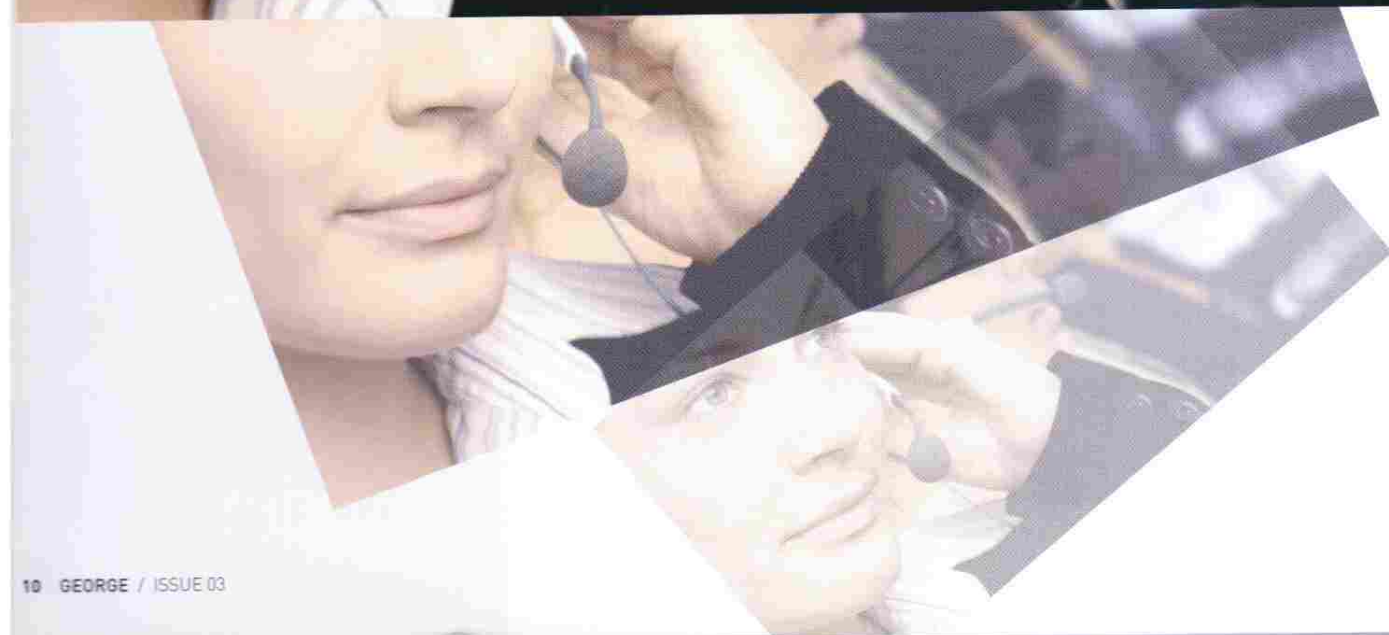
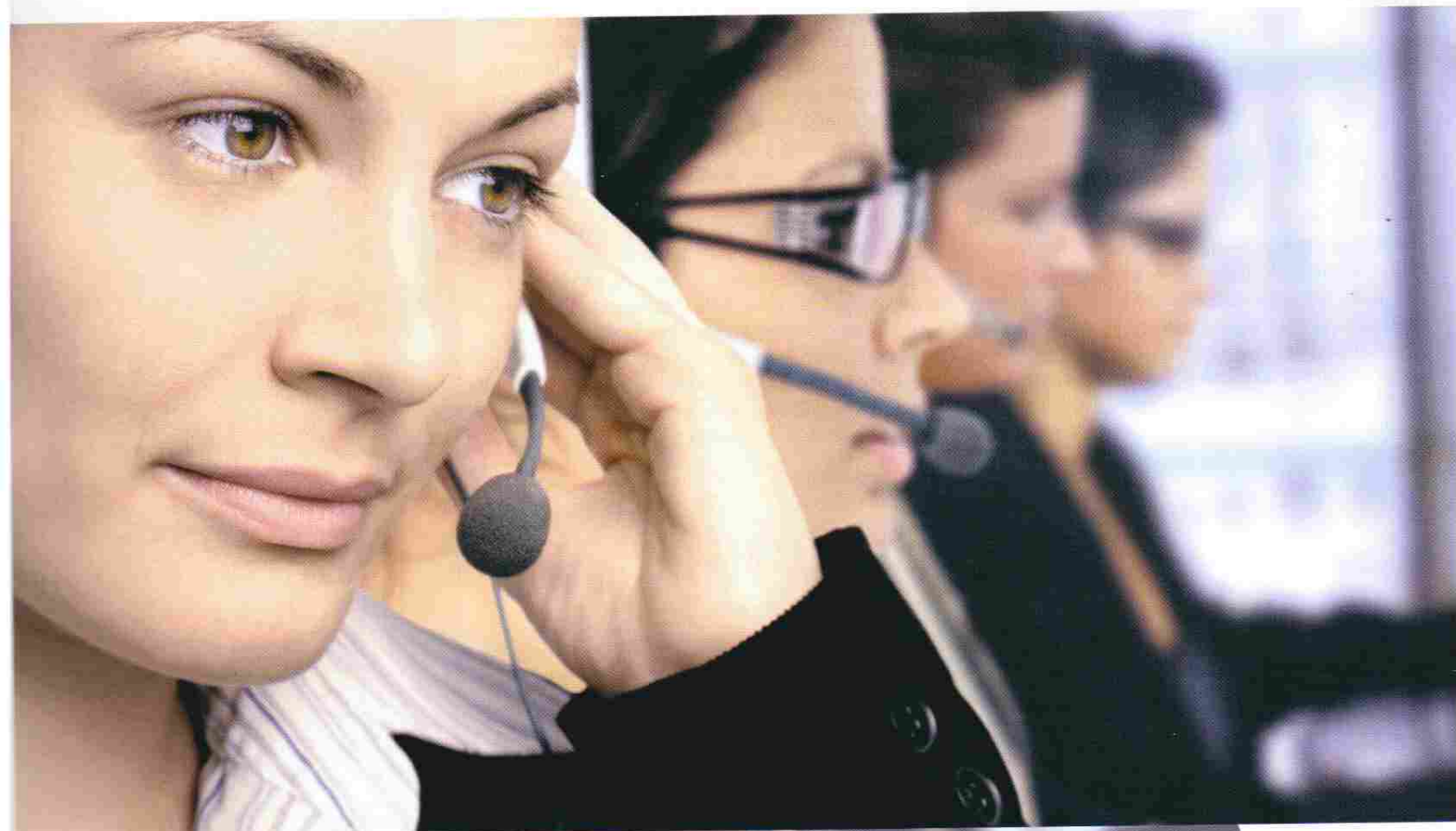


