

Research paper on outsourcing when does it make cents

[Business](#), [Company](#)



The recent announcement done by President Barack Obama in recalling companies back to the United States to return jobs to the country has made it in headlines around the globe. Some of these companies in which the President has been are the outsourcing companies or the BPOs in some regions. The President intends to return these companies to enable Americans to get jobs and employment. Most of these outsourcing companies have based themselves mostly in the Asian and Middle Eastern regions. However, many are wondering as to the extent these companies earn and make millions from their area of expertise. It is a matter of great interest in a personal note as many are clamouring in most countries to be part of these companies. Do they really earn that much by just answering phone calls and other call-centre duties? How exactly does the company earn from its transactions? As my research divulges new questions in this industry's capacity to return American economy back to the top, it has made me select this topic for my paper. In this paper, I intend to discuss the nature of Outsourcing and discuss when it does make "Cents".

This paper's discussion will be separated into four parts. The first part will introduce the readers to the business process outsourcing or outsourcing industry in general. The second part will be discussing the advantages of outsourcing as to why people find it very rewarding to be part of one. The third part will discuss as to how outsourcing make money out of their business and how do companies generate them with maximum efficiency. The last part would be the conclusion that will point out other considerations to the issue and possible questions that can be raised should this paper is

used as basis for another paper with the similar topic. Before beginning this paper, what is outsourcing and why is it connected to the BPOs?

What is Outsourcing?

Outsourcing is known as a process that companies and organizations use to transfer some of its internal activities and rights to outside companies they contract to work on these transferred activities. This should not be confused with consultants as outsourcing does recurring activities, and they are connected through the main company through a contract. Not just the recurring activities of the organization or principal company is transferred to outsourcing companies, some would even transfer factors of production and decision rights to this outsourcing company. Factors of production are resources that are needed to enable the activities to happen. These factors include people, facilities, equipment, technologies, and other assets connected to the company. Decision rights, on the other hand, are decision-making responsibilities passed on to outsourcing companies over specific areas.

At present, outsourcing is more known to many as BPOs or Business Process Outsourcing companies or simply call-centres. BPO is the term usually used to identify the type of outsourcing the company has, in this case, critical business activities and functions are given to outsourcing companies indefinitely by the organization that has employed their services. The idea came from the Core Competency Theory by C. K Prahalad, which depicts that a company must identify only its specialties and focus only on these specialties. This theory is mostly concentrated on the large corporations. For

the past couple of years, the industry had gained the attention of many job hopefuls and regions especially when India introduced the system to the globe. Many organizations have identified the benefits and the practicality of BPOs and Outsourcing companies throughout the years and have employed some of them to the time-constraining tasks which normally take months to finish if it is done in house. However, there is a significant difference between BPOs and call centres. Call centres are mostly concentrated in communication-related activities, BPOs are more technical oriented. BPOs are also different from the typical outsourcing companies as BPOs offers their clients easy outcomes. Most of the usual forms of BPOs are through the form of IT management, business operations and other activities such as payroll sorting, accounting and management with a third party. India has set up a system that would help other countries to sort out these activities .

Not all activities can be outsourced due to their nature. Some examples of things that can be outsourced can be separated into three categories: conventional, non-conventional and emerging. Conventional areas include housekeeping of both buildings and work areas, maintenance of the facilities of the organization, car pool setup, catering and even advertising. Non-conventional areas include equipment maintenance such as specialized machinery, cranes, computers and other similar machinery. Non-conventional areas also include annual contracts for licenses and live drills. Health and environmental activities are sometimes also given to outsourcing companies. Finally, emerging areas include the organizational activities such as procurement, accounting, human resource, solutions and customer support. Some even offer transcription and consultation

Benefits of Outsourcing

There are many benefits as to the use of outsourcing. Twenty reasons have been raised by most experts when it comes to outsourcing. The first is it enhances the effectiveness in the organization as this allows key organizations to distribute their effort on their expertise. Flexibility is also a benefit for BPO clients as these providers can meet the demands while the business conditions change. Some significant companies have also realized that they have increased clients and high quality of products and services thanks to these outsourcing providers.

Some reason out that improvement in the organization is fostered by these outsourcing companies to them. Not only does performance improve drastically, these organizations can now gain access to numerous expertise and skills which was not available for them in the beginning. Management is also a reason why outsourcing is valuable for many as ideas and credibility is produced by these companies in behalf of their clientele. There are also financial benefits in using outsourcing, which allows leading corporations to use usual funding for certain services into more useable ones. Some note that outsourcing is cost-efficient for organizations since the fees of contracting these companies are small, depending on their quality of work. Employees also benefit from Outsourcing as they are given enough opportunities while in the business and they can hone their skills in other areas .

How does it make “ Cents”?

