

# **Carrier Allocation and Delivery Management: In-house Provision versus Outsourcing**

**Author: Managing Director, MetaPack**

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## **The economic and business process arguments in favour of outsourcing**

This report is to help senior managers and business strategists think about the practical benefits and economics of outsourcing the carrier allocation, carrier integration and delivery management elements of their fulfilment operation. Readers will be coming to the issue of outsourcing carrier integration from a number of perspectives. These include, but are not restricted to:

- A retailer that needs to offer a range of delivery options for consumers to match the competition but doesn't have the expertise or resource to develop multi-carrier interfaces and support multiple label types
- A retailer or wholesaler that knows its legacy applications are expensive and clunky to maintain and not nearly nimble enough to be able to respond to market pressures or enter new geographies
- A Carrier that is trying to maintain a single source system that doesn't allow it to win new business due to the inflexibility to integrate with customer's applications or manage sub-contract carriers for specialist delivery

## **Unravelling the language and debates about outsourcing**

Outsourcing jobs that we read about in the popular press tends to focus on the transfer of labour on a large scale, often overseas, to create the opportunity for a company to immediately free up cash, through a transfer of assets masquerading as a sale. This pleases shareholders as bottom line costs go down and profits and dividends go up.

However, outsourcing can mean many things – but in most cases and reduced to its simplest terms, it is the shift of labour, skill or services out of one organisation and into another. Generally related to business support functions, outsourcing companies can be found for just about every business process from IT maintenance and catering to debt collection and warehouse management. The idea is that by leaving the irritating, but necessary bits of the business to somebody else that likes doing it well, companies can concentrate on core revenue generation.

It is important to be clear about what sort of outsourcing is being discussed here. The research analyst firm, Gartner, predicts that the probability of success of the very big outsourcing deals (those reported



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in the daily press) is only 50/50. In the main, these stories are really about offshore outsourcing, particularly call centres, contributing to the public perception that outsourcing is bad for business. Certainly the understanding of the value of outsourcing has been skewed unfavourably by a minority of high profile '1,000's of jobs lost' deals that stick uncomfortably in people's minds.

And yet the trend is firmly set for growth in outsourcing in specialist sectors, particularly where business processes sit around variations of predictable transactions that can be more effectively run and managed by a specialist firm. For instance, the management of the cost-and-service-effective allocation of individual parcels to carriers and the subsequent label printing, data exchange and central (single-point) collection of delivery status updates.

As technology continues to become more sophisticated and complex, more business processes can be defined and executed in systematically dynamic and useful ways. This doesn't just create business efficiencies, but often shows up new revenue opportunities. These days businesses now have to operate around the clock, especially those in the on-line retail world. These reasons alone add up to some rather stark operational cost realities for companies that don't want the margin destroying investment and development costs, but do want to take advantage of an open, international, carrier market.

This has created fertile ground for a growing number of specialist companies, like MetaPack, to provide well defined and highly specific skills and services in niche markets. Such is the exactness of their science, the generalist outsourcing firms, such as third-party logistics companies and big consultancy businesses, are now calling on smaller, more agile and more advanced companies to respond to and resolve today's business process challenges.

### **Why outsource?**

Every report and industry analyst is in agreement about why outsourcing is worth thinking about. Outsourcing brings the three top line benefits to an organisation:



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- Predictable cost management
- Access to specific skills not available, or too expensive, to hire in-house
- Improved time to market for new products and services

### ***Cost Management***

Predictable cost management is the most readily measured benefit to outsourcing and is often triggered by a requirement for cost containment. However, this cost containment can be at odds with the need to develop and grow the business. For instance, within the Retail environment the need to continually offer new delivery services is fast becoming a cost-of-business rather than a differentiator.

Cost-only focused deals, known as 'utility deals', account for the majority of all outsourcing contracts, e.g. the transfer of public sector services into the private sector, where the responsibility for a defined set of tasks and the responsibility therein is transferred to the third party. However, cleverly worded contracts and poorly defined SLA's can work against the outsourcing company actually achieving the intended cost savings. To achieve full and proper cost management it is better to opt for an outsourcing deal that offers a low up-front investment, usually required for implementation, transfer of responsibilities or systems integration, and then operate a pay-as-you-go contract, where the cost of each transaction is agreed. Furthermore, the costs reflect the volume of activity, that is, they only increase with volume and decrease if volumes drop; this is especially sensible for a seasonal business where internal fixed costs may need to be incurred regardless of volume.

### ***Access to Skills***

Buying skills, although stated as the second reason to outsource can actually be more important than cost, is much more than just getting the job done more efficiently, it is about adding value and making the function more effective. Known as 'Enhancement deals', they account for a growing number of outsource contracts. It is in this domain that niche outsource partners can really come into their own, often over and



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above the business process outsourcing (BPO) services provided by bigger consulting and service management firms.

