totally new capability of leading operations over the borders of an organization. Carefully designed service contract with established quality key performance indicators, continuous monitoring, active leadership, clear division of responsibilities and open communication are key factors in successful service cooperation.

4.4.2 Supplier management

When the planning of the project was started, it was decided that the same suppliers which company X had used before the project were to become also the primary platform suppliers in the e-procurement system. Nevertheless, the suppliers and possible operational problems caused by them were not taken in serious consideration at this stage. The communication to the suppliers relating to the change management and altered operative procedures was fairly incongruent. Company X trusted consulting enterprise Y in regards organizing the change management and communication with the suppliers. However, this did not happen in a consistent fashion.

Table 12. Communication breakdown with suppliers regarding operative procedures in the beginning of the project

Lack of congruent communication to suppliers relating to the following initial operative matters

- Supplier onboarding to the e-procurement system
- Creation of a valid supplier e-catalogue
- e-catalogue update cycles
- PO processing
- Transmitting of accounting data from POs to invoices
- Invoice consolidation
- Proper creation of spend reports

The initial processes of which the suppliers were not informed well enough are represented in table 12 and they will be discussed next.

The onboarding process of the suppliers into the e-procurement platform has been many times slow in the project, even though it is a really simple process. After the contractual agreements are verified, the only thing the supplier has to do is to fill in an excel template. This template is then sent to the service provider who will do the technical configuration to set the supplier active in the system. One reason for the slowness in this simple process has been the lack of consistent instructions on how to fill this form. Moreover, due to the lack of clearness in the division of responsibilities, it has been unclear who will send this excel sheet to the service provider, company X, enterprise Y, or the supplier itself.

The creation of an adequate e-catalogue has been an obvious stumbling block for the suppliers. The suppliers import their e-catalogues into the system in a standardized excel form. The catalogues have not usually been of the best quality; product selection is not what have been negotiated, higher prices than agreed on, higher prices than in consumer market, inadequate product descriptions, data in wrong fields, wrong product category-codes, missing pictures, inappropriate searching key words, and the list continues.

The suppliers' updating and maintenance of the e-catalogues has not been constant; products that have run out of stock have been kept orderable in the e-catalogues. This has resulted into serious delivery delays and undeliverable purchase orders, which have not only lowered the reputation towards the certain suppliers, but have also had their part in staining the reputation of the whole system in the eyes of the end-users. Furthermore, as the updating cycles of the e-catalogues have not been defined with the suppliers, there have been times when the users have had to wait too long for seasoned products, such as office calendars.

When the e-procurement system was launched, the new needed purchase order processing was not explained well enough to the suppliers. The suppliers were not informed clearly that they have to collect the accounting data from the purchase orders and ensure that this data will be included later in the invoices. This has resulted into missing posting data on the invoices and therefore caused continuous confusion in the accounts payable department of company X. In the case of many

suppliers of the project, the e-procurement system is not linked to the main enterprise resource planning systems of the suppliers, leaving it as a separate system. This factor has had its place in the slow processing of purchase orders in the suppliers' end, which has also caused delivery delays.

Invoice consolidation was one of the anticipated cross-organizational and transactional benefits of the project. Instead of sending separate invoices that previously had to be posted by the requisitioners themselves, the suppliers were wanted to start sending one monthly consolidated invoice per company X legal unit of all the purchase orders made using the e-procurement system. The goal of this was to free the requisitioners from the posting process and simplify the invoice payment for the accounts payable department. However, especially during the first year of the project, there were a lot of problems with the invoicing; separate invoices were sent inconsistently in parallel with the consolidated invoices, posting data was missing, purchase order numbers were occasionally missing, wrong legal units were invoiced, and so on.

The last major operative improvement was spend reporting. The purchasing centralization project included that every supplier was obliged to produce a separate monthly excel report of all the purchase orders made by company X, both the orders made using the e-procurement system, and outside of it. The purpose was to bring all the indirect procurement transparent. Therefore the division of the spend between the ordering channels and the utilization of the e-procurement system would become analyzable. The primary function of the spend report was though to validate the monthly consolidated invoices. The governance of the invoice validation was appointed to the operational support desk of enterprise Y. Nonetheless, the accounts payable department of company X does not trust in the validated spend reports till this day in the payment of invoices. This is because the spend reports and the invoices rarely match each other blamelessly. Therefore the practical benefit of the spend reporting is low for company X's accounts payable department.

