Industry, trade and services

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Statistics in focus
74/2009

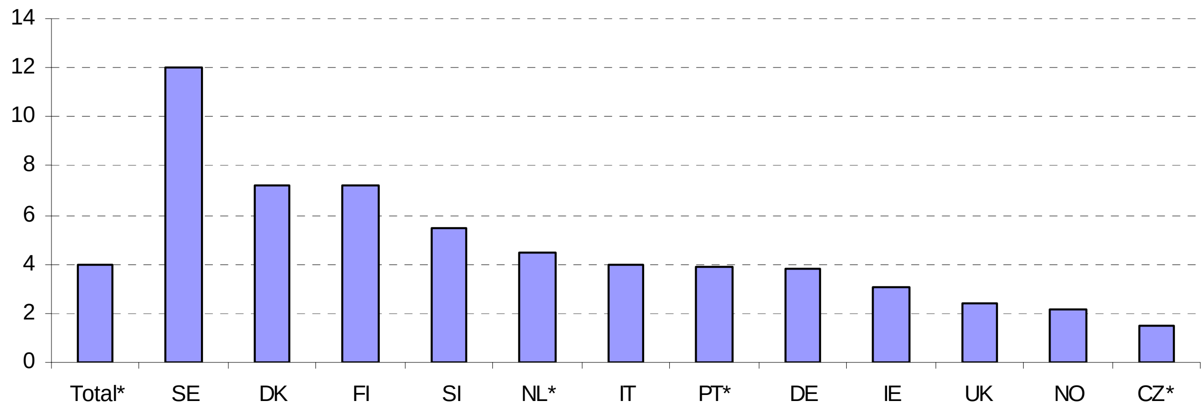
Plans for International Sourcing in Europe in 2007-2009

International Sourcing, especially for services, is one of the more recent features of the global economy. A survey carried out by twelve European countries showed that, over the period 2001-2006, 16% of the enterprises surveyed have moved certain business functions abroad in search of lower costs, new market opportunities and other efficiency gains.

In a bid to achieve similar benefits, enterprises that did not source internationally in 2001-2006 plan to do so in the near future. The survey also revealed that for the period 2007-2009:

- **Swedish, Danish and Finnish enterprises reported the highest rate for planned international sourcing.**
- **More than twice as many manufacturing enterprises have plans for international sourcing than enterprises in other sectors.**
- **Future international sourcing will be marked by the growing importance of non-EU destinations.**
- **Labour costs and access to new markets are the main reasons for enterprises to switch to international sourcing.**
- **Proximity to clients and legal or administrative barriers are the two main obstacles for preventing enterprises from turning to international sourcing.**

Figure 1: Enterprises with plans for international sourcing in 2007-2009
Share in total number of enterprises not having sourced internationally during 2001-2006 (%)



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

Source: Eurostat (iss_econ)

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Figure 1 shows the share of enterprises that did not source internationally in 2001-2006 but are planning to do so during the period 2007-2009.
In the twelve countries participating in the survey, 4% of the enterprises(1) have plans to move certain business functions abroad. Sweden, Denmark and Finland reported the highest rates of enterprises with plans for international sourcing. In particular, 12% of enterprises in Sweden and 7% of enterprises in Denmark and Finland are planning to source internationally in 2007-2009.

Significant shares of Slovenian (5.5%) and Dutch (4.5%) enterprises reported plans for international sourcing.

On the other hand, the lowest rate of enterprises with future plans for international sourcing was reported by the United Kingdom, Norway and the Czech Republic.

