IB**Business**and**Management**.com

5.7 Production Planning: OUTSOURCING

Advantages and Disadvantages

Reasons for outsourcing	Drawbacks to outsourcing
© **Reduction and control of operating costs**. Instead of employing expensive specialists that might not be kept busy at all times it could be cheaper to 'buy in' specialist services or products as and when needed. Outsourcing firms may be cheaper because they benefit from economies of scale, as they may provide similar services to a large number of other businesses. Much outsourcing involves offshoring – buying in services, components or completed products from low-wage economies.	© **Loss of jobs within the business**. Workers who remain directly employed by the organisation may experience a loss of job security, reducing motivation. Bad publicity may result from redundancies, especially if the business is accused of employing very low-wage employees in other countries to replace the jobs lost. The firm's ethical standards could be questioned.
© **Increased flexibility**. By removing departments from the staff payroll and buying in services when needed, fixed costs are converted into variable costs. Additional capacity can be obtained from outsourcing only when needed and contracts can be cancelled if demand falls much more quickly than closing down whole factories owned by the business.	© **Quality issues**. Internal processes will be monitored by the firm's own quality assurance system. This will not be so easy when outside contractors are performing important functions. A clear contract with minimum service-level agreements will be needed. The company contracting out the functions may have to send quality assurance staff out to the business undertaking the tasks to ensure that product quality and customer service standards are being met.

© **Improved company focus**. By outsourcing 'peripheral' activities the management of a business can concentrate on the main aims and tasks of the business. These are called the 'core' parts of the business. So, a small hotel might use management time to improve customer service and outsource the accounting function completely.	© **Customer resistance**. This could take several forms. Overseas telephone call centres have led to criticism about inability to understand foreign operators. Customers may object to dealing with overseas outsourced operations. Bought-in components and functions may raise doubts in customers' minds over quality and reliability.
© **Access to quality service or resources that are not available internally**. Many outsourcing firms employ quality specialists that small to medium-sized businesses could not afford to employ directly.	© **Ethical concerns**. If outsourcing is undertaken by firms in countries with poor human rights or employment rights records, it may be cheaper for the business that has outsourced – but how will the media and consumers view this potentially unethical decision?
© **Free up internal resources for use in other areas**. If the human resources department of an insurance company is closed and the functions bought in, then the resulting office space and computer facilities could be made available to improve customer service.	© **Security**. Using outside businesses to perform important IT functions may be a security risk – if important data were lost by the business, who would take responsibility

*Source: www.IB**Business**and**Management**.com*