Before You Outsource: What to Consider When Engaging a BPO Provider

By Bruce Haghighat

Few business decisions look as simple on paper as outsourcing. A specialist provider promises to run a process such as payroll, customer support, IT operations, or accounts payable for less money and with better service, freeing the organization to focus on what it does best. For many companies, that promise comes true.

For many others, it does not. Outsourcing relationships fail at a rate that would alarm any executive if it applied to an internal project. The difference between the two outcomes is rarely the provider alone. It is usually the work done, or skipped, before the contract is signed.

This article looks at why organizations turn to business process outsourcing (BPO), why so many engagements disappoint, and what leaders should examine before handing a process to an outside company. The central lesson is one that runs through any serious process review: outsourcing a process does not fix it. It only moves it.

What business process outsourcing is

Business process outsourcing means contracting an outside company to perform a business function that the organization would otherwise run itself. The most commonly outsourced processes are back-office functions, such as finance and accounting, payroll, human resources administration, and IT support, and front-office functions, such as customer service, technical help desks, and sales support.

Providers can be located in the same country (onshore), in a nearby country with a similar time zone (nearshore), or farther away, often in lower-cost labor markets (offshore). Each option trades off cost, communication, and control differently.

The market is large and growing. Grand View Research estimated global BPO spending at about $303 billion in 2024 and projects it will reach about $525 billion by 2030, growth of roughly 9.8 percent a year (Grand View Research). With that much money flowing to outside providers, the cost of choosing poorly is substantial.

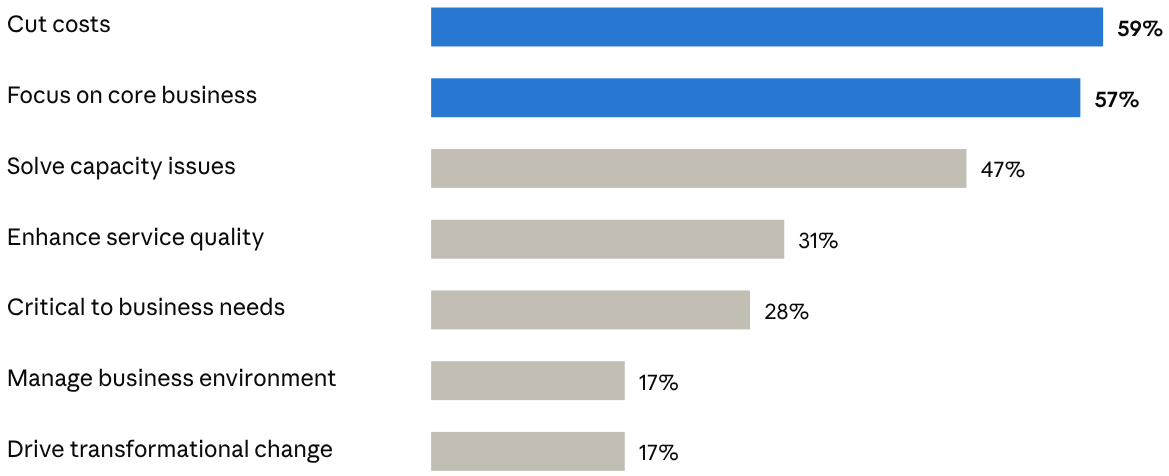
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Why organizations outsource

Cost savings are the most common motive, but they are far from the only one. In Deloitte's 2016 Global Outsourcing Survey, nearly as many organizations said outsourcing let them focus on their core business as said it cut costs (Canadian HR Reporter).

