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ModusLink Feature Article

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Why Outsourcing Is More "In" than Ever

The realities of how to bypass the buzz words and discover the real benefits of outsourcing

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In the news, reports of unsuccessful outsourcing engagements seem to get more play than positive stories, due to their morbid nature. But for every company that has faced an implementation gone awry for one reason or another, there are many more boasting success and satisfaction.

With supply chain outsourcing now the third most frequently outsourced business process, this strategic business model is seeing new life — and the benefits are reserved for those willing to step into the ring.

As an outsourcing provider ourselves, we decided to take an admittedly biased look at the *real* benefits of outsourcing by evaluating the experience of four very different companies, with very different needs, to learn how they bypassed the buzzwords and marketing-speak to uncover the true value of this business model and how it could be put to work for them.

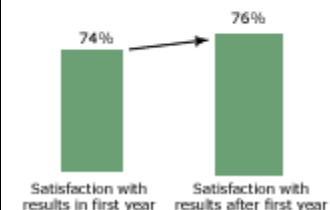
The truth is, supply chain efficiency has become a critical differentiator as companies like Dell Computer Corporation, AMR Research's 2005 top pick for supply chain excellence, prove that fulfillment methods can be strategic and profitable, as opposed to just necessities of business.

Manufacturers today are facing new challenges as customer demands evolve, globalization continues and transportation costs repeatedly rise. And, despite these challenges, executives are being asked to do more with less. Outsourcing provides a viable option for reducing costs, increasing customer satisfaction and improving performance.

As the battle heats up in a tough economy, these advantages separate predators from prey. Which one are you? Let's look at how four different companies tackled the hottest question in business today — "to outsource — or not to outsource?"

In a recent study by Accenture, *Driving High-Performance Outsourcing: Best Practices from the Masters*, researchers found that "satisfaction with outsourcing starts high and grows over time," citing an increase from 74 percent to 76 percent after the first year.

Figure 11. Satisfaction with outsourcing results received
Experienced outsourcers overwhelmingly agree: Satisfaction starts high and, rather than fading, actually grows over time.



Show me the money ...

Let's get the most important factor out of the way first ... will outsourcing save your organization money? While not the only benefit or reason you should turn to your outsourcing provider, cost reduction and profitability are usually the primary objectives cited by any company considering whether to outsource or, more importantly, what to outsource.

With the complexity of globalization, the expense of updating legacy warehouse management systems and the need for rigorous accounting and inventory oversight brought on by Sarbanes-Oxley, many companies are reevaluating their ability to effectively build and manage supply chains in-house. Outsourcing partners like ModusLink help companies through the decision-making process every day. When a company knocks on a partner's door, it expects to learn not just about outsourcing in general, but specifics about how outsourcing can save it money.

Sure, we can quote leading analysts, like Aberdeen Group, which reported in a recent study, *The Supply Chain Integration Benchmark Report — Warehouse Without Walls* ("Benchmark Report"), that companies considered Best in Class are adept at leveraging the skills of service providers and partners and, as a result, have cash-to-cash cycle times that are 25 percent shorter than their peers. Additionally, they have far exceeded on-time delivery performance and order fill rates of other companies surveyed.

But what companies really want to know is "*What's in it for me!*" Let's take a closer look at the scenario facing a leading manufacturer of consumer electronics storage products when it wanted to reduce costs through the development of a more efficient retail distribution model.

Proof points in action. This manufacturer's rapid growth quickly overwhelmed its global supply and distribution capabilities, resulting in declining service levels to the high-priority retail sales channel. After nearly two years of trying to manage the situation on its own, the manufacturer realized the value in utilizing a single, global partner to handle its end-to-end supply chain needs.



In order to tackle the customer service problems, ModusLink first implemented sophisticated demand planning tools and methodologies to help the client overcome raw material supply constraints to immediately improve materials planning accuracy and component availability from 65 percent to 99 percent. Additionally, ModusLink configured a new global supply chain network utilizing a combination of ModusLink solution centers across multiple regions. This hybrid model leveraged ModusLink's facilities in low-cost sourcing destinations—in this case China and the Czech Republic — for certain long-cycle products, while using regional, near

customer facilities for the packaging and fulfillment of other short-life cycle products.

The result yielded a \$32 million cost savings in conjunction with a 41 percent reduction in inventory levels — within just nine months of proposing the new production model.

Success factors. The key to the success of this engagement was the appropriate alignment of client service needs with vendor capabilities, which ensured that success could be achieved. Additionally critical, was the manufacturer's ability to look at the big picture to assess the overall costs associated with supply chain management. Many companies get bogged down in the cost of one specific process or aspect of the supply chain, preventing them from seeing the forest through the trees, so to speak. While certain processes involved in the new model had a higher price tag, fortunately, the client was able to see the

value in lowering the total cost of supply chain ownership, in addition to the other positive changes resulting from the new model.

