INSIGHTS

Strategic Outsourcing

It's Time for an "Outside-In" Approach

Walking into your office early Monday morning, you hope that the weekend fire-drill–expediting late shipments to your #1 customer– was successful. As the executive in charge of a global, Consumer Products supply chain, you trust that your team and your outsourcing partner were able to make the right decisions and get the job done. However, once you open your email, you quickly realize it is going to be a very long day. A flood of internal and external "blame game" messages is all that has taken place, and not a single shipment has left the dock. You say to yourself: "Something is just not right –there has to be a better way."

We've all heard about the benefits of outsourcing: increased profitability, improved flexibility, and the ability to add value beyond one's own capabilities. On the other hand, the all-too-common scenario above reminds us that in spite of best intentions (and more than enough lessons learned), when it comes to successful partnerships and true collaboration, these efforts continue to miss the mark.

A decade's worth of supply chain experience suggests that the decision-making processes and tools that once served so well may now be a key contributing factor to these negative outcomes. That is, they were developed during a time when global supply chains were the exception, not the norm, when risk could be actually managed, and the likelihood of ROI for a given investment could be reasonably predicted.

Today, every large corporation has more than one supply chain, disruptions threaten the flow of goods and services at every hand-off, and social networks can radically change "perfect" demand plans at internet speed. As such, we believe it's time for an expanded set of decision-making tools and a fundamentally different mindset, from the initial outsourcing decision to the final supplier selection and service level agreement (SLA).

The approach we suggest is not new; however, its application is. In our view, it's time for an "outside-in" approach.

What is "Outside-In?"

One way of defining "outside-in" is to contrast it with "inside-out." Today's "inside-out" outsourcing processes and decision-making tools often begin with "the problem." They are initiated in response to existing pain points inside the company, and the supplier selection processes focus solely on those capabilities that will fix the pain and make the company "better."

On the other hand, an "outside-in" process begins and ends with the customer. The decision is initiated in response to strategic needs that exist outside the company, and the decision-making process focuses on how it will enable an improved customer experience. A quick contrast follows:

Inside-Out	Outside-In
• Response to internal pain points • Narrowly focused (e.g., reduce labor cost) • Narrow set of selection criteria – looks for solution to pain-points • Best total-weighted-score "wins" • Service level agreement focus is solely on traditional criteria (operating cost, service level)	• Response to customer need • Broadly defined selection criteria (e.g., increase flexibility, respon-siveness, add strategic capability) • "Outside-In" value-add and risk analysis more important than weighted score • Service level agreement focuses on capability: speed, agility, flexibility to respond, total cost-to-serve

To better understand how an "outside-in" approach might apply, let's review the outsourcing process across the following dimensions:

- Outsourcing Decision
- Business Case Development
- Supplier Selection

"Outside-In" Outsourcing Decision

If you examine the events leading to a typical outsourcing decision, "inside-out" thinking tends to dominate. That is, it looks something like the following:

- Contrast the company's core competencies with its overall business strategy.
- Identify those processes and/or competencies that do not maximize value (*Note: In some cases, this activity doesn't even take place. Pain-points are identified and those activities are targeted as prime candidates for outsourcing*.)
- Charter a supplier selection team to determine who best can perform the "non-strategic" activities.

On the other hand, if you step back for a moment and approach this decision from an "outside-in" mind-set, the inherent weaknesses in this approach immediately become apparent. That is, the "inside-out" view assumes:

- The company can readily adapt to rapidly-changing, market-driven needs with the company's existing core competencies.
- Those inside the organization can best assess what processes and competencies will add value over the long-term.
- The supplier selection team (typically upper-middle management) has all the information and competencies to determine the best outsourcing option.

