

Outsourcing Manufacturing

And its Effect on Canadians

April 7th 2015

What does outsourcing mean to you?

Positive approach



Negative approach



The Problem

Companies that outsource Canadian manufacturing jobs to other countries is regarded as a negative impact to the Canadian economy. However, if done properly, outsourcing can positively influence the Canadian manufacturing industry.

Purpose of Study

Our research is going to show the positive effects that outsourcing can have on the Canadian economy. It will include manufacturing companies that choose to outsource and how it has influenced the success of their company, and how that has affected the Canadian economy.

Our Sources and Methods

We gathered our secondary sources and data for our research from the Confederation College online database, Confederation College Library, articles from credible news sources, we chose our interview conducted interviews with participants that have been affected by outsourcing as well as the academic documents accessible from Universities and Colleges.

What is Outsourcing ?

Outsourcing is defined by Bengsston and Dabhilkar (2008) as “having activities that were formerly done inside the organization now performed by an external supplier” (pg.4).

Any strategic move an organization takes to stay ahead of competition, while still increasing revenue, there are positive and negative effects. Job losses and job creation are the two major areas that individuals feel the effect of outsourcing,

The History ...

- ▶ Originally outsourcing became prominent in the business world in the early 1970's although it was around as early as the 1950's
- ▶ Typically it was used to hire out services such as payroll
- ▶ allow companies to focus on their main strengths within the organization and contracting out the weaker areas to other companies that had the skill and expertise
- ▶ Two categories of outsourcing were formed, onshore outsourcing and offshore outsourcing
- ▶ What makes this phenomenon seem relatively new is the fact that it affects a broad range of jobs that used to be considered off-limits to distributing across international borders

On Shore

Onshore is a partnership between two or more companies within the country

Off Shore

offshore is a partnership across national borders

According to Charles E. Davis (2012) “These types of arrangements are often referred to differently, depending upon the distance between the domestic service buyer and the international service provider” (pg.57).

Reasons for Outsourcing

- ▶ reduce costs on economy of scale
- ▶ company may not have the resources available
- ▶ avoiding the risk of investment
- ▶ requires the company to focus on their core competencies and outsource their weaker competencies to those who have the required skill set

Each motive is to benefit the company in cost and productivity, while specific motives are beneficial to the organization, society and individuals.

Reasons for Outsourcing

Manufacturing

- ▶ manufactured parts are typically more efficiently produced in foreign countries compared to manufacturing them locally
- ▶ cost reduction with transportation and lower tariff barriers it has become more efficient to trade manufactured parts across national borders

Services

- ▶ declines in telecommunications costs and the ability to digitize service functions now allow companies to outsource call center and IT services off-shore
- ▶ Due to major changes in information and communication technologies, service jobs such as data processing, call centers, and software programming are moving en masse to low-cost countries

Effects of Outsourcing

Positive

- ▶ importing goods will improve the economic welfare overall
- ▶ the supply demand increases and jobs are created in other companies
- ▶ long term, lower production costs reduce the price of the companies goods or services, this increases the consumers' purchasing power increasing the economy's welfare
- ▶ increases the demand increasing output of the services and goods and providing jobs in other companies

Negative

- ▶ reduce the drive to increase wages com
- ▶ Some jobs are lost from companies moving sectors abroad repetitively

Overall the number of jobs lost to outsourcing is minimal compared to the natural rate of job replacement in the job market. Therefore the economy must consider the fact that the job market is dynamic, in that jobs are constantly being created and destroyed

Outsourcing Manufacturing and its Effect on Canadians

1. What is your age group?
 - a. 18-25
 - b. 26-35
 - c. 36-45
 - d. 46-55
 - e. 56 +
2. What gender do you most closely identify with?
 - a. Female
 - b. Male
 - c. Other

Specialized Product: Developed or designed for a special activity or function; "a specialized tool".
Commoditized Product: A good or service widely available and interchangeable.

