Industry, trade and services

Author: Pekka ALAJÄÄSKÖ

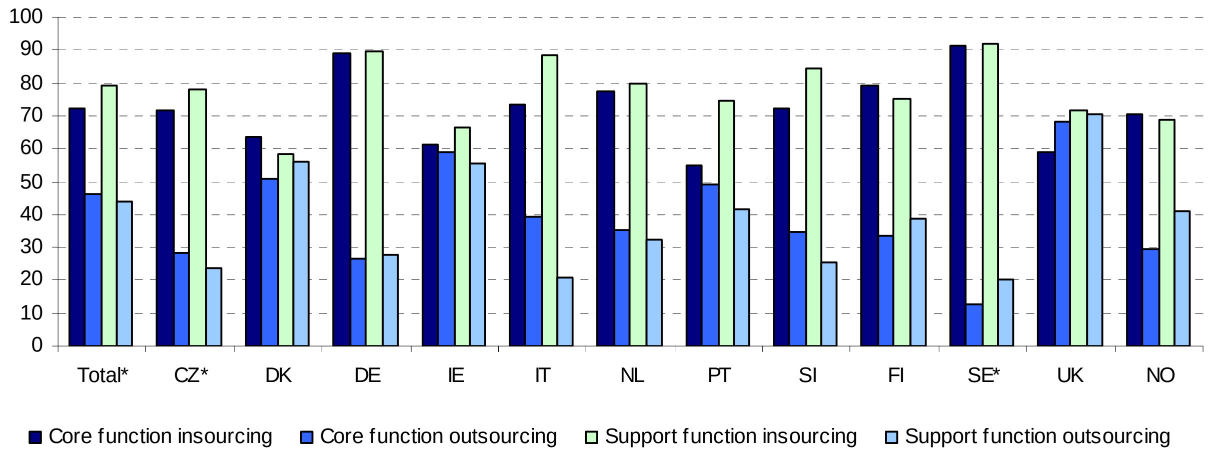
eurostat
Statistics in focus
73/2009

Features of International Sourcing in Europe in 2001-2006

International Sourcing as a business model is becoming more and more popular as resident enterprises move abroad their core and support business functions that were previously performed in-house or domestically sourced. This publication analyses what type of international sourcing is the most common and what impact it is having on employment. A survey carried out in twelve countries on enterprises engaged in international sourcing in 2001-2006 showed that:

- **Insourcing, i.e. moving business functions abroad but within the same enterprise group is the most common type of international sourcing.**
- **Administrative and management, sales and after-sales services and engineering and related technical services are the three most frequently insourced support functions.**
- **Distribution and logistics, research and development and ICT services are the three most frequently outsourced support functions.**
- **International sourcing is most frequent within the EU-27.**
- **The perceived impact of international sourcing on competitiveness, cost reduction and access to new markets is positive.**
- **Most enterprises expect jobs to be moved abroad rather than new jobs being created domestically as a result of future international sourcing.**

Figure 1: Enterprises with international sourcing by business partner and type of function
Share in total number of enterprises engaged in international sourcing (%)



* CZ: provisional data; Total, SE: unreliable data

Source: Eurostat (iss_part)

eurostat EUROPEAN COMMISSION

Insourcing is the most popular type of international sourcing

Figure 1 shows that at aggregated level(1) almost 80% of enterprises with international sourcing use insourcing for their support business functions whereas the share for outsourcing is significantly lower (just above 40%). The respective percentage of enterprises that insource their core functions was just over 70% while the share of outsourcing enterprises was again around 40%. At national level, enterprises in Germany, Finland, the Netherlands, Norway and Sweden(2) insource their core business functions almost as often as their support functions.

In the United Kingdom however, outsourcing core business functions is as common as insourcing and outsourcing support business functions. In addition, the United Kingdom is the only country where outsourcing core functions is bigger than insourcing. In Ireland insourcing is at a slightly higher level. These two countries have the highest overall shares of international sourcing.

