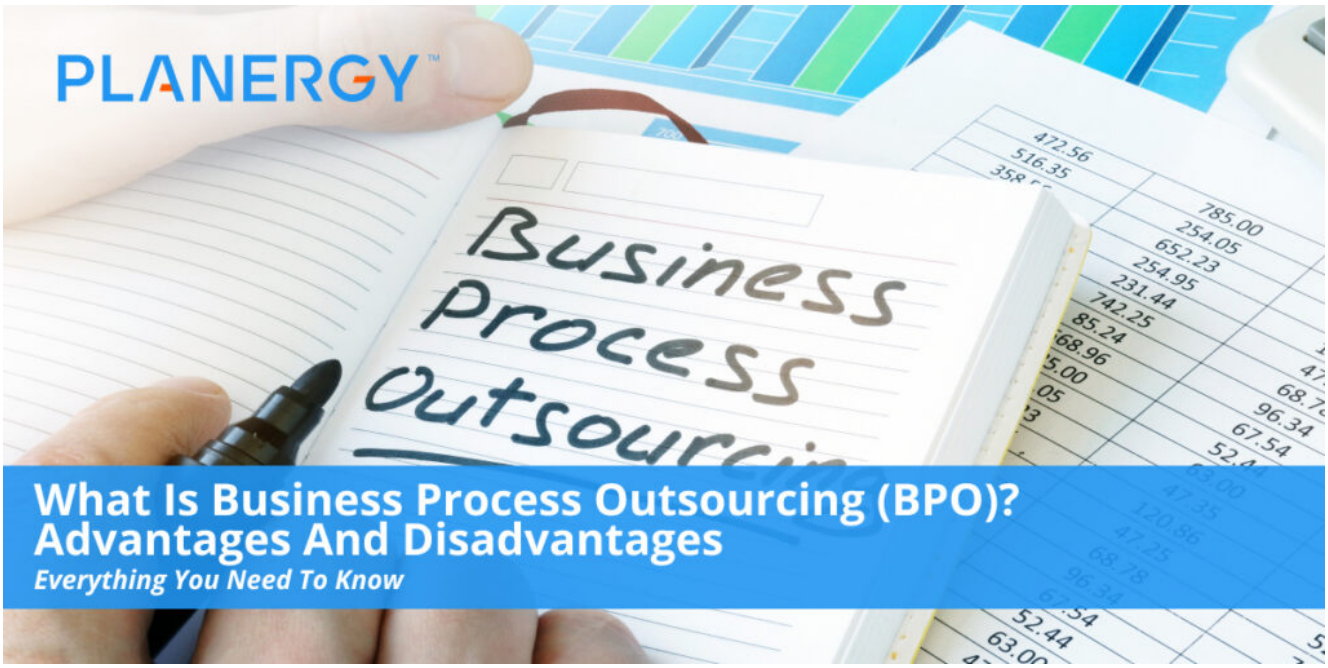
What is Business Process Outsourcing (BPO)? Advantages and Disadvantages



Business process outsourcing, or BPO, is the practice of hiring a third party to take care of specific work processes for your business.

This can include things like your website content, your payroll, accounting, customer support, social media marketing, and many more.

BPO is most commonly used to take care of supplemental business functions, rather than core business functions. Services can either be technical or non-technical.

From the youngest of startups to the largest Fortune 500 companies, businesses of all shapes and sizes outsource processes. Demand continues to grow as new services are introduced to the market and businesses are constantly looking for advantages to help them get ahead of the competition.

BPO is usually classified as either front office or back office, depending on the kind of business process it takes care of.

Front office: These are customer-facing tasks like customer service and support,

marketing, and sales.

Back office: These are also known as internal business functions. They are tasks associated with keeping a business operational, but they are things that customers do not see.

The BPO industry is classified into three categories, based on the vendor's location:

- **Offshore Outsourcing:** These vendors are outside a company's own country. For instance, U.S.-based companies could use developers located in India.
- **Nearshore Outsourcing:** These are vendors that are located in a neighboring country. For instance, U.S.-based companies could contract another organization in Canada or Mexico.
- **Onshore Outsourcing:** This refers to vendors who are in the same home country as the contracted company. However, they can be located in different states or cities. If a company based in Jacksonville, Florida, works with vendors based in North or South Carolina, they are working with onshore vendors.

You may also see BPO classified by the types of BPO services provided. These classifications are:

- **Knowledge process outsourcing or KPO:** The outsourced service provider isn't just hired for its ability to handle a certain business function or process. They're also hired to provide expertise about it.
- **Legal process outsourcing or LPO:** This is a type of KPO specific to legal services. This can include anything from drafting legal documents to offering legal advice.
- **Research process outsourcing or RPO:** This is another kind of KPO that is specific to research and analysis. Marketing agencies, biotechnology companies, and investment firms often use RPO for market research.

Commonly Outsourced Processes

Many of the things you can handle in-house, you can also outsource. Some of the

most commonly outsourced processes include:

- **Customer Service:** Routing calls to a call center or help desk tickets to a 24/7 support team. The goal is to provide a consistent, strong, customer experience.
- **Human Resources:** Onboarding employees into the company system for benefits, etc. Some companies may even outsource finding people to fill positions to recruiters.
- **Accounting and Payment Processing:** This handles a company's financials.
- **Procurement:** This handles helping a company get access to the products and services they need to operate.
- **Online Marketing and Social Media:** This supports a company's marketing and growth efforts.

Advantages of BPO

Businesses choose to outsource processes for several reasons. Some people choose to believe that businesses outsource only for the tax break, but this isn't the only reason.

Yes, there are tax breaks for American companies that choose to relocate – whether they move to another state or a different country. But, there are no specific loopholes or tax breaks related to outsourcing.

