

# OUTSOURCING

## UNDERSTANDING AND AVOIDING THE PITFALLS

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# Who am I?

- **Stephen Rinsler**  
BSc, FCILT, FRSA, MCIPS, MInstRE
- **Procurement, Logistics, Change Management**
- **33 years in supply-chains**
  - 27yrs in Unilever
  - 2 yrs in NFC/ Exel
  - 2 yrs in Retail Consultancy
  - 2 yrs in Web-based Temporary Recruitment Outsourcing
  - Bisham Consulting Director
  - Lt Col E&LSC RE(V)
  - Vice-President of CILT

# Introduction to Bisham Consulting

- We focus on logistics operations, supply chain strategy, procurement and related customer service performance
- We only recommend pragmatic solutions we are willing to help implement ourselves (if we are asked to do so)
- The business is an independent consultancy wholly owned and managed by its directors and consultants
- Bisham Consulting is staffed only by senior managers from industry, many of whom have held main board roles
- Our approach is very “hands on” and very commercial

*Practical logistics consultancy and project management*

*12 years trading, Head-office in Marlow*

*14 consultants, 18 specialist associates*

*Widely-represented on Industry committees developing logistics (CILT, FTA, RHA, IOM, CIPS and IPMM)*

# Outsourcing: Definitions

- The purchasing of products and services currently performed by yourself
- The delegation of the management of your processes or services to a third party
- The integration of third party expertise and processes into the company

# Reasons to Outsource

- We pay too much to do it ourselves
- Not core
- Don't have the management expertise
- Require major investment: off balance sheet
- Need to jump the learning curve
- Area requires major re-engineering
- Business going through major change, need to make more areas variable cost

# The Commercial Process

- Request for Interest
- Invitation to Tender
- Negotiation
- Contracts
- Service Level Agreement

# The Results

- They over-promised
- They under-delivered
- They don't understand
- They interfere
- They can't do the job as well as we did
- They don't listen
- They are incompetent
- They are too expensive

# The Cause of the Breakdown

- Poor definition of requirements
- The Negotiation Process
- No SLAs
- Lack of teamwork
- Poor management

# Major Issue

The outsourced operation remains essential to the added value processes of the company in its quest to supply its customers

# How to avoid the pitfalls

- Spend time integrating the outsourced service
- The more central the activity is to the heart of the company, the more time that is required to really ensure the outsourced operation is integrated

# Major questions to be answered

- Why am I outsourcing?
- Who should my partner be?
  - What are their strengths and weaknesses?
  - What are their visions and strategies?
  - Will the cultures fit?
- What does our SWOT analysis look like now and afterwards?
- What am I depending on them for?
- What are my Requirements?
- Have I articulated the SLAs correctly?

## Major questions to be answered (2)

- What are the strategic changes that we are looking for?
- How will we judge success and failure?
- How will we reward/ remunerate them?
- How will we link the organisations?
- How do we reduce the internal frictions and the feeling they are just a supplier?
- Complete the service level agreement before the contract

# Case Study

Major FMCG company facing two markets  
Outsourcing contract for Warehousing and  
Distribution

Partner: A leading Contract Logistics Company

# What drove the outsourcing?

- A market requirement for temperature controlled warehousing and distribution
- A wish not to directly invest large sums
- A concern that factory skills led wage inflation was producing uncompetitive distribution costs

## How was the contract awarded?

- By tender to three main contractors
- The tender was reasonably detailed but did not refer to the possible different strategies for the two halves of the business
- Post tender negotiations

# Problems during planning phase

- The two consumer markets had very different margins, one could not afford a Rolls-Royce
- Reorganisation in the manufacturer caused inward focus
- 'Leave distribution to the experts'
- The contractors promised too much, too quickly
- Wage rates were set too high
- There was no administrative system process map

# Problems at Start-up

- Administration was incorrect
- Computer hardware was not sized properly
- The quiet sales period promised was quashed without the contractors knowledge
- The pick layout was very wrong
- Stocks were 25% above plan
- The operation degenerated into 'it's your fault'

# Why the problems?

- Despite the grand plan there was no follow through
- No process mapping
- No sign-off of changes
- No acceptable delay allowed
- No help with the hooks into the manufacturers IT systems. In-house solution was better
- No volume testing of data systems

## Why the problems? (2)

- The irregular executive meetings did not allow problems to surface, no joint solutions
- No honest appraisal of reasons or strategy
- No analysis of individual and joint strengths and weaknesses
- No joint approach for dealing with the doubters
- No acknowledgement that Customer service might suffer in the short term

# First two years of operation

- Problems spilled over and destroyed the relationship
- Severe short term market dislocation
- Contractor too scared to offer changes
- Costs barely changed

# How the operation was changed

- Operation was placed in its strategic context
  - regular strategic meetings were held
- Operation was placed in its operational context
  - Sales and Marketing were encouraged to take part in regular operational review meetings
- Challenging KPI's set and monitored
  - Mostly Customer focussed
  - Some internal productivity led
  - Some financial
- Challenging bonus scheme to reward real results

## How the operation was changed (2)

- Real dialogue encouraged at Board level
- Contractor asked to contribute in areas of real strength
  - Transport planning and purchasing
  - Terms and conditions re-engineering

## How the operation was changed (3)

- Results
  - Costs fell by 40% in constant money
  - Right first time deliveries achieved: 96%
  - Stock levels fell by 35%

# Summary

The closer the activity is to your core activities the more important it is to:

- Answer the question 'why outsource?' honestly
- Spend sufficient time to integrate the outsourced activity and the supplier
- Ensure you keep control of the strategy
- Set appropriate KPI's and reward mechanisms to encourage the behaviour and results you want
- Make the partnership work