



Market research: Outsourcing companies' indirect procurements to a third party (Company X Ltd.)

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Anttila, Markus Guo, Tie

Laurea University of Applied Sciences
Laurea Leppävaara

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Markus Anttila, Tie Guo
Degree Programme in
Business Management
Thesis
December, 2009

Markus Anttila, Tie Guo

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Year 2009

Pages 57

This thesis examines the possible market interest in Finland towards outsourcing indirect procurement to a market entry level company (Company X Ltd). The objective of this study is to present the case company background of the current market situation and interest for its business plan. The study's primary objective is to provide the case company with statistical knowledge that will give a competitive advantage in the Finnish market and detailed information of customer expectations on the indirect procurement service.

In the theoretical section, the concepts and theories of purchasing, purchase management and outsourcing are defined. This section also explains the theoretical topics, such as supply chain, networks and partnership.

The research approach of this thesis can be classified as the quantitative approach, since this research required acquiring statistical data. Data collection methods are questionnaires. The questionnaires were designed on the basis of the relative theoretical fields.

The empirical section describes the background information of the case company and lists the data analysis details. The crucial information has been analyzed from the questionnaires' responses and the important findings have been presented.

In the conclusion section of the thesis, the research conclusion and recommendations have been presented for the case company.

Key words Outsourcing, purchasing, indirect procurement

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Vuosi 2009

Sivumäärä 57

Opinnäytetyössä tutkitaan mahdollista markkina kiinnostusta Suomessa sijaitsevaan epäsuorien hankintojen ulkoistusta tarjoavaa yritystä kohtaan. Tutkimuksen tavoitteena on esitellä tutkitun yrityksen markkinatilannetta ja liiketoimintasuunnitelman merkitystä. Tutkimuksessa tavoitteena oli myös esittää tilastollista tietoa yrityksen luomiseksi Suomen markkinoilla sekä havainnollistaa yksityiskohtaisesti kuluttajien odotuksiin kohdistuvaa tietoa epäsuorassa ostotoiminnassa.

Opinnäytetyön teoriaosuudessa määritellään ostotoiminnan käsitteet ja teorialat, sekä oston hallinto ja ulkoistaminen. Lisäksi teoriaosuudessa käsitellään ostoketjun, verkoston ja osakkuuden teoreettiset taustat.

Tutkimuksessa käytettiin kvantitatiivista, määrällistä, tutkimusta, koska kvantitatiivinen tutkimus vaatii tilastollista tarkastelua. Tilastollisen tiedon kerääminen toteutettiin kyselykaavakkeella, tutkimuksen perusteoriatietoon liittyvien kysymysten avulla.

Opinnäytetyön empiirinen osuus kuvaa tutkitun yrityksen taustatietoa sekä analysoi yksityiskohtaisesti tutkittua tietoa. Kyselykaavakkeen vastausten perusteella on havainnollistettu ja analysoitu tutkimuksen kannalta oleva tärkein tieto.

Opinnäytetyön johtopäätöksissä esitellään lopuksi tutkimuksen yhteenveto ja suositukset tutkitulle yritykselle.

Asiasanat: Outsourcing, purchasing, indirect procurement

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1 INTRODUCTION

1.1 Scope of the study

It is nearly impossible to observe all the developments which are happening in most management disciplines nowadays, this is especially true when discussing purchasing and supply management. Over recent years purchasing and supply management has been introduced with an ever-increasing interest, not only from purchasing managers but from the general management as a whole. (Indirect procurement outsourcing 2005) Many business professionals have become increasingly aware that purchasing and supply management particular represent large areas of improvement. This can be seen in the number of news articles published on purchasing and also from the acceptance of purchasing and supply management as a key variable in improving a company's competitive power. (Indirect procurement outsourcing 2005)

It is said that a business is as strong as its weakest link and an important link in this chain is the purchase and supply function. Higher management is beginning to realize the potential savings involved in purchasing decisions. In many industrial sectors the purchase share of the overall turnover is more than half, and in most cases substantially higher. This statement alone implies that purchasing decisions have a large impact on a company's result. (Baily, Farmer, Jessop & Jones 2004, xii)

In the competitive world of present, businesses must differentiate their core and non-core activities. Companies try to focus on their core activities which provide them with a competitive advantage, and all the activities which are seen as non-core are subcontracted to suppliers, and as a result the purchasing decisions of company's financial results is growing in many sectors. (Baily et al. 2004, xiii)

According to Indirect procurement outsourcing (2005), over the last 10-15 years, companies have realized that the procurement did not fully provide cost competitiveness. Companies had difficulties with new technology applications, cycles of centralization and decentralization, employee empowerment, trying to reduce the costs relative with the purchase of the non-core material and services. By outsourcing the indirect procurement, companies can accomplish sustained and effective cost reductions while transferring the lower value assets into a competitive advantage. (Indirect procurement outsourcing 2005)

Procurement Outsourcing Poised to Double, Accenture Survey Finds (2003) presents that almost half of the companies surveyed in United States and Europe were considering outsourcing a

portion of their procurement functions within the next 3 years. 22 percent of the companies surveyed responded that they are currently outsourcing some parts of their procurement. Nearly 43 percent of respondents would like to reduce costs and take the opportunity to outsource their indirect procurement.

1.2 Choice of research context

This research study investigates the potential market interest for a start-up Finnish company, "Company X Ltd". The name is not revealed due to instructions by the case company owners and management.

Company X Ltd is a start-up company which was established in August 2008, Finland. Its management team and owners are purchasing professionals from some of the largest companies in Finland, and share a deep and innovative knowledge of purchasing and sourcing activities.

The core idea of Company X is to provide the private and public sector indirect outsourcing services to allow the customer to focus on core activities and regain cost savings.

1.3 Purpose of the study

The purpose of this thesis is to provide the case company with a background of the current market situation and interest for the case company's business plan. The study aspires to provide the case company with sufficient statistical knowledge that will give a competitive advantage in the Finnish market and detailed information of customer expectations on the indirect procurement outsourcing service offering. Also the authors will share suggestions on business strategy and improvement ideas based on the statistical data derived from the empirical study. This study is also conducted to describe the relative theoretical data, in order to understand the essentials of indirect procurement outsourcing content and its process.

The research questions will provide statistical scientific data that will support or provide improvement suggestions for Company X's decision to proceed with the business proposition. The questions were designed and planned in close cooperation with the authors of this thesis as well as with the owners and management of the case company. The parameters and scope of the study were provided by the management of the case company.

1.4 Structure of the study

This thesis contains five main sections. The structure is presented in Figure 1. The thesis starts with the introduction, which includes the scope of the study, choice of research context, purpose of the study and the structure of the study. Secondly, the theoretical section of the thesis has focused on three main theoretical backgrounds. First, supply chain and purchasing activities. This includes the historical background of purchasing and its developments to its current business functions, the purchasing functions are described to show the different dimension of purchasing and present the different business activities related to purchasing and procurement, and purchase management is also introduced and key management categories are explained. Secondary focus is on general outsourcing and business process outsourcing. The history of outsourcing is introduced and the common ideologies and purposes of outsourcing are reviewed. Outsourcing as a competitive and as a strategically important part of business is explained. The third part of the theoretical background addresses the supply chain networking and partnership subjects for this study. The concept of supply chain and network is introduced. Moreover several other aspects are reviewed, such as dynamic network, purchasing relationship, partnership sourcing.

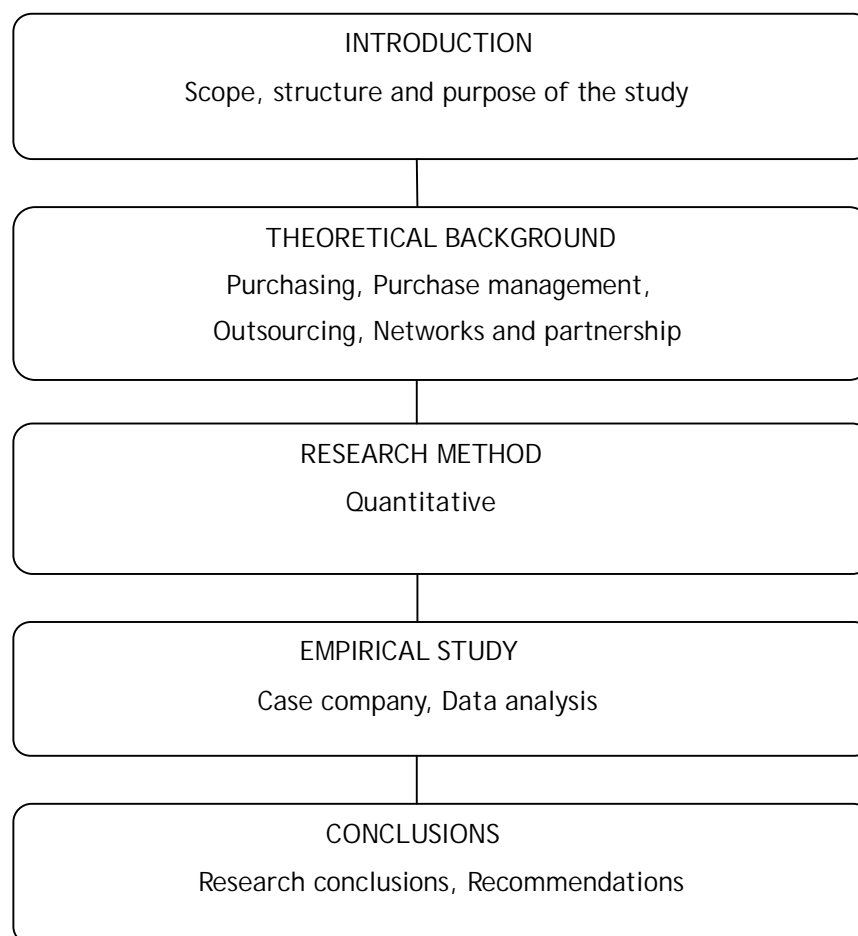


Figure 1. Structure of the study.

The third section of this thesis focuses on how the research process was developed, which methods were used and how the data was collected. The fourth section is the empirical study, which begins with the background information of the case company, moreover presenting the analysis of the research data and the market research findings according to different elements. The final section is the conclusions, which overviews the whole process of developing this study and to consequently give the market entry recommendations.

2 THEORETICAL BACKGROUND

2.1 Purchasing

2.1.1 Definition of purchasing

The study of purchasing can be viewed from several different perspectives, which include function, process, and link in the supply or values chain, relationship, discipline and profession. According to Lysons & Farrington (2006, 8-9), a composite definition of purchasing is given by both the British Chartered Institute of Purchasing and Supply and the European Journal of Purchasing Management as: "the process undertaken by the organizational unit that, either as a function or as part of an integrated supply chain, is responsible for procuring or assisting users to procure, in the most efficient manner, required supplies at the right time, quality, quantity and price and the management of suppliers, thereby contributing to the competitive advantage of the enterprise and the achievement of its corporate strategy".

All organizations require inputs of goods and services from external suppliers. A recognized statement of the objectives of purchasing is as follows: "to acquire the right quality of material, at the right time, in the right quantity, from the right source, at the right place." (Aljian 1984, 3) This statement has been strongly criticized for its simplistic and superficial manner. The definition does however provide a practical starting position for discussion. (Baily et al. 2004, 3-4)

2.1.2 Main dimensions of purchasing

The purchasing and supply activities can be separated into four main dimensions (See Figure 2). The technical dimension is concerned primarily with functionality, specifications and quality of the purchased goods. The commercial dimension is related to the managing relationship with

the suppliers and the contractual negotiations. The logistics dimension involves all activities related to optimizing the incoming material flow from the supplier to the end consumer. Finally the administrative dimension relating to expediting, order handling and follow-up of invoices. (Van Weele 2005, 35)

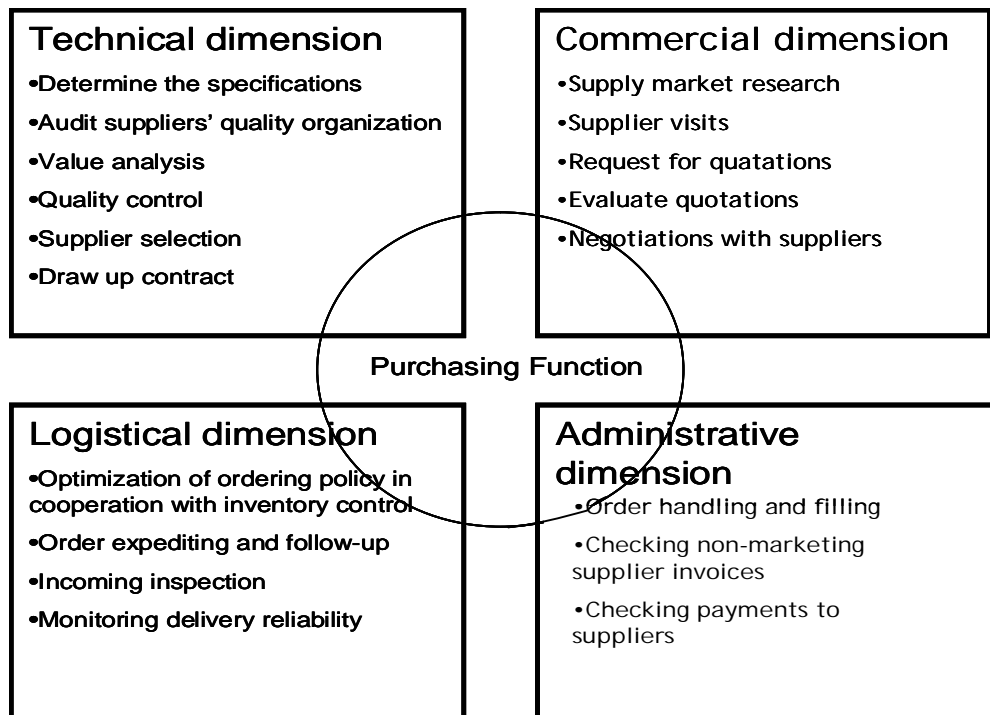


Figure 2. Main dimensions of purchasing. (Van Weele 2005, 35)

2.1.3 Importance of purchasing for business

When describing the increasing significance of purchasing, Gadde & Hakansson (2001, 4) state that for most companies the costs of purchased good and services represent the highest portion of total costs. A study of the extent of outsourcing in American industry shows that these costs amounted to 50 percent or even more in 16 industries out of 32 (See Figure 3). These figures show the main force is the strong reliance on outsourcing.

