Outsourcing

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chapter 7

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Definition

- Purchasing from someone else a product or service that had been provided internaly
- Study in 30 firms, outsourcing:
  - Reduce cost 9%
  - Increase 15% in capacity and quality

Motorola Case

- Motorola sold its factory to Celestica
- Motorola than pays Celestica to make pagers, handsets, radios, etc.
- Motorola concentrates on the design and administration/management
- Motorola hopes to make the supply chain efficient and consolidate manufacturing operations

What to outsource?

A study in U.S.:

- General & administrative (78%)
- HR (77%)
- Transportation & distribution (66%)
- Information Systems (63%)
- Manufacturing (56%)
- Marketing (51%)
- Finance & Accounting (18%)

Outsourcing Rule of Thumb

"Purchase from outside only those activities that are not key to the companies distinctive advantage"

Therefore, must:

- Identify company's competence
- Ensure the competence is continually being strengthened
- Manage the competencies in such way that preserve competitive advantage

Outsourcing Matrix

Some Vertical Integration: Produce some internally

Full Vertical Integration: Produce all internally

Activity's Potential for Competitiveness

Outsource: Buy on Open Market

Outsource: Purchase with long term contract

Activity's Value-Add for Company's Product/Service

Risks of Outsourcing

- Finance & legal department dominate decision making
- Vendors dominate decision making!
- Short-term benefits from dominated decision making
- Vendors were not prequalified based on total capabilities