



Can You Afford to Outsource? Four Questions to Ask

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

Wikipedia defines *outsourcing* as “the contracting out of an internal business process to a third-party organization.” But in recent years, the concept of outsourcing has taken on new dimensions that go well beyond this basic definition.

However, many Los Angeles and Southern California business leaders still think of outsourcing along the lines of this narrow definition. As a result, they often think that they’re too small to outsource, or that outsourcing is too expensive for them. In reality, neither may be the case — but realizing this requires looking at outsourcing in a different light.

Efficiency and Cost-Effectiveness

Think for a minute about your job as a business owner or executive. How much of your work time every day do you spend “doing” tasks compared to overseeing and engineering processes, managing people and delegating tasks to them? If you’re like most successful and effective owners and executives, you spend the vast majority of your time on the latter, not the former.

In a sense, you are “outsourcing” these tasks to others. Some of them are employees of your organization, some of them are contractors and freelancers, and some of them are vendors and outside service providers. Your goal as an owner or manager is to make sure that the tasks that need to be accomplished for your business are performed in the most *efficient* and *cost-effective* manner possible.

Efficiency — This refers to choosing the best-qualified person or people to perform tasks, regardless of where they are physically located or how they’re paid. Sometimes the best-qualified person/people are on your staff, but not always. If they’re not, you are faced with the choice of either hiring the person/people you need or, dare we say, outsourcing the task to a contractor/freelancer or outside service provider.

Cost-effectiveness — This refers to the *overall* cost to your organization of having the tasks performed. There are many factors that go into determining this overall cost that must be considered, including whether they are one-time or ongoing tasks that need to be performed. If they are one-time tasks, it will usually be more efficient and cost-effective to work with an outsourced contractor or service provider. This way, you can terminate the relationship once the tasks are complete and have no ongoing overhead or cost.

If they are ongoing tasks, you must compare the cost of hiring a full- or part-time employee(s) to working with an outsourced contractor or service provider. When comparing these costs, don’t forget to include *all* the expenses involved in hiring employees, especially full-time employees. These include recruiting and interviewing candidates; once they’re hired, providing benefits (such as health insurance and paid time off); and paying payroll taxes in addition to paying salaries and wages. These expenses can increase an employee’s total compensation costs by up to 50 percent.

A Different Light

This kind of analysis puts the questions of “are we too small to outsource?” and “is outsourcing too expensive?” in a totally different light. Instead, the questions should be:

1. Are the tasks to be performed one-time or ongoing?
2. Do the tasks require specialized expertise that we do not currently have on staff?
3. If so, what is the most efficient and cost-effective solution for performing the tasks — hiring an employee (or employees) or working with a contractor/freelancer or outside service provider on an outsourced basis?
4. What are the overall costs of each of these options?

Maybe we should do away with the term “outsourcing” altogether. This is what Steven B. Levy suggests in a recent blog post, where he wrote: “Perhaps ‘outsourcing’ is misused. It refers more to the mechanics of who writes the worker’s paycheck than how the task is actually performed. My recommendation to managers is to worry more about finding the best people to do the job — and ‘best’ has lots of different meanings. Don’t worry quite as much about where they work, or whose name is on the paycheck they receive.”

Concluding Thoughts

It’s time for Los Angeles and Southern California business leaders to expand their thinking about outsourcing beyond the narrow definition of contracting out internal business processes to a third-party organization. Much of what owners and managers do on an everyday basis, including delegating tasks to employees, is really outsourcing. Therefore, the question changes from “can we afford to outsource?” to “what is the most efficient and cost-effective way to get tasks performed?” In our next article on this topic of outsourcing, we will examine when outsourcing does and does not make sense in more detail, as well as offer tips on how to assure value when working with an outsourced service provider.

About CFO Edge

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