The biggest reason for all the supplier-related operational difficulties can be traced back to the cooperation between company X and consulting enterprise Y. In the

planning stage, the operative cooperation with the suppliers was not a focal point of consideration. Company X thought that enterprise Y as a consulting enterprise would consult the suppliers into the new processes. However, enterprise Y has not played an active role in this. Therefore it is important to notice that numerous things have been only strictly demanded from the suppliers. Even though company X is an important client for its suppliers, the suppliers will not cooperate effectively in such supplementary operations as purchasing centralization project, if the interaction with them is not congruent and open. Based on the author's interaction with the suppliers' key account managers, the suppliers feel that they have been demanded many things without a proper possibility for open discussion. During the times of escalating supply problems, the blame has usually been appointed to the suppliers without fully investigating what is the actual reason for the problem.

It is a central thing to understand that none of the activities demanded along the purchasing centralization project, such as spend reporting, is stated in the contracts between the suppliers and company X. Based on the discussions had with one supplier's key account manager, the spend reporting is not stated in any of their contracts with company X, and it is seen only as an accessory task demanded by enterprise Y. Therefore the conclusion is that the suppliers' motivation to comply with these accessory procedures and the will to serve company X in this project are based on the suppliers' free will. As remarked by Dr. Sanna Nieminen, a lot of the supplier relational effort relies in the suppliers' individual employees. Therefore the key for a better cooperation relies in the individual relationships between the suppliers' key account managers and company X's procurement department. Hence good and open relationships are needed to create a solid base for long-lasting cooperation and operative soundness. Furthermore it should not be neglected that social and operative congruency could also lead to enhanced strategic opportunities in the future, such as reductions in purchasing prices.

It is essential for company X to manage its suppliers efficiently and fairly from the beginning in order to ensure the quality of their operative performance in the project. The author's observation while working for enterprise Y, and the

interviews had with company X's indirect procurement managers disclosed that supplier management has not been consistently organized with indirect materials' suppliers in the company. Therefore the author of this study has thought about ways on how to develop the supplier management within the frames of e-procurement and where the focus should be initially set to. The initial operative supplier relationship management program can be seen in table 13.

Table 13. Operative supplier relationship management

Phase	Procedures
1. Onboarding	Face-to-face kick-off meeting, positive introduction of the e-procurement, clearly stated onboarding process, clear printed or electronic instructions, schedule and deadlines, supplier well informed about a supplier monitoring program, reward and sanction mechanisms agreed on, clear division of responsibilities between company X and Y, supporting contact persons announced, continuous guiding, support and communication to the supplier
2. Catalogue monitoring	Catalogue compliance KPI; metering of the suppliers' compliancy in importing the e-catalogues to the system <ol style="list-style-type: none"> 1. Compliancy with agreed update cycles 2. Amount of pivotal errors in the catalogues monitored 3. Out-of-stock cases evaluated based on customer feedback 4. Monthly report by SD*
3. Delivery-time monitoring	Delivery-time KPI <ol style="list-style-type: none"> 1. Feedback regarding deliveries from the end-users captured 2. Reasons for late deliveries investigated and marked 3. Goods receipt report from BW* 4. Monthly report by SD*
4. Supplier management	Enforcement of the Key Supplier Manager (KSM) concept, clear distribution of responsibilities and standardized procedures, supplier-related issues and problems escalated to KSMS by SD*
SD*=Purchasing support desk of enterprise Y, BW*=Business Warehouse, E-procurement reporting software	

As seen in table 13, the onboarding phase is the initial procedure that forms the base for operative e-procurement collaboration. It is ideal to launch the cooperation with a face-to-face kick-off meeting where the supplier is congruently introduced to the project with its procedures and necessities. This was also noted by indirect procurement manager 1 in the interview; "it would be ideal to get the basic operative processes relating to the onboarding done within two weeks to get the e-procurement up and running with the supplier effectively". Congruent

program like this would be an essential manner to establish a solid base for the relationship with the supplier. It is also important to introduce the supplier monitoring program already at this point. This way the supplier will recognize from the beginning that operative supplier performance is an important value for company X. Like this, they will understand that their operative performance will be under continuous monitoring and that incompliance in this area may jeopardize their business with company X. Additionally, a congruent and fast onboarding process would create more operative flexibility for strategic decisions. One example could be the change of an in-compliant platform supplier quickly to another supplier.

