Clients and Providers of Outsourcing Services

The SerCom and Topps Case Studies

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ABSTRACT. Outsourcing has long been used, notably in IT where the investments required to run systems were large and expertise was in short supply. Throughout the 70s and 80s, many companies lacked the IT infrastructure to run their applications efficiently and relied on providers of IT services for payroll and accounting applications. Since then, outsourcing has been used as a standard component of management strategy for a wide range of activities, rather than simply as a means to reduce costs and headcounts. Recent research has focused on BPO, KPO and open innovation as concepts which the IT outsourcing concept has fostered. This research is concerned with the "new" breed of outsourcing whereby entire business processes, sometimes critical to companies, are outsourced and clients build up sufficient trust with their partners that they rely on them for key aspects of their business such as bundling of key inputs, critical deliveries or complex data mining operations. Such arrangements require new types of outsourcing service providers, with finely tuned mixes of technological and business competences. Using two case studies, we study this new type of outsourcing from the points of view of both the client and the outsourcer.

RÉSUMÉ. Les activités outsourcées ont été utilisées depuis des années dans certaines industries, lorsque les investissements en informatiques étaient trop coûteux et l'expertise système était encore trop rare. Pendant les années 1970 et 1980, les entreprises avaient souvent recours a des sociétés de services en informatiques pour leur compatbilité ou leur logiciel de paye. Par la suite, les activités "outsourcées" se sont encore diversifiées et constituent maintenant une stratégie managériale a part entière. Récemment, l'attention des chercheurs s'est tournée vers des formes plus avancées d'activités "outsourcées" telles que Business Process Outsourcing, Knowledge Process Outsourcing, *et le concept d'*Open Innovation. *Notre recherche se concentre sur ces formes nouvelles d'activités "outsourcées", qui couvrent des processus entiers dont certains sont très importants pour l'entreprise cliente, tels que l'assemblage de kits de production complexes ou le* data mining. *Ces arrangements requièrent l'émergence de partenaires spécialisés qui possèdent un assemblage spécifique de compétences informatiques et de compétences de management de processsus. Sur la base de deux études de cas en paralèles, nous étudions les accords que les fournisseurs et leur clients passent entre eux en considérant le point de vue des deux parties.*

KEYWORDS: Outsourcing, BPO, KPO, Trust.

MOTS-CLÉS : activités "outsourcées", BPO, KPO, confiance.

1. Introduction

Outsourcing as a strategy for sourcing key resources or services had become commonplace by the late 70s and early 80s. IT outsourcing (ITO) in particular, quickly became an important area for managers and throughout the 90s many companies entered outsourcing agreements instead of setting up their own IT departments in-house to reduce costs on activities they no longer perceived as essential to their business (Lacity and Hirschheim, 1993). Although initially, the theory of outsourcing was that only non-critical activities should be outsourced and managers would have been quite worried about creating any kind of dependence vis-à-vis an external partner in a domain of importance, nowadays, the thinking has moved on towards a vision of outsourcing as the opportunity of finding a partner who specialises in a narrow activity and has obtained more efficiency gains that any other company could obtain without significant investment. Thus, recent research has observed that more and more activities are being considered as potential targets for outsourcing based on IT-enabled business processes supported by top tier outsourcing service suppliers, with many companies moving to Business Process Outsourcing (BPO), where the provider is trusted to administer all or a portion of the client company's business process on their behalf (Shi, 2007).

Two types of companies are now involved in this outsourcing revolution: providers of services, and clients looking for outsourced solutions. In the common scenario, client companies are offered a variety of supply chain solutions involving varying degrees of integration with the client's own systems, from simple outsourcing arrangements focusing on one simple step in a process to taking over an entire process and delivering directly to their client's own customers. Outsourcers are now able to offer very flexible solutions to their clients, more often by leveraging some Information Technology. As the supply chain director of an outsourcing service provider put it "no activity is too small for us, we are not proud!".

