



Factors That Impact the Improvement of Transparency, Control and Savings in Indirect Purchases

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Abstract: The present study has the purpose to present the main factors that affect or benefit the indirect purchasing area, starting for the transparency in which the important factors are the ethics, the compliance and the part of the documentation of the process to be able to be audited through ISO 9001:2015. In the same way, the control factors are appended which in this case correspond to the indicators and KPI's, these let generating transparency in the results of the company and to be able to take the necessary actions and finally the factors of saving that correspond to the cost avoidance and cost saving.

Resumen: El presente estudio tiene la finalidad de presentar los principales factores que afectan o benefician al área de compras indirectas, empezando por la transparencia en el cual los factores importantes son la ética, el compliance (conformidad) y la parte de la documentación de los procesos para poder ser auditados a través de la ISO 9001:2015. De la misma manera se anexan los factores de control que en este caso corresponde a los indicadores y KPI's, estos a su vez permiten generar transparencia en los resultados de la empresa y poder tomar las acciones necesarias, y por último los factores de ahorro que corresponden a los cost avoidance (evitación de costos) y cost saving (ahorro de costos).

To cite this article

[López, C. A. C., Juárez, J. A. T. & Gutiérrez, J. L. C. (2019). Factors That Impact the Improvement of Transparency, Control and Savings in Indirect Purchases. *The Journal of Middle East and North Africa Sciences*, 5(7), 24-31]. (P-ISSN 2412- 9763) - (e-ISSN 2412-8937). www.jomenas.org, 5

Keywords: Indirect purchasing; savings; transparency and control.

1. Concepts:

According to Sangri Coral, it defines purchases as follows; Acquire: "Achieve possession of a thing, for work. Synonymous with buying, obtaining and obtaining, the action of acquiring and making one's own what belongs to nobody ". (Sangri Coral, 2014). Likewise, according to Escrivá and Savall define it in the following way. Purchases; it consists of looking for the sources of supply and acquiring the sufficient goods for the development of the business activity, in order to satisfy the demand (Escrivá Monzó, Savall Llidó, & Martínez García, 2014).

When we talk about indirect purchases it is important to indicate that some authors name them as non-productive purchases, in which case they have the same approach. To do this, the following concepts are attached. According to Arrasti, the non-productive purchases linked to the activity, are contemplated the subcontracting of manufacturing and assembly, transport and regular supplies. On the other hand, its complexity of supply compared to its cost, are the MRO (maintenance, repairs and operations). Finally, there are usually a few families of indirect very heterogeneous (rentals, consulting and professional services, advertising ...) (Errasti , 2014).

Duran Mora, in comparison to the previous author, names it as categories of indirect purchases: It is the classification of the goods and services that are acquired in a company, in order to create groups or families of goods and services to identify the appropriate suppliers and control the Spending according to the different categories (Durán Mora, 2017). In the same way, indirect materials are goods used to support the operations of a company (Chopra & Meindl, 2013).

The area of indirect purchases is very susceptible to fall into malicious proposals for the process that leads, for contact with suppliers, for cash management, therefore, it is a very sensitive area in which to work with ethics and professionalism, attached to processes that can be auditable to avoid any more understood. In this way Olivares indicates that business transparency is more of a Striptease (which literally means stripping and cheating) than, in an integral nude, by the slowness in the exhibition, by the insinuation and because always the most attractive is usually hidden, but the commitment to transparency of information to generate sustainable value to the company in the current context and future must be sincere and (Olivares, 2018). While Peschard defines transparency from the etymological point of view, which means that

"you can see through", like a glass box, ie it talks that there are no barriers that hide what is inside, making it visible, or transparent (Peschard, 2017). According to Arboleya and López, the concept of transparency has to do with transparent quality, that is, clear, obvious, that it is understood without doubt and ambiguity. It does not aim to establish how things should be, but to be seen and perceived as they are (Arboleya & López, 2000), but, for Nonell transparency makes possible an adequate praxis and favors the critical analysis of the results, in order to be able to modify them eventually based on the maximization of the product and the minimization of the expense (Nonell, 2006).