Better out than in



Recent changes to industrial relations laws, a skills shortage and full employment give business owners good reasons to outsource some of their non-core functions. But what, and when, should a business consider outsourcing? **Julia Nekich** investigates.

To outsource or not to outsource is a question that is particularly pertinent to many Australian businesses according to Roy Morgan Research.

Studies show the outsourcing market is still underdeveloped in Australia. A survey of 600 small businesses by CPA Australia found one in three outsourced a function. Among these, 87 per cent said outsourcing reduced their costs, improved their competitiveness and gave them greater control.

Gregory Will, Partner at PriceWaterhouseCoopers and a specialist in private businesses, says strategic outsourcing can be beneficial to both large and small businesses, as it allows them to focus on what they're good at doing.

"We always hear the expression: 'You should work on your business'," he says. "Business owners are good at two things: producing and selling their products or services. For other functions, they can look to outsourcing companies to carry out. In my experience, the most common outsourced business functions are payroll, HR, IT, marketing, accounting and bookkeeping."

Not just for very large organisations

Violet Bedelis, Marketing Director at payroll and HR services provider ADP Employer Services, says a lack of understanding of the benefits of outsourcing is one reason why business owners shy away from it. But this is changing.

"A few years ago, business owners thought outsourcing was only for large organisations." Now, it appears, Australian businesses of all sizes make up their client base.

Violet Bedelis says the shift has been caused by changes in the mindset of business owners as well as changes in human resources legislation.

"Australia has one of the most complex payroll legislation systems in the world, and employers need to keep up with changes to avoid non-compliance and errors. Usually, businesses come to us when they receive an ATO fine or when their bookkeeper can no longer do the payroll. They're now finding it a relief to hand it over. When they see how streamlined the process is, and that it's admin only, they know their own time can be spent on their core business."

However, fears among business owners that they will lose control of important business functions



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and intellectual property, and the perception that outsourcing is expensive mean the market is not as developed as it could be.

"Yes, business owners worry that they will lose control, but it's not the case, so it's an education process," says Bedelis. "With regard to payroll, they're maintaining control – we're just doing the admin for them."

"Loss of control is a big issue," agrees Ron Phipps-Ellis, Director of BCS Direction, a superannuation audit specialist. "Control is about how and when it's done. When you do it yourself, you can train someone to do it your way," he says, but adds that if outsourcing is done properly and kept to non-core functions, it can instil business owners with confidence.

"Too many business owners get caught up in admin work, preventing them from focusing on more important business functions," he says.

However, the concern about losing intellectual property is a real one, Gregory Will says.