In this paper, we report on two case studies we carried out in unconnected companies, where we investigated, with a completely open mind – *i.e.* without prior notions of what we expected to find in these companies – the nature of the arrangements which these companies entered into. The next section presents some specific literature on modern day outsourcing. The methodology section indicates the nature of our empirical investigations in these companies and the remainder of the paper presents our observations and conclusions.

2. Understanding contemporary Outsourcing and Open innovation

In the past, outsourcing was regarded as a way to reduce costs and eliminate non-value adding activities, which enabled the company and its managers to focus on their core competencies (Wilcocks and Feeny, 2006; Hillary and Sykes, 2007).

Today's leading edge outsourcers, who specialise in providing supply chain solutions, can derive substantial economies of scale from printing and packaging activities, for instance, and can deliver services to their clients for a fraction of the potential cost clients would incur at least in the setup period of a new activity or new service (Hillary and Sykes, 2007).

This move carries with it specific risks as outlined by Shi (2007) and Sen and Shiel (2006). Sen and Shiel (2006) make the point that business processes have been described as being a combination of explicit elements and tacit elements, the former being amenable to reduction to a script of how things are done, whereas the latter are normally in a state of permanent change. In their view, both elements cannot be clearly separated, as in practice they co-exist in a way that cannot easily be untangled. Thus, managing BPO arrangements requires high levels of trust and constant management/re-evaluation. Nevertheless, recent developments have seen companies electing to outsource even core activities and establish virtual companies where they act as a hub and use a number of partners to carry out manufacturing activities, distribution of their products or, more recently, their entire procurement activities (Hillary and Sykes, 2007). This reflects the degree of trust and close integration that companies are willing to enter into in this era, whereas in the past, the close reliance on an adversarial, secretive vision of competitive business would have precluded such levels of collaboration between companies (Yu, 2008). From the point of view of the incentives that drive this new behaviour, Wang *et al.* (2006) have identified that companies facing high levels of environmental uncertainty are driven to seek greater levels of flexibility, by leveraging virtual integration with their partners with the help of leading edge IT.

In the most leading edge cases, companies may bring state-of-the-art technical expertise embedding the latest technologies – e.g.: mobile technologies to the delivery of their services. Alternatively, they may develop such a level of application expertise that their expertise in a specific business domain matches their clients' understanding of the problems to be solved, making them strategic resources which can be acquired by companies. This has been formalised by Sykes (2003) in his work for CSC's leading edge forum as reproduced in Figure 1.

In extreme cases, even R&D activities are developed in collaboration with partners (Ge and Hu, 2008) and this has given rise to the concept of *Open Innovation*, whereby companies are willing to go outside their traditional boundary to find the innovation that will differentiate their products and services in the future rather than develop the innovation in-house (Laursen and Salter, 2005).

In modern outsourcing agreements, it is well understood that specific analysis of the detail of business processes on the one hand, and the competences of the client company and the service provider on the other hand, are required in order to determine who should do what (Hillary and Sykes, 2007). Thus, managers must develop the ability to ensure that they retain control over certain activities or stages in these activities e.g. the design of the products and the brand name and find

reliable partners to execute the rest of the work. This more selective approach to outsourcing, selective sourcing, enables companies to "pick and choose" the activities from which they can derive revenues and which they can safely outsource (Willcocks and Feeny, 2006).

