Industry, trade and services

Author: Pekka ALAJÄÄSKÖ

eurostat
Statistics in focus
4/2009

International Sourcing in Europe

Overview

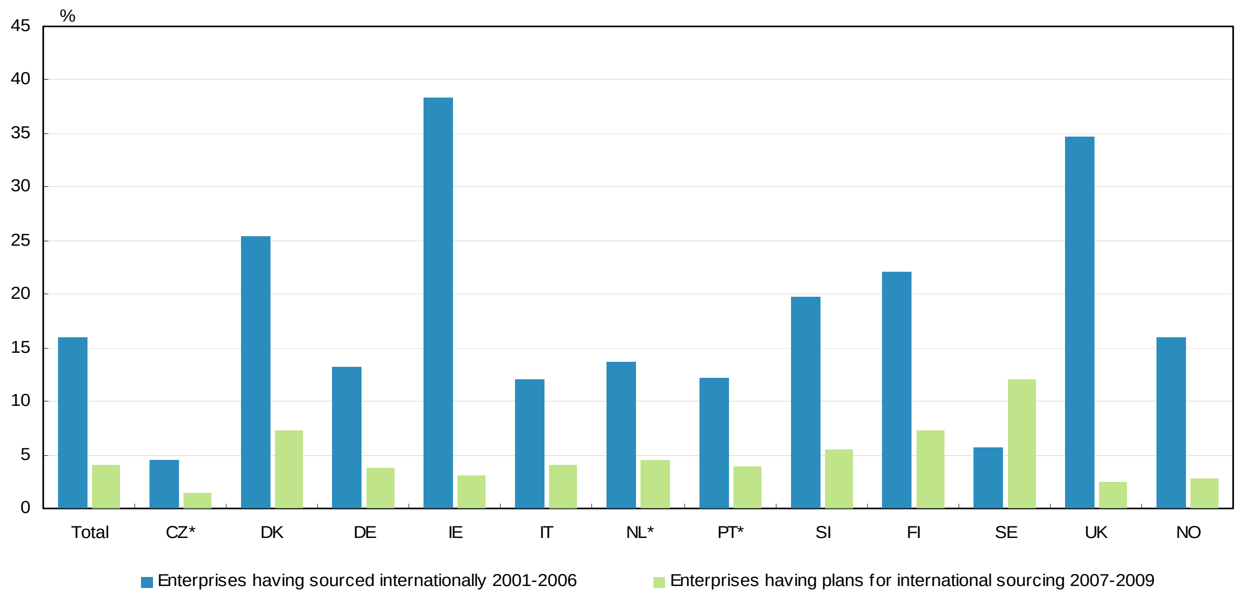
The continuous globalisation of the economy has pushed many enterprises to adopt international sourcing as a business model, i.e. to move certain business functions that were performed in-house or domestically sourced by the resident enterprise to either non-affiliated (outsourcing to external suppliers) or affiliated enterprises abroad (insourcing). International sourcing, the term used in this publication, is often referred to with a variety of labels such as 'off-shoring', 'near-shoring', 'delocalisation' or 'outsourcing'.

Magnitude and impact are difficult to measure as no harmonised and comparable statistics have been available. Twelve European countries have launched an ad-hoc survey to establish statistical evidence of the international sourcing of both core and support business functions.

The survey results essentially reveal that:

- **Most international sourcing of core business and/or support functions remains intra-EU.**
- **International sourcing is most common among Irish, UK, Danish, Finnish and Slovenian enterprises;**
- **Manufacturing enterprises source far more than enterprises active in other sectors: well over 50% of Irish and UK and over one third of Danish enterprises do so;**
- **In Ireland, Italy, Sweden and the UK more core business than support business functions are sourced;**
- **Among the support business functions, the international sourcing of 'distribution and logistics' as well as 'marketing and (after-) sales' is most widespread;**

Figure 1: Level of International Sourcing of enterprises during 2001-2006 and planned International Sourcing 2007-2009
Share of surveyed enterprises with 100 or more persons employed



Source: Eurostat, SBS

* CZ, PT: provisional data; NL unreliable data for enterprises having international sourcing plans 2007-2009.
Note: Enterprises with plans for 2007-2009 only include enterprises not having sourced internationally in the previous period 2001-2006.

eurostat EUROPEAN COMMISSION

This publication is based on the results of the ad-hoc survey carried out by 12 European countries.

Figure 1 shows the share of enterprises having sourced internationally during the period 2001--2006 and the share of enterprises which have not sourced internationally in 2001-2006 but are planning to do so during the 2007 -2009 period.

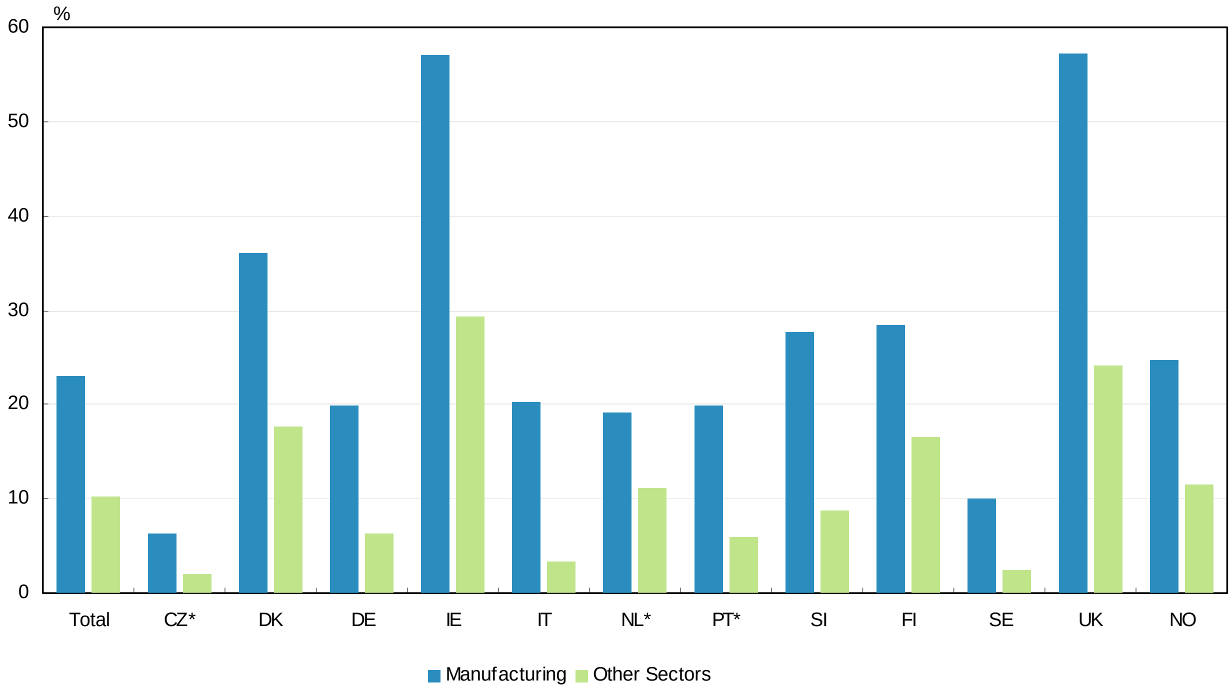
Over the period 2001-2006, 16% of the surveyed(1) enterprises have moved certain business functions abroad. More than twice as many enterprises in Ireland and the United Kingdom(2) did so (38.3% and 34.7% respectively). The two small open Nordic economies Denmark (25.4%) and Finland (22%) were also significantly above the average.