High extent of outsourcing	(%)	Low extent of outsourcing	(%)
Textiles	62	Utilities, gas and electric	17
Motor vehicles and parts	61	Petroleum refining	21
Chemicals	57	Food manufacturing	38

Figure 3. The extent of outsourcing in American industry. (Purchasing 1999a, 52)

In the last few decades companies have increasingly concentrated their operations in order to become more specialized, and most companies have increased their spending on suppliers. "In doing so, they have attempted to focus on a limited set of activities. This, in turn, means that they rely more and more on purchasing". (Gadde & Hakansson 2001, 5)

It can be said that purchasing activities fundamentally contribute to business success in more ways than one. Purchasing policies improve a company's key margins through realizing substantial cost savings. Saving occur through purchasing can be added as additional resources to the company's overall performance. Also creating more efficient logistic arrangements with suppliers and higher quality standards contribute to a higher capital turnover ratio. Additionally, suppliers may significantly contribute to the company's innovation, and creative processes. (Van Weele 2005, 17-18)

Apart from the direct savings incurred by purchasing prices, the purchasing activity can contribute to the competitive position of the company through other indirect functions. These functions can be the standardization of the company's product assortments, careful measurements of inventory and stock control, product and process innovation, and minimize lead times. Often the added value gained through these indirect contributions is more significant than the cost savings incurred exclusively by purchasing. (Van Weele 2005, 18)

As the global market is becoming more and more competitive, companies are constantly more dependant on the development of the supplier base, which will have to be more competitive than that of their competitors. This is also one of the future challenges of the purchasing department. (Van Weele 2005, 18)

2.1.4 Traditional role of purchasing

Koskinen, Lankinen, Sakki, Kivistö & Vepsäläinen (1995, 19) state that although the purchases and how they are conducted affect a company's turnover substantially, the level of managerial interest focused upon the function has been relatively small. Traditionally purchasing has not been seen as an added value for the company, but has mainly existed as a supportive activity for the core functions of the company. Gadde & Hakansson (2001, 3) also describe that traditionally purchasing has been considered as a clerical and administrative function mostly managing orders, where internal users have specified the content.

Buyers have primarily focused upon price and so been put in a competitive state amongst each other in who is the best negotiator. When the buyers only focus on their own tasks, they

distance themselves from sellers and from the end customer. Work is carried out when instances occur, and not providing added value for the overall business. This way can be characterized as a reactive approach. Also due to purchasing being seen as a function that generates expenditure, its role in a company has been managed with less interest than manufacturing and marketing. (Koskinen et al. 1995, 19-20)

Traditionally the main instrument for a buyer to work with has been creating a competitive bidding, providing a cheaper price. This has often generated an extremely competitive atmosphere which only provides short term profit and easily creates a barrier with the supplier and the purchaser. Often buyers see the suppliers as opposition and fail to see the potential in long-term business relationships. (Koskinen et al. 1995, 20)

Primarily objective of negotiations has mainly been the contract price. The only objective of the seller has been to maximize profit and the buyers are the counter party whose objective has been to minimize seller's profits. If a buyer succeeds the seller is seen to have failed. The traditional view also sees the supplier as a variable which can easily be replaced. If the supplier fails to meet the buyer's expectations, it will be effortlessly replaced. This amounting to the supplier being in a continues state of competition, and without being rewarded for successful business relation. (Koskinen et al. 1995, 20-21)

2.1.5 Purchasing developments

Over the past years it can be seen that purchasing and supply chain management have been recognized as an activity that reduces costs and provides added value. Purchasing can make tactical, operational and strategic developments in the area of supply chain management only if it is appropriately recognized. When the purchasing departments in organizations act in a proactive and strategic manner, they are able to improve effectiveness and efficiency in the supply, reducing acquisition costs, improving partnership with suppliers, and outsourcing operations all depend on the level of development concerned with the purchasing activity. An old reactive approach fails to provide any actual contribution to these previous concepts, while a well-developed strategic activity would. (Baily et al. 2005, 21)

2.1.6 Purchasing indirect material

Indirect purchases are constantly made to allow the primary activities to function in an efficient manner, for example by buying computer hardware, office equipment, catering, maintenance, and operations which play a supportive role for the company. Some of the

purchases are very routine and may be very repetitive but low in value. Some purchases may have “project characteristics” to them, and may be unique and high in value. In general these types of purchases are defined as “purchasing indirect materials”, “no production buying” or “general expenses”. (Van Weele 2005, 11-12)

The high variety of these types of purchases makes them very difficult to manage by one single buying procedure. The characteristic of these purchases also explains why professionalism in purchasing is usually low. Some companies have successfully implemented special programs for these types of purchases and reported high savings. (Van Weele 2005, 12)

Figure 4 below summarizes the main differences between purchasing for primary and supportive activities.

Main differences between purchasing for primary activities and supportive activities		
Aspects	Buying for primary activities	Buying for supportive activities
Product assortment	Limited to large	Very large
Number of suppliers	Limited, transparent	Very large
Purchasing turnover	Very large, considerable	Limited
Number of purchase orders	Considerable	Very large
Average order size	High	Small
Control	Depends on production planning	Limited, forecast-related
Decision-making unit	Engineering, manufacturing, specialists	Fragmented, varies with product or service

Figure 4. Main differences between purchasing for primary and supportive activities. (Van Weele 2005, 12)

2.1.7 Differences amongst direct and indirect procurement

There are some major differences that have to be considered between direct and indirect goods and services which affect procurement management. Direct goods end up in production, so procurement tasks include supply chain integration (lean management) and product creation

support as well. (Noto 2006)

Conformity management is the difference most often quoted between direct and indirect procurement. In indirect sourcing, increasing company's use of a preferred supplier is a critical success factor. In the direct material environment no one will buy a component or service from a non-preferred supplier, while in indirect categories this is often the case. Position of the stakeholders is also different in cases of indirect procurement. In direct procurement the number of stakeholders is relatively small (designers, engineers, quality management etc.) and are centered in a small area of activity. The opposite is the case for business stakeholders who influence indirect acquisition. In the field of indirect procurement there are several more stakeholders involved, with variable degrees of competences and a wider geographical spread. (Noto 2006)

Another significant difference between the two is the supply market structure and influence. Large corporations can build a significant power status amongst key direct suppliers by utilizing purchasing volumes. Due to the nature of the indirect market suppliers are not restricted to any certain industries, making it increasingly difficult for a company to create a position of power with the supplier. (Noto 2006)

Finally the most noticeable and often the largest incentive to differentiate the two categories is money and resource savings. Measuring the savings amongst the two is another major difference. In the direct environment, the focus is on cost of goods reductions. If procurement reduces the price of a material, the impact is easily defined. However, in indirect procurement each saving made can be questionable. The level of compliance, how much will the companies buy for the future; to what parameters can be used for measuring the savings incurred are all questions that need to be answered by management. (Noto 2006)

2.2 Purchase management

2.2.1 Categorization

Companies' overall procurements consist of several different product and service groups. The financial significance amongst the groups varies within organizations and accordingly the management of the groups is affected by several different denominators. (Iloranta & Pajunen Muhonen 2008, 134)

The supplier market and business model of the different product and service categories can be significantly different. Purchases can be categorized by their function, features, product

market, or by supplier. For the purpose of managing and controlling the purchases, it is not preferred to direct the categories in an identical manner. A structured management of the purchases demands a well presented view and order of the overall understanding of the product, service categories. (Iloranta & Pajunen Muhonen 2008, 135)

Purchases can be grouped according to their nature in several main groups. The most common ones include raw-materials, components, finished products, investments, services and indirect purchases. These groups can be further subdivided amongst three main purchase categories. (Iloranta & Pajunen Muhonen 2008, 135)

2.2.2 Categorization by purpose

Categories can be grouped to three main classes' by purpose. Categorizing based on the proposed use of product or service purchases. (Iloranta & Pajunen Muhonen 2008, 137)

2.2.2.1 Direct

Direct purchases are purchases of materials or products which are used for the manufacturing of a company's own production. This group is also known as product related. The common feature of these purchases is their continuity and frequency. (Iloranta & Pajunen Muhonen 2008, 137)

2.2.2.2 Indirect

Known also as none product related (NPR), are typical supportive purchases used within a company. These include product groups from office supplies, energy, water, clothing, furniture, phones, and other supportive purchases to manage a company's day-to-day business. (Iloranta & Pajunen Muhonen 2008, 137)

2.2.2.3 Investment

Good examples of investment purchases are facilities, real-estate and machinery. Investment purchases are often one-time purchases with a substantial financial impact. (Iloranta & Pajunen Muhonen 2008, 137)

Depending on which category the purchases belong to, the approach, effort and often the role of the purchasing department is very different. Many traditional purchasing organizations focus primarily on the first group, direct purchases. This often leaves the other categories to be

managed by other than the purchasing professionals. (Iloranta & Pajunen Muhonen 2008, 137)

2.2.3 Categorization by financial impact

Purchases can be classified according to the relative financial impact. Financially significant purchases require more attention, time and resources than those which do not. When considering the long-term affect which the purchase has on a company's result, it would also be important to consider the end-user perspective, overall expense, and of the expenses of the investment during its total life cycle. This demands great effort, time and purchasing expertise. (Iloranta & Pajunen Muhonen 2008, 138)

2.2.4 Categorization by supplier and supplier segments

In several organizations where there are more than one purchasing professional, purchases are divided amongst suppliers. This type of grouping can be founded to divide the routine tasks, but it is important to realize that a grouping amongst suppliers may restrict the supplier relations to a distinct supplier and even create an unnecessary monopoly for certain suppliers. (Iloranta & Pajunen Muhonen 2008, 139)

Categorizing by supplier functions primarily in cases where one supplier supplies one product or service category. But in cases where a supplier may provide several different categories of goods, complications may occur and the assignment of supplier categories may distort. (Iloranta & Pajunen Muhonen 2008, 139)

In several aspects it would be more logical to group purchases according to supplier segments to separate different product categories for different supplier segments. This will work best to position the suppliers in each segment to a competitive position amongst one another. This grouping will also provide the best means of collecting market information on prices, expense structures and supplier processes. (Iloranta & Pajunen Muhonen 2008, 139)

2.2.5 Standardization

Baily et al. (2005, 122) define standardization as the systematic formulation and adoption of standards. Moreover standards are documents which determine the minimum levels of quality and performance of goods and services and optional conditions in a given environment. Standards may be recognized by their subject, range of function or purpose. (Lysons & Farrington 2006, 280)

2.2.5.1 Range of matter

Range of matter can relate to an economic area of activity. The category of activity can be further subdivided into suitable subjects for standardization. Thus substances within each activity can be further standardized into other sub-standardizations. (Lysons & Farrington 2006, 280)

2.2.5.2 Purpose of standardization

Standards relate to one or more aspects of service or product quality. These include dimensions, performance requirements and environmental requirements. Dimensions encourage interchangeability and variety reduction. Performance requirements define the level which the product or service has to perform. Environmental requirements define the standards relating to matters such as pollution, waste disposal and other form of environmental effects. (Lysons & Farrington 2006, 280)

Besides the previously mentioned, standards refer to codes of practice, methods of testing and glossaries which are all meant to provide a guideline between the customer and supplier on best practices. (Lysons & Farrington 2006, 281)

2.2.5.3 Purchasing and standardization

Standardization has a significant impact on the total expenses of the purchased goods. By decreasing the amount of purchased materials we can lower costs in purchasing, receiving and inspection. Smaller catalogues make it easier to sustain a high and efficient service level. With standardizing purchase catalogues, prices are decreased by purchasing higher volumes of specified materials and equipment. (Koskinen et al. 1995, 19)

According to Lysons & Farrington (2006, 281), standardization has brought several advantages to the purchaser. Firstly, standardization helps to achieve reliability and reduce the costs at the same time, as well as provides clear specifications and removes the uncertainty for both the buyer and supplier. Secondly, standardization saves time and money by eliminating the need to prepare company specifications and reducing the need for explanatory materials. Thirdly, standardization provides less dependence on specialist suppliers and bigger scope for negotiation. Finally, standardization eliminates the need for purchasing expensive brand names. (Lysons & Farrington 2006, 283-284)

2.3 Outsourcing

For a quarter of a century many industries have been using outsourcing as one of their key business strategies. The automotive industry has been outsourcing its manufacturing operations, business services, and even entire business processes since the early 1980s. The recent developments have been in the contract manufacturing sector with considerable outsourcing by electronic industry OEMs (original equipment manufacturers). Business processes such as information technology, human resource management, payroll, logistics, and certain aspects of procurement have also been outsourced. (Monsczka, Markhem, Blascovich & Slaight 2005)