Insofar as the managerial paradigm shift inherent in switching to a highly collaborative relationship with the company's partners is non-trivial, we sought to discuss with companies involved in high levels of outsourcing from both supply and demand sides, what issues they perceive are the most important.
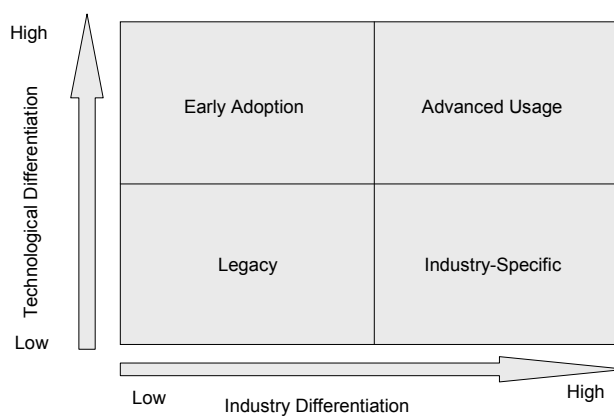
Source: CSC Leading Edge Forum, www.lef.csc.com

Figure 1. *Strategies for outsourcing services providers (after Sykes, 2003)*

3. Research design

Over a period of 5 years, we have carried out two case studies in parallel, of companies involved at the leading edge of outsourcing – one outsourcer and one client - and tried to learn from their combined experiences. It is noteworthy that the companies have no dealings with one another, to the extent that managers in these two companies do not know one another. Their experiences are therefore totally independent and we did not seek to triangulate our result by corroborating our primary data from the two sites. Rather, we tried to compile a complete scenario of what leading edge outsourcing arrangements involve based on the contrasting experiences of two companies on opposite sides of the barrier, one on the solutions or supply side and the other on the needs or demand side.

The investigation methods we used correspond to those traditionally involved in exploratory case study research (Yin, 2003; Miles and Huberman, 1994), particularly where the choice of the objects of the research is deliberate on the part of the researcher, as in Stake's (2000) *intrinsic* case study. In trying to learn

systematically about the experiences of managers in both sites, we carried out multiple interviews with knowledgeable managers using a *reputational* method as suggested by Knoke (1994) whereby individuals who are reputed to have been involved in the process of setting up and managing the outsourcing arrangements of the company are spoken to in priority until no new name is proposed. We also used any other publicly available relevant documents about these sites, including newspaper articles published about the companies during the period of the study. The logic of replication is adapted to the fact that the two companies are on opposite sides of the relationship of interest. Thus the questions we asked were mirrored in both sites rather than strictly replicated. For instance, where the client company was asked how they identified a provider, the provider company was asked how they identified customers. Also, the client company was asked how they sought to protect their interest in terms of the reliability of the service they sought; whereas the provider company was asked how they ensured that they protected their profit margin or what guaranties they gave to their customers and so on.

This research does not rely on a specific theoretical frame and is largely descriptive. It is primarily aimed at learning from the two cases rather than providing specific analyses of what the cases mean in a general sense. The two cases are intended to be considered as *intrinsic* case studies in the words of Stake (2000) whereby the researcher is interested in the case itself specifically rather than in trying to establish whether the cases selected are representative of certain populations of companies involved in outsourcing. The next sections present rich descriptions of the two cases.

4. The outsourcer: SerCom solutions Ltd

From its foundation in 1978 as a commercial print company SerCom Solutions became one of the world's leading global providers of supply chain management (SCM) services to the IT and telecommunications sectors. The company, founded in Dublin, maintained a strong customer focus, developed niche markets and invested in modern equipment and transformed itself in response to perceived market opportunities over its 30 year history.

In 2008, SerCom operated out of four Irish facilities. The Dublin headquarters contained the centralised services of IT, Supply Chain Management, Finance and Desktop Publishing (DTP). Activities based in Limerick included Procurement support functions, Warehousing and Assembly. The site served a number of multinational customers as well as acting as a near site Supply Chain and Procurement hub to a large electronics goods company. The Limerick facility also managed a wide range of assembly activities including the sub-assembly of LCD screens, which were directly fed onto one of their client's manufacturing lines. SerCom also has international operations in Mszczonow (Poland) and Memphis

(TN, USA) both of which are dedicated supply chain and procurement locations supporting local manufacturing activity of multinational customers.