With the exception of Slovenia (19.7%), the remaining countries participating in the survey scored at the average level (Norway 16%) or under it, the lowest share being registered in the Czech Republic (4.5%).

When enterprises that did not source internationally were asked about the near future (period 2007-2009) relatively few Irish (3.1%) and UK enterprises (2.4%) intend to do so as these countries already score high in international sourcing. Conversely, 12.0% of Swedish(2), and 7.2% of Danish and Finnish enterprises not yet sourcing certain business functions abroad plan to do so. The remaining countries registered shares ranging from 1.5% to 5.5%.

Limited to the 2001-2006 period, Figure 2 outlines the share of enterprises having sourced internationally, according to the main activity. Without exception, manufacturing enterprises adopted international sourcing to a far larger extent than enterprises active in other sectors (often three- or four times more). Indeed, the majority of Irish (57.1%) and UK manufacturing enterprises (57.3%) were concerned, and over one third of the manufacturing enterprises in Denmark. At the other end of the scale, only 6.3% of the surveyed Czech manufacturing enterprises adopted international sourcing; three times more than Czech enterprises active in other sectors (2.1%). These rather low levels may indicate that the Czech Republic is still more a receiver of international sourcing than active in international sourcing.

Figure 2: Enterprises having sourced internationally – broken down by main sector of activity
Share of surveyed enterprises with 100 or more persons employed



Source: Eurostat, SBS

* CZ, PT: provisional data; NL: unreliable data on enterprises having sourced internationally the other services.
Note: Other Sectors: NACE Rev.1.1 Sections C and E to K.

---

(1) The survey was economy-wide and it covered enterprises with 100 or more persons employed.

(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.

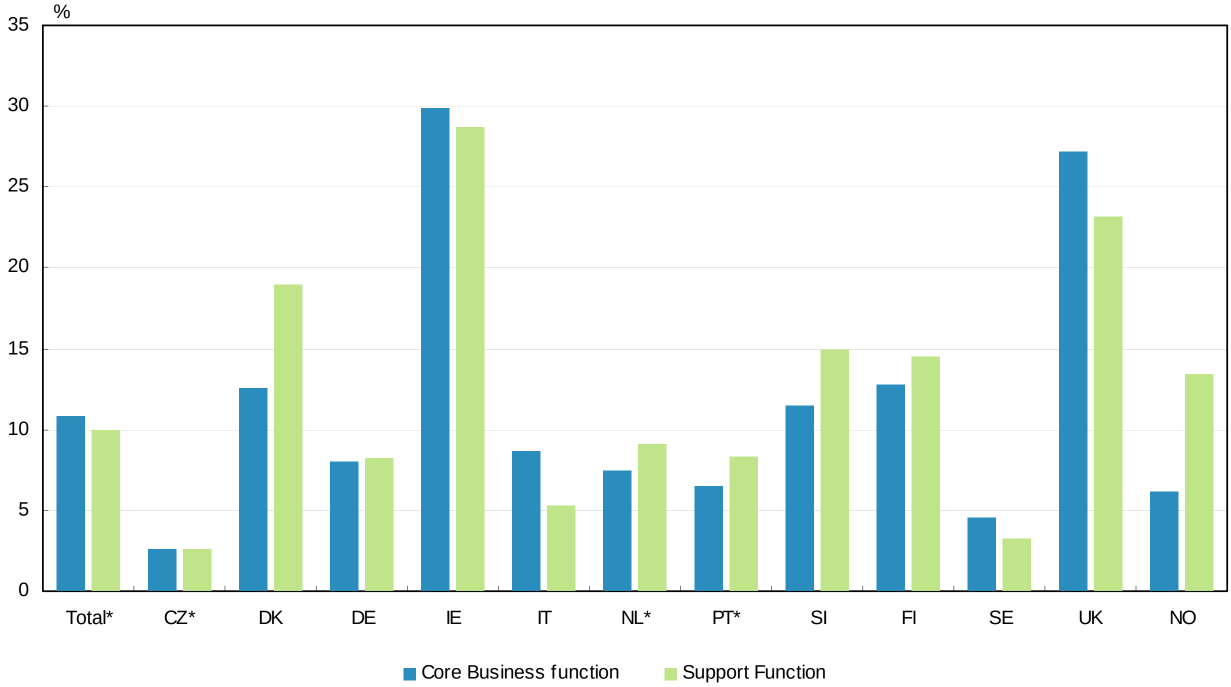
Surprisingly high shares in the International Sourcing of core business functions

One might expect that enterprises more often source support functions, i.e. functions that are not directly linked to the production of final goods or services intended for the market and yielding income, than core functions. However, as can be seen in Figure 3, relatively significant shares of enterprises have sourced core business functions internationally. Additionally, in certain countries a larger share of enterprises sourced core functions than support functions.

The latter aspect is particularly clear in the United Kingdom, where 27.2% of the surveyed enterprises adopted the international sourcing of core functions, whereas 23.2% did so for support functions. The picture is more balanced for Ireland: enterprises in Ireland internationally source both core business and support functions to a fairly large extent (29.9% versus 28.7%). In Italy and Sweden, a larger proportion sourced core business functions as well, but at a generally lower level. In Figure 3, the displayed shares are not mutually exclusive, i.e. a surveyed enterprise may declare having sourced both core business and support functions.