As shown in Table 1, administrative and management, marketing, sales and after-sales services, and engineering and related technical services are the most popular support functions that are insourced.

This is also true at national level. However, in Germany and Norway most enterprises insource their ICT services and research and development respectively.

As for outsourcing, distribution and logistics, research and development and ICT services are the support functions most frequently sourced to external suppliers.

This applies to most countries. In addition, a substantial number of enterprises in several countries also outsource engineering and related technical services and other support functions.

Table 1: Enterprises engaged in international sourcing by business partner and type of support function.
Share in total number of enterprises engaged in international sourcing (%)

	Insourcing							Outsourcing						
	Administrative and management	Marketing, sales and after sales services	Engineering and related technical services	ICT services	Research and development	Distribution and logistics	Other functions	Administrative and management	Marketing, sales and after sales services	Engineering and related technical services	ICT services	Research and development	Distribution and logistics	Other functions
Total*	92.3	87.6	81.4	77.8	76.3	67.7	:	17.9	26.5	:	32.2	33.0	49.2	43.2
CZ*	92.6	86.2	100.0	80.6	71.4	65.2	84.2	7.4	13.8	0.0	19.4	28.6	32.6	:
DK	71.2	70.0	56.8	61.5	60.0	68.7	61.1	30.3	35.0	51.9	41.3	51.7	36.1	94.1
DE	95.5	94.1	92.6	96.8	93.6	91.8	17.6	27.0	22.4	27.5	33.9	32.5	28.4	29.4
IE	74.3	81.2	57.6	67.9	73.2	51.9	62.7	28.5	25.5	50.8	38.5	32.0	54.4	40.9
IT	96.3	96.9	67.1	90.2	83.3	83.5	52.9	5.0	5.5	45.1	16.3	22.2	19.5	37.3
NL	87.3	90.9	85.7	86.1	79.3	86.8	53.7	29.6	28.6	37.1	21.7	40.2	24.3	:
PT	88.7	68.4	72.4	84.7	83.8	56.0	:	9.4	35.1	56.9	18.1	21.3	58.7	:
SI	97.3	82.1	95.0	86.5	95.2	84.1	100.0	10.8	24.2	5.0	16.2	4.8	25.4	0.0
FI	93.3	79.3	72.4	73.9	86.5	61.8	68.2	11.1	24.1	34.5	27.5	24.3	41.8	38.9
SE*	93.5	100.0	100.0	65.4	100.0	81.3	100.0	:	0.0	0.0	38.5	0.0	18.8	0.0
UK	97.0	82.9	84.1	67.7	60.7	50.7	72.0	:	41.2	:	36.2	37.3	:	72.0
NO	67.2	75.0	72.4	71.8	78.6	70.6	:	32.8	25.0	27.6	28.2	21.4	:	46.3

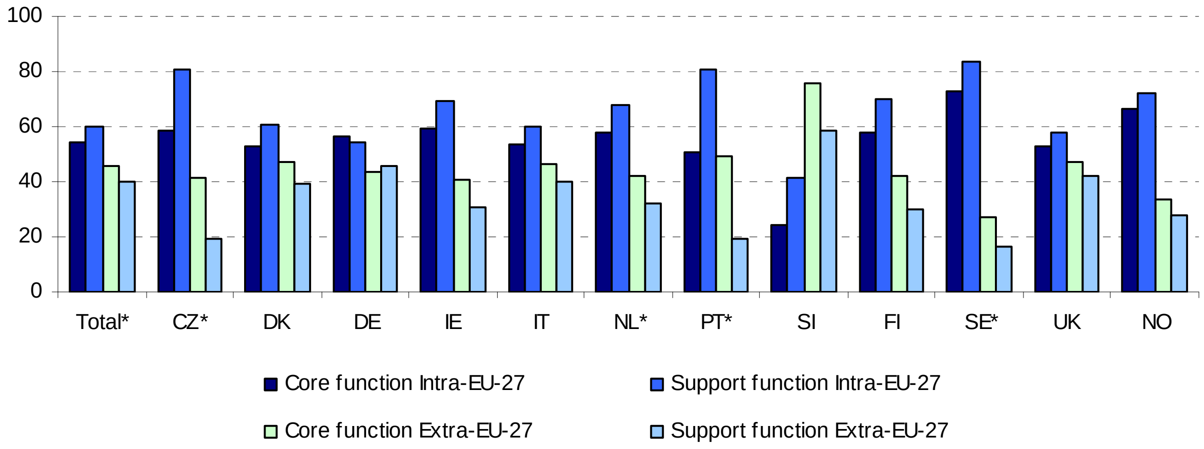
* CZ: provisional data; Total, SE: unreliable data
Note: The percentages are calculated on the basis of the number of times the enterprises have mentioned the support function that is sourced internationally

