

IDEA BRIEFING

Outsourcing

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Outsourcing

In today's interconnected world, **every** organization outsources something; you're either an outsourcer or an outsourcee – there is no middle ground. Therefore you need to be good at being both.

Why outsource?

48% - for cost reduction

17% - to focus on the core business

13% - to achieve a more variable cost structure

9% - for access to needed skills

Fortune, 5/31/04, per Outsourcing World Summit

Outsourcing contributes to *strategic profitable growth*

Outsourcing is a business model that is *consistently* profitable

Benefits

- Increased ***growth & profitability***
- Reduced ***cost, inventory levels & asset levels***
- Increased ***capacity utilization***
- Improved ***quality, on-time delivery & efficiency***
- Improved ***product speed to market***
- Enhanced ***shareholder value***

Identifying Outsourcing Candidates

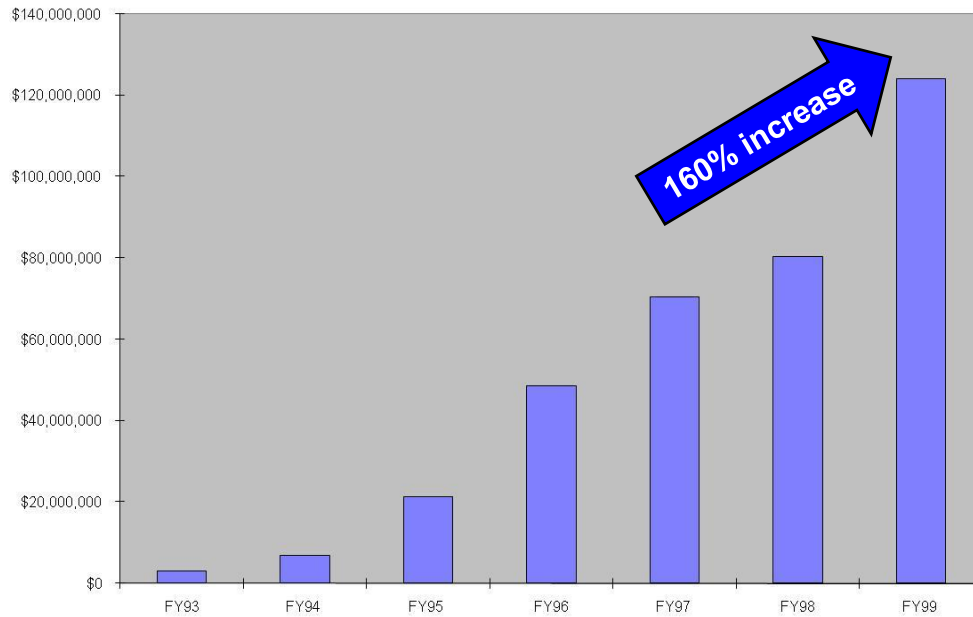
Function	Outsource/ Buy	In-House/ Make
Customer view of the function	Customers concerned with outcome; functions not visible	Customers concerned with the process; functions are the key differentiator
World class ability	Resources not available	Resources/capabilities exist to remain or achieve world class performance
Capabilities & physical assets to perform functions	Available on the market from qualified providers	Significant capital & resources required to improve the performance gap
Performed capability vs alternative sources	External suppliers are clearly more capable	Requires specialized capabilities & assets; few qualified, external providers
Time & cost required to close performance gap	Significant capital & resources required to improve the gap	Leadership position exists
Opportunities	Higher margin activity <u>can be</u> performed with existing resources	Higher margin activity is being performed with existing resources

Outsourcing is where

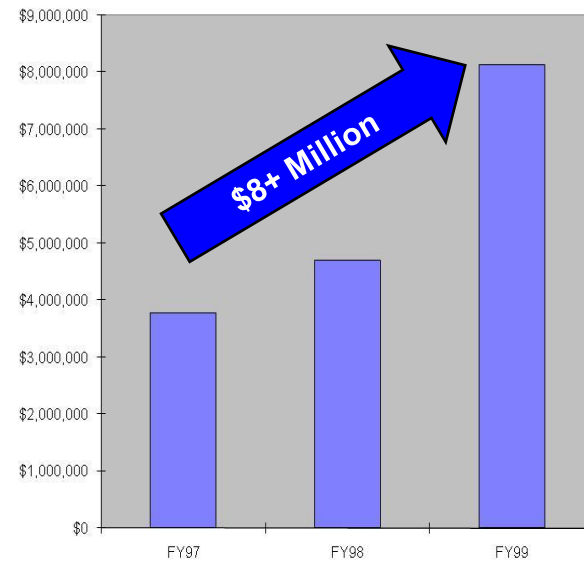
How <i>becomes</i> What	Improve the business focus of meeting the customer's needs by <ul style="list-style-type: none">▪ concentrating on the broader business issues (<i>the "what" of the business</i>)▪ while having operational details (<i>the "how" of the business</i>) assumed by outside experts
Doing Everything <i>becomes</i> Doing the Right Things	Become more flexible, more dynamic, and better able to meet changing opportunities - <i>match capacity to demand</i>
Size <i>become</i> Expertise	Redirect resources to more strategic activities that provide a greater return in serving the customer
Lowest Cost <i>becomes</i> Greatest Value	Access to the supplier's lower cost structure, which may be the result of a greater economy of scale or some other advantage based on specialization
Resources <i>becomes</i> Results	Gain access to world-class capabilities

Successful results

Outsourcing Volume



Cumulative Outsourcing Favorable PPV [SAVINGS]



Next step

Be a part of this multi-trillion dollar trend - you can't avoid it.

Contact us to get started or to get better.

Michael McCracken

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