The rather large difference noted for UK enterprises has an impact on the average of the participating countries. At the aggregated level a marginally bigger proportion of enterprises sourced core business functions abroad[3].

Figure 3: International Sourcing broken down by core business and support functions
Share of enterprises carrying out International Sourcing



Source: Eurostat, SBS

* CZ, PT: provisional data; Total, NL: unreliable data.

Table 1 further details the picture and looks at the international sourcing of core business and support functions by sector.

The highest shares were noted for Ireland and the UK; but whereas the former also displays similar high shares for support functions, UK enterprises source these functions to a lesser extent, albeit still more than double the average of the participating countries.

(3) The average has a somewhat limited reliability as certain country data are provisional (Czech Republic, Portugal) or unreliable (Netherlands).

Unsurprisingly, considering the nature of their business, non-manufacturing enterprises source their core business functions internationally at far lesser extent. Among the countries available, Ireland and the UK again take the top places, but the enterprise shares are only about half (or less) as high. In addition, in Ireland and in the UK, the difference between the share of enterprises sourcing core business and support functions is fairly low.

Table 1: International Sourcing of core business and support functions broken down by sector
Share of enterprises carrying out International Sourcing

	Manufacturing		Other sectors	
	Core Business functions	Support functions	Core Business functions	Support functions
Total*	**17.4**	**12.8**	**5.2**	**7.6**
CZ*	3.7	3.3	1.1	1.7
DK	23.9	23.3	4.1	15.8
DE	13.3	11.2	2.6	5.2
IE	49.2	41.9	20.8	22.5
IT	15.9	7.8	1.3	2.6
NL*	13.9	10.5	4.7	8.5
PT*	11.0	13.0	2.9	4.4
SI	17.4	20.1	3.6	7.9
FI	21.7	14.8	5.5	14.2
SE	9.3	4.7	1.0	2.1
UK	52.6	36.6	15.3	17.0
NO	13.5	17.7	2.4	11.2

Source: Eurostat, SBS

* CZ, PT: provisional data; Total, NL: unreliable data.

Focusing on support business functions only, regardless of the sector, Table 2 reveals that 'Distribution and logistics' and 'Marketing, sales and after sales services' are most frequently sourced internationally.

Certain particularities appear: Danish, Dutch and Finnish enterprises source ICT services more than other functions, and Ireland and the UK source significant shares of Engineering and related technical services' support functions.

Table 2: International Sourcing by type of support functions
Share of enterprises carrying out International Sourcing

	Distribution and Logistics	Marketing, sales and after sales services	ICT Services	Administrative and management	Engineering and related technical services	Research and development	Other Functions
Total*	**4.3**	**3.7**	**2.8**	**2.9**	**2.9**	**2.1**	**1.3**
CZ*	1.0	1.3	0.7	0.6	0.4	0.1	0.0
DK	6.0	4.3	7.5	4.8	5.8	4.3	1.3
DE	2.3	3.1	0.8	1.4	2.3	1.2	2.0
IE	15.9	13.3	10.9	8.2	13.0	6.2	0.0
IT	2.0	2.6	1.3	1.8	0.9	1.0	0.6
NL*	3.1	1.7	3.6	3.1	0.8	1.8	0.4
PT*	3.0	2.2	2.8	2.1	2.3	3.1	0.6
SI	8.2	12.4	4.8	4.8	2.6	2.7	0.0
FI	4.3	4.6	5.4	3.5	2.3	2.9	1.4
SE	1.4	0.9	1.1	1.4	0.4	0.8	0.4
UK	13.9	8.2	8.1	8.7	8.7	6.3	2.3
NO	1.2	3.6	5.6	4.6	2.4	1.1	3.3

Source: Eurostat, SBS

* CZ, PT: provisional data; Total, NL: unreliable data.

Destination for International Sourcing

The choice of destination for international sourcing is influenced by a multitude of factors, such as the availability of appropriate labour, the infrastructure in the country chosen, the possible network of affiliated enterprises or even language and cultural barriers.

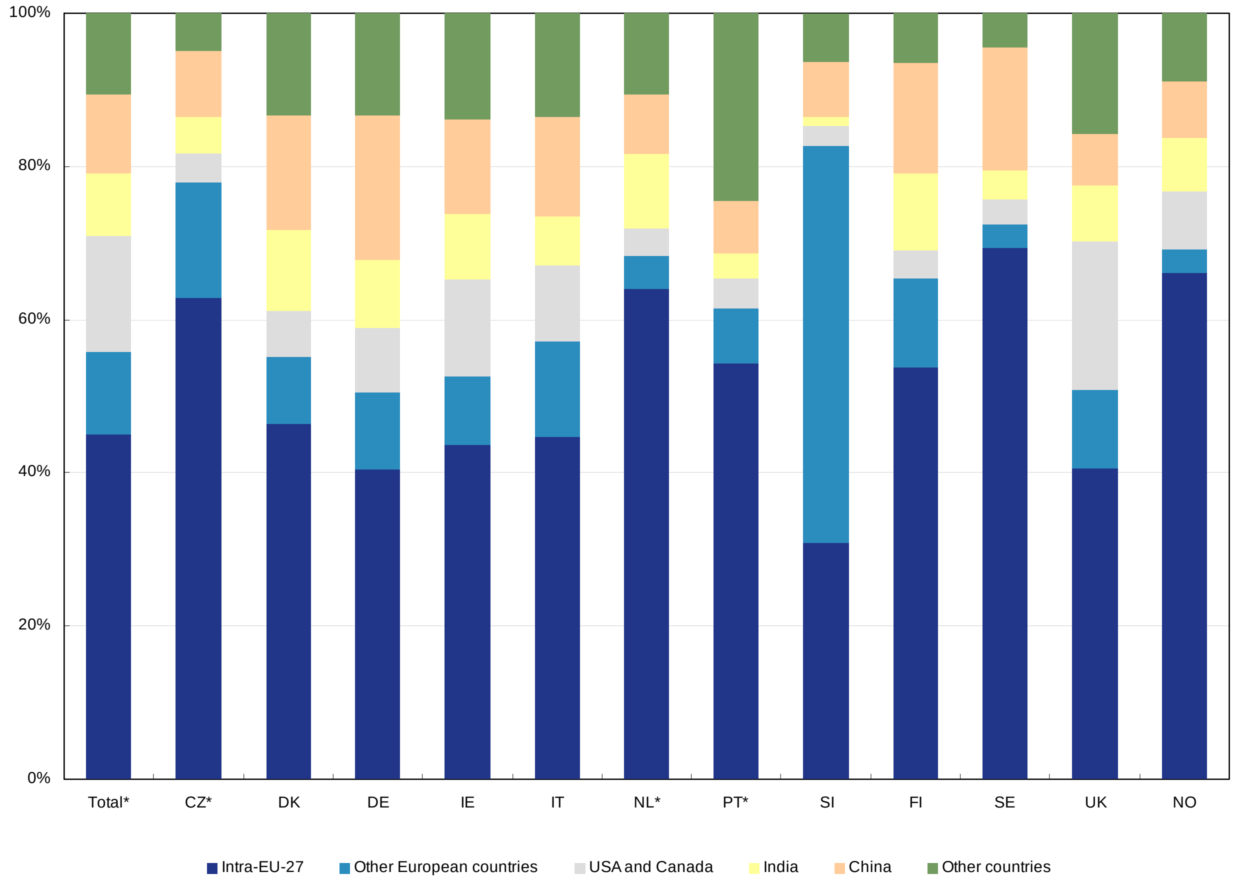
The destination for the International Sourcing of core business and/or support functions is shown in Figure 4. A first glance reveals that for the countries for which data are available, at least 40% of the internationally sourced functions remain 'intra-EU', with the exception of Slovenia, where the proportion amounts to just over 30%. Intra-EU sourcing can reach values as high as 69% in Sweden, 64% in the Netherlands, 63% in the Czech Republic and 66% in the non-EU country Norway (in the latter case, one should rather speak of 'EU sourcing' rather then 'intra-EU' sourcing).