The Key Performance Indicators (KPIs) should be established for catalogue contents and delivery times. These are the focal operative areas in the e-procurement project where the most problems occur repetitively. Incompliance in these areas can be investigated and reported by the support desk of enterprise Y. Incompliance in imported catalogue contents, catalogue update cycles and catalogue updating can be observed by the support desk while they validate the imported e-catalogues. Late deliveries can be reported by extracting a goods receipt report from BW software and by capturing the complaints received from the end-users via email or telephone. Therefore the end-users can be encouraged to submit their complaints of late deliveries to the enterprise Y support desk. Like this, the end-users stay also more satisfied as they can express the suppliers' flaws to a trusted source who will report the supplier performance on a monthly basis to the procurement department of company X, which will then take further action in terms of supplier management.

Due to an initiative by enterprise Y, Company X took a Key Supplier Manager-concept (KSM) in use during fall 2011 in the project. However, according to the author's observation and interviews had with company X's indirect procurement managers, the KSM roles were distributed in a shallow manner. The key supplier managers consider the role as a minimal side-task in parallel with their primary work. However, in order to manage the suppliers within the project effectively, the KSM concept should be reinforced. Clearly communicated and allocated procedures should be established. The KSMs should be involved in managing the

e-procurement relationship with the suppliers already from the beginning. Hence a more solid base for the cooperation could be formed from the start. Furthermore the KSMs could be utilized more in terms of forming and managing the suppliers' catalogue contents as they do have the expertise of the particular product category. By reinforcing the KSM concept, the workload between company X's individuals could be also better distributed and the overall organization of the project could be more efficient.

To conclude this sub-chapter, it is important to recognize what kind of benefits the operative soundness with suppliers could bring for company X. Firstly, if operative soundness could be achieved with the suppliers; it would be highly visible for the satisfaction of the end-users. Catalogues would be of a good quality, supply would satisfy demand effectively in every case through compliant updating of catalogues, and delivery times would be obedient. Secondly, cross-organizational benefits could be gained when the accounts payable department would be more satisfied with the suppliers' compliant invoicing. Thirdly, reducing in supplier-related problems would decrease the working time used for these matters both in the company X indirect procurement department and in the enterprise Y support desk. Thus, the overall satisfaction to the project would increase and the e-procurement system would be used more. Increased usage means bigger centralized purchasing volume and therefore money, which would naturally motivate everyone for better work and results within the project.

4.4.3 Project management

The project was originally started with a global frame of mind with global project management needs. This was especially due to the belief in enterprise Y's promises of global leveraging of possibilities. However, as the experience in the project has shown, enterprise Y's promises were not fulfilled neither the global focus did work. The interviews held with the indirect managers of company X confirmed that the focus in the project should be local instead of global in the future. It has been noticed that each of the three country units of company X have their own specifications in terms of indirect procurement. If a global procurement policies and procedures are tried to thrust upon the company X employees,

resistance will emerge and the actual benefits are obviously lower than what they would be in a local approach. Therefore the project management should be oriented locally in each country unit, especially in operational issues.

As stated by each three indirect managers of company X, the involvement of all stakeholders, especially within company X, is needed to ensure the project's success. As the project is the tool for every company X employee to acquire their indirect materials in order for them to perform their work successfully, the hearing of the end-users; the internal customers, is crucial. As noted by manager 1, the living requisite for the whole project is the utilization level of the e-procurement tool. At the same time, due to the working culture of company X, the employees cannot be forced to use the system. Instead, the system has to sell itself to the employees. Hence, the project's primary direction can be concluded like this; the end-users and their satisfaction to the purchasing centralization project come always first. Hence, every faulty aspect of the project that is visible for the end-users has to be eliminated as the first priority. Being viewed earlier in chapter 4.3, there are too many faulty matters that the end-users have to deal with. The fixing of these defective things should obviously be started by starting from the simplest causes which do not involve financial investments.

