

# Outsourcing To Third Parties: When, Why and How

Outsourcing is a business strategy in which a company hires a third party or a third person to perform tasks, manage operations or provide services for the company.

The outsourcing company, known as the service provider or a third party, manages its own workers or computer systems to perform the tasks or services on-site at the hiring company's own facilities or at external locations.

Outsourcing emerged as a business strategy in 1989 and became an integral part of business economics throughout the 1990s. The outsourcing strategy is subject to considerable controversy in many countries.

When businesses and companies allocate resources where they are most effective, outsourcing helps maintain the nature of free-market economies on a global level.

Today Companies can outsource a number of tasks or services. Outsource service includes many things such as information technology services and customer service.

There are more things that you can outsource to other types of work as well, including manufacturing processes, human resources tasks and financial functions such as bookkeeping and payroll processing. Companies can outsource entire divisions or particular departments.

## How does outsourcing work?

Outsourcing is basically managing things in the company on service-level or professional-level agreements and is a partnership, not a purchasing project.

An outsourcing strategy is a third-party organisation that helps outside organizations not official with the company to complete certain tasks. The outside organizations typically set up different compensation work structures with their employees than the outsourcing company, enabling them to complete the work within a budget.

## **Step-by-step guide to outsourcing**

### **Step 1: Identify your motive**

Identify the best approach to outsourcing by understanding your motives. It's important to identify your approach. Are you looking to get simple employees, save on costs or hire a specialist to sort out a specific area of your business?

While you search for talent, it helps if you know your aims & goals and how much would you invest, and decide on an hourly rate or a set project rate. Setting a fixed price for a project ensures you won't have to worry about going over your budget.

### **Step 2: Clear your project specifications and expectations**

Once you know why you're outsourcing and what your approach will be, it's time to make that thing more clear about project specifications and expectations. Having an insight into your plan, make a deadline by when you'd like the project completed.

Maybe you're attending an event and would like your website up by then but this is all in your contractors. A good idea to come up with some sort of deadline and timelines set, to avoid the project dragging along for a long period.

### **Step 3: Find your outsourced**

Once you know what you need and why you need it and have the details specified about your requirements, you're ready for finding the person or company that you want to work with. There are many websites and services out there, so take your time and select the one that's right for you according to your preference.

### **Step 4: Write a job or project description**

The job or project description is an opportunity for you not just to describe the job details and set expectations which will help the candidates to be clear with your job or project in the beginning.

### **Step 5: Interview and test your candidates**

Once you've shortlisted some candidates according to your need, don't skip checking their references, and portfolios, giving test projects, or any examination and interviewing them.

The interview shouldn't have to be too formal as a job interview, the goal here is for you to ask any questions or doubts you might have about outsourcing to this specific person.

### **Step 6: Manage and operate your outsourced team**

Once you have found your outsourced employee or company, set up regular chats with them over video chats or have weekly email check-ins to ensure that everything is running smoothly and on schedule. Keep regularly updating you on the work

process and generally check on things in the loop.

## **The need for outsourcing**

Companies often outsource because it comes in the budget, and improves work efficiencies. The outsource aims for a particular task, and it is able to do it better, faster than the hiring company could. Outsourcing provides customers with high-quality service. One of the major reasons for the practice of outsourcing is to run a successful business model.

Some of the reasons why you need:

- It's budget-friendly
- Improve the company's focus on its product and service.
- Increase efficiency of working.
- Use external resources as much as possible.
- Sharing risks with another firm.

## **Types of Outsourcing**

### **1) Professional outsourcing**

Professional outsourcing includes accounting, legal, purchasing, (IT), administrative support and other specialized services. This type of outsourcing is budget-friendly and the company only pays for services that a third party provides while having access to resources.

### **2) Manufacturer Outsourcing**

Services are industry-specific. This type of outsourcing is cost-friendly and manageable. Manufacturer outsourcing mostly works for small and mid-size businesses which help them to complete production lines. Invest in this outsourcing type and

continuously upgrade equipment, personnel, and process technology.

### **3) Process-Specific Outsourcing**

Process-specific outsourcing is specialising in that particular service. This outsourcing contract is basic, allowing each company to focus on its strength and improve customer service while being budget-friendly and time saver.

### **4) Project Outsourcing**

Sometimes companies aren't able to manage one of their projects or it can be a specific part of the project. The other reason can be the company may not have enough employees with the necessary skills to work on the project.

## **Outsourcing – when is it a good idea?**

### **1. Demand is high in the market**

When a company increases sales in the market there is pressure on the company to get orders completed in an efficient period. In that case, you can outsource another organisation to help you complete the manufacturing line.

### **2. Specialized tasks weren't possible for you**

You can hire outsourcing when your company isn't able to complete a specific task or project or it's taking too long because your employee doesn't have that expertise. You can go for an outsourcing strategy option.

### **3. When you need someone for the specific task**

Seeking the services of outsourcing companies that offer highly-skilled candidates who are good with work ethics for a specific task for example need a good graphic designer to design a website.

### **4. Better Risk Management**

New projects, missed deadlines, and extended recovery time are just some of the problems that may occur in the workplace. Instead of entering the panic mode, you can consider outsourcing to ensure you always continue to manage and minimize risks.

## **Advantages of outsourcing**

### **1) Get new talent from the market**

Outsourcing can free up your business to focus on its strengths, allowing you to hire new talent from the market to complete new tasks or projects which could be completed through your available resources.

### **2) Helps you to complete the task quicker**

Choosing an outsourcing company that specialises in the process and service or specific task can help you carry out it more productively, efficiently, and quicker.

### **3) Budget-friendly**

Outsourcing can be budget-friendly where you can save on your resource and release capital for investment in other business areas.

## **4) Greater competitive advantage**

Outsourcing can help you gain knowledge and skills while competing with your market challenger. It can also help to make your business more flexible and ready to adapt to changing market conditions.

## **Disadvantages of outsourcing**

### **1) Service can be behind time or below expectation**

Outsourcing can be time-consuming as you rely on a third party for your work and it's not every time possible that they will complete the work according to your expectation.

### **2) Poor communication**

We all know that communication is the key to success. You might think that you are being understood the way you planned things, but people come from different backgrounds, educations, and experiences and will have their own perceptions and can face problems in understanding communication.

### **3) Costly**

Outsourcing means hiring a third party which can be costly for some organisations.

### **4) Lack of flexibility in your working zone**

When you work in your space you have a kind of comfort when you hire an outsourcing third- party firm with you and they can have their own working zone which can create little mess.

## 5) Lack of understanding of the contract process and decision-making

Contracts are a way of formalising a relationship between businesses, which also outlining how you'll maintain this relationship, what obligations you need to fulfil, how long you will fulfil them for, etc which can be a problem in somecase or some clauses can create problems in decision making.

## Summary

Outsourcing is the business strategy of hiring a third party outside a company to perform services or produce goods to be performed in-house by the company's employees and staff.

Outsourcing is a tool usually undertaken by companies. As such, it can affect a huge range of jobs, ranging from customer support to manufacturing to the back office. In the article we have mentioned how outsourcing works, its advantages & disadvantages and many more.

## FAQ's on Outsourcing:

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