The main part is to be able to control our processes, but for this, there is a need to be very clear about what control is. According Varo is a permanent process aimed at measuring and evaluating any activity or benefit, on the basis of criteria and benchmarks set, and to correct any deviations that occur about those (Varo, 1994). Similarly to Brunetti and Tiziano, control means, the set of activities that serve to achieve specific objectives by determining or orientation of certain actions (Giorgio Brunetti & Tiziano Vescovi, 2004), while for Pérez it is the function that aims to ensure the achievement of the objectives and plans prefixed in the planning phase (Pérez-Carballo Veiga, 2013).

A fundamental part of a company is to increase its savings, in this case, indirect purchases of negotiating better prices to reduce costs in the company, for this purpose what is saved will be defined. According to Cotler, it's the difference between income and total spending (Cotler, 2003). However, Barros de Castro and Lessa indicate that the proportion of unused income for the acquisition of consumer goods constitutes, by definition, the amount of "savings" of the economic system in the period considered. (de Castro & Lessa, 2004), for Maroto and Melle saving is a scarce economic resource whose efficient allocations are decisive for the economy as a whole and for each and every one of its sectors and agents (Maroto Acín & Melle Hernández, 1999). Therefore, the saving in indirect purchases will be the difference between the income with the total expense in a certain period that normally takes place annually in the purchasing department.

2. Factors that impact in the improvement of the transparency in Indirect Purchases:

2.1. Ethics in purchase:

Within the factors it is necessary to ensure good practices, therefore, According to Sangri Coral, this is an area of great importance, because if the morals and ethics in the purchases are violated, several problems may be encountered by enterprises, see table 1.

By avoiding these problems, the area of direct or indirect purchases can have better transparency avoiding misunderstandings with suppliers and internal customers

(users), making a better practice in the purchasing operation and avoiding unfair competition.

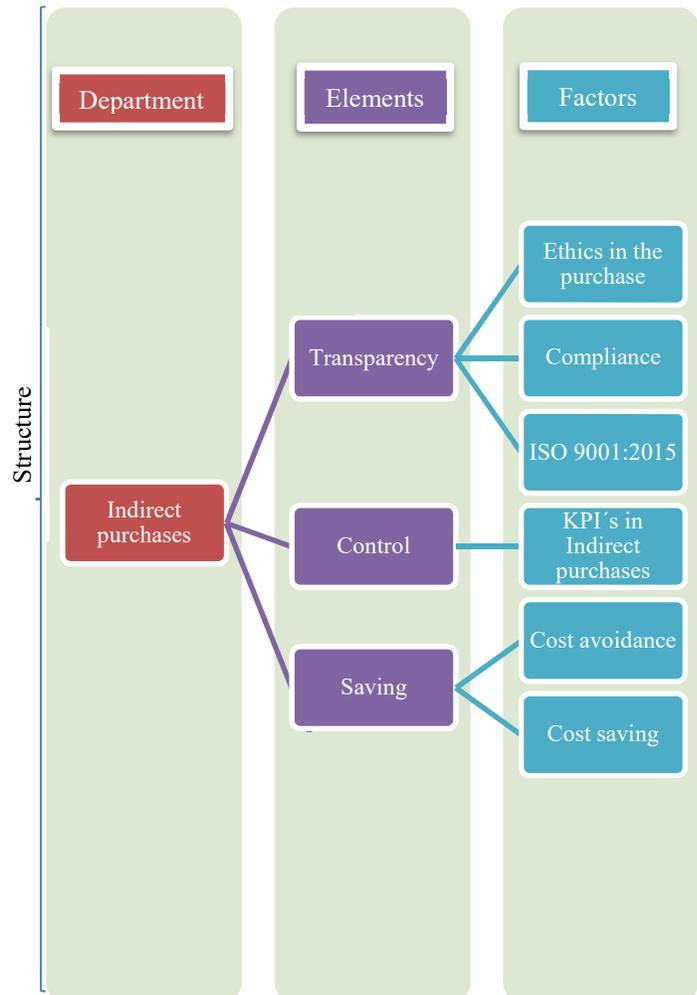


Figure 1. Structure of the main factors for improvement in the area of indirect purchases. Source: Own elaboration (2019).

