




Don't Let Outsourcing
Break Your Supply Chain





*“Master your strengths,
outsource your weaknesses.”*

– Ryan Khan,
Founder, The Hired Group

Businesses have been outsourcing operations since the late 1980s mainly in a bid to tap into a global marketplace and combat rising costs. Outsourcing was a cornerstone for businesses to scale effectively, launch new products seamlessly, and manage operations efficiently. Over the last few decades, outsourcing has morphed into an essential way for businesses to leverage existing expertise without having to invest significant resources into peripheral disciplines.

However, this branching out of business operations has added complexities to business structures, particularly supply chains. As outsourcing has evolved in tandem with businesses, supply chains have graduated from being simple, linear connections between businesses and suppliers. Today’s supply chains constitute an interconnected network that spans across functions, departments, and continents.

Gauging the Impact of Outsourcing

Outsourcing shows tangible benefits in resource management, talent reach, cost benefits, and organizational flexibility.

From a business perspective, outsourcing supply chains can have several direct benefits for businesses. The tangible ones include:



Better resource management

Your core team can level up and be promoted to take on higher value tasks while the repetitive tasks and processes can be delegated efficiently with outsourcing. For many enterprises, outsourcing the day-to-day back-office tasks and processes leaves more time to focus on scaling the business and boosting the bottom line. Moreover, outsourcing also mitigates the after-effects of employee turnover with sufficient available backup.



Increased talent reach

Outsourcing operations not only saves time and resources spent in recruitment and training, but it can also enhance your capabilities. Often vendors will have higher competencies for the current tasks as well as capabilities for the future. With this, your business operations run seamlessly at present while gearing up for the future at the same time.



Flexibility and cost benefits

Outsourcing can act as an operational shift from a capacity expenditure-based model (CAPEX) to an operational expenditure-based model (OPEX) by saving on upfront talent and infrastructure costs. You can easily scale up or down as per requirements, demands, or extraneous factors like market conditions. The extra cash you save can be diverted to more critical business endeavors. In the longer term, tailoring and fine-tuning your manpower to your requirements lead to larger savings and greater profitability.



These advantages add up over a period to create a robust supply chain and a real business differentiator.

In their 2021 Global Shared Services and Outsourcing Survey, Deloitte found that **88% of all respondents achieved their cost reduction targets through outsourcing.**

Moreover, **outsourcing also helped 78% of the companies surveyed in meeting their process efficiency and standardization targets.**

It is thus, of little surprise, that the global market for **outsourced services almost doubled in 2020.** Outsourcing is expected to keep surging as **only 9% of all EHS executives expect it to fall over the next two years.**

The question, for all future-facing enterprises now has changed from “*Should I hire suppliers?*” to “**How many third-party suppliers (vendors/contractors) should I hire?**”



Diving headfirst into supply chain outsourcing seems lucrative. But for all its benefits, there are several associated risks of working with third-party contractors that businesses need to know.

Supply Chain Risks with Third-Party Contractors

Outsourcing your supply chain can often have some unforeseen effects, especially in relation to the lack of visibility and transparency. And there have been real-world cases where this has come to the forefront.

Recently, a popular American fast-food chain restaurant had to **close over 700 stores** across the UK due to supply chain issues.¹ Their primary supplier failed to deliver critical raw material in time, leading to stagnated production. The following reasons were identified:

