

OUTSOURCING VS INSOURCING



*International Controllers' Conference
CERN, 31 May – 1 June 2010*

AGENDA

I. Context

- a. Definitions
- b. Operating Environment

II. In theory...

- a. Outsourcing and strategy
- b. Types of outsourcing
- c. Where are the cost savings then?

III. In Practice...

- a. Case study I - insourcing
- b. Case study II – outsourcing

IV. Conclusion



CONTROLLERS' VIEWPOINT?

*“The Controller knows
the price of everything
but the value of
nothing”...*

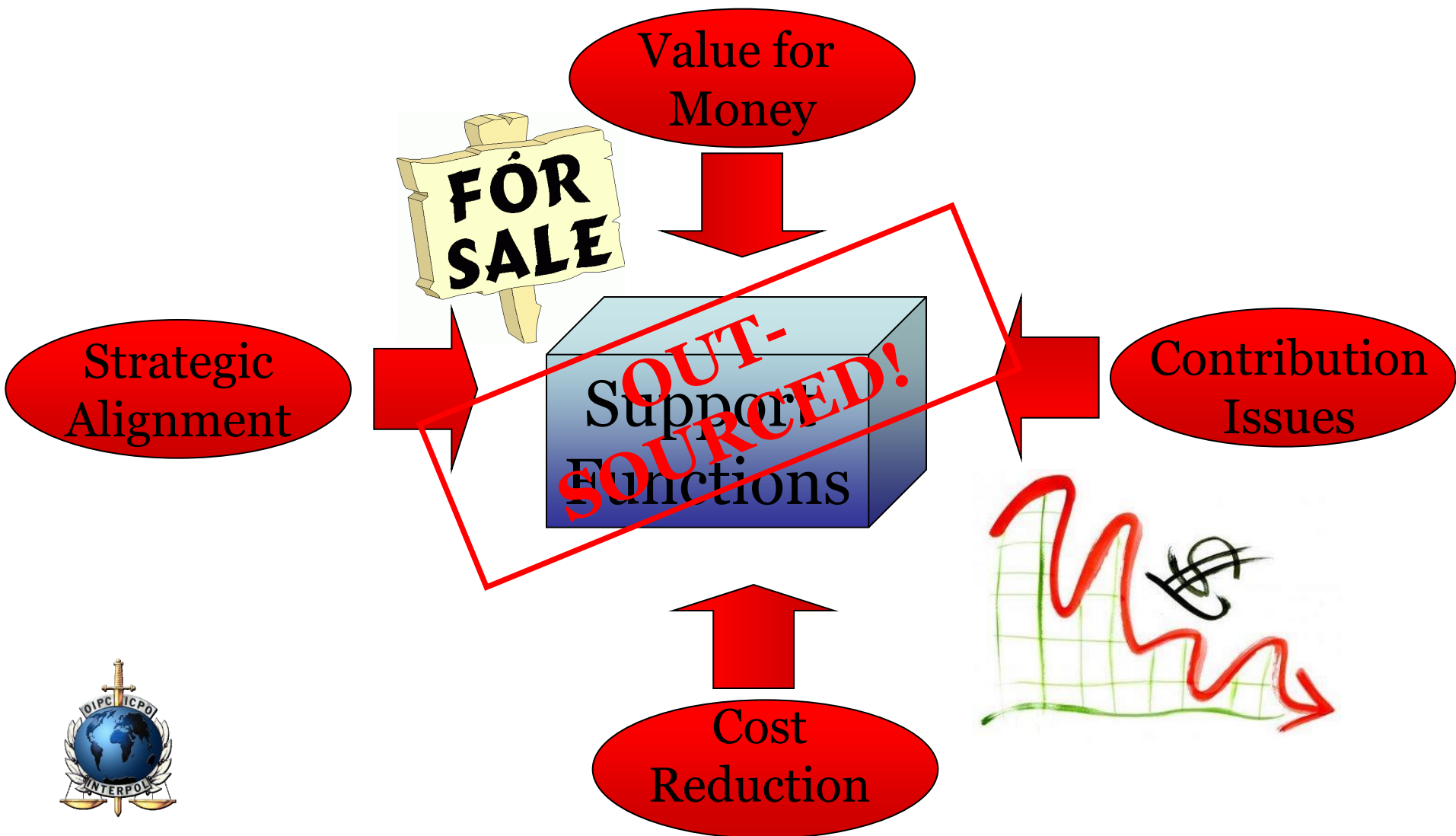
... Oscar Wilde



Context...



