

Business Process Outsourcing
A New Paradigm
in Supply Chain
Outsourcing

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A large, stylized blue chevron graphic pointing to the right, positioned behind the text.

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Supply Chain Outsourcing is Poised to Enter a New Age

The field's scope and value are increasing dramatically and new outsourcing-based opportunities are emerging in areas such as planning, direct procurement, order management and reverse logistics. The business community also is seeing a change in how supply chain outsourcing services are provided and who delivers them. In effect, outsourcing's primary provider types—third party logistics companies (3PLs) and professional services firms—are becoming more sophisticated, more broadly focused and more likely to vie for similar pieces of the same basic pie. The potential result is a broader range of integrated outsourcing opportunities under the aegis of a single provider.

This Accenture Point of View provides an overview of these important trends: a greater variety of supply chain business process outsourcing (BPO) opportunities and the growing convergence of organizations looking to help companies address those opportunities. First and foremost, both sides (3PLs and professional services firms) must have the ability to deliver business outcomes that go beyond cost reduction. However, Accenture believes that two other success factors—end-to-end supply chain capabilities and extensive supply chain flexibility—are equally critical, and these are also discussed in this paper.

The Two Rivals

Increasing supply chain complexity has made supply chain BPO a more attractive and viable approach. There are many reasons for this, including more-intricate integration methodologies and a growing need for advanced tools that are often expensive to operate, maintain and enhance. An awkward mixture of lean techniques and low-cost-country sourcing also has contributed to supply chain management's increasing complexity, as has an increasingly demanding, more diverse and difficult-to-please customer base. In addition, companies are having a hard time recruiting top supply chain talent. This too has elevated the need for external service providers that employ supply chain specialists.

As noted above, two types of businesses are jockeying for position in the growing supply chain BPO market: third party logistics companies and professional services firms. 3PLs include DHL, UPS, FedEx, and CEVA. Professional services firms are represented by entities such as Accenture, CapGemini and IBM. The relative capabilities of these providers are highlighted in Figure 1, but industry research shows that each provider type is increasingly moving onto the other's turf.

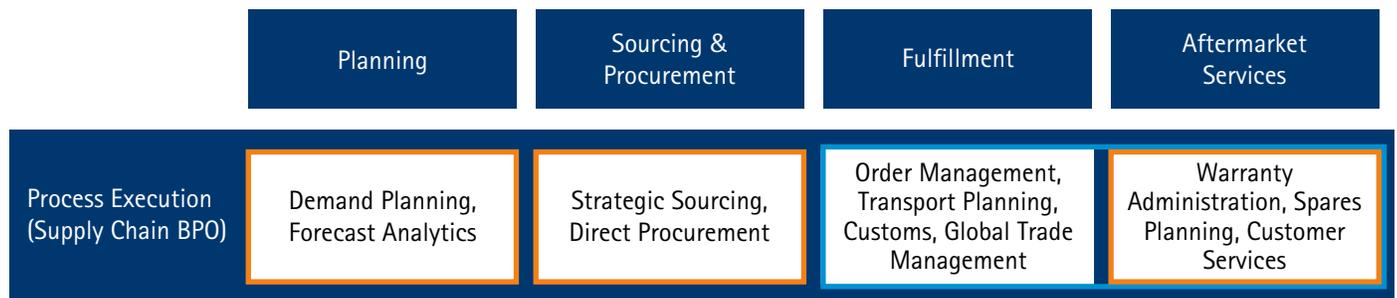
Despite their increasing convergence in supply chain BPO, the two sides come from highly dissimilar places. Third party logistics—the outsourcing of activities such as transportation and warehousing—is a mature market that generates roughly \$320 billion each year. Around the world, 3PLs cost-effectively manage asset-based activities that most companies formerly handled in-house. Throughout the 1990s and 2000s, expanding markets and globalization spurred greater use of these services. 3PLs responded with significant service upgrades and aggressive mergers and acquisitions; and consequently were able to build ever-larger networks and provide more access to emerging markets. Now 3PLs are expanding beyond their core physical, asset-based activities to supply chain business process areas outside of logistics.

Professional services firms, on the other hand, are using their skills in other outsourcing areas—human resources, finance & accounting, indirect procurement, etc.—to gain a foothold in supply chain BPO. This experience has given them strong operational know-how in BPO, as well as a deep pool of existing clients with which to explore supply chain

BPO opportunities. In fact, it is relatively common for a client's supply chain BPO contract with a professional services firm to have emanated from a previous consulting engagement.

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Figure 1: Outsourcing capabilities typically offered by 3PLs and professional services firms.