Global competitiveness and quarter-to-quarter financial performance requirements are forcing an increase in volumes of outsourcing across industry sectors. Companies are executing their outsourcing plans in order to remain competitive against rivals, focus on core competencies, and to achieve cost competitive growth in the supply chain for goods, services in the value chain of companies. These factors are forcing companies to completely evaluate their current outsourcing models and to determine their viability in the competitive market. (Monsczka et al. 2005)

2.3.1 Definition of business process outsourcing (BPO)

According to Gartner and Dataquest (The Free Library 2001): " Business process outsourcing can be defined as the delegation of one or more IT intensive business processes to an external provider, who in turn administrates and manages selected processes based upon defined and measurable performance metrics". BPO can also be defined as a service which provides the transferring of one or more business processes to a third-party, which takes over the management, supportive functions and infrastructure of the entire applications of processes. (Patel & Aran 2005, 7)

2.3.2 Reasons for outsourcing

There are several reasons for a company to engage in outsourcing its operations. This segment will explain the incentives for outsourcing

2.3.2.1 Cost savings

In a competitive market, a company has to focus on reducing cost in order to remain competitive. Owning a process incurs fixed costs for the company. By owning the process, a

company has to pay the fixed costs of establishing the process and managing it. This type of situation can be avoided by outsourcing these operations, and by so doing changing the fixed costs into variable costs. The service provider is responsible for the capital cost sustained by building the process, while the outsourcers will only be charged if they use the service. This will allow the company to free and manage its resources in a more effective manner. (Patel & Aran 2005, 19)

Money savings is a primary reason in the outsourcing decision. The competitive advantages which are gained through outsourcing a company's supportive, non-core processes are substantial, changing fixed costs into variable costs and so affecting the financial liquidity of the company. Companies improve their key ratios and benefit economies of scale through outsourcing. (Kiiskinen, Linkoaho & Santala 2002, 84)

The dilemma of the economical factors is how to recognize the correct and effective way to improve a company's short-term and long-term performances and profitability. For a long time outsourcing has been seen as only a cost-related issue. It is expected that the process is fast, with flexible and agile outcome. Fill & Visser (1994) state that cost outsourcing is a possible solution to increasing costs; by controlling and reducing the costs, companies can improve their competitive position.

2.3.2.2 Focus on core operations

Outsourcing frees valuable management time and resources and enables the most efficient use of the two. After the core processes are identified, the company should target on outsourcing the processes it defines supportive. Once these processes are outsourced to a service provider, the management can concentrate on core operations, enabling it to strengthen its position in the market. The benefits of outsourcing can also be seen in the supportive processes, due to outsourcing the processes to an outside vendor, whose core business' is the outsourced activities. The non-core processes receive greater attention from the provider than they did from the company management. As more attention is put on the supportive operations, the costs of managing the processes fall. (Patel & Aran 2005, 20)

2.3.2.3 Improvements in service level

The level of quality, flexibility and the support provided by outsourcing non-core functions to a third party is a large motivator. Constant quality monitoring and service improvement is an ongoing process for the service provider. The quality is one of the best indicators which a company can refer to when analyzing the success of an outsourcing case. The quality motive

can be divided into three aspects, which are "increased quality demands, shortage of qualified personnel, outsourcing as a transition period". (Fill & Visser 1994)

The vendor of the outsourced service focuses primarily on developing and administrating the process efficiently. Now the process is met with a larger interest for improvements and reengineering, constituting higher service quality standards. (Patel & Aran 2005, 21) The service provider also has a longer and a more specific amount of knowledge concerning the field which is outsourced, enabling leverage of learning and employment of best practices to simplify and eliminate costs in the process for the advantage of the client. (Patel & Aran 2005, 22)

2.3.2.4 Know-how related

Know-how is gained through the outsourcer transferring its non-core activities to a provider whose core-activities are other businesses non-core, this allowing the outsourcer to redistribute its resources to its core activities. The customer can also be assured that the service provider is constantly trying to improve its own technical and professional know-how to remain competitive in its own field of business. (Kiiskinen et al. 2002)

2.3.2.5 Risk reduction

The accelerating rate of competition and constant efforts to overly perform increase the level of risks companies have to manage. The outsourcing service provider is subject to the same risks but which are significantly reduced when the investments made are shared over a wide amount of clientele and work. (Patel & Aran 2005, 20)

2.3.3 Inhibitors for outsourcing

Karjalainen, Haahtela, Malinen, Salminen & Kaukonen (2004, 27-29), state that threats in outsourcing can be divided into three main categories, which are service provider-, strategy- and implementation-centered risks. The threat concerned with the service provider is often the result of differences in views with the service provider and customer. Strategy based risks are usually inside the value chain of the company, if for example the core functions of the company are outsourced. This would pose a real and considerable threat to the organization and its future. Thirdly the quality and implementation which is the primary initiative for outsourcing, is under constant evaluation and may be a constant concern for the outsourcer if not organized properly by the service provider.

Outsourcing provides substantial benefits; however, there are certain perceived negative aspects involved. An overly dependency towards sub-contractors can decrease the outsourcer's own innovative initiative capabilities and lead to a fall in its competitiveness. A company which has overly outsourced its activities may lose its ability to follow technological developments and the possibilities which allow them to improve company performance. (Kiiha 2002, 5)

Reasons for companies to choose not to outsource is concerns over loss of control, the belief that the activities are core, and the protection of intellectual property. (Monsczka et al. 2005)

2.3.4 Outsourcing the purchasing activity

There have been numerous discussions on the suggestion that purchasing activity could be outsourced. Most of the arguments centre on the role and activity of the function. Most experts and practitioners agree that the old reactive and transactional style of purchasing has only a small role in present business. Organizations which have this approach fail to gain the strategic advantage by not integrating purchasing to the overall supply chain. A purchasing activity which is poorly developed is likely to be a constraint for the development of the entire organization. "In such cases it might make economic and practical sense to allocate the purchasing activity to an outside organization where there is appropriate expertise and influence". (Baily et al. 2005, 25-27)

Outsourcing procurement is the transferring of business processes, resources, and structure connected with purchasing materials. This has already been accomplished in several companies by the outsourcing of security, catering, and travel services. The decision to outsource the procurement function is not an easy one. A customer has several options to choose from, all depending on the situation and how much responsibility it is ready to bestow to a third party. At the very lowest level there is the transfer of basic responsibilities and tasks which are delegated to the service provider, allowing the outsourcer to sustain most of the responsibilities such as supplier selection and management activities, reducing the possibility of major risks occurring to the service provider. (Baily et al. 2005, 25-27)

2.3.4.1 Reasons to outsource indirect procurement

The arguments to outsource indirect procurement are similar to business process outsourcing, as well as notable procurement reasons. Indirect procurement is often decentralized, which makes it difficult to build in-house know-how of proper expertise. The decentralized nature of indirect purchasing also lacks the volumes needed for a single company to justify investments in new technology and solutions. "Indirect procurement outsourcing can solve the problems for

corporations by providing expertise across spend categories, economics of scale in best-in-class technologies and solutions, and access to lower-skilled labor". (Duffy 2005) Specific procurement benefits can be recognized from the scale of purchases. A service provider can successfully disperse its purchases across clientele for a category and negotiate lower prices. Another benefit can be established from the level of accepted suppliers which the service provider can introduce to the client. (Duffy 2005)

2.3.4.2 Companies suitable for indirect procurement outsourcing

Most companies are suitable for indirect procurement outsourcing. There are not many companies which achieve the required magnitude of expenditure in the field of indirect purchasing to gain the volumes and buyer power of an outsourced solution. Companies which work in professional and financial services have even more to benefit, for their entire expenditure evolves around indirect materials and services. Trying to build expert competencies around this field is challenging for the management of a company. Product-orientated companies also have strong demand for outsourcing indirect material procurement, due to their competencies usually existing in purchasing raw materials, components and systems. (Duffy 2005)

2.4 Supply chain networks and partnerships

Procurement has been considered by business organizations as one of the key areas of supply chain management, and has been commonly known as one of the supply chain mix. (Quayle 2006, 107) Due to this nature of procurement, in order to investigate the network structures and relative partnerships when enterprises outsource their procurement to a third party, it is necessary to observe the basic network structures of supply chain and procurement in advance.

2.4.1 Definition of supply chain

According to Lysons and Farrington(2006, 91), one typical definition of supply chain is: "A supply chain is that network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer or consumer"

Supply chain can also be defined as the process that seeks to provide for the management and coordination of all relative activities from sourcing and acquisition, through production, and through distribution channels to the customer. The purpose of supply chain is creation of the competitive advantages through the simultaneous achievement of high customer service levels,

optimum investment, and value for money. (Quayle 2006, 106)

2.4.2 Definition of networks

Every business organization has a relationship as customer, suppliers or as partners with many other organizations. Business networks connect different organizations cooperatively working together to manage and improve the flow of materials and information from suppliers to end-users. (Lysons & Farrington 2006, 92)

Lysons & Farrington (2006, 131) state that: "A network structure is a series of strategic alliances that an organization forms with suppliers, manufacturers and distributors to produce and market a product." Such network structures make an enterprise able to bring resources together on a long-term basis, reduce costs and improve quality without the high expenditure involved in investing in specialized resources, including research and design, and dedicated technology or the employment of managers and operatives. (Lysons & Farrington 2006, 131)

2.4.3 The benefits of networking

The benefits of this structure and its central objectives are to make those business organizations able to reach the resources, especially expertise for a long-term basis, reducing the costs and improving the quality. (Lysons & Farrington 2006, 131)

Networks can enrich the company or organization with access to new different capabilities. Few companies are able to invest time into all necessary areas of the company's development targets at the same time. By participating in a network, the company can choose to concentrate on specific core areas. Networking allows organizations and companies to gain more ability to produce or perform tasks, in other words, more capacity. This allows the company to increase its production capabilities without having to invest in production plants, personnel, training and other functions, which consume time and effort and are difficult to start up. (Pirnes 2002, 67-68)

According to Ard Pieter de Man (2004, 13-14) networking can give access to specialized and complementary competencies. Competencies lacking within an organization can be sourced from its partners within the network. For instance, a company can ally with other organizations investing in technologies. As a result, the companies in the network have access to a variety of technological developments without having to make major investments.

2.4.4 Supply chain network

The supply chain concepts invoke a strategic view of thinking which seeks manipulate to the flow of materials and related information in a flexible but integrated manner, as a result they perform in unison to achieve an overall optimum result for the business. Essentially the purpose of the supply chain network is to link the market place and its distribution channels to the procurement and manufacturing operations in such a way that competitive advantage can be achieved and maintained. (Quayle 2006, 107)

According to Lysons & Farrington (2006, 92), "Supply chains are networks traditionally, supply chains were loosely linked associations of discrete business. The network concept implies some coordination of 'cow to customer' processes and relationships." Supply chain is also defined as a network of connected and interdependent organizations mutually and cooperatively working together to control, mange and improve the flow of materials and information from suppliers to end users. (Lysons & Farrington 2006, 92)

2.4.5 The supply chain mix and scope of the supply chain

The business functions within the scope of supply chain management are also commonly known as the supply chain mix: purchasing, which include source research and selection, negotiation and building a supplier partnership program. Other functions such as "planning and marketing strategy; production planning; storage and material handling; inventory management; warehouses and stores and transport; customer service and technical support" are also part of the supply chain mix. (Quayle 2006, 108-109)

Quayle (2006, 109) describes the scope of supply chain as: "the basic nature of business is that it procures or buys something, whether goods or information: changes its form in some way that adds values and then sells a product or service onto someone else." In manufacturing industries this sequence can be summarized as the following: (See Figure 5)

Inbound	Core business	Outbound logistics
raw materials	process or refine	supply others
refined materials	manufacture	components/assemblies
components	assembled	finished product
finished goods	distribute	customer

Figure 5. The Scope of the Supply Chain. (Quayle 2006, 109)

2.4.6 Supply chain linkages

Linkages as defined by Lysons & Farrington (2006, 92) as “a coordination of supply chain processes and relationships.” Supply chain linkages can be upstream and downstream. Upstream meaning “against the current” and relates to the relationships between the companies and suppliers and suppliers’ suppliers. Contrast, downstream refers to “with the current” and relates to the relationship between an enterprise and its customers. (Lysons & Farrington 2006, 92)

2.4.7 Supply chain processes from a purchasing standpoint

In the business field, a process is defined by Cooper, Lambert & Pugh (1997): “A special sequence of working activities across a time and place with a starting point and a finishing point and clearly identified inputs and outputs, a structural action. This supply chain process is viewed differently from the purchasing perspective (See Figure 6) and from a supplier’s perspective”. (See Figure 7)

Search	Acquire	Use	Maintain	Dispose
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Figure 6. Supply chain processes from a purchasing perspective. (Lysons & Farrington 2006, 92)

Research	Design	Manufacture or Provide	Sell	Service
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Figure 7. Supply chain processes from a supplier’s perspective. (Lysons & Farrington 2006, 92)

2.4.8 Ultimate supply chain and dynamic network

Lysons & Farrington (2006, 94) state that the supply chains can be classified into three categories according to four customer-supplier characteristics and can also be concerned with many elements such as virtuality; scope; service; complexity and products; purpose and value. The three type of supply chain are direct supply chain (See Figure 8); extended supply chain (See Figure 9); ultimate supply chain (See Figure 10)

