

Outsourcing of Business Process in a Manufacturing Sector

Introduction:

In General terms, Outsourcing is contracting of any task, operation, job or process that was originally performed by employees within the entity to a third party. About 40% to 50% of the Fortune 500 Companies in the world is leveraging on outsourcing for most of their business process, which demonstrates the importance and gamut of the outsourcing process.

India, China and the Philippines are major powerhouses in the industry. In 2017, in India the BPO industry generated US\$30 billion in revenue according to the national industry association.

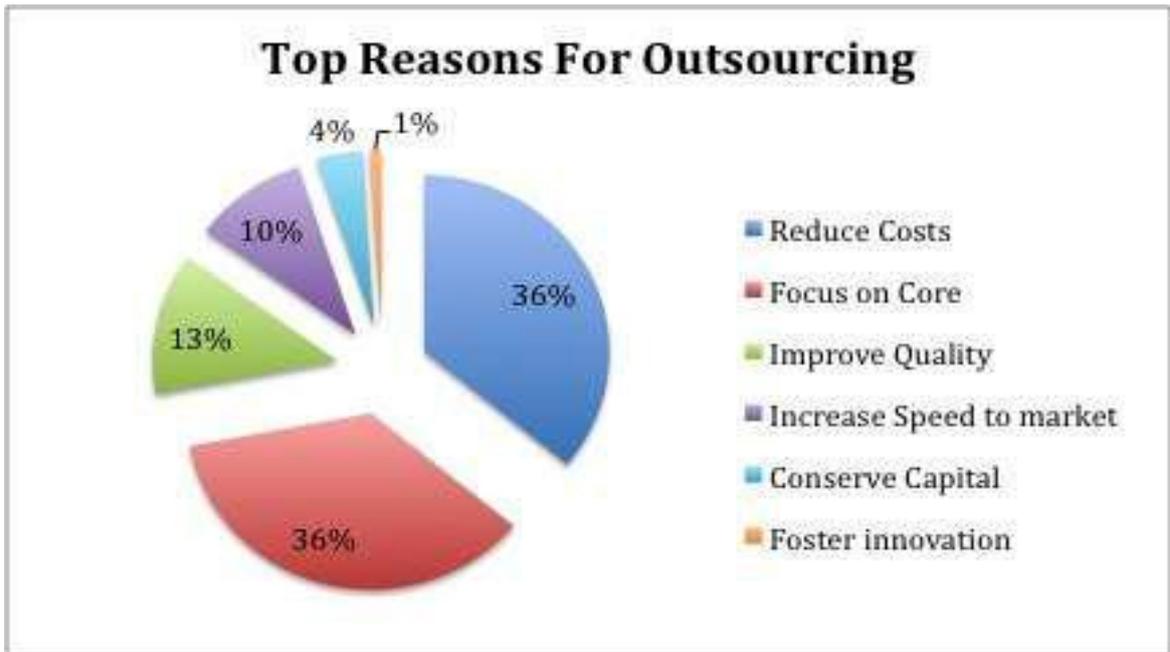
The objective of this article is to outline the significance of Outsourcing in a Manufacturing Sector and Risks and Rewards associated with it

What is Outsourcing?

The Strategic use of Outside Resources to perform activities traditionally handled by internal staff and resources-Dave Griffiths.

Why to Outsource?

- Primarily Companies outsource to reduce certain costs which may include peripheral or “Non-Core” business expenses.
- To Provide services which improves overall customer service and reduce overall costs.



[Source by Nishanth Sharma (IIM Jaipur)]

Key Areas of Outsourcing in Manufacturing Sector:

Generally, the following key areas are outsourced:

- ✓ Finance and Accounting;
- ✓ Procurement;
- ✓ Human Resource Management;
- ✓ Information Technology /IT Solutions;
- ✓ Marketing; and
- ✓ Security.



Rewards associated with Outsourcing:

[Source : Nash Riggins, Staff Writer for Small Business Trends]

1) Save on Costs:

The prices of labour and/or materials keep increasing, and competition keeps forcing prices lower. If there is an outsourcing solution that can save the company's money and overcomes the disadvantages of outsourcing, these areas should be investigated.

2) Hire Skilled Staff:

Outsourcing gives the Opportunity for business to substantially improve performance by hiring skilled experts from various fields.

3) Focus on your Core Business :

Some peripheral operations are outsourced frequently. It gives the managers the ability to concentrate on the core business issues instead of devoting resources to areas that may be necessary but are not related to the business core competencies. A good example is that the Manufacturing Companies outsources its security operations to an outside company that specializes in security.

