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## CONSULTING



# INSIGHTS



## ARE YOU GETTING THE BENEFITS OF OUTSOURCING?

### 3 Tips for Improving Business Process Outsourcing with SAP

Outsourcing Business Processes is a strategic decision. But, are you getting the benefits that you expected?

#### A real-world example:

One of our clients was poised to knock it out of the park – to grow significant revenue by introducing a new product line through a new channel. The growth could only be reached if they outsourced certain business processes to a distribution subcontractor that had the technology needed for this product line.

After six months of piloting the outsourced processes, they were still far from meeting the expectations communicated to the board. Why? There were inventory control issues with their partner.

Let's start by looking at why many companies choose to outsource business processes. While there are many justifications, the main reasons are to:

1. Reduce Operating and Labor Costs.
2. Accelerate time-to-results.
3. Access technology improvements and advantages of partners.
4. Allow operations to grow without capital contributions.

Our client, a medium-sized manufacturer with a lean IT staff, was expecting to reap the benefits of outsourcing, but the revenue and new customers had not arrived. This hampered them from expanding the model, and in turn, they were not delivering the performance they had promised to management.

Three reasons why outsourcing may fail to deliver on your expectations are:

1. Faulty or Inconsistent Business Processes
2. Master Data Issues
3. Workforce Issues

In our client's situation, two of the three issues mentioned above quickly surfaced – Faulty Business Processes and Master Data Issues. They had adequately performed their vendor due diligence. The partner had a technology that would allow them to get their product to market faster, with less start-up investment, while still ensuring it was financially stable.



**So, what was the problem?** The inventory transactions and counts were all messed up. Our client used SAP ECC 6.0 for ERP processing. Our solution? We set up their subcontracting and EDI processes, and orders were correctly sent to the partner.

Due to the pricing and fee structure with their partner, the "first in, first out" (FIFO) method was used when shipping to customers. This requirement also included the batch number. We started seeing data errors where the batch numbers did not match, and expiration dates were not in the FIFO sequence.

**Ensuring that the workforce is capable of dealing with the technology is critical.**

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## C O N S U L T I N G



Some of the more technical readers in our audience might suggest building a pre-processor to identify these issues. While that could work, our approach is to build solutions around efficient processes, not to hide process warts and flaws.

A few years ago, a high-tech manufacturer in the Dallas area outsourced logistics and inventory management to a third-party logistics provider (3PL). After helping build the integration to SAP, we assisted with the go-live and ongoing support. Everything seemed to be running smoothly. We were processing the same volume of business in SAP as they had in their legacy system.

The problems started slowly; a small issue with converted data, then some master data issues here and there, nothing major.

After a few weeks, our customer satisfaction metrics were moving in the wrong direction. On top of that, the inventory metrics began to decline, with incorrect inventory quantities and products not being received by customers. We struggled to figure out and fix these mistakes, but our research showed that this should not have been happening.



We decided to go to the 3PL's location and see what was happening. **We were shocked by what we saw.** The users at the 3PL were side-stepping the processes we built and manually entering data into their systems, which created many of the errors we observed.

We learned that while the processes were properly designed, built and tested, we could still expect some late nights if the partner is not following the procedures.

When we conducted random inventory counts, we discovered that the 3PL's employees were taking the easy route rather than following the expected procedures.

For example, the employees were putting the inventory in the closest bin, rather than going to the other end of the warehouse to put it away in the correct location.

Outsourcing offers many benefits, helping businesses manage operations and labor costs, achieve faster results, and enter new markets with less risk. However, it is essential to ensure that your partners follow the best practices and processes designed to deliver the expected outcomes from outsourcing.

### What happens next?

Our advisory services and solution architects have deep experience with best practices and technologies that enable rapid adoption of outsourced models.

Do you need assistance with your ERP decisions and investment? Contact your Titan Sales Director or visit our website at [titanconsulting.net](http://titanconsulting.net) to get in touch with us.