

INDUSTRY INSIGHTS:

TO INSOURCE
OR
TO OUTSOURCE
THAT IS THE QUESTION



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TO INSOURCE OR TO OUTSOURCE, THAT IS THE QUESTION

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This paper is intended to cover the reasons for the differing speed range of adoption and understanding the pros and cons with a self-help guide to understand if outsourcing (or insourcing) is the right choice for your business.

INTRODUCTION

This latest version of the Industry Insights series takes a look at the issue of insourcing versus outsourcing of non-core services including Food, Employee Amenities, and Facility Services.

We are using insights taken from various business sectors, some where outsourcing of these services is more prevalent than others, for example, traditionally in business and industry, the long-term benefits of outsourcing has been very clear; however, markets such as education and healthcare have been far slower to adopt the outsourced model.

This paper is intended to cover the reasons for the differing speed range of adoption and understanding the pros and cons with a self-help guide to understand if outsourcing (or insourcing) is the right choice for your business.

DEFINITION

Outsourcing and insourcing are methods of dispersing work among different departments or companies for strategic reasons. Insourcing is typically done solely from within a company's own operational infrastructure, while outsourcing uses companies not affiliated to perform a specific task or tasks. There are cost and resource differences between outsourcing and insourcing that influence a company's management decisions.

Therefore, after a period of level setting through outsourcing, there was an obvious cycle from insourced to outsourced and back to insourced—common in the healthcare and education markets.

Business and industry, however, in most cases creates something, markets it, sells it, and delivers it. The focus on these core business drivers and product development and innovation in the presence of substantial and growing worldwide competition made most in business and industry realize that they had to absolutely concentrate on core business and clear their decks from anything that wasn't just that, including:

- Buildings Management
- Facilities Services
- Employee Amenities
- Food Service

INSOURCE OR OUTSOURCE? THAT IS THE QUESTION...

The fact that you are reading this may well be an indication that you and your business are going through a transition, or at least the consideration of a transition, whether from a currently outsourced model to insourced or vice versa.

So, I hear you ask—isn't moving to an outsourced model a one-way street? Do organizations revert back to insourced?

Like every business decision made at any point of time, circumstances can change, the political landscape can change, the business can change, or in the reverse model, organizations can learn from the outsourcing professionals, glean the knowledge, and return to the insourced model again.

This happened a lot in the education sector in Europe when in-house service providers realized that their operations were inefficient, labor models were top heavy and expensive in terms of wages and benefits, and through lack of connection with the "outside world," innovation had seriously lagged behind the latest industry trends.

BUT politically, for a whole host of reasons, there was a leaning, an emotional connection, a loyalty, a calling to operating these services in house.

Any outsourcing arrangement involves a range of complex issues related to personnel, management sponsorship, and strategic fit and alignment. A facilities management initiative, by its nature, must address a number of unique criteria related to these issues. For executives on both the client and provider side, a further challenge is prioritization to ensure that the right activities are receiving adequate management attention.

WHAT ACTIVITY TO CONSIDER OUTSOURCING?

Understanding your core business is key. What is the real secret in your sauce? What are the things that are critical in the ongoing and long-term success of your business?

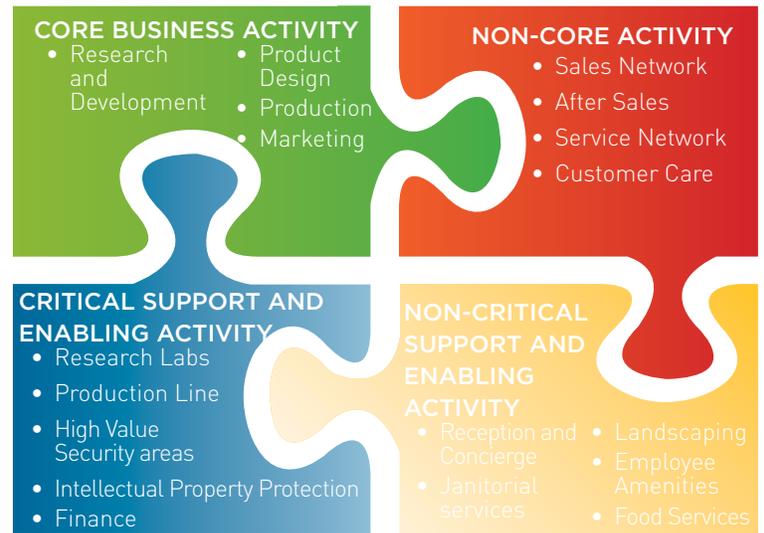
- Would The Rolling Stones outsource their live performances? Has the fact that Elton John outsourced his songwriting for many years thwarted or contributed to his success?
- Does the fact that most fashion and apparel retailers outsource the production of their products limit their success?
- Would major technology companies outsource their research and product development? How many have their own retail stores?
- Do any of the major automotive companies outsource production? Do they outsource their sales?
- Do supermarkets outsource the operation of their stores? Do any of them outsource their distribution?

