



## What is the Market for Global Job Outsourcing, BPO, and Procurement Outsourcing? Job Outsourcing: Global Market

### Globalization

As globalization increases, the outsourcing of jobs and outsourcing have increased. The areas outlined in this article and knowledge paper are jobs lost, jobs created, globalization, the history of jobs outsourced, why companies are outsourcing these jobs to other countries, some solutions for companies and individuals, and how this present economic time is being compared to the Great Depression.

### Job Outsourcing History

In the 1970's American companies began to take advantage of the low-cost labor underdeveloped nations could provide, and as a result, one of the job areas first outsourced was manufacturing. In the 1990's, as free trade opened (e.g., NAFTA, North American Free Trade Agreement), manufacturing jobs were lost in greater number to other nations with lower cost labor. Only 22% of all U.S. private enterprise output is in the manufacturing sector, which means the U.S. is mostly a service driven economy. Outsourcing these manufacturing jobs has benefited these American companies, but not the U.S. workers who lost their manufacturing jobs.

One of the areas that moved the U.S. into a service driven economy is technology. With the Internet, telecommunications, cell phones, and personal computers, what one could not accomplish before, can now do with greater efficiency, less people, and from almost anywhere in the world. This has spawned many new areas of jobs that did not exist 20 years ago. In the late 1990's, imports of the private services sector grew almost 80 percent.

As jobs increased in the technology services area, so did the outsourcing of these jobs. Management of computer networks (information technology and IT) was the first to be outsourced. Then, call centers, where customers call in for help, were outsourced. After this, back-office work, such as data entry, billing, accounting, and processing insurance claim, tax returns, and loan applications, were outsourced.

As outsourcing continues to grow, many other areas in the knowledge-based, high tech, and professional services continue to grow. Some of these areas include:

- Software programming.
- Paralegal work.
- Financial investment research.
- X-ray and CAT-scan analysis.



- Tax and consultancy.
- Procurement.
- Data and research.
- Drug testing.
- Hundreds of other areas.

### **What is the main reason for companies outsourcing jobs?**

To remain competitive in the Global market, it is imperative for companies to reduce expenses. For example, if a Chinese company can produce the same good or service for the same quality at less cost, they will grow while a U.S. Company that has not remained competitive will decline and most likely cease to be in business.

Some of the other reasons for jobs shifting/being outsourced according to Jeremy Brecher and Tim Costello in “Outsource This?”:

- Global jobs deficit allows companies to move work wherever labor is cheapest.
- Foreign governments are desperate for skilled workers.
- Overproduction (companies have little ability to adjust prices to maintain profits, since someone somewhere will produce and sell for less).
- Foreign governments can provide the highest subsidies with the fewest environmental and social protections.

It is all about company economics and overproduction in the global marketplace, where they can get more for their financial and human resources capital.

### **What are some solutions to job loss and outsourcing?**

The two main solutions are Fair Globalization and Procurement Outsourcing.

#### **Fair Globalization Solution**

One of the arguments against outsourcing jobs is “Outsourcing would not be a problem if there were enough decent jobs”. The fact is jobs will continue to be outsourced because of globalization, competitiveness, and economics. The question and answer are, how can we work with outsourcing whereby companies benefit, there are enough decent jobs (stable, long-term, opportunity, and decent wage), and the U.S. remains competitive in the global markets? It all comes down to a new alternative called “fair globalization”. This means at the center of economic planning is economic security and job creation at the local, national, and global level.



In all reality, outsourcing would not be an issue if there were enough that provided good jobs with higher wages, stable, and long-term employment opportunity, but there is not. There is a major deficit of good jobs worldwide, and “the U.S. is experiencing the longest period of sustained job loss since the Great Depression”. The solution to this cannot be addressed by the U.S. alone through protected jobs and ineffective trade policy. It can only be addressed through fair globalization where all parties work together for the benefit of all – by people around the world at the local, national, regional, and global level. The unfortunate problem is that without fair globalization, there will continue to be the outsourcing of jobs as companies continue to look for ways to remain competitive in this global market.