Cost is the top reason to outsource, but focus on core work is a close second

Share of surveyed organizations citing each reason for outsourcing (multiple answers allowed)



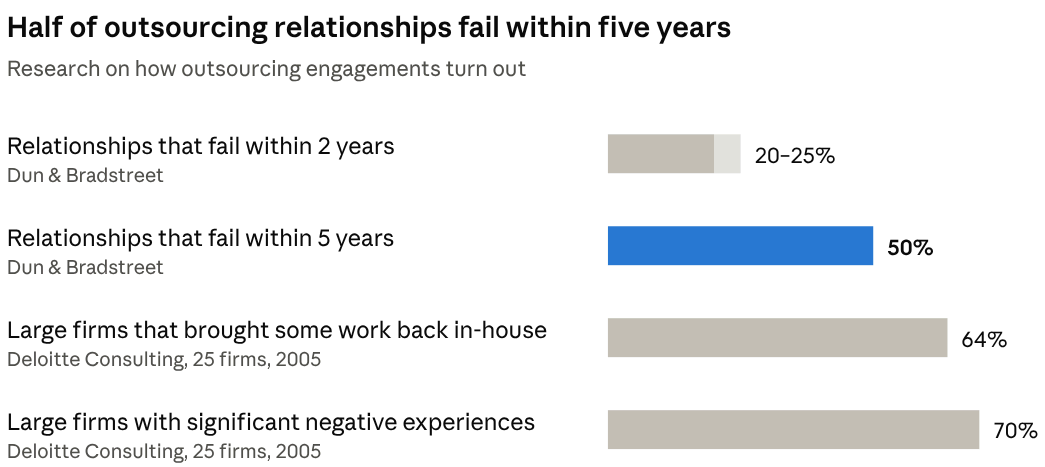
Deloitte, 2016 Global Outsourcing Survey, as reported by Canadian HR Reporter · 7 reasons

The mix of motives matters because it shapes what success looks like. A company outsourcing to cut costs will judge a provider on price per transaction. A company outsourcing to free up management attention or add capacity will judge it on reliability and responsiveness. Being clear about which goal comes first is the starting point for every decision that follows, from which provider to choose to how the contract is written.

Why outsourcing deals disappoint

Outsourcing has a poor long-term track record. Research by Dun & Bradstreet, cited by Deloitte Consulting, found that one in five outsourcing relationships ends within two years and half fail within five. In a Deloitte study of 25 large enterprises, most reported significant negative experiences, and many had already brought some outsourced work back in-house (Channel Insider).

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Dun & Bradstreet, Barometer of Global Outsourcing; Deloitte Consulting, Calling a Change in the Outsourcing Market (2005), via Channel Insider

The causes are remarkably consistent. Deloitte pointed to contract administration costs that ran higher than expected and to a loss of flexibility: long contracts signed to cut costs in a downturn left companies slow to respond when conditions improved. In a Dun & Bradstreet survey, nearly 70 percent of respondents said their provider did not understand what it was supposed to do, cost too much, or delivered poor service (Newswise).

Most of these problems trace back to decisions made before the contract was signed: a process that was never clearly defined, a business case built on price alone, or an agreement with no way to adjust or exit.

What to consider before signing

The most successful outsourcers treat the decision as a business case, not a purchase. Eight areas deserve close attention before engaging any provider.

1. Is the process ready to be outsourced? A broken process does not improve when someone else runs it; it simply becomes harder to see. Review and fix the process first, document how it works, and measure its current cost, speed, and error rate. Without that baseline, there is no way to judge whether the provider is delivering.

2. Is the process core or non-core? Outsource work that is necessary but does not set the organization apart. Keep in-house the knowledge and capabilities that create competitive advantage.

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3. What is the true total cost? Compare the provider's price against the full in-house cost, but also add transition costs, contract management staff, travel, technology integration, and the cost of bringing the work back if needed.

4. Can the provider actually do it? Check references from clients of similar size and complexity, visit delivery centers, and test financial stability. Ask who will actually do the work, not just who will sell it.

5. How will data and compliance be protected? Confirm security certifications, data-handling rules, and legal obligations in every country where the work will be performed.

6. Are expectations written down? Service-level agreements should define measurable outcomes, reporting, penalties, and rewards. Vague contracts produce disputes.

7. Who will manage the relationship? Outsourcing moves the work, not the accountability. Assign internal owners and set a regular governance rhythm.

8. How would you get out? Negotiate exit terms, knowledge-transfer obligations, and data ownership before signing, while you still have leverage.

