WHY **OUTSOURCING** YOUR CORE FUNCTIONS IS **BAD FOR BUSINESS**

THE EFFICIENCY EDGE

In pursuit of cost reduction and short-term profit, many manufacturing and technology companies make a critical misstep: they outsource the very functions that underpin their core value proposition.

This strategy, often driven by financial pressures, might look good on paper in the short term but it frequently results in a loss of quality, puts you on the back foot when it comes to product development, and, ultimately, diminishes your competitive edge. For companies that fail to recognise which functions truly define their business, this miscalculation can have lasting negative consequences.

In this article, we explore the dangers of outsourcing control of your core functions, drawing from industry examples and our own experiences at Jendamark.

Short-term profits and long-term losses
One of the guiding questions for any business should be: "What is our core business, and what do our customers value most?" (Surprisingly, many companies struggle to answer this accurately.)

When leaders are instead motivated by cost-cutting goals and boosting short-term profits, it's tempting to outsource higher-cost departments like research and development (R&D), design and manufacturing. Manufacturing and technology companies, where production and development costs can be high, are especially vulnerable to this mentality. However, this can be a short-sighted rather than strategic move, as these are often the very functions that contribute most to the company's value proposition.

Companies that prioritise immediate profitability over strategic investment in core capabilities for sustainable growth often find themselves lagging in quality, battling with innovation gaps, and increasingly dependent on third-party suppliers who may not prioritise their long-term vision or brand values.

What initially looks like a leaner operation often turns into an organisation that's unable to innovate and respond to customer demands in an agile way. Over time, the cost of regaining this lost capability, whether by reacquiring talent or rebuilding processes, far outweighs the initial savings achieved through outsourcing.

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Case study 1: Boeing's biggest outsourcing lesson

One of the most powerful examples of the risks associated with outsourcing core functions is Boeing's decision to outsource significant portions of its product development and component manufacturing. Driven by a desire to cut costs, Boeing adopted an aggressive outsourcing strategy, delegating key aspects of its manufacturing and design processes to external suppliers. While this decision did provide immediate financial relief and improved short-term profitability, it led to severe quality and safety issues.

For a company in aerospace, where safety and reliability are non-negotiable, outsourcing revealed a critical oversight: Boeing had distanced itself from its product's core aspects, losing direct control over both quality and innovation.

When Boeing's suppliers failed to meet its standards, the company incurred massive reputational and financial losses. This experience starkly highlighted the importance of maintaining control over functions that directly impact customer trust and safety.

Case study 2: The automotive industry's R&D struggles

The automotive sector has long embraced outsourcing to reduce costs, but several car manufacturers have come to regret outsourcing R&D and feature innovation. Companies like General Motors and Ford outsourced substantial portions of their R&D and technological development to third-party suppliers and while this approach initially reduced expenses, it also diminished their ability to innovate and respond rapidly to changing market demands.

As electric vehicles (EVs) and autonomous technologies began to dominate the market, companies that had outsourced R&D found themselves at a significant disadvantage. With intellectual property and technological expertise residing outside their organisations, these automakers had to rely on suppliers' timelines and priorities rather than setting their own.

The result was slower adaptation to market shifts and limited ability to differentiate themselves from competitors. Today, companies like Tesla, which have kept R&D in-house, lead the way in EV innovation, highlighting the long-term value of retaining core competencies within the company.

Case study 3: Jendamark's journey back to insourcing

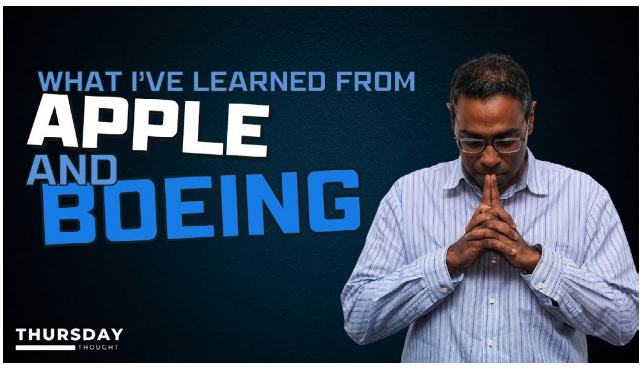
At Jendamark, we've experienced both sides of this dilemma. During the 2008 financial crisis, we made the decision to outsource critical functions such as mechanical and electrical design, programming, and even manufacturing. These departments were costly to maintain, and outsourcing seemed like a necessary choice for survival in challenging times. However, the long-term impact was a loss of product quality and control, as well as the erosion of intellectual property.

In 2012, recognising the limitations of this strategy, we began to bring these core functions back in-house. By reinvesting in our internal teams and regaining control over our design, manufacturing and software processes, we restored our competitive advantage.

Insourcing allowed us to build a highly skilled workforce capable of continuous innovation. The growth and improvement we achieved by regaining control over our core functions far exceeded the temporary savings we had realised through outsourcing.

Today, for example, our precision machining capabilities set us apart from other machine builders. Our investment in a dedicated precision machine shop and metrology department ensures that each manufactured part meets exacting standards, reinforcing the quality and reliability our customers expect. This journey underscored the importance of maintaining direct control over functions that contribute to our unique value proposition.

To watch the video, click the image below.



Case study 4: Apple keeps core design in-house

Apple, a global leader in technology, has also remained wary of outsourcing its core design and hardware development processes. Unlike many competitors, Apple designs its proprietary chips in-house, recognising the strategic value of having complete control over its technology, which allows the brand to innovate faster, creating devices with unparalleled performance and efficiency.

Had Apple outsourced its chip design, it likely would have lost this competitive edge. By keeping R&D and design in-house, the brand can tightly integrate hardware and software, a core part of its value proposition.

In contrast, many competitors rely on third-party processors, which limits their ability to offer the same level of innovation or customisation.

Competing on value, not price

For the manufacturing and technology sector – where customer preferences evolve rapidly, and competition is fierce – outsourcing core functions may provide short-term financial relief but usually comes at a high long-term cost. The companies that thrive invest in what makes them unique; enabling them to innovate consistently, respond rapidly to shifts in the market, control quality and meet customer expectations.

At Jendamark, we've learned that insourcing isn't just about maintaining control; it's about fostering a culture of innovation, skills development, and resilience. By retaining our core functions in-house, we're able to compete on our unique value proposition rather than just on price.

Ultimately, the lesson is clear: outsourcing may offer a quick fix for the balance sheet, but it's the companies that invest in their core functions that enjoy enduring relevance, profitability, and customer trust.