

Outsourcing Globally from the Inside Out

About one year ago, Nortel Networks, a global leader in networking and communications operations, signed an agreement to divest its global outbound logistics operations management business to the Kuehne & Nagel Group (KN), a worldwide operating logistics company. KN, Nortel's long-time logistics partner, today manages the performance of Nortel's logistics service providers through a new unit, KN LeadLogistics.

"Over the past three or four years Nortel has decided to focus its competencies around R&D, sales and marketing," explains Tom Dorval, Nortel's leader of global logistics, who is based in Montreal. "For anything outside those domains, we were looking for partners who would help us maintain our levels of excellence and move us forward in those areas."

Nortel began by divesting the majority of its manufacturing to Solectron and other partners. "The success of that outsourcing pushed us to look at the overall logistics business as well," Dorval notes.

Nortel had a long and positive history of outsourcing logistics operations to a number of third-party logistics providers. "We looked at the amount of effort required to manage partners in the network," he says. "Maintaining that level of expertise in an electronics/telecommunication company was difficult."

So Nortel began looking for a partner to manage its global logistics operations, including 3PLs, carriers, and parcel movers. It sent a solicitation to potential providers in August 2001.

Nortel chose to retain a small core logistics group, headed by Dorval, which is responsible for ensuring logistics process compliance for Nortel around the world. The core corporate logistics group performs other functions, including trade compliance, providing input for sales quotations, and managing its fourth-party logistics provider (4PL).

After a rigorous evaluation and selection process, Nortel chose Kuehne & Nagel to head its team of logistics service providers. Then the fun began, as the companies set the goal for completing the transition in three months.

MAKING THE CHANGE

Building on a successful seven-year relationship, Nortel and KN put a top priority on making the change. "The only priority we had during those three months was making a successful transition and delivering the business as-is," Dorval explains. Managers who were involved in the transition were freed from all responsibilities other than making sure the transition went smoothly.

During the initial negotiation phase with KN, Dorval held a formal weekly review with each key stakeholder, including management of Nortel's business units. Those reviews continued throughout the transition.

"I had planned and explained to the management of the various business units that they might see some service degradation," he says. But the transition went so smoothly that there was no impact on service and virtually no business issues, according to Dorval.

A team of 30 individuals worked on the thorough planning that made the transition so successful. "At times, it was laborious to go through all the plans," Dorval says. "I thought it might be overkill — but the team proved me wrong."

A key step that KN took early on was to meet with all of Nortel's logistics providers — a number of whom were competitors. "We explained to them that our goal was to put together and manage the best group of providers on a global basis for Nortel," recalls Dave Stubbs, executive vice president and general manager of KN LeadLogistics, Hamden, Conn.

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tially. KN emphasized that the only way it would be successful from a financial standpoint was to manage cost and put the best providers in place. "As we laid out the deliverables, and an objective selection process, they felt more comfortable with us," Stubbs says.

KN recognized that it would take time, plus consistent and fair management, to establish a strong level of trust among all the 3PLs, and has worked hard to make that happen.

When the transition was complete, more than 80 former Nortel logistics professionals would be working for KN. The logistics staff was kept fully informed of the change. "We openly communicated with them that we were considering selecting a 4PL, and worked to ensure that they'd have a role in that company," Dorval says. "We went out of our way to make people feel comfortable."

COMMUNICATING IN 18 COUNTRIES

Change management is challenging in any new outsourcing initiative. In Nortel's case, it was complicated by the fact that the change would affect employees in 18 countries. "We had to keep internal communications very active, with respect to the various laws in those countries," Dorval says. "It was a huge effort."

"Particularly in a global organization like this — which operates in almost every time zone and on every continent — communication is critical," Stubbs says. "You have to use all means of communication, including e-mails, conference calls, and personal visits, and make sure that they are well coordinated."

Nortel paid close attention to transitioning members of its logistics team. "We made sure people were welcomed into KN, and had HR staff actively involved in the negotiations. We also reviewed with KN employees what they were planning to tell Nortel employees," Dorval says.

In addition, KN visited all 18 countries, meeting with all employees to explain the overall mission of the new company, its goals and objectives. These visits enabled KN to meet employees face to face, and begin establishing a personal relationship and a sense of trust.

"There was a very strong effort by both Nortel and KN' to make sure

employees were made to feel at home in their new company," Stubbs says. There were some unique challenges. For example, some employees, formerly part of the large Nortel organization, would be operating on their own or with just a handful of people.

"In Hong Kong, we had one person transferring to KN LeadLogistics," Stubbs says. The 4PL arranged visits from regional KN LeadLogistics representatives, and incorporated the new staffers as part of the local KN office to help more isolated employees feel that they were not alone, but rather a part of a small division in a very large global company.

AVOIDING CULTURE SHOCK

Another challenge for the 4PL was merging three cultures — Nortel, KN, and individuals from USCO Logistics, which KN had recently acquired. KN sought to form a single culture and bring together people from three significantly different backgrounds. "We did it by focusing on our business objectives, the key deliverables that we agreed upon with Nortel, then aligning our organization and building our culture around those business deliverables," Stubbs says.

Nortel completed its transition to its new business model in June 2002. While the new business model was designed to grow Nortel's business, the economic climate has changed the partners' focus to controlling cost.

"The business environment is quite different today than when we started," Dorval notes. "We've seen declining revenue quarter after quarter. It's difficult to bring down costs at the same level your revenues are declining, but that has gone very well," he says.

"The volatility of the business has focused us more on managing and keeping service levels up while taking costs out," Dave Stubbs says. As a result, the foundation that will enable breakthrough results has taken some time to build.

"Only now are we starting to feel we have enough traction to speed up the change process," Dorval says, "and to get the IT benefits that we expect."

Global visibility and IT capability will accelerate the changes and bring even more performance and discipline to the business in the future. ■