Source: Eurostat (iss_part)

(1) The total is of low reliability as certain data are either provisional (Czech Republic) or unreliable/uncertain (Sweden)
(2) Results from Sweden and the UK are affected by the special set up used when determining target populations. In Sweden international sourcing is probably underestimated and in the UK it might be overestimated

Core/support business functions are internationally sourced within the EU-27

Figure 2: Enterprises with international sourcing by type of business function and destination
Share in total number of enterprises engaged in international sourcing (%)



* CZ, PT: provisional data; Total, NL, SE: unreliable data
Source: Eurostat (iss_dest)

Figure 2 shows the share of enterprises with international sourcing by type of business function and destination.

As illustrated in this graph, enterprises in most countries source their core and/or support functions internationally within the EU-27.

Only in Slovenia a majority of enterprises are internationally sourcing their core/support business functions outside the EU-27.

Moreover, over 40% of enterprises in Germany and the United Kingdom are internationally sourcing their core/support business functions outside the EU-27.

Table 2 shows the share of enterprises with international sourcing by type of business function and country of destination.

Table 2: Enterprises with international sourcing by country of destination and type of business function.
Share in total number of enterprises engaged in international sourcing (%)

	Intra-EU-27		Other European countries		USA & Canada		China		India		Other countries	
	Core function	Support function	Core function	Support function	Core function	Support function	Core function	Support function	Core function	Support function	Core function	Support function
CZ*	58.3	80.5	18.9	15.6	1.6	5.5	14.2	2.3	7.1	2.3	9.5	0.0
DK	53.2	60.8	10.6	10.7	5.5	8.6	29.4	10.7	8.5	15.4	17.5	15.5
DE	56.4	54.1	12.6	15.5	10.8	14.0	28.1	26.0	12.0	14.1	19.2	19.6
IE	59.4	69.1	12.5	9.2	16.5	17.7	22.1	7.7	9.8	11.5	19.4	12.5
IT	53.6	60.2	17.4	8.7	7.8	19.5	20.1	9.2	7.8	5.1	19.6	9.3
NL*	58.0	68.1	2.3	5.6	2.9	4.1	12.9	4.1	8.2	10.8	15.7	:
PT*	50.9	80.6	4.6	11.3	1.4	6.5	:	:	6.0	1.2	25.9	:
SI	24.1	41.6	69.4	56.5	0.0	3.9	9.3	7.1	2.8	0.0	8.3	6.4
FI	58.0	69.8	12.6	14.7	5.3	3.6	25.6	8.9	9.2	12.9	9.7	5.3
SE	72.9	83.5	:	3.8	4.2	:	17.8	10.1	4.2	:	5.9	:
UK	52.7	58.0	17.0	20.3	31.7	27.9	15.6	11.2	10.1	14.4	30.8	34.9
NO	66.3	72.1	4.7	3.0	3.5	8.6	11.6	5.6	4.7	8.1	12.8	7.6

* CZ, PT: provisional data; NL: unreliable data
Note: The percentages are calculated on the basis of the number of times the enterprises have mentioned the country of destination to which the business function is internationally sourced

Source: Eurostat (iss_dest)

As shown in Table 2, over 60% of enterprises in most countries source their support functions internationally within the EU-27. The respective percentage for core business functions is over 50%.