In January 2004 Kuehne & Nagel (K&N) and SerCom Solutions established a strategic partnership to combine their respective capabilities in global logistics and supply chain management solutions, which increased SerCom's international reach into 600 locations across 96 countries. The merger with K&N was a critical move as the new global status it conferred on SerCom meant it could address a much broader range of customer needs. Table 1 presents the core activities which SerCom are able to offer to its customers.

Table 1 indicates the diversity of services offered by modern day outsourcers, here focusing on the supply chain and manufacturing activities in which SerCom specialise. In this list, it is also apparent that some outsourcing services still fit in the most basic category – such as consigned stocks (which primarily serve the purpose of taking the value of the stocks of the client company's book) – whereas other services require high degrees of trust (e.g.: quality control and the screening of components before their use on the assembly line) or high degrees of integration, (e.g.: demand forecast management or Just In Time live feed into customers' assembly process).

Table 1. *SerCom Core activities*

SUPPLY CHAIN ACTIVITIES	MANUFACTURING ACTIVITIES
Demand forecast management	Printing
Sourcing/procurement	Software replication
Warehousing/inventory management	Regionalisation
Consigned stocks	Programming
Component quality management/screening	Assembly and sub assembly (including software).
Live feed into clients' assembly process	
Logistics management	
Hubbing/bundling of components	
Website development and hosting	

4.1. *Industry context and evolution*

In the contemporary business environment where many workers in one location supply to consumers in far distant locations, supply chain management is a global phenomenon requiring careful logistics management. Logistics involves providing the appropriate physical environment, tools, equipment, labour and materials

required for business operations to run smoothly and incorporates management of flows of all materials into, within, and out of, a company to meet its business goals. Often, the impact of the high degree of uncertainty inherent in decisions about what and how to produce can be reduced considerably if companies improve their understanding of how to co-ordinate delivery of inputs across locations and how to move finished products to target markets which could be on the other side of the world (Wang *et al*, 2006). Specialist companies such as SerCom Solutions have built their logistics competencies and are a 'third party' expert to which many companies turn to meet the challenges of supply chain organisation. Providing solutions to such problems is sometimes called hubbing, an activity in which SerCom has specialised, to the extent that it may be producing in its facilities, assembly kits for its customers that replace hundreds of items coming from as many suppliers into one single sub-assembly which they make available in Just in Time mode directly on their customers' assembly line(s). The Bill of Materials (BOM) of their clients are therefore considerably simplified and so is the list of their active suppliers in that SerCom replaces sometimes hundreds of primary suppliers. Increasing levels of trust will result in SerCom being totally responsible for managing the full interaction with these suppliers on behalf of the clients (as if these were SerCom's own suppliers).

The impact of such sourcing and bundling activity can be quite drastic. The contribution of logistics companies consists of analysis of how best a supply chain should be structured or configured in order to optimise deliveries in a logically sequenced manner to meet production and assembly requirements and get products to customers as required. Considering that an average car has 10,000 separate parts for which many alternative suppliers exist, the impression of complexity in international supply chain companies is clear. By outsourcing elements of logistics, companies aim to achieve greater efficiencies and improve time to market. They are also able to take substantial volumes of costs off their books by relying on a partner such as SerCom to hold such inventories. In the case of non-production items (often not monitored by companies), some of SerCom's customers achieved substantial savings by simply asking SerCom to control the allocation of stocks.

In a world where the procurement and distribution functions of businesses have superseded production in terms of complexity and value added, companies like SerCom play the role of global outsourcing partner to some of the world's leading-edge companies which are increasingly happy to allow supply chain management specialists handle key aspects of their business to achieve such key objectives as shorter lead times to market, reduced inventory levels or more cost effective and efficient distribution. The benefits of greater efficiencies and improvements in time to market allow businesses that outsource to reorient their focus towards core business activities, such as product design, to the extent that sometimes, companies that are associated with certain products in the public's mind no longer handle their physical products at any stage in the production or delivery process.