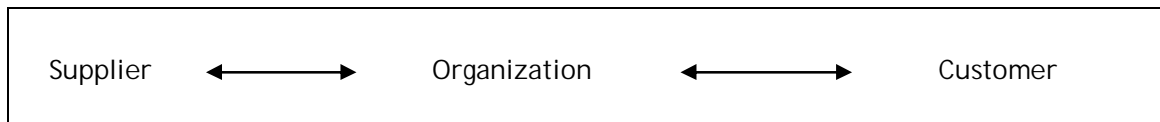


Figure 8. Direct supply chain. (Lysons & Farrington 2006, 94)

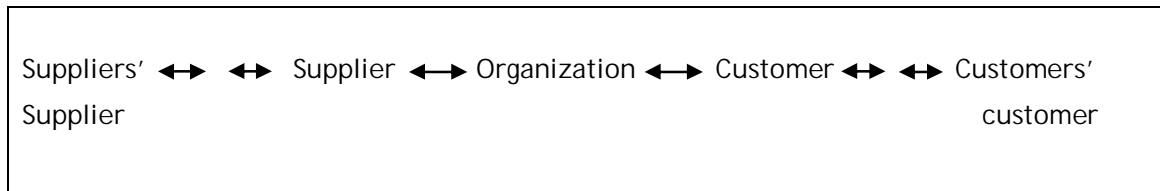


Figure 9. Extended supply chain. (Lysons & Farrington 2006, 94)

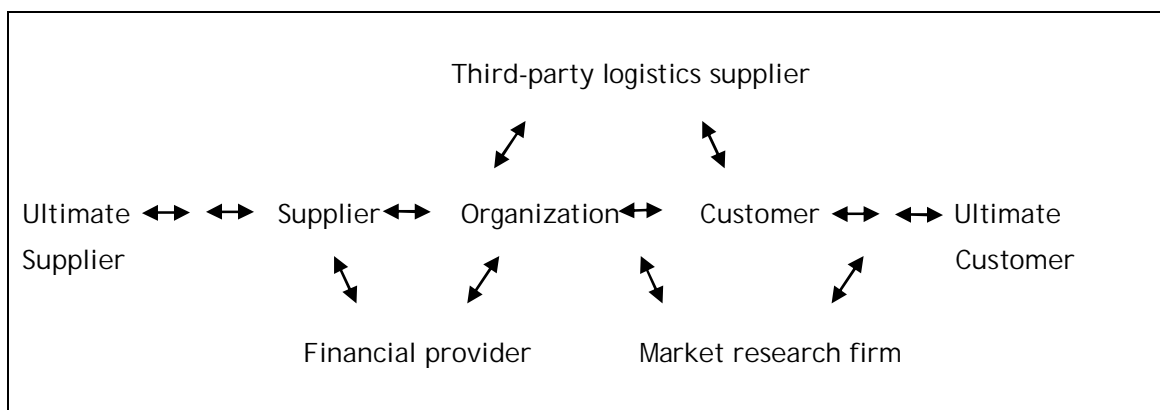


Figure 10. Ultimate supply chain. (Lysons & Farrington 2006, 94)

Lysons & Farrington (2006, 133) classified the network into three types, internal network; stable network; dynamic network. The internal network types of company control most or all assets relative with the business, in order to gain entrepreneurial and market benefits without external resources. In stable networks, the assets are controlled by several companies but dedicated to a particular business. The suppliers are providing supplies or distributing its products to a large core organization. (Lysons & Farrington 2006, 133)

With dynamic networks (See Figure 11), there is a large amount of outsourcing activities. "The lead firm identifies and assembles assets owned wholly or largely by other enterprises on whose core skills it relies." The key managers of the dynamic organizations are creating and assembling the resources outside the company, or from the brokers. (Lysons & Farrington 2006, 133)

The advantages of the dynamic network have been defined by Lysons & Farrington (2006, 134). The advantages include: firstly, the dynamic network allows organization to focus on their

expertise and, thus, develop distinctive competences. Secondly, the dynamic network can show the technical specialization of functional structures, the market responsiveness of divisions and the balance orientation of matrix structures. "Synergy that is, the whole is greater than sum of its parts-results from the cooperation of the network partners" (Lysons & Farrington 2006, 134)

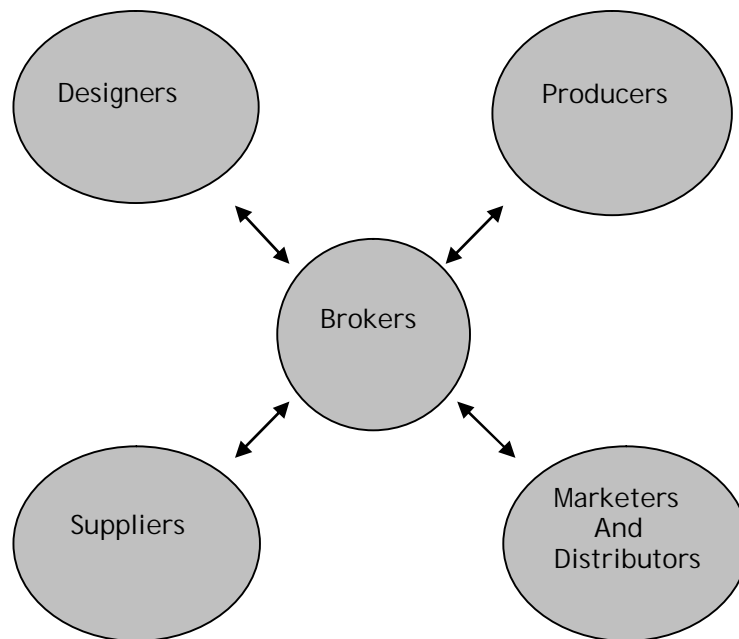


Figure 11. Dynamic network. (Lysons & Farrington 2006, 133)

2.4.9 Relationships purchasing and purchasing relationships

According to Lysons & Farrington (2006, 223), a relationship is defined as "connection and association. Relationships apply when individuals, organizations and groups within and external to an enterprise interact." Different from industrial sociology, for the field of study of group interaction in a workplace environment, the study of business relationships starts with the concept of relationship marketing. (Lysons & Farrington 2006, 223)

Relationship marketing describes a long-term marketing strategy emphasis on building and maintaining long-term relationships with customers. At present, the business-to-business field, relationship marketing this is used for the management of purchasing-supplier relationships which is concerned with a broader network of interconnected purchasing, supplier and competitor organizations. (Lysons & Farrington 2006, 223)

The target of relationship purchasing is to achieve strong and long-lasting relationships with

suppliers, on the base of mutual benefits and the added value of competitive advantages for both parties. However, there are differences between relationship purchasing and purchasing relationship. Unlike relationship purchasing, not all purchasing relationships are concerned with the long-term purchasing-supplier connection. (Lysons & Farrington 2006, 224)

2.4.10 Transactional and relationship purchasing

The main differences between transactional purchasing and relationship purchasing have been defined by Lysons & Farrington (2006, 244) (See Figure 12)

Transactional	Relationship
Focus on short, discrete purchasing	Focus on supplier retention
Short-term orientation	Long-term orientation
Simple buzzer-seller relationship	Complicated, including internal relationship
Emphasis on price, quality and delivery in the Offered product, No innovation	Emphasis on improving price, quality, delivery and other factors, such as innovative design as a collaborative exercise between purchaser and supplier
Moderate supplier contact	High level of supplier contact, with each contact being used to gain information and strengthen the relationship
Little sharing of information; opaqueness	Significant sharing of information, including cost information; transparency
Reverse auctions ma be applicable	Reverse auctions generally not applicable

Figure 12. The main differences between transactional and relationship purchasing. (Lysons & Farrington 2006, 244)

2.4.11 Partnering and partnership sourcing

Defined by Lysons & Farrington (2006, 244), partnering is generic and refers to a large range of collaborative relationships. Lysons & Farrington (2006, 410) also define the term partnership sourcing as all forms of non-adversarial collaborative relationships.

There are three degrees of partnerships, according to Lambert, Emmelhaing, Gardner (1996). The first type of partnership indicates organizations that consider each other as partners on

limited basis, cooperative activities and planning, which are mainly in a short-term and get involved with few areas between each other. Within the second type of partnership, organizations have integration of activities, which is long-term and involved multiple areas. The third type of partnership indicates organizations which have a high level of operational and strategic integration in a long-term, and essentially view the other as an extension of its own organization. (Lysons & Farrington 2006, 410)

"The three types of partnership reflect increased strength, long-term orientation and level of involvement between parties. No particular type of partnership is better or worse than any other. The key is to try to obtain the type of relationship that is most appropriate given the business situation." (Knemeyer, Corsi, Murphy 2003, 77-101)

Some comparisons between traditional and partnering relationships are defined by Lysons & Farrington (2006, 410). Unlike traditional supplier relationships, partnering supplier relationships concentrate on building cooperation and a community of interest between purchaser and supplier, and the total acquisition costs, including indirect and hidden costs. Partnering supplier relationships emphasizes on long-term business relationships with the supplier at the earliest possible stage to determine how the buyer's requirements can be fulfilled. In addition, partnering supplier relationships focus on quality assurance based on total quality management and common trust between purchaser and supplier. (Lysons & Farrington 2006, 411)

The main reasons for partnership sourcing have been identified by Lysons & Farrington (2006, 410) such as: " drive for lowest acquisition cost; reduction in supplier base; shortening of product lifecycles; concentration on core business; competitive pressures towards 'lean' supply; adoption of 'best practices', creating dependence."

2.5 Theoretical framework

In order to describe the existing theories and understand the essential concept of indirect procurement outsourcing, four different theoretical aspects were connected. Firstly the theory concentrates on the basic concept and elements of purchasing. Secondly the categorization and standardization of procurement were presented. Then this study defines the theory of outsourcing and finally it described supply chain networks and partnership. The theoretical framework was built mainly for presenting the demand and process of indirect procurement outsourcing.

Figure 13 presents the theoretical framework of this study and shows how these different

theoretical aspects are connected and centralized for questionnaire design and further data analyses. (See Figure 13)

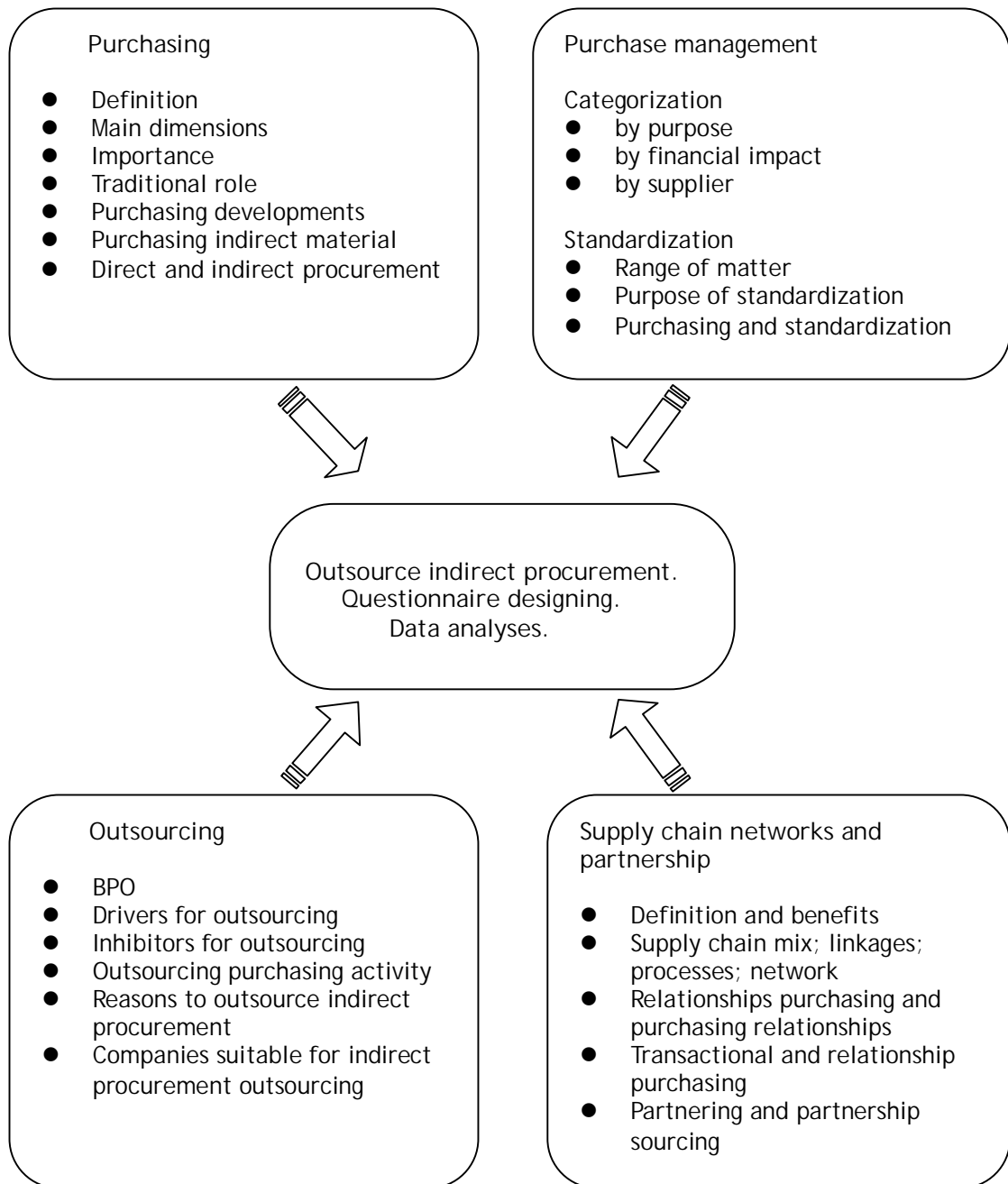


Figure 13. Theoretical framework.

