



**ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES  
MASTERS OF BUSINESS ADMINISTRATION PROGRAM**

**BENEFITS AND PROBLEMS OF OUTSOURCING PRODUCT  
DISTRIBUTION FUNCTION AT HEINEKEN BREWERIES S.C**

**By**

**BELETE WONDIMU**

**ID NO. SGS/0135/2007B**

**December, 2016**

**Addis Ababa, Ethiopia**

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**THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION**

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## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asst. Professor Goitom Abreham. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

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St. Mary's University, Addis Ababa December, 2016

## **ENDORSEMENT**

This thesis has been submitted to St. Mary's university, School of Graduate Studies for examination with my approval as a university advisor.

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**December, 2016**

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## **Acknowledgments**

First and foremost, I am grateful to God Almighty for giving me grace, wisdom and strength in all my endeavors. My warmest gratitude and appreciation goes to my advisor Asst. Professor Goitom Abreham for his professional assistance, patience and understanding in the process of undertaking this study. Thank you so much for your helpful reviews, comments and suggestions. A sincere appreciation and special thanks go to the respondents for their kind assistance and support throughout the data collection process of this research. Great appreciation is also extended to friends and family who always gave me a great support during this research.

## **List of Abbreviations & Acronyms**

RPM – Returnable Packaging Materials

RtM – Route to Market

SKUs- Store Keeping Units

HBSC- Heineken Breweries Share Company

CO<sub>2</sub> – Carbon dioxide

SPSS - Statistical Package for Social Science

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## ***Abstract***

*The overall objective of the study is to identify the benefits and problems of outsourcing product distribution function at Heineken Breweries Share Company. The research problem is, even though the company has gained several benefits out of outsourcing there are also problems and challenges that comes from outsourcing the service to distributors. The research is a descriptive study applying quantitative research approach in which data was collected from respondents through questionnaire and interview. By stratifying the population into two groups; distributors and staffs at the sales department, the researcher used judgmental sampling technique. The researcher used descriptive statistics for the data analysis. The findings of the study shows that the company has benefited out of outsourcing in terms of reducing overhead and operational costs, improving quality of service delivery to the customer, focusing on other core functions, helping the company cover wider sales territory than before and gaining more time to managers to help them focus on strategic issues. Despite all these benefits the company has also faced some problems from outsourcing the function to distributors. The major problems are distributor's lack of skilled and qualified manpower to manage their business, loss of full control over outsourced function, distributor's reluctance to buy all brands, distributor's reluctance to pay credit for crates and kegs and finally distributor's unattractive remuneration and its impact on their sales force motivation. On the contrary the study have revealed that, selecting the right vendor (distributor), cultural concern and cost of searching vendor are not major problem to the company. In conclusion with regards to whether outsourcing advantages outweigh the disadvantages, the study findings reveal that despite the problems, the company is benefited out of outsourcing product distribution function to distributors.*

*Key words; Outsourcing, Offshoring, Benefits, Distribution*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Outsourcing is the latest business term these days, as more and more cost and quality conscious businesses all over the world are turning to other destinations for outsourcing their non-core business processes. *Outsourcing* refers to the contracting out of an entire business function, a project, or certain activities to an external provider. Study shows that the term “outsourcing” entered the business lexicon in the 1980s. In the second half of the 20th century, as companies tended to grow larger and skills were required to be more and more specialized, companies found that external providers were often able to get work done faster and more efficiently owing to skills they possessed. This led to more hiring of external providers to manage business functions and projects where specialized skills were required (Gulzhanat T. 2012).

Historically, outsourcing was restricted to basic support activities such as janitorial and security services. To-day, outsourcing has extended to more crucial activities such as IT, telecommunications, medical examinations, finance, and logistics, sales, marketing, R & D and others (Jerome & Dennis 2003).

Outsourcing can be divided into two broad categories. They are BPO and KPO. In BPO (Business Process Outsourcing), a particular process task is outsourced. An example would be payroll. BPO work could be either back office related or front office work. KPO or Knowledge Process Outsourcing typically calls for work that needs higher levels of involvement from the worker. The worker has to employ advanced levels of research, analytical and technical skills and has to make decisions of a higher order than BPO work (Zafar & Aasim 2013).

Why do we engage in outsourcing? We must source out work because there are others who can do it cheaper, faster, better and because we have other, more important, demands on our resources. The organization was run at a loss by having a manager conduct the administrative task rather than sourcing it to an individual who is costing the organization less in terms of money. Hence costs, both real (the money) and opportunity (the time, attention and effort), are important determinants

in the sourcing decision. Besides efficiency, outsourcing also helps get work done more effectively. Moreover, engaging in outsourcing allows an organization access to expertise, knowledge and capabilities found outside its boundary. Rise of global knowledge work force and access to resource and knowledge are additional factors which drive firms to reach on outsourcing decision (Power 2006).

In Ethiopian case the application of outsourcing is in its infancy stage. Currently there are few companies that are engaged in providing limited outsourcing service. The current outsourcing practice in Ethiopia is largely limited to a company's non-core activities which are confined to recruitment service, security service, and janitorial service.

At international level, a number of studies have carried out to assess advantage and disadvantage of Outsourcing at different sectors. A study carried out by Gulzhanat T. (2012), Bin Jiang & Amer Q. (2005), can be cited as an example. Another study also carried out by Fregal M. (2010) to assess the heterogeneous effect of international outsourcing on firm's productivity. Zafra I. & Aasim M. (2013), also conducted a study to review outsourcing trend and future direction at international level. At Africa level (Kenya), a study conducted by Dr. Wanjungu, Dr. Michael & Prof. Richard.(2016) reveal that, outsourcing can yield positive and/or negative outcomes depending on the risks encountered the business environment, company policy, function/s to be outsourced, and the competence and commitment of the outsourcing vendor.

Quite few papers have studied about benefits and problems of outsourcing at Commercial Bank of Ethiopia. For example Selamawit (2016), Abebe (2015), Werkalemahu (2015), Mersea (2007) have studied on the topic as a partial fulfillment of the requirement of degree in MBA in different time. Their study reveal that despite a number of challenges, outsourcing benefited the bank (Commercial Bank of Ethiopia) in great extent. Apart from the banking sector, there is no structured study found at manufacturing sectors on this study area. Formally there is no research conducted in HBSC so far to study the benefits and problems of outsourcing product distribution activity. Therefore, the study focus on assessing problems and benefits of outsourcing product distribution activity to distributors and come up workable recommendations to alleviate the problems.

## **1.2 Statement of the Problem**

The most significant benefits of outsourcing are focus on core activities, cost savings, access to experience, improving performance, and flexibility. First, many researchers agree on the fact that by handing over noncore activities to a trusted third party, a company can concentrate on activities central to its value proposition and increase its competitive positioning. Main disadvantages of outsourcing are loss of managerial control over outsourced operations, quality problems, hidden costs and reallocation of existing teams (Gulzhanat T. 2012).

Empirical literatures reveal that, though the practice of outsourcing is widely common in the world, the concept is still new and the practice is at infant stage in Ethiopia. (Abebe 2015; Workalemahu 2015; Selamawit 2016). Heineken Breweries Share Company (HBSC) is one of outsourcing service user in Ethiopia beer industry. Like other business firms in Ethiopia, HBSC has a short story in experiencing the benefits of full scale outsourcing in some of its core and auxiliary business activities. However, for the last three years the company has engaged itself in outsourcing its core business function like product distribution and other few marketing functions. Product distribution activity in HBSC, which is the focus area of this study, is fully carried out through 3<sup>rd</sup> party distributors. The role of these distributors is to distribute the product to the customer (hotel, bar & restaurant, grocery, and other channels) on behalf of the company.

Recognize the value in freeing itself from costly, time consuming and highly complex administration of the activities, the company outsourced product distribution function to external service providers. The preliminary unstructured interview with some of key informants in the company and the researcher's own observation on product distribution function shows that, the company save costs, and improve efficiencies and have time to focus on the strategic activities. On the other hand the outsourcing decision and the after outsourcing period in the company was not without problems. According to the researcher observation, loss of full control over the outsourced operation, distributor's reluctance to buy all brands and SKUs, distributor's unwillingness to pay debt for RPM, impact of distributor's unattractive remuneration to their sales force were quite few of the problems revealed during the preliminary assessment. Moreover, the

researcher's preliminary interview with some of the distributors in Addis Ababa shows that, there are also problems arise from working as distributors with the company.

Formally there is no research conducted in HBSC so far to study the benefits and problems of outsourcing product distribution activity. Therefore, recognizing this empirical gap, the researcher focused on assessing the possible problems and benefits of outsourcing product distribution function at HBSC.

### **1.3 Basic Research Question**

The study tried to seek answers to the following four basic research questions;

- What are the driving reasons for the company to outsource product distribution function?
- What are the benefits gained from outsourcing product distribution functions?
- What are the problems faced from outsourcing product distribution functions?

### **1.4 Objectives of the Study**

#### **1.4.1 General Objective**

The general objective of the research is to assess the major problems and benefits of outsourcing product distribution activity in Heineken Breweries Share Company.

#### **1.4.2 Specific Objectives**

Specifically, the objectives of the study include the following;

- To identify the reason for the company to outsource its product distribution function;
- To identify the benefits gained from outsourcing product distribution function.
- To identify problems faced by the company after outsourcing the services.
- To identify problems faced by the distributors after outsourcing the services

### **1.5 Scope and Delimitation**

Despite HBSC outsourced more than one activity to outside firms, to make the study more manageable in terms of time and other resources, the scope of the research is delimited to focus on assessing problems and benefits of only one outsourced activity, which is product distribution. In addition to this, the unit of analysis in this study is delimited to outsourced function of product distribution at Addis Ababa region only. The main reason for the researcher to focus on at Addis Ababa level is time and other key resource constraint. In terms respondents, the study included all



distributors at Addis Ababa level and sales staffs of the company. The justification for focusing only on these respondents is the researcher believed that most managerial and other key staffs at the sales department are directly involved in the outsourcing decision making and they are well aware of the study subject. In terms data collection instrument, questionnaire and interview were selected among other data collection instruments. The justification for this is, the researcher believed that questionnaire provide respondents flexibility on utilizing their convenient time to complete the questionnaire. Beside this, since the purpose of the study is to describe variables, descriptive statistic was used to perform analysis. Finally, since the study is set to identify problems and benefits of outsourcing product distribution at Addis Ababa level, the result of the research might not reflect the full picture of problems with outsourcing product distribution at country level.

