Outsourcing or insourcing

Business, Management

This semi-report will give brief definition of outsourcing or sub-contracting and insourcing, these are also understood to be Make or Buy. The report will critically look at the advantages of outsourcing as well the potential risks associated with outsourcing of services in the context of business management and a conclusion will be drawn from the advantages and disadvantages. This report will be based on retailers outsourcing their IT Services to third party companies.

Outsourcing is understand to be a way of task management that involves using resources of other companies to handle tasks that are relevant to the operation and success of the business, in other word, this means sub-contracting certain part of the production or services to company or service provider for a specific period of time and with guidelines that are agreeable to both parties, while insourcing is simply delegation of tasks within the business. A growing number of UK retailers have moved their IT systems and business functions overseas to lower-cost countries such as India, China and others in a bid to reduce costs.

The following are some services that company could outsource; Data centre, Application maintenance, Application development, Help desk, Voice networks and others. Companies that are keen on reducing their overall production costs are often faced with decision whether to outsource their non core activities or use their own resources. Senior managers have to understand the efficiency of outsourcing in relation to the growth of the business. Managers have the task to decide which of their operations or services are core tasks and which are non- core, core tasks are done in house while non- core are outsource.

In some cases the service provider may be granted limited powers to act in the stead of the client, if that is necessary to perform the contracted tasks. When company outsource, it allows employees to focus more on company operations that may be more detailed and directly related to the growth of the business. Report shows that the drive to increase shareholder value and to focus on core business is pushing companies continuously to assess outsourcing opportunities.

A survey of major European corporations carried out by IMD and consultants A. T Kearney in summer 1996 showed that 52 percent expected to increase the level of outsourcing. However, there are various types of offshore outsourcing and it is crucial for an IT manager to make sure they choose the right one for their organisation before negotiating a contract with a supplier. There are five main models for IT outsourcing, each with their advantages and potential risks. Offshore outsourcing. This is when a company moves IT systems or business overseas and the supplier runs the service.

The main advantage with this model is that the supplier will usually guarantee savings in IT-related costs under detailed service level agreements in the contract. On the downside, this option normally results in job losses for UK IT staff and can often attract negative media coverage. If the decision is taken to outsource, the natural reaction is to find a credible " local" service provider and enter into an outsourcing agreement with them. Onshore outsourcing. A similar but alternative approach is to use a UK-based service provider and enter into an outsourcing agreement.

The service provider then uses its overseas operations (sub-contractors) to provide the services from the foreign destination. This means that although the customer can use a known service provider, the overall cost of the project will increase. Do it yourself. The alternative to outsourcing is for an organisation to establish its own operations overseas. This removes the need to pay a service provider's margins and gives more flexibility as to how the overseas operations are used. Whether this is carried out by means of a branch, subsidiary etc, this will be influenced by many factors, particularly tax rules.

Build, operate and transfer. The build, operate and transfer model is for those companies which want to test the water before establishing their own operation. A service provider is used to build and operate the business for a period of time, after which the customer can, if they want, acquire the operations. For the commercial model to work, no infrastructure or set-up costs should be paid up front. The service provider pays for building the operation and if the customer decides to exit, the service provider has to find a new customer to recover the costs.

Joint ventures. Apart from tax reasons, joint ventures should only be used for outsourcing when there is genuine potential for collaborative exploitation between companies. Keeping the distinction of customer supplier (rather than venture partners) is very important. As an example, as a joint venture partner which also receives outsourced services from the joint venture, is partly responsible if there are problems with the outsourced service. On the

other hand, if your supplier does not fulfil the outsourcing agreement, it is clear where theresponsibilitylies.