To further back up that it is not just a U.S. problem with jobs being outsourced, the New York Times suggested, “Economix” called “Should India Worry About Jobs? written by Vikas Bajaj”: *MYSORE, India – American economists and policy makers are not alone in worrying about where jobs will come from in the future. So is the leader of one of India’s biggest technology services organizations.*

*S. Gopalakrishnan, the chief executive of Infosys, told me earlier on Wednesday that he worried that over the next 20 years to 30 years, smarter computers and increased automation could do away with many of the back-office jobs that companies have moved to his country to take advantage of lower labor costs and greater economies of scale.*

*He recalled the example of an outsourcing deal his company took on to enter orders into an electronic system for a customer. When the contract started, Infosys put 300 people on the job, but after a short while it dropped that to just 100 people, even though the workers were processing more orders, faster and more efficiently.*

One area that outlines a great example of a region creating fair globalization is outlined by the Miami Herald.

### **The U.S. needs to support Fair Globalization**

In this article, Gregory Meeks and Ed Gresser points out what China has done to their benefit for their region:

*New powers are rising fast across the Pacific. China has used high-quality industrial investment from Hong Kong, Taiwan, Japan, Korea, and Singapore to become a manufacturing giant. India has combined its technical skills and open society with low-cost telecom channels to become a technology and services power.*



*The growing strength of Asian economies can't be reversed. And while those challenges require that we ensure a fair playing field, our response to the two giants must begin by recognizing their accomplishments and committing ourselves to match them.*

*We need a national competitiveness agenda to ensure continued U.S. leadership in the most sophisticated industries, from improved science and technology education to accelerated broadband deployment. We need more open high-skill immigration and strengthened investment in scientific and research. And we need a safety net that fits a modern economy, with government compensating for the erosion of the business-led social contract, guaranteeing health insurance for all dislocated workers, ensuring portable pensions and developing experiments in insurance for mortgage payment and college tuition.*

The U.S. needs to do the same so that we can setup a fair globalization that is sustainable among those involved.

#### **Procurement Outsourcing Solution**

Besides fair globalization, another solution is reducing costs through the cost reduction of goods and services purchased by companies, known as procurement outsourcing. Instead of companies reducing their bottom line by eliminating staff, companies can reduce costs through procurement outsourcing, which, in turn, will reduce the cost of goods and services they are already acquiring.

#### **Net Margins and Costs are hurting U.S. Companies**

Companies are facing several problems; they have not been able to increase revenue, credit is harder to come by for expansion, due to their own outsourcing less people are doing more work, global competition has increased, and the cost of raw materials has increased. The bottom line is that companies are not what they used to be due to global overproduction.

#### **Procurement Outsourcing provides solutions and answers**

Because of these challenges and realities, U.S. companies are looking for innovative ways to stay in business. Even though there are some risks, procurement outsourcing is a viable means to help companies, with cost reduction being the largest substantiated reason. A few of the benefits are compliance; cost savings; efficiency improvement; and overall performance.

#### **Procurement Outsourcing Growth**

Procurement outsourcing is growing, companies are becoming more aware of the benefits and risks, the outcomes have been documented and substantiated, and these results are helping



company bottom lines. With procurement outsourcing, companies are becoming more competitive, companies are focusing on what they do best, and most importantly, more companies are staying in business.

### **What is Procurement Outsourcing?**

Procurement outsourcing is the action of a company outsourcing their procurement functions, with the acquisition of goods and services, through a third party. This does not mean that the company loses control, but it utilizes third party services. Many times, the third party works in conjunction with the procurement department, with no job loss. The outsourced procurement can mean cost reduction, improved efficiency, improved compliance, and enhanced performance. Procurement outsourcing can involve some or all the company's staff, technology, systems, and vendor management or everything can be directed by the procurement outsourcing firm for the company.

### **Procurement Outsourcing Equals Cost Reduction**

With cost reduction being one of the main driving factors for companies, procurement outsourcing helps meet this need. Even with economic upturns in certain industries and geographical areas, profit margins will remain low, and global competition will continue to increase. In addition, raw materials costs have increased and are expected to continue increasing, and the world economy will continue to affect more and more nations, companies, and people. With companies spending more than half on their external goods and services for every dollar earned there is a lot of costs to be reduced.

### **Other Procurement Outsourcing Benefits**

In addition, many companies lack internal staff or no staff to conduct the necessary procurement processes to manage their goods and services. Because of this companies are leaving billions and billions of dollars on the table. For many smaller companies, they cannot afford a purchasing department or at best, they have one person who buys for the company, so little or no cost reduction, vendor negotiation, contracts, and price analysis take place. For larger companies one department does not know what the other departments are doing, leading to increased cost and inefficient goods and services management.

