

**OUTSOURCING OF DISTRIBUTION LOGISTICS WITHIN THE
SUPPLY CHAIN OF EAST AFRICAN BREWERIES LIMITED**

UNIVERSITY OF NAIROBI,
LOWER KABETE | IRADY

BY

LUTTA SOLOMON MWANGA

**A MANAGEMENT PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, FACULTY OF
COMMERCE, UNIVERSITY OF NAIROBI**


2003

DECLARATION

This management project is my original work and has not been presented for a degree in any other University.

Signed:  Date: 07.11.2003
LUTTA SOLOMON MWANGA

This management project has been submitted for examination with my approval as University Supervisor.

Signed:  Date: 10/11/2003
PROF. EVANS AOSA
DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF COMMERCE
UNIVERSITY OF NAIROBI

DEDICATION

Dedicated to my loving family and most of all, my mum Flora and dad, Christopher.

ACKNOWLEDGEMENT

I am indebted to many special people who were instrumental in completing this project. Prof. Aosa, for his guidance, support and inspiration. My gratitude goes out to the management of East African Breweries for the co-operation accorded to me.

I am particularly indebted to my parents for their support and strong belief in continuous education and self-development. Last but not least to my family for their never faltering patience and belief in my eventual success. Most of all, inspirational and ever-positive and energized - Shamim and Priscillah.

TABLE OF CONTENTS

DECLARATION	II
DEDICATION	III
ACKNOWLEDGEMENT	IV
TABLE OF CONTENTS	V
LIST OF TABLES	VII
LIST OF APPENDICES	VIII
ABSTRACT	IX
CHAPTER ONE INTRODUCTION	
1.1 Background.....	1
1.2 Statement of the problem.....	4
1.3 Research Objectives.....	4
1.4 Importance of Study.....	5
CHAPTER TWO LITERATURE REVIEW	
2.1 Introduction.....	6
2.2 Outsourcing's Formula For Success.....	6
2.3 The Value Chain.....	7
2.4 Business Process Reengineering and Outsourcing.....	10
2.5 Outsourcing in Supply Chain Management.....	11
2.6 Why Outsource.....	13
2.7 The Outsourcing Process.....	14
2.8 Common Outsourcing Mistakes.....	17
2.9 Barriers to Outsourcing.....	22
2.10 Requirements for Successful Outsourcing.....	24
2.11 Studies in outsourcing practices.....	25
2.12 East African Breweries Limited.....	30
CHAPTER THREE RESEARCH METHODOLOGY	
3.1 Introduction.....	35
3.2 Research Design.....	35
3.3 Data Collection.....	35
3.4 Data Analysis.....	36
CHAPTER FOUR STUDY FINDINGS AND DISCUSSION	
4.1 Introduction.....	37
4.2 Triggers of Outsourcing of Distribution Logistics Activities.....	37
4.3 The Actual Distribution Logistics Outsourcing.....	47
4.4 Discussion.....	57

CHAPTER FIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 *Introduction* 59
5.2 *Summary*..... 59
5.3 *Conclusions* 63
5.4 *Recommendations*..... 65
5.5 *Limitations of the study* 65
5.6 *Suggestions for further research* 66

REFERENCES 81

LIST OF TABLES

		Page
Table 1	Delegation; not abdication	16
Table 2	Summary of activities outsourced and those under consideration	27
Table 3	Results of Price WaterhouseCoopers Survey, March 2000	28
Table 4	Detailed results of PriceWaterhouseCoopers Survey, March 2000	28
Table 5	East African Breweries Sales Trend 1997-2002	40

LIST OF APPENDICES

	Page
Appendix I Letter of Introduction	68
Appendix II Questionnaire	69
Appendix III East African Breweries Sales Trend 1997-2002	76
Appendix IV Process Flow Chart: Coast Region	77
Appendix V Basic Service Commitments: Coast Region	78
Appendix VI Process Flow Chart: Meru Region	79
Appendix VII Basic Service Commitments: Meru Region	80

ABSTRACT

Outsourcing has been adopted widely in the world as a strategy to gain competitive advantage. Companies are increasingly seeking outside firms to perform activities previously conducted in-house in order to achieve time, process and cost advantages. Such outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions quickly and efficiently. Additionally, many firms seek third-party providers in order to focus on their own competencies. It is not because they are incapable. As much as outsourcing has been reported as a success story, the way in which it has been implemented seems to be of key importance. Organizations are thus focussing on outsourcing as a management strategy to delegate major non-core functions to specialized service providers. Outsourcing therefore represents a significant shift in the way organizations manage and staff their business support activities.

This case study sought to determine the outsourcing of distribution logistics used to gain competitive advantage at East African Breweries. The objectives of the study were twofold. The first was to establish the factors that led to the outsourcing decision. The second was to establish how the outsourcing decision was implemented. The researcher carried out personal interviews with two senior managers at East African Breweries and one senior manager at Tibbett and Britten. The questionnaire was used as an interview guide

According to the findings of the study, East African Breweries had a greater drive towards outsourcing of its distribution logistics as a strategy to cut costs in order to pursue the core business activities. The study clearly revealed that the outsourcing of distribution logistics was successfully implemented in a phased approach and in some cases it was a "sudden event". It was a big task for the executives interviewed to recollect the details of what transpired during the outsourcing process due to change of roles from time to time. Research should be undertaken on how a service provider proposes value to clients who are either not interested in or do not know about outsourcing relationships.

CHAPTER ONE

1. INTRODUCTION

1.1 *Background*

Excellence in distribution operations can have profound effect on a company's performance, but to achieve this goal companies need to look beyond traditional approaches to the distribution facility. Innovative approaches and solutions are now available to ensure that distribution is a value-adding component of the total supply chain (Gattorna, 1998).

Business leaders are continually focused on increasing shareholder value by reducing operating costs while increasing revenues. Firms that invest in superb distribution logistics can strongly influence their performance - reducing costs, increasing revenues and raising customer satisfaction. Such firms focus on their core businesses. Peters and Waterman (1982) agree that excellent companies remained close to the knitting by focusing on their core businesses and outsourcing what was regarded non-core. While the concept of outsourcing is not new, it has been an important precursor to some of the new structures that have been developed.

The root of competitive advantage lies in the core competencies, which allow businesses to adapt to the marketplace opportunities. Outsourcing is the tool that allows organizations to focus on their core competencies. As organizations outsource those

activities that are non-core, it frees management time and resources to focus on activities that are core.

The strategic benefits to outsourcing are wide reaching and in some cases unexpected. Greater value, higher service levels, lower costs, innovation and business partnerships that encourage new thinking and introduction of new ideas are as a result of the new tight business relationships that outsourcing fosters (Christopher,1998).

Outsourcing involves the use of external companies to perform functions previously performed within the organization. Outsourcing is an approach that enables firms to gain competitive advantage. Corporate use of outsourcing has increased dramatically in recent years as corporations realize its tremendous benefits. Significant changes within many segments of the business have encouraged the use of outsourcing practices (Pearce and Robinson, 1997). Companies have tended to outsource low to medium strategically important functions that are medium to low risk to the business (Gattorna, 1998).

Chanzu (2002) asserts that all the manufacturing industries in Nairobi that were surveyed outsourced various activities. This was most prevalent in departments like human resources, finance and information technology. There is greater drive towards the use of outsourcing as a strategy to cut costs, to pursue the core business activities and outsource the non-core or non-strategic activities. The survey was able to find out the factors that are important in making the decision to use outsourcing as a strategy for competitive advantage. Firms need to evaluate their decisions based on the strategic implications of

outsourcing. Also of importance is evaluation of vendors likely to create valuable partnerships intended to culminate in organizational success. This study clearly revealed that the sourcing debate has moved from whether to outsource, to what and how to outsource.

Kinyua (2000) asserts that outsourcing engagements like other contractual engagements are characterized with risks and rewards. To be successful, a company should have a portfolio of competencies rather than a portfolio of business. Companies need to conduct careful analysis before engaging in outsourcing. This will ensure that it is not transferring benefits that could have been realized had it in-sourced the activity. Performance level of external vendors should be agreed upon, explicitly disclosed and continuously monitored.

Kirui (2001) reveals in his study that outsourcing of non-core logistics activities at BAT Kenya was triggered by the need to eliminate duplication of roles, effort and the dysfunction existing within the organization. Outsourcing at BAT was also prompted by the need to have in place clearly defined process and a logistics function that is aligned to core company business. This contributed to a reduction in the logistics operating cost and improved working capital management. This study also revealed that besides enabling BAT Kenya to focus on its core business, outsourcing was considered the right strategy to drive the company forward and to achieve better customer service delivery.

1.2 Statement of the problem

Outsourcing has been adopted widely in the world as a strategy to gain competitive advantage. Companies are increasingly seeking outside firms to perform activities previously conducted in-house in order to achieve time, process and cost advantages,. Such outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions quickly and efficiently. Additionally, many firms seek third-party providers in order to focus on their own competencies. It is not because they are incapable. As much as outsourcing has been reported as a success story, the way in which it has been implemented seems to be of key importance.

East African Breweries has in the recent past outsourced distribution logistics activities in its supply chain function to a third party. This research is aimed at assessing how the company implemented outsourcing of its non-core logistics activities specifically the following questions would be addressed. What triggered the outsourcing decision? How was the implementation of outsourcing carried out?

1.3 Research Objectives

This research is aimed at addressing the following objectives with regard to East African Breweries.

- (a) To establish the factors that led to the outsourcing decision.
- (b) To establish how the outsourcing decision was implemented

1.4 Importance of Study

This study is of benefit to various people.

East African Breweries will benefit from this study in that the report is an instant source of information for its management and staff.

Other fast-moving consumer companies operating in Kenya and specifically the players in soft-drink industry will also benefit from this study. The report acts as a source of information regarding best practice in outsourcing. They should be interested to learn from the East African Breweries experience and thus will not need to "re-invent the wheel".

Academically, this study is expected to contribute to the existing literature in the field of strategic management in general and outsourcing in particular. It should also act as a stimulus for further research to refine and extend the present study, especially in Kenya.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

This chapter presents the formula for success in outsourcing, the reasons for outsourcing, the outsourcing process, common outsourcing mistakes, barriers and requirements for successful outsourcing. It also looks at the studies in outsourcing practices and presents a brief on East African Breweries.

2.2 Outsourcing's Formula For Success

At war with the bottom line and seeking higher return on investment (ROI), yet recognizing the need to hit the ground running when business turns new corners in the marketplace, shrewd executives turn to outsourcing as the most effective, time-tested strategy for achieving their objectives (Gattorna,1998). Historically, the value-added advantages of outsourcing have been available mostly to only large corporations -those able to afford a provider's customization of its business solution to fit the particular requirements of a buyer's enterprise (a one-to-one model). Outsourcing's formula for success is based on leveraging an external service provider's economies of scale, expertise and scalability of resources, enabling the buyer's enterprise to accomplish new things or do things that were too expensive internally.

The concept of economies of scale is simple and is comparable to water stored in a dam. Once the dam is built, operating costs are not much greater for storing a lot of water than for storing just a little. This creates the potential for the buyer to enjoy lower costs (Bendor-Samuel,1999).

2.3 *The Value Chain*

According to Porter (1998), competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its products. Each of these activities can contribute to a firm's relative cost position to create a basis for differentiation. The value chain disaggregates a firm into strategically relevant activities in order to understand the behavior of costs and the existing potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors. Reconfiguring the value chain and performing value chain activities better gives a firm competitive advantage.

Hines et al (2000) brought up the concept of lean approach. They say that the value needs to be created in the eyes of the consumer, who is the one that pays for product or service he consumes. This focus is therefore translated across functional and company boundaries in both design and delivery of an appropriate product-service bundle. In order to do this, the lean message suggests that the focus of attention should not be in the company or functional department but instead on the value stream. The value stream is

that set of tasks and activities required to design jointly by all players in the value stream from the point of view of customer specifications right back to the raw materials source (Prahalad and Hamel, 1991).

As companies seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses (Sinderman and Tu, 1995). The global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host country or third party nationals (Greer et al., 1999). Most corporations believe that in order to compete globally, they have to look at efficiency and cost containment rather than rely strictly on revenue increases.

There are several schools of thought on outsourcing which are closely related. One school of thought advocates that companies can leverage their skills and resources for increased profitability by assessing the relative costs and risks of making or buying. In support of this, Quinn and Hilmer (1994) put forward two strategic approaches that allow leaders to leverage their companies' skills and resources well beyond levels available with other strategies. First, concentrate the firms' own resources on a set of core competencies where it can achieve definable preeminence and provide unique value for customers. Second, strategically outsource other activities, (including many traditionally

considered integral to any company) for which the firm has neither a critical strategic need nor special capabilities.