3. Do you make a specialized or commoditized product?
4. In what area(s) does your company use outsourcing?
 - a. Technical Services
 - b. Labour and Operations
 - c. Maintenance Services -
 - d. Specialized Programs and Services - *SPECIALIZED TESTING FOR INFREQUENT CERTIFICATION FOR EXAMPLE*
 - e. Other: _____
5. What percentage of your product cost is outsourced?
~ 15%
6. Is the outsourcing your organization domestic or off-shore?
NORTH AMERICAN - MAJORITY IN CANADA, REST IN U.S.
7. How has outsourcing affected the organization?
 - a. Positively - *allowed us to access highest equipment and specialized skills without taking on the full cost*
 - b. Negatively

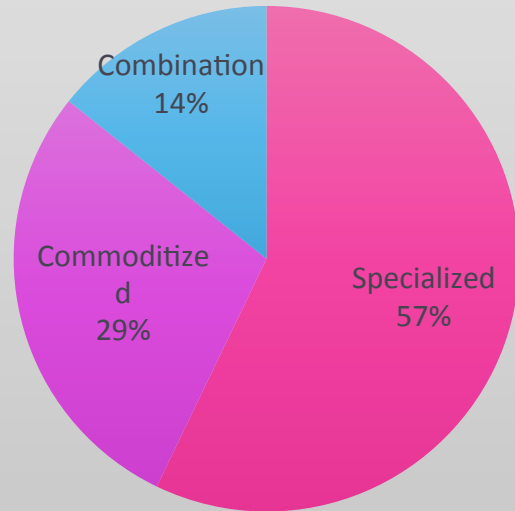
Specialized testing for infrequent certification for example

North American - Majority in Canada, Rest in U.S

Allowed us to access different equipment and specific skills without taking on The full cost

