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YEARS AHEAD

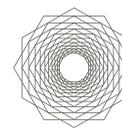


**THE POTENTIAL
OF KNOWLEDGE
PROCESS
OUTSOURCING**

AN EYEON WHITE PAPER

NOVEMBER 2015

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1

EXECUTIVE SUMMARY

Outsourcing is the transfer of processes that were originally done in-house, to a 3rd party. Whereas, Business Process Outsourcing (BPO) and Information Technology Outsourcing (ITO) are well known strategies, a new type of outsourcing is emerging: Knowledge Process Outsourcing (KPO).

The occurrence of KPO is by no means a coincidence. In the light of globalization, technological developments, short-product life cycles, consumer-driven trends - companies find themselves competing in volatile markets, where uncertainty is a rule rather than exception. KPO involves the outsourcing of knowledge-intensive work. The service provided by a KPO company can be classified as highly complex, customized, requiring advanced analytical capabilities and industry knowledge as well as judgment and evaluation skills. The execution of KPO service requires therefore highly skilled and expensive workforce. Clients seek to profit from the expertise developed by specialized service providers, without the need to evolve through the expensive knowledge creation stages themselves.

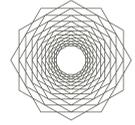
Supply Chain Planning & Forecasting is a clear example of such a knowledge intensive process. In close collaboration with EyeOn, Tilburg University explored the main forces that are critical to firms' decision to outsource Supply Chain Planning & Forecasting activities. The study investigated KPO drivers at selected companies from Process, Pharmaceutical and FMCG industries.

To complete the picture, the research also examined appropriate client-service provider engagement structures critical for a successful outsourcing outcome.

The findings presented in this whitepaper raise awareness on how to benefit from KPO. Moreover, it provides companies and service providers a starting point to effectively structure their KPO relations.

2

KNOWLEDGE PROCESS OUTSOURCING



For the majority of companies worldwide, outsourcing constitutes an integral part of their business strategy. Outsourcing is the transfer of tasks, processes or functions, that were previously located in-house to a 3rd party, on a country level 'onshore', on a continental level 'near shore', or on a transcontinental level 'offshore'.

A NEW OUTSOURCING STRATEGY

Throughout the years, depth and breadth of outsourcing evolved. Outsourcing strategies such as BPO (Business Process Outsourcing) and ITO (Information Technology Outsourcing) are well known. Since the year 2000 a new outsourcing trend is gaining momentum, namely KPO (Knowledge Process Outsourcing). The growth is attributed to companies discovering the integral value behind KPO. This is confirmed by the International Association of Outsourcing Professionals (IAOP) survey findings:

"40-plus percent of respondents indicate that outsourcing at their organizations is increasingly focused on knowledge-based activities compared to less than 30 percent who says they were increasing the outsourcing of lower-skill level positions."
- IAOP, 2011

WHAT IS KPO?

KPO is the outsourcing of a knowledge intensive task, process or business function to a specialized service provider. The service provision requires accumulation, creation, and/or dissemination of knowledge on short-, mid- or long-term. The creation of knowledge involves intellectual activities such as analysis, pattern recognition, design, evaluation and judgment:

- it converts poorly defined, unstructured input into insight & value
 - output is standard, semi customized or fully customized
- Service provision requires significant domain expertise, analytical and technical skills as well as ability to innovate.

KPO MARKET

The global knowledge services outsourcing market can be segmented into 6 sectors:

- Business Research
- Market Research
- Data Management
- Data Modeling and Analytics
 - Supply Chain Analytics
 - HR Analytics
 - CRM Analytics
 - Risk Analytics
 - Sales & Marketing Analytics
 - Financial Analytics
- Legal Process Outsourcing (LPO)
- Research & Development

Especially, data modeling and analytics are expected to grow significantly over the coming years.

KPO GROWTH TRIGGER

While technological developments facilitate KPO growth through moving and storing of data more accurately and securely, the major KPO growth triggers are:

1. Rise of Big Data
2. Advanced Technology
3. Increased Volatility in Business Environment
4. Firm's Outsourcing Maturity

INFORMED DECISION-MAKING VS. INTUITIVE DECISION-MAKING

Prior to 2006, informed decision making based on analytics required weeks to months. However, since 2006 the open source system Hadoop allowed firms to store much more data than before, at much lower data storage costs while also accessing and reviewing it on a much bigger and faster scale (Vance, 2011). This development enabled organizations to not only include more data in their traditional reports created by Business Intelligence, but also to transform available internal and external information into business insight (prescriptive analytics) and foresight (predictive analytics), through the use of Business Analytics (Maisel and Cokins, 2013).