In contrast, taking an "outside-in" approach is driven by strategic customer need. The process:

- Begins by contrasting the company's core competencies with its current and anticipated customers' needs.
- Assesses the likely fit and risks associated with in-sourcing versus outsourcing options looking forward (i.e., does not automatically assume that outsourcing is the only option).
- Seeks to maximize value for the customer in lieu of pure cost savings or eliminating pain points.
- Substitutes total cost-to-serve (i.e., includes warehousing, transportation, inventory, and customer service costs) in various risk-based scenarios in lieu of plugging product costs and/or labor costs into an existing process model.

Stated another way, an "inside-out" process tends to be narrow, and tactical regarding scope. As such, it does not give sufficient importance to the needs of the customer, the impact of likely risks, or the total cost impact to the company. On the other hand, an "outside-in" decision-making process is strategic, focuses on what matters for the customer, and looks at all the associated costs, keeping the customer in mind. That in turn creates an improved likelihood of a successful and collaborative partnership, one that adds real value over the longer term.

"Outside-In" Business Case Development

Ask yourself: "Do we have a business case template in our organization that is focused on all the components of the supply chain?" Instead, if one exists, is it tailored solely to capital expenditures or new product introductions? Does it dedicate most, if not all, content to a definition of the problem, the recommended solution and the justification in cost-saving terms? More importantly, is the process:

- Initiated with the "why" being defined as a narrow problem statement that assumes fixing this one problem area fixes everything?
- Performed once to charter the initial selection process and never updated after that?
- A "fill-in-the-blanks" activity?
- Developed at the upper middle-management level, and then approved by the executive team during a single presentation?
- Approached such that strategic alignment, risks, and critical assumptions are (at best) relegated to the Appendix, and play only a supporting role to the overall recommendation?

If this is the case, then you're working with "inside-out" processes and tools that gloss over the critical success factors for a trusting partnership. Rethinking the business case template and process from a customer-driven viewpoint drives the following changes to the traditional business case:

- The "why" begins with strategic alignment and customer needs.
- After initial establishment, the business case is updated throughout the course of the Request for Proposal (RFP) and selection processes as you learn more about the opportunities and risks.
- Broadly defined gaps are considered from an "outside-in" viewpoint (customers, capabilities, process, organization, technology, demand and supply, competitive landscape).
- Both upside opportunities and downside risks (including impact from a customer's viewpoint) are covered, paying equal attention to both (i.e., it's not a one-sided evaluation).
- Risk mitigation action plans are developed throughout the RFP and selection processes and are a critical component of the final decision.

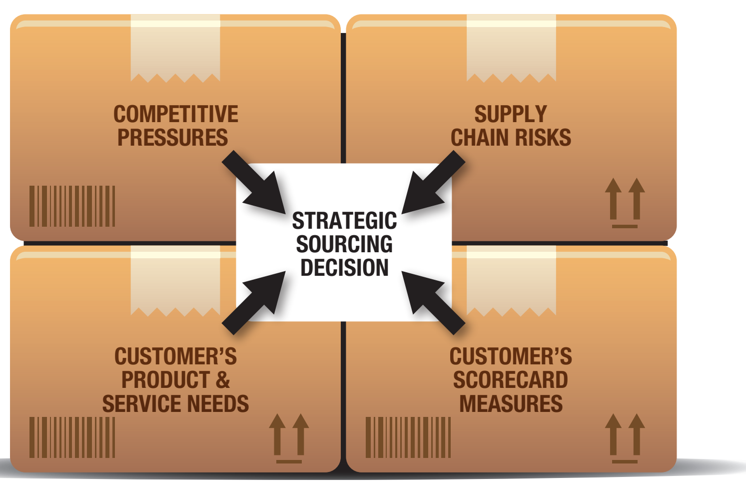
This is not a one-size fits all template or process. Instead, an "outside-in" approach focuses attention on what is truly important: the markets the business operates in, the business strategy, integrated supply chain processes, organization, and the supporting technology. Finally, taking an "outside-in" approach encourages the organization to work cross-functionally and collaboratively throughout the RFP and selection processes. That in turn better positions the members of the pending partnership to work in a similar manner. Simply put, external collaboration begins with internal collaboration.

