

CAN OUTSOURCING REDUCE OPERATING EXPENSES AND MITIGATE LABOR SHORTAGES?

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THE
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As is often the case, most of my article thoughts come from my interactions with distribution clients and groups I facilitate. Today is no exception. I was speaking with a group of operations managers and the topic of outsourcing was brought forth. Outsourcing of services has always been something that my clients have shied away from. They often outsource functions in the early years; but as they grow, there seems to be a tendency to bring things in house. Perhaps the perception is that they will gain greater control over the function, or they feel like they can do it cheaper than they are currently paying for an outside service. I am sure that there are many reasons for the shift; but is it really prudent to continue performing functions in house when alternative companies provide similar services? Is this the best utilization of our shrinking labor pool?

It comes as no surprise to anyone that the ability to find enough associates to keep up with growth has been a challenge in last couple of years. Distributors, and anyone looking for entry-level associates, are having to get creative with their recruiting and having to pay significantly more to attract candidates. These candidates are not necessarily better than our previous crop, but they sure are more expensive. Furthermore, the competition to attract talent has created an arms race between local employers. Associates being to look elsewhere for just \$1 more per hour. Another buck or two and hour to attract new talent doesn't seem like much on the surface. The problem is that this bump in the starting wage creates a ripple effect in the organization. Now you have to adjust everyone in the firm just to keep them

from wandering to greener pastures. This is where it gets expensive. Even if we could afford a boost in payroll expense, can we find enough people to do all the tasks we currently perform in the company? The cost of labor and instability of employment force us to look at how much we can keep under our own roof.

One of the conversations that sparked this line of thought came from a client. He had been feeling very overwhelmed by the number of projects he wanted to accomplish, and he was having a difficult time prioritizing these ideas. Furthermore, he just didn't have the time to dedicate to everything. Fortunately, he ran across a book that changed his perspective, "Who, Not How: The Formula to Achieve Bigger Goals Through Accelerating Teamwork" by Dan Sullivan and Dr. Benjamin Hardy. By focusing on who was going to take on a project or a detail of a project, rather than how he was going to tackle it, my client found a whole new methodology to moving his company forward. While this epiphany focused on internal staff, the concept could easily be translated to someone or some entity outside the company.

In the discussion with my group, we realized that many of us do a fair bit of outsourcing and really take it for granted. One of the first functions discussed was freight negotiations. The movement of product has always been in the top 3 of operating expenses on the income statement. Many of my clients work with freight brokers or 4th party logistics companies to help them negotiate better rates on their small parcel, LTL and truckload shipments. Many of them use these entities to help navigate the tricky waters of

shipping containers and intermodal transportation. With so many privately held distributors becoming multi-branch entities, there is often a question whether intercompany transfers should be performed by our own vehicles and drivers or outsourced to freight carrier. By utilizing an outside advisory service, distributors can make more informed decisions about the effectiveness of either choice.

Should a distributor lease or buy their vehicles? Is there an advantage either way? Questions like these can often be answered by working with a fleet management service. They can help companies analyze the costs associated with either option or even develop maintenance programs to keep the fleet on the road. Internal management of these functions can often lead to short term decision making and more instances of downtime for repairs.

Associate training has always been the thorn in most distributor's side. It is time consuming to perform and many smaller companies lack the expertise to do a decent job. Trade associations and cooperative marketing groups have stepped in to fill the void. Many of them offer extensive employee development programs in both product knowledge and soft skills. Sure, there have been great advances in internally led programs, but this remains a bit out of reach for many privately held distributors.

As we look around the organization, there are several other departments that have the opportunity to take advantage of outsourced services. If we take a look at marketing teams, they tend to be stretched really thin. The company wants this function to

produce tremendous amounts of work but seems to be unwilling to invest in the labor to cover the requests. Stepping back for a moment, how could we use outsourcing to lighten the load on the team? Everyone wants to have a social media presence. A presence takes time and money, but it can be very difficult to determine the return on said time and money. By working with a social media management company, the team can focus on the right content and leave the mechanics up to someone else.

I recently ran across a company called Acadia. They specialize in providing marketing interns, virtually, for an incredibly inexpensive rate. For \$500, you get an intern for 10 hours a week for 12 weeks. In addition, you are expected to take an hour or two a week to mentor the intern and offer career guidance. This seems like a great way to offload some simple tasks very economically. I also ran across a firm that will analyze all your co-op advertising dollars and help you maximize their usage. Furthermore, a friend of mine recently started a fractional CMO service company. I have heard of fractional CFO services for many years, but a fractional CMO (Chief Marketing Officer) was a first.

Early in my distribution career, my family used HR and benefits consulting companies to help us navigate these muddled waters. As the company grew to enter multiple states, the need for an outside HR firm was critical to keep us compliant with varying rules and regulations.

In addition to the operations group I mentioned above, I also have the opportunity to facilitate a group of credit management professionals. I have been blown away by some of their creative outsourcing of payment processing, past due notification, customer credit verification and even lien right notification. Until you take a

closer look at these departments, you can't fathom all the manual processes many of them perform.

I know that I have just scratched the surface on all the possible ways that distribution companies can outsource basic functions. Lest anyone get the wrong idea, I am not trying to put any of our associates out of a job. That is the last thing we want to be doing right now. I am challenging you to look at each department and make a determination if outsourcing certain functions will provide a more consistent result at a more economical cost. A wise friend once told me, "Only do what only you can do." The rest should be left to others. Good luck and know that I am always here to help.

About the Author:

Jason Bader is the principal of The Distribution Team. He is a holistic distribution advisor who is passionate about helping business owners solve challenges, generate wealth and achieve personal goals. He can be found speaking at several industry events throughout the year, providing executive coaching services to private clients and letting his thoughts be known in an industry publication or two. Last year, he launched his first podcast, Distribution Talk. Episodes can be found at www.distributiontalk.com and most podcast applications. He can be reached at (503) 282-2333 or via email at jason@distributionteam.com. You can find additional resources on his website: www.thedistributionteam.com