2 KNOWLEDGE PROCESS OUTSOURCING

BUSINESS INTELLIGENCE ≠ BUSINESS ANALYTICS

Business Intelligence (BI) facilitates the representation of available information aiming at uncovering the past and current state of firms' business. However, it is only through the application of Business Analytics (BA), that information is converted to insight, foresight and finally through execution in business value.

Past	Present	Future	
What happened?	What is happening now?	What will happen?	Information
How & why did it happen?	What is the next best action?	What is the best & worst that can happen?	Insight
Descriptive analytics	Prescriptive analytics	Predictive analytics	

Business intelligence
 Business analytics

Table 1 - Key questions addressed by analytics (retrieved from Davenport, 2010).

COMPETITIVE ADVANTAGE THROUGH ANALYTICS

The business value achieved by means of BI & BA directly translates into a firms' competitive advantage. Fact-based information provides insights that not only enable companies to explain what happened (BI) but also predict what will happen in the future (BA). Thus, making decisions better, smarter and in real-time.

"Not using big data analytics in today's business world is akin to making deliveries on horseback while competitors are using a truck." – Sanders (2014)

MAKING SENSE OF BIG DATA WITH ANALYTICAL TOOLS

Three types of analytical techniques constitute the tools to achieve informed decision making, these are:

1. Descriptive Analytics

The purpose of descriptive analytics is to transform data in comprehensible metrics. These metrics can refer to the number of SKUs, orders, units produced or sold, through-put time, incoming complaints etc. Through data aggregation and data mining, one is able to describe what is happening now and what has happened in the past.

2. Prescriptive analytics

Prescriptive Analytics uses optimization and simulation algorithms to advise on possible outcomes and hereby answer: 'What is the next best action?', 'What shall we do?'

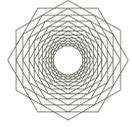
3. Predictive analytics

This type of analytics uses statistical models and forecast techniques to unveil the probability of the possible paths that future holds. Questions such as 'What will or might happen?' and 'How can we adapt?' or 'How can we prevent the impact?', are leading when using predictive analytics.

The latter two are also referred to as advanced analytics. Advanced analytics is the means to achieve informed decision-making in Supply Chain Planning & Forecasting.

FAILING TO REALIZE KPO POTENTIAL

Contrary to the importance that KPO gained over the years, there is little research conducted into this field. A lack of understanding might lead service providers to misinterpret customers' needs, hereby jeopardizing not only the client-vendor relationship but also the outsourcing outcome. On the customer side, a lack of awareness associated with KPO potential might lead companies to refrain from outsourcing knowledge activities, hereby undermining its competitive stance.



In close collaboration with EyeOn, Tilburg University explored the current driving forces leading organizations within the FMCG, Process and Pharmaceutical industries, to engage in KPO of Supply Chain Planning & Forecasting activities. Main objectives of the research:

- Uncover prevalent KPO decision drivers & strategies.
- Reveal commonalities & differences across industries.
- Suggest best-fit governance structures between customer & service provider.

The research sample included 11 multinational companies of which 4 represented the Process industry, 4 the FMCG industry, and 3 the Pharmaceutical industry (2 from Innovative Pharma, 1 from the Generics Pharma).

THE RESEARCH FOLLOWED A 4-STEP APPROACH:

1	Literature review
2	Industry reviews
3	Transcription & analysis
4	Conclusions & recommendations

Literature Review encompassed more than 100 articles on BPO and KPO. Industry interviews were held with directors and senior managers from the supply chain management & planning departments and followed a semi-structured approach. Analysis, encompassed the transcription of all interviews, followed by a thematic content analysis which enabled a within-case, cross-case as well as a cross-industry analysis. Because of the academic approach chosen, the findings derived become generalizable. Conclusions and recommendations represent the synthesis of the findings and learnings derived from the research findings.

4

WHAT DO WE KNOW

4.1 RELEVANT PROCESS CHARACTERISTICS

Are there general process characteristics that contribute to a higher or lower likelihood of outsourcing? Research so far identified 22 characteristics that are potentially relevant to outsourcing of business processes (see table 2). Only two of them were proven to be relevant for BPO (Lacity et al., 2011).

