Abstract. Given the challenge of today’s economy and the demands placed on all organizations due to the competitive forces experienced in a world market, supply chain management professionals are seeking ways to help improve the competitive positions of their companies. The use of outsourcing is increasing rapidly in manufacturing, as non-core functions are being reviewed and outsourced in order to reduce costs and improve operational efficiency in order to lower the Total Cost of Ownership of all required products and services. These components will include all aspects of supply and materials logistics management. This presentation will review the current trend to outsource multiple components of the supply chain to one provider, thus maximizing the potential cost reductions and process improvements. Additionally, it will address how to identify outsourcing companies, opportunities, how to develop, issue and evaluate outsourcing RFPs and contract issues to avoid. It details how and where to start, the short and long term benefits that will be derived by your organization, including immediate cost reductions and process improvements.

The Opportunity. Outsourcing continues to be utilized by more and more companies in response to market pressures to be continue to drive cost and inefficiency out of their organization while increasing process improvements and best practice concepts. Based on research conducted for The Outsourcing Research Council, “the roughly 3,000 U.S. companies with more than half a billion in revenue will spend 7 percent of that revenue – or $874 billion – on outsourcing this year.” This coupled with the fact that most studies indicate that outsourcing spending is continuing to increase 15 – 25 percent per annum. Companies are using outsourcing to help rapidly change multiple aspects of their internal operations in order to provide better service to their customer’s, both internal and external and to maintain or increase their competitiveness. The challenge is to locate and identify those companies to form a strategic alliance with that can provide both hard and soft dollar savings, process improvements, while helping your organization progress towards achieving or maintaining best -in-class status within your industry and that support your company ethics, philosophy and culture.

 Outsourcing any or all components of your supply chain can be one of the most important decisions a company will make and one that should be given serious thought and investigation prior to proceeding. Why is it so important? It is critical as any disruption to your supply chain, no matter how small can have tremendous rippling effects downstream that could be very difficult to recover from, both financially and operationally. So based upon the aforementioned statement, why would any company take a chance and outsource any part of their supply chain? The answer is simple: we are now in a global economy with tremendous pressure to compete with offshore manufacturing and service providers. When organizations look to lower costs in their supply chains, alternative solutions must be considered that bring immediate and sustainable cost reductions and process improvements. Outsourcing various components in your supply chain can produce savings ranging from 5 – 30 percent reductions in products, services and overall operating costs. Companies are recognizing that cost savings and
process improvements can be leveraged and improved by forming a strategic alliance with an outsourcing provider that is focused on providing services and products using best practices strategies and tools. It is these cost and process improvements that are generating the interest among supply chain management professionals to take a close look at outsourcing.

Typically there are eight initial questions raised when considering outsourcing components of a supply chain:
1. What positions or functions can I outsource or need to outsource?
2. Where do I find companies that provided these outsourcing services?
3. How do I evaluate and select a company that will provide the greatest overall value?
4. What are my options, costs, risks and benefits both short and long term?
5. Do I want to include or consider tangible and intangible assets?
6. At the end of the day, what do I expect to achieve or need to improve by outsourcing parts of my supply chain?
7. How quickly do I want or need to evaluate and implement an outsourcing solution?
8. How long will it take to implement an outsourcing solution and what resources must my company provide to ensure its success?

**Positions and Functions Commonly Outsourced**

Often times we are not aware of the various supply chain management functions and positions that are now being outsourced. Surprisingly the list is quite long and extensive as many companies are focusing on providing these services both domestically and internationally. The types of positions and services commonly outsourced in purchasing, materials, logistics and supply management include the following:

- Material Planning
- Indirect/Tactical Purchasing
- Direct/Strategic Sourcing
- Storeroom Operations
- Material Handling
- Delivery within the internal organization
- Accounts Payable
- Shipping/Receiving
- Asset Management
- Quality inspection and compliance
- Compliance management
- Contract administration and supplier management
- Warehouse Operations
- Warehousing
- Transportation management
- Accounting
- Logistics
- Customs brokerage
- Order fulfillment
- Order management
- Project management
- Surplus/obsolete material and equipment disposal
Where do I find companies that provided these outsourcing services?
Companies that are successfully providing these types of supply chain management outsourcing services today are commonly referenced, reviewed and identified by organizations and publications from sources such as the internet, ISM, Purchasing Magazine, Gartner Dataquest, the Aberdeen Group, Fortune, iSource, The Outsourcing Institute and other similar publications and organizations

How do I evaluate and select a company that will provide the greatest overall value?
When considering the selection of an outsourcing partner, you should place the necessary weight to a list of key factors in identifying and selecting an outsourcing provider that should include the following key elements:

- Speed – the ability to rapidly provide a solution
- Cost – the ability to provide a cost effective program
- Benefits – provide the desired benefits
- Process Improvements – deliver continuous process improvement
- Integrity – Perform via the intent of the agreement, not looking for excuses
- Credibility – Provided similar services, have personnel that have been there before
- Professionalism – Staff should always represent buyer and outsourcer well
- Performance Metrics – Have well defined objective metrics
- Flexibility - Ability to expand and contract with market conditions
- Risk - Ability to assume risk from buyer
- Ability to provide value added services and benefits
- Detailed Statement of Work
- Ability to truly form a Strategic Alliance for best long term results
- Company’s focus on use of best practices tools, strategies and philosophies
- Company’s focus on supply chain management
- Company’s ability to provide outsourcing by components or in total

The goal is to select a company that is focused on being a best in class provider of these services as their primary mission, not as a secondary business. You want a company that understands commonly faced problems, issues and needs from the buyer’s perspective and that will work together in a seamless environment to deliver the greatest value while respecting your company’s culture, personnel and goals.

What are my options, costs, risks and benefits both short and long term?
The first question that must always be addressed is what are the risks in outsourcing versus the estimated benefits and can I achieve those benefits by outsourcing? One of the most important areas that should be well defined is the Key Performance Metrics used in managing an outsourcing relationship. Including these SLAs, KPIs in a well defined Statement of Work will help ensure that all of your goals, objectives and needs are achieved both in the short and long term. Some of the typical metrics that should be included and defined:

- Cost reduction guarantees
- Process improvement program
- Well defined operating performance metrics
- Guaranteed ability to perform better, faster, and more cost effective than existing staff can
• Monthly performance reports
• Quarterly and annual reviews and evaluations
• Well defined Statement of Work

**Do I want to include or consider tangible and intangible assets?**
Use of Vendor Managed Inventory (VMI) and consignment programs have been with us for many years with mixed results. The decision to utilize this type of component as part of an overall outsourcing strategy will deliver the greatest results to the buyer. VMI programs used as a separate tool in the buyer’s arsenal, many times does not deliver the long-term value and benefits that can be achieved by use of an integrated outsourcing program. When considering this issue some key elements to consider when considering the implementation and use of outsourcing in your supply chain:

• The ability to move risk from the buyer to the seller with respect to:
  o Product obsolescence
  o Working capital investment in inventory
  o Critical SLAs with respect on capital spares, critical spares, lead-times
  o Reduction of indirect costs in accounting, transportation, overhead, department operating costs, systems costs
  o Lead times for replenishment

**At the end of the day, what do I expect to achieve or need to improve by outsourcing parts of my supply chain?**
In today’s global market and economy we are seeing companies obtaining competitive market positions utilizing a variety of tactics, strategies and solutions. One continuing benchmark and comparison between companies is the effectiveness of their supply chain versus their competitors. In this arena, having the most cost effective and efficient supply chain that can respond to rapidly changing market conditions can be a tremendous competitive advantage. Outsourcing components of your supply chain can allow companies to rapidly implement change and better respond to competitive market pressures in a more cost effective and efficient manner. Before deciding to outsource, you may wish to conduct a market study and benchmarking review of your competitors supply chains in order to determine where, when, how and if you should proceed. Prior to going forward, you should have realistic goals and objectives that can be achieved by outsourcing and that can be sustained or improved during the next several years. The decision to outsource normally requires a review process that includes your senior management team, thus requiring a well defined schedule for implementation as well as obtainable goals, both financial and process improvement that will advance your companies position in the marketplace.

