OUTSOURCING STRATEGIES AND MARKETING PERFORMANCE OF FAST FOOD INDUSTRY

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Abstract

There is now more pressure on marketing practioners to justify that marketing function contributes to shareholders value by the firms. Management of firms are interested in assessing the extent to which cost of business can be minimized and how that could help in reducing marketing expenditure and ultimately increase return on marketing investment (ROMI). It is as a result of this that the study attempted to ascertain the link between outsourcing and marketing performance. The study is limited to the fast food industry in Nigeria. Copies of questionnaire were distributed 'purposively to ten fast food outlets in Lagos, Nigeria. Two hypotheses were developed and were subjected to descriptive and regression analysis. It was discovered that outsourcing contributed to increase in marketing performance.. The study makes useful policy recommendations for marketing professionals, entrepreneurs and top executives of fast food outlets in Nigeria.

Keywords: Business Outsourcing, Knowledge process outsourcing, Marketing performance.

Introduction

The Fast Food industry in Nigeria today is a beehive of activities and is gaining a lot of attention both within and outside the country. Industry trends such as rapid outlet expansion, strategic alliances (especially with companies in downstream sector of the oil and gas industry), and entrant of foreign players amongst others lends credence to these assertions. There exist in every economy, (whether developed, developing or less), various type of industries; manufacturing, service, food and beverage, textile and chemical. These industries compete among themselves for resources, infrastructure, market share and relevance, for successful competition, companies use creative and innovative weapons to compete favourably for profit maximization.

However the concept of outsourcing has not received a lot of attention as considered to be important elements that account for the growth and remarkable performance of the fast foods industry in Nigeria. Also the effects of outsourcing on firms' performance are not completely clear. Previous outsourcing studies show contradictory results; while some claim a positive relationship between outsourcing and performance outcomes, others report no significant or even negative effects. (Rothaermel and Deeds (2001).

Outsourcing without proper management control could sometimes result in job losses, According to Ghodeswar and Vaidyanathan (2008) a large number of employees whose organizations outsource their business activities may have similar problems to those employees that have undergone downsizing, while organizations claim that the basis for outsourcing is to increase business efficiency. however employees who are lucky to remain in the company after outsourcing effects believe that the possibilities of them staying in the company is low, because they could be the next in line to lose their jobs. Hammer (2001) posits that in situations where the outsourcer is not satisfied with the service, it could be difficult to break the contract because outsourcing contracts usually require a stipulated period. It will be costly to reverse the situation and return the services in-house. Nevertheless, extant literatures and observed online interviews of business executives have shown that the positive outcome of outsourcing as a platform for reducing cost of production and for increasing the profit of firms. However, limited study have been able to link it with returns on marketing investment. Return on marketing investment (ROMI) is the contribution attributable to marketing (net of marketing spending), divided by the marketing 'invested' or risked. ROMI is a relatively new metric. It is not like the other 'return-on-

-investment' metrics because marketing is not the same kind of investment. Instead of fund being 'tied' up in plants and inventories, marketing funds are typically 'risked.' Marketing spending is typically expensed in the current period. The idea of measuring the market's response in terms of sales and profits is not new, but terms such as ROMI are now being used more frequently than in past periods.

It is as a result of this that the study intended to examine;

(i) Whether business outsourcing assists fast foods entrepreneurs to increase return on marketing investment

(ii) If knowledge process outsourcing supports fast food companies to satisfy its customers.

2.0 LITERATURE REVIEW

Conceptual Clarifications

Outsourcing is the act of one company contracting with another company to provide services that might otherwise be performed by in-house employees. Outsourcing is defined as a contract service agreement in which an organization hires out all or part of its operations to an external company. The recipients for outsourced activities are generally in the same country. When a company on another continent is involved e.g. India, the correct term to use is offshore outsourcing. Near shore outsourcing refers to outsourced projects that are outside the country, but on the same continent e.g. a US company outsourcing activities to a company in Canada would be called near shore outsourcing. Feenstra (2005) described it as a "disintegration of production" or a "super specialization". Dutta and Roy (2005), mentioned a phenomenon called "vertical fragmentations". Lacey and Blumberg, (2005), defined outsourcing as "reliance on external sources for manufacturing components and other value adding activities". Some focus on international sourcing of components, sub-systems and completed products (Asher and Nandy 2007).