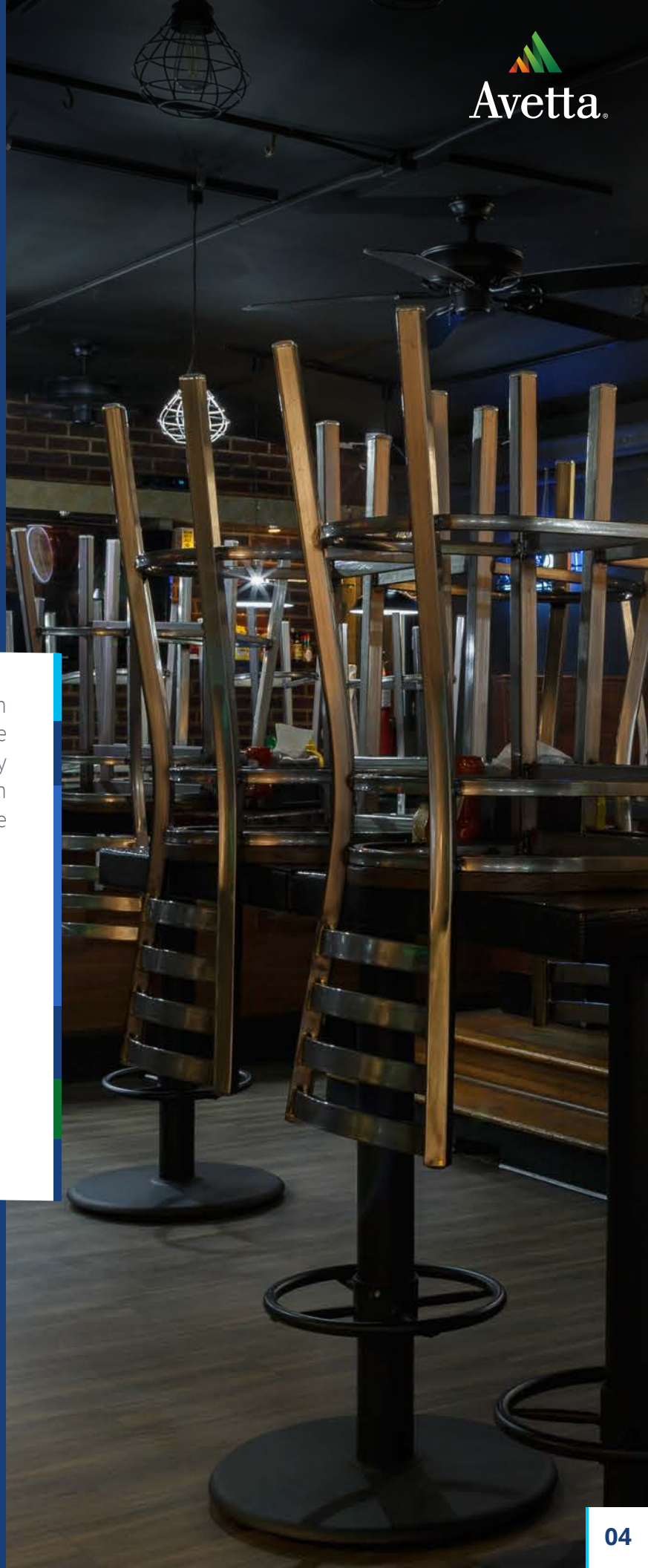


The supplier lacked any prior experience in this domain, and hence, there was a lack of the required skillset.



They had only one distribution center to serve multiple outlets across the entire country. It got overwhelmed fairly quickly and a single disruption halted the entire supply chain function.

Such incidents serve to highlight the importance of selecting the right supplier and avoiding damaging consequences for your business. This has never been more critical than now when the world at large is still coming to terms with the aftermath of recent disruptive events.



Direct and Indirect Risks of Outsourcing Supply Chains

Onboarding suppliers that are unqualified, unvetted, and untrained can lead to several complexities and eventualities that enterprises might not be prepared for. **This can either lead to direct risks (where the business ends up incurring financial or reputation loss directly) or indirect risks (that do not lead to direct financial or punitive ramifications but can manifest in other ways over time).** They include:

Direct risks of onboarding third party contractors



Lost time – Untrained and unqualified third-party suppliers and contractors can cause frequent disruptions and errors that prevent work progress.



Fines and penalties – Such errors of judgement have the potential to lead to further regulatory and compliance complications that bring about added expenses and reputational damage.



Damages and repair costs – Untrained workers and suppliers often lead to incongruity of work process, procedures, and ethics. Not having the right component or not following the right process can lead to property damage requiring repairs.



Increased insurance costs – Workplace errors and damages have the potential to increase risk perception leading to higher insurance premiums.



Litigation costs and civil damages – In certain cases, working with unqualified suppliers can lead to third-party damages.

Indirect costs of onboarding third party contractors



Reputational damage – Over time, third party worker incidents can lead to bad press and negative experiences shared via word of mouth.



Strained employee relations – Workplace incidents affect employee morale adversely and create a sense of insecurity.



Time needed for post-incident investigation – Additional time needed to ensure incidents aren't repeated is an added factor.