Typical Scope of Oversight



The Race for Supply Chain BPO Business

Since the late 1990s, business process outsourcing services have passed through four generations (Figure 2). Cost reduction was, and remains, a top priority, but clients now expect BPO to provide value in more forms (increased competitiveness, higher margins, greater growth potential, etc.). To make this happen, providers must offer analytics- and industry-based insights, deep functional knowledge of the outsourced process and an extensive understanding of each client's business operations.

Focused on activities such as planning, direct procurement and after-market service and support, the outsourcing of supply chain business processes clearly epitomizes this shift to relationships that are analytics-based, value focused and committed to a wider range of delivered benefits. According to Gartner, "Unlike other forms of BPO, which primarily reduce administrative labor costs associated with operating transactional functions, [supply chain management] BPO attacks direct (e.g., operating) and indirect (e.g., overhead) costs in the supply chain, with the largest benefits derived from a combination of analytical and planning technologies and high-end, offshore labor arbitrage."¹

Outsourcing entities (3PLs or professional services firms) that possess 4th generation capabilities—and are well positioned to adopt next-generation characteristics such as on-demand services, standardized platforms and use of social media—will be best positioned to garner more supply chain BPO business. Consider the case of an aerospace and defense company enjoying strong demand for its manufactured engines but struggling with direct-materials-purchasing challenges. A professional services firm (leveraging experience gleaned from a similar engagement in the same industry) helped the company establish a process

for managing shortages, expediting parts, working with suppliers and communicating part status. Beyond cost reductions, the initiative's business outcomes included enhanced part visibility, improved inventory positions and more reliable production schedules. These added benefits are consistent with next-generation BPO characteristics.

Alternatively, DHL's recent entry into the direct procurement BPO market is a good illustration of 3PL's expansion. In addition to helping clients save millions via process excellence, centralization and standardization, DHL is adding value by building better relationships with suppliers. Leveraging expertise in transportation planning and global trade management, DHL adds further value by approaching direct-materials sourcing from a total landed cost perspective.

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Figure 2: The generations of BPO.

	1st Gen Late 1990s "Pioneers"	2nd Gen Early 2000s "Offshore"	3rd Gen Mid-2000s "Opex"	4th Gen Today "Insight"	5th Gen Near Future "On-Demand"	6th Gen Future "Community"
Industry & Offerings	Financial Services Industry, Finance & Accounting, Human Resources	More back office and industry processes	Move into the 'middle office'	All "offices" with more industry focus	Offerings with standard platforms and processes	5th Gen offerings that also have scale in delivery
Deals	Pioneering mega deals with "lift & shift" focus	FTE-based with focus on labor arbitrage	FTE-based with some gain sharing for innovation	Based on business outcomes to clients	Business-outcome-based with technology components	Common and consistent approach across clients
Platforms	Emphasis on one-to-many	Clients own platform	Mostly clients own platform	Providers add analytics tools	Standard platforms	Providers add collaboration and social media
Client Objectives	Cost savings, transfer people and technology to providers	Cost savings and global capability	Cost savings and global capability and "noiseless" delivery	Cost global "noiseless" industry depth, analytical insight and innovation	Cost global "noiseless" industry depth, analytical insight, innovation and flexibility	Cost global "noiseless" industry depth, analytical insight, innovation, flexibility and community

Winning the Race

Delivering business outcomes that go beyond cost reduction is quickly becoming a table stakes capability—a prerequisite that outsourcing services providers of either ilk must possess to meet client expectations. However, Accenture also believes that two key characteristics are needed to enhance 4th generation acumen and win supply chain BPO market share:

- End-to-end supply chain capabilities
- Extensive supply chain flexibility

Creating end-to-end Supply Chain Capabilities

Ever-greater supply chain complexity and variability have made it more important to integrate supply chain activities (planning, sourcing & procurement, manufacturing, fulfillment and aftermarket services). Changes in

manufacturing strategy, for example, must be tightly aligned with planning, sourcing and fulfillment functions to ensure net benefits to the outsourcing company. Greater integration is also needed within each of these disciplines. Lastly, traditional logistics capabilities (ordering, storing, transporting product and managing inventory) also need tighter connections with supply chain management's more-strategic functions (in the past, continuous improvement within each functional area was often sufficient). The implication is clear: integrated, end-to-end capabilities yield a supply chain whose whole is greater than the sum of its parts.

Working to achieve integrated, end-to-end performance is a huge challenge, and doing so without external assistance is increasingly tough. First, companies must develop an internal organization

that supports the integration of key activities across functional silos. Planning, manufacturing, logistics, procurement and product development groups need to work in concert—interacting openly and developing/communicating collaborative plans that result in a consolidated approach to meeting customer needs. Companies also must recruit and train specialized (i.e., expensive and often-hard-to-find) professionals. To ensure high performance across functional areas, those organizations also must excel at governance and possess analytics capabilities to maximize visibility, insight, predictability and control across the supply chain.