Outsourcing is the process of deliberating non-core activities or operations from internal production within a business to an external entity that specializes in that particular operation. In general, outsourcing can be referred to as make or buy decisions on intermediate goods, to the hiring of temporary labour and to the use of external services. (Kennedy, Holt, Ward, and Rehg, 2002). According to Beaumont, (2006) outsourcing can be said to be one sub-type of distributed work. It is the delegation of task or job from internal production to external entity, such as a sub-contractor. Smith (2007) defined outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies.

Gilley and Rasheed (2004) provide clarifications for the definitional confusions, positioning outsourcing as procuring something that was either originally sourced internally (i.e vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e make or buy). This includes arrangements that have been termed – internal vs external sourcing. (Beaumont, 2006).

In the words of Bennedsen and Schultz, (2005) outsourcing decisions are influenced by the quality of information available, cost, profitability, strategic alliance, supplier quality, financial evaluation, risk and efficiency. Bennedsen and Schultz, (2005) also suggested that comprehensive use of outsourcing can provide organizational, technical behavioural benefits and provide greater visibility of both issues and processes of all the functions affected. (Mukherji et al 2007) discovered that drivers of outsourcing decisions are both internal and external to the outsourcing organization as more processes are integrated with information systems.

Often the tasks that are outsourced could be performed by the company itself, but in many cases there are financial advantages that come from outsourcing. Many large companies now outsource jobs such as call center services, e-mail services, and payroll. These jobs are handled by separate companies that specialize in each service, and are often located overseas. Outsourcing enables an organization to better marshal its own resources and those of its external agents who have the required expertise and specific resources/technologies to accomplish all the tasks involved (Wu et al. 2003). Effective use of outsourcing will, therefore, allow an organization to focus on a limited set of strategically important tasks and will in turn lead to continuous enhancement of its core competencies (Dess et al. 1995, Kotable 1990, Quinn 1992, Venkatraman 1989). Moreover, advances in business logistics and processes have encouraged companies to increase the outsourcing of non-core operations. This has led companies to develop new business strategies to manage goal-oriented activities (Mowshowitz 1994) that depend heavily on outsourcing. Outsourcing has also resulted in a significant altering of organization configuration and boundaries, outsourcing can obviously help an enterprise achieve considerable benefits, but employing outsourcing without proper consideration of long-term performance may also jeopardize competitiveness.

Types of Outsourcing

There are three basic types of outsourcing as described by Mark, Kelvin and Carlo Bonifaz (2006). The outsourcing forms include the following:

i. Business process outsourcing (BPO)

ii. Knowledge process outsourcing (KPO)

iii. Information technology outsourcing (ITO)

i. According to Thomas and Rick, (2005) business process outsourcing (BPO) is defined simply as the movement of business processes from inside the organization to an external service provider. With the global telecommunications infrastructure now well established and consistently reliable, BPO initiatives often include shifting work to international providers when organizational needs for outsourcing cannot be met locally. Mark et al (2006) pointed out that business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of specific business functions (or processes) to a third-party service provider. it has to do with establishing a partnership with a single supplier or service providers.

ii. Knowledge process outsourcing (KPO) has to do outsourcing of core business activities which often are competitively important. Therefore Knowledge process outsourcing includes processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgment and decision-making. The concept of knowledge process outsourcing deals with special endowment of knowledge in a specific line of business and it is information driven. It means that it is a continuous process of creation of genuine ideas and dissemination of information by bringing together the information to industry leaders to create knowledge in an industry whose areas of involvement includes marketing, research and development, product development and planning, advertising and allied services. Agarwal, (2009).

iii. Information technology outsourcing (ITO) has to do with Information technology being perceived as a service or support function. Majorly it aims at reducing IT costs though outsourcing organizations retain strategic control. Multiple suppliers sourcing are not as concerned with partnerships as the aim is to foster innovation and create competition between suppliers, although suppliers will form alliances among themselves for bidding purposes.

Usually, contracts are short-term and a client then organizes a portfolio of services from various suppliers so that strategic control can be retained. Joint venture deals more with development of new knowledge for the client, also they advocate for shared risk and reward. Some organizations help promote creation of Supplier Company and maintain more control than they would have in a multiple supplier or total management. A more recent type of outsourcing is the ‘Application Service Provider’ model, where organizations purchase software use on an “as and when” basis (Kem, Kreijer, and Willcocks, 2002), as for organizations that see IT as core to their business, they keep the IT department and services in-house.