The exception is Slovenia, where both core and support business functions are internationally sourced to other European countries. China is an important sourcing destination as more than 20% of enterprises in Denmark, Germany, Finland, Ireland and Italy sourced their core functions to China.

Moreover, about 30% of British enterprises source their core/support business functions to the USA and Canada.

Impact of international sourcing on enterprises and employment

The impact of international sourcing on enterprises is shown in Figure 3.

Specifically, most enterprises saw international sourcing as having a positive impact on competitiveness, the reduction of costs other than labour costs and access to new markets.

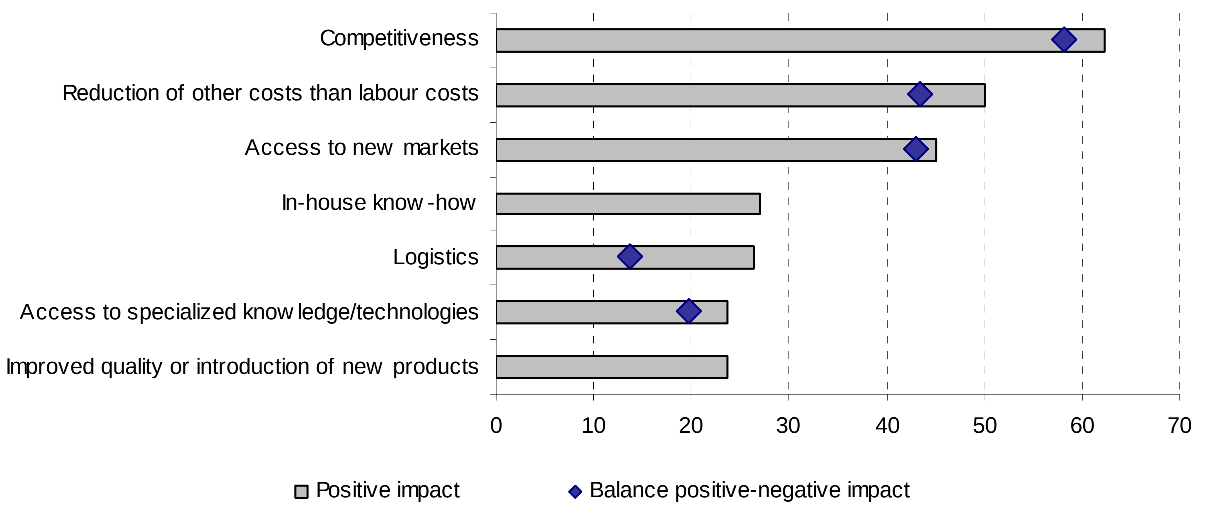
To a lesser extent, enterprises had a positive opinion of the impact of international sourcing on in-house know-how, logistics, access to specialised knowledge/technologies and improved quality or introduction of new products. On the other hand, just 4% of the enterprises felt that international sourcing had a negative impact on competitiveness.

Hence the "positive - negative impact" balance was 58% in favour of a positive impact. Similarly for reduction of costs other than labour costs and access to new markets, the "positive-negative impact" balance was 44% and 43% respectively.

However, half as many enterprises (13%) considered the impact of international sourcing on logistics to be negative, as opposed to 26% with a rather positive opinion. Hence, the respective balance was 13% in favour of a positive impact.

Figure 3 does not show labour costs due to the fact the data for Portugal are confidential. However, in all other countries enterprises which consider that international sourcing reduces labour costs far outnumber those that think the opposite.

