Advantages and Disadvantages of Outsourcing

Outsourcing brings in a lot of flexibility and financial freedom but it also has its pitfalls. Any company looking to outsource must keep in mind the pros and cons of outsourcing before deciding to take the plunge. Take a look at this list of advantages and disadvantages of outsourcing.

Advantages of Offshore Outsourcing

1. Outsourcing non-core activities such as administration and back office operations helps to put the focus back on the core functions of the business.

2. One of the biggest advantages of outsourcing is cost savings. The lower cost of operation and labor, and reduction in overhead costs makes it attractive to outsource.

3. When certain functions of an organization become operationally uncontrollable, outsourcing helps to overcome such difficulties.

4. By increasing productivity and efficiency, a business can be more successful, better-prepared for market challenges and have a streamlined cash flow.

5. Outsourcing frees an organization from investments in technology, infrastructure and people that make up the bulk of a back-end process' capital expenditure.

6. Outsourcing gives businesses flexibility in staffing, manpower management, helps you save costs and can also pick the best people to run your core functions.

7. Offshore outsourcing gives businesses the ability to develop new competencies and skill-sets that can be used as a competitive advantage.

- One of the biggest disadvantages of outsourcing is the risk of losing sensitive data and the loss of confidentiality. It is important, therefore, to have checks in place to avoid data loss.

- Losing management control of business functions mean that you may no longer be able to control operations and deliverables of activities that you outsource.

- Problems with quality can arise if the outsourcing provider doesn't have proper processes and/ or is inexperienced in working in an outsourcing relationship.

- Since the outsourcing provider may work with other customers, they might not give 100% time and attention to a single company. This may result in delays and inaccuracies in the work output.

- Not understanding the culture of the outsourcing provider and the location where you outsource to may lead to poor communication and lower productivity.

- If important functions are being outsourced, an organization is mightily dependent on the outsourcing provider. Risks such as bankruptcy and financial loss cannot be controlled.

- Hidden costs and legal problems may arise if the outsourcing terms and conditions are not
clearly defined.

Though outsourcing has its share of advantages and disadvantages, the many benefits that outsourcing brings far outweigh its disadvantages.

Many of the pitfalls of outsourcing can be avoided by choosing the right company to work with. Before taking the decision to outsource it is important that you align the goals of your company and employee considerations with the objectives of outsourcing.

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- Core activities of the business take center stage. Outsourcing non-core activities such as administration and back office operations helps to put the focus back on the core functions of the business, such as sales and marketing.

- One of the biggest advantages of outsourcing to India (or any other location) is cost savings. The lower cost of operation and labor makes it attractive to outsource.

- Outsourcing reduces overhead costs that usually come with running back-end operations.

- When certain functions of an organization become operationally uncontrollable, outsourcing helps to overcome such difficulties.

- A company's cash-flow can be streamlined.

- By increasing productivity and efficiency, a business can be more successful and better-prepared for market challenges.

- Outsourcing frees an organization from investments in technology, infrastructure and people that make up the bulk of a back-end process' capital expenditure.

- Outsourcing gives businesses flexibility in staffing and manpower management. Since the service provider is responsible for managing the workforce, you save costs and can also pick the best people to run your core functions.

- Offshore outsourcing gives businesses the ability to develop new competencies and skill-sets that can be used as a competitive advantage.

Disadvantages of Offshore Outsourcing

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