

# Outsourcing: Debunking the myths and unveiling the realities

by *buyingTeam*



**Firmly entrenched misconceptions surround outsourcing, and they are holding many companies back from maximising the potential benefits from this fundamentally important tool.**

**D**espite misunderstandings and negative perceptions, the plain truth is that companies of all sizes can benefit from outsourcing, from one-man bands to major multinationals. Decades of experience across industries, sectors and geographic boundaries have generated a wealth of specialist expertise and made a wide range of services available to those seeking support. For this reason alone, it is worth exploding the myths and taking a long hard look at the reality of outsourcing.

Perhaps the most enduring misconception is that outsourcing is all about labour arbitrage. Its most vehement critics accuse employers of destroying well-paid jobs and replacing them with less expensive outsourced labour. Yet this misses the whole point about adding value to a service by leveraging the expertise and resources of specialist external suppliers to the wider benefit of an organisation. Outsourcing enhances the capabilities of a company to deliver a service or skill set more efficiently and more effectively than could ordinarily be achieved internally. If you are CEO of a company like Nokia, for example, it might be worth your while having a large human resources department. But if you are chief executive of a company with 200 or fewer people, you may be unable to afford hiring someone with world expertise in HR.

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One of the most invidious myths about outsourcing internationally is that it damages domestic business. For this reason, some believe that outsourcing business exclusively to domestic companies is good for domestic business. The reality is that in today's world economy, companies are always looking for ways to improve performance in order to release capital for the reinvestment needed for growth. To survive and thrive in this increasingly congested marketplace, busi-

nesses must remain competitive. Outsourcing gives businesses access to the best supplier services, fostering growth, which in turn benefits the domestic economy.

The question should not be local or global. Companies must work with suppliers that best meet their needs across a number of areas, including cost, expertise, resources and CSR practices. While there is a strong incentive to source locally, businesses have to make these decisions based on their specific needs, using a strong framework for what they want to achieve. At buyingTeam, we call this approach 'Right Sourcing'. We believe outsourcing will increasingly take place nearer to the stakeholder, allowing them to keep closer control on quality, cost and service provision.

Predictably, the global recession dissuaded many companies from investing in outsourced services. Businesses struggled to justify external spend while at the same time freezing staff pay and making other cost reductions. However, as the European markets have by-and-large experienced positive growth recently, outsourcing activity has responded accordingly.

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The evolution of a country's outsourcing industry will typically mirror the progression of its commercial base. Over the past 20 years, outsourcing of internal functions, such as IT, telephone support, finance and recruitment, has grown rapidly in Europe. Marketing, for example, is almost always wholly outsourced (in terms of the various agencies that marketing businesses work with). At buyingTeam, we have also seen a rise in research outsourcing and product testing. More companies are seeing the benefits of employing specialists to conduct complex tasks more efficiently than could be achieved in-house.

Procurement is increasingly seen as an activity that can be outsourced. Businesses are beginning to see more clearly that the outsourcing proposition is predicated on adding value rather than a pure focus on cost reduction. Many organisations are now looking inwards and realising that they are under-investing in procurement as a discipline. They realise that increased returns can be gained from greater analysis of how they buy goods and services, and the benefits that can be generated from a different approach to procurement.

As with in-house solutions, when weighing up the pros and cons of outsourcing as a business process one must consider how it is

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approached and managed. This will help determine whether it is a success or failure. When contracting a new supplier, it is almost inevitable that companies will experience teething difficulties, a factor which can be off-putting. However, using specialists that are able to spread costs across a number of clients can open opportunities and deliver benefits to your business that go beyond pure financial gain. The needs of a business are constantly evolving. To allow for this, outsourcing partnerships must be flexible. Companies that prioritise cost above effectiveness do so at their peril.

To maximise the positive impact of outsourcing parts of their operations, companies must set aside sufficient time and resource to manage supplier relationships effectively and maximise their value to the business. Poorly managed supplier relationships will deliver commensurately poor results and this tends to be the primary cause of dissatisfaction with outsourced services.

Global pharmaceuticals company Pfizer offers an example of the benefits that outsourcing can deliver. PfizerWorks is an internal function used by employees worldwide to outsource routine tasks to external support services, freeing up employee time for more skilled work. During the development of this tool, the negative perception of outsourcing meant that some staff initially worried about their job security. However, when PfizerWorks was eventually adopted company-wide it led to increased employee productivity, freeing up more than 60,000 employee hours in the first year.

Today, outsourcing as a business process is becoming increasingly popular, with companies of all sizes typically outsourcing a part of their business, be it their IT support, recruitment, legal services or other support functions. However, firmly entrenched misconceptions that surround this fundamentally important tool are holding many companies back from maximising the potential benefits of outsourcing.

To outsource effectively, companies must fully understand the real needs of their business and develop a thorough specification to help them source suppliers that will support their overarching objectives. In this challenging economic environment, it's time to cast aside the tired old clichés about outsourcing and seize the real benefits of an increasingly valuable business process.

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