

Outsourcing analysis: systematically assess outsourced services and award them optimally

The outsourcing analysis is a systematic examination of which services and components a company should award externally and under which conditions this is most economical. It combines make-or-buy considerations with a structured evaluation of suppliers, costs and risks. For technical buyers, it is a central instrument for aligning the company's own depth of value creation with the capabilities of the procurement market. Anyone who analyses outsourcing on a data-driven basis avoids costly wrong decisions and strengthens their negotiating position vis-à-vis suppliers.

Key facts

- The outsourcing analysis examines which services should be procured externally and from which supplier.
- It combines make-or-buy considerations, cost analysis and supplier evaluation.
- Typical assessment criteria are cost, quality, capacity, manufacturing competence and supply chain risks.
- In practice, should-cost analyses and TCO considerations are frequently used as a basis.
- The results feed directly into tenders, negotiation rounds and long-term supplier strategies.
- Regulatory requirements such as the German Supply Chain Due Diligence Act must be taken into account when evaluating outsourcing candidates.

Definition: outsourcing analysis

The outsourcing analysis is a structured analysis process in strategic procurement that determines which commodity groups, components or services a company should not manufacture itself but procure externally – and at what level this can be done economically and with low risk. It answers three questions: what is outsourced, to whom, and on what terms?

Distinction from the make-or-buy analysis

The make-or-buy analysis primarily considers the question of in-house production versus external purchase for a single service. The outsourcing analysis goes further: it evaluates the entire portfolio of potential outsourced services, compares several suppliers and integrates strategic aspects such as the target depth of in-house production. In practice, both perspectives are often combined, with the outsourcing analysis taking the broader view.

Position within the procurement process

The outsourcing analysis typically belongs to the strategy development phase preceding a tender. Its results form the basis for a supplier shortlist, the definition of packaging and lot sizes, and the subsequent negotiation round. In day-to-day operations, it ensures that subsequent rush orders or

ongoing call-offs are based on a well-founded supplier selection.

Methods and approach of the outsourcing analysis

A practical approach follows several stages: analysis of the company's own value creation, market screening, cost comparison and risk assessment. It is important that qualitative and quantitative factors are given equal weight – a pure price comparison often leads to wrong decisions.

Current-state analysis and demand structuring

First, all affected parts and services are recorded, sorted by material group and classified by volume, criticality and manufacturing complexity. Proven tools include ABC/XYZ analyses and portfolio matrices. The analysis shows where high volume meets simple manufacturing – this is often where the greatest savings potential lies. The procurement budget and planned volumes for the coming years should also be included so that the analysis does not merely reflect the past.

Cost comparison and should-cost analysis

At its core is the comparison of manufacturing costs and procurement price. A should-cost analysis reconstructs the supplier's 'fair' costs from materials, production times, machine rates and overheads. Anyone with an established should-cost library can quickly perform such calculations for recurring components and use them as a basis for negotiation. In addition, a total-cost-of-ownership analysis is recommended, incorporating transport, quality, warehousing and administrative costs.

Supplier evaluation and market screening

In parallel, the supply market is analysed: which suppliers have the required manufacturing processes, capacities and certifications? A structured process with a documented supplier shortlist reduces the effort involved in subsequent tenders. Qualitative criteria such as innovative strength, financial stability and proof of a functioning quality assurance system – for example via an Initial Sample Inspection Report (ISIR) at the start of series production – also belong in the evaluation.

Key criteria and KPIs in outsourcing

The quality of an outsourcing analysis depends on which criteria are included and how measurable they are. In addition to price and cost, reliability, quality, flexibility and risk factors matter.

Quantitative metrics

Key metrics are savings potential, delivery reliability, scrap and complaint rates, and the time-to-market until a new supplier is ready for series production. Capacity reserves and lot-size optimisation also play a role: a supplier with suitable minimum order quantities reduces capital tied up and storage costs. These key figures should be monitored continuously as part of ongoing supplier evaluation after the award.

Qualitative and strategic criteria

Beyond the numbers, manufacturing know-how, industry-specific experience, digital e-procurement capabilities and willingness to collaborate matter. Concepts such as supplier co-innovation or a joint innovation roadmap with suppliers show whether a partner can offer added value beyond pure manufacturing. Geopolitical dependencies, the raw material situation and the robustness of the supply chain – for example in just-in-time concepts – also belong in the evaluation.

Contractual framework conditions

The analysis should clarify at an early stage which contractual mechanisms will safeguard the collaboration. These include Incoterms FOB or other delivery terms, price stability via a raw material escalation clause, service levels with service credits (SLA) for quality buffers, and defined escalation paths. In the event of underperformance, a crisis communication process defined in advance for suppliers is helpful in minimising downtime.

Risks and controls in outsourcing

Every outsourcing of value creation creates dependencies. The outsourcing analysis must therefore assess not only opportunities but also risks systematically and define countermeasures.