"Make sure any output, ideas, logos, plans come from your own business, not the outsourcing company, so you don't lose all your intellectual property. It comes back to control – you're subcontracting a particular service, not giving them control of it. And if the person you're dealing with outside your company moves on, you want to make sure the person taking over knows your business, too."

According to businesses that offer outsourcing services, the costs are usually fairly low compared with employing in-house staff.

"Our busiest clients pay less than half of what they would for a full-time IT staff member – that's an important benefit," says Daniel Beer, Director of Sydney IT services provider Techknowledge Group.

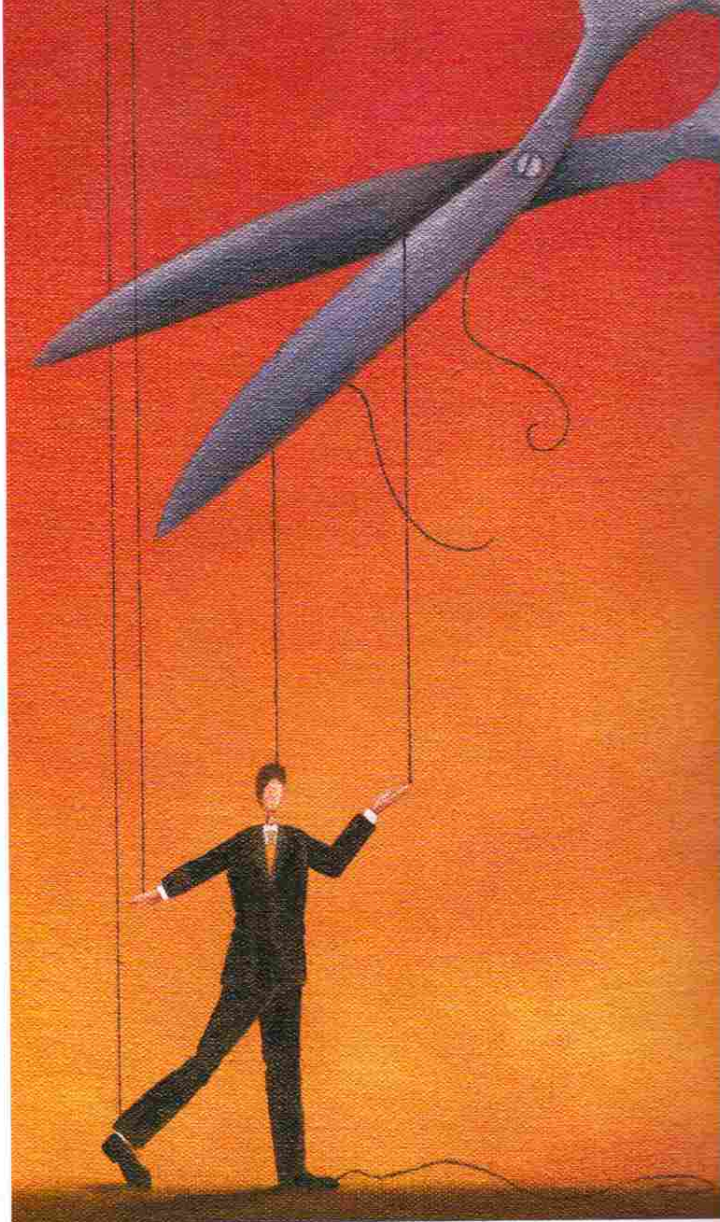
Stuart Bidwell, owner of Sydney bookkeeping services provider Oxygen Accounting, agrees that the decision not to outsource can sometimes be an expensive one.

"A lot of business owners try to get their receptionists to do their bookkeeping, and they make a mess of it," he says. "Then comes tax time, their accountant throws their hands in the air, then it needs to come to me, then back to the accountant. That's an expensive option."

The benefits of outsourcing

According to Gregory Will, outsourcing is more about reducing risk than losing control.

"The reasons you would outsource is that it's less risky – you're having a business function carried out without putting someone on payroll. It's important business



owners can turn the outsourcing off and on whenever they want. You're also calling on some expertise you might not get through an employee."

Daniel Beer believes businesses – big and small – that choose to outsource get a better service than they would using in-house staff. "Businesses are gaining from the breadth of our experience – we see new situations all the time," he says. "And engaged consultants are more efficient, particularly if they're on an hourly rate."

Clarissa Mattingly, Managing Director of Different, an interactive business consultancy with 20 full-time and three contract staff, made the decision to outsource the business's IT function two years ago.

"We were of the size that we really needed it," says Mattingly. "The clear benefit for us is the flexibility – we use Techknowledge Group about half a day a week. As we grow, I'd consider bringing on a full-time IT staff member as an overhead, but for now, even a part-timer would be an inflexible option, as they'd only be available some of the time."

Mattingly insists there was never any fear of losing control.

