

What Is Business Process Outsourcing (BPO)?



By: [Alana Rudder](#)

Contributor

Reviewed by:

[Kelly Main](#)

Editor

Table of Contents

- [What Is Business Process Outsourcing](#)
- [How Business Process Outsourcing Works](#)
- [9 Common Benefits of Business Process Outsourcing](#)
- [6 Common Disadvantages of Business Process Outsourcing](#)
- [Examples of Business Process Outsourcing](#)
- [Frequently Asked Questions \(FAQs\)](#)

Business process outsourcing (BPO) happens when a company outsources entire business functions to be handled by another company. For example, companies can outsource their marketing, payroll, human resources (HR), customer service, and supply chain management functions. In this article, we discuss what business process outsourcing is, how it works, its benefits and disadvantages and examples of what it looks like in today's businesses.

What Is Business Process Outsourcing

Business process outsourcing involves the outsourcing of business functions to external companies. To clarify, many companies outsource tasks to external providers. An example may be hiring a freelancer to do video editing. BPO is different in that whole business functions, such as marketing or accounting, are outsourced. Traditionally, BPO was used by manufacturing companies but it has more recently spread to a variety of industries.

Business process outsourcing can include outsourcing back-office or front-office functions. Back office functions include those that are not customer-facing, such as accounting and human resources. Front-office BPO involves outsourcing customer-facing functions like sales or customer service.

Three types of BPO exist. “Offshore” BPO means hiring an overseas company to run a business function. For example, a company in the United States may hire a BPO company in the Philippines. “Nearshore” outsourcing means hiring a BPO company in a nearby country, such as a Canadian company outsourcing to a U.S. company. Finally, “domestic” or “onshore” BPO means hiring a company within the company’s own country.

How Business Process Outsourcing Works

Business process outsourcing begins when a company determines it can gain a benefit from outsourcing a business function, such as marketing, accounting or supply chain management, to an external company. The company then begins researching different companies that specialize in performing the needed business function. Often, the searching company will contact more than one BPO company to determine the best fit.

Once a company has reached out to a considered BPO company, a conversation begins. Many BPO companies determine the needs of the client company, then tailor a solution to those unique needs. In this way, often, no BPO-client relationship is exactly the same. The BPO company will then draw up a contract, often called a master service agreement (MSA) or a service-level agreement (SLA) that gives a broad overview of the terms of the agreement.

Once the client company receives these broad contracts from considered BPO companies, its decision-makers decide which BPO company offers the best value and hires one. A backup BPO company may also be selected in case the primary BPO company is not able to deliver as expected.

Once a BPO company is hired, more granular agreements may be drawn up to cover how each project will be handled by the BPO company. Such a granular contract is often called a statement of work (SOW). The relationship then continues based on the specifications in the MSA, SLA and/or SOW. In particular, the SOW may be revisited and revised when needed to ensure an optimal ongoing relationship between the client and BPO provider.

9 Common Benefits of Business Process Outsourcing

There are numerous potential advantages to hiring a BPO company. Among them are greater operational flexibility, access to innovative technologies and top talent, cost savings, access to advanced and quick reporting, reduced risk, a better ability to respond to change and, ultimately, a competitive advantage. Here is a closer look at each of these benefits.

Greater Operational Flexibility

By outsourcing noncore competency functions within your business, such as marketing and HR, your personnel are free to focus exclusively on core

competencies. In turn, this gives them time to be innovative and adaptive in their work.

Access to Innovative Technologies

To compete for clients against other BPO companies, most BPO companies specialize in one business function and invest in the latest and best technologies in that specialization. This often means companies that outsource to them gain access to the most innovative and best technologies in the industry, technologies they may not otherwise have the budget to implement internally or may not even know exist.

Access To Top Talent

Many BPO companies hire talent with extensive backgrounds and credentials in the area in which they specialize, such as HR or payroll. Hiring top talent means they can compete for clients against other BPO companies. It also means the businesses that hire them gain access to the expertise within that top talent.

Cost Savings

Many BPO companies exist or hire within countries with lower corporate income tax and acceptable incomes. As funds are saved by hiring from other countries, those savings are often passed along to businesses that outsource through them. In addition, many other costs can be saved by hiring a BPO company, including office rental costs, employee-used software fees and other overhead costs.

Access to Advanced and Quick Reporting

Access to advanced technologies like artificial intelligence (AI), machine learning (ML) and automations via BPO companies allow businesses to gain access to more advanced and quick reporting, including financial and cash flow forecasting.

Better Change Responses

By accessing top talent, innovative technologies, cost savings, greater internal flexibility and advanced reporting, companies are better able to adapt when their industries quickly or customer demands change. They may even be able to adapt before the changes hit to stay ahead of demand. For example, access to advanced reporting can help outsourcing companies forecast coming changes so they can adapt before they are forced to.

Specialized Risk Management

Companies that outsource business functions can potentially reduce risks by putting those areas of their businesses in the hands of tried and true experts who know how to avoid relevant risks. For example, if a company outsources its information technology (IT) function, the hired IT experts may know ways to mitigate risks with greater attention to detail than the outsourcing company's current employees.

A Greater Competitive Advantage

With access to innovative technologies, specialized expertise, cost savings, advanced and quick reporting, specialized risk management and opportunities for greater operational flexibility, companies are better able to develop competitive edges against competitors that may not have such access.

6 Common Disadvantages of Business Process Outsourcing

Despite the numerous and impressive benefits to BPO, the disadvantages can be equally impressive if not managed correctly. Common disadvantages include public backlash, loss of control, communication breakdowns and hidden costs. Here is a closer look at these disadvantages.

