



Edge@Work

Small firms overlook outsourcing benefits

Professor says myriad tasks can overwhelm companies

By **Eli Schuster**
Business Edge

To many Canadians, the word “outsourcing” typically conjures up a series of mostly negative images: Giant multinationals eliminating decades-old in-house jobs and replacing them with short-term temp agency contracts or even shipping them overseas.

All too often, however, the positive effects of outsourcing information technology (IT) and human resources (HR) administration are overlooked, argues an iconoclastic marketing professor at the Schulich School of Business at Toronto’s York University. Moreover, he notes, small and medium-sized firms are getting into the act of hiring professionals to manage mundane tasks.

“Perhaps the biggest benefit outsourcing provides small and medium-sized companies is giving them the gift of time,” says Ajay Sirsi, who has also written the textbook *Marketing Led, Sales Driven*.

“Entrepreneurs need to recognize that they simply do not have time to do the myriad tasks of running the business (such as payroll and taxes) and thinking about their customers and growth strategies.”

Sirsi believes that nearly 70 per cent of new businesses fail within the first five years for two main reasons: The owners lack a solid business plan or their attention is divided among so many tasks that they suffer from “attention diffusion.”

The end result, Sirsi says, “is that the business owner has no time to do anything right – multiple tasks mean multiple errors.”

Terry Smith, owner/operator of Dairy Queen restaurants in Courtice and Bowmanville, east of Toronto, echoes Sirsi’s thoughts on time management. With fewer than 100 employees under his watch, Smith might seem like an odd candidate to outsource administrative functions, but from Day 1 he has outsourced payroll processing to ADP Canada.

QUOTE . . .

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“The use of an outside service to me is not so much tangible savings, but more cost avoidance in terms of penalties on not making statutory remittances on time, etc.,” Smith says. He adds that the ability to offer direct deposit to employees is also a huge convenience for his mostly teenaged workforce.

Overall, HR outsourcing is seen as an emerging industry in Canada, with a report from International Data Corp., which tracks IT developments, predicting it will grow to \$2.5 billion in 2009 from \$1.6 billion in 2004.

With 1,800 employees serving 50,000 clients in Canada (43,000 employees and 600,000 clients worldwide), ADP already pays one in five Canadians.

The company also offers payroll, human-resources management, time and labour management, occupational health and safety, comprehensive outsourcing and consulting services.

Sheryl Boswell, ADP Canada’s marketing and communications manager, says “thousands” of small and medium-sized businesses use ADP’s services for a variety of reasons. “By delegating your payroll and related functions to an outside service provider, you eliminate all of the headaches associated with calculating payroll taxes, signing cheques, preparing records of employment, year-end T4s – among other administrative tasks.”

In-house systems also require computer hardware, software updates and the ability to keep up with government legislation and tax remittances. “Any company that has been hit with a tax penalty quickly sees the

value of outsourcing,” Boswell says.

She says pricing varies according to the solutions a company chooses. “But in most cases it costs less than the price of a cup of coffee to have ADP handle paying one employee.”

Along with HR, IT functions also are frequently outsourced by small and medium-sized firms to third parties, especially the care and development of websites.

“Outsourcing makes sense

because it offers (small to medium-sized businesses) access to resources otherwise unavailable or not affordable to them,” says Al Poullis, founder and president of COMMBits in Oakville.

The IT and communications company offers clients a full

range of services, including business telephone systems, systems administration, computer security, and everything Internet: Web design, custom programming, e-marketing, e-commerce, e-learning and writing services.

Poullis says he created COMMBits in late 2002 because he believed there was a need for such a company. “By that time it was clear to me that the (small to medium-sized business) market (was) suffering here in Canada, because the big-service guys cater to the needs of large corporations only.”

COMMBits (a combination of the words communications and bits) was built along a “virtual model” using qualified professionals working from their



Al Poullis

own “shops” with their own equipment and following strict quality standards. “I call this 100-per-cent capacity utilization, something that helps us manage our costs and keep our prices low,” Poullis says.

Are there limits to the utility of outsourcing? Many HR professionals would argue that while it may make sense to outsource relatively routine functions such as payroll, other functions such as recruiting or disciplining employees might be better left in-house.

Sirsi says that while the cost issue should be examined by businesses thinking about outsourcing, “it is important to consider opportunity cost as well.”

He also advises entrepreneurs to carefully consider the reputation of the firm that will handle the outsourcing, to ensure it is an expert in its field. “I think the mistake many small and medium-sized firms make is to assume that they cannot afford the services of a larger firm.”

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