4.2. *Matching technology to strategy*

Competition forced SerCom to re-evaluate its strategy and in 1999 it commissioned a feasibility study of the electronic fulfilment market. Internet development represented a viable substitute for SerCom's core business - physical fulfilment that required reliable, quality-controlled distribution to individual consumers and companies. Electronic Commerce (e-commerce) to facilitate fulfilment was adopted by SerCom's competitors, some of whom offered new services, aimed at managing core functions for their clients – smoothing links in the supply chain and facilitating optimal provision of products to customers, or applying already-proven technology platforms to the SCM market (see Figure 1 – *Industry Specific* quadrant).

But as few competitors offered comprehensive business solutions, SerCom saw an opportunity and set about establishing a position as a global provider of e-business solutions – *"everything behind the buy button"* – a strategy illustrative of the most desirable quadrant in Figure 1: *Advanced Usage*. An e-commerce approach had wide-ranging implications regarding the way business should be conducted and some immediate issues emerged:

– limited access by SerCom's customers to information on the progress of components, products or customer orders in the supply chain. Faxed and/or emailed reports were manually produced on a periodic basis. Increasing complexity of fulfilment programmes as well as SerCom's desire to re-position itself in its market demanded that the information flow process be vastly improved and automated where possible;

– rising fulfilment orders signalled SerCom's success but pointed to the need for an information system to facilitate more effective monitoring and management of order status in the supply chain for each company, component and /or product;

– diversity and complexity of fulfilment orders increased and concurrently sales were moving to a more demand driven, customisation model;

– Web based ordering was increasingly demanded by customers. For manuals/CD products, Electronic Software Delivery (ESD) was needed as an additional technological development, allowing software to be delivered via the Internet, and saving on production and distribution costs.

In 1999 SerCom's IT capabilities were inadequate to offer web-based services or to handle diverse orders – SerCom relied on poor IT systems to support the dynamic business environment in which it competed. The company did not want to simply supply components, and thereby compete mainly only on the price attribute but rather sought to offer more strategic activities that addressed logistics and supply-chain needs on as comprehensive a basis as customers demanded. The selected technology solution appropriate to the strategy was provided in the form of an Enterprise Resource Planning (ERP) system, successfully implemented in the 18 months to June 2001. This was very successful and SerCom was able to

leverage implementation efforts towards providing a higher level of service to its customers, by increasing the level of visibility on the outsourced processes and increasing the degree of integration between its systems and that of its customers. Information flows were accelerated and a more efficient execution of transactions facilitated. It also increased the level of trust which customers placed in SerCom and led to extensions in the scope of outsourcing requested by some customers as explained in the next section.

4.3. *SerCom strategy & the customer*

A key challenge for SerCom in implementing its e-commerce strategy was to generate trust with clients. In practice, many of SerCom's customers began with small-scale contracts and expanded business as trust grew based on SerCom's ability to deliver significant unit cost savings. SerCom's customer base reads like the who is who of the largest MNCs in the high tech sector.

As remarked by previous researchers (Shi, 2007; Sen and Shiel, 2006), a real fear is faced by potential customers – that of losing control in "handing over" some of their business processes to an "outsider". The Group Supply Chain Manager at SerCom explained that "customers can retain as much or as little control as they require" and argued that SerCom's quality focus should help to allay such fears. SerCom was ISO registered from May 1988 through the National Standards Authority of Ireland, one of the first indigenous companies to be awarded both ISO 9001: 2000 and ISO 14001 and they invest in maintaining such standards. Ongoing internal audits of the entire system are conducted frequently and the facility for customers to carry out audits of the systems and processes is available as requested. Our respondents' views on quality and the need to adapt to changes in the market are clear:

> A supply chain is only as goods as its weakest link (…) careful monitoring of performance and communication (…) is vital in guaranteeing ongoing conformance (…). The marketplace is constantly changing and we have to change with it. That means being flexible in everything we do. It also means constantly re-assessing what we do to see how we can improve. Each and every project we undertake is re-assessed on an ongoing basis to ensure that savings and other targets are being met in the timescale agreed. If not we do something about it immediately – we are happy to embrace change.

