

The Benefits of Outsourcing

Outsourcing -- the practice of using outside firms to handle work normally performed within a company -- is a familiar concept to many entrepreneurs. Small companies routinely outsource their payroll processing, accounting, distribution and many other important functions -- often because they have no other choice. Many large companies turn to outsourcing to cut costs. In response, entire industries have evolved to serve companies' outsourcing needs.

But not many businesses thoroughly understand the benefits of outsourcing. It's true that outsourcing can save money, but that's not the only (or even the most important) reason to do it. As many firms discovered during the outsourcing "mania" of the early 1990s, outsourcing too much can be an even bigger mistake than not outsourcing any work at all. The flat economy caused many companies into huge layoffs and subsequently outsourced functions that were better kept in-house. Wise outsourcing, however, can provide a number of long-term benefits:

Control capital costs. Cost-cutting may not be the only reason to outsource, but it's certainly a major factor. Outsourcing converts fixed costs into variable costs, releases capital for investment elsewhere in your business, and allows you to avoid large expenditures in the early stages of your business. Outsourcing can also make your firm more attractive to investors, since you're able to pump more capital directly into revenue-producing activities.

Increase efficiency. Companies that do everything themselves have much higher research, development, marketing and distribution expenses, all of which must be passed on to customers. An outside provider's cost structure and economy of scale can give your firm an important competitive advantage.

Reduce labor costs. Hiring and training staff for short-term or peripheral projects can be very expensive, and temporary employees don't always live up to your expectations. Outsourcing lets you focus your human resources where you need them most.

Start new projects quickly. A good outsourcing firm has the resources to start a project right away. Handling the same project in house might involve taking weeks or months to hire the right people, train them and provide the support they need. And if a project requires major capital investments (such as building a series of distribution centers), the startup process can be even more difficult.

Focus on your core business. Every business has limited resources, and every manager has limited time and attention. Outsourcing can help your business to shift its focus from peripheral activities toward work that serves the customer, and it can help managers set their priorities more clearly.

Level the playing field. Most small firms simply can't afford to match the in-house support services that larger companies maintain. Outsourcing can help small firms act "big" by giving them access to the same economies of scale, efficiency and expertise that large companies enjoy.

Reduce risk. Every business investment carries a certain amount of risk. Markets, competition, government regulations, financial conditions and technologies all change very quickly. Outsourcing providers assume and manage this risk for you, and they generally are much better at deciding how to avoid risk in their areas of expertise.