Quinn and Hilmer (1994) highlighted that there are four main ways in which corporate leaders can unlock value within organizations. Firstly, through focusing investments and energies on what the enterprise does best. Secondly, well-developed core competencies provide formidable barriers against present and future competitors that seek to expand into the company's areas of interest, thus facilitating and protecting the strategic advantages of market share. Thirdly, through the full utilization of external suppliers' investments, innovations, and specialized professional capabilities. More often than not, these specialized capabilities are prohibitively expensive or even impossible to duplicate internally. Lastly, in rapidly changing marketplaces and technological situations, this joint strategy decreases risks, shortens cycle times, lowers investments, and creates better responsiveness to customer needs.

Jathanna (1992) and Willey (1993) present outsourcing as a technique for reducing costs and freeing out management time. Organizations divide activities into core and non-core. Core activities which enhance core competencies cannot be outsourced while non-core activities that usually require generalized skills practiced across the industry be considered for outsourcing. These non-core activities are further classified between those that can be done away with and those that cannot. To achieve maximum effectiveness within an organization, managers need to clearly address the issue of core competencies. Core equals key or critical or fundamental. Tampoe (1994) asserts that core

competencies are characterized as being invisible to competitors and difficult to imitate. They are a mix of skills, resources and processes unique to a corporation and offer capability that can sustain an organization's competitive edge over time.

2.4 *Business Process Reengineering and Outsourcing*

Incremental change is not enough for many companies today. Managers groping about for a more fundamental shift in their organization capabilities must realize that change programs do not treat underlying conditions. These companies do not need to improve themselves. Reinvention is not changing what is, but what is not. The journey to reinvent yourself and your company is a sink-or-swim proposition (Champy, 1995). This provides a summary for the need for business process reengineering. Outsourcing has been adopted as a strategy to foster this organizational reinvention. To achieve time, process and cost advantages companies are increasingly seeking outside firms to perform activities previously conducted in-house (Anderson, 1998). Such outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions quickly and efficiently. Additionally, many firms seek third-party providers not because they are incapable but because they can focus on their own competencies.

Outsourcing is based on the notion that strategies should be built around core managerial and technical competencies that add the most value in the value chain, and functions or activities that add little value or that cannot be done cost effectively should be done

outside the firm- outsourced. When done well, the firm gains a supplier that provides superior quality service at lower cost than it could provide itself (Pearce and Robinson, 1997).

2.5 *Outsourcing in Supply Chain Management*

Outsourcing is gaining significance in as far as sub-contracting of non-core logistics activities to third party logistics service companies is concerned. The basic services provided by third parties include transportation, warehousing, and light manufacturing as well as specialized services such as clearing and forwarding. Third party logistics service companies have probably existed as long as there has been trade but perhaps less prolifically and under less glamorous labels. With high interest rates intense efforts to reduce inventories during the 1980s, a significant shift toward third party logistics service providers occurred. Businesses deciding to concentrate on their core competencies or capacities continued to fuel this trend (Drucker, 1982).

Sub-contracting is that process through which a task or an activity is simply handed over to a specialist. This is different from outsourcing because outsourcing involves partnering, which supports a virtual supply chain. These partnerships may not be all time – quite possible they exist only to exploit a specific market opportunity but are ‘seamless’ and truly synergetic. ‘In-sourcing’ or ‘re-sourcing’ define outsourcing, which has an element of strategic partnership or alliance and is different from sub-contracting (Christopher, 1998).

Thompson and Strickland (1993) say strategic alliance is one means of increasing resource capability through external emphasis. They argue that this alternative allows a firm to extend its strengths into competitive arenas that it would be hesitant to enter alone. A partner's functional capabilities can reduce the firm's financial investment significantly and increase its probability of success. Logistics activities are expensive and capital intensive. To move and store materials and distribute products require a lot of space, a lot of equipment, a lot of people, and increasingly, a lot of computer hardware and software. In today's climate of severely and constrained resources, where enhanced asset productivity is often a prerequisite to survival, cost management is becoming an area of key focus (Randall, 1993).

The logistics channel forms one of the key business interfaces, linking a company with its suppliers on one end and with its customers on the other. A breakdown along this channel, whether it be a miscommunication of an order, a shortage of key material or component, or a delayed or damaged delivery, can have devastating effects on customer and supplier relationship. As chains of supply and distribution become global and logistics in turn grows more complex, opportunities for channel breakdowns only increase. Delivery of service and quality has therefore increasingly become another area of focus in addition to cost control (Randall, 1993).

2.6 *Why Outsource*

The key strategic reasons for outsourcing identified by various researchers (Pearce and Robinson, 1997) are firstly, the need to improve business focus following realization that several 'how' issues are siphoning off huge amounts of management's resources and attention. Secondly, it is used as a vehicle to access world-class capabilities. The very nature of specialization by outsourcing providers means they have extensive worldwide, world-class resources to meet the needs of their customers. Thirdly, outsourcing is used to achieve accelerated re-engineering benefits. Outsourcing is often the by-product of business process re-engineering. As such, through outsourcing, an outside company that has re-engineered and achieved world-class processes takes over the processes thus enhancing attainment of benefits.

Fourthly, there are tremendous risks associated with investments an organization makes. When companies outsource they become more flexible, more dynamic and better able to adapt to changing opportunities. This is because their partners do some capital investments on their behalf. Finally, outsourcing enables freeing of resources for other purposes. Through outsourcing, the organization re-directs its resources from non-core activities toward activities that have the greater return in serving the customer.

2.7 *The Outsourcing Process*

Various models have been put forward to explain the concept of outsourcing. The Multi-client Shared Services Outsourcing Model by Deloitte and Touche (2002) makes it possible for mid-size companies to enjoy strategic outsourcing solutions that large enterprises enjoy in a more costly one-to-one model. The Bendor-Samuel Outsourcing Model (1999) emphasizes the importance of leveraging a provider's economies of scale in outsourcing. These models appear to put common elements crucial to the outsourcing process.

An examination of these models suggests that there are five stages that would ensure a fair outsourcing deal throughout the lifecycle.

Investigation stage. This is the stage where existing processes and systems are reviewed and compared to the best of breed. It is at this stage that the opportunities for improvement are identified. Whether outsourcing has potential advantages or not, is the key question asked at this stage. This investigation stage provides a baseline of current costs and service levels. This information can be used to compare apples-to-apples against performance improvements delivered by the outsourcer and against industry trends throughout the relationship.

Tendering stage. This is the stage where knowledge gained from benchmarking is incorporated to set optimum performance targets for the organization. This helps identify

the serious contenders for the business and spells out that world-class performance is expected – and will be measured.

Negotiation stage. Before negotiation, it is critical to set right expectations for cost, performance, and service levels. The negotiation position is reinforced by external validation of the organization's requirements. Here, benchmarking is done to facilitate "fast tracking" or sole source considerations. Fast tracking simply means the client has decided to outsource, usually with very little investigation and no tendering, and wants to move through the negotiation process quickly. In a sole source situation, ensuring a competitive supply can be difficult. Here, the vendor holds the balance of power in the negotiation. Benchmarking can level the playing field, serving as a surrogate for the competitive process to ensure you receive a fair deal.

Implementation. Implementation is the stage for contract refinement. At this stage, service level agreements are put in place detailing process maps, responsibilities and implementation of key performance indicators. Structures and reporting lines are defined and implemented.

Relationship management. Benchmarking is most commonly employed in relationship management. In relationship management outsourcing, deals are renegotiated. Several organizations have had to renegotiate contracts within two years of being signed. Usually

dissatisfaction over pricing and service levels are the main drivers for renegotiations. Benchmarking plays a key role in renegotiations, since clients need access to industry performance parameters in order to make a case with the outsourcing vendor

McCutcheon (1995) wrote that if not implemented well, outsourcing could lead to an abdication situation instead of desired delegation of non-core activities to the supplier-partner. He says, the greatest danger in outsourcing is the attitude of 'getting rid of what a company does not like' by subcontracting them out as opposed to the company outsourcing its non-core activities so as to enable it focus on its core activities. The result of the abdication process described is a lack of process ownership, lack of accountability, and blame culture and eventually lose-lose situation for both parties. (table 1)

Table 1: Delegation, not abdication.

DELEGATION	ABDICATION
Focus on core- competencies: Outsource the rest to the experts	Get rid of what you do 'not like'
Experts manages the outsourced process fully	Process ownership problems
Joint accountability	No accountability
Partnership culture	Blame culture
WIN-WIN SITUATION	LOSE-LOSE SITUATION

Source: McCutcheon, D. (1995). Problem Sources in Establishing Strategic Supplier Alliance, International Journal of Purchasing and Materials Management.

2.8 *Common Outsourcing Mistakes*

Various researchers have identified mistakes associated with outsourcing. The eclectic model of Bendor-Samuel (1999) puts forward common mistakes suppliers make. Firstly is the mistake of ignoring the customer's unique needs. Outsourcing providers who have repeatedly demonstrated their integrity and ability to get the job done are too confident about their skills and knowledge. Because of that, they have a tendency not to listen closely when their prospects tell them what they want. Instead, they tell their customers how to do things. Bullying buyers into doing things, their way results in higher prices or an inflexible contract structure. Often these providers fail to take time to understand the nature of this sale because they feel they do not have to. But they do have to. They have to focus on what creates value for each customer.

Secondly is the problem of ignoring the importance of leverage. One of the biggest business benefits of outsourcing is the ability to use leverage. This is where the supplier creates value for the buyer. Suppliers must structure their transactions to accentuate the value they create through leverage. The most successful and prosperous outsourcing relationships occur when the suppliers have clear and unambiguous responsibility for a process. Suppliers must clearly explain the importance of leverage to their prospects. These advantages include the access to scarce resources, the ability to substitute expensive resources for cheaper ones, process expertise and access to capital. Buyers are the most satisfied and get the best value for their dollars and suppliers are able to make above-average returns when leverage is part of an outsourcing relationship. When

suppliers have articulated responsibility, neither side wastes time arguing over disputed areas of the contract. And these are the relationships that grow because they engender trust. Neither side feels the other partner is trying to take advantage of them. Prospects must understand the value of leverage and how it will help them in their outsourcing relationships.

Thirdly is the tendency of avoiding accountability. Having a supplier responsible for a process is core to the definition of outsourcing. Suppliers stress accountability during their initial negotiations. But in reality the sales contracts and governance documents say, "Trust me." Suppliers try to shirk responsibility because responsibility means risk. They will do whatever they can to legally remove that risk. Shirking responsibility typically happens when the customer refuses to ink a flexible contract. Ironically, the vendor increases its risk by avoiding risk. If the buyer remains accountable for the process, it can dictate to the vendor how it wants things done. This is always a recipe for disaster. It is human nature to attempt to maximize a relationship in one's favor. The way to maximize an outsourcing relationship is to have the vendor align its interests with the buyer. In this way the supplier makes a move to maximize its process and helps the buyer.

Finally is practice of sending in the "C" team to manage the account. After the "A" sales team inks the sale and goes on to wooing the next prospect, the vendor sends its "C" team to manage the new account. Historically, vendors have rarely invested top resources in account management. This is a mistake because outsourcing is like a marriage. The

vendor has to work everyday with its customers to make an outsourcing relationship work. If customers are ignored, they react like a spurned spouse: dissatisfaction and disappointment lead to animosity.

On their part, buyers too make various mistakes. The first mistake is relying too much on executive contact. Once they have decided to outsource, buyers are usually in a hurry to get the deal done. To put the transaction on the fast track, the two groups of executives get together, shake hands and let the next level work out the nitty gritty details of the relationship. It is important to complete the transactions as quickly as possible as long as they are done in a thorough manner. Outsourcing relationships create substantial value for the buyer: months of wrangling over the details eat up the desired cost savings. Outsourcing is closely akin to mergers and acquisitions. Buyers are divesting a process they currently own which includes the transfer of both assets and people. For this reason, buyers must involve various elements of the company. Top-level executives are rarely enough.

The second mistake made by the buyers is letting the supplier lead the process. This is the most common outsourcing mistake and the most deadly. The quickest way for a buyer to destroy the value of an outsourcing relationship is to dictate how the process is to be done. By definition, the supplier should be an expert in the outsourced process and better at it than you. When buyers tell their hired experts what to do, they are removing the ability of the supplier to add value in the process. And they are erasing the supplier's

accountability. That results in higher costs and lower quality services. All these factors combine to make the relationship bad for both sides. The way for a buyer to fix this problem is to know exactly what the firm wants before it begins the outsourcing negotiation process. The buyer's team must know why it will benefit from.

The third is the paying problem resolution. Customers often push to pay their suppliers by problem resolution. While this sounds like an elegant solution, it is really a shortsighted approach. Buyers to fix problems are giving the supplier no economic incentive to correct the systematic, underlying causes of those problems. It is like a physician treating symptoms but ignoring the disease, if you pay by the problem, you get more problems. The better compensation plan is to pay the supplier for specific service; this encourages them to get to the root of the problem. For example if the problem is old equipment, the supplier will be willing to invest in more up-to-date assets.