When working with a potential service provider, take the time to research its capabilities and service offerings to ensure it has the expertise, services and global reach required to address your specific market challenges. Not all outsource providers can offer an end-to-end solution. After you have aligned your service needs with the capabilities of your vendor, you can then investigate the financial model that works for you.

New opportunities ...

If you are considering outsourcing part or all of your supply chain, you're not alone. Other companies have successfully blazed this trail and opened the doors to a number of key opportunities.

Outsourcing can enable companies to concentrate resources on their core competency and reach new global markets. These may sound like buzzwords, but for many companies, they are very real goals that will help them achieve a competitive edge in their industry.

This was the case for an emerging manufacturer of personal navigation systems that needed help tackling some very real challenges.

Proof points in action. We were approached by this manufacturer whose sandbox, at the time, was restricted to the European market. Its rapid growth was complicated by poor supply chain execution practices and huge seasonal demand spikes which strained internal resources and held it back from realizing the true potential of its business expansion goals. Facing time-to-market delays and rising overall supply chain costs, the manufacturer knew it lacked the internal resources and supply chain knowledge to efficiently and cost-effectively handle the demand variability and production inefficiencies.

Its decision-makers pondered the question that many smaller players do. If we build it will they come? And, if we build it, what do we do with all those resources that will lie idle during low demand spikes?

For this company, the ability to instantly inherit the flexibility of an outsource provider's scalable, nimble and global supply chain at a fraction of the up-front capital investment was the perfect option. Within months, the manufacturer had warehouses throughout key markets, employees at the ready to scale up and down as needed and strong supplier relationships to provide the best pricing options and shorter lead times. Initially daunted by the challenges of managing up to 500 returns a day, the manufacturer now has a streamlined process in place for meeting the demand, increasing the satisfaction and loyalty of its customers.

Interestingly enough, I sat watching television the other day and caught a commercial for this company. Once restricted to its local region, the manufacturer is breaking new ground in markets once out of its reach. Additionally, by refocusing its scarce internal resources on its core competency — developing innovative new products and services — it has been able to grow its product line and invest in new global opportunities. This client has grown over 300 percent since partnering with ModusLink, and its supply chain has grown up right along with it.

Success factors. The key for this successful engagement was the manufacturer's ability to identify its specific needs, goals and objectives, and articulate exactly what it required from the partnership. To be successful, outsourcing has to go beyond the tactical and into the strategic. It's not a place to bury broken processes. By giving your partner a realistic view of your business challenges, it can customize a solution that solves very real business obstacles. A process can be as lean as possible, but if it isn't tailored to address your specific business goals, then what's the point? The manufacturer now has the scalability to accommodate its unique shifts in demand, efficiently going from less than 300,000 units a month to more than 820,000 units during its busiest months.

When working with your potential outsource partner, be sure you take a long hard look at your internal business processes to evaluate what works, what doesn't and what inefficiencies and roadblocks need to be addressed. This will enable the service provider to more rapidly identify the right services for you and get you more quickly into a solution that drives new opportunities.

It's all about the customer ...

Another way outsourcing can benefit your organization is through the development of innovative new services that drive customer satisfaction. Outsourcing partners often have the creativity, capabilities and resources to implement new, high-value services and solutions that would otherwise be unavailable to you.

According to the aforementioned Aberdeen *Benchmark Report*, companies considered Best in Class rank highest in using their network of outsourced service providers to provide differentiated service options to customers. The right outsourcing partner can customize solutions that help you enhance the buying experience for your customers, increasing satisfaction and encouraging greater loyalty.

Proof points in action. For example, outsourcing was the answer for a leading manufacturer of laptop systems that wanted to expedite and ease the wireless activation capabilities of its hardware systems for customers, while ensuring it received its "bounty" from the wireless connection provider. The company lacked the resources and capabilities to manage the process internally and risked losing an agreed upon bounty if customers went directly to the designated wireless connection vendor without proper tracking.

To solve its problem, the manufacturer turned to ModusLink, which customized a new wireless activation solution that accommodated the requirements of both the hardware and wireless connectivity vendors and improved the buying experience for the customer. Additionally, the process was seamlessly integrated and managed so that the needs of all relevant parties were addressed. With this innovative new service, ModusLink became the first supply chain vendor to offer this type of managed activation solution, and the manufacturer won accolades with its customers.

Success factors. This engagement was successful due to the client's vision as to the potential of its supply chain to accommodate the evolving needs of its customer. As technology and customer needs change, so should your supply chain. The client gave ModusLink the flexibility to implement new processes that veered from its *traditional* way of doing things to effect positive change that improved the satisfaction and loyalty of the manufacturer's customer base.