### **1.6 Significance of the Study**

As the practice of outsourcing is not quite common in Ethiopia, the benefits and problems out of it are not yet well assessed in many business organizations; especially in the beer industry. Moreover, no formal research has been carried out to find out the benefit and problems of outsourcing in Heineken Breweries Share Company. Therefore, the researcher believed that this research has great significance in creating awareness about what problems and opportunities outsourcing has; specifically for HBSC to acknowledging the benefits and to find out mechanisms to better manage the problems. Furthermore, this research can serve as stepping stone for other researchers who want to explore about the benefits and problems of outsourcing in Ethiopian business in general and the beer industry in particular.

### **1.7 Organization of the Thesis**

The paper consists five chapters. The first chapter provides a general introduction of the study which includes, background of the study, statements of the problem, basic research questions, and objectives of the study, scope/delimitation and significance of the study. The second chapter treats the theoretical and empirical aspects of the literatures relevant to the research. The third chapter describe the research design and methodology of the study. The fourth chapter deals with data analysis and interpretation. The fifth chapter, which is the closing chapter is devoted to summary, conclusions and recommendations drawn based on the results of the study.

## CHAPTER TWO

### LITERATURE REVIEW

This chapter deals with a review of definitions and other aspects of outsourcing that have been explored and studied in different theoretical and empirical literatures.

#### **2.1 Definitions of Outsourcing**

In this section, the definitions of outsourcing used in prior researches and from different literatures are examined.

According to Power et al. (2006), outsourcing is made up of two words – “out” and “sourcing”; sourcing refers to “the act of transferring work, responsibilities and decision rights to someone else”. Outsourcing is handing over one or many of the business processes to an outside vendor or the utilization of outside available services provided by a third party to carry out business activities is the outsourcing strategy (Zafar & Aasim 2013).

Oxford dictionary defines outsourcing as follows; the transfer of a business function to an external service provider. The term of outsourcing is defined in different ways by different scholars based on the location and type of function outsourced. The following are some of the definitions and terms of outsourcing explained by scholars. Outsourcing is defined as moving a business function performed inside of an organization to a third-party business function provider. This means that a service or production that was accomplished inside an organization is now accomplished by another organization that is mandated to be a part of the same organization. Offshore outsourcing is defined as outsourcing outside of country borders (Aleksandra and Dragan 2012).

Outsource magazine (2011), defined it as: Outsourcing is when any operation or process that could be or would usually be performed in-house by an organization’s employees is sub contracted to another organization for a substantial period. The outsourced tasks can be performed onsite or off-site.

Out sourcing is “*the act of obtaining services from an external source*” (Brown and Wilson, 2005).

Outsourcing is “*the strategic use of outside resources to perform activities traditionally handled by internal staff and resources*” (Handfield, 2006).

Business process outsourcing is “*the movement of business processes from inside the organization to an external service provider*” (Duening and Click, 2005).

According to Aran and Patel (2005) Business outsourcing is *“the contractual service of transferring one or more businesses process to a third party provider, where the latter takes over the management, ongoing support and infrastructure of the entire application or process.*

Academy of Management in its 2003 publication define outsourcing as follows; outsourcing can be defined as turning over all or part of an organizational activities to an outside vendor.

## **2.2 Theories Related to Outsourcing**

Outsourcing consists of different activities and each phenomenon can be described by several frameworks that are embedded in various theoretical approaches.

According to Henry (2008) outsourcing process has been approached by different theories; Resource-Based View, Core Competency Approach and Transaction Cost Theory are among them. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Core Competency Theory is explained by Prahalad and Hamel (2003) as follows; The essence of the core competency theory is that it should be kept in house, but that other activities that the organization deals with, which are not counted to be core or critical to its function, should be considered for outsourcing. This theory support that if the organization is to focus on its core competencies as the base of its sustainable competitive advantage, then activities which do not constitute a core competence for the firm can be given to outside firms who can provide these at lower cost.

Kay & Coase (2005) has explained the Transaction Cost Theory as follows; transaction cost theory has been developed to facilitate analysis of the comparative cost of planning, adapting and monitoring task completion under alternative governance structure. According to this theory decision makers must weigh up the production and transaction costs associated with executing the transaction with their firms – insourcing, versus the production and transaction costs associated with executing the transaction in the market – which is outsourcing. Organizations can choose whether to buy from the market or to develop in –house, the decision is based on the relative cost, which is combined from the costs of production and costs of the transaction.

### **2.3 Outsourcing Practice Trend**

Emerging research increasingly suggests that firms are outsourcing and offshoring outsourcing knowledge intensive activities to enhance their competitive advantages by exploiting local talent and expertise in host economies.

Historically, outsourcing was restricted to basic support activities such as janitorial and security services. To- day, outsourcing has extended to more crucial activities such as IT, telecommunications, medical examinations, finance, and logistics, sale, marketing, R & D and others (Jerome & Dennis 2003).

Outsourcing initiatives have evolved from short-term projects focused on cost savings to executive-level business strategies that enable companies to gain – and sustain – revenues and profits in the competitive global marketplace (John, et.al. 2006).

### **2.4 Type of Outsourcing**

Outsourcing takes many forms. A surf on an internet reveal the following on type outsourcing; Outsourcing can be divided into two broad categories. They are BPO and KPO. Let us examine how each differs.

In BPO (Business Process Outsourcing), a particular process task is outsourced. An example would be payroll. BPO work could be either back office related or front office work. By front office functions we mean customer oriented work like marketing, answering calls, technical support and so on, whereas internal work like billing and purchase come in the back office category.

As is evident from the description, BPO activities involve carrying out standardized processes for the client. KPO or Knowledge Process Outsourcing typically calls for work that needs higher levels of involvement from the worker. The worker has to employ advanced levels of research, analytical and technical skills and has to make decisions of a higher order than BPO work. Examples are pharmaceutical research and development, patent/ intellectual property research, animation and simulation, data research and analysis, legal services, content writing and development and database development services.

According to Brown and Wilson (2005) outsourcing is categorized as; Selective and Full outsourcing, Tactical and Strategic Outsourcing, Transformational outsourcing.

Outsourcing can be classified into two categories depending on the type of human capital and the type of work function. The first type of outsourcing is called selective outsourcing and is classified as a tactical move to outsource unwanted functions within an organization. The second type of outsourcing is more extensive and is called strategic-shift outsourcing, which focuses on bringing in highly demanded specialists that are limited in supply. Selective outsourcing enables service provider companies to reduce costs while enabling the institution to put their attention elsewhere while strategic-shift outsourcing also conquers the same goals as selective outsourcing, but also seeks to create a mutually beneficial relationship due to the sheer size of the contract agreement and its implications for both parties. Outsourcing allows a business to focus on its primary mission, not on managing an auxiliary service that may compete with private sector alternatives and not provide a real return for institutional dollars (Bartem and Sherry, 2001).

Tactical outsourcing is a form of traditional outsourcing and is based on cost comparison and the make-or-buy decision. It is resulted in visible benefits in the form of enhanced cost savings, minimizing the need for future investments and resolving staffing issues. It also involves execution of a business process following the existing rules. Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry specific capabilities by partnering with a chosen vendor (Hussey and Jenster, 2003).

From location perspective outsourcing is also categorized as on shoring, Nearshoring and Offshoring.

On shoring refers to the relocation of business processes to a lower-cost location inside the national borders. Nearshoring refers to a company contracting a part of its work to an external company located across national borders within its own region. It includes the neighboring countries that are often bound by similar financial and legal constraints that provide social and economic stability within a region. Offshoring refers to outsourcing which is done across national borders (preferably to a distant location). The term refers to the relocation of business processes in another country, typically to a cheaper location. It includes both to the setup of a subsidiary abroad, or to the offshore outsourcing activities of a company.

## **2.5 Why Outsourcing**

As managers, we constantly delegate or source work to our employees. Why do we engage in outsourcing? We must source out work because there are others who can do it cheaper, faster,

better and because we have other, more important, demands on our resources. The organization was run at a loss by having a manager conduct the administrative task rather than sourcing it to an individual who is costing the organization less in terms of money. Hence costs, both real (the money) and opportunity (the time, attention and effort), are important determinants in the sourcing decision. Besides efficiency, outsourcing also helps get work done more effectively. Moreover, engaging in outsourcing allows an organization access to expertise, knowledge and capabilities found outside its boundary. Rise of global knowledge work force and access to resource and knowledge are additional factors which drive firms to reach on outsourcing decision (Power 2006).

## **2.6 Benefits of Outsourcing**

Many potential benefits of outsourcing have been identified in the literatures. Those most often discussed are improved financial performance (attributable, in part, to almost immediate cost improvements) and various nonfinancial performance effects, such as a heightened focus on core competencies. These and other proposed advantages of outsourcing are discussed below.

**A. Cost advantage:** Costs are arguably the chief motivation behind outsourcing. Though it is not always true, companies believe that contracting work out to a 3rd party is cheaper. According to Power (2006) probably the most talked about reason for outsourcing is cost savings. Cost efficiency and improvement to the bottom line are important benefits of the outsourcing strategy. Much of this cost saving is realized by moving from a fixed-cost model to one of variable cost model. The objectives are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

## **B. Increased efficiency**

According to flatworldsolution.com, when you outsource your business needs to a reliable outsourcing partner, they bring years of experience in business practices and expertise in delivering complex outsourcing projects. Thus, they can do the job better with their knowledge and understanding of the domain. This leads to an increase in productivity and efficiency in the process thereby contributing to the bottom-line of your company.

## **C. Focus on core competency:**

There are a lot of business functions in a company. For example, human resources, information technology, manufacturing, sales, marketing, payroll, accounting, finance, security, transportation and logistics among others. Most of these are not "core" to the company. A "core" activity is one which offers the company competitive advantage over its competitors. According to Choi (2008) successful outsourcing allows the organization to focus in-house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission

**D. Quality and Capability:** Often companies don't have in-house expertise for certain activities. In these cases, it is more efficient to outsource, and resulting products and services tend to be of higher quality when provided by outsourcing vendors.

**E. Labor flexibility:** Outsourcing allows a company to ramping up and down quickly as needed. For example, a company may need a large number software programming experts for 6-8 months to develop an application. It would be infeasible to hire people for only 6 months. Outsourcing, however, can provide flexibility so the company does not have to worry about hiring and firing.

## **2.7 Disadvantages of Outsourcing**

Despite the advantages mentioned above, outsourcing does have a number of drawbacks. Main disadvantages of outsourcing are loss of managerial control over outsourced operations, threat to security and confidentiality, quality problems, hidden costs and reallocation of existing teams. First, disadvantage related to the loss of control over the outsourced operations stems from the

reason that managing external resources requires special skills which is a combination of the skills of people and process management, contract management, and power negotiation. Second, almost every outsourcing contract has terms of security and confidentiality spelled out, but the execution and audit are always difficult Gulzhhanat (2012). Third, one reason to outsource is the expectation of receiving better service from the outsourcer than from internal staff. Outsourcer has to be chosen in that particular way to ensure that there is no bad influence on the quality of goods and services produced. Otherwise, company may lose its position on the market Anderson (2001).