Figure 3: Enterprises reporting positive impact and balance of positive - negative impact by motivation factor.
Share in total number of enterprises engaged in international sourcing (%)



Note: The above figures are EU aggregates of low reliability as they are based on either provisional (Czech Republic, Portugal) or unreliable (Netherlands, Sweden) data; The EU aggregate for "reduction of labour costs" is not shown as the respective data for PT are confidential (see also Table 3)

Source: Eurostat (iss_imp)

Table 3: Enterprises reporting positive impact of international sourcing by motivation factor
Share in total number of enterprises engaged in international sourcing (%)

	Competitiveness	Reduction of labour costs	Reduction of other costs than labour costs	Access to new markets	In-house know-how	Logistics	Access to specialized knowledge/ technologies	Improved quality or introduction of new products
CZ*	54.6	33.8	27.8	49.2	29.9	30.6	16.5	31.4
DK	1.1	0.6	9.9	1.7	4.8	29.3	1.7	6.0
DE	85.2	77.5	56.3	59.9	23.0	25.0	13.3	11.0
IE	53.0	43.1	45.6	29.1	28.9	27.6	38.5	35.8
IT	57.8	55.0	49.9	52.9	29.8	33.1	18.3	19.0
NL*	58.6	78.3	47.1	29.9	18.8	25.5	19.3	14.0
PT*	70.6	:	39.2	37.1	39.5	37.7	38.4	39.4
SI	80.0	52.0	54.0	72.8	32.7	55.0	22.7	36.0
FI	65.9	60.6	44.4	33.8	30.5	24.0	27.6	14.7
SE	54.3	64.8	47.3	22.7	12.5	24.2	15.6	10.9
UK	51.4	45.3	54.4	41.2	33.0	21.1	36.0	38.8
NO	58.7	53.9	48.1	26.2	33.5	19.9	29.1	:

* CZ, PT: provisional; NL: unreliable data
Note: The numbers reported in each cell are not mutually exclusive as enterprises can report more than one positive impact of international sourcing

Source: Eurostat (iss_imp)

As shown in Table 3, over 50% of enterprises in most countries saw the impact of international sourcing on the reduction of labour costs as positive.

In addition to the perceived positive impact on reduction of labour costs, a significant share of enterprises in most countries had a positive view of the impact of international sourcing on competitiveness, reduction of costs other than labour costs and access to new markets. On the other hand, the share of enterprises with a positive view of the impact of international sourcing on in-house know-how, logistics, access to specialised knowledge/technologies and improved quality or introduction of new products was significantly lower than for competitiveness, reduction of labour/other costs and access to new markets.

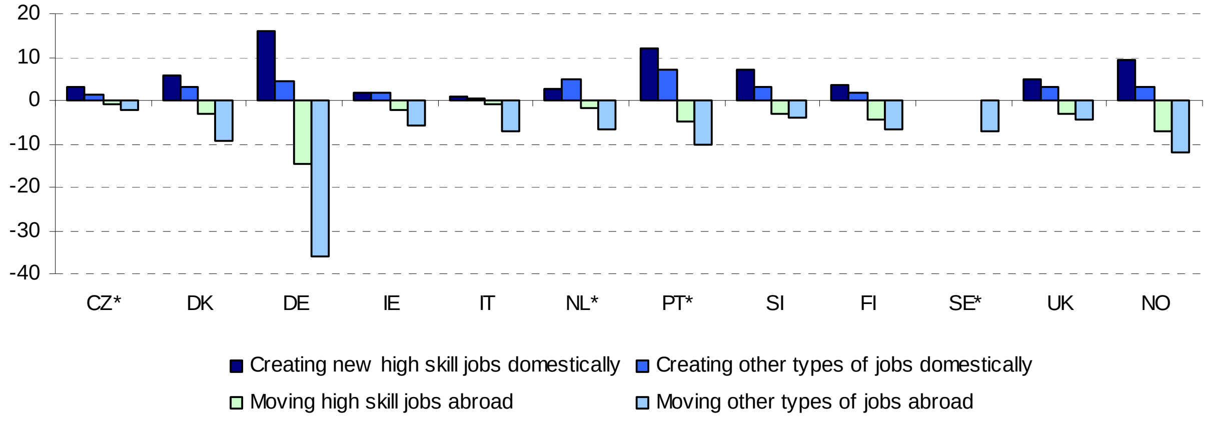
Figure 4 shows the impact of international sourcing on future employment, which is seen as substantial by enterprises currently engaged in international sourcing.