Not surprisingly, the above capabilities are what outsourcing services providers bring (or seek to bring) to the relationship. Consequently, both 3PLs and professional services firms will need to broaden their

capabilities across the supply chain to better enable end-to-end integration. Services firms have added many core logistics offerings to their menu of advanced supply chain capabilities, but gaining deep knowledge of clients' supply chain operations may require investments in physical assets or, at the very least, strategic partnerships with asset-based companies. Such partnerships can be tricky, and services firms thus far have been hesitant to invest in things like trucks and warehouses. Third party logistics providers, on the other hand, maintain strong physical infrastructures that can help clients access emerging markets. However, offerings outside the fulfillment (order management, transport and storage) space are less-fully developed.

Both 3PLs and professional services firms will need to broaden their capabilities across the supply chain spectrum to better enable end-to-end integration.

Enhancing Supply Chain Flexibility

One of today's most important operational mantras is "flexible supply chain." Consider how the pursuit of low-cost labor and materials has required companies to virtually jump from country to country. Then factor in the dynamic growth of consumer economies that, only a short time ago, were perceived almost exclusively as low-cost supply sources. Now add the volatility of fuel prices and heightened geopolitical security issues. These factors underscore the criticality of building supply chains that are highly responsive—that flexibly support a company's need to rapidly reconsider, reprioritize, refocus and redistribute.

To meet the flexibility requirements of clients, both professional services firms and 3PLs must have access to a wide mix of people, tools and physical assets, and be able to rapidly scale the number and volume up or down as needed:

- **People.** The 2012 Third-party Logistics Study specifically notes a shortage of well-rounded supply chain managers.² To successfully drive 4th generation business outcomes, professional services firms and 3PLs must emphasize the attraction and retention of top supply chain talent.
- **Tools.** Supply chain complexity means increasingly higher outlays in advanced planning tools—investments that can be expensive to acquire, operate, maintain and enhance. Even when companies do acquire these tools, the aforementioned talent crisis can minimize organizations' ability to maximize the tools' value. Services firms and 3PLs can help clients avoid these investment burdens by offering on-demand access to leading-edge applications, most likely through "the cloud."
- **Physical assets.** This refers to warehouses, trucks and distribution centers that support a company's network. Rapid access to physical assets is key to growth (especially in emerging markets). However the option to not pay for an unused asset is a key advantage of outsourcing. 3PLs are strong in this category, but there is still room to improve capabilities in fast-growing emerging markets. Professional services firms, on the other hand, have a long way to go from a physical asset standpoint. Likely catch-up strategies include acquisitions or partnerships with asset-based providers.

Both professional services firms and 3PLs offer access to skilled, lower-cost resources that can operate within a client's system or through an external hosting or on-demand environment. However, more advanced supply chain BPO providers will offer highly trained supply chain experts who are adept not just at mining data, but at applying insights based on their knowledge of the client, the industry as a whole and best practices in supply chain management. This powerful and flexible combination of insights and technology is a hallmark of 5th and 6th generation BPO, and it potentially unlocks even greater value for clients.

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What to Expect and What to Do

A person wearing a green shirt is working with a large, bright orange container on a conveyor belt system. The conveyor belt consists of several parallel metal rollers. The person's hands are positioned near the container, which is being moved along the rollers. The background shows more of the industrial setting, including a wooden structure and a metal grate.

Supply chain leaders will always work to develop better operating models by integrating cross-functional (end-to-end) capabilities. To continuously adapt to changing markets and economic conditions, they also will seek to build in greater levels of flexibility. However, investing in these capabilities can be daunting and harder to justify if their use cannot be amortized across many users—similar to a hospital that would never consider purchasing a multi-million-dollar MRI scanner for only one patient. For this reason, it is extremely likely that external partners will become steadily more essential.

In an outsourcing context, it also is likely that client companies will expect broader business-wide outcomes: analytics and industry-based insights provided by their supply chain BPO providers. To meet these expectations, both services firms and 3PLs will need to develop more expertise in what the other currently does, while expanding access to physical assets, leading-edge tools and top supply chain talent.

The looming challenge for current and prospective outsourcing clients is to determine which provider—professional services firm or 3PL—can best address the most-pressing supply chain needs and strategic objectives. Is there more need for physical infrastructures supplemented with high-end supply chain services? Or is a top priority the (currently broader) spectrum of supply chain capabilities and range of experience offered by professional services firms? Being able to articulate your long-term supply chain goals—and understanding how various outsourcing entities are positioning themselves to help you meet those goals—are the core challenges that more and more companies face.

Authors

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References

1 "Supply Chain BPO Delivers Direct and Indirect Cost Savings," © 2010 by Gartner, Inc.

2 "2012 Third-party Logistics Study: The State of Logistics Outsourcing," © 2012 by C. John Langley, Jr., Ph.D., and Capgemini.