	Process characteristics	BPO	KPO
1	Criticality of business process	v	
2	Process complexity	v	
3	Asset specificity (Standard vs. Custom)		
4	Uncertainty		
5	Process standardization		
6	Risk		
7	Training		
8	Adaptability		
9	Client-specific knowledge required		
10	Process integration		
11	Transaction costs		
12	Process interdependence		
13	Switching costs		
14	Knowledge required		
15	Measurement difficulty		
16	Modifiability		
17	Opportunism		
18	Task structure		
19	Transaction size		
20	External production cost advantage		
21	Process interoperability		
22	Transaction frequency		

v	Proven significant
	Mentioned, but not proven
	Not mentioned

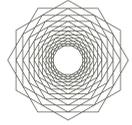
Table 2 – Literature findings on Process Characteristics, critical in firms’ outsourcing decisions.

Criticality of Business Process

Criticality of business process refers to the underlying value that a process contributes to the overall core of the business. The examination concluded that higher values of business process criticality led to a lower likelihood of outsourcing.

Process Complexity

The degree of process complexity is dependent on amount of sub-processes present and in need of supervision and control. The higher the complexity, the less transparency is present on the impact one sub-process can have on the overall process at hand. Research revealed a negative relationship between process complexity and a firms’ decision to outsource it. The higher the complexity of a process, the lower the likelihood of the company to outsource it.



4.2 WHY COMPANIES OUTSOURCE

Why do companies engage in outsourcing? Research by Lacity et al. (2011) identified 19 potential drivers for business process outsourcing (see table 3) of which 7 drivers were proven to be relevant. One driver has a negative correlation: the higher the concern for security & IP of a process, the lower the likelihood of the company to outsource it. A positive correlation exists for the remaining 6 drivers:

- Cost reduction
- Business & process performance improvements
- Access to expertise & skills
- Scalability
- Focus on core capabilities
- Rapid delivery

While researchers have extensively studied drivers that impact firms' decision to outsource business processes, research on KPO is still in its pre-mature stage. Out of the 19 drivers examined by BPO only 6 were mentioned in KPO studies. However, 3 new drivers were outlined to have a possible impact on KPO, which were previously not explored by BPO literature, namely:

- Competitive Advantage
- Learning
- Risk Sharing

	Driver	BPO	KPO
1	Cost Reduction	v	
2	Business & Process Performance Improvements	v	
3	Access to Expertise & Skills	v	
4	Scalability	v	
5	Focus on Core Capabilities	v	
6	Rapid delivery	v	
7	Competitive Advantage		
8	Learning		
9	Risk Sharing		
10	Technical Reasons		
11	Innovation		
12	Concern for security & IP	v	
13	Fear of losing control		
14	Career development of employees		
15	Flexibility enablement		
16	Access to global markets		
17	Change catalyst		
18	Concern for regulatory requirements		
19	Political reasons/influences		
20	Strategic Intent		
21	Back office & Business strategy alignment		
22	Convenience		

v	Proven significant
	Mentioned, but not proven
	Not mentioned

Table 3 – Outsourcing Drivers identified by literature.

5 KPO AT WORK

CHALLENGES IN SUPPLY CHAIN PLANNING & FORECASTING

Challenges companies face today to build, grow and sustain excellent knowledge intensive Supply Chain Planning & Forecasting processes are manifold.

Challenge 1: Ability to leverage BIG data

Integration of business applications and connectivity with external data sources, makes terra bytes of new data available to companies. Advancement of processes and employee skill-sets are critical to unlock the advantages BIG Data holds.

"We have a lot more data available. We now need the processes and the people with expertise to do something with it."

Challenge 2: Keeping up with competition

The evolvement of new technologies is without boundaries. Contrary to companies who are specialized in IT and Analytics companies lack sometimes the time and resources to review the potential of new developments. When throwing all of the resources at the core business companies find themselves often missing the bandwagon.

"In order to keep up with competition we cannot develop our own competence, we need to bring in knowledge from outside, which is faster."

Challenge 3: Being ahead of competition

Innovation has always been a costly undertaking. Driving innovation in fields such as Supply Chain Planning & Forecasting, in which one is often not a specialist is considered difficult and at times, even impossible.

"If you just do what everybody does, it won't get better. If you really want to be ahead you need to look at others, for innovation."

Challenge 4: How to leverage KPO

Many companies are still unaware of how to exploit the potential of KPO. They miss guidance on how to discern knowledge intensive processes that are suitable for outsourcing from those that are not. Moreover, a structured approach to support decision making on outsourcing, is missing.

