



# Sourcing's Maneuver as Tool for Effective Restructuring of Industrial Enterprise

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## Abstract

Today there is a mass of disputes on efficiency of application of production outsourcing, in particular it concerns the large Russian thought companies which serious problems on carrying out optimization of the enterprise face. Outsourcing, as well as strategy of absorption and merge, can as well as increase competitiveness of the enterprise, and lower it at illiterate application. For effective and safe application of models of sourcing, it is necessary to define strategy of this application taking into account specifics of a present situation in the company and possible risks. A question not in, whether managers use outsourcing or not, and in, whether they operate these relations and what criteria uses for decision-making. Therefore from restructuring of the enterprise by means of production outsourcing it is necessary to apply strategy of sourcing's maneuver to achievement of positive effects.

Strategy of sourcing's maneuver has to define efficiency of application of this or that model of sourcing taking into account specifics of the enterprise and the region, and also to create a number of consecutive actions of a regular data control models taking into account influence of various factors on the enterprise.

The purpose of this article – develop some models of sourcing's maneuver as the instrument of restructuring of the industrial enterprises.

**Keywords:** *Outsourcing, multisourcing, singlesourcing, insourcing, cosourcing, sourcing's maneuver.*

## 1. Introduction

Today there is a mass of disputes on efficiency of application of production outsourcing, in particular it concerns the large Russian companies which serious problems on carrying out optimization of the enterprise face. Outsourcing, as well as strategy of absorption and merge, can as well as increase competitiveness of the enterprise, and lower it at illiterate application [1]. The similar situation is and with other models of sourcing.

Really, practice of application of various models of sourcing is extremely inconsistent:

1. on the one hand, application of insourcing allows the enterprise to lower expenses of not used capacities [2], and on the other hand, this model of sourcing can't adapt for constantly changing requirements and volumes of localization, and also creates prerequisites for decline in quality and productivity and growth of expenses due to the lack of the competitive environment [3];
2. application of a singlesourcing allows to strengthen, first, market positions of the company buyer which gets the status of "especially valuable client", secondly, closely to be integrated with the supplier [4]; however an essential lack of this model of a sourcing is the monopoly position of the outsourcer [5];
3. advantage of a multisourcing is decrease in risks of the enterprise and increase of the competition between suppliers [6], however application of this model of sourcing complicates system of work with outsourcers that leads to emergence of new minor functions and, therefore, additional expenses [5];
4. at application of crowdsourcing of the enterprise receive the free devoted labor free or nearly which is carrying out key functions [7], however this model of sourcing has essential shortcomings:

ings: the lowest efficiency of collective work and property of most of people to choose simple and clear [8];

5. cosourcing allows to satisfy temporary increase in demand for products by association of capacities of the enterprise and the third-party supplier, however this model of sourcing has shortcomings which are characteristic for outsourcing [9].

For effective and safe application of means of sourcing, it is necessary to define strategy of this application taking into account specifics of a present situation in the company and possible risks [10].

Question not in, whether managers use outsourcing or not, and in, whether they operate these relations and what criteria uses for decision-making. Therefore from restructuring of the enterprise by means of production outsourcing it is necessary to apply strategy of sourcing's maneuver to achievement of positive effects [11].

## 2. Methods

Strategy of sourcing's maneuver has to define efficiency of application of this or that model of sourcing taking into account specifics of the enterprise and the region, and also to create a number of consecutive actions of a regular data control models taking into account influence of various factors on the enterprise.

We will offer the following definition of the concept "sourcing's maneuver": sourcing's maneuver is an optimum combination of models of sourcing for the purpose of effective restructuring of the enterprise and receiving the maximum profit, and also flexible response to market changes and internal changes of the company.

In this work we will consider such models of sourcing's maneuver which are connected with production outsourcing. The analysis of information from the existing literature based on experience of

Russian and foreign industrial companies allowed us to develop and offer the following models of sourcing's maneuver connected with optimization of the enterprise and application of production outsourcing and insourcing:

1) Localization of components of production of joint venture.