Therefore, it is a question of what is core to your organization and what could be a distraction to that core. What is the value in the business and where should that be protected?

In the world of food and facilities services, and especially in business and industry, it is almost always the case that these types of services are supporting and enabling the core activity of an organization.

This differs slightly for a number of reasons in education and healthcare, for example, where these services are sometimes viewed as being more core business to their overall offering in creating an overall proposition of learning, comfort, and care.

The table below illustrates this in the context and example of a car manufacturer:



Although this list is by no means exhaustive, it provides insights into understanding core and non-core, critical and non-critical activities within a business.

THE PROS AND THE CONS

There is a reason why, in business and industry, the level of outsourcing is so high and the likely reason why its business performance, focusing on the core, cost, and productivity management and ultimately profit, is so much more magnified in this sector, which in most cases doesn't receive subsidies or external financial support.

The focus is on quality of product, efficiency, growth, and profitability.

That said, there remain many pros and cons in the decision on insourcing vs. outsourcing:



ADVANTAGES OF INSOURCING

There are circumstances where client organizations believe that the benefits of insourcing are greater than those with outsourcing, although today, the majority believe that the latter is preferential.

Often in “family firms,” which may well have become multi-billion-dollar corporations, the sense of tradition and loyalty to longstanding members of their support services team can steer them to the insourced model.

High levels of sensitivity or even secrecy may lead to the insourced model to be more attractive in the examples from special forces in the military to animal research laboratories or super high technology companies.

High levels of unionization may also be seen as a barrier to the outsourcing model.

The argument for outsourcing would in most cases seem the consensus for organizations wishing to maximize their performance and success.

LACKING IN-HOUSE EXPERTISE

Where organizations are going through change or have large projects to tackle, it is often the case that in-house organizations do not have the level of expertise to implement that change and either face the risk of failure of implementation or require additional expertise and resource to make things happen.

OPPORTUNITY FOR INSOURCED TEAMS TO LEARN AND GROW

The nature of the “closed environment” in an in-house operation represents opportunities for learning experiences, which are often limited to the individual’s ability to self-educate and keep up to speed with industry trends, developments, gathering insights, learning innovation, and most importantly implementation strategies.

MANAGING NON-CORE CLASS EMPLOYEES

Often, the employment contracts, terms, and condition requirements differ from the needs of the client’s core business. One international services firm encountered this same challenge when they tried to manage the employment and engagement of their often hourly food service employees, which quickly became a nightmare of complexity to the client as it was so far removed from their core employee profile.

ADVANTAGES OF OUTSOURCING

If the transition from insource to outsource is managed correctly (which we will come to later in this paper), then the advantages of outsourcing can be relatively quickly realized, not only in terms of potential cost savings, synergies, and efficiencies but also in the quality of service delivery.

Often we come across self-operated clients who don’t know what their precise costs are for the current services they provide.

This lack of cost awareness is very common and can happen for a number of reasons, including different spends and costs hidden in different budgets across the enterprise, use of company credit cards, or expenses and expenditure being lost at sea, free issues happening across the business, and information not being properly recorded.

Outsourcing with a set of key performance measurements and reporting tools can bring immediate visibility to these challenges.

FOCUS ON CORE BUSINESS

Let the experts focus on their core business and you focus on yours. Although difficult to measure in the shorter term, this should be evident in the longer term by measuring the leanness and nimbleness in business direction and ultimately top- and bottom-line growth.

OPERATIONAL CONTROL, COST, AND EFFICIENCY SAVINGS

Immediate impact can be achieved where previously unidentified costs have been established, where inefficient practices are eliminated, and where opportunities of growth are identified. Remember that this is the vendor’s core business and therefore it is in their interests to make the operations you have outsourced to them as efficient as they possibly can as quickly as possible.

SCOPE OF WORK

And that is why the scope of work is such an essential element of the journey. Understanding what it is you need from the vendor and communicating this rather than dictating what you want are two very different approaches to the partnership and will ultimately result in two very different results.

A properly executed process with the right levels of executive sponsorship, strategic alignment, and a true partnership approach will achieve the outcomes and platform for a long-term strategic and mutually beneficial partnership as opposed to a short-term cost saving.

WHAT IS THE DIFFERENCE IN COST?

According to an article in the *Houston Chronicle*, a significant difference between outsourcing and insourcing is the cost to the company. Insourcing is generally more expensive to a company because new work processes must be developed to start the new division of the company; outsourcing uses an outside company that already has a workflow developed and employees familiar with the process. For instance, if a car manufacturer wants to start making car computers through insourcing instead of using outsourced technology companies, the car manufacturer must create an assembly line for the computers, buy equipment, train manufacturing employees, and hire computer developers.