3 RESEARCH METHODS

According to Erätuuli, Leino and Yli-Luoma (1994, 10), a research is a systematic endeavor to form ideas and innovations. The requirement for a successful research is the reliability of the information gathered. This suggests that a well-structured research model interprets what is

desired, and therefore the study must answer the question it was intended to answer. This section presents and discusses the research methodological issues relating to the purpose and process of research. Furthermore, the section outlines research methodology, research design, methods of data collection and analysis, and finally concludes with the reliability and validity of the research.

3.1 The purpose of the research

Research can be classified into three different purposes: exploratory, descriptive or explanatory. The exploratory study is a good tool in understanding a phenomenon by gaining new insights and assessing a problem from a different perspective. An exploratory study is adopted in order to study a research problem that is not specific. The research problem is more or less understood, not specifically defined and studies a new phenomenon. (Ghauri & Gronhaug 2005, 58) The exploratory research is conducted into a research problem or issues when there are no earlier studies which can be refer to information about the issue of the problem. (Collis & Hussey 1997, 11)

“The descriptive research is research which describes phenomena as they exist, and it is used to identify and obtain information on the characteristics of a particular problem or issues.” (Collis & Hussey 1997, 11) The descriptive research is more rigid than exploratory research and a research problem is well structured. The research is conducted without the manipulation of variables or any causal relationship between the events to portray an accurate profile of events. (Saunders, Lewis, Thornhill 2007, 134) “The explanatory research is a continuation of descriptive research. The researcher goes beyond merely describing the characteristics, to analyzing and explaining why or how it is happening.” (Collis & Hussey 1997, 11)

In order to answer the thesis research question, the authors of this thesis have to consider a holistic view of a market entry process to examine the possible market interest towards outsourcing indirect procurement to a third party company, and how companies perceive this service. The research question is well defined and empirically supported by the existing theory of purchasing, outsourcing and supply chain management. For this reason, the thesis is essentially descriptive in nature and qualified for using the quantitative research method.

3.2 Qualitative and Quantitative research method

Research methods can be divided primarily into two main methods: qualitative and quantitative. Qualitative methods are used to understand the research phenomena and explain

the reasons for its decisions and behaviors. It is narrowed to foresee a smaller scope of samples but in the most accurate way feasible. The objects of the research are carefully selected, and no tendencies for statistical analyses are made. (Heikkilä 2001, 16) Qualitative research methods emphasize understanding and are process-oriented. The focus is to understand from the respondent's point of view and the observations and measurements are completed in natural settings. Also, the method allows closeness to data and the view is subjective. However, the approach and interpretation in qualitative research are rational. Generalization is completed by comparing properties and contexts of an individual organism. (Ghauri & Gronhaug 2005, 110)

According to Collis & Hussey (1997, 13), "a quantitative method's objective is in nature and concentrates on measuring phenomena. A quantitative method involves collecting and analyzing numerical data and applying statistical test." A quantitative research which is also described as a statistical research is normally used to solve questions related to quantities and percentages and their dependencies. This method requires a large enough scope for the research to be seen as reliable. The quantitative research answers the questions: where, what, when and how often. (Heikkilä 2001, 16)

3.3 The choice of the research method

In quantitative research the emphasis is on testing and verification. The approach is more logical and critical, and also can manage on numbers. It is more controlled measurement than qualitative research. Also quantitative research is result-oriented and analytical. (Ghauri & Gronhaug 2005, 110)

In this study, quantitative research was chosen as the research method, since the study was based on the market research questionnaires, which concentrate on collecting information from several companies to examine possibilities. Due to the research data available, the quantitative research method was most suitable.

3.4 Data collecting

According to Collis & Hussey (1997, 150), "as the name suggests, data collection methods are used in that part of the research process which is concerned with collecting data." The main methods of data collecting conclude: critical incident technique; diaries and focus groups; interviews and observation; protocol analysis and questionnaires. (Collis & Hussey 1997, 151)

“One of the main advantages of a quantitative approach to data collection is the relative ease and speed with which the research can be conducted. However, if you adopt a quantitative approach to data collection, the analytical and predictive power which can be gained from statistical analysis must be set against the issues of sample representativeness, errors in measurement and quantification, and the danger of reductionism.” (Collis and Hussey, 1997, 162)

3.5 Sampling

Sampling is an important element to quantitative research, as it provides a sample of a larger group being studied. It is efficient, since there is no need to ask for an opinion from each individual group member, instead select a few representatives to represent the whole group’s opinion. (Ghauri & Gronhaug 2005, 145)

Sampling can be classified into two main groups: probability and non-probability. Probability sampling is a sample that has been randomly selected from the population, for example, simple random sampling. The objective is that anyone from the group being studied might be chosen for the test. In contrast, non-probability sampling is a sample that has been selected from the group, for example, a convenience sample can be an interview with a colleague. However, these samples are limited and do not provide a good basis for representing the whole group. (Ghauri & Gronhaug 2005, 146)

In this study, non-probability sampling was chosen in the quantitative research section. This is because the case company X Ltd is not interested in random opinions, but concentrates on the opinions of the companies which have interests in outsourcing their indirect procurement. The opinions of the decision-makers such as the board of directors, the managing directors, the head of finance or procurement in those companies are significantly important to this study. This is why the authors choose the respondents for the questionnaires by non-probability sampling.

3.6 Questionnaires

Collis & Hussey (1997, 173) state that questionnaires are concerned with both positivistic and phenomenological methodologies. A questionnaire is a list of well-chosen and carefully structured questions, with a view to eliciting reliable responses from a chosen sample. The purpose is to determine what selected group of participants do, think or feel. (Collis & Hussey 1997, 174) Questionnaires are considered as popular method for collecting data. A

questionnaire survey is relatively cheaper and less time-consuming than conducting interviews and very large samples can be taken. The summaries of main decisions when using questionnaires are defined by Collis & Hussey (1997, 174) as "Question design is concerned with the type of questions, their wording, the reliability and validity of the responses. Because designing questions is a crucial element of many of the data collection methods." Presentation can also help respondents to complete a questionnaire correctly and it can also make the subsequent analysis of the data much easier. (Collis & Hussey 1997, 174)

Questionnaires are used as an instrument in the survey-data collection method. They are commonly used in quantitative research. Questionnaires are used to record verbal behavior of the respondents and are an efficient instrument to gather opinions. The major types are descriptive and analytical. Depending on the research problem, the researcher defines which questionnaire type to use. (Ghauri & Gronhaug 2005, 124)

In this thesis the questionnaire is significant information for the research problem, since the empirical study and development plan was decided based on the data gathered from the questionnaires. The questionnaire was designed for gathering not only basic information such as company name, field of industry, number of employees, but also some crucial information of the outsourcing decision-makers in companies, and what procurement services the companies like to acquire. (See Appendix 2) The questionnaires were sent out continuously to different respondents by E-mail between November 2008 and March 2009 until 30 responses were received. (See Appendix 1)

3.7 Reliability and validity

Reliability according to Collis & Hussey (1997, 186) is "concerned with the findings of the research. The findings can be said to be reliable if you or anyone else repeated the research and obtained the same results." Validity is concerned with the extent to which the research findings accurately represent what is happening in the situation; in other words, whether the data collected is a true representation of what is being studied. (Collis and Hussey, 1997, 186)

When conducting research, it is important that the data and measurements are valid and reliable. For quantitative data, reliability means the stability of measures. (Ghauri & Gronhaug 2005, 81)

As the case companies requested, some companies' information and data are confidential. The questionnaires sent to respondents were identical in information collecting process. In the quantitative research of this study the reliability and validity are easier to test due to most

data used in this study is numerical data.

4 EMPIRICAL STUDY

4.1 Company background information

4.1.1 Business plan

In the business plan, the case company stated its mission is to provide the private and public sector indirect outsourcing services. Main focus groups are middle-sized companies which do not have a structured procedure for indirect purchases. The concept of the service is to consolidate the indirect purchases of several customers under one organization, providing leverage for more optimal and cost-efficient pricing conditions and service level. Additional to cost efficiency and economies of scale the service will further develop customer purchasing processes in a systematic and controlled manner.

The managers of case company have more than eight years experience in the purchasing industry and have worked on several global and multicultural purchasing projects over the years in some of the largest companies in Finland

4.1.2 Products and services

The case company provides purchase and sourcing services, negotiation and invoice handling. The service concept is that all customers will outsource their main indirect purchase categories to the service provider. The service provider will act as the sourcing manager as well as the buyer for the customer's indirect purchases, providing contact to the customers for all indirect purchases. The customer also focuses its indirect purchases under one controlled purchasing process with competitive pricing providing the customer with added value and the opportunity to focus on its core business and know-how.

4.1.3 Customers and market

Main markets of the case company are large, small and medium-sized companies. Customers manage their indirect purchases internally without any real added value, and seek to a certain extent to outsource a part of these activities. Currently customers are dependent on their existing contact network and preferred suppliers. The suppliers are rarely challenged and the

management of these functions is managed along other job activities. Suppliers are preferred either by price or by service, but often due to the lack of market knowledge and supplier base, these criteria are rarely combined. This is often the case especially within small companies where history and word-of-mouth are highly important in the decision making. Large companies often have a large knowledge of the supplier base and the market environment but employees lack the time to focus on supplier selection due to time constraints. Figure 14 presents the company SWOT analysis.

<p>STRENGTH</p> <ul style="list-style-type: none"> • Flexibility • Background/Experience in global purchasing • Contacts • Local market knowledge • New service/No real competition • Negotiation skills • Purchasing category knowledge 	<p>WEAKNESS</p> <ul style="list-style-type: none"> • Small size • Limited amount of categories • Limited experience • Resources • leverage (in the beginning) • lack of reputation • Market readiness • legal backup
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Off-shoring • Plan the service from the beginning • Early market penetration • Possible successful references 	<p>THREATS</p> <ul style="list-style-type: none"> • Competition • Demanding investor • Resources • Funding • Offering vs demand

Figure 14. SWOT analysis. (Business plan of case company)

4.2 Data analysis

The purpose of this research is to exams the possibility for entering a new market, which means the potential customers' information and their demands contained in the responses of questionnaires are significantly important for conducting this research.

In order to collect sufficient and reliable information, more than 200 questionnaires were sent randomly among the 500 largest companies of Finland. However, the most of responds were not from the 100 largest Finnish companies, but more from the 200 largest to 500 largest

companies. 30 responses were collected and the rate of responding was 15%. According to the case company and most of the respondents' request, the respondents and their company names are confidential, but a majority of the respondents to the study were managing directors, procurement directors and sourcing managers.

4.2.1 Respondents by industry

Table 1 illustrates which business field the respondents are from, as well as the percentage of each business field among the total industry scale. Most of the respondents were from the industry sector, which amount to 50 percent out of the entire scale. The high percentage of industry sector's responses partially reflects that they have higher interests for indirect procurement outsourcing. There are one-quarters of the responses received equally from the technical service and other business activities as well as the trade industry, each amounting to 13 percent. Twenty one percent of the replies were divided equally amongst agriculture, other industry branches and transportation, storage and communication industries. Fewest replies were received from the construction industry, totaling three percent.

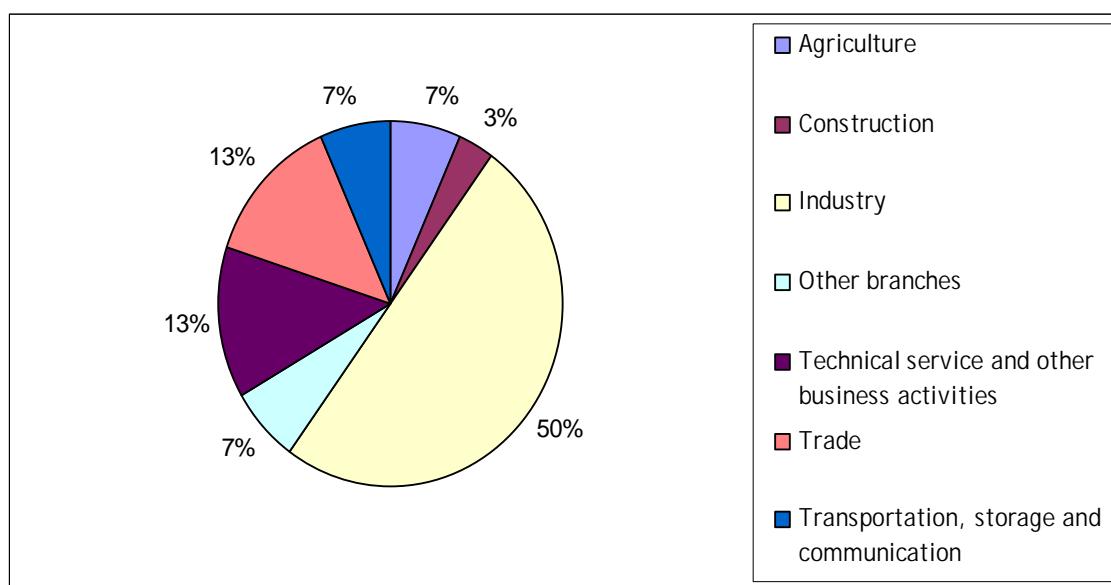


Table 1. Field of business.

