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# OUTSOURCING IN RETAIL

Radojko Lukić *

***ABSTRACT***

*Modern strategic techniques have been increasingly applied in recent years, both in manufacture and retail, individually or concurrently. The main goal of their application in the retail business is continuous improvement, in particular by reducing costs of competitiveness and (business and financial) performance, while increasing customer satisfaction and meeting the needs of customers/consumers. One of the most important strategic techniques increasingly used not only in manufacturing but also in modern retail is outsourcing, which basically involves purchasing goods and/or services from independent external suppliers. The research in contemporary practice of the retail business has revealed that the application of outsourcing technique contributes to stronger commitment of management towards the activities that are the core of competitiveness, reducing costs, improving competitiveness and creating added value. All this has a long-term impact on improving performance in the retail sector. Starting from the developed theory and conducted practical research, this paper emphasizes the importance and specific problems of application of outsourcing the strategic technique in the modern retail. Their knowledge is very important for an effective implementation of outsourcing as a function of improving overall performance in retail. This is especially true for retailers in developing and transition countries, as it is the case, for example, with Serbia, where the use of outsourcing is at a very low level compared to developed countries. In the future, because of its economic importance, outsourcing will certainly be more applied in the retail sector of respective countries, with the expectation of a growing trend at approximately the same level as it is in developed countries in Europe and America.*

**Keywords:** cost reduction, information outsourcing, business process outsourcing, logistics outsourcing

**JEL Classification:** D40, L81, M41

## 1. INTRODUCTION

In the retail sector, under the conditions of strong competition and limited purchasing power of buyers / consumers opportunities to increase profits through price control (ie. increase) are limited. Opportunities to increase profits by reducing the total costs (as the sum of costs of goods sold and operating expenses), particularly operating costs are significantly greater. In order to reduce costs in retail, modern strategic cost management techniques are simultaneously applied. As a part of that, the importance of outsourcing (procurement of goods and services from independent external suppliers) is increasing, and it is reflected in a more profitable choice of purchasing instead of one's own production. Outsourcing is, in its essence, a contractual relationship between external supplier and company (as purchaser), by which one takes responsibility for the efficient

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execution of one or more of its business functions. Outsourcing is considered, both in theory and in practice, to be a significant potential source of revenue for retailers that apply this strategic technique in different business areas, in finance and administration, human resources management, in procurement and information technology. The effects result in significant reduction of total costs (according to research in practice up to 30%) and, consequently, increased profits in retail (according to *Retail: Outsource 'til You Drop,* Outsourcing Yearbook 2011).

*Online* retail market is becoming significant lately. Retailers receive outsourcing services such as infrastructure support, location area and data center to a great extent. The growth rate of the respective services in 2010 was 20%. In the past fiscal year, *online* sales of food retailer *Tesco* was 49%, and in order to improve sales, supply chain and efficiency throughout the company, it invested significantly in improving the information technology of large supermarkets operating in the UK. As a consequence of these and other investments, profits increased by 11% to the amount of £ 2.8 billion (according to *Retail: Outsource 'til You Drop,* Outsourcing Yearbook 2011).

There are different types of outsourcing services such as information outsourcing, business process outsourcing, logistics outsourcing, human resource management outsourcing, marketing outsourcing, accounting and financial outsourcing. All of them separately, and in combination with each other, are used in the modern retail sector to reduce operational costs and increase profits.

Two typical types of outsourcing services are: technology and business process. Technology outsourcing service includes electronic commerce *(e-commerce),* infrastructure *(network),* software (applications), telecommunications, Web site development and their maintenance. Business process outsourcing services include buyer's contact information (customer relationship management), equipment, finance and accounting, human resources, logistics, supply chain management, procurement and security.

In this paper we will in particular refer to those types of outsourcing which are mostly used in modern retail. We will investigate that trend, the specifics and problems of application, as well as their impact on performance in retail.

The research is carried out on primary and secondary empirical data regarding the trend of application of outsourcing in the modern retail sector, particularly in the countries with developed market economy. Considering the economic importance, the knowledge of the effects of outsourcing application in the countries with developed retail economy should serve primarily as a theoretical and practical basis for encouraging the increase of the effective implementation of this strategic technique in retail of developing and countries in transition, as it is the case with Serbia and other neighboring countries, on their way to market economy.