"Firstly, when we were looking to outsource, we looked for stability and a proven track record. And there's a contract involved, so we know exactly what we're getting. Finally, Techknowledge Group are only maintaining the bones – updating our software and equipment, and making sure it runs smoothly," she says.

Stuart Bainbridge is the Managing Director of SBS Holding, which operates the Just Cuts franchise in Newcastle, NSW. Stuart outsources the business' accounting, IT and payroll for 60 staff. He says the benefit for him is the time saved.

"I wouldn't waste my time doing the payroll myself – and I'm an accountant! One of my staff spends one hour a week compiling the payroll data each week, and that's it. I focus my energy on growing the business."

Considerations for large businesses

Large businesses with several departments and numerous staff need to think the other way around: should outsourced functions be brought in again, and when is the right time? Obviously, it's company size and turnover that really determines the cost benefits of outsourcing. In a growing business, outsourcing can be expensive.

"Once you're spending \$50-80K on IT, for example, you need to think about bringing someone in full-time," Gregory Will says.

But Daniel Beer says the hours required are also a good guide. With regards to IT: "If you're outsourcing more than 20 hours a week, bringing in a full-time IT staff member could be a better option for you," he says.

Accordingly, the key driver for bookkeeping is the volume of work, says Stuart Bidwell. An understanding of the volume of work will help a business determine the number of hours involved and, accordingly, whether putting a bookkeeper on the payroll is a better option.

Making outsourcing work for your business

The first step for businesses is deciding which functions are best outsourced.

"A business wouldn't outsource functions that are critical to its performance," Gregory Will says. "Know what you're good at and what you're not. Payroll, for example, is easier to outsource because it won't affect the business if it doesn't work. Businesses need to be outsourcing their internal functions, not their client-facing functions, such as sales staff."

Finding a services provider is the next step, and according to the experts, referrals are best. "Your accountant is the first point of call," says Ron Phipps-Ellis. "But business owners need to do their due diligence. Don't rely on the White Pages – get a good referral, go to the company, look at their systems and processes to see if they can do what they say they do. Set your expectations – the outsourced company's expectations should be aligned with those of your own."

Once a business is outsourcing, continual evaluation is critical, Will says.

"Every six to 12 months or so, you'll need to review the value outsourcing is bringing to you – its cost and service. And since you're using another business to do work within your own, you want to have a handle on

what they do; you don't want them to run your business. Don't take your hands off the wheel – keep them in the back seat."


Making the most of outsourcing

The outsourcing relationship is critical – even more so when the nature of the work is tied up with the business' image. Advertising and public relations are examples.

Fraser Cant, group head at advertising agency WHYBIN\TBWA, says particular ingredients help grow a business relationship. "Clients need to provide absolute clarity around the brief – the business outcomes, scope of work, expected deliverables, budget and timelines. In turn, we need to provide clarity in our response to the brief. That's the starting point of everything we do. If we don't have that common goal or purpose, the client's expectation of outcomes will be different to what we're working on," he says.

"Positive team dynamics, the next step, don't just happen – it requires things like openness and honesty, a clear delineation of roles and responsibilities, management of expectations, and areas of expertise."

Evaluation of the relationship – not just the value of the business – is just as important.

"Companies outsourcing should appraise their relationship with their supplier, and vice versa, every six months," Fraser says. "We use relationship-based KPIs in an ongoing program to ensure the relationship gets better. That's essential – even when the relationship is good, we continue improving it." 

Outsourcing – the pros and cons

BENEFITS

- Outsourcing non-core functions allows businesses to focus on what they're good at: producing and selling their product or service.
- Business owners can draw on the expertise and experience of the companies outsourced to. Employees don't usually have the same level of experience.
- Outsourcing is usually inexpensive when compared with bringing on a full-time staff member.
- It can be less risky than putting someone on payroll, as business owners can turn the outsourcing on and off whenever they want.
- Flexibility – the outsourced company can be used when it is needed.

CHALLENGES

- Outsourcing core business functions, including marketing, can lead to loss of intellectual property and control. Try to keep these functions in-house.
- Loss of control is a real issue. It can occur when businesses aren't satisfied with the outsourced work, and don't understand its processes. Due diligence is required before outsourcing.
- It may take some months for some outsourced functions to become productive and profitable – just as with an employee. Be realistic.
- Outsourcing numerous functions can be too risky and would present a real loss of control.
- In a growing business, outsourcing can be expensive. If its cost or the number of hours involved are fairly equal to an employee's cost or hours, think about bringing in the latter.
- If outsourcing doesn't work – if the business owner hasn't done their due diligence, and the outsourced company hasn't delivered on its promises – there's a loss of time and profit. Finding a new company to outsource to can be like finding a new employee.