OPERATING ENVIRONMENT



DEFINITIONS

INSOURCING

Vs

OUTSOURCING

“...Reversing the process of outsourcing”



“contracting out of a business function to an external provider”



In theory...

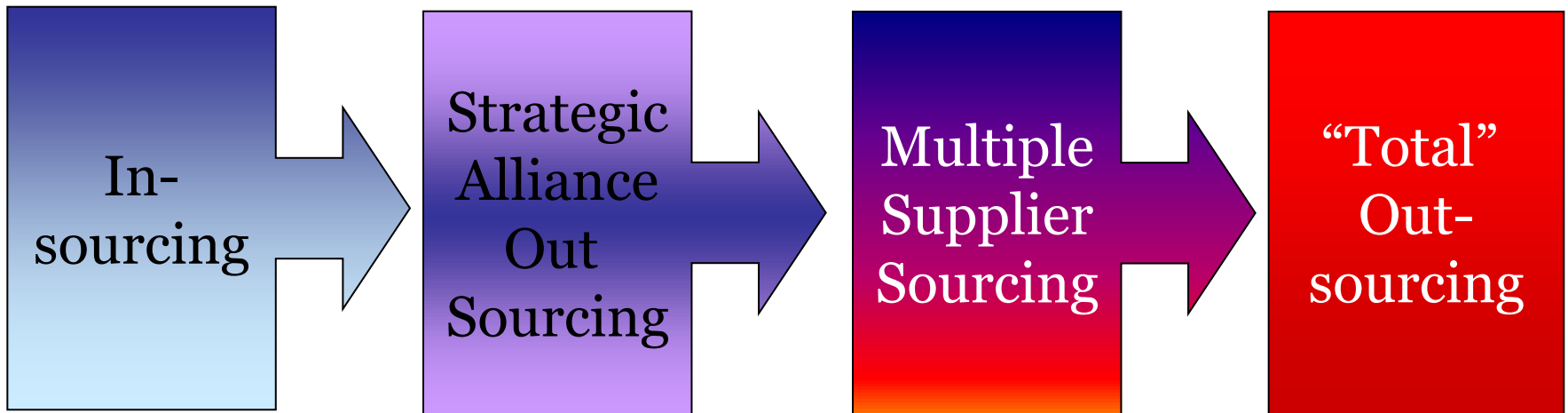


STRATEGIC RATIONALES FOR OUTSOURCING

- **Improve Organisation Focus**
Lets Organisation focus on broader issues by having outside experts handle various operational details
- **Provide Access to World-Class Capabilities**
The specialised resources of outsourcing providers makes world-class capabilities available to organisations in a wide range of applications
- **Accelerate Organisation Re-Engineering Benefits**
Achieves re-engineering benefits more quickly by having outsiders – who operate at world class standards -- to take over the work
- **Share risks**
Reduces investments requirements and makes organisations more flexible, dynamic and better able to adapt to changing opportunities
- **Frees Resources for Other Purposes**
Permits organisation to re-direct efforts from non-core activities towards those that serve member countries