"Asking a service provider to deliver more knowledge based product? That is something we are not yet familiar with."

PROCESS CHARACTERISTICS

In line with the interviews conducted during this research, 6 process characteristics were proven to have an impact on firms' decision to outsource Supply Chain Planning & Forecasting processes (see table 4). Respondents were inconclusive about the impact certain process qualities might have on the outsourcing decision as well as the outsourcing outcome.

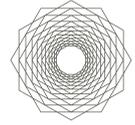
	Process characteristics	Process	FMCG	Pharma Innovative	Pharma Generic
1	Criticality of business process	v	v	v	v
2	Process complexity	v	v		
3	Asset specificity	v	v	v	
4	Uncertainty	v	v	v	
5	Process standardization				
6	Risk				
7	Training				
8	Adaptability				
9	Client-specific knowledge	v	v	v	v
10	Process integration				
11	Transaction costs				
12	Process interdependence				
13	Switching costs				
14	Knowledge required				
15	Measurement difficulty				
16	Modifiability				
17	Opportunism				
18	Task structure				
19	Transaction size				
20	External production cost advantage				
21	Process interoperability				
22	Transaction frequency	v	v		

v	Proven significant
	Mentioned, but not proven
	Not mentioned

Table 4 – Findings: Process Characteristics critical for the outsourcing decision.

5

KPO AT WORK



CRITICALITY OF PROCESS

This characteristic refers to the strategic importance a firm assigns to the Supply Chain Planning & Forecasting process. A distinction is made between processes of supportive value, responsible for securing firm's competitive advantage and those that are of enabling value responsible for elevating firm's competitive stance.

Interestingly enough the companies in FMCG and Pharma Generics consider enabling processes within the Supply Chain Planning & Forecasting as most valuable to be outsourced to a specialized service provider. Contrary, the majority of the Process & Pharma Innovative companies in scope of the research, trust in outsourcing supportive activities.

PROCESS COMPLEXITY

Process Complexity was mentioned by Process and FMCG companies as a relevant indicator to outsource certain Supply Chain Planning & Forecasting activities. Companies outlined that they are most familiar with outsourcing of low complexity processes. Similarly, they were still reluctant to commit to outsourcing of high complexity processes because of considerable investments required to ensure a successful outsourcing outcome.

ASSET SPECIFICITY

Specificity of a task, or process refers to the degree the Supply Chain Planning & Forecasting activity is customized. The higher the Asset Specificity, the higher the degree of customization involved. Also, here respondents from the Process, FMCG and Pharma Innovative companies were rather aware of the benefits involved in outsourcing standard processes, than customized ones.

UNCERTAINTY

Uncertainty involved in outsourcing of standard, low complexity Supply Chain Planning & Forecasting tasks and processes is considered as rather low by all participants.

CLIENT SPECIFIC KNOWLEDGE

There is a common understanding, that a service provider in Supply Chain Planning & Forecasting is expected to own industry and client specific knowledge prior to the outsourcing engagement.

Interestingly enough, respondents from Process and Pharma Innovative companies consider service provider's knowledge of other industries, such as FMCG or High Tech of greater value, than from their own industry as they are eager to learn from other industries.

TRANSACTION FREQUENCY

Respondents from both Process and FMCG industry indicated that the task or process frequency was worth considering prior to the outsourcing engagement. The outsourcing benefits mentioned were associated with the economies of scale provided by an external party. Outsourcing of low frequency Supply Chain Planning & Forecasting activities yields significant gains in developing the proficiency of the task, process or function with the help of a specialized service provider. Also, financial flexibility was mentioned as the driving force to outsource low frequency activities.

The outsourcing benefits for high frequency Supply Chain Planning & Forecasting activities are expected in standard, low complexity processes such as data management. For semi or fully customized and high complexity processes, the majority of respondents was preferring to keep activities in house at a centralized Excellence Center or Shared Service Center.

In the research, a correlation between 'Criticality of Business Process', 'Process Complexity' and 'Client-specific knowledge required' was identified. The correlation persists across the Process and FMCG companies. In those cases, where respondents referred to outsourcing of supportive Supply Chain Planning & Forecasting processes, which are of low complexity, the service provider was not expected to be knowledgeable in client's business environment. Interestingly enough the opposite was noticed among FMCG respondents.

6

WHY OUTSOURCE PLANNING & FORECASTING?

