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When to Outsource

5 tips for calculating the cost versus the benefit of contracting key business functions

By Amy Reinink | April 20, 2010

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Michele Hanson-O'Reggio calls it the "lone ranger" mind-set: the tendency of small-business owners to assume they can and should handle all business functions in-house rather than pay to outsource those functions.

But Hanson-O'Reggio, founder of the small-business outsourcing and consulting firm [Biz Success Partner](#), is one of many outsourcing and productivity experts to say that outsourcing, once seen as the sole purview of large corporations moving offices offshore, can save even the smallest businesses time and money.

In fact, Hanson-O'Reggio recommends entrepreneurs outsource non-essential functions almost immediately upon launching a business to let them focus on the functions they specialize in. "The expected return is greater than the investment," she says. She and other outsourcing experts offer the following tips for determining the expected return for your business.

1. **Consider the overhead and non-productive hours.** The first layer of cost savings in outsourcing comes from payroll taxes, insurance and benefits paid to full-time employees. Mark Loschiavo, executive director of [Drexel University's Baiada Center for Entrepreneurship](#), says entrepreneurs should expect to pay roughly 30 percent of an employee's salary in addition to the salary itself for these overhead costs.

Lunch breaks, doctor appointments and other gaps in working hours bring the actual cost of a full-time employee to nearly double his or her base salary, says Hanson-O'Reggio. Hanson-O'Reggio also says it's important to consider the financial gains associated with spending time netting new clients rather than doing the bookkeeping or replying to e-mails.

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2. **Know your worth and use that knowledge to determine when it's worthwhile to hire someone else.** Hanson-O'Reggio says solo entrepreneurs can compute cost savings for outsourcing certain tasks by comparing their hourly rates to the hourly rate of a contractor. For example, a business coach who makes \$100 per hour can save \$75 per hour by paying a virtual assistant \$25 per hour to handle administrative tasks--and that's not accounting for the fact that it may take the virtual assistant half an hour to complete a task that would take the coach an hour. That equation also doesn't account for increased quality that comes from "finding someone who can do a given business function better than you can," says small-business consultant Marc Resnick.
3. **Think beyond the basics.** Increasingly, owners of small businesses in a wide variety of fields are outsourcing executive-level positions such as chief financial officer and chief marketing officer, seeking overall strategy solutions rather than single functions such as bookkeeping or graphic design. Entrepreneur David Walsh, author of [Source Control](#), an e-book on effective outsourcing for small businesses, says entrepreneurs are

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learning that "outsourcing your CFO might mean a light monthly retainer with a retired CFO in the Midwest, or that outsourcing your legal might mean a bi-weekly teleconference with an attorney you couldn't possibly afford to hire full-time."

Experts say the CFO position is especially ripe for outsourcing, as many entrepreneurs don't feel comfortable handling high-level financials on their own. Paul R. Shackford, founder of [B2B CFO](#), which provides part-time CFO services to businesses nationwide, says entrepreneurs often come to his firm when they find they can't answer banks' questions about issues such as cash flow projections or covenants. Shackford says outsourcing a CFO position can save an entrepreneur 20 percent to 30 percent compared with a full-time employee.

John Gillespie, founder and president of [Beyond the Bottom Line](#), a financial consulting firm that outsources financial services, offers the following calculation, which considers the fact that most small companies need a CFO's services, but might not need those services 40 hours per week: A full-time CFO with a base salary of \$175,000, plus an additional 25 percent for taxes and benefits, would cost \$218,750 per year, or \$18,229 per month. But he says most small companies might only need a CFO's services for one day per week, at an estimated cost of at \$6,400--a 65 percent savings.

The trend isn't limited to CFOs. Adam Atwood, principal of [Kilman Atwood](#), which provides marketing strategy services to small businesses, says entrepreneurs can save anywhere from 40 percent to 60 percent by outsourcing the chief marketing officer position. "It's an easy pitch when you can tell a business with \$15 million to \$20 million in revenue that instead of hiring a CMO for \$150,000 a year plus benefits, they can pay about half that by outsourcing the position," Atwood says.

4. **Get personal.** Cost savings vary greatly from one small business to another, so many contractors provide free online calculators to help entrepreneurs determine how much they'll save by outsourcing. For example, [a calculator](#) offered by Business Network Consulting, a Denver-based IT consulting firm, shows that a company with 10 employees that needs a "modest amount" of IT help and has a single 1-year-old server could save more than \$6,000 annually by outsourcing IT functions. "Your potential cost savings are totally tied to the type of industry you're in and the complexity of what you're trying to do," says Joe Kelly, CEO of BNC. "If you're a 100-user company that only needs file sharing and e-mail, you may have the same costs as a 10-person company that offers financial advice and needs a redundant site and a lot of support."
5. **Weigh the costs and benefits of offshoring.** Advances in technology make it easy for even small businesses to connect with offshore programmers and they're likely to realize cost savings by doing so, says Steve Mezak, CEO of [Accelerance](#), which connects small companies with teams of contract programmers worldwide. But Mezak says offshore contractors may require more time to manage thanks to differences in time zones, language and culture. Entrepreneurs might consider rural stateside contractors instead, capitalizing on the fact that a contractor in Maine or South Dakota is likely cheaper than a similarly qualified professional in Manhattan--and that any team of contractors is likely to be cheaper than a team of full-time employees. He says a programming project could cost \$50,000 to \$100,000 if farmed out to a team of contractors offshore, or about \$100,000 to \$200,000 to hire a team of contractors stateside, compared with literally millions of dollars to hire a team of similarly qualified contractors as full-time employees.

Outsourcing By the Numbers

Overhead for full-time employees can cost up to 30 percent above their salaries.

Outsourcing senior positions such as CFO or CMO can result in 40-65 percent savings.

A business coach who makes \$100 per hour can save \$75 per hour by paying a virtual assistant \$25 per hour to do administrative tasks.

Outsourcing IT functions can save up to \$6,000 annually.

Hiring offshore programmers could save hundreds of thousands over hiring stateside programmers and millions over full-time employees, but you'll have to manage time zone and language barriers.

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