Outsourcing: It’s a Core Competency

MHIA Annual Meetings
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Savannah, Georgia
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

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

1 Figure 1 – Chapter 4, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*
## Core Competency Matrix for Chic Retailer

<table>
<thead>
<tr>
<th>Core Process</th>
<th>Primary Focus</th>
<th>Secondary Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Stores</td>
<td>• Store Supplies</td>
<td>• Procurement</td>
</tr>
<tr>
<td>Merchandising</td>
<td>• Accounting</td>
<td>• Sourcing</td>
</tr>
<tr>
<td>Brand</td>
<td>• IT</td>
<td>• Real Estate</td>
</tr>
</tbody>
</table>

| Non-Core Process | | | |
|------------------|------------------|------------------|
| IT | • Logistics | • Store Supplies |
| HR | | • Accounting |
| | | • Landscaping |

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2 Figure 2 – Chapter 4, *Logistics and Manufacturing Outsourcing: Harness Your Core Competencies*
## Core Competency Matrix for a Manufacturer/Distributor

<table>
<thead>
<tr>
<th>Core Process</th>
<th>Primary Focus</th>
<th>Secondary Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Production</td>
<td>• Procurement</td>
</tr>
<tr>
<td></td>
<td>• Product Design</td>
<td>• Logistics</td>
</tr>
<tr>
<td></td>
<td>• Production Planning and Scheduling</td>
<td>• HR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Maintenance</td>
</tr>
<tr>
<td>Non-Core Process</td>
<td>• IT</td>
<td>• Real Estate</td>
</tr>
<tr>
<td></td>
<td>• Finance and Accounting</td>
<td>• Food Service</td>
</tr>
<tr>
<td></td>
<td>• Sales and Marketing</td>
<td>• Landscaping</td>
</tr>
</tbody>
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## Core Competency Matrix

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</thead>
<tbody>
<tr>
<td>Core Process</td>
<td>Insource</td>
<td>Insource Outsource</td>
</tr>
<tr>
<td>Non-Core Process</td>
<td>Insource Outsource Contract</td>
<td>Outsource Contract</td>
</tr>
</tbody>
</table>

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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

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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

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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 Six Levels of Supply Chain Excellence:

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- Organizational elements pursuing self-interests

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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 Performance

<table>
<thead>
<tr>
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<th>Non-Core Process</th>
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<tbody>
<tr>
<td></td>
<td>Primary</td>
<td>Secondary</td>
<td>Primary</td>
<td>Secondary</td>
</tr>
<tr>
<td>Peak Performance</td>
<td>80%</td>
<td>10%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Valley Performance</td>
<td>20%</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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

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

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

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

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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

- Requirements/RFP
- Selection
- Forging the Legal Relationship
- Implementation
- Establishing the Relationship
- Managing the Outsource Relationship

The Dating Game
The Honeymoon
The Happy Marriage – Getting to Your Silver Anniversary

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

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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.