

# TRENDS AND PROSPECTS OF OUTSOURCING

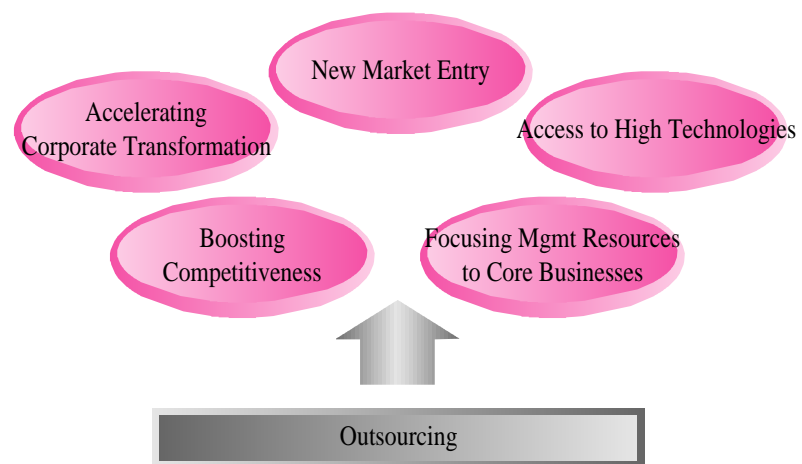
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## Why introduce outsourcing?

*Outsourcing has advantages such as entry into new markets, access to new technology, focusing management resources to core businesses, boosting competitiveness, and acceleration of corporate transformation.*

Outsourcing is a strategy that lets a firm obtain strategic advantage by using external resources to handle the company's internal business processes. The company can improve productivity by enhancing task performance and quality through breaking up its specific tasks. Specifically, outsourcing has advantages such as entry into new markets, access to new technology, focusing management resources to core businesses, boosting competitiveness, and acceleration of corporate transformation.

Figure 1. Effects of Outsourcing



## Outsourcing trends in Korea

*Outsourcing has shifted from the external provision of manpower to the outsourcing of business processes.*

Recently, a large number of companies have been introducing outsourcing strategies to focus on their core competence and improve corporate competitiveness.

Outsourcing has shifted from the external provision of manpower to the outsourcing of business processes such as personnel management, general affairs management, logistics, marketing, and information technology.

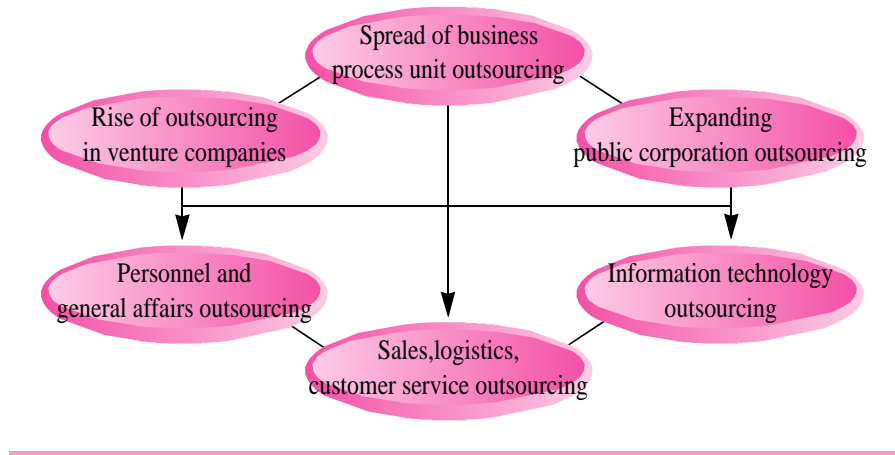
Large companies are breaking up their businesses into independent units and outsourcing. According to a joint survey by the Korean Chamber of Commerce and Industry (KCCI) and the Small and Medium Business Administration, 73.3 percent of

the companies that were broken up thought it brought positive effects, among which was the strengthening of the spinoff companies' professionalism. The increased number of professional companies may finally give Korea a group of strong outsourcing companies that it lacked in the past.

Very recently, with the boom of Internet and venture businesses, the environment of outsourcing has changed. The corporate customer's needs are changing and require higher standards of service.

*With the boom of Internet and venture businesses, the environment of outsourcing has changed.*

**Figure 2. Outsourcing Trends**



*Many companies are adopting business process unit outsourcing, which includes personnel, general affairs, sales and marketing, customer service, and information technology.*

### 1) Spread of business process unit outsourcing

To respond to the various needs of corporate customers, many companies are adopting business process unit outsourcing, which includes personnel, general affairs, sales and marketing, customer service, and information technology. The breakup of specific business units and outsourcing is a major trend in large companies for business restructuring and cost reduction.