## 2. LITERATURE REVIEW

The effects and problems of implementation of outsourcing strategic technique in modern retail have been more explored lately in theory and practice (Horngren, 2003; Gluckman, 2006; Levy, 2007; Kosowska, 2008; Berke, 2010; Berman, 2010; Lovreta, 2010; Niranjan, 2011). In the light of this, the literature is particularly focused on information outsourcing (Gwebu et al., 2010; Ohnemus, 2010), business process outsourcing and logistics outsourcing (Depen, 2008; Tsai, 2008; Rajesh, 2011; Bourlakis, 2011). Due to its considerable importance, dissertations are made and research based on retail of specific countries (eg China), certain

product categories (for example, textile) or companies (for example, Zara). Also, there are special agencies that research effects of application of outsourcing in retail, with particular reference to special issues (such as, for example, food) (Lukić, 2011b, 2011d).

All the previous theoretical and practical achievements in the study of outsourcing services are used in this work as the basis for indicating the importance and ways of solving practical problems in applying the relevant techniques in retail strategy, especially in developing countries and transition economies, as it is the case with Serbia. In addition, the importance of more efficient application of outsourcing is emphasized in order to improve retail performance (of both developed as well as developing and transition countries on their way to market economy), especially under the recession conditions, which is evident in recent times. One of the limitations of poor application is the lack of theoretical and practical knowledge of outsourcing value in retail of developing countries and transition economies. In this respect, theoretical and practical experience of retailing in developed countries is especially valuable. Therefore, it is theoretically, methodologically and empirically researched in this paper, which reflects its scientific and professional value.

## 3. HYPOTHESES, METHODOLOGY AND DATA

By their nature, problems of outsourcing in retail are very complex and can be approached from differing perspectives. This paper specifically explores the following hypotheses: (1) the impact of the financial crisis on the trend of application of outsourcing in modern retail, and (2) the necessity of integration of outsourcing into other strategic techniques in order to maximize profits of retailer. These research hypotheses are, therefore, associated with the achievement of target performance in retail, particularly in the economic and financial crisis. In order to achieve this objective, the application of modern information and communication technology in retail is significant.

In regard to methodology, this work is primarily based on the analysis of the relevant literature. In considering research hypotheses, appropriate methodology, historical analysis, accounting methods and appropriate statistical methods are used. Their use is primarily based on the secondary and partly on the primary data collected from the relevant sources (books, institutes, agencies, etc.), primarily for the retail sector of the countries with developed market economies. In addition, an attempt has been made to look at the development (trend) of outsourcing in retail of developing and countries in transition, as it is the case, for example, with Serbia, which is certainly at a level far lower than retail in developed countries.

## 4. DEFINITION, TYPES AND IMPORTANCE OF OUTSOURCING IN RETAIL

As it is known, outsourcing is one of very important strategic techniques in modern companies, including retail. It belongs to the top 10 most commonly used techniques of strategic management (Bain survey: Rigby and Bilodeau, 2011).

The term outsourcing is not new - it has a long history. In the 19th century Britain imported cotton from the United States, spun cotton was weaved in factories in England, and the finished product was then exported abroad, mainly in India as the British colony (Niranjan, 2011). The concept of outsourcing became especially popular in 1962 when *Ross Perot* formed a company called *Electronic Data System* (EDS). Today EDS is a multi-billion dollar company, with over 70,000 employees,

and it is one of the major global BOP *(business process outsourcing)* firms (Agarwal, 2007).

In all companies, including retail, outsourcing is viewed as a very important strategic instrument which helps in achieving higher profits and improved market competitiveness. By its nature, outsourcing is a contractual relationship that depends on the implementation of the supplier's terms of satisfying the customer's defined goals of performance (Bourlakis, 2011; Lukić, 2011c). Outsourcing is, in fact, primarily a business practice in a number of organizational functions, such as accounting (record-keeping and processing of wages), management of computer and information system, human resource management, plant maintenance, logistics and supply chain management, production and marketing. Outsourcing is known by different names, such as produce or buy, vertical integration or disintegration (contraction), in-house sales force or sales force affiliate with third parties (Varadarajan, 2009). Outsourcing is specifically developed for overseas subsidiaries, suppliers, customers, competitors and strategic alliance partners (Varadarajan, 2009). This increases the impact of outsourcing to create added value in all companies, including retail.

There are different categories of outsourcing. Based on how the client operates or uses suppliers, the typical ones are the following: general outsourcing, selective outsourcing (one area, such as data center operations), outsourcing of added value (includes only those activities that add value), cooperative outsourcing (organizing information systems activities with third parties), transition outsourcing (technology transfer), business process outsourcing (customer relationship management, etc.) and useful business contracting (Agarwal, 2007). According to geographical criteria we distinguish domestic and international (offshore) outsourcing. The growing importance of international outsourcing is increasingly evident in the world today.