TYPES OF OUTSOURCING



Organisation

Supplier

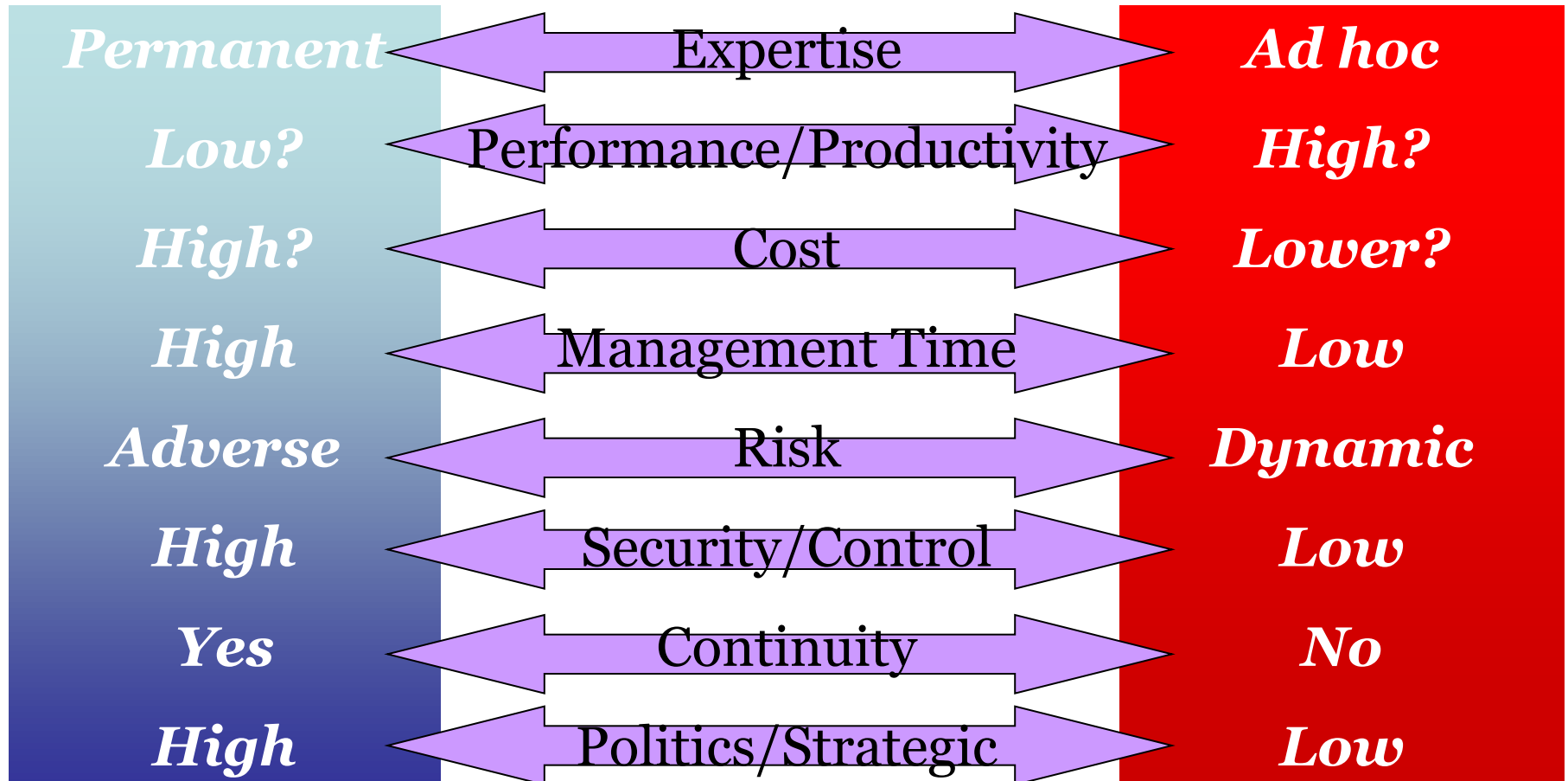


OUTSOURCING AND STRATEGY

Decision Criteria

INSOURCING

OUTSOURCING



OUTSOURCING COST EQUATION

INSOURCING

Department Cost
inc. management

*...No Margin
...No Taxes
...Low Cost of Capital*

Vs.

OUTSOURCING

Contract Costs for
same activity

+

Monitoring Costs

+

Set-up costs

*...Margin
...Taxes
...Capital*

THE DRIVERS OF COST ADVANTAGE?

COST DRIVER

COST ADVANTAGE

ECONOMIES OF SCALE

- Indivisibilities
- Specialisation and division of labour

ECONOMIES OF LEARNING

- Increased dexterity
- Improved coordination/organisation

WORK TECHNIQUES

- Automation
- Efficient utilisation of resources
- Increased precision

WORK DESIGN

- Design for automation
- Design to economise on labour

INPUT COSTS

- Location advantage
- Bargaining Power
- Supplier Cooperation

CAPACITY UTILISATION

- Ratio of fixed to variable costs
- Costs of installing and closing capacity

MANAGERIAL/ORGANISATION EFFICIENCY

- Organisational Slack



WHERE ARE THE COST SAVINGS THEN?