2.2. Compliance:

Recently, the use of the term compliance associated with good governance and social responsibility is being extended among companies, defined as an element of control and supervision and verification of regulatory compliance and the prevention of crime (Gómez González, 2012). Compliance, referring to compliance with ethical and legal codes, public and private in the activities of a company. I can use it whenever the correct performance of the company is guaranteed but is not that a function of the legal department? (Jáuregui & Carmona, 2014). According to the World Compliance Association, corporate compliance implies the implementation of a series of procedures and good practices for the identification and classification of operational and legal risks, as well as

establishing the internal mechanisms of prevention and management thereof (Berocam Consulting, 2019).

If the company is already certified, this management system already incorporates a section in the implementation that specifically talks about the procedures and controls that the purchasing department must take into account to guarantee that the quality of the products and services supplied conform to the Quality standards and policies of the company. In this case, it would be a matter of extending these same controls and procedures to the guarantee of legal compliance previously developed through a previous critical analysis and a definition of the risk map. A Purchasing Department that wants to incorporate the Compliance criteria into its activities for the selection of contractors and suppliers of products should establish procedural systems such as the prior approval of suppliers, incorporating a contracting protocol that evaluates different issues in the selection and evaluation of candidates beyond the purely economic issue. In addition, the preparation of a risk map will help us identify, evaluate and establish actions and controls to prevent risks. In the purchasing department, one of the points that we will have to address in this analysis is the risk that the suppliers that we consider critical for our business may generate (Rullo, 2017).

Table 1: *Ethics in purchases.*

Problems due to lack of ethics	Description
Bribes	This is an activity widely used by purchasers or purchasing managers, unethical, and involves asking the supplier to offer money or other gifts to assign the purchase order or order.
Favoritism	In some cases, the buyer or manager of purchases, unethical, without considering the comparative table, basis of the purchase decision, grants the purchase order or order to a certain supplier, who is sometimes a relative or friend or a provider, who always appreciates the designation, with some gift.
Accept invitations	The argument used by corrupt and unethical sellers, who, to receive the purchase order or order, rely on invitations to eat, dine or otherwise with the pretense of being the designated.
Receive gifts	Like the previous comment, it is a very helpful argument by sellers, unethical, that, to receive the purchase order or order, it can be said that the buyer or boss of purchases, unethical, receives,

among other gifts shirts, socks, sound equipment, and which, in general, goes according to the magnitude of the purchase order, in relation to the economic amount, also with the purpose of being the designated one.

Ask the seller to improve their prices

This is an activity of the buyer or the boss of purchases, ethical flaws, that the general seeks to improve the price of the requested, telling each supplier, the price of another, achieving a low price; a very dirty activity, which is known as "you did not get your pencil pointed".

Source: Own elaboration (2019) based on (Sangri Coral, 2014)

2.3. ISO 9001:2015:

According to the previous topic, it indicates that in order to have a regulation there must be procedures and controls, therefore, to regulate them and be able to audit them, you can have the support of the ISO 9001: 2015 standard that indicates that the processes must be documented and that all information must be documented, which supports transparency and adherence to procedures. The following section of the standard is attached.

Table 2: *Sections of ISO 9001: 2015 for process documentation.*

Sections	Description
4.4	Quality management system and its processes
4.4.1	The organization shall establish, implement, maintain and continually improve a quality management system, including the processes needed and their interactions, in accordance with the requirements of this International Standard. The organization shall determine the processes needed for the quality management system and their application throughout the organization, and shall: <ul style="list-style-type: none"> a) determine the inputs required and the outputs expected from these processes; b) determine the sequence and interaction of these processes; c) determine and apply the criteria and methods (including monitoring, measurements and related performance indicators) needed to ensure the effective operation and control of these processes; d) determine the resources needed for these processes and ensure availability;

- e) assign the responsibilities and authorities for these processes;
- f) address the risks and opportunities as determined in accordance with the requirements of 6.1;
- g) evaluate these processes and implement any changes needed to ensure that these processes achieve their intended results;
- h) improve the processes and the quality management system.

To the extent necessary, the organization shall:

4.4.2

- a) maintain documented information to support the operation of its processes;
- b) retain documented information to have confidence that the processes are being carried out as planned.

Source: Own elaboration (2019) based on ISO:9001-2015

Table 3: Sections of ISO 9001: 2015 for the control and management of the supply process.