Theoretical Framework

Core Competencies Theory

A core competency is a concept in management theory originally advocated by CK Prahalad, and Gary Hamel, The concept of core competences has been developed on the basis of the resource-based theory. Prahalad and

Hamel (1990) defined the core competencies as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies. The application of concept of core competences in outsourcing became very popular among scholars. The concept has been predominantly use to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the Managing relationship and reconsideration phases. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina and Ross, 2003; Feeney et al., 2005). Core competency is a specific factor that a business sees as being central to the way it, or its employees, works. It fulfills three key criteria:

i. It is not easy for competitors to imitate.

ii. It can be re-used widely for many products and markets.

iii. It must contribute to the end consumer's experienced benefits.

Some fast food companies in Nigeria have some products that are peculiar and associated best with their organization and this makes them to be regarded as leader in the area of such product offerings or delivery to customers. A core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication, best human resource management (HRM), good market coverage etc. Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value.

Development of Hypotheses

In Nigeria outsourcing represents major parts of business dealings of fast food companies, according to Oloketuyi (2006) fast food companies outsource power management, generator maintenance and raw materials because product range are large and barrier to entry is low in order to compete effectively, organizations considers cheap means of delegating responsibilities to the outsourcing vendor that will make them realize substantial profit. Fast food companies Outsourcing represents the 'fundamental decision to reject the internalization of an activity' (James 2001). A strategic decision is undertaken either to substitute external sourcing for internal activity or use externally provided activities to extend a firm's capabilities. Proximity between purchaser and provider of the outsourced activity may influence the outsourcing decision due to agglomeration or clustering effects – or what the urban economics literature calls "localization externalities" (Stephen 2001). These may affect the outsourcing decision by impacting on the costs of the outsourced activity, influencing the governance or management costs associated with outsourcing (Viming and Globerman 1999) or by changing the risks associated with information asymmetry, bounded rationality and opportunism (Williamson 1975). In the particular context of the outsourcing adoption, where outcomes are uncertain and contracts are likely to be incomplete, the latter of these may be especially important. 'Clustering of some firms may, for example, facilitate outsourcing possibilities, contacts and information that would not be readily available with dispersion. Locating in a central area may help to create and support networks of co-production or sub-contracting that can be vital to Research and development activities, through the resource savings that they provide. Such outsourcing economies may be crucial to small and medium-sized enterprises, it can save resources, and the patterns of trust and reciprocity that can develop from co-production may also provide for a stronger relationship between R&D and productive performance.

Charis (2006) cited that fast food companies outsourcing, the purchase of restaurant's equipments, sub-assemblies, finished products or mobile transportation sales services from outside suppliers when internal production capacity is limited to maximize profit as projected. An enterprise will also outsource its business when it does not possess the crucial technology, but still wants to seize the business opportunities presented. (Chu 2005) conducted a survey in 11 industries on outsourcing expenses, expressed as a percentage ratio between outsourcing expenses and revenue. The survey found the population mean to be 54%, whilst the ratios for the lowest and highest industries were 27% and 83% respectively. We can conclude that industries spend about 50% of their revenue on outsourcing, a surprisingly large figure. This is also supported by (Chulli 2005), who suggests that outsourcing contributes a significant part of an organization.

A study on the effect of outsourcing on fast food industry performance also revealed that in food producing firms are facing increasing global competition, and simultaneous pressures on both the cost and quality of their products. Over the past two decades, food firms have responded to these pressures by investing in process and information technologies to streamline and automate operations. More recently, in an attempt to become stronger and responsive across the supply chain, businesses have begun to outsource core production processes and noncore support processes to focus on their core competencies for the purpose of increasing sales revenue. A recent survey conducted by Sheen and Tai, (2006) about the largest U.S. manufacturers found that 80 percent of logistics executives reported using third-party outsourcers to handle supply-chain activities, up from less than 40 percent in 1991. Another survey of 318 global companies active in outsourcing reported that 61 percent experienced cost savings, 57 percent found increased ability to focus on the core business, and 50 percent reported improvements in process speed, quality, and accuracy. Although the relationship between firms' tendencies to either explore new possibilities or to exploit known certainties dates back to Schumpeter (1934), it is only more recently that this discussion has reached the domain of learning (Rothaermel, 2001; Rothaermel and Deeds, 2004).

