



## Top Ten Outsourcing Survey

Executive Survey: The Outsourcing Institute's Annual Survey of Outsourcing End Users

### **Top 10 Reasons Companies Outsource**

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage/out of control
8. Make capital funds available
9. Share risks
10. Cash infusion

Source: Survey of Current and Potential Outsourcing End-Users  
The Outsourcing Institute Membership, 1998

### **Top 10 Factors in Vendor Selection**

1. Commitment to quality
2. Price
3. References/reputation
4. Flexible contract terms
5. Scope of resources
6. Additional value-added capability
7. Cultural match
8. Existing relationship
9. Location
10. Other

### **Top 10 Factors for Successful Outsourcing**

1. Understanding company goals and objectives
2. A strategic vision and plan
3. Selecting the right vendor
4. Ongoing management of the relationships
5. A properly structured contract
6. Open communication with affected individual/groups
7. Senior executive support and involvement
8. Careful attention to personnel issues
9. Near term financial justification
10. Use of outside expertise

Source: Survey of Current and Potential Outsourcing End-Users  
The Outsourcing Institute Membership, 1998

**Top 10 Drivers Behind Today's Outsourcing Decisions (in alphabetical order)**

- Accelerate reengineering benefits
- Access to world class capabilities
- Cash infusion
- Free resources for other purposes
- Function difficult to manage or out of control
- Improve company focus
- Make capital funds available
- Reduce operating costs
- Reduce risk
- Resources not available internally

**Accelerate reengineering benefits**

Reengineering aims for dramatic improvements in critical measures of performance such as cost, quality, service and speed. But the need to increase efficiency can come into direct conflict with the need to invest in core business. As non-core internal functions are continually put on the back burner, systems become less efficient and less productive. By outsourcing a non-core function to a world class provider, the organization can begin to see the benefits of reengineering.

**Access to world class capabilities**

World class providers make extensive investments in technology, methodologies, and people. They gain expertise by working with many clients facing similar challenges. This combination of specialization and expertise gives customers a competitive advantage and helps them avoid the cost of chasing technology and training. In addition, there are better career opportunities for personnel who transition to the outsourcing provider.

**Cash infusion**

Outsourcing often involves the transfer of assets from the customer to the provider. Equipment, facilities, vehicles and licenses used in the current operations have value and are sold to the vendor. The vendor then uses these assets to provide services back to the client. Depending on the value of the assets involved, this sale may result in a significant cash payment to the customer.

When these assets are sold to the vendor, they are typically sold at book value. The book value can be higher than the market value. In these cases, the difference between the two actually represents a loan from the vendor to the client which is repaid in the price of the services over the life of the contract.

**Free resources for other purposes**

Every organization has limits on the resources available to it. Outsourcing permits an organization to redirect its resources, most often people resources, from non core activities toward activities which serve the customer. The organization can redirect these people or at least the staff slots they represent onto greater value adding activities. People whose energies are currently focused internally can now be focused externally -- on the customer.

**Function difficult to manage or out of control**

Outsourcing is certainly one option for addressing this problem. It is critical to remember that outsourcing doesn't mean abdication of management responsibility nor does it work well as a knee jerk reaction by a company in trouble.

When a function is viewed as difficult to manage or out of control, the organization needs to examine the underlying causes. If the requirements expectations or needed resources are not clearly understood, then outsourcing won't improve the situation; it may in fact exacerbate it. If the organization doesn't understand its own requirements, it won't be able to communicate them to an outside provider.

**Improve company focus**

Outsourcing lets a company focus on its core business by having operational functions

assumed by an outside expert. Freed from devoting energy to areas that are not in its expertise, the company can focus its resources on meeting its customers' needs.

#### **Make capital funds available**

There is tremendous competition within most organizations for capital funds. Deciding where to invest these funds is one of the most important decisions that senior management makes. It is often hard to justify non-core capital investments when areas more directly related to producing a product or providing a service compete for the same money.

Outsourcing can reduce the need to invest capital funds in non-core business functions. Instead of acquiring the resources through capital expenditures, they are contracted for on an "as used" operational expense basis. Outsourcing can also improve certain financial measurements of the firm by eliminating the need to show return on equity from capital investments in non core areas.

#### **Reduce operating costs**

Companies that try to do everything themselves may incur vastly higher research, development, marketing and deployment expenses, all of which are passed on to the customer. An outside provider's lower cost structure, which may be the result of a greater economy of scale or other advantage based on specialization, reduces a company's operating costs and increases its competitive advantage.

#### **Reduce risk**

Tremendous risks are associated with the investments an organization makes. Markets, competition, government regulations, financial conditions and technologies all change extremely quickly. Keeping up with these changes, especially those in which the next generation requires a significant investment, is very risky.

Outsourcing providers make investments on behalf of many clients, not just one. Shared investment spreads risk, and significantly reduces the risk born by a single company.

#### **Resources not available internally**

Companies outsource because they do not have access to the required resources within the company. Outsourcing is a viable alternative to building the needed capability from the ground. New organizations, spin-offs, or companies expanding into new geography or new technology should consider the benefits of outsourcing from the very start.

### **Three major areas companies outsource**

#### **How Do You Compare?**

Executives on our network told us areas that they were currently outsourcing, and what they were considering outsourcing in the near future. Sixty percent of the executives were senior executives. Almost every industry was represented, from advertising and brewing through government and healthcare to manufacturing and utilities. The companies ranged from small (under 499 employees) to very large (over 10,000 employees).

#### **Information Technology**

This is the fastest growing area for outsourcing today.

#### **Executives are currently outsourcing:**

- maintenance/repair
- training
- applications development
- consulting and reengineering
- mainframe data centers

#### **Executives are considering outsourcing:**

- client/server
- networks
- desktop systems
- end-user support
- full I/T outsourcing

## **Operations**

### **Administration**

#### **Executives are currently outsourcing:**

- printing and reprographics
- mailroom
- consulting and training

#### **Executives are considering outsourcing:**

- records management
- administrative information systems
- supply/inventory
- printing and reprographics

### **Customer Service**

#### **Executives are currently outsourcing:**

- field service
- field service dispatch
- telephone customer support

#### **Executives are considering outsourcing:**

- customer service information systems
- field service dispatch
- telephone customer support

### **Finance**

#### **Executives are currently outsourcing:**

- payroll processing
- purchasing
- transaction processing
- general accounting

#### **Executives are considering outsourcing:**

- payroll processing
- taxes

### **Human Resources**

#### **Executives are currently outsourcing:**

- relocation
- workers' compensation
- recruiting/staffing

**Executives are considering outsourcing:**

- consulting and training
- human resource information systems

**Real Estate & Physical Plants****Executives are currently outsourcing:**

- Food and cafeteria services
- facilities maintenance
- security

**Executives are considering outsourcing:**

- facilities management
- facilities maintenance
- facilities information systems

**Sales and Marketing****Executives are currently outsourcing:**

- direct mail
- advertising
- telemarketing

**Executives are considering outsourcing:**

- reservation and sales operations
- field sales

**Logistics**

For any type of company that requires high level distribution or transportation, outsourcing these functions can show immediate and dramatic return on investment.

**Distribution****Executives are currently outsourcing:**

- freight audit
- consulting and training
- freight brokering
- leasing

**Executives are considering outsourcing:**

- warehousing
- distribution and logistics
- information systems
- operations

**Transportation****Executives are currently outsourcing:**

- fleet management
- fleet operations

- fleet maintenance

**Executives are considering outsourcing:**

- fleet management
- fleet operations
- fleet maintenance