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One of the most commonly misunderstood aspects of the global supply chain is the difference between offsourcing and outsourcing. A surprisingly large proportion of the general public confuse these terms. But they are distinct concepts.

Procurement Leaders research finds that consumers often use business terms without a fine degree of differentiation. In the main, they are viewed negatively and all representative of the malignant campaign of corporations to 'screw over the little guy'. Often, they don't see the difference at all between 'outsourcing' or 'offshoring'. For one American respondent, they were all part of the same malaise:

> Businesses do it for money and don’t care about consumers. They are not honest about their products most of the time.”

This is an unfortunate misunderstanding as knowing the difference between these concepts can enrich our knowledge of business. From here, we can truly appreciate the positives and negatives of business activities, and cut across the political verbiage. So what is outsourcing? And how does it differ from offshoring?

Outsourcing

At its most basic, outsourcing is about moving internal operations to a third-party. This can come in the form of selling physical plant to a supplier, to buy back goods or services, or shifting an entire business division to a third-party and again buying the service back. The basic philosophy being: To move transactional activities to the experts in order to give an organization the capacity to focus on its expertise.

The pattern of decades worth of trade has been based upon this ideal. Almost every company has 'spun off' its functions and sort greater specialization on the areas which earns the most profit. In turn, outsourcing has generated fantastic wealth for the global economy.

There are down-sides. Although a company can expect to see a reduced cost profile, it does lose its own capabilities. Once you move your productive facilities to a supplier, you also outsource all the knowledge and human capital to make those goods. Such capabilities may have taken decades to create. Once lost, they are hard to return.

Critics also argue that outsourcing equates job losses. The act of outsourcing is, generally, laying-off a number of people (as well as selling property). These workers face an uncertain future of possibly retaining their jobs with the new supplier, or perhaps being made completely redundant.

Offshoring

Unlike outsourcing, offshoring is primarily a geographic activity. In the West, goods are expensive because the staff required to produce and distribute them are costly. In the developing world, by contrast, vast inexpensive labor pools provide an easy bedrock for a low-cost economy.

Offshoring takes advantage of these cost differentials by relocating factories from costly countries to the cheaper economies in order to sell the goods back in the West at a hefty discount (and profit). Alongside technological improvements, it has been the decades of productive offshoring that has lowered the costs of consumer goods such as clothing and electronics.

Offshoring does not only relate to the production of physical goods, but also services. The Indian IT industry, for instance, has been powered by waves of offshoring by technological companies in the West.

As with outsourcing, the activity has the potential to save money for both seller and consumer. Advocates also argue that these actions can stimulate wealth in some of the world’s poorest countries and provide jobs for those who are in the deepest need of aid.

Critics contend that this is merely self-serving rhetoric and that offshoring is a device to exploit some of the world’s most vulnerable populations. Workers from such countries have no legal protection and face either harsh conditions or hunger. Examples such as Apple’s supplier Foxconn, which experience a speight of suicides at its Chinese facilities testifies to the severity of treatment.

Combining offshoring and outsourcing

The ultimate means to save a significant amount of money is to combine offshoring with outsourcing. That is move production to a third-party that is based in an overseas location. This has been an activity in which American corporations have been engaged for many decades. Last swatches of US industry has been relocated under the production of overseas entities, mainly in China.

Although double the savings may be enjoyed here, so are double the cost. Opponents argue that the costs are not only felt by companies, but by entire nations. The dramatic change in the American political climates, for instance, is partly attributable to the enormous public opposition to outsourcing to offshore locations.

It is important to know the difference between these terms when engaged in the political debate on business strategies. There are both moral and economic implications of offshoring and outsourcing, but they are distinct. And an enriched discussion will be mindful of these differences.

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