OUTPUT =

Quantity

x

Cost

ECONOMIES OF LEARNING

WORK TECHNIQUES

WORK DESIGN

CAPACITY UTILISATION

MANAGERIAL/ORGANISATIONAL EFFICIENCY

High Output per input

High Productivity

High Specialisation

High Efficiency

High Standardisation

Low Cost Base

Low Personnel Costs

Low Purchasing Costs

Low Management Time

Low Quality

ECONOMIES OF SCALE

INPUT COSTS



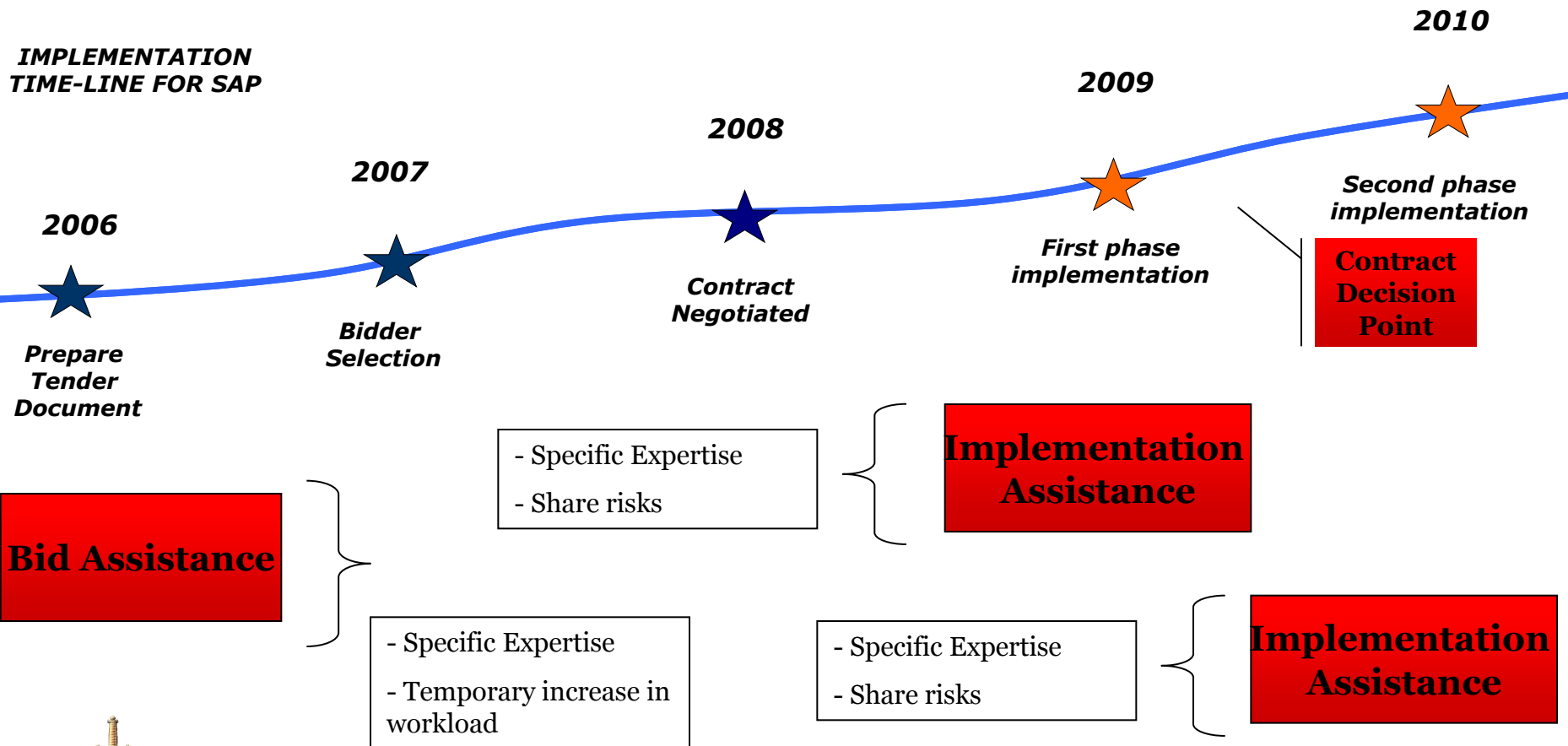
Performance Measurement

In Practice...