Overall, the majority of enterprises in most countries expect more jobs (other than high skill) to be moved abroad than created domestically as a result of international sourcing.

However, there is an equal split between the number of enterprises that expect high skill jobs to be moved abroad and the number that expect a high skill jobs to be created. This ties in with what enterprises with plans for international sourcing believe[1]. The results for individual countries show that almost 16% of enterprises in Germany and 12% of enterprises in Portugal expect any new high skill jobs to be created domestically. These shares are close to the figures reported by enterprises with plans for international sourcing. The only exception is Slovenia, where just 7% of enterprises currently engaged in international sourcing expect new high skill jobs to be created domestically. The respective share of enterprises with plans for international sourcing was 28%. On the other hand, over 10% of enterprises that are currently engaged in international sourcing in Germany, Norway and Portugal expect other types of jobs to be moved abroad. The highest share was reported in Germany (36%). Again these shares are quite close to the respective figures reported by enterprises with plans for international sourcing. The only exception is the Netherlands where 7% of enterprises currently engaged in international sourcing expect other types of jobs to be moved abroad, as opposed to the respective share of 23% of enterprises with plans for international sourcing.

[1] *Plans for international sourcing; SiF(74/2009)*

Figure 4: Impact of international sourcing on employment as assessed by enterprises. Share in total number of enterprises engaged in international sourcing reporting substantial impact (%)



* CZ, PT: provisional; NL, SE: unreliable

Source: Eurostat (iss_empl)

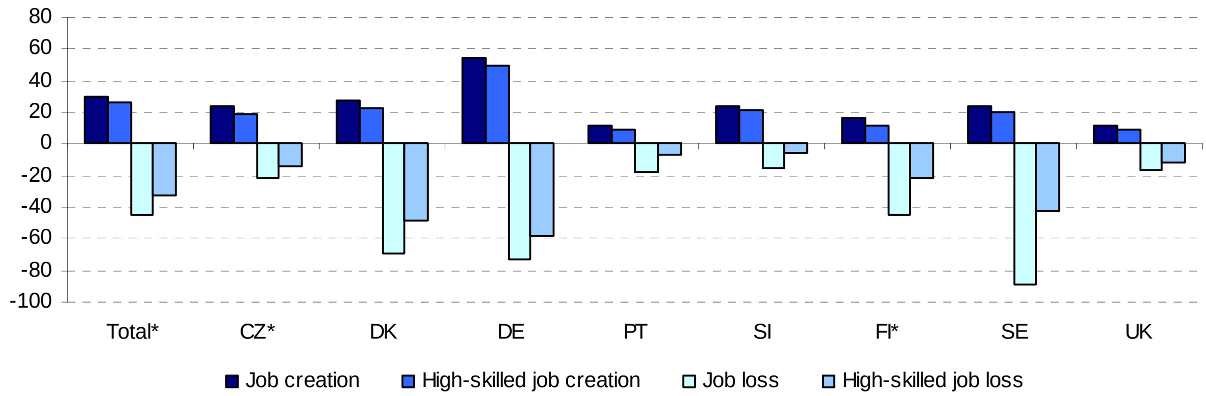
Figure 5 shows the share of enterprises with international sourcing that reported losses or creation of jobs. At aggregated level, over 40% of enterprises reported job losses while the corresponding figure for high-skilled job loss was over 30%. The respective shares for job and/or high-skilled job creation were substantially lower.

At national level, Sweden had the highest share of enterprises (over 80%) reporting job losses as a result of international sourcing while almost half of the enterprises reported high-skilled job losses. Although a quite significant number of enterprises in Germany reported (high-skilled) job creations, the number of enterprises engaged in international sourcing that reported job losses and especially high-skilled job losses was even bigger.

