

Outsourcing Your Way to Competitive Advantage
By Jim Davidson

As President of a logistics company you'd expect me to have a lot to say about outsourcing. After all, I represent the hired guns – the transportation specialists that companies such as yours recruit. Those who choose to work with us know we do more than deliver the goods. We partner with companies to improve their performance.

Outsourcing certainly is the way of the future. It's a growing business practice that is quickly separating the leaders from the followers. Those companies that outsource all or part of their supply chain management activities to a 3PL firm are better able to reduce their transportation costs, operate more profitably and gain competitive advantage, often by stealing market share from the competition.

To prove my point, let me tell you a story.

In the late 90's my firm (different than the one I'm with now) was invited by a Fortune 100 company to develop a new strategy for distribution of their product. I won't name names. I will say it's a top five global brand, a consumer product sold in every country of the world in almost every retail setting imaginable.

The company was a logistic supplier's dream candidate for outsourcing. They were heavily invested with assets and employees. They had their own traffic department and owned, on a global scale, their own distribution centres, their own tractors and trailers and maintenance facilities, and employed their own drivers. Their distribution channel was completely internalized. From their door to the retailer's shelf, every stage of distribution was internally owned and controlled. Consequently, their distribution

cost was approximately 24% of their gross revenue, very high relative to the production cost of their product. We had our work cut out for us.

Our champion within the company was the CFO of the Canadian branch. The commitment to outsourcing was made at the highest levels. Middle management knew we were there but didn't know why. And they weren't going to find out until the time was right. All those involved in our "plot" were sworn to secrecy with a hidden agenda to initiate a new primary distribution channel. We went about setting up a pilot program. We were instructed to begin in Atlantic Canada.

My firm was given free reign to replace the existing supply chain which included employees, drivers, equipment, maintenance facilities, distribution centres, as well as inside sales, outside sales, merchandising in the stores, installation and maintenance of vending equipment (where applicable), and banking of monies collected.

To limit risk and impact on the company we were directed to build and test the new model in a small geographic area, specifically Prince Edward Island. Once in place and generating the targeted results, the program could spread to other areas of Atlantic Canada, and ultimately, the rest of the country.

You can imagine what a huge step this was for the company to take. As the program progressed, not only did they sell off assets, they severed union employees – a difficult and challenging procedure which signaled the depth of their commitment to our program.

Before long we were getting the results that we knew were possible. To start with, we executed all distribution activities using only 12 people, compared to the

previous 23 employees. We cut the company's distribution cost in half, a significant monetary gain in addition to shedding all assets associated with product distribution. True victory was declared when a survey (conducted a year after our program was launched) indicated a 12% increase in market share. That's 12% share taken directly from their major competitor! Needless to say our pilot program was an absolute success and quickly expanded to include (in stages) Halifax, southwestern Nova Scotia and New Brunswick. Success was repeated in these districts as we rapidly became much more efficient at distributing this product than the company that made it.

Two years into the program we had proven our worth and were anticipating a move westward into Quebec. Instead, everything came to an abrupt halt. In a surprise move the American parent company bought controlling interest in our Canadian client and within two weeks terminated our contract. Without even considering the gains that were made, the parent company reversed all that had been accomplished. With one huge step backwards they bought back all the assets, hired back their employees and went back to the old business model. Might I say they also re-doubled their transportation cost and lost all efficiencies that had been gained by outsourcing their supply chain to our firm.

We were stunned. There was nothing we could do. The parent company had their reasons for reverting to their past. Their model needed to be asset dependent, regardless of the consequences.

This is a powerful story for me to share because it so eloquently illustrates the pros and cons of outsourcing - all within the same company over a relatively short period of time.

Despite their unpredictable reversal of fortune, the Canadian company clearly had done everything right. The decision and commitment to outsource was made at the highest levels of the company – in the boardroom, not in the shipping department. The decision was strategic not tactical and garnered results that were universal not isolated. Our champion sensed that by partnering with us, a reputable 3PL supplier, they could go well beyond lowering transportation costs. They could also improve service, build on customer and supplier relations and drive competitive advantage beyond the popularity of their product.

As this company's experience indicates, working with a new model can lead to tremendous opportunity and growth. Clinging to an old-fashioned business model often leads to increasing costs and diminishing returns. I'm reminded of Lee Iococca's comment, "the most successful businessman is the man who holds onto the old just as long as it is good, and grabs the new just as soon as it is better."

Outsourcing is about the realization that there's someone outside your company who can manage your supply chain better than you can manage it yourself. Given my years of experience and the dynamic nature of our business, my sage advice is to stick with your core business and let the logistics experts manage your supply chain. Chances are they will find a cheaper, more efficient way of delivering the goods. By letting the experts drive down your transportation costs you'll gain distinct advantage over your competition, maybe even gain a percentage point or two of market share at their expense.