Ensuring global visibility in an outsourced purchasing organization

Purchasing excellence through spend analysis

A case study at ST-Ericsson

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During fall 2009 a dissertation was conducted at ST-Ericsson in Lund. The dissertation was conducted as a case study to analyze how the company could work with spend analysis to support its cost down efforts, how to support long term cost efficiency and how the company should manage its outsourced purchasing function. The conclusions have a theoretical foundation which has been applied to fit the empirical observations.

Background
In February 2009, ST-Ericsson was formed as a joint venture bringing Ericsson Mobile Platforms and ST-NXP Wireless together, creating an industry leader in development and design of wireless semiconductor components and platforms. The new company became one of the top players in wireless semiconductors.

During the integration, purchasing of indirect material at ST-Ericsson was outsourced to an outsourcing partner to capture benefits and synergies. During Q1 and Q2 2009, focus was on integrating the two organizations, introducing a common ERP system on July 1st 2009. During Q3 and Q4 2009 focus shifted to capture short term cost down opportunities while improving long time cost efficiency.

Problem description and delimitations
Based on the desire of the management team to reduce cost the authors reviewed the organization, the outsourcing relationship and developed reports to be used for spend analysis. The basic questions set up to be answered were:

1. How could spend analysis support cost down efforts at ST-Ericsson?
2. How should ST-Ericsson proceed to ensure continuous purchasing visibility to support long term cost efficiency?
3. How should ST-Ericsson manage its outsourced purchasing function to support global purchasing visibility?

The dissertation focused on spend visibility of indirect material at ST-Ericsson globally, from a purchasing point of view. The spend analysis report development and the analysis based on it, was limited by the data available. The purchasing visibility project was also limited by budgetary cuts, reorganizations and resources available at other functions at ST-Ericsson.
**Methodology**

Since the scope entailed a real situation and to alter an existing process the method used was contextual action research. By interviewing buyers and managers, creating cases and workshops the involvement of these as co-researchers was ensured.

Quantitative data was primarily extracted directly from ST-Ericsson’s ERP systems and other IT systems, constituting as primary data. Collected proforma data was however cleaned and enriched by other parties making it secondary data. Empirical observations are dominated by primary sources while the theoretical framework consists of secondary sources.

**Theoretical framework**

The theoretical foundation of the dissertation was published books and articles. The theory encompassed outsourcing, spend analysis, purchasing strategy and organizational visibility.

**Conclusions**

The conclusions of the dissertation was that the vague organizational structure of the purchasing function at ST-Ericsson caused ambiguity in roles and responsibilities, increasing the risk that issues and opportunities were not acted upon. It also obstructed communication and therefore jeopardized the potential for continuous development and improvement. One reason for the vague organizational structure could be found in the not so well defined outsourcing relationship between ST-Ericsson and its outsourcing partner.

The outsourcing had resulted in a tight relationship with a vague interface between customer and supplier. While there are benefits with a tight relationship, it is difficult to set service level requirements and measure fulfillment and quality. Further, the need for a spend analysis solution was identified at ST-Ericsson and input quality should be improved by reviewing and revising material group structure and ensure uniform use of these material groups.

The conclusions were synthesized into recommendations for ST-Ericsson, see Figure 1. These recommendations could be used by ST-Ericsson or any other company as a general action list for improving and ensuring global visibility in an outsourced purchasing organization.

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**Organization**

- Clarify organizational structure.
- Define roles and responsibilities.
  - Operational purchasing
  - Strategic sourcing
- Specify communication and escalation paths.
- Communicate organizational structure and communication paths.

**Outsourcing relationship**

- Setup governance group.
  - Control and follow up.
  - Ensure continuous improvements.
  - Monthly meetings by telephone or physical meeting.
- Reports with KPI values, resource specification etc. according to PSA reviewed monthly.
- Review and possibly revise commodity strategies quarterly.

**Spend visibility and analysis**

- Improve SAP material grouping by reviewing groups and preferably adding one more level.
- Introduce uniform and structured categories in Travel & Expenses tool.
- Produce and communicate instructions for correct data input, e.g. material grouping.
- Implement spend analysis tool using QlikView in three steps:
  - Setup a team or individual responsible for update and analysis, supporting the rest of the organization.
  - Implement globally with QlikView Publisher with access for Local Buyers and Commodity Managers. Updated manually by appointed administrator.
  - Connect directly with SAP using QlikView SAP Connector.

*Figure 1 Conclusions and recommendations.*