

Outsourcing to Improve Supply Chain Agility

White Paper

Leveraging 3PL's enables performance improvement and rapid transformation to achieve supply chain excellence.



Prepared by Ryder Supply Chain Solutions

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Never before has the challenge of implementing an agile and responsive supply network been more important to a company's performance. Rapid changes to the global, economic and competitive market are challenging companies to transform their supply chains to be more cost effective and productive. Given intense capital competition and instability in the financial markets, companies must extend their thinking beyond traditional functional outsourcing relationships. Executives must evaluate their business processes for the opportunity to outsource or insource activities that can be performed more cost effectively by a third party. How can supply chain professionals leverage outsourcing to sustain and gain advantage to increase their agility and responsiveness to global market volatility and increasing customer service requirements?

The Agility and Responsiveness Challenge

Supply Chain professionals have always faced the challenges brought by uncertainty and variability in the supply chain. And, with uncertainty and variability come cost increases. Operations are increasingly finding the ability to reduce costs more difficult in a global market. As supply lines expand and contract with volatility in economic conditions, maintaining performance to meet supply chain objectives is difficult at best.

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agile and responsive to market changes is critical to sustaining corporate performance in turbulent times. Volatility in fuel cost, raw material cost, labor cost and multi-national economic environments demand unprecedented capabilities to be more agile and responsive while meeting high reliability, cost advantage and asset performance objectives.

Traditional strategic assumptions for designing and redesigning supply networks get thrown out the window when the mathematic variables change faster than the planning horizon. As economic conditions change globally, what was once the low cost producing country often becomes the high transportation cost country. As rapidly as the market fluctuates, so do variable costs. Your supply network must adapt with the change. The ability to quickly change asset and sourcing configurations is a competitive imperative in the “flat world.”

Economic order and production quantities, inventory targets and most effective transportation options have to be recalculated more frequently to enable the global supply network to respond to new demand patterns and costs. With frequent changes in the market, an unresponsive supply chain can result in excessive inventory and cost while eroding service performance.

While the competition for capital has always been fierce, given the current and future credit and financial environment, it has reached unprecedented levels of intensity. Investments in systems, changing facilities and performance improvement initiatives are frozen. Global trade management and transportation modal decisions become increasingly complex. Customers demand more options and more responsive service.

And, the competition for supply chain operating talent is heightening. Staffing distribution centers, finding and retaining qualified drivers and maintaining an educated, skilled, labor force under severe budget constraints are among the top challenges faced in today’s market.

The enterprise systems we invested so heavily in for the past two decades are rapidly becoming insufficient. There is now increased demands for analytics and decision support, increased visibility, increased workforce productivity and improved communications/integration with trading partners. And, did we mention systems have to be always on, always available, real time and secure? How can we develop and implement a five year global supply network strategy when global business requirements are changing quarterly or monthly? You have to be able to turn on a dime and give a nickel in change to compete in the “flat world.”

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Business Process Outsourcing Changes the Game

Designing, aligning and implementing a high performance supply network is the competitive imperative to compete in the 21st Century. Facing the velocity of change in today's market requires agile and responsive supply chains. The ability to rapidly assess your supply chain processes is critical to identify opportunities for improvements. More importantly, your supply chain needs to adapt to changes to the strategic assumptions made to design the network in the first place.

Traditional notions of Third Party Logistics (3PL) service providers have their basis in functional outsourcing. Companies seeking to reduce the constraints and costs of logistics assets outsourced components of their transportation and warehousing *functions* to third parties. Relationships are often at arm's length and transactional. However, the real value of outsourcing is realized when you define and evaluate your business processes for outsourcing opportunities. Such an evaluation leads not only to the identification of more outsourcing opportunities; but also identifies *processes* that can be "insourced" as well.

For example, receiving and shipping processes are often not proprietary within a company's facilities. Insourcing personnel from a third party to execute these processes relieves labor costs. And, as competition for talent increases, it often provides a more skilled and stable labor force as the third party provider can offer more career path benefits in recruiting personnel.

Business process analysis enables you to identify the supply chain processes, resources, metrics and best practices associated with the execution of your supply chain. This allows you to benchmark your performance and identify opportunities for outsourcing and improvement initiatives.

However, while most companies strive to achieve high process performance through more agile and responsive supply networks, many are constrained by existing assets, shrinking margins and operating budgets. Facing the difficult task of funding initiatives to improve operations and identifying tangible ROI for business transformation, many companies focus on improving the efficiency of their operations by relying on diligent management of existing processes and systems. Change, especially business or structural transformation, is often perceived as difficult and costly.

Engaging a third party to perform selected business processes

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cannot only provide improvements and transformation without major disruption to the business, it can also be accomplished without capital investments or increases to the operating budget. In fact, capital and operating cost reductions usually result from engaging a third party service provider.

By challenging internal process assumptions, you can rapidly identify processes that can be more effectively outsourced or insourced, assets that can be retired, sold, or leased and technology that can be more rapidly implemented by leveraging a third party's expertise and experience.

Benchmarks provide the basis for evaluating the cost and performance gains to be made from continuing to execute those processes internally or contracting a third party to perform them. Business process modeling can also help you define whether those processes should be performed within the company's existing facilities or whether those processes can be performed better with more flexibility at the third party facility.

Further, by using business process definition and performance measurements for evaluating third party opportunities, you can also retain control over those processes. Enabling technologies can be implemented that provide management visibility, analytics and score-carding to evaluate the performance of the third party's execution of the process. With business process outsourcing, relationships evolve from a transactional agreement to a value added strategic relationship. The third party becomes a strategic lever for achieving greater agility to restructure the supply network, while improving the company's responsiveness to changes in the business or economic environment.

With significant expertise in network design, proficiency in the use of strategic network modeling technology and a highly flexible network of facilities, transportation assets and partners, the third party partner can help its clients rapidly reconfigure their network and material flows should conditions make alternate sourcing or transportation strategies more favorable to the client.

For example, should fuel prices soar out of control, the third party can expediently enable the client to contract its supply line to source closer to manufacturing facilities or deploy inventory closer to customers, reducing its transportation costs.

Leveraging the third party's expertise, the client can model different

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supply chain risk scenarios to develop alternative logistics strategies in the event that the scenario becomes a reality. Again, agility and responsiveness to change is improved.

With an accurate definition of your business processes and performance metrics, you are also able to extend outsourcing opportunities beyond traditional logistics services. For example, with visibility to material flow, you can better identify postponement opportunities in your supply network and contract to have the third party to provide manufacturing, assembly, packaging and customization processes closer to your customers without significant capital and labor investments.

Leveraging business process management and embracing third party service providers as strategic business partners to enable greater agility and responsiveness in the supply network results in an unending opportunity for performance improvement and rapid transformation to achieve supply chain operations excellence.

Conclusion

It's a "flat world" and global competition and effective supply chain management have never been more challenging. Supply chain executives that define, align and measure their supply chain processes and resources to leverage third party business process outsourcing to gain competitive advantage will not only thrive in the 21st Century, they will be the leaders. Transforming your organization from a functional management focus to a process focus enables game changing strategies and technology to be implemented rapidly and cost effectively. Are you ready to achieve unprecedented levels of agility and responsiveness in your supply network? If not, your competition will be.

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