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OUTSOURCING SUCCESS STORIES REALLY DO EXIST

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In recent weeks, we have introduced the reasons for, and benefits of, our 12-step programme to successful supply chain management in a business process outsourcing world. Last week we discussed the hard lessons learned by an electronics multinational, a pioneer of the outsourced business model, which recovered from early setbacks and went on to create a startup toolkit to manage future outsourcing endeavours.

Rolling the clock forward to today, in a recent interview, an IT executive from another electronics industry giant (US$7 billion in revenue in the most recent quarter), revealed familiar symptoms: severe operating losses over several quarters, continuous layoffs and cost-cutting, a complex business model for internal and external manufacturing, a product lineup so complex that outsourcing completely would require that suppliers were handheld at every step.

"With an IT roadmap like a spaghetti junction, multiple ERP (enterprise resource planning) systems and instances, customisations that are unique, revisions that are not current, it is often easier to install small focused systems to solve problems but these just exacerbate the larger problem," the executive explained.

"Periodically, proposals were made to consolidate ERP instances but rejected in favour of outsourcing. It started with desktop support, then applications development, then data centres, then analysts. On reflection, we realised:

- We assumed that our outsourced provider knew more what we did;

- We didn't consider the 'value' associated with the cost. We negotiated rates without understanding what we were asking for;

- Internally the business just ran. We had no idea how to measure performance - no metrics or goals were defined;

- We implemented huge IT projects with capitalised budgets. These past projects constitute 70% of our IT spending today.

"Today, IT performance metrics meet or exceed benchmarked industry standards. System consolidation is under consideration, and 'in-sourcing' is ongoing. In order to reverse the downward trend, and effectively transform the company financials, we must start with clear corporate strategy."

In another case, seven years ago, a medium-sized US based multinational decided to outsource manufacturing operations to Asia and its US-based manufacturing was decommissioned and transferred. This move was regarded as so positive it became the topic of a feature in Time magazine. Three years on, inventory had ballooned, product material margins had evaporated and other costs of goods sold had risen to an all-time high. The company had about 140 days of inventory in its supply line and specialist component suppliers were demanding compensation for material cost exposure.

As a result of quick action, it took only two quarters for the company's financials to reflect a positive trend. During that period, plans were developed and methodically executed. Supply lines were temporarily shut down, inventory converted to cash. Suppliers were dealt with and logistics carriers replaced. The outsourced manufacturer was also replaced. Internally, the organisation was redesigned, skill sets reassessed, and processes developed to manage information flow and execution. New reports, metrics and goals provided continuous detailed visibility of progress and highlighted areas that needed focus.

The greatest challenge faced was internal change management. Many employees grappled with change and, worse, management and the board were divided. Some felt that the status quo was acceptable.

The final example is extremely positive. Over a four-year period, a telecoms company expanded its revenues from US$17 million to $180 million. Outsourcing - following a proven method to improve quality and manage margins - was a key component of corporate strategy. A phased approach was adopted for complex printed circuit board manufacturing, materials management and purchasing, fulfillment and logistics, and service and customer support.

Incremental internal headcount was minimal, the product portfolio doubled, but quality improved tremendously. The company established a solid foundation to create economies of scale without associated risk.

These companies, like many others, blazed a trail. The benefit of time and a buoyant, benevolent marketplace provided opportunity to recover from mistakes and successfully evolve supply chains. However, the business landscape today is littered with companies struggling to exert control over partners and supply chains. In many cases, the true efficacy of what has been put in place will only be truly tested with time and exposure to business cycles. With the global economy spiralling downward, companies may not have the benefit of time to sort things out. Supply chain challenges must be addressed with heightened urgency. There may be no second chance.

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