Based on the observation by the author, the unclear division of responsibilities and insufficient communication is a significant slow-down in the operational side of the project that could be improved with a little effort. The biggest amount of problems relate to the approval of suppliers' e-catalogues. Therefore the author has found two ways on how to improve internal customer satisfaction to the e-procurement tool. These proposals are demonstrated in table 14 on the following page.

Table 14. Improvement proposals for e-catalogue approval between company X and enterprise Y

Improvement proposals for E-catalogue approval	Benefits
<ul style="list-style-type: none"> ➤ Company X individual sends an excel sheet of the new agreed products and prices negotiated with a supplier to the enterprise Y Support Desk immediately after the negotiations are finished ➤ Enterprise Y Support Desk compares this file with the new corresponding E-catalogue that the supplier will import to the system afterwards 	<ul style="list-style-type: none"> ➤ Shorter approval procedure ➤ Less work, waiting and unclearness ➤ Improved and fastened E-catalogue updating process
<ul style="list-style-type: none"> ➤ Partial catalogue approval to be taken in use ➤ Operative supplier monitoring will ensure that the supplier will correct the faulty items afterwards as soon as possible 	<ul style="list-style-type: none"> ➤ Faster and more flexible satisfaction of the end-users needs

Table 14 represents more rationalized process for approving suppliers' e-catalogues. Previously the process have been that a company X procurement individual agrees on new products and prices with a supplier, after which the supplier imports a new updated catalogue to the e-procurement system. After this the enterprise Y support desk creates a report that shows the differences in the catalogue compared to the previous one, and then sends this report to company X, without knowing for sure who has negotiated the prices. Many times the catalogues have had to wait pending in the system for a long period before any approval is received from company X. Hence, the first improvement proposal would simplify the process, save time and guarantee better end-user satisfaction.

When it comes to the partial catalogue approval represented, the process has been till this day that if an e-catalogue imported by the supplier contains even a one mistake, it will be totally rejected and the supplier is demanded to import a new catalogue. However, it has been noted that it can take a very long time before the supplier imports the new catalogue. In this case, for example, if this new catalogue contains new products, they will not be released orderable due to a one fault in the catalogue. This will of course lead to the fact that the end-users will have to wait equally as long for the new products that they might need as fast as possible. Thus, I would suggest taking in use partial catalogue approval which is possible in the system. Using partial catalogue approval all the products that are

adequate and contain the sufficient product information can be released orderable for the end-users immediately. After this the supplier will be asked to import a new catalogue where also the faulty items are fixed. The earlier method of 'one fault-no go' has been explained by the fact that if only some of the items are released, the supplier would not bother to import the other faulty items that still need to be fixed. However, with the operative supplier management program and supplier cooperation I have compiled in chapter 4.4.2, this kind of behavior could be prevented. With this process improvement the end-users' needs would be better fulfilled.

As the project becomes more and more local-oriented, cross-organizational cooperation within company X raises its importance even more. Therefore cooperation within the indirect procurement department altogether with accounts payable is needed for efficient development of operative procedures.

Reinforcement of the key supplier manager concept demonstrated in the previous chapter could act as a start for this. Active leadership on local level would be an advantage to increase the quality of cooperation between all internal stakeholders. Enterprise Y gave the illusion that it would manage the project and that the project's approach would be global. As neither of these promises took place, local leadership of the project has to be strengthened in order to guarantee positive direction.

Having stated by Cambié and Ooi, the quality of communication plays a very important role in managing large change initiatives. Hence, based on the author's hearing from the external stakeholders of the project, this aspect should be improved in order to enhance operative soundness in the project. Clarity and congruent repetitiveness in messaging is a very simple, yet very effective tool in managing projects and external resources, such as a service supplier and suppliers of indirect goods.