Sections	Description
8.4	Control of externally provided processes, products and services <i>General:</i> The organization shall ensure that externally provided processes, products and services conform to requirements. The organization shall determine the controls to be applied to externally provided processes, products and services when: a) products and services from external providers are intended for incorporation into the organization’s own products and services; b) products and services are provided directly to the customer(s) by external providers on behalf of the organization; c) a process, or part of a process is provided by an external provider because of a decision by the organization. The organization shall determine and apply criteria for the evaluation, selection, monitoring of performance, and re-evaluation of external providers, based on their ability to provide processes or products and services in accordance with requirements. The organization shall retain documented information of these activities and any necessary actions arising from the evaluations.
8.4.1	8.4.1

Type and extent of control:

The organization shall ensure that externally provided processes, products and services do not adversely affect the organization’s ability to consistently deliver conforming products and services to its customers. The organization shall:

8.4.2

- a) ensure that externally provided processes remain within the control of its quality management system;
- b) define both the controls that it intends to apply to an external provider and those it intends to apply to the resulting output;
- c) take into consideration:
 - 1) the potential impact of the externally provided processes, products and services on the organization’s ability to consistently meet customer and applicable statutory and regulatory requirements;
 - 2) the effectiveness of the controls applied by the external provider;
- d) determine the verification, or other activities, necessary to ensure that the externally provided processes, products and services meet requirements.

Information for external providers:

The organization shall ensure the adequacy of requirements prior to their communication to the external provider. The organization shall communicate to external providers its requirements for:

8.4.3

- a) the processes, products and services to be provided;
- b) the approval of:
 - 1) products and services;
 - 2) methods, processes and equipment;
 - 3) the release of products and services;
- c) competence, including any required qualification of persons;
- d) the external providers’ interactions with the organization;
- e) control and monitoring of the external providers’ performance to be applied by the organization;
- f) verification or validation activities that the organization, or its customer, intends to perform at the external providers’ premises.

Source: Own elaboration (2019) based on ISO:9001-2015



Figure 2. Factors for achieving Transparency in Indirect Purchases.
Source: Own elaboration (2019).

3. Factors that impact on the improvement of control in Indirect Purchases.

Indicators and KPIs are very important to be able to improve within an organization, that is, what can not be measured can not be controlled, and what is not controlled cannot be improved to maximize our resources.

To do this and to be clearer will be defined what an indicator according to Mora García Luis, in a common language, refers to essentially quantitative data, which allows us to realize how things are in relation to some aspect of the reality that we want to know. Indicators can be: measures, numbers, facts, opinions or perceptions that indicate specific conditions or situations (Mora García, 2008).

Now, what are KPIs? According to Orozco Alvarez are the initials of Key Performance Indicators that translated into Spanish would become the key performance or performance indicators. These are indicators that are decisive for analyzing quickly the progress of the business and that allow us to make decisions. All KPIs are indicators, but not all indicators are KPIs; I mean, many managers and executives have gone from not having measurements just about your business to have several dozens of them when one of the words that define KPI is that is key! A management or control panel of a company should not have more than 25/30 key indicators because if they cannot meet the problem of "paralysis by analysis" and one of the characteristics of our current competitive environment is that we have to make decisions quickly and before others do (Álvarez, 2013). Marín Martínez defines KPIs as the set of specific metrics that each business uses to quantify the achievement of its objectives (Marín Martínez, 2016).

A characteristic that defines the KPIs is that each company has to define which are the indicators that it wants to keep in mind to manage its course. Many of them will be common (such as sales, ROI, profit ...) but others will depend on the sector of activity, the type of product or the

strategy designed by the company. That is why a scorecard cannot be copied from one company to another and stick to another because it needs a whole strategic reflection from which the corresponding KPIs will emanate (Álvarez, 2013).

In the following table will be annexed some potential KPIs for the department or area of indirect or non-productive purchases, since as mentioned by the author Alvarez Orozco for each company is different KPI's. Therefore, only some KPIs that are considered as standards will be described.

Table 4: KPI's Indirect Purchases.

KPI	Description	Unit	Frequencies
Finished requisitions	All the requisitions have been generated the Purchase Order (P.O), to get the percentage we have to divide the requisitions with P.O / The total of requisitions generated.	%	Quarterly
Purchase orders delivered	Corroborate and follow up on all purchases. Purchase orders delivered / Purchase orders generated	%	Quarterly
Savings achieved	Actual achieved savings / Total purchases managed	%	Monthly
Total savings for supply management	Total savings for supply management / Savings goal.	Ratio	Annual.