Recent surveys highlight that **43% of companies face unexpected supply changes weekly** while **36% experience them daily**.² In such times of volatility, businesses need their supply chains to be stable. However, there is cause for justified concern as **supply chain challenges continue to plague enterprises across industries and verticals**. This is highlighted in another 2021 survey.³

It revealed that issues related to supply chain visibility —

disruptions and shortages,



forecasting,



and supply chain synchronization



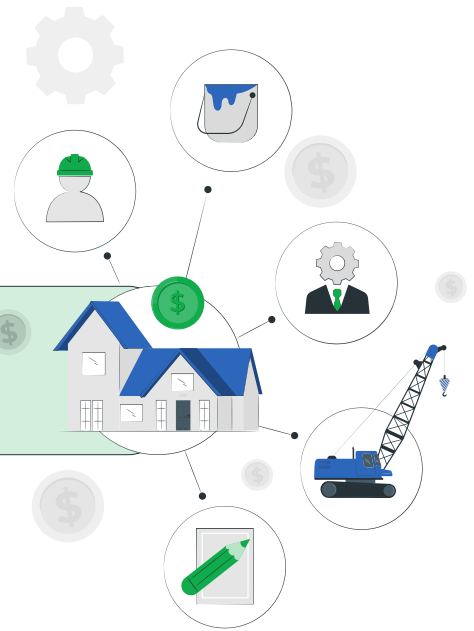
remain among the top eight challenges with **supply chain disruption being the top concern**.

So, what can enterprises do to strengthen their supply chains without having to sacrifice the many benefits that outsourcing can bring?

The answer is staying updated on risks and forging mitigation strategies. Businesses must appreciate that third-party contractors always come with a level of associated risk; something that increases with non-qualified partners. Therefore, they must ensure efficient contractor management to be able to counter the risks effectively.



Mitigating Risks with Contractor Management



Contractor management is defined as a form of worker management used in projects where either all workers or a part of them are contractual workers, vendors, and suppliers.

This is in contrast to projects where the entire workforce consists of directly employed workers or are employed by a single party. Owing to the ubiquity of outsourced supply chains among globalized businesses, contractor management platforms have seen increased demand. In 2021,

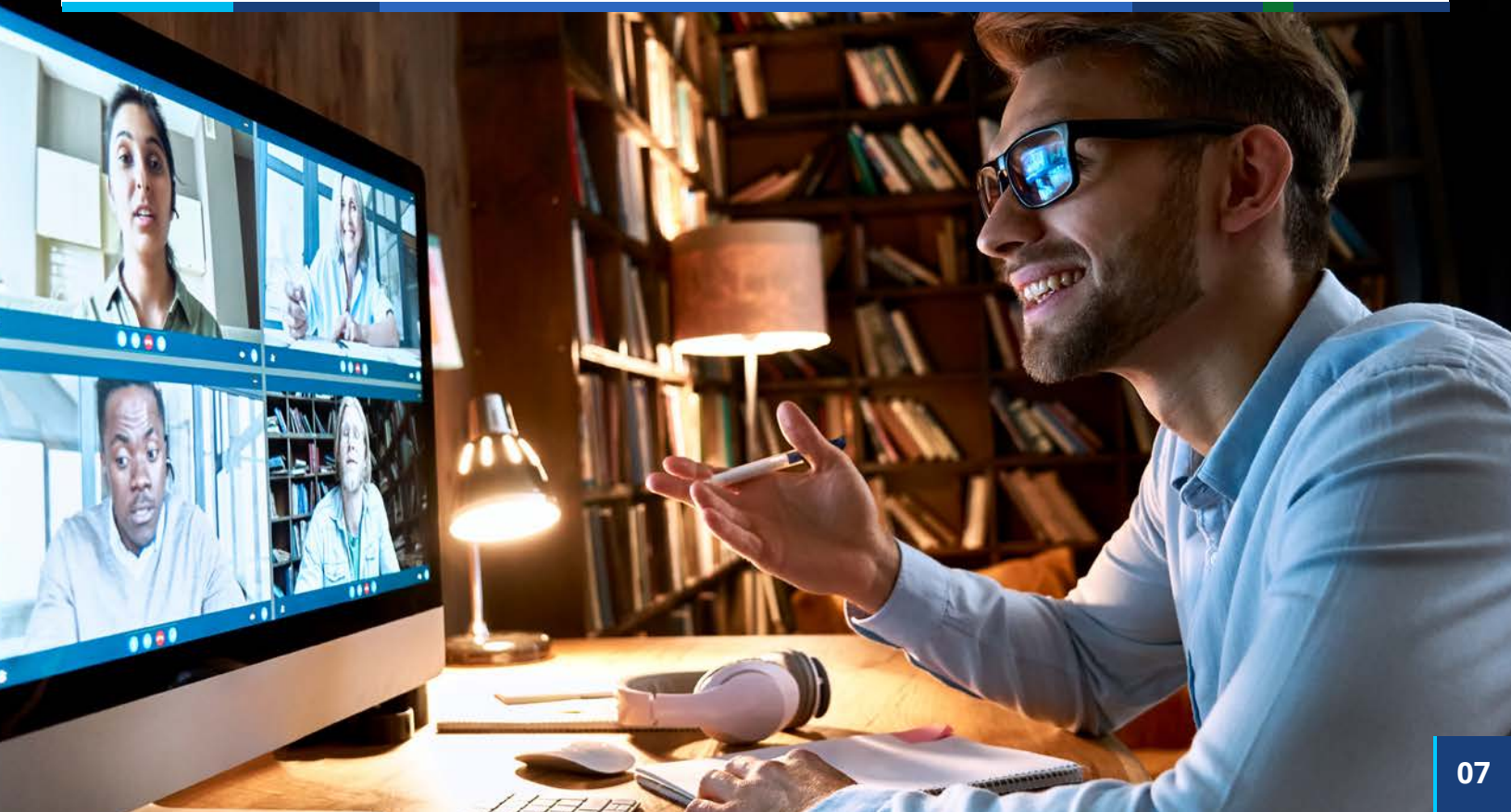
the **contractor management platform market size was estimated at \$965.25 billion.**