A fourth mistake is interfering with the process. Unfortunately, this is a common mistake. Buyers just can't let go and won't transfer the ownership of the process to their outsourcing suppliers. They can't go over this deep cultural change. To keep the process under control, they tell the supplier how to do things. The tendency to do this becomes overwhelming when the buyer assigns a manager who was responsible for this function to head up the outsourcing governance team. This executive has a great deal of difficulty not dispensing advice. This, however, is a very slippery slope. Vendors have no

opportunity to enjoy leverage or scale, two of the big advantages of outsourcing, if they have to do everything the buyer's way.

Signing a contract with too long a term is the fifth problem. What will the Internet look like five years from now? No one has any idea. But a number of buyers are tempted to sign up five years of Internet hosting. This is lunacy. It is impossible to create boundaries or service level agreements for an unknown process. Suppliers prefer long-term contracts because the commitment allows them to invest their own capital in the process. Shorter contracts require shorter amortization periods. It is more advisable for customers to develop long term relationships but sign short-term contracts. This is done by matching the term with the life cycle of the process and staying in tune with the natural changes of the business cycle. Buyers need break the deal if the term becomes a deal breaker.

The sixth mistake is improper governance. Buyers new to the process often do not assign the right people to manage the process. They assume that since they have outsourced it, they do not have to worry about it anymore. There is a tendency to assign the governance to an employee who has just come out of that function. This can become a problem because these employees can be embittered now that they no longer have line responsibility for the process. They look for ways for the suppliers to fail. The best person for this job is someone who has some understanding of but who is primarily a businessperson who can focus on the results. Buyers must now view this process as a business relationship and use those parameters to judge it. They need to provide adequate oversight and responsibility. A different way of thinking must prevail.

Another mistake is lack of accountability. Accountability is not about buyers looking for ways to punish suppliers. The purpose of penalties is to ensure that the higher ups in the supplier's organization realize they have a problem that they have to fix. Sometimes the onus rests completely on the buyers. In these instances, the buyers do not follow through on their assigned tasks. If the buyer is responsible for the telecom segment and it gets the bandwidth requirements wrong, it can't hold the supplier responsible for the mistake.

Lastly, is the mistake of forgetting that the supplier is a business asset. Far too often, the buyer regards its outsourcing supplier as the provider of a commodity – someone who prepares the payroll or hosts an application. But suppliers have amassed a wealth of knowledge about their industry. When a supplier creates value, buyers must reward them accordingly. Buyers can compensate their vendors by helping them win more business in the organization, helping them win business in the market place, extending their contract and relaxing a service level that is significant to the buyer but is costly to them. Reinforcing their value encourages suppliers to do more. Buyers who make these mistakes create difficult outsourcing relationships.

2.9 *Barriers to Outsourcing*

Randall (1993) put forward various barriers to outsourcing of logistics activities. That outsourcing of the activities to third parties represents a great opportunity in some circumstances but a significant risk in others. The uncertainty inherent in outsourcing is

in fact, one of the main reasons why so few contract logistic projects have actually attempted in the world over. After all, it is always easier to stick to the status quo.

Other barriers to outsourcing include the fact that many functions other than logistics are involved in the decision making process becomes more complicated. Also, because outsourcing is a fairly new concept, internal procedures have not been formalized to accommodate decision on logistics outsourcing.

Secondly, functional buying behavior and reward structures may inhibit innovation. In many cases; the principle benefit of logistics outsourcing is a reduction in the overall logistics costs not necessarily transportation cost. If a manager responsible for promoting a contract logistics opportunity is evaluated and rewarded solely by his ability to reduce transportation costs, and no credit for achieving a reduction in overall logistics costs, such as a manager will not effectively sell the contract logistics concepts to the other functions whose "buy-in" is needed.

Thirdly, in many organizations, the key benefit of simpler, more reliable supply chain is reduced channel-inventory. Unfortunately inventory is 'nobody's responsibility' in some organizations. If the principal benefit of logistics outsourcing has no owner, it becomes difficult to find someone inside the corporation willing to sponsor a logistics-outsourcing project.

Fourthly, logistics outsourcing implementation means that the corporation gives up some management control of the complex process that may include inventory management, materials handling and transportation. Because of their complexity, contract logistics relationships need to be long-term in nature and many managers will be apprehensive about becoming overly dependent on one supplier. Lastly, it is difficult in some corporations to establish a benchmark of the existing logistics cost for developing comparisons and subsequently for measuring the level of benefits from an implemented logistics-outsourcing project.

2.10 Requirements for Successful Outsourcing

Randall (1993) goes on to put forward the requirements for successful outsourcing.

First is that a 'strong need' for outsourcing has to be identified. Organizations undergoing rapid change due to changing internal and external environments are likely to benefit from outsourcing. Similarly, companies facing significant capital and headcount constraints are also more likely to benefit from outsourcing. Secondly, before committing to outsourcing, companies want hard evidence that 'tangible value' will be achieved. To quantify the benefits, a comprehensive feasibility study needs to be carried out to benchmarking existing practices and identify the opportunities for improvement.

Thirdly, credibility of the supplier to be outsourced to is crucial for the success of the project. The credibility is determined by experience in required services, proven track record on implementing and operating similar contracts, financial strength and a multiyear commitment to the contract. Lastly, management commitment must be

sufficient to overcome the roadblocks that will undoubtedly emerge. For the outsourcing project to work, there needs to be a senior manager who is committed to act as sponsor of the project and guide it from idea to reality.

2.11 Studies in outsourcing practices

Chanzu (2002) asserts that all the manufacturing industries in Nairobi that were surveyed outsourced various activities. This was most prevalent in departments like human resources, finance and information technology. There is greater drive towards the use of outsourcing as a strategy to cut costs, to pursue the core business activities and outsource the non-core or non-strategic activities. The survey was able to find out the factors that are important in making the decision to use outsourcing as a strategy for competitive advantage. Firms need to evaluate their decisions based on the strategic implications of outsourcing. Also of importance is evaluation of vendors likely to create valuable partnerships intended to culminate in organizational success. This study clearly revealed that the sourcing debate has moved from whether to outsource, to what and how to outsource.

Kinyua (2000) asserts that outsourcing engagements like other contractual engagements are characterized with risks and rewards. To be successful, a company should have a portfolio of competencies rather than a portfolio of businesses. Companies need to conduct careful analysis before engaging in outsourcing. This will ensure that it is not transferring benefits that could have been realized had it in-sourced the activity.

Performance level of external vendors should be agreed upon, explicitly disclosed and continuously monitored.

Kirui (2001) reveals in his study that outsourcing of non-core logistics activities at BAT Kenya was triggered by the need to eliminate duplication of roles, effort and the dysfunction existing within the organization. Outsourcing at BAT was also prompted by the need to have in place clearly defined process and a logistics function that is aligned to core company business. This contributed to a reduction in the logistics operating cost and improved working capital management. This study also revealed that besides enabling BAT Kenya to focus on its core business, outsourcing was considered the right strategy to drive the company forward and to achieve better customer service delivery.

A study conducted by PriceWaterhouseCoopers (1999) established that outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater shareholder value across the enterprise. In effect, emphasis is shifting from outsourcing parts, facilities and components, towards outsourcing the intellectual based systems. The Outsourcing Institute (1998) conducted a study on activities being outsourced or being considered for outsourcing. The results are summarized in table 2.

Table 2: Summary of activities outsourced and those under consideration

ACTIVITY	CURRENTLY OUTSOURCED	TO BE CONSIDERED FOR OUTSOURCING
Operations (Administration)	<ol style="list-style-type: none"> 1 Printing and Reprographic 2 Mailroom 3 Consulting and Training 4 Purchasing 	<ol style="list-style-type: none"> 1 Administration of and information systems maintenance 2 Supply/Inventory 3 Records Management
Finance	<ol style="list-style-type: none"> 1 Payroll processing 2 Transaction processing 3 General Accounting 	<ol style="list-style-type: none"> 1 Taxes 2 Payroll processing
Human Resources	<ol style="list-style-type: none"> 1 Relocation 2 Workers Compensation 3 Recruiting/Staffing 	<ol style="list-style-type: none"> 1 Consulting and Training 2 Human Resources Information Systems
Real Estate and Physical Plants	<ol style="list-style-type: none"> 1 Food and cafeteria services 2 Facilities maintenance 3 Security 	<ol style="list-style-type: none"> 1 Facilities management 2 Facilities maintenance
Sales and Marketing	<ol style="list-style-type: none"> 1 Direct mail 2 Advertising 3 Telemarketing 	<ol style="list-style-type: none"> 1 Field Sales 2 Reservations and sales promotions
Logistics (Distribution)	<ol style="list-style-type: none"> 1 Freight Audit 2 Freight brokering 3 Leasing 	<ol style="list-style-type: none"> 1 Warehousing 2 Distribution and Logistics 3 Operations
Transport	<ol style="list-style-type: none"> 1 Fleet management 2 Fleet operations 3 Fleet Maintenance 	<ol style="list-style-type: none"> 1 Fleet management 2 Fleet operations 3 Fleet maintenance
Information Technology	<ol style="list-style-type: none"> 1 Maintenance/repair 2 Training 3 Applications development 4 Consulting and re-engineering 	<ol style="list-style-type: none"> 1 Clients/serve networks 2 Networks 3 Desktop system 4 End-user support 5 Full IT outsourcing

Source: The outsourcing institute membership, 1998

PriceWaterhousCoopers (2000) conducted a survey in United States among America's Fastest growing companies, "Trendsetters companies". Respondents were chief executive officers of 440 products and services companies with revenue/sales of one million and one hundred and fifty million US dollars. The conclusion arrived at was that businesses that outsource were growing faster, were larger and made more profits than those that did not. The results are shown in Table 3.

Table 3: Results of PriceWaterhouseCoopers Survey, March 2000

	Trendsetter companies	Product Companies	Service Companies
Firms using outside supplier	80%	81%	79%
Administrative or Financial Services	69%	70%	68%
Internal Operations services	50%	70%	44%
Sales and Marketing Service	30%	34%	25%
Firms not outsourcing in the past year	20%	19%	21%
% operating budget spend on outsourcing	8.18%	8.65%	7.70%

Source: PriceWatershouseCoopers (March, 2000)

The table below gives the detailed results

Table 4: Detailed results of PriceWaterhouseCoopers Survey, March 2000

ACTIVITY	Percentage No Of Companies That Outsourced A Given Activity By Year		
	1994	1997	2000
Administration and Finance	58%	65%	69%
Payroll		55%	45%
Employee Investment programs		-	30%
Tax Compliance		34%	22%
Internal Auditing		18%	13%
Human Resources Hiring		13%	5%
Asset Management		7%	4%
Billing		4%	3%
Internal Operation	42%	47%	50%
Maintenance equipment		19%	20%
Manufacturing/Processing/Assembly		17%	16%
Security		8%	9%
Research and development		8%	6%
Distribution/Warehousing		8%	6%
Sales and Marketing	9%	38%	30%
Websites Management		10%	13%
Market Analysis and planning		14%	2%
Customer Service		3%	2%

Source: PriceWaterhouseCoopers (March, 2000)

With an increasing competitive business environment, companies are adopting different strategies specific to their unique needs. Clearly, one of these strategic options that have been implemented in the developed country context is outsourcing. A survey conducted in the USA in April 1999, revealed that, of companies that outsource, 70 percent claimed to save money and 25 percent had improved focus on core business (PriceWaterhouseCoopers,1999). Kenyan companies are not unique and are facing similar business challenges. It is therefore expected that they too are embracing outsourcing as one of their strategic options to improve their overall performance.

Corbett (1999) defines outsourcing as the wholesale restructuring of the corporation around core competencies and outside relationships. PriceWaterhouseCoopers (1999) established that outsourcing has moved markedly from attending to a single function more efficiently, to reconfiguring a whole process in order to attain greater share holder value across the enterprise. The potential for outsourcing has moved from those activities that are normally regarded as of peripheral concern to the organization such as cleaning, catering security, to include critical areas of activity such as design, manufacturing, marketing, distribution and information systems with almost the entire value chain open to the use of outside supply.

Outsourcing appears to be of importance to many organizations. However, there are challenges associated with its implementation.

2.12 East African Breweries Limited

Initially, registered as Kenya Breweries Limited in 1922, the company was renamed East African Breweries in 1935 after the acquisition of Tanganyika Breweries.

East African Breweries Limited is East Africa's premium beverage group dedicated to delivering world class beer to the market. It is the largest brewing group in East Africa with an annual turnover of Kshs. 28 Billion and it has the largest share of the beer industry in the region. The group employs more than 1600 people across the East Africa. The company attains volumes of approximately 19 million cases per year with over twenty beer brands. It has twelve spirit brands with over forty store keeping units.

East African Breweries Limited is the holding company of five subsidiaries. Kenya Breweries Limited which is a bottling plant and a barley processing company, Kenya Maltings Limited, a barley and malt production company, Central Glass Industries, a glass and bottle manufacturing company, Kampala-based Uganda Breweries Limited (UBL) and Kibo Breweries Limited, based in Moshi, Tanzania that produce, bottle and market their own brews. Kenya Breweries markets a total of nine locally brewed brands led by the popular Tusker lager. Uganda Breweries' market leader is Bell lager, while Kibo Gold is the favourite in Tanzania. The company's core business is the brewing of beer. The subsidiary companies are seen as strategic business units to support the core business.