SerCom operates a very unique business in a highly competitive and complex business environment, in that not only is the nature of customers varied, but also the customers' suppliers become SerCom's suppliers. Some customers want SerCom to buy to forecast but be supplied to demand, which means that *ad hoc* irregular requests are characteristic of these customers. However, other customers operate on purchase order only, where SerCom cannot activate any orders until the purchase order is received from the customer. This can lead to huge pressures on lead times

and turn-around for suppliers. As a result, SerCom needs to be flexible to meet these requirements

The information system in SerCom is accessible by all customers who can view their account and product information at any time. Some customers prefer to use their own systems to view data and SerCom has to ensure both systems are integrated to support the provision of data in the required formats to customers' own systems. Such free access to the rich information resources affords SerCom's customers an accurate perspective on how their company is performing in terms of which products are being shipped to whom, and when.

SerCom has finally achieved its goal of offering e-fulfilment to their customer base. For example, if a customer wants SerCom to ship out software to an end user *via* the customer's web site, SerCom is able to redirect the request to SerCom's own server and automatically fulfil the online order. The objective of offering "everything behind the buy button" has been reached.

5. The Client: Topps Ireland Ltd

Topps Ireland Ltd. has been operating since 1977 and is a subsidiary of a US-owned multinational company specialising in the confectionary business. Managers at Topps consider that their company is primarily involved in the children's entertainment business on the European and South American markets and describe their business as the marketing and distribution of fashion items for the children's market. This is justified by the reliance on children's favourite characters, such as Casper the ghost or Pokemon, as a promotional platform for their products. In this respect, Topps is not a typical confectionary manufacturing company in that their products are created and designed purposefully for Topps' markets, have a limited life cycle, and are highly subject to fads and fashion. Some of the most famous products on which Topps success has been built were the Bazooka chewing gums (which they now sold on) and Push-Pops lollipops which became household names. More recently Topps have become famous for adding an entertainment component to their confectionary products in the shape of toys, containing gum or sweets. Topps has been particularly successful with their purchase of the rights to make Pokemon-branded products including the sale of stickers and catalogues. They have also experimented with "reloadeable" chewing gums which can be recharged with flavour using a specially designed container.

5.1. *From Manufacturing to Outsourcing*

The emphasis of the business has changed substantially over recent years from a heavily manufacturing oriented perspective, where products were produced in the Irish facility on dedicated assembly lines, to an approach based exclusively on the reliance of contract manufacturers located in the Far East. Already, in 1995, 20% of

Topps' products were manufactured in Ireland whilst the remainder was produced by trusted partners in China, Thailand and other countries. From this point onwards, Topps evolved towards a model of company based around the outsourcing of all manufacturing activities. The business was growing rapidly on all their European markets and they were also looking to expand their rapidly developing South American operations. Topps had been mainly a manufacturing company, but have now completed their successful transition to a design/trading entity, renting office space in the facility they formerly owned in Ireland. Over the 15 years where they accomplished this transformation, the company grew tremendously, increasing its turnover four-fold with a reduced workforce, having phased out its manual workforce and using technology to cope with the vastly increased volume of transactions and the increasing number of markets and distribution channels without the need for a corresponding increase in its administrative and managerial staff.

5.2. *Using IT*

One key component of this story has been the reliance on excellent information systems which gave Topps' management confidence that they could increase volumes and grow the business without running the risk of explosion. By becoming extremely efficient internally, they could divert enough time to the search for excellent partners in the Far East and the design of new products with higher margins, but with reduced life cycles. This better use of IT has involved the implementation of an ERP application which, in the words of the current Financial Controller, has been "very useful and positive from the first year of its implementation and Topps has gone leaps and bounds ahead in terms of its information systems".

