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Outsourcing Is Dead—Long Live Outsourcing



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The world without outsourcing is hard to imagine today. Modern outsourcing has been a hot trend since the 1980s. The main purpose of outsourcing used to be the reduction of costs, concentration in core competence and achievement of better overall efficiency.

Outsourcing's roots lay in ancient times, as the very starting point was the emergence of the division of labor. After the Neolithic Revolution, the development of agriculture and various crafts led to the rise of cities, where inhabitants could prosper thanks to the commercial division of labor and specialized activities. This, in turn, improved the technical level and quality of products and led to future industrial revolutions. Let's note the main result of this pre-outsourcing—the specialization or achieving excellence in a particular craft.

Simultaneously, as usual, people looked for efficiency to beat the competition, and the specialization constantly deepened, primarily to save on training costs.

Greek philosopher Xenophon wrote in the 4th century BC: "There are places even where one man earns a living just by mending shoes, another by cutting them out, another just by sewing the uppers together, while there is another who performs none of these operations but assembles the parts." This indicates another trend of pre-outsourcing—using lightly qualified (aka cheap) labor to achieve efficiency and competitive advantage.

On the other hand, to protect specialization and commercial position, from medieval guilds to corporations of the 19th and early 20th centuries, companies started to encapsulate and control every small specialization necessary for production. This included the supply of raw materials, manufacturing of tools, human resources, legal services and more—effectively becoming vertically integrated organizations. This development of monopolistic capitalism and concentration of power would stop further specialization and efficiency advances, but thanks to industrial revolutions and technology innovations—as well as some help of governments through antitrust legislation—the competitive environment has been preserved.

As companies had to continue competing, India and China started to offer large pools of cheap yet unqualified labor beginning in the 1980s. The era of modern outsourcing had begun. U.S., European and multinational corporations had the possibility to save a buck yet still needed to provide extensive training, expertise in technology and management supervision to the local outsourcing companies or their own captive centers.

The huge difference in the labor costs quite justified such an investment. Starting initially from manufacturing outsourcing, the development of the internet in the late '90s created a door for the outsourcing of white-collar services as well. At this point, a huge wave of outsourcing criticism had begun, as it was associated with mass job losses, worker insecurity and melting quality. It's not true, as job losses due to technology and innovation advances have been here for many centuries but have also been painful for many centuries. Who now remembers such professions as a human alarm clock, a lamplighter, a log driver or a switchboard operator, which do not exist anymore?

According to a recent McKinsey report, robotic automation will cut as many as 800 million jobs worldwide by 2030, far more than can be attributed to outsourcing.

Following the criticism, just after about 10 to 15 years of the existence of white-collar outsourcing, the word "outsourcing" became almost a public enemy and a new curse. Outsourcing was proclaimed dead by many.

During those first years, however, outsourcing companies and the huge pool of their workers gained best-in-class expertise and various vertical experience. They became not simple, low-cost labor but the most knowledgeable and innovative powerhouses in many technology areas. Specialized expertise offered by providers has steadily replaced cost reduction as one of the most important factors for outsourcing. (Remember the ancient achieving of excellence in a particular craft? The history wheel turned around another time!) Additionally, outsourcing providers developed and adopted new service models like shared services, dedicated development, remote in-sourcing, multisourcing and offshore dedicated teams, and it started to offer new innovative business models that included risk-sharing and output-based—and even outcome-based—compensation.

An additional key benefit today is that world-class talents can be found and engaged in a shorter time, guaranteeing companies a much better chance of success, with providers capable of effectively managing those distributed teams. Plus, AI-based automation takes on a significant workload and becomes an increasingly valuable asset.

The phenomenon of outsourcing appeared as a response to a need for cost reduction. Over time, outsourced labor gained knowledge and skills from the developed companies who outsource. After 30 years of the industry's development, we are facing a situation in which outsourcers have become full-fledged specialists in their areas of expertise. Nowadays, we observe the second wave of outsourcing—its reincarnation. It is still cost-efficient to outsource even though the cost benefit has shrunk compared to the first wave. The incremental benefit of the second wave is the knowledge wealth, in which the company that outsources also gains quality expertise from a wide pool of professionals.

The key benefit of outsourcing is evolving from cost-cutting to process and labor optimization. It will continue to be one of the most important components of business strategy for decades to come. In future articles, we'll investigate how technology advances from the invention of the internet to robotic automation to AI make outsourcing even more valuable.

Long live outsourcing!



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Boris Kontsevoi is a founder and President of [Intetics Inc.](#), a leading global software engineering and digital transformation company. Under his leadership, a group of software engineers developed into a truly global technology company with multiple professional certifications and industry awards, including the Global Outsourcing 100, Software 500, and Global Sourcing Association best of class company.

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