

## **Outsourcing: The Definitive Trend in Supply Chain Management**

By Jim Davidson

When asked to identify business and technology trends specific to logistics, outsourcing is top of mind with most of us in the industry. As more manufacturing companies embrace best practices as powerful weapons in their fight for competitive advantage, outsourcing supply chain management (SCM) becomes a compelling option for maximizing performance and bottom line results. While it may never reach epidemic proportions, outsourcing of supply chain expertise will remain a growing trend for years to come. With time it will become an industry standard, growing in presence by as much as 50 % during the next five to ten years. Now that's what you call a healthy trend!

In recent years, outsourcing has provided one of the greatest shifts in manufacturing operations. Here's why;

**Focus.** Outsourcing permits a manufacturing company to focus on their core business. Logistics is a high volume, customized business that grew out of the maturing of back office procurement. It's not what most manufacturing companies are generally best at. When manufacturers delegate the nitty-gritty of supply chain management to a qualified specialist, they have the luxury of focusing on what makes them unique – their product and how it satisfies their customers' needs.

**Expertise.** Acquiring logistics expertise internally can be very time-consuming and expensive. Best practices can have a very short shelf life. What works today may not work tomorrow. For this reason alone, SCM is best handled by logistics experts who have acquired the skill and resources to move quickly and manage change to their client's advantage.

**Fewer capital expenditures.** Working with a leading logistics provider can significantly reduce capital expenditures. The need to purchase and maintain a transportation fleet, equipment and distribution centre disappears when an innovative logistics supplier has global networks and facilities ready to respond to a manufacturer's every need and the needs of their customers. Increasingly, logistics professionals are capable of getting the job done without appearing obvious to the customer. The very best in the business do everything they can to look just like the client on a good day. From wearing their uniform to driving trucks with their corporate colours and logo, an

experienced LLP blends in with the operations of their client. The customer's customer can't tell the difference.

**Cost reductions.** By delegating SCM to the experts, fixed costs can become variable costs. Use what is needed as it's needed and pay for it accordingly. Nothing more. Nothing less.

**Visibility.** Supply chain LLPs give a manufacturer the power to see their inventory as it flows through the supply chain. Materials and products make the necessary connections and everyone in the supply chain is ready when needed to receive shipments and pass on the goods. The manufacturer need not be hands-on for the process to work. A competent LLP does all the tracking, recording and reporting. Consequently, the manufacturer always knows where things are and is in a position to proactively manage their business.

**Key Performance Indicators (KPI).** We all know how costly bad practices can be. Whether it is poor yield on raw materials, faulty parts off the production line, or excess materials carried as "in-transit inventory", we all have a responsibility to identify and eliminate gaps in performance. Experienced LLPs play a vital role by providing manufacturers with all the information they need to better manage their businesses.

Having briefly described the benefits of outsourcing, let me address directly those readers who are about to select a third party LLP, either now or in the not-too-distant future. There are a few obvious considerations that need to guide your decision, along with some industry specific features, that an accomplished LLP will possess, that may not come readily to mind. For those who need to know, here's my "insider's" checklist;

**Trust.** Trust is the backbone of every business relationship, for good reason. We need to trust our suppliers to do effectively what we can't do ourselves. When choosing a logistics provider, you are essentially putting them between you and your customer. Consequently you must choose a company you can truly depend on to do what they say they will do, to establish and maintain an open and honest relationship, and treat your customers as well (if not better) as you would treat them yourself.

**Capability.** Capabilities and trust go hand in hand. Trust is built when a supplier delivers what they promise. The salesman's axiom of under-promise and over-deliver comes immediately to mind. However, the supplier you really want to recruit is an LLP with the ability to employ best practices consistently at the highest levels, thereby achieving a degree of benchmarking unsurpassed by the competition.

**Resources.** In today's market driven economy, logistics has become less about low-cost warehousing and cheap freight and more about managing information. Is your LLP in a position to really know your operational demands and limitations? Can they quickly gain insight into your bottom-line business needs and meet them consistently? Do they provide analysis of what they find out? Can they manage information and resources for continuous improvement? Also, don't hesitate to judge a potential LLP by the company they keep. Do they have a global network of carriers in all modes of transportation? Do they implement the latest analytical software to track, report and evaluate all supply chains activities? Do they put in that extra effort that tells you they really care about your organization and your customers?

There certainly is a lot to consider when outsourcing supply chain management. Nothing stays the same. There's nothing more constant than change. As a result of this profound reality, logistics is no longer exclusively about business tactics designed to reduce transportation and distribution costs. It has become a part of a company's overall strategic plan, discussed and evaluated at the highest executive levels. It commands increasing investment of time, money and resources, and rightly so. What is more important than getting your product to the right place, at the right time at the right cost?

So choose your LLP carefully and with confidence. Set the agenda then let your logistics supplier manage the process. As your company soars to new heights, let your logistics provider be the air traffic controller. You'll reach your goals faster and with greater economy. After all, you don't want to be the one explaining to your customer why your widget costs more when it could have cost less with innovative, outsourced supply chain management.

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