For Slovenia, 'other European countries' constitute the main destination of core and/or support functions, most likely especially neighboring Croatia. Presumably linked to the lack of language barriers, sourcing to the USA and Canada scored the highest shares in the UK and Ireland (19.5% and 12.6% of all enterprises respectively) but also in Italy (10.0%).

International sourcing to India, traditionally linked with ICT services, is not as widespread as one might expect. With the exception of the Netherlands and the UK, sourcing to China is more widespread.

Here too, enterprise declarations are not mutually exclusive. Overlaps can occur as enterprises source functions to various countries/country groups.

Figure 4: Destination for International Sourcing – core and/or support functions
Share of answers given by the enterprises carrying out International Sourcing



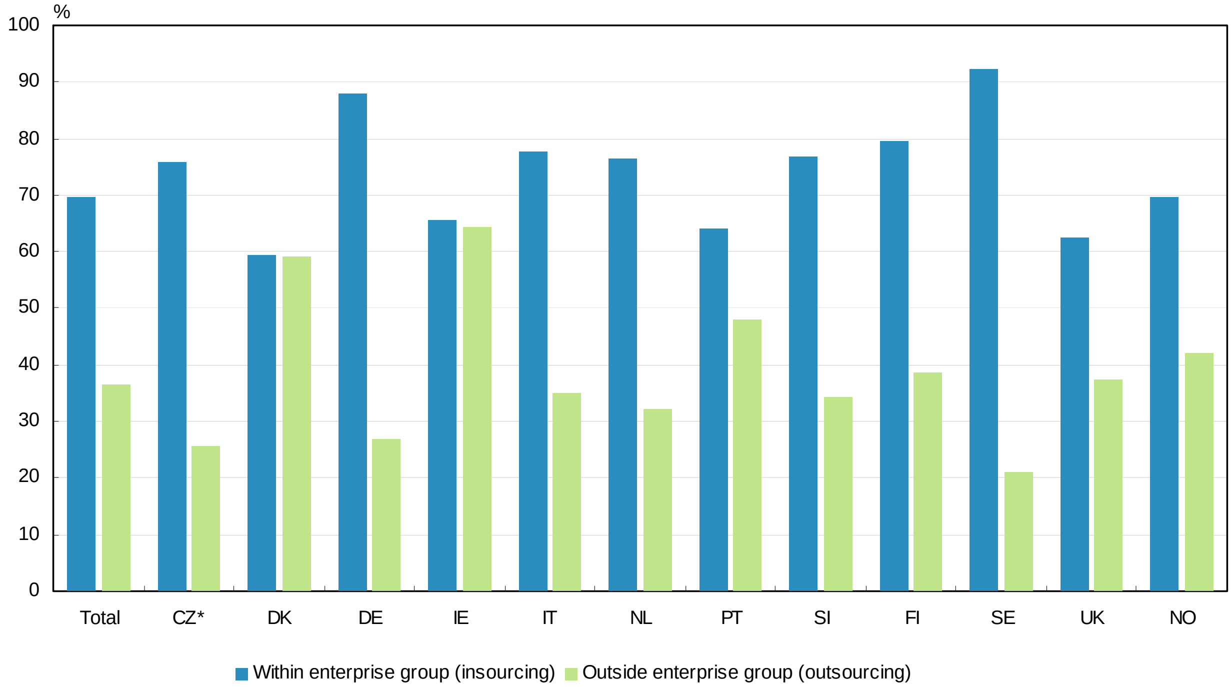
Source: Eurostat, SBS

* CZ, PT: provisional data; Total, NL: unreliable data.
Note: The percentages are calculated on the basis of the number of times the enterprises have mentioned the countries and/or country groups as a destination for international sourcing.

Types of business patterns for International Sourcing

It is common that an international network of branches or affiliated enterprises influence the destination of sourcing. This has to be taken into account when looking at the results in the previous sections. Focusing on international insourcing (sourcing within the enterprise group) and outsourcing (outside the enterprise group), regardless of the business sector, Figure 5 shows that insourcing is generally more common. At the aggregated level, close to 70% of all enterprises surveyed who declared sourcing internationally did so within their enterprise group, taking into account that the magnitude of ownership of the affiliated enterprises may vary. Just over 36% proceeded to outsourcing. But here again, enterprises might use both, explaining the fact that the cumulated proportions frequently exceed 100%. Insourcing is often twice as common as outsourcing, but in Denmark and Ireland the two categories are close. Conversely, the gap is particularly wide in the Czech Republic, Germany and Sweden.

