



The Outsourcing Wave: Should You Catch It?

These days, more and more Canadian businesses are having their products manufactured abroad, a phenomenon commonly referred to as "outsourcing". As a matter of fact, experts are predicting that in five or ten years at most, an increasing number of Canadian and American businesses will outsource at least part of their production abroad.¹

Ever shrinking profit margins and increasingly fierce competition are forcing companies to constantly seek out new ways to remain competitive in order to maintain or improve the quality of their products, and reduce their operating expenses. The abundance and accessibility of cheap labour in several foreign countries is, more often than not, the primary driving factor in deciding whether to outsource production. Accordingly, many businesses outsource to Asian or Eastern European labour markets. In doing so, they simultaneously benefit from the advantages of doing business in an often far less regulated environment than that of their country of origin and from purchasing supplies at a lesser cost, while still benefiting from state-of-the-art technology.

The advent and rapid development of information technology such as the internet, videoconferencing and e-commerce have also contributed to the fact that business opportunities need no longer be limited to the business' country of origin. Additional favourable factors include the increasingly relative ease of doing business at the international level, as well as the favourable tax rates that exist in certain jurisdictions with lower labour costs; all of which contribute to the appeal of outsourcing abroad.

Despite the compelling advantages that outsourcing may present, without the proper insight into the culture, language, and customs of the targeted country, or the necessary preparation with respect to specific financial, legal and cultural nuances of outsourcing, such production opportunities may never attain their fullest potential. Moreover, outsourcing may pose various challenges at the quality control level. In addition to visiting those countries where they regularly outsource operations, business owners often need to find a foreign partner whom they trust and over whom they can maintain a certain degree of control and accountability. In relinquishing too much control over production, a business can render itself vulnerable to competitors.

For all of these reasons, several questions merit special attention from business owners. For instance, does a potential sub-contractor have the capacity to manufacture, on a timely basis, a product of superior quality that complies with all the required specifications? What assurances exist that such a manufacturer will not sell the products to other entities? Have all additional hidden costs been taken into consideration? More specifically, have travel and living expenses, costs pertaining to the hiring of a translator, importing and exporting costs, customs fees and applicable taxes all been accounted for? Are there any restrictions or potential obstacles to the importing and exporting of the product in question? These are only a few examples of the many concerns that a business must address before attempting to outsource.

Finally, it is crucial for the business in question to outline a clear strategy and set goals for its operations, and to surround itself with local partners and professionals who can provide assistance throughout the entire outsourcing process. These preliminary concerns should be dealt with as soon as possible, and the decision to outsource contemplated in earnest, since the cost-benefit analysis of doing business in Asia and in Eastern Europe may not remain eternally favourable. The adoption or enforcement of stricter regulation in such jurisdictions with respect to working conditions, such as minimum wage, minimum age and safety at work, is probably inevitable. Foreign businesses will undoubtedly have to shoulder part of these additional costs; thus rendering outsourcing a much more onerous proposition. Without a doubt, planning and foresight are the most essential ingredients for successful outsourcing.

1. R. Lewandowski, *Sous-traitance à l'étranger*, C.A. Magazine, Nov. 2004 <http://www.camagazine.com/index.cfm?ci_id/23409/la_id/2.htm>, accessed on May 9, 2006.

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