Outsourcing usually aims at reducing fixed costs by contracting out jobs at reduced wages or benefits and buffer the regular work force from fluctuations (Minondo and Rubert (2006). This helps firms to externalize risks with respect to demand fluctuations to external suppliers. Moreover, some goods and services can be bought cheaper or at higher quality from third parties because specialized providers can benefit from economies of scale and learning effects (Whitfield 2006). For the outsourcing decision, a firm compares the costs associated with internal transactions and transactions over the market. This study intended to test empirically if business process outsourcing will help to reduce the cost of operation;

Ho; Business process outsourcing does not contribute to increase in return on marketing investment (ROMI).

Other common signs of an outsourcing disaster include: Customers' poor service delivery that affects customers' relationship and loyalty, increasing customer complaints, and, in extreme circumstances, business shutdown (due to an information security breach or to the vendors' system or organizational failure). Any of these is directly harmful to an outsourcing client's short-term market performance as measured by sales, costs, strength of customer relationships, or market reputation.

Outsourcing implies a one-way decision, which cannot be reversed or only against very high cost. It is a strategic decision, to be taken at the highest management level, because it may affect the business' (future) distinctiveness." There are several elements in this definition that deserve further consideration. First, outsourcing is concerned with a "dedicate value adding activity". In other words, we are not talking about purchasing standard products, but about products that are made to order according to specifications set by the outsourcing party. Second, an outsourcing decision is presented as practically irreversible. Once you have given up the competence, the costs of acquiring it again will be formidable. In practice, the loss of competence will not take effect immediately. It will often be a long drawn-out process involving several steps of increasing detachment. Third, outsourcing is considered a strategic decision. Outsourcing was put on the strategists' agenda in the early 1990s (Prahalad & Hamel, 1990). Companies were urged to consider the full range of their activities and to decide which of these could be considered to be based on core competencies providing competitive advantage. All other competencies would then become candidates for outsourcing to specialist suppliers who in all likelihood would be able to provide such services at a lower cost and higher quality. Over the past 15 years outsourcing has indeed become a subject of strategic decision-making as shown empirically by Arnold, 2000;

Baden-Fuller et al., 2000).

This study further examined the effect of knowledge process outsourcing on customers' relationship.

H02; Knowledge process outsourcing does not affect customer satisfaction.

Methodology of the study

This study is exploratory in nature and relies on a field survey to collect the required data. A total of 10 fast foods out of the 46 fast foods firms registered with Association of Fast Food Confectioners of Nigeria. (AFFCON) and the National Agency for Food and Drug Administration and Control (NAFDAC) were randomly selected based on the outlet availability and staff strength to represent the entirety of fast food companies in Lagos State Nigeria. The fast foods consisted of Tantalizers, Mr. Biggs, Tetrazzini, Chicken Republic, Tastee Fried Chicken, Munchies, Sweet Sensation, Mama Cass and Big Treat. The survey was directed to the top, middle and lower level management in each fast food organization. Data collected from top and middle level managers, whose opinions reflected outsourcing management practices in their organizations. The study adopted the drop and collect method, the researchers gave 30 questionnaires to each of the 10 organizations filled by their managers being recognized and then collected it within 21 days. The highly controlled data collection procedures ensured 256 out of the 300 questionnaires were returned which is 85.3% response rate.

The research tool:

The required data was collected by means of a self-administered questionnaire, which was developed for this purpose. The questionnaire consists of four sections. Section 2 examine the current practice of business process outsourcing in the companies and how it relates with marketing performance and section 3 is related to knowledge process outsourcing of the fast food companies and marketing performance. It must be submitted here that the marketing performance was not measured but the views of the respondents with respect to the marketing performance indicators such as incremental sales revenue, ratio of costs to revenue, cost of new customer acquisition as well as cost of customer retention were collated for the analysis The reliability of the research instrument was examined by Cronbach alpha and found 0.86, which is considered acceptable for this research. The statistical package SPSS was used to analyzed data. Descriptive analysis and simple regression were used. Table 1 describes demographics of the firm considered in the survey and the response rate.