Figure 5: International Sourcing broken down by business partner
Share of enterprises carrying out International Sourcing



Source: Eurostat, SBS

*CZ: provisional data.

Focus on International Sourcing of ICT services

Among the enterprises that were surveyed in the countries concerned and which effectively internationally sourced services linked to information and communication technologies (ICT) during the 2001-2006 period, an average three quarters (75.2%) did so within the enterprise group (see Figure 6). Outsourcing was performed by just over 30% of the enterprises.

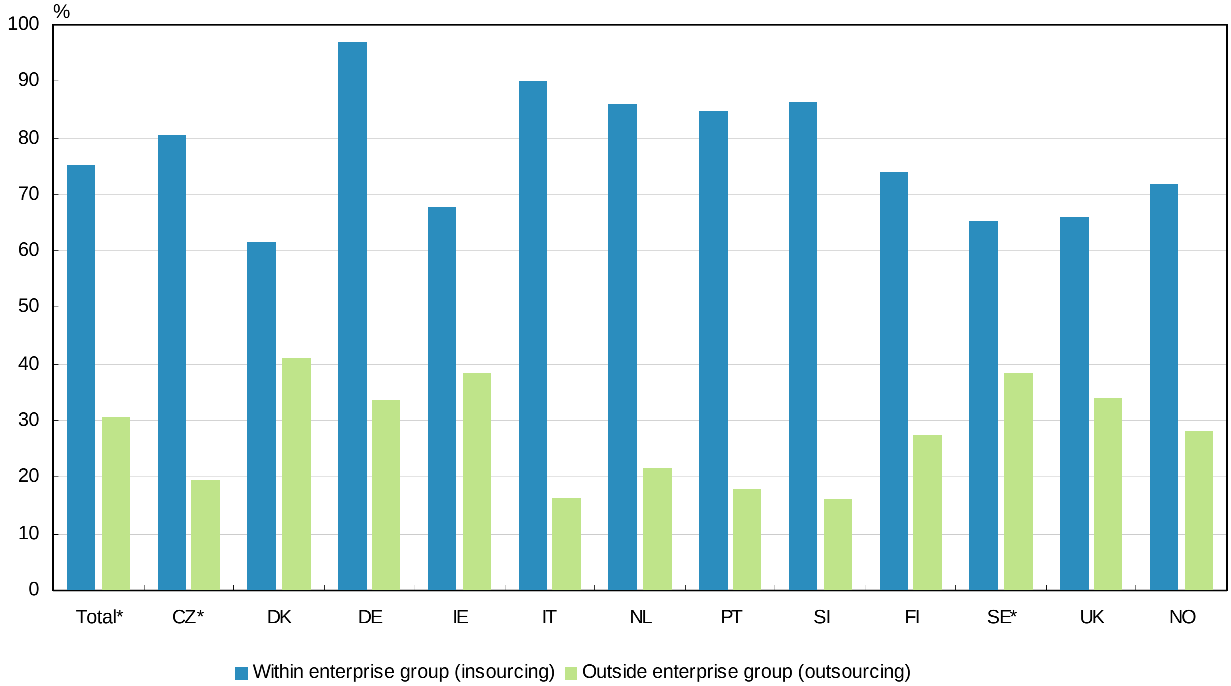
Among the participating countries it was the Danish, Dutch and Finnish enterprises that sourced ICT services more often than other support functions (see Table 2).

Insourcing proportions of over 80% were noted in the Czech Republic, Italy, the Netherlands, Portugal, Slovenia and Germany. In the latter country a value of close to 97% was registered. At the other end of the scale, the lowest share for insourcing was reported by Denmark (61.5%).

Outsourcing of ICT services, always bearing more business risk than insourcing, was less widespread and displayed shares ranging between 16.2% in Slovenia and 41.3% in Denmark.

In order to maintain competitiveness, and often limited to highly specialised tasks, enterprises sometimes might be obliged to hire the services of specialised IT companies that are not part of the enterprise group (outsourcing).

Figure 6: International Sourcing of ICT services broken down by business partner
Share of enterprises carrying out International Sourcing of ICT services



Source:Eurostat, SBS

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

Impact of International Sourcing activities

International sourcing is essentially driven by cost efficiency concerns or access to new markets (see next section).

When a manufacturing enterprise decides to source core business functions internationally (i.e. the manufacturing of goods), it is feared that jobs will be lost in the enterprise's country. International sourcing has received and continues to receive a lot of policy and media attention and the word ‘outsourcing’ often has a negative perception in public opinion. Indeed, international sourcing can result in a loss of domestic jobs but it can also improve the competitiveness of an enterprise and hence secure existing jobs and create new and higher value added jobs. These latter aspects are far less visible as it is a more indirect and long-term process.