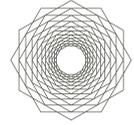
WHY OUTSOURCE SUPPLY CHAIN PLANNING & FORECASTING?

The research identified 6 decision drivers, leading firms from the Process, FMCG, and Pharmaceutical industry to consider outsourcing of Supply Chain Planning & Forecasting activities:

1. Cost Reduction
2. Business & Process Improvements
3. Access to Expertise & Skills
4. Scalability
5. Focus on core capabilities
6. Rapid Delivery

	Driver	BPO Literature	KPO Literature	Process	FMCG	Pharma Innovative	Pharma Generic
1	Cost Reduction	v		v	v	v	v
2	Business & Process Performance Improvements	v		v	v	v	
3	Access to Expertise & Skills	v		v	v	v	
4	Scalability	v			v		
5	Focus on Core Capabilities	v		v		v	v
6	Rapid delivery	v		v			
7	Competitive Advantage			v	v	v	v
8	Learning			v	v	v	
9	Risk Sharing						
10	Technical Reasons						
11	Innovation			v	v		
12	Concern for security & IP	v					
13	Fear of losing control						
14	Career development of employees			v	v		
15	Flexibility enablement			v		v	
16	Access to global markets						
17	Change catalyst						
18	Concern for regulatory requirements						
19	Political reasons/influences						
20	Strategic Intent			v	v	v	v
21	Back office & Business strategy alignment						
22	Convenience						

Table 5 – Findings: Cross-industry comparison of KPO drivers for Supply Chain Planning & Forecasting activities.



COMPETITIVE ADVANTAGE & LEARNING

Importance of creating a Competitive Advantage and to accelerate Learning was proven to have an integral part in firms' decision to commit to outsourcing of Supply Chain Planning & Forecasting tasks, processes or functions.

INNOVATION

The desire or need to use outsourcing as an engine for innovation is an important driver in firms' KPO strategy.

The results show that this seems to be in particular true for the Process and FMCG companies in scope of the research. In particular, innovation is considered to elevate firms' competitive advantage.

"For us KPO is in particular access to expertise in terms of innovation. This is the driving reason to engage in KPO."

Employee Career Development, Flexibility Enablement and firms' Strategic Intent were also proven to elicit an impact on the outsourcing decision for Supply Chain Planning & Forecasting activities.

COST REDUCTION

Traditionally, head count reduction is considered as main cost reduction driver in outsourcing. However, this appeared to be only relevant for the Pharma Generics company. In fact, all other companies were referring to the traditional cost reduction motive as a 'positive side effect' which comes alongside the outsourcing arrangement.

Driver	Process	FMCG	Pharma Innovative	Pharma Generic
Cost Reduction	v	v	v	v
Cost Reduction: reduced head count				v
Cost Reduction: reduced HR costs	v	v		
Financial flexibility	v		v	

Table 6 – The cost reduction motive has many facets.

Respondents from the Process and FMCG industries were referring to Cost Reduction in terms of reduction of HR costs. Career perspectives within analyst functions are limited and offer a narrow responsibility spectrum within many companies. This leads to an increased labor turnover which consequently

triggers an accumulation of HR hours. These costs are associated with search, selection, and training costs that not only burden HR employees but also staff from other operations in the latter stages of the assessment.

"We cannot offer a career perspective which would keep in-house forecast analysts for longer than 2 to 3 years."

FINANCIAL FLEXIBILITY

Financial flexibility was mentioned by the Pharma Innovative and Process companies as a driver to consider outsourcing of Supply Chain Planning & Forecasting tasks or processes. This driver refers to firm's ability to use specialized support when needed, for as long as needed: on demand.

NEW DRIVERS

Next to the outsourcing drivers known from previous studies, 11 new drivers were identified. These were part of the consideration to outsource Supply Chain Planning & Forecasting tasks or processes. Most frequently respondents referred to the following drivers:

- Time-to-market
- Responsiveness to Market Changes
- Insufficient in-house expertise
- Continuous Improvement
- Service Provider's Objectivity
- Process Underperformance

