MODUSLINK
OUTSOURCING
TOOL KIT

White Paper

DISCOVERING THE VALUE OF SUPPLY CHAIN OUTSOURCING

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Supply chain processes must constantly evolve to meet changing business requirements, shifts in customer demand and unstable market conditions. Today, these fundamentals are compounded by the responsibility of ensuring your value chain is environmentally sustainable and socially responsible, and by the challenge to reach a customer base dispersed not only by geography, but across an ever-growing number of channels. If you currently manage your supply chain in-house, it may be time to consider upgrading to a more efficient, robust and cost-effective infrastructure: It may be time to make the outsource transition.

According to a survey conducted by Gartner, Inc. 61 percent of respondents indicated that they use a service provider for physical execution of the supply chain.[1]

This white paper will reveal the value of supply chain outsourcing. Discover ways to capture new market share and the benefits and results of working with an experienced outsource provider.

THE VALUE OF OUTSOURCING

Supply chain management business process outsourcing can help companies reduce direct and overhead costs by five percent to 30 percent. [2]

Supply chain outsourcing goes beyond warehouse management and transportation to encompass vital processes such as demand planning, configuration, fulfillment and returns management. Some outsource providers even integrate e-Business, contact center and customer loyalty programs to create tailored value chain solutions. There are many different ways to add value to your supply chain; the first step to leveraging these opportunities is to make the decision to outsource.

This decision may seem overwhelming, or even unnecessary. However, consumers today expect variety, speed and convenience, and your in-house infrastructure may not be equipped to handle the ebbs and flows of this demand.

Whether you have a specific problem that needs solving or simply desire to grow your business, chances are, making the in-source to outsource transition may benefit your supply chain — and your bottom line — in many ways.

Benefits of outsourcing include:

1 Flexible infrastructure

By leveraging technology and process management infrastructures all over the world, you have the flexibility to use only the pieces of the supply chain you need, on a variable cost basis. Infrastructure is an outsource provider's core capability, so you benefit from expert supply chain planning and logistics.

2 Cost reduction

Outsourcing leads to more efficient processes. The start of the engagement typically includes a supply chain redesign, transportation optimization, a sustainable packaging review, and inventory optimization. These analyses streamline processes and result in cost savings. An outsource partner will design and execute the most effective supply chain for your needs.

3 Global expansion

Expanding into new global markets comes down to a build versus buy decision. Outsourcing can be an effective way to test new markets on a variable cost basis where you would otherwise not justify making the investment in infrastructure.

4 Access to new channels

Supplementing your business with new capabilities — such as rapidly deployed e-commerce solutions in multiple regions, contact center support and subscription management — can provide you with access to new channels and revenue streams.

5 Risk management

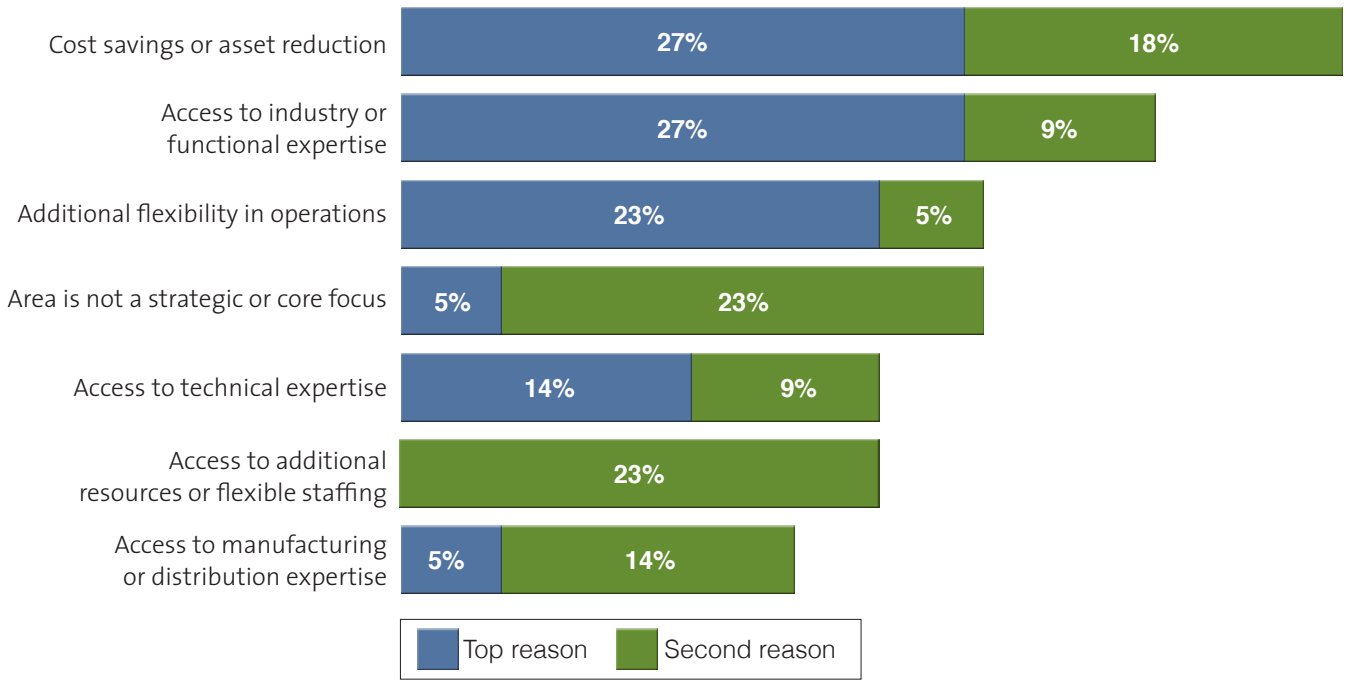
Some outsource providers have contingency plans in place, and facilities all over the world. If one facility is affected by a natural disaster, they can shift production or redirect fulfillment to another to prevent disruption of workflow and productivity. You also benefit from your partner's experience managing risk across multiple suppliers.