Area	Question to ask	Red flag
Process readiness	Have we fixed and measured this process?	"The provider will sort it out."
Strategic fit	Does this process differentiate us?	Outsourcing work customers choose you for
Total cost	What does it cost beyond the provider's fee?	Savings based on hourly rates alone
Provider capability	Who will do the work, and where?	No references at comparable scale
Security and compliance	Where will our data go?	Unclear subcontracting or data locations
Service levels	How will success be measured?	Activity metrics with no outcomes
Governance	Who owns the relationship here?	No named internal owner
Exit	How do we bring the work back?	No exit or transition clause

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Hidden costs to budget for

The provider's fee is the most visible cost of outsourcing, but rarely the only one. As Deloitte's research found, contract administration alone regularly costs more than clients expect. A realistic business case also accounts for:

- **Selection and legal work.** Running a competitive bid, checking references, and negotiating the contract can absorb months of staff and advisor time.
- **Transition.** Knowledge transfer, running old and new operations in parallel, travel, and a temporary dip in productivity while the provider learns the work.
- **The retained team.** Someone must manage the contract, monitor service levels, and handle escalations. Outsourcing removes the work, not the need to oversee it.
- **Technology integration.** Connecting the provider to internal systems, securing data flows, and maintaining access controls.
- **Change requests.** Work not specified in the original contract is usually billed separately, often at premium rates.
- **Exit.** If the relationship ends, moving the work to another provider or back in-house carries its own transition cost.

A sound practice is to put a number on each of these and then test the business case against a less optimistic scenario, such as savings arriving later or smaller than promised. If the deal makes sense only when everything goes right, it is not a strong deal.

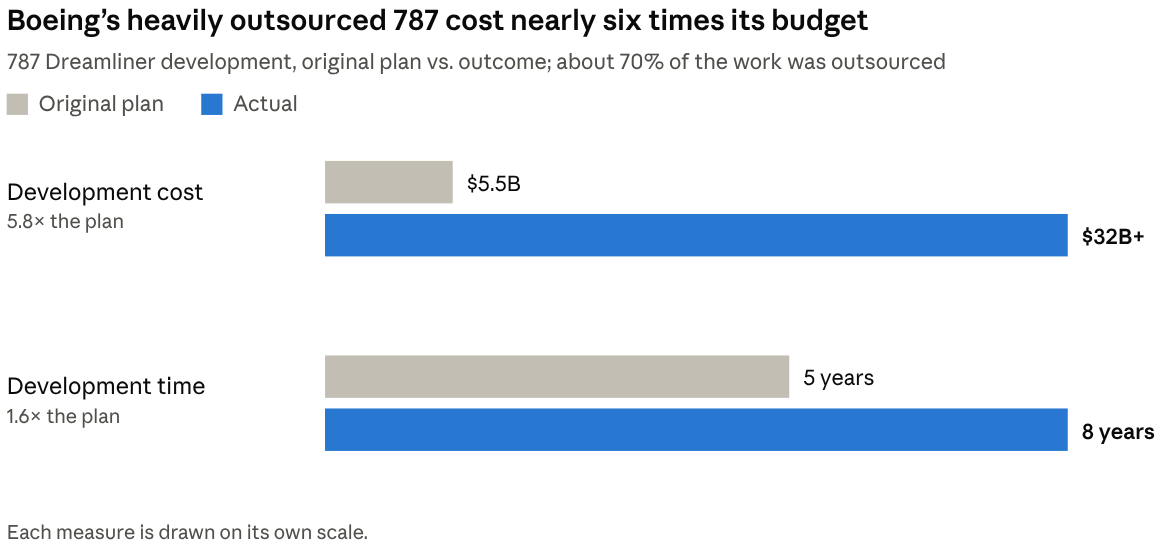
Lessons from real engagements

Procter & Gamble: preparation first. In 2003, the consumer goods company signed $4.2 billion in outsourcing partnerships covering IT, finance and accounting, human resources, and facilities management. HP took over IT operations under a 10-year, $3 billion agreement, with about 2,000 P&G IT employees moving to HP (eWeek). Jones Lang LaSalle took over facilities in more than 60 countries. P&G later reported that its Global Business Services unit cut costs as a share of sales by 33 percent for its outsourced operations without sacrificing satisfaction (Area Development).