Over 20% of enterprises with international sourcing in Denmark reported (high-skilled) job creation. However, the share of enterprises that reported job losses and in particular high-skilled job losses was almost 70% and 50% respectively. The situation was similar in Finland, with almost 40% of the enterprises reporting job losses - half (20%) of them high-skilled job losses - while the respective figures on job and high-skilled job creation were below 20%.

In the Czech Republic and Slovenia the share of enterprises reporting job creation is slightly higher than that for job losses, while in Portugal and the United Kingdom the respective figures are the reverse.

Figure 5: Job loss and creation in enterprises as a result of international sourcing. Share in total number of enterprises engaged in international sourcing reporting loss and creation of jobs(%)



* CZ: provisional; Total, FI: unreliable data

Note: Enterprises could report on both job losses and/or job creations.

Source: Eurostat (iss_job, iss_econ)

METHODOLOGICAL NOTES

Data source:

The data presented in this SiF refer to enterprises with international sourcing during 2001-2006. They cover 12 EU Member States (Czech Republic, Denmark, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Finland, Sweden, the United Kingdom) and Norway.

Symbols and abbreviations:

: not available

Total: Aggregate of the 11 EU Member States plus Norway

CZ Czech Republic

DK Denmark

DE Germany

IE Ireland

IT Italy

NL Netherlands

PT Portugal

SI Slovenia

FI Finland

SE Sweden

UK United Kingdom

NO Norway

Definitions

Sourcing activities:

Sourcing: The total or partial movement of business functions (core or support business functions) currently performed in-house of a resident enterprise to either non-affiliated (external suppliers) or affiliated enterprises located either domestically or abroad.

International sourcing: The total or partial movement of business functions (core or support business functions) currently performed in-house or currently domestically sourced by the resident enterprise to either non-affiliated (external suppliers) or affiliated enterprises located abroad.

Exemptions are the movement of business functions (core or support business functions) abroad without reducing activity and / or jobs in the enterprise concerned (if you set up a new production line abroad without reductions, even if you could have set up the line also in the compiling country) and temporary subcontracting abroad (one year limit).

Business functions:

Core business function: Production of final goods or services intended for the market/for third parties carried out by the enterprise and yielding income. Core business function equals in most cases the primary activity of the enterprise. It may also include other (secondary) activities if the enterprise considers these to comprise part of their core functions.

Support business function: Support business functions (ancillary activities) are carried out in order to permit or facilitate production of goods or services intended for the market/for third parties by the enterprise. The outputs of the support business functions are not themselves intended directly for the market/for third parties. The support business functions are divided into a) distribution and logistics, b) marketing, sales and after sales services, c) ICT services, d) administrative and management functions, e) engineering and related technical services and f) research and development.

Enterprise: The enterprise is the smallest combination of legal units that is an organizational unit producing goods or services, which benefits from a certain degree of autonomy in decision making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit.

High skill job: High-skill jobs comprise expert occupations such as professionals, associate professionals, managers, senior officials, researchers, informaticians or other technical occupations, generally employing persons with tertiary education.

Further information

Data: Eurostat Website: http://ec.europa.eu/eurostat

Data on "Structural business statistics":
http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/data/database

Select "International sourcing statistics"

More information about "Structural business statistics":
http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/introduction

Journalists can contact the media support service:

Bech Building Office A4/125 L - 2920 Luxembourg
Tel. (352) 4301 33408 Fax (352) 4301 35349
E-mail: eurostat-mediasupport@ec.europa.eu

European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site:
http://ec.europa.eu/eurostat/

A list of worldwide sales outlets is available at the:

Office for Official Publications of the European Communities.

2, rue Mercier
L - 2985 Luxembourg

URL: http://publications.europa.eu
E-mail: info@publications.europa.eu

Manuscript completed on: 11.09.2009
Data extracted on: 09.05.2009
ISSN 1977-0316
Catalogue number: KS-SF-09-073-EN-N