

How to Provide Competitiveness of It–Outsourcing Company

Dinara Li, M.Sc., candidate for doctor's degree, Kiev University, bank analyst

Statement of problem

All companies go through several stages in its development: creation, development, growth, maturity. Successful growing company at some point may encounter a problem that domestic market will be small for its capacity. Company's expansion into new markets can become the decision of such problem, that of course is associated with multiple difficulties, such as high level of competition in foreign markets, lack of information about them, additional expenses dealing with creation of new departments, management re-organization etc. To work out these problems an enterprise can independently, using the experience of other successful companies (benchmarking), and can take advantage of outsourcing, passing on a contractual basis of business functions to run by third-party organization. At the same time under business function is understood relatively isolated, comparatively homogeneous by criterion of final goal a set of processes and operations that are involved in customer's value creation or contribute to its creation. Rather sufficient attention is given to the problems associated with defining the essence of IT-outsourcing, its main advantages and disadvantages, choosing the IT-outsourcer, development towards the introduction and use of IT-outsourcing to businesses. However, issues related to the organizational and functional aspects of outsourcer, ensuring its competitiveness, should be considered open enough.

Research and publications analysis

The concept of outsourcing, was established in 1963 by Electronic Data System (EDS), specializing on outsourcing of information technologies or IT-outsourcing. However, as the object of research, outsourcing became only in 80–90's the last century. Exactly after this time scientific publications, in which economists and practices tried to find the best strategy of using outsourcing in enterprise activity, began to appear. Appearing in American economic literature, the term "outsourcing" firmly entrenched in economic lexicon. Along with this outsourcing has received and is gaining wider application in practice. Thus, a pioneer in distribution of IT-outsourcing has become Kodak company, that pass on service its information systems for 10

years to such companies as IBM, Digital Equipment Corp. and Businessland Inc. Already in the beginning of the XXI century, some of the leading enterprises in the world adopted ideology of outsourcing. Among them—Microsoft, Cisco, Apple, Nortel Networks Inc., General Motors and others.

Outsourcing is becoming an increasingly more common practice among organizations looking to alleviate some or all of their information systems/information technology functions. The concept of IT-outsourcing is particularly described in science literature. In general, outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources. It is essentially a division of labor. Outsourcing in the information technology field has two meanings. One is to commission the development of an application to another organization, usually a company that specializes in the development of this type of application. The other is to hire the services of another company to manage all or parts of the services that otherwise would be rendered by an IT unit of the organization. The latter concept might not include development of new applications. In other words, outsourcing is the strategic use of outside (i.e., external) service providers to perform non-revenue-generating activities so that an organization may focus on its core competencies.

There are other key elements that show the nature of outsourcing. Outsourcing contracts are usually characterized by the large-scale transfer of human and technology assets (employment of staff, and purchase of technology and fixed assets, such as data centers) to vendors and long-term commitments to using their services (usually 5 to 10 years)¹. This quote demonstrates that most outsourcing arrangements are made for the long-term. Because the transfer of such key business functions involves a significant investment (and a related risk), there would be little sense in doing it for just a short period. This is another essential difference between outsourcing and contracting. There are different types of IT outsourcing as well—different types with differing natures. The types can be grouped into four separate categories that are described below²:

1. Total outsourcing—refers to all of the major functional areas of IT, including data centers, applications development, systems maintenance, networks, help desk, desktop services, and so on. Typically, only user liaison and contract-management functions remain.
2. Selective outsourcing—where one or more major IT function or activity is outsourced, but significant activities and functional areas remain in-house.

¹ <http://www.cscresearchservices.com/foundation/library/105/RP03.asp>.

² <http://www.cscresearchservices.com/foundation/library/105/RP02.asp>.

3. Transitional outsourcing—refers to situations where a company outsources aging or obsolete systems and/or technology platforms in order to focus its attention and limited resources on the creation of new systems and infrastructure.
4. Transformational outsourcing—is the reverse of transitional outsourcing, where a vendor is hired to move a company to a new technology platform and/or applications portfolio, and to build new skills and capabilities.