TIME-TO-MARKET & INSUFFICIENT IN-HOUSE EXPERTISE

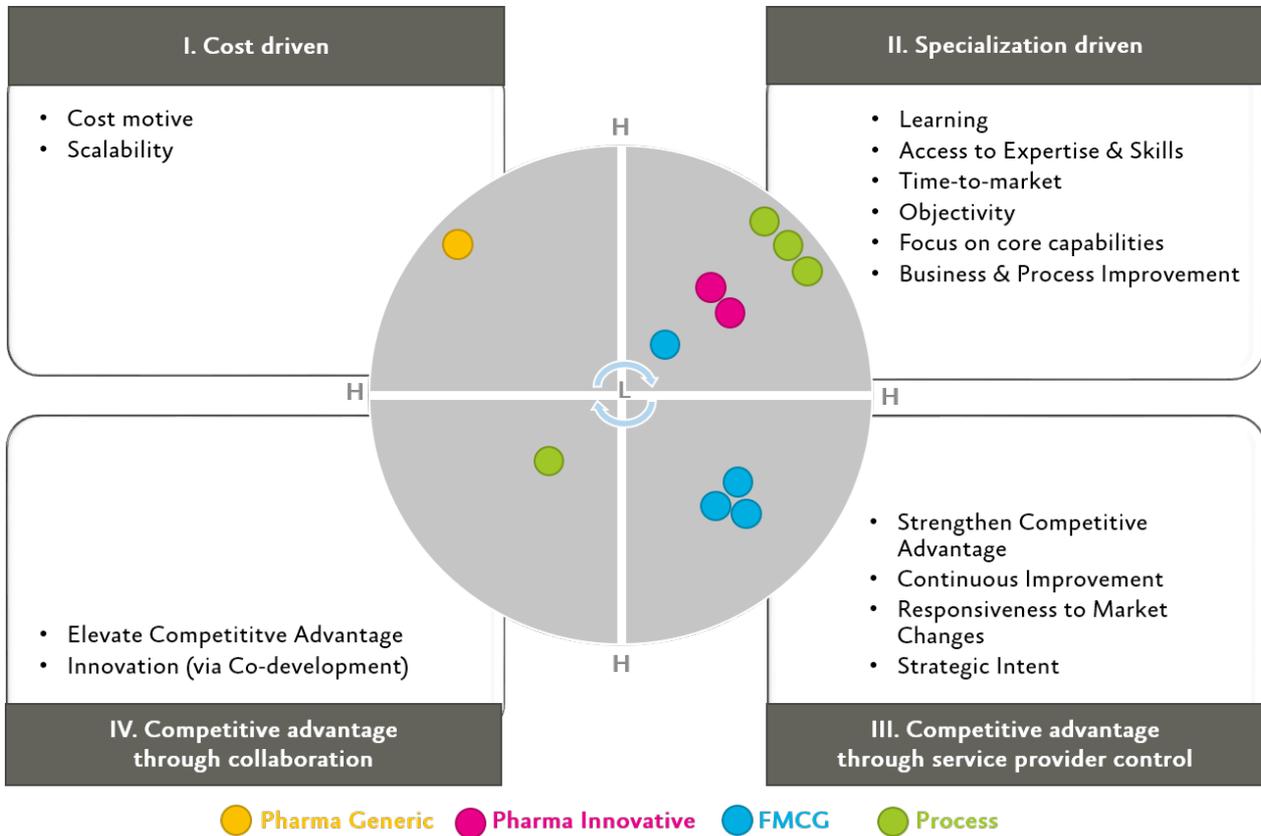
For companies in fast-paced and highly competitive industries, time constitutes a critical resource that needs to be used wisely. Developing expertise in-house requires considerable time. Involvement of a specialized service provider creates a short-cut solution with a significant decrease in time-to-market through the provision of knowledge required in form of a service or through the training (knowledge transfer) of employees in charge.

RESPONSIVENESS TO MARKET CHANGES

The ability to better react to market changes was mentioned by all participants as a critical driver to consider KPO. Knowledge Process Outsourcing is strategized as a possible solution to increase firms' responsiveness to markets.

"I think KPO can bring us quicker up to speed than really going through the maturity phases ourselves."

7 KPO STRATEGIES



The research conducted identified four outsourcing strategies for Supply Chain Planning & Forecasting tasks or processes.

COST DRIVEN STRATEGY

The cost motive refers to outsourcing primarily for the cost reduction and scalability benefits. By means of outsourcing the company frees up working capital which then can be invested in the core processes of the company.

SPECIALIZATION DRIVEN STRATEGY

The successor of the cost focus strategy emerged as specialization became critical to organizations. Processes that are considered non-core are outsourced to expert providers. The outsourcer thus benefits not only from realized cost savings and improved scalability, but also through greater expertise and organizational learning advantages as well as objectivity, business & process improvements and shortened time to market.

