

Outsourcing: Friend or Foe?

Identifying outsourcing opportunities can enhance the success of a business.

By Richard J. Holcombe

One of the few times in which the term “size doesn’t matter” actually works is when any business, big or small, can successfully save money and impact profitability by outsourcing. Outsourcing does not mean that you are moving critical job functions to another country or eliminating employment in your local community. In every place in the United States where you can find commerce occurring, you can usually find a business that will supply a service for a fee.

Every community has someone who will prepare your company’s paychecks and related tax returns. However, more is available. Businesses of five employees or more can hire a payroll company that will also develop a benefits package, and allow the small independent businessperson to have all of the advantages of a large corporation by utilizing the services of a third-party provider. Moreover, an increasing number of companies are finding it easier to use the Internet to expand their sales reach from their current physical geographical location by using a third-party web hosting service.

These are just some of the examples that are occurring daily as small businesses realize the potential of outsourcing. Listed below are several easy steps designed to help you decide whether or not to outsource.

STEP 1: IDENTIFY OUTSOURCING OPPORTUNITIES

Depending on how you use them, both time and money are factors that can slow down your ability to be successful, or increase the profitability and worth of your business.

- **Time:** If a process is all-consuming and is denying you the ability to manage your personnel and company successfully, and is not allowing you the ability to think of the next great idea, then it becomes a good candidate for outsourcing. How do you tell when processes become overwhelming? When a process occupies 20 percent of your daily routine then it is a candidate to be totally overhauled or outsourced. Owners sometimes become so involved in details of execution that they lose sight of the “real” objective of the company, which is to make a profit. Sometimes, business associates or partners can assist in identifying the all-encompassing process and help in making the decision to change the process or outsource.

- **Money:** Break down your direct costs and major expenses by function or process. Are there outsourcing alternatives for any of the major costs and expenses?

- **Peace of Mind:** Outsourcing some functions can provide the business owner with peace of mind

when it comes to filing various tax forms and other critical paperwork. A good human resources company may cost a small override on payroll, but can save money in the end and help avoid personnel problems before they occur. Let the experts do it!

STEP 2: BOOKKEEPING

Modern bookkeeping systems allow for running “what ifs” relative to projections or budgets. These features can help determine if outsourcing makes sense for you. Once the time and money drivers are identified, using the “what if” capability of your accounting system segregates the cost of a particular process based upon in-house operation using actual and/or projected cost. Be sure to include the value of your time that will be freed up and the cost of any additional facilities required as the business grows.

STEP 3: IDENTIFY OUTSOURCING COMPANIES

Once you identify outsourcing companies that provide the service you need, get a quote for outsourcing the function or process. Then, run the projection or budget again, based upon outsourcing, and compare the two. One way of making comparisons easily understandable is to express the costs and expenses in terms of a percentage of revenue. If outsourcing makes sense to you, get competitive quotes.

STEP 4: CHECK THE PRICE

Before contractually committing to anything, make sure the pricing formula is straightforward. Avoid long-term contracts with a third-party provider if you cannot calculate in advance the cost of the service. Companies such as payroll services, credit card processing houses, check clearing businesses, and Internet providers all work on simple formulas based on percentages and/or simple process counts. Third-party logistics providers, such as warehouse and call center operators, usually work on formulas that are more complex.

Outsourcing can be one of the best time-management tools that you can incorporate into your company. If you can find alternative ways to do fundamental processes that will free up



your time to work on the key success attributes of growing your business, then eventually your time and process becomes more valuable to the success of the business.

We all know many small businesses that have failed to achieve the owner’s expectations, or have gone out of business because the principal found himself spending more time on the operations side of the company and spending very little time expanding on the great idea. If you manage your business well and free up time by outsourcing, then most great ideas become moneymaking propositions. ■

The Holcombe Group Inc. was recently formed to offer a broad range of third-party logistics services to businesses in the apparel, footwear and sporting goods industries and allied areas of gifts, novelties and promotional items. The company specializes in advising entrepreneurs on the startup and development of a business, helping existing businesses grow, and providing 3PL expertise that ranges from front-end services of product design and development, brand creation, sourcing, marketing, advertising and sales, to back-end services of call/service center operations, warehousing and shipping. The concept and strategy was created by Richard J. Holcombe, a 30-year veteran of the apparel, footwear and sporting goods industries whose experience includes 18 years with business start-ups or companies in need of a turnaround or revitalization. He played a leading role in brand expansion and product acquisition for major apparel and gear companies including Blair, Gear.com, Chipman-Union, The Rockport Company, and Woolrich. He has extensive P&L and board-level experience.