

It's good to outsource

Low-cost country sourcing often gets a bad press. But the chief procurement officer at BT Group sees it as an opportunity for purchasers to show leadership, as she tells Anusha Bradley

Critics have been quick to pounce on the risks of outsourcing work to low-cost countries. And headlines regarding stolen bank details have done little to instil public confidence in the trend. A report from the UK's Financial Services Authority in April warned of the "material risk" involved, including data security and job losses.

But Meryl Bushell, chief procurement officer for BT Group and a vocal proponent of corporate social responsibility, paints a different picture. She firmly believes globalisation has opened up a world of new opportunities for purchasers.

Of the £5 billion a year BT spends on purchasing goods and services, "hundreds of millions" is spent on sourcing from low-cost economies. It is a figure that grows every year.

For BT, the decision to outsource was not just about cost-cutting. It was, she says, also as a way of ensuring value for money and "getting the right skills and the right economies."

And she should know, as BT has been doing it for almost 20 years. It first used software developers in India in 1987, and was one of the first businesses to source from low-cost countries on a large scale.

Today, India remains an important focus for BT. It employs 2,200 staff in call centres in Delhi and Bangalore, and thousands more are employed indirectly through software development contracts.

Bushell is aware of the criticisms surrounding outsourcing to the region, but is quick to quash any negatives about

Indian call centres. The workers are, she says, "highly motivated, highly skilled and keen to do a good job".

"There are myths about using 'slave labour'. But in reality it is a highly prized job that pays very well, has good working conditions and comes with a good package."

Indian firms have a huge sense of corporate social responsibility, she adds, despite what she sees as a general assumption that companies don't behave acceptably. "But I have been there and seen the philanthropic activities they undertake."

A question of ethics

Bushell's voice perks up at the mention of ethical purchasing. It is an issue that she has worked hard to instil at BT, and the purchasing team won the overall prize at the 2003 CIPS Supply Management Awards for its CSR work (see Features, 27 November 2003). But she admits it is a costly process.

In her view, unethical sourcing can damage years of painstaking work and money spent bolstering a company's reputation. And she is aware some low-cost economies carry more risks than others.

But companies can reduce their exposure by understanding the hazards in each country and market. To this end, all BT suppliers undergo a rigorous pre-assessment. "Based on that, we will decide what category that risk is in. If it is high risk, we will undertake a physical audit, not only of direct suppliers, but of their own supply chain."

Last year BT conducted 30 inspections, eight of which followed labour standard concerns. The work is time-consuming and costly but vital, Bushell says. Workers are interviewed with translators if necessary and their accommodation is inspected. All environmental and financial aspects of the business come under the microscope.

Last year, BT decided to source its corporate clothing from Sri Lanka. The product and the location put the deal in a "high-risk" category, so BT audited the supplier's third-party manufacturing site.

"As we expected, we did find a number of issues around health and safety. We then agreed with our suppliers, and their suppliers, to overcome these issues."

Bushell adds that problems are to be expected, but it is important for the firms it uses to agree on the need to improve.

If they are not prepared to work on the problems, BT will stop using them.

Culture shocks

But low-cost sourcing isn't without its problems. And purchasers risk failure if they do not understand both the culture and expectations they are buying into.

Bushell found this in India, where being openly aggressive in a dispute does not have a place in the culture, she says. "They don't like to say 'no', and if you ask them something they want to say 'yes!'."

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This can leave a company unaware of problems at, for example, an outsourced call centre. To manage this risk, BT managers from the UK are periodically sent on secondment to India to keep "eyes and ears" on the ground. They also receive cultural sensitivity training.

In addition, there is a permanent team of around 40 British staff working there. This ensures a consistent delivery of service and keeps a constant line of communication to head office.

So those are the realities. But what should purchasers do when sourcing goods and services from low-cost countries? Before a decision is made, procurement professionals need to do their homework and have a clear category plan.

"Understand what you are buying, what the global market is and who are the global suppliers. Ask yourself, what are the physical logistics of the supply chain?"

A thorough cost-benefit analysis is also needed to tease out strengths, weaknesses and opportunities. Bushell says: "Some people think that all purchasers do is put contracts together. But they can take on a lot of leadership in this area."

Where next?

China is another important low-cost source of materials for BT. And it is "only a matter of time" before the company looks to source professional services from there as well. The telecoms company has its eye on a number of other emerging economies in Africa, South America and Eastern Europe.

Bushell says: "There are a number of countries where there will be an explosion of highly skilled workers and how we source will change dramatically.

"But there are risks around security of data and networks, and how to make them resilient. Because if a network goes down and your source is far away, it can stop your business working. You need to be aware of these risks in order to mitigate them."

But the risks, inherent in any new venture, can be diminished through careful planning and strong procurement practice. And this is an area, she believes, in which procurement can show real leadership and increase value throughout the whole company.

"I think we are on the verge of changing completely how we do business," she says.

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