


Co-sourcing



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Introduction

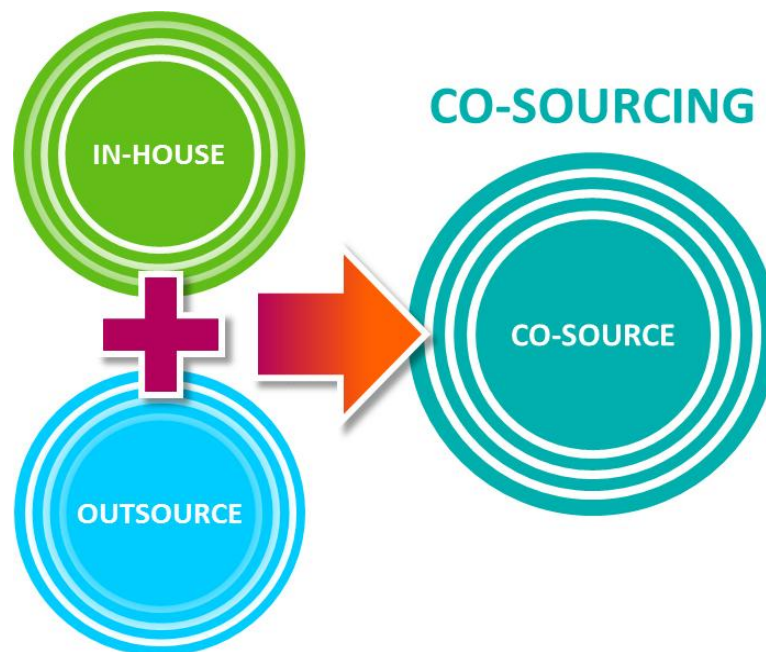
Co-sourcing is sometimes described as bringing outsourcing advantages in-house as it is often credited with bringing in outside expertise while still cutting costs. It is particularly advisable for areas or functions that the organisation does not want to completely give up to an external provider.

Co-sourcing can allow companies to gain access to the expertise and resources of their partners to supplement or completely replace internal resources while still keeping management and decision-making responsibilities over the function. Co-sourcing services can be broadly divided into four tiers: Tier 1 = Foundational support, Tier 2 = Transactional support, Tier 3 = Analytical support, Tier 4 = Strategic support (Gross, 2006).

Co-sourcing is an important practice in procurement and supply chain management. There is a large global industry of for-hire transportation firms, warehousing services and carriers who provide shipping and a range of accompanying services. The economic rationale for using carriers is based on their specialisation, efficiency and economies of scale: carriers are capable of providing shared transportation services for multiple shippers. Warehousing service providers offer product storage supplemented with other specialised, related services. Many of these firms have enabled a shift from single function to multifunctional outsourcing, as they offer a range of logistics services from order entry to product delivery and even billing and payment. Such firms are known as Integrated Service Providers and their services are value-added services (Bowersox et al., 2007). Typically this can be seen in the example of third-party and fourth-party logistics providers who offer various services, such as transportation, warehousing, freight consolidation, distribution and bill auditing/payments, dedicated human resources, customised systems and communications (Handfield and Nichols, 1999; Leenders et al., 2002; Bowersox et al., 2007). Another major area suitable for co-sourcing is IT where alongside other common reasons for outsourcing, a shortage of skilled IT professionals and experts adds another important argument for co-sourcing/outsourcing (Edguer and Pervan, 2004).

Definition

Co-sourcing is a type of outsourcing where the outsourcing agreement is a collective arrangement between one vendor and multiple clients. From the perspective of the outsourcing organisation, co-sourcing is the process of outsourcing certain business activities to only one external vendor (Edguer and Pervan, 2004).



Successful Implementation

The general implementation description for outsourcing also applies to co-sourcing. There are some important strategic issues for the implementation of outsourcing, for example, after the firm has determined which activities are non-core and can therefore be outsourced, these activities should be divided into operational (e.g. cleaning, catering, security) and strategic (e.g. IT or HR). Strategic activities will require a greater concentration of effort. Another important issue to consider is staffing. Those employees whose tasks are being outsourced will naturally feel vulnerable and their motivation could be lowered. Therefore, the company must develop a good staff communication plan, aligned with the outsourcing strategy. Another key issue in implementation is the outcome/output based specification in the outsourcing contract. Documentation should continue into the business relationship as the service develops and changes (CIPS: Outsourcing).

