

# WHITE PAPER

## The Supply Chain Management BPO Ecosystem *Strategies to develop successful SCM BPO operations*



– Simon V Coates & Shyam R Rao

### Abstract

Outsourcing of production and logistics has become a firmly established model for growth and cost competitiveness in the global markets of today. Can outsourcing of SCM processes be far behind?

With the BPO industry achieving maturity, it is now exploring next gen services that utilize specialized skills and promise benefits far beyond labour arbitrage. SCM BPO is emerging as the domain which will define the future of the BPO industry. This article will explore the SCM Ecosystem, starting with the service providers, the processes that are currently being outsourced and finally understanding the right strategies to be put in place to operate a successful SCM BPO ecosystem.

## Introduction

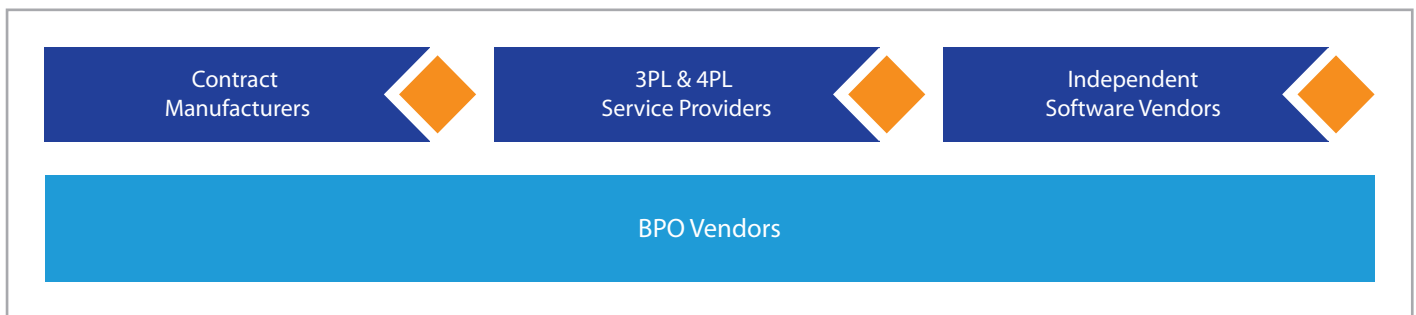
Supply Chain Management is often seen as a core function within organizations and seldom do supply chain executives feel that these could or should be outsourced. However the slow morphing of most manufacturing companies to becoming design and marketing organizations with the actual production being taken over by contract manufacturers in low cost countries contradicts this view. Outsourcing of production and logistics has become a firmly established model for

growth and cost competitiveness in the global markets of today. Can outsourcing of SCM processes be far behind?

The BPO industry has achieved considerable maturity in delivering transactional processes in Finance and Accounting, Customer Service, Travel and Expense etc. This learning curve has helped the industry to scale up and perfect its delivery models. The next wave of services will be in delivering value added services where knowledge/skill and improved business outcome is the promise rather

than the earlier focus on labour arbitrage. SCM and Analytics will play an important role in the future of the BPO industry and its sustainability over the long run. To understand the scope and potential of SCM BPO we will need to first understand (1) the service providers in this space, (2) the processes that clients are looking at being delivered from a shared service center and finally (3) the operating strategy for successful SCM operations.

## The SCM Ecosystem – the Service Providers



### Contract manufacturers:

Most manufacturing companies today retain R&D, design, local assembly and marketing while production is outsourced to contract manufacturers. These manufacturers in low cost locations like China utilize the same levers of BPO such as labour arbitrage and economies of scale to deliver cost benefits to the client. Contract manufacturers may operate under a license or under full control of the outsourcing organization with pre-agreed rates and margins for services delivered. internal teams with resources, tools and processes that can be 'plugged in' to drive and deliver strategic sourcing, category management, contract management, supplier panel management, and analytical support as needed

### Logistics Service Providers:

Movement of goods, information and cash is provided by 3PLs which would include management of warehouses, freight and payment channels. The physical movement of materials is accomplished with an

asset heavy structure by organisations like Toll, Linfox and DHL. - 4PLs are taking time to get established in this market but in principal will be able to manage a set of 3PLs using an asset light model by providing services such as selection, evaluation and management of 3PLs, freight auditing and billing, route optimization, inventory management, vendor negotiations etc. It is in this space that 3PLs have begun to offer traditional BPO services and offer stiff competition to BPO vendors. However the BPO component of services offered by LSPs is typically small and focused on a narrow set of processes such as logistics helpdesk and freight billing

### Independent Software Vendors (“ISV”):

Supply Chain application and ERP modules provided by ISVs are an important component of the logistics value chain. Besides standard packages in SCM and CRM from majors market players like SAP and Oracle, niche offerings are available from IT vendors like JDA, Manhattan

Associates, Netstock etc. These ISVs also provide cloud based services or SaaS (Software as a Service) in a multi-tenant model to reduce the capex for their clients and to make their services more affordable. These managed services on the cloud are in close competition to BPO vendors. However these managed services are typically restricted to the software associated with the ISV and rarely does it encompass service delivered on a competing platform or a technology agnostic service

### BPO Vendors:

SCM BPO has now moved beyond the F&A domain (S2P and OtC) and currently offers a series of services that encompass technology, consulting and deep domain knowledge. These services typically seek to optimize the supply chain and less on labour arbitrage. These may range from optimizing processes such as S&OP or demand forecasting to services which are currently not available with the client such as SCM Analytics. However it is clear

that BPO vendors will need to span the SCM ecosystem and integrate with all SC partners to deliver an optimized supply chain. Hence an aggregator model with strategic alliances to cover contract manufacturers, LSPs and ISVs is imperative – this will be key in positioning SCM BPO as a differentiator and provider of end-to-end supply chain services.

