

Outsourcing: It's a Core Competency



MHIA Annual Meetings
September 29 – October 3, 2007
Savannah, Georgia

TOMPKINS
A S S O C I A T E S

Outsourcing Is

- A management tool that shifts the organizational structure of companies
- A business transformation process that can create great opportunity for improved performance
- An opportunity for problems, issues and possibly failure

Definitions

- Core Functions:
 - An organization's core competency
 - The unique business functions that allow an organization to be successful
 - The critical activities included in an organization's vision statement that allow it to thrive

Core Functions Can Be Divided Into

- **Primary focus core functions:** Those activities and processes that differentiate an organization in the marketplace
- **Secondary focus core functions:** Those activities and processes that must be done well for the organization to retain market share but are not visible to customers

Non-Core Functions

- What is left in an organization after you remove core functions?
- **Primary non-core:** functions that, although not core, have an impact on a company's bottom line
- **Secondary non-core:** functions that need to be done, but unless they are really done poorly, they do not have an impact on an organization's bottom line

Core Competency Matrix

	Primary Focus	Secondary Focus
Core Process	Things that differentiate your organization in the marketplace. The reasons customers come to you.	Things that need to be done well but are not visible to the customer.
Non-Core Process	Things that if not done well can have a negative impact on your customer relationship.	Things that need to be done but do not have any significant impact on the success of the business.

¹ Figure 1 – Chapter 4, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Core Competency Matrix for Chic Retailer

	Primary Focus	Secondary Focus
Core Process	<ul style="list-style-type: none">• Retail Stores• Merchandising• Brand	<ul style="list-style-type: none">• Procurement• Sourcing• Real Estate
Non-Core Process	<ul style="list-style-type: none">• IT• HR• Logistics	<ul style="list-style-type: none">• Store Supplies• Accounting• Landscaping

² Figure 2 – Chapter 4, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Core Competency Matrix for a Manufacturer/Distributor

	Primary Focus	Secondary Focus
Core Process	<ul style="list-style-type: none"> • Production • Product Design • Production Planning and Scheduling 	<ul style="list-style-type: none"> • Procurement • Logistics • HR • Maintenance
Non-Core Process	<ul style="list-style-type: none"> • IT • Finance and Accounting • Sales and Marketing 	<ul style="list-style-type: none"> • Real Estate • Food Service • Landscaping

³ Figure 3 – Chapter 4, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Core Competency Matrix

	Primary Focus	Secondary Focus
Core Process	Insource	Insource Outsource
Non-Core Process	Insource Outsource Contract	Outsource Contract

⁴ Figure 4 – Chapter 4, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Why Outsource?

■ Direct Benefit

- Focus on core competency
- Reduction in manufacturing and distribution costs through the consolidation of operations and reduction of inventory carrying and transportation costs
- Reduction in management and hourly head count
- Improved accuracy through better inventory visibility and production tracking
- Flexibility and wider range of service

⁵Chapter 3, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Why Outsource?

- Access to global networks and superior technology (world-class WMSs, TMSs, MESs, OMSs) results in the collaboration that consolidates loads and allows smaller organizations to share space, IT support, and operation
- Improved service through shorter order cycle time, visibility of available inventory, and accountability
- Improved quality that is the result of less damage, less scrap, and improved response time to inquiries
- Reduction in capital investment and cash infusion because facilities are no longer on the balance sheet and assets can be sold

⁵Chapter 3, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Why Outsource?

■ Indirect Benefits

- Creating a catalyst for change by highlighting how outsourced operations are managed
- Initiating or fueling change by allowing a company to offer new services because outsourcing has improved performance
- Stimulating analysis because of the requirement to document business processes and their costs
- Converting sluggish functional areas into dynamic, successful ones
- Developing resources and contacts brought to the table by the service provider

⁶Chapter 3, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Six Levels of Supply Chain Excellence

- Level I: Business As Usual
 - Organizational elements pursuing self interests
- Level II: Link Excellence
 - The starting point for Supply Chain Excellence
- Level III: Visibility
 - The next step in establishing a visible presence with other supply chain links

Six Levels of Supply Chain Excellence

- Level IV: Collaboration
 - Using visibility to do the work smarter and meet marketplace demands
- Level V: Synthesis
 - A continuous improvement process to harness the energy of change
- Level VI: Velocity
 - The ideal state of synthesis with speed. Faster!
Faster!