#### (a) Personnel and general affairs outsourcing

Outsourcing of personnel service and education function has been a widespread practice among Korean companies. Personnel service functions such as workforce administration and operation have been outsourced, and education was delegated to external experts and special educational institutions. Also, many firms have started to outsource their recruitment process.

Many companies are introducing the outsourcing service function to cut the burden of workforce management, and have already outsourced cleaning, cafeteria, security, and parking lot management. Recently, logistics, customer management, overseas trips, and events outsourcing have been spreading. For example, Hyundai Marine & Fire Insurance outsourced their night accident handling tasks to a workforce vendor.

*A large number of companies are strengthening their core competence by outsourcing business functions such as sales and logistics.*

### **(b) Sales/logistics/customer service outsourcing**

A large number of companies are strengthening their core competence by outsourcing business functions such as sales and logistics. Many retail and logistics companies are outsourcing their logistics function to cut logistics costs. Special outsourcing vendors such as CJGLS, Exofresh Logistics, Columbus, and Torus Logistics are rising rapidly. WoongjinCoway, a firm that only has R&D and assembly capacity outsources its production, sales, and after-service functions.

More and more companies are outsourcing their call centers or customer centers. Financial institutions such as banks and insurance companies tend to outsource simple customer management altogether. It is a widespread phenomenon for financial industries to outsource tasks such as tele-marketing. BC Card has outsourced its member-telephone management task since 1994.

### **(c) Information technology outsourcing**

A growing number of domestic financial organizations are seeking to outsource their computing systems operations in order to cut costs and improve efficiency.

Banks are turning to outsourcing because it is more efficient than installing new systems and because it offers the additional benefits of reducing manpower while increasing efficiency.

For example, Korea Development Bank is replacing its existing IBM main frame computing system with a Unix-based one and outsourcing its management to a systems operator. Hanvit Bank is considering outsourcing to ease the installation of new information systems and reducing employees at its computer operations.

## **2) Rise of outsourcing in venture companies**

*Venture companies are pursuing strategic alliances with other companies, and are also outsourcing to overcome their limited organization and resources.*

Venture companies are pursuing strategic alliances with other companies, and are also outsourcing to overcome their limited organization and resources. It is necessary for the companies' growth to continuously develop new products and businesses. For this, it is effective to outsource strategy development.

Venture businesses are outsourcing in various fields such as consulting, production, R&D, public relations, marketing, and sales, as well as workforce staffing, general affairs management, and personnel administration. For example, Doojin Electronics only performs design and R&D functions, while they outsource production to other vendors to lower costs.

## **3) Expansion of public corporation outsourcing**

The trend toward outsourcing of non-core businesses to specialized firms is building among public corporations. The Minister of Planning and Budget said that 23 state capitalized firms will outsource 69 businesses to private firms this year. In the past, public corporations outsourced simple tasks such as cleaning and building maintenance. In the future, they will outsource more project-related tasks, including the operation of computing systems, public relations and management of information systems.

For example, Korea Telecom will outsource telegram delivery, public relations and security to private firms, while Korea National Housing Corp. will outsource management of model houses and computing systems.

**Table 1. Outsourcing in Korea**

Categories	Functions	Companies	Description of Outsourcing
<b>Business Process Unit</b>	Personnel · General Affairs	Hyundai Marine & Fire Insurance	night accident handling tasks outsourcing
		Easy World	fringe benefit service provision
	Sales · Logistics · Customer Service	BC Card	card member tele-management task outsourcing
		Woongjincoway	production and after -service outsourcing
		CJ-GLS, Exofresh Logistics	logistics outsourcing
Information Technology	Korea Development Bank Hanvit Bank	Software development, information center operation	
<b>Venture Companies</b>	Production	Doojin Electronics	production outsourcing
<b>Public Corporation</b>	General Affairs Information Technology	Korea Telecom Korea National Housing Corp.	telegram delivery, public relations, security management of model houses, computing systems

### Prospects of outsourcing in Korea

In the future, outsourcing is likely to evolve in several ways. First, more and more companies are devoting themselves to their core competence and outsourcing their other business functions. Thus, the scope of outsourcing will be widened and the quality of outsourcing services will improve.

Second, as the demand for outsourcing increases rapidly, there will be an upturn in the number of outsourcing vendors providing specialized services.

Third, “total outsourcing services” will appear to meet customers’ diverse needs such as public relations, brand consulting, headhunting, and venture capital. For this, outsourcing vendors may form strategic alliances or M&As.

Fourth, a growing number of the nation’s major enterprises will expand their outsourcing globally. Companies should transform to more flexible organizations by strategic outsourcing. But it is important to keep in mind that core competence is the critical factor for a successful outsourcing strategy. **VIP**

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