### **Large Company Outcome Example**

One large company example, with annual revenues of more than \$5 billion U.S., had cost over runs, budget problems, compliance issues, little communication, and supply problems. With 252 purchasing personnel across their entire operations and more than \$1 billion per year spend for goods and services, their procurement outsourcing had a lot of potential opportunity



for procurement outsourcing. What was the outcome? Centralized procurement, better communications, increased production at each location, cost reduction of more than \$50 million per year within two years, staff focus for core competencies, expansion of certain areas, closing of other areas that were a drain on the company's resources, and streamlined purchasing personnel across the U.S. for greater outcomes in all areas of each region.

### **Companies are Understanding Procurement Outsourcing**

One of the biggest factors causing procurement outsourcing to grow and continue to grow is an understanding of the benefits. Companies are beginning to see that there are more positive than negative impacts from procurement outsourcing. The fear of a company losing control by utilizing procurement outsourcing in their company is fading away. Companies are seeing smarter buying, reduced costs, and continued control of their company. In other words, procurement outsourcing enhances companies and supports their core competencies.

### **Investopedia.com defines and outlines “core competency” as:**

- It is the main strengths or strategic advantages of a business. Core competencies are the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace. Theoretically, a core competency should allow a company to expand into new end markets as well as provide a significant benefit to customers. It should also be hard for competitors to replicate.
- Explanation: A business just starting out will try to first identify - and then focus on - its core competencies, allowing it to establish a footprint while gaining a solid reputation and brand recognition. Using, and later leveraging, core competencies usually provide the best chance for a company's continued growth and survival, as these factors are what differentiate the company from competitors.

As core competency is reviewed in many other sources to identify what it means, the main thread of understanding identifies the people involved in the company they work with and/or for. People are key to the success of an organization for its core competency to start and continue. Thus, reducing costs by eliminating people to gain bottom line competitiveness can be the demise to the organization. That is why procurement outsourcing/cost reduction is gaining momentum. The amount of procurement outsourcing deals and sourcing deals have grown steadily over the last several years, according to *Equaterra*.



## Steady and Increased Growth

### What are some of the risks of procurement outsourcing?

Even though there are risks, a report conducted by *AMR* research found that buyers will increase their activities by a ratio of five to one for their near-shoring sourcing. What this means is that companies are choosing Mexico as their number one choice, with Canada in second, and Brazil in third, with Eastern Europe as a potential sourcing location.

The *AMR* report found the biggest supply chain risks to be:

- Lower consumer spending.
- Supplier product quality failures.
- Volatile energy costs.
- IP infringement.
- Regulatory compliance.

One of the biggest areas of risk for procurement outsourcing, according to Pratibha Verma of *Global Services*, is “Despite the expansion of procurement outsourcing, the continued lack of standard deal terms suggest that market is still not yet ‘mature’ and yet has a number of risks in it”.

### What did some companies do during the Great Depression to stay in business and even grow?

During the Great Depression from 1929 to 1933, almost 15 million jobs were lost, and the unemployment rate was as high as 25 percent in 1933. It was not until 1954 that the stock market regained its pre-Great Depression value. Where are we at now?

Companies are reviewing and implementing some of the same methods that companies utilized during the Great Depression to stay in business. Chris Mayer identifies some areas below:

- They were self-funded (they did not need financing from banks).
- Diversify into other types of goods and services, such as chemicals, oil, food, etc.
- Great leadership (knew how to strategize, organize, and lead people).
- Aware of possibilities and took advantage of them.
- High capital industries where others could not get into business at a low amount of money (no or little competition).
- Intuitive sense (knew what the market and competition was going to do).
- Innovation (to increase profits through wise resource management – necessity is the mother of invention).
- Market expansion.



### Now ... Into the Future

In the last few decades, technology, financial resources, and human capital have changed the global community dramatically. As other nations have focused on technology (telecom / IT / Internet), education, manufacturing, and their infrastructure, global markets have shifted. The U.S. has outsourced numerous jobs, and, at the same time, many U.S. jobs have been created.

The bottom line for U.S. companies to remain solid will be their ability to remain competitive, keep costs low, protect their core competency, carefully manage their resources, involve all staff, and increase their market. The overall answer for people and companies is not downsizing people, but is in fair globalization and procurement outsourcing which will create the following:

- Reduced costs.
- Opportunity.
- Technology increase.
- Greater core competency.
- Market share.
- Increased financial resources.
- The bottom line – a solid individual within a solid organization, which creates a solid nation.

**Without solid people as your core competency, there can be no solid organization and nation.**

A solid organization through PEOPLE is the only way to create long-term, reputable, and beneficial jobs.

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