



June 2009

LABORATORY OUTSOURCING

Intertek’s EVP of Analytical Services, Dr. Andrew Swift, discusses laboratory outsourcing and explains how dedicated analytical service providers are stepping up to support the manufacturing industry in today’s changing market place.

Outsourcing of non-core support services is an established concept in many areas of modern manufacturing and is widely managed on a daily basis in the workplace. Historically business process outsourcing has covered activities such as Information Technology, shared site services (steam, power, fire safety etc), manpower and human resources activities such as payroll services. However, over the last decade industry has widened the scope of services which can be outsourced for commercial and technical benefit to a growing range of dedicated support services organisations. Nowadays all functions regarded as *‘strategic but not core’* are in scope for outsourcing, including laboratory measurement and analytical science services.

Historically, laboratory testing services was the preserve of the ‘in-house’ laboratory, which were tasked with new product research and development support to help drive corporate innovation with measurement and analytical data. Today, while the need to innovate remains more *‘strategic and core’* than ever, it is no longer the case that laboratory testing and measurement support need be. Outsourcing the laboratory facility to a dedicated service provider can deliver short term savings and strategic commercial benefit to the parent company and most importantly helps increase corporate market agility for responsiveness in today’s fast moving and international market place.

Organisations are under continued pressure to deliver a greater return from their asset base, in a world of falling commodity prices and dwindling new drug pipelines. This in turn has lead to greater scrutiny of the internal cost base and renewed vigour in the drive for fixed-cost reduction.

Tough economic times presents promising growth opportunities for clients and dedicated analytical testing services providers who attach high value to such laboratory assets. Success comes to laboratory services companies and clients who understand the win-win nature of outsourcing, capturing value from the laboratory and growing the service into the wider international market place.

The Outsourcing Decision Matrix:

	High	Outsource	Retain and Invest
STRATEGIC	Low	Divest	Retain and Maximise Efficiency
		Low	High
		CORE	

In each segment of the above decision matrix, dedicated analytical service providers can provide a model that facilitates the required objective of the organisation, whether through outsourcing or consultancy support. Once an outsourcing decision has been made to progress, key lessons learnt from historical outsourcing agreements help craft a winning agreement for client and laboratory services provider.

The most successful laboratory outsourcing relationships require innovative management and contractual models, tailor-made to address the parent company's needs. A variety of 'generic' contract models have been successfully implemented by Intertek over the last 10 years including:

- (i) Full transfer of ownership of the assets and staff of the in-house laboratory to the service provider
- (ii) Outsourcing of specific testing contracts to the service provider's own network for optimisation of internal resource utilisation, capital cost avoidance and maximum per sample savings
- (iii) Awarding management control of analytical services of the in house facility to the dedicated service provider
- (iv) Design, build and manage new laboratory facilities in new regions and geographies.

Outsourcing a facility to a dedicated service provider who has a credible and demonstrable growth strategy (either as an embedded service provider or otherwise) can provide the best route to realigning assets whilst maintaining access to a growing and sustainable 'state of the art' facility at no onward capital cost.

To justify the cost of change a laboratory outsourcing project should deliver at least a 20% saving from the current fully burdened cost of ownership over the contract life, with no compromise to current service levels and fully protecting intellectual property.

Of course, there are also variations in between the above generic models which align to an organisation's businesses life cycle as well as the external and internal pressures it faces. Specific drivers may include:

- Seeking lower and variable costs and greater cost flexibility
- Reducing time to market by enabling a greater focus on core competencies
- Seeking specialist and expert service on demand only.
- Improving return on capital employed from the current asset base
- Avoiding onward capital expenditure
- Enhancing the critical mass and global reach of your analytical services by networking into partnership with a global provider
- Widening the 'brain pool' available from analytical support function

External influencing factors

Growth in global trade is generating increasingly stringent requirements and legislation for quality assurance, consumer and environmental safety. At the same time the consumer is more (scientifically) aware than ever before of the environmental or personal health impact of today's products. This awareness is only heightened with each new case, of a product failure or food poisoning to hit the headlines and which may have been avoidable under the correct legislation, robustly enforced.

The impact of new directives and regulations over the past 12 months alone has created a dramatic increase in the need for analytical measurement. The CPSIA (US Consumer Product Safety

Improvement Act) which contains many provisions concerning the safety and quality of consumer goods and more stringent requirements for children's products, and the roll out of REACH (Registration, Evaluation and Authorisation of Chemicals) which now regulates over 30,000 chemicals used in industry in Europe present only two examples.

New regulations will always come and go, but there are two constants about which we can all be sure; (i) there will be more of them over an increasingly widening scope and (ii) the limits of detection required to satisfy them will continually fall to lower levels (= more expensive measurement).

Responding from an in house facility to this rapidly changing world is time consuming, capital intensive and costly and once compliant, ongoing stewardship is required. Analytical service providers are going beyond routine laboratory work and provide the consultancy support required for these regulatory developments, which go beyond the scope and capability of many on-house functions. They have the advantages of a much wider market place to justify the capital expenditure required for the next generation of expensive instrumentation; much greater utilisation for the return on assets; independence to eliminate the need for any secondary arbitration of data and ongoing career development opportunities in the measurement, testing and regulatory/advisory sector alone.