Despite knowing the advantages and the uses of outsourcing, there is still the question on how it manages to gain enough profit. Countries such as India and the Philippines have benefited from this industry and have already made an impact on their economies. These two countries also have managed to entice large scale companies to invest in them and recruit their outsourcing companies for their business. Many also desire to be part of these outsourcing companies. In a general perspective, how exactly do outsourcing providers or suppliers make the " cents" in their businesses? Outsourcing earns in a variety of ways. Before a leading company contracts an outsourcing company, the outsourcing company first gives a quotation of all the services, fees and charges as part of their proposal. Depending on the status of the company and its reputation, pricing would substantially depend on these two factors. Since there are many outsourcing companies to date, each outsourcing company compares its prices with other companies before they make a finalized proposal. Normally, organizations and significant companies look for the reasonably priced ones, but they also consider their improved services and specialities. As negotiations happen between the companies, the price will relatively change. Once the outstanding company accepts the proposal, the outsourcing company will earn per activities requested by this major company to them. If the company finds the services of the outsourcing company to be efficient, especially in repeatable processes, the outsourcing company earn more.

Since outsourcing would also deal with costs of operation and spending, they maximize their investments and expertise in specialized areas. This allows

them to reduce the implementation costs and divert the money into their employees' salaries or for the company's income. Operational costs are also lessened by these outsourcing companies due to the technologies they use. LMS technology is usually one method that allows outsourcing to maximize their profit as this will allow them to fully control maintenance and upgrades, saving money. If outsourcing companies have their own technologies in their hands, they can easily hire a particular team to handle technical problems. The distribution of profit for outsourcing is divided into the following: 10% for negotiation and contract management costs, 15% for profit margins and other related costs. In some cases, outsourcing companies increase their efficiency by 40% before they can make an income out of their business. Outsourcing also manages to earn their cash back for the costs they have to do. Usually, most of the activities given to outsourcing companies are transferring assets from the customer to the vendor. This involves equipment, facilities, vehicles and even licenses as these are items that have value and are used in the operations of the outsourcing company. In some cases, these items are sold to the company through another contract. Outsourcing companies then use these assets to aid their clients and give their services efficiently. Depending on items being transferred from the client to the outsourcing firm, this can be seen as a payment to the firm. Sometimes, these items are priced higher than it is sold in the market. For this instance, the vendor and the client are in a loan deal wherein the client pays for the price for the services and assets as long as they have a contract .

A profit margin is also a method as to how outsourcing makes profit. A profit

margin enables a vendor or an outsourcing firm to establish itself with the outstanding company that employs it, bringing it to a long-term success. In a business transaction like outsourcing, neither party should hope for an impossible advantage from the others. Outsourcing's goal is to deliver maximum financial benefits to its clients without forgetting the firm's goal to maintain its profitable business. Major companies and firms reward these outsourcing firms especially with their outstanding work. These rewards serve as a motivation for the employees of the outsourcing company to excel, and become more open for opportunities. In some cases, outsourcing relationships come to an end if the outsourcing provider focuses only one cost reduction. A profitable relationship for both outsourcing firm and its clients is that if the client expects a fair profit for the outsourcing company and reinvests the profits to utilize the outsourcing company's speciality, the outsourcing company can excel and give out proper services to its clients. Finally, outsourcing firms make a profit by standardizing a portion of their specific activities that relate to their specialties. If the firm has already mastered one activity down to the final step, it can use this mastered activity against all other companies who offer that activity or service. The firm can then support this through the use of cost advantage, paying close attention to the function itself. Every asset that they deem worthy to support this specialty is used to reduce not only the costs of operation but also the costs per transaction. However, this is only a portion of a specific activity. In some cases, companies do not earn a profit for this specialty. To make the specialty profitable, the firm would then focus to provide low-cost services in each proposal they take before they can introduce the specialty.

Outsourcing firms battle out when it comes to claiming contracts from companies. They would lock on a specific company and try as hard as they could, which prolongs their contract with them. Managing this would give assurance to outsourcing firms as this will mean they will have a steady income and revenue. This also will drive out competitors vying for their spot. Some firms also try to lower the cost of their contracts to continue their operations for their clients. In some cases, contracts with low costs have various clauses that would enable the firm to increase prices without being sued by the company. Once the contract is signed, the outsourcing firm enables profit to be flowed to them despite any complications that may arise. There are also outsourcing companies that offer free consulting to their clients, either before they sign the contract or while they are employed by these companies. They use this service by using the FUD principle or using their insecurities to get the company to accept their proposal. However, in a few cases, some companies tend to refute this style by reducing the contract duration or re-examining the proposal to make sure there are no flaws. Nevertheless, this is also an effective way to profit from the leading companies that hire these firms. All of these possibilities are crucial to enable the outsourcing company to stay in the business as their profits will enable them to continue providing services to their clientele .

Conclusion

It should not come as a surprise that outsourcing is one of the highest paying and most demanded industry for most job-seekers today. Given its techniques to procure profit and assure its steady flow is a proof that it will

be a steady competitor in the industry. It will also most likely remain in the business sector in the next coming years due to its daily evolution. Most major corporations would use these outsourcing companies to distribute their activities and concentrate on more pressing matters that would normally take months to be decided upon. On the other hand, evolution of these outsourcing companies may also spell disaster for these companies especially now that more companies are interested in divulging into this business. India has already noticed the changes on its outsourcing companies and although they have experienced an economic boom through it, the costs of maintaining it are gradually increasing. Companies are slowly competing for talented applicants through the use high salary and benefit packages, which prove the additional costs these companies have. Despite all of these costs, it cannot be denied that the profit of these outsourcing companies make “cents” as they enable companies to become more flexible and quality proof.

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