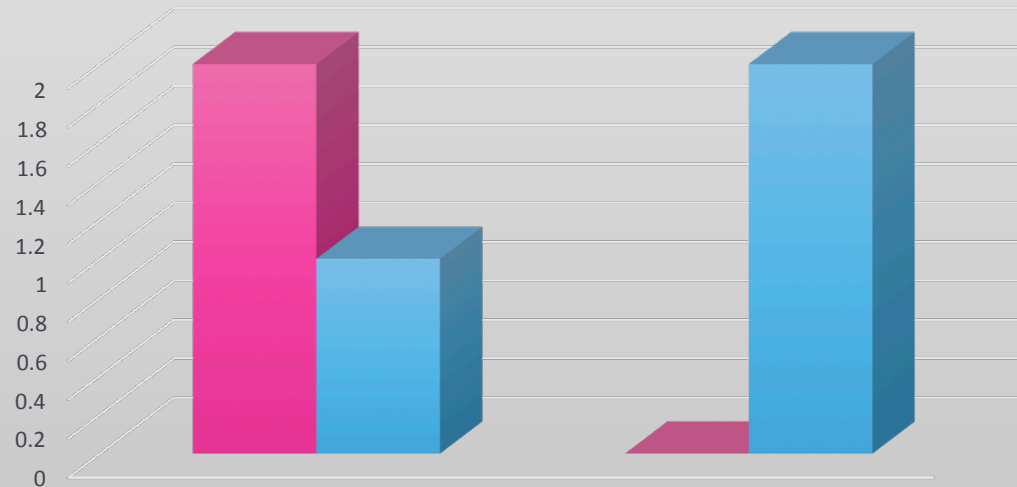
Types of Products being Outsourced

Types of Products that are Outsourced in Ontario



Specialized Commoditized Combination

Type of Manufactured Product



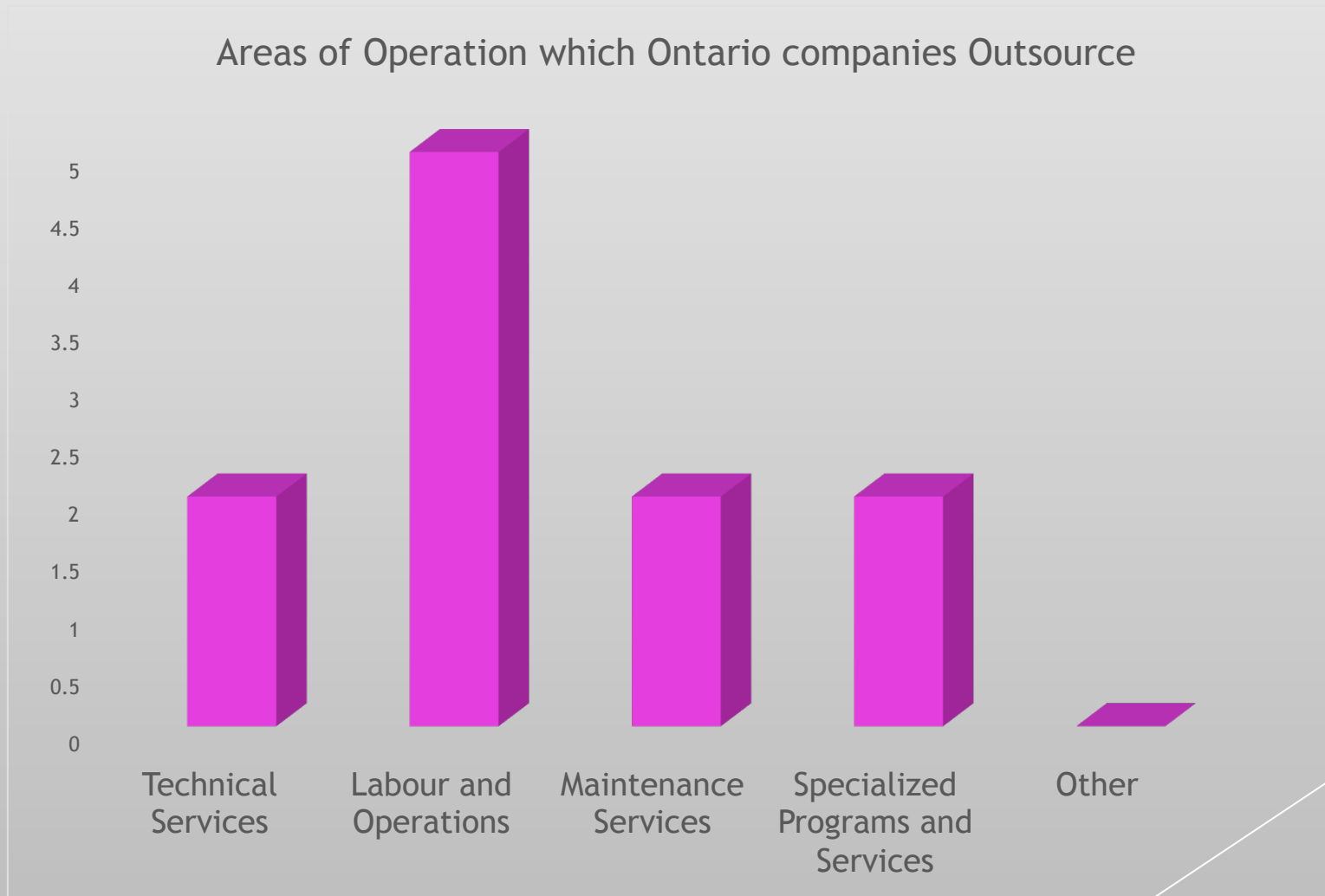
Viewed Positively

Viewed Negatively

Specialized

Commoditized

Areas in Manufacturing being Outsourced



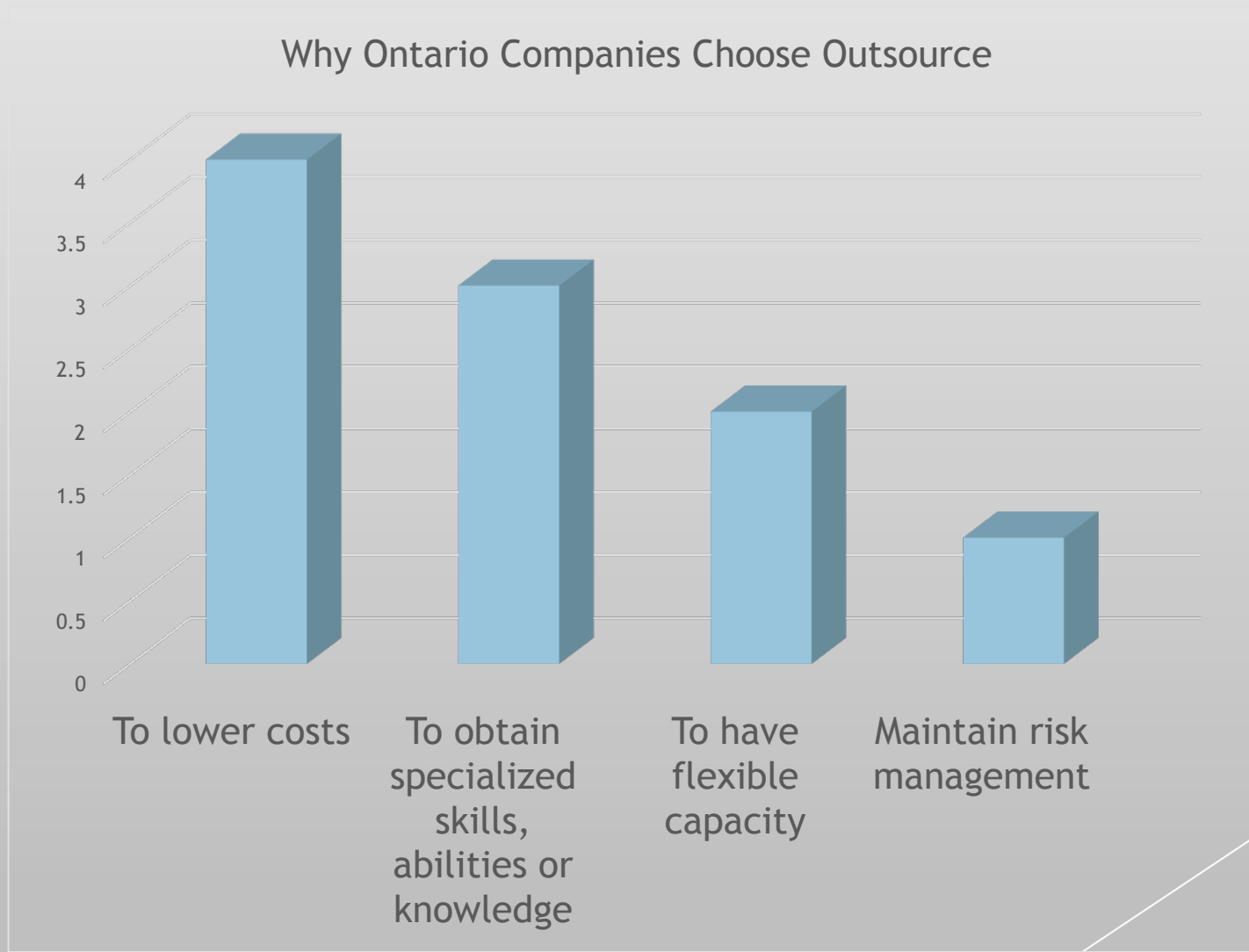
Outsourcing Labor & Operations



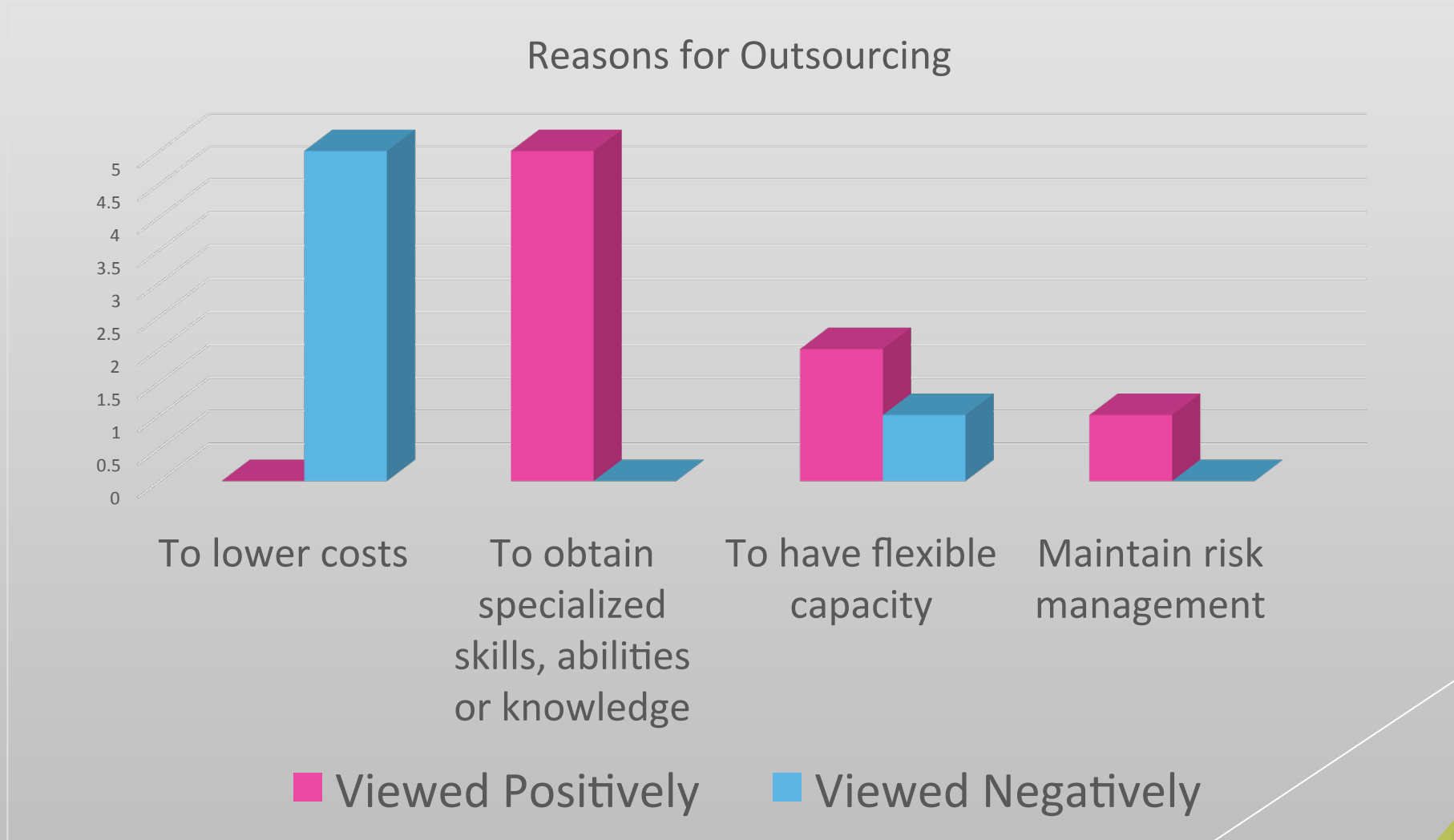
The research findings support the idea that when a company chooses to outsource their labour and operations it is taking a job away from a Canadian, which is a negative view of outsourcing.

“The reason (outsourcing labour and operations) is bad is because it puts people out of work in our community that need to support their families”

Motives behind Outsourcing



How Outsourcing is Viewed



Communication is Important