As stated in theory section 3.3, an enterprise blog could serve as an improvement in project management due to the increased transparency in communication it brings. Company X already uses a wiki on how to use the e-procurement tool and therefore a blog could be a suitable extension of communication for the project. A

blog would bring even more commune sense for the project, which would suit the purpose well as indirect procurement affects all employees of company X. The blog would also give more visible voice for the end-users and their needs. Moreover, the blog could work as a channel for distributing working tasks if enterprise Y support desk would be taken into the usage of the blog as well. When operative tasks and issues would be posted in a blog that can be transparently seen by everyone, any corresponding individual could take actions more easily and the working tasks could be distributed more accordingly and effectively. Furthermore, as all communication would be transparent, the operative issues would become clearer and they could be better prioritized, always the stress relying on ensuring the service and satisfaction for the end-users.

Table 15. The benefits of leveraging blog-based communication for project management

Benefits of an enterprise blog for operational project management

- Transparency of communication and issues
- Better operational overview
- Faster operational reacting
- Priorization of issues
- Involvement of many individuals, cross-organisational cooperation
- Effective work distribution
- More visible voice for the end-users and their needs
- Sense of community that would suite well for indirect procurement

In table 15 the benefits of using an enterprise blog for project management are summarized.

The interviews held with the indirect procurement managers of company X also disclosed that face-to-face meetings with consulting enterprise Y would make definitely an improvement in managing issues and the overall project. If face-to-face meeting are difficult to organize, increasing the amount of videoconferences could make an adequate compromise instead of regular calls.

4.4.4 Summary of the results

Table 16. SWOT-analysis on the operative side of the project

Helpful	Harmful
<p>Strenghts</p> <ul style="list-style-type: none"> • Steadily increasing usage of E-procurement tool • Purchasing centralization works in basic extent • Technical renewals are enhancing the system • Performance of company Y's purchasing support desk 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Scattered operative project management • No full-time focus for the project • Unclear division of responsibilities • Incongruent communication • Focus mostly solely on technical renewals of the tool • Company Y consulting not proactive and participative enough • Changes of enterprise Y's personnel within the project and insufficient knowledge transfers • Usage of E-procurement tool relatively low • Supplier incomplice (catalogues, delivery times, cooperation) • Unclearness in supplier re-negotiations • Pricing in catalogues occasionally disadvantageous
<p>Opportunities</p> <ul style="list-style-type: none"> • Enhancement of team work and project management between all stakeholders • Re-structuring and rationalization of operative procedures and system features • More cross-organisational co-operation within company X • Supplier complience and co-operation through organized supplier management • More authority for purchasing helpdesk to fasten up operative processes • Internal expansion; hirement of new full-time operative project manager 	<p>Threats</p> <ul style="list-style-type: none"> • Negative attitude towards the tool by users and usage of the tool decreases • Development of the project within the current countries slows down • Changes of personnel mislay the acquired knowledge • Crucial stepstones will not be reckognized early enough to make necessary changes • Expansion to new countries becomes very difficult if planned in the future • Existing problems will move to new countries • With new countries the entity will be too difficult to manage • Desired benefits of the project not achieved in the long run

Table 16 is a SWOT-analysis demonstrating the strengths, weaknesses, opportunities and threats in the project. The data is consolidated from the case-study.