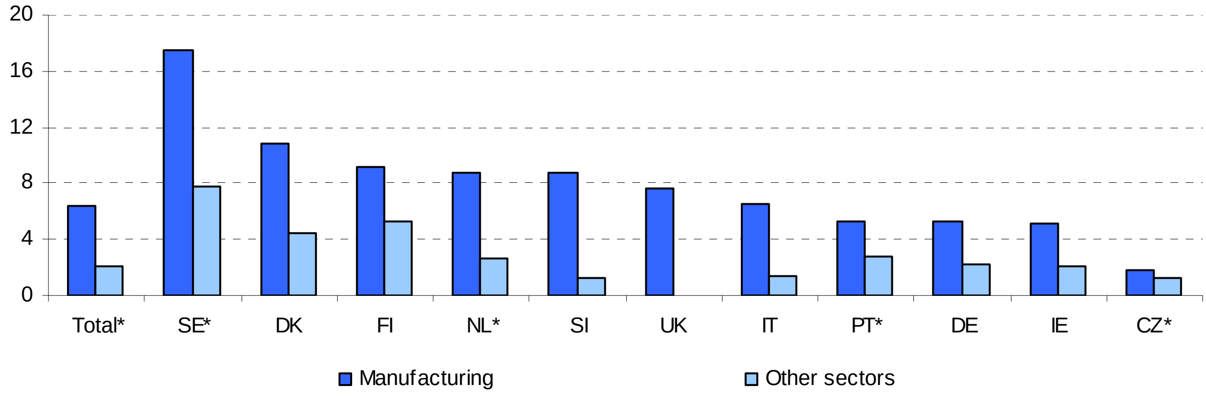
Figure 2 shows the share of enterprises with plans for international sourcing according to the main economic activity.

In total, manufacturing enterprises are more willing and prepared, given the nature of their business, to source internationally than enterprises in other sectors. This is observed in particular in Sweden and Denmark where the highest rates of manufacturing enterprises with plans for international sourcing (17.5% and 11% respectively) were reported.

Relatively big differences in planned international sourcing between manufacturing and other sectors enterprises were also reported by the Netherlands, Slovenia and the United Kingdom.

In the Czech Republic enterprises reported the lowest rates of planned international sourcing, regardless of economic activity.

**Figure 2: International sourcing planned for 2007-2009 by economic activity of an enterprise
Share in total number of enterprises not having sourced internationally during 2001-2006 (%)**



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

Planned International Sourcing remains intra-EU for support business functions

Table 1 shows the share of enterprises with plans for international sourcing by destination and economic activity. As it shows, enterprises in most countries plan to source their manufacturing activities internationally within the EU-27.

However, there are some exceptions, with a substantial number of enterprises in Italy, the Netherlands, Portugal and Slovenia planning to source their manufacturing elsewhere internationally. More specifically, China seems to be as important as any intra-EU destination for planned international sourcing for Italian manufacturing.

Dutch enterprises plan to internationally source their manufacturing not only within the EU-27 but also to India and China.

The same holds true for Portuguese manufacturing, with India and other destinations as important for future international sourcing as intra-EU-27, while for Slovenian manufacturing other European countries are the prime destination for future international sourcing.

As regards other sectors' plans, enterprises in most countries are planning to source their business functions internationally within the EU-27.

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

Exceptions are once more Slovenian enterprises, with plans for international sourcing to other European countries, while a quite popular future destination was India for enterprises from Denmark, the Netherlands, Norway, Portugal and Sweden.

Table 1: Plans for international sourcing by economic activity of an enterprise and destination Share in total number of enterprises not having sourced during 2001-2006 and with plans for 2007-2009 (%)

	Manufacturing						Other sectors					
	Intra-EU-27	Other European countries	USA & Canada	India	China	Other countries	Intra-EU-27	Other European countries	USA & Canada	India	China	Other countries
CZ*	51.2	30.2	0.0	4.7	20.9	7.0	63.0	0.0	11.1	0.0	11.1	22.2
DK	58.1	12.8	7.0	19.8	22.1	5.9	53.5	7.0	4.7	27.9	16.3	9.3
DE	47.9	12.5	11.1	13.3	25.4	12.9	57.9	19.8	5.6	11.2	9.6	5.6
IT	37.9	21.4	2.2	12.3	31.8	13.9	67.9	20.2	0.0	8.3	16.7	3.6
NL*	26.7	8.3	7.1	22.9	20.0	8.3	50.0	5.7	:	19.6	:	17.1
PT*	27.3	:	:	21.2	:	21.2	46.5	:	0.0	23.3	:	34.9
SI	27.7	57.4	0.0	6.4	14.9	6.4	0.0	100.0	0.0	0.0	0.0	50.0
FI	54.8	25.8	6.5	11.3	19.4	3.2	55.8	23.1	0.0	15.4	13.5	5.7
SE*	56.2	18.0	4.6	11.9	16.5	7.2	60.6	19.2	5.1	26.3	7.1	19.3
NO	52.6	15.8	5.3	5.3	21.1	26.3	52.9	23.5	0.0	23.5	5.9	17.6

* CZ, PT: provisional; 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.

