



The Hard Questions About Outsourcing

By Rebecca A. Morgan
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*Distributing work elsewhere is all the rage these days.
Consider these points before taking the plunge.*

Should you do it yourself, or should you pay someone else to do it for you? That is the fundamental question of outsourcing. The question assumes that you have already determined that the work needs to be done; the only issue is who best to do it.

Don't let the seeming hordes outsourcing in China, India, and Mexico with the explanation of significantly lower costs fool you. Be very clear that outsourcing should first be a strategic decision, and then a financial one.

Reading today's headlines, it would be easy to forget that the term outsourcing does not imply offshore. You can outsource to the company across the street. Start by defining how you expect your organization to be improved by outsourcing. Only then is the question of where to outsource relevant.

While it seems these days everyone is in a race to outsource to Asia, not that many years ago the pendulum had swung the other direction. Companies bought their suppliers and in many cases, their competitors. Laws like the Sherman Antitrust Act were passed to limit control by a single company and encourage competition. The business philosophy pendulum swings. The focus on increasing control through vertical and horizontal integration has seemingly been replaced with a focus on doing a limited number of things very well. Core competency; let's do only what is core to our business and outsource everything else. Is our strategy now to get back to the benefits of specialization described by Adam Smith in *The Wealth of Nations* in 1776?

Regardless of macro trends of integration or core competency, every company should regularly evaluate and state its business strategy. A key (but often missing) pillar of the overall business strategy is the operations strategy. The operations strategy addresses the question of how you intend to profitably supply the markets you seek, consistent with company philosophy and other aspects of the overall strategy. The decision of what to do yourself and what to pay someone else to do is a routine consideration in a vibrant operations strategy.

Expect to find yourself engaging in iterative thinking between strategic intent and outsourcing options as you develop a better understanding of your alternatives.

Let's consider a specific outsourcing decision -- outsourcing maintenance. What does that mean? Options include outsourcing all or part of:

- Planning of maintenance.
- Execution of maintenance (which is what many people automatically assume).
- Identification and implementation of improvements in maintenance.
- Design of new equipment and of retrofits.
- Participation in equipment and retrofit design to reflect maintenance considerations.
- Facility and equipment insights in product quality problem solving.

Which subset of those you will consider outsourcing depends on your strategic intent. Define your outsourcing options in a way that best allows you to capture the strategic advantage you seek.

For example, the strategy of one consulting company included converting most fixed costs to variable. They chose not to employ a facilities manager and instead outsource all aspects of maintenance so that their fixed costs were minimized. A chemical processor, in an industry where processing is a critical component of competitive advantage, decided to keep all aspects of maintenance in-house, except for design of new equipment and retrofits. That allowed them to control internally a major source of competitive advantage, yet leverage the expertise of equipment designers

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in developing new and better processing equipment. There is no single decision that works for every organization, for every industry, for all times, but periodic evaluation of outsourcing options to support your operations strategy makes sense for every organization. Once you identify the strategic intent and the outsourcing options that are most consistent with that intention, carefully study the financial implications.

Then evaluate what you need to do to make your decision successful. Outsourcing adds the complexities of external coordination, communication, consistency, and control. If your organization has those skills, you're in luck. If not, you need to do some work before you outsource. Outsourcing is not abdication and it is not always successful, but it may well be a viable part of your future.



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