4.2.2 Number of employees

The number of employees of the respondents' company is categorized into five groups (See Table 2). More than half of companies were from 50 to 499 employees, while 17 percent of the

companies have more than 500 employees, which means over seventy percent of respondents' company are medium or large-sized. However there are a quarter of replies are from companies which have less than 50 employees.

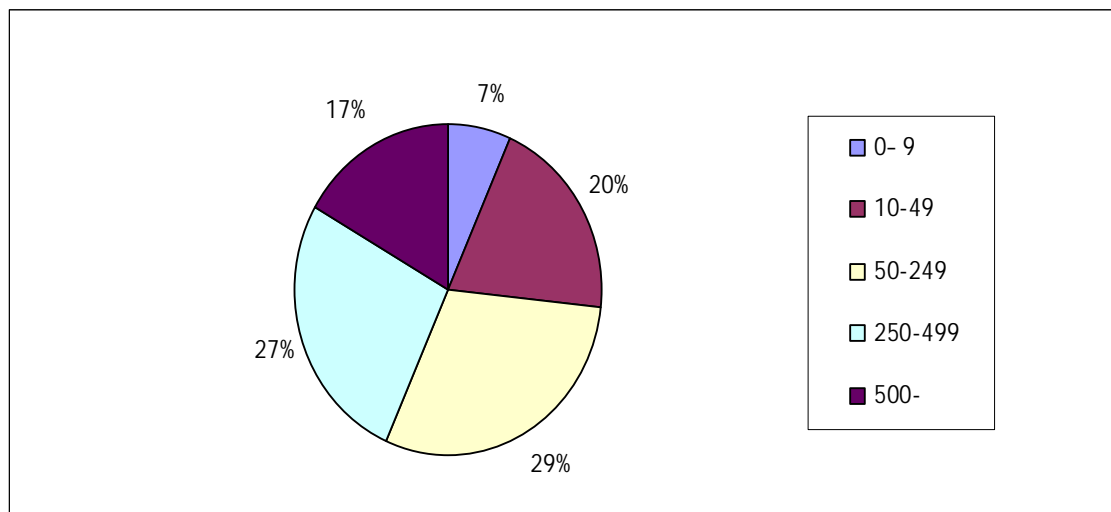


Table 2. Numbers of employees.

4.2.3 Main drivers for outsourcing the indirect purchase

The questionnaire consisted of multiple choice questions to determine whether companies would consider outsource company's indirect purchases to a third party as an added value service which would benefit companies' overall strategy and profitability.

The questionnaire requested the respondent would rate the perceived benefits from 1 to 5. One means that the respondent totally agreed with the perceived benefit, in contrast, 5 means totally disagreed. The points were then added together to see the total points per perceived benefit. The benefits which received the lowest point were the benefits which the respondents agreed the service provider would bring. The same evaluating principle also applied on the other multiple choices in this questionnaire. (See Appendix 2)

The study clearly shows that the respondents consider direct cost savings as the greatest expected benefit to be gained (See Table 3). The second greatest expected benefit is accessing new technology. Meanwhile there are no significant differences between the other benefits such as improvement in service level, economy of scale. However table 3 also presents that most of the respondents thought that outsourcing the indirect purchase function to the other business party may not strongly support the company reduces risks.

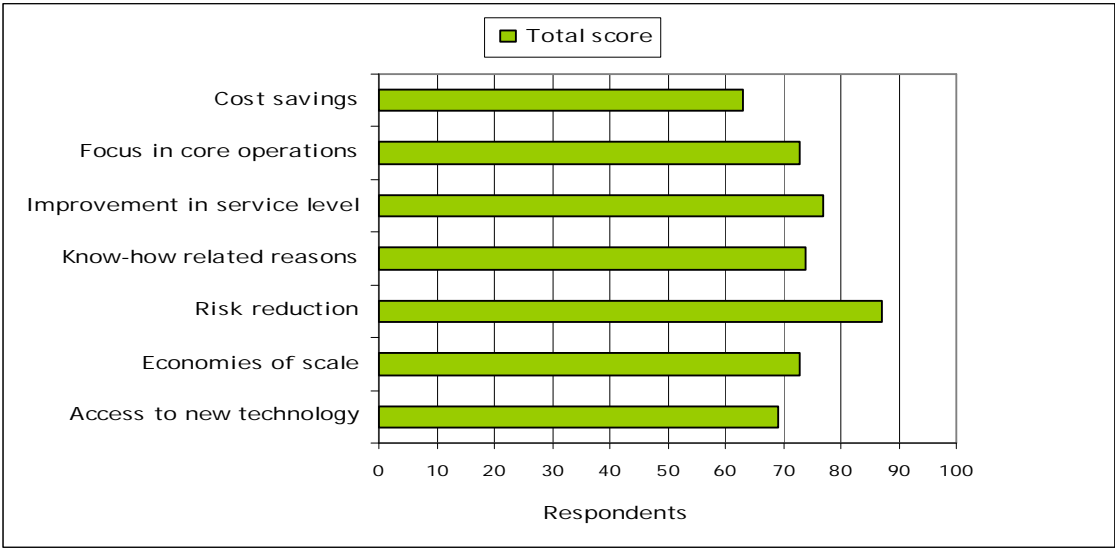


Table 3. Main drivers for outsourcing the indirect purchase function.

4.2.4 Evaluation of the service

Respondents were asked to rate in more detail of evaluation of the indirect purchase service (See Table 4). Respondents found that the service would bring most added values by allowing the companies to focus more on their core operations, in order to reduce the time from tasks which are not perceived as the companies’ main core business.

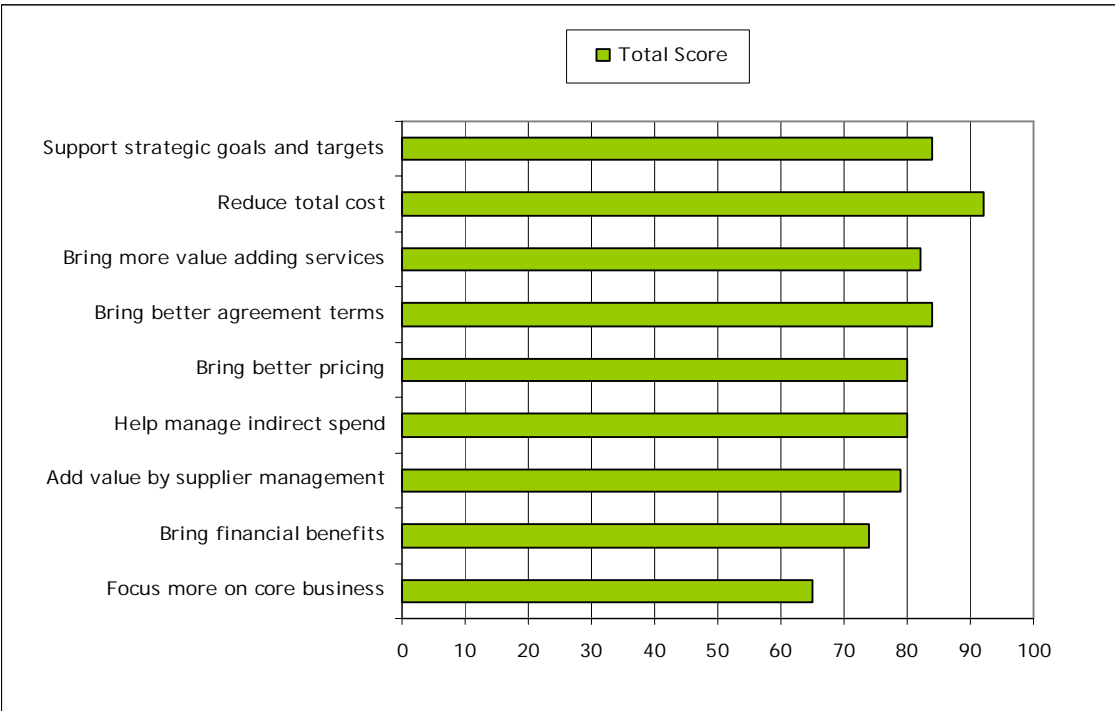


Table 4. Evaluation of the services.

Respondents also supported the previous statements that the service would provide direct financial benefit and potentially support supplier management. Moreover respondents found that the service would substantially decrease total overall costs of the companies and that the decision to outsource indirect procurement would support the companies' strategic targets.

4.2.5 Main challenges in outsourcing indirect procurement

Table 5 shows the difficulties or doubts that companies considered when outsourcing their indirect procurement. The willingness to keep indirect procurement function in their own companies was considered the biggest obstacle by the respondents. Other possible issues which related with the management were also highly valued, for instance new management challenges as well as possibilities of lose control of the procurement management.

Compared with the possibilities management changes brought by outsourcing indirect procurement, respondents are less worried about changes of other factors, such as cost, innovation abilities, information security and legal issues.

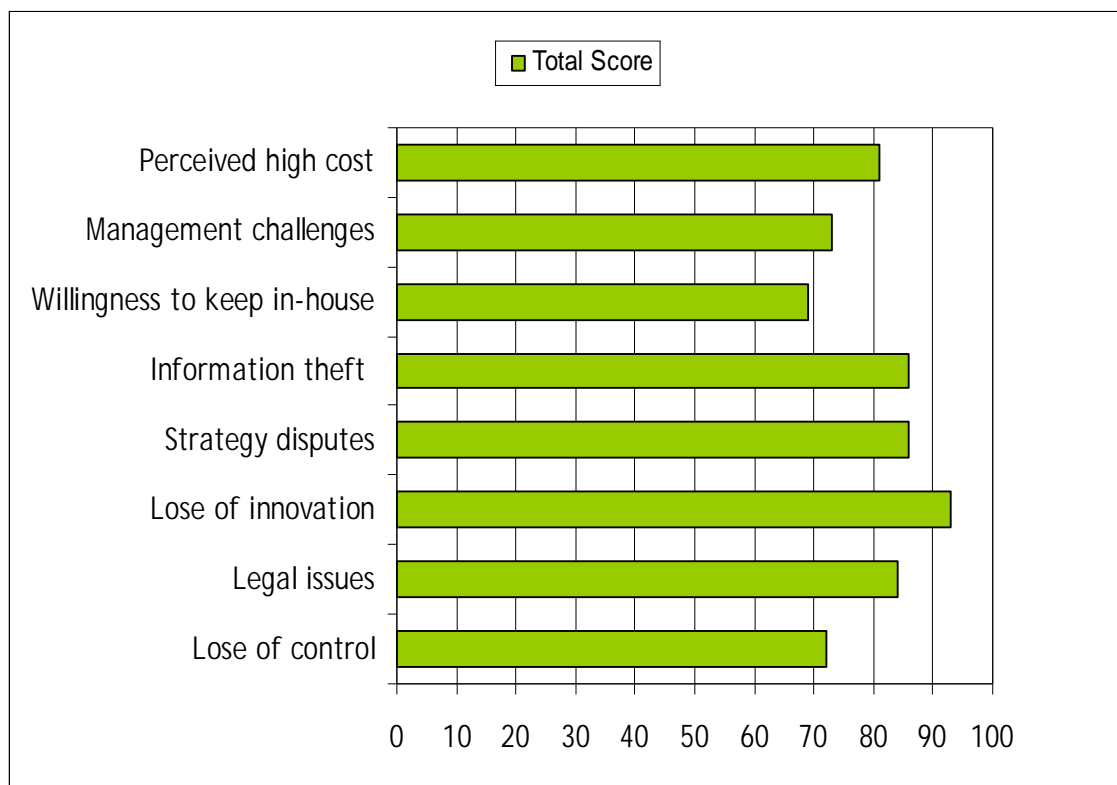


Table 5. Main challenges considered in outsourcing indirect procurement.

4.2.6 The current indirect procurement management

The following section presents the current indirect procurement situation of the respondents. Firstly the respondents described their companies' purchasing functions and organizational decision-making and what procurement activities they would be most like to outsource. Subsequently the respondents answered if they would like to outsource their indirect purchasing to a third service provider.

In general, the level of procurement management is related with the companies' size and their purchasing function demands, which means that larger and more sophisticated companies have a higher level of procurement management than smaller ones. Due to fact that more than 70 percent of the companies in this research are medium or large-sized while a quarter are small-sized companies, the connection between the size of companies and the way they manages procurement function can be seen from Table 6.

Table 6 presents which managerial department or administrant of the respondents' company is currently conducting the indirect purchasing function. As can be seen, two-thirds of companies have their own procurement department or purchaser to manage the indirect procurement, in comparison with 30 percent companies have their indirect procurement conducted by the certain employee.

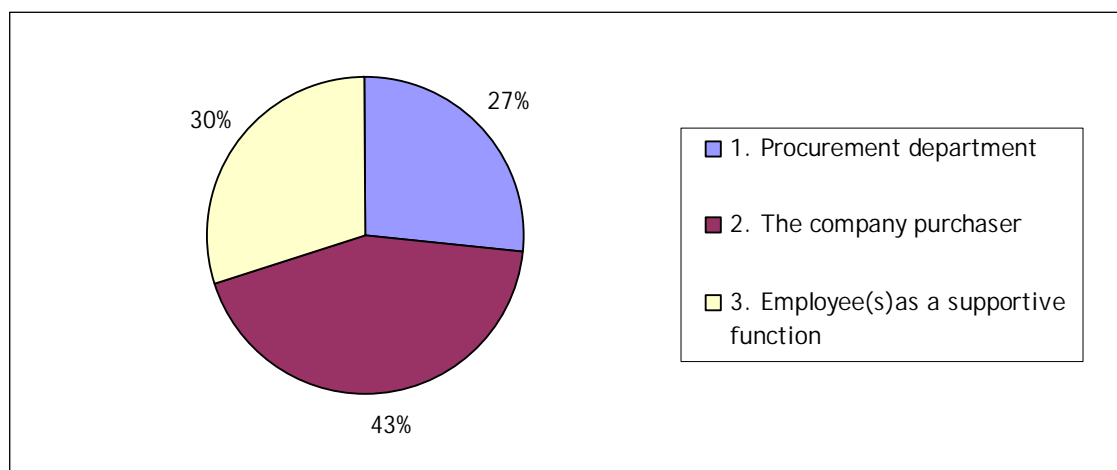


Table 6. The department conducting current indirect procurement function.

