

The Outsourcing Dilemma

In order to improve costs, reduce cycle time, or ensure best value purchasing and supply management professionals are often faced with the make or buy, insource or outsource dilemma.

Two of the key roles of a purchasing and supply management (P & SM) professional are to ensure that the organisation they work for has the correct quantity of material, backed by appropriate services, at the right cost, to enable the organisation to function. This case study illustrates the importance of purchasing to improve business performance in the private sector and how outsourcing may be used within the company.

Let us take the following example. You are a joint founding owner of Ishikawa Traditional Smoked Meat Products – a family run business on Hokkaido Island in Japan. Mr and Mrs Ishikawa, together with their son Shuta run the business from the family residence.

Choice cuts of beef, pork and chicken are delivered to the kitchen where they are processed into sausages and a variety of finger foods. The products are wood smoked and then weighed, shrink wrapped and labelled prior to shipment to customers (using the Japanese postal system). Mr Ishikawa has realised that soon the business will not be able to cope with increasing demand. Partial outsourcing might be a solution.

All operations, except dispatch to customers, are currently performed in house. Outsourcing is about getting your supplier base to do tasks that you are unable to do, either due to capacity constraints or lack of specialist expertise within your organisation. Both goods and services can be outsourced. The CIPS defines outsourcing as 'the process of contracting with the most suitable expert third party service provider'.

Outsourcing can create competitive advantage for an organisation. For example, if Mr Ishikawa has the meats filleted before delivery to him, this will save him time which he will be able to spend on value adding activity such as marinating the meats. Alternatively, the smoked meats could be packaged and labelled by a third part provider. This would release floor-space for other activities.

Outsourcing is not the only solution to business challenges. Many years ago, the Japanese looked at the removal of waste (called 'muda') in a manufacturing setting. Waste was defined as processes that do not add value to the final product. CIPS would encourage the purchasing and supply management professional to explore all waste reduction opportunities as part of the 'make/buy' decision, whilst maintaining agility within the supply chain to meet customer needs.

The CIPS Knowledge Works outsourcing document gives details of the Institutes policy position on outsourcing.

- CIPS believes that P & SM professionals should be driving the outsourcing activity by suggesting those services that could be considered for outsourcing. They should then lead the process. CIPS believes that outsourcing to specialist providers can result in better value for money.
- CIPS believes that in general it is not good practice to outsource core services (core activities are those that lie at the heart of the organisation) but where a decision is made to outsource such services, care must be taken to ensure that the buying organisation does not become isolated from the provision of these core services.

- CIPS takes the view that P & SM professionals have a responsibility for ensuring clarity of purpose throughout the outsourcing process.
- CIPS firmly believes that all outsourcing arrangements should be supported by an expertly drafted contract.
- CIPS considers that, in general, outsourced service contracts should have a longer rather than shorter duration; this enables both the buying organisation and the service provider to obtain an appropriate return on their investment.
- CIPS emphasises the need to give serious attention to the relevant staff issues including human resource management as well as legal considerations (for example, TUPE regulations within the United Kingdom).
- CIPS considers that encouraging and promoting innovation is one of the key aspects of outsourcing.
- CIPS emphasises the need for care in the allocation of risks associated with the service being outsourced.
- CIPS believes that, in appropriate circumstances, some aspects of the P & SM function can be suitable candidates for outsourcing.

Overall, CIPS concludes that outsourcing should deliver improvements in value for money as long as the contracting process is undertaken professionally.

CIPS believes that P & SM professionals should take a proactive role in respect of outsourcing in their organisations by identifying those services which should be subjected to the above processes and outcomes. Outsourcing is another method by which the P & SM professional can raise the profile of the profession within their own organisation and in the business environment at

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large. Competence in outsourcing and its associated activities are fundamental for P & SM and, as such, they should ensure that these skills are continually developed and refreshed through appropriate and relevant training programmes. Offshoring takes the outsourcing concept to the next level, covering greater chunks of core operations. It can be explored independently or as part of a wider outsourcing agenda. Offshoring will without a doubt gain momentum over the coming years offering real value yet to be tapped. In future it is increasingly likely that most business process outsourcing discussions will include offshoring as an option.

One thing is for sure, the fundamental value proposition of outsourcing (and offshoring) is solid and only getting better as technology improves and experience grows. Further information on outsourcing is available from the Professional Resources area of the CIPS website.

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