

What is Outsourcing?

By Outsourcing is the process of contracting out a part of a company's operations to an independent third party.

It can take many forms and include manufacturing, accounting and sales processes.

Multiple companies outsource in the twenty-first century.

Most large and many smaller companies outsource some element of their processes; from a multinational outsourcing bottling & packing of its products, to an independent retailer having others design and manage their website.

Outsourcing is possible anywhere, including locally, though it is commonly presumed to be offshore. The main centres for overseas outsourcing are India and the Philippines but South Africa and Poland are also becoming alternatives.

Outsourcing does not just save cost. The key reason is flexibility, both in terms of pricing and speed of change. Many outsourced processes are priced according to the volume of work carried out - ie companies pay a variable cost. If a company has to employ people in-house for such tasks, it has to pay a fixed cost (salaries and overheads). With outsourcing, the cost is related to the volume of work. Benefits of this flexibility are that the price for an overseas third party managing the process is less than at home and they are likely to have considerable expertise. The company saves on maintaining a specific, perhaps costly, skill set and the outsourced model permits rapid changes in output as the responsibility for staff changes passes to the outsourced provider. Known costs also help with internal budgeting.

When outsourcing their processes, companies can focus on their core competences or whatever defines their competitive edge (often technological or operational excellence). Outsourcing also enables firms to be more entrepreneurial, without bureaucratic limitations involving processes far removed from its core business strength.

Outsourcing demand has grown over the past decade. The relentless quest for cost reduction in the recent economic malaise has actually increased demand. Technological advances like high-speed broadband and improved telecommunications enable more services to be outsourced. This industrial change is expected to be permanent with companies outsourcing, even as the economy improves. Once companies get used to good quality processes and the lower costs, it is difficult to revert.

For savvy SMEs, there are an increasing number of ways to outsource business processes and survive a



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tough economy. Firms can outsource elements of their sales & lead generation, data processing, data entry, accounts, customer services, research, marketing, web presence, IT and training to dedicated professionals, at far lower costs and possibly to a higher standard. Even the set-up cost for shifting services isn't that extortionate.

Shrewd businesses outsource several elements of their processes, thereby concentrating on whatever they do best. This has led to nimble organisations operating within tight domestic head-counts and punching above their weight. And an organisation's clients are none the wiser to who provides the service as many companies permit white labelling of their services so the provider is invisible.

The customer services function is often an accessible first step in outsourcing. This is a telephone or web based service so the physical location of the service provider doesn't matter. The customer services representative can access accounts online, usually by having direct access to the company's customer management software, understand the issue being faced and then resolve it or escalate to more technical teams as required.

Larger overseas outsourcing providers typically offer inexpensive 24/7 service. This means calls can be received from customers in the evening, when they are home from work. This results in greater customer loyalty and satisfaction. Overseas call centres also have the advantage of providing multi-lingual support which is a benefit for brands targeting specific ethnic minority clients.

However, outsourcing is not a panacea suiting all companies. Before outsourcing, companies must consider how those interacting with the provider are affected and whether it makes a material difference to a business's standards. For technical services, the outsourcing provider's location doesn't make a difference. However, outsourcing customer services to a distant country for a domestic luxury goods brand would be unsuitable. It would not match customer expectations of a premium, local service.

There is no one size fits all solution. Outsourcing works for companies but they must consider their core business strength and what elements of their business can successfully and logically be provided by a third party supplier.

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