4.2.7 The current outsourcing situation

In order to determine whether the respondents have experiences of outsourcing process, the respondents were asked whether they are currently outsourcing their business process. Table 7 demonstrates that there are fourteen among thirty companies are currently outsourcing their business process to the other business organization; on the contrary the other companies are not.

4.2.8 Decision-maker for outsourcing

Identification of the outsourcing decision-maker of the respondents is particular important for learning the respondents' managing structure as well as designing possible development in future. So in this section, the respondents were asked to choose who makes the decision in general to outsource. The replies show that more than half of the respondents replied that the outsourcing decision-maker is the managing director of their companies (See Table 8), followed by the board of directors which hold 24 percent.

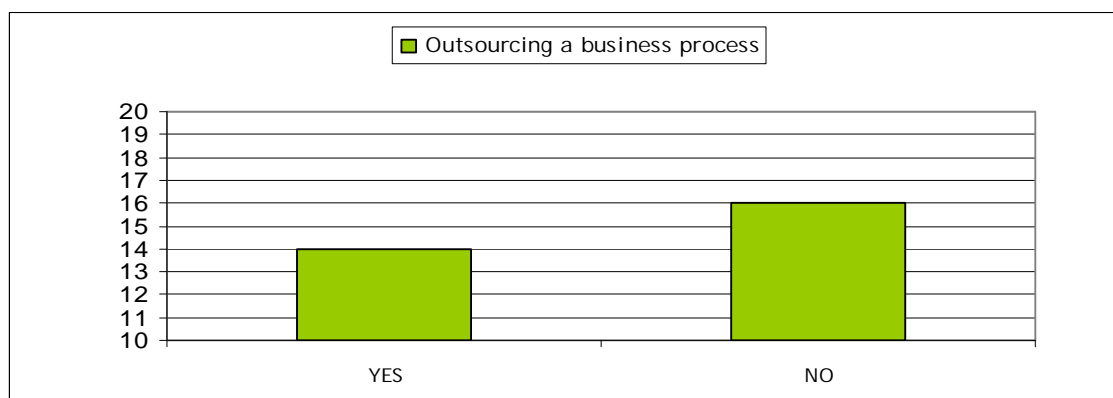


Table 7. The current outsource situation.

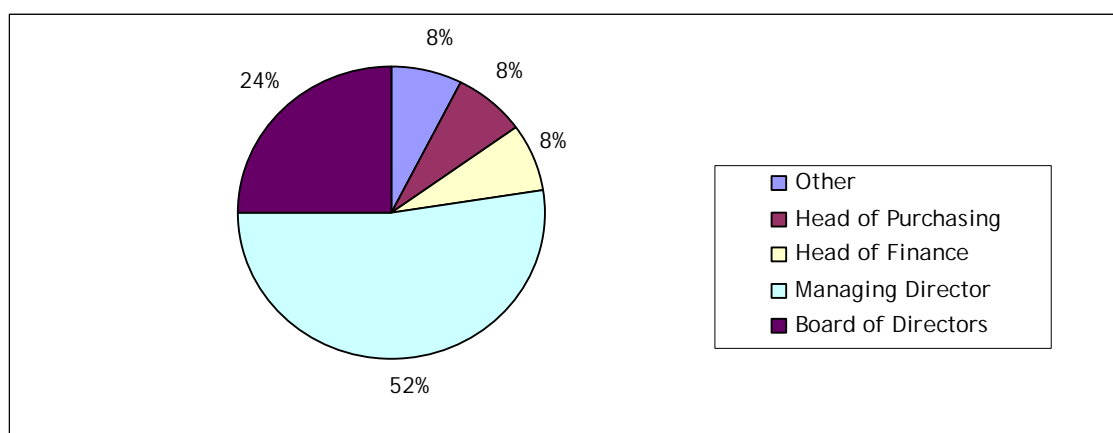


Table 8. Decision-maker for outsourcing.

4.2.9 The categories of outsourcing contents

Table 9 shows the categories of items that respondents would prefer to outsource or acquire from other business organizations. The most expected item for outsourcing is facilities related items or services. Moreover, 50 percent of respondents were considering outsource other items such as travel and vehicles, information technology services and related services, machineries and other production tools as outsourcing contents. Two of the least expected items are external resources and consultancy and marketing services as well.

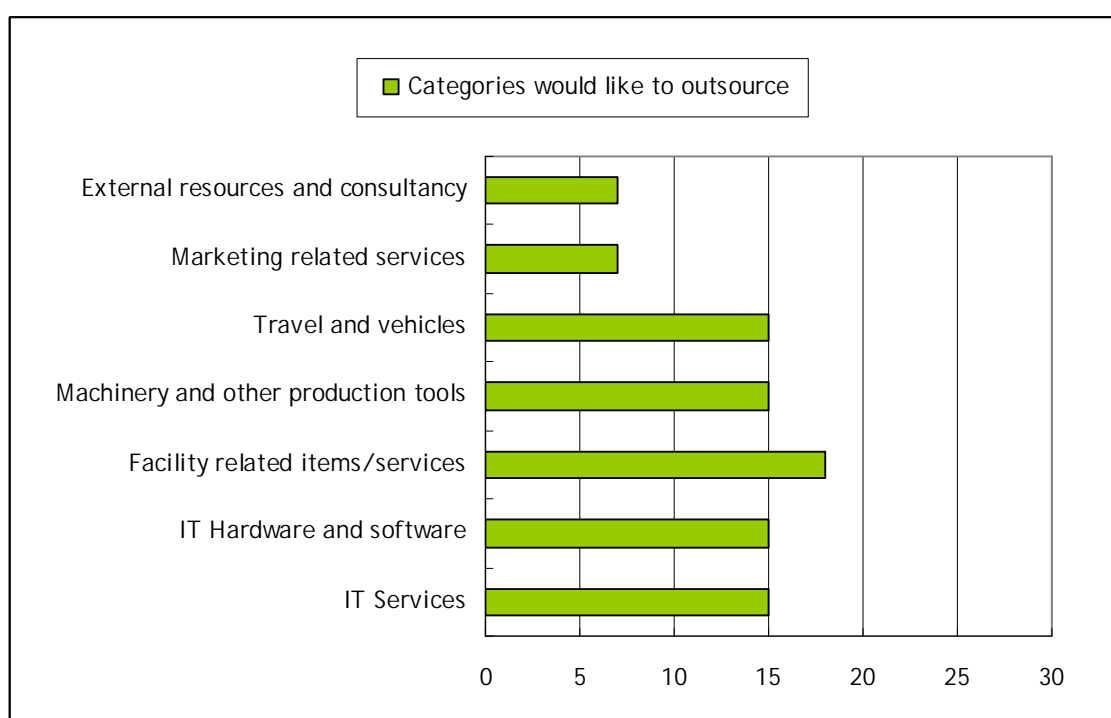


Table 9. The categories of outsourcing contents.

4.2.10 The procurement aspects

Table 10 demonstrates the procurement aspect respondents would prefer to acquire from outside their companies. General consulting regarding procurement was chosen by more than two-thirds of respondent as an expected service. Moreover the respondents also show interest for outsourcing the purchasing process of indirect goods or services which was selected as the second expected item. Only four companies had chosen outsourcing the entire procurement function and agreement and price negotiations.

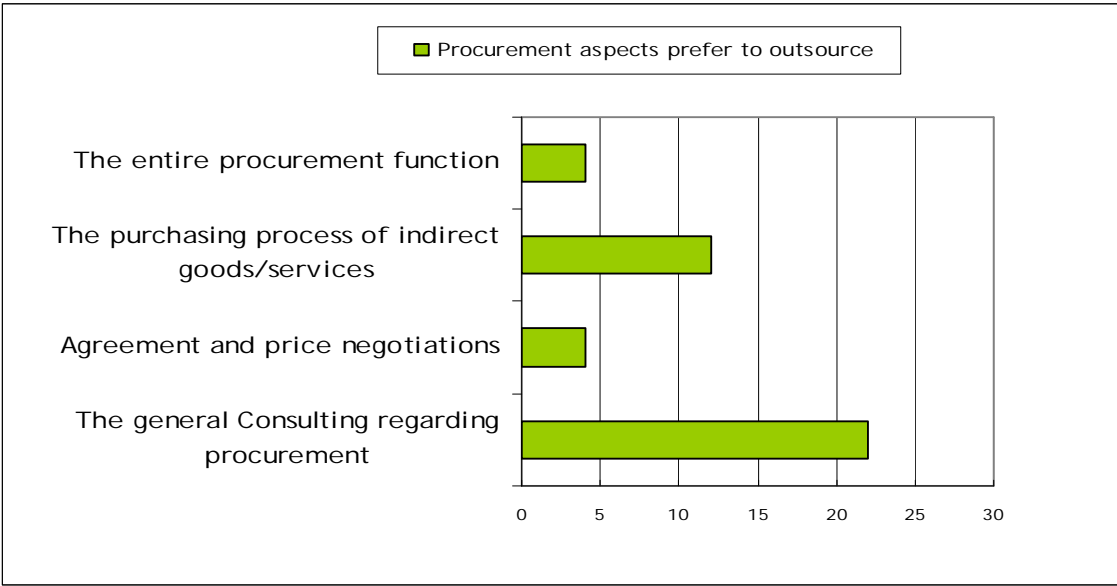


Table 10. The procurement aspects.

4.2.11 Economic affects

When answered how the current economic downturn would affect the decision to outsource indirect procurement, 12 respondents replied that the current economic situation is a positive factor when considering outsources indirect procurement, nonetheless more respondents thought it would be a negative factor. (See Table 11)

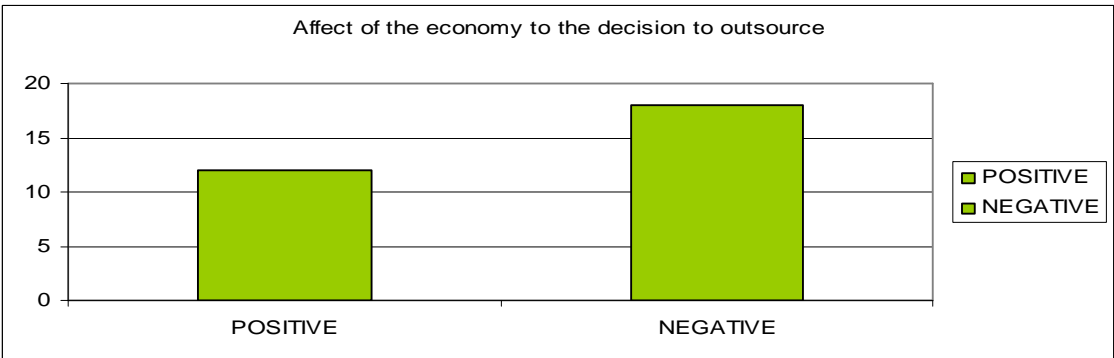


Table 11. Economic affects on the decision to outsource indirect procurement.

4.2.12 Interested in outsourcing indirect procurement

Finally when respondents were asked if they were interested in outsourcing their indirect procurement, 10 percent of respondents replied yes, in contrast 27 percent replied no,

meanwhile more than half of the respondents replied maybe. (See Table 12)

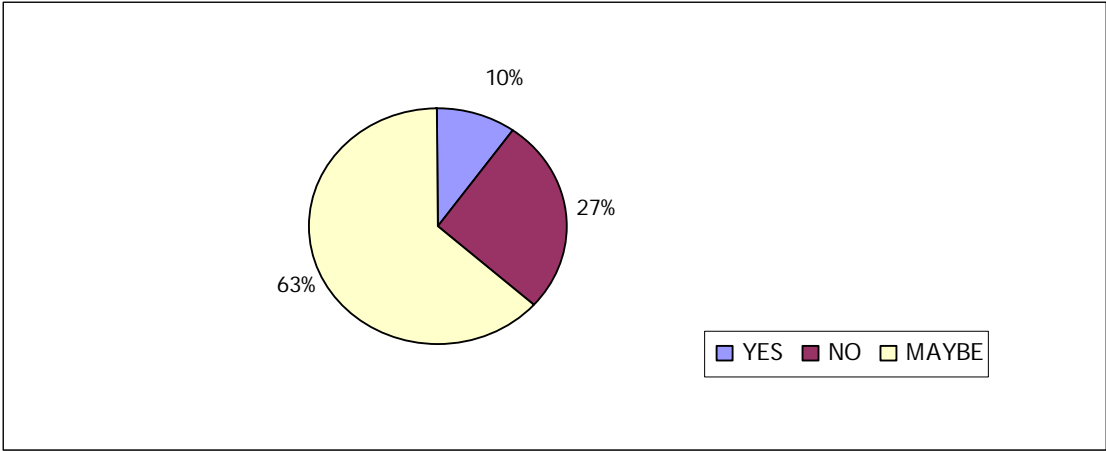


Table 12. Interested in outsource indirect procurement.