Generally speaking, outsourcing is today a very important strategic management technique. There are clear indications based on the available empirical data, especially for developed countries. The global trend of outsourcing is as follows: in 2009 growth rate was 4%; average annual growth rate since 2005 was 9.7% and the market value of over $ 580 billion. Market share of individual categories is the following: information technology ousourcing *(Information Technology Outsourcing* - ITO) 50%, business process outsourcing *(Business Process Outsourcing* - BPO) 43%, and electronic data processing *(electronic data processing* - EDP) 7% (Quoted from: *www.zylun.com/ousourcing -global statistics).*

The modern outsourcing industry is characterized by a high growth rate of return. For example, according to the research by *Datamonitor*, the market growth rate of outsourcing services was 5.4% in 2010, and 7.2% in 2011, with expected revenues of $ 660 billion at the end of 2011. The expected market value in 2014 is about $ 875 billion, with 10% growth (Quoted in: *www.zylun.com/ ousourcing-global statistics).*

Today, the market value of information technology outsourcing services in the US is approximately $ 77 billion. In the world it is almost $ 500 billion. According to the *Gartner* research, about 65% of all the observed companies have formalized their approach to the selection of outsourcing supplier for nearly every business process (Tarikere, 2011).

It is a well-known fact that *IT outsourcing* is a very important tool of cost efficiency control in all companies, including retail. According to the *Economist Intelligence Unit,* 34% of companies used full or partial IT outsourcing

in 1997, with the expectation of an increase to 58% in 2010 (Berke, 2010).

In reference to IT outsourcing, the key question is: Does IT outsourcing contribute to creating added economic value of companies? In terms of the enterprise level, the benefits of IT outsourcing are greater at a higher than at a lower level. By using the performance measures of *Porter's value chain* model, practical research found that companies predominantly realized the economic cost saving benefits when using IT outsourcing, but significantly smaller compared to the efficiency itself. For example, the research found savings in labor costs (based on young engineers' wages) in off shoring locations - compared to developed countries (expressed as US = 100) - amount in individual countries: Germany 158, Japan 116, UK 111, US 100, Russia 46, the Czech Republic 41, Hungary 37, Poland 36, Brazil 28, Malaysia 20, China 19 and India 12 (The Financial Director Polska Guide To: *Outsourcing in Poland,* Spring 2006). Cost efficiency improving is evident in input logistics and supporting activities. With the exception of input logistics, significant improvements in efficiency of operations and output logistics were not observed, which leads us to the conclusion that a positive impact of IT outsourcing performance of companies, including retail, is limited (Gwebu et al., 2010).

The use of IT outsourcing services in trade in Serbia is at a relatively low level compared to other developed countries, including countries in the region (Stolz, 2011). We will illustrate this on the example of the enterprise resource planning (ERP) system use and, especially, customer relationship management (CRM), which is one of the main indicators of use of ICT in enterprises in the European Union, as shown in Table 4.1.

| Company | Enterprise resource planning (ERP) system (In percent) | Customer relationship management - CRM (In percentages) | |
|---|---|---|---|
| | | Entering, storing and making information about clients available to other business services | Analyzing information about clients for marketing purposes (pricing, sales promotion, selection of distribution channels, etc.). |
| Banks and insurance companies | 27.3 | 58.4 | 43.7 |
| Manufacturing | 15.4 | 12.3 | 12.9 |
| Transport, storage and communication | 14.7 | 9.7 | 8.3 |
| Activities related to real estate, renting and business activities | 13.4 | 8.3 | 7.7 |
| Cinematographic and video activities, radio and TV activities | 7.7 | 5.5 | 7.2 |
| *Wholesale and retail* | 7.3 | 3.4 | 5.9 |
| Hotels, campsites and other accommodation for short stay | 5.9 | 3.3 | 5.2 |
| Construction | 2.5 | 0.8 | 1.8 |
| In total | 11.5 | 7.1 | 6.9 |

Table 4.1. Use of IT outsourcing services in trade in Serbia, 2010
*Source: The use of ICT in Serbia 2010, Statistical Office of Serbia.*

Based on the data presented in Table 4.1, it can be generally concluded that the use of IT outsourcing services in trade in Serbia (customer relationship management - the first column of 3.4%) is low, compared to the

average of the whole country (7.1%), banks and insurance companies (58.4%), manufacturing (12.3%) and, in particular, countries with developed economies, the European Union and others (for comparison, in Poland it is 16%). However, because of their profound importance, outsourcing services in trade in Serbia will be increasingly used in the future. This will have a positive impact on its overall business performance.

