

# Outsourcing Procurement Services Deliver Higher Performance at a Lower Cost

As the hospitality industry looks to generate more operational efficiencies while maintaining brand diversity, a paradigm shift is occurring in the area of procurement services. Once strictly a tactical solution, the procurement of goods and services through a third-party is now a strategic initiative.

The result is better managed services, a 360 degree view of how its procurement service provider is delivering better value and/or additional cost savings. All of which helps owners and managers of hospitality businesses provide everything from higher quality food and beverage services, furnishings, equipment, enhanced grounds maintenance and more streamlined IT processes.

Industry experts point to outsourced procurement services as a critical strategic initiative that frees up internal resources to target areas of more importance to the business. It also puts a greater focus on creating competitive advantages for the hotel, by leveraging one source that has formed partnerships with pre-qualified vendors.

As hotels, of all sizes, embrace the benefits of outsourcing, these strategic alliances are proving to be beneficial by delivering improved quality and customer service, enhanced metrics, cost savings and better methods of monitoring results.

## Outsourcing Procurement as a Competitive Advantage

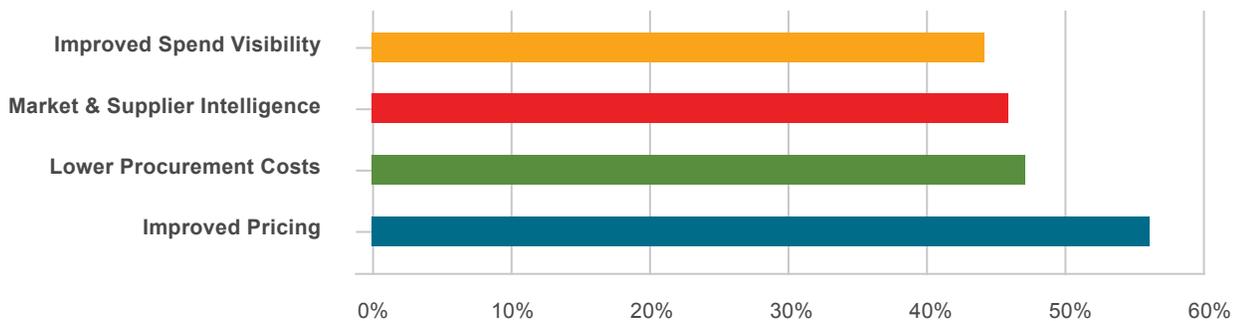
According to a PwC Global supply chain survey, “research shows that organizations which recognize procurement as a strategic asset achieve 70% higher performance.” Additionally, according to PwC, to have confidence in the procurement system, it also requires insight about risk management activities to identify gaps between procurement and the organization’s strategy. Strong leadership is needed to drive performance improvement, accountability and compliance.

This change in inter-organizational relationships to a strategic perspective requires new theoretical and practical frameworks to make it easier for hotels to better manage their logistics and supply chain operations with greater potential for competitive advantage.

The evolution of outsourcing procurement services from a tactical to strategic initiative may require new ways of approaching partner relationships to better manage logistics and supply chain operations. There are defined types of relationships and degrees of process integration required to gain the right balance of supply chain capabilities when operations are outsourced. For example, different processes would be entailed in outsourcing IT than there would be for food and beverage procurement services.

By focusing on logistics and supply chain management, a wide variety of industries have become competitive powerhouses. Adopting this same strategy, hotels—of all sizes— can not only improve operational efficiencies and reduce costs, but also position themselves to be leading players in the industry.

## Benefits Expected from Procurement



Source: Aberdeen Group, November 2007

According to the report from noted research analysts, Aberdeen Group, entitled *Procurement Outsourcing: A Strategic Imperative*:

An evaluation of organizations that were either implementing full or incremental outsourcing determined that the “best in class” groups were notable for their superior performance and that procurement services are credited with contributing to the following benefits:

- Savings from sourcing - 8.3% vs. 7.6% for all other groups
- Contract compliance – 55% vs. 41% for all other groups
- Sourcing cycle times – 8.2 days vs. 9.9 days for all other groups

The improved performance of the best in class group is due to both strategic and tactical improvements.

**Sourcing savings result from the expertise of the outsourcing partners in accessing and remaining abreast of market intelligence, gaining visibility into key pricing scenarios as well as expertise in developing and negotiating procurement contracts.**

Aberdeen went on to report that while some organizations prefer incremental outsourcing, the best in class groups have “...pushed the envelope deeper into full procurement outsourcing. But whether the choice is to outsource the procurement function in entirety or incrementally, organizations have reported greater spend visibility, reduced procurement costs and improved price savings as a result of outsourcing.”

## A Strategic Supply Chain Brings Value

The decision whether to outsource supply chain management is a question nearly all lodging businesses will have to address at some point. Outsourcing can be in a variety of areas from information technology to back office operations like accounting and human resources and/or procurement in areas such as food and beverage services, furnishings, linens, maintenance and engineering, room supplies, etc. The argument for outsourcing, in the majority of cases, is driven by a desire to reduce costs and at the same time maintain or elevate the quality of service and brand reputation and ultimately the guest experience.

In a nutshell, the value of a successful supply chain is when the goal of getting the right product to the right customer at the highest quality and lowest cost, is achieved. And with this achievement, the organization will realize a greater competitive advantage and a platform to maximize profit.

It goes without saying that the hospitality industry is highly competitive in every category—budget, suite, luxury, resort/spa or club—and the need to get a handle on expenses and organizational structure is keen.

A first step in seeking a procurement services partner is to look toward evaluating internal procurement competencies and to establish a baseline and needs. For example, an internal audit should be implemented to target those processes that are identified as likely to add to the cost and time burden of managing the property. Commonly, areas like food and beverage services, uniform supplies, linens and furniture replacement, grounds maintenance or outdated paper-based and labor intensive IT systems are some targets where an audit could show why it makes sense to think about a new supply chain management approach.