"Whether you have a specific problem that needs solving or simply desire to grow your business, chances are, making the in-source to outsource transition may benefit your supply chain — and your bottom line — in many ways."

According to Gartner, cost savings or asset reduction represents the primary reason why companies use supply chain service providers. In a recent survey, 45 percent of respondents identified cost reduction as the primary and secondary reasons for using a service provider (see Figure 1). Access to expertise represents another key reason why companies turn to service providers, with 46 percent of respondents selecting access to industry, functional or technical expertise as their top reason for using a service provider.[3]

Figure 1

Reasons for Using a Service Provider



n=22

Q. What are the top two reasons your organization uses support from outside service providers?*

*Only asked at September EMEA event

OUTSOURCING: A DIRTY WORD?

To some, outsourcing may be a dirty word. However, with a firm understanding of your goals and what you want your supply chain to accomplish, an outsource partner should become a seamless extension of your business. The right partner should be able to understand your goals and configure a solution that aligns with your interests and needs.

It is natural to think that managing your supply chain in-house will save you money and keep you in control, but the truth is, you may be missing out on major opportunities for improvement. There is nothing dirty about outsourcing, you just need a squeaky-clean vision of what you want to accomplish and how you want to get there.

Here are some common outsourcing misconceptions, demystified:

MISCONCEPTION 1

I will lose control of my supply chain.

The truth: Working with an outsource partner should be a collaborative effort. A successful and mutual relationship relies on a clear understanding of your needs from the start. Be upfront about your goals, and define expectations such as activity levels, process details and responsibilities. Partner with an outsource provider that has experience working with clients to define these expectations.

Remember: Outsourcing is not about relinquishing control; it's about defining your supply chain needs, and creating the right solution.

MISCONCEPTION 2

An outsource partner should adopt my internal processes.

The truth: A common trap is when a company tries to "overprescribe" what an outsource provider should do. Transferring your internal processes to an outsource environment is not effective. Outsourcing constraints could interfere with your partner's ability to use infrastructure, processes and structure to deliver value and drive improvements.

Communicate your needs, expectations and goals, and your outsource provider will make the translation to efficient and cost-effective processes.

MISCONCEPTION 3

I won't have visibility to my supply chain.

The truth: Much like defining goals and expectations, it is critical to state your success criteria upfront. Establish the key analytics you want to track, as well as a timeframe for reporting results. Gartner estimates that better demand analytics, planning and management can increase revenue two percent to 10 percent, while better analysis of the sourcing and supply process can yield 10 percent to 25 percent reductions in total material acquisitions cost. Further, companies can reduce inventories 10 percent to 30 percent through better analysis and planning.[4]

Even in an outsource environment, you can still have a handle on what is happening in the process at any point in time.



"There is nothing dirty about outsourcing, you just need a squeaky-clean vision of what you want to accomplish and how you want to get there."

MISCONCEPTION 4

Offshoring is the same as outsourcing.

