

# Ford`s Outsourcing Strategy

Organizational functions have become more diverse and complex with the development of the global market, and companies have begun to search for new ways to enhance the quality of services while decreasing price. Hereby, following an outsourcing strategy can be viewed as a beneficial business solution. According to Dhar and Balakrishnan, outsourcing is "a long-term, results-oriented relationship of a company with an external provider for activities that would otherwise have been performed in-house". This essay examines how the implementation of the outsourcing strategy has contributed to increased efficiency and cost savings of Ford Motor Company, which is one of the three global automotive manufacturing leaders.

## **Evaluation of Outsourcing Candidate Functions**

The evaluation of outsourcing candidate functions is crucial for developing the outsourcing strategy with a reliable vendor. However, first, the company must conduct an internal assessment in order to determine organizational objectives and needs for outsourcing. The traditional vertical-oriented supply chain, in which Ford tried to control all the business processes, could not be efficient anymore. Therefore, Ford has changed its supply chain into a virtually integrated one that, while being based on information technology, opened up new opportunities for long-term relationships with partners in terms of both information technology outsourcing and business processes outsourcing. Hereby, deciding which activities and functions should be outsourced and remain in-house is critical.

Organizational core activities and services that provide a competitive advantage must never be outsourced. In Ford's case, the company considers its production system, order for delivery, and retail network as core processes. Although Ford's planning department continues to control manufacturing and selling vehicles, finished goods are completed by manufacturing partners and, then, transferred to distribution partners who deliver

products to customers. Thus, the company outsources final assembly, logistics, design, system development, as well as other day-to-day and peripheral activities to its strategic partners. Outsourcing these activities and processes allows the company "to save financial resources that can be invested in core activities to create more value".

### **Process for Selecting a Service Provider**

After determining the tasks and functions that the company is going to outsource, its facility executives begin the process of selecting various vendors to perform the needed tasks. For the top management of Ford, selecting the reliable vendor is a challenging and responsible step. Ford is collaborating only with reputable organizations with experience that can offer a high expertise in business.

In order to select an ideal vendor, the company researches the operating practices and improvement plans of potential vendors, as well as the procedures used when conflicts and problems occur. Besides, the top management believes that, similar to Ford, its partners must innovate and strive for continuous improvement. Additionally, because the vendor should adapt to Ford's culture, it must have a high degree of flexibility.

Although, due to the virtual integration of business processes, partners may be located in different countries, in Ford's case, the factor of proximity to its plants is still significant. Thus, Ford has established a selection criteria based on the company's reliability, experience, responsiveness, quality of services, geographical coverage, as well as pricing policy. For example, for outsourcing its logistics operations in North America, Ford has selected Penske Logistics.

### **Process for Relationship Management, Measurement, and Governance**

Outlining the outsourcing strategy of long-term collaboration with a selected vendor should include determining the processes of relationship management, measurement, and governance. The developed approach should be evaluated from both the company's and vendor's standpoints. Thus, Penske has issued new strict standards and requirements in

terms of safety policy, technological specifications, order accuracy, and freight damage. In order to meet these new standards and requirements, nearly 1,500 suppliers have received special trainings.

According to a new logistics program, the company has created a Penske Logistics Center that is responsible for freight management, financial management, information technology system integration, and optimization of the network design. In terms of freight management, the supplier's core task is to maximize logistics service while minimizing carrier costs. Throughout the supply chain, Penske implements a lot of information technology solutions, including Route assist, Web-based metric reporting system, as well as logistics management system. The use of information technologies and computer software enables information share and collaboration with partners in real time. The evaluation of performance is conducted through quarterly reviews and periodical meetings. Constant reviewing of defects, as well as opportunities for changes and improvements, makes the optimization of business processes possible.

### **Contracting Process and Country Risk Assessment**

In order to eliminate the issues and mistakes concerned with poor staffing, failures in managing the relationships, as well as inadequacies in agreements, the contract must be clearly defined, involving all the possible challenges and risks, and signed by the parties. In terms of Ford-Penske relationships, according to the contract, Penske has to manage all logistics operations for 26 assembly and stamping plants.

The country risk assessment is of crucial importance to global outsourcing as well. According to Jacques, risks include "events that, if they occur, represent a material threat to an entity's fortune". While operating in multiple countries across six continents, Ford Motor Company faces a lot of risks concerned with geographical location, quality, political and cultural standards. In particular, political instability may be a key issue for

the global outsourcing strategy of Ford as the government regulations and restrictions may have a negative effect on its outsourcing.

## **Results**

Thus, with the development of the outsourcing strategy, Ford has gained a higher level of expertise and better accountability than it could develop inside. Additionally, it can cooperate with the best professional skills of vendors while freeing up costs and resources for the major organizational competencies. Finally, the supplier provides modern technologies, innovative ideas, and the new way of thinking, which is crucial for the company's long-term prosperity.