



Outsourcing Cost Savings – Where to Look

Internal Cost Estimates Often Do Not Include Everything

Follow Up to Previous Outsourcing Success Story

“How We Found \$7 Million In Annual Savings”

Note: This is a follow-up to a previous success story titled “*Outsourcing an In-House Merchandising Team: Success Story #2*” The full success story is available at <http://www.tomingraminc.com/OutsourcingInHouseMerchTeam2.pdf>

In the previous success story, we discussed the following highlights:

- **Cost Savings of \$7,000,000+ Per Year (Approx.)****
- **\$38.5 Million Sales Increase Per Year from 5.5% Market Share Gain (Taken from #1 Competitor! – Approx.**)**
- **New Product Cut-In Rate Raised from 70% to 99%+**
- **Fixed Costs Moved to Variable Costs, Shared With Other Manufacturers**
- **65% Full Time / 35% Part Time Work Force Changed to 30% Full Time / 70% Part Time**

This follow-up success story discusses where REPS was able to find these enormous cost savings.

Situation: REPS was asked to outsource the field merchandising staff for a large manufacturer, whose primary business was servicing music (CDs) and video (DVDs) in Wal*Mart, Target and Kmart.

Problems:

1. The manufacturer’s internal **cost estimates had omitted several important costs.**
2. The manufacturer did **not have solid measurements of in-store work actually performed** for the money being spent.

3. The “Our people work harder than anyone else” myth.
4. “They Will Always Argue With Your Numbers.”

Some Solutions:

1. REPS conducted a detailed analysis of the manufacturer’s existing team versus the best performance possible (based on REPs experience of 15 years+). REPS looked especially hard at the following items:
 - a. **Hours Actually Spent In-Store by Field People.** (Not to be confused with the actual payroll payments – or estimates – which are often the basis of internal reports.)
 - i. For example, REPS discovered that internal estimates assumed 60 hours of in-store work per week – with no drive time and no admin time. It turned out that only 22 hours per week were actually being performed in-store per person. (Note: 22 hours per week was the first real measurement when the new measurement system went into place. Unsurprisingly, the weekly in-store hours improved rapidly once it was being accurately measured.)
 - b. **% Of In-Store Calls Completed:** As noted above, after REPs took over managing the field force, new product cut-in rates were raised from 75% to 99%+. Saturday store visits were improved from 60% to 90% completion. Clearly ample improvement was possible.
 - c. **Cost Per Hour Assumptions Needed to Be Challenged:**
 - i. Prior to REP’s arrival, the manufacturer’s internal cost estimates were \$24 per hour. This cost was to include all overhead burden, but was based on unreasonably favorable assumptions. After rigorous analysis, REPS was able to demonstrate that the Manufacturer’s true cost was closer to \$35 per hour. (REPS was ultimately able to reduce the cost to \$26 per hour through outsourcing and the techniques mentioned in previous success stories.) Areas often overlooked for full costing include:
 1. Human Resources
 2. Information Technology
 3. Sales and coordination with sales efforts (especially shared costs)
 4. Management (especially shared costs)
 5. Shipping / Fed Ex
 - ii. The actual work done must be verified by survey, by customer and by store. The manufacturer had used estimates and forecasts of

projected visit completion (100%) and in-store hours assumptions (60/week) that were not realistic. As mentioned above, it turned out that only 65% of store visits were actually completed and only 22 hours were actually worked in-store per person (approximately.)

d. **“Our People Work Harder Than Anyone Else”.**

- i. We hear this in every discussion of outsourcing, and it is simply not true. This success story presents one example.
- ii. REPS performed another successful outsourcing event, again proving this assertion wrong. See this success story:
<http://www.tomingraminc.com/OutsourcingInHouseMerchTeam1.pdf>
- iii. Tom Ingram and Associates, Inc. provides five other success stories from outsourcing where performance improved and costs were reduced:
<http://www.tomingraminc.com/OutsourcingSuccessStories.htm>

e. **“They Will Always Argue With Your Numbers.”** As outsiders, we usually do not have access to all internal numbers.

- i. We have also learned that we have to perform our analysis to a higher standard of thoroughness (because we must compete and sell our services for a profit.)
- ii. We normally will provide much more detail, more defensible assumptions, industry examples for comparison, etc.
- iii. Our secret weapon is that some of our people used to run in-house merchandising services teams. **“We know where the pea is hidden – because that is where I hid it when I had the job!”**

Results:

- **Cost Savings of \$7,000,000+ Per Year (Approx.)****
- **\$38.5 Million Sales Increase Per Year from 5.5% Market Share Gain (Taken from #1 Competitor! – Approx.**)**

*** Please Note:** Percentages and dollars are approximations of estimated benefits for illustration purposes only. Each client situation is unique and this is not intended as a guarantee of a specific outcome. Company names, names of individuals, financial and other details may have been changed in order to protect client confidentiality. Please contact us for details and a client contact for verification prior to making a decision based on success story information. **For more information, contact Tom Ingram at 972-394-5736 or tom.ingram@handleman.com**