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THINKING BIG

Manufacturers plan to boost spending while banks and computer companies are scaling back



By Anthony Baldo

Manufacturers really were the first ones to outsource elements of their business. They did so as far back as the 1950s, outsourcing shoe production to South America, well before IT and call centers dominated the outsourcing lexicon.

Little wonder, then, that while companies within the banking and computing sectors are considering downsizing their spending on outsourcing, members of the manufacturing sector want to increase it significantly.

Manufacturing companies responding to the Sixth Annual Outsourcing Index each spent an estimated \$25.8 million on outsourcing, but are considering boosting that to \$41 million, a 59% increase. In contrast, banking sector respondents that spend an estimated \$22.3 million now are thinking of laying out \$15.2 million, or 32% less. Ditto for the computing industry, which wants to downsize by 22%, from the \$7.2 million it coughs up now to an estimated \$5.6 million.

Some experts believe that the vastly different directions that manufacturers are going in as opposed to the one banking and computing companies (the three most represented industries in the Index) are headed stems from how they are evolving when it comes to outsourcing.

"Banks and computer companies are focusing more on a subset of outsourcing, called offshore outsourcing," says Tandy Gold, who founded and still coordinates the Offshore Interest Group, an organization of outsourcing executives from Fortune 100 companies that meet monthly by phone. (See: Innovations in Outsourcing: www.outsourcing.com). Offshore outsourcing can take two forms. One involves outsourcing, in which a company will hire a consulting firm to do IT development work outside the U.S. The other type entails co-sourcing, in which the data and systems reside in the U.S. but the company hires engineers outside the country who can log in and do the development work.

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"There is a natural limit to offshore outsourcing, usually reached at 30% of the total area to be outsourced," Gold continues. "Within IT, the limit occurs due to security concerns regarding customers' data. Also, there is a concern regarding the loss of intellectual capital. These factors are limiting the amount of outsourcing."

Technology is so strategically central to both the banking and computing industry that selecting the right vendor is key for both when it comes to successfully outsourcing it. Two-thirds of banking industry respondents said so, as did 63% of computer sector companies. Only 58% of the manufacturers responding felt that way.

For banks and computer companies, IT is strategically crucial, so outsourcing it to the right vendor is a tactical must. Some 69% of the banking respondents currently outsource IT, while 54% of their manufacturing counterparts do. What's more, while 66% of computing industry respondents are considering outsourcing IT, just half of the manufacturing crowd is.

For manufacturers, with their products made and sold around the world, call centers and outsourcing production are either being outsourced now or are being considered for it. It's no secret that labor and other costs are much cheaper outside the U.S. So why continue to assemble products here? After IT, manufacturing is the thing that manufacturers are either currently outsourcing (36%) or considering the most (44%). Outsourced call centers, too, are being heavily considered (22%).

"We are not in the manufacturing business, but we are the call centers, sales force, credit collections and freight and logistics arm of our chemical manufacturing partners. We can service those customers in the supply chain much more efficiently than the manufacturer can directly," says John Ruther, the director of outsourced services for CHEMCENTRAL, a major independent chemical distributor.

For manufacturers, the benefit of outsourcing is clear--it can help drive down the cost of production per widget. Thus, price and controlling costs is what drives the outsourcing decision for most manufacturers (62%) and the chief factor in picking a vendor (68%).

Priorities are different for computer companies and banks. They attach less importance to cost (49% of computer company respondents view it as vital for the outsourcing decision, while 54% of the ones from banks do). Because of the competitive advantages technology gives banks, such as more ability for high-volume transaction processing, the sector's biggest problem with outsourcing vendors is their expertise, according to the survey.

For the computing sector, its most unique issue is whether the vendor has enough bandwidth (29%) to supply their needs.



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