

Criticism and Response to Outsourcing

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company.

Outsourcing became part of the business lexicon during the 1980s.

The decision to outsource is often made in the interest of lowering firm costs, redirecting or conserving energy directed at the [competencies](#) of a particular business, or to make more efficient use of labor, capital, technology and resources

Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. Business segments typically outsourced include [information technology](#), [human resources](#), [facilities](#) and [real estate](#) management, and [accounting](#). Many companies also outsource [customer support](#) and [call center](#) functions like [telemarketing](#), [customer services](#), [market research](#), manufacturing and engineering.

Outsourcing and [offshoring](#) are used interchangeably in public discourse despite important technical differences. Outsourcing involves contracting with a supplier, which may or may not involve some degree of offshoring. Offshoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation

With increasing globalization of outsourcing companies, the distinction between outsourcing and offshoring will become less clear over time. This is evident in the increasing presence of Indian outsourcing companies in the US and UK. The globalization of outsourcing operating models has resulted in new terms such as [nearshoring](#) and [rightshoring](#) that reflect the changing mix of locations. This is seen in the opening of offices and operations centers by Indian companies in the U.S. and UK.

Multisourcing refers to large (predominantly IT) outsourcing agreements.

Multisourcing is a framework to enable different parts of the client business to be sourced from different suppliers. This requires a [governance](#) model that communicates [strategy](#), clearly defines [responsibility](#) and has end-to-end [integration](#).

Process of outsourcing

Deciding to outsource

The decision to outsource is taken at a strategic level and normally requires board approval. Outsourcing is the [divestiture](#) of a business function involving the transfer of people and the sale of assets to the supplier. The process begins with the client identifying what is to be outsourced and building a business case to justify the decision. Only once a high level business case has been established for the scope of services will a search begin to choose an outsourcing partner

Supplier proposals

A [Request for Proposal](#) (RFP) is issued to the shortlist suppliers requesting a proposal and a price

Supplier competition

A competition is held where the client marks and scores the supplier proposals. This may involve a number of face-to-face meetings to clarify the client requirements and the supplier response. The suppliers will be qualified out until only a few remain. This is known as *down select* in the industry. It is normal to go into the [due diligence](#) stage with two suppliers to maintain the competition. Following due diligence the suppliers submit a "best and final offer" (BAFO) for the client to make the final down select decision to one supplier. It is not unusual for two suppliers to go into competitive negotiations.

Negotiations

The negotiations take the original RFP, the supplier proposals, BAFO submissions and convert these into the contractual agreement between the client and the supplier. This stage finalizes the documentation and the final pricing structure

Contract finalization

At the heart of every outsourcing deal is a contractual agreement that defines how the client and the supplier will work together. This is a legally binding document and is core to the [governance](#) of the relationship. There are three significant dates that each party signs up to the contract signature date, the effective date when the contract terms become active and a service commencement date when the supplier will take over the services

Reasons for outsourcing

Organizations that outsource are seeking to realize benefits or address the following issues:

Cost savings. The lowering of the overall cost of the service to the business. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, cost re-

structuring. Access to lower cost economies through offshoring called "labor arbitrage" generated by the wage gap between industrialized and developing nations.

Cost restructuring. [Operating leverage](#) is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable.

- **Improve quality.** Achieve a step change in quality through contracting out the service with a new [Service Level Agreement](#).
- **Knowledge.** Access to intellectual property and wider experience and knowledge.
- **Contract.** Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services.
- **Operational expertise.** Access to operational best practice that would be too difficult or time consuming to develop in-house.
- **Staffing issues.** Access to a larger talent pool and a sustainable source of skills.
- **Capacity management.** An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier.
- **Catalyst for change.** An organization can use an outsourcing agreement as a catalyst for major step change that can not be achieved alone. The outsourcer becomes a [Change agent](#) in the process.
- **Reduce time to market.** The acceleration of the development or production of a product through the additional capability brought by the supplier.
- **Commodification.** The trend of standardizing business processes, IT Services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations.
- **Risk management.** An approach to [risk management](#) for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.
- **Time zone.** A sequential task can be done during normal day shift in different time zones - to make it seamlessly available 24x7. Same/similar can be done on a longer term between earth's hemispheres of summer/winter.
- **Customer Pressure.** Customers may see benefits in dealing with your company, but are not happy with the performance of certain elements of the business, which they may not see a solution to except through outsourcing