**How quickly do I need to evaluate and implement an outsourcing solution?**
The decision to outsource many times comes from senior management due to market conditions or financial pressures. In these cases, the evaluation and selection process can be as short as 45 days, but typically occurs within 120 days from the decision date. If initiated by the supply chain management group, a normal supplier search utilizing an RFI is quite common and these processes generally take between 4 to 10 months due to the internal review and education process that normally takes place. The direction may not be as clearly defined due to the lack of information about the risks and benefits of outsourcing various positions and functions within your supply chain.
How long will it take to implement an outsourcing solution and what resources must my company provide to ensure its success?
The key to success is developing and managing the outsourcing initiative utilizing a Project Management Scheduling tool. Today, there exist many new web based products that allows all key members of your organization to monitor the progress against schedule that helps maintain a company’s focus on key milestones and activities required from both parties in order to be successful.

Results
At the end of the day, a successful outsourcing program should yield savings across the entire spectrum of your supply chain and deliver:

- Product cost savings
- Working capital savings
- Labor savings
- Reduction in overall operating costs
- Reduction in risk
- Process improvements
- More efficient supply chain

Case Study # 1 - Telecommunications Equipment Manufacturer
A Fortune 1000 manufacturer of telecommunications equipment was faced with significant market pressures that necessitated immediate action and improvement within their existing supply chain. Key issues and problems that required immediate action included the following:

- Increase productivity and efficiency in the Purchasing and Material Planning function
- Reduce existing inventory levels without impacting production in a negative manner
- Reduce potential future excess inventory by rescheduling all inbound shipments from all suppliers
- Reduce/eliminate Tactical Buying duties currently performed by Company’s Buyers
- Respond quicker to rapidly changing market conditions
- Analyze work flow and processes and recommend process improvements
- Effectively transition business to Contract Manufacturer
- Work seamlessly as part of the Company’s Supply Chain Management sourcing team
- Reduce operating costs

Solution:
The Company awarded the outsource provider a contract to perform all Tactical Buying and Material Planning duties previously performed by existing staff. They provided a blended team responsible for all tactical buying and materials planning functions in a just-in-time environment. The outsource provider brought together an initial staff of 25 professionals, trained them in the Company’s existing systems, processes, work flow, direct material specifications, finished goods, supplier base, report utilization and procedures and began operations in less than thirty (30) days from the initial notification. The key objectives were to meet and exceed the Company’s aforementioned goals in a timely, cost effective and professional manner and to work as part of the existing commodity teams to ensure a seamless, harmonious and productive environment. The goals of the outsourcing program were:
• Effect a successful transition that will result in no loss of productivity
• Achieving cost savings and productivity gains while maintaining a cooperative team spirit
• Continuously identify and implement process and productivity improvements and assume more of the strategic buying duties

Results:
• 40% reduction of staff and associated costs
• Improved productivity for all functions outsourced
• Provide 100% coverage with no loss of productivity due to vacations and long term illness
• Successfully trained and became proficient of five (5) existing client MRP and data management and ordering systems.
• Improved teamwork between Buyers and Material Planners
• Highly educated and skilled workforce proactively assuming and performing multiple tasks, responsibilities and duties
• Shifted Tactical Buying duties to Material Planners, allowing Buyers to focus on strategic purchasing
• Highly responsive workforce, committed to Company’s ongoing success
• Demonstrated the ability to easily adapt to rapidly changing ongoing environment

By outsourcing these responsibilities, the company’s existing purchasing and materials planning staff initially decreased from approximately 50 to 25. Total annual labor savings were in excess of a million dollars per year, and additional savings were provided as a result of strategic procurement initiatives, process improvements and continued productivity gains.