Table 1: Demographics characteristics of the firms considered in the survey

Organization (Fast Foods)	Number Returned	Freq. (%)
Mr. Biggs	28	10.9
Sweet Sensation	28	10.9
Tantalizers	29	11.3
Chicken Republic	25	9.8
Tetrazzini	24	9.4
Big Treat	26	10.2
Mama Cass	24	9.4
Tastee Fried Chicken	23	9.0
Munchies	23	9.0
Kenturkey Fried Chicken	26	10.2
Total	256	100.0

Years of experience:

1-5 years	111	43.4
6-10 years	112	43.8
11-15 years	27	10.5
15 years above	6	2.3
Total	256	100

Management Category

Lower level	110	43.0
Middle level	61	23.8
Top level	85	33.2
Total	256	100

Source: Field Survey 2012

4.0 Test of Hypotheses and Discussion of Results

Hypothesis 1

H01: Business process outsourcing does not contribute to return on marketing investment in fast food industry

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.494(a)	.244	.241	.60044

a Predictors: (Constant), BPO

ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	29.589	1	29.589	82.070	.000(a)
	Residual	91.574	254	.361		
	Total	121.162	255			

a Predictors: (Constant), BPO

b Dependent Variable: ROMI

Interpretation of Results

The results from the model summary table above revealed that the extent to which the variance in return on marketing investment (ROMI) can be explained by business process outsourcing is 24.4% i.e (R square = 0.244). The ANOVA table shows the Fcal 82.070 at 0.0001 significance level. Business process outsourcing facilitates significantly the return on marketing investment in fast food industry

Coefficients(a)

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.521	.251		6.057	.000
	BPO	.603	.067	.494	9.059	.000

a Dependent Variable: COP

The coefficient table above shows the simple model that expresses how Business process outsourcing assists fast foods entrepreneurs to increase returns on marketing investment. The model is shown mathematically as follows;

Y = a+bx where y is reduction in cost of operation and x is business process outsourcing, a is a constant factor and b is the value of coefficient. From this table therefore, returns on marketing investment (ROMI) = 1.521 +0.603BPO. This means that for every 100% change in ROMI, business process outsourcing contributed 60.3%

Decision

The significance level below 0.01 implies a statistical confidence of above 99%. This implies that business process outsourcing assists fast foods entrepreneurs to increase returns on investment in business. Thus, the decision would be to reject the null hypothesis (H0), and accept the alternative hypothesis (H1).

Hypothesis 2

H02: Knowledge process outsourcing does not affect customer satisfaction.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.828(a)	.685	.684	.44946

a Predictors: (Constant), KPO

ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	111.468	1	111.468	551.782	.000(a)
	Residual	51.312	254	.202		
	Total	162.780	255			

a Predictors: (Constant), KPO

b Dependent Variable: CS

Interpretation of Results

The results from the model summary table above revealed that the extent to which the variance in Knowledge process outsourcing can be explained by customer satisfaction is 68.5% i.e (R square = 0.685). The ANOVA table shows the Fcal to be 551.782 at 0.0001 significance level. The implication is that knowledge process outsourcing significantly affects customer satisfaction.

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.167	.154		1.084	.279
	KPO	.971	.041	.828	23.490	.000

a Dependent Variable: CR

The coefficient table above shows the simple model that expresses the extent to which Knowledge process outsourcing affects customers' relationship. The model is shown mathematically as follows;

Y = a+bx where y is customer relationship and x is knowledge process outsourcing, 'a' is a constant factor and b is the value of coefficient. From this table therefore, Customer satisfaction (CS) = 0.167 +0.971 KPO. This means that for every 100% change in customer satisfaction, Knowledge process outsourcing is responsible for 97.1% of the change

Decision

The significance level below 0.01 implies a statistical confidence of above 99%. This implies that Knowledge process outsourcing affects customer satisfaction. Thus, the decision would be to reject the null hypothesis (H0), and accept the alternative hypothesis (H1).

5.0 Conclusion and Recommendations

This study provides information for entrepreneurs to know the essence of outsourcing certain business functions so that result can be achieved with less stress. The study will also assist new entrants into the fast food industry to know that they cannot handle all services alone but delegate part of business responsibilities to another party via building and sustaining business relationships that is poised to make business process to be easy. Based on the findings of the study, the following recommendations can be summarized;

i. Entrepreneurs should identify and concentrate on the core competencies of their firms and outsource other parts of the business to other firms that are more competent in those areas.

ii. Entrepreneurs and Marketers are advised to employ outsourcing strategy for the enhancement of their firms' marketing performance.

iii. There is possibility that outsourcing strategy leads to marketing effectiveness, which culminate in customer satisfaction. It is recommended that fast food firms should continue to sustain their customers' satisfaction through the use of outsourcing strategy.

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