Alongside these local brews, the strategic partnership with Guinness UDV, which has a 48 per cent shareholding, has enabled the group to market the Guinness stout lager as well as the popular ready-to-drink label Smimoff Ice in all the three countries. Other drinks marketed in Uganda by UBL are Bell Draught, Carlsberg, Bond 7 whisky and the ever-popular Uganda Waragi.

Nairobi-based Central Glass Industries and Kenya Maltings Limited are both independent yet integral divisions of the group. With 50 per cent of its output going to the export market, Central Glass Industries (CGI) is the leading supplier of bottles and jars in the East and Central African region, serving a wide array of soft-drink manufacturers, pharmaceutical companies and bottled product processors.

Kenya Maltings deals with the farmers who produce barley that is processed into malt. Its close relationship with the more than 200 dedicated farms that grow the six varieties of barley used by KBL means that the group spends more than \$15 million annually on the purchase and transport of the crop. The group has provided more than \$5.6 million in various guarantees to the farmers.

The establishment of these five companies as separate operations in the distinct market sectors of brewing, malting and bottle manufacture in different locations in the East African region, was just one key aspect of a comprehensive restructuring process that the group undertook from early 1994. An integral aspect of that restructuring was the strategic investment by Guinness UDV that brought to EABL a consortium with

extensive interests and vast experience in the brewing and drinks retailing industry. EABL has been awarded the accolade of the "Most Respected Company in East Africa", two years in a row (2000 & 2001) in a survey conducted by Pricewaterhouse Coopers and the Nation Media Group.

The trends in the brewing industry are highly influenced by competition and technology. East African Breweries has over the last ten years recorded substantial decline in sales volume from approximately 26 million metric cases in 1989 to approximately 19 million metric cases in 2003. This is contrary to what is happening in other African countries where volumes have increased. The main explanation is that the Kenyan Government has kept the taxes at higher levels and especially the Excise duties whereas other tax regimes have reduced taxes.

Poverty levels have also increased and the trend now is to promote brands, which have high value for money, for example, Allsopps. Production cost per unit is critical. The trend worldwide is to utilize state of the art technology to reduce operating variable overheads. High investments in advertising are a trend world over. East African Breweries has kept up with the trend by maintaining high expenditures in spite of the fact that the company does not have serious competition from other brewers. In that way, the company hopes to create barriers of entry by new entrants in the brewing industry.

In May 2002, EABL signed license agreements with South African Breweries International and agreed terms for share exchanges in Kenya Breweries Limited and Tanzania Breweries Ltd. In the agreement South African Breweries International closed its brewing operation (Castle Breweries Kenya Limited) at Thika in Kenya as it retained its investment in Kenya by taking a 20% shareholding in Kenya Breweries. On their part, East African Breweries Limited closed its Kibo Brewery in Moshi Tanzania and retained its investment in that country by acquiring a 20% shareholding in Tanzania Breweries Limited. There also exists an agreement to market minimum quantities of key brand of each other in both countries. For example, East African Breweries must sell a certain quantity of Castle brand in Kenya or otherwise pay up an agreed penalty and the same case applies in Tanzania where South African Breweries must sell a given volume.

The ownership of Central Glass Industries and Kenya Maltings Limited is more of a vertical integration to control production of quality key raw materials and also has fundamental cost implications on the final product. The acquisition of UDV is in line with horizontal expansion to enter the high value spirits business. The synergies lie on the fact that East African Breweries has a strong distribution network and goodwill among consumers whereas UDV has strong and world-renowned brands.

East African Breweries' involvement in distribution is restricted to selling at the up front. The transportation and storage after sales is left to distributors. The sales team drive sales by ensuring optimal stock levels are maintained both at distributor and retail levels. The end front involvement involve marketing and promotion activities by both

the marketing team that coordinates planning and advertising while the sales team coordinates sales strategy, field activities, distributor management and promotion activities. The company also sets distributor prices as well as retail prices. Understandably, it is impossible to enforce retail prices since the market is liberalized. The prices just serve as a guideline.

Prior to 1998 when the company outsourced its distribution logistics, the approach was the full package. It would transport the beer to a depot, manage stocks in the depot, sell to distributors, manage retail activities through the sales representatives and enforce pricing at retail level. In a nutshell, the company got involved in everything including purchase of lorries, forklifts and maintaining a garage.

CHAPTER THREE

3 RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the research design used to achieve the objectives of the study, which were to establish the factors that led to the outsourcing decision and to establish how the outsourcing decision was implemented.

3.2 Research Design

This was a case study on East African Breweries' supply chain. This case study provided in-depth information of how outsourcing was carried out. A case study enabled the researcher to follow up on issues and information to great detail. It provided opportunities for further probing. It was appropriate to focus the study on the distribution logistics function in view of the fact that logistics is central to a company's service quality as well as its cost structure thus innovative approaches to logistics management such as outsourcing were of particular interest.

3.3 Data Collection

This study used primary data obtained through in depth personal interviews with the Procurement Manager in charge of contracts within East African Breweries' supply chain

function and the Finance Director. One of the top managers at Tibbett and Britten, the third party company whom the services under review were outsourced was also interviewed. A questionnaire was used as an interview guide to collect the data. The researcher personally administered the questionnaire. The questionnaire (Appendix II) was structured to address triggers of the outsourcing, anticipated benefits, challenges encountered and how they were overcome and finally list the benefits actually achieved. Secondary data was obtained by examining the company's annual reports.

3.4 Data Analysis

The feedback from the interviews formed the basis for the content analysis done. Content analysis was used to identify and extract the key themes in the qualitative data. This enabled the structuring of the data. Such analysis assisted in the development of content around the identified themes. The researcher used content analysis to explain what happened. Such content analyses have been exclusively applied in related studies in the past by Bett (1995), Kirui (2001), Njau (2000) and Thiga (1999).

CHAPTER FOUR

4. STUDY FINDINGS AND DISCUSSION

4.1 *Introduction*

This chapter deals with the data analysis and interpretation of the responses of the respondents chosen for the study at East African Breweries. Accordingly to the responses received, the analysis and interpretation of the data is hereby undertaken.

4.2 *Triggers of Outsourcing of Distribution Logistics Activities*

The following factors were identified as the triggers that led the company to consider the outsourcing of its distribution logistics activities. Firstly, there was complete dysfunction in the distribution logistics activities of the company. There was significant duplication of effort, roles and activities. There were 2000 employees in the distribution function alone. These included truck drivers, loaders, mechanics, artisans, depot managers and garage managers. All these employees were on the company's payroll. Despite having all these employees, there were various complaints regarding poor levels of services received from the company. The deliveries were slow. In 1994, the Managing Director invited a group of consultants to look at the core and non-core activities. Their primary work was to identify the job description and evaluate the related jobs. The consultants found out a lot of duplication of functions in major towns, for example there were finance departments in all towns, breweries in all regions as opposed to having business units in

the head office in Nairobi. As a result of this study, the thinking to consolidate all non-core logistics activities under one outsourcer was muted.

The second trigger to the outsourcing as perceived by the company's management was that there was need to have clarity of functions and process re-alignment. The distribution logistics process lacked co-ordination and clear strategy. There was desire to centralize all distribution activities to ensure accountability is put in one place and processes reviewed. A senior procurement manager was later appointed, charged with the responsibility to manage the integration and consolidation of the distribution logistics and contracts.

Thirdly, it was identified that there was a huge potential saving close to Kshs. 500 million per annum to be achieved through outsourcing of distribution logistics only. At a time when the profits were starting to plateau, the company needed every cent it could get. It was desired that this outsourcing could lead to a lean operation and one that is more focussed on its core competencies.

Fourthly, there was need to improve service delivery and it was thought that one of the ways to ensure customer orders were delivered on-time-in-full all the time was to outsource beer delivery. There had been poor service levels that were as a result of inefficiencies as well as unethical practices. There were around 300 depots, which were difficult to manage and monitor. There were instances where pilferage was rampant. Depot managers would sell beer and disappear. This resulted in a high turnover of depot

managers. There were also cases where depot managers would give out beer to distributors without payment. These soft loans would later be paid or not paid in as much as these were corrupt practices. The company had impromptu inspections but this did not solve the problem as those inspectors were constantly bribed or paid off by the depot managers to withhold vital information.

The fifth trigger was the desire to have return on investment maximization through improvement of efficiencies, effectiveness and to have a better focus on the core activities of the company. This was necessitated after several management trainings and forums were conducted so as to re-evaluate the company's strategies.

Finally, the outsourcing of distribution logistics was an anticipatory response to South African Breweries entry into the Kenyan market. East African Breweries knew that South African Breweries were coming into Kenya and that a price war was not sustainable. South African Breweries was capable of creating stiff competition, thus the company had to look for ways to reduce its costs internally and also reduce the work force. The consultant had indicated that EABL did not need more than 800 employees. At that time, the headcount was at 5000 employees. Thus, restructuring had to take root.

From the above findings, it is clear that the triggers for outsourcing on distribution logistics at East African Breweries differed significantly from the known triggers elsewhere in the world. Pearce and Robinson (1997) have identified the following:-

- Increased competition
- More demanding market place
- Just-in-time production lines
- High service level expectations by customers
- Long supply lines in terms of supplier lead times
- Cost cutting needs
- Asset base reduction requirements - labour force reduction needs
- Need to enhance logistics management information systems (MIS)

Of the triggers listed above, only cost cutting needs and long supply lines in terms of supplier lead times were significant in as far as triggering outsourcing at EABL was concerned. Most notably by the time outsourcing was being initiated, competition in the market had not changed significantly. EABL commanded 95% market share of beer. Table 5 below, and appendix III summarizes the company's sales trend for the period 1997 to 2002.

Table 5 East African Breweries Sales Trend 1997-2002, in metric cases

YEAR	1997	1998	1999	2000	2001	2002
SALES	21,000,000	20,300,000	19,700,000	19,100,000	18,500,000	17,505,000

Source: East African Breweries Limited

The general trend has been a fall in sales volume averaging 3% to 4% per year. The total sales for year 2002/2003 were 18,250,000 metric cases. The above figures have been adjusted to reflect consistency with the period without the Castle brand.

Similarly, customer services expectations and demands in the market place did not play a major role in the decision to outsource because the company dictated terms in the market place.

4.2.1 Benefits Anticipated Following Outsourcing of the Distribution Logistics

The Executives interviewed largely agreed that the benefits anticipated to come with outsourcing of the distribution logistics activities were first and foremost the opportunity to reduce costs. With the large workforce involved in the distribution function, it was felt that there were opportunities to cut costs through integration, networking and synchronizing of distribution of beer across the country. The key objective was to completely give up distribution to a third party.

At the time, it was estimated that a saving of Kshs. 500 million per annum on distribution logistics was possible. This saving was to improve the profitability of the business. It was anticipated that the expert logistics providers would also bring along best practice in the activities thus ensuring anticipated savings are achieved.

Outsourcing was secondly expected to provide the opportunity for the rest of the organization to focus on the core business. The core business of EABL is manufacture of beer. Expertise involvement in the logistics activities was anticipated as a key benefit because the experts would bring in wealth of experience from elsewhere. Outsourcing of

these activities was also seen as an opportunity to free the time of marketing staff to concentrate on marketing activities without having to worry about product supply.

Service improvement was the third most important benefit expected. Prior to outsourcing, delivery lead times were dismal. It would take two days to load a truck. There were long queues and long lines of trucks awaiting loading of beer crates. This resulted in delays in deliveries to distributors. Outsourcing was considered as the gateway to world class capability of the incoming partners. Although the market place was not as demanding at the time and competition was minimal, the company saw the need to perform its activities in a faster, cheaper and better manner, hence outsourcing.

It was beginning to dawn on the company that it had to change the way it carried out its activities in order to survive in future. By involving an expert in the logistics field, the company hoped to be more flexible in its operations so as to achieve better customer service. It was hoped that outsourcing would assist the company in achieving re-engineering acceleration as re-engineering of the organization was taking place simultaneously.

Although investments risk reduction was considered a benefit with outsourcing implementation, it did not rank very high. The company's maintenance and repair cost would also disappear. It was to be achieved through the contracting of a third party to handle the forklifts. The company hoped to reduce its asset base so as to achieve optimal utilization of the resources left. Release of resources such as people, for other causes was another benefit that did not rank very high although with outsourcing headcount

reductions were bound to happen and this was expected to save the company in salaries and benefits paid to the employees.

4.2.2 The Activities Leading to the Outsourcing of Distribution Logistics

4.2.2.1 Feasibility Studies Consultant

Following the completion of the review of company operations by the Group Managing Director in late 1997, he concluded that there was a lot of opportunity for improvement in regard to efficiency of logistics activities. This point was effectively sold to the company's top management. Initially, the board members resisted and expressed fear. However, the Group Managing Director convinced and pushed through the idea to have a full review of the distribution activities. There was a need to restructure and thus a consultant had to be brought in.

