

10 Rules for Successful Outsourcing Relationships

The following article is an excerpt from "Logistic Outsourcing- A Management Guide" by Clifford R. Lynch courtesy of the publisher, the Council of Logistics Management.

History shows that great economic and social forces flow like a tide over communities only half conscious of what is befalling them. Wise statesmen foresee what time is thus bringing, and try to shape institutions and mould men's thoughts and purposes in accordance with the change that is silently coming on. The unwise are those who bring nothing to the process, and who greatly imperil the future of mankind by leaving great questions to be fought out between ignorant change on one hand and ignorant opposition to change on the other. - John Stuart Mill

To say that logistics outsourcing has grown in popularity in recent years would be a classic understatement. The number of logistics service providers is multiplying almost daily, as is the number of outsourcing agreements.

Logistics outsourcing has become a valuable strategy for many firms, and should be considered by most. It is important to remember, however, that the outsourcing of any logistics function requires careful planning, implementation, and management.

Adherence to ten basic rules will go a long way toward ensuring a successful and mutually beneficial outsourcing relationship.

1. Develop a strategy for outsourcing. Outsourcing should always be carefully thought out and measured against an in house solution. This will help identify relative strengths and weaknesses for each alternative. Include the provider in the process from the beginning. While RFP's (Requests for Proposal) make potential agreements easier to evaluate, they can ignore the analysis of the most cost and service-effective processes.
2. Establish a rigorous provider selection process. Check industry sources, existing clients, and financial health. Carefully analyze management depth, strategic direction, information technology capabilities, labor relations, and personal chemistry and compatibility.
3. Clearly define your expectations. A number of outsourcing relationships have been unsuccessful because of unrealistic expectations. Providers are often asked to submit bids based on inadequate information about volume, size, and frequency of shipments. Companies simply lack accurate or detailed knowledge of their own logistics activity. In addition, the cost of providing the service, especially in the information technology area, often is underestimated and/or misunderstood. Such inaccuracies result in providers developing costing for and committing to arrangements that don't reflect reality.
4. Develop a good contract. Provide incentives to improve operations and productivity with both parties sharing the benefits. Clearly spell out obligations, expectations, and remedies.
5. Establish sound policies and procedures. Give the service provider an operating manual. Ideally, the manual will be developed together and contain all policies, procedures, and other information necessary for the efficient operation of the outsourcing arrangement.
6. Identify and avoid potential friction points. Both parties are usually aware of friction points that may arise. Identify them in advance and develop a procedure for dealing with them.
7. Communicate effectively with your logistics partner. Poor communication is second only to poor planning as a cause of outsourcing relationship failure. Communication on all aspects of the operation must be frequent and two-way.
8. Measure performance, communicate results. When setting up a relationship, clearly identify, agree upon, and communicate standards of performance. Measure performance regularly.

9. Motivate and reward providers. Reward good performance; don't take it for granted. Compliments, recognition, awards, trophies and dinners are all proven motivators, Do whatever works for your particular circumstances, gut do something.

10. Be a good partner. Good partnerships are mutually beneficial. Bad ones are not. Our logistics provider's ability to serve you and your customers often can hinge on your own performance or lack thereof.

Finally, while following these ten steps will set the right course for your outsourcing relationship for it to truly succeed, it must be based on mutual trust and respect, A high level of integrity will ensure a high level of service and satisfaction.