When looking to your potential outsource provider to drive innovation, be sure to evaluate its potential to "think out of the box." Some vendors operate with a "one size fits all" mentality, assuming that as long as the process is strong, it will fit your needs. Be sure to inquire about previous creative engagements and ask the outsource partner to provide specific examples of unique implementations where extensive customization and creativity were required.

More, better, faster ...

Companies continuously seek next-generation technologies and processes that will help them increase the performance and efficiency of their supply chain, but adoption can be prohibitive, given the constant innovation and staggering price tags of new technologies.

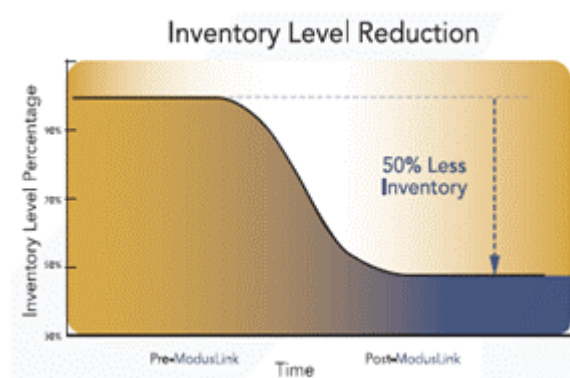
According to an Aberdeen study, *The Supply Chain Innovator's Technology Footprint*, (*"Innovator Report"*), less than 8 percent of companies use one common technology system company-wide for supply chain management, decreasing visibility, standardization of processes and the ability to leverage global assets effectively. The study goes on to say that, "Companies that do not have these capabilities on their IT roadmap should reexamine their investment strategies to keep up with their peers."

With outsourcing, you can instantly inherit an integrated, world-class system infrastructure for delivering unprecedented levels of performance and efficiency across the supply chain and across the globe. With best-of-breed technology and systems, an outsource provider can offer the visibility and control needed for greater asset manipulation, better decision making and more rapid responses to changing global market dynamics.

Additionally, outsourcing providers have honed their skills and are adept at eliminating redundancy and non-value add activities for optimum performance. The ability to leverage your outsource provider's expertise and continuous process improvements can reap quantifiable results from more effective inventory management, more efficient use of low-cost sourcing countries and better supplier management to expedited time to customer.

There is no doubt that supply chain excellence and strong business performance go hand-in-hand — and a leading manufacturer of electronic components wanted both.

Proof points in action. Given its rapid worldwide growth, the manufacturer needed to gain greater control and visibility over supply chain operations. The manufacturer wanted to migrate to a single partner environment to more efficiently and cost-effectively manage the growing complexities of worldwide planning, sourcing, production and fulfillment.



ModusLink conducted a full evaluation of the manufacturer's global production processes and export costs. Inefficiencies were noted in the client's sourcing and supplier management processes that required the stocking of high levels of inventory, resulting in product excess and obsolescence (E&O) at the end of the quarter. Leveraging a number of value-added services, processes and integrated technologies, ModusLink implemented a new vendor managed inventory (VMI) model and created a robust supplier portal to manage supplier relationships,

track performance, improve visibility and assert quality control measures.

The resulting supply chain helped the manufacturer reduce inventory levels by 50 percent, lower sourcing expenses by 15 percent and reduce materials costs by 5 percent for the client.

Success factors. The positive result of this engagement was attributable to the manufacturer's willingness to open its doors to the outsourcing partner, giving it complete access to processes, operations and partnerships. Sometimes manufacturers have trouble pinpointing where the weak link is within the organization and need the expertise of a vendor to help them identify which aspects are ripe for an overhaul. In this case, the vendor knew improvements could be made but realized that processes should be tightly integrated, and change would impact multiple areas of the supply chain.

When working with your potential outsource provider, it is important to view it as a true partner and an extension of your organization. By working together as a team, the ability to achieve the desired results is greater.

A last look ...

In today's competitive technology landscape, manufacturers are facing new challenges and obstacles that have the potential to significantly impede supply chain performance. An effective way to remain competitive and streamline global supply chain operations is to leverage the power of outsourcing.

In summary, some of the advantages experienced by companies that put the benefits of outsourcing to work for them include:

- Better profit points

- Focus on core competency
- Increased customer satisfaction
- Better access to best-of-breed technology
- Improved processes and performance
- Optimized inventory and supplier management

Outsourcing partnerships are on the rise, delivering satisfaction to companies across industries and across the globe. As outlined above, these partnerships can produce a number of operating advantages for manufacturers today. Those that realize these advantages continue to differentiate themselves and gain a competitive advantage in a crowded global marketplace.

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