This is further **expected to grow at a compounded annual growth rate (CAGR) of 13.2% up to 2030 to be worth about \$3 trillion.**



As businesses have evolved, contractor management has also seen a rapid evolution. From simplistic discussions on health and safety and procurement in 2005, it has morphed into multi-departmental involvement today with procurement to facilities, and IT to operations all having their own perspective on it.





The Challenge

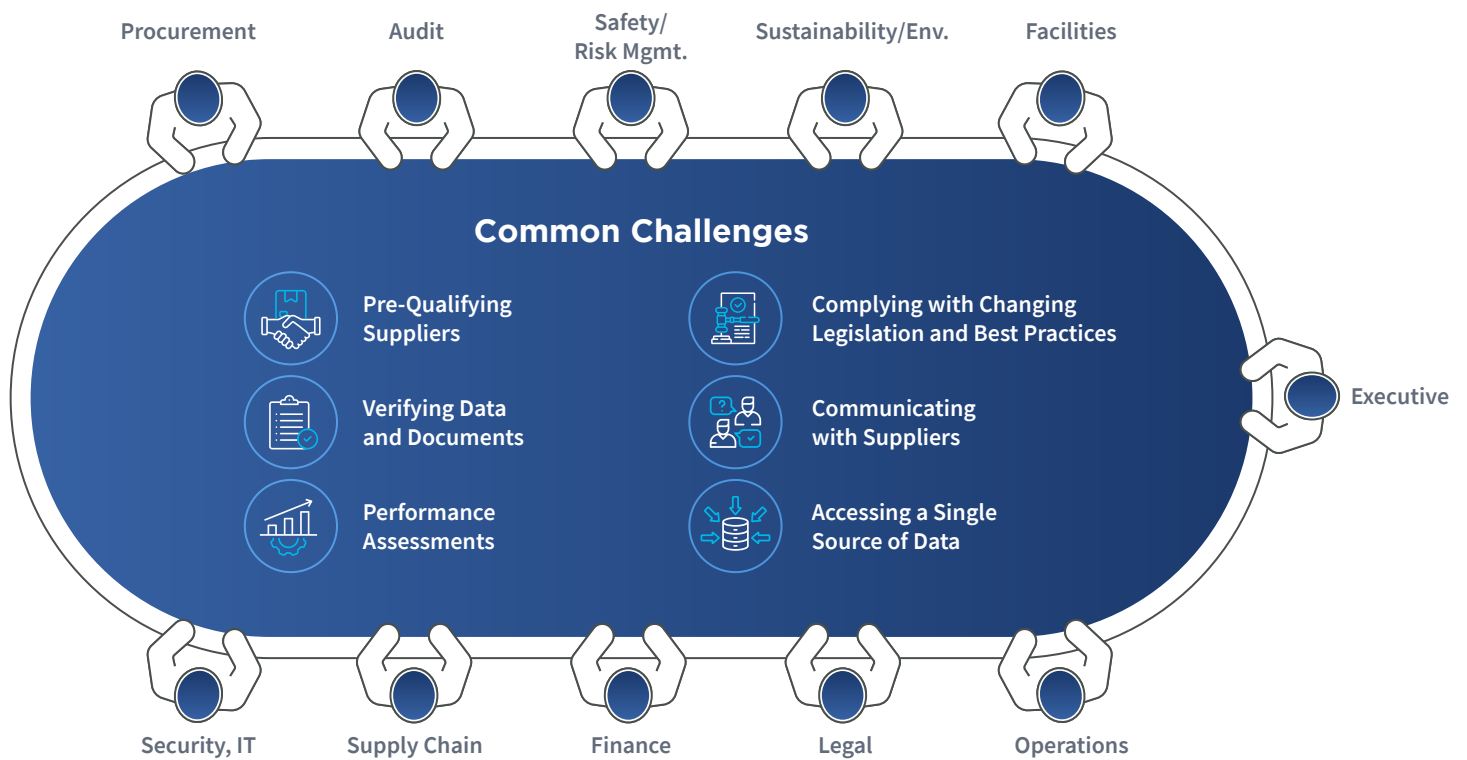


Figure 1 : Challenges in Outsourcing

However, this has led to complications as all these departments have different requirements for qualifying third parties. Also, these siloed departments often formulate incoherent onboarding processes for contractors, leading to inconsistencies, lack of standardization, and inefficiencies in the subcontractor management process. This leads to errors in judgement that potentially have severe ramifications not just for the individual departments but for the business as a whole.

For businesses, mitigating risks with contractor management must be an integrated process and entail the following considerations:



Prequalification of suppliers

Prequalified suppliers means businesses have a ready list of risk-free suppliers.



Pre-job task and risk assessment

Businesses can substantially reduce risks and mitigate future incidents with risk assessments and pre-job tasks.



Contractor training and orientation

Site induction training for third-party contractors can minimize risks.



Job monitoring

Onsite assessments and monitoring of subcontractors across operations, health and safety, and facilities can identify and mitigate potential risks.



Post-job evaluations

Post-job evaluations ensure the job meets compliance standards.

How Avetta Can Help

Enterprises need not traverse complex contractor management processes alone. Experienced partners like Avetta can help them get started on their quest to streamline their supply chains and manage risks effectively while ensuring outsourcing benefits. This is where Avetta's subcontractor management solution can help enterprises gain end-to-end supply chain visibility, even beyond their primary supply chain.

There are many advantages of working with the subcontractor management solution. Some highlights include:



Time-saving

Pre-work compliance for contractors means faster onboarding



Visibility

The solution offers complete compliance, connection, location, and trade information, ensuring complete contractor visibility



Process standardization

