

## UNDER PRESSURE

*Alan Waller (below) and Clive Geldard of Solving International identify the right factors for success in supply chain sourcing.*

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Globalisation, hyper-competition, rapidly changing customer needs, increasing stakeholder pressures! It is a complex and uncertain world where the supply chain, from source to end customer, has been lengthened and is increasingly more difficult to optimise effectively. The pressure is to focus on core competence, whether that is brand management, new product introduction or a unique manufacturing process.

So how are leading consumer goods companies reacting to sustain success? A popular response is to outsource. Nothing new here perhaps, but many companies find this to be a hot topic – with discussion centring on how outsourcing processes are being refined to improve performance and ensure continued success.

The traditional concerns remain. For instance: what if we throw away our competitive advantage as a result of outsourcing? What if we lose customers? How do we know if the outsource partner is right for us? Are we giving away our well-earned margins? Can we be sure we will be better off?

External pressures dictate solutions across the entire value chain and companies should avoid the ‘myth of excellence’. Companies cannot think they can deliver solutions alone. Alan Kenny, Reebok’s supply chain director, has stated that companies should stick to the core competence of delivering customer propositions and then optimise the supply chain through creating value for the customer (Logicon Interactive conference, Brussels, 26-28 September 2002).

Companies accept that the ability to deliver customer value should be the basis for sound outsourcing decisions – rather than an outsource supplier with global coverage, or a provider that can offer single-source, one-stop solutions. For most companies the immediate priority is delivering real customer value.

But once user companies are convinced that supply chain outsourcing is the chosen route, how should users and providers cement the relationship and match expectations for success? Clearly this is a Board-level priority but requirements need to be met at three levels: strategic, tactical and operational.

At the Logicon conference mentioned above, Gary Emerson of Sara-Lee pointed out that Sara-Lee Courtaulds had gone as far as appointing a director of outsourcing and Simon Jones of Birds Eye Walls said that getting the scope right was an important first up action. “Finding the right areas to outsource is key – and make sure you don’t let go of the crown jewels,” he commented. Bill Gilmour of IBM also gave the example of two companies collaborating in cross-border warehousing operations. Neither competes on the basis of its warehousing competency, and decided to get smarter at this operation by working together, and by jointly outsourcing the operations of the warehouse to a third party.

So how do companies decide on the right outsource partners? Tenders are not viewed as the best solution as they are too often used and abused. They may be appropriate for benchmarking commodities, but they are not the tool to engender trust, cultural alignment and a long-term relationship in a value-added environment. So what is the answer? A key factor is cultural alignment, internally across the organisation’s business units as well as with the external outsource partner. Beyond that, the key supply chain outsourcing success factors are:

1. Only outsource non-core activities – having decided what is core!
2. Make it a Board-level strategic decision (top-down).
3. Select the right partners, ensuring cultural alignment at all levels.
4. Agree the benefits and how to share risk and reward.
5. Be open to collaboration with competitors where there is a clear business case.

Expanding on the theme of building successful collaborative relationships and of the difficulty of putting these into practice, it is clear that collaborative initiatives are not being held back by systems, as generally the technology solutions are available. Where companies lag behind is in terms of their people skills. A business can have all the technology in the world, but if you don't trust and don't know how to work effectively with your trading partners, then relationships break down and performance is impaired. For this reason, companies must adopt a mindset of sharing information – some of it potentially commercially sensitive – and targets should be based on achieving faster re-supply and better service at lower cost. Inventory and delay, in effect, is traded for information.

Three examples demonstrate how supply chain collaboration can work in an outsourcing and shared-user context:

- A consolidation centre in Holland serves two independent manufacturers (Lever Faberge and Kimberly Clark) with consolidated deliveries to retailer distribution centres. Benefits include increased delivery frequency, lower inventory, fewer out-of-stock situations and improved on-time performance.
- Two competing UK brewers (Scottish Courage and Carlsberg Tetley) have set up consolidated outbound deliveries, using common barrels identified with RFID tags. Benefits include reduced barrel investment, inventory and distribution costs.
- Two competing UK dairy businesses (First Milk and Dairy Farmers of Britain) have established fleet pooling, collecting 4.5 million litres of milk from 7,500 farms. Benefits to date include increased fleet utilisation and £8 million annual savings.

Nobody should suggest outsourcing is an easy option. But the outsourcing trend has gathered momentum and is becoming an established part of the value equation. Outsourcing is key to sustaining focus on core competence and competitiveness, and can reduce complexity and mitigate uncertainty.

However, attitudes to outsourcing must change. Abdication will guarantee failure and delegation is the outsourcing of yesteryear. The future lies in outsourcing partnerships. With estimates that shortly half of SCM functionality will be provided by partners outside the enterprise, we must get better at managing this key business process. This means all of us working together better.

In summary, the most important core skill for the future is the ability to develop and sustain effective trading partnerships between outsourced service providers, shippers, customers, suppliers and also with competitors when relevant. Relationship management skills are probably the ones shortest in supply at present. Leading companies are now beginning to recognise such skills as essential to drive forward improvement in supply chain performance.

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*Logicon Interactive is a supply chain and logistics conference for FMCG, CPG and logistics providers from across Europe, where delegates interactively discuss the implications of keynote presentations with speakers and other business leaders.*

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