Poor quality of service another disadvantage associated with outsourcing. In addition, the company-outsourcer can become a bankrupt, consequently the contracting authority has to find a new outsourcer and this is an additional moral and material costs.

## **2.8 Problems of Outsourcing**

Let's map out some of the present outsourcing bottlenecks;

### **(A). Bleeding of In-house Human Resources**

As [outsourc2india.com](http://outsourc2india.com) (retrieved December, 2016) discussed, it has been noticed that the very name of outsourcing sends shivers down the spine of existing employees. The implementation of outsourcing creates a sense of uncertainty among the current workforce and induces them to hunt for greener pastures. This is a real problem to the organization and can upset the human resource applecart.

### **(B). Selecting the Right Service Provider**

[Outsourc2india.com](http://outsourc2india.com) also discussed, selecting the right vendor is the bedrock on which the entire outsourcing process depends. If there remains a flaw in the selection phase, then clouds of frustration and breach of promise are bound to overcast the contract in due course of time.

### **(C). Cultural Concern**

Cultural differences include religion, mode of dress, social activities and even the way a question is asked or answered. Although most leading vendors have cultural education programs, the problems and costs associated with cultural alignment may not be insignificant or trivial.

### **(D). Legal Tangle and Lack of Understanding of the Contract**

If the legal implications of the contract are vague to both the organization and the service provider, it was fizzle out the initial attempt in the outsourcing decision. Many outsourcing companies overlook legal issues and face outsourcing failures.



### **(E).Cost of Transaction**

In outsourcing initially there are costs of searching vendors. Searching and selecting the service provider during outsourcing involves implicit and explicit cost. Some of the explicit costs are: writing specification, drafting contracts, consulting relevant end users, advertising invitation to bid, evaluating the bid and closing the negotiations with the winning bidder. All these need considerable senior management time. Estimates of such transaction cost vary but that can be as high as five percent of the contract values Domberger, (1998).

In addition to the points expressed above by different authors Wilson and Brown (2005) mentioned that no powerful tool is without problems, and the same is true for outsourcing. With this regard, choosing the right partner, establishing effective governance for relationship and managing employee transition with sensitivity are the three most outsourcing problems.

### **2.9 Common Mistakes in Outsourcing**

According to the study of Jerome (2003); Outsourcing is often associated with automatic cost reduction and performance improvement. This overly optimistic view of outsourcing derives from the fact that most articles about outsourcing are written during the so-called "honeymoon" period (i.e., just before or after the contract is signed). At that time, the reported benefits are not actual but only projected. This leads to a bandwagon phenomenon, where firms outsource to imitate competitors and expect to be successful with outsourcing. Determining which activities can be best performed by outside vendors requires a good understanding of where the firm's competitive advantage comes from. That is where often the mistake is made. The key lesson that we have to pick here is managers need to be fully be aware of which activity is best suit for outsourcing and help the firm archive competitive advantage over the completion. The other common mistake in outsourcing as Jerome (2003) in his famous work discussed, selecting the wrong vendor and writing a poor contract are an area where management made mistake

### **2.10 Risks and Criticism**

Offshoring and outsourcing have both been subject to a lot of criticism, especially from a political standpoint. Politicians and laid-off workers often blame offshoring for "stealing jobs". Most economists, however, agree that offshoring lowers costs for companies and passes on benefits to consumers and shareholders. Risks associated with outsourcing can largely be attributed to the vendor's lack of familiarity with the client's business. Another risk is a lack of

alignment of long-term business objectives of the client and the vendor. The overriding factor in outsourcing decision is cost cutting, but whereas this may make business sense in the beginning, in some cases it could bring complications and put the whole exercise at a high risk if all concerns are not adequately assessed. This means that the outsourcing organization should not only look the costs being low but also consider the outcomes of process of outsourcing at the end of everything to the organization.

Ender and Mooney (1994) also identified that the greatest shortcomings of outsourcing is staff retrenchment /reduction results in negative impact on institutional morale. Preferably, they devised a set of guidelines for mitigating these negative impacts of outsourcing.

A common oversight for IT organizations lies in not implementing a contingency plan to deal with the risk that a vendor, for whatever reason, fails to deliver as expected. High risk or exposure might force the organization to unexpectedly alter its outsourcing strategy (i.e. from a single offshore vendor to multiple vendors)

## **2.11 Empirical Literatures**

Quite few papers have studied benefits and problems of outsourcing and outsourcing practice and future potential in Ethiopia. For example Selamawit (2016), Abebe (2015), Workalemahu (2015), Mersea (2007) have studied on the topic as a partial fulfillment of the requirement of degree in MBA in different time. Generally these studies have agreed that outsourcing is at an infant stage in Ethiopia and it is gradually becoming common over time in the financial sector in general and in banking institution in particular. These researchers in their studies have found that Commercial Bank of Ethiopia (CBE) outsources most of its auxiliary activities such as Janitor, security, driving and messenger services to outside companies. In addition to examining the magnitude and trends of outsourcing in the bank, the study has described the benefits and problems of outsourcing that Commercial Bank of Ethiopia face Workalemahu (2015) and Selam (2014) find out that there are a number of benefits that the bank has reaped out of its outsourcing decision. To mention quite few among their list; cost saving, focus on core business activities, saving manager's time to focus on other activities, lower investment requirement, change fixed cost to variable cost, ability to spread commercial risk, improved quality, increase flexibility to deal with ever changing business condition are some of them. Selamawit (2016), study in particular reveal that the bank was not successful in gaining benefit regarding gaining easier and more economic access to latest

technology and external competencies. The same way it examined the benefits that CBE has gained out of outsourcing its non-core activities, the studies has also revealed the following list of problem that the bank has faced in connection with outsourcing its activities to outside firms.

- Low employee belongingness
- Conflict of interest among
- Communication and coordination difficulties
- Contract termination problem
- Quality of workers provided by the supplier is lower than anticipated
- Loss of control over key information resources
- Repeated theft of vehicles part

A study conducted by Workalemahu (2015) has shown the following list of reasons as to why firms not outsource more activities than they do now.

- Inapplicability
- Possible loss of confidentiality
- Loss of distinct competences and loss of control
- Quality Problem (internal service providers provide better quality)
- Lack of knowledge
- No loyalty to company
- Slow response time
- Organizational policy/tradition

In spite of the fact that outsourcing is a wide-spread activity which is practiced nearly by every business sphere, in almost all business organizations all over the world, there is no much research done on outsourcing practice in Ethiopia particularly, and especially in beverage industry.

Empirical literatures becomes much thinner when it comes to assessing the extent of outsourcing practice except in banking institution than other sectors, especially the beer industry in Ethiopia.

In general, empirical literatures agree that outsourcing practice in Ethiopia now is in much better position than it was a decade before.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

This chapter provides an over view of the methods used to collect and process data. It discus the research design, the population and sampling techniques, types of data and data collection tools used, data collection procedure, the method of data analysis employed, the reliability and validity of data collection tools used and ethical consideration.

#### **3.1 Research Design**

Research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information. It provides a framework or plan of action for the research (Selamawit 2016). The researcher began with selecting topic to be studied. Following topic selection formulating problem of the statement and determining the right methodology for collecting and analyzing data was undertaken. In order to achieve the research objective, the researcher used a descriptive type of research and quantitative research approach. The reason for selecting descriptive research type is that the researcher has no control over the variables rather he only report what happened in the area where the research is being conducted.

#### **3.2 Population and Sampling Techniques**

The population of the study include staffs at the sales department of the company and the whole owners or managers of the distribution business at Addis Ababa. The total population of the study is 120 (hundred twenty) people. Among these, 100 (hundred) of them are staffs found in the sales department and the remaining 20 (twenty) are distributors who are engaged in distributing products in Addis on behalf of the company.

The researcher applied non-probability sampling technique (judgmental sampling) by stratifying the population into two groups; distributors and HBSC staffs at the sales department. The judgmental sampling method was used for selecting managers and other key staffs at head office to complete the questionnaires. The researcher used his own judgment to select these managers that have very good understanding of the subject of study and have direct involvement in the outsourcing decision making process. The justification for choosing judgmental sampling is because the researcher believes that managers and staffs in the sales department provides valuable

information which cannot be obtained from staffs in different other departments. The same way to the internal staffs, the researcher believes that distributors are the main source of information regarding the subject of the study.

The sample size is determined by using the Slovin's formula (Serakan, 1992).

$$\begin{aligned}n &= N/1+N (e)^2 \\n &= 120/1+120(0.07)^2 \\n &= 75\end{aligned}$$

Where:

- N is the population size = 120
- n is the sample size
- e is the margin of error = 0.07

Applying 7% error margin, the sample size for the study was 75 (seventy five) out of 120 members of the target population. Therefore, the study's sample size of 75 is fair enough to represent the target population of the study area.

### **3.3 Types of Data and Instruments Used for Data Collection**

In attempt to do the assessment of problems and benefits of outsourcing product distribution function in HBSC and to provide possible recommendations, the researcher used both primary and secondary data sources. With regard to primary data, the data was obtained from managers and other key staffs of the sales department. Distributors in Addis Ababa was also part of the primary data collection process through questionnaire. Managers and other key staffs in the sales department are assumed to have the necessary know how about the concept and practice of outsourcing product distribution function. Distributors are also expected to have the basic understanding about the subject matter. As far as secondary data is concerned, two years company sales data, distributor agreement and other relevant documents was reviewed. Books, journals and empirical literatures from websites (internet) and from other available sources was used as an input where they are necessary

Regarding data collection instrument, questionnaire was used as the main instrument to collect data from HBSC employees and from the distributors. A mix of closed ended and open ended questions was included to shape the information in the way that enable the researcher measure the research variables. Despite its limitation, the questionnaire was preferred to other methods of data collection hoping that it provides respondents flexibility on using their convenient time to fill the

questionnaire. Interview was also held with two Regional Business Manager of the company to triangulate and strengthen most of the points raised as a problem by other respondents.

### **3.4 Data Collection Procedures**

The researcher collected first hand data through questionnaire & interview from managers and key staffs from the sales department by judgmentally selecting the respondents and persuading them for their prompt cooperation. The researcher first administered pilot test on five respondents and then analyze the result of the pilot test, after the pilot test, the researcher distributed questionnaire at full scale to each respondents by himself. Within a month time the researcher was able collect fifty completed questionnaire from the internal staff. The same way, the researcher collected primary data from distributors using questionnaire. In addition, secondary data was gathered from annual sales report, distributor's contract and internal market execution reports generated by the company. The entire data collection task was completed in one month.

