

The Rewards of Outsourcing

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What Is “Outsourcing”

The essence of “Outsourcing” is the locating and utilization of external resources to help simplify specific operational functions within an organization. Many companies outsource in order to...

- Reduce their operational costs;
- Supplement their internal resources;
- Simplify their overall internal operational structure.

But be aware, using outsourced services effectively is not always as simple as it seems.

Direct Benefits of Outsourcing

The concept of outsourcing is familiar to most small businesses and entrepreneurs. When you need assistance, you hire an outside resource to address the current and or anticipated need(s); this principal works for any number of business support services such as...

- Payroll;
- Accounting;
- Web Design;
- Human Resources; and
- Tax Return Preparation.

While outsourcing is a key component of the strategic management of most business, if you are not applying outsourcing tools properly, you are not taking advantage of effectively managing your business, thus constraining its full potential. Effective outsourcing allows you to focus on the core competencies you possess and can employ to build your business, rather than focusing your energy on the day-to-day managing of it. Is it reasonable for you to be expected to be an expert at leading your company toward the strategic vision you established, as well as being skilled in and responsible for the accounting, employee recruitment and separation, web design, and the myriad of other support functions your business requires daily? While those who are simply treading water might conclude the answer is “Yes”, no one can be expert in every aspect of business. As the leader of your company, it is far better for you to focus at the strategic level and employ your core strengths and income-generating processes while assigning responsibility for specific operational areas to outside providers who excel in their area of expertise. Find the right resource to help you and leverage the provider’s talent, capacity, and effectiveness to maintain or enhance your operational functions.

Outsourcing boomed in the 90's as a way of addressing the economic crunch, when companies desperate to save money started hiring less expensive resources overseas to cut costs. For some companies the strategy worked well, but for many, they may have gone too far. To this day, clients and customers complain about offshore customer service centers with poorly trained employees and hard-to-understand accents. Those functions core to your company's success should be tightly controlled; such as the type and quality of customer service you provide your clients or customers. However, the various parts of your operation that are less visible and minimally impact your clients or customers, but are no less important to the day-to-day operations of your business, often can be easily transitioned to an outside resource; such as accounting, HR, and benefits management, to name a few.

Outsourcing a Good Fit For My Company

When assessing those business functions you will entrust to an outside firm, you want to balance cost and efficiency savings against potential risk. Try asking yourself the following questions as a litmus test to see if outsourcing a specific operation makes sense for your business:

1. Will outsourcing help me control capital expenditures?

a. Cutting costs are often the primary reason to outsource. By moving internal jobs outside you take fixed costs, like employee payroll, and make them a variable cost given you only pay for outside services as you need them; this releases capital for investment elsewhere in your company. If you are in the early stages as a company, you can for example reduce costs by outsourcing web development, using the money saved to invest in building your business. Additionally, running a lean operation that specifically minimizes staffing costs, can make your business more attractive to investors, since you can demonstrate to the investors their money is going directly into revenue-producing activities.

2. Will outsourcing make me more effective and efficient?

a. The more overhead you are required to carry in order to run your business, the more costs you acquire, and thus need to pass on to your clients or customers. For example, if you keep a web designer or bookkeeper on your payroll, then sound business practices dictate you pass his or her compensation costs (salary and associated benefits) on to your clients or customers in the form of higher prices for your services and or products. Outsourced services often provide you with better cost control tools and increased flexibility in increasing or decreasing your company's operational costs, ultimately translating into a quantifiable competitive advantage.

3. Will outsourcing save me time?

a. Too many business owners become mired in the details of running the day-to-day operations. Outsourcing key operation components to experts allows you to manage the work at a strategic level while freeing your time to grow your business, or even take that well deserved vacation you have been thinking about! As your company's leader, you can provide oversight and instruction without having to directly deal with items such as technical details, recruiting and training of personnel, and managing staff.

b. When you take advantage of outsourcing and hire experts to provide a service(s), the skilled professional providing the service must be capable of hitting the ground running with minimal ramp up time, delivering those specific services you need right away in an effective, efficient manner. Additionally, you should benefit from their expertise at building systems to accomplish specific task. For example, if you hire an accounting firm, they should be capable of evaluating and managing your books, all while employing, or if need be building procedures for payroll and bill pay; excessive explanation or training of the accounting firm with regards to your books and systems should not be required. Remember, the reputation of the accounting firm is at stake so expect superior service or seek a different provider.

4. Will outsourcing lower my labor costs?

a. Staffing costs money; outsourcing eliminates the overhead associated with hiring or rehiring, training, and managing staff not to mention payroll costs and benefits. And when you add an employee to the payroll, you continue to pay that person whether he or she is productive or not. Even when you pay workers on an hourly basis, you should balance the total cost of the employee against the employee's performance and productivity. When you outsource to experts, you not only eliminate staffing headaches but you obtain increased guarantees relating to the quality of work, not to mention paying only for the work you need.

