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Business process outsourcing: 5 questions to ask

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The business process outsourcing service model refers to strategic relationships in which organizations rely on third-party vendors to execute certain nonprimary business functions. Common services delivered via a BPO model include, but are not limited to, records and information management, technical support, facilities management and call center support.

The benefits of this approach are as significant as they are popular. The global BPO market, during its 2014 peak, surpassed $100 billion.

Companies rely on BPO services to take advantage of specialized skills, reduced risks, cost efficiencies and labor flexibility. Additionally, recent data suggests that 57 percent of companies outsource services so that they can maximize their focus on core competencies, such as producing energy, selling automobiles, providing health care services or harvesting agriculture.

Historically, the BPO model relied largely on offshore labor. This method was often criticized because it transferred jobs and money out of the local economy and into other countries. This criticism of offshore services diminished enthusiasm for the BPO model starting in 2015.

Recently, the affordability of advanced technology and a dramatic increase in minimum wage has led to a new type of offering called onshore BPO. Onshore BPO, also called “domestic outsourcing,” is when a company obtains outsourced services from a third-party vendor that is within the same country.

The availability of onshore services is fueling a BPO resurgence. However, companies should proceed with caution when considering a BPO partner.

Here are five fundamental questions to consider:

1. Is the BPO provider local or offshore?

Reliance on offshore BPO vendors has fallen out of favor. For example, sending data entry jobs overseas to simply cut costs is loaded with both perceived and actual risks. Companies should explore the long-term value that is created by choosing a local BPO partner.

2. Is the vendor offering a BPO service or a temporary staffing service?

Desirable BPO vendors leverage the right blend of people, processes and technology to drive specific outcomes. A true BPO service is based on quantifiable results (X documents scanned per month) as opposed to quantifiable activity (X hours worked per month). BPO solutions typically include all the oversight, methods, tools and labor required to achieve a desired result. A temporary staffing solution is different. This brand of service includes labor only and is based on activity, not results. It is important for companies to understand the difference between a results-oriented BPO service and an activity-centric temporary staffing service.

3. What is the BPO payment structure?

Fees for BPO services are often based on specific service level agreements and key performance indicators. There is usually financial reward (or penalty) for exceeding (or missing) SLA targets. Payment structures should be well-understood by companies in advance of utilizing a BPO service.

4. In what jurisdiction is our data stored?

Technology is an integral component of most BPO efforts because it can reduce costs and increase efficiency. However, data is typically subject to the laws of the jurisdiction in which it is stored. For example, if a cloud-based server is physically located in a foreign country, that country’s data privacy laws may govern what can (and cannot) be done with the data. Companies should be aware of where data is stored and under what jurisdiction the data is governed.

5. What value does the BPO offering deliver?

Noncore administrative activities (document management) can leach time and money away from a company’s core competency (producing oil). High-performing companies carefully examine the overall value that an experienced BPO partner can deliver.

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