Specialists have the edge because they stay ahead of the market and, technologically, often lead it. The service being sold is their core business so it is in their interest to be the best whilst continuing to invest and develop their offering. Furthermore, the experienced specialist will supply its outsourced service to a number of clients across varied, but overlapping markets, thus giving them a wider perspective of the requirements of that market and exposure to best practice; all of which is then incorporated in their product and service. A self-fulfilling benefit to this specialisation is that it makes them more attractive employers for people who are expert in their field. A benefit that is passed to the client in what Michael Earl of the London business School describes as value creation.

***Improved time to market***

Improved time to market, the third pillar of the reasons to outsource, is the most difficult element to build into a service agreement. It requires a deeper relationship, openness and trust between customer and supplier and a common understanding of what the business goals look like. These types of outsourcing arrangements are known as 'Frontier deals' and very few outsourcing arrangements are constructed with this as the leading pillar. This is in part due to the fact that large frontier deals can require a comprehensive overhaul of an entire business or business function and, as such, can be very complex, with a greater reliance on the customer to achieve.

The main problem with frontier deals is the complexity and impact they have on so much of the business. However, within a specialist or narrow business process, like carrier integration, improving time to market (in the shape of quickly bringing on additional carriers or carrier services) doesn't require wholesale business change because it only tackles a very discrete, but critical part of the business; thus avoiding the pitfalls of classic outsourcing. However, it may require a shift in attitude about control, ownership of systems, and a re-evaluation of the approach to change.



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Improved time to market is an area in which the logistics function within an organisation can help drive sales (as opposed to the usual role of managing cost). The on-line retail and wholesale world have to contend with the immediate gratification needs of their customers. The lack of delivery options and flexibility for a consumer has often been cited as to why customers don't buy. The issue for the supplier is to manage a growing number of delivery demands within tight budgets and having the expertise and resource to achieve such service improvements. The outsourcing of the carrier management and integration to a specialist, who has already tightly integrated to a large number of carriers or has the ability, through its expertise and resource, to be able to bring on new carriers swiftly, provides the ability to offer the customer driven carrier services quickly and cheaply.

Overall, good outsourcing deals work best, for all involved, when all three aspects of a relationship are considered, properly valued and understood. Predictable cost models, the provision of highly skilled, dedicated people and the ability to respond to high-speed change is a recipe for a strong and successful outsourcing relationship.

**Parcel delivery management – customer facing and important, why outsource?**

The reality for most organisations involved in on-line selling physical goods is that delivery management is the glue, not the core business. Core skills and the main focus of any retailer or wholesaler should be about customer acquisition and retention won through continued service development and improvement, competitive pricing models and effective marketing.

Although the whole delivery experience has a direct impact on how well a company can do this, and good carrier management applications offer customer care as de-facto, few suppliers are able to realise their own potential because in-house solutions can stifle a company's ability to move swiftly. By the time the shrink-wrap comes off an in-house solution, technology advances in the market have moved on by a minimum of 6 months. By contrast, companies that outsource their carrier management already have flexibility and response times built into the agreement because the company running it on their behalf is at



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the head of its field. By design, they are prepared for the unexpected and are working in advance on the expected.

Why is flexibility with in-house carrier integration and management so hard to do? Some suffer from a legacy of systems that, like the proverbial albatross weighing around the neck of the IT department, are too expensive or too politically sensitive to dump. But they should be. Some companies don't have the necessary skills within the organisation to make adequate changes and many companies fear that they will lose control if some of their business processes leave the building. Others suffer with IT Directors who insist that everything should be developed in house, even for specialist areas where the IT department clearly does not have the requisite skills or available resource.

Not letting go is almost always emotive and the reasons not to outsource are purely subjective – there is no science based evidence to show that outsourcing by itself means that a company loses its grip on the business. In fact, quite the opposite. Evidence suggests that companies that outsource business processes are better able to control expectations, deliver to tight schedules and create innovations in service. This is because they can review the work being done objectively against business goals and not get bogged down in the mechanics of how it can be done with a limited and often over-stretched internal resource. Outsourcing means that you can let someone else worry about the 'how', you just worry about what you want.

**Direct and indirect costing – making sense of in-house vs. outsource**

Typically, the most effective method of working out the cost of running a carrier management function means establishing the average transaction cost per parcel in an attempt to compare one carrier management solution with another. Few companies are able to achieve this and in an attempt for a comparison will just take a general overhead and divide by the number of parcels. This can be misleading as it doesn't necessarily include all of the indirect costs (and sometimes not even the direct costs) and, furthermore, by focusing on cost containment can miss the opportunity cost of effective carrier management, including the speed in which carriers can be switched-out.



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A four stage review process can be used when beginning to consider the economic and service advantages of outsourcing versus in-house.

**1. *Benchmark existing service provision***

Include administrative tasks and non-administrative tasks, like management time, and the incumbent technology available to run the front-end (shopping basket) integration for delivery option selection, carrier allocation, label generation (including how many carrier specific versus multi-carrier pack benches are required), carrier manifest and consignment interfaces, receipt of all carrier status updates (into a single database for ease of use by the customer service team), carrier performance monitoring and analysis reporting.

