

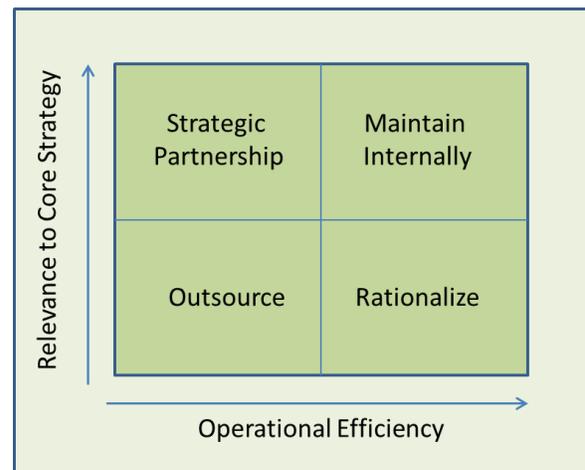
Should You Really Consider Outsourcing?

By: Jim Reid

Should you continue to run your own shipping operations or use an outside 3rd Party Logistics (3PL) company? By now, outsourcing your warehousing/fulfillment operations to a 3PL has been an exercise that most companies have explored. Whether it's to save money or free up space and labor, we all have our reasons. However, not all of us have taken the plunge. The question is why not?

At the root of answering the outsourcing question is the honest self-assessment of your business. Are the services you perform a "Core Competency" or not. Is it worth the investment in staffing, training and equipment to continue to use internal personnel to perform these services?

Many years ago I found this graphic and have hung on to it in my head. It's probably not exactly like what I saw, but it gets the idea across. Essentially it provides a matrix which forces each company into a quadrant. On the bottom axis, we measure a company's ability to perform a function efficiently. In this context, we'll assume as operational efficiency (the ability to deliver products or services in the most cost effective manner possible) increases, performance increases, thus moving you to the right on this chart. On the vertical axis, we look to determine how critical this function is in its support of your core business strategy. Usually this is driven by the executive staff, CEO or President—not the person doing the job!



Maintain Internally

If some function is core to your go to market strategy, you need to have a tight control on it. If it is something you do well, keep on doing it. Make sure, however, that you have adequately benchmarked your operation against like operations so that you can defend your position that you are "Best in Class" or close to it. All too often I've run into companies drinking the Kool-Aid thinking they are world class, when quite the opposite is true.

Strategic Partnership vs. Outsource

If you've come to the realization that, in order to support your core strategic goals, you need to operate at a much higher level than your company is capable of achieving, you may want to look at a Strategic Partnership. Partnerships can take on all the attributes of outsourcing, however the contractual relationships are much deeper and far reaching.

Outsourcing is much more common when the services being carved out are less relevant to your core strategy or critical to your business strategy. Clearly, when you are on the lower half of the above grid, you really should be considering outsourcing. The decision to outsource is easy when you perform poorly at the function. The decision is a bit harder when you are good at the job. In cases where you

are efficient, but the tasks performed really don't help push the company strategy, the decision could go either way. Sometimes it becomes more a question of operational philosophy rather than finance and strategy.

Rationalize

So when you are in this Rationalize quadrant, what should you consider? We have 8 core areas that may sway you one way or another.

- 1) **Ability to downsize at will**- Unless you are a fortune 500 company, chances are you will join with a "multi-client" 3PL who will manage your business, as well as many others. You will leverage their IT systems, operational technology and space. The beauty of this is that your business can scale up or down without need to add or shed people and space, all with predictable costs.
- 2) **Improved Operational performance**- Even if you are good at what you do, 3PL's (the good ones anyway) should do it much better. They are in the business of doing things better for their clients. Yes, they need to make a profit, but don't begrudge a company for making a reasonable profit.
- 3) **Free up resources for core business activity**- Just because you outsource does not mean you have to shed your staff. Keep you're A-players and re-distribute them inside. Now take what you saved in the outsourcing process and reinvest into those activities that generate profits.
- 4) **Reduce risk/Manage uncertainty**- Who couldn't use this? Especially in today's markets, managing your downside risk is important. If you are in an industry that may shift quickly (up or down), shift to an outsourced model with variable costing.
- 5) **Quicker order turnaround**- How many times have I heard it takes 3-5 days to process an order? Most 3PL's will process your order within 24 hours. We process 99.7% of our orders *the same day we get them*. This improves your order to cash cycle, cuts down on WISMO calls (where is my order?) and generally makes customers happier.
- 6) **Speed to Market**- If you need to get up and running in a new city, there is no better way than engaging a 3PL. Gone are the days of negotiating leases and running T1 lines. There are experts in every city.
- 7) **Shared overhead**- One attractive aspect of a 3PL is that their overhead investment gets spread over a number of clients. You are not fully burdened with anything except the direct labor and space you utilize. This shared approach gives you advantages in space costs, Warehouse Management (WMS) or Transportation Management Systems (TMS) and operational technology.
- 8) **Predictability of Costs**- Most companies will provide you pricing that are activity based. As your order volume increases or decreases, your costs scale accordingly. If possible, have your partner provide you pricing based on numbers that you can track internally. That way, you should be able to effectively budget your costs from one year to the next.

Finally, be prepared and do your research. The wrong decision can be costly. But the right partnership is worth its weight in gold.

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