Case Study # 2 - Communications component manufacturer
In late December of 2001—in the midst of consolidation and reorganization pressures with union contracts to be considered—the buyer’s global procurement organization solicited quotes from outsourcing firms to manage shipping, receiving, material handling, on-site transportation and storeroom operations at it’s five U.S. locations. The buyer sought practical solutions to rapidly improve business processes and substantially reduce operating costs. The Fortune 2000 manufacturer of communications component was faced with significant market pressures that necessitated immediate action and improvement within their existing supply chain.

Key issues and problems that required immediate action included the following:
• Respond quicker to rapidly changing market conditions
• Analyze work flow and processes and recommend process improvements
• Work seamlessly as part of the Company’s Supply Chain and Logistics Management team
• Reduce operating costs
• Increase productivity in positions outsourced
• Provide and manage to challenging operating and performance metrics, where none had previously existed
Implementation was to be underway by early in February 2002. In short, the organization needed supply management expertise recruited, hired and trained, and best practice processes put into place, and fast! The buyer’s Logistics Manager anticipated bumps in the implementation, unforeseen snags that might hinder the transition to outsourced services, but he was encouraged with the outsourcer that was selected to tackle the task.

Solution:
They determined to obtain outsourced supply management services. Seeking reduced operating costs and a more strategic approach to its supply management functions, the Global Procurement Organization contracted with a leading Procurement Business Process Outsourcing (BPO) practice to provide services encompassing materials handling, inventory management and logistics coordination with the goal to outsource indirect purchasing duties for all domestic and international locations. The outsourcer possessed a great deal of practical, applied experience in the discipline of supply management. This experience, coupled with their expertise in successful Procurement BPO engagements, positioned the outsourcer very well to help the buyer meet their business objectives on an accelerated delivery schedule with a very high degree of confidence.

The buyer’s logistics manager stated that “We were impressed with the proposal team and their capabilities.” From the on-site managers to the CEO, “it was obvious they had a thorough understanding of the type of support we needed.” “They took time to understand what we needed and then demonstrated their understanding with their proposal. I was impressed with their commitment and involvement.”

Under such a tight schedule, the key to success started with a well-defined and executed project implementation and staffing plan. The outsourcer detailed activities and milestones to be addressed, as well as those activities to be performed by Buyer prior to and during implementation and startup. During the first week after the contract was awarded, the outsourcer gathered the required documents and information from Buyer and scheduled training on Buyer systems and processes.

Jointly, the outsourcer and buyer’s project team developed schedules, key performance indicators and other performance metrics, and revised job duties to fit the new organizational structure. Training followed on- and off-site for processes, procedures, policies and other related activities. By early February, the outsourcer had launched its implementation plan at all client sites, focusing resources to prevent disruptions or lost production. In addition to training on refined duties and functions, the outsourcer implemented training on quality, safety, security, reporting and hazardous material handling procedures and programs. Within a month, the outsourcer’s team was operating with increasing independence and beginning to identify opportunities for savings and process improvements, constantly migrating Buyer operations to a best practices environment.

Results
After the implementation of the outsourcing program, the Buyer commented that the outsourcer had impressed us with their capabilities and responsiveness in developing a strategically driven outsourcing solution. By improving processes and productivity and providing flexibility in resource scheduling that reduced the number of supporting personnel
required to run the operations, the outsourcer cut operating costs of the buyer’s business functions by 19 percent. The buyer commented that “Obviously, they knew how you create a team in short order. We didn’t have the ability to do that. They provided more than 60 people and got them up to speed rapidly. The people they brought in got up to speed rapidly and did a great job.” “I suppose a lot of people can do this work, but the proof is in addressing the unforeseen problems. The outsourcer showed us they can think. They didn’t sit back and say ‘you didn’t tell us about this.’ They worked rapidly and independently. We did not miss a delivery or a day of operations. It all worked fluidly.”