

Why use Outsourcing: -- A summary

Reduce and Control Operating Costs - The single most important tactical reason for outsourcing is to reduce and control operating costs. Access to the outside provider's lower cost structure, which may be the result of a greater economy of scale or some other advantage based on specialization, is clearly and simply one of the most compelling tactical reasons for outsourcing.

Additionally, companies that try to do everything themselves may incur vastly higher research, development, marketing and deployment expenses -- *expenses that have to be passed onto the customer or taken off the bottomline*. Today's customers are too sophisticated to accept the cost representative with an organization's attempt to maintain singular control over all its resources.

Improve Company Focus - Outsourcing lets the company focus on broader business issues while having operational details assumed by an outside expert. Outsourcing is an organization-shaping management tool, which can lead to a clearer more effective focus on meeting the customers' needs. For many companies, the single most compelling reason for outsourcing is that several of the 'how' type of issues are siphoning off huge amounts of management's time and attention. Too often, the resolution of these issues are stuck in middle management 'decision gridlock.' This creates financial and opportunity costs that affect the organization's future. Outsourcing can enable an organization to accelerate its growth and success through expanded investment in the areas that offer it the greatest competitive advantage and improve time to market.

Access to World Class Capabilities - By the very nature of specialization, an outsource provider can bring extensive worldwide, world-class capabilities to meeting client needs. Each outsource provider brings a focus for their core competency to each client bringing a world-class capability to even the smallest company.

Accelerate Reengineering Benefits - Outsourcing is often a byproduct of another powerful management tool; business process reengineering. It allows an organization to immediately realize the anticipated benefits of reengineering by having an outside organization, one that is already reengineered to world-class standards take over the process.

Share Risks - There are tremendous risks represented with the investments an organization makes. When companies outsource they become more flexible, more dynamic, and better able to change themselves to meet the changing opportunities. Markets, competition, government regulations, financial conditions, and technologies all change extremely quickly. Keeping up with these changes, especially where each next generation requires a significant investment of resources and dollars, is very difficult and "bet your company" types of investments are all too common.

Free Resources for other Purposes - Every organization has limits on the resources available to it. The constant challenge is to ensure that its limited resources are expended in the most valuable areas. Outsourcing permits an organization to redirect its resources from non-core activities toward activities that have the greater return in serving the customer.

Make Capital Funds Available - Outsourcing is a way to 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 makes capital funds



available for core areas. It 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.

Resources Not Available Internally - Companies outsource because they do not have access to the required resources within the company. For example, if an organization is expanding its operations, especially into a new geography, outsourcing is a viable and important alternative to building the needed capability from the ground up.