Source: Own elaboration (2019)

4. Factors that impact on the improvement of savings in Indirect Purchases.

In the area of indirect purchases one of the primary tasks is the search for savings, but do not confuse cost avoidance, which is really a daily task of the buyers or the



buyer in the shopping area avoiding all increases in prices that suppliers often want to impose, in addition to the fact that cost avoidance is not reflected as such in the financial statement, but without cost savings if they are reflected.

4.1. Cost avoidance:

They are any action that avoids having to incur costs in the future. They represent potential increases in costs that are avoided through specific preventive actions. These measures will never be reflected in the budget or in the financial statements. Some examples of cost reduction measures are: a reduction of a proposed price increase by a supplier, the elimination of the need for additional personnel through process improvements, or a change in equipment maintenance programs critics to avoid work stoppages (Oliver, 2016), see figure 3.

Why is cost avoidance important in any business? It makes sense to save money where you can, and the big savings in profits and losses are never a bad thing. But, the reduction in costs also matters. It's important because:

1. Strategic acquisition processes often improve quality and business operations. There is no way to quantify that in traditional savings calculations.
2. In general, acquisitions handle the problems of compliance, transparency and supervision at the time of contracting. Because of this, the acquisition function plays an important role in reducing the costs associated with the risk. Optimal risk management is essential to manage the cash flow of your company.
3. Cost avoidance generally addresses strategic spending, and often there is no comparable purchase to review (Purchase Control, 2019).

When we talk about cost avoidance, we are framed within what is known as the saving of intangible costs.

They are actions that avoid having to incur costs in the future. They represent potential increases in costs that are avoided through specific preventive actions. These measures will never be reflected in the budget or in the financial statements.

Cost avoidance should not be confused with cost savings, which defines any action that reduces current spending, investment or debt levels (Avanti, 2017).

4.1. Cost savings:

They are any action that reduces current expenses, investment or debt levels. They result in a tangible financial benefit for the organization. The amount of money saved as a result of these measures should always be reflected in the financial statements and next year's budget. Actual cost savings should be visible in the financial statements compared to previous periods; The planned cost savings should be reflected in the budget. Some examples of cost-saving measures are: reduction of overtime, elimination of temporary employees, negotiation of price decreases for products and services, or negotiation of lower rental rates for facilities and equipment (Oliver, 2016).

The "hard" cost savings, understood as tangible reductions of the bottom line, are easily defined as / characterized by; which is shown in table 5.

