



Inbox *Insights*

Outsourcing – It's Imperative!

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In the first issue of Inbox Insights, we discussed some strategic considerations for dealing with the current economic crisis with three main themes: Do Something, Do it Quickly and Focus on the Long-Term. One way to satisfy each of these three themes is to outsource one or more operational functions.

During the last decade outsourcing has, in many cases, become synonymous with off-shoring. Society is acutely aware of the many operational functions major companies have moved to lower labor-cost countries. However, off-shoring is not always necessary to achieve cost efficiencies; the examples cited below are ways to utilize local resources when outsourcing. First, we will briefly discuss why you would consider outsourcing, and then, we will explore outsourcing options that involve local vendors.

The general reason to outsource is to convert a fixed cost into a variable cost and achieve an overall reduction in spending. Outsourcing operational functions eliminates costs such as: hiring, training, salaries, benefits, overhead (office space, computer, phone line, etc.) and firing. For example, let's say your company has grown over the years to a point where you have added an in-house counsel. This is usually a very talented and high-priced individual. However, even with this resource, you are probably still incurring fees for outside legal help. By taking advantage of local firms that provide as-needed, in-house counsel services, you get the expertise needed and maintain the ability to control when you spend. Outsourcing this function converts the cost from fixed to variable and, with proper control, will undoubtedly reduce your overall cost. This same format is effective for financial advisory roles as well.

Although saving money is an extremely motivating reason for outsourcing a function, reducing risk is also another great reason to outsource. For example, information technology (IT) is an area that should be carefully reviewed. There are many businesses that house their own servers, host their own web sites and have computer workstations throughout the building. Think about the security risk that has been created, in particular, if you do any type of commerce driven through your web site. There are very talented hackers out there constantly searching for their next victim. What would be the consequences to your business if someone compromised your system? This is something you should evaluate. In addition, companies using this format likely employ at least one or two people to manage the IT area creating overhead costs. There are reputable, local companies that have the capabilities (and security) to become your data center and help desk. Again, you have the ability to control your cost and pay for what you need and use – and probably will sleep better at night.

Other operational functions that may be easily outsourced include: human resources, payroll, bookkeeping (including accounts payable and accounts receivable operational functions) and distribution. How you determine the areas that can be considered starts by looking at how people in your organization spend their time.

There are simple tools to use to do this. At Kolb+Co. we have the professionals and the tools to help you assess the benefits of outsourcing. For more information contact John at 262-754-9400 or jkielich@kolbco.com.