In the long term, IT outsourcing has a positive effect on the overall performance of companies, including retail. For these reasons, today they appropriate a significant part of revenues for the development and application of modern information and communication technology. For example, the top 25 companies in the world invest 0.8% of their revenues in IT, compared to the global average of 3.7% (Malhotra, 2005).

Throughout the world, in all businesses including retail, *logistics outsourcing* is increasingly used and it has had a very strong upward trend since 1990. According to one study, the total logistics expenditure in Western Europe and the US, 64% and 48%, respectively, is related to logistics outsourcing service. It is estimated that the growth rate of this service in the near future (2009-2011) was estimated to 17%, in Western Europe as well as in the US. The growth rate of logistics outsourcing services in the United States increased approximately, as exemplified by the *Fortune 500* company, with 40% (1990) to 80% in 2004. According to estimates, the global logistics outsourcing service is 40%, with the expectation of growth tendencies in the future. It contributes more to increased cost efficiency than to overall performance of the company (Deepen et al., 2008).

By its nature, the logistics business is responsible for the efficient and effective handling of firm's goods in accordance with the defined objective of minimizing costs, improving customer service and creating competitive advantage (Bourlakis, 2011). The logistics outsourcing process, in the literature also known as contract logistics and third party logistics (3PL), has a considerable relevance. Third party logistics are defined as external companies that perform logistics functions, instead of the traditional ones within the organization. Functions that are performed by third party logistics may include the entire logistics process or selection of activities within it.

Logistics outsourcing (3PL) has, however, its advantages and disadvantages. They are detailed in Table 4.2.

Table 4.2. Advantages and disadvantages of (logistics) outsourcing

| Advantages | Disadvantages |
|---|---|
| Reduction in capital investment in facilities, information technology and manpower | Loss of control |
| Firm becomes more flexible to adapt to changes and respond to demands more quickly | Lack of appropriate information technology systems linking various firms in the chain |
| 3PL firms convert fixed costs to variable costs | Failure to select or manage 3PL firms appropriately |
| Inventory turnover ratio is improved | Unreliable promise given by 3PL firms, inability to respond to changing requirements and lack of understanding of user's business goals |
| It could be more cost-efficient compared with in-house operations | Apprehension in user's employees about job security |
| Improving customer service and satisfaction | Difficulty in assessing benefits and cost savings gained through outsourcing |
| Acquiring outside expertise | |

*Source: Bourlakis (2011)*

Third party logistics contribute to improving customer satisfaction and access to international distribution network. It allows reduction of costs (investment in assets - transforming fixed costs into variable, operation and maintenance of equipment), inventory levels, order cycle, time of

execution, and improving client service. Their efficiency contributes to the achievement of client's strategic performance goals (Rajesh, 2011). Traditionally, third party logistics included only transportation and storage. Today, they offer considerably extended services, and this has a positive impact both on their and the client's overall performance.

## 5. PERFORMANCE FEATURES OF OUSOURCING IN RETAIL

The characteristic of the outsourcing industry, considering the positive characteristics, is that it is expanding. On this basis, national economies generate significant revenues.

Figure 5.1. Advantages of outsourcing
*Source:* Berke (2010)

According to the research in the literature, the motivation for the information technology outsourcing services are: reduction of costs (information system), focusing on the core capabilities, access to experts, improvement of business/process performance, technical reasons, political reasons, catalyst for change, commercial exploitation (existing or new client), economies of scale, access to global markets, harmonization of information systems and business strategy, forecasting costs, staff reduction, needs to generate cash (sale of information technology property to vendors), quick delivery, and innovation (Ohnemus, 2010).

Lately, outsourcing has been more and more used as a tool for improving business efficiency, although incomparably less than in the manufacturing and retail sector. For example, according to the research in *Germany* (for the period 2003 to 2006) the share of wholesale trade was 49.21% and retail trade was 48.39% in the information technology outsourcing (Ohnemus, 2010).

There are many reasons, as noted above, for the use of outsourcing in retail trade (Figure 5.1). These are, above all, cost reduction, improvement of governance and competitiveness, participation in risk and focus on core issues in contemporary complex retail business. All this has a positive impact on the improvement of overall performance in retail. Table 5.1 shows the main empirical

grounds (in percentages) for the use of outsourcing, obtained in the survey.

