



REALISING BENEFITS THROUGH OUTSOURCING

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Business process outsourcing in the "flat world" has become the global blueprint for managing cost through focused expertise. But expected benefits are not always realised. Implementation is often fragmented, leaving supply chains misaligned. Last week, we introduced the first six steps for truly aligned supply chains and a structured approach to their attainment. This week, we introduce the second six elements of the 12-step approach.

7. Internal skill set realignment through job analysis: As supply chain activities are transitioned or automated, and organisations contract, key decisions become concentrated within senior management layers. Skill sets, once distributed, must now be accessible within the management layer. Managers must demonstrate matrixed skills: strategy, leadership, execution, nurturing, depth of functional understanding and breadth of knowledge. As control of both business and suppliers becomes distributed, skills assessment programmes help realign needs and employees.

8. Location of human capital: Location selection for the labour-intensive layer of the supply chain is often more qualitative than quantitative. Transitioning roles "as is" across geographical boundaries does not guarantee performance. Informal support structures evaporate, loyalty is not implicit, cultural differences and distance create cross-company conflict, turnover increases and efficiency stalls.

The effect of the qualitative changes must be anticipated - access to human capital, education levels, screening criteria, complexity of technical content, language, training, attrition, work environment - all eventually contribute to direct and indirect "cost creep".

9. Supplier selection: Supplier selection may be strategic or through formal request for quotation (RFQ) processes. The Sarbanes-Oxley Act in the US has increased pressure to provide traceable quantitative interpretation of selection criteria. However, the qualitative must also be assimilated.

Suppliers will over-commit. Often, capabilities and services are never practically applied and knowledge limited. Rigorous Q&A sessions to evaluate discipline and control, knowledge and performance are needed. Final selection is often based on an unspoken belief that performance can be transformed over time.

10. Pricing: Companies outsourcing some supply chain management to developing locations are often temporarily distracted by low cost quotations. Assumptions behind pricing must be explored, as in Step 8, and standard audit procedures set up to ensure consistent compliance.

The benefits of headcount versus transaction quotes should be evaluated. Penalty clauses may help discourage deviation from acceptable performance but may also set an expectation of acceptance and bonus structures. Finally, beware of tiered pricing, or pricing linked to cost of living indices, better to renegotiate annually.

11. Contracts: While Sarbanes-Oxley compliance dictates completion and transparency, a contract sets the scene for future business conduct and acts as an internal communication tool, consolidating agreement across all parties. Only an empowered contract owner can prevent the creation of sideline deals that may confuse future supplier performance discussions. Master agreements should contain clear terms covering all aspects of the relationship.

12. Project planning: Projects can and do get derailed. Timelines extend and mistakes are made. Post-mortems are often de-prioritised. The key to success is the establishment of correct project structure with, for example, two project managers, one facing the supplier, one facing inward. There is a temptation to let the supplier take the burden but the legacy impact is greatest within.

In Summary: In the last 20 years, vast and rapid amounts of outsourcing have left global supply chains fragmented. In the rush to outsource, the efficacy of supply chains has been compromised. Inappropriate performance metrics conceal problems that degrade performance over time. A return to first principles is required: redefine corporate strategy, create new business models, dispassionately assess the performance and fit of supply chains for today's BPO world and seek improvement with metrics linked to business performance.

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