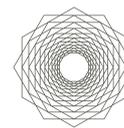
COMPETITIVE ADVANTAGE DRIVEN STRATEGY THROUGH CONTROL

Nowadays, for many companies competitive advantage no longer consists of merely owning and developing its core capabilities but also of its ability to control strategic capabilities which are under 3rd party's ownership. Companies committed to this strategy are strategically seeking to strengthen their competitive advantage, increase their responsiveness to markets while committing themselves to continuous improvement. Also the KPO drivers under the 'Cost driven' and 'Specialization Driven' Strategies apply to the 'Competitive Driven Strategy', however they do not represent the key driving forces.

COMPETITIVE ADVANTAGE DRIVEN STRATEGY THROUGH COLLABORATION

The main driver involved in the commitment to this approach is the necessity to not only strengthen the competitive advantage as suggested by aforementioned strategy but also to elevate the current competitive stance through innovation. This is only possible through a close collaboration between outsourcer & specialized service provider. The 3rd party is considered an ally, essential to achieve a unique competitive stance through co-development.

8 THE COMPANY VALUE FRAMEWORK



A modern view on the company value framework groups processes in line with their overall value contribution to the company.

The proposed framework differentiates between core, enabling and supportive processes. Core processes are tasks, processes and functions that have the greatest impact on firm's competitive advantage. Companies in consideration of outsourcing are advised to carefully identify core processes and exclude them from any outsourcing strategy. One also observes that a core competence-shift can occur. Therefore, some companies might not realize in a timely manner that what was core competence once, became an enabling competence now.

Enabling processes are those processes that have the greatest impact on firm's core. As the name suggests, enabling processes, enable companies to realize their competitive advantage. Due to the fast 'time till impact' on the core and the considerable margin contribution, enabling processes are contributing to firm's competitive stance. A 'make-or-ally' decision is here most appropriate: enabling processes should be either insourced or outsourced and if outsourced then in a partnership engagement with the selected 3rd party.

Within the research, participants classified Supply Chain Planning & Forecasting as either an enabling or supportive process. Majority of companies from the Process industry classified Supply Chain Planning & Forecasting activities as supportive. Also, all Pharma Innovative companies interviewed considered the aforementioned processes of supportive value to their business. In contrast, FMCG companies assigned enabling value to Supply Chain Planning & Forecasting processes and so did the Pharma Generics company as well. It seems that there are cross-industry differences, between the value assigned by Process and Pharma Innovative participants, namely: supportive and the enabling value attributed by FMCG and Pharma Generics companies to Supply Chain Planning & Forecasting activities.



	Criticality of business process	Impact on Competitive Advantage	Time until Impact	Margin Contribution	KPO Governance Structure
Core	high	high	immediate	enormous	Keep inhouse
Enabling	medium	medium	short	significant	Make-or-Ally
Supportive	low	low	medium to long	small	Make-or-Buy

Table 7 – Modern view on the Company Value Framework.

9 KPO DECISION MAKING FRAMEWORK

Based on literature research and on site field-work a decision making framework was developed. It supports companies to categorize Supply Chain Planning & Forecasting tasks and processes as either suitable for in-house development or outsourcing.

To determine the suitability of Supply Chain Planning & Forecasting processes to be outsourced, four process characteristics need to be assessed:

First, identify the **asset specificity** of the process: is the process standard, semi-customized or even fully customized?

Second, review the **knowledge** involved in the activity: Is it explicit or tacit? Explicit knowledge is factual and can be expressed in both verbal and written form. Tacit knowledge cannot be easily codified in written or verbal language, since it is derived from individual's experience and resides within a particular context from which the experience was gained (Nonaka, 1994; Lee, 2001).

Third, the **transaction frequency** of a task, or process has to be identified. Hereby, the actual frequency of the activity is reviewed. One distinguishes between high and low frequency activities.

Fourth, assess the **criticality of the process activity**. In line with the company value framework, an activity can be of enabling or supportive value.

The success of an outsourcing engagement refers not only to the question 'What to outsource', but also 'How'. The How-question is addressed through the proposition to outsource activities either in a 'Buy' outsourcing engagement or in an 'Ally' relationship with the respective service provider.