Six Levels of Supply Chain Excellence



The Natural Order of Life Is

- Peak – to – valley – to – peak – to – valley

How Leadership and Management Focus in Peak – to – Valley Performance

Figure 1. How Leadership Focuses Results in Peak-to-Valley Performance¹

	Core Process		Non-Core Process	
	Primary	Secondary	Primary	Secondary
Peak Performance	80%	10%	10%	0%
Valley Performance	20%	30%	30%	20%

⁷ Figure 1 – Chapter 5, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

How Leadership and Management Focus in Peak – to – Valley Performance

Figure 2. How Management Focuses Results in Peak-to-Valley Performance²

	Core Process		Non-Core Process	
	Primary	Secondary	Primary	Secondary
Peak Performance	40%	40%	20%	0%
Valley Performance	0%	40%	40%	20%

⁸ Figure 2 – Chapter 5, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

Organizations and Leaders Must Focus on Core Competencies

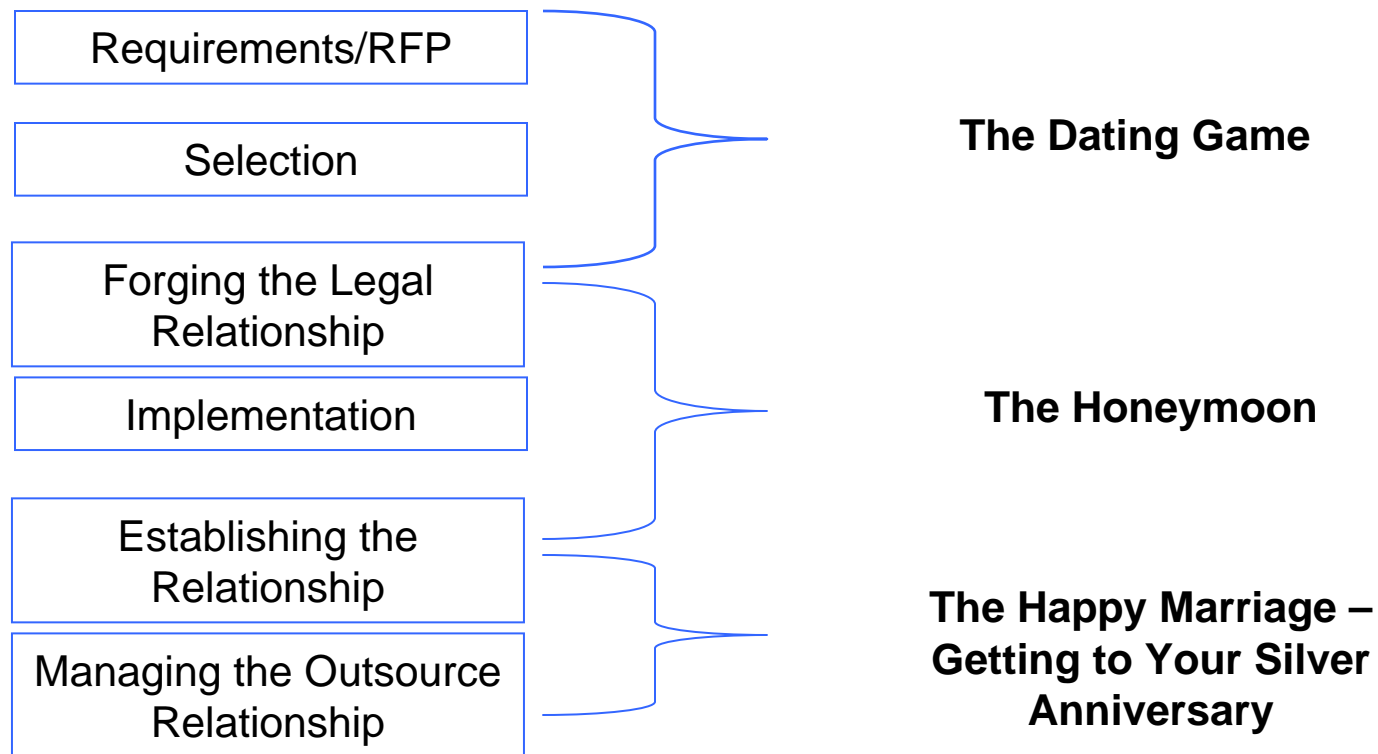
- To accomplish this task, organizations must outsource
- However, if an organization does not have a core competency of outsourcing, it will fail and leaders will be pulled away from core competencies
- Organizations **MUST** have a core competency in outsourcing

The Outsourcing Process

1. Define primary and secondary core and non-core processes
2. Define outsourcing targets
3. Pursue a robust solicitation process
4. Select and secure provider(s)
5. Create the outsource relationship
6. Create the outsource legal document
7. Start-up
8. Ongoing relationship

The Outsourcing Relationship Life Cycle

The Outsourcing Life Cycle



⁹ Figure 11-1 – Chapter 11, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*

In Conclusion

- Outsourcing done well can significantly enhance an organization's success: A Solution
- Outsourcing done poorly can significantly impact an organization's success: A Setback
- Proceed forward on outsourcing but be certain you do it with a core competency in outsourcing.