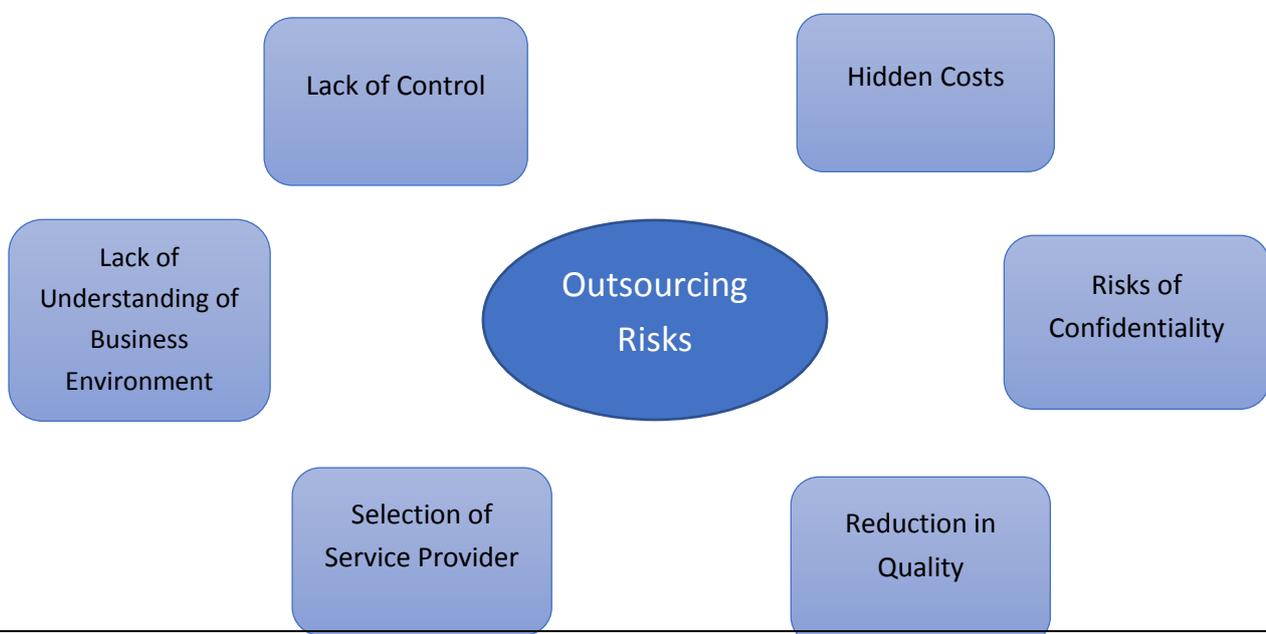
4) Increase Hours of Operation:

Outsourcing also gives flexibility to Companies to increase their efficiency by increasing hours of operation because the time-consuming tasks are passed on to Service providers.

5) Minimize Risk:

It is One of the major factor for which Business tend to Outsource. By Outsourcing Certain Process on to experts in their respective fields, Business will benefit from their enhanced ability to plan and Mitigate Potential Risks.

Risks associated with Outsourcing:



1) Lack of Control:

As we might expect, when you farm work out to external agencies, you're losing control of how those tasks are being monitored and performed. So long as you know and trust who you've hired, that shouldn't be a huge issue – but you've got to tread carefully.

2) Hidden Costs :

Although, the outsourcing work is generally considered economical, yet one must also be aware of getting ripped off. Outsourcing companies or big agencies will typically ask small business owners to sign lengthy contractual agreements, and they'll include plenty of fine print. If you don't read the terms carefully, you could get hit with unexpected costs.

3) Risk of Confidentiality :

In this era of data protection, it's essential that you exercise caution whenever using customer data. If you plan to outsource processes that require personal data, you could be placing the privacy of others or security of your business at risk by passing that data on to other people.

4) Reduction in Quality :

Outsourcing companies may often be motivated by profit rather than a job well done. That means the work you send out may come back quickly but will lack the standard and quality that customers have come to expect from your products or services.

5) Lack of Understanding of the Business Environment :

The Service Provider may not understand the environment in which the entity survives, or the Repercussions faced by the entity with business environment.

6) Selection of Service Provider :

The selection of right service provider is also a major issue because if proper analysis is not done before for the selection process it may result in data breach, Cash outflow etc. For an instance If business wants to Outsource its tax filing services it has to choose the right service provider from available multiple options such as Clear tax, Filing Mantra, Tax2win, myITreturn etc.

Conclusion:

Outsourcing is a vital part of business decision. There are various factors that play a key role in this decision, such as quality, cost and other factors. Customer Satisfaction is also an important part of this decision too. Management has to take into consideration all factors i.e., Risks and Rewards involving in it and to take enhanced business decision.