Steps to Successful Application

- Define the current and desired operating model together with the service provider.
- Conduct an in-depth programme review including strategic orientation, market competitiveness, global variations and other relevant variables depending on which area/functions should be co-sourced.
- If appropriate, develop adequate management software to manage and support the co-sourced activities.
- Assign process ownership to external provider for agreed activities.

Gross (2006)

Hints and Tips

- Flexible contracts can lead to better performance under the co-operation agreement (Edguar and Pervan, 2004).
- Transition to a new provider should be transparent (Edguar and Pervan, 2004).
- Arrangements between all parties should be regularly reviewed (Edguar and Pervan, 2004).

- It is essential to track and monitor performance (Edguar and Pervan, 2004).

Potential Advantages

- Co-sourcing combines the advantages of outsourcing and insourcing as it provides access to external expertise without having to completely give up internal control over processes (Gross, 2006).
- Co-sourcing is often a better and more efficient use of existing resources (Gross, 2006).
- Co-sourcing can enable the transfer of knowledge and technologies from the external provider to the organisation (Gross, 2006).

Potential Disadvantages

- Co-sourcing can result in the leakage of sensitive data and information (Chopra and Meindl, 2007).
- Co-sourcing can cause an overdependence on suppliers (Lysons and Farrington, 2006).
- Cost savings and the improved efficiency of co-sourcing are not guaranteed: in some cases they never occur, and in many cases it can take a long time (up to two years) until financial benefits are realised (Lysons and Farrington, 2006).

Performance Monitoring

- Cost: reductions, increases (Edguar and Pervan, 2004).
- Efficiency of the use and management of assets (Edguar and Pervan, 2004).
- Productivity (Edguar and Pervan, 2004).
- Service levels (Edguar and Pervan, 2004).

Case Studies

- DuPont outsourced its system for administering records, payroll and benefits for 60,000 employees across 70 nations to Convergys Corp., the world's biggest call-centre operator. Convergys also runs various human resource management programmes for DuPont. Through this co-sourcing move, DuPont has achieved cost reductions of around 30% (Youngdahl and Ramaswami, 2008).
- In 2004 IBM and Sprint Corp. announced a five-year multibillion dollar co-sourcing agreement for the provision and management of customer-services. Under the agreement some 175 Sprint employees from call centre planning and strategy started working for IBM and over 1,000 IBM call centre agents moved to Convergys Corp. which is managed by IBM. A further 4,500 call centre employees who had previously worked in outsourced call centres became IBM employees after the new co-sourcing agreement (Hamblen, 2004).
- Hewlett-Packard (HP) became an example of innovative co-sourcing in logistics when it outsourced its raw materials warehousing to Roadway Logistics which manages it in a Roadways warehouse in Vancouver, Washington. The warehouse operates 24 hours a day, seven days a week with 140 Roadway employees who co-ordinate the delivery of parts and manage storage. This co-sourcing allowed HP to transfer 250 of its own employees to other company activities and save 10% in warehousing operating cost (Leenders et al., 2002; Chase et al., 2004).

Further Reading/Reference

CIPS Source Downloads

- CIPS: The decision to outsource the procurement function
- CIPS: Outsourcing
- BuyIT: IT outsourcing
- CIPS & PACG: Business process re-engineering & business process outsourcing

Web Resources

- Article about co-sourced IT maintenance operations
<http://www.technewsworld.com/story/66638.html>
- Co-Sourcing: Two companies acting as one <http://www.inboundlogistics.com/cms/article/co-sourcing-two-companies-acting-as-one/>
- Findings of an Ernst & Young/Forbes co-sourcing survey
<http://www.ey.com/GL/en/Services/Advisory/Risk/Internal-Audit/To-cosource-or-not-to-cosource---Fact-or-fiction--Seven-cosourcing-myths-exposed>
- Co-sourcing as a trend http://www.koreatimes.co.kr/www/news/bizfocus/2011/04/331_82985.html
- Co-sourcing between British American Tobacco and Accenture
<http://www.computerworlduk.com/news/applications/15679/british-american-tobacco-in-five-year-co-sourcing-deal/>

Books

- The Outsourcing Revolution, Corbett, ISBN 978-1607146766
- The Handbook of Global Outsourcing and Offshoring, Oshri, Kotlarsky & Willcocks, ISBN 978-0230235502
- Smarter Outsourcing, Bravard & Morgan, ISBN 978-0273705604
- The Outsourcing Handbook, Paver, Desouza & Bonifazi, ISBN 978-0749444304
- The Offshore Nation, Vashistha & Vashistha, ISBN 978-0071468121

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Video

Short video lecture on outsourcing

https://www.youtube.com/watch?feature=player_embedded&v=9KkPevyMxeg

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