- ▶ Ineffective communication by a company about their reason or motive for outsourcing manufacturing is a large contributing factor to the negative association of outsourcing.
- ▶ A company that can explain and express their reasoning for outsourcing to their employees and society will have much greater success implementing outsourcing into their regular business practices



When is Outsourcing Wrong?

When it is going to put your community in an economic crisis.

When it becomes a matter of increasing financial gains at the loss of the local economy is when it becomes the wrong thing to do.

When is Outsourcing the Wrong thing to do?

The reason outsourcing is bad is because it puts people out of work in our community, that need to support their families. However, certain vendor parts not built in Canada are good for outsourcing because they specialize in that field.

If outsourcing is your core business such as production, quality, etc.

Recommendations

To increase the likelihood of a positive impact, companies should choose outsourcing in good faith by:

- ▶ Avoiding outsourcing commoditized products
- ▶ Not outsourcing for the sole purpose to reduce labor & operations cost
- ▶ Communicating rationale behind outsourcing throughout the organization
- ▶ Avoiding outsourcing specialized products only to lower costs

Conclusion

- ▶ Outsourcing doesn't always mean sending tasks out of country (Onshoring)
- ▶ Lowers production costs, therefore lowering consumer pricing
- ▶ Allows companies to reach resources previously off-limits
- ▶ Job market is dynamic, with or without outsourcing jobs would naturally be created and destroyed
- ▶ With appropriate intent, outsourcing can be beneficial for organizations and society
- ▶ Organization's motives directly impact how they are perceived by employees and outsiders