The streamlined process ensures companies can seamlessly connect with qualified suppliers



Compliance

All primary and secondary contractors are subject to the same thorough and rigorous compliance mechanism, offering consistency



Safety

Fast and effective supplier prequalification with established contractor credentials



Convenience

An innovative technology-based intuitive platform in Avetta One, made robust with years of accumulated real-world learning and expertise




Knowledge

Access to Avetta's vast internal resource repository



Ease of use

Easy access to supplier information to always stay updated and a step ahead of the curve



With consistency and standardization, your supply chain remains protected despite branching out to several subcontractors. Moreover, you also enhance compliance adherence across the entirety of the supply chain to gain productivity and foster future resilience. This ensures that outsourcing can offer all the benefits to your operations without any risks.

References

ⁱ Source: **The inside story of the great KFC chicken shortage of 2018**, Wired;
<https://www.wired.co.uk/article/kfc-chicken-crisis-shortage-supply-chain-logistics-experts>

ⁱⁱ Source: **Build Agility & Respond To Change**, Quickbase;
<https://www.quickbase.com/supply-chain-resilience>

ⁱⁱⁱ Source: **Supply chain challenges 2021**, Statista;
<https://www-statista-com/statistics/1182057/global-supply-chain-challenges/>

^{iv} Source: **Contract Management Software Market**, Straits Research;
<https://straitsresearch.com/report/contract-management-software-market>



About Avetta

The Avetta SaaS platform helps clients manage supply chain risk, and their suppliers, to become more qualified for jobs. We offer the world's largest supply chain risk management network for hiring clients in our network to manage supplier safety, sustainability, worker competency, and performance. We perform contractor prequalification and worker competency management across major industries, all over the globe, including construction, energy, facilities, high-tech, manufacturing, mining, and telecom.



For suppliers in our network, our audit and verification services help lower their safety incidents rate by 29%. As a result, about 50% of members find additional job opportunities within the first year of joining. In addition, our suppliers receive privileged access to the Avetta Marketplace, where dozens of partners offer special discounts for business services like insurance and work gear. Avetta serves more than 375 enterprise companies and over 130,000 suppliers across 130+ countries.