Source: Eurostat (iss_ctry)

Table 2 shows the country of destination for enterprises with plans for international sourcing by business function. Overall, enterprises in most countries plan to source their core business functions internationally outside the EU-27 while for their support functions international sourcing is planned within the EU-27. At national level (data not shown in the SIF), a distinction can be made between two geographical clusters for planned international sourcing: a) enterprises in Denmark, Finland and Sweden have plans for international sourcing within the EU-27 for both core and support business functions; and b) enterprises in Italy, the Netherlands and Slovenia plan to engage in international sourcing for both core and support business functions outside the EU-27. The share of enterprises with plans for international sourcing outside the EU-27 is growing for countries with the highest rate of enterprises engaged in international sourcing within the EU-27. Enterprises in the participating countries seem to be moving away from the EU-27 to non-EU destinations for international sourcing. In the Netherlands, for example, the share of enterprises that plan to source their core/support business functions internationally within the EU-27 is much smaller than the number of enterprises that sourcing internationally within the EU-27.

Table 2: Plans for international sourcing by business function and country of destination Share in total number of enterprises not having sourced during 2001-2006 and with plans for 2007-2009 (%)

	Core business function						Support business function					
	Intra-EU-27	Other European countries	USA & Canada	India	China	Other countries	Intra-EU-27	Other European countries	USA & Canada	India	China	Other countries
CZ	46.7	28.9	0.0	4.4	26.7	13.4	63.4	14.6	7.3	0.0	7.3	7.3
DK	58.3	12.5	2.8	16.7	22.2	7.0	56.0	8.3	8.3	23.8	15.5	6.0
DE	49.2	13.1	10.2	12.4	26.2	10.8	50.9	16.4	10.6	14.5	18.0	11.1
IT	42.8	24.6	0.0	7.5	28.6	11.7	40.4	19.9	4.8	21.7	22.3	25.2
NL	41.6	6.8	5.3	10.5	19.5	12.1	30.9	7.7	3.4	31.9	5.3	18.8
PT	38.1	14.3	0.0	:	17.9	31.0	58.3	:	:	:	0.0	8.3
SI	15.8	65.8	0.0	7.9	18.4	10.5	37.5	45.8	0.0	0.0	12.5	4.2
FI	55.3	17.1	0.0	17.1	21.1	5.2	59.5	25.7	5.4	10.8	8.1	4.2
SE	52.9	16.7	6.9	14.2	15.7	11.4	68.5	18.5	2.8	16.3	4.5	14.0
NO	43.8	12.5	0.0	25.0	31.3	37.6	56.0	24.0	4.0	12.0	0.0	12.0

* CZ, PT: provisional; 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.

Source: Eurostat (iss_ctry)

The same, although to a lesser extent, goes for enterprises from Sweden, the Czech Republic and Norway.(3) As can be seen in Table 2, India is quite an important destination for Dutch enterprises that plan to source their support functions internationally while other European countries and China are popular non-EU-27 destinations for Czech enterprises that plan to source their core business functions internationally. Moreover, a significant number of enterprises in the non-EU country Norway plan to source their core business functions to India, China and other countries.

On the other hand, Slovenian enterprises with no international sourcing are planning to move their business functions to other European countries as enterprises already engaged in international sourcing did during 2001-2006. The growing importance of non-EU destinations is also apparent for enterprises already engaged in international sourcing. More specifically, half of the international sourcing activities of Danish enterprises have destinations outside the EU while a third of all sourced functions have been moved to Asia(4).

