



# LOGISTICS knowledgebase<sup>®</sup>

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## Determining When to Outsource Supply Chain Management Services

In today's highly competitive and dynamic global business environment with vastly extended supply chains, companies can often be confused by the many logistics options and sources available to them when seeking to implement a highly visible supply chain management (SCM) solution. Before making a decision on how to best integrate advancing technologies into your company's supply chain, however, it is more important than ever to evaluate the many existing options today. Companies should closely examine their internal cultural alignment, core competencies and business capabilities before making a decision. A company's cultural alignment, cross-departmental capabilities and corporate commitment to funding IT initiatives provide the seminal factors in determining whether it should keep supply chain management services in-house or outsource them to a qualified third party logistics provider. At SEKO, we have identified several key issues that should be considered when seeking robust Web-based SCM visibility, be it in-house or outsourced.

First and foremost, shippers must determine the state of their existing WMS system. If it is consistently out-of-stock with finished products for customers, an in-house logistics system is not providing the IT capabilities necessary to avoid poor lead times and missed shipments. Outsourcing logistics to a 3PL can prevent losing customers and revenues. If, however, a proper in-house IT infrastructure is in place, cost-savings and efficiencies may be realized—at least in the short-term. (Typically, if companies try to add-on newer technologies to existing legacy platforms, these costs will outweigh the cost of outsourcing.)

If a shipper finds that its production facilities are down for long periods of time and logistics operations are not flexible enough to meet the requirements of after-hours deliveries and expedited service, there may be no choice but to pay the extra costs and outsource the logistics process on top of paying for large overhead for an inflexible logistics operation. If the in-house logistics operation is already funded as a core competency, you may already have a competitive edge. Flexibility is the key here.

Evaluate delivery date success. If the targeted dates for time-sensitive product launches are not consistently being met, it is a good indication that internal staffing and facility capacity cannot keep up with customer demand. This indicates a company probably requires

the assistance of a 3PL along with the financial commitment to the third party has already made to integrated IT development. Shippers should also assess overhead and fixed logistics costs before making a decision. If these expenses are squeezing the bottom line, customers may realize virtually instant savings by consolidating warehouse operations with a "shared" facility operated by a 3PL. This can move fixed costs to a variable expense, which provides flexibility in responding to market dynamics.

If in examining IT capabilities, if a company determines that it cannot adapt to growing supply chain needs, it should consider outsourcing its logistics data and integrating it with that of a 3PL that specializes in customized supply chain solutions. Rather than waiting years for a new system to be developed internally, companies often find that outsourcing both the technology and logistics process to a suitable 3PL will realize long-term cost savings, while expediting the supply chain process.

Companies should evaluate their customs compliance readiness. With the implementation of the Customs Modernization Act, compliance assessments and audits became widely used as a tool to maximize compliance and provide uniformity. Regular assessment of import compliance processes and procedures require an evaluation of the overall effectiveness of the Customs Compliance Program, employee education and training programs, and operating procedures. If a company is unable to develop compliance and cost goals, formal policies, training programs, internal revenues and supplier compliance programs, the selection of a suitable 3PL to provide the required skill sets to establish a process-based compliance function is critical.

Ultimately, following an in-depth evaluation of the entire supply chain process, many companies find that including a mix of in-house and outsourced logistics functions may provide the best solution for them. In a global economy, where there is no set criterion for supply chain success, companies have to carefully analyze their unique requirements and determine what logistics solutions are best suited to meeting their specific distribution needs. Cost is always important, but ultimately the success of any global supply chain management process relates back to client satisfaction as a means of achieving customer focus and growth in market share.