Table 5.1. Main empirical reasons to use outsourcing

| | |
|---|---|
| Reduce costs | 49% |
| Improve focus | 17% |
| Variable cost structure | 12% |
| Access to skill | 9% |
| Growth revenue | 4% |
| Improving quality | 3% |
| Conserve capital | 3% |
| Innovation | 3% |

*Source: The 2004 Outsourcing World Summit. (According to: Berke, 2010)*

improving the current level of services 9%, lack of appropriate (internal) staff 7%, implementation of large-scale initiatives 5% and avoidance of unnecessary investments 4% (Berke, 2010). Therefore, the primary reasons for the use of outsourcing are: reduction of costs, improvement and better access to new technology and reduction of capital investments, all of which have a positive impact on overall performance.

In addition to its advantages, outsourcing has some flaws (Figure 5.2). These are: loss of control, slow response time and language barriers.

Figure 5.2. The weaknesses of outsourcing
*Source: Berke (2010)*

Similar results were obtained with other empirical research. For example, according to the *Outsourcing Journal,* grounds for the use of outsourcing are: cost reduction 36%, improving the results of core business 39%,

Regardless of certain weaknesses, outsourcing has been more prominent in retail. The main problem of most retailers are (high) costs. Working towards its partial solution (i.e. cost reduction) retailers came to the conclusion that it is far cheaper to use certain services, for example, in India than from their own

country. The reasons are: cheap labor, English speaking country and quick adaptation to western accent, expanding education system (Berke, 2010). Apart from India, the growing importance of Eastern Europe, China and the Philippines in the provision of outsourcing services is recognized.

In addition, retail companies continuously seek to reduce selling, general and administrative expenses (SG & A) by outsourcing. In order to achieve this goal, they have extensively used radio frequency identification (RFID) since 2004. It is considered that the main reason for the use of outsourcing services is to reduce costs and, thereby, increase profits. For example, according to one study, outsourcing allows retailer to achieve: $ 56.5 million of free working capital, $ 106 million cost savings over four years, 25% reduction in inventory, 3% reduction in cost of sold goods (COGS) and improve inventory accuracy (according to Kathleen Goolsby, Senior Writer, January 1, 2006, *Recent Trends in Retail Oursourcing*, Article, Internet Source).

In the retail sector of developed countries (the United Kingdom, the United States, and other developed countries in Europe) from year to year, the number of concluded outsourcing contracts increases. What is particularly the case is that the structure of outsourcing services is changing and within it, the share of the business process outsourcing (BPO) is increasing. Large retailers (such as *Tesco, Target, Supervalu, Walmart)* increasingly use "mixed portfolio" operating model - ITO / BPO, in order to improve competitiveness through adequate cost control and efficiency of business facilities. Portfolio of integrated services (outsourcing and sourcing - external and internal) has a positive effect on performance in terms of growing complex - multi-channel retail environment.

Because of its importance, outsourcing has become the industry itself. To minimize the risk of outsourcing, retailers should align their strategies together with third parties - producers of services, so as to "transform", as much as possible, the negative effects into the positive ones, in order to improve overall business performance. Outsourcing provides cost reduction not only by using cheap labor, but also by improving the efficiency and creativity of the internal staff (Lukić, 2011a).

Figure 5.3. The relationship between the width of outsourcing and performance
*Source: Niranjan (2011)*

There is a relationship between the width of outsourcing and performance. This is graphically shown in Figure 5.3.

Special research was conducted on the effect of outsourcing on the performance of *online* retailers (on a sample of 260) in the United States. They are shown in Table 5.2.

Table 5.2. The influence of outsourcing on the performance of *online* retailers in the United States

| | Conversion rate | Sales growth | Customer satisfaction | Repurchase intention | Customer retention |
|---|---|---|---|---|---|
| Low outsources (Score range- 0 to 4) | 137.86 | 139.14 | 133.15 | 133.37 | 119.16 |
| Moderate outsourcers (Score range - 5 to 10) | 119.59 | 113.14 | 108.923 | 104.57 | 103.64 |
| High outsourcers (Score range - 11 to 16) | 138.81 | 144.72 | 133.29 | 134.74 | 146 |

*Note:* The data from 260 *online* retailers helped divide the companies into three categories. In this statistical analysis, the lower the number, the better the performance.

*Source:* Niranjan (2011)

As seen from the data presented in the given table, the best performance is in the mid-level outsourcing. This suggests that every retailer should look at the optimal ratio between the width of outsourcing and internal operations. The net effect improves the business and financial performance.