The essence of this model consists in the following: the customer allocates part of the divisions for creation of joint venture with the partner, further gives to this joint venture production of this or that component, thus keeping at himself part of production. Schematically this model is presented in figure 1.

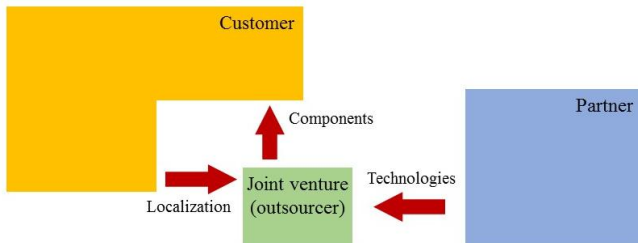


Fig 1.: Localization of the components of the joint venture's products

It is possible to mark out the following main advantages of application of this model of sourcing's maneuver to the enterprise:

1. decrease in the expenses of the enterprise connected with the maintenance of floor spaces;
2. receiving additional profit on joint venture at a rate of a share of authorized capital;
3. loan of modern engineering decisions, new production technologies;
4. establishment of long-term and mutually beneficial relations with the partner;
5. partial compensation of the losses of marginal profit of a product connected with transfer of production of a component on outsourcing;
6. achievement of optimum price for products of joint venture;
7. decrease in expenses of not used capacities.

2) Creation of joint venture on the basis of subsidiary.

The essence of this model consists in the following: the customer creates the enterprise, joint with the partner, on the basis of the subsidiary and gives to this joint venture assembly production of the final product. Components of a product are delivered on joint venture from the customer and the partner.

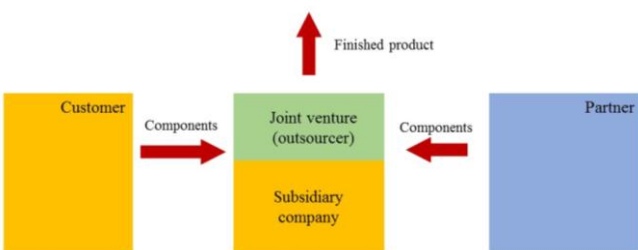


Fig 2.: Creation of a joint venture on the basis of a subsidiary company

It is possible to mark out the following main advantages of application of this model of sourcing's maneuver to the enterprise:

1. establishment of long-term and mutually beneficial relations with the partner;
  2. achievement of competitive market price of production of joint venture;
  3. receiving additional profit on joint venture at a rate of a share of authorized capital;
  4. loan of modern engineering decisions, new production technologies;
  5. additional charge of capacities of the enterprise and subsidiary;
  6. receiving additional profit due to deliveries of components to joint venture.
- 3) Application of components from local outsourcers for production of the assembly enterprise.

The essence of this model consists in the following: the customer creates the assembly enterprise in the remote region or other country and gives it assembly production of a ready-made product with possible localization of some components. Thus the part of purchased components of a product is applied from local outsourcers. Schematically this model is presented in figure 3.

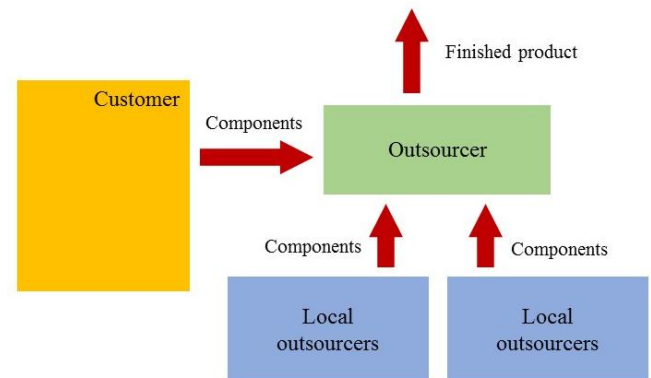


Fig 3.: Application of components from local outsourcers for assembly plant products

It is possible to mark out the following main advantages of application of this model of sourcing's maneuver to the enterprise:

1. decrease in logistic expenses;
  2. receiving additional profit on activity of the assembly enterprise;
  3. establishment of mutually advantageous partnership with local outsourcers;
  4. decrease in prime cost of the finished goods collected at the assembly enterprise.
- 4) Additional charge of floor spaces by providing outsourcing services.