The ultimate cost differences (when historic cost is fully identified) can be significant and many in the industry benchmark 15–25 percent in savings through making the transition. Some of this can be realized faster or slower based on the client's individual circumstance.

IT'S AN EMOTIONAL JOURNEY...

For an organization that has operated its support services in house for a number of years, or since the company's formation, any transition can be an emotional experience. However, if the expected (and positive) outcomes are identified, good communication protocols adopted, and an environment of cooperation and collaboration embraced, these risks of change can be mitigated.

OPENING OF CLOSED DOORS

Many doors that may have been closed or lacked scrutiny in the past will be opened during the process of transition and therefore the executive sponsorship and organizational commitment to the overall objective and outcomes must be clear from the start.

THE ONLY THING CERTAIN IN LIFE IS CHANGE

Although change in life is inevitable, human nature doesn't necessarily embrace change; it can make for uncertainty, insecurity, and in some cases where there has been longstanding practices, resistance. It is both the client's and the vendor's responsibility to ensure that they are both on the same page, focused on the positive outcomes to demonstrate that this is a joint partnership for improvement of the client's overall business and therefore ultimately of benefit to all its stakeholders, employees, and partners.

Adopting this united front is a critical element of success.

COMMUNICATION IS THE KEY

We are often asked what the most critical issue of any transition is and we know through experience "The 3 C's" are the most important – Communication, Communication, and Communication.

Ensuring that communication is accessible at all times, at all levels is critical, whether between the client and the vendor, client employees, transferring employees, other vendor partners, and key management throughout the client and vendor organizations.

A clear transition plan should be agreed to at the onset with very clear deliverables on clear communication a fundamental element.



A STEP-BY-STEP APPROACH

So for an organization considering the journey of moving from an insourced model to an outsourced model, what does the process look like?

- **Step 1**—Complete a cost/quality analysis of outsourced services vs. insourced.
- **Step 2**—Identify the cultural and human impact of change (both positive and negative).
- **Step 3**—Decide to test the market for cost and quality improvements.
- **Step 4**—Decide which services you want to explore.
- **Step 5**—Create a scope of works and request for proposals.
- **Step 6**—Analyze entire quality and cost benefit to your business.
- **Step 7**—Improve existing operations or engage with outsourcing company.

But before, during, and after the process, there are some critical elements to address to ensure that the maximum success can be attained:

EXECUTIVE SPONSORSHIP

Commitment of the client organization's executive team and visibility in and to the process is absolutely critical.

ALIGNMENT WITH AND FOCUS ON STRATEGIC IMPERATIVES

Whether winning the war for talent, transforming the workplace experience, revenue growth, cost containment, efficiency improvement, productivity, or profitability are the key drivers, these need to be clearly established in an overarching mission statement and committed to by executive leadership of both the client and vendor.

RELATIONSHIP MANAGEMENT - GETTING AND REMAINING ON THE SAME PAGE

Like any successful relationship, there has to be a commitment to two-way partnership and focus on mutual success. An important part of the process is to identify and agree on what success looks like to each party and therefore the partnership.



Here are some examples of what that might look like for a client in outsourcing their food services:

EXAMPLE MISSION STATEMENT

The chief executive officer, board, stakeholders, and senior management of ABC Corporation are committed to the Strategic Imperative of Transforming the Workplace Experience in order to provide a healthy and positive workplace in order to win the war for talent by aiding in recruitment and retention of the best, most talented, most engaged workforce in the technology sector. We believe in the power of human capital and recognize that through this investment we will continue to develop the best and most cutting-edge technologies that will maintain our number one industry position long into the future.

WHAT DOES CLIENT SUCCESS LOOK LIKE?

- Increase employee retention
- Increase # applicants to vacancies
- Increase acceptance rates
- Reduce absenteeism
- Reduce healthcare costs
- Increase engagement (Satisfaction Index)
- Increase productivity
- Increase revenue per employee
- Increase profitability per employee

WHAT DOES VENDOR SUCCESS LOOK LIKE?

- Deliver client success
- Long-term partnership
- Gain reference base
- Grow with client
- Make profit expectation of X%

Through establishing the terms of reference of the relationship and the stated success factors for each party, the measurement of success is key.