## 6. OUTSOURCING IN ZARA COMPANY

Outsourcing is present in the clothing industry, manufacturing and retail. This is due to a variety of benefits, including market expanding, profit-making, increasing global presence, cost reduction and corporate flexibility. In Zara company (which has been operating since 1975, with headquarters in Spain) outsourcing is fully deployed. Outsourcing is a critical factor in the success of Zara company. It is used for efficient supply-chain management, logistics, as well as to meet demand, customer and supplier efficiency. Outsourcing is an important tool to create additional value in Zara.

The research conducted on the example of Zara company reported the merits and demerits of using outsourcing services. They are detailed in Table 6.1.

Table 6.1. Strengths and weaknesses of outsourcing in Zara company

| Advantages | Disadvantages |
|---|---|
| Focusing on company's core competitiveness | No knowledge of its own retail |
| Better return on investment | For the purposes of developing qualitative relationships more time on communication is needed |
| Better cost control | It is not easy to communicate with special partners |
| More focus on R & D (research and development) | High costs of integrating data |
| Improve performance by timely presence on the market | Product knowledge will be disclosed by suppliers |
| No need for investment on purchasing new machines for making new products | It is not easy to build trust with suppliers |
| Reducing the total cost | |
| Improved product quality and reliability | |
| Flexible retail service | |
| Less risk of releasing new products on the market | |
| Improving customer service (quick respond for sampling and mass production) | |
| Less investment and faster execution of orders | |

*Source: A Dissertation Paper on Outsourcing in Retail Clothes Zara: Profit maximization or fair trade? January 29, 2011 (Internet source)*

Zara company developed alternative measures of outsourcing efficiency. These are the following: 1. Planning process of

production efficiency and corresponding inventory control process, 2. Providing efficient process of distribution and underlying logistics processes, 3. The ability to measure the performance of supply chain activities in maintenance and the sustainability of supply chain processes within the organization, 4. Conducting evaluation of supply chain based on the buyer's response, 5. Ensuring customer/client/supplier satisfaction for each supply chain process involved in the company, 6. Having a continuous coordination among important suppliers, 7. The enterprise network infrastructure must simultaneously operate efficiently, depending upon the use of timely information through the supply chain, and 8. The organization must capitalize the customer's active participation in organizational activities so as to gain competitive advantage through greater sales volume, improve operational efficiency, receive positive publicity by "word of mouth", reduce marketing costs and increase customer loyalty (*A Dissertation Paper on Retail Zara Clothes in Outsourcing: Profit maximization or fair trade?,* January 29, 2011). (Internet source)

## 7. CONCLUSION

Lately, the importance of outsourcing industry has increased worldwide. This particularly applies to two categories of outsourcing: information technology outsourcing and business process outsourcing. "Offshore outsourcing", which makes significant profit possible for multinational companies by using cheap labor and other resources in developing countries and countries in transition to a market economy, also has particular importance.

In this paper, all the hypotheses tested were confirmed. The financial crisis increases the importance of outsourcing in retail. It has a positive impact on reducing costs and the overall performance of global retailing.

Based on the results of empirical research, it was established that there are small positive differences in performance (measured by ROA, ROE, ROI and net profit margin) between the companies that use information technology outsourcing of services and non-outsourcing companies. A significant positive cost effect was realized and it is expressed as a ratio of selling, general and administrative expenses and net sales, and operating expenses and net sales. In the long-term, information technology outsourcing has a positive effect on the overall performance of all firms, including retail (Yu Ping (2010).

Considering this, retail uses outsourcing concurrently with other modern strategic techniques. This provides a positive synergy impact, especially on cost-effectiveness (ie. cost reduction), thus improving the overall performance of retail. Large retailers such as *Tesco, Zara, Walmart* and others generate significant profit by coordinating parallel implementation of all contemporary strategic techniques, including outsourcing. Use of information and communication technologies, including radio frequency identification (RFID) significantly contributes to the reduction of total costs (cost of goods and operations), which has a positive impact on profits.

Following the example of global retailers, retailers in developing countries and countries in transition (as is the case with Serbia, for example) should use outsourcing more in the future. Along with the use of other modern strategic techniques, outsourcing will have a positive impact on overall performance (i.e. it will contribute to the transformation of current negative performance to positive performance) and accordingly the perception of ratings in the country and abroad. Therefore, it will reflect the character "of the global retailer."

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