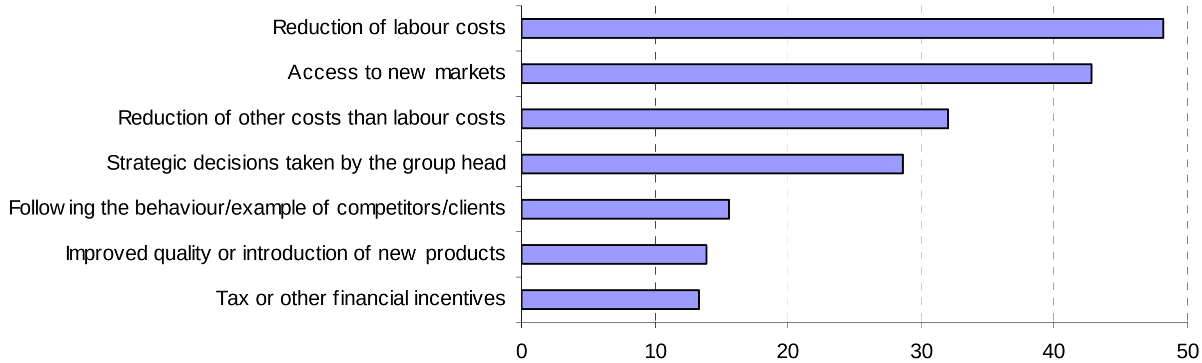
Access to new markets and reduction of labour costs the main reasons for enterprises with plans for international sourcing

Figure 3 shows the reasons by order of importance for enterprises that plan to engage in international sourcing in the future.

As illustrated in the graph, reduction of labour costs and access to new markets are by far the two most important factors for enterprises planning to engage international sourcing.

Less important reasons relate to reductions in costs other than labour costs, strategic decisions taken by the group head and mirroring the behaviour/example of competitors/clients.

Figure 3: Motivation factors for international sourcing
Share in total number of enterprises with plans for international sourcing that considered motivation factors to be very important (%)



Source: Eurostat (iss_plan, iss_econ)

Table 3 shows by country the share of enterprises with plans for international sourcing that considered each factor as very important. As shown in the table, reduction of labour costs is the prime factor for future international sourcing for enterprises in Denmark, Germany, Finland, the Netherlands and Slovenia. Enterprises in Germany, Italy, Portugal and Slovenia reported access to new markets as one of the most important factors for planned international sourcing. Reduction of costs other than labour costs is considered to be an important incentive for Danish, Portuguese and Slovenian enterprises.

Czech, Portuguese and Swedish enterprises reported strategic decisions taken by the group head as one of the main reasons for international sourcing in the future.

(3) International sourcing in Europe (SiF, 4/2009)

(4) International Sourcing (Statistics Denmark 2008)

Table 3: Plans for international sourcing by motivation factor reported as very important
Share in total number of enterprises with plans for international sourcing (%)

	Reduction of labour costs	Access to new markets	Reduction of other costs than labour costs	Strategic decisions taken by the group head	Following the behaviour/example of competitors/clients	Focus on core business	Access to specialized knowledge/ technologies	Improved quality or introduction of new products	Tax or other financial incentives	Other motivations
CZ*	19.7	34.3	11.9	38.2	6.0	13.6	6.2	10.6	10.4	0.0
DK	59.0	21.0	50.0	13.0	3.0	30.0	11.0	6.9	1.0	1.0
DE	49.7	58.2	30.4	21.4	13.0	11.6	11.8	16.5	20.2	76.0
IT	44.1	48.8	20.2	22.8	18.1	6.8	10.8	10.8	11.8	0.5
NL*	51.0	31.0	33.5	25.7	20.1	9.1	:	8.1	7.1	67.9
PT*	46.9	60.6	58.6	50.5	37.0	40.4	30.3	27.3	22.4	:
SI	85.7	83.3	69.8	52.4	71.4	71.4	47.6	61.9	51.2	0.0
FI	56.0	23.3	29.2	35.6	28.6	19.8	9.9	5.6	6.7	22.0
SE*	45.0	10.3	37.1	46.7	2.2	15.9	19.2	11.4	1.8	100.0
NO	38.2	17.6	20.6	32.4	14.7	8.8	14.7	5.9	5.9	20.0

* CZ, PT: provisional; NL, SE: unreliable data
Note: Enterprise declarations are not mutually exclusive. Overlaps can occur as enterprises can report as very important more than one motivation factor of planned international sourcing.