Before implementation, appropriating a team with representatives from both the enterprise and the outsourcing provider with a mission to drive continuous improvement helps to structure the process for success.

## Seeking a Strong Outsourcing Partner

In the hospitality industry, the flow of goods, services, and information should be designed to efficiently transform those products/services into value. In the quest for a strong partner, it's helpful to focus on the strategic value of outsourcing rather than simply cost-cutting. The outsourcing partner is bringing high-level expertise in a variety of areas into the organization, eliminating the need for a bevy of onsite experts.

Hospitality organizations regularly purchase a large quantity of supplies for which procurement systems play a crucial role in maintaining daily operations and quality. A major goal of a hotel's supply chain management is to efficiently apply standards such as quality assurance, purchasing analytics and supporting technology to its procurement systems.

If certain issues are preventing an organization from growing, seeking a strong partner makes sense. For example, if there are persistent problems that can't be solved by internal resources due to a lack of capital, resources or time, it's a signal to look for a partner.

Outsourcing has proven to be a smart way to do business. Large hotels and restaurants in the hospitality business have outsourced non-core work for years, turning to dedicated experts for efficiency and cost savings. And now even smaller hotels are choosing to fill out their organizations with outsourced expertise in the areas where they lack resources, capital and knowledge.

## The Keys to a Successful Partnership

Once the decision is made to outsource and in which critical areas that outsourcing should occur, the first step is to identify potential partners, compare their offerings, costs and credentials in a formal Request for Proposal (RFP).

A strong outsourcing partner should bring value in a variety of areas, but specifically through:

- **Food and beverage product cost management** which meets requirements and helps to reduce costs while staying on strategy/adhering to brand standards

- The ability to **access specialized consulting services** like, labor cost management which includes analysis of current labor practices and identification of opportunities to reduce costs without sacrificing service or customer satisfaction, menu management, competitive operational benchmarking
- **Quality Assurance**, a critical investment that includes, but is not limited to, everything from supplier performance to kitchen safety
- **Purchasing information analysis** which provides analytical tools to provide insights into spending and supplier performance
- **eProcurement services** which allow for the elimination of the paper-based processes that can hamper efficiency and take time away from more important activities
- **Commitment to customer support** that provides both immediate assistance when there are concerns or unexpected events that require fast partner intervention, as well as strategic support to address the integration of procurement strategy into overall business strategy

## Customer Support Aligned with Strategy

Oftentimes, it makes the most sense to outsource with one partner who can provide all the services targeted in the audit such as specific, linen supplies, food and beverage, grounds maintenance, IT processes and furnishings. But beyond those tactical items, the outsourcing partner should also be able to provide higher levels of customer support which align with the overall corporate strategy and can be customized or scaled as needed.

These critical customer support areas include:

- Cost Control - through pricing policies, economies of scale and strictly negotiated contract terms with suppliers
- Supply Chain Management – through oversight and management of as much of the product lifecycle and supply chain as possible to control the integrity of products and services
- Innovation – through consistent monitoring of market trends that can be leveraged to provide a positive impact on the business
- Quality Assurance – throughout the entire supply chain
- Price Audits - to ensure charges connect and are in line with contracts and a process is in place to rectify any differences
- Spend Reporting - to understand trends and analyze spending
- People – a team focused, available and accountable for the relationship

It's important to point out the importance of Quality Assurance, particular in high risk areas like distribution of meats, seafood, dairy and produce. Regulatory compliance is imperative, particularly with modifications in the Food Safety and Modernization Act, which is more strictly enforcing safety standards. A procurement partner should focus on ensuring those safety standards are met with regular audits and onsite visits. For example, produce should be monitored from the beginning—in the fields—to delivery at the facility to make sure it's being handled under the right processes with Q/A tests along the way.

The outsourcing partner should also have an audit system embedded in all processes for each service they deliver ranging from food products to pest control, plant maintenance, pool services, linens and whatever other services they are providing. This ensures the safety of the organization, protects the brand reputation, and ultimately enhances the guest experience.

## Successful Management of the Relationship

Turning to dedicated experts for efficiency and cost savings is a smart way to do business but it's also smart to make sure there's buy-in from other areas of the business —operations, finance, for example. Engaging leadership across the organization provides a framework to implement decisions, create a way to communicate success throughout the organization and provide a structured group that can review, solve and provide continuous improvement.

By outsourcing, there's recognition that the traditional organization chart in the hospitality industry includes not only the internal staff, but also the external suppliers. Just as an organization would specify expectations from their employees, they must do the same with their supply chain/outsourcing partner to ensure a smooth transition and a productive ongoing relationship.

This means the outsourcing partner is viewed as an integral member of the team and should be provided with:

- Clear goals, responsibilities and overall strategy for all those involved
- Clarity on decision-making processes
- Open communication that articulates what's working, and what needs to be improved
- Evaluation criteria to regularly monitor the performance of both sides of the outsourcing partnership

## In Summary

Outsourcing partnerships will succeed if the relationship is well managed and the partnership brings value-added services to the organization, including all-important quality assurance, pricing audits, data analysis, comprehensive supplier management, customer support and in-depth experience.

The partnership should help the organization gain significant efficiencies and cost savings with outsourced expertise and that gives hospitality professionals the opportunity to put a greater focus on their core business processes and the guest experience.

The proof of success is when a business can attest to the fact that its partner is protecting the integrity of its supply chain, is ensuring competitive pricing, is sourcing the best products and services and is providing the valuable resources and customer service to keep operations running smoothly and efficiently.