## The SCM Ecosystem – BPO Service Offerings

Outsourcing production through contract manufacturers in local or offshore locations has been an accepted part of supply chain strategy and has developed its own systems and practices to become a mature operating model. SCM BPO on the other hand is very much in infancy and defining its scope and potential will be an ongoing process. A key to identifying SCM BPO processes is to understand that

SCM BPO will be a specialized BPO vis-à-vis traditional BPO in terms of its value proposition, commercial models, enabling technologies and skill sets required. SCM processes will offer a value proposition beyond labour arbitrage, commercial models will be focused more on outcomes than fixed fee and skills required will be very domain specific. The SCM BPO provider will also operate on his own set

of specialized technologies or platforms and function in a complex network of alliances and partnerships to provide end to end services. Moreover some SCM BPO offerings will be one time project based services such as analytics as opposed to traditional annuity based services. Service offerings that have seen traction in the market can be grouped into the SCOR model as below:

| Plan                                | Source                            | Make                  | Deliver                               | Return                                  |
|-------------------------------------|-----------------------------------|-----------------------|---------------------------------------|---|
| Demand Planning                     | Direct/Indirect Material Sourcing | Production Scheduling | Order Management                      | Reverse Logistics                       |
| Demand Forecasting                  | PO Management Services            | Plant Layout Planning | Freight forwarding                    | Warranty and Claims Management          |
| SCM Analytics                       | Vendor Management                 | MRP                   | Customs Processing                    | Service Parts Management                |
| Inventory planning and optimization | E-auctions                        | S&OP                  | Logistics Coordination (4PL Services) | Compliance services for returns/repairs |
| Price and promotions management     | VMI/Consignment Stock Management  | Green SCM             | Network optimization                  | Install Base Management                 |

Companies have been most active in the “Plan” set of activities in the form of outsourcing short term projects which are based on SCM Consulting expertise. The movement to extend these consulting projects into extended managed services is well underway – the Retail

and CPG industry has for instance been early adopters of extending inventory optimization consulting services into a longer term managed service by setting by CIOGs (Central Inventory Optimization Groups) which monitor the inventory patterns and take corrective actions in

real time to ensure the supply chain is continually optimized.

However we see that SCM BPO certainly requires a shift in mindset to execute and deliver successful operations. Some imperatives will remain whereas other new capabilities will have to be built up.

## The SCM Ecosystem – Strategies for successful SCM BPO Operations

Organizations planning on SCM BPO need to first recognize the fact that unlike traditional BPO, SCM BPO is more about reducing COGs and improving operational efficiencies and NOT about reducing supply chain headcounts. Keeping this in focus, a roadmap for successful SCM BPO operations should include the following factors/strategies:

- Focus more on outcomes and less on operating costs – i.e. structure contracts around savings in direct material costs, reduction in inventories, improvement in

COGS in addition to more traditional SGA costs such as FTE costs, however labour arbitrage remains an incentive to some

- Choose service providers who can provide end-to-end supply chain services by seamlessly integrating with downstream and upstream supply chain partners
- Develop specific industry expertise in the supply chain – for e.g. the automotive industry would require a specific skillset in managing the supply chain vis-à-vis the CPG or Healthcare industries

- Conduct assessments or diagnostics to arrive at potential gains from SCM BPO before launching full-fledged services – for e.g. an assessment of inventory and potential gains in terms of DSO, working capital etc. will help decide whether a fully operational CIOG Managed Service (Centralized Inventory Optimization Group) is justified
- Utilize Centers of Excellence (CoEs) to conduct diagnostics, standardize and transition processes as well as provide quick ramp up capabilities

## Conclusion

The starting point for SCM BPO will be in analyzing the SCM landscape, identifying processes which provide the maximum promise from outsourcing and finally prioritizing the processes in a well-defined roadmap. Integrating this with strong supply chain consulting services and governing it with business outcomes will be the way forward in building successful SCM BPO operations.

## About the Authors



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Simon has over 20 years of Supply Chain industry experience including a number of "C" level positions in the UK, and Australia in retail, wholesale, automotive and pharmaceutical. In addition Simon has 6 years consulting leadership experience responsible for delivering over 100 projects across a broad range of industries In Australia, Asia and the Middle East covering strategy development, network optimisation, warehousing, inventory management, freight, procurement and systems integration.



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Shyam has over 17 years of professional experience in supply chain, inventory optimization and after sales operations. He is responsible for conceptualizing and implementing shared service and outsourcing solutions and has led several solutions and consulting efforts for clients across the supply chain and sales operations domains. Prior to Infosys, Shyam worked in the procurement and supply chain functions in the hi-tech manufacturing and financial services industries. Shyam is an alumnus of the London School of Economics.

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