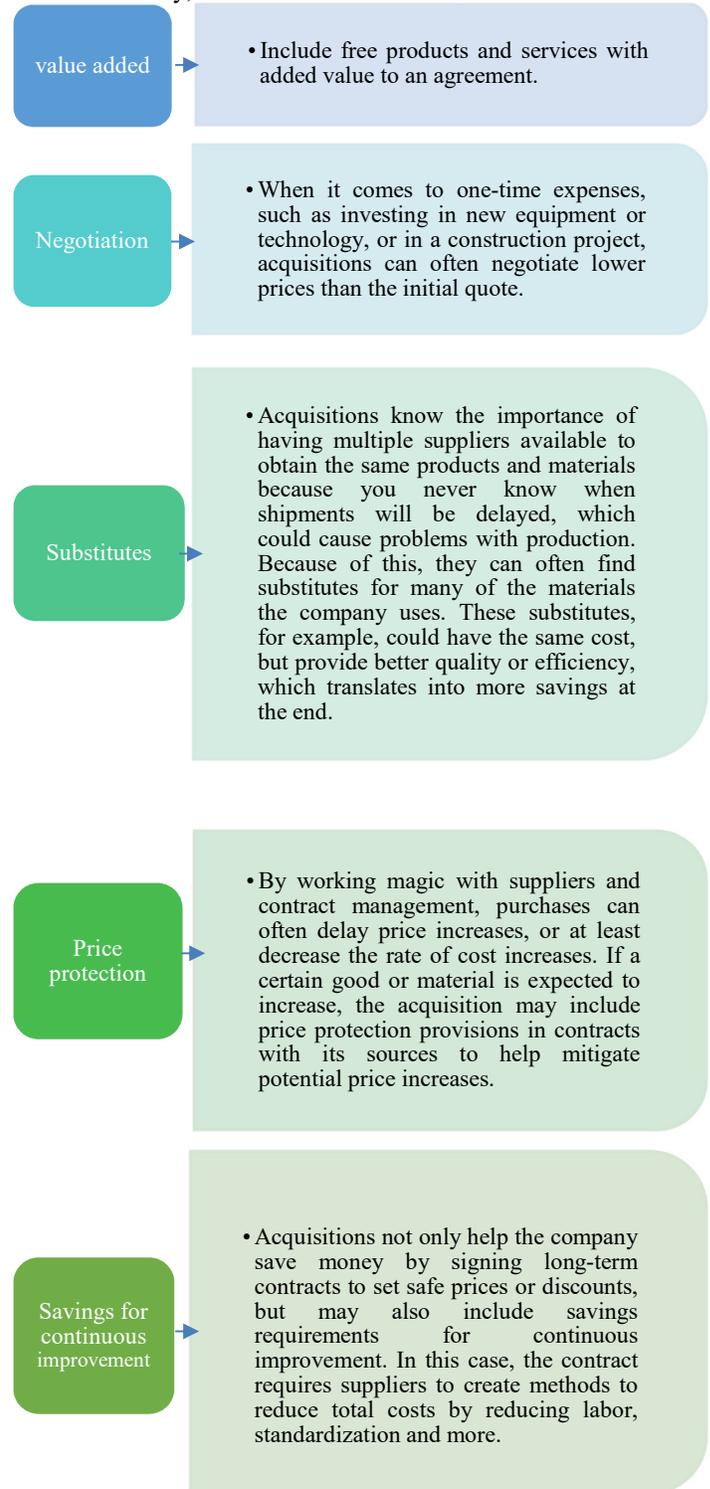


Figure 3. Some of the techniques most used today in cost avoidance.

Source: Own elaboration (2019) based on (Purchase Control, 2019; Avanti, 2017).



Table 5. *Characteristics of hard savings.*

Hard savings
Annual savings on the constant volume of the product/service purchased, actions that can be traced directly to the P & L
Direct reduction of expenses or a change in process/technology/ policy that directly reduces expenses
Improvements in the processes that result in real and measurable costs or reductions of assets
Examination of existing products or services, contractual agreements or processes to determine possible changes that reduce costs
Net reductions in prices paid for items purchased compared to the prices in effect in the previous 12 months or a change to lower cost alternatives

Source: Own elaboration (2019) based on (Esourcingwiki, 2008)

The following table summarizes the main differences between cost savings and cost avoidance measures:

Table 6: *Cost Saving vs. Cost Avoidance*

Cost Savings	Cost Avoidance
Any action that results in tangible financial benefits that reduce current expenses, investment or debt levels.	Any action that avoids having to incur expenses in the future.
The cost-saving measures are reflected in the financial statements and next year's budget.	Avoidance measures cost never reflected in the financial statement and the budget for next year. They will only be reflected in situations where the proposed actions are not implemented, resulting in a cost increase.

Source: (Oliver, 2016)

5. Conclusions:

There may be some other factors, but as mentioned from the beginning these are or are considered the main ones, including them in the process of indirect purchases is necessary if you want to achieve a great impact on the transparency of the process, but without applying them is not a guarantee that what has just been mentioned will happen, we must bear in mind that it will also depend on the organization if we have the commitment, with those responsible for indirect purchases that give the appropriate follow-up and apply the factors or nothing will.

Correctly apply ethics in purchases improve the reliability of the department, avoiding bad improvements, in the same way to integrate the part of the documentation through the points mentioned in the ISO will allow a

transparency in the execution of the process to be improved and audited at the time you want the organization and added to this is integrated compliance will be given greater emphasis on the achievement of ethics.

Through the KPIs the person in charge of purchases will be able to make improvements in the area evaluating the performance of each one of these and being able to make improvements.

The area of indirect purchases has a great mission, and this is to save, that is, through cost avoidance and cost saving this could be achieved. The savings are regularly reported annually to know if the goal was met or not.

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Received June 13, 2018; revised June 20, 2018; accepted June 4, 2018; published online July 04, 2019