At months-end half an hour of work is sufficient to produce the group result including UK operations and all other European branches, whereas this used to take two weeks and even then did not allow managers to drill down into products, geographical areas and activities with any flexibility. The ERP system has provided managers with the complete set of information required to analyse the activity of the business. This added flexibility has been achieved despite the enormous growth of sales. The greatest advantage of the ERP system has been to allow managers to control stocks, sales volumes and quality control in a way that was never possible. Slow moving lines were exposed, quality problems could be traced down to specific consignments and first-in first-out stock movements could be strictly enforced. Such is the accuracy of the ERP system that managers in Ireland can tell operators in the Rotterdam warehouse which cases should be shipped first. In practice, however, they don't need to do so because the Rotterdam operators have a remote access to the ERP system. This is a very significant improvement from a quality control point of view because the appearance of lollipops is degraded over time (even though they never perish) and become more difficult to sell. Since the implementation of the ERP system, products no longer have to be destroyed on a regular basis.

This new clarity in the data available about the business has enabled the new policy in terms of increased reliance on outsourcing partners, particularly on the manufacturing and distribution side, but this is only a part of what is involved in setting up outsourcing linkages that work over time. Our interviews with managers in Topps reveal the extent of the efforts they made in travelling to China and Thailand in particular in order to find their partners. At this stage, some partners have been working for Topps for over 15 years and the relationship that has grown is very strong and has in some cases become even personal. On a recent visit to Ireland, the managing director of their oldest outsourcing partners in Thailand brought a specially commissioned sculpture which was intended to symbolise the strength of the relationship and the friendship that had developed between the two companies and it was felt by the Irish managers that the materialisation of the trust between the two companies in the shape of that work of art meant quite a lot to their Thai partners. Thus, regular visits by high level managers and symbolic exchanges of gifts are regarded as a crucial way to reinforce the contractual linkages between the companies.

5.3. *Finding Reliable New Partners*

In expanding the search for partners towards China, which was made possible by significant advances in reliability, equipment and compliance (Topps' products are food products) in this area, Topps managers met with a number of potential sites and began working up to a prototyping level with a handful. The number of sites considered was limited by the overhead inherent in traveling to many different regions and the limited time and resources available to do so. At this stage, two main manufacturing sites have been selected from where vast volumes of goods are shipped to Europe and South America. The quality level of the output, after an initial period of intense scrutiny has been deemed to meet required standards. It is monitored by the regular expedition of samples of products taken from the regular shipments to the Cork site for examination.

At this point, the Chinese partners' contribution is being developed so that they are relied upon to source their material, to devise the best manufacturing sequence for new products towards and reduce the unit production cost to a minimum. As managers at these sites have become quite good at this, the agenda had shifted to reducing the lead time to prototyping, which is now of the order of two weeks, an excellent result in terms of past performance for these tasks. Remarkably, some very basic operations remain totally manual (which is allowed by the extremely low labour cost in Chinese plants), such as hand painting eyes and lips on the mass produced plastic head of a famous cartoon character. European children probably don't imagine that the little plastic toy which they discard when they are done with their gum has actually been hand painted by an operator, as if it was an expensive silk scarf. The ability to avail of such basic means of production when applicable explains why it must be the Chinese partners who seek to optimise production

methods, rather than these methods being imposed on them by Topps' managers, as part of the design specification of new products. This collaboration towards an optimal design of each new product is an essential step in that it conditions the margin that can be generated, within the demand conditions for the output, and leads to a decision to either go ahead or discard a new product idea. This reveals the extent of the contribution of Topps' partners in the creation of new products, and therefore, in the fortunes or value-generation capacities of the company.

