

Squandering the Outsourcing Dividend. By Charlie Barnhart

The primary reason for operating a for-profit enterprise is profit, which is defined as the difference between what it costs to manufacture and sell a product and what it is sold for. Therefore, at least in theory, reducing product costs generates additional profit—and generating profit is a good thing, isn't it?

Perhaps it depends on what you do with the gain. Consider the electronics industry as a case in point.

Since the cost of fabrication, parts, assembly and testing add up to be the largest portion of total electronic product cost, it is not surprising that production was the first task to be outsourced. And generally, the results were as expected: Outsourcing lowered manufacturing costs and lifted profit.

So what happened to those profits? Were they used to fund innovation—to invent the next big-thing? Unquestionably, there was a lot of money out there in the 1990s. Clearly it could not have all been spent on adding color displays, cameras and thousands more ring-tone options to our cell-phones. Neither was much of it spent on hiring, capital investment or additional dividends to shareholders. So where did it go?

It was given back to customers, in the form of reduced selling prices. Why would the industry do this? Not because it wanted to, but because it had to. Granted there was an economic downturn; but the harsh reality was that the industry had reached a point of product saturation, and there was no other alternative. Far too many companies had talked themselves into believing there was more value in pushing their brand than in pushing for something brand-new.

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In what may go down as the greatest foul up in history, the ultimate tech industry simply allowed itself to degrade into what economists call a commodity market, an arena where selling price becomes s the primary differentiator.

If you find this depressing, hang on. It will get worse.

Already, at a steadily increasing rate, companies have begun outsourcing not only manufacturing but also product design, purchasing, offices processes, information systems, logistics, customer service, call centers and other functions. And **they** are doing so to remain competitive in the expanding, yet fickle world of virtual commerce, where side-by-side feature comparisons are accomplished in key strokes and customer interactions are reduced to electronic order numbers. A cutthroat, thankless environment where prices rule and free shipping cinches the deal.

So who benefits from all this? The **o**utourcing companies? Given their margins, it is difficult to believe they consider the situation to be utopian. What about the low-cost workers in places like China, India and Indonesia? Aren't they better off? Sure—as long as their wages and benefits stay artificially low, or they'll find themselves on the list of yesterday's good-deal locations. Perhaps consumers benefit. But are lower prices really all that helpful after you've lost your job?

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Maybe no one benefits. And if that is the case, then there should be someone to blame. [\[So is your thesis that noone has benefited?\]](#)

Why not blame management? They were the ones who chose the quick and easy returns of outsourcing versus the tougher, high risk path of innovation. Which means the outsourcing dividend was squandered in the corner-office, not in the cubical around the corner.

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Maybe it is time to outsource the CEO's job? What do you think? All in favor—raise your hand.

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