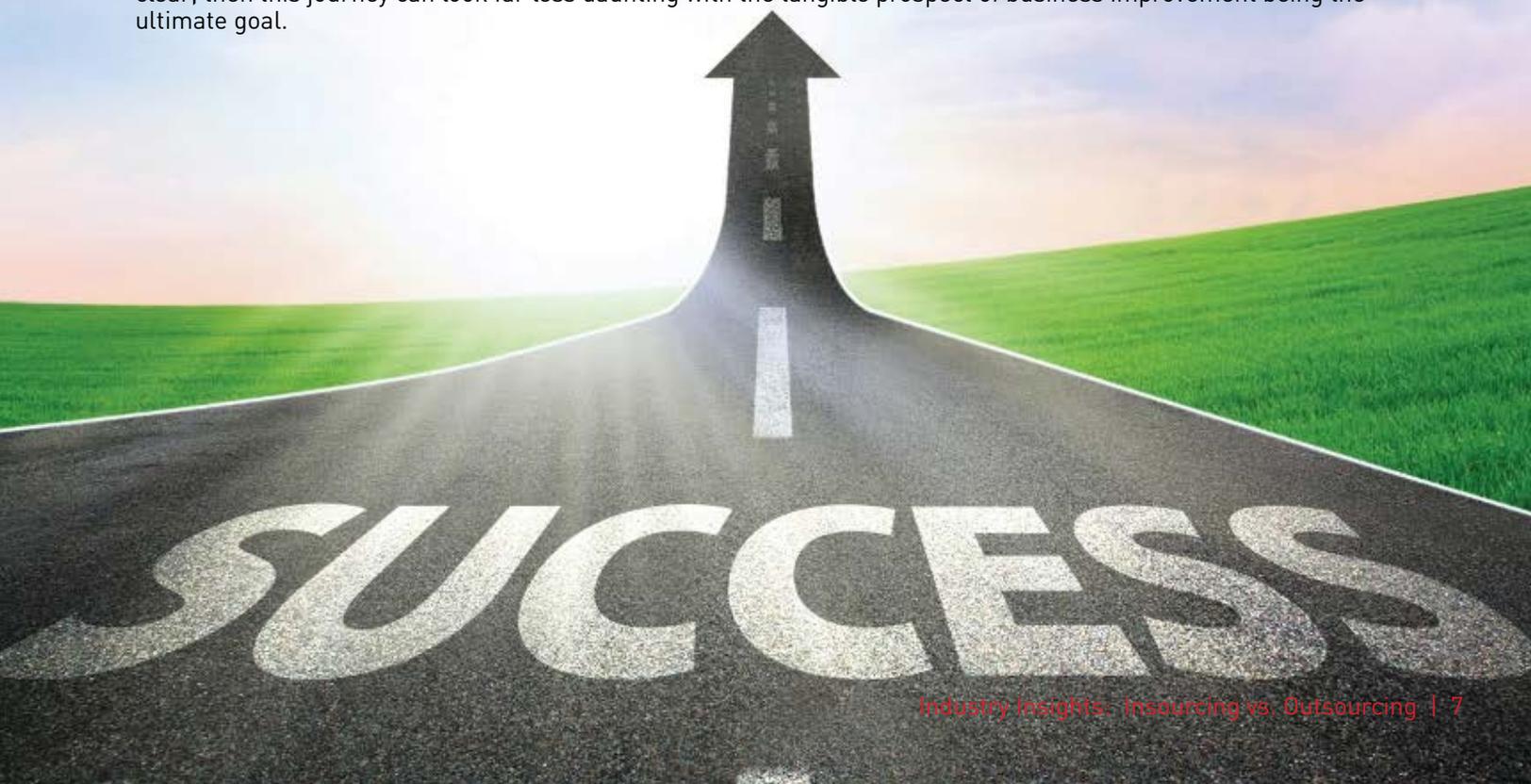
MEANS OF MEASURING SUCCESS

From this mission statement and stated success factors, Key Performance Indicators should be produced that embrace the strategic imperatives and create a platform for success as opposed to a framework to penalize failure.

The creation of a true partnership is the very best possible platform to grow mutual success.

CONCLUSION

It would appear that the industry tells us there are substantial merits in outsourcing vs. insourcing, but for those organizations that remain self-operated with support services, the journey can remain a daunting one. I would suggest that if the mutual and joint objective is clear, the journey is mapped out and the measures of success are clear, then this journey can look far less daunting with the tangible prospect of business improvement being the ultimate goal.





About the Author:

Simon J. Elliot is a Fellow of the Institute of Directors, Member of The Chartered Institute of Personnel & Development, Future of Work Community. He works with some of the most interesting companies in the world, crafting their employee amenities solutions—ranging from food, fitness, health and wellness, concierge services, c-stores, employee transportation, hair, beauty, employee stores to on-campus banking, postal, childcare, family days, on-site farms—and more. Simon is currently Vice President, Strategic Client Advisory Network for Aramark and LifeWorks Restaurant Group with a key focus on driving client engagement. He is based in San Francisco and has global experience in the U.K., Europe, Australasia, Asia, North America, and South America.

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