

**PURCHASING & SUBCONTRACTING****Concept**

Purchasing refers to a business or organization attempting to acquire goods or services to accomplish the goals of the enterprise.

Subcontracting refers to hiring a third party by a Company to perform a specific task as part of the overall project.

Outsourcing is subcontracting a process.

**Objectives for Excellence**

The requirements for the acceptance of the provided product or service, or any other additional conditions, are explicitly given to suppliers.

Deliveries from suppliers are controlled in order to have criteria for their re-assessment, the verification procedures and parameters are well defined. The procedure to follow in case of any supply not meeting specifications is defined.

Company-endorsed providers collaborate with the organisation working on projects for improvement, innovation and use of new technologies.

An advanced computer-based system is used to control inventory levels and detect the need to place the orders.

Orders are placed using an EDI system or a similar one.

Some suppliers provide the materials directly into the production line, thus establishing a continuous supply of materials.

**Actions for implementation**

Providers are assessed and selected applying specific criteria.

There is a procedure to make sure that order information received by the provider is clear and unequivocal.

Providers informed about the requirements to accept the product or service ordered. There is a procedure or rule to verify and accept the shipments received.

There is any manual or computer-based procedure to make sure that inventory levels are exactly known at any moment, and detect the need to place an order.

The criteria to decide and prepare the orders are been defined and the proper responsibilities assigned. The responsibilities are assigned to manage order size and order request.

The organisation place orders using an EDI system or a similar one.

Providers are usually contacted using any Internet-based tool.

**Best practice<sup>1</sup>****Think about**

Organizations that subcontracts are seeking to realize benefits or address the following issues:

Cost savings. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, cost re-structuring.

Cost restructuring. Operating leverage is a measure that compares fixed costs to variable costs.

Improve quality. Achieve a step change in quality through contracting out the service with a new Service Level Agreement.

Knowledge. Access to intellectual property and wider experience and knowledge.

Contract. Services will be provided to a legally binding contract with financial penalties and legal redress.

Operational expertise. Access to operational best practice that would be too difficult or time consuming to develop in-house.

Staffing issues. Access to a larger talent pool and a sustainable source of skills.

Capacity management. An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier.

Catalyst for change. An organization can use a subcontracting or outsourcing agreement as a catalyst for major step change that can not be achieved alone. The outsourcer becomes a Change agent in the process.

Reduce time to market. The acceleration of the development or production of a product through the additional capability brought by the supplier.

Commodification. The trend of standardizing business processes enabling businesses to intelligently buy at the right price. It allows a wide range of businesses access to services previously only available to large corporations.

Risk management. An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.

Time zone. A sequential task can be done during normal day shift in different time zones - to make it seamlessly available 24x7. Same/similar can be done on a longer term between earth's hemispheres of summer/winter.

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<sup>1</sup> Real case coming from the experiences of InnoSME users, to be incorporated in the future.

**Resources and Links**

[EU Subcontracting](#) - This is a reference source for European Commission publications on subcontracting, grouped by type.

[Purchasing.com](#) – Resources for the procurement managers, including news, business cases, learning materials, etc.

[Juris international](#) - Guidelines and model contracts for partnership in industrial subcontracting.

[SSON](#) – Shared Services & Outsourcing Network has the leading edge in international shared services expertise, and bring this information via the SSON website; our monthly publication, Shared Services News; regular enews; organized site visits; benchmarking roundtables; conferences and training courses.

[Outsource](#) – The Outsourcing Magazine provides news, information and business cases, as well as opportunities, in outsourcing.

[ZDNet](#) – ZDNet provides a section (Outsourcing toolkit) about outsourcing services and opportunities.

[Collaborative Work](#) – A panel discussion, with resources, about how supporting distributed collaborative work.