Framework for outsourcing decisions

1 Strategic Priority and Risk

- Evaluate where in the value chain you want to compete
- Consider the strategic importance of the activity
  - How critical is it to the business?
  - Does it help to differentiate us?
  - Is it likely to provide a lasting advantage?
- Assess the a ssociated risks
  - Impact on customers?
  - Risk of suppliers competing in other parts of our value chain?
  - Impact on operations?

2 Market Considerations

- Consider options for external provision of the activity
  - Are a range of alternative suppliers available?
  - Is the activity strategic to the suppliers' business?
  - Are suppliers financially stable?
  - Are suppliers likely to have a meaningful cost or quality advantage?
  - Are suppliers likely to bring future innovation?

3 Internal vs. External Capabilities

- Assess the capabilities of suitable suppliers versus inhouse provision
  - Who could provide the activity at greatest reliability and lowest cost?
  - Who has the better technology or know-how?
  - Who is likely to be most innovative in the future?
  - Who has the best people for the job?
  - Who has best access to any partners required?
  - Who is most likely to attract future investment?

4 Economic Evaluation

- Conduct a complete assessment of the long-term cost of the activity: inhouse vs. outsourced
  - Include the impact of variable and fixed costs, as well as the costs of transition and managing external suppliers
  - Also take in account the effect on efficiency
  - Conduct this as a long-term (5–10 yr) NPV calculation

5 Ability to Manage the Supplier

- Assess the internal capability to manage an external supplier for this activity
  - Is the supplier performance measurable?
  - Have we got the people & skills necessary to maintain an effective ongoing relationship?
  - Will we be able to manage the risk through influence, rather than direct control of the activity?

6 Ability to Manage New Processes

- Assess capabilities to manage new processes that cut across organisational boundaries

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Source: Booz Allen Hamilton, seek.com.au