Assess the economy of scale that can be extracted from existing provisions and think about the cost of the business' reputation if the systems fail or administration slips up. What is the cost of failing to inform customers of parcel movement through email or through your customer portal due to a lack of integration with carrier systems?

Look at your ability bring on new carriers or carrier services so that they fit flawlessly into your existing operation or your ability to easily switch carriers for performance or cost reasons, or at least have the threat to – if your carriers know that your barriers to exit from them are low you are likely to receive better service and competitive pricing.

**2. *Breakdown administrative tasks and assess your capability to respond to market and customer demand against them***

What is the cost of a failure, however small? Missing carrier cut-off times and thereby missing promised delivery dates can incur customer credits for missing promised delivery times as well as the pain of processing returns for goods that got there just too late. The alternative is the cost of manual re-allocation and the possibility of a higher carrier charge for a specialist delivery to meet the original promise. Add to this the calls to Customer



Service or whether the Call Agents needs to use multiple tracking systems to provide status information to customers.

A single parcel error adds significantly to the cost of acquisition of that customer and they may then leave. Consider the management time associated with these problems.

On a more positive note, think about the cost of introducing new fulfilment services, either as innovations that drive ahead of the competition or as necessities in response to competitive pressure.

### **3. *Identify Future Requirements***

Play out 'what if' scenarios. Could the business sustain growth or stomach declines in traffic against a fixed cost model of an in-house system? In any growth curve there is a point in which the decision to expand has to be weighed up against the cost this will incur to the business. Assess cost of recruitment as well as on-going training and development. Look at holiday and sickness cover, especially in the IT department, and the management time required to find the right people and be involved in agreeing the specifications and decisions. What level of investment can the business carry in order to introduce new products and services, and how fast do they need to come to market to stimulate profitability?

Can you keep your IT people who are expert in logistics? This as an in-house function is sometimes seen as a grey area of the business, the un-sexy bit. Maintaining morale, keeping people focused and delivering accurate services can be time consuming and, therefore, expensive. International shipments are subject to a lot of regulation and legislation, keeping up with the regulations can be difficult.

### **4. *Assessment***

Look at the idiosyncrasies of your business model and systems and how you wish to develop and review this against available solutions in the market as well as the in-house operation. The greater the diversity and scope you require now, and what you might require later, will determine how well your fulfilment organisation and support functions can respond to your needs.



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Look for suppliers that understand the regulatory framework and have proven depth and breadth of experience in the industry. Assess the scope of their integrations with their partners. Evaluate the information that they freely publish; are they a closed book or do they take an open view to their interfaces? Companies that are confident enough to publish a lot of their intellectual capital tend to be far ahead of their competition.

Does the supplier operate across Retail, Wholesale and Carrier markets, giving them wide experience that can bring benefits that a single solution provider may not?

In all cases, outsourcing has distinct economic and opportunity cost advantages over in-house solutions.

### Summary

The arena for fulfilment is no longer the preserve of internal propriety applications and processes. The need to undertake specific and unique integration with each carrier is no longer there. Historically, carrier management and all that entails was seen as an area that had to be tackled in-house. However, now there are outsourced alternatives that allow Retailers, Wholesalers and Carriers to gain cost and service benefits simply and effectively.

- a) The high cost of internal service provision is no longer an issue. Most of the associated direct and indirect costs of running in-house Carrier Management solutions evaporate with the right outsourced service. Choosing a market leading outsource provider is far more likely to provide technological advantages over in-house, and at a rate of change that your own team would be unlikely to keep pace with. Choose one that uses its own software, and the advantages are even greater. Providers that develop their own software have better and more responsive internal feedback systems and as a result are better able to build improvements to the service.
- b) Shifts in customer demand can put undue pressure on internal administrative tasks. A well constructed SLA with an outsource



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provider will make guarantees against transaction peaks and troughs that you only pay for as you need them, meaning that it only costs you money when you are making money.

- c) The future is uncertain, and responding to its demands and your creativity about the service offerings you'll want to take to market are not hampered by the inflexibility of in-house solutions. With outsourcing you can move as fast as you want. Unlike in-house systems that are more or less isolated and only as good as the ideas within your own business, experienced outsource providers, with several customers across the market spectrum, see and respond to a much wider range of service and product ideas.
- d) In almost every case, an outsource provider will have greater capacity and vision to work in a way that suits your business model, meaning that you are unbounded by the limitations of in-house solutions.

MetaPack is the leading player in the field of outsourced carrier management. It has the heritage, proven specialist skill, management, resource and customer base to enhance your operation. Using its own application, MetaPack, offered on a Software as a Service model, it allows customers to quickly integrate and take advantage of all of its functionality and carrier integrations, but paid for on a transactional basis.