A consultant identified by Guinness was recommended to East African Breweries. This consultant had outsourcing experience from organizations in Europe. The brief to the consultant when he was hired was to study and identify the core and non-core activities at East African Breweries. He was to assess what people were doing in order to capture duplication of activities in the distribution function.

4.2.2.2 Feasibility Studies Carried Out

The consultant spent time to first understand the company's distribution logistics and supply chain set up. Interviewing of employees in the distribution function followed this.

The findings from the feasibility studies showed that the distribution function was non-core to the company's business. In two months time, the consultant recommended that the company lays off 2000 employees. This would have no effect on the business. He also advised that the forklifts were the cause of slow delivery lead times. He conducted a SWOT analysis and recommended for the outsourcing of the distribution logistics. Interestingly, the consultant did not study other organizations in Kenya that had outsourced their non-core activities.

The consultant discovered that the distribution structure at EABL was skewed when compared to other organizations, for example, South African Breweries. This was not a recommended structure. The excise duty was very high and thus the distribution cost was loaded on the product cost plus the margin. The percentage of excise duty was then charged on this high cost. He recommended that the beer be sold to distributors who only load their margins and recovered the distribution cost from retailers without the duty complications. In this regard, EABL did not have to pay duty on the distribution cost.

They only paid duty on product and margins. In 1998, the savings on excise duty alone were Kshs. 500 million. The Kenyan operation was the first in the group to actually consider outsourcing the distribution logistics.

4.2.2.3 *Project Sponsor*

The company's Group Managing Director initiated the outsourcing of distribution logistics project in East African Breweries Limited. He was very keen to see its implementation so as to achieve synchronized processes that deliver cost savings. This

role was well executed and the successful implementation of the project relied heavily on it. The project was top-driven. Other key members of the management team involved were the production and finance Directors, Regional Director, the procurement manager and all department heads. This team worked together with the consultant throughout the project life.

4.2.2.4 *Factors seen as critical for the project's success*

Management commitment was seen as critical for the successful implementation of outsourcing. It was believed that the commitment of management should be sufficient to overcome the roadblocks that would undoubtedly emerge. The Group Managing Director was aware that for the outsourcing project to work, there needed to be his personal commitment to act as sponsor of the project and guide it from idea to reality. The management prepared employees on change management. A change manager seconded by Guinness was employed in order to acclimatize the employees with the impending changes. This manager organized seminars and trainings with employees to enable them have an understanding of what was going on in the company. In as much as the feasibility studies were kept secret, these studies contained information that employees already knew in general. Later on, the studies were released to employees using the change manager. The information released was generalized to avoid a feeling of suspicion. However, the actual findings were only released to the Group Managing Director.

Another key factor identified was supplier credibility. The company believed a supplier with experience in provision and management of physical logistics services,

a proven track record in implementing and operating similar contracts. The company was also looking for a supplier who was flexible and willing to consult exhaustively with the company.

4.2.2.5 *The Supplier Selection Process*

At the time the company was outsourcing its distribution logistics, there were no serious beer distributors other than the ones the company had. Thus, there were no tenders East African Breweries identified Tibbett and Britten as the best with the kind of network they needed for its distribution. Express Kenya Limited was also chosen to be distributors and especially in bulk beer distribution to the brewery in Kisumu. The company took two suppliers because it did not want to settle for only one service provider.

Tibbett and Britten had an advantage to be handpicked in that they were an international logistic group present in 32 countries across the world and were listed in the London Stock Exchange. They already had similar contact with BAT Kenya, Unilever Kenya and Carnaud Metal Box. They had experience in provision of several services including warehousing management, road transport, sales order processing, supplier stock management, integrated IT systems and even international supply chain within Kenya. Tibbett and Britten had already invested over Kshs. 400 million in capital, had 12 key operating sites with presence in Nairobi, Mombasa, Dar es Salaam and Kampala. They also had a base fleet of 37 commercial vehicles and a further 350 subcontracted from other transporters. In addition, they also had a successful partnership with an established clearing and forwarding agent. East African Breweries selected this supplier because of

the flexible solutions they presented and their international experience already applied to local operations. Tibbett and Britten also had the reputation of managing its operation under internationally accepted standards. In summary, the selection of the supplier was based on the following criteria.

Firstly, the scope of services offered in geography and breadth terms by the service provider. The firm was capable of handling a good number of trucks as evidenced at British American Tobacco Kenya. Secondly, the contract logistics experience and commitment in terms of demonstrated capability in projects done so far was evaluated.

Thirdly, there was proven ability to make things better following results at British American Tobacco Kenya, Uganda Breweries Limited and Unilever Kenya. Finally, Tibbett and Britten is a subsidiary of Tibbett and Britten Worldwide and thus the bank guarantees came from the head office. Post dated cheques from Tibbett & Britten were accepted and they were given seven days credit period.

4.3 The Actual Distribution Logistics Outsourcing

The total distribution logistics was outsourced. This was channel management outsourcing that encompassed primary and secondary distribution. It included warehousing and transportation of beer. East Africa Breweries does not have distribution overheads anymore. By the time beer leaves the manufacturing plant at Ruaraka, it does not belong to EABL. The primary distributors also called super distributors buy the beer, deliver it to secondary distributors' premises and these secondary distributors pay the super distributors. Tibbett & Britten and Express Kenya are the main super distributors.

While Tibbett handles Coast region, Meru area and Mt. Kenya Express Kenya handles Western Kenya, Rift Valley region as well as delivers bulk beer to Kisumu Brewery. The super distributors namely Tibbett & Britten and Express do not deal directly with retailers. EABL also maintained Nyahururu Super distributors. However, they now buy from Tibbett & Britten. The provision of forklift services was also outsourced to Pemco Agencies. The garage was closed. It is worthy noting that since the outsourcing EABL only deals with Tibbett & Britten and Express Kenya. These contracted service providers then deliver beer to the 100 secondary distributors countrywide. Tibbett & Britten buy beer from EABL, provide transportation and delivery then they sell to the secondary distributors. Secondary distributors are not prohibited to buy directly from EABL.

The secondary distributors provide the interface with retailers. EABL guaranteed these distributors to buy fourty new trucks with purchase loans.

The implementation was carried out in a phased approach and in other cases it was a “sudden event”. The implementation of distribution outsourcing started with the Coast region by Tibbet t& Britten for the first six months, the service provider distributed 50% and EABL 50% on a trial basis. After one year, Mt. Kenya region's distribution was also outsourced. East African Breweries let out their depot in Meru for storage.

As a “sudden event”, Express Kenya started distributing beer to the super distributor in Eldoret. Their contract included the bulk tankering to Kisumu Breweries. It is worthy to note that before the distribution logistics outsourcing EABL would run the depot and sell beer to distributors. After the outsourcing the super distributors buy directly from EABL.

and deliver to secondary distributors who in turn sell to retailers and finally the consumer. EABL does not have any more interfaces with the secondary distributors.

4.3.1 Setting Key Performance Indicators

East African breweries signed contracts with Tibbett and Britten, Pemco Agencies and Express Kenya Ltd. In the contracts there were agreed key performance indicators by area of responsibility. The performance indicators were in two sets, service performance and financial performance. For example, the forklift suppliers had to reduce breakages from 2% to 0.015% monthly. For the super distributors, that is Tibbet & Britten and Express Kenya, there were sales targets given and required turn around times. Thus, the key performance indicators were complete with target for both upper and lower limits expected. The performance was to be monitored on a monthly basis and discussed. Any deviation from the expected level of performance was to be fully explained and measures put in place to reverse the undesired trends. EABL sent questioners to secondary distributors on a monthly basis. Any issue that arose from this feedback was given to Tibbett & Britten to address.

4.3.2 Setting Service Level Agreements

Service level agreements were then put in place. A specific service level agreement was put in place to cover each different geographical region. There was one for Coast region, and Meru area among others (appendices IV to VII). There was also a specific service level agreement for provision of forklift services.

The service level agreement acted as operational reference documents that guided the relationship between East African Breweries and the providers of distribution logistics services. The structure of the service level agreements (SLA) is process flow charts of the new processes, basic service commitments, documentation of clear procedures, specific service requirements, desired performance monitors and responsibilities of both parties. The SLA were complete with necessary actions to be taken in case of failure to meet desired level of performance. Once the parties agreed on the contents of the SLA, they all appended their signatures. The teams sat down to go through the SLA as a group and agreed on necessary amendments before signing off.

4.3.3 Capital Investments And Management Fee

East African Breweries gave all the good trucks to Tibbett and Britten on loan to be paid back within the contract duration. A site office was also provided for the service providers. At the same time the charging method agreed between the suppliers and the company was that of open-book. The term implies that the customer would meet all the costs that the supplier has incurred on their behalf. At the end of the period (normally one month), the customers would reimburse the supplier the full operations costs incurred. This cost included the management fee. The cost was paid on the basis of per case of beer. It was arrived at after justification of the cost breakdown of the supplier with factors such as fuel, depreciation, maintenance and repair cost, insurance, fixed costs and margins playing the major role. East African Breweries chose the open-book so as to

ensure full benefits were achieved. The supplier had to justify the cost and EABL challenged and drove the price down. The company expected to achieve savings of Kshs. 500 million per annum.

4.3.4 Human Resource Issues and Communication

Outsourcing of any kind often presents human resource issues such as redundancies. The case of East African Breweries was not any different. The final headcount reduction in the distribution function following the implementation of the outsourcing was 80. There were 2,000 redundancies in the distribution function alone owing to the outsourcing. The new supplier interviewed and employed these redundant employees especially drivers. The forklift contractor took up to 75% of the former EABL forklift drivers. All affected employees were psychologically prepared for the redundancies. There were projects and studies on-going and the presence of the change manager made it obvious to the employees.

A good number wanted to leave since there was an attractive golden handshake package. These employees had to undergo a mandatory redundancy financial training programme undertaken by East African Breweries so that employees would manage their funds in the best way possible. All the affected employees were spoken to individually before official announcements were made regarding the outsourcing of the distribution logistics. The sponsor and the project manager also addressed members of the management board prior to official announcements. All employees of the company were then called into a special team brief where it was announced officially that the company was outsourcing its

distribution logistics. At that time the company had already constituted the implementation team.

4.3.5 Implementation Team

The implementation teams constituted members of both the supplier and the company. The department head of distribution function headed the team. Other members included the finance, procurement, marketing and human resources department managers.

4.3.6 Implementation challenges and they were tackled

There were several challenges encountered during the outsourcing process. Study findings showed that East African Breweries was able to resolve all the bottlenecks effectively. During the feasibility studies there were no benchmarks in the beer industry in Kenya. Outsourcing was still very new in Kenya. The feasibility studies were not necessarily carried out for all activities. The decision to outsource was highly influenced by whether the particular activity was core or non-core. Distribution logistics was found to be non-core and was outsourced. However, the lack of benchmarks in beer distribution in Kenya created a great challenge to East African Breweries. The company was the first to test the waters and thus found itself in a unique situation.

To overcome this difficulty, the company agreed with the new supplier that the project would be carried out on a trial basis for a period of six months on a basis of 50% being handled by the new supplier and 50% by East African Breweries. After a considerable

period of time and evaluation of the activities of the new supplier, the distribution logistics was fully outsourced.

Another key challenge during the outsourcing of distribution logistics at EABL was that there were very many suppliers to pick from whom could do the job. Initially the company had 200 suppliers (distributors). There was no proper procedure to distinguish suppliers and it was difficult to get rid of them because of conflicts. This challenge was overcome when Guinness recommended Tibbett & Britten to undertake the distribution logistics. Express Kenya was chosen for the bulk tankering. The company was seeking a supplier that it could tailor to be its partner. Guinness recommended Tibbett & Britten as the new supplier had cultures similar to its own. It is worthy noting that Tibbett and Britten has the bulk of distribution logistics contracts as it covers a bigger distribution region. Express Kenya covers a smaller region. This explains why Tibbett & Britten feature more prominently in this study than Express Kenya.

Resistance to change was another major challenge that had to be managed at East African Breweries. Employees especially those in the distribution function that was earmarked for outsourcing were resisting because they were not certain about their job security in the new company. The company through its change manager spoke to all affected employees individually and requested them to apply for jobs with the new partners. The selling of the outsourcing concept to the employees was a key challenge. It was a concept that was also resisted by some managers. However these managers bought in the concept after they became aware of the potential benefits.

The Group Managing Director who acted as the sponsor gave the project a lot of weight and most managers had no choice but to support it. The project was first adopted on a trial basis. Service improvements, cost savings achieved during the trial period and management commitment towards the success of the project reduced the uncertainties associated with the project and eventually ensured widespread support. Constant open communication of the project progress and cumulative savings achieved accelerated acceptance of the distribution-outsourcing project.