Table 17. Summary of the thesis' results in a nutshell

	Summary of the results	Tools for implementation
Internal	<ul style="list-style-type: none"> ➤ Stress on local approach in the project ➤ Active and strong local leadership needed to ensure the success of the project ➤ Reinforcement of internal customer-oriented approach and strategy ➤ Focus on procurement principals; the functionality of basics must be fixed and ensured ➤ Strengthening of commune-sense and increase of end-user hearing and involvement ➤ Improvement of internal communication ➤ Leveraging of cross-organisational cooperation for the project 	<ul style="list-style-type: none"> ➤ Establishment of a blog for better project management and transparency of communication ➤ Focus in supplier-related activities ➤ Internal investment; hirement or allocation of a new employee ➤ Involvement of accounts payable ➤ Officialization of cross-organisational roles for the project
Supplier-related	<ul style="list-style-type: none"> ➤ Establishment of organized supplier relationship management ➤ Cooperation-oriented approach towards suppliers ➤ Improvement of communication ➤ Rationalization and improvement of operative procedures 	<ul style="list-style-type: none"> ➤ Supplier monitoring; establishment of KPIs with support desk ➤ Reinforcement of the Key Supplier Manager concept ➤ Rationalization of the catalogue management and approval procedure
Enterprise Y	<ul style="list-style-type: none"> ➤ Reconsideration of enterprise Y services ➤ Improvement of communication ➤ Utilization of enterprise Y sourcing services requires top-notch external resource management 	<ul style="list-style-type: none"> ➤ Upgrade of current E-procurement platform ➤ Change to another platform ➤ Establishment of service management program to be taken in consideration

Table 17 summarizes the improvement proposals of the thesis in a general fashion. The improvement proposals are divided according to the corresponding stakeholders towards whom the actions should be directed to; internal, supplier-related and enterprise Y related.

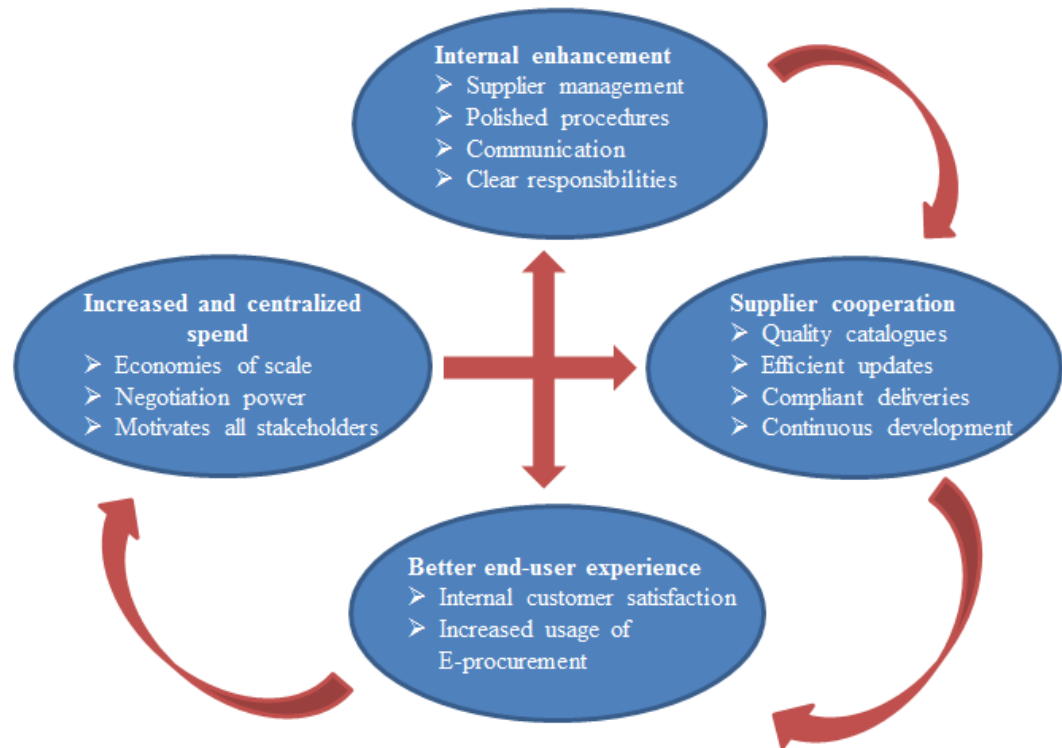


Figure 12. Internal customer-oriented approach for the project

Figure 12 demonstrates the internal customer-oriented approach that company X should consider to stress more in the project. The internal customers' most prominent needs and good end-user experience are guaranteed through internal enhancement and organized supplier management. Through the increased usage of the e-procurement tool, the future of the project is strengthened, and the increased and centralized spend will motivate all stakeholders for a better project.