Source: Eurostat (iss_plan)

Proximity to clients the most important obstacle for enterprises with plans for international sourcing

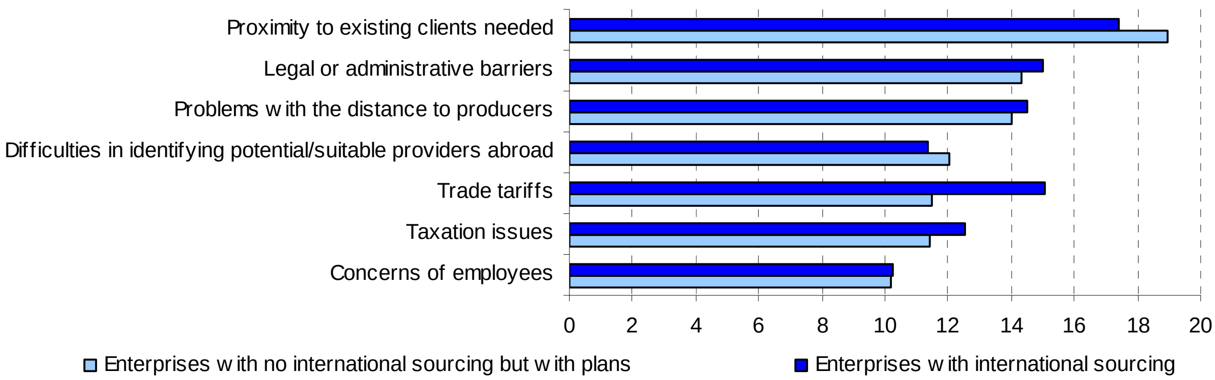
Figure 4 shows the most frequently reported barriers for enterprises with international sourcing or planning to do so in the future.

As illustrated in the graph, proximity to clients and legal or administrative barriers are by far the biggest obstacles for enterprises with plans for international sourcing.

This was expected as these are also two of the most important barriers reported by enterprises already engaged in international sourcing. In general, the fear of losing contact with clients and the time needed to overcome bureaucratic procedures discourage enterprises from moving their business functions abroad.

Problems reaching producers due to distance and trade tariffs, e.g. additional commissions charged in international trade, are also major obstacles for enterprises engaged in international sourcing.

Figure 4: Barriers for international sourcing by type of enterprise
Share in the number of enterprises that considered barriers to be very important (%)



Source: Eurostat (iss_barr, iss_econ)

Table 4 shows the most frequently reported barriers for planned international sourcing by country. Most enterprises in the Czech Republic, Denmark, Finland, Italy, the Netherlands, Portugal and Sweden reported proximity to clients and legal or administrative barriers for future international sourcing. Problems with the distance to producers were mostly reported in Ireland, the Czech Republic and Germany. Identifying potential/suitable providers abroad was a problem mostly reported in

Italy, Slovenia and the Czech Republic, while trade tariffs and taxation issues were two of the most important barriers for enterprises in Ireland, the Netherlands and Portugal.

Less frequent but nonetheless important barriers were concerns of sourcing exceeding expected benefits, infringements of patents and/or intellectual property rights, concerns of employees and linguistic and cultural barriers.

Table 4: Barriers for enterprises with plans on international sourcing
Share in total number of enterprises that considered barriers to be very important (%)

	Proximity to existing clients needed	Legal or administrative barriers	Problems with the distance to producers	Difficulties in identifying potential/suitable providers abroad	Trade tarrifs	Taxation issues	Concerns of employees	Linguistic and cultural barriers	Conflicting with social values of your enterprise	Uncertainty of international standards	Overall concerns of the sourcing operation exceeding expected benefits	Concern of violation of patents and/or intellectual property rights
CZ*	26.3	7.9	11.8	11.8	0.0	9.2	7.9	9.2	0.0	0.0	11.8	3.9
DK	16.7	11.8	8.8	7.8	5.9	3.9	2.9	12.7	2.9	2.9	16.7	4.9
DE	7.6	6.8	11.5	6.5	7.4	8.0	5.7	16.7	3.1	3.9	11.0	10.9
IE	15.2	9.1	12.1	10.6	15.2	13.6	6.1	3.0	3.0		6.1	6.1
IT	11.0	7.3	4.4	12.5	6.3	1.7	3.8	14.4	1.7	16.3	10.6	9.4
NL*	15.1	10.7	7.0	10.0	5.9	5.9	8.5	8.9	:	3.0	10.7	9.2
PT*	15.0	11.4	9.2	1.1	13.9	17.9	9.5	:	4.8	7.0	:	9.2
SI	8.8	12.0	7.4	11.5	6.9	10.6	6.9	6.9	2.8	6.0	13.8	6.5
FI	19.0	7.9	8.7	8.7	5.6	7.1	7.9	15.9	4.0	3.2	6.3	4.0
SE*	22.6	16.8	6.2	1.8	4.0	0.0	11.1	10.6	6.2	4.4	5.8	:
NO	18.2	21.2	9.1	3.0	12.1	9.1	0.0	15.2	3.0	0.0	6.1	0.0