Supplier and dependency risks

Monopoly positions, single sourcing for critical components and unclear ownership rights to tools or designs are typical risks. Loss of know-how in joint developments – for example in the context of IP co-creation – requires clear contractual provisions. Compliance requirements such as the German Supply Chain Due Diligence Act must also be reviewed; buyers should point out the need for case-by-case review and the involvement of the legal department.

Cost risks and quality assurance

Price discounts on the initial order are often offset by change orders, tooling costs or minimum quantities over compensation periods. A sound cost analysis including a should-cost reference and a defined run-at-rate check before the start of series production minimise such effects. Quality assurance agreements with defined inspection scopes and response times belong in every award package.

Governance and internal policies

The outsourcing analysis should be embedded in a company-wide procurement policy that sets thresholds for award decisions, authorisations and documentation requirements. This prevents ad-hoc awards and creates transparency – also vis-à-vis management and auditors.

Current developments in outsourcing analysis

The analytical depth and speed of the outsourcing analysis are increasing significantly. Digitalisation, sustainability requirements and more resilient supply chains are changing the evaluation criteria.

Digitalisation and data-driven decisions

Digital procurement platforms and e-procurement solutions make market prices, supplier profiles and capacities accessible more quickly. Data analytics supports the development of should-cost models and supplier segmentation. This accelerates tenders and shortens the time-to-market of new products without reducing decision certainty.

Sustainability and resilience as evaluation criteria

Carbon footprint, regional sourcing, recyclability and second-life use are receiving greater attention in supplier evaluation. Building dual sourcing and avoiding critical dependencies are also gaining in importance. In many companies, the outsourcing analysis is therefore being supplemented with systematic risk scoring.

Close collaboration with suppliers

Instead of purely transactional relationships, many procurement organisations are developing strategic partnerships with joint business plan (JBP) approaches and regular reviews of the innovation roadmap with suppliers. The outsourcing analysis provides the objective basis for deciding which suppliers deserve such strategic depth.

Typical metrics

Delivery reliability: > 95%

typical benchmark for reliable outsourcing partners

Savings potential compared with reference costs: 5–15%

frequent outcome for commodity groups tendered for the first time

First sample / ISIR pass rate: > 98%

indicator of the supplier's process quality

Time-to-market to production readiness: 3–9 months

depending on complexity and tooling set-up

Practical example

A medium-sized mechanical engineering company with around 350 employees manufactured some sheet-metal components in-house, although its production capacities were heavily utilised. An outsourcing analysis over six months showed that high-volume simple sheet-metal parts could be procured externally at significantly lower cost, while high-precision, low-volume assemblies remained in-house.

- Building a should-cost library for the 50 most important sheet-metal parts as a basis for negotiation
- Creating a supplier shortlist with five qualified sheet-metal fabrication specialists followed by a structured tender
- Defining SLA quality requirements including ISIR approval and a run-at-rate check before the start of series production
- Integrating the new suppliers into the e-procurement system to automate call-offs and approvals

Conclusion

The outsourcing analysis is more than a cost calculation: it combines make-or-buy considerations, supplier evaluation and risk management into a sound basis for decision-making. Those who carry it out systematically and with clear metrics sustainably reduce procurement costs and supply chain risks. The prerequisites are clean data, a binding procurement policy and the willingness to include qualitative factors as well. Companies that update the analysis regularly respond faster to market fluctuations and retain control over their depth of value creation.

Frequently asked questions

What is an outsourcing analysis?

An outsourcing analysis is a systematic procurement process that examines which services and components should be sourced externally rather than internally. It evaluates the cost, quality, capacity and risks of alternative suppliers. The outcome is a well-founded sourcing decision and supplier

strategy.

How does an outsourcing analysis differ from a make-or-buy analysis?

The make-or-buy analysis compares in-house production with external purchase for a specific service or part. The outsourcing analysis looks at the entire portfolio of possible outsourced services and compares several suppliers with one another. It additionally answers the questions of the right supplier and the appropriate terms and conditions.

Which criteria are included in an outsourcing analysis?

Typical criteria include manufacturing and procurement costs, quality, delivery reliability, manufacturing competence, capacity reserves and supply chain risks. In addition, strategic factors such as innovation capability, compliance and sustainability are considered. In practice, quantitative and qualitative criteria are weighted and consolidated into an overall score.

How often should an outsourcing analysis be updated?

A full update is typically worthwhile every one to three years, and more frequently for critical commodity groups. Triggers for an early update include market changes, price increases, quality problems or new strategic requirements. More important than a fixed cycle is the continuous monitoring of key figures after the award.

What risks does outsourcing entail?

The main risks include dependence on individual suppliers, quality problems, hidden costs and loss of know-how. Compliance and supply chain due diligence obligations, such as the German Supply Chain Due Diligence Act (LkSG), must also be observed. Countermeasures include dual sourcing, clear contracts, ongoing supplier evaluations and defined escalation paths.

What role does the should-cost analysis play in outsourcing?

The should-cost analysis reconstructs the fair manufacturing costs of a component and serves as a reference for the procurement price. It strengthens the negotiating position and reveals unrealistic quotations. In combination with a well-maintained should-cost library, it can be used efficiently for recurring parts.