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A Methodological Approach to Outsourcing

Edward Sweeney

Dublin Institute of Technology, edward.sweeney@dit.ie

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TECHNICAL FOCUS - A METHODOLOGICAL APPROACH TO OUTSOURCING

**Edward Sweeney
Director of Learning, NITL**

INTRODUCTION

Outsourcing of various elements of supply chain functionality has sharpened the focus the need for methodological approaches to the planning and implementation of effective outsourcing. This *Technical Focus* provides an overview of such an approach, developed by the author.

OVERVIEW AND RATIONALE

This approach is based on answering three key questions:

- To outsource or not to outsource (that is *the* question!)?
- Outsource to whom?
- How are relationships managed and performance improved?

Answering each of these questions invariably involves consideration of a range of quite often interdependent variables and is, therefore, quite a complex process. The following sections provide some guidance in terms of the main issues that need to be addressed and the steps that should usually be followed.

TO OUTSOURCE OR NOT TO OUTSOURCE?

The approach adopted will depend on whether one is dealing with the decision making at a strategic level or at a more tactical or operational level. What follows is based largely on the former, which usually involves a quite fundamental assessment of the nature of the business.

- Identification of core competencies
- Identification of “non-core” activities
- Assessment of potential benefits of outsourcing

- Assessment of risks associated with outsourcing
- Identification of potential activities for outsourcing
- Prioritisation of these activities

OUTSOURCE TO WHOM?

- Detailed definition of requirements
- Development of RFQ or equivalent
- Identification of possible suppliers/partners
- Selection of preferred supplier(s)/partner(s)

The latter stage in turn typically involves the following steps:

- Establishment of short-listing criteria
- Short-listing of potential suppliers/partners
- Establishment of more detailed assessment criteria
- Detailed assessment of short-list
- Selection of supplier(s)/partner(s)

The latter stage in turn typically involves the following steps:

- Assessment of *current performance* levels
- *Financial assessment*
- *Strategic assessment*
- *Supply chain audit*

Assessment of current performance involves analysing, where possible, current levels of quality (mainly in terms of product/service performance and functionality), cost (total landed cost rather than simply unit price) and customer service. In relation to the latter NITL has developed a comprehensive list of the elements of customer service which it uses in many of its consulting projects. However, it is not sufficient in itself that a candidate company currently performs well in these areas. It is also important that it can at least sustain, and preferably improve, its level of performance. The *financial assessment* ensures that a company is robust financially and, for example, will not become overly dependent on our business. The strategic assessment, which involves an objective critique of the company's strategic objectives and plans, is designed to ensure

that a company has a viable future. Finally, the supply chain audit examines all aspects of the company's supply chain – NITL has developed a separate checklist of the types of information which typically need to be collected as part of such an audit.

HOW ARE RELATIONSHIPS MANAGED AND PERFORMANCE IMPROVED?

As pointed out in Edward Sweeney's article earlier in this edition of *Logistics Solutions*, this is a complex and multi-dimensional activity. Ensuring that information flows are managed as effectively as possible is one important element. IT connectivity (part of the "hard wiring"¹) plays a potentially key role in terms of day-to-day operational management of the relationship. A properly formulated service level agreement (SLA) is also an important tool. Part of an SLA is the agreed performance standards and metrics. These are important as they provide the basis for continuous improvement. Finally, collaborative approaches to planning (e.g. collaborative planning, forecasting and replenishment or CPFR) and problem resolution can often provide a useful platform for improvement.

CONCLUSIONS

The approach outlined in this fact sheet provides the basis of a logical and systematic approach to the analysis, planning and execution of outsourcing opportunities. Furthermore, it helps to ensure that outsourcing is considered as part of an overall approach to integrated SCM. Finally it should be remembered that every project is unique and that methodologies exist only to provide guidance. The detailed approach adopted in individual projects must be properly thought through. Never forget that "the devil is in the detail".

¹ The "soft wiring" aspect of relationship management is discussed in more detail in Natalie Descheres' article.