"Outside-In" RFP, Supplier Selection and SLA

Just like the business case, do your supplier selection criteria focus on the customer experience, or are they a modified version of those needed for a materials vendor? When is the last time you took a hard look at these decision-making processes? Are they still fulfilling their intended purpose?

Unfortunately, these tools and processes are seldom updated to accommodate today's needs. Instead, a prescribed set of activities like the following occurs:

- A weighted scoring process, owned by Purchasing, contains an "inside-out" laundry list of functional requirements (predominantly process and technology).
- The weighted scores determine the selection and drive the decision-making process.
- A small, cross-functional upper middle-management team makes the selection recommendation.
- Little (if any) attention is paid to upside opportunities and/or downside risks.
- The service level agreement is developed after the supplier selection is complete.



This "inside-out" approach routinely overlooks the end-customers' needs and makes a selection based on the lessons learned (i.e., the experience of others). It overlooks capabilities like speed, agility and responsiveness and often assumes that the "best" partner is the one that best fulfills today's activities. Finally, it assumes that a steering committee is the best decision-making forum for strategic decisions.

In contrast, what would an "outside-in" process look like?

- RFP selection criteria include all the capabilities to fulfill market-driven needs and the business strategy (e.g., fit with with culture, people, process, technology, quality).
- SLA metrics for speed, agility and responsiveness are built into the RFP process, instead of negotiating them after the fact.
- The weighted scores balance opportunities and risks in the context of the entire value chain, not just one link.
- The selection decision is an "outside-in" fit and risk analysis in lieu of a simple tally of weighted scores.
- Executive management actively participates in the selection decision, forcing a review of various options in lieu of simply approving the steering committee recommendation.
- The selection criteria are not only made through the eyes of what the company needs, but what its customers value the most.
- The final decision is made looking not just for a vendor (transactional) but for a long-term partner.

Here again, by taking an "outside-in" approach, there is an opportunity to align strategy, tools, methods and decision-making processes in the context of a demand-driven marketplace.

Client Case Study

Problem: *A leading Consumer Products company was saddled with a one-size-fits-all supply chain that lacked both flexibility and sense-and-respond capability.*

Solution: *Clarkston Consulting collaborated with our client to design and implement both an "efficient" supply chain for its traditional, stable demand products and an "agile" supply chain for its new, high-growth products.*

Results: *Our client now has the best of both worlds: "efficient" and "agile" networks capable of supporting an expanded portfolio of new products as well as mergers and acquisitions. Inventory was reduced by 48% and outsourcing of non-core operations reduced the complexity of managing 50+ relationships to a single point of contact.*

In summary, the press is full of "lessons learned" from failed outsourcing attempts (e.g., wrong process, bad timing, the leadership and/or culture between the partners just didn't work). Unfortunately, the lessons learned approach tells us nothing about what is needed in order to succeed! If you can make the leap to a demand/market-driven supply chain, isn't it worth redesigning the decision-making processes and tools that lead to an outsourcing partnership? In our view, the time for redesign is now, the design is "outside-In," and Clarkston can help.

About the author.

Ron Claude is a Director at Clarkston Consulting, with over 25 years supply chain experience, focusing primarily on supply chain planning (S&OP) and operational strategy/execution.

CLARKSTON CONSULTING

Headquarters
2655 Meridian Parkway
Durham, NC 27713
Phone: 800.652.4274
Fax: 919.484.4450

www.clarkstonconsulting.com

0600_1111

About Clarkston Consulting

Clarkston Consulting is a different kind of management and technology consulting firm. We deliver a unique experience for market leaders within the Consumer Products and Life Sciences industries. Considering professionalism, expertise, and value as prerequisites, we take service a step further through our unyielding commitment to the success of people as individuals, both our clients and our employees. By combining integrity, adaptability, and a whatever-it-takes attitude, we have achieved an extremely high rate of referral and repeat business and a 10-year average client satisfaction rating of 97%.