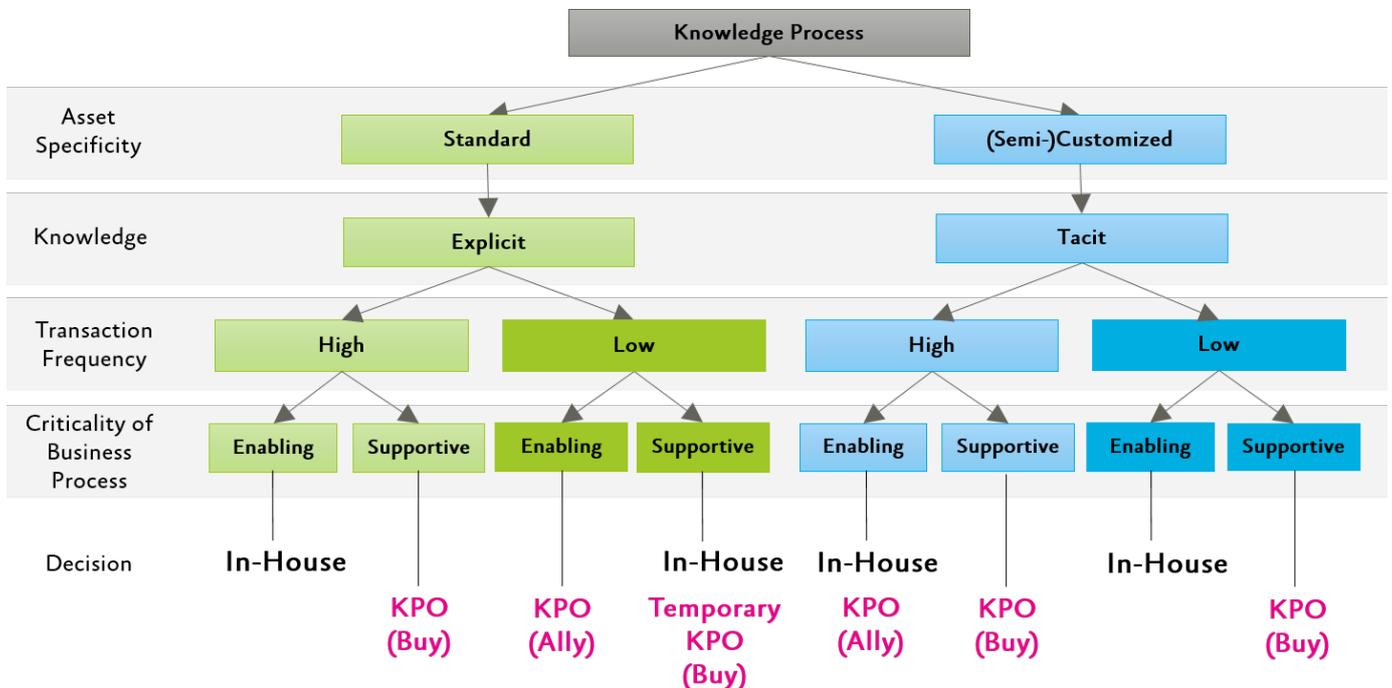
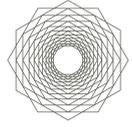


Table 8 – Decision Making Framework: To outsource or Insource, this is the question.



Since the 21st century more and more companies turn to not only outsourcing of routine and standard processes but also to the more complex knowledge intensive processes. This trend is widely recognized. Companies are increasingly outsourcing to do more than cut costs only; they aim at adding value, increasing business flexibility and preparing for future growth.

Deficient understanding of Knowledge Process Outsourcing implications, might lead companies to treat the outsourcing of knowledge intensive processes, in the same manner they were used to conduct Business Process Outsourcing. This investigation depicts that even though many outsourcing drivers are in common between KPO & BPO, equally many are distinct: KPO should be considered as the next stage in BPO.

While some companies are familiar with the business benefits KPO can yield, many are still largely unaware of the potential of KPO.

This paper attempts to close this gap, by uncovering the potential of KPO engagements in the field of Supply Chain Planning & Forecasting and equipping decision-makers with processes and tools to overcome the uncertainties involved in KPO.

How to materialize the Potential of KPO in 3 steps:

1. Identify your knowledge intense processes and classify them.
2. Determine your main KPO drivers and set your strategy.
3. Decide whether you develop capabilities in-house or facilitate outside.

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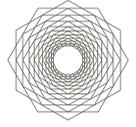
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ABOUT EYEON

In striving for success, large companies have to continuously struggle against growing internal complexity. We help our clients manage this complexity by designing, implementing and executing excellent planning processes as a discriminating factor for this success. In order to achieve this, we develop and share knowledge about top level planning and forecasting, with constantly demonstrable return on investment for our clients.

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