

THERE ARE A VARIETY OF REASONS FOR OUTSOURCING, INCLUDING IMPROVED EFFICIENCY, COST REDUCTIONS AND INCREASED FLEXIBILITY. SITUATIONS ARE FAMILIAR, RANGING FROM HIGH-TECH START-UPS WHICH ARE UNABLE TO RAISE FUNDS OR RISK MANUFACTURING THEIR PRODUCTS TO COMPANIES WITH CYCLICAL SALES, MAKING PRODUCTION PLANNING DIFFICULT AND EXPENSIVE.



With manufacturers constantly being squeezed and needing to cut costs, outsourcing has gathered pace during the 1990s. The 'make or buy' decision is now becoming 'to do, or not to do', as the growth in outsourcing extends to less peripheral activities such as parts of the production process, R&D and areas such as recruitment, facilities management, sales and marketing and administration.

But, according to a recent Institute of Directors (IoD) conference entitled 'How to achieve competitive edge through outsourcing', in the future the question will not be 'should we outsource?' but 'how do we best outsource?'.

There are a variety of reasons for outsourcing, including improved efficiency, cost reductions and increased flexibility. Situations are familiar, ranging from high-tech start-ups which are unable to raise funds or risk manufacturing their products to companies with cyclical sales, making production planning difficult and expensive.

Ford Customer Services Division (FCSD) faced a seasonal problem. Cold British winters and bad driving conditions caused demand for replacement ball-joint kits for their Transit Van to soar. They were concerned about losing market share through inability to capitalise on sudden increase in orders.

Ford had contracted the provision of aftermarket spares kits to Remploy, a leading contract manufacturer for many years, together with materials procurement, collation and packing. Remploy identified key problems in the areas of forecasting

Outsourcing

TO DO, OR NOT TO DO, THAT IS THE QUESTION

by Neil Bromage

and capacity constraints and made appropriate changes to various parts of their operation. As a result, cost savings of around 5% were achieved, together with 100% on-time delivery and filling of schedules.

As Brian Taylor, FCSD Materials Flow Manager says, 'We are delighted with their pro-activeness and very optimistic that we will now achieve steady scheduling through the Winter and increase our share of this highly competitive market'.

Ann Murray-Smith, Sales and Marketing Director at Remploy says, 'It's not what we do it's the way we do it that sets us apart. We apply continuous improvement practices (*kaizen*) throughout our operations so our clients benefit from smarter thinking without having to ask'.

But outsourcing is not limited to large organisations seeking to divest themselves of particular activities. Small businesses, where the need for managers to be good salespeople, administrators or receptionists whilst performing their real skills, present equally good opportunities for outsourcing.

When Amer Hassan wanted to set up his Dine Line free information service for food and entertainment in London last



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year he was clear about his own skills and knowledge. 'I had a solid marketing background and what I wanted to do was market a service over the telephone. Whilst I had some knowledge of telecoms, I realised it was insufficient. I also needed a competent call centre operation from day one and so issues of staff training also came up.'

Having made a clear decision to outsource his call centre requirements, finding the right supplier was not initially easy. He found that most call centres were used to dealing with large corporate clients and their initial set up costs were 'frightening'. Then he met Brad Martin from Fulham based Protel. 'They had very cost-effective rates and a track record in modern communications, having had early involvement in the development of Scoot'.

Protel have invested heavily in technology systems to provide a modern communications centre. They have helped Hassan to develop his business to around 350 calls a week and whilst he acknowledges that it has been a learning curve for both organisations the relationship is he says, 'Brilliant, more than a partnership'.

The reason for outsourcing becoming so popular may well be the increasing recognition that activities which are not core competencies are often not cost effective.

The recent IoD conference offered a useful test, used by the American outsourcing guru Michael F. Corbett for identifying core competencies:

- If starting today would you do it yourself?
 - Would other companies hire you to do it for them?
- If it is a core competency the answer will be yes to both questions.

With the *Harvard Business Review* stating that outsourcing is one of the most important management ideas and practices of the past 75 years, and the USA experiencing explosive growth in its use, it seems reasonable to anticipate similar in the UK.

So what does it take to get the full benefit from outsourcing?

- Make an informed decision on precisely what, why and how to outsource. Having identified core competence, recognise the need to be freed from those tasks which are non-productive and begin to examine how change can be effected.
- A competitive supplier selection process gives access to the 'best of breed' in that area. When business has the best possible help it will begin to gain a really competitive edge over its competitors.
- A good contract is essential. This should be a contract for exactly what is wanted rather than something which is easy to contract for. It needs to take account of matters like volume, performance, cost, failure and exit. It should also reflect that this is a relationship and that change, due perhaps to development, is also important.
- A well managed deal. All the anecdotal evidence points clearly to the fact that for SMEs outsourcing is a question of individual relationships. It is important therefore, to feel comfortable with a provider.

As a result of their outsourcing strategy the majority of companies say they are more able to concentrate on their core business, experience cost reductions and increased profitability and efficiency.

It seems that the upward trend of outsourcing, particularly in manufacturing, is set to continue, at least for the next five years according to the Foundation for Manufacturing and Industry (FMI). A recent FMI report states that 83% of respondents expect to increase the level of outsourcing in at least one area, with nearly a third of companies expecting to increase in three or more areas.

But with only 4% of companies thinking it likely that they would ever outsource all the aspects of the production process the virtual manufacturer is not quite yet virtual reality. ■