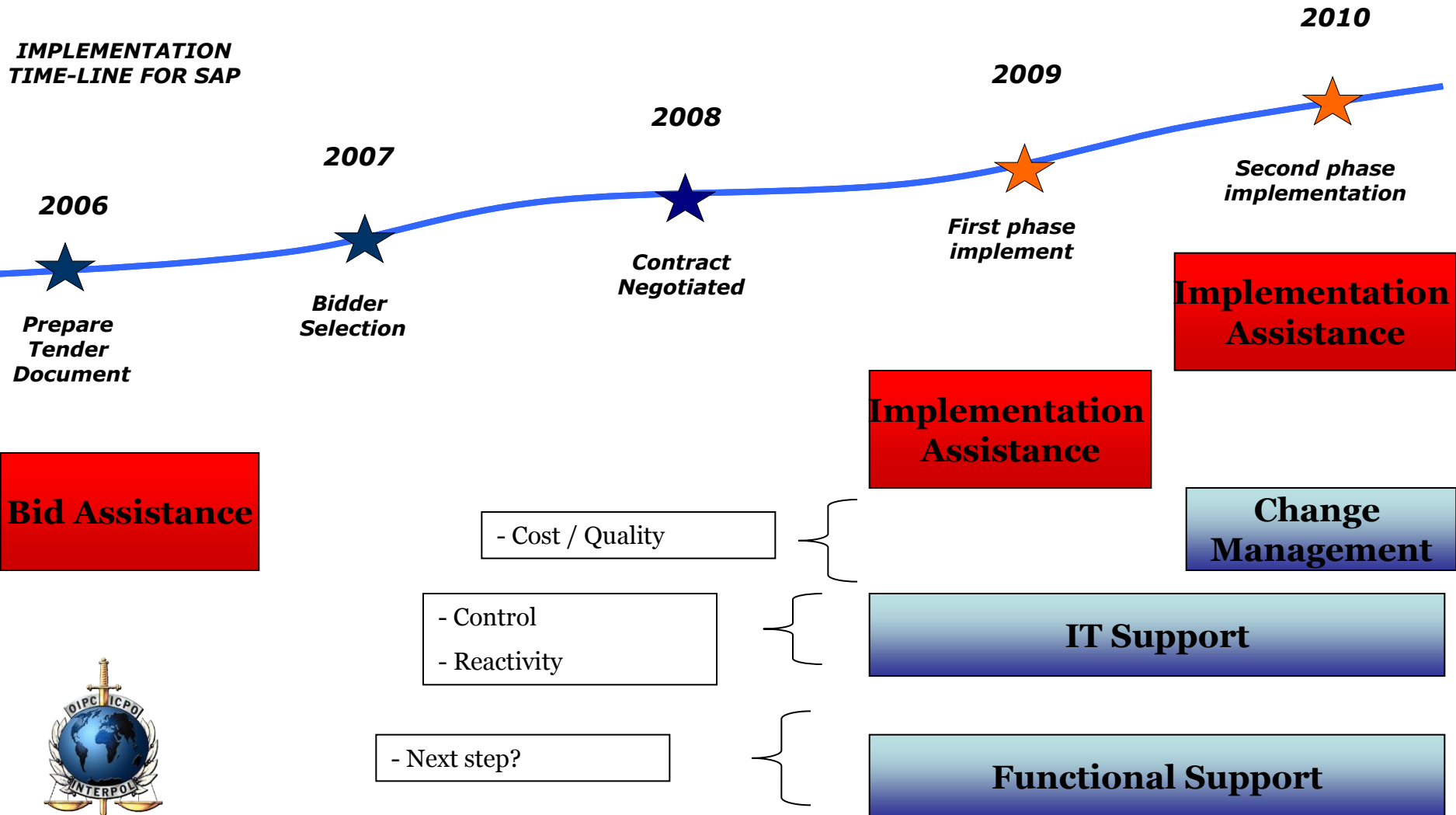
OUTSOURCING IN PRACTICE

IMPLEMENTATION TIME-LINE FOR SAP



OUTSOURCING IN PRACTICE

IMPLEMENTATION TIME-LINE FOR SAP



Conclusion...



CONCLUSION

- To be able to make an informed decision, you need to know where you are!

