

CargoWise edi Points to Five Keys for IT Outsourcing

- For Many Companies, In-house IT Strategy is a Dead Issue -

Sydney, Australia, March 14, 2008 — CargoWise™ edi, a leading provider of integrated international supply chain logistics management systems, says the decision for freight forwarding companies to outsource their IT solutions to a third party logistics provider is becoming increasingly easy to make in today's dynamic global business environment. The decision to move to an outsourced IT strategy, however, still requires an in-depth evaluation of each company's in-house IT capabilities as it relates to the supply chain requirements of its customers.

"New technologies and IT initiatives developed by expert software providers are providing freight forwarding companies with a vast array of robust logistics software options today," says Melinda Elmow, Vice President of Global Marketing for CargoWise edi. "But before making a decision on whether to outsource its IT solutions, logistics companies should evaluate their own core competencies, internal capacity and its commitment to minimizing developmental risk while maximizing its business success. A company's cultural alignment and cross-departmental communications capabilities, especially as they relate to rapidly advancing technologies, will provide the deciding factors in determining whether it should keep supply chain management systems in-house or outsource them to an expert third party software provider," she advises.

Elmow suggests five critical paradigms companies should consider when making an IT outsourcing decision:

- **Examine the Status of Your In-house Tech Capabilities.** How state-of-the art is the IT system you have in place? If your company does not have optimal cross-departmental/office communications on a global basis, it probably does not have the wherewithal to provide the proper in-house operating platform to meet your customers' supply chain requirements. You probably need to outsource your IT functions or lose customers. Companies should ask: "How do I remove the risk from IT projects and obtain outcomes that drive the business?"
- **Determine Your Company's Commitment to Needed Capital Expenditures.** Information technologies today are dynamic and advancing rapidly. You may find that your company culture simply does not support the type of commitment and budget necessary to provide optimal IT solutions for your customers. If this is the case, you may have no choice but to outsource your IT logistics process to a software provider rather than pay extra to add-on to an outdated legacy system – which typically is far more expensive than simply outsourcing.
- **Evaluate Your Company's Ability to Provide In-house Training.** Due to the dynamic nature of global IT, the training function for your IT department employees and your customers is of paramount importance. If your in-house tech support is unable to adapt to your growing supply chain needs and provide adequate training for new technologies, you should consider outsourcing your company's logistics data and integrating it with that of a service provider that specializes in customized supply chain solutions.
- **Compare IT Costs to Results.** You may find that the fixed costs of building and maintaining a vibrant IT system in-house is far more costly than outsourcing it to an expert software provider that provides flexibility in responding to market dynamics. If your company culture does not include IT logistics as a driving force in your overall operations, you probably cannot leverage these expenses in-house. Rather than waiting years for a new system to be developed internally, you may find that outsourcing both the technology and logistics process to a suitable software provider will realize cost

savings, while expediting the supply chain process and producing better results for you and your customers.

- **Understand the True Metrics of IT Ownership.** Most companies vastly underestimate the cost of providing in-house IT solutions. If you are debating whether to develop or upgrade your in-house IT functions or outsourcing them, you should ask: “what is the true total cost of in-house ownership of our IT operation?” Many companies enter into the development of IT systems thinking they can do so inexpensively and enhance them later. Not so. Whatever your start-up costs are, you can expect them to increase dramatically if you try to enhance your in-house system later with newer technology. As an example, Elmowy points to one company that thought it could start-up an IT system in-house for about \$17,000, but soon found out the real cost would exceed \$1.7 million just to get into the game. Costs quickly escalated from there and the company eventually lost sight of its core business focus and went bankrupt. This is what those in the industry call the “sunk cost” problem, as that loss will not be regained once you’ve sunk your initial investment into it.

“In summary,” says Elmowy, “in a highly technical global economy, where there is no set criterion for supply chain success, companies have to carefully analyze their requirements and determine what IT logistics process is best suited to meeting their specific and unique global distribution needs. Cost, risk and reward are always important considerations in determining outsourcing needs versus in-house capabilities; but ultimately the success of any supply chain process relates back to customer satisfaction. Companies should determine how much capital, both human and financial, they can afford to risk in an attempt to maximize the company’s results.”

Most freight forwarders find their real business focus is on their core competency of logistics, and generally produce poor IT platforms and architecture with little or no client integration between software systems. In the end, outsourcing the core IT product needs to a good supplier and concentrating a smaller and more focused effort on client integration and a few customised “differentiators” generally produces a much better business strategy and develops an integrated operating platform that helps maximize IT-driven business results, concludes Elmowy.

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