Can I focus more energy on building my core business?

b. Administrative tasks are distracting. Every business owner has routine tasks that require attention, but the more time you spend dealing with mundane issues like payroll and managing your database, the less time you have available for strategic issues that build your business. Outsourcing helps you stay focused on building business and satisfying client or customer needs.

5. Can outsourcing improve my competitive edge?

a. Outsourcing allows smaller companies to be more nimble while projecting "big", providing the same economies of scale, efficiencies, and expertise as large companies. Rather than having to build the infrastructure to help their business grow, smaller companies can obtain the outsourced talent they need on demand with similar if not improved results.

6. Can outsourcing reduce my overall risk?

a. Few business owners or leaders have time to stay abreast of the latest tax laws or changes in labor codes. Let your service providers assume the risk of keeping track of the latest legislation in order to provide you with up-to-date services; it is the service provider's responsibility to keep track of the latest technology and regulations. Additionally, they carry insurance to provide protection should something go awry, so let them assume some of the risk for you.

Think of outsourcing as a strategic part of your overall operation. Understand where and when to outsource by assessing the pros and cons. If you see a competitive advantage in moving a business system out-of-house, then pursue it. The leaner you make your operation, the more agile you will be in addressing the changing and challenging business conditions of our world today.

Questions To Ask Yourself Before Hiring A Service Provider

Before you consider outsourcing, we recommend employing a strategy that aligns specific outside service providers with your business needs. Asking the right questions will help you obtain the right outsourcing partner.

Here are a series of key questions you should ask before you get started:

1. What operational functions do I want to outsource?

a. This is where you need to perform a cost/benefit assessment to determine which office operations are draining your internal resources, and would benefit your business by being outsourced. For example, if you hire an outside company to provide services will it save time and money? Will it free up you and or your team for more profitable tasks?

2. How will outsourcing advance the corporate mission?

a. This is a good litmus test to determine if you are outsourcing the right operations. You need to ask yourself if outsourcing will aid the corporate agenda, either by allowing you to provide better service, lower operation and thus customer costs, and or free up senior managers to deliver better strategic value, and more customer and sales support.

3. How well does my outsource provider understand our business?

a. You want to ensure the vendors you choose understand the nuances associated with your operation so you don't have to provide excessive training or knowledge transfer. For example, if you are running a medical practice and want to hire a service to help with billing, is that service experienced and effective in working with health insurance providers, managing insurance copayments, etc.?

4. Can the outsourcing partner I choose customize their operation to our way of doing business?

a. Ultimately, this could present itself in any number of ways, such as

- i. Adjusting to your billing cycle;
- ii. Understanding the rules and regulations for your business and or industry;
- iii. Adopting your company correspondence format; and
- iv. Effectively implementing those items specific to your business operations, identity, and or industry.

5. Is the vendor flexible and collaborative?

a. Can they easily accommodate unforeseen circumstances? Your outsourcing partners need to be sufficiently versatile so as to be able to easily and smoothly address operational changes within your company without creating or adding to disruption.

6. Can our outsourcing partner support our business growth?

a. Determine what their growth strategy is, as you want to be sure to partner with outsourcing companies that are prepared to serve you as you continue to grow, and as they grow too. You want to be "right-sized" for your outsourcing providers so your needs are not so demanding that your relationship will tax their resources, yet your operation so small that you will not easily obtain the level of service you desire.

7. Is the service provider a good cultural fit?

a. This is harder to gauge, but matching subcontractors according to your own corporate values and integrity is important; after all, they serve as an extension of your company. So, are their cultural values similar with those of your company's?

8. What do the service provider's clients say about their services?

a. Before you hire any outsourcing firm, check their references. Ask other customers how the vendor performs; if possible, talk to customers of a similar size and in a similar line of business as your own.

In Summary

The successful business leader views outsourcing as a strategic tool and valuable component of their overall operation, and thus wants to partner with the right service providers in order to help implement their business strategy. Be diligent in assessing your service providers, and do not be tentative in challenging performance that does not meet your expectations; ultimately they work for you!

We believe the aforementioned information provides you with insight required to obtain and maintain a successful relationship with service providers; we wish you continued success as you increase your effectiveness, and grow your business using outsource service providers.



Franka is one of Pacific Crest Group's two co-founders, and currently leads our Sales and Marketing Department. She has enjoyed working with clients over the years and her passion is to dramatically improve how business owners run and grow their companies.

Prior to establishing PCG in 2003, Franka held financial and human resources leadership roles at several start-up companies, including Colo.com and Softbank, Inc. She is also the founder and CEO of Dakota Partners, Inc., that provides financial and real estate services. Franka earned a B.S. from California Polytechnic State University, San Luis Obispo, as Summa Cum Laude and is an AORN Certified Ambulatory Surgery Administrator.

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