Now that we know the general nature of outsourcing and what sort of functions it typically involves, we need to discuss the advantages and disadvantages of outsourcing. There are many arguments on both sides of the outsourcing issue, and they can be organized as a table of advantages and disadvantages of outsourcing (see Table 1).

Table 1.

Advantages and Disadvantages of IT-Outsourcing

Advantages		Disadvantages	
1.	Management can focus on the company's main business activities	1.	Loss of a strategic asset and skills
2.	Frees up resources for other purposes	2.	Possibly no overall cost savings
3.	Possible overall cost savings	3.	Fear that the supplier will compromise a lower level of technology for reducing expenses
4.	Access to state of the art information technology	4.	Fear of losing control over information resources and dependence on the service provider
5.	Accelerated reengineering benefits	5.	Fear of a leak of sensitive information
6.	Shared risks	6.	Worries about the supplier's stability and survivability
7.	Ability to accurately forecast computerization budget	7.	Lack of control over service levels, possible detrimental effect on service to clients
8.	Advantages of small and slim organizations	8.	"Transitional phase"—a period in which there is a significant danger to the organization's operations
9.	No problems with workers unions striking and halting computer operations	9.	Fear of its being a "one-way street", with no way back to the beginning
10.	Possibility to build a highly efficient computerized department	10.	Difficult to change vendors
11.	Construction of a measurable level of service and improved service to the organization and clients	11.	Possibly longer response time to problems
12.	Improvement of the organization's financial indicators (taxation, income/assets, human resources/profits ratios, etc.)	12.	Time-consuming to supervise
		13.	Cultural differences
		14.	Less informal communication
		15.	Problems with software licensing
		16.	Overcoming spatial distances

As we can see, the questions of reasons for outsourcing and communication between the companies and outsourcers are widely described by different economists and analytics, but not all aspects concerning outsourcing can be considered well examined. Among them one of the problems of today is—how to provide international competitiveness of IT-outsourcing company. The goal of this article is to investigate the ways of improvement and increasing of international competitiveness of IT-outsourcer. With every passing year we observe a rapid expansion of IT-outsourcing market in all countries of Eastern Europe that, of course, raises the questions of competitiveness. Moreover, the processes of world globalization of all spheres of market relations give us rise to international competitiveness research of IT-outsourcing companies.

Presentation of basic material

Nowadays, one of indispensable condition to provide competitiveness is the fact that “mass market” is divided into many micro markets, each ruled by its own needs, views, preferences and purchasing criteria. Thus, the company to increase its competitiveness should establish the proposed product or service to exactly identified market segments. Mass marketing is increasingly giving a way to a singular, individual marketing, for well-defined groups of consumers according to their needs and wishes. And this fact should be taken into account when offering outsourcing services, because unlike a product which is more uniform, the service is always focused more on its specific consumer.

Ensuring the competitiveness of outsourcer is possible with the use of marketing mix-set of marketing tools that are used now to solve marketing problems on the target market. J. McCarthy proposed to following classification of marketing tools: product, price, place (distribution) and promotion (or four “P” of marketing—Product, Price, Place, Promotion) [Kotler, 2004].

The traditional marketing mix has proven itself in material production. However, in the service sector are more demanding special attention factors. B. Boume and M. Bitner argue that the adaptation of marketing to services requires consideration of three other “P” of marketing (people, physical evidence and process): personnel, material evidence and the way of provision of services [Kotler, 2004]. Since the majority of services are provided by human beings, an extremely important role in the service sector plays such factors as selection, training and motivation of staff. Companies in the services sector tend to demonstrate the quality of services by different material evidences and presentations. Also, companies are able to choose different ways of supply: differentiated services, providing of related services, supplementary services, post-sales service etc.