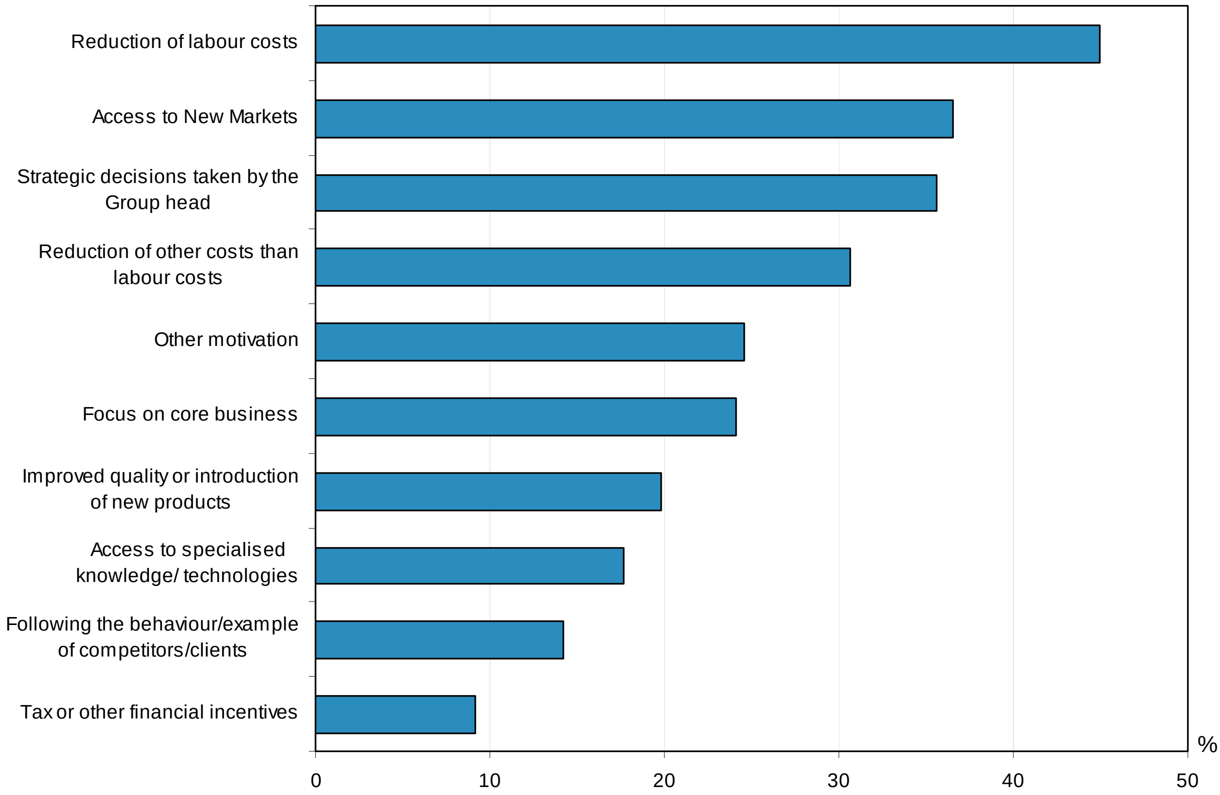
Both aspects are reflected in the survey results on this issue. Although data are not shown in detail due to data quality and confidentiality problems, it appears that the Czech Republic and Slovenia take advantage of the international sourcing process as the majority of the enterprises (51% and 60% respectively) report employment creations, and far more highly skilled jobs were created than lost. In the high-wage countries Denmark, Finland and Sweden, more enterprises reported high-skill job losses than creations. Between 20% and 28% of the enterprises in these three countries declared having created jobs due to international sourcing. In Germany and the United Kingdom, the situation appears more balanced. Available job loss and creation figures, in general, indicate that overall employment effects remain at low levels in all participating countries.

Reduction of labour costs main motivation for International Sourcing

Among the enterprises located in the various countries that carried out the survey and having sourced internationally during the 2001-2006 period, the reduction of labour cost was mentioned as the main motivation (45% of the enterprises – see Figure 7, multiple answers possible). ‘Access to new markets’ and ‘Strategic decisions taken by the Group head’ followed, both with shares of around 36%. ‘Reduction of costs other than labour costs’ was mentioned by more than 30% of the enterprises.

Globally least motivating appeared to be ‘Following the behaviour/example of competitors/clients’ (14%) and ‘Tax or other financial incentives’ (9%).

Figure 7: Motivation factors for International Sourcing activities
Share of enterprises carrying out International Sourcing



Source: Eurostat, SBS

Investigating the same motives at country level, it appears that the image is quite heterogeneous. Among the 12 countries, five feature the highest percentages for the 'Reduction of labour costs' but only one (Slovenia) ranks 'Access to new markets' most often as a very important motivation factor, although it ranks second at the aggregate level.

'Strategic decisions taken by the Group head' came first in the Czech Republic, Portugal and the United Kingdom whereas it was 'Other motivations' in Germany, the Netherlands and Sweden.

Table 3: Motivation factors of International Sourcing activities by country
Share of enterprises carrying out International Sourcing

	Reduction of labour costs	Access to New Markets	Strategic decisions taken by the Group head	Reduction of other costs than labour costs	Focus on core business	Improved quality or introduction of new products	Following the behavior/ example of competitors/ clients	Access to specialised knowledge/ technologies	Tax or other financial incentives	Other motivation
Total	**45.0**	**36.5**	**35.6**	**30.7**	**24.1**	**19.8**	**14.2**	**17.7**	**9.2**	**24.6**
CZ*	22.6	26.9	40.4	15.5	6.7	20.2	14.9	7.7	4.6	0.0
DK	60.7	11.4	25.9	38.4	23.0	8.0	3.4	12.2	2.0	6.3
DE	53.3	50.8	26.5	28.6	14.6	14.2	13.1	9.0	11.9	73.2
IE	39.4	25.6	33.9	37.8	26.4	22.0	8.1	22.9	4.1	8.1
IT	43.7	40.0	19.9	25.2	8.0	12.6	10.9	9.3	10.0	3.1
NL	57.6	22.1	41.9	22.2	18.6	11.3	20.4	14.2	6.9	62.4
PT*	21.6	31.6	40.0	25.2	24.5	31.1	4.2	28.4	4.5	1.9
SI	65.6	78.8	41.3	74.2	64.2	43.0	58.3	38.4	42.0	3.3
FI	47.8	23.3	41.9	20.8	21.9	3.9	29.7	10.0	2.9	14.0
SE	56.3	11.7	55.5	26.6	14.8	4.7	7.8	10.9	3.1	88.9
UK	35.5	31.4	49.1	35.7	41.8	31.8	15.2	30.5	8.6	33.3
NO	43.2	15.0	56.8	25.2	16.5	9.7	7.8	12.1	2.9	18.0