The demand for smarter products is driving the need for increased materials and component complexity which calls for greater intellectual dexterity and measurement resource but which is readily available to support development. Typical examples include the development of new polymers, alloys and composite nano-materials contributing to weight-reduction and less emissions as required by legislation or biotechnology for medicines and therapeutic devices.

The measurement technology and many of the associated quality standards required to support such developments are already developed and available. But the way these skills and services are accessed and their availability at the location needed at the time needed is not. Increasingly this is seen as the job of the expert Analytical Service provider and a key part of the value of a global support in helping international companies to succeed in their market places.

Internal Influencing factors on outsourcing

Organisations seek to maintain a competitive edge in a tough market environment. Companies want to quickly implement innovation strategies while cutting costs at the same time, consolidating and increasing their focus on core business activities.

For the analytical laboratory function, this need has led to a mismatch between the today's corporate requirement for a multi-skilled, global and agile laboratory service and the legacy 'in-house' laboratory facility. As the 'in-house' analytical laboratories are increasingly being considered non-core and a possible liability, independent, external international laboratory service providers are expanding operations, since they see the global, 'virtual' laboratory as the core part of their business. Independent laboratories benefit industry through economies of scale and expertise, which can be passed to the client through cost savings and enhanced service delivery.

Once the decision to outsource has been made there are other implications that can delay action if not followed up in the earliest phases of diligence and contract negotiations.

Optimising people transfer is often mistaken as a parent company legacy responsibility and a legal requirement. The reality is that the attitude and motivation of the population of transferring staff is probably the single biggest critical success factor in laboratory outsourcing. This is absolutely the responsibility of the service provider (new employer), while the former parent company must work alongside the provider to ensure the formula is right. This can be the most sensitive element of the outsourcing process.

Contrary to the popular myth, outsourcing does not always mean job losses. With the right partner and under the right business plan it can mean accelerated career development, business expansion and job creation. At the very least, in today's economy, there is enhanced job security.

Many outsourcing agreements result in improved career options for the staff, while transferring the people in scope may well mean the avoidance of large redundancy payments and the loss of enhanced pension schemes. In addition, their longer term career prospects are now with a company who considers them core to the success of the business.

Hand in hand comes a parent organisation's fears of loss of know-how and service interruption, but these are mitigated by effective control measures such as clear service scopes and contractual agreements that protect intellectual property and robust transition plans. Trust and reputation are the vital decision drivers in the selection criteria of the outsourcing partner. Improved outsourcing contracts address these concerns and are co-designed with the involvement of all of the key stakeholders in the project.

Outsourcing Lessons Learnt

While a company can hold back on non-imperative change, investment and divestment plans to focus on short-term budget cutting and cost control, there is a limit before diminishing returns kick-in. However, those companies which adopt outsourcing benefit from the simultaneous enhancement of their laboratory services while freeing up valuable resources to better allocate to their core business activities and profitability. Getting the evaluation, scope and partner selection process right is vital to the success of the project and the commercial and technical returns possible.

Intertek has learned some key 'lessons' over the last 10 years from the successful implementation of over 30 successful international analytical services outsourcing agreements with major corporations. This checklist does not guarantee success, but it helps highlight major considerations:

- Set objectives at the outset, right down to financial returns.
- Conduct first level risk analysis of the project with senior stakeholders.
- Define scope of services to be outsourced.
- Ensure that all stakeholders are involved in the assessment of the project (including your customers and internal service users).
- Measure the cost and benefit of the decision: Conduct a gap analysis to measure the cost of change, and ensure you accurately measure the fully burdened cost.
- Agree on a communication protocol with all stakeholders involved (including staff, unions and media).
- Establish a rigid selection qualification criteria and 'scorecard' on your service partner and be satisfied by their own strategic drivers and plans for the facility and services.
- Work with your chosen partner to review and adjust the outsource scope to deliver a reciprocal value added contract
- Dedicate high level resources and management time into the project; repairing a faulty outsourcing contract is more costly and time consuming than the investment of setting it up right in the first time.
- Ensure a representative, measurable and practical contract is agreed.
- Implement, measure the progress and review the transition over the interim period.

There are many challenges in today's economic environment; the key to success is a flexible business model which adapts to the peaks and troughs of current trading cycles. Analytical service providers provide such a model by bringing innovative solutions to customers where and when they are needed, whilst guiding them through complex regulations and standards that apply to their products.

Laboratory outsourcing is increasing in popularity, largely due to the increased understanding of the benefits it brings. Dedicated analytical service providers have the benefit of the economy of scale and can pass these benefits to their customers through innovative solutions, cost savings and enhanced service delivery.

For most international companies accessing fast, state of the art and reliable analytical services is a means to an end; for Intertek providing them is an end in itself.

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