

Letting go

How to create business value through business process outsourcing **Interviewed by Kristen Hampshire**

Nearly every business function can be outsourced, and today more companies are exploring ways to delegate tasks to professionals outside of their organizations as they seek ways to reduce their fixed costs.

“During the most recent recession, companies felt the pain resulting from a lack of focus on cost containment. As in most recessions, the knee-jerk reaction was to aggressively reduce personnel costs,” says Christopher Meshginpoosh, director-in-charge of the Audit & Accounting Group at Kreischer Miller, Horsham, Pa.

Now, with leaner work forces and the pressure to do more with less, businesses need the flexibility to scale their businesses as demand returns, but they don’t necessarily want to increase their payrolls. As a result, many companies are looking to outsource a wide range of business processes.

The good news is that, as a result of maturation of the outsourcing market and vast technological improvements, there are virtually no limits to what a company can outsource. Gone are the days of simply passing off payroll activities to third-party firms. Today, entire departments can be outsourced.

“In the quest to remain competitive, a lot of companies are devoting their time and energy to the processes they can manage most efficiently and effectively in house,” says Meshginpoosh. “And many of the remaining processes can be outsourced.”

Smart Business spoke with Meshginpoosh about opportunities to outsource business processes and how this can benefit companies.

What business functions can companies outsource?

Over the last decade, the breadth of activities that can be outsourced has expanded dramatically. Today, there are very few functions that cannot be outsourced. Rather than just outsourcing payroll, companies might choose to outsource their entire human resource functions. Or, rather than just outsourcing distribution, companies might outsource large portions of their supply chain management to third-party firms with deep supply chain and logistics capabilities.

More recently, the trend is to outsource large pieces of business to a single service provider rather than assigning processes to a large pool of different service providers. By dealing with one provider, companies can minimize the time and energy associated



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with the management of multiple vendors.

What are the benefits of letting go of some of these tasks?

One of the most significant, tangible economic benefits is the ability to turn a fixed cost into a variable cost. While a company might surrender a portion of profits during peak periods of activity, it can dramatically reduce the negative impact during slower periods.

Perhaps more important is the less tangible benefit that results from allowing the company to focus more closely on the areas that create a competitive advantage for it. For example, if a company’s competitive advantage centers on the unique products it delivers to customers, outsourcing activities such as logistics, warehousing and fulfillment might allow managers to spend more time focusing on product development, preserving the company’s competitive advantage.

What are the first steps a company should take before outsourcing?

First, a company must truly understand where it creates value. What are the key aspects that differentiate it from its com-

petitors? Also, companies must be careful to avoid outsourcing activities in which the risks outweigh the potential benefits.

Another question to ask is how essential the activity is to the business. How does it impact customers and critical employees? Is the function one of the company’s core competencies? Does performing the activity require deep knowledge or expertise that is only held by company employees?

How can a company reduce risk when delegating business tasks to a third party?

First, ensure that the third party is financially strong and that it has the infrastructure, systems and personnel necessary to support the activities that will be outsourced. Additionally, determine whether outsourced activities will be performed on site or at the vendor’s locations, and consider the potential impact on customers, personnel and other business processes. It’s also important to ask for references and find out what other companies have to say about the potential vendor.

Additionally, many outsourcing companies have annual examinations of internal controls formerly referred to as SAS 70 reports, which can provide insight into potential issues related to specific vendors. Obtaining and analyzing these reports during the planning and vendor selection process can help identify processes that the company should retain, as well as help weed out potential vendors.

How can a company find a reputable outsourcing firm?

A good place to start is your accounting firm, because it most likely has had experience with many clients who have had successes and failures with outsourcing initiatives. This experience can be incredibly valuable to management teams and owners as they try to separate critical from non-critical functions and assess risks resulting from outsourcing business processes, as well as analyze the potential economic impact associated with outsourcing.

By ensuring that they leverage this experience in the decision-making process, companies can maximize the probability of success with outsourcing initiatives. <<

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