The U.S corporate income tax is one of the highest in the developed world, coming in at 39.1%. As such, American companies can benefit from outsourcing some operations outside of the United States because of lower taxes in those countries. The U.S. pays the tax rates of their host country.

Aside from this, however, there are plenty of reasons why businesses outsource processes. Benefits of BPO include:

Decreased Costs

Outsourcing reduces costs for labor, generally when it comes to staffing and training. It reduces office space costs because the business doesn't have to accommodate the employees.

Outsourcing means that businesses can use variable cost models rather than fixed cost models that are required when employees are part of the plan.

Able to Concentrate on Core Competencies

By outsourcing, companies can focus their resources on the main business functions.

They won't have to stress about how well the bookkeeper and accountant are doing their jobs. Instead, they can focus on tasks that set them apart from the competition.

They can focus efforts on growing the business. These efforts ultimately increase the company's competitive advantage and improve actions across the value chain. Focusing solely on the core business functions improves customer satisfaction and increases profit.

Improve Results in Non-Core Functions

When you work with an outsourcing organization, you're working with experts in that particular function.

Even though it's a non-core function for you, it is a core function for the outsourced company. They invest in top-of-the-line technology and resources, specific to their core business offering.

For instance, graphic design companies have the best technology available for graphic design.

Payroll companies offer the best solutions on the market today. This means they can deliver stellar results for many of their clients. And as their client, you get the best of the best across multiple industries, without having to invest in the tools and software yourself.

Increased Flexibility

A company that outsources functions can act faster and efficiently when it comes to risk management for adding new offerings to customers.

These companies can also adjust their internal resources so that more critical

functions are covered effectively.

Expand Global Presence

Some outsourcing organizations can help customers in more than one language, 24/7.

The main company doesn't have to take on this responsibility but can ensure customers are taken care of regardless. Outsourcing companies can help local businesses establish a presence outside their local country, too.

Improved Speed and Efficiency

Organizations that outsource tasks allow specialists to handle them. This saves time, increases productivity and capacity, and ultimately, improves accuracy.

For instance, a BPO that specializes in web design and search engine optimization (SEO) takes care of ensuring a local company's website is built with the latest technology, best practices, and customer preferences in mind.

The local company doesn't have to worry about getting leads because that's what the outsourcing company does.

The local company can then handle more leads and website traffic than if they were handling all the web design and SEO tasks, too.

> *BPO vendors are throughout the supply chain for many industries. When used correctly, they can help a business grow.*

Disadvantages of BPO

As with everything else in business and in life, there are some downsides to consider.

The outsourcing market is expected to reach $140.3 billion by 2022. For U.S. companies, businesses in the Philippines and India handle a lot of outsourcing services. India is a leader in BPO for the United States because India has a highly educated, skilled, English-speaking workforce that's economical.

Hiring outside vendors to take care of any of your business processes comes with risks, particularly related to quality and efficiency. The industry has seen a shortage of skilled workers, gridlocks because of politics, and some trade protectionism. Aside from these, there are other risks, including:

Security Issues

If you're outsourcing something where information systems are involved, there are communication and privacy issues. It's harder to maintain security over your data when the information system isn't even in the same country.

As countries have different security requirements, it may be even harder to keep your data secure. Hackers can use the internet to enter servers the same way you use the internet to access your data.

Communication Issues

Language barriers are a real issue if your company chooses to hire BPO organizations outside of your country. This can delay new processes and reduce feedback from various departments.

Ultimately, it could shine a light on bigger problems within your processes and operations. If you have customer-facing services, these language barriers may be an issue for third-party vendors.

Underestimating the Costs of Services

Organizations that use BPO to take care of tasks often underestimate their budgets. It's the running costs that are often neglected.

Even still, there are hidden costs associated with choosing a vendor, currency conversion and value fluctuations, hardware and software upgrades, as well as internal transitions, and the potential for a decrease in productivity among workers.

Depending Too Much on Service Providers

After your company chooses a vendor to handle certain processes within your operations, that vendor becomes part of your workflow.

Your company may be subject to extra costs and decreased productivity if the vendor runs into any issues at work.

For instance, the cost of hiring works may increase. Vendors will replace their veteran employees with less-experienced workers as a way to keep costs down. The quality may suffer as a result.

Other Risks

When you outsource part of your business, there are a number of risks that depend on the structure of your company and the type of business you run.

For a large segmented company, outsourcing the back data entry may not carry much of a risk. However, a small business that relies on BPO for manufacturing will have a much bigger risk. Other risks commonly associated with BPO include:

- Quality control/quality assurance
- Nonlocal employees
- Data breaches
- Political instability
- Maintaining strategic alignment
- Exposure to hacking and changes in technology

Choosing a BPO Provider

When it’s time to choose a BPO company to work with, there are several things to consider.

What’s your main goal? Is it to procure products and services at a lower cost? Is it to hire labor at cost savings compared to hiring another employee?

Are you comfortable with offshore outsourcing? How will this affect your business operations? Are you comfortable with robotic process automation (RPA) being used in operations?

Ultimately, you want an organization that can support your business activities. You need an organization that can help you be more flexible, adaptable, agile, and faster.

If offshoring one or more of your office operations with a particular company won't help you meet those goals, then it's not the right provider.

When you make your choice, consider more than the price. Consider whether the third-party service provider can:

- Adequately understand your business and industry
- Meet your current requirements and scale to accommodate future needs
- Meet regulatory and compliance requirements, including information technology (IT) and data privacy.
- Deliver reporting metrics to demonstrate how it's delivering on contractual standards
- Work within the required geographic locales to meet your business needs and regulatory compliance.

Working with BPOs is a great way to help your business grow and scale. As you make your choices, carefully consider their impact on your business immediately and in the future.

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