As organizations continued to look for more innovative ways to improve efficiency and cut costs to survive the fast-paced marketplace, outsourcing took off with two broad approaches, which still continue to be popular: (1) centralizing non-core processes in-house as shared service functions to derive the benefits of centralization through a suitable wholly owned subsidiary or in-house process; (2) to identify an acceptable external third-party service provider or supplier to bring in value-added services. Markets favor either of the two depending on various factors like nature of business, organizational competence, organizational strategy, etc. With an increase in supplier market competition, the product or service is not seen as strategically critical, and environmental uncertainty makes internal investment risky, thereby making outsourcing more attractive.

Contracting or outsourcing grows in good times because companies want to focus on growth and in bad times because companies want to cut costs. Contracting enhances productivity and cost reduction and is a unique win–win situation wherein the supplier adds strategic value to the project and aids in shareholder value increment, thus making the difference between leaders and followers. Contracting involves transfer of some projects or processes to the contractor. The outsourcing company may retain “what” aspects of the projects like results collection, monitoring, strategic decision taking, direction setting, etc., but hands over the “how” aspect of the process to the supplier like governance, execution, technology setup, etc. The decision rights may be totally retained by the buyer or totally passed over to the supplier so that there is a greater shared responsibility between the two organizations.

Outsourcing involves many perspectives, some of which are

1. Differentiating value and need to outsource certain business aspects
2. Alignment of corporate strategy with the supplier strategy
3. Establishment of clear timelines and mechanisms
4. Identification of proficient, prolific suppliers

The suppliers aim to

1. Create business value and bring in suitable transformation
2. Provide first-rate quality
3. Produce at a cost that is lower than what it costs the buyer to do it in-house
4. Accomplish tasks faster than it could be done by the buyer in-house

Businesses contract/outsource almost any project if it costs less to perform the activity outside the organization than inside. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard to their own interest. It is this self-interest which leads to innovation, wealth creation, and the tendency to focus on what one can do best.
Insourcing versus Outsourcing

*The two sides of a coin.*

Both insourcing and outsourcing (the paths in Figure 1.1) have some advantages and disadvantages which should be borne in mind while making a decision regarding them. For an organization owning proprietary designs or processes, insourcing is advisable because a high degree of control over operations is needed. Also, for a company enjoying business volume necessary to achieve economies of scale, insourcing can lower manufacturing costs (e.g., Merck products are sold exclusively by its workforce, unlike many smaller pharmaceutical firms). Finally, core competencies are developed during insourcing. Identifying and building core competencies like organizational strength or abilities developed over long periods, which customers find valuable and competitors find difficult or even impossible to copy, are a major part of business strategy development effort. Prime candidates for insourcing are products or processes that could also evolve into core competencies. *Insourcing*
Web-Based and Traditional Outsourcing

is preferred when environmental uncertainty is low, reducing the risk of investing in capacity, when supplier market is not well developed, and when the product and service being considered are not directly related to the buying firm’s core competencies. Insourcing disadvantages may consist of risks that decrease the firm’s strategic flexibility. Insourcing risk was glaringly evident in the semiconductor industry wherein associated manufacturing technologies had extremely short life cycles, some of just six months, after which they were expected to be superseded by newer technologies. Thus risk of investing in process technologies which became outdated very fast was continuously faced by the semiconductor manufacturers, and to justify growth under such risky conditions, investing for higher capacities was linked to the feasibility study of quick paybacks.

Deploying in-house scarce resources to upgrade their processes versus outsourcing, if suppliers can provide the product or service more effectively than the company itself, is a key consideration. The financial viability of the firm can be put to the test, even risk, as its ability to invest in other projects also gets restricted, in trying to catch up with technologically advanced suppliers, which can prove to be an expensive proposition. In outsourcing, a firm’s flexibility and access to the state-of-the-art products and processes increase. Also, changing supply-chain partners is easier than changing internal processes as markets or technologies change. Outsourcing improves a firm’s cash flow in addition to increasing the firm’s strategic flexibility and access to new technologies, with less up-front investment for resources needed to provide a product or service. Dell, which sells computers, supported $3 billion in annual revenues with only $60 million of fixed assets by using contract manufacturers. Thus the benefits can be obviously significant. Risks and disadvantages of outsourcing can come from suppliers misstating their capabilities. Their performance may not meet the buyer’s expectations; the process and technology may not match to deliver the requirements. Consider the case of Apple Computers, which accumulated a backlog of more than $1 billion when demand for new line Macintosh computers increased dramatically in the 1990s. Timely delivery of critical parts including modems and custom chips could not be obtained, because many of them had been custom designed and outsourced from a single supplier. Many customers who did not want to wait for new products became alienated because Apple was unable to deliver in time. Another issue with outsourcing is that buying firms need to use suitable mechanisms to ensure sustained quality, availability, confidentiality, and performance of outsourced goods or services. Key skills and technologies that are a part of their core competencies may be lost at worst. Many companies manage these challenges by closely overseeing key design, operations, and supply-chain activities. They also solicit constant feedback from customers and react suitably by changing their products and services.