4.2.13 Business field analyzed by current outsourcing and interests

Table 13 shows that the respondents from industry business field have the highest interests in outsourcing their indirect procurement. The technical services and other business activities have also shown expectation from respondents. The current outsourcing line presents whether the respondents' company is outsourcing its business process, and the percentage of its business field.

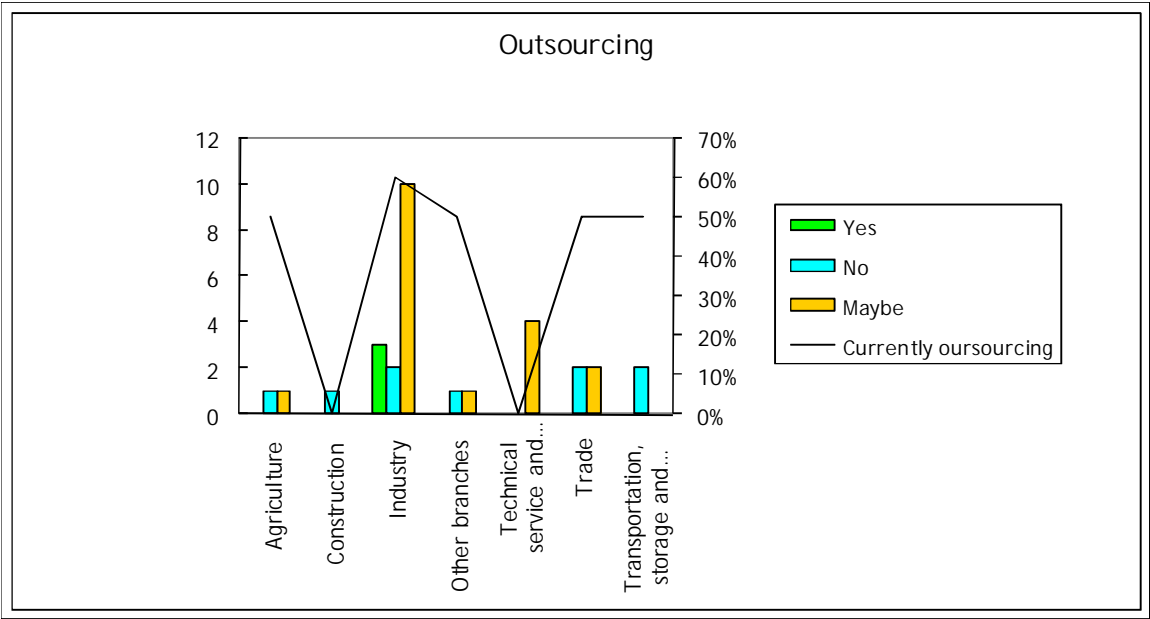


Table 13. Current outsourcing and interests analyses by respondents' business field

5 CONCLUSION

Purchasing as a field has begun to grow significantly importance for companies manage their business. As the purchasing field is still new and growing, it is apparent that there are several logical advancements possible, outsourcing indirect procurement is one of them.

The business model presented by Company X is new and innovative and as such is not visible in the Finnish market yet. Indirect procurement outsourcing has already been utilized in the United States for several years and has collected some of the reputations. BusinessWeek Research Services (How to Make Indirect Procurement Outsourcing Work Effectively 2008) states that the providers have successfully identified saving, negotiated with suppliers and entered mutually attractive contracts. Procurement outsourcers, procurement outsourcing services have successfully helped customers improve individual procurement functions, such as strategic sourcing, contract negotiations and operational procurement.

5.1 Research conclusions

The main purpose of this study was to collect relative theoretical background and efficient information of the indirect procurement outsourcing market and customer expectations in Finland for the case company.

This thesis advised from the results of the market research and the comments provided by the respondents that there is a definite need for this type of a service also for the Finnish market. The current indirect purchasing conducted by the companies which replied to the questionnaire are inefficient and operated as a necessary function and not as an added value operation.

This research reveals that in the Finnish market there are high interests towards this service. Most respondents identified the added value of the service. The research shows that respondents would value the service primarily by the cost-savings acquired but also by the access to new tools to manage the purchasing functions of their companies.

Also the research provided information on what the perceived risks are believed to be of this service; willingness to keep in-house, management challenges and losing of control, all valid and understandable threats which should be addressed and discussed by all management parties. However also shown by the study companies which are more familiar with outsourcing

business processes and are aware of the real threats involved are also more interested towards outsourcing their indirect procurement.

With the correct market entry strategy and investments it is possible that Company X will present the Finnish business market the new and improved way of managing their indirect spending categories.

Prior research also supports the actions to outsource companies' indirect procurement. According to BusinessWeek Research Services (How to Make Indirect Procurement Outsourcing Work Effectively 2008), a study conducted by Everest Research Institute (See Table 14) states that the potential savings from procurement outsourcing can be nearly five times those derived from sourcing other business processes.

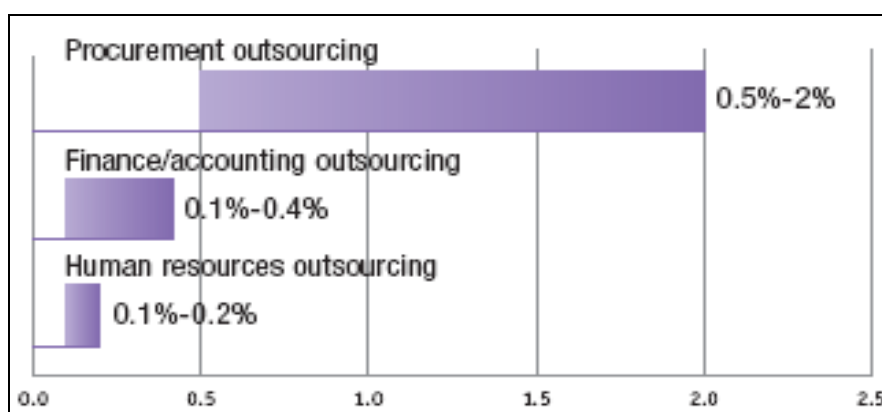


Table 14. Prior research of procurement outsourcing (How to Make Indirect Procurement Outsourcing Work Effectively 2008)

5.2 Recommendations to Company X Ltd

This research study was aims to provide a general view on the possible market interest towards indirect procurement outsourcing. The research shows an interest towards the service plan. The added value provided by this type of a service was clearly distinguished by the respondents, but also the research shows that several of the respondents are hesitant towards a new service which is not currently available in the market. The authors of this research suggest the owners of Company X Ltd should enter the market slowly, providing consultancy and price negotiations services. Moreover once they have established themselves in the market, they can further expand and develop the service to fulfill an overall business process outsourcing service. The authors also believe that the owners of Company X Ltd should benchmark current industry best practices employed in foreign markets.

5.3 Limitation of study

Firstly this study was processed during the economic downturn on global scale and also included the Finnish market. Some of the companies of respondents were processing internal management changes. This might bring uncertainty to the answers from the respondents. Due to the conclusion of this study was greatly depends on the answers from the questionnaires, it might therefore create limitations.

Secondly, among the respondents to the questionnaires, some were holding the position of purchasing manager. Their perspectives toward indirect procurement outsourcing might be different than those respondents who were at the higher management level and more financially orientated. This might also create limitations.

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APPENDIX 1

The context of E-Mail

Dear Sir/Madam:

We are Business students from Business Administration Degree Programme, Laurea U.A.S. Leppävaara. We are writing our Thesis, which is a Market research about Outsourcing Indirect Procurement. After months collecting information, we have received almost 30 replies. We need few more answers, in order to start our further process.

With this mail, we attached our Questionnaires, Would you so kind to take few minutes for answering it? After filling in the questionnaires, please save the document and send it back as an attachment.

Greatly Thanks and Best regard.

Markus Anttila & Guo Tie

Hei:

Me olemme business opiskelijat Business Administration Degree Programme Laureasta. Olemme tekemässä päättötyötä: Market research about Outsourcing and Indirect Procurement. Kuukausien etsinnän jälkeen saimme vastauksia mutta tarvitsemme vielä muutaman lisää.

Tässä E_mailissa on mukana kysymyslista. Voisitteko ystävällisesti vastata niihin?

Ystävällisin terveisin.

Markus Anttila & Guo Tie

APPENDIX 2

Market Research Questionnaire: Outsourcing companies' indirect purchases to a third party

This questionnaire is done on behalf of a market entry company to examine possible market interest towards outsourcing indirect procurement to a third party company, and how companies perceive this service. In this questionnaire indirect procurement refers to all sourcing and purchasing activities which are not directly related to the company's own products or services. Outsourcing in this questionnaire refers to assigning an outside service provider to conduct the above mentioned tasks but does not as such automatically include the transfer of people or assets.

The intent of study is to investigate the outsourcing possibilities of Indirect Procurement as it is often considered to be a non value adding activity with limited financial impact. Also the decentralized nature of Indirect Procurement makes it more challenging for companies to build in-house know-how and proper expertise to manage their indirect spends.

Outsourcing Indirect Procurement could be a possible solution for companies and its employees to focus even further on their core business without neglecting the needed support functions. The core business of the outsourcing service provider is to bring value add with solutions and expertise in indirect spend and category management, economies of scale, best-in-class technologies and solutions and access to low-cost labor which will have an overall positive financial impact to the customer.

This questionnaire is composed of three sections and it includes two types of questions: multiple-choice and open-ended questions. The open-ended questions are designed to support the multiple choice questions. Please feel free to write down your thoughts and comments. Your responses to all of the questions are highly appreciated. The research result will be the basis for our bachelor's thesis.

Please answer the following questions by marking the box at the end of the favorable option with "x" or you may write your opinions in the space below the questions. If you are possibly interested in the Indirect Procurement service and wish to receive further details from the ordering company please state your interest in the below questionnaire by choosing "Yes" in Question 3.10.

Thank you for your participation!

****Please fill in the content by clicking the grey part under the question****

Background information

Please specify company name and location?

*

Please state your name and title?

*

*Optional

Field of business?

Agriculture	<input type="checkbox"/>	<input type="checkbox"/>
Industry	<input type="checkbox"/>	<input type="checkbox"/>
Construction	<input type="checkbox"/>	
Trade	<input type="checkbox"/>	
Transportation, storage and communication		<input type="checkbox"/>
Financial intermediation and insurance		<input type="checkbox"/>
Hotels and restaurants	<input type="checkbox"/>	
Real estate and renting activities		<input type="checkbox"/>
Technical service and other business activities		<input type="checkbox"/>
Other branches	<input type="checkbox"/>	
Financial	<input type="checkbox"/>	

Number of employees in the company?

0 - 9	<input type="checkbox"/>
10 - 49	<input type="checkbox"/>
50 - 249	<input type="checkbox"/>
250 - 499	<input type="checkbox"/>
500 -	<input type="checkbox"/>

Benefits and challenges perceived in the outsourcing decision

For the following questions, please choose only one answer for each question. The number indications are as followings:

Totally agree= 1

Partially agree= 2

Neither agree nor disagree= 3

Partially disagree= 4

Totally disagree= 5

Main driver for outsourcing the indirect purchase function of the company

2.1.1) Cost savings	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.1.2) Focus in core operations	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.1.3) Improvement in service level	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.1.4) Know-how related reasons	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.1.5) Risk reduction	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.1.6) Economies of scale	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2

2.1.7) Access to new technology	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
---------------------------------	--

Main challenges considered in outsourcing indirect procurement?

2.2.1) Lose of control	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.2) Legal issues	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.3) Lose of innovation	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.4) Strategy disputes	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.5) Information theft	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.6) Willingness to keep in-house	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.7) Management challenges	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.2.8) Perceived high cost	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2

How would you value this kind of service?

2.3.1) It will help us focus more on our core business	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.2) It will bring financial benefits	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.3) It will add value by supplier management	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.4) It will help manage indirect spend	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.5) It will bring us better pricing	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.6) It will bring better agreement terms	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.7) It will bring more value adding services	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.8) It will reduce total cost	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2
2.3.9) It will support our strategic goals and targets	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 2

General evaluation of company's current indirect procurement process

The current indirect procurement function is conducted by the?

1. Procurement department ☐
2. The company purchaser ☐
3. Employee(s) as a supportive function ☐

If answered 3, please state who:

How do you perceive the indirect procurement function managed within your organization?

Are you currently outsourcing a business process?

- Yes ☐
- No ☐

If yes, which process?

Who makes the decision in general to outsource?

- Board of Directors ☐
- Managing Director ☐
- Head of Finance ☐

Head of Procurement ☐
 Other, please specify

Which of the following procurement aspects would you prefer to outsource or acquire from a service provider? (Can choose several options)

General Consulting regarding procurement ☐
 Agreement and price negotiations ☐
 Purchasing process of indirect goods /services ☐
 Outsource the entire procurement function ☐
 - Including invoice handling ☐

Which of the following categories would you consider to outsource?

IT Hardware and software ☐
 IT Services ☐
 Facility related items/services ☐
 Machinery and other production tools ☐
 Travel and vehicles ☐
 Marketing related services ☐
 External resources and consultancy ☐
All of the above ☐

Any other, please specify

How would you value this kind of a service?

Would you be interested in outsourcing your indirect procurement?

Yes ☐
 No ☐
 Maybe ☐

How would a decline in the world/Finnish economy affect your decision to outsource your indirect procurement?

Positive - even more interested in the service ☐
 Negative - less interested in the service ☐

Do you want to receive further information regarding the indirect procurement service?

Yes ☐
 No ☐

Any other comments?

Thank you for your time and participation!