* CZ, PT: provisional; NL, SE: unreliable data
Note: The numbers reported in each cell are not mutually exclusive as enterprises can report more than one barrier as very important for future international sourcing.
Source: Eurostat (iss_barr)

Impact on employment of future international sourcing

Figure 5 shows the impact of international sourcing on employment, which is seen as substantial by enterprises with plans for international sourcing.

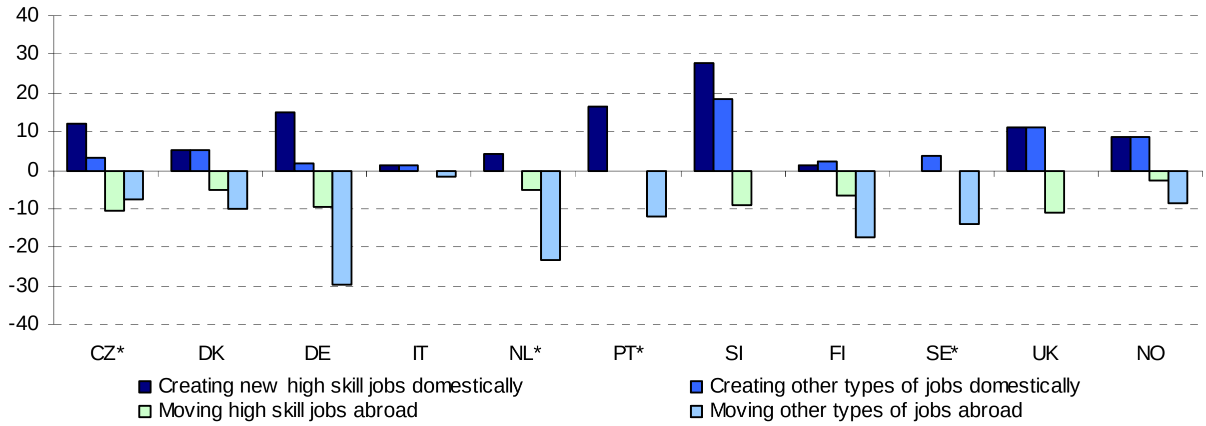
Overall, the majority of enterprises in most countries expect more jobs (other than high skill jobs) to be moved abroad than created domestically as a result of international sourcing.

Over 15% of enterprises with plans for international sourcing in Germany, Finland and the Netherlands reported that other types of jobs will be moved abroad. The highest percentage, about 30%, was reported in Germany.

In addition, just over 10% of enterprises with plans for international sourcing in the Czech Republic and the United Kingdom reported that high skill jobs will be moved abroad as a result of international sourcing.

On the other hand, over 10% of enterprises in five countries (the Czech Republic, Germany, Portugal, Slovenia and the United Kingdom) reported that new high skill jobs will be created domestically. The highest percentage, almost 30%, was reported in Slovenia, which also reported the highest percentage of enterprises creating other types of jobs domestically.

Figure 5: Impact on employment of international sourcing as assessed by enterprises planning to engage in international sourcing
Share in total number of enterprises reporting substantial impact (%)



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

Source: Eurostat (iss_empl)

METHODOLOGICAL NOTES

Data source:

The data presented in this SiF refer to enterprises with no international sourcing but with plans for doing so during 2007-2009. 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

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Manuscript completed on: 11.09.2009
Data extracted on: 30.04.2009
ISSN 1977-0316
Catalogue number: KS-SF-09-074-EN-N