Insourcing and Outsourcing: an Overview of DIA’s Experience

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Insourcing and outsourcing are part of an overall strategic sourcing procurement approach...

**Example**

### Strategic Sourcing Process

1. Profile of Sourcing Group
2. Sourcing Strategy for Sourcing Group
3. Supplier Portfolio Generation
4. Selection of Implementation Path
5. Competitive Supplier Selection
6. Operational Integration With Suppliers
7. Continuous Benchmarking of Supply Market

### Strategic Sourcing Strategies

- Volume Concentration
- Product Specification Improvement
- Best Price Evaluation
- Joint Process Improvement
- Global Sourcing
- Relationship Restructuring

*Sources: A.T. Kearney*
...but, generally speaking, they refer to an active, strategic decision on how and by whom goods are produced or services are provided.

Performing services and/or producing goods

- Internally or “Insourcing”
  - Delta Airlines and Oil Refinery
  - Ownership of Suppliers

- Externally or “Outsourcing”
  - Boeing 787 Production
  - “Express” Flying

Sources: Wall Street Journal, internet research, and FP&A analysis
Insourcing and outsourcing decisions are based on the same fundamental analyses and start with alignment with organizational goals.

**Consideration Highlights**
- Duration of the need or project
- Stakeholder Environment
- Intellectual Property
- Other

**Primary Considerations**
- Cost
- Supplier market dynamics
- Good/service complexity
- Quality/Standards
- Timeliness
- Skill Level

**Secondary Considerations**
- Alignment with Business goals and strategies

**Foundational (Core) Consideration**
- Critical
- Less Critical

**Key Considerations**
- Critical
- Less Critical

**Illustration**

Sources: FP&A analysis
DIA Insourcing Case Study—*Rubber and Paint Removal from Airfield*

### DIA Case Study Highlights

<table>
<thead>
<tr>
<th>Situation</th>
<th>Key Considerations</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAA safety mandates include annual runway rubber removal and paint refresh</td>
<td>✓ Core</td>
<td>Leveraged existing employee skill sets and spread workload over existing FTEs</td>
</tr>
<tr>
<td>New FAA requirements require additional runway markings</td>
<td>✓ Cost</td>
<td>Purchased necessary equipment with one year payback from labor savings—i.e., contractor unit costs</td>
</tr>
<tr>
<td>Cost to comply would increase by factor of two through use of contractor</td>
<td>✓ Quality/Standards</td>
<td>Increased control over core business</td>
</tr>
<tr>
<td></td>
<td>✓ Skill levels</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Good/Service Complexity</td>
<td></td>
</tr>
</tbody>
</table>

Sources: FP&A analysis
DIA Outsourcing Case Study—Snow Removal

**DIA Case Study Highlights**

<table>
<thead>
<tr>
<th>Situation</th>
<th>Key Considerations</th>
<th>Results</th>
</tr>
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<tbody>
<tr>
<td>- Major snow storm closed DIA for two days</td>
<td>✓ Quality/Standards</td>
<td>✓ Engaged contractor very quickly—labor costs increased dramatically</td>
</tr>
<tr>
<td>- Had inadequate staffing levels</td>
<td>✓ Skill levels</td>
<td>✓ Contractor staffing turnover and “gaps” between storms eroded skills</td>
</tr>
<tr>
<td>- Maintained limited snow removal equipment</td>
<td>✓ Stakeholder environment</td>
<td>✓ Post-mortem:</td>
</tr>
<tr>
<td>- Significant impact to airline operations and DIA reputation</td>
<td>✓ Timeliness</td>
<td>✓ Comprehensive analysis and leveraging key learnings—e.g., proper management plan—allow insourcing again</td>
</tr>
<tr>
<td>- Significant stakeholder pressure applied to find solution</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: FP&A analysis
## DIA Outsourcing Case Study—*Shuttle Bus Service and Equipment Maintenance*

### DIA Case Study Highlights

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<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contracted <em>externally</em> for bus operations, yet...</td>
<td>✓ Core</td>
<td>✓ Consolidated bus ownership, operations, maintenance and management under one vendor</td>
</tr>
<tr>
<td>• <em>...Owned</em> buses approaching end of useful life—major capital purchase forthcoming</td>
<td>✓ Skill levels</td>
<td>✓ Rigorous financial analysis not employed—</td>
</tr>
<tr>
<td>• Maintenance also performed <em>in-house</em></td>
<td>✓ Quality/Standards</td>
<td>• Operational costs increased significantly</td>
</tr>
<tr>
<td>• Resource drain requiring significant administrative time</td>
<td></td>
<td>• No reduction in maintenance labor costs</td>
</tr>
</tbody>
</table>

**Sources:** FP&A analysis
With the benefit of hindsight and in the spirit of continuous improvement, DIA continues to explore insourcing/outsourcing opportunities

*DIA Key Learning Highlights*

- **Overall Strategy**: ensure alignment with organizational goals and objectives
- **Changing Set of Key Consideration**: the key considerations will change for a given situation as well as which ones are considered primary versus secondary
- **Comprehensive Analysis**: insourcing/outsourcing decisions are strategic and need careful consideration to be done correctly
- **Continuous Improvement**: not all insourcing/outsourcing decisions are effective and may require leveraging key learnings and reversing course
- **Maintaining Control**: “core” functions are difficult to successfully outsource
- **Lowest Cost**: criteria in addition to cost should be carefully considered to ensure best overall value

*Sources: FP&A analysis*