The essence of this model consists in the following: the customer himself acts as the outsourcer, charging up own areas production of components of production of other customers. Schematically this model is presented in figure 4.

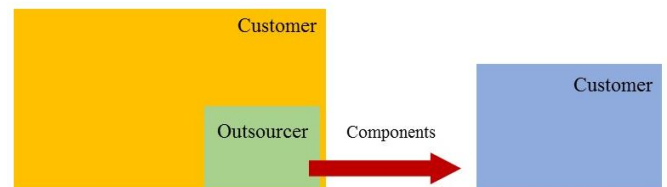


Fig 4.: Sub-loading of production facilities by providing outsourcing services

It is possible to mark out the following main advantages of application of this model of sourcing's maneuver to the enterprise:

1. receiving additional profit;
2. establishment of long-term and mutually advantageous partnership with the customer;
3. decrease in expenses of not used capacities.

### 3. Results and Discussion

Approbation of model of sourcing's maneuver "localization of components of production of joint venture" it was carried out on "KAMAZ". Application of production outsourcing at the enterprise was followed by creation on own squares of joint ventures "Cummins KAMA", "Federal Mogul Naberezhnye Chelny", "ZF KAMA" and "Knorr-Bremse KAMA" and localization of components of production of joint venture at own plants. Application of this model of sourcing's maneuver allowed to reach target product cost and positive economic effect of application of outsourcing by depreciation of delivery and the customs duties, and also localization and performance of part of operations at plants of "KAMAZ" [12].

Application of model of sourcing's maneuver "creation of joint venture on the basis of subsidiary" was carried out on KAMAZ. The joint venture was created by "KAMAZ" and "Marcopolo S.A." on the basis of subsidiary of "NEFAZ". This joint venture is engaged in production of buses of the small class "Marcopolo" on the basis of the chassis KAMAZ equipped with components of the largest world car makers: Cummins engine, transmission of "ZF", brake Knorr-Bremse system and others [13].

Approbation of model of sourcing's maneuver "application of components from local outsourcers for production of the assembly enterprise" was carried out on "KAMAZ". Assembly production of special equipment KAMAZ with application of the Korean superstructures at "KAMAZ-VOSTOK" enterprise in the city of Khabarovsk was created [14]. As a result for the 2nd half-year 2010 the enterprise got net profit of 777 thousand rubles and allowed to save "KAMAZ" on deliveries of automotive equipment to DVFO more than 3,5 million rubles.

"Additional charge of floor spaces by providing outsourcing services" it is possible to give additional charge of floor spaces of the Metallurgical complex of "KAMAZ" as an example of application of model of sourcing's maneuver by orders of "Russian Railways".

#### 4. Summary

The models of sourcing's maneuver given above don't settle all variety; moreover, the companies can apply at the same time some models which efficiency depends on quality of management.

It should be noted that application of sourcing's maneuver can as well as increase competitive advantages of the company, and weaken them. It is possible to allocate two the main criterion of efficiency of application of strategy of sourcing's maneuver [15]:

1. Clear strategy of business. Clear strategy of business regarding sourcing's maneuver allows to synchronize strategy and outsourcers and partners, promotes formation of long-term alliances between them, defines their investment behavior more accurately.
2. Harmonious combination of models of sourcing. At a reasonable combination of models of sourcing where management of them is constructed on in advance defined accurate principles, application of strategy of sourcing's maneuver is the effective instrument of optimization of the enterprise.

#### 5. Conclusions

Realization above the offered models of sourcing's maneuver allows not only to carry out effectively restructuring of floor spaces of the large industrial enterprises, but also to attract the foreign capital on the territory of the country. Also these models can be one of instruments of development and formation of economic clusters.

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