Public Backlash

Some outsourcing companies hire talent from across the globe (offshoring) or nearby countries (nearshoring). In doing so, public perception may negatively affect an outsourcing business as customers or community members perceive the business is sacrificing domestic jobs. In addition, customers sometimes perceive lower-quality services or products when those services or products are fulfilled via nondomestic talent.

A Learning Curve

A hired BPO company must learn about the client company, its customers and what needs are to be fulfilled. This learning curve can create a disruption in the client company's product or quality services, creating concerns among customers, shareholders or directors. For this reason, it is important to start slow with the outsourcing process and ask any BPO companies you're considering hiring how they plan to mitigate this risk.

Loss of Control

When functions are run internally, managers can be put in place to ensure consistency and quality control. When outsourced, companies lose control over this oversight. For this reason, it is important to hire a well-vetted BPO company you can trust with your company's reputation. Interviewing past customers before hiring a BPO company can help you learn about the quality control process that's typically offered by the BPO company.

Communication Breakdowns

If not managed carefully, BPO can create a more siloed company. It is more difficult, for example, for internal engineers to talk to marketing talent if marketing is outsourced. That communication may not take place as fluidly, creating breakdowns in information flow that could hinder marketing's ability

to deliver what audiences need. If you outsource, a communication plan should be used to ensure the most fluid communication possible.

Hidden Costs in Contractual Agreements

When hiring a BPO company, outsourcing companies are required to sign a lengthy contract with much fine print around contingencies that may occur. Some of that fine print will likely include fees should certain circumstances arise or expected actions be performed (or not performed). Those fees can add up quickly. It is imperative to look over contracts thoroughly and with a legal understanding to avoid hidden costs that could pose a problem later.

Shared Reputational Risks

If a hired BPO company becomes entangled in a public relations nightmare, the reputation of the companies that hire them may suffer by association. For example, if a BPO company relies on grossly underpaid labor, its clients' reputations may suffer due to the benefits they received via immorally outsourced labor. Before hiring a BPO company, vet its business practices thoroughly and include a commitment to moral practices in mutually signed contracts.

Examples of Business Process Outsourcing

The following section offers three examples of business process outsourcing, including payroll, call center customer service and supply chain management. However, business process outsourcing can be helpful with a long list of business functions, including HR, marketing, accounts payable (A/P), research and development and sales, among others.

Payroll

Payroll involves calculating and disseminating wages and taxes to workers and government agencies. In a nutshell, it starts with a list of employees and their

status as a contractor or employee. Wages are calculated based on employment status, tax withholdings, paid time off (PTO) and more. Wages are often paid via direct deposit and pay stubs are provided to employees. Records are kept, estimated taxes are paid quarterly and [taxes are often filed yearly](#).

Clearly, a lot of time and process goes into processing payroll. It requires not just paying talent but hiring experienced payroll talent to execute the ongoing work and avoid financial risk. Companies can outsource this process to save time, money and resources that can then be dedicated to their core competencies. By putting this process in expert hands, companies can also reduce the risk of penalties for payroll errors.

Call Center Customer Service

Call centers often work with customers to ensure they have the best experience with company services or products. The process involves answering customer questions and helping to resolve issues related to the company's products or services. For the best outcome, call center personnel should be professional (even with upset customers), knowledgeable, personable, clear and able to balance meeting customer needs against company interests.

Because we live in a 24/7-on world, the greatest customer satisfaction is often achieved with a constant presence to support them. Many small businesses do not have the time, resources or funds to support customers 24/7. In addition to the constant demand for customer support, many companies don't have the talent to meet other customer needs, like multilingual support. Call centers are often equipped with talent and resources to meet such needs.

Supply Chain Management

Supply chain management controls the process and flow involved in making products. For example, to make shoes, raw materials are sourced, sometimes from multiple sources across the globe. Next, the raw materials are sent to the

company that makes the shoes. Then, the shoes are sent to the companies that distribute them to customers. All the while, inventories are managed so resources arrive on time but don't cost extra storage, labor or other costs.

Supply chain management is a complex process that, if not done precisely, can cost companies their profit margins. The chosen partners in the supply chain can make or break a company's legal and moral standing. Its management involves legal counsel, payment processing, sourcing partners, quality control, accounting procedures, specialized software and more. An experienced BPO company can manage these complexities while reducing risk.

Bottom Line

Business process outsourcing is outsourcing business functions to an external company. In doing so, companies can enjoy benefits, such as lowering overhead costs, gaining access to advanced reporting and innovative technologies, reducing risk, accessing specialized talent and better adapting to changing customer demands. However, it must be managed carefully to avoid pitfalls like siloed company communication, hidden costs and reputational damage.

Frequently Asked Questions (FAQs)

What Does Business Process Outsourcing Do?

Business process outsourcing occurs when a business hires an external company, called a BPO company, to handle a business function that is traditionally handled internally. The hired BPO company may manage hiring talent, paying vendors, sourcing resources, handling legal compliance issues, monitoring for quality control, serving customers, implementing technology or other such tasks involved in the everyday duties of the business function.

What Is an Example of Business Process Outsourcing?

An example of business process outsourcing is when a company hires an external company to run its customer service call center. The BPO company hires and manages customer service professionals who learn about the client company's offerings, then answer questions and provide support to its customers. This frees the client company to focus on its core competency while offering 24/7 support and/or lowering overhead costs.

What Are the Types of Business Process Outsourcing?

Front-office BPO means outsourcing customer-facing functions, such as marketing. Back-office BPO means outsourcing noncustomer-facing functions, such as accounting or HR. Offshore BPO means outsourcing a business function to a distant country. Nearshore BPO means hiring a BPO company from a neighboring country. Finally, domestic or onshore BPO means hiring a BPO company from within one's own country.

Is business process outsourcing known by any other names?

Although the process is the same, business process outsourcing is sometimes referred to as managed services.