Thus, in a nutshell, insourcing advantages consist of economies of scale and/or scope, ability to oversee the entire process, and a high degree of control. The disadvantages are that it requires sufficient and sustained investment, and potential suppliers may offer
superior products and services. Thus strategic flexibility may be reduced. On the other hand, outsourcing merits consist of low investment risk, improved cash flow, access to state-of-the-art products and services, and high strategic flexibility. Demerits are loss of control over substantial processes and core technologies, possibility of choosing a bad supplier, and “hollowing out” of the corporation, in exceptional cases.

**Offshoring versus Outsourcing**

*The choices we consciously make, in life, big and small.*

It is important to differentiate between offshoring and outsourcing. Off-shored processes may be handed off to third-party vendors or remain in house, while outsourced processes are necessarily handed over to third-party vendors. All offshoring does not necessarily involve outsourcing. The advantage of lower cost labor in another country is made use of by both.

**Business Process Outsourcing (BPO)**

*A means, an end, and the path walked in between.*

Business process outsourcing (BPO) involves migration of services to an external service provider. It includes call centers, back office services, transaction processing across various industries like manufacturing, finance, accounting, human resources, IT, etc. Supplier vendors use best practices and technology-driven applications to deliver quality service and products.

**Types of Outsourcing**

*The options and their relative needs and deeds.*

Outsourcing can be of different types depending upon the geographical distance between the buyer outsourcing organization and the supplier vendor.

**Onshore Outsourcing**

If the supplier is in the same country as the buyer but outside the company of the buyer, then it is an onshore type of outsourcing. Since the country is the same, there are likely hardly any language-related issues, and even if languages spoken are different, it will be easier to find translators/representatives to bridge the communication gap. The government policies will be almost uniform throughout the
country, and travel time and distances between the buyer’s and seller’s locations will not be much.

Nearshore Outsourcing

If the supplier is located in a neighboring country (usually on the same continent), then it is a nearshore type of contracting/outsourcing. It provides the benefits of the same time zone and a possibly low-cost alternative to domestic sourcing. Additionally there are similarities in language and culture, and the travel time and distances not being much. U.S. and European businesses could see Latin America emerging as a nearshoring location due to its Spanish language capability. Another example is if the buyer is located in the United Kingdom and the seller is located in Germany or France.

Offshore Outsourcing

If a supplier is located in a foreign country which is far away from the country in which the buyer is located (usually a different continent), then it is an offshore type of outsourcing. The distance being great, factors like long travel times and respective government policies are matters of significance. In this case low labor rates may be of immense benefit to the company. So the decision for offshore outsourcing needs careful deliberation to reap a rich harvest. Outsourcing is not the panacea for all business problems. Offshoring from the United States to India is the most prevalent example. Global footprint expansion and opening of delivery centers by Indian firms in China, Philippines, Cairo, etc., are also similar examples.

Outsourcing Decision and Its Consequences

“Selection and maintenance of aim,” an old war saying.

Managers should clearly understand the issues and the differences pertaining to outsourcing within a country and outside a country. Only then can a decision be made which is mutually beneficial both to the buyer and the seller. Lack of knowledge regarding the intricacies of outsourcing can prove expensive and in some cases can cause irretrievable loss. It could cause a loss of name, reputation, waste of time, and effort apart from huge revenue losses. The decision to outsource is driven by many reasons, among which could be reduced cycle times in which technology plays an important role, gaining from the core competencies and the best practices of the supplier, reduction in cost, improvement in quality, and lesser risk. Outsourcing provides the buyer with more time and enables it to focus better on its in-house key core activities and processes. These subjects are discussed in the following chapters of this book.
Growth of Outsourcing Worldwide

“Be the change you wish to see in the world.”—Gandhi

Companies from around the globe arrive in the Asia Pacific region with great expectations because opportunities are abundant and businesses envision tantalizing growth scenarios. In this region all things seem possible, but at the same time many matters may not be clear and simple about how to realize those possibilities. Every business that ventures here must be flexible and willing to adapt. Many companies see value in working with established outsourcing partners in this dazzling but complicated market. Outsourcing has enabled clients to save up to 50% on operational costs of finance and recover 1% of audited expenditure. Managers are grasping the offshore outsourcing megatrend—strategies, implications, high-growth application areas, and related issues. U.S. and European companies have widely outsourced offshore, with larger Fortune 1000 firms outsourcing to markets like Ireland, Singapore, Russia, Malaysia, South Africa, Hungary, Thailand, Vietnam, Philippines, China, and India. Offshore outsourcing now has many synonyms like value sourcing, global sourcing, global resourcing, global delivery capability, blended outsourcing, and alternative staffing with companies calling it by different terms.

As the vistas expand to include a myriad set of services.