Challenges such as inventory ownership were not sufficient because beer was bought by the service providers, sold to distributors and later sold to retailers. The sales representatives would just check with the retailers on beer movement in order to monitor the sales targets. Clear measures of performance were also put in place thus ensuring roles and responsibilities were clear. Cross-functional teams with participants from the supplier and EABL working together ensured that all common objectives were in place. This also led to the acceptance of cross-functional movement within EABL itself without regard to areas of specialization.

4.3.7 Benefits Achieved

The benefits realized by East African Breweries from the outsourcing of its distribution logistics were varied. First among these was the distribution logistics cost reduction. The company anticipated and achieved an initial distribution cost saving of Kshs. 500 million per annum. This saving was to gradually increase after the outsourcing decision was

made and implemented. The current annual average distribution cost saving is approximately Kshs. 700 million per annum.

Secondly, EABL was able to focus on its core business of beer manufacturing following outsourcing of distribution logistics activities. The company noted that a considerable amount of time was spent on monitoring depots, truck operations and cash collections. The research showed that the company achieved other savings and objectives as a result of the managers spending more time in other value – adding activities.

Third was improved management of working capital. Stocks are a substantial part of working capital. After outsourcing, there was no need to hold stocks. This is because the service providers would buy the beer and distribute it. This led to improved cash flows, as there were better collection methods. EABL did not have any further interfaces with secondary distributors. Instead the risk of stockouts arose, as EABL preferred matching finished goods versus stock. Outsourcing of distribution assisted the working capital savings. Without input from the logistics services supplier, it would be difficult to achieve the working capital savings, as EABL are not distribution experts.

Fourthly, there was improvement in service delivery customer delivery on time - in – full improved to between 80% and 90% in year 1998/1999 compared to performance levels of 40% in 1997. Breakages in the forklift section reduced from 2% to 0.015. Sales targets were achieved and continue to be achieved as there are no lost sales and unnecessary

delays. This was achieved due to access of the world-class capability of the logistics service partner who had flexibility in the distribution operation thus improving

Other benefits included mind-set changes. Employee started giving value for money earned as they stopped looking at the company as a rich corporate. There was replication of proper strategies. For example, since outsourcing worked in Kenya, there was opportunity to replicate it in Uganda and Tanzania without reinventing the wheel. A stock harmonization project that monitors stock of company equipment in all affiliates was started in order to save further costs. Improvement of management information systems across the supply chain and distribution function also ensured customer service levels, internal and external, went up drastically. There has been a complete shift in attitude from a monopolistic attitude to customer – driven business.

Last but not least investors have realized that the strategies that the company had put in place such as outsourcing of distribution logistics are now rewarding. The elaborate restructuring and outsourcing programmes have seen EABL earnings boosted significantly by cost – cuttings and revenue growth from new products. Though the consumption of alcoholic beverages is expected to start rising as the Kenyan economy recovers, the high taxation regime in East Africa continues to be a major issue.

4.4 Discussion

East African Breweries leveraged on Tibbett and Britten's economies of scale, expertise and scalability of resources. Tibbett and Britten were present in 32 countries across the world and were listed in the London Stock Exchange. They already had similar contact with BAT Kenya, Unilever Kenya and Carnaud Metal Box. They had experience in provision of several services including warehousing management, road transport, sales order processing, supplier stock management, integrated IT systems and even international supply chain within Kenya. EABL identified the core and non-core activities and outsourced the non-core activities. Core activities which enhance core competencies cannot be outsourced while non-core activities that usually require generalized skills practised across the industry are considered for outsourcing (Tampoe, 1994)

Outsourcing enables freeing of resources for other purposes. Through outsourcing, the organization re-directs its resources from non-core activities toward activities that have greater return in serving the customer. The outsourcing of distribution logistics at EABL was seen as an opportunity to free the time of marketing staff to concentrate on marketing activities without having to worry about product supply. This also led to improved business focus on the core business of beer manufacturing. There was also improvement in service delivery to customers.

From the study findings, it is clear that the triggers for outsourcing on distribution logistics at East African Breweries differed significantly from the known triggers elsewhere in the world. There was neither increased competition nor more demanding market place nor asset base reduction requirements. Of the known triggers, only cost cutting needs and long supply lines in terms of supplier lead times were significant in as far as triggering outsourcing at EABL was concerned. Most notably by the time outsourcing was being initiated, competition in the market had not changed significantly. EABL commanded 95% market share of beer.

EABL appears to have borrowed some aspects from both the Multi-client shared Services Outsourcing Model by Deloitte and Touche (2002) and the Bendor-Samuel Outsourcing Model (1999). EABL had the investigation, negotiation, implementation and relationship management stages as outlined by these models. However, the missing aspect from these models is the tendering stage. It is worthy noting that Guinness handpicked Tibbett and Britten and recommended this service provider to EABL. Interestingly, the common outsourcing mistakes were not evident at EABL. This is because the company was open and transparent when carrying out the process. The requirements for successful outsourcing were evident at EABL. These included a strong need for outsourcing, a tangible value to be achieved in this case to cut costs, strong supplier credibility and the presence of a project sponsor, who was the Group Managing Director. The benefits accrued included the most evident one of cost reduction in the distribution function among others.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 *Introduction*

This chapter contains the summary, conclusions and recommendations arising from the study findings.

5.2 *Summary*

5.2.1 *The factors that led to the outsourcing decision*

Outsourcing of the distribution logistics activities at East African Breweries was triggered by the need to eliminate duplication of roles, effort and the dysfunction existing at the time. The need to have in place clarity of process and re-aligning the logistics function was the other overriding trigger. Thirdly, logistics operating cost reduction and improved working capital management were anticipated. Fourthly, EABL took the outsourcing opportunity so as to enable it focus on its core business. Finally, outsourcing was considered the right strategy to achieve better customer service delivery.

In order to gain the benefits in outsourcing, EABL first pinpointed the processes that were really core to its business. It determined where it needed to invest its money and those processes stayed in-house. The next step was to determine what was broken and

what was working. It concentrated on the broken processes first. It looked at processes where an outsourcing provider could bring most leverage in areas like expert process ownership, best practice and scale.

5.2.2 The implementation of the outsourcing decision

The outsourcing of distribution logistics activities was successfully implemented at EABL. When the company was planning to outsource it sought a supplier with cultures similar to its own. In addition to the compatible cultures, the two parties also ensured there were no fundamental differences in their goals and objectives. Although these were and are frequently difficult to harmonize, the partnership approach towards the relationship helped.

The pricing and service levels established at the start of the contract contained meaningful mechanism for continuous improvement. Transparency in costs, operations and margins helped to manage the outsourcing relationship.

The outsourcing contract was flexible on key assumptions regarding technologies, business conditions, personnel, and other relevant issues otherwise one or both parties would have tended to become dissatisfied. Due to the dynamic nature of the business environment today, these assumptions change a lot. However detailed the contract or favourable the terms, the contracts cannot anticipate the changes in an evolving environment. This phenomenon avoided either of the party becoming disenchanted with

the relationship. A continuous improvement spirit was incorporated throughout the process.

The company did not underestimate the time and attention required for managing the outsourcing relationship. It did not hand over management responsibility to the supplier. It was not an abdication either; it delegated responsibility and accountability to the supplier. This way, the supplier did not operate in a priority vacuum, and service levels improved because the supplier's agenda was in sync with the buyer's business objectives.

EABL ensured management oversight did not lack by ensuring the team that negotiated the contract stayed engaged in the contract management. A new team that would not understand the contract's intentions was not given responsibility for managing the relationship.

Employees that understood the pre-outsourced environment had been transferred to the supplier's team. Although this could have caused disruption in continuity, it did not have significant adverse affects on the outsourcing relationship because the team leaders of the relationship from both the supplier and the buyer were both new.

EABL's Group Managing Director played a central role in the outsourcing project acting as the project sponsor. Management commitment was guaranteed throughout the process. The project was top-down driven. For a project of this strategic magnitude, this was the only way it could have worked. It was a major deviation from the way the company ran

its activities before. The human resource issue that arose was speedily resolved in an amicable manner. This way, resistance from the affected employees was forestalled.

The use of tools such as service level agreements and key performance indicators accelerated the achievement of the anticipated benefits. Team approach during implementation was very effective especially with the application of proven project management techniques. The value brought by the cross-functional teams that included members from the outsourcer's side cannot be overemphasized. The Tibbett & Britten team was fully integrated into EABL's distribution and supply chain. Besides these, the team was empowered to track the contract's operational performance, revise the targets regularly and agree own milestones.

The challenges encountered included lack of benchmarks in the beer industry. To overcome this difficulty, the company agreed with the new supplier that the project would be carried out on a trial basis for a period of six months on a basis of 50% being handled by the new supplier and 50% by East African Breweries. After a considerable period of time and evaluation of the activities of the new supplier, the distribution logistics was fully outsourced. The supplier selected was one that was flexible enough to be tailored to the company's requirements.

After all was said and done, East African Breweries reaped benefits from the outsourcing project. These included the following benefits.

There was an operating costs saving of Kshs. 500 million per annum from the distribution logistics that was achieved within the first year from an initial cost of Kshs. 1.3 billion.

Employees' time previously spent on distribution logistics activities was freed. These employees could therefore use the extra time to focus on other activities critical to the business. The business as a whole was able to focus on own competencies. The customer service delivery improved to between 80% and 90% from 40%.

5.3 Conclusions

In general East African Breweries appears to have successfully implemented the outsourcing project because of the open and transparent manner in which it carried out the process.

The outsourcing evaluation and decision process was on the Group Managing Director's list of top priorities. Senior management took the lead in the entire process, from identifying the objectives for outsourcing to establishing a sound structure for ongoing management of the relationship. The decision to outsource was a major organizational decision and ultimately the senior manager's responsibility.

Outsourcing worked in EABL because the company had demonstrated a culture of transparency and openness throughout the process. All discussions with the potential suppliers were held very openly and the attitude taken was that of the equals, it was a clear partnership approach. The attitude was delegation, not abdication. The other

important aspect for the success was the fact that the timing was just right. The company had been through a business process re-engineering and a culture change program.

Supplier selection criteria must be established and very clear from the onset. EABL sought a supplier with international skills, broad customer/supplier base, willing to be flexible or customize solutions. This accelerated the success rate, improved buy in and removed burden of proof on the part of the supplier. Contract time must be right.

It is important to put clear processes and measures of performance in place for the outsourcing relationship to work. The service level agreements and key performance indicators worked very well for EABL. Incorporating continuous improvement to the whole process is crucial. When performance targets are raised and achieved continuously it is time to raise the bar. There should be no limit to improvement. Communication all-round in regard of the contract ensures that all parties are informed of all the developments; there should be no interruption to flow the needed information.

The front line team must be fully empowered to take the decisions regarding the contract. Reference should only be made to the top management team if a major deviation from strategy is anticipated.

5.4 Recommendations

To avoid problems, buyers need to be very careful in identifying the exact scope and description of services and include a responsibility matrix and glossary of terms in outsourcing contracts. This way, clarity of process and responsibility becomes very clear. This worked for EABL.

As the business environment is constantly changing, ongoing challenges and negotiations are part of an outsourcing relationship. Both parties need to develop an attitude to give and take in order to find the middle ground.

The supplier's flexibility and willingness to go beyond the printed type on the contract pages will help the parties find a middle ground in negotiations.

5.5 Limitations of the study

By design, this study was intended to document the experiences, challenges and benefits of distribution logistics outsourcing at East African Breweries. It was quite a big task for the executives to recollect the details of what actually transpired, although this happened only five years ago. This is a reflection of the speed the environment has been changing in the recent past. If some crucial information pertinent to the study was missed out, the other reason is because the managers working in EABL change roles too often. On average managers hold a position for at least 12 months. Of course a change of role comes with new challenges and the person very easily forgets the details of the previous

job held. It is believed proper documentation of major strategic undertakings like this one would add value in terms of ensuring mistakes are not repeated and best practice is maintained.

5.6 Suggestions for further research

Outsourcing continues to be one of the most dynamic trends within business today. The proliferation of outsourcing at East African Breweries and across Kenya is a phenomenal across types of activities, across industries and at every level of the organization. Each year brings more activity than the year before. It is truly a fundamental re-thinking of organization structure and of how companies create value. Outsourcing continues to be the most dynamic trend within business today. Outsourcing is certainly reaching maturity stage in the country. Coca-Cola East Africa, the major player in the soft drink industry, has outsourced its information systems recently. It would be interesting to establish its experiences and those of other organizations who have outsourced to check if they have utilized EABL's experiences. Research could also be done in other sectors such as the service industry.

Research should be done to focus more on the outsourcer-customer relationship. The direction is to study how a service provider proposes value to clients who are either not interested in or do not know about outsourcing relationships. As companies are increasingly aware of the dangers of viewing outsourcing as a short-term cost reduction tactic, research should be undertaken to identify how outsourcing arrangements may improve asset utilization, service levels, customer satisfaction and increase revenues.