### **3.5 Methods of Data Analysis**

The collected data was analyzed and interpreted in accordance with descriptive statistical tools that included frequency, percentage and tables. Descriptive statistical analysis is selected due to nature of the data and the research variable. The data analysis was done by the use of version 20 - SPSS software package.

### **3.7 Reliability and Validity of Data Collection Tools Used**

Reliability is the degree to which an assessment tool produces stable and consistent results. Test-retest reliability is a measure of reliability obtained by administering the same test twice over a period of time to a group of individuals. The scores from Time 1 and Time 2 can then be correlated in order to evaluate the test for stability over time. Before launching the full scale study, the researcher did a pilot test on five respondents from the sales department two times to ensure that the assessment tool produce stable and consistent result. The result from the two test found out in content. The result gave the researcher full confidence as to consistency of the data measuring instrument.

Validity refers to how well a test measures what it is purported to measure. In order to ensure validity of the items in data collection instrument, the researcher have got the opinion of the company's sales managers and other key staffs who are expert in the field of sales and distributors management. In addition to this, the researcher incorporated the feedbacks of his advisor on the

validity of the assessment tool to ensure that it covers appropriate range of area with in the concept under study.

### **3.7 Ethical Consideration**

Ethical issues in this research is concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using data for academic purpose only and ensuring that the respondents personality would not exploited. In this context the researcher have maintained all ethical considerations, code of conduct and conventions with regard to obtaining the consent of the respondents, acknowledging all sources and materials used as a reference , keeping the confidentiality of the respondent's response and obtaining permission from the company to carry out the study.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

This chapter deals with the analysis and discussion of the data gathered from the study respondents. It primarily discusses the major Problems and benefits of outsourcing product distribution in Heineken Breweries Share Company. The data were gathered through questionnaire from staffs working at the sales department of the company and distributors who are working with the company in Addis Ababa region. The data analysis and discussion is supported by relevant literatures, interview discussion with the company's RBMs (Regional Business Managers). The chapter begins with the analysis of the respondents' category of position and their level of awareness to the study topic and forges ahead with the analysis and discussion of major issues that include the reason for outsourcing product distribution function to the 3<sup>rd</sup> party distributors, benefits gained from outsourcing the function to 3<sup>rd</sup> party distributors and problems of outsourcing product distribution function from the company and the distributor's perspective.

A total of 75 questionnaires were circulated and 70 questionnaires were completed and returned. The completed questionnaires presents more than 93% and no questionnaires were discarded due to missing data. Out of the 70 completed questionnaires, 50 questionnaires are completed by the sales staff of the company and the remaining 20 questionnaires are completed by distributors. Therefore, 70 questionnaires were considered for the study. The data received from the respondents were analyzed with the help of version 20 statistical software program (SPSS-20).

#### 4.1 Analysis of Responses Obtained from HBSC Sales Staffs

This section deals with the analysis and interpretation of the data gathered from the company's staffs as revealed in the table below

**Table 4-1 Respondents by position**

Position	Frequency	Percent	Valid Percent	Cumulative Percent
Managerial	41	82.0	82.0	82.0
Valid Non-managerial	9	18.0	18.0	100.0
Total	50	100.0	100.0	

**Source; Survey data 2106**



Table 4-1 above presents data on category of the respondents' position in the sales department of the organization. It shows that managerial respondents formed the majority of the sample with a total of 41 representing 82 % while 9 respondents were non-managerial staffs representing 18 % of the sample. The implication on this is due to their nature of job category and level of involvement in decision making, the researcher believes that in one way or another the respondents are the right source of information for the study.

**Table 4-2 Respondents' awareness level of the concept of outsourcing**

Awareness level	Frequency	Percent	Valid Percent	Cumulative Percent
Very high	6	12.0	12.0	12.0
High	30	60.0	60.0	72.0
Medium	14	28.0	28.0	100.0
Total	50	100.0	100.0	

**Source; Survey data 2106**

As it can be seen from Table 4-2 above, the largest group of respondents (72%), have high and very high awareness level about the concept of outsourcing and 28% of them know the concept of outsourcing in medium state. From this we can conclude that almost all of the respondents have knowledge about the concept of outsourcing. This helps the researcher to get appropriate responses for the study from them.

Table-4.3 Reasons for outsourcing the service

Item #	Reasons for outsourcing product distribution function	Respondent's Response										# of respondents
		Strongly agree		Agree		Neutral		Disagree		Strongly disagree		
		Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	
1	To reduce cost.	20	40%	30	60%							50
2	To improve service quality.	25	50%	25	50%							50
3	To give more focus to other core functions of the company.	24	48%	26	52%							50
4	To improve flexibility of the delivery service by the distributors.	18	36%	31	62%	1	2%					50
5	To save manager's time and help them to focus on strategic issues of the company.	20	40%	27	54%	3	6%					50
6	To assist the current fast growth situation of the company	16	32%	30	60%	2	4%	2	4%			50
7	To access skills and tools not available in the company.	13	26%	26	52%	4	8%	5	10%	2	4%	50
8	Improve efficiency	27	54%	22	44%	1	2%					50
9	Optimal RTM utilization	22	44%	28	56%							50

Source; Survey data 2106

As can be seen from item number 1 in Table 4.3, in assessing the importance of reasons for outsourcing product distribution function to distributors, majority of the respondents representing 60% of the sample agreed that reducing cost is the major reason for outsourcing the function to 3<sup>rd</sup> part distributors. Likewise 40% of the respondents strongly agreed that reducing overhead and operational cost related to product distribution to customer is the main reason for outsourcing the function to distributors. According to Power (2006) probably the most talked about reason for outsourcing is cost savings. Cost efficiency and improvement to the bottom line are important benefits of the outsourcing strategy. Much of this cost saving is realized by moving from a fixed-cost model to one of variable cost model. Zarat & Aaisim (2013) advocate that, cost reduction is the most important driver of outsourcing. The interview held with the regional business manager of the company reveal that the company was able to relief itself from the cost of hiring sales persons and helpers, availing distribution trucks, renting or acquiring warehouse and managing product distribution function internally.

Regarding quality of service, Table 4-3, item number 2 depicted that, 50% of the respondents strongly agreed that the service provided by the distributors now is by far better than it was before. The remaining 50% of the respondents also agree that the quality of the service given to the customer through distributors is better than it was before. Therefore all the respondents agree that the company made the decision on outsourcing the function seeking to improve the service quality to be rendered for customer. According to flatworldsoution.com, when you outsource your business needs to a reliable outsourcing partner, they bring years of experience in business practices and expertise in delivering complex outsourcing projects. Thus, they can do the job better with their knowledge and understanding of the domain. This leads to an increase in productivity and efficiency in the process thereby contributing to the bottom-line of your company

On the other hand, as can be realized from item number 3 of table 4.3, majority of the respondents (52%) agreed that the company go for outsourcing to give more focus on other core functions. As revealed in table 4.3, item number 3, the remaining 48% of the respondents also strongly agreed that to give more focus on core business function is one of the major reason for the company to go

for outsourcing. According to Choi (2008) successful outsourcing allows the organization to focus in-house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently.

As can be observed from item 4 in Table 4.3 above, 62% of the respondents agreed that the company is made its decision for outsourcing to gain flexibility of product delivery service to customer. These respondents believed that the distributors' delivery service is not bounded by time. With the same justification the remaining 36 % of the respondents strongly agreed that improving flexibility of product delivery service is the main reason to go for outsourcing.

Regarding saving manager's time from engaging in non- core business activity, as indicated in item number 5 of Table 4.3 above, 54% of the respondents agreed that this is one of the reason that the company go for outsourcing the product distribution activity to distributors. The other 40% of the respondents also strongly believe that the company went for outsourcing the product distribution function to spare managers from spending their time in managing the product distribution activity. Therefore 94% of the respondents believe that the company was outsourced the service to distributors to save manager's time for more critical activities by outsourcing the function to distributors.

As can be observed from item 6 in Table 4.3 above, 92% of the respondents in aggregate believe that the company went for outsourcing its product distribution function to distributors thinking that these distributors would be a crucial growth partner for the company by giving a strategic option to deliver its product to the customer in a most flexible and cost efficient way.

Regarding optimal RtM utilization, as indicated in item number 9 of Table 4.3 above, 56% of the respondents agreed that, the company have made its decision to outsource the function to the distributors to ensure optimum Route to Market access and win the competition through better RtM strategy. The same way to these respondents the remaining 44% of the respondents strongly agreed that the company was considering this point as one of the main reason to go to outsourcing the function to 3<sup>rd</sup> party distributors. This result match with the company's original intent of adopting indirect product distribution to customer to efficient delivery system.

**Table 4.4 Benefits gained after outsourcing product distribution function to distributors**

<b>Outsourcing help the company reduce cost</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	2.0	2.0	2.0
	Agree	27	54.0	54.0	56.0
	Strongly Agree	22	44.0	44.0	100.0
	Total	50	100.0	100.0	
<b>Help the company to give more focus to core function</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	26	52.0	52.0	52.0
	Strongly Agree	24	48.0	48.0	100.0
	Total	50	100.0	100.0	
<b>Improved flexibility on delivery service</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	24	48.0	48.0	48.0
	Strongly Agree	26	52.0	52.0	100.0
	Total	50	100.0	100.0	
<b>Help the company to access new skill ont available internally</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	14	28.0	28.0	28.0
	Neutral	7	14.0	14.0	42.0
	Agree	24	48.0	48.0	90.0
	Strongly agree	5	10.0	10.0	100.0
	Total	50	100.0	100.0	
<b>Outsourcing save managers time and energy</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	23	46.0	46.0	46.0
	Strongly agree	27	54.0	54.0	100.0
	Total	50	100.0	100.0	
<b>Help the company manage the sales function with less manpower</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	2.0	2.0	2.0
	Agree	29	58.0	58.0	60.0
	Strongly agree	20	40.0	40.0	100.0
	Total	50	100.0	100.0	
<b>Help the company cover wider sales territory</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	21	42.0	42.0	42.0
	Strongly agree	29	58.0	58.0	100.0
	Total	50	100.0	100.0	

Source; Survey data 2016

### **Outsourcing Help the Company Reduce Costs**

Table 4.4 above reveal that majority of respondents representing 54% believe that the benefit gained with regard to reducing cost of operation is high. The other 44% of the respondents strongly believe that outsourcing brings the above benefit to the company. On the other hand only 2% of the total respondents strongly believe that outsourcing does not bring the above mentioned benefit to the company. This finding is further strengthened by the interview discussion held with the Regional Business Manager of the company. According to the managers' remark, without considering other regions and focusing only at Addis Ababa level, after outsourcing the function to distributors the company has gained huge cost reduction in terms warehouse rent, hiring sales person, acquiring at least the 70 distribution trucks and other related cost . According to Power (2006) the most obvious and visible benefit related to outsourcing brings about is cost savings. Cost efficiency and improvement to the bottom line are important benefits of the outsourcing strategy. Much of this cost saving is realized by moving from a fixed-cost model to one of variable cost model. The objectives are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider.