ECONOMIES OF SCALE

ECONOMIES OF LEARNING

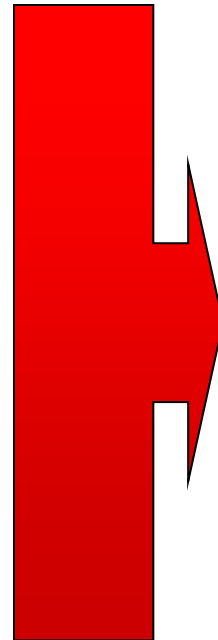
WORK TECHNIQUES

WORK DESIGN

INPUT COSTS

CAPACITY UTILISATION

MANAGERIAL/ORGANISATION
EFFICIENCY



**Performance
Measurement**

*Internally:- Position audit, cost
allocations, marginal costing...*

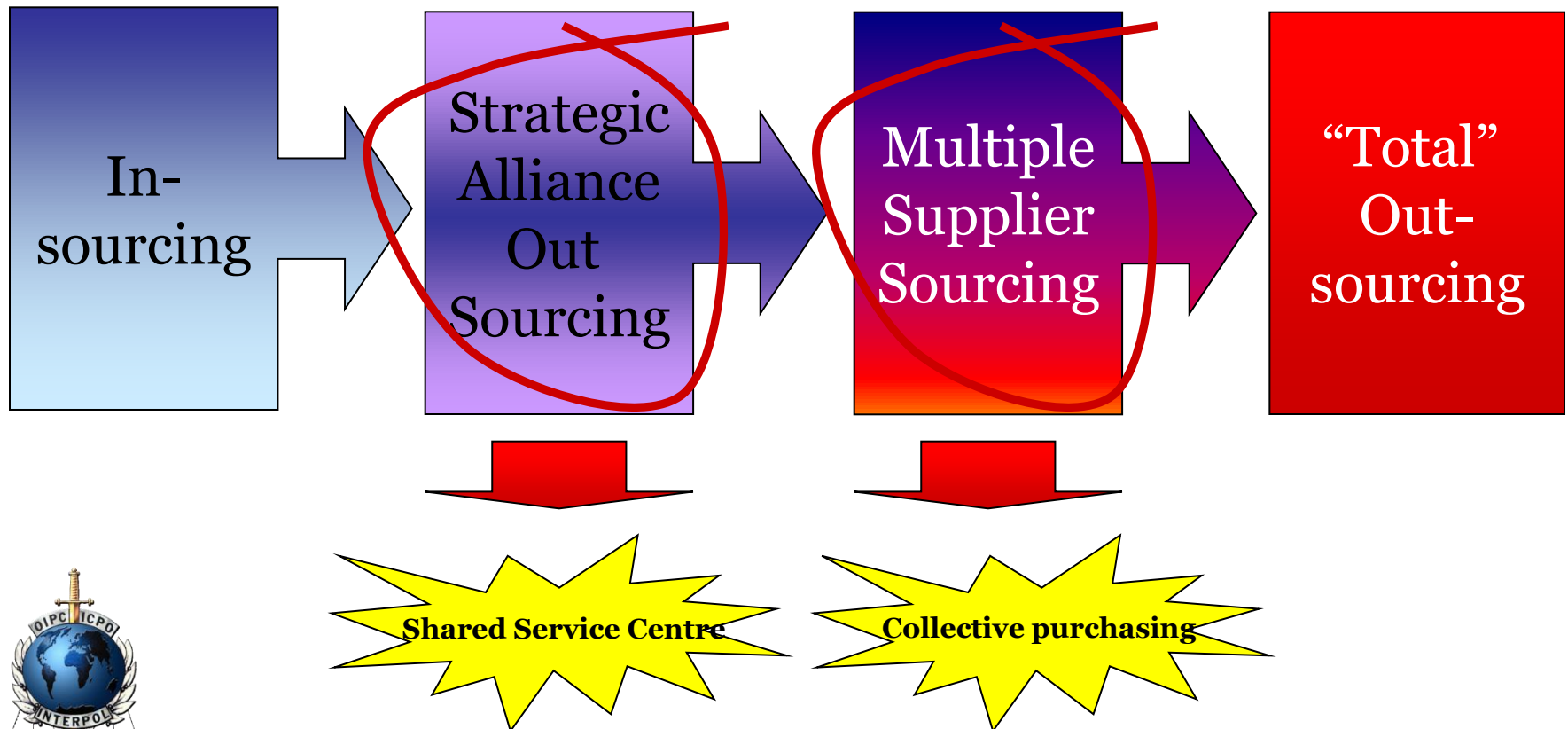
Externally:- Benchmarking...



...(and where you want to go)

CONCLUSION

- Obtain cost benefits of international organisation with efficiency of outsourcing





APPENDIX



APPROACHES TO COST REDUCTION

RESTRUCTURING



Dramatic change in strategy and structure:

- Site closures
- Outsourcing
- Delaying and cuts in administrative staff

BUSINESS PROCESS REENGINEERING



The fundamental rethinking and radical redesign of business process to achieve dynamic improvements in performance:

- Combine several jobs into one
- Steps of a process combined in a natural order
- Minimising steps, controls and reconciliations
- Use case managers as single point of contact
- Hybrid centralisation/decentralisation



THE OUTSOURCING VALUE CHAIN