New management skills are required to move outsourcing to the next level. The perspective from top management on the value-added partnership that can create value in outsourcing should always be shared by the people who are assigned the responsibility for managing the outsourced function and who deal with the supplier-partner on a daily basis. Leadership skills associated with successful management of these new outsourcing relationships are so different from traditional management skills that re-training these managers is mandatory. It is also recommended that further research should be done to find the competitive advantages gained due to outsourcing, strategies that ensure that outsourcing actually adds value and the trend in outsourcing within wholly locally owned companies.

APPENDIX I

LETTER OF INTRODUCTION

Dear Respondent,

MBA RESEARCH PROJECT

This questionnaire is designed to gather information on outsourcing of distribution logistics at East African Breweries Limited. This study is being carried out for a management project paper as a requirement in partial fulfillment of the degree of Master in Business Administration.

All the information you disclose will be treated in strict confidence and in instance will your name or that of the firm be mentioned in the report.

Your co-operation will be highly appreciated

Thank you.

Yours faithfully,

Lutta Solomon
MBA Student

Prof. E. Aosa
Supervisor

APPENDIX II

QUESTIONNAIRE

To be answered by Procurement Manager (Contracts) and Finance Director at East African Breweries Limited

Section 1: Personal Details

1. Position in the Company

.....

2. Years of experience in the Company

.....

Section 2: Triggers and planned benefits to outsourcing of distribution logistics activities

1. List the triggers to outsourcing of distribution logistics activities and rank them in order of importance.

(i)

(ii)

(iii)

(iv)

(v)

(vi)

(vii)

2. How significant were the factors listed below in triggering the outsourcing carried out? Rank the factors in order of significance from 1 - 9, 1 being least significant and 9 being most significant.

- (i) Increased competition
- (ii) More demanding market place
- (iii) Just-in-time production lines
- (iv) High Service Level expectations by customers
- (v) Long supply lines (supplier lead time)
- (vi) Cost cutting needs
- (vii) Asset base reduction requirements
- (viii) Labour force reduction needs
- (ix) Need to enhance logistics MIS

3. What benefits were anticipated to come with outsourcing of distribution logistics activities?

- (i)
- (ii)
- (iii)
- (iv)
- (v)
- (vi)
- (vii)

4. How did the organisation regard the importance of the following strategic benefits associated with outsourcing? Rank the factors in order of importance from 1 - 5, 1 being least important and 5 being most important.

- (i) Enable the organisation to focus on core business
- (ii) Gateway to world class capability of partner
- (iii) Achievement of re-engineering acceleration
- (iv) Investment risk reduction
- (v) Release of resources for other causes

Section 3: Implementation in Various Phases

Section 3 (a) Exploratory Phase

- 1. Who was responsible for the feasibility studies?
(a) External Consultant (b) Internal Consultant (c) Potential supplier?
- 2. What feasibility studies were carried out and what was the outcome?
(a) Best practice in Kenya (b) Best practice in group (c) Other best practice
- 3. Was there a sponsor for the project?
(a) From department (b) From another department (c) From Group.
- 4. What factors were seen as critical for the success of the project?
(a) Supplier credibility (b) Management commitment
(c) Employee support
- 5. How would success be measured? Was this agreed?
(a) Operational Key Performance indicators, KPI (b) Strategic KPI

6. Were various potential suppliers considered? How many?
7. Were other members of the management involved at this stage?
8. Were employees involved during the feasibility studies?

Section 3 (b) Supplier Selection and Communication

1. What business activities were actually outsourced? Why?

Contract trucking

Contract warehousing

Integrated contract trucking/warehousing

Channel management outsourcing

Performance-based contracting

2. What criteria were used to select the supplier?
 - (a) Scope of services offered (geography and breadth)
 - (b) Contract logistics experience (capability, MIS, People, Projects done)
 - (c) Industry experience
 - (d) Proven ability to make things better (feasibility studies, service levels)
 - (e) Supplier financial strength and commitment to contract logistics
 - (f) Competitive pricing
3. What terms were agreed with the supplier? Why? Benefits to the company?
4. Who was involved in this decision?

5. How and in what forum was this decision communicated to the rest of the management?
6. How and in what forum was this decision communicated to the rest of the employees?
7. Did this outsourcing decision result in any job losses? If so, how was it managed?
8. Were other assets of the company affected by this decision?
What happened?

Section 3 (c) Actual Implementation

1. Was the implementation carried out in a phased approach? Why? What were the phases?
2. Did the processes and procedures change with the new supplier's entry? What changes actually happened? Please provide process maps before and after.
3. Was a contract signed? What period of time was it for? Exit clause?
4. Where service level agreements signed?
5. Were key performance indicators agreed beforehand? What were they?
6. What arrangements were agreed to achieve good communication flow between the company and the new supplier?
7. Did the new supplier bring in own employees?

Section 4: Implementation Challenges and how they were tackled

1. What were the major challenges faced in each of the following stages of the project?

Feasibility studies

Supplier Selection

Starting up

First few months of operation

2. How were these challenges overcome?

Uncertainty related to outsourcing

Buy-in-from other functions

Management buy-in

Ownership on inventory

Benchmarking the costs and service levels

3. How significantly did the following factors help to overcome the challenges?

Credible sponsor willing to convert opportunity to implemented reality

Corporate culture for innovation and change

Reward/motivation

Ability to benchmark current costs estimated and actual future costs systems

Section 5: Benefits Achieved

1. List short-term benefits achieved (within 3 months)
2. List mid-term benefits achieved (within 24 months)
3. List long-term benefits achieved (after 24 months)
4. Rank how significant the following benefits were to your organization