### **Outsourcing Help the Company to Give More Focus to Other Core Functions**

Referring to the benefit of outsourcing helps to be more focused on core functions than before, as Table 4.4 above shows, almost all respondents agreed that the company has gained more time and be able to focus on its core functions as the result of outsourcing the product distribution function to distributors. This point was also mentioned by the Regional Business Manager of the company as one of the advantages derived from outsourcing the function to distributors. The manager believed that due to outsourcing the function to distributors, managers and other key staffs in the organization be able to focus more on developing and executing strategic issue than it was before. The manager also added that the company is now more focused on expanding capacity and trying to win the competition with innovations. According to Choi (2008) successful outsourcing allows the organization to focus in-house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission.

### **Outsourcing Improved Flexibility of Product Delivery Service to the Customer**

As Table 4.4 above shows, in aggregate 100% of the respondents agreed that, flexibility of product delivery to customer is greatly improved after the service is outsourced to distributors. The response indicate that the company is benefited from outsourcing the service to the distributors by enabling the customer to get the product without being limited in time. This means the service given from the distributors give customers the flexibility of time to buy the product. The interview discussion with the Regional Business Manager of the company support the fact that flexibility of product deliver to the customer is greatly improved now in terms of time.

### **Outsourcing Help the Company Manage the Sales Function with Less Manpower**

As we observed from Table 4.4 above, 58% of the respondents agree with idea that outsourcing help the company manage the sales function with less manpower than it was before. The remaining 40% of the respondents strongly agree that outsourcing product distribution function to distributors help the company to operate with less head count. As per the Regional Business Managers' remark, by outsourcing the service to outside distributors, the company was able to offload no less than hundred twenty delivery sales people and helpers from its payroll and operate now with less sales execution team.

### **Outsourcing Help the Company Cover Wider Sales Territory than Before**

According to the survey result in Table 4.4 above, in aggregate 100% of the respondents agree that the company is greatly benefited from the decision to outsource the service to the distributors in the form of covering wider geographic area than before. In addition to the data collected from the respondents, the interview held with the Regional Business Managers further strengthen the idea that the company's' distribution footprint is more increased now than before.

**Table-4.5 Problems faced after outsourcing product distribution function to distributors**

<b>Loss of control over the outsourced service</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	6.0	6.0	6.0
	Neutral	3	6.0	6.0	12.0
	Agree	32	64.0	64.0	76.0
	Strongly agree	12	24.0	24.0	100.0
	Total	50	100.0	100.0	
<b>Distributors lack skilled and qualified manpower to manage their business</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	2.0	2.0	2.0
	Agree	33	66.0	66.0	68.0
	Strongly agree	16	32.0	32.0	100.0
	Total	50	100.0	100.0	
<b>Distributors focus on short term gain than long term benefits</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	2.0	2.0	2.0
	Agree	32	64.0	64.0	66.0
	Strongly agree	17	34.0	34.0	100.0
	Total	50	100.0	100.0	
<b>Distributor's reluctance to buy all brands &amp; SKUs</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	34	68.0	68.0	68.0
	Strongly agree	16	32.0	32.0	100.0
	Total	50	100.0	100.0	
<b>Distributor's reluctance on long term investment</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	2.0	2.0	2.0
	Agree	41	82.0	82.0	84.0
	Strongly agree	8	16.0	16.0	100.0
	Total	50	100.0	100.0	
<b>Distributor's low remuneration and its impact on their sales force motivation</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	38	76.0	76.0	76.0
	Strongly agree	12	24.0	24.0	100.0
	Total	50	100.0	100.0	
<b>Distributors are not recruiting their employees based on merit and qualification</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	38	36.0	76.0	76.0
	Strongly agree	12	24.0	24.0	100.0
	Total	50	100.0	100.0	
<b>Distributors are reluctant to pay credit for Crates and Kegs</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	31	62.0	62.0	62.0
	Strongly agree	19	38.0	38.0	100.0
	Total	50	100.0	100.0	

Source; Survey data 2106



Despite the benefits discussed above, outsourcing product distribution function to distributors have a number of drawbacks. As author Wilson & Brown (2005) mentioned that no powerful tool is without limitation, and the same is true for outsourcing. Now let's map out some of the major problems that the study respondents have indicated in the survey.

### **Loss of Full Control over the Outsourced Function**

As we can see from the table 4.5 above, 64% of the respondents agree that the company losses direct controlling over the day to day distribution activities of the distributors. Likewise 24% of the respondents strongly agree that the company losses its full control over the distribution activities of the distributors. The remaining 12% of the respondents does not support the idea that the company losses its full control over the outsourced function. The Regional Business Managers' view on this point is, despite there is system placed in the company to monitor and evaluate distributors sales and operational performance on a periodic base, there is still room for some distributors to operate their business without being under the full control of the company's monitoring system. According to the manager, abusing price and transshipment of product to other's territory and region is an example that illustrate unacceptable behavior of some of the distributors which cannot be fully controlled by the company. According to Gulzhant T. (2014), the problem relates to the loss of control over the outsourced operations stems from the reason that managing external resources requires special skills which is a combination of the skills of people and process management, contract management, and power negotiation. According to [www.thebalance.com](http://www.thebalance.com) (retrieved December 2016), when you sign a contract to have another company perform the function of an entire department or single task, you are turning the management and control of that function over to another company. You will have a contract, but the managerial control will belong to another company. Your outsourcing company will not be driven by the same standards and mission that drives your company.

### **Distributors Lack Skilled and Qualified Manpower to Manage their Business**

As show in Table 4.5 above, 66% of the respondents replied that they agreed with the point that lack of skilled and qualified manpower to manage the business is the major problem observed in the distributors business. The same way to these respondents the other 32% of the respondents strongly agreed that this is one the main problem observed in the distributors business. The respondents response further backed by the fact that most of the distributors are operating with the

traditional way of business doing mind-set. As in most cases, the distributors business is owned and run by the owner him/her self, this would create a skill and leadership deficiency in their business. As Alex Bank (2010) stated that, due to lack of direct control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further.

#### **Distributor's Reluctance to buy all Brands and SKUs**

According to the survey result in table above, 100% of the respondents believe that most of the distributors are more interested in buying fast moving brands and SKUs .As the study result reveal, distributors are less interested to buy and stock slow moving products. According to the sales manager's remark this one of the main problem that the company is having with carrying out product distribution activity through distributors. As a policy all distributor is required to buy and stock all portfolio of product that the company is producing and selling. However against this policy, most distributors are observed to stock out less moving products.

#### **Distributor's Low Remuneration for their Sales Force & its Impact on their Motivation Level**

As the survey result in the above table indicates, 76% of the respondents agree that distributor's payment package (salary, allowance & other benefits) for their sales force is not attractive enough to motivate them to double their effort in making order than taking order. The same to these respondents, the other 22% of the respondents strongly believe that distributor's payment package for their sales force is not attractive enough to invite exertion in their work. Different literatures indicate that money is one of the factor that trigger motivation in work for workers whose earning is low. The implication for this is, most distributor's sales force are not motivated enough to exert their utmost effort in engaging customer and making order. Referring to the regional managers remark on this point, acknowledging the validity of the problem, he further believe that distributor's poor and non-merit based recruitment practice and unattractive payment package are the root causes of the problem.

#### **Distributors are Reluctant to Pay Credit for Crates & Kegs (RPM)**

In table -7 above, this point is indicated by 62 % of the respondents as one of the main problem that the company is facing now in relation to working with distributors. The other 38% of the respondents also strongly believe that, this is one of the problem that comes from working distributors. The interview held with the regional business manager shows that, as one of

distributors support programs the company provide RPM for distributors with postdated cheque on credit. However most distributors are not interested to pay their debts as per their payment schedule. The manager further explained that this problem bring substantial financial impact on the company's operation. Although it is difficult to the researcher to get accurate figure on the amount of money that the entire distributors owe to the company, the manager estimate that close to 16 million birr is deducted from the commercial department's budget for the reason that these distributors could not paying their debts on time.

### **Selecting the Right Vendor (Distributor)**

According to [www.the balance.com](http://www.thebalance.com), vendor selection process can be a very complicated and emotional undertaking. The interview held with the Regional Business Manager of the company shows that, as distributor selection is the most critical step in the outsourcing process, the company is giving greater attention during the selection process. When manger addressed the question from the perspective of process, he explained that the company have well articulate and explicit distributor selection criteria. According to the manager, when the company recruit and appoint distributors it does background check, infrastructure check, related experience check, good will check. The manager further explained that, once the candidate distributor fulfil all the requirements, then he/she will be appointed on probation for certain period.

### **Legal Tangle and Lack of Understanding of the Contract**

Different literatures outlined that, if the legal implications of the contract are vague to both the organization and the service provider, it will fizzle out the initial attempt in the outsourcing decision. Many outsourcing companies overlook legal issues and face outsourcing failures. As the interview held with the Regional Business Manager shows, to some extent infrequent arguments and conflicts arise between the company and the distributors on matters like territory demarcation and complying company recommended selling price. According to the manager, the source of these conflict are not because the distributors fail to understand the contract.

### **Cost of Searching Vendor**

As the Regional Business Manager told the researcher, there is no such big challenge/problem in the company related to cost of searching vendor.

## Cultural Concern

According to the Regional Business Manager, cultural concern in its offshoring sense is not a big challenge/ problem for the company. However, the manager told the researcher that, in some instance some distributors fail to align with the company’s stretching and performance driven work culture.