5 CONCLUSIONS

The purpose of this thesis was to document the operative problems experienced in the project, discuss reasons and consequences, and offer improvement proposals for the found problematic operative procedures. Moreover, the aim was to give ideas where the operative focus should be fixed in order to prolong the project's success. Additionally, the goal was to give an operative overview for further strategic decision making regarding the project's future. The qualitative research methods used for this thesis; committed observation, question forms and interviews, were proven to be purposeful. (Hirsjärvi, Remes & Sajavaara 2009, 216).

The results of the study appoint that the purchasing process of consulting enterprise Y service complex was not prepared good enough. Company X trusted too much into the promises of enterprise Y and therefore already from the beginning enterprise Y dominated and exploited the relationship for their own interests. The study acknowledges the difficulty of acquiring consulting services and demonstrates facts that should be recognized at company X when acquiring similar services in the future. In short, very careful service supplier evaluation, tendering and selection have to be taken in place. Additionally contract-wise, the strong presence of service quality indicators should be considered in addition to service level agreements to ensure flawless sourcing services. The study also indicates that when a business process service is bought instead of executing it internally, it transforms into an external resource that needs to be actively managed and led. This was also a matter that company X did not take in consideration deeply enough when preparing for the project.

The study proposes that the role and importance of suppliers within the e-procurement purchasing centralization were underestimated. The author found out that this theme is somewhat not examined much in procurement literature directly either. The results point out that the presence of the suppliers within the purchasing centralization is in the end voluntary for them. Even though company X is a large client for its indirect materials' suppliers, it is not enough to make the suppliers' operative functions sound. The outcome is that if operative soundness is

wanted, more cooperative and congruent approach towards the suppliers is needed. A lot of the suppliers' motivation and free will is personified in the single individual employees of the suppliers. Hence, the principles of leading a supplier relationship in a cooperative, communicative and open fashion from the beginning are very important. To enhance this area, the study proposes steps on how to manage the supplier relationship effectively for operative soundness. The tools found for this were face-to-face kick-off starting meetings, supplier monitoring and new key performance indicators for e-catalogue updates and delivery times. Enhancement of these principles would improve the end-user experience clearly, which was found to be the living prerequisite for the project.

One of the most prominent messages of this study is that a strong internal customer oriented approach is needed to ensure the continuity and success of the project. As indirect procurement affects every employee at company X, while at the same time the company having a profit-center oriented culture, a strong internal cooperation is needed to bring about centralized purchasing spend and benefits in the long run. Hence, it is vital to guarantee internal customer satisfaction by keeping the elimination of any flaw visible to them as the first priority. In order to build more commune-sense and transparency of communication between the project's stakeholders, I have proposed an establishment of a corporate blog for more efficient project management. Furthermore, the clarity, efficiency and repetitiveness of all communication would be a simple, yet effective way to improve the project's operative functionality. As a procedure, the suggestion of rationalizing the e-catalogue approval cycle between company X and enterprise Y support desk would bring speed and quality to the catalogue contents and therefore increase the end-user satisfaction with a little effort.

In order to enhance the project, strong local leadership is needed in every country unit to act as an avant-guard for indirect procurement at company X. Cross-organizational reform, clearly distributed responsibilities and enhancement of processes and communication require proactive grip in order to be realized. Enterprise Y's support desk is a valuable resource that can be utilized in all of this, but if so, the renewals have to be executed cautiously and the planning has to

be organized naturally together with them and their consent. Generally, an internal investment to the project, such as hiring of a new employee, is also one solution in order to polish the operative side of the project sound and fully evaluate the potentiality of the current set-up and necessary changes for the future.

This thesis generated further examinable topics for possible continuity studies relating to the project. These could be the following; purchasing process of a new e-procurement platform, purchasing process of a new sourcing consulting service, change management plan, examination and redesign of company X's indirect procurement working task distribution, research on how to develop e-procurement system to its best with and without financial investments, integration plan on how to integrate other administrative systems to e-procurement platform in prevalent circumstances, research on how to motivate big-size consulting enterprise to produce adequate business process services, examination of actual financial benefits and disbenefits gained through e-procurement, and designing of supplier contract renewals to support purchasing centralization and e-procurement in a legislative manner.

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APPENDICES