

Outsourcing During Economic Hardships Not Only Makes Sense, it Saves Cents!

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Undoubtedly, today's economy has impacted business operations in the United States and abroad. In an effort to preserve the efficiency of business operations, some companies have turned to outsourcing. Outsourcing is defined as the procurement of services or products from an outside source. Often, the decision to outsource is made with the objective of lowering costs, improving the allocation of labor and capital resources, or improving focus on the core business competencies. The reasons are as varied as there are types of businesses. Outsourcing functions or components of a company's business operations to competent subject matter experts in times of economic hardship can result in the retention of talented workers and improved service to customers. There are wide varieties of businesses that have made it their mission to be the best in a field and provide expertise in areas where others lack the time, resources, or capability to achieve this level of performance. These businesses can save you time and money.

In the current economic environment, the federal government continues to be the largest purchaser of products and services in the country. The symbiotic relationship between the government and the federal contractor community is the best example of how outsourcing helps everyone thrive. The government spends about \$200 billion annually in government contracts, outsourcing goods and services. The federal government is mandated to direct 23 percent of contracts specifically to small businesses. These funds are supporting programs from home weatherization and wellness, to schools and public works programs. Outsourcing of these related activities has directly benefited contractors who provide such specialty services. Although these are tough economic times, some transportation contractors have been able to rehire dozens of previously termed employees and have averted further layoffs. Depending on the types of contracts, many federal contractors remain in a sound financial position despite today's market conditions.

Even during tough economic times, outsourcing by the private sector has not slowed. Economic data reveals many companies are actively engaged in Information Technology Outsourcing (ITO), Business Process Outsourcing (BPO), and Human Resources Outsourcing (HRO). Outsourcing to independent workers or businesses has been a key to growth for many private and public companies during this time. Nike is a supreme example of outsourcing: All it does is organize marketing. All other phases in its product's value chain are done by firms Nike chooses on the basis of quality and cost, irrespective of country of origin. So, sneakers are made in Vietnam and Malaysia and advertising material is created by U.S. and European firms.

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Outsourcing is a smart business practice and is proven to be cost effective most of the time. In an effort to avoid the high costs (hiring, salary, benefits) and time (selection, training) associated with full-time labor, companies may outsource nonessential functions that do not have to be performed internally. In doing so, companies also benefit from avoiding employee terminations in an economic downturn, or paying severance packages, and there is less danger of knowledge transfer. Outsourcing is done because it allows companies to focus on key business activities instead of trying to be comparatively good at many non-integral activities. Outsourcing also opens doors to business experts who may be too expensive to employ. It allows businesses to acquire technical capabilities externally that might otherwise be too difficult and expensive to develop in-house. Outsourcing mitigates risk in these uncertain times and provides for flexibility to start or stop business operations that are not profitable, without having to worry about tangible and intangible costs associated with business closure and layoffs. Some financial estimates claim companies can save up to 50 percent from outsourcing. These savings can help organizations meet their bottom line, expand business operations, acquire new businesses, invest in research and development, or pass savings to their customers by offering lower prices.

A dialog on whether to outsource or not is incomplete without understanding the potential risks associated with outsourcing. Quality could suffer as a result of lack of oversight or poor communication between buyer and supplier. Customer confusion and dissatisfaction can result from language barriers and cultural differences most often experienced in call center outsourcing where face-to-face interaction is lacking. Also, employer branding is impacted. In some regions, there is strong public opinion that outsourcing damages the local labor market by denying wages, benefits, and jobs.

To leverage the benefits of outsourcing and avoid pitfalls, companies need to have a carefully planned outsourcing strategy. There is no “one size fits all” solution. Some of the basic framework to make outsourcing work for your company would include:

- an assessment of business strategy to understand functions critical to meet your organizational goals
- current organizational capabilities to perform core functions
- resource evaluation to reduce or control costs and improve functionality
- external scans to assess how your competitors operate
- management’s ability to assess external vendors, and manage expectations (both internal and external)

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Ultimately, outsourcing has created a means to improve business operations and maintain the status quo on certain functions. This allows organizations to focus on other business goals at a reduced cost. Regardless of where your organization stands in the outsourcing spectrum—provider or beneficiary—both reap the ultimate financial benefit of increasing cash flow to the organization's bottom line.

