

Outsourcing Quandry: All, Some or None

Outsourcing is not a problem-solving panacea, whether you're looking to "farm out" an entire process or just a short link of the supply chain. "Outsourcing is not for everybody, and there is no universal right or wrong answer when it comes to making the decision," maintains Robert A. (Andy) Dishner, director of client solutions, TMSi Logistics, Knoxville, Tenn. "The outsourcing decision is a very complex equation and you absolutely have to do your homework to get the answer for your specific case."

"Outsourcing takes a lot of work to do it correctly," says Damian R. Burke, principal, Conveying Solutions, Inc., Winder, Ga. "There's a lot at stake, and if you do it wrong, the 'solution' can create a situation that is even worse than the original problem you wanted to resolve."

Prelude to Outsourcing Decision

To outsource or not to outsource is a decision not to be taken lightly. "The outsourcing decision obviously will have a major impact on your bottom line," say Burke and Dishner. "However, another critical factor is on the line—your reputation in the marketplace." If for example, your outsource partner performs poorly and routinely misses delivery targets, the customer will complain to and penalize you, not your third-party provider.

Therefore, Burke and Dishner recommend adopting the following practices to determine whether you have a case for outsourcing:

1. Know your strengths and weaknesses. "You can't outsource something if you don't know whether it's a strength or weakness for your company," they say. Do some benchmarking of your operations and understand your processes and their performance against industry and best-in-class standards.

2. Review your metrics. Are you performing to those metrics? Better yet, do you have a reliable set of metrics in place? Among the metrics should be the cost/unit (trailer, pallet, container, or piece) that drives your business. You must have a good picture of what it costs you to process a unit through your logistics operations, they insist.

Other measures may include service level, cycle time, fill rates, on-time shipments or deliveries. Also, include measures that focus on the quality performance to the customer. "Know what's important to your customers, how they are measuring you, and how you're performing to them," they advise.

3. Seek continuous improvement. Are you improving your performance year-over-year, or has it stagnated due to complacency brought about by tenured people or processes, and a 'that's the way we've always done it' mindset?

To raise the level of performance, company leadership will have to address how to best improve or change the processes and change the culture of the organization and the behavior of its workforce. Outsourcing may be just one answer.

4. Do research. Company leaders can learn from others. They should contact and visit other companies, both those who have outsourced and others which have kept operations in-house to learn about the successes and failures.

"It is critical for the decision makers to fully educate and inform themselves about all aspects of outsourcing before making a commitment," advise Dishner and Burke.

Reasons to Outsource

There are a variety of reasons to outsource. Dishner and Burke have compiled a list of factors that favor outsourcing. Among them:

Reduce liability. As an example they cite outsourcing transportation. In this case, you don't have the responsibility for the liability of the drivers, insurance, and establishing the mechanics of the routing. In addition, you don't have to deal with the details of the bills, freight payments and audits, which are also outsourced to a third party provider. "Liability is further reduced because of your decreased exposure to fines for operating out-of-compliance with DOT regulations and lawsuits from accidents," they offer.

Improve performance. Outsourcing can dramatically increase the level of urgency and focus on a specific part of the business or a process. Outsourcing, they explain, can "breathe" new life into that operation, bring in new ideas, and spur changes that will increase the level of performance.

Leverage expertise, buying power. "You may have a million dollars in freight spend as a company and you outsource that to a 3PL who does \$50-million, and they can leverage partners and reduce expenses based on their economy of scale," they explain. "Outsourcing is specialization, and the appropriate 3PL may have more expertise and understanding of everything along that part of the supply chain, allowing you to focus on what you do best."

Update distribution network. Your customer base changes. Where you source your product changes. Your customers' geography changes. For these reasons and many others, you find yourself moving from having a five plant, ten DC network to an internationally sourced network with two big box DCs. These changes typically drive changes in distribution and transportation requirements. Can it best be satisfied internally, or by outsourcing?

Maintaining Control

The fallacy about outsourcing is that "once you throw it over the fence all your problems are gone." "Wrong!" insists Burke. "You have the same challenges that you had with your operation before and after you outsourced it, it's just that the team you have to solve and meet those challenges has changed." If you outsource and forget about it, he argues, "You're not going to be any good at challenging your third-party partner about performance or other problems because you won't know what's really going on."

Dishner explains that in many cases "you have a lot more control in an outsource situation than when the operation was performed internally." It's easier in an outsourcing relationship to tell your partner, "This is our expectation and we're going to measure you on it." In essence, he says, you are the customer so you get to outline the expectations, establish the metrics, and then to hold the 3PL accountable."

Further, to maintain an element of control in an outsourcing relationship they recommend establishing a "regular rhythm of performance meetings" where a variety of topics can be discussed and reviewed, from performance metrics to personnel matters and customer complaints. It's amazing, they say, how many companies do business with a third-party provider and their intentions are good as they plan for

bi-monthly or quarterly business performance reviews, only to see them eventually become “out-of-sight, out-of-mind” and no longer taking place.

“When you don’t have regular meetings and maintain a personal relationship between the parties and a problem develops, it takes a lot more time to correct it because the parties do not understand each other and don’t react quickly to locate and correct the error,” explains Dishner.

“When that happens, that’s usually the first signal that the 3PL relationship is deteriorating and is often the beginning of poor performance,” he warns.

Another approach they favor is to have an internal resource on-site at the 3PL. “It really depends on the size and scope of the partnership, but it may be beneficial to invest in a resource or two to make sure that you have a presence there, are plugged into what’s going on, and to foster that team relationship between the 3PL and customer,” they explain.

When it comes to outsourcing, the primary lesson learned, as voiced by Dishner and Burke, is: “Outsource some, all, or none of your logistics, but never outsource logistics management.”

Written by:

Damian R. Burke, Principal, Conveying Solutions, Inc.

Robert A. (Andy) Dishner, Director of Client Solutions, TMSi Logistics