



## Outsourcing Benefits: Seven Ways They Help Grow Small Companies

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In a recent article, we took a close look at the concept of outsourcing through a different lens beyond the traditional definition of contracting out internal business processes to third-party organizations. In the process, we explained how the question – “Are we too small to outsource?” – isn’t the right question to ask. Instead, Los Angeles and Southern California business leaders should be asking themselves, “What is the most efficient and cost-effective solution for performing business tasks?”

In a wide variety of situations, the answer to this question is outsourcing. Far from “costing” them money, outsourcing can often save money for small companies in the right circumstances. It can help control capital costs by converting fixed costs to variable while freeing up capital that can be invested in other more productive areas of your business. Outsourcing can be especially beneficial for new and start-up companies by allowing them to conserve valuable capital instead of using it to build a big (and costly) internal staff.

### Outsourcing Benefits

In addition to helping control capital costs, outsourcing may provide a wide range of other benefits for growing businesses. These include:

**1. The ability to focus on core competencies.** This was one of the factors that first led to the explosion in the popularity of outsourcing back in the 1990s. Payroll, for example, was one of the first non-core business functions that companies commonly started to outsource. Payroll is an essential, but non-core, business function, so companies turned to payroll service providers (like ADP, for instance) to perform this task for them. This freed up resources (both financial and human) to spend more time focusing on the things that add value to the business and help set it apart from the competition.

**2. Greater efficiency.** Businesses that try to do everything themselves internally — payroll processing, research and development, marketing, IT, financial analysis, etc. — often end up paying a high price for the performance of these functions. This is because most companies, with the possible exception of very large corporations, aren’t set up with the cost structure or economies of scale to perform these tasks efficiently like outsourced service providers are.

**3. Lower overhead.** Doing it all internally requires lots of overhead — office space, salaries, benefits, etc. When compared with these ongoing overhead costs for the performance of non-core functions, the cost of outsourcing is usually a bargain. For example, a company might be able to avoid moving into a larger and more expensive facility by outsourcing its marketing, IT and R&D functions instead of hiring full-time employees to perform these tasks.

**4. Concentrate and maximize human resources.** It usually doesn’t make sense for companies to hire and train employees for projects or tasks that are peripheral in nature. Nor is it smart to divert the attention of existing employees away from their focus on core competency-related tasks to peripheral ones. Outsourcing

enables you to concentrate your labor costs and human resources where they add the most value to your business.

**5. Flexibility in staffing.** This flexibility is especially beneficial for companies that experience seasonal and cyclical fluctuations in sales and workflow. By outsourcing, they can tap into external resources when needed without committing to them on an ongoing basis. For example, if the bookkeeping and accounting staff becomes overwhelmed during tax season or an audit, outsourced financial assistance can be brought in to help out until the workflow returns to normal and the services of the provider are no longer needed. As an added benefit, your internal staff can learn new skill sets by working alongside outsourced service providers that they can put into practice after the provider has left.

**6. A more level playing field.** Outsourcing may enable small and mid-sized firms to access the same high-level expertise that big companies can retain on their staff. Marketing is a good example: While large firms are often able to hire the best marketing experts and build a top-notch internal marketing department, a smaller firm can tap into the expertise of an outsourced marketer who specializes in its particular industry at a fraction of the cost of hiring an internal marketing team.

**7. Faster ramp-up for new projects and initiatives.** If your company is planning to initiate a new project, such as a major IT upgrade, you might be able to benefit by bringing in an outsourced service provider to help. Such a provider will have the resources in place to hit the ground running quickly, with little ramp-up time required other than learning the particular nuances of your company and operations. Trying to manage the project internally, meanwhile, could involve weeks (or months) of hiring new employees and/or training existing employees to get them up to speed.

### **Concluding Thoughts**

In the right circumstances, outsourcing can often save, rather than cost, money for growing Los Angeles and Southern California businesses. Outsourcing benefits occur in other areas, as well: the ability to focus on core competencies, increased efficiency, lower overhead, staffing flexibility, faster ramp-up for new projects, and a more level playing field with large competitors. Business leaders who view outsourcing as the most efficient and cost-effective way to perform certain business tasks may discover that outsourcing is the key to unlocking hidden profits. In an upcoming article, we will examine when outsourcing does and does not make sense in more detail and offer tips on how to assure value when working with an outsourced service provider.

### **About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with business leaders on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

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