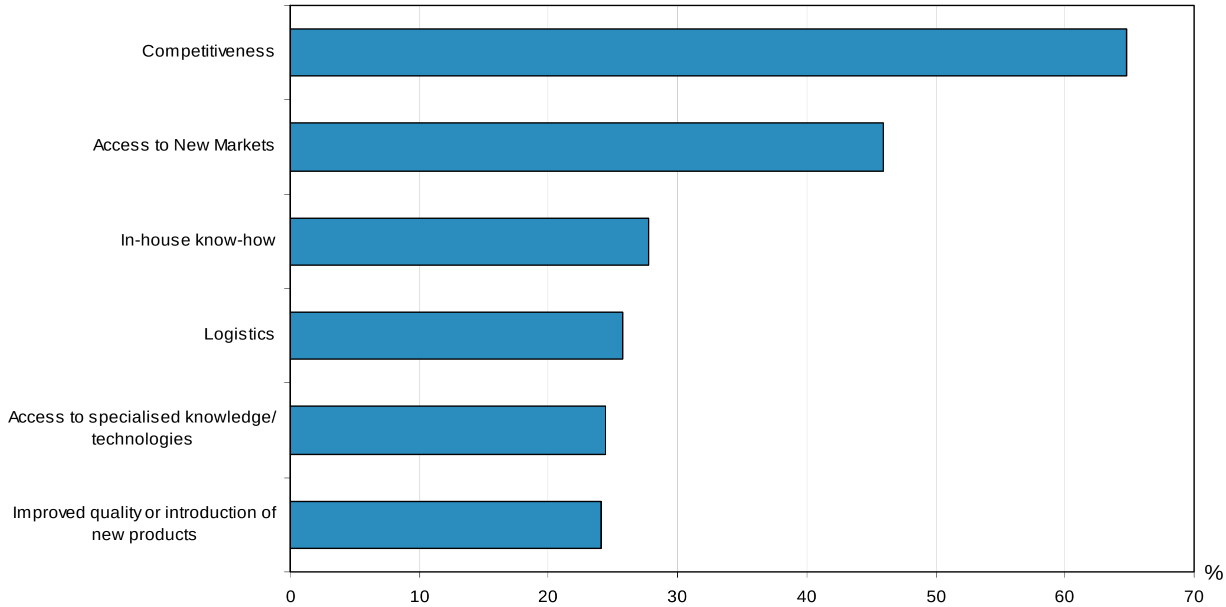
Source: Eurostat, SBS

* CZ, PT: provisional data; SI: data comparability might be affected somewhat as different groupings of importance of motivation factors were used.

Turning from the motivation for international sourcing to the perception of its actual impact, Figure 8 outlines the impacts of international sourcing considered as 'positive' at aggregate level.

Most enterprises in the countries surveyed considered 'Competitiveness' as a positive impact (65%). Almost 60% of the enterprises surveyed across the countries, except for Portugal for which these data are confidential, found the reduction of labour costs to be a positive consequence of international sourcing (not shown in Figure 8). 'Access to new markets' was mentioned by another 46%. The remaining 4 impacts lay close together, all being mentioned by roughly a quarter of the enterprises.

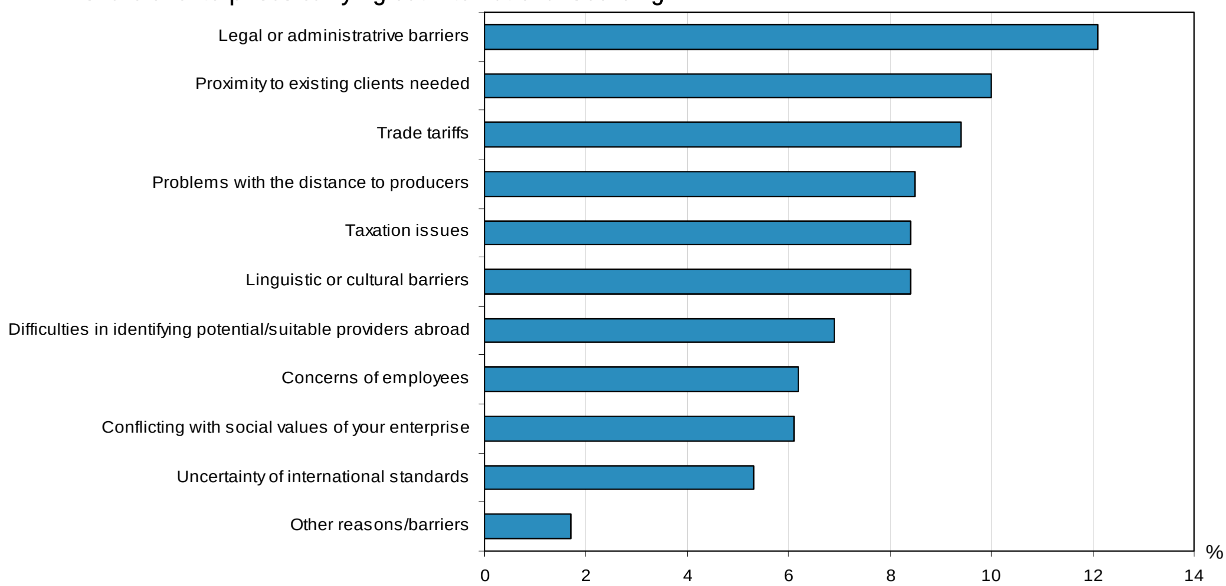
Figure 8: Positive impacts of International Sourcing
Share of enterprises having sourced internationally and considering the following impacts positively



Source: Eurostat, SBS

The survey furthermore revealed that relatively few barriers were met in the process of international sourcing. Among the enterprises that did so between 2001 and 2006, the barrier that was most often mentioned to be 'very important' was of the 'Legal and administrative' kind, declared by 12% of the enterprises. All other barriers registered values of 10% or less. 8% of the enterprises mentioned 'linguistic or cultural barriers'. 'Uncertainty of international standards' was the least problem: only 5 out of 100 enterprises considered that a disturbing or blocking factor.

Figure 9: Barriers met on International Sourcing activities
Share of enterprises carrying out International Sourcing