### 4.2 Analysis of responses obtained from distributors

This section deals with the analysis and interpretation of the data gathered from distributors as revealed in the table below

**Table 4.6 Major benefits gained in working with the company as a distributor**

Financial gain					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	10.0	10.0	10.0
	Neutral	2	10.0	10.0	20.0
	Agree	16	80.0	80.0	100.0
	Total	20	100.0	100.0	
Job opportunity for other people					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	5	25.0	25.0	25.0
	Strongly agree	15	75.0	75.0	100.0
	Total	20	100.0	100.0	
Training opportunity for distributor's employee					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.0	5.0	5.0
	Agree	14	70.0	70.0	75.0
	Strongly Agree	5	25.0	25.0	100.0
	Total	20	100.0	100.0	
Support in credit facility for RPM payment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	10.0	10.0	10.0
	Agree	11	55.0	55.0	65.0
	Strongly agree	7	35.0	35.0	100.0
	Total	20	100.0	100.0	

**Source; Survey data 2106**

The analysis table -8 above shows that, out of 20 distributors, majority of them agree that financial gain (profit & return on investment), creating job opportunity for other people, gaining training for their sales force and gaining credit facility for RPM payment are some of the main benefits that they get from working with the company.

**Table 4.7 Major problems that distributors faced by working with the company**

<b>Unattractive margin</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	25.0	25.0	25.0
	Agree	14	70.0	70.0	95.0
	Strongly agree	1	5.0	5.0	100.0
	Total	20	100.0	100.0	
<b>Delay in product supply</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	10.0	10.0	10.0
	Disagree	2	10.0	10.0	20.0
	Neutral	1	5.0	5.0	25.0
	Agree	14	70.0	70.0	95.0
	Strongly agree	1	5.0	5.0	100.0
	Total	20	100.0	100.0	
<b>Delay in defective product replacment</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	5	25.0	25.0	25.0
	Strongly agree	15	75.0	75.0	100.0
	Total	20	100.0	100.0	
<b>High investment requirment</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	10.0	10.0	10.0
	Disagree	3	15.0	15.0	25.0
	Agree	12	60.0	60.0	85.0
	Strongly agree	3	15.0	15.0	100.0
	Total	20	100.0	100.0	
<b>Too little outlet base</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	5.0	5.0	5.0
	Disagree	4	20.0	20.0	25.0
	Agree	7	35.0	35.0	60.0
	Strongly agree	8	40.0	40.0	100.0
	Total	20	100.0	100.0	

Source; Survey data 2106

### **Unattractive margin**

The study has explored problems that distributors face at working with the company, accordingly in aggregate 75% of the respondents believe that the margin that they get from the company is not attractive. These respondents believe that the current margin that the company give to them (5.5% in average) is not sufficient enough to cover all their expense and give them reasonable profit. On

the contrary 25% of the remaining respondents do not consider unattractive margin as a problem. The implication of this result is unless the distributors believe that they are making enough money out of working with the company, they might lose their interest in investing more to the business. This in return impact the sustainability and long term objective of the business.

### **Delay in product supply**

Delay in product supply form the company is considered as a problem by 75 % of the respondents. These respondents believe that the company have gap in supplying product to them at the right time. On the other hand, 25% of the respondents disagree with the idea that delay in product supply is major problem for them. The impact of this problem is to lead the company and the distributors to lose sales and revenue.

### **Delay in replacement of defective product**

As table-8 above shows, 75% of the respondents strongly agree that, delay in replacement of defective product is one of the major problem that they face at working with the company. The remaining 25% of the respondents also consider this point as a main problem. Therefore this is one of the points that is considered by 100% of the respondents as a main business problem. This would impair the operation of the distributor in the form of detaining the distributor's working capital and RPM.

### **Little outlet base in sales territory**

As we can see from the above table, in aggregate 75% of the respondents agree that the outlet base in their territory is little. These respondents believe that their revenue source and their business profitability is dependent on the size and productivity of the outlets that they are working with. On the contrary, the remaining 25% of the respondents do not consider this point as a problem. In general majority of the respondents consider this point as problem to their business.

### **Other Problems**

As an additional problems the following main points have raised from the distributors, delay in defective products replacement, late time product delivery, less promotion support for draft SKU and unable to get periodic statement from the company for product sales and RPM balance.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with summary of major findings, conclusions of the study findings and recommendation forwarded by the researcher.

#### 5.1 Summary of Major Findings

In an attempt to assess the main reasons as to why the company has decided to outsource its product distribution function to distributors, the study have discovered cost reduction (overhead and operational), improving service quality, giving more focus to other core functions, improving flexibility of product delivery service to customers and ensuring optimal Route to Market utilization as main reasons to outsource the service to distributors.

The study has also explored the benefits and problems of outsourcing product distribution function to distributors. Accordingly the survey result reveal that saving time and cost, allowing managerial employees to focus on core business function, improving service quality, lowering investment requirement, increasing flexibility of product delivery and help the company cover wider sales territory than before are some of the major benefits that the company reaped out from the decision for outsourcing product distribution function to distributors as confirmed by majority of the respondents.

The other point that the study signifies is the problems that the company and the distributors have faced in relation with working as outsourcer and distributor. As different literatures has indicated, there are a number of problems that have existed in outsourcing. The study finds out following are outsourcing problems form the company side;

- Loss of full control over the outsourced function
- Legal tangle and lack of understanding of the contract
- Distributors lack skilled and qualified manpower to manage their business
- Distributor's reluctance to buy all brands and Store Keeping Units( SKUs)
- Distributor's unattractive remuneration to their sales force and their motivation level
- Lack of motivation for the distributor's sales force
- Distributors are reluctant to pay credit for Crates and Kegs (RPM)

Finally as depicted by majority of the respondents, unattractive margin, delay in product supply, delay in replacement of defective products, little outlet base in their sales territory and less promotional support for draft are some of the points raised as a problem by the distributors

## **5.2 Conclusions**

The aim of this research is to explore the benefits and problems of outsourcing product distribution function to distributors in Heineken Breweries Share Company. In this regard the researcher tried to address the research theme by identifying the reasons for outsourcing the services, benefits gained after outsourcing the service and problems faced in relation to outsourcing the services.

On the basis of the findings from the study the following conclusions are drawn;

- As the study finding indicates, Heineken Breweries Share Company initially decided to outsource the service with a rational of reducing cost, improving the service quality, giving more focus to other core functions, improving flexibility of product delivery service to the customer, saving manager's time and implementing efficient route to market strategy. This implies that the company original intended to switch its distribution model from direct to indirect with the above mentioned justifications.
- Based on the findings of the study, it is concluded that the company has been able to gain benefits out of outsourcing product distribution function to distributors. The benefits are reducing overhead and operational cost, improving flexibility of product delivery service to customers, gaining more focus to other core functions, help the company manage its sales function with less sales force and help the company cover wider sales area than before. The implication for this is, the company's original expectation from outsourcing the service to 3<sup>rd</sup> party distributors is fully meet now. As secondary data (annual sales data of the company) shows, because of product distribution function is done through distributors, the company's sales volume growing from year to year.
- The findings from the study have also revealed that, despite a great deal of benefits has been gained out of outsourcing the service to 3<sup>rd</sup> party distributors, there are also some problems that come from working with the distributors. Loss of full control over the outsourced service, distributor's reluctance to buy all brands & SKUs, distributor's reluctance to pay credit for RPM are some of the problems. In addition to these problems, distributor's unattractive remuneration to their sales force has greatly impacted their employee's motivation. The implication of this is, had it not been for these challenges the



company would have gain maximum benefits out of outsourcing the service to 3<sup>rd</sup> party distributors. On the contrary the study have revealed that, selecting the right vendor( distributor), cultural concern and cost of searching vendor are not a major challenge / problem to the company. So therefore, in order to reap the maximum benefits, the company need to address those major problems identified by the study with the right solutions.

With regards to whether outsourcing advantages outweigh the disadvantages, according to the Regional Business Managers' remark comparing the company's current annual sales volume (2.35MHL) with pre- outsourcing period (1.1 MHL HL) shows that, despite the problems, the company is benefited out of outsourcing product distribution function to distributors

### **5.3 Recommendations**

On the basis of the findings and conclusions reached, the researcher would like to make the following recommendations as a possible solutions for problems.

To overcome the problem associated with lack of skilled and qualified manpower in the distributor's business the following points must be considered.

- Manpower requirement for each distributor business should be clearly stated in the distributor agreement and the Joint Business Plan.
- HBSC should involve in key employee recruitment process of the distributor. The ideal job description & job specification should be jointly developed by the distributor & HBSC.
- The distributor should have a clear succession plan.

Even if loss of full control over the outsourced operation is common in all outsourcing process, in order to minimize this problem, HBSC has to establish clear expectation with the distributors and put in place transparent control system. Beside to this the company has to put penalty clause in the agreement for any breach of the term of the agreement.

To avoid problems associated with legal conflict and lack of understanding of the contract, HBSC has to identify recurring conflict raising issues from the contract and clarify them further to ensure clear understanding between the company and the distributors.

In order to avoid the problem associated with distributor's low remuneration and its impact on his sales force motivation, the following points must be considered.

- HBSC should enforced the distributor to introduce workable performance based commission and incentive scheme to its sales force
- HBSC should introduce baseline plus variable margin model in its reward and commission structure to influence the distributor's behavior and support them to improve their employee remuneration.
- HBSC should create awareness among distributors on the benefit of keeping employees motivated.
- HBSC should introduce a reward mechanism in which the distributor's good performing sales people are gaining recognition & reward.
- Continues consultation with the distributors.

To overcome the problem associated with distributor's reluctance to buy all brands and SKUs, the following points must be applied.

- HBSC should develop, implement & follow-up stock level (standard) per all brands for all distributors.
- HBSC should support the sales of slow moving brands with promotion and activation.
- Enforce the stock standard through distributor agreement and Joint Business Plan.
- Increase the margin for slow moving brands and SKUs.

To overcome the problem associated with RPM credit payment issue, the following should be considered.

- As much as possible cash based transaction should be the first option.
- HBSC should encourage distributors to return excess & ideal RPM.
- HBSC should enforce distributors to renew their postdated check to avoid risk of checks being expired.
- Bank guarantee as a collateral for RPM credit should be considered as an option
- Take the case to court as needed.

For the problems that the distributors indicated in the study, the following recommendations are forwarded by the researcher.

- HBSC should do benchmark its margin to distributors with competitors margin to their distributors. If its margin is below the competition, then it should consider to improve the margin to distributors.

- HBSC should do a thorough pilot Profit & Loss analysis for selected top twenty distributors to see the profit margin of its distributor.
- HBSC should introduce baseline margin plus variable margin model to its current distributor's reward and compensation structure.
- HBSC should ensure timely and consistent product supply to the distributors. The company has to relook its inter- functional integration and avoid structural and functional silo among different departments.
- HBSC has to develop and implement clear procedure on how defective products will timely be replaced to the distributors.
- HBSC has to do complete trade census to see the distributor's outlet landscape and revise territory if found justifiable.
- HBSC has to set up periodic meeting with distributors at different levels to openly discuss operational problems and contemporary market issues which affect the business from both the distributor and the company side.

