

Outsourcing to Foreign Countries - For Cutting Costs

Outsourcing means obtaining goods or services from an outside suppliers or to contract work out instead of getting it done by own employees. This could be within the same country or from another country. "Outsourcing" has become the buzzword in many industries and is led by the IT sector which has the maximum potential for outsourcing.

However, outsourcing is not limited to IT sector. Sectors such as manufacturing, fashion designing are also outsourced. The main reason for outsourcing is the cost saving to the company that is giving out the job. The key driver in this cost cutting is the low cost human capital available in other countries. This directly translates into savings in overhead costs.

These days, much of software and IT related work is outsourced to countries such as India, Singapore and China. This is mainly due to the fact that the workers there deliver good quality work at a lower price. Thus many companies are benefiting from this outsourcing work. As many as 400 companies outsource their work regularly to China and India. The main outsourcing countries are UK and other European countries apart from USA. Call centres have mushroomed in India, Caribbean and Philippines. Many banks in the US have outsourced their work to other countries. The call centres in these countries handle telemarketing work and sell credit cards, insurance and also provide 24/7 customer support services.

When it comes to manufacturing, auto components, textiles are the most outsourced items. Many companies outsource more than 50% of their work essentially due to low labor cost in the other country. For ex: a company like BMW outsources its component requirements to India basically to cut down its costs. In addition, if a company has to manufacture on its own, it has to incur a huge capital expenditure also on the machinery. Therefore, they resort to outsourcing the work to competent companies based in the countries where the cost of labor is quite low.

Outsourcing has become a standard way of doing business in this global economy. Many people will argue that it's not fair to outsource jobs to foreign countries. These foolish people don't understand the fact that our economy is global and if a country's companies cannot compete on a global basis by employing the most economical resources than the jobs lost to outsourcing will eventually be lost anyway. In the second scenario, however, the entire company is lost.

Source: <http://www.articlecircle.com>

About the Author

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