The truth: Offshoring happens when business processes are executed in low-cost countries. Some companies use an outsource provider to enable an offshore strategy, but many outsourcing activities are best performed close to key markets such as the U.S. and Western Europe. Outsourcing will not take away your ability to influence where supply chain activities should be performed. For example, it may be more cost-effective to set up a contact center in the Philippines, and a procurement team in China.

Case Study

provo craft
Turn on your creative best.

Provo Craft, a leading global supplier of innovative crafting tools and technology, wanted to grow its business exponentially, as well as expand into Europe. However, the company's fragmented supply chain infrastructure, compounded with inefficient processes, warehouse and inventory management caused major obstacles on the path to expansion.

With the challenges at hand — and a clear vision of future goals — Provo Craft made the decision to outsource its supply chain processes to a single service provider. The company partnered with ModusLink for its supply chain infrastructure, expertise, and track record with helping clients expand globally.



By making the in-source to outsource transition, Provo Craft experienced the following benefits:

- The ability to focus on its core strengths, new product development, marketing and retail channel management
- Migration to a best-in-class global supply chain
- Progressive supply chain savings
- The flexibility and infrastructure to enter new global markets

Click here to read the full case study.

MAXIMIZING THE PROPOSAL PROCESS

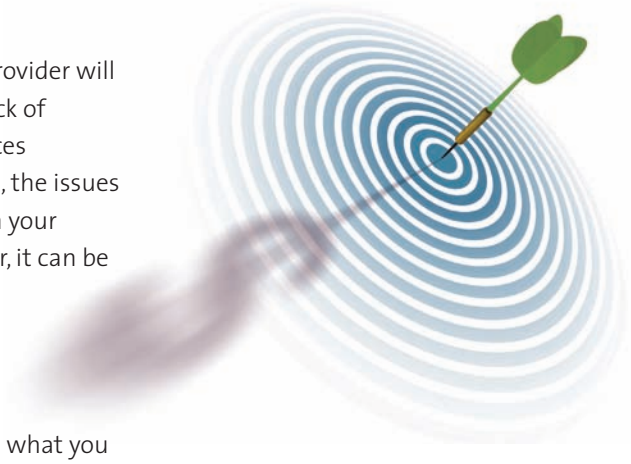
So you've made the decision to outsource. Now you need to find the right partner to bring your supply chain vision to reality. As you search for the right partner — and as outsource providers pitch you — it is important to keep in mind that the proposal process is a critical first step between you and a potential partner. This is your opportunity to lay the groundwork for an outsource provider to understand your business, supply chain, goals and expectations.

Here are tips to help maximize the proposal process:

TIP 1: Understand Your Business!

An outsource provider can't effectively improve your supply chain in isolation. Form a team within your organization that has a solid understanding of your supply chain, and who truly knows how to run this part of your business. This goes hand-in-hand with the next tip. ...

TIP 2: Provide a Realistic View of Your Supply Chain



An open and honest relationship between you and an outsource provider will lead to faster processes, more effective results and cost savings. Lack of information during the proposal stage is a major obstacle that forces outsource providers to make assumptions about your supply chain, the issues at hand, and the right solution. Be upfront about the pain points in your supply chain: If your partner truly knows what you need to solve for, it can be more efficient from the start.

TIP 3: Know Why You are Outsourcing

To ensure a successful outsource experience, you must understand what you want to achieve and why you want to outsource in the first place. This is a crucial tip because in some cases, the cost to outsource may be higher than the solution you currently have in place. If this is the case, you have to weigh your current costs and what you will potentially lose in the long-run against the cost of an outsource solution. It is likely that you will save more money over time with a more streamlined and flexible supply chain infrastructure.

TIP 4: Collaboration is Key

Always involve the outsource provider in the proposal development process, and work directly with your partner to create the business requirement document. You will benefit from a more accurate and effective proposal, and the outsource provider will be able to see which processes you have already established that are working well, and move on to identify the core problems in your supply chain faster.

TIP 5:

Inquire About Your Partner's Team

Find an outsource provider that has consistency within its organization, and don't be afraid to ask questions. From technical support and information technology to project management, manufacturing, logistics and planning, alignment across an outsource provider's major functional groups is critical to the success of your supply chain.

TIP 6:

Consider Solution Advice from Your Prospective Partner

Many outsource providers have a team that is involved in solution design and delivery. They will evaluate your unique performance, service and cost challenges then map its capabilities to best meet your supply chain needs. In order for this process to work, you must collaboratively design the solution and drive support internally on your partner's behalf.