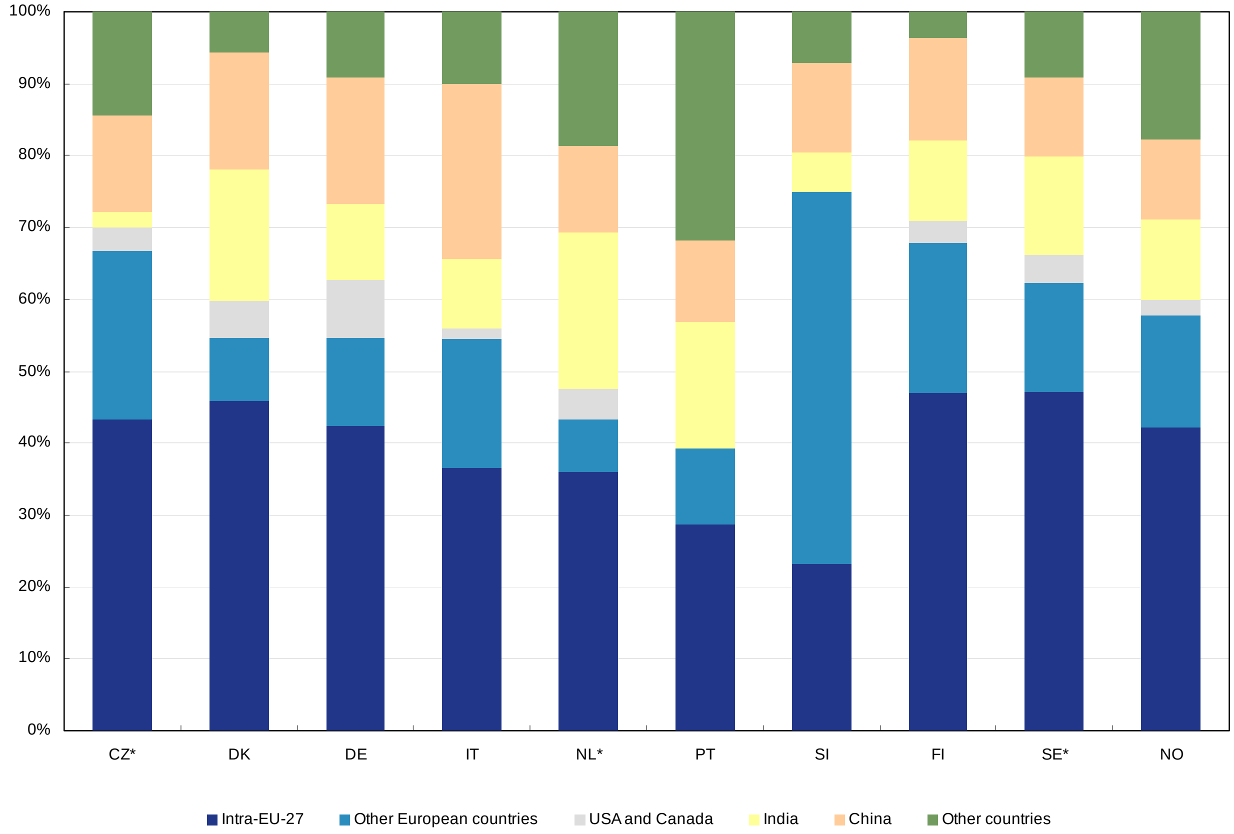


Source: Eurostat, SBS

Plans for International Sourcing activities for the period 2007-2009

The figure on the cover page displays the proportion of enterprises that intend to internationally source business functions between 2007 and 2009. One question asked about the destination of future sourcing activities and another on the business support functions that would likely be concerned. The destination of international sourcing activities appears to be slightly different compared to the 2001-2006 period. Sourcing within the EU-27 still displays the highest shares in most of the countries for which data are available but there are clear particularities: Slovenian enterprises will likely continue to mainly source to 'other European countries' as many enterprises have done in the past. India is of interest for Denmark and Portugal. The highest proportion of enterprises intending to source to China was reported by Italy (around a quarter). China was also an important destination of planned sourcing for Germany and Denmark (shares close to 20%).

Figure 10: Destination for International Sourcing – core and/or support functions planned for 2007-2009
Share of answers given by the enterprises planning to carry out International Sourcing



Source: Eurostat, SBS

* CZ: provisional data; NL, SE: unreliable data.
Note: The percentages are calculated on the basis of the number of times the enterprises have mentioned the countries and/or country groups as a destination for international sourcing.

Asked about what support business functions would likely be sourced abroad in the next years (2007-2009), manufacturing enterprises generally continued to display higher proportions of planned international sourcing than those active in other sectors (data not shown). Enterprises in the United Kingdom had proportions between 20% and 25% in several categories (see Methodological Notes or labels as displayed in Table 2), with a particularly high 35% for 'Distribution and logistics'. Ireland followed with overall lower shares but nevertheless 29% for 'Distribution and logistics' and 23% for 'Engineering and related technical services'. Manufacturing enterprises in Slovenia and Germany are mainly interested in the future sourcing of 'Marketing, sales and after sales services' (17% for both countries).

Non-manufacturing enterprises intend to internationally source far less: The only countries where enterprises scored proportions of over 10% were Germany and Ireland, and this only for 'Marketing, sales and after sales services' (12% and 11% respectively).

➢ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Data source:

The data presented in this SiF are stemming from a survey focussing on the relocation of domestic production of goods and services to producers abroad as a result of a decision taken by a resident producer to stop production of goods or services.

The data have been collected on a voluntary basis in 13 countries: the Czech Republic, Denmark, Germany, Ireland; Spain (as the survey covered only service activities, the Spanish results are not analysed), Italy, the Netherlands, Portugal, Slovenia, Finland, Sweden, the United Kingdom and Norway.

The data cover the period 2001-2006.

The international sourcing statistics cover NACE Rev.1.1 (Statistical Classification of Economic Activities in the European Community) sections C to I and K, which broadly speaking cover Non-financial market activities.

The data refers to enterprises with 100 or more persons employed.

Symbols and abbreviations:

:	not available
P	provisional figure
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: 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)

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 divided into:

- *Distribution and logistics*, consisting of transportation activities, warehousing and order processing.
- *Marketing, sales and after sales services*: Market research, advertising, direct marketing services (telemarketing), exhibitions, fairs and other marketing or sales services. Also including call-centre services and after sales services such as help-desks and other customer supports services.
- *ICT services: IT-services and telecommunication*. IT services consist of hardware and software consultancy, customised software data processing and database services, maintenance and repair, web-hosting, other computer related and information services. Packaged software and hardware excluded.
- *Administrative and management functions*: Support functions related to: Legal services, accounting, book-keeping and auditing, business management and consultancy, HR management (e.g. training and education, staff recruitment, provision of temporary personnel, payroll management, health and medical services), corporate financial and insurance services. Also including procurement functions.
- *Engineering and related technical services*: Engineering and related technical consultancy, technical testing, analysis and certification. Also including design services.
- *Research & Development*: Research and experimental 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.

Further information

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

Select your theme on the left side of the homepage and then 'Data' from the menu.

Data: Eurostat web site/ Industry trade and services

Industry, trade and services

- Industry, trade and services - horizontal view
  - Special topics of structural business statistics
    - International sourcing statistics

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: 19.01.2009
Data extracted on: 14.09.2008
ISSN 1977-0316
Catalogue number: KS-SF-09-004-EN-N