In comparison with the acquisition of goods, when selecting a service provider the customer is considering a wide range of factors: the quality of service, speed of service, friendliness, competence, appearance of the office,

the interior of office and equipment. Thus, the result of work in the service and commitment to the customer's particular vendor is determined by many variable factors. This also remains typical for such specific service as outsourcing.

Speaking about competitiveness of outsourcing enterprises classical school of economy has its own specifics. Thus, the theory of competitiveness by M. Porter declares that competitive advantages are low price and low cost. Differentiation and concentration for the outsourcer has significant limitations: competitiveness by reducing cost remains, but the possibility of differentiating is significantly limited by specialization of outsourcer, and the possibility of concentration is limited to a relatively low-volume market. As a rule, services are either very similar, or fully depend on customer's requirements [Porter, 1998]. The theory of competitiveness based on core competencies (G. Hamel and C. Prahalad) in general works as to outsourcer's competitiveness [Porter, 1998]. However, the list of potential core competencies is rather limited and all changes are fully determined by customer's wishes and expectations. The theory of competitiveness by M. Treacy and F. Virsemy, despite the fact that confirmed its relevance to manufacturing enterprises in a globalized market for the outsourcer is applicable to a very limited scale: the differentiation of the value of any core competencies is leveled by standard processes transmitted through outsourcing, and tasks of the final product [Treacy, 1995]. Some exception here is the proximity to the customer. But, it doesn't even concern the outsourcer's work in creating of appropriate process or product, than to relationship with the customer.

Ensure the competitiveness of the outsourcer in entering the foreign market is proposed by using elements of the marketing-mix, applying appropriate opportunities for getting competitive advantages for the outsourcer (see Table 2).

Table 2.

Providing Outsourcer's Competitiveness by Using the Elements of Marketing-Mix

Element of Marketing-Mix	Limitations	Possibilities
Product/Service	precise customer's needs, narrow specialization of outsourcer	to create a product that meets at least one of requirements: price, dead line, integrability, quality, warranty etc.
Price	limited project price	lower price
Place	none	none
Promotion	the same like any other product	individual work with the client
Personnel	none	high level of qualification, high level of communication
Material evidence	none	to form customer's value greater than the price of services
Provision of services	depends on the project and the customer	to create a unique way of service provision: technical, personnel process components

In fact, the proposed way of creating of competitive advantages for outsourcer is that this competitive advantage will be based on a combination of elements of the marketing-mix, taking into account peculiarities of outsourcing.

Conclusions

- Consumers of services rather rely on reviews and recommendations of other consumers, than on different means of advertisement. This requires from the outsourcer to take a lead over the quality of previously announced price, since the additional expenses in this case will actually cost to attract additional customers and promotion of outsourcing services.
- Quality of service perceives by consumers, depending on the price, staff and personal preferences. For company-outsourcer this means, first, compulsory competitive price, and, secondly, makes the crucial importance of high level of communicative abilities of personnel, that will determine customers' loyalty.
- Satisfied customers will be excessively loyal to outsourcer, that represents significant value due to the limited market of IT-outsourcing and narrow specialization.

IT-outsourcing is a very promising activity, which has been developing intensively during the last years. IT-outsourcing has advantages and disadvantages. IT-outsourcing is very specific kind of business that distinguishes it from the other kinds of service. An important issue in increasing the volume of outsourcing is to ensure the competitiveness of enterprise. The classical theories of competitiveness don't give the answer on the main question—how to provide competitiveness of IT-outsourcer. In this article the author proposes to use the elements of marketing-mix to ensure a high level of market competitiveness for enterprises of IT-outsourcing.

Literature

Kotler, Philip, 2004, *Marketing Management*, 11th edition.

Porter, Michael E., 1998, *On Competition*.

Treacy M., Wiersema F., 1995, *The Discipline of Market Leaders*.

<http://www.cscresearchservices.com/foundation/library/105/RP02.asp>.

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