### **Suggestions for Future Researches**

Despite its popular application in most parts of the world, the experience of outsourcing in Ethiopia is minimal. Furthermore, no formal research has been done in this area to assess the challenges /problems and benefits of outsourcing in most organization in the country. To this end, this research provides findings, which can also serve as a stepping stone for other related research, regarding challenges and benefits of outsourcing for an Ethiopian business organizations. However, this research has narrow scope which requires further investigations both in breadth and depth. Thus, future researches should consider an in-depth study on the benefits and problems of outsourcing of different industries in addition to the beer industry.

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# Appendices

**Appendix -A**  
**ST. MARY’S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**MBA PROGRAM**

**Questionnaire to be filled by HBSC sales staff**

**Dear Respondents:**

This questionnaire is designed to conduct a research on the topic ‘Problems and benefits of outsourcing product distribution function, the case of Heineken Breweries Share Company’. The purpose of the study is for the partial fulfillment of the requirement of MA degree in Business Administration. For the successful accomplishment of the study, your response have key role by being a valuable input for the study. The information that you provide is strictly confidential and was be used only for academic purpose. Thus, you are kindly requested to genuinely fill the questionnaire to your best knowledge.

Thank you in advance for your cooperation.

**Instructions:-**

- Writing your name is not necessary.
- For close ended questions put “✓” mark and for open ended questions write a brief answer in the space provided.

**Part One: Respondent Profile**

1. Sex  Male  Female

2. Age  below 25  25-35  36-45  above 46

3. Category of your position

Managerial  Non- managerial

4. What is your level of awareness about the concept and practice of outsourcing product distribution function?

Very high  High  Medium  Low  Very low  Never heard of it



**Part Two: Questions Related with the topic**

Dear Respondents for question no. 5 to 7 please read the statement and put “✓” mark in the corresponding column for your answer (i.e. 5=strongly agree, 4=Agree, 3=Neutral, 2=Disagree, 1=strongly disagree)

5. Questions related to the reasons for outsourcing product distribution function to distributors.

#	Reasons for outsourcing	5	4	3	2	1
1	To reduce cost.					
2	To improve service quality.					
3	To give more focus to other core functions of the company.					
4	To improve flexibility of the delivery service by the distributors.					
5	To save manager’s time and help them to focus on strategic issues of the company.					
6	To assist the current fast growth situation of the company					
7	To access skills and tools not available in the company.					
8	Improve efficiency					
9	Optimal RTM utilization					

**Other,**  
**specify** \_\_\_\_\_  
 \_\_\_\_\_

6. Questions related to benefits of outsourcing product distribution function.

(i.e. 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

#	Benefits gained after outsourcing the services	5	4	3	2	1
1	Outsourcing helped the company reduce cost					
2	Outsourcing helped the company to give more focus to its core functions/activities					
3	After outsourcing flexibility of product delivery service is improved.					
4	Outsourcing helped for the company to access new skills not available internally.					
5	Outsourcing saves management time and energy through reducing the need to control day to day operations of the product delivery function to the customer.					
6	Help the company manage the sales function with less manpower					
7	Help the company cover wider sales territory than before					
8	Improved RTM utilization					

Other,

specify \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

7. Problems observed with outsourcing product distribution function to distributors.

(i.e. 5=Strongly Agree, 4= Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

#	Problems of outsourcing	5	4	3	2	1
1	Loss of full control over the outsourced function					
2	Distributor's hesitance to implement rules and routines given by the company					
3	Lack of skilled and qualified manpower to manage distributors business as required by the company					
4	Distributor's employee low belongingness to HBSC					
5	Distributors focus on short term gain than long term benefits					
6	Distributor's reluctance to buy all brands and SKUs at sufficient quantity during slack season					
7	Distributor's reluctance on long term investment					
8	Distributor's payment package does not induce their sales people to work hard					
9	Distributors are not recruiting sales persons based merit and qualification					
10	Distributors employee might jeopardize the company image					
11	Lack of motivation of the distributor's sales people					
12	Distributors lack awareness on safety issues					
13	Distributors are reluctant to pay credit for RPM on time					

Other,

specify\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Thank you

## Appendix -B

### ውድ የዚህ መጠይቅ መላሽች፤

ይህ መጠይቅ በሃይኒከን ቢራዎች አ/ማ እና በወኪሎች መሀከል ባለው የስራ ግንኙነት ውስጥ ጎልተው የሚስተዋሉ ችግሮችን ለይቶ ለማወቅ እና ለችግሮቹም ተገቢው የመፍትሄ ሀሳብ ለማምጣት የሚያስችል ጥናት ለማካሄድ ታስቦ የተዘጋጀ ነው።

ጊዜ ወስደው ይህን መጠይቅ በመሙላት ስለተባበሩን በቅድሚያ እናመሰግናለን።

የመጠይቁ አሞላል መመሪያ ፡-

- ስምዎን መጻፍ አያስፈልግም.
- ምርጫ ላላቸው ጥያቄዎች ሀሳብዎን ይወክላል ብለው ላመኑበት ምርጫ በተቀመጠው ሳጥን ውስጥ ይህን “✓ ” ምልክት በማድረግ ምላሽዎን ይግለጹ። ክፍት ለሆኑ ጥያቄዎች ሀሳብዎን በተሰጠው ባዶ ቦታ ላይ በማስፈረ ምላሽዎን ይግለጹ።

### የመላሽች ማንነት የሚመለከት ጥያቄ

1. ስታ  ወንድ  ሴት
2. ዕድሜ  ከ 25 ዓመት በታች  ከ 25 እስከ 35  ከ 36 እስከ 45  ከ 46 ዓመት በላይ
3. በአከፋፋይነት ከከባንያው ጋር ለምን ያህል ጊዜ አብረው ሰርተዋል?  
 ከ 1 ዓመት በታች  ከ1 እስከ 2 ዓመት  ከ 2 እስከ 3 ዓመት  ከ 3 ዓመት በላይ

### የጥናቱ ዋና ዋና ጥያቄዎች

ጥያቄ ቁጥር አራት እና አምስት ካነበቡ በኋላ በሰንጠረዥ ውስጥ በዝርዝር ለተጠቀሱት ሀሳቦች ይስማማል ብለው ላመኑበትን ምላሽ ይህን “✓” ምልክት በሳጥኑ ውስጥ በማስቀመጥ ምላሽዎን ይግለጹ። ምላሽዎ ቀጥሎ ከተዘረዘሩት አማራጮች አንዱ ሊሆን ይችላል (5= በጣም እስማማለሁ፤ 4= እስማማለሁ፤ 3= ገለልተኛ፤ 2= አልስማማም፤ 1= በጣም አልስማማም)

4. ከከባንያው ጋር በውክልና መስራት በመቻልዎ ምን ጥቅሞች አግኝተዋል?  
 (5= በጣም እስማማለሁ፤ 4= እስማማለሁ፤ 3= ገለልተኛ ፤ 2= አልስማማም፤ 1=በጣም አልስማማም)

#	ያገኛቸው ጥቅሞች	5	4	3	2	1
1	የገንዘብ ጥቅም/ትርፍ/					
2	የተሻለ የአሰራር ዘዴ እና ልምድ ከከባንያው ማግኘት					
3	ከከባንያው እውቅና እና ሽልማት ማግኘት					
4	ለሌሎች ሰዎች የስራ ዕድል መፍጠር መቻል					
5	ለሠራተኞቹ የተሻለ ስልጠና ማግኘት					
6	ለሳጥን ወይም በርሜል ክፍያ የክሬዲት አገልግሎት ማግኘት					
7	ከከባንያው ጋር ያለኝ ግንኙነት ሌላ መልካም የስራ አጋጣሚ ፈጥሮልኛል					

ሌላ የሚጨምሩት ሀሳብ ካለዎት

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5. ከኩባንያው ጋር በአከፋፋይነት በመስራትዎ ያጋጠምዎት ችግሮች ምንድናቸው?

(5= በጣም እስማማለሁ፤ 4= እስማማለሁ፤ 3= ገለልተኛ ፤ 2= አልስማማም ፤ 1= በጣም አልስማማም)

#	ችግሮች	5	4	3	2	1
1	ዝቅተኛ ትርፍ					
2	የምርት አቅርቦት እጥረት					
3	ከኩባንያው የሚመጡ ግልጽ ያልሆኑ የሥራ ትዕዛዞች					
4	የስልጠናና እና የምክር ድጋፍ አለመኖር					
5	በኩባንያው በኩል በቂ የፕሮሞሽን ድጋፍ አለመኖር					
6	በአከፋፋይ እና በኩባንያው መሀከል የፍላጎት ልዩነት መኖር					
7	ከኩባንያው የሽያጭ ሰራተኞች በኩል በቂ ትብብር አለመግኘት					
8	የተበላሹ ምርቶች በጊዜው አለመቀየር					
9	በኩባንያው በኩል የዱቤ አገልግሎት አለመኖር					
10	የውክልና ስራው ከፍተኛ የመነሻ ኢንቨስትመንት የሚጠይቅ መሆኑ					
11	በሽያጭ ክልሌ ውስጥ የሚገኙ ደንበኞች ቁጥር አነስተኛ መሆን					
12	ሌሎች አከፋፋዮች በሽያጭ ክልላችን ውስጥ ገብተው መስራት					

ሌላ

የሚጨምሩት

ሀሳብ

ካለዎት

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፩. ከላይ የተጠቀሱት ችግሮች ለመቅረፍ ይረዳል ብለው የሚያስቧቸው የመፍትሄ ሀሳብ ካሎት ይግለጹ።

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**እናመሰግናለን**

## Appendix-C

### Interview Questions

This interview questions are meant to collect data through interview from the Regional Business Manager of Heineken Breweries Share Company.

Q.1 Do you think that selecting the right is a challenge / problem to the company?

If yes, please explain how \_\_\_\_\_

Q-2 Is cost of searching vendor (distributor) a challenge/problem to the company?

If yes please specify the magnitude \_\_\_\_\_

Q.3 Does the distributors face difficulties in understanding the agreement?

If yes, please explain how \_\_\_\_\_

Q.4 Does the company face arguments or legal tangle with the distributors because distributors lack understanding of the contract?

If yes, please explain in detail \_\_\_\_\_

Q.5 Is there any cultural concern by working with the distributors?

If yes, please explain in detail \_\_\_\_\_

Q.6. In general what are the major benefits that the company gain out of outsourcing product distribution function to distributors?

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Q.7 In general what are the major challenges/ problems in working with the distributors?

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Q.8 In your view, do you think outsourcing advantage outweigh the problem or the other way around?