5.4. *Characterising Topps' Strategy*

These observations allow us to characterise Topps' usage of outsourcing in the following ways. Firstly, Topps have engineered, over a 10 year period, a transition from being a totally manufacturing company to having no manufacturing activity at all, being totally reliant on a small number of trusted manufacturing sites in the Far East for all of its products. They have developed relationships over time, such that they trust their partners to fine tune the design and the manufacturing process of their products so as to maximise the profit margins for both Topps and their partners. In the current situation, Topps are satisfied that local decisions made in the Far East plants from the point of view of sourcing components, manufacturing and quality are made in their best interest as well as those of their partners. Although they keep a close eye on these decisions, they have clearly outsourced them in full knowledge of the potential implications. Their experience of the last few years has vindicated this choice.

Secondly, Topps have developed and maintained two key activities in-house - the selection of entertainment products and the design of products using these on the one hand and the administration of sales and the development of new markets on the other. These two activities differentiate Topps as a company and they have achieved an understanding of their markets such that the uncertainty about sales volumes is well under control. Their core tool in this area is a series of spreadsheet based "mini Profit and Loss accounts" which are used to project the margin for each campaign they run in a given geographical area. This campaign planning activity is used to schedule production and orders from their suppliers within a 5 to 6 week lead time required for the production and shipping of products to given markets. Topps' knowledge of market response is such that they can transfer products from one campaign to another if sales are higher or lower than expected. This amounts to a form of postponement strategy in the decisions about the product mix and about the supply chain logistics and allows the active optimisation of the turnover of the company.

This characterisation illustrates the power of outsourcing agreements when they operate successfully, in that they allow a company to pick and choose the activities where it can differentiate itself from competitors and rely to a high degree on remote partners with dedicated expertise for the rest of their value chain. One additional

observation that can be made is that Topps, whilst they have used outsourcing to reduce costs and to reduce manpower (to a fraction of what it was when they were a manufacturing unit), have also used outsourcing in a way that gives them access to leading edge manufacturing facilities and highly trained staff, without the need to bear the cost for such assets. In addition, the small scale network of outsourcing service providers in the Far East which they have now assembled gives them access to manufacturing/assembly innovations without the need to be involved in costly programmes of investigation and investment in equipment. Although this may not quite add up to reliance on Open Innovation as described in the literature (Laursen and Salter, 2005), this is evidence of strategic reliance on outsourcing. Finally, it is important to note that the outsourcing side of Topps' business relies equally on contractual guarantees as it relies on the personal dimension of maintaining close partners with whom warm and friendly relationships exist over long periods.

6. Conclusions

The development of a buoyant market for Technology Enabled Business Services (TEBS), which has been announced as the new world order by leading researchers in outsourcing (Hillary and Sykes, 2007) will require the existence of both strong demand for and strong supply of services. The case studies reported in this paper show that some companies are really embracing the opportunities offered by strategic outsourcing and live the reality of its evolution towards TEBS.

However, the experience accumulated by Topps and SerCom indicates that there is a significant intellectual as well as practical learning curve with outsourcing in terms of management attitude to outsourcing and management's knowledge of how to effectively exploit outsourcing. Also, as pointed out by Willcocks and Feeny (2006) in their case study of Dupont, sustained work is required over long periods before outsourcing clients create the portfolio of partners which they require to offload these activities that they have decided not to use for differentiation. In parallel, it may take considerable time before providers of outsourcing services develop the application and technological competence to effectively and efficiently offer the services required. Thus, companies will need to take risks and adopt this new way of designing, organising and managing businesses and their products and services before the new world order can become a wide spread reality. Governments and other policy making and funding entities will also have to embrace this new way of doing business if they wish to provide any supports and incentives.

This paper does not offer new information with regards to the concept or developments of outsourcing, but it provides concrete illustrations of the success of outsourcing as a way of optimising the organisation of a business and presents two rich case studies of the supply and demand sides, which can be used to guide managerial investigations into what outsourcing could do for their companies, whether they wonder about which new services they could provide or whether they

try to refocus their attention towards the activities that really matter. The two parallel stories we present can also be used as inspiration for future research into the success factors for excellent outsourcing utilisation.

7. Bibliography

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