The key was sequence. Before outsourcing, P&G consolidated and standardized its support services into a single global unit. As the unit's leader put it, "You outsource only when you are internally optimized" (McKinsey). P&G also kept strong governance in place, reviewing each provider's performance against service levels and user satisfaction every quarter.

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Boeing: outsourcing what you need to control. For its 787 Dreamliner, Boeing outsourced about 70 percent of the design, engineering, and manufacturing to more than 50 partners, who in turn subcontracted to their own suppliers. Without close coordination, problems cascaded through the supply chain (IndustryWeek).



IndustryWeek, "Boeing's Organizational Problems Date Back Two Decades" (February 2024) · 2 measures

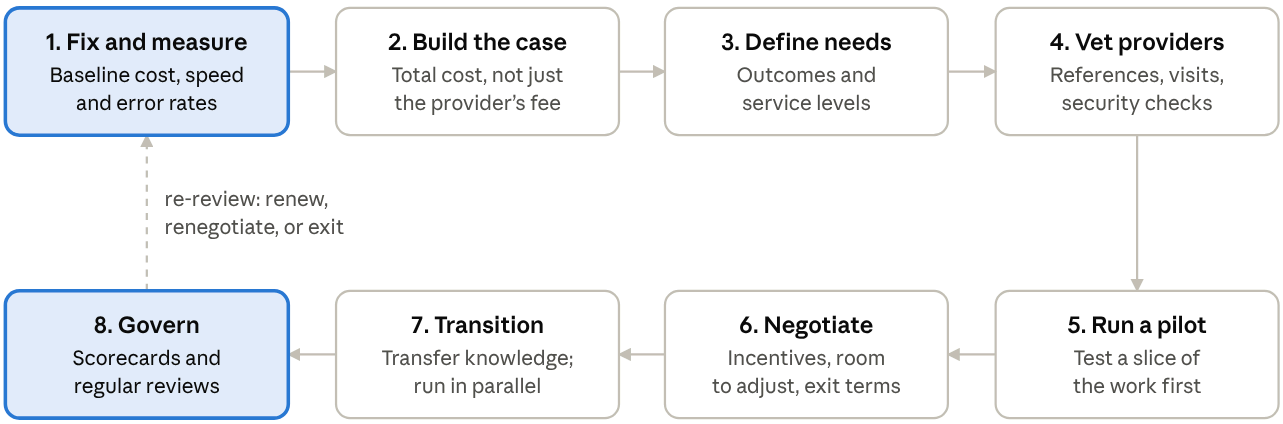
Boeing's chief executive later acknowledged that the company had stretched its supply chain too far in pursuit of low cost and lost control over quality and service in some cases (IEEE Spectrum). The lesson applies well beyond aircraft: work that is complex, tightly linked to other activities, or central to the product needs far more oversight than a contract alone can provide.

A step-by-step path to choosing a provider

The considerations above fit into a sequence. The order matters: each step depends on the one before it, and skipping the early steps is how most failed engagements begin.

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Outsourcing well is a cycle that starts with your own process



provider selection and management · 8 steps, repeating

Two steps deserve special emphasis. The first, fixing and measuring the process, is the one most often skipped, and it is the one that makes every later step possible: without a baseline, neither the business case nor the service levels mean much. The pilot is the cheapest insurance available. Running a small, representative portion of the work through the provider before committing the whole process exposes misunderstandings while they are still easy to correct.

The dashed arrow is a reminder that outsourcing is not a one-time decision. Like any process, an outsourced one should be reviewed regularly, and the answer may be to renew, to renegotiate, or to bring the work back in-house.

Conclusion

Business process outsourcing can lower costs, add capacity, and give an organization access to skills it could not easily build. But the track record shows that the benefits are not automatic. The engagements that succeed share a pattern: the organization fixed and measured its process before handing it over, chose a provider based on capability rather than price alone, wrote clear expectations into the contract, kept ownership of the relationship, and planned its exit from the start.

Outsourcing is not a substitute for process review. It is one of the possible outcomes of a good one. Treat it that way, and the odds of joining the success stories rather than the statistics improve considerably.

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Sources

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