Outsourcing

Wheelen & Hunger
chapter 7

(disarikan oleh Arrianto Mukti Wibowo)
Definition

• Purchasing from someone else a product or service that had been provided internally

• Study in 30 firms, outsourcing:
  – Reduce cost 9%
  – Increase 15% in capacity and quality
Motorola Case

- Motorola sold its factory to Celestica
- Motorola than pays Celestica to make pagers, handsets, radios, etc.
- Motorola concentrates on the design and administration/management
- Motorola hopes to make the supply chain efficient and consolidate manufacturing operations
What to outsource?

A study in U.S.:

• General & administrative (78%)
• HR (77%)
• Transportation & distribution (66%)
• Information Systems (63%)
• Manufacturing (56%)
• Marketing (51%)
• Finance & Accounting (18%)
Outsourcing Rule of Thumb

“Purchase from outside only those activities that are not key to the companies distinctive advantage”
Therefore, must:

• Identify company’s competence
• Ensure the competence is continually being strengthened
• Manage the competencies in such way that preserve competitive advantage
Outsourcing Matrix

- **Outsource:**
  - Buy on Open Market
  - Purchase with long term contract

- **Activity’s Value-Add for Company’s Product/Service**

- **Some Vertical Integration:**
  - Produce some internally

- **Full Vertical Integration:**
  - Produce all internally

- **Activity’s Potential for Competitiveness**
Risks of Outsourcing

• Finance & legal department dominate decision making
• Vendors dominate decision making!
• Short-term benefits from dominated decision making
• Vendors were not prequalified based on total capabilities