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Thank you

## Appendix - D

### Test -1 Result Analysis

#### Statistics

		respondent	respondent	position	of the concept of outsourcing
N	Valid	5	5	5	5
	Missing	0	0	0	0

#### Q-1 Sex of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	5	100.0	100.0	100.0
	Female	0	0.0	0.0	100.0
	Total	5	100.0	100.0	

#### Q-2 Age of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-35	5	100.0	100.0	100.0
	36-45	0	0.0	0.0	0.0
	above 46	0	0.0	0.0	100.0
	Total	50	100.0	100.0	

#### Q-3 Category of the respondent's position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Managerial	5	100.0	100.0	100.0
	Non-	0	0.0	0.0	100.0
	Total	5	100.0	100.0	

#### Q-4 Respondent's awareness level of the concept of outsourcing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	0	0.0	0.0	0.0
	High	5	100.0	100.0	100.0
	Medium	0	0.0	0.0	100.0
	Total	5	100.0	100.0	

### Test -2 Result Analysis

#### Statistics

		respondent	respondent	position	of the concept of outsourcing
N	Valid	5	5	5	5
	Missing	0	0	0	0

#### Q-1 Sex of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	5	100.0	100.0	100.0
	Female	0	0.0	0.0	100.0
	Total	5	100.0	100.0	

#### Q-2 Age of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-35	5	100.0	100.0	100.0
	36-45	0	0.0	0.0	0.0
	above 46	0	0.0	0.0	100.0
	Total	50	100.0	100.0	

#### Q-3 Category of the respondent's position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Managerial	5	100.0	100.0	100.0
	Non-	0	0.0	0.0	100.0
	Total	5	100.0	100.0	

#### Q-4 Respondent's awareness level of the concept of outsourcing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	0	0.0	0.0	0.0
	High	5	100.0	100.0	100.0
	Medium	0	0.0	0.0	100.0
	Total	5	100.0	100.0	



**Test-1 Result Analysis ( Reason for Outsourcing)**

<b>To reduce cost</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Agree	4	80.0	80.0	80.0	
Strongly	1	20.0	20.0	100.0	
Total	5	100.0	100.0		
<b>To improve service quality</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Agree	3	60.0	60.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To give more focus on to core function</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Agree	3	60.0	60.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To improve flexibility of deliver</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Neutral	0	0.0	0.0	0.0	
Agree	4	80.0	80.0	80.0	
Strongly	1	20.0	20.0	100.0	
Total	5	100.0	100.0		
<b>To save managers time</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Neutral	0	0.0	0.0	0.0	
Agree	3	60.0	60.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To assist the current fast growth of the company</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Disagree	1	20.0	20.0	20.0	
Neutral	0	0.0	0.0	0.0	
Agree	2	40.0	40.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To access skill not available internally</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Strongly	0	0.0	0.0	0.0	
disagree	1	20.0	20.0	20.0	
Neutral	1	20.0	20.0	40.0	
Agree	3	60.0	60.0	100.0	
Strongly	0	0.0	0.0	100.0	
Total	5	100.0	100.0		
<b>To improve effceny</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Neutral	1	20.0	20.0	20.0	
Agree	2	40.0	40.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>Optimal RtM utilization</b>					
	Frequency	Percent	Valid	Cumulative	
Valid Agree	4	80.0	80.0	80.0	
Strongly	1	20.0	20.0	100.0	
Total	5	100.0	100.0		

**Test-2 Result Analysis ( Reason for Outsourcing)**

<b>To reduce cost</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Agree	4	80.0	80.0	80.0	
Strongly	1	20.0	20.0	100.0	
Total	5	100.0	100.0		
<b>To improve service quality</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Agree	3	60.0	60.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To give more focus on to core function</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Agree	3	60.0	60.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To improve flexibility of deliver</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Neutral	0	0.0	0.0	0.0	
Agree	4	80.0	80.0	80.0	
Strongly	1	20.0	20.0	100.0	
Total	5	100.0	100.0		
<b>To save managers time</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Neutral	0	0.0	0.0	0.0	
Agree	3	60.0	60.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To assist the current fast growth of the company</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Disagree	1	20.0	20.0	20.0	
Neutral	0	0.0	0.0	0.0	
Agree	2	40.0	40.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>To access skill not available internally</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Strongly	0	0.0	0.0	0.0	
disagree	1	20.0	20.0	20.0	
Neutral	1	20.0	20.0	40.0	
Agree	3	60.0	60.0	100.0	
Strongly	0	0.0	0.0	100.0	
Total	5	100.0	100.0		
<b>To improve effceny</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Neutral	1	20.0	20.0	20.0	
Agree	2	40.0	40.0	60.0	
Strongly	2	40.0	40.0	100.0	
Total	5	100.0	100.0		
<b>Optimal RtM utilization</b>					
	Frequenc	Percent	Valid	Cumulative	
Valid Agree	4	80.0	80.0	80.0	
Strongly	1	20.0	20.0	100.0	
Total	5	100.0	100.0		

Source; Survey data 2016

**Test-1 Result Analysis ( Benefits of Outsourcing)**

**Test-2 Result Analysis ( Benefits of Outsourcing)**

**Outsourcing help the company reduce cost**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly	0	0.0	0.0	0.0
Agree	4	80.0	80.0	80.0
Strongly Agree	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Outsourcing help the company reduce cost**

	Frequency	Percent	Percent	Percent
Valid Strongly	0	0.0	0.0	0.0
Agree	4	80.0	80.0	80.0
Strongly	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Help the company to give more focus to core function**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	3	60.0	60.0	60.0
Strongly Agree	2	40.0	40.0	100.0
Total	5	100.0	100.0	

**Help the company to give more focus to core function**

	Frequency	Percent	Percent	Percent
Valid Agree	3	60.0	60.0	60.0
Strongly	2	40.0	40.0	100.0
Total	5	100.0	100.0	

**Improved flexibility on delivery service**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	4	80.0	80.0	80.0
Strongly Agree	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Improved flexibility on delivery service**

	Frequency	Percent	Percent	Percent
Valid Agree	4	80.0	80.0	80.0
Strongly	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Help the company to access new skill ont available internally**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	2	40.0	40.0	40.0
Neutral	1	20.0	20.0	60.0
Agree	2	40.0	40.0	100.0
Strongly agree	0	0.0	0.0	100.0
Total	5	100.0	100.0	

**Help the company to access new skill ont available internally**

	Frequency	Percent	Percent	Percent
Valid Disagree	2	40.0	40.0	40.0
Neutral	1	20.0	20.0	60.0
Agree	2	40.0	40.0	100.0
Strongly	0	0.0	0.0	100.0
Total	5	100.0	100.0	

**Outsourcing save managers time and energy**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	4	80.0	80.0	80.0
Strongly agree	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Outsourcing save managers time and energy**

	Frequency	Percent	Percent	Percent
Valid Agree	4	80.0	80.0	80.0
Strongly	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Help the company manage the sales function with less manpower**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	1	20.0	20.0	20.0
Agree	3	60.0	60.0	80.0
Strongly agree	2	40.0	40.0	100.0
Total	5	100.0	100.0	

**Help the company manage the sales function with less manpower**

	Frequency	Percent	Percent	Percent
Valid Neutral	1	20.0	20.0	20.0
Agree	3	60.0	60.0	80.0
Strongly	2	40.0	40.0	100.0
Total	5	100.0	100.0	

**Help the company cover wider sales territory**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	4	80.0	80.0	80.0
Strongly agree	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Help the company cover wider sales territory**

	Frequency	Percent	Percent	Percent
Valid Agree	4	80.0	80.0	80.0
Strongly	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Improve R&M utilization**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	4	80.0	80.0	80.0
Strongly agree	1	20.0	20.0	100.0
Total	5	100.0	100.0	

**Improve R&M utilization**

	Frequency	Percent	Percent	Percent
Valid Agree	4	80.0	80.0	80.0
Strongly	1	20.0	20.0	100.0
Total	5	100.0	100.0	

Source; Survey data 2016

**Tet-1 Result Analysis ( Challenges of outsourcing)**

**Tet-2 Result Analysis ( Challenges of outsourcing)**

**Loss of control over the outsourced service**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	20.0	20.0	20.0
	Neutral	1	20.0	20.0	40.0
	Agree	2	40.0	40.0	80.0
	Strongly agree	1	20.0	20.0	100.0
	Total	5	100.0	100.0	

**Distributors lack skilled and qualified manpower to manage their business**

**Loss of control over the outsourced service**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	20.0	20.0	20.0
	Neutral	1	20.0	20.0	40.0
	Agree	2	40.0	40.0	80.0
	Strongly agree	1	20.0	20.0	100.0
	Total	5	100.0	100.0	

**Distributors lack skilled and qualified manpower to manage their business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	0	0.0	0.0	0.0
	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributors focus on short term gain than long term benefits**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	0	0.0	0.0	0.0
	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributors focus on short term gain than long term benefits**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	20.0	20.0	20.0
	Agree	3	60.0	60.0	60.0
	Strongly agree	1	20.0	20.0	100.0
	Total	5	100.0	100.0	

**Distributor's reluctance to buy all brands & SKUs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	20.0	20.0	20.0
	Agree	3	60.0	60.0	60.0
	Strongly agree	1	20.0	20.0	100.0
	Total	5	100.0	100.0	

**Distributor's reluctance to buy all brands & SKUs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributor's reluctance on long term investment**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributor's reluctance on long term investment**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	20.0	20.0	20.0
	Agree	2	40.0	40.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributor's low remuneration and its impact on their sales force motivation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	20.0	20.0	20.0
	Agree	2	40.0	40.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributor's low remuneration and its impact on their sales force motivation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	20.0	20.0	80.0
	Strongly agree	4	80.0	80.0	100.0
	Total	5	100.0	100.0	

**Distributors are not recruiting their employees based on merit and qualification**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	20.0	20.0	80.0
	Strongly agree	4	80.0	80.0	100.0
	Total	5	100.0	100.0	

**Distributors are not recruiting their employees based on merit and qualification**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributors are reluctant to pay credit for RPM**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

**Distributors are reluctant to pay credit for RPM**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	20.0	20.0	20.0
	Strongly agree	4	80.0	80.0	100.0
	Total	5	100.0	100.0	

**Lack of motivation of the distributor's sales poeple**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	1	20.0	20.0	20.0
	Strongly agree	4	80.0	80.0	100.0
	Total	5	100.0	100.0	

**Lack of motivation of the distributor's sales poeple**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	3	60.0	60.0	60.0
	Strongly agree	2	40.0	40.0	100.0
	Total	5	100.0	100.0	