OUTSOURCING DOs

1. **Do** be clear about what issues you want to solve in your supply chain.
2. **Do** work collaboratively with your outsource partner to define a solution strategy.
3. **Do** provide as much order, freight and production data as possible, as well as data about your business processes, or provide access to this data.
4. **Do** think green. Work with an outsource partner that provides sustainable supply chain solutions such as packaging redesign, Greenhouse Gas footprinting, recycling and asset disposition.
5. **Do** collaborate with your outsource partner to create a map of your end-to-end supply chain.
6. **Do** have a cross-functional team of experts at your disposal.
7. **Do** ensure your pricing model rewards the right behaviors and aligns with your business objectives.
8. **Do** ensure that you identify an executive sponsor on both sides of the relationship capable of removing barriers to success as they arise.
9. **Do** establish clear expectations of responsibilities, timelines, goals and next steps.
10. **Do** consider the impact on the reverse supply chain and any e-Business processes, and whether to incorporate an outsource program for these activities into the mix.

TAKING THE PAIN OUT OF THE ON-BOARDING TRANSITION

On-boarding success is driven by teamwork. Ideally, you should have dedicated project teams on both sides of the relationship that are assigned to specific roles and that mirror each other. You should also determine who will be managing the relationship in a sustaining model and establish these relationships as early as possible. These project teams should be measured on predetermined success criteria such as quality levels and order fulfillment. For example, if you determine that by day five of the launch you want an 80 percent run-rate, project teams on both sides must be working in collaboration toward this goal.

Quick tip: *The best plans for on-boarding have a phased-in approach.*

On-Boarding Checklist

- ☑ Engage the right people within your organization — people that know the supply chain side of the business.
- ☑ Work with a partner that has a dedicated on-boarding team.
- ☑ Secure an executive sponsor on both sides of the relationship that can affect change when needed.
- ☑ Avoid being "pennywise" when it comes to finding the right solution for your supply chain.
- ☑ Focus on your supply chain needs with the end customer in mind, not how it should work tactically.
- ☑ Beware of the "honeymoon affect" of focusing all your attention on the beginning stages of on-boarding and not the long-term process.
- ☑ Work with your partner to create accurate transition documents. This will enable a seamless transition to the solution center(s).
- ☑ Define success criteria at the start of your relationship.



IN CONCLUSION

According to Supply and Demand Chain Executive magazine, spending for outsourcing in all business activities has continued to climb at 10 percent to 20 percent for the last decade — in good economic times and bad.[5]

If you currently manage your supply chain in-house, it's time to follow the lead of the many companies who have already made the outsource transition to improve their business, gain new market share and streamline supply chain processes. By following the fundamental tips covered in this white paper, you will find the right outsource partner for your supply chain needs, and your business will continue to reap the benefits of flexibility, scalability and cost savings over time.

Sources

1. Supply Chain Services Survey Highlight Analytics and Planning as a Major Pain Point; Gartner Inc., November 2010. Survey question: "How important are each of the following value chain capabilities to the success of your company's business strategies in 2010? How would you say your company performs today in terms of these capabilities?"
2. Supply Chain BPO Delivers Direct and Indirect Cost Savings; Gartner Inc., October 2010.
3. Supply Chain Services Survey Highlight Analytics and Planning as a Major Pain Point; Gartner Inc., November 2010.
4. Supply Chain BPO Delivers Direct and Indirect Cost Savings; Gartner Inc., October 2010.
5. Outsourcing without Compromising Total Involvement and Control; Supply and Demand Chain Executive magazine, January 2011.

About ModusLink Global Solutions

ModusLink Global Solutions, Inc. (NASDAQ: MLNK) designs and executes global value chain strategies to solve clients' cost, time-to-market, customer satisfaction and revenue objectives. Our supply chain, aftermarket and e-Business solutions support the end-to-end product lifecycles of the world's leading technology and consumer goods companies. ModusLink has more than 25 years of experience executing complex supply chain processes such as sourcing, configuration and fulfillment. We seamlessly integrate these critical functions with global, multichannel e-Business initiatives and aftermarket programs. Backed by a footprint of more than 25 solution centers in 14 countries, ModusLink clients can react quickly to shifting market dynamics impacting value chain performance and revenue.

About the author

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Bill McLennan is President, Global Operations, for ModusLink Global Solutions and is responsible for strategic management of the company's global supply chain business. Bill oversees operations located in the United State and Mexico, as well as throughout Eastern and Western Europe and a number of the key economic regions of Asia. Bill is also responsible for developing global solutions for international clients looking to grow their business on a worldwide basis.