



When Should You Outsource vs. Do Work In-House?

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In recent years, more mid-sized businesses have begun to outsource some of their functions to consultants, freelancers and third-party service providers instead of handling the work in-house. There are many potential benefits to outsourcing some functions instead of having current employees perform them or hiring new employees to do the work.

This trend toward outsourcing has coincided with a rise in the number of professionals who are deciding to strike out on their own and hang out their shingle as freelancers and consultants. This, in turn, is contributing to the rise of what is sometimes referred to as the “gig economy” in which independent contractors work for a variety of different employers on temporary, short-term projects. A study conducted by Intuit projects that 40 percent of all U.S. workers will be independent contractors by 2020.¹

No Easy Answer to the Question

As a business owner or CEO, it's now important to ask the question: Which functions and tasks should I outsource and which ones should be performed in-house? Unfortunately, there is no one-size-fits-all answer to this question that will apply to every situation. For example, I have often heard that if a company has fewer than 50 employees, it should outsource human resources.

While this might be true for some companies in some situations, it certainly isn't a “rule” that should be followed by every company in every situation. Construction companies, for example, often employ a large number of low-wage workers. In addition, there is often a substantially higher risk of worker injury in the construction industry than there is in most other industries. Therefore, it probably makes sense for most construction companies to handle HR in-house instead of outsourcing it to a third-party service provider.

Some of the potential benefits of outsourcing for a mid-sized firm include the following:

1. **You could receive a higher level of expertise.** Third-party service providers and consultants/freelancers usually specialize in the work that they do. Also, they can usually get started quickly with a minimum of training or education.
2. **You may be able to better accommodate seasonal fluctuations in demand and workloads.** If your business experiences wide fluctuations in the demand for your products or services, outsourcing will make it easier for you to staff up or down to accommodate employees' workloads.
3. **You will have more staffing flexibility.** Third-party service providers and consultants/ freelancers can be terminated immediately without any legal consequences.
4. **You could save money.** When outsourcing, you pay only for the hours worked or the project completed, not full-time wages like you would with an employee. You will also save money on payroll taxes and by not having to provide employee benefits (such as health insurance, vacation time, etc.). While you may pay a higher hourly rate than you'd pay an employee, you could pay less overall.

5. **You won't have to spend as much time supervising outsourced workers.** Most third-party service providers and consultants/freelancers require minimal supervision, which frees up your time to focus on other parts of your business.

Meanwhile, here are a few potential drawbacks to outsourcing:

1. **You might not be able to physically see the third-party service provider or consultant/freelancer.** The professionals probably won't physically be in your office — and they might even be located overseas. So barriers like time zone differences and languages could be an issue.
2. **You will probably have less control.** If the professional is not physically on your premises, your ability to control his or her work will be more limited than if an employee were doing the work.
3. **You must be very careful in defining the scope of work.** Otherwise, you could end up hiring the wrong professional, which can cost you a significant amount of both time and money.
4. **You could end up spending more on outsourcing.** It's not a given that outsourcing is always going to be less expensive than performing work in-house. If you choose the wrong professional or the scope of work increases dramatically, outsourcing could end up being more expensive over the long term.

An outsourced CFO services provider can help you determine the best answer to the outsourcing vs. in-house question for your particular situation. This professional will help you determine the scope of the project and evaluate the potential costs of both outsourcing and performing functions and tasks in-house. He or she will evaluate your business needs, help you devise an overall staffing strategy, and identify the proper resources that will be the most cost-effective and efficient while fulfilling your company's overall objectives.

Concluding Thoughts

Many mid-sized businesses today have begun to outsource some of their functions to consultants, freelancers and third-party service providers instead of handling these functions in-house. There are many potential benefits to outsourcing, such as cost savings, more staffing flexibility, and the ability to better accommodate seasonal fluctuations in demand for products and services. An outsourced CFO services provider can help you determine when outsourcing is the right solution for your situation.

*1 Definition: Gig Economy / WhatIs.com
<http://whatis.techtarget.com/definition/gig-economy>*

About CFO Edge

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