Reduced transportation costs

Reduced material handling and storage costs

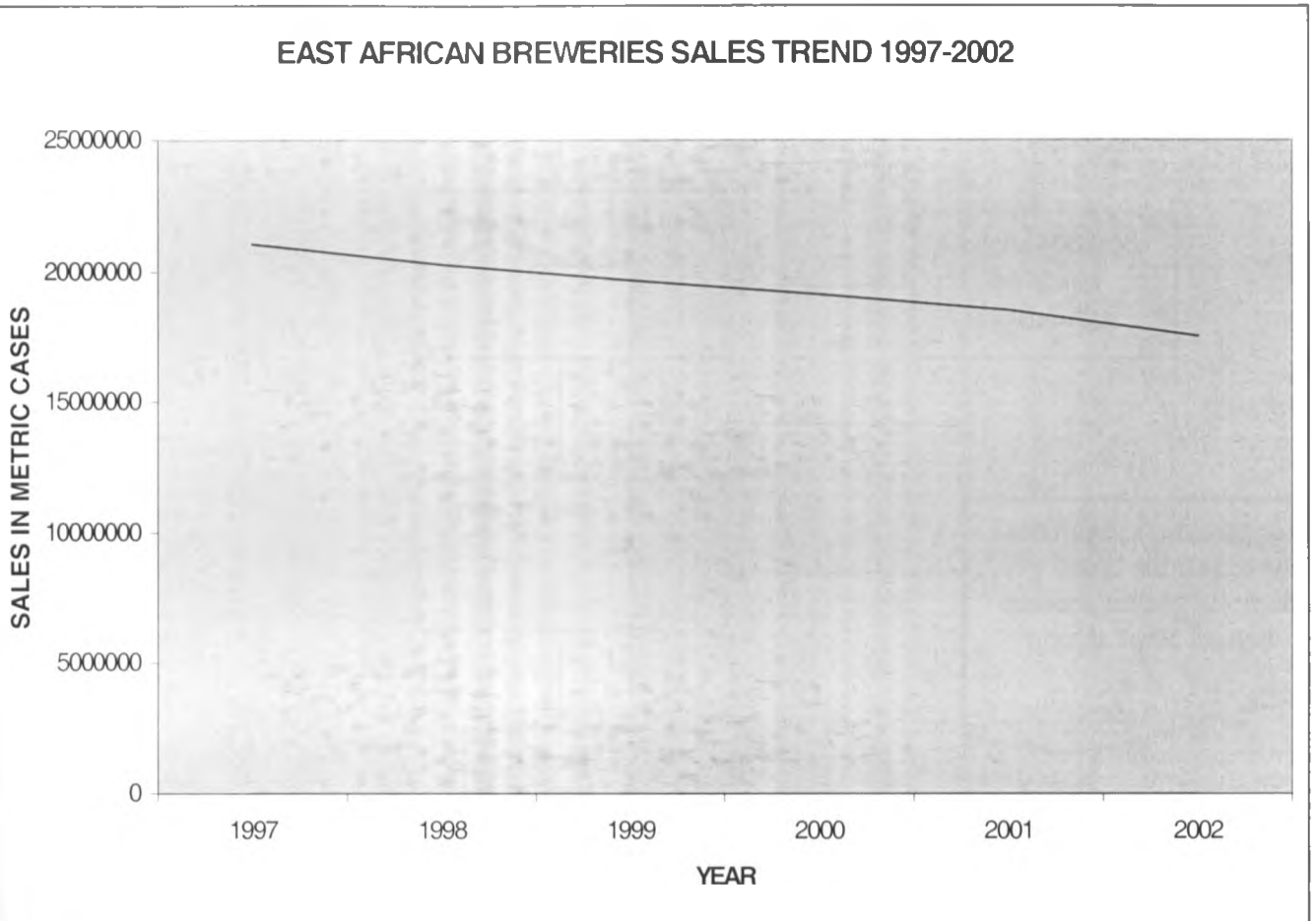
Inventory levels reduction

Improved channel responsiveness

Improved channel control

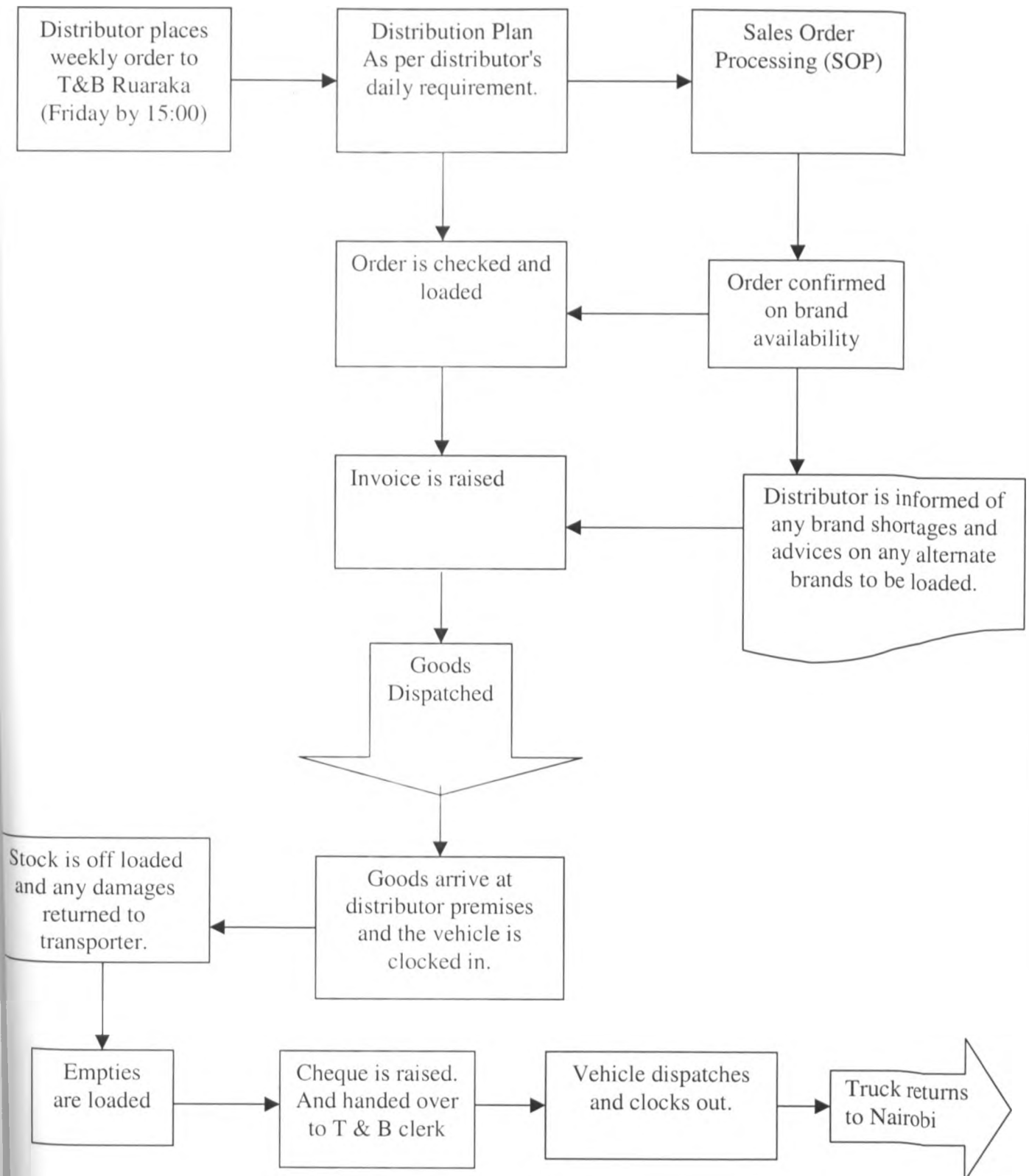
APPENDIX III

EAST AFRICAN BREWERIES SALES TREND 1997-2002



APPENDIX IV

PROCESS FLOW CHART: COAST REGION



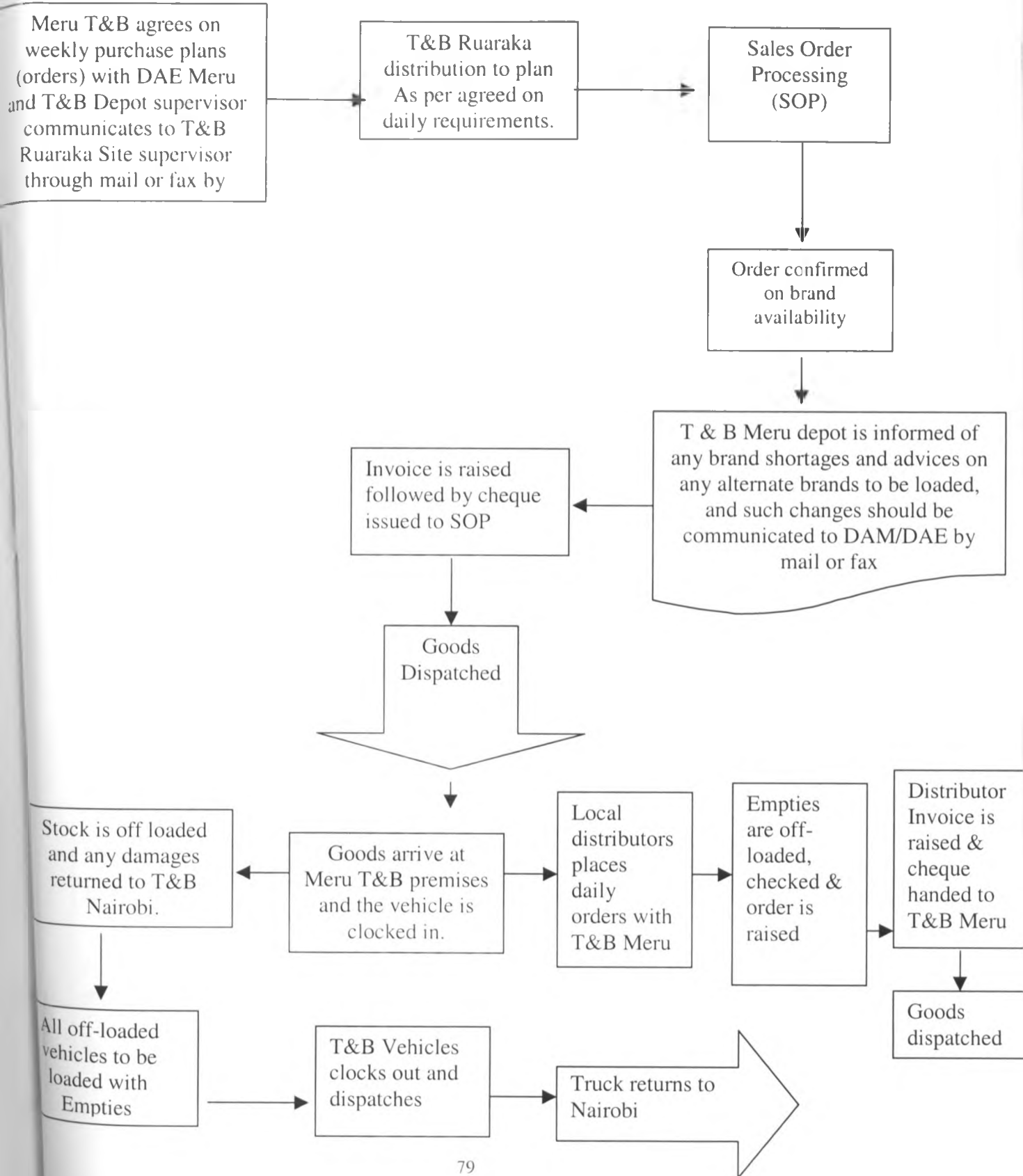
APPENDIX V

BASIC SERVICE COMMITMENTS: COAST REGION

What	Expected Service	Who	Action incase of failure
Order Placement Time	15:00 every Friday	Distributors	Failure recorded and reported to the RSM for action
Sales Order Processing (SOP) Data Entry	Completed before each load. At KBL Nairobi	KBL	Failure notified to the Commercial Manager - KBL
Brand shortages	Availability assured or any problems notified in advance.	KBL / T & B	Failure notified to the Commercial Manager – KBL. Distributors are informed to enable them to provide alternate loading plans
T & B Invoice	Printed and passed to the driver on completion of each load	T&B	Failure notified to the RSM and Distributor concerned. Completed ASAP.
Payment Receipt	Cheques should be made ready for collection with every delivery	Distributor	Failure notified to the RSM and may result in delivery not being offloaded. Reported to RSM
Turn Around Times	Within 5 hours from the time the truck arrives at the distributor premises	Distributor	Failure recorded and notified to RSM
Distributors following policy	All distributors to place and receive deliveries as per policy	RSM	RSM agrees on recovery plan with the Distributor as per the agreed procedure. All additional costs covered by Distributor
Empty Load	All T&B vehicles should be loaded with a return load of empties	Distributor	Failure notified to the RSM.
Order Changes	48hours written notice	Distributor / KBL	Any emergency changes to be notified to T&B in writing and actioned if possible.

APPENDIX VI

PROCESS FLOW CHART: MERU REGION



APPENDIX VII

BASIC SERVICE COMMITMENTS: MERU REGION

What	Expected Service	Who	Action incase of failure
Weekly Sales Forecast	10 : 00 am every Friday	KBL - DAE	T&B Meru to Contact DAM and Contract Manager
Weekly Purchase Order	3:00 p.m. every Friday	T & B Meru Depot Supervisor	Failure recorded and reported to the DAM for action
Sales Order Processing (SOP) Data Entry	Completed On Time before each load.	KBL	Failure notified to the Commercial Manager - KBL
Brand shortages	Availability assured or any problems notified in advance.	KBL / T & B	Failure notified to the Commercial Manager – KBL. DAE / DAM are informed to enable them to provide alternate loading plans
Distributor Invoice	Printed and passed to the driver on completion of each load	T&B	Failure notified to the DAE and Distributor concerned for action.
Payment Receipt	Cheques should be made ready for collection with every ORDER	Distributor	Failure notified to the DAE and may result in order not being loaded. Reported to DAM
Loading and Unloading Times	Within 1 hour from the commencement of off / loading	T&B	Failure recorded and notified to DAM / DAE
T & B following SLA	T & B to place order and receive beer as per SLA	DAM / Contract Manager	DAM agrees on recovery plan with the T & B as per the agreed procedure.
Distributors following policy	All distributors to place their orders and receive beer as per SLA	DAE / T&B Meru	DAE agrees on recovery plan with the Distributor as per the agreed procedure.
Empty Load	All T&B vehicles should be loaded with a return load of empties	T & B Meru	Failure notified to the DAE.
Order Reductions by Tibbett & Britten	Same day written notice	T & B Ruaraka	Any emergency changes to be notified to DAM / DAE in writing and actioned if possible by mail or fax.

REFERENCES

Anderson, M.G (1998). Strategic Sourcing, The International Journal of Logistics Management, Volume 9, Number 1

Bendor-Samuel, P.(1999).Turning Lead Into Gold: The Demystification of Outsourcing, Financial Times, Prentice Hall

Bett, S.K.(1995). Strategic Marketing of Dairy Products in Kenya, Unpublished MBA Project, University of Nairobi

Champy, J. (1995). Reengineering Management: The Mandate for New Leadership, Harper Collins, London.

Chanzu, S.M. (2002). A Survey of Business Outsourcing Practices Amongst Private Manufacturing Companies in Nairobi. Unpublished MBA Project, University of Nairobi.

Christopher, M.(1998). Logistics and Supply Chain Management, Second edition, Financial Times, Prentice Hall

Cole, G A.(1996) Management Theory and Practice, 5th Edition.

Cooper, M.C. (1994) Logistics as an Element of Marketing Strategy, Both Inside and Outside The Firm. Proceedings of the Council of Logistics Management conference, Boston.

Corbett, M.F. (1999) Redefining the Corporation: Bringing order to a new Industry, Outsourcing Leadership Forum

Deloitte and Touche (2002). **Multi-Client Shared Services: Outsourcing's New Model**, Illinois:Executive Excellence Publishing.

Drucker,P.F(1982). **Managing for the Future**, New York:Truman Talley Books/Dutton.

Emory,C.William(1985) **Business Research Methods**, Third Edition,IRWIN.

Gattorna, J. (1998). **Strategic Supply Chain Alignment**, Gower Publishing Limited, Hampshire.

Greer C.R., Youngblood, S.A. and Gary. D.A., (1999). **Human Resource Management Outsourcing: The make or buy decision**, Academy of Management Executive, Vol. 13 No 3 p.p. 85-96

Hammer,M. and Champy,J(1993)**Reengineering the Corporation: A manifesto for Business Revolution.**, Harper Business, New York.

Hines,P., Laming ,R., Jones,D.,Cousins,P.and Rich,N.(2000).Value stream management strategy and excellence in the supply chain, **Financial Times**, Prentice Hall.

Jathanna, V., Outsourcing, **Certified Management Accountant Magazine**, March 1992

Johnson, G. and Scholes, K.(1998).**Exploring Corporate Strategy**, London, Prentice Hall.

Kanter,R.M.(1991).Transcending Business Boundaries:12,000 World Managers View Change. **Harvard Business Review**.

Kinyua,S (2000). **A survey on outsourcing of selected financial activities by publicly quoted companies in Kenya**. Unpublished MBA Project, University of Nairobi.

Kirui,S.K.L (2001). Competitive Advantage Through Outsourcing of Non-Core Logistics Activities within the Supply Chain of British American Tobacco Kenya. Unpublished MBA Project, University of Nairobi.

La Londer & Cooper.(1990).Partnership in Providing Customer Service, Academy of Management Proceedings, Boston.

Lieb,R.C(1991).The Use of Third Party Logistics Services by Large American Manufacturers. Unpublished Report, Northeastern.

McCutcheon,D.(1995).Problem Sources in Establishing Strategic Supplier Alliance, International Journal of Purchasing and Materials Management.

Neuendorf, K.A. (2002). Content Analysis Guidebook. Sage Publications, California.

Njau,G.M (2000).Strategic Responses by Firms facing Changed Competitive Conditions: The case of East African Breweries Limited. Unpublished MBA Project, University of Nairobi

Pearce & Robinson.(1997).Strategic Management: Formulation, Implenation, and Control, Irvin/McGraw-Hill, Sixth Edition.

Peters ,T and Waterman,R.(1982).In search of Excellence. New York, Harper Row.

Porter,M.E.(1998).Competitive Advantage: Creating and Sustaining Superior Performance. The Free Press, New York.

Prahalad,C.K. and Hamel G.(1991).The Core Competence of the Corporation, Havard Business Review.

Prahalad, C.K. and Hamel, G. (1996). The Core Competence of the Corporation, **Harvard Business Review Vol. 68 N0 3 May-June.**

PriceWaterhouseCoopers (1999). **Global Top Decision-Makers Study on Business Process Outsourcing.** PriceWaterhouseCoopers, Yankelovich Partners, Goldstain Consulting Group, New York, NY

PriceWaterhouseCoopers (2000).**Growth companies that outsource grow faster, larger, and more profitably than non-outsourcers.** PriceWaterhouseCoopers, Yankelovich Partners, Goldstain Consulting Group, New York, NY

Quinn, J.B. and Hilmer, F.G. (1994). Strategic Outsourcing, **Sloan Management Review, Vol. 35 No 4, Free Press,** New York.

Randall H.L.(1993) **Contract Logistics: Is outsourcing right for you?** The Free Press.

Robeson,J.F. & Copacino,W.C.(1994).**The Logistics Handbook,** The Free Press

Sheffi, Y.(1990).Third Party Logistics, Present and Future Prospects, **Journal of Business Logistics 2,No.2**

Sinderman, S.E. and Tu H.S.(1995) Outsourcing gains speed in Corporate World, **National Real Estate Investor, August, Vol. 37 p.p. 42-50.**

Stake, R. (1995). **The Art of Case Research.** Sage Publications, California.

Tampoe, M. (1994). Exploiting the core competence of your organization, **Long Range Planning Vol. 27.**

Thiga,J.K(1999).**Business Process Reengineering :A case study of Kenya Power and Lighting Company Limited.** Unpublished MBA Project, University of Nairobi.

Thompson and Strickland,(1993).Strategic Management